

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 1.6%
- An increasingly fiscally responsible GOJ with Debt to GDP of 93.6% and maintained primary surplus of 7%
- Greater levels of (non-borrowed) NIR of about US\$2.8b <total NIR of US\$3.2b> to help cushion the country from shocks

MOST RECENT RESULTS

The EPOC met on January 15, 2019 and reviewed the latest available results for the period ending September 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 September 2018, the GOJ has met the indicative targets for the Quantitative Per-

formance Criteria (QPCs) and indicative targets (ITs) for the IMF SBA as at end-September 2018. Based on the preliminary results for performance to date through the end of November 2018, the GOJ is on track to meet the targets for the Quantitative Performance Criteria (QPCs) and indicative targets (ITs) for the IMF SBA as at end-December 2018.



SELECTED FISCAL & MONETARY INDICATORS

Selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs)	Actual (Sept. 2018)	Indicative Target (Sept. 2018)	Actual (Nov. 2018)	Revised Target (Dec. 2018)
Primary Balance of Central Government (J\$B) *	73.8	44.0	83.2	68.0
Tax Revenues (J\$B) *	258.5	234.0	340.7	360.0
Non-Borrowed Reserves (US\$M) **	2,461	2,140	2,381	2,200
Inflation (%) ***	4.3	3.5-6.5	4.1	2.0-6.5

* 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, BOJ's medium-term inflation target range of 4.0% to 6.0% is within the PSBA inflation target range of 2.0-6.5% for end-December 2018.

PROGRAMME REVIEW

FISCAL PERFORMANCE

Selected IMF PSBA Fiscal and Monetary Targets

For the review period April to November 2018, the Fiscal Performance continued its positive trend.

Selected Fiscal Indicators

Tax Revenues remain buoyant, Capital Expenditure significantly up

Tax Revenues Outperform Budget

Revenue & Grants of \$381.5b for the first eight months of the fiscal year (April-November) exceeded the budgeted amount of \$373.4b (+2.2%). Tax collections of \$340.7b exceeded budget by \$10.9b (+3.3%).

Tax Revenues year over year increased by \$32b (10.4%) from \$308.6b for the period April through November 2017 to \$340.7b for comparable period in 2018.

Expenditure for the first eight months of the fiscal year (April-November) was \$5.7b below budget (-1.5%). Of this amount, Recurrent Expenditure was \$6.3b below budget (-1.8%), while Capital Expenditure was \$0.6b above budget (1.5%).

Capital Expenditure showed increased results by 53% over 2017 levels

Capital Expenditure year over year increased by \$14b from \$26.5b for April through November 2017, to \$40.6b for the comparable period in 2018. This represents a 53.1% increase year over year.

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 \$83.2b exceeded the \$71.2b budget target for April-November 2018 by \$12b.

MONETARY TARGETS

International Reserves

Non-Borrowed Reserves as at the end of December 2018 stood at US\$2,521.5mn, significantly exceeding the Programme Target of US\$2.2b, while Net International Reserves are once again above US\$3b.

Inflation - Inflation dips to 2.4% in December 2018, triggers IMF Staff consultation clause

As at December 2018, the 12-month point-to-point inflation rate was 2.4%, below BOJ's target of 4% -6%.

In line with the Governance Process, Bank of Jamaica (BOJ) will send a report to the Minister of Finance and the Public Service within 60 days on why the target was missed in December and proposed remedial actions, as deemed necessary. Under the terms of the Precautionary Stand-by Arrangement with the International Monetary Fund, Bank of Jamaica (BOJ) will also consult with IMF staff on the deviation of inflation from the Programme Target.

Bank of Jamaica attributes the fall off in inflation from 4.1% in November to the 2.4% in December, to a decline in agricultural prices during the December 2018 quarter, coupled with a significant reduction in international oil prices and a limited pass through of improved domestic demand conditions to prices.

MONETARY POLICY ACTIONS - INCREASINGLY ACCOMMODATIVE

Bank of Jamaica Policy Interest Rate Action

On 20 December 2018, Bank of Jamaica announced its decision to lower its policy interest rate (the rate offered on its overnight CD) by 25 basis points to 1.75%. Bank of Jamaica's decision to lower its policy rate reflects the Bank's most recent assessment that inflation could now fall below the lower limit of the 4.0% to 6.0% at points during in FY2019/20, as we have seen occurred in December 2018.

