



Update on the GOJ Economic Reform Programme (ERP)

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As COVID-19 cases spike, risks to economic recovery remain high

The EPOC met on February 5, 2021 to review the macro fiscal programme of the Government of Jamaica (GOJ) and the monetary performance of the Bank of Jamaica (BOJ) for the fiscal year 2020/21. **The following were key highlights noted by EPOC:**

- ✓ The GOJ tables third Supplementary budget as Tax Revenues projected to fall below previous targets
- ✓ Macro-fiscal risks increase as GDP growth projections

- ✓ Pace of global economic recovery remains uncertain as global demand for vaccines outstrip supply
- ✓ International Reserves remain strong due to higher than expected increase in Remittance Inflows

Based on the performance of the fiscal and monetary indicators, **the GOJ and the BOJ are on track to meet the selected quantitative targets under the GOJ**

Economic Reform Programme (ERP) as at the end of December 2020, with the exception of the Tax Revenues target. 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. The timelines and scope of these priority commitments are to be reviewed.

Fiscal Performance and Outlook

GDP, Tax Revenue projections revised downwards in 3rd Supplementary Budget

- **As the Jamaican economy continues to be impacted by the COVID-19 pandemic, the projections for GDP contraction had to be revised downwards from 7.9% to 11.6% for the current fiscal year. This has also led to Tax Revenues projection being revised downwards by \$6.7B from \$515.6B to \$508.9B, which has been reflected in the Third Supplementary Budget, which was laid in Parliament by the Minister of Finance on January 19, 2021.**
- **While Revenues & Grants of \$398.3B for April-December 2020 were marginally higher than the budget target, what is more important to note, is that the performance of Tax Revenues, April-December 2020, of \$346.5B with all the efforts of the Tax Administration of Jamaica (TAJ) are slightly behind budget, but is significantly lower (by \$68.3B) than the outturn for the previous year of \$414.7B for the same period. The Tax Revenue numbers, notwithstanding the continued fallout in travel, production, entertainment and distribution tax revenues, continue to make steady improvement albeit closing the gap in the month of December with an outturn of \$48.1B, which is approximately 10% behind the December monthly 2019 outturn of \$53.6B.**

which is \$70.5B (12.2%) behind the pre-COVID-19 Tax Revenue outturn of \$579.4B.

- **Fourth Quarter (Q-4) Tax Revenue projections are optimistic**
Tax Revenues for Q-4 (Jan-March 2021) are projected at \$162.4B which is \$2.3B behind Q-4 (Jan-March 2020) tax revenue outturn of \$164.6B. While tax revenues are trending in the right direction, the projections for the last quarter seem to be quite ambitious bearing in mind the spike in the spread of the virus, the restrictions on movement and the resultant impact on economic activity.

- **Fiscal Deficit increases**
Total Expenditure as tabled in the Third Supplementary Budget is projected to close the Fiscal year at \$654.5B. When taking into account the projected tax revenues, the economy will see a projected and increased fiscal deficit of \$78B or 4% of GDP.

- **Projected Primary Surplus to fall to \$58.2B or 3% of GDP due mainly to projected reduction in tax revenues.**
Notwithstanding the lower revenue projection, the GOJ remains committed to achieving the revised primary surplus target of 3.0% of GDP, through a reduction of non-debt expenditures by \$3.5B.

Public Sector Wages and Salaries Fiscal rule - 9% of GDP

It is apparent that Jamaica will not achieve the legislated target of Wages and Salaries being 9% of GDP in

Tax Revenues are projected as tabled in the Third Supplementary Budget to close FY2020/21 at \$508.9B

Selected Quantitative Performance Targets and Policy Actions Status Update, end-December 2020

