EPOC

Economic Programme Oversight Committee

Update on 3-year IMF Precautionary Stand-By Arrangement (PSBA) November 2017

COMMUNIQUÉ #11

Programme Monitoring Report

The new Precautionary Stand-By Arrangement (PSBA) with the Government of Jamaica (GOJ) was approved by the Executive Board of the International Monetary Fund (IMF) on November 11, 2016. **The GOJ met the programme conditions for the IMF PSBA as at end-June 2017*.**

Most recent results The EPOC met on November 14, 2017, and reviewed the latest available results. **Based on preliminary results for performance at end-September 2017, Jamaica is on track to meet the September 2017 indicative targets under the PSBA.** The table below shows the results of selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs).

* Based on the results for performance to date through the end of June 2017.

Selected Fiscal and Monetary Indicators (Financial Year To Date)

Selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs)	Actual (September 2017)	Indicative PSBA Target (Sept. 2017)
Primary Balance of Central Government (J$B) *	62.3 ✓	37.0
Tax Revenues (J$B) *	237.6 ✓	215.0
Non-Borrowed Reserves (US$M) **	2,377 ✓	1,640
Inflation (%) ***	4.6 ✓	1.5-8.5

* Provisional (Fiscal Year to Date)

** Adjusted Target (Non-Borrowed Reserves)

*** The 12-month point-to-point change in the CPI: 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 BOJ's inflation target range for FY2017/18 of 4.0% to 6.0% is within the PSBA inflation target range of 2.5-7.5% for end-March 2018.

Fiscal Performance

Revenues and Grants

Revenue and Grants of $262.1B for the first six months of the fiscal year (April- September), exceeded the GOJ budgeted amount of $247.4B, a 5.9% over-performance.

- Tax Revenues

  Tax Revenues of $237.6B outperformed the GOJ budgeted target by $13.3B. The tax categories with the best performances were Other companies (+$6.5B), Special Consumption Tax (SCT) (+$5.1B), GCT (Local) (+$2.6B), Travel Tax (+$2.1B), Education Tax (+$1.0B) and Custom Duty (+$1.0B). Tax on Interest (-$2.0B) is the main underperformer, while SCT (Imports) (-$1.9B) and PAYE (-$1.1B) also underperformed.

  The Ministry of Finance notes that increased compliance and increasing economic activity are major contributors to this greater than budgeted performance. Revenue performance continues to be encouraging and strengthens our confidence of sustainability throughout this fiscal year.

Expenditure

Expenditure for the first six months of the fiscal year (April-September) was $250.3B which was $3.2B below the GOJ budget. Of this amount, recurrent expenditure was $3B below budget while capital expenditure was largely on track at $18.3B.

Primary Balance

As a result of the Revenue and Grants performance and the under-expenditure for the first six months of the fiscal year, the Primary Balance of $62.3B exceeded the GOJ Budget target of $46.6B and the IMF indicative target of $37B for April-September 2017. The GOJ and the IMF targets for the Primary Balance will converge by the end of the fiscal year.

Monetary Targets

Inflation

Inflation for the fiscal year to date at end September was 2.7%, and corresponds to a 12-month point-to-point inflation of 4.6%. Annual inflation as at September 2017 was 2.7%. The out-turn for the review period was within the Bank of Jamaica's (BOJ's) targeted band of 4.0% to 6.0%.

Non-Borrowed Reserves (US$)

The Non-Borrowed International Reserves at the end of September was US$2.38B against the programme target of US$1.640B.

The Bank of Jamaica indicates that this positive variance to the targets should narrow in the coming months due to the reduction in surrender requirements for the Foreign Exchange Dealers.

Social Programmes

Based on the available data as at the end of August 2017, spending on Social Progammmes was at $14.9B, which has exceeded the actual indicative September target of $11.2B.

Structural Benchmarks

Structural benchmarks are key initiatives that the GOJ should complete by established deadlines under the PSBA

- ✓ **All Fiscal, Monetary Policy and Financial Sector structural benchmarks have been met to date.** All seven (7) macro-fiscal structural benchmarks for the November 2016 to September 2017 period have been successfully met.
- ✓ **The GOJ has also met the eleven (11) structural benchmarks for public sector transformation, public bodies and public service reform through end-September 2017.**

Key Macroeconomic Variables

Gross Domestic Product (GDP)

The Planning Institute of Jamaica (PIOJ) reported on November 15, 2017 their estimate for real GDP growth for the July-September 2017 quarter at 0.9 %, relative to the corresponding quarter of the previous year.

The PIOJ projects growth in the October to December quarter within the range of 1.5% to 2.5%. The economy is also projected to grow within the range of 1.5% to 2.5% for the fiscal year 2017/18.

Unemployment Rate

Jamaica's unemployment rate (UR) as at July 2017 was 11.3%, the lowest level since July 2009. This outturn represented a decline of 1.6 percentage points (pps) relative to July 2016.

Outlook and Conclusion

Increased Fiscal Space

The trend of stronger than budgeted tax revenues coupled with recurrent expenditures being below budget has continued, resulting in the primary balance target significantly exceeding its year to date target. The increased fiscal space that this creates presents an opportunity to make room for increased expenditure especially in the critical areas of national security and infrastructure.

Supplementary Budget

We look forward to the Supplementary Budget that will be tabled by the end of November 2017 and urge the Government to make the necessary re-allocations, which have been indicated to increase expenditure in the areas of infrastructure, crime fighting and social interventions, which are catalysts to increased growth in our Economy.

Fiscal Rule - Wages and Salaries/GDP

We are quite aware that the 9 percent of Wages/GDP fiscal rule has been postponed twice with the Financial Administration and Audit Act being amended first from 2015/16 to 2016/17 in March 2015 and subsequently in 2016 to 2017/18.

However, this legislated commitment of 2018/19 must be addressed through great effort in the current Public Sector Negotiations by all stakeholders, the GoJ and the Public Sector and its Unions in order for Jamaica to realize this target.

EPOC continues to monitor plans and imperatives that support the legislated fiscal rule of Wages and Salaries representing no more than 9% of the Gross Domestic Product in the 2018/19 fiscal year. In order to meet this legislated fiscal rule, we emphasize that the sustainable solution is economic growth, and urge the GOJ to focus and successfully execute its growth imperatives.

Targets Met

Jamaica's strong performance in meeting the fiscal quantitative performance criteria and structural benchmarks, which address the key economic reforms, continues to provide a stable macroeconomic environment which is a precursor to Jamaica achieving the desired growth levels.

The buoyancy in tax revenues and the reduction in unemployment are positive indicators that the Jamaican Economy is building momentum, and we are hopeful that Jamaica will break out of the sub-optimal growth levels which we have experienced for almost three decades.

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

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