

Update on 3-year IMF Precautionary Stand-By Arrangement (PSBA) May 2017

COMMUNIQUÉ #6

Where Are We Now?

The new Precautionary Stand-By Arrangement (PSBA) with the Government of Jamaica (GOJ) was approved by the Executive Board of the International Monetary Fund (IMF) on November 11, 2016.

The EPOC met on May 16, 2017, and reviewed the latest available results. Jamaica has met all structural benchmarks under the programme through end-April 2017. The table below shows the results of indicators where data is currently available. **All of these measures have been met at end March 2017.**

Selected Fiscal and Monetary Indicators

Selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs)	Actual (Dec. 2016)	Target (Dec. 2016)	Actual (Mar. 2017)	Indicative Target (Mar. 2017)
Primary Balance of Central Government (J\$B) *	76.6	54.0	135.9	123.0
Tax Revenues (J\$B) *	322.1	300.0	458.3	440.0
Non-Borrowed Reserves (US\$M) **	1,671.1	1,418.6	1,936.4	1,474.7
Inflation (%) ***	1.7	1.0-9.0	4.1	2.0-9.0

N.B. There are 12 performance indicators being monitored by EPOC. Data for the reporting period ending March was not available for 8 performance indicators due to lags in reporting.

- * Provisional
- ** Adjusted Target (Non-Borrowed Reserves)
- *** The PSBA inflation target, which is given as a range, is a performance criterion linked to a monetary policy consultation clause. If inflation falls outside of this range for the review period, it triggers a formal public consultation with the IMF's Executive Board on the reasons for the deviation and the proposed policy to correct it. Noteworthy, the Bank of Jamaica's (BOJ's) inflation target for FY2016/17 of 4.5% to 6.5% is within the PSBA inflation target of 2.0% to 9.0% for end-March 2017.

Past Missed Targets

One target was not met for end-December 2016. Delays in paying suppliers' credits by one public body led to a minor breach of the December 2016 QPC on non-accumulation of external debt payment arrears. These arrears have since been cleared. Going forward, with IMF support, the GOJ is improving reporting and monitoring of public bodies and bolstering controls.

Non PSBA measures being monitored

APRIL 2016-MARCH 2017	APRIL 2016-MARCH 2017	OCTOBER-DECEMBER 2016
<p>Revenues and grants amounted to J\$499.9B, 1.8% above a target of J\$491.3B.</p> <p>Tax collections of \$458.3B outperformed budget by \$13.2B. The tax categories with the best performances were Other Companies, PAYE Tax, Stamp Duty (Local) and Custom Duty. Telephone Call Tax ended the fiscal year as the main underperformer, while Travel Tax also underperformed.</p>	<p>Total expenditure was J\$508.3B, of which capital expenditure was J\$2.8B behind its J\$44.8B budget.</p> <p>Recurrent Expenditure was \$2.1B below budget, with under-expenditure in Employee Compensation at \$0.9B.</p>	<p>STATIN reported that the economy continued to record growth during the third quarter of the fiscal year. For October-December 2016, real Gross Domestic Product is estimated to have increased by 1.1% relative to the similar period in the previous year.</p> <p>The preliminary estimates by the Planning Institute of Jamaica indicate that the economy will record growth of 1.2% for FY2016/2017 relative to FY2015/2016.</p>

Other Significant Economic Developments

- STATIN reported that the merchandise trade deficit for January 2017 was US\$322.9M, an increase of 23.3% when compared to the US\$261.8M deficit recorded in the similar period for 2016.
- STATIN has also reported that the unemployment rate for January 2017 was 12.7%, a 0.6 percentage point decline compared to the rate of 13.3% for January 2016.

Structural Benchmarks

Structural benchmarks are key initiatives that the GOJ should complete by established deadlines under the PSBA

Fiscal, Monetary Policy and Financial Sector Structural Benchmarks met to date:

- New rates and bands for property taxes using the 2013 land valuations completed and submitted to Cabinet.
- Operationalized Financial System Stability Committee by finalizing the appointment of two external members.

- Issued a consultation paper for the resolution framework for public comment.
- Established a financial inclusion council to implement the Cabinet-approved umbrella financial inclusion strategy for the period 2016-20.

Upcoming Benchmarks

Instituting mechanisms to ensure full compliance with the provisions of the Securities (Retail Repurchase Agreement) Regulations that require "retail repos" to be governed by a Master Retail Repurchase Agreement, that is signed by both the dealer and the client.