TARGETS	STATUS	COMMENTS
FISCAL INDICATORS*		
Tax Revenues	●	Tax Revenues of \$346B were marginally behind budget of \$347B but \$68B (16.5%) behind previous year performance due to the COVID related slowdown in the economy
Total Expenditure	●	Total Expenditures of \$469B were marginally behind budget target of \$472B but \$23.5B above previous year expenditures for the same period due primarily to one off expenditures including the GOJ CARE programme
Fiscal Deficit	●	Fiscal deficit of \$70B was better than budget target of \$74B but is significantly behind the fiscal surplus of \$24B for the same period in previous year. Deficit is primarily driven by fall off in Tax revenues year over year and increased COVID related expenditures
Primary Surplus	●	Primary Surplus of \$17.5B exceeds target of \$12.1B but is significantly behind previous year performance of \$33B for the same period
MONETARY INDICATORS		
Non-Borrowed Reserves (NBR)	●	NBR of US\$2.84B exceeded pre-COVID target of US\$2.64B as at end-December 2020 due to higher than projected remittance inflows and reduced imports
Gross Reserves (end-January 2021)	●	Gross Reserves of US\$3.94B which represents 117.8% of the reserves adequacy benchmark underlying the strength of Jamaica's reserves position
Net International Reserves (NIR)	●	NIR of US\$2.98B end-January 2021 remains above the IMF Rapid Financing Instrument (RFI) projection of \$2.46B for end-March 2021.
Inflation (12-month point-to-point)	●	Inflation of 5.2% which falls within the BOJ'S target range of 4-6% as at end-December 2020
JAMAICA'S PRIORITY ACTIONS		
Priority GOJ Actions (October 2019 -December 2020)	●	8 Targets met-including legislation for Central Bank Independence and the Independent Fiscal Commission. 21 Delayed as a result of COVID-19 disruption
Economic Reform Programme (ERP)	●	GOJ ERP- Quantitative targets are largely on track but GOJ priority policy commitments off track due to COVID disruptions

● Target Met ● Target Off-Track *Fiscal budget targets reflect Second Supplementary Estimates.

the current fiscal year and with GDP not returning to pre-COVID levels over the next two years, it will be a challenge for Jamaica to achieve this fiscal rule in the 2021/22 and 2022/23 fiscal years.

- **Debt to GDP increases beyond initial projections**
As a result of downward projections in GDP to 11.6% and the predictable fall off in tax revenues, along with the projected fall off in the Primary Surplus, it is expected that the Debt to GDP ratio will increase beyond the previous projection of 102.9% to 110% of GDP.

Continued progress made in build out of Jamaica's macro-fiscal Institutional capacity – Independent Fiscal Commission

The final legislation establishing the Independent Fiscal Commission, tabled in Parliament on December 1, 2020, was passed with amendments in the House of Representatives on February 2, 2021 and in the Senate on February 12, 2021. The establishment of the Fiscal Commission is a major accomplishment, which will promote sound fiscal policy and fiscal management in an effort to sustain fiscal discipline in order to maintain macroeconomic stability, fiscal sustainability and true economic independence.

Monetary Performance Inflation rate remains within BOJ's target range

- **The 12-Month Point-to-Point Inflation of 5.2% at December 2020 remains within BOJ's target range of 4.0% – 6.0%.**

BOJ overnight Policy Rate at 0.5% per annum remains unchanged

- Subject to inflation remaining well behaved, the BOJ has remained accommodative in its monetary policy stance with the aim of supporting recovery in economic activity.

Net International Reserves remain buoyant at US\$2.98B as at the end of January 2021 due to higher than anticipated Remittance Inflows and reduced imports.

- Net Remittance inflows of US\$1,892.6M for the period April - November 2020 was up US\$446.2M (30.8%) relative to the corresponding period in 2019.

The BOJ projects that, all things being equal, the NIR should close around these levels at the end of the current fiscal year.

Foreign Exchange market remains volatile since the December 2020 quarter

On February 15, 2021, the value of the Jamaican dollar was J\$151.34 to US\$1.00, reflecting a depreciation of 6.1% (\$8.69) for the quarter to February 15, 2021. Consequent on the foreign exchange market volatility, which continued into February 2021, the BOJ conducted five direct foreign currency sale to Authorized Dealers (ADs) and cambios through B-FXITT flash sale operation since the start of the year, which amounted to US\$88.7M.

GDP continues to be impacted by the fallout in Tourism

STATIN reported that the economy contracted by 10.7% for July–September 2020 relative to the similar period in 2019. This performance reflected the continued negative impact of COVID-19 and the measures implemented to limit its spread. The real GDP decline for the period primarily reflected a 65.2% downturn in the Hotel and Restaurants industry, due to an 86.5% (734,385) fall in visitor arrivals. There were bright spots where higher levels of output were achieved in Agriculture, Forestry & Fishing (up 2.5%) and Construction (up 7.0%). Real GDP for the July–September 2020 quarter grew 8.3% relative to the April–June 2020 quarter, reflecting an indication of quarterly improvements in economic activities.

