

Update on the GOJ Economic Reform Programme (ERP)

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EPOC remains cautiously optimistic as Jamaica hits Fiscal targets and International Reserves remain strong

The EPOC met on December 4, 2020 to review the macro fiscal programme of the Government of Jamaica (GOJ) for the fiscal year 2020/21. The following were key highlights noted by EPOC:

- ✓ GDP growth projections reduced as global and domestic economic conditions remain uncertain.
- ✓ Downside risks to macro fiscal projections remain high.

✓ Major strides made towards the establishing of Central Bank Independence and the Fiscal Commission.

Based on the reports presented by the Ministry of Finance and the Bank of Jamaica, **the GOJ and the BOJ is on track to meet all quantitative targets under the GOJ Economic Reform Programme (ERP) as at the end of September 2020, with the exception of the Non-borrowed reserves**

which was not adjusted downwards at the onset of the COVID-19 pandemic.

However, the implementation of the majority of the Priority Actions for the GOJ ERP continues to be delayed relative to the timelines established in November 2019, due in large part to the impact of the COVID-19 pandemic. While the timelines and scope of some of these action items are to be reviewed, the work continues.

Selected Quantitative Performance Targets and Policy Actions Status Updates

TARGETS	STATUS	COMMENTS
FISCAL INDICATORS		
Tax Revenues	●	Continues to exceed budget target but is significantly behind previous year performance for the same period
Total Expenditure	●	Currently in line with budget target but is above previous year performance for the same period due primarily to one off expenditures including the GOJ Care programme and the COVID-19 health response
Fiscal and Primary Balance	●	Continues to exceed budget targets but is significantly behind previous year performance for the same period
MONETARY INDICATORS		
Non-Borrowed Reserves	●	Behind the unadjusted ERP target for end-September 2020 but exceeds expectations under the IMF Rapid Financing Instrument (RFI) programme. Projected to exceed ERP target end-December 2020
Gross Reserves	●	Continues to comfortably exceed reserves adequacy benchmark
Inflation (12-month point-to-point)	●	Within the BOJ'S target range at end-September 2020

● Target Met ● Target Off-Track

Fiscal Performance for April – October 2020 relative to the Second Supplementary Estimates¹

REVENUES & GRANTS	TOTAL EXPENDITURE
<ul style="list-style-type: none"> Revenues & Grants totaling \$298.7B for the review period was AHEAD of the target of \$295.8B, an over performance of \$2.9B (1.0%). 	<ul style="list-style-type: none"> Total Expenditure of \$370.8B for the review period was largely in line with the budgeted amount of \$370.9B.
Tax Revenues fell 17.6% year over year, Total Expenditure higher due to COVID-19 spend	
<ul style="list-style-type: none"> Revenues & Grants was \$60.1B (16.7%) lower relative to April-October 2019 <ul style="list-style-type: none"> Tax Revenues was \$55.9B (17.6%) below receipts collected for the same period in 2019 	<ul style="list-style-type: none"> Total Expenditure was \$20.1B (5.7%) higher relative to the similar period of 2019 This was due largely to one off allocation to the Ministry of Health and Wellness (MOHW), to support the COVID-19 Response and one off spending towards the GOJ's COVID Allocation of Resources to Employees (CARE Programme)

Fiscal Balances exceed budgeted targets

- The Central Government Operations for FY2020/21 (April-October) generated a **Fiscal Deficit of \$72.1B** relative to a budgeted deficit of \$75.1B in the Second Supplementary Budget. This also compares with a fiscal surplus of \$8.0B for April-October 2019.

Primary Balance

- The **Primary Surplus of \$3.6B** was higher than the budget of **\$0.2B** but was \$81.6B (95.8%) lower than the Surplus of \$85.2B for April-October 2019.

Monetary Performance

- 12 MONTH POINT-TO-POINT INFLATION OF 5.0% (OCTOBER 2020)**. This was within BOJ's target range of 4.0% – 6.0% but higher than the same measure at October 2019 (3.3%).
- CORE INFLATION**, measured as the change in the Consumer Price Index excluding the prices of agricultural commod-

ities & fuel, was 3.6% as at October 2020. This was higher relative to the core inflation rate at September 2020 (3.2%) and October 2019 (2.9%).

International Reserves remain strong

- As at September 2020, **Non-borrowed reserves (NBRs)** of \$2.46B fell \$148.9M below the target of \$2.61B but is projected to close December 2020 at \$2.65B, ahead of targeted floor of \$2.64B by \$11.2M. Note that the NBRs target was not adjusted downwards at the onset of the COVID-19 pandemic.
- Jamaica's international reserves remains buoyant, with **Gross International Reserves (GIR)** of US\$3.93B as at end-November 2020, representing 117.7% of the Assessing Reserve Adequacy (ARA) metric while **Net International Reserves (NIR)** increased from US\$2.65B at September 7, 2020 to US\$2.96B as at November 30, 2020.