New or Modified Structural Benchmarks being monitored by EPOC

Following the first review of Jamaica's performance under the PSBA that was successfully completed on Friday, April 14, 2017 several new structural benchmarks were added and/or modified with nine new structural benchmarks under public sector transformation. The following are new or modified structural benchmarks being monitored by EPOC:

- Submit to Cabinet a proposal for the crisis resolution framework, based on the outcomes of the consultation paper by July 31, 2017.
- Submit to Cabinet a proposal for revising the Bank Of Jamaica Act in line with IMF recommendations by August 31, 2017.

Summary Oversight Body Reviews at end March 2017

PSTOC	EGC	EPOC
<p>The Public Sector Transformation Oversight Committee (PSTOC) monitors measures that are related to public sector transformation, public bodies, public service reform and the social safety net.</p> <p>We note that PSTOC met on May 3, 2017, and as per their report to the public, have concluded that all the structural benchmarks that they are monitoring have been met as at end-April 2017.</p>	<p>The Economic Growth Council (EGC) monitors specific measures relating to the eight growth initiatives under the "5 in 4" economic plan.</p> <p>At its public forum on April 27, 2017, the EGC reported that Jamaica has met or is on track to meet 13 out of 18 targets, with 5 not met to end March.</p> <p>These missed targets represent slight setbacks in the areas of improving business climate, maximizing asset utilization and leveraging diaspora involvement.</p>	<p>EPOC monitors measures that are related to tax policy, tax administration, customs administration, public financial management, debt management, exchange rate, monetary policy and the financial sector.</p> <p>All structural benchmarks monitored by EPOC due by end-March 2017 were met. The structural benchmark that is being monitored by EPOC for May is on track.</p>

Conclusion and Outlook

Fiscal Performance

Revenues

Tax revenue intake continues to be strong, with collections of J\$458.3 billion significantly ahead of the PSBA indicative target of J\$440 billion for end March 2017. This over-performance was possibly driven by improved compliance, a higher level of company profits and an increased country wage bill reflective of higher levels of employment.

Expenditure

Total expenditure of J\$503.4 billion fell short of the target of J\$508.3 billion by \$4.9 billion. Capital expenditure of J\$42 billion trails budget by 6.4% or J\$2.8 billion. Notably, the gap between actual and budgeted capital expenditure became increasingly smaller over the last fiscal quarter of the 2016/17 financial year as the Government made some headway into capital spending. The lag behind budget was primarily as a result of the late approval of the 2016/17 financial year budget (May instead of March). This challenge should no longer be an issue in this new financial year (2017/18). We will continue to monitor Government expenditure and, in particular, capital expenditure given its importance as one of the main drivers of economic growth.

Primary Balance

The Primary Balance Surplus amounted to J\$135.9 billion for the fiscal year to March 2017, J\$12.9 billion ahead of its fiscal year target of J\$123 billion, reflective of the over-performance of revenues and less than anticipated GOJ spending. The Primary Balance at end March is estimated at around 7.7% of GDP.

Monetary Targets

Non-Borrowed Reserves amounted to US\$1,936.4 million at the end of March 2017, exceeding the target of US\$1,474.7 million. Inflation at end March was 4.1%, just below the BOJ target range of 4.5% to 6.5% for end-March 2017, but within the PSBA target range of 2% to 9%.

Outlook

Based on the available information reviewed at end March 2017, Jamaica's fiscal and monetary performance remains strong. Improved tax compliance as well as improvements in macroeconomic factors, and less than anticipated government expenditure year to date, continue to drive primary balance performance. Non-borrowed net international reserves remain comfortably above the target level and inflation remains within the targeted range. The strong performance towards meeting the quantitative performance criteria and indicative targets for December 2016 and March 2017 under the new PSBA was supported by the successful meeting of the first eight (8) structural benchmarks under the new programme through end-April 2017, including four (4) macro-fiscal (i.e. fiscal, monetary and financial sector) structural benchmarks as well as four (4) structural benchmarks for public service reform.

We note with interest that the primary surplus performance of 7.7% of GDP relative to the target of 7% is a significant over-performance; this suggests that if the trend in the robustness of tax revenues continues, there is increased room for capital spending.

Going Forward

Arising from the first IMF review completed in April, the revised Memorandum of Economic and Financial Policies gives focus to public sector transformation including more efficient resource allocation in public bodies. There is also renewed focus on growth measures. EPOC will remain focused on monitoring:

- The efficiency of the tax system and better public resource allocation
- Social spending to help shelter the most vulnerable from the impact of the shift to indirect taxes.
- Market-determined and flexible exchange rate and Inflation targeting.
- Strengthening financial sector resilience.

By all indicators the Economic Programme is very much on track. However, there is still much to be done if we are to achieve the key programme objectives.

KEY ON TARGET/AHEAD OF TARGET/MET TARGET MISSED TARGET AT RISK

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