EPOC

Economic Programme Oversight Committee

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

COMMUNIQUÉ #5

Where Are We Now?

The EPOC met on April 11, 2017, and reviewed available results up to end-February 2017. Based on performance at end-February 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 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 (Feb. 2017)	GOJ Target (Feb. 2017)	PSBA Indicative Target (Mar. 2017)
Primary Balance of Central Government (J$B) *	92.1	75.6 ✓	123.0
Tax Revenues (J$B) *	395.7	385.1 ✓	440.0
Inflation target (%) **	3.6	———	2.0-9.0
Non-Borrowed Reserves (US$M)	1,791.6	———	1,474.7

* 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- both have been met.

FINANCIAL SECTOR

✓ A consultation paper for a resolution framework for the financial sector was issued for public comment on February 28.

FINANCIAL SECTOR

✓ The financial inclusion council was launched on March 29, 2017.

Non PSBA measures being monitored

APRIL 2016-JANUARY 2017

Revenues and grants amounted to **J$429.6B**, 4.3% above a target of **J$412.1B**.

APRIL 2016-JANUARY 2017

Total expenditure was J$2.4B below budget of J$467.6B, of which Capital expenditure was J$3.6B behind its J$40.9B budget.

OCTOBER-DECEMBER 2016

STATIN reported that the economy continued to record growth during the third quarter of the fiscal year. For October–December 2016, real GDP is estimated to have increased by 1.1% relative to the similar period in the previous year.

Conclusion and Outlook

Fiscal Performance

Revenues

Tax revenue intake continues to be strong, with collections of J$395.7 billion ahead of the Government's internal target of J$385.1 billion for the fiscal year to February 2017. This is a positive signal and provided that revenue inflows remain robust, the PSBA indicative target of J$440 billion for end March 2017 will be met.

Expenditure

Total expenditure of J$465.2 billion trailed the target of J$467.6 billion by $2.4 billion. Capital expenditure of J$37.3 billion trails budget by 8.8% or J$3.6 billion. Previously in January capital spending was 6 billion or 15.5% lower than budget. Notably, the gap between actual and budgeted capital expenditure is narrowing as it heads towards the end of the fiscal year indicating that Government has made some headway into capital spending. We will continue to monitor Government expenditure, and in particular capital expenditure given its importance as one of the main drivers of economic growth.

Primary Balance

The Primary Balance Surplus amounted to J$92.1 billion for the fiscal year to February 2017 ahead of its year to date target of J$75.6 billion. Although there are no monthly targets established under the PSBA, EPOC has taken note of the performance for the month of February which was a J$7.4 billion shortfall against the budgeted Primary Balance of $12.8 billion. Higher than programmed Recurrent (Programmes and Wages) and Capital expenditures, in tandem with a shortfall in custom duty inflows, are the factors that contributed to the negative primary balance variance for the month of February.

Notwithstanding the under-budget performance for the month of February, when we examine year to date performance, and early indications to date, the Primary Balance is on track to meet the end-March 2017 target of J$123 billion.

Monetary Targets

Non-Borrowed Reserves amounted to US$1.9 billion at the end of March 2017, exceeding the target of US$1.47 billion. Inflation is projected to just below the forecast range of 4.5% - 6.5% for end-March 2017, which is within the PSBA target range of 2% to 9%.

Structural Benchmarks

The Government has met the second EPOC monitored structural benchmark for the January to March 2017 quarter with the establishment of a financial inclusion council to oversee the implementation of the Cabinet-approved umbrella national financial inclusion strategy for the period 2016-2020, on March 29th 2017.

Outlook

Based on the available information reviewed at end February 2017 as well as indicative information at end March 2017, Jamaica's fiscal and monetary performance remains strong. Despite a marginally lower than targeted primary balance for the month of February, overall, year to date fiscal performance is strong. Revenue inflows continue to be driven by improved tax compliance as well as improvements in macroeconomic factors, and less than anticipated government expenditure year to date, continue to drive primary performance. Non-borrowed net international reserves remain comfortably above the target level and inflation remains within the targeted range. All the structural benchmarks to March 2017 have been met, including those monitored by PSTOC. Given this trajectory, there is every indication that the GOJ will meet its indicative targets and structural benchmarks at the end of March 2017.

FYI 2017/18 Budget Review

The 2017/18 budget has met the criteria of being fiscally sound and is in line with the policy commitment of a further shift to indirect taxes and, therefore, broadening the tax base. In line with the principle of revenue neutrality, it is important to note that a Tax/GDP ratio is projected at 25.4 percent of GDP. It has been consistently in the 25-27 percent band since 2007.

There are, however, real concerns voiced across Sectoral Interests and the wider Society around the budget meeting the criteria of being equitable and being a sustainable tax burden. We strongly recommend that going forward any further tax reform should be ventilated through the Bipartisan Tax Reform Committee formed in July 2011, to ensure that all stakeholders can articulate their concerns through this channel and the country is aware and prepared for the subsequent reforms.

The significant increase in the allocation to the PATH Programme of $3.7 billion, (47 percent increase over the previous year) is noted. This increase would reduce the impact of the shift to indirect taxes on the beneficiaries of the PATH programme. However, there are significant numbers in our workforce who earn below the income tax threshold and are not beneficiaries of the PATH programme who would be adversely impacted by this shift to indirect taxes.

The change to the new property tax package announced by the Government of Jamaica on April 11th in Parliament is noted. We emphasize that the integrity of the primary balance must be maintained and look forward to understanding what budgetary adjustments will be made to accommodate the change. Going forward, it may be wise, as recommended by the Jamaica Manufacturers' Association for the GOJ to look at some form of indexing of the movement in property taxes to an appropriate measure that closely mirrors real estate price movements. This is in an effort to ensure that the impact of property revaluations on these taxes isn't as dramatic.

The Budget cycle with its challenges is now complete, but the high business and consumer confidence levels could have been impacted by the budget process. However the Economic Programne underlined by macroeconomic stability remains firmly on track.

Pension Reform

We acknowledge the GOJ for the consultative process that has taken place with the Public Sector that has led to the passing in the House of Representatives on April 5 2017 of the long outstanding Pension Reform bill. This will mean Public Sector workers will begin contributing to their pensions as at June 1, 2017 at levels between 2.5- 4 percent of their salaries. These contributions will increase to 5 percent in April 2019.

KEY ✓ ON TARGET/AHEAD OF TARGET/MET ✗ TARGET MISSED ⚠ TARGET AT RISK

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