

Update on the GOJ Economic Reform Programme (ERP)

July 2022 • Communiqué #40

Jamaica's recovery continues but risks to sustained recovery remain high

The EPOC met on July 8, 2022 to review the Fiscal and Monetary Quantitative Performance indicators under the Government of Jamaica's Economic Reform Programme.

The following were key highlights noted by EPOC:

- Inflation rate of 10.9% at June 2022 was below the BOJ's forecasted peak range of 12% to 15%

- **BOJ expects inflation to average 8.0% to 9.0% over the next two years**
- **The BOJ's Monetary Policy Committee has signaled that the 500 basis points increase in the policy rate to 5.50%, brings it closer to that which it considers appropriate. The next policy announcement is scheduled for August 18, 2022, subject to incoming data**

- **For FY2021/22 and April-May 2022, Revenue and Grants and the fiscal and primary balance targets outperformed budget targets**
- **Net International Reserves of US\$3.8B as at June 2022 remain robust**
- **Real GDP growth of 8.2% was recorded for FY2021/22 and 6.4% for the January to March 2022 quarter**

PROGRAMME REVIEW FY2021-22 (APRIL-MARCH)

Selected GOJ Fiscal Indicators

Selected GOJ Fiscal Indicators	Status FY2021/22 Relative to Budget	Actual (Provisional) (FY2021/22)	Budget * Target (FY2021/22)	Variance		Actual (Provisional) (FY2020/21)	Variance	
				FY2021/22 Actual vs Budget	FY2021/22 Actual vs FY2020/21		FY2021/22 Actual vs Budget	FY2021/22 Actual vs FY2020/21
Revenue & Grants (J\$B)	●	720.6	717.4	3.1	0.4	575.4	145.2	25.2
Tax Revenue (J\$B)	●	616.4	606.2	10.1	1.7	505.7	110.7	21.9
Non-Tax Revenue (J\$B)	●	93.2	97.1	-3.9	-4.0	62.2	31.0	49.8
Total Expenditure (J\$B)	●	698.9	711.8	-12.9	-1.8	635.9	63.0	9.9
Recurrent Expenditure (J\$B)	●	648.4	657.6	-9.2	-1.4	586.7	61.7	10.5
Capital Expenditure (J\$B)	●	50.5	54.2	-3.7	-6.8	49.2	1.3	2.7
Fiscal Balance (J\$B) (Surplus + / Deficit -)	●	21.7	5.7	16.0	282.9	-60.5	82.2	135.8
Primary Balance (J\$B) (Surplus + / Deficit -)	●	158.7	142.1	16.6	11.7	68.5	90.2	131.6

● Above Budget ● Within Budget ● Below Target/Missed Target

*Third Supplementary Budget Estimates. Note: Discrepancies in the table due to rounding of figures

Selected GOJ Fiscal Indicators for FY2021/22 relative to FY2019/20

Selected GOJ Fiscal Indicators	Status	Actual (Provisional) (FY2021/22)	Actual (Provisional) (FY2019/20)	Variance (\$)	Variance (%)
Revenue & Grants (J\$B)	↑	720.6	649.8	70.8	10.9
Tax Revenue (J\$B)	↑	616.4	579.4	37.0	6.4
Non-Tax Revenue (J\$B)	↑	93.2	64.5	28.7	44.4
Total Expenditure (J\$B)	↑	698.9	630.4	68.5	10.9
Recurrent Expenditure (J\$B)	↑	648.4	560.0	88.4	15.8
Capital Expenditure (J\$B)	↓	50.5	70.4	-19.9	-28.2
Fiscal Balance (J\$B) (Surplus + / Deficit -)	↑	21.7	19.4	2.3	11.6
Primary Balance (J\$B) (Surplus + / Deficit -)	↑	158.7	150.9	7.8	5.2

↑ Above pre-COVID levels ↓ Below pre-COVID levels

Note: Discrepancies in the table due to rounding of figures

FY2019/20 fiscal numbers will be used in the analysis as a benchmark year for the fiscal quantitative performance criteria and can be considered a normalized (pre-COVID) year.

