



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

COMMUNIQUÉ #12

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*.



Most recent results The EPOC met on December 11, 2017, and reviewed the latest available results. Based on preliminary results for performance at end-October 2017, Jamaica is on track to meet the December 2017 quantitative and indicative targets under the PSBA. The table below shows the results of selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs).

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

Selected Fiscal and Monetary Indicators

Selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs)	Actual (October 2017)	GOJ Budget (October 2017)	Revised Target (Dec. 2017)
Primary Balance of Central Government (J\$B) *	65.5 ✓	48.7	59.0
Tax Revenues (J\$B) *	271.9 ✓	260.3	328.0
Non-Borrowed Reserves (US\$M) **	2,377 ✓	N.A.	1,777
Inflation (%) ***	4.7 ✓	4.0-6.0	1.5-8.5

* 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 medium term inflation target range of 4.0% to 6.0% is within the PSBA inflation target range of 2.5-7.5% for end-March 2018.

Fiscal Performance

Revenues and Grants - YTD

Revenue & Grants of \$297.6B for the first seven months of the fiscal year (April-October) exceeded the year to date budgeted amount of \$285.8B (+4.1%).

Tax Revenues: Tax collections of \$271.9B outperformed budget (+\$11.6B). The tax categories with the best performances were Other companies (+\$6.4B), Special Consumption Tax (SCT) (+\$4.4B), GCT (Local) (+\$3.4B), Travel Tax (+\$2.3B), Custom Duty (+\$1.3B) and Education Tax (+\$0.8B). PAYE (-\$2.7B) is the main underperformer, while Tax on Interest (-\$2.4B) and Special Consumption Tax (SCT) (Imports) (-\$1.5B) also underperformed.

Revenues and Grants - October

The Ministry of Finance and the Public Service (MOFPS), notes, however, that for the month of October 2017, Revenues and Grants were behind budget by \$2.9B. Within Revenue & Grants, Tax Revenue registered a shortfall of \$1.7B, or 4.8%. Grants recorded a shortfall of \$362.5M against budget of \$366.3M. Non-Tax Revenue registered a shortfall of \$1.3B or 62.1% below budget. This significant shortfall relates to expected flows programmed in the budget that were to come in from the three (3) public entities which were incorporated into the budget. These flows are expected to come into the Consolidated Fund at a later date.

Expenditure - YTD

Expenditure for the first seven months of the fiscal year (April-October) was \$7.2B below budget (-2.2%). Of this amount, Recurrent Expenditure was \$7.0B below budget, while Capital Expenditure was \$0.2B below budget (-0.7%).

Expenditure - October

Total above the line expenditure for the month of October 2017 registered a shortfall of \$4.1B against budget, which was attributable mainly to lower recurrent expenditure on programmes due to timing of execution by Government Ministries, Departments and Agencies. The shortfall in expenditure also includes the non-implementation of the 3% increase for the public sector workers to date.

Primary Balance

As a result of the Revenue and Grants performance and the under-expenditure for the first seven months

Supplementary Budget

The 2017/2018 First Supplementary Estimates was tabled on December 5, 2017 and shows a total Revised Estimates of \$805.5 billion, compared with the Original Approved Estimates of \$715.6 billion.

Tax Revenues

The revised Revenue & Grants profile for FY 2017/18 is projected at \$546.229 billion. Tax Revenue represents an increase over the original Budget estimate of \$7.891 billion or 1.7%.

Debt Management Operations

- Amortization of Debt:** Notably, Public Debt Service, will see an increase of \$68.5 billion as a result of the liability management transactions executed by the MOFPS in August.

• Recurrent Expenditure:

Additionally, the increase in Recurrent Expenditure incorporates additional expenditure for activities such as:

- Implementation of the new national security initiatives (Zones of Special Operations) - \$1.5B;
- Islandwide road patching programme to enhance GOJ's maintenance programme - \$1.0B;
- Payments related to restoration of roads/gullies and bridges which were affected by the 2017 May/June Flood Rains - \$1.3B;
- Payment of Judgement Awards of \$669M, including \$220M for Victim Compensation as determined by the West Kingston Victim Compensation Committee;
- The Jamaica Tourist Board's marketing, advertising and promotional programme - \$800M;

Impact of Supplementary Estimates on the Primary Balance

The Revised Expenditures were calibrated within the fiscal space afforded by the Revised Estimates for Revenue and Grants which generates a Primary Balance of \$132.3B. Accordingly, the Primary Balance requirement of 7% of GDP is satisfied by this revised profile for the fiscal operations.

