

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

COMMUNIQUÉ #8

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 GOJ met the indicative programme conditions for the IMF SBA as at end-March 2017.

- ✓ The EPOC met on July 17, 2017, and reviewed the latest available results. Jamaica has met all structural benchmarks under the programme through end-June 2017. The table below shows the results of selected IMF PSBA quantitative performance criteria (QPCs) and indicative targets (ITs). Based on the preliminary results for performance to date, the GOJ is on track to meet the targets for the QPCs and ITs for the IMF PSBA for end-June 2017.

* Based on the results for performance to date through the end of March 2017.

Selected Fiscal and Monetary Indicators

Selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs)	Actual (March 2017)	Indicative Target (March 2017)	Actual	Revised Target (June 2017)
Primary Balance of Central Government (J\$B) *	135.9	123.0	15.5 (May) ✓	15.0
Tax Revenues (J\$B) *	458.3	440.0	68.6 (May) ✓	100.0
Non-Borrowed Reserves (US\$M) **	1,936	1,475	1,820 (June) ✓	1,521
Inflation (%) ***	4.1	2.0-9.0	4.4 (June) ✓	2.0-9.0

* 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 BOJ's inflation target range for FY2017/18 of 4.0% to 6.0% is within the PSBA inflation target range of 2.0-9.0% for end-June 2017.

The table below shows the results of selected GOJ fiscal and monetary indicators where data are currently available. All of these measures have been provisionally met at end-May 2017, with the exception of Recurrent and Capital Expenditure which are below budget.

Selected GOJ Fiscal and Monetary Indicators	YTD Actual (Provisional) (May 2017)	YTD Target (May 2017)
Revenue & Grants (J\$B)	76.2 ✓	70.5
Tax Revenues (J\$B)	68.6 ✓	68.6
Recurrent Expenditure (J\$B)	78.3 ✓	79.3
Capital Expenditure (J\$B)	2.1 ⚠	2.9
Net International Reserves (NIR) (US\$M)	Actual (as at June 30, 2017) 2,616.8	

Non PSBA measures being monitored

Revenue & Grants

Revenue & Grants of \$76.2B for the first two months of the fiscal year (April-May) exceeded the budgeted amount of \$70.5B (+8.1%).

Expenditure

Expenditure for the first two months of the fiscal year (April-May) was \$1.9B below budget (-2.3%).
Of this amount, Recurrent Expenditure was \$1.1B below budget, while Capital Expenditure was \$0.8B below budget (-27.7%).

GDP

STATIN has reported that the economy recorded marginal growth during the final quarter of the fiscal year.
For January–March 2017, real Gross Domestic Product (GDP) is estimated to have increased by 0.1% relative to the similar period in the previous year, due to an increase in the Services Industries of 0.4%, while real value added in the Goods Producing Industries declined by 0.9%.

FYI FX Market Transactions & Signal Interest Rate

FX MARKET TRANSACTIONS: The BOJ successfully conducted a pilot operation of its Foreign Exchange Intervention & Trading Tool ("B-FXITT") in June 2017. B-FXITT is designed to modernise, enhance the efficiency of and improve the transparency of its purchase and sale operations of foreign currency with Authorised Dealers and Cambios. The BOJ will commence the full implementation of the weekly sale operations of foreign currency using B-FXITT effective July 26, 2017.

SIGNAL INTEREST RATE: The BOJ has changed its signal policy interest rate to the rate on the overnight deposit from the 30 day Certificate of Deposit (CD) effective July 1, 2017. The rate on the overnight deposits remains unchanged at 3.75% and this adjustment should therefore not result in a change in market rates. The BOJ's decision to switch to the overnight rate as the signal interest rate is in keeping with international best practices and will improve the efficiency and effectiveness of the monetary transmission process.

