EPOC

Economic Programme Oversight Committee

Update on 3-year IMF Precautionary Stand-By Arrangement (PSBA) January 2018

COMMUNIQUÉ #13

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 2.3%	An increasingly fiscally responsible GOJ with Debt to GDP of 94.2% and maintained primary surplus of 7%	Greater levels of (non-borrowed) NIR of about US$3.010B <total NIR of US$3.75B> 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 second review under the precautionary SBA was completed by the decision of the Executive Board of the IMF on October 23, 2017. Based on preliminary results for performance at end-September 2017, Jamaica has met the September 2017 indicative targets under the PSBA.**

<u>Most recent results</u>: The EPOC met on January 26, 2018 and reviewed the latest available results. **Based on preliminary results for performance at end - November 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).

<u>IMF Review</u>: The third review under the precautionary SBA examining the six months ending December 2017, as well as an Article 4 Consultation, will take place in February-March 2018. EPOC believes that Jamaica will exceed the targets, given the strong performance based on all the available data.

Selected PSBA Fiscal and Monetary Indicators

Selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs)	Actual (Nov. 2017)	GOJ Budget (Nov. 2017)	Revised Programme Targets (Dec. 2017)
Primary Balance of Central Government (J$B) *	70.8 ✓	53.7	59.0
Tax Revenues (J$B) *	308.6 ✓	295.6	328.0
Non-Borrowed Reserves (US$M) **	2,440 ✓		1,781
Inflation (%) ***	4.9 ✓		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 $336.1B for the first eight months of the fiscal year (April-November) exceeded the budgeted amount of $323.5B (+3.9%).

<u>Tax Revenues</u>: Tax collections of $308.6B outperformed budget (+$13.0B). The tax categories with the best performances were Other companies (+$6.0B), GCT (Local) (+$4.5B), Special Consumption Tax (SCT) (+$4.3B), Travel Tax (+$2.1B), Custom Duty (+$1.8B) and Education Tax (+$0.9B). PAYE (-$2.2B) and Tax on Interest (-$2.2B) are the main underperformers, while SCT (Imports) (-$1.6B) also underperformed.

Expenditure - YTD

Expenditure for the first eight months of the fiscal year (April-November) was $7.4B below budget (-2.1%). Of this amount, Recurrent Expenditure was $5.6B below budget, while Capital Expenditure was $1.8B below budget (-6.5%).

Primary Balance

As a result of the Revenue and Grants performance and the under-expenditure for the first eight months of the fiscal year, the Primary Balance of $70.8B exceeded the $53.7B budget target for April-November 2017.

Monetary Performance

Other Economic Indicators

	Nov 2017 (chg.)	Dec 2017 (chg.)	FY to date (chg.)	Actual 23 Jan. 2018
Exchange Rate*	(0.96%)	(0.86%)	(2.81%)	125.05
Gross Foreign Reserves (US$MN)	26.3	95.6	449.6	3773.5
Net International Reserves (NIR) (US$MN)	31.2	92.1	431.5	3200.6
GOJ T-Bill Yield (6-month)	(22) bps	(26) bps	(216) bps	4.16%

( ) Negative value.

• Weighted average selling rate (J$: US$ 1.00).

Inflation

Inflation for calendar year 2017 was 5.2%, higher than the 1.7% for calendar year 2016. The outturn for the review period was, however, within BOJ's target band of 4.0% to 6.0%.

Inflation for the fiscal year to December was 4.2%, also higher than the 3.1% outturn for the same period in FY2016/17.

Interest Rates

Market interest rates continue to trend downwards. For the September 2017 quarter, average indicative interest rates on new local currency loans declined by approximately 35 bps to 13. 57% during the review quarter, relative to the previous quarter. This reflected reductions of 77 bps and 25 bps in rates for personal and business loans, respectively.

Foreign Exchange Market

On an annual basis, the Jamaica Dollar at 23 January 2018 appreciated by 2.89% ($3.72), compared to an appreciation of 2.62% ($3.36) at the end of December 2017 and depreciation of 6.38% ($7.72) for the corresponding period, January 2016 to January 2017.

We have taken note that the BOJ has cut the daily foreign exchange sale requirement for cambios and authorised dealers (AD) such that the amount required to be sold to the central bank will be reduced by 5.0 percentage points bringing the total surrender requirement from ADs and cambios to 20% and 15% of daily gross purchases, respectively, as of February 7, 2018.

Social Spending

The Government of Jamaica has set a minimum amount that should be spent on social spending under the PSBA. The floor for central government spending on social programmes under the PSBA has been set at J$18.3B from the start of the fiscal year to end-December 2017, up $7.1B from the floor for end-September 2017. This is a positive for the vulnerable in our society.

Economic Growth

STATIN has reported that the economy grew during the second quarter of the fiscal year 2017/2018. For July–September 2017, real Gross Domestic Product (GDP) is estimated to have increased by 0.8% relative to the similar period in the previous year.

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 November 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. Interest rates continue to trend downwards and Non-borrowed Reserves of US$2,440 million remain strong and will exceed the December programme target. The Primary Balance remains above target and strong, fuelled by buoyant tax revenues and under expenditure. We continue to closely monitor the trend in capital expenditure and note the widening gap between actual YTD capital spending and budget in November relative to October. We note that procurement continues to be a contributing factor to delays in capital spending and encourage the Government to continue with its programme of procurement reforms apace.

Impact of rising oil prices

There was a slight uptick in Inflation at 5.2% in December but it remains within the targeted range. EPOC is monitoring the impact of the increase in oil prices over the period and the potential impact it could have pushing the inflation rate north of the targeted range. However, we believe that oil prices will stabilize in the medium term and breaching inflation rate target is not an immediate risk.

Despite the temporary nature in the current trend in oil prices, the question of oil hedging is brought again into focus. We believe that a structured and institutionalized approach to hedging is needed as a medium to long term risk management strategy, for sound planning and informed decision-making.

Continued Revenue Buoyancy

Tax collections of $308.6B for the November fiscal year to date outperformed budget by $13.0 billion. We remain encouraged by the healthy tax revenue performance driven by increasingly steady compliance levels and continued improvements in tax collection efficiency. The pattern of fiscal surpluses continues to normalize giving the Government more fiscal room to increase capital expenditure. We continue to urge the Government to divert fiscal surpluses to growth enhancement projects. We encourage the Public Investment Management Committee (PIMC) to continue its work of prioritizing capital spend in an efficient and effective manner so that the projects that will yield the highest sustainable economic returns are recommended to Cabinet for approval and implementation.

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

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