Monetary Targets

Inflation

The Minister of Finance and the Public Service approved Bank of Jamaica's (BOJ's) medium-term inflation target of 4.0% to 6.0% in September 2017. The medium-term target replaces the customary annual fiscal year inflation target, and will be subject to periodic reviews by the Minister.

The 12 month point to point inflation rate at October 2017 was 4.7%, higher than the same measure at October 2016 (1.1%). The outturn for the review period was, however, within the BOJ's target band of 4.0% to 6.0%.

Interest Rates

Market interest rates continue to trend downwards. In particular, at the Treasury Bill auctions in November 2017, the average yields of 4.26% and 4.89% on the 91-day and 182-day tenors, respectively, were lower by 1.44 percentage points (pps) and 1.31 pps relative to November 2016.

The outturn also compares favourably with yields of 4.58% and 5.11% on the 91-day and 182-day Treasury Bill tenors, respectively, in October 2017.

This downward trend in interest rates is a positive signal for credit growth and overall Economic Growth.

Non-Borrowed Reserves (US\$)

The Non-Borrowed International Reserves at the end of October was US\$2.38B against the programme target of US\$1.78B for end December 2017.

It is anticipated that this positive performance will continue throughout the end of December 2017.

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.** All seven (7) macro-fiscal structural benchmarks for the November 2016 to September 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.

Outlook and Conclusion



TARGETS MET!

Jamaica continues to meet its macro fiscal targets. Inflation at 4.7% is stable and within the targeted range. Interest rates are trending downwards and Non-Borrowed Reserves of US\$2,377 million remain strong and will exceed the December programme target. Tax revenues continue to be buoyant which has given the GOJ the opportunity to table a supplemental budget increasing spending in key areas such as national security, infrastructure and tourism. The PIOJ projects growth to be in the range of 1.5%-2.5% for the October to December quarter.

THE CALL FOR A NEW STYLE EPOC

There have been calls from Leaders in Civil Society and from the Media for a stronger independent body to be put in place and possibly entrenched in legislation to provide oversight over Jamaica's Programme for Economic and Social Affairs. EPOC believes this discussion is an important one to have as Jamaica builds to protect the gains that all have sacrificed for and to ensure the continuity of oversight as we all work for a stronger and resilient economy.

EPOC is committed to continue in its role of monitoring the macro fiscal programme of the GOJ ensuring independent reporting on the progress in these areas.

It was also noted that there are ongoing efforts to establish the autonomy of the Bank of Jamaica and to strengthen the capacity of Parliament for fiscal and budgetary analysis. This Institutional framework will provide even greater independence and critical review of important monetary and fiscal targets. EPOC will continue to monitor developments in these areas.

EPOC will continue to utilize all existing channels implemented for sharing of information such as: monthly report submissions in the print media, quarterly press briefings and interviews, digital engagement via our social media channels and through community engagement sessions.

PUBLIC SECTOR WAGE NEGOTIATIONS

Further to its recent visit to complete the 2nd review under the IMF programme, the IMF stated in its Public Release December 8, 2017, that 'delayed public sector wage negotiations pose significant budgetary risks' and apprised the Government of the urgent need to accelerate these negotiations. EPOC supports this position and encourages the Government to quicken the pace to conclude wage negotiations.

FISCAL RULE - WAGES AND SALARIES/GDP

EPOC continues to monitor plans and imperatives that support 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.

VALE ROYAL TALKS

EPOC welcomes the announced resumption of the Vale Royal Talks. With crime being such a negative weight on the economy and mental strain on our people, we expect that crime will be high priority on the agenda.

KEY



ON TARGET/AHEAD OF TARGET/MET



TARGET MISSED



TARGET AT RISK

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