

Update on the GOJ Economic Reform Programme (ERP)

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“GOJ projects GDP growth of 5.2% for 2021/22”

EPOC is cautiously optimistic on the recovery of the Jamaican economy

The EPOC met on May 7, 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, and to highlight key projections for FY2021/22.

The following were key highlights noted by EPOC:

- GOJ Tax Revenues projected to increase 13% from \$505.7B in 2020/21 to \$572.5B in 2021/22
- Remittances remain strong increasing 34.7%

year over year at February 2021 (was US\$212.5M for February 2021 compared to US\$ 162.8M for February 2020)

- Net International Reserves robust at US\$3.3B
- Debt to GDP projected to fall from 110.1% to 100.7% for 2021/22

Based on the preliminary results for performance to date through to the end of March 2021, the GOJ has met the available Quantitative Performance Targets for the GOJ

ERP for end March 2021, with the exception of the Tax Revenues target.

The implementation of the majority of the Priority Actions for the GOJ ERP was delayed relative to the timelines established in November 2019, due, in large part, to the impact of the COVID-19 pandemic.

EPOC will continue to monitor the fiscal and monetary targets set out for the Fiscal year 2021/22.

PROGRAMME REVIEW APRIL 2020-MARCH 2021

Selected GOJ Fiscal and Monetary Indicators for FY2020/21

Selected GOJ Fiscal and Monetary Indicators	Status (FY2020/21)*	Actual (Provisional) (FY2019/20)	Actual (Provisional) (FY2020/21)	Budget Target* (FY2020/21)	Variance (\$)	Variance (%)
Revenue & Grants (J\$B)	●	649.8	575.4	576.5	-1.1	-0.2
Tax Revenues (J\$B)	●	579.4	505.7	508.9	-3.2	-0.6
Total Expenditure (J\$B)	●	630.4	635.9	654.5	-18.6	-2.8
Recurrent Expenditure (J\$B)	●	560.0	586.7	602.5	-15.8	-2.6
Capital Expenditure (J\$B)	●	70.4	49.2	52.0	-2.8	-5.5
Fiscal Balance (J\$B) (Surplus + / Deficit -)	●	19.4	-60.6	-78.0	17.5	22.4
Primary Balance (J\$B) (Surplus + / Deficit -)	●	150.9	68.5	58.2	10.3	17.6
Inflation (%) **	●	4.8	5.2	4.0-6.0		
Non-Borrowed Reserves (NBR) (US\$M)***	●		3,032.8	2,754.8	278	10.1
Net International Reserves (NIR) (US\$M)****		3,238	3,318			
Gross International Reserves (GIR) (US\$M)****		3,689	4,252			
GIR/ARA (% of Assessment of Reserves Adequacy, ARA)****	●		137.7	100		

● Target Met ● Target Off-Track

*Status for Actual relative to Budget for FY2020/21
**CPI point-to-point movement as at March 2020 and March 2021

*** Actual as at end-March, 2021
****Actual as at end-April, 2021
Note: Discrepancies in the table due to rounding of figures

Fiscal Performance

Fiscal Targets: FY2020/21

Jamaica achieved all fiscal targets except **REVENUES AND GRANTS** which came in marginally short of budget.

Fiscal Deficit

The GOJ generated a fiscal deficit of \$60.6B, which was lower than the projected deficit of \$78.0B. The fiscal deficit occurred was due primarily to recurrent and capital spending closing the year lower than budgeted.

Revenues and Grants continue on an upward trajectory for 2020/21.

Revenues and Grants of \$575.4B were marginally behind budget by \$1.1B (-0.2%) for 2020/21. This was due to tax revenue inflows of \$505.7B which were \$3.2B (-0.6%) behind the annual budget.

- The fall off in Tax Revenues was due largely to a shortfall in the collection of General Consumption Tax (GCT) Local (-\$7.6B), largely attributed to tighter COVID-19 containment measures which affected consumer demand and

spending, and also a \$2.6B shortfall in Special Consumption Tax (SCT) which reflected the impact of lower trade volume.

- Tax Revenues were \$73.7B (12.7%) behind the previous year's outturn. However, tax revenues continued its recovery path throughout the fiscal year as tax revenues for the month of March came in at \$74.6B, which was \$2.6B behind the March budget number - but for the first period/month in the 2020/21 fiscal year was \$2B ahead of the same month of March in the previous fiscal year.

Total Expenditure (Recurrent & Capital) of \$635.9B was \$18.6B (2.8%) lower than budget

- Recurrent Expenditure was \$15.6B (2.6%) below budget. Relative to 2019/20, Recurrent Programme Spending was \$17.8B (8.2%) higher due partly to the implementation of the GOJ's COVID Allocation of Resources for Employees (CARE) Programme.
- Capital Expenditure was \$2.8B (5.5%) lower than budget due to a slower than anticipated pace of

project execution, which was significantly impacted by the implementation of more stringent COVID-19 containment measures during the last quarter of the fiscal year.

