



Update on the GOJ Economic Reform Programme (ERP)

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Jamaica's economy continues to show signs of strong recovery; however, risks to a sustained growth path are elevated

The EPOC met on October 7, 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 10.2% at August 2022 was flat relative to July 2022

- The BOJ's MPC believes that, despite the 600 bps (since October 2021) increase in policy rate to 6.50% effective September 30, 2022 and other policy actions pursued by the BOJ, conditions have not sufficiently solidified to ensure that inflation is sustainably on a downward path.
- For FY2022/23 (April-August), Revenue

- and Grants and the fiscal and primary balance targets outperformed budget targets
- Net International Reserves of US\$3.81B as at September 2022 remain robust
- Real GDP growth of 4.8% was recorded for the April-June 2022 quarter and is projected to fall within the range of 2.0%-3.0% for the July-September 2022 quarter

PROGRAMME REVIEW FY2022-23 (APRIL-AUGUST) Selected GOJ Fiscal Indicators

Selected GOJ Fiscal Indicators	Status FY2022/23 (April-August) Relative to Budget	Actual (Provisional) (FY2022/23) (April-August)	Budget Target (FY2022/23) (April-August)	Variance (\$)	Variance (%)	Actual (Provisional) (FY2021/22) (April-August)	Variance (\$)	Variance (%)
				FY2022/23 (April-August) Prov. vs Budget			FY2022/23 (April-August) Prov. vs FY2021/22 (April-August) Actual	
Revenue & Grants (J\$B)	●	297.8	266.9	30.9	11.6	269.4	28.4	10.6
Tax Revenue (J\$B)	●	277.0	249.4	27.6	11.1	218.0	59.0	27.1
Non-Tax Revenue (J\$B)	●	18.7	14.8	3.9	26.5	47.3	-28.6	-60.4
Total Expenditure (J\$B)	●	299.9	297.4	2.5	0.8	284.2	15.7	5.5
Recurrent Expenditure (J\$B)	●	279.6	275.7	3.9	1.4	261.7	17.9	6.8
Capital Expenditure (J\$B)	●	20.3	21.7	-1.4	-6.6	22.5	-2.2	-9.8
Fiscal Balance (J\$B) (Surplus + / Deficit -)	●	-2.1	-30.5	28.4	93.2	-14.8	12.8	86.1
Primary Balance (J\$B) (Surplus + / Deficit -)	●	56.6	27.2	29.5	108.4	41.2	15.4	37.4

● Above/Better than Budget ● Within Budget ● Outside Budget

Note: Discrepancies in the table due to rounding of figures

Jamaica's selected fiscal indicators for FY2022/23 (April-August) exceeded the GOJ's budget, with the exception capital expenditures

Revenue & Grants surpassed budget and continues to outperform previous year performance

For April-August 2022, total Revenue & Grants of \$297.8B was \$30.9B (11.6%) ahead of budget primarily due to higher than budgeted Tax and Non-Tax revenues. This positive performance remains ahead of the outturns for April to August 2021 by \$28.4B (10.6%), supported mainly by increased economic activity and higher than projected value of imports.

Tax Revenue outperformed budget target and previous year performance

Total Tax receipts of \$277.0B for the review period reflected a surplus of \$27.6B (11.1%) relative to budget. This outturn was also above earnings of \$218.0B for April-August 2021. The higher than budgeted Tax Revenue was mainly attributed to stronger than programmed:

- Special Consumption Tax (imports), which reflected higher than projected import value of goods
- General Consumption Tax (local), which was boosted by higher consumption associated with improvements in employment as well as increased economic activities
- Travel Tax, which mirrored better than programmed pace of growth for visitor arrivals
- PAYE collections, consistent with the improved labour market.

Non-Tax Revenue stronger than budget but significantly lower than previous year outturn

Non-Tax Revenue for April-August 2022, which amounted to \$18.7B, surpassed its budget target by \$3.9B (26.5%), largely influenced by higher than projected distributions from the de-earmarked entities: Tourism Enhancement Fund (TEF) and Jamaica Civil Aviation Authority (JCAA). This outturn was however significantly

lower than the \$47.3B collected for the similar period for 2021, which accounted for the BOJ's dividend payment of \$33.2B during FY2021/22.