Jamaica's selected fiscal indicators for FY2021/22 outperformed both the GOJ's initial budget and the third supplemental budget estimates

Revenue & Grants, at 31.0% of GDP for FY2021/22, exceeded budget and nominally outperformed pre-COVID levels

Revenue & Grants, totaling \$720.6B, ended the fiscal year at \$3.1B (0.4%) ahead of the third supplementary estimates. This largely reflected stronger than budgeted Tax Revenues and lower than programmed Non-Tax Revenues as well as Grants. The fiscal year receipts also outperformed FY2020/21 outturn by \$145.2B (25.2%) as well as pre-COVID levels by \$70.8B (10.9%). This improved Revenue & Grants performance relative to the previous fiscal year was underpinned by the recovery in tourism and the relaxation of restrictions imposed to contain the spread of the pandemic.

Tax Revenue surpassed the budget target, FY2020/21 performance and pre-COVID levels

Total Tax Revenue of \$616.4B for the fiscal year exceeded the budget target by \$10.1B (1.7%). This outturn was also higher than Tax receipts for the FY2020/21 by \$110.7B (21.9%) and nominally ahead of pre-pandemic levels by \$37.0B (6.4%). Relative to budget, the Tax Revenue performance was driven by higher than projected receipts from Other Companies, PAYE collections, Tax on Interest as well as Special Consumption Tax on imports.

Non-Tax Revenue lower than budget but significantly higher than previous years due to the BOJ Dividend

Non-Tax Revenue of \$93.2B for FY2021/22 fell short of the revised budget by \$3.9B (4.0%) but was \$31.0B (49.8%) higher than the outturn for FY2020/21, due primarily to inflows of \$32.6B from the Bank of Jamaica (BOJ), which was paid out earlier in the fiscal year.

Grants of \$7.7B underperformed by \$3.2B (29.2%) relative to the revised budget but was marginally higher than previous fiscal year. Inflows from Grants were however \$3.0B (64.5%) above FY2019/20.

Total Expenditure, at 31.0% of GDP, fell short of budget but surpassed previous year and pre-COVID levels For FY2020/21, total expenditure (above-the-line) of \$698.8B was below the revised budget by \$12.9B (1.8%), representing an increase of 9.9% relative to FY2020/21 and 10.9% compared with FY2019/20. This performance relative to budget was partly due to lower than budgeted capital expenditure, which fell below budget by \$3.7B but was \$1.3B higher compared with the previous fiscal year performance. Capital spending however remains \$19.9B below pre-pandemic levels. Relative to FY2020/21, the 8.4% increase in expenditure on Compensation of Employees was primarily due to the payment of new salary rates to public sector workers in accordance with the wage agreement for FY2021/22.

Interest Costs marginally in line with budget but above previous fiscal years

Interest costs of \$137.0B, which included domestic interest costs of \$54.7B and foreign interest costs of \$82.3B, ended the fiscal year marginally in line with the revised budget. As the BOJ continues to tighten monetary policy, we see the rates on GOJ Treasury Bills steadily increasing, with the benchmark 180 day Treasury Bill moving to 7.96% in June

2022 from 2.57% in October 2021 (when the BOJ's overnight policy rate increase by 100 basis points to 1.50% per annum was effected).

Fiscal and Primary Balance better than programmed and represents a significant improvement over FY2020/21

The Central Government operations for FY2021/22 generated a fiscal surplus of \$21.7B (0.9% of GDP) and a primary surplus of \$158.7B (6.8% of GDP) which both exceeded the Third Supplementary Estimates by \$16.0B and \$16.6B, respectively. These outturns resulted from higher than projected Revenue & Grants and lower than programmed above-the-line Expenditure.

