

Keeping the end state in mind, where do we want to be by the end of the IMF Programme, 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 October 5, 2018 and reviewed the latest available results for the period ending August 2018. The table below shows the results of selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs). The IMF conducted its fourth (4th) review mission during September 10 - 21, 2018 for the period ending June 2018. Based on the preliminary results for performance to date through the end of June 2018, the GOJ has met the targets for the Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs) for the IMF SBA as at end-June 2018, with the exception of the inflation target.

Selected Fiscal and Monetary Indicators

Selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs)	Actual (June 2018)	Revised Target (June 2018)	Actual (July 2018)	Actual (August 2018)	Indicative Target (September 2018)
Primary Balance of Central Government (J\$B) *	31.3	18.0	38.2	42.1	44.0
Tax Revenues (J\$B) *	128.7	110.0	168.4	207.9	234.0
Non-Borrowed Reserves (US\$M) **	2,484	2,075	2,559	2,479	2,140
Inflation (%) ***	2.8	3.5 - 6.5	3.2	3.9	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-September 2018.

PROGRAMME REVIEW

FISCAL PERFORMANCE

For the review period April to August 2018, the Fiscal Performance continued to show a solid trend. The GOJ met all its fiscal quantitative and indicative performance criteria as at end August 2018.

Total Revenue and Grants was J\$230b, 2.8% above the GOJ's targeted budget of J\$223.8b, while Tax revenue continues to outperform budget coming in at J\$207.9b which is 3.6% above the budgeted target of J\$200.6b.

There are continued improvements in compliance with approximately 6,080 new persons being brought into the Tax net as at July 2018. EPOC acknowledges the targeted efforts of the GOJ/TAJ in widening the Tax base which has contributed to the positive performance of Tax Revenues.

Total Expenditures were below budget by J\$5.9b, while capital expenditure was J\$24.4b, ahead of target by J\$2.8b or 13.2% above budget. It is important to note that the capital expenditure of \$24.4b, was \$10.7b greater than the \$13.7b expended for the same period up to August of 2017.

The improved investment in capital expenditure demonstrates the GOJ's commitment to the overall stimulation of growth in the economy.

SOCIAL PROGRAMMES

Spending on Social Programmes was \$11.5b as at June 2018 which was \$5.1b ahead of the targeted floor of \$6.4b.

PRIMARY BALANCE AHEAD OF TARGET

This outturn of Tax Revenues and Expenditures contributed to a Primary Balance surplus of \$42.1b which exceeded the GOJ target of \$34.3b.

FIRST SUPPLEMENTARY BUDGET – FY 2018/19

As the strong fiscal performance continues, the first Supplementary Budget for FY 2018/19 was tabled on September 25, 2018.

Additional spending of \$17.8b will address critical areas of government's operations including:

- Street Lighting Arrears - \$7.140b
- JUTC - \$2.505b
- Major Infrastructure Development Programme - \$7.335b

These expenditures are to be covered by additional Tax Revenues of \$8.5b and additional distributions and other Non-Tax revenue from public bodies amounting to \$10.1b.

For the past two years we have observed robust growth in Tax revenues growing year over year and significantly ahead of budgeted targets. This growth is creating welcome fiscal space which allows for greater expenditure and notably so in the line items capital expenditure and social spending. We have seen these increases reflected in the above mentioned recently tabled Supplementary budget.

MONETARY PERFORMANCE

Non-Borrowed Reserves

It is important to note that Non-Borrowed Reserves was reported at US\$2.479b as at end August 2018 which is significantly ahead of the programme target for end September 2018.

Inflation and Interest rates

The 12-month point-to-point inflation rate at August 2018 was 3.9%, below BOJ's target range of 4.0% to 6.0% but within the IMF Programme range of 3.5% - 6.5%.

In its Press Release on October 2, 2018, the Bank of Jamaica announced its decision to 'hold the policy interest rate unchanged at 2.00 per cent.' This decision reflects the Bank's assessment that inflation, currently below target, will be within the target range by the March 2019 quarter.