Total Expenditure marginally ahead of budget

Total expenditure (net of amortization) of \$299.9B for April-August 2022 exceeded budget by \$2.5B (0.8%) due primarily to higher than budgeted recurrent programme spending. This performance was \$15.7B (5.5%) higher than the outturn for the corresponding period in 2021.

Recurrent programme spending for the review period was \$3.6B higher than budget, mainly reflecting a faster pace of procurement than anticipated.

Interest costs of \$58.7B also surpassed budget due to higher costs for servicing domestic debt, a result of higher T-bill rates. As the BOJ continues to tighten monetary policy, the rates on GOJ Treasury Bills steadily increased, with the benchmark 180 day Treasury Bill moving to 7.96% in June

2022, but remained relatively flat in August 2022 at 7.96%, up from 2.57% in October 2021.

Capital expenditure of \$20.3B fell short of budget by \$1.4B (6.6%) due to a slower than planned pace of project execution due, in part, to periods of unfavourable weather conditions, and was \$2.2B lower relative to April-August 2021.

The Central Government fiscal accounts for FY-to-August 2022 out-performed budget, reflecting continued economic recovery from the COVID-19 impact

The GOJ's operations generated a fiscal deficit of \$2.1B, which was lower than the budgeted deficit of \$30.5B and a primary surplus of \$56.6B relative to a budgeted primary surplus of \$27.2B. This favourable performance was driven largely by a strong tax revenue performance, which, in part, outweighed the impact of the higher than budgeted expenditure. This fiscal deficit was also \$12.8B lower than the deficit generated for the corresponding period in 2021.

NOTABLE FISCAL DEVELOPMENTS

Fiscal Commission

A recruitment team was appointed to execute the process of interviewing and identifying Jamaica's first Fiscal Commissioner. The post was advertised in August 2022 and candidates were shortlisted.

Jamaica Open Government Partnership (OGP)

The OGP is a voluntary, international forum of countries working to be more open, accountable and responsive to citizens. Jamaica's participation in the OGP requires us to deliver a National Action Plan (NAP) developed through public consultation with civil society to include commitments, which will advance the OGP values of access to information, civic participation and public accountability.

EPOC congratulates the OGP multi-stakeholder forum for finalizing the National Action Plan 2021-2023. The MOFPS, as the lead ministry for the Jamaica OGP process, is committed to ensuring the successful implementation of the country's first National Action Plan, for the advancement of the open government

values and for the benefit of our citizens.

Public Sector Compensation Review and Rationalization

Discussions regarding restructuring of public sector compensation continue between the GOJ and the unions representing public sector workers. It is anticipated that these discussions will be concluded shortly to facilitate the implementation of the restructured compensation.

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Social Safety Net

The GOJ has taken a targeted approach to providing support to vulnerable groups that have been impacted by higher energy prices and higher inflation rates than projected due to the overhang from the

COVID-19 pandemic and the continued Russia/Ukraine conflict.

Dr. Nigel Clarke in his closing budget presentation of 2022/23, announced \$3.5B support to vulnerable groups, inclusive of \$750M to Food Assistance programmes, \$600M to Transport Operators, and \$2B to the GOJ Energy Co-pay subsidy.

On July 5, 2022, the Minister of Finance announced \$3.8B of expenditures, of which \$2.7B of new expenditure targeted vulnerable groups, which includes:

- \$1.79B in Back to School one off grants to 160,000 PATH School aged children, inclusive of allocations of \$169M to non-Path vulnerable students
- \$550M to Pensioners at the lower end of the Income ladder
- \$550M in General Welfare support to Non-Path Beneficiaries
- \$750M for Independence Clean-up of parishes
- \$150M for the Trucking of Water