The GOJ's fiscal surplus was \$82.2B (135.8%) ahead of the \$60.5B deficit recorded in FY2020/21 and \$2.3B higher than pre-COVID surplus. The primary balance was also \$90.2B above the previous fiscal year's surplus and \$7.8B higher relative to FY2019/20. Despite ending FY2021/22 with a primary surplus of 6.8% of GDP relative to the initial projection of 6.3%, the GOJ remains focused on meeting the 5.9% of GDP target for end-FY2022/23.

Debt-to-GDP ratio ended the FY2021/22 better than the revised projection of 96.3% at 94.2%

The debt-to-GDP ratio of 94.2% at March 2022 represents a 15.5 percentage point reduction over the 109.7% at end-March 2021. This decline is mainly due to the real GDP growth of 8.2%, higher than budgeted tax revenues and better than programmed primary balance. The GOJ remains committed to meeting its debt target of 60% or less for FY2027/28.

April-May 2022 fiscal indicators outperformed budget targets

The fiscal operations for the first two months of FY2022/23 generated a lower fiscal deficit and a higher primary surplus than targeted. These outturns resulted from higher than budgeted Revenue & Grants, which exceeded budget by \$6.3B, largely due to the positive performance of Tax Revenue, and lower than programmed Expenditure (by \$1.2B) due primarily to lower than planned programme spending.

Revenue & Grants

Notwithstanding the \$22.0B increase in Tax Revenues relative to April-May 2021, total Revenue & Grants of \$107.8B for April-May 2022 fell \$10.8B below the corresponding months of FY2021/22. This is primarily due to lower Non-Tax revenue which decreased from \$37.4B to \$5.4B reflecting the BOJ's dividend payment of \$32B during the comparable period of FY2021/22.

Tax Revenues of \$101.9B which was \$6.4B (6.8%) above budget mainly reflected higher than budgeted PAYE by \$1.2B (9.0%), Customs Duty by \$1.0B (11.7%) and Travel Tax by \$1.6B (69.7%).

Tax receipts increased by 27.5% from \$79.9B to \$101.9B relative to April-May 2021.

Improvements in Jamaica's tax collec-

Monetary Performance

Inflation remains a cause for concern

Selected Monetary Indicators	Actual (Provisional) June 2021	Actual (Provisional) June 2022	Budget Target
12-Month Point-to-Point Inflation (%)	4.3	10.9	4.0 - 6.0
Core Inflation*	6.7	8.7	
(As at June 30, 2022)			
Gross International Reserves (GIR) (US\$M)		4,389.9	
Net International Reserves (NIR) (US\$M)		3,804.8	
GIR/ARA (% of Assessment of Reserve Adequacy, ARA)		129.1	100.0

* Core Inflation is a measure of the change in prices excluding food and fuels prices.

The Bank of Jamaica's Monetary Policy Committee (MPC) expects inflation to continue to breach the Bank's target range over the next year

- **12-month point-to-point inflation rate of 10.9% at June 2022 remains well above BOJ's 4.0% - 6.0% target range.** This outturn represents the eleventh consecutive month that inflation has breached the Bank's target range but remains lower than the BOJ's forecasted peak range of 12% to 15% for the June quarter.

- **Core Inflation remains elevated**
 - Core inflation rate of 8.7% at June 2022 was lower than the 9.7% at May 2022 but was above the 6.7% for June 2021 and continues to be a concern for the BOJ.

- **BOJ's Survey of Businesses' Inflation Expectations**, conducted over the period April 11 to May 9, 2022, indicated that businesses' expectations for inflation for the next 12 months (ending May 2023) was 12.8%. This outturn reflected an increase relative to the expectations recorded in the March 2022 survey (12.1%). This indicator is also of concern for the BOJ, which would like to see inflationary expectations trend downwards.
 - Respondents reported that the most important factors influencing their inflation expectations were "changes in the external price of imported goods", "other factor", and to a lesser extent "changes in the exchange rate."

