

Selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs)	Actual (Nov. 2017)	Revised Programme Targets (Dec. 2017)	Actual (Dec. 2017)
Primary Balance of Central Government (JSB) *	70.8	59.0	96.5
Tax Revenues (JSB) *	308.6	328.0	353.1
Non-Borrowed Reserves (USSM) **	2,440	1,781	2,534
Inflation (%) ***	4.9	1.5-8.5	5.2

* Provisional (Fiscal Year to Date)

** Adjusted Target (Non-Borrowed Reserves)

*** CPI point-to-point movement: 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 medium term inflation target range of 4.0% to 6.0% is within the PSBA inflation target range of 2.5-7.5% for end-March 2018.

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 second review under the precautionary SBA was completed by the decision of the Executive Board of the IMF on October 23, 2017. Based on preliminary results for performance at end-September 2017, Jamaica has met the September 2017 indic-

ative targets under the PSBA.

Most recent results The EPOC met on February 23, 2018 and reviewed the latest available results for the period ending December 2017. The table at right shows the results of selected IMF PSBA Quantitative Performance Criteria (QPCs) and indicative targets (ITs).

FISCAL PERFORMANCE - YTD

Revenues and Grants - YTD

Revenue & Grants of \$390.9B for the first nine months of the fiscal year (April-December) exceeded the budgeted amount of \$376.4B (+3.9%).

Tax Revenues - YTD: Tax collections of \$353.1B outperformed budget (+\$11.5B). The tax categories with the best performances were Other companies (+\$6.7B), GCT (Local) (+\$5.0B),

SCT (+\$4.8B), Travel Tax (+\$2.0B), Custom Duty (+\$1.4B) and Education Tax (+\$1.1B). Tax on Interest (-\$4.9B) is the main underperformer, while GCT (Imports) (-\$2.4B), SCT (Imports) (-\$1.6B) and PAYE (-\$1.2B) also underperformed.

EPOC notes the significant increase in the number of taxpayers for the period April – December 2017 by approximately 15,000 persons over prior year,

as reported by The Ministry of Finance and the Public Service (MOFPS), which has contributed to increased performance in Tax Revenues.

Expenditure - YTD

Expenditure for the first nine months of the fiscal year (April-December) was \$9.4B below budget (-2.4%). Of this amount, Recurrent Expenditure was \$10.4B below budget, while Capital Expenditure was \$0.9B ahead of bud-

get (3.0%).

Primary Balance - YTD

As a result of the Revenue and Grants performance and the under-expenditure for the first nine months of the fiscal year, the Primary Balance of \$96.5B exceeded the \$59.0B programme target for April-December 2017. (NB. The GOJ budget target for Primary Balance for the period April – December 2017 was \$75.3B.)

FISCAL PERFORMANCE – MONTH OF DECEMBER 2017

Revenues and Grants - December 2017

The month of December saw overall Revenue & Grants being ahead of the Supplemental Budget. Revenue & Grants recorded a surplus over Budget of \$1,961.7M. Within Revenue & Grants, Tax Revenue registered a decline of \$1,463.3M, or -3.2%. Non-tax and Capital revenue registered higher than projected outturns of \$2,662M (42.5%) and \$795.4M (289.9%) respectively.

Expenditure - December 2017

Total above the line Expenditure was below budget, registering a shortfall of \$4,914.7M. Recurrent Expenditure was below budget by \$5,514.5M driven predominantly by Programmes.

Compensation of Employees and Interest payments were broadly in line with target. Capital Expenditure recorded a higher outlay than projected of \$599.6M.

Primary Balance - December 2017

Fiscal Operations for the month of December resulted in a surplus which was \$6,876.5M higher than the budgeted surplus.

Consequently, the Primary Balance for the month of December was \$25,787.7M, which was 36.5% over the budgeted target for the month.

MONETARY PERFORMANCE

Inflation

The 12-month point-to-point inflation rate at January 2018 was 4.8%, within BOJ's target of 4.0% to 6.0% and lower than the same measure for calendar year 2017 (5.2%).

Further to the BOJ's Press Release on February 20, 2018, inflation expectations remain low and broadly anchored around the BOJ's target. One upside risk to inflation is that overheating in the US will support higher demand for Jamaica's goods and services. Strong growth in the US may also prompt tighter monetary conditions there, but the pass through of this effect to the domestic economy may be ameliorated by continued reductions in Jamaica's sovereign risk premium.

Interest Rates

The Bank of Jamaica (BOJ) recently announced its decision to lower the policy interest rate (the rate offered on overnight placements with the Bank) by 25 basis points to **2.75 per cent** effective 21 February 2018.