Pending Supplementary Budget

The interim Fiscal Policy Paper for

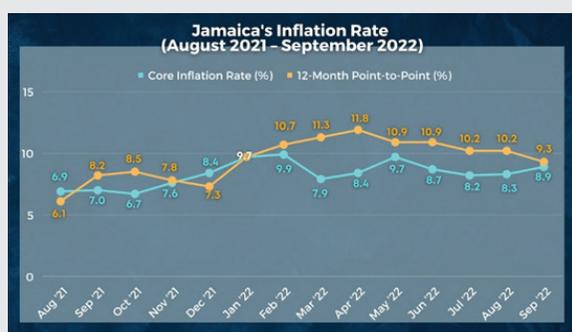
FY2022/23 was tabled in Parliament on September 27, 2022. This report noted that growth in real GDP is projected to increase to 4.1% in FY2022/23 relative to the 3.5% previously used in the original budget estimates, reflecting higher than budgeted economic activity.

The interim fiscal paper also projects an increase in Inflation projection to 6.8% relative to the 5.0% presented in the 2022/23 budget estimates.

As Tax Revenues continue to outperform targets due to higher than projected domestic activity and higher price levels, the GOJ should be tabling a Supplementary budget by December 2022, which should include the increased allocations to the Social Safety net and possible increases in expenditures emanating from the Public Sector Compensation review and rationalization. This is of course subject to the timely conclusion of the negotiations between the GOJ and the Public Sector Unions.

Monetary Performance

The BOJ remains concerned that conditions have not sufficiently solidified to ensure that inflation is sustainably on a downward path



- **The 12-month point-to-point Inflation rate of 9.3% at September 2022 remains well above BOJ's 4.0% - 6.0% target range.** This outturn represents the fourteenth consecutive month that inflation has breached the BOJ's target range and primarily reflected accelerated prices for Restaurants and Accommodations Services; Food and Non-Alcoholic Beverages;

and Housing, Water, Electricity, Gas and Other Fuels.

- **The Bank of Jamaica (BOJ) is, however, encouraged by the direction of the last four CPI reports as, having peaked in April 2022 at 11.8%, point-to-point Inflation for the successive months have declined but remained steady at 10.2% for July and August 2022 and declined to 9.3% in September 2022. The factors that contribute to this trend include declining international commodity prices, relative stability in the foreign exchange rate, tighter liquidity management by BOJ and higher interest rates.**
- **Core Inflation remains elevated**
 - Core inflation of 8.9% at September 2022 was higher than the rate of 7.0% at September 2021 and marginally above the 8.3% recorded at August 2022.
- The BOJ's Survey of Businesses' Inflation Expectations, conducted over the period July 18 to August 19, 2022, indicated that business-

es expectations for inflation for the next 12 months (ending August 2023) was 12.6%. This outturn reflected a deceleration (the first since March 2021) relative to the expectations recorded in the July 2022 survey (13.1%) but remains above the BOJ's forecast for inflation for that period.

Over the remainder of the year, the BOJ forecasts inflation to continue to moderate, consistent with consensus forecast for a fall in commodity prices. This indicates that, assuming no additional shocks, we should see annual inflation rates trend towards the lower bound of 9%-11% for the remainder of 2022. The BOJ further notes that inflation should start to decline from these levels in early 2023, and fall within the 4-6% range by December 2023.

The BOJ continues to raise its policy rate

The BOJ's Monetary Policy Committee (MPC) has announced its decision to increase the policy interest rate (the rate offered to deposit-taking institutions on overnight placements with BOJ) by 50 bps to 6.50% per annum, effective September 30, 2022. This decision has resulted in a cumulative increase of 600 bps in the policy rate since October 2021. The Committee indicated that, while the key drivers of inflation and other economic indicators are trending in the right direction, conditions have not sufficiently solidified to ensure that inflation is sustainably on a downward path.

The BOJ is also concerned about the slow pace at which interest rates on local currency deposits and loans have responded to its policy signals. Additionally, the pace of monetary tightening among Jamaica's main trading partners has accelerated. On September 21, 2022, the Federal Reserve Board (Fed) raised its interest rate target by 75 bps, which is 25 bps more than anticipated by the BOJ. Forward guidance is signaling that the interest rates could be 100 bps higher at 4.4% at the end of 2022 than the 3.4% guidance from the June meeting of the Fed.