EPOC's OUTLOOK on growth in GDP is cautious due to high levels of uncertainty

As the globe traverses the various phases of the pandemic and countries are in a race to vaccinate their populations to achieve herd immunity, the COVID-19 pandemic still maintains a hold globally. Many countries continue to face varying levels of the spread of the virus and the outlook and pathway to recovery at best remain highly uncertain.

Amid these uncertainties, the World Economic Outlook (WEO), January 2021 report, is projecting global growth of 5.5% in 2021 instead of the previously forecasted 5.2% and 4.1% for Latin America and the Caribbean, an upward revision of 0.5% from the previously forecasted 3.6%.

The Planning Institute of Jamai-

ca (PIOJ) and the BOJ expect a contraction within the range of 10% - 12% in FY2020/21, which is consistent with the Ministry of Finance and Public Service's projection of a contraction of 11.6%. The BOJ noted that, in its most recent assessment of the impact of COVID-19 on the Jamaican economy, economic activities have improved relative to previous projections.

The BOJ forecasts a partial recovery of 3% in FY 2021/22, which could trend up to 6% if there is a strong recovery in the tourism sector. However, there continues to be significant risk to the downside with the increasing number of positive daily cases being recorded recently, necessitating a nationwide tightening of curfew restrictions by the GOJ. The implementation of more stringent containment measures, despite being a reasonable response to the worsening COVID-19 situation in the country, is likely to result in further disruptions in economic activities.

Achieving herd immunity - Critical to full economic recovery

The updated global outlook of 5.5% reflects the expectations of increased economic activities later in the year as multiple vaccine approvals and vaccination launches in some countries have raised hopes of an eventual end to the COVID-19 pandemic.

Against this background, EPOC noted that the vaccination of the population and achieving herd immunity in the shortest possible period is the single most important imperative that can return Jamaica to a sustainable economic growth path. Private Sector Associations have entered into a Memorandum of Understanding (MOU) with the Ministry of Health and Wellness (MOHW) to participate in Jamaica's COVID-19 Vaccination programme. Notably, Private sector bodies and entities have indicated their willingness to fund the vaccination of their employees and dependents and to look at contributing to vaccinating the at-risk population. As vaccines become available, this public-private sector partnership should see Jamaica significantly surpassing the initial target of 16% inoculation of the population.

Monetary Policy Outlook

Jamaica's net international reserves are adequate and the BOJ has indicated that it will maintain an accommodative monetary stance until there are clear signs that economic activity is returning to pre-COVID levels.

Fiscal Outlook

Jamaica faces the greatest shock

to its economy in history and is struggling through the pandemic to get back to pre-COVID levels of growth and tax revenues. Once again, we face a period of fiscal consolidation as the recently amended fiscal rules, which allowed for a gentler correction of the current fiscal deviation, will see Jamaica having to return to primary surplus targets close to 6% in 2021/22 and 7% in 2022/23 to put Jamaica on a credible trajectory to achieve a 60% Debt to GDP target in 2027/2028.

Bank of Jamaica Dividend of \$33B payable in April 2021

The Minister of Finance and the Public Service announced, in the tabling of the fiscal year 2021/22 budget on February 18, 2021, a one off Bank of Jamaica Dividend of \$33B, which will ease the level of fiscal consolidation required. This will also give the GOJ some fiscal space to provide a stimulus package to the economy, which will include a Vaccination programme, social and business support, along with significant infrastructure and capital expenditure.

Public-Private Sector Partnerships critical to recovery

With the limited fiscal space, EPOC believes that the private sector will have to play a major role in driving economic recovery and Public-Private partnerships will be instrumental in returning Jamaica to a growth path.

EPOC firmly believes that the prioritization and the coordinated implementation of the recommendations of the COVID-19 Economic Recovery Task Force, led by Dr. the Hon. Nigel Clarke will certainly put Jamaica on a firm path of recovery.

EPOC urges all Jamaicans to remain vigilant and adhere to the COVID-19 Protocols

Jamaica is now at a critical juncture in our economic recovery path. As such, EPOC urges all Jamaicans to remain vigilant while adhering to the COVID-19 protocols to safeguard our lives and livelihoods.

Again, we express our gratitude and thanks to the GOJ, our health care workers, the MOHW and the security forces who have been working assiduously, putting their lives at risk to manage and curtail the spread of the virus.