

Update on 3-year IMF Precautionary Stand-by Arrangement (PSBA) March 2017

COMMUNIQUÉ # 4

Where Are We Now?

The EPOC met on March 14, 2017, and reviewed available results as at January 2017. Based on performance at end-January 2017: Jamaica is on target to meet **monitored quantitative performance criteria and indicative targets under the new Precautionary Stand-By Arrangement (PSBA)** with the Government of Jamaica (GOJ), which was approved by the Executive Board of the International Monetary Fund (IMF) on November 11, 2016. This follows an IMF review conducted February 20 to March 3, 2017, for the performance to end December 2016. The IMF mission noted that PSBA is off to a strong start with programme conditions through December met.



This quarter's Update: (Targets are on track to meet Quarterly Target at end of March)

Selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets	Actual (Jan. 2017)	GOJ Target (Jan. 2017)	PSBA Indicative Target (Mar. 2017)
Primary Balance of Central Government (J\$B) *	86.8	62.8	123.0
Tax Revenues (J\$B) *	360.5	348.5	440.0
Inflation target (%) **	2.6	—	2.0-9.0

* Provisional

** The PSBA inflation target, which is given as a range, is a performance criterion linked to a monetary policy consultation clause. If inflation falls outside of this range for the review period, it triggers a formal public consultation with the IMF's Executive Board on the reasons for the deviation and the proposed policy to correct it. Noteworthy, the Bank of Jamaica's (BOJ's) inflation target for FY2016/17 of 4.5% to 6.5% is within the PSBA inflation target of 2.0% to 9.0% for end-March 2017.

Structural Benchmarks

There are two structural benchmarks being monitored by EPOC during the January to March period.

FINANCIAL SECTOR

A consultation paper for a resolution framework for the financial sector was issued for public comment on February 28th - **Target Met!**

FINANCIAL SECTOR

Establish a financial inclusion council by March 2017 - **On track to be Met!**

Non PSBA measures being monitored

APRIL 2016-JANUARY 2017

Revenues and grants amounted to **J\$391.8B**, 5.2% above a target of **J\$372.5B**.

APRIL 2016-JANUARY 2017

Total expenditure was J\$8.8B below budget of J\$429.5B, of which Capital expenditure was J\$6B behind its J\$38.5B budget.

OCTOBER-DECEMBER 2016

Based on PIOJ's preliminary estimates for October-December 2016, **GDP** is estimated to have increased by 1.3%, relative to the similar period in the previous year.

Conclusion and Outlook

Fiscal Performance

Primary Balance

The Primary Balance Surplus amounted to J\$86.8 billion for the fiscal year to January 2017. It should be noted that although there are no monthly targets established under the PSBA, given past performance and early indications to date, the Primary Balance is on track to meet the end-March 2017 target of J\$123 billion.

Revenues

Tax revenue intake continues to be strong, with collections of J\$360.5 billion ahead of the Government's internal target of J\$348.5 billion. This is a positive signal and provided that revenue inflows remain robust, the PSBA target of J\$440 billion by end March 2017 will be met.

Expenditure

Total expenditure of J\$420.7 billion trailed the target of J\$429.5 billion by \$8.8 billion or 2.0%. Notably, capital expenditure of \$32.5 billion still lags behind budget, with capital spending being \$6 billion or 15.5% lower than budget at January 2017. Procurement bottlenecks continue to be a contributing factor for slow implementation of capital expenditure. We note an initiative in the Memorandum of Economic and Financial Policies (MEFP) relating to the completion of the Public Procurement Regulations and Handbook by March 2017 that is being monitored by the EGC. We look forward to increased efficiency in GOJ procurement once implemented as well as timely implementation of projects. We will continue to monitor Government expenditure, and in particular capital expenditure given its importance as one of the main drivers of economic growth.

Monetary Targets

Non-Borrowed Reserves amounted to US\$1,646.1 million at the end of January, If the build reserve buildup is maintained, we will exceed the target of US\$1,451.1 million at the end of March 2017. The inflation rate of 2.6% for end January 2017 remains within the target PSBA target range of 2% to 9% as at March 2017.

Structural Benchmarks

The Government has met the first EPOC monitored structural benchmark for the January to March 2017 quarter by completing and issuing by February 28, 2017 a consultation paper for the resolution framework for the financial sector for public comment. A resolution plan is commonly known as a living will. It describes the framework for rapid and orderly resolution of a financial institution in the event of material financial distress or failure.

The GOJ is also currently on track to meet a second structural benchmark monitored by EPOC for the January to March 2017 quarter, to establish by March 2017 a financial inclusion council to oversee the implementation of the Cabinet-approved umbrella national financial inclusion strategy for the period 2016-20. EPOC continues to monitor this benchmark.

Outlook

Following the first review by the IMF of the end-December 2016 period which indicated that programme conditions were met, January's fiscal and monetary performance remains strong. Better than expected tax revenue inflows attributed to improved tax compliance as well as improvements in macroeconomic factors, and less than anticipated government expenditure continue to drive performance. Non-borrowed net international reserves stand comfortably above the target level and inflation remains within the targeted range. Finally, the structural benchmarks, which are critical to the country's growth imperatives, are all on track. Given this trajectory, we have no reason to believe that the GOJ will fall short of meeting its quantitative targets and structural benchmarks at the end of March 2017.



EPOC reviewed the available 2017/18 Budget numbers. However, we await the completion of the Budget Cycle and the final numbers for a final review.



Tax Revenues

Tax revenue is the money the Government makes from tax collections. GOJ tax revenues come from sources such as GCT, PAYE Tax, tax on interest income from most savings and investments instruments, and many other sources. When we pay taxes the money collected goes to fund many important areas. Our tax dollars fund national security, education and health and pay down our public debt. Our taxes fund programmes to ensure the roads you travel on are safe and well-maintained. Taxes fund our public spaces such as libraries and parks. Taxes fund our social programmes to protect the poor and vulnerable members of our society.

As the government improves the efficiency and ease of tax collection, and as more and more Jamaicans recognize the importance of paying taxes on time and in full, tax compliance has been improving over time and the GOJ continues to hit its tax revenue targets under the programme.

KEY ON TARGET/AHEAD OF TARGET/MET TARGET MISSED TARGET AT RISK

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