The BOJ is therefore concerned that this more aggressive stance could result in US dollar assets becoming

more attractive relative to those denominated in Jamaican dollars, which could lead to capital outflows, prompting a faster pace of exchange rate depreciation and, consequently, a derailment of the BOJ's efforts to manage inflation.

The interest rate adjustments over the period to date, in conjunction with the BOJ's decisive actions to contain the Jamaican dollar liquidity expansion, have contributed to maintaining stability in the foreign exchange market. Without these actions, the Committee believes that imported inflation and hence the final prices faced by Jamaican consumers would have been higher.

The BOJ indicated that it will continue to closely monitor the global and domestic economic environment and is prepared to act, as is necessary, to ensure a downward track for inflation.

Jamaica's International Reserves have remained comfortably above the level considered adequate

At September 30, 2022, Jamaica's gross reserves amounted to US\$4.35B, representing approximately 126.0% of the projected IMF's Assessing Reserve Adequacy (ARA) measure for FY2022/23 while Net International Reserves remain robust at US\$3.81B.

The BOJ projects that the gross reserves will continue to remain adequate in the medium-term supported by Jamaica's Current Account Deficit ranging, on average, between 1.0% – 2.0% of GDP. The BOJ believes this range is sustainable and further indicated that the improvement in the deficit over the medium-term is mainly due to, on average, improved travel related inflows influenced by higher stop-over arrivals as well as higher average daily expenditure. This is partially offset by higher imports.

Foreign Exchange Market remains relatively stable since the start of 2022

At September 30 2022, the exchange rate of J\$152.82 to US\$1.00 reflected a depreciation of 0.8% (\$1.26) for the quarter. This follows an appreciation of 1.4% (\$2.22) for the June 2022 quarter. The depreciation during the September 2022 quarter was mainly driven by a reduction in USD liquidity emanating from Authorized Dealers, along with a reduction in sales to end-users.

The BOJ intervened in the market via B-FXITT flash sale operations on seven occasions during the September 2022 quarter, selling a total of US\$186.1M to the market, which was above the US\$60.0M sold for the June 2022 quarter.

The adequate supply of foreign exchange, which allows for net purchases of FX, exchange rate stability and BOJ's intervention is the result of improvements in visitor arrivals and net remittance inflows.

Tourism Visitor arrivals surpass 2019 levels

For the September 2022 quarter, 622,940 tourists visited Jamaica, representing an annual increase of 53.0% relative to the annual increase of 312.1% for the corresponding period of 2021. Visitor arrivals for the quarter represented 106.1% of the total arrivals in the comparable period in 2019 (prior to the COVID-19 pandemic). Notwithstanding a 0.4% marginal decline from US\$1,397.3 in net remittance inflows in April to August 2021 to US\$1,391.2M for the same period in 2022, remittances remain a major contributor to the FX inflows.

The pace of Private Sector Financing remains steady at 9% as at July 2022

The annual growth in total loans and advances extended by Deposit Taking Institutions (DTIs) to the private sector at end-July 2022 was 9.0%, which was marginally lower than the

growth of 9.1% at end-July 2021 and lower than the 16.5% at end-February 2020 (immediately prior to the start of the pandemic).

The slowdown in the annual growth in DTIs' credit to the private sector was mainly reflected in loans to businesses, which decelerated to 4.7% at end-July 2022 relative to growth of 8.4% and 18.2% recorded at end-July 2021 and end-February 2020, respectively. Businesses continued to demand loans for working capital needs.

The growth in lending to consumers at July 2022 improved to 12.3%, relative to growth of 9.6% at end-July 2021 but slowed compared to growth of 15.3% at end-February 2020.

The economy continues to recover

GDP Performance

The Statistical Institute of Jamaica (STATIN) indicated that real GDP grew by 4.8% for the June 2022 quarter, relative to a growth of 14.2% for the June 2021 quarter. The real value added for June 2022 quarter reflected growth of 7.2% in the Services industry, which was partly offset by a decline of 2.0% in the Goods industry. Growth was recorded in all Service industries, with the largest increase of 56.0% in Hotels & Restaurants industry, reflecting a 79.2% increase in foreign national arrivals over the period.