This policy stance reflects the Bank's assessment that inflation for the next eight quarters should remain within the target of 4.0 per cent to 6.0 per cent,

OTHER ECONOMIC INDICATORS

	FY to date (chg.)	Actual 21 Feb. 2018
Exchange Rate*	(1.04%) ↓	127.33
Gross Foreign Reserves (USSMN)	443.3 ↑	3 767.2
Net International Reserves (NIR)(USSMN)	411.9 ↑	3 181.1
GOJ T-Bill Yield (6-month)	(273) bps ↓	3.59%

*Weighted average selling rate.

with the risks to this forecast assessed to be balanced.

Foreign Exchange Market

On an annual basis, the Jamaica Dollar at 21 February 2018 appreciated by 0.55% (\$0.70), compared to an appreciation of 2.24% (\$2.87) at the end of January 2018 and depreciation of 5.14% (\$6.26) for the twelve months to 21 February 2017.

There has been no foreign currency sale to the market via B-FXITT (BOJ Foreign Exchange Intervention & Trading Tool) since 29 November 2017 and based on market intelligence provided to BOJ by Authorized Dealers and Cambios no sales are projected for the remainder of February 2018. The BOJ is scheduled to offer a total of US\$40.00 million to the market in the first and second week of March 2018.

Real Effective Exchange Rate (REER)

As at January 2018, Jamaica recorded an annual point-to-point loss in price competitiveness of 2.2% as measured by the REER. This loss was driven by higher inflation compared to its trading partners. Of note, Jamaica's exchange rate appreciated at only a marginally faster pace than that of its trading partners. In this regard, the impact of the appreciation on the REER was negligible. As at January 2018, Jamaica recorded an overall gain in competitiveness of **3.8%** since the start of the EFF. This, coupled with the improvement in the other macro-variables indicates that the exchange rate remained in a fairly valued position.

Economic Growth

The preliminary estimates by the Planning Institute of Jamaica (PIOJ) indicate

that the economy recorded growth during the third quarter of the fiscal year 2017/2018. For October–December 2017, real Gross Domestic Product (GDP) is estimated on a preliminary basis to have increased by 1.1% relative to the similar period in the previous year.

The Planning Institute of Jamaica (PIOJ) is projecting that real GDP growth for the fiscal year 2017/2018 will fall within the range of 0.5% to 1.5%.

Social Spending

The minimum target for central government spending on social programmes under the PSBA has been set at J\$18.3B as at December 2017. For the nine months period (April – December 2017), the actual Central Government spending on social programmes for FY2017/18 was \$22.1 billion, compared to this minimum target.

Employment

The unemployment rate for October 2017 was 10.4%, a 2.4 percentage point decline compared to the rate of 12.9% for October 2016, and represents the lowest unemployment rate since October 2008. The unemployment rate for youths in the age group 14 – 24 years declined to 25.4%, down by 7.0 percentage points when compared to 32.4% in October 2016.

OUTLOOK & CONCLUSION

Growth and Employment

Whilst growth in GDP remains sluggish impacted by the above normal rainfall, the employed labour force continues to increase with the unemployment rate at a nine (9) year low of 10.4 percent.

Crime

Crime continues to remain a drag on confidence and the Economy. EPOC is hopeful that measures being taken by the GOJ will have a sustained impact on reducing crime levels.

Social Programmes

Spending on Social Programmes are significantly up this year and we have seen results with youth (14-24 years) unemployment falling from 32.4 percent to 25.4 percent. It is the considered view by EPOC that resources must continue to focus on Jamaica's unattached youth.

Public Sector Wage Negotiations and the 9 percent Wages to GDP Fiscal Rule (2018/19)

The negotiations between the GoJ and the Public Sector whilst protracted, continue in earnest. This remains an area of risk for the Economic Programme and EPOC continues to monitor closely. We continue to be hopeful that an agreement will be concluded with all Stakeholders in keeping with Jamaica's legislated 9 percent Wages to GDP Fiscal Rule for 2018/19.

Targets met

All fiscal and monetary programme targets have been met or surpassed. Tax Revenues, the Primary Balance target and International Reserves are significantly ahead of Programme targets as at the end of December 2017.

Inflation remains moderate which has allowed the Bank of Jamaica (BOJ) to reduce its benchmark interest rate and maintain an accommodative stance. The Bank of Jamaica posits that the Jamaican dollar remains fairly valued.

IMF December 2017 Programme Review

Based on the strong performance towards meeting the structural benchmarks, quantitative performance criteria and indicative targets for end December 2017, the Economic Programme Oversight Committee (EPOC) is quite confident that the third (3rd) review under the precautionary SBA examining the six months ending December 2017, to be conducted by the IMF during the period February 26 – March 9, 2018, will once again be comfortably passed.

STRUCTURAL BENCHMARKS

 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 November 2017 period have been successfully met.

- The GOJ has also met the fourteen (14) structural benchmarks for public sector transformation, public bodies and public service reform through end-December 2017.

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

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