The Bank of Jamaica also stated in its Press Release that its "decision to maintain an accommodative policy stance seeks to reinforce these positive emerging signs of accelerated private sector credit growth. Monetary conditions in the domestic market are increasingly accommodative and credit is likely to grow at a slightly higher pace than was previously anticipated. The increase in economic activity is expected to support the return of inflation to the target with greater certainty."

Global Headwinds

Oil prices continue to move higher to almost US\$80.00 per barrel and could spur inflation and could be a drag on growth levels.

The US Federal Reserve continues to tighten monetary policy with the recent increase in the Federal funds rate by 0.25% to 2.25%. The US Federal Reserve has signalled further rate increases as the US Economy expanded at a rate of 4.3% in the April to June 2018 quarter. Higher interest rates in the US continue to have a negative effect on emerging market currencies and financial markets. The higher interest rates along with the uncertainty due to the trade tensions increase risks to the downside for global growth.

EPOC, however, continues to support the accommodative monetary policy stance of the Bank of Jamaica.

Foreign Exchange Market

The exchange rate continues to cycle through periods of appreciation and depreciation consistent with the flexible exchange rate regime.

On 16 October 2018, the value of the Jamaican Dollar vis-à-vis the US dollar was J\$132.17 = US\$1.00, reflecting an appreciation of almost 2% (\$2.48) for the month to date. This follows appreciation of 1.73% (\$2.37) for September 2018.

Real Effective Exchange Rate (REER)

At August 2018, Jamaica recorded an annual point-to-point gain of 3.5% in relative price competitiveness, as measured by the real effective exchange rate (REER). This gain in competitiveness stemmed mainly from a faster pace of depreciation of Jamaica's nominal exchange rate (6.1%) relative to the depreciation of the trade weighted exchange rate of Jamaica's trading partners against the USD (1.5%).

In its Press Release dated August 29, 2018, EPOC reconfirmed its support for a flexible Exchange rate and Inflation targeting policy implementation. EPOC supports these reforms and encourages all Jamaicans to do the same even through the challenging times as we continue to strive for greater levels of growth while building a strong and resilient economy for all Jamaicans.

STRUCTURAL BENCHMARKS MET

As a result of the overall strong performance, the GOJ has met all seven (7) macro-fiscal structural benchmarks for the November 2016 to August 2018 period. The GOJ has also met the fourteen (14) structural benchmarks for public sector transformation, public bodies and public service reform through end-August 2018.

Central Bank Independence - Structural Benchmark - October 2018

It is important to note that revisions to the BoJ Act are to be tabled in Parliament in the month of October 2018. These revisions are to improve Central Bank Governance and Independence.

SIGNIFICANT ECONOMIC DEVELOPMENTS

Unemployment rate

STATIN reported that the unemployment rate for April 2018 was 9.7 percent, a 2.4 percent decline compared to the 12.2% rate for April 2017. The employed labour force was 1,217,300 which represents the highest level ever recorded in a single month.

Growth in the Economy

As it relates to Economic Growth, STATIN has reported that the Jamaican economy expanded by 2.2 percent for the period April to June 2018. This was driven by the Agriculture and Mining industries which recorded growth levels of 12.5% and 31.6% respectively.

As growth levels continue to increase quarter over quarter we are hopeful, with an accommodative monetary policy enabling growth in credit to the private sector, the stimulus provided by the significant increase in capital expenditure and an overall optimism for a stronger economy by both business and consumers that this growth momentum will continue.

PUBLIC SECTOR NEGOTIATIONS

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

EPOC acknowledges the closing of the negotiations with the Teachers and Nurses, and continues to be hopeful that an agreement will be concluded with all the remaining stakeholders, in keeping with Jamaica's legislated 9 percent wage to GDP Fiscal Rule for 2018-19.

EPOC is hopeful that the outstanding negotiations with the Police can be conducted as professionally as was done with our Teachers and Nurses.

Overall, EPOC is of the view that the Economic Programme remains on track.

This information is provided to you monthly by the non-public sector members of EPOC