Structural Benchmarks

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

- ✓ All Fiscal, Monetary Policy and Financial Sector structural benchmarks have been met to date

In the April to June quarter, one (1) Financial Sector structural benchmark was met:

- ✓ The FSC instituted 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 Repurchase Agreement that is signed by both the dealer and the client. Target was met by **May 31, 2017**.
- ✓ The GOJ has also met the eight (8) structural benchmarks for public sector transformation, public bodies and public service reform through end-June 2017, including the structural benchmark under the public bodies to submit to Parliament by June 15, 2017, all necessary legislative changes to direct all earmarked revenues from the Civil Aviation Authority, the Tourism Enhancement Fund and the CHASE Fund to the consolidated fund.

Upcoming Structural Benchmarks

- 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**.

Conclusion and Outlook

Fiscal Performance

Revenues and Grants

Revenue and Grants of \$76.2b for the first two months of the fiscal year (April and May), exceeded the budgeted amount of \$70.5b, an 8% over-performance.

- **Tax Revenues** – Tax Revenues of \$68.6b equalled the budgeted target. The tax categories with the best performance were GCT (Local) (+\$0.5b), Travel Tax (+\$0.5b), GCT (Imports) (+\$0.4b) and Custom Duty (+\$0.3b). The revenue lines which underperformed budget for the same period were SCT Imports (-\$1.1b) and PAYE (-\$0.6b).

- **Non Tax Revenue** – With the on budget performance of Tax Revenues of \$68.6b, the over-performance of the Revenue Targets was driven by Non Tax Revenues which came in at \$6.2b, against a budgeted target of \$996m; exceeding the target by \$5.2b. This \$5.2b over budget performance was driven primarily by a one-off public distribution of \$3.1b. The early distribution payment is related to the de-earmarking of the entity which will require all revenue flows to be directed to the Consolidated Fund. Correspondingly, the entity's expenditure has been and will be provided for in the Central Government's budget going forward.

Revenue performance remains encouraging and strengthens our confidence of sustainability throughout this fiscal year.

Expenditure

For the first two months of the fiscal year, expenditures were \$1.9b behind budget. Of this amount, Recurrent Expenditure was \$1.1b below budget, while Capital Expenditure was \$0.8b below budget. We encourage the Government to keep capital expenses in line with budget for the rest of the fiscal year, given its importance as one of the main drivers of economic growth.

Primary Balance

As a result of the Revenue and Grants performance and the under expenditure for the first two months of the fiscal year, the Primary Balance of \$15.5b exceeded the \$8.2b budget target for April and May 2017. We are encouraged by the performance of this significant fiscal metric, signaling continued fiscal discipline by the Jamaican Government.

Monetary Targets

Inflation: There was a marginal uptick in inflation in the month of June 2017, largely associated with a rise in agricultural prices due to the impact of the flood rains in May 2017. However, agricultural price increases are projected to subside towards the end of the year as supply conditions normalize. Annual inflation is projected to end the fiscal year within the BOJ's target of 4% - 6%. At end-June 2017, inflation was 4.4%.

Non-Borrowed Reserves (US\$): Non-Borrowed Reserves as at end-June 2017 stood at US\$1.82b which exceeds the June floor target for the reserves of US\$1.52b.

Outlook

Fiscal and monetary performance have exceeded targets for the first two months of the fiscal year.

Tax Revenues are right on budget of \$68.6b and it is projected that the indicative target of \$100b for end-June should be realized. The Primary Balance performance criterion target of \$15b for the period ending June 2017, has already been surpassed by \$0.5b in the first two months (April-May) of the fiscal year.

Non-Borrowed Reserves of US\$1.849b has already exceeded the June performance criteria floor and it is expected that Non-Borrowed Reserves should continue to build.

Inflation as at June was 4.4% which is within the performance criteria inflation target range of 2% - 9%.

The IMF will be in Jamaica by September 2017 to conduct their semi-annual review on the June 2017 performance criteria. Based on the performance of the selected Fiscal and Monetary performance criteria up to May 2017, and the successful completion of the Structural Benchmarks through June 2017, it is expected that this review should continue to produce a positive outcome for Jamaica.

KEY ✓ ON TARGET/AHEAD OF TARGET/MET ✗ TARGET MISSED ⚠ TARGET AT RISK

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