The BOJ continues to expect that, consistent with global consensus forecasts, commodity prices (oil and grains) will fall in the second half of the year and that local inflation will average 8.0% to 9.0% over the next two years, as long as tensions between Russia and Ukraine do not escalate and inflation among Jamaica's trading partners trends downwards.

The BOJ continues to raise its policy rate

The MPC's latest policy rate decision, an increase of 50 basis points effected June 29, 2022, reflected an overall increase of 500 basis points to 5.50% since October 2021. The Committee has signaled that this action brings the policy rate closer to that which it considers appropriate. Over this period, the Bank also sold foreign exchange to the market, where necessary, including via the public sector enterprise facility, while continuing to ensure that the gross reserves remained comfortably above the level considered adequate.

In response to the MPC's past monetary policy adjustments, interest rates on new bank deposits and loans in Jamaica have started to rise and there has been greater stability and even some appreciation in the exchange rate between April and July of this year.

The Bank's decision is intended to cause liquidity conditions to remain tight and interest rates on bank deposits and loans to rise further, making savings in Jamaican dollars more attractive relative to foreign currency assets and borrowing in Jamaican dollars more expensive. Additionally, the tightening of monetary policy will generally reduce demand in the economy and the ability of businesses to pass on price increases to consumers. These decisions are also expected to continue to support a more relatively stable foreign exchange market, reinforced by the Bank's strong international reserves position.

Jamaica's International Reserves remain adequate

Jamaica's international reserves remain buoyant with Gross International Reserves at end-June 2022 of US\$4.4B, representing 129.1% of the Assessing Reserve Adequacy metric for FY2022/23. Net International

Reserves continue to be supported by the relaxation of previously implemented COVID-19 containment measures which largely impacted travel, supply chain management and economic activities.

Total Expenditure (Recurrent & Capital)

Above-the-line Expenditure of \$117.6B for the review months fell short of budget by \$1.2B (1.0%) due largely to lower than targeted recurrent programmes spending by \$1.1B which reflected delays in procurement. Compensation of Employees and interest payments were marginally lower than budget by 0.4% and 0.9%, respectively.

Increased Social Spending to be reflected in FY2022/23 First Supplementary Budget Estimates

Dr. Nigel Clarke, Minister of Finance and the Public Service, has recently announced a \$2.7B additional social intervention expenditure to include funding for targeted general welfare support for the most vulnerable and pensioners and for parish clean-up campaign. This well-needed support is intended to help to cushion the impact from elevated inflation driven by the surge in commodity prices.

The \$2.7B allocation is expected to be funded from the above budgeted revenue flows and will be included in the upcoming **First Supplementary Estimates, which are anticipated to**

be tabled in Parliament in September 2022.

Public Sector Transformation

EPOC acknowledges the continued efforts of the GOJ through its Transformation Implementation Unit (TIU), the Trade Unions and Bargaining Units in cordially and diligently working through the very complex and involved negotiation process towards the implementation of the new Public Sector Compensation model. EPOC is hopeful that the intended performance management framework will accompany initiatives which will increase efficiency levels in the Public Sector along with increased service levels.

Wages to GDP Ratio as projected will breach the fiscal rule of 9.0% of GDP

The Public Sector Wage Bill continues to breach the fiscal rule, ending FY2021/22 at 9.6% of GDP, albeit marginally lower than the projected 9.9% for the fiscal year. With the Public Sector Compensation review, the wage bill is projected to close FY2022/23 at 10.9%. Relevant legislation will therefore need to be amended by the Ministry of Finance and the Public Service.

Growth within the 2.0% to 4.0% range is also projected for FY2023/24, as the economy continues to recover. Quarterly GDP is expected to return to its pre-COVID levels by the December 2022 quarter.

The labour market continues to show signs of recovery but has not fully returned to pre-COVID levels

Jamaica recorded a historic low unemployment rate of 6.0% at April 2022. Notwithstanding the fall in the unemployment rate, the labour market remains below the level attained before the pandemic. The Employed Labour Force totaled 1,269,300 people, which was 3,400 below the number employed in January 2020.