Foreign Exchange market continues to be orderly

The value of the Jamaican dollar on December 14, 2020 was J\$144.24 to US\$1.00, reflecting a depreciation of 1.7% (\$2.14) for the quarter to date (as at December 14, 2020).

BOJ holds overnight Policy Rate at 0.5% maintaining accommodative stance

The BOJ has maintained its accommodative monetary policy stance by holding the **overnight policy rate unchanged at 0.5% per annum**. This decision reflects BOJ's assessment that, while inflation will be temporarily elevated over the next four to five months, it will generally remain in the target range of 4.0% - 6.0% over the next two years.

Credit Growth slows

- The annual growth in total loans and advances extended by Deposit Taking Institutions to the private sector at end-September 2020 was 12.2%, which was lower than the growth of

13.3% end-June 2020 and 15.6% at end-September 2019 due to reduced loan growth of 9.6% and 15.7% to consumers and the productive sector, respectively.

GDP underperforms as Tourism recovery lags

The Planning Institute of Jamaica (PIOJ) estimated that, for July-September 2020, real GDP contracted by 11.3% relative to the similar quarter of

2019. The downturn in Hotels & Restaurants of 63.8% which reflected a decline in Total Stopover Arrivals by 81.8%, continued to be the highest contraction in real value-added in any industry.

EPOC's OUTLOOK continues to be cautious as risks remain high with high levels of uncertainty

Global outlook uncertain as PIOJ again revises downward GDP growth projections to a contraction within the range of 10% - 12% in 2020/21.

The World Economic Outlook (WEO) October 2020 report indicated that the global economy is expected to contract by 4.4% in 2020 but should partially recover to growth of 5.2% in 2021.

In the context of the continued impact of COVID-19 both locally and globally, the Planning Institute of Jamaica (PIOJ) has revised its previous projection for a contraction of the Jamaican economy within the range of 8.0% to 10.0%, to a downturn within the range of 10.0% to 12.0% for FY2020/21. For the October to December 2020 quarter, the PIOJ also projected that the economy will contract within a range of 9.0% to 11.0%. This is against the background that the recent flooding will negatively affect agricultural production as well as road and housing infrastructure.

The economy is not anticipated to recover to pre-COVID levels until FY2023/24 or beyond.

Notable Risks to Tax Revenues 2020/21 targets, GOJ has limited fiscal space

Fiscal Deficit October 31, 2020: \$72.1B
Projected Fiscal Deficit March 31, 2021: \$72.9B

Tax Revenues January - March 2020: \$164.6B
Projected Tax Revenues January - March 2021: \$168.3B

EPOC notes that at the end-Oct 2020, the GOJ incurred a fiscal deficit of \$72.1B, which was 3.9% better than programmed and is expected to close FY2020/21 at \$72.9B. This indicates that for the fiscal deficit to remain in line with target, the GOJ has very little flexibility as there is only room for an \$804.0M increase in the fiscal deficit for the November 2020 to March 2021 period. This essentially means the GOJ running a balanced budget for the rest of the financial year.

Ministry of Finance committed to primary balance target of 3.1%

In the context of Tax Revenues year to date being 17.6% behind the same period last year and as GDP growth projections are revised downwards, the Ministry of Finance continues to project that Revenues and Grants for the last quarter of FY2020/21 will be 3.7% higher than the return for the corresponding quarter of FY2019/20 and is cautiously optimistic that this target will be achieved.

The GOJ however remains committed to achieving the downward revised 3.1% primary balance target which could involve a reallocation and reduction of expenditures to achieve said target.

Amendment to Financial Administration and Audit Act as GOJ spreads fiscal adjustment period

Jamaica's Fiscal Responsibility Framework (FRF) prescribes the fiscal balance that should be targeted in any year and is computed to be consistent with attaining Jamaica's 60% Debt to GDP target in the recently adjusted 2027/28 fiscal year. Due to the fiscal response necessitated to address the impact of the COVID-19 pandemic, the fiscal deficit for the public sector being targeted for 2020/21 reflects a significant

deviation from the fiscal balance required in the FRF which, based on the correction mechanism embedded in the fiscal rules, would require drastic fiscal consolidation in the next two fiscal years. The Hon. Minister of Finance Nigel Clarke tabled in Parliament amendments to the fiscal rules to spread the period of adjustment and minimize fiscal compression which would cause a significant drag on Jamaica's economic recovery. The proposed amendment would see a reduction of the primary balance required from 6.3% in 2021/22 and 8.7% in 2022/23 to 5.8% in 2021/22 and 7.1% in 2022/23.

