EPOC

Economic Programme Oversight Committee

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

## COMMUNIQUÉ #10

## Keeping the end state in mind- What do we want to achieve in 3 years?

| | | |
|---|---|---|
| A growing economy with growth in GDP of at least 2.7% | An increasingly fiscally responsible GOJ with Debt to GDP of 93.7% and maintained primary surplus of 7% | Greater levels of (non-borrowed) NIR of about US$2.87B <total NIR of US$3.6B> to help cushion the country from shocks |

## Programme Monitoring Report

**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 programme conditions for the IMF PSBA as at end-June 2017*.**

**The second review mission by the International Monetary Fund (IMF)** of the PSBA was conducted over the period September 5-15, 2017. As previously reported by EPOC, based on the preliminary results for performance to date through the end of June 2017, the GOJ has met the targets for the quantitative performance criteria (QPCs) and indicative targets (ITs) for the IMF PSBA as at end-June 2017. The second review under the PSBA was successfully completed by the Executive Board of the IMF on October 23, 2017.

<u>**Most recent results**</u> **The EPOC met on October 20, 2017**, and reviewed the latest available results. **Jamaica has met all structural benchmarks under the programme through end-September 2017.** The table below shows the results of selected IMF PSBA QPCs and indicative targets (ITs). Based on the preliminary results for performance through to August 2017, the GOJ is on track to meet the indicative targets for the QPCs and ITs for the IMF PSBA for end-September 2017.

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

## Selected Fiscal and Monetary Indicators (Financial Year To Date)

| Selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs) | Actual (August 2017) | GOJ Budget (August 2017) | Indicative PSBA Target (Sept. 2017) |
|---|---|---|---|
| Primary Balance of Central Government (J$B) * | 52.0 ✓ | 32.54 | 37.0 |
| Tax Revenues (J$B) * | 194.0 ✓ | 183.0 | 215.0 |
| Non-Borrowed Reserves (US$M) ** | 2,909 ✓ | | 1,641 |
| Inflation (%) *** | 4.4 ✓ | 4.0-6.0 | 2.0-9.0 |

* Provisional (Fiscal Year to Date)

** Adjusted Target (Non-Borrowed Reserves)

*** CPI point-to-point movement: 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 3.0-8.0% for end-March 2018.

### Revenue & Grants

**Revenue & Grants of $213.1B for the first five months of the fiscal year (April-August) exceeded the budgeted amount of $198.4B (+7.4%). Tax collections of $194.0B outperformed budget (+$11.0B)**

### Expenditure

**Expenditure for the first five months of the fiscal year (April-August) was $6.9B below budget (-3.1%).** Of this amount, <u>Recurrent Expenditure</u> was $6.8B below budget, while <u>Capital Expenditure</u> was $0.1B below budget (-0.7%).

### GDP

**STATIN reported that the economy contracted during the first quarter of the fiscal year 2017/2018.** For April–June 2017, real Gross Domestic Product (GDP) is estimated to have decreased by 0.1% relative to the similar period in the previous year, due mainly to a decrease in the Goods Producing Industries of 3.3%, while real value added in the Services Industries increased by 1.0%. All industries within the Services industries recorded growth

**The Planning Institute of Jamaica (PIOJ) has announced a reduction in its projected growth rate for the fiscal year 2017/2018, with real GDP growth for FY2017/18 projected at 1.7%, down from the previous projection of 2.3%**

## 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 <u>met</u> to date.** All seven (7) macro-fiscal structural benchmarks for the November 2016 to August 2017 period have been successfully met.

**The GOJ has also met the eleven (11) structural benchmarks for public sector transformation, public bodies and public service reform through end-September 2017.**

## Conclusion and Outlook

### *Fiscal Performance*

### Revenues and Grants

Revenue and Grants of $213.1B for the first five months of the fiscal year (April- August), exceeded the budgeted amount of $198.4B, a 7.4% over-performance.

- <u>Tax Revenues</u>

  Tax Revenues of $194.0B outperformed the budgeted target by $11.0B. Notably, Special Consumption Tax (SCT) was the best performing category, exceeding its budget by $5.1B. It is, however, expected that this gap will narrow by the end of the fiscal year.

  The trend in buoyant tax revenue performance continues with compliance improvements driving Corporate Income Tax (CIT) and General Consumption Tax (GCT), along with the growth in the number of large companies paying CIT and improvements in the base for GCT.

Consequently, revenue performance is encouraging and strengthens our confidence of sustainability throughout this fiscal year.

### Expenditure

Expenditure for the first five months of the fiscal year (April-August) was $6.9B below budget, with Recurrent Expenditure $6.8B below budget and Capital Expenditure $0.1B below budget. We are pleased to see the narrowing of the gap between actual capital expenditure and budget. We encourage the Government to continue this trajectory of keeping capital expenses tightly in line with budget, 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 five months of the fiscal year, the Primary Balance of $52.0B exceeded the $32.5B budget target for April-August 2017. Notably, the Primary Balance would still have exceeded target if Government expenses were in line with budget.

### Inflation and Non-Borrowed Reserves (US$)

Inflation for the fiscal year to date at end September was 2.6%, and corresponds to a 12-month point-to-point inflation of 4.6%. Annual inflation as at September 2017 was 3.7%. The out-turn for the review period was within the target band of 4.0% to 6.0%. Non-Borrowed Reserves continue to over perform, and stood at US$2.909B as at end-August 2017.

### *Outlook*

### Targets Met

We continue to surpass our fiscal targets and meet structural benchmarks under the Economic Programme.

### Supplementary Budget

As a result of stronger than budgeted tax revenues and recurrent expenditures being below budget, the primary surplus target has significantly exceeded its year to date target by approximately twenty billion dollars ($20b). This stronger performance has created the fiscal space to enable the Government to address the critical areas of National Security and Infrastructure rehabilitation. It is anticipated that a Supplementary Budget will be tabled by the end of December 2017.

### Fiscal Rule - Wages and Salaries/GDP

The areas of Public Sector Transformation and Public Sector Negotiations remain squarely on the table and will require sustained effort and a clear understanding of what is required by all Stakeholders, in order for Jamaica to meet the critical objectives of the Programme.

Of paramount importance is the legislated fiscal rule of Wages and Salaries representing no more than 9 percent of the Gross Domestic Product in the 2018/19 fiscal year.

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