- Total expenditures for 2020/21 was \$635.9B which was \$5.6B (0.9%) greater than the previous fiscal year.

PRIMARY BALANCE OF \$68.5B EXCEEDS BUDGET TARGET BY \$10.3B (17.3%), Debt to GDP increases to 110.1%

- Despite the marginal fall-off in expected Revenue & Grants, the lower than budgeted expenditure for the FY resulted in the higher than budgeted Primary surplus of \$68.5B which exceeded the budget target of \$58.2B. This primary surplus of \$68B came in \$82B lower than the \$151B for the previous year which along with the projected 11.6% contraction in GDP would have contributed to the increase in the Debt to GDP ratio to 110.1%.

remittance inflows increased by 32.4 per cent relative to the corresponding period in 2020.

Foreign Exchange Market

On May 20, 2021, the value of the Jamaican dollar vis-à-vis the US dollar was J\$150.25 = US\$1.00, reflecting a depreciation of 2.5 per cent (\$3.67) for the quarter to date. This follows a depreciation of 2.8 per cent (\$3.93) for the March 2021 quarter relative to the December 2020 quarter.

Private Sector Financing

The annual growth in total loans and advances extended by Deposit Taking Institutions (DTIs) to the private sector at end-February 2021 was 9.5 per cent, which was lower than the growth of 16.5 per cent at end-February 2020, immedi-

ately prior to the start of the pandemic.

The decline in the annual growth of Deposit Taking Institutions is due to the fall off in consumer credit which grew by 7.6% at end-February 2021 compared to 15.3% at end-February 2020. The growth in the productive sector at February 2021 was in line with the growth of 18.2% at end-February 2020. The productive sector's growth in credit was primarily driven by working capital loans while the fall-off in retail credit was due to the impact of the COVID-19 pandemic.

Jamaica's Priority Actions

The implementation of the majority of the Priority Actions for the GOJ ERP was delayed relative to the timelines established in November 2019, due, in large part, to the impact of the COVID-19 pandemic. However, there were notable achievements recorded in the past two years of the reform programme in modernizing institutions and the Institutional framework.

Notable priority action achievements of the GOJ ERP-2019/2020-2020/21

Two major achievements of the GOJ were to establish Central Bank Independence and advance legislation for an Independent Fiscal Commission. These major achievements were completed within the past three months.

Central Bank Independence

The amended Bank of Jamaica (BOJ) Act took effect on April 16, 2021, giving the BOJ full operational independence with its principal objectives being the maintenance of price stability, through the achievement of an inflation target, and financial system stability. This marks a significant milestone for Jamaica.

Independent Fiscal Commission

The final legislation to establish 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 passage of legislation to establish the Fiscal Commission is a major accomplishment, which will promote sound fiscal policy and fiscal management in order to maintain macro-economic stability.

Public Investment Map

A Public Investment Map

was launched in November 2020 that provides online information on the progress of public investment projects on the GOJ's capital budget.

Open Government Partnership

Jamaica launched its engagement in the Open Government Partnership (OGP) in January 2021. This will advance the values of providing citizens with better access to information on the performance of ministries, departments and agencies and greater transparency on the allocation and expenditure of public resources.

Jamaica's first OGP National Action Plan is under development with the collaboration of Civil Society and as indicated by the Minister of Finance in his budget presentation is expected to be launched by July 2021.

PIOJ projects smallest rate of quarterly GDP contraction for 2020/21

The Planning Institute of Jamaica (PIOJ) estimates on a preliminary basis that real GDP for FY2020/21 will contract within the range of 10.5% to 12.5%. PIOJ expects real GDP for the January-March 2021 quarter to contract within the range of 7.0% to 9.0%. If this forecast is realized, it would represent the smallest rate of quarterly contraction for FY2020/21 and may be indicative of a gradual return to normalcy in economic activities relative to the preceding quarters.

Unemployment Rate continues downward trend

The unemployment rate has been declining from the highest level in the pandemic of 12.6% in July 2020 to 10.7% in October 2020 and further declined to 8.9% in January 2021.

The GOJ Budget for FY 2021-22

In March 2021, the Government of Jamaica (GOJ) presented the 2021/22 National Budget with expenditures of JMD 830.78 billion.

The GOJ budget assumptions are GDP growth of 5.2%, growth in nominal GDP of 10.6%, annual inflation of 5.1% and a 19.5% increase in imports.