Fiscal consolidation required for 2022-2024 necessary but painful to achieve 60% Debt to GDP in 2027/28

While this would give some fiscal space, the adjusted primary balance targets will continue to require fiscal consolidation over the medium term as the economy seeks to rebound from COVID-19. It is however anticipated that Jamaica will experience a V shape recovery which should reduce the pain of the adjustment.

Risks to Monetary Targets

BOJ projects inflation to increase over December 2020 quarter

Inflation is projected to average 5.3% over the next eight quarters (December 2020 to September 2022), within the target range of 4.0% to 6.0%. This projection is primarily driven by the impact of adverse weather conditions on agricultural supplies. The recent flood rains are expected to result in a significant adverse shock to agricultural prices in the December 2020 quarter with a moderate reversal in the March 2021 quarter.

International Reserves exceed Reserve Adequacy Benchmark as Remittances Soar

Jamaica's Gross International Reserves (GIR) of US\$3.93B and net international reserves of US\$2.96B remain robust and are expected to close FY2020/21 in line with or could exceed the US\$2.47B forecast under IMF Rapid Financing Instrument (RFI) facility. Provisional data from the BOJ for the September 2020 quarter indicated that net remittance inflows, a major source of foreign exchange earnings, increased by US\$215M (38.7%) relative to the September 2019 quarter. This higher than anticipated outturn significantly helped to offset the fallout in the Tourism industry. While remittances remained buoyant, within this unprecedented period, it is uncertain whether remittance growth will continue at this pace.

Tourism recovery remains slow and uncertain

The Tourism industry continues to be significantly impacted by COVID-19. For the July to September 2020 quarter, the Jamaica Tourist Board reported an 86.5% (734,385) decline in Total Visitor Arrivals from 848,787 to 114,402 contributing to an overall fallout of 2.23 million visitors for the period January to October 2020 relative to the corresponding period in 2019. Despite the relaxation of COVID-19 travel restrictions in mid-June, the recovery in tourism remains slow. While there is good news about the development of a vaccine, the GOJ in partnership with the Tourism sector continues the work to ensure the resilient corridor remains safe for visitors, em-

ployees and citizens.

Real progress made in build out of Jamaica's macro-fiscal Institutional capacity

Fiscal Commission
The final legislation establishing a Fiscal Commission was tabled in Parliament on December 1, 2020. The Fiscal Commission will be an Independent Commission reporting to Parliament, and will be the guardian and interpreter of Jamaica's fiscal rules under the fiscal responsibility framework and will monitor compliance with these fiscal rules. The advent of this Institution will increase fiscal openness and fiscal transparency through monitoring and analysis of the Government's fiscal budgets and operations.

Central Bank Independence

The Jamaican Senate has approved a new legislation on December 4, 2020 aimed at granting the Bank of Jamaica greater independence with the objective of maintaining price stability through inflation targeting. The BOJ amendment bill empowers the BOJ and grants it the operational independence to achieve this target without political interference. The BOJ will be held accountable to stakeholders and the Governor will report into the Standing Finance Committee of Parliament. A Monetary Policy Committee will be named which deliberates on monetary policy and actions. The minutes of these meetings will be accessible to the public and will ensure transparency in its deliberations. The amendments seek to bring greater independence and transparency to the Central Bank in its operations and policy decision-making process.

EPOC welcomes these developments as Jamaica seeks to institutionalize our hard-fought achievement of macroeconomic stability.

EPOC strongly encourages adherence to COVID-19 Protocols, Slow the spread of COVID-19, Increase Economic Activity

As Standard and Poor's affirmed Jamaica's long-term rating at B+, the agency gave us a negative outlook as it fears that the effects of COVID-19 could be more severe and prolonged. EPOC is therefore urging all citizens to remain cautious, disciplined and diligent in adhering to the infection control protocols, and in doing so protect themselves, their families, their communities, their livelihoods and the economy. The GOJ continues to be proactive and prudent in terms of its macro-fiscal management and its efforts in managing the spread and the impact of the COVID-19 pandemic. As we celebrate in this festive season, let us not forget the sacrifice we have already made as a country and give ourselves the best chance to return to full recovery in the shortest possible time frame.

EPOC would like to express our heartfelt gratitude to our frontline and essential workers who put themselves at risk on a daily basis to keep our people safe and our economy turning. We specially acknowledge our doctors, nurses, police, public health workers and all those in the public and private sector that continue to give of themselves to save lives and keep Jamaica safe.

¹ The Second Supplementary Estimates were tabled in Parliament on October 6, 2020. Assumptions include real GDP contraction of 7.9%, annual inflation of 5.6% and a 28.8% decline in imports relative to FY2019/20.