EPOC optimistic on Economic recovery for 2022/23 but cautious on the medium-term projections due to a risky global environment

The BOJ continues to be steadfast in its efforts to sustainably rein in inflation and bring it back into its target range. The Bank, however, noted that risks to inflation remains balanced and anticipates that local inflation will average 8.0% to 9.0% over the next two years. The BOJ projects that inflation should fall back in the 4.0% to 6.0% target range in the latter half of 2023.

Jamaica's International reserves are more than adequate and the exchange rate remains stable within a range. Notably, the BOJ has reduced the level of interventions quarter over quarter in ensuring an orderly market. This is a welcome development for all and one which we believe should contribute to reduced inflationary expectations.

EPOC notes, however, that within the past months, we have seen some falloff in commodity prices and we are hopeful that we will see this movement being reflected in our upcoming inflation data.

EPOC is at one with the BOJ in their proactive stance in executing their mandate of price stability, which is critical to macroeconomic stability in the medium to long-term. EPOC also recognises that the BOJ is best placed with the data and its economic models to walk this tightrope and we continue to be confident that the Bank will continue to do what is in the best interest of Jamaica.

While Tax revenues are marginally exceeding budget, we expect that the GOJ will see inflationary pressures, along with the public sector negotiations, begin to place pressure on the GOJ expenditures. EPOC remains supportive of the GOJ's efforts to cushion the inflationary pressures on the most vulnerable and we are hopeful that, as fiscal space is available, our vulnerable will continue to be supported in a targeted manner. However, we do expect that the GOJ will continue to be fiscally responsible and manage within the fiscal rules ensuring continued macroeconomic stability.

EPOC is very cautious on the economy maintaining the growth momentum, as the global environment faces multiple risk factors including geo-political risks, supply chain dislocations, volatile energy and commodity markets, increased interest rates globally and locally, along with the projected global slowdown especially in our main market the USA and COVID-19 in China. These risks could very well see reduced inflation and price stability but these risk factors could likely create some downside risk for Jamaica's continued projected economic recovery.

EPOC's outlook, based on all the data that we have seen, along with the sentiment of the Private Sector, is for the economy to continue on its projected recovery path and be back at pre-COVID levels by the end of the 2022/23 fiscal year.

PROGRAMME REVIEW FOR APRIL 2022 - MAY 2022

Selected GOJ Fiscal Indicators

Selected GOJ Fiscal Indicators	Status	Actual (Provisional) April - May 2022	Budget (Provisional) April - May 2022	Variance		Actual (Provisional) April - May 2021	Variance	
				Actual vs Budget	Actual vs Budget		Actual vs Budget	Actual vs Budget
Revenue & Grants (J\$B)	●	107.8	101.5	6.3	6.2	118.6	-10.8	-9.1
Tax Revenue (J\$B)	●	101.9	95.4	6.4	6.8	79.9	22.0	27.5
Non-Tax Revenue (J\$B)	●	5.4	5.0	0.3	6.9	37.5	-32.1	-85.6
Total Expenditure (J\$B)	●	117.6	118.8	-1.2	-1.0	113.8	3.8	3.3
Recurrent Expenditure (J\$B)	●	108.7	110.2	-1.4	-1.3	101.3	7.4	7.3
Capital Expenditure (J\$B)	●	8.9	8.6	0.3	3.0	12.5	-3.6	-28.9
Fiscal Balance (J\$B) (Surplus + / Deficit -)	●	-9.8	-17.3	7.5	43.2	4.8	-14.6	-307.0
Primary Balance (J\$B) (Surplus + / Deficit -)	●	10.5	3.2	7.3	226.7	23.6	-13.0	-55.3

● Above Budget ● Within Budget ● Missed Target

Note: Discrepancies in the table due to rounding of figures

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