In keeping with the amended fiscal rules, the GOJ is projecting a primary surplus of \$131B or 6.1% of GDP which will see Jamaica's debt to GDP ratio falling from 110.1% to 100.7%

of GDP. The GOJ fiscal position will move from a deficit position of \$60.6B in 2020/21 to a projected fiscal surplus of \$5.4B in 2021/22.

The budget is primarily funded by the growth from:

- Tax Revenues with projected growth of \$66.8B from \$505.7B in 2020/21 to \$572.5B at the end of 2021/22
- Non-Tax revenues with projected growth of \$32B from \$62.14B to \$94.19B which is primarily funded by a BOJ dividend of \$33B.

Major Expenditures

The priority areas of expenditure as set out by the Minister of Finance in the budget presentation were as follows:

- Jamaica's vaccination programme
- Bolstering Social support
- Boost economic activity with an infrastructure programme
- Support to small businesses

\$60B SERVE Jamaica Programme which includes major expenditure items below:

- Ministry of Health and Wellness \$10.5B including \$6B for the Vaccine programme
- \$31B Infrastructure Programme
- \$8.1B in targeted Social Support
- \$5B to MSME programmes
- \$1.8B to Broadband and wifi expansion

Recurrent Programmes which includes the notable expenditure item below:

- Social Spending - \$16.4B

Total Capital Expenditure increases by 20%

Notably the capital expenditure which totals \$54.2B in 2021/22 is set to increase by greater than 20% over the previous year which will provide well needed stimulus for the economy.

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

Wages and Salaries closed the 2020/21 fiscal year at 10.7% of GDP and is expected to hover at around 10% of GDP through to 2024/25.

Finance Minister, Hon. Dr. Nigel Clarke, indicated that the Government is not in a position to begin the implementation of the proposed compensation restructure in the public sector as the economy continues to be dampened by the COVID-19 pandemic. The GOJ has therefore deferred the implementation of the compensation review to fiscal year 2022/23.

EPOC's OUTLOOK for the Jamaican Economy for 2021/2022

GOJ has projected a growth rate of 5.2%, the Bank of Jamaica has projected growth within the range of 4-8% for FY 2021/22 while the IMF has projected a conservative growth rate of 1.5% for calendar year 2021.

Tourism green shoots

The growth in the Jamaican economy still faces a high degree of uncertainty which is driven by the COVID-19 pandemic. This uncertainty has reduced over the past five (5) months as the Vaccination programme has been in high gear in the USA which has seen the US economy on a strong recovery path which has led to a pent up demand for travel. While it is still early days, Tourism interests have noted a significant increase in stop-over arrivals and increased forward bookings which are very encouraging signs and if sustained we could see Jamaica's GDP growth in the Hospitality sector outperform targets.

As Jamaica's source markets continue to aggressively vaccinate their population and Jamaica's competitors adjust their travel protocols for the vaccinated visitors, Jamaica's public health will have to be agile in response while maintaining the low positivity rates that Jamaica has been experiencing in Jamaica's resilient corridor.

Balancing lives and livelihoods

Jamaica experienced a sig-

nificant spike in the spread of the COVID-19 virus in the months of March and April, 2021 which saw the capacity of Jamaica's public health infrastructure and personnel being challenged. This resulted in increased restrictions on movement, which definitely would have had a dampening effect on economic activity. In the past month we have seen the positivity rate and the number of cases being reduced, which has reduced the pressure on the public health system. The Public health team has signaled that the downward trend in the positivity rate and the numbers of cases would need to be reduced before restrictions are eased. The implementation of the ENDS programme allowed for commerce during curfew hours, however, the restrictions continue to keep a lid on economic activity.

Vaccination Programme

Jamaica continues to struggle to access any significant volumes of Vaccines, but the recent announcement of USA President Joe Biden that 80M vaccines could be deployed to developing countries and into the COVAX facility is very encouraging. We also note that the USA has vaccinated approximately 60% of the population with at least one shot of the vaccine with a target of 70% by July 4, 2021. As a result of the vaccination effort in the USA, it is anticipated that the supply chain for vaccines will begin to free up, and Jamaica, the region and other de-

veloping countries should be able to access and distribute vaccines. This should lead to reduced restrictions on economic activity and improving conditions and allow Jamaica to get to some degree of normalcy over 2021/22.

When we balance all factors, we believe that the risks and the uncertainty have significantly reduced over the past 3 months and therefore EPOC is cautiously optimistic that the Jamaican economy can resume a growth trajectory in 2021/22.

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

EPOC continues to urge 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, security forces and all essential workers in the private and public sector who have been working assiduously, putting their lives at risk to manage and curtail the spread of the virus while ensuring that the wheels of the economy can continue to turn.