The Mining & Quarrying industry contracted by 62.5% due mainly to the closure of the Jamaica Alumina Company (JAMALCO) plant in August 2021. The Construction industry also declined by 5.2%, influenced by less road construction activities relative to the June 2021 quarter.

BOJ and MOFPS project marginal upward revisions in GDP for 2022/23

The Bank of Jamaica has marginally revised upwards, its previous projection for real GDP growth within the range of 2.0%-4.0% in its March 2022 quarterly report to a range of 2.5%-4.5% for FY2022/23. This is within the context of continued economic improvements; rebound in the Services industry, particularly Tourism; buoyant Agricultural sector; and resumption of production at the JAMALCO. As previously mentioned, the MOFPS projects 4.1% for 2022/23 up from 3.5%.

The Government of Jamaica, in its In-

terim Fiscal Policy Paper September 2022, indicated that it expects a real GDP growth of 1.7% for FY2023/24. This is consistent with the BOJ's projection for real growth within the range of 1.0%-3.0% for FY2023/24. These projections remain within the IMF's forecast for growth for Jamaica of 2.8% in calendar year 2022 and 3.0% in calendar year 2023.

The BOJ further notes that real GDP is expected to return to its pre-COVID-19 level by early 2023.

Unemployment marginally up to 6.6%

Unemployment as at July 2022 was at 6.6%, which increased from 6% in April 2022, as there were 7,400 new entrants to the labour force. The number of unemployed persons increased from 81,000 in April 2022 to 89,700 in July 2022.

EPOC's Outlook

Jamaica's economy continues to show signs of strong recovery; however, risks to a sustained growth path are elevated

Notwithstanding an easing of supply chain disruptions and the moderation in commodity prices, the pace of growth in the global economy has been negatively impacted by relatively high inflation rates internationally and is likely to have knock on effects on the Jamaican economy.

The reported labour shortages in selected sectors of the Jamaican economy and pressures from our recent inflation experiences pose the potential for future wage adjustments, which could possibly result in protracted inflation. However, assuming no additional shocks, annual inflation rates should trend towards the lower bound of the 9.0%-11.0% range for the remaining months of 2022.

The BOJ continues to implement tightened monetary policies, as the BOJ Monetary Policy Committee is not convinced that inflation is on a sustainable downward path. BOJ noted that risks to inflation remain balanced. However, the uncertainty created by the US Fed's hawkish forward guidance could see interest rates rising to higher levels than previously expected.

Jamaica's balance of payments are currently at sustainable levels and Jamaica's international reserves are more than adequate to support the

continued stability in the foreign exchange market, which will minimize the impact of imported inflation. However, in the medium-term, as the USA, Jamaica's primary source market for visitor arrivals, face a further slowdown in their economy, we could see a slowing of tourism arrivals, along with a continued marginal decline in net remittances inflows, which could have a marginal or a slowing of the build of Jamaica's more than adequate international reserves.

The BOJ has indicated that it will continue to closely monitor developments in the global and domestic economic environment, and is prepared to act to manage inflation back into the target range of 4-6% within the 2023 calendar year.

While Tax revenues continue to exceed the budget, EPOC expects that the GOJ could see inflationary pressures in their projected spend for the rest of FY2022/23. It is expected that these factors will be highlighted in the upcoming supplementary budget. EPOC continues to be 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. We expect that the GOJ will continue to be fiscally responsible and manage within the fiscal rules ensuring continued macroeconomic stability and debt reduction.

The IMF's October 2022 World Economic Outlook (WEO) projects global growth of 3.2% for CY2022 and 2.7% for CY2023 (a downward revision from 2.9% in the July 2022 report). However, the WEO noted that the uncertainty presented by the Russia/Ukraine conflict and monetary tightening will continue to be the most important drivers of economic and market outcomes.

EPOC's outlook is for the Jamaican economy to continue on its projected recovery path and be back at pre-COVID levels by the end of the 2022/23 fiscal year. However, the prospects for sustained growth of the local economy are uncertain for fiscal year 2023/24 and into the medium term due to the continued and elevated geo-political tensions, inflation and interest rate risks.