

KEEPING THE END STATE IN MIND...

What do we want to achieve at the end of the IMF Programme December 2019?

- A growing economy with growth in **GDP of at least 1.9%**
- An increasingly fiscally responsible GOJ with **Debt to GDP of 93.7%** and maintained primary surplus of 7%
- **Greater levels of (non-borrowed) NIR of about US\$3.06B** <total NIR of US\$3.83B> to help cushion the country from shocks

TARGETS MET FOR FISCAL YEAR 2017-18

"Despite the Bank of Jamaica (BOJ) reducing interest rate five times since last July, further and more robust downward adjustments may be needed to overcome the sluggishness of the economic recovery."

FISCAL PERFORMANCE

For the Fiscal Year 2017/18 ending March 31, 2018, Jamaica met all its Quantitative and indicative performance Criteria.

The GOJ Tax Revenues came in at \$496.9b exceeding projections by \$7.0b. Total Expenditures were \$7.5b below budget. This outturn of Tax Revenues and Expenditures contributed to a Primary Balance Surplus of \$143.9b which exceeded the target of \$132.0b, under the SBA, by \$11.9b.

The GOJ ran a Fiscal surplus of \$8.7b which has not been the norm for Jamaica, as the last time a Fiscal Surplus was achieved was in FY 2013/14.

MONETARY PERFORMANCE

Monetary Quantitative Targets have been significantly exceeded with Non-borrowed Reserves being at US\$2.4b, ahead of the target of US\$1.9b. Inflation is contained at 3.9 percent, outside of the BOJ's target range, but within the Programme range. The risk to inflation is, however, to the downside.

STRUCTURAL BENCHMARKS

All seven (7) macro-fiscal structural benchmarks for the November 2016 to April 2018 period were met. The GOJ has also met the fourteen (14) structural benchmarks for public sector transformation, public bodies and public service reform through end-April 2018.

PROGRAMME RISKS & MITIGATING STRATEGIES

The Committee would, however, like to note areas of risk and the mitigating strategies that have been put in place by the GOJ and the BOJ to address these:

- **Tax Revenues:** "Tax Revenue missed Supplemental targets for the period January through March 2018 (Q4)"

While the Tax Revenues were ahead of budget for the Fiscal Year 2017/18, EPOC notes that the Tax Revenues in the months of January, February and March 2018 came in 3 percent below or \$4.5b below the cumulative target of \$148.36b that was set in the First and Second Supplemental Budgets tabled in FY 2017/18.

EPOC will continue to monitor closely Tax Revenues in the 2018/19 Fiscal year.

Monetary Targets:

- **Inflation** - It is important to note that the 12 month point to point inflation rate of 3.2 percent at April 2018, was below the BOJ target range of 4 to 6 percent, and outside of the IMF revised quantitative performance criteria band of 3.5 to 6.5 percent, which comes into effect in June 2018.

- A low inflation out-turn can be received as positive, but it does have implications for Programme targets, specifically fiscal targets linked to Nominal GDP such as the Debt to GDP targets and 9 percent Wage to GDP Fiscal Rule (2018/19).

Interest Rates

- Effective May 17, 2018 the BOJ low-

ered its signal rate to 2.50 percent per annum. This adjustment to the policy rate reflected the BOJ's assessment that inflation for the next three quarters could fall slightly below the lower end of the 4-6 percent target.

GDP Performance 2017/18

The PIOJ estimates that real GDP has grown by 0.8 percent for FY2017/18, which is below the Programme target of 0.9 percent. The BOJ has indicated that the ongoing economic recovery continues to be sluggish, and that "there may still be a need for further and more robust downward adjustments in the policy rate."

THE BANK OF JAMAICA'S ACCOMMODATIVE STANCE

The BOJ Governor shared in his recent Quarterly Press Briefing that "in the context of the benign outlook for inflation, Bank of Jamaica will continue to have an accommodative policy stance aimed at steering inflation towards the Bank's target of 4-6 percent."

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

The wage negotiations between the GOJ and the Public Sector workers continue and remain an outstanding item in the new Financial Year 2018-19. We are pleased that the GOJ and Jamaica's Teachers were able to sign off on a wage package. EPOC continues to be hopeful that an agreement will be concluded with all the remaining Stakeholders, including the Police and the Nurses, in keeping with Jamaica's legislated 9 percent Wage to GDP Fiscal Rule for 2018/19.

FISCAL COUNCIL

EPOC welcomes the Minister of Finance, Hon. Dr. Nigel Clarke's policy position of enhancing Jamaica's Fiscal Responsibility framework through the concept of an Independent Fiscal Council.

Further to the Minister's recent presentation, EPOC is very much aligned with the legislating of Institutional permanence, once it embodies the principles of EPOC: the principles of enhancing accountability of the policy making process, deepening transparency of Government finances, strengthening the credibility of Jamaica's fiscal path, and also importantly promoting inclusiveness, and taking greater societal ownership of Jamaica's Economic direction.

Additionally, while not mentioned by the Minister in his presentation, the Committee believes that analyzing the efficiency and/or effectiveness of Public Expenditure is a function that would engender confidence for Tax Payers, thereby getting value for our Tax Dollars.

MOST RECENT RESULTS



The EPOC met on May 29, 2018 and reviewed the latest available results for the period ending March 2018. The table below shows the results of selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs).

SELECTED FISCAL & MONETARY INDICATORS

Selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs)	Actual (Dec. 2017)	Revised Target (Dec. 2017)	Actual (Mar. 2018)	Indicative Target (Mar. 2018)
Primary Balance of Central Government (J\$B) *	96.5	59.0	143.9	132.0
Tax Revenues (J\$B) *	353.1	328.0	496.9	473.0
Non-Borrowed Reserves (US\$M) **	2,534	1,781	2,409	1,917
Inflation (%) ***	5.2	1.5-8.5	3.9	2.5-7.5

* 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 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 - YTD

REVENUES & GRANTS

Revenue & Grants of \$560.8B for the fiscal year (April - March) exceeded the budgeted amount of \$553.6B (+1.3%). Tax collections of \$496.9B outperformed budget (+\$7.0B).

EXPENDITURE

Expenditure for the fiscal year (April - March) was \$7.6B below budget (-1.4%).

Of this amount, Recurrent Expenditure was \$5.9B below budget, while Capital Expenditure was \$1.7B below budget (-3.5%).

PRIMARY BALANCE

As a result of the Revenue and Grants performance and the under-expenditure for the fiscal year, the Primary Balance of \$143.9B exceeded the \$131.5B budget target for April 2017-March 2018.

JAMAICA'S INTERNATIONAL COMPETITIVENESS

FOREIGN EXCHANGE MARKET

On 22 May 2018, the value of the Jamaica Dollar vis-à-vis the US dollar was J\$127.01 = US\$1.00, reflecting a depreciation of 1.34% (\$1.68) for the month to date.

This follows appreciation of 0.53% (\$0.66) for April 2018.

REAL EFFECTIVE EXCHANGE RATE (REER)

At April 2018, Jamaica recorded an annual point-to point loss of 1.8% in relative price competitiveness, as measured by the real effective exchange rate (REER). This loss was mainly driven by higher domestic inflation of 3.2 per cent, compared with inflation of 2.2 per cent among Jamaica's trading partners.

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