Foreign Exchange Market

B-FXITT Operations

There were no B-FXITT Operations for the month of November 2018. For December there was one B-FXITT buy operation of US\$10.9 million on 5 December 2018.

Bank of Jamaica (BOJ) conducted a flash auction on January 17, 2019 selling US\$20m into the market as BOJ saw emerging signs of disorderly market conditions. The Jamaican dollar weakened against the US dollar from \$128.78 on January 3, 2019 to \$131.36 on January 16, 2019.

Bank of Jamaica continues to use the transparent B-FXITT mechanism to sell or buy USD when the market reflects a projected shortage or surplus, respectively.

STRUCTURAL BENCHMARKS MET

As a result of the overall strong performance, the GOJ has met all eight (8) macro-fiscal structural benchmarks for the November 2016 to November 2018 period. The GOJ has also met the fourteen (14) structural benchmarks for public sector transformation, public bodies and public service reform through end-November 2018.

It should be noted that there is only one (1) structural benchmark currently remaining under the SBA: the capping of the total stock of domestic arrears of seven public bodies at J\$6.4 billion during the programme period, which is being met on a monthly basis to date by GOJ.

SECOND SUPPLEMENTARY BUDGET FY 2018/19 - TABLED AS TAX REVENUES OUTPERFORM BUDGET

As the GOJ Primary Surplus performance continues to exceed target by over \$12b up to November 2018, the GOJ on January 8, 2019, tabled the second Supplementary Budget for FY 2018/19. It reflects a net increase in the Non-Debt Expenditure Budget of \$15.642 billion or 3.4% above the projected outturn in the First Supplementary Estimates FY 2018/19.

GROWTH IN THE ECONOMY REMAINS A CONCERN

STATIN reported GDP growth of 1.8% for the third quarter of 2018. This was driven by improved performances in the Goods Producing Sector of 5.1% and the Services Industry of 0.7%.

In the Services Sector, Hotels and Restaurants was a stand-out as this area grew by 2.1% which was impacted by a 3.8% increase in foreign national arrivals. The Goods Producing Sector growth in output of 5.1% was positively impacted by Mining and Quarrying which contributed 51% and Construction at 3.7%.

Growth in Mining and Quarrying was mainly due to the re-opening of JISCO/Alpart while Construction's performance was mainly associated with the continued expansion of road infrastructure. Manufacturing declined by 0.3%. This reduced output was associated with a decline in production levels in petroleum refining and non-metallic minerals.

Growth in Agriculture, Forestry and Fishing was flat for this period.

The most recent forecasts by the Planning Institute of Jamaica (PIOJ) indicate that growth for calendar year 2018 will be within the range of 1.5% to 2.5%, and for fiscal year 2018/19, growth is also projected to be within the range of 1.5% to 2.5%.

EPOC'S OUTLOOK

Overall, EPOC is of the view that the Economic Programme remains on track as the macro fiscal indicators are stable and positive which provides a platform for increased growth. Fiscal space continues to open up as Tax Revenues continue to outperform.

We welcome the increased employment levels with unemployment being at historically low levels of 8.7%.

GOJ Debt levels continue to fall in relation to our GDP. Bank of Jamaica continues to be accommodative with interest rates at all-time lows, increasing the pool of liquidity available for lending to the Private Sector. Private Sector credit levels are up year over year by approximately 15% as at November 2018, which should translate to increased investments and growth. Growth in Private Credit, while increasing year over year, needs to push beyond these levels if we are to see a greater impact on investments and growth in the Economy.

With this positive and enabling environment, growth levels while consistent, are not as robust as we would like to see.

For 2018, we have seen the re-opening of JISCO/Alpart and as a result Mining and Quarrying has been a significant driver of growth. Going forward, especially with the outlook for global growth being reduced, the year over year projected growth levels observed in this area are not likely to be as strong and therefore Jamaica needs to see increased investments and value-added activity in other sectors of the economy, (especially Agriculture and Manufacturing), if we are to maintain and increase the growth level in the Jamaican economy above the two (2) percent threshold level.