

Fiscal and International Reserves targets are on track. Inflation is at 3.1 percent as at May 2018 and remains below the Bank of Jamaica's target range of 4 to 6 percent.

KEEPING THE END STATE IN MIND...

What do we want to achieve by FY 2019/20, inclusive of quarter ending December 2019

- A growing economy with growth in **GDP of at least 1.9%**
- 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\$3.06B** <total NIR of US\$3.83B> to help cushion the country from shocks

MOST RECENT RESULTS



The EPOC met on June 29, 2018 and reviewed the latest available results for the period ending April 2018. 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 through the end of April 2018, Jamaica is on track to meet the targets for the quantitative performance criteria (QPCs) and indicative targets (ITs) for the IMF SBA for end-June 2018, with the possible exception of the inflation target.

SELECTED FISCAL & MONETARY INDICATORS

Selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs)	Actual (Mar. 2018)	Indicative Target (Mar. 2018)	Actual (Apr. 2018)	Revised Target (Jun. 2018)
Primary Balance of Central Government (J\$B) *	143.9	132.0	7.7	18.0
Tax Revenues (J\$B) *	496.9	473.0	37.9	110.0
Non-Borrowed Reserves (US\$M) **	2,409	1,917	2,455	2,075
Inflation (%) ***	3.9	2.5-7.5	3.2	3.5-6.5

* 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 3.5-6.5% for end-June 2018.

FISCAL PERFORMANCE - YTD

REVENUES & GRANTS

Revenue & Grants of \$41.4B for the first month of the fiscal year (April) exceeded the budgeted amount of \$40.9B (+1.4%). Tax collections of \$37.9B outperformed budget (+\$0.6B).

EXPENDITURE

Expenditure for the first month of the fiscal year (April) was \$0.9B below budget (-1.8%).

Of this amount, Recurrent Expenditure was \$0.9B below budget, while Capital Expenditure was \$5.9M below budget (-0.2%).

PRIMARY BALANCE

As a result of the Revenue and Grants performance and the under-expenditure for the first month of the fiscal year, the Primary Balance of \$7.7B exceeded the \$6.8B budget target for April 2018.

JAMAICA'S INTERNATIONAL COMPETITIVENESS

Foreign Exchange Market

On 26 June 2018, the value of the Jamaica Dollar vis-à-vis the US dollar was J\$131.01 = US\$1.00, reflecting a depreciation of 2.43% (\$3.11) for the Month to Date.

This follows depreciation of 2.06% (\$2.58) for May 2018.

Real Effective Exchange Rate (REER)

At May 2018, Jamaica recorded an annual point-to-point loss of 2.5% in relative price competitiveness, as measured by the real effective exchange rate (REER). This loss in competitiveness stemmed mainly from a faster pace of appreciation of Jamaica's nominal exchange rate (3.0%) relative to

the appreciation of the trade weighted exchange rate of Jamaica's trading partners against the USD (1.0%).

Additionally, higher domestic inflation of 3.1 per cent, compared with inflation of 2.4 per cent among Jamaica's trading partners also contributed to the loss.



STRUCTURAL BENCHMARKS

- All 7 macro-fiscal structural benchmarks met through end-June 2018
- All 14 structural benchmarks for public sector transformation, public bodies and public service reform met through end-June 2018

TARGETS MET

Fiscal Performance

Following strong fiscal performance in 2017/18 where Jamaica met all its quantitative and indicative performance criteria, performance in the first month of 2018/19 remains encouraging.

The GOJ Tax Revenues came in at \$37.9b just ahead of projections of \$37.3b. Total Expenditures were marginally below budget by \$0.9b. This outturn of Tax Revenues and Expenditures contributed to a Primary Balance Surplus of \$7.7b which exceeded the GOJ target of \$6.8b, by \$0.97b.

Monetary Performance

Monetary quantitative performance indicators show mixed results at end April 2018. Non-Borrowed Reserves are strong at US\$2.5b and are likely to be on track to exceed the SBA target of \$2.08b at end June. Inflation, on the other hand, was 3.2 percent at end April, outside of the SBA and BOJ's target range for the first quarter of the 2018/2019 fiscal year.

BOJ Lowers Policy Rate

Bank of Jamaica continues in its accommodative stance to loosen monetary policy by lowering the policy rate by an uncharacteristically aggressive 50 basis points to 2.00 per cent, effective 28 June 2018. This was done in response to their projections that inflation will remain below its targeted 4-6 percent up to end December 2018. In addition, the previously projected increase in inflation towards the centre of the target in the March 2019 quarter is at risk. The BOJ has indicated that the decision to loosen the policy stance is aimed at fostering greater credit expansion and a faster pace of GDP growth which will support inflation returning to the target of 4.0 percent to 6.0 percent.

EPOC supports the decision to lower policy rates and believes it should stimulate credit expansion and economic growth.

Social Spend

With the Fiscal space opening up, the GOJ central government spending on social programmes for FY2017/18 as at end-March 2018 was \$32.2B, compared to a programme target of \$26.6B. EPOC welcomes the increased expenditure in this area to cushion the most vulnerable in our society.

PROGRAMME RISKS & MITIGATING STRATEGIES

The Committee would, however, like to note areas of risk and the mitigating strategies that have been put in place by the GOJ and the BOJ to address these:

IMF Standby Arrangement Inflation Target At Risk

"Bank of Jamaica expects that inflation for the June 2018 test date will be below the 3.5% to 6.5% range as set out in the Monetary Policy Consultation Clause in the SBA. This would trigger a consultation with the IMF's Executive Board whereby the Bank will be required to explain in writing the rationale for the deviation and planned corrective actions."

A low inflation out-turn can be received as positive, but it does have implications for Programme targets, specifically fiscal targets linked to Nominal GDP such as the Debt to GDP targets and 9 percent Wage to GDP Fiscal Rule (2018/19).

PIOJ GDP Projection – Fiscal Year 2018/19

The PIOJ is projecting that real GDP growth for the fiscal year 2018/2019 will fall within the range of 2.0% to 3.0% relative to FY 2017/18.

EPOC, along with all well-thinking Jamaicans, would be very concerned that growth continues to be anaemic and in spite of encouraging signs, continues to under-perform the Programme projections.

Public Sector Wage Negotiations and the 9 percent Wage to GDP Fiscal Rule (2018/19)

The wage negotiations between the GOJ and the Public Sector workers continue quietly and remain an outstanding item in the new Financial Year 2018-19. EPOC continues to be hopeful that an agreement will be concluded with all the remaining stakeholders, including the Police and Nurses, in keeping with Jamaica's legislated 9 percent wage to GDP Fiscal Rule for 2018-19.

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