EPOC
Economic Programme Oversight Committee

UPDATE ON 3-YEAR IMF PRECAUTIONARY STAND-BY ARRANGEMENT (PSBA)
MARCH 2019 | COMMUNIQUÉ #24

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$2.3b** <total NIR of US$3.05b> to help cushion the country from shocks

MOST RECENT RESULTS

The EPOC met on March 22, 2019 and reviewed the latest available results for the period ending January 2019. The table below shows the results of selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs).

SELECTED FISCAL & MONETARY INDICATORS

Selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs)	Actual (Dec. 2018)	Indicative Target (Dec. 2019)	Actual (Jan. 2019)	Budget Target (Apr. 2018 - Jan. 2019)	Indicative Target (Mar. 2019)
Primary Balance of Central Government (J$B) *	107.7	68.0	118.9	111.6	141.6
Tax Revenues (J$B) *	388.7	360.0	433.4	428.1	516.0
Non-Borrowed Reserves (US$M) **	2,522	2,200	2,552		2,200
Inflation (%) ***	2.4	2.0-6.5	2.3	2.4 (Feb)	2.5-6.0

* 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 the upper or lower outer bands 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. If inflation is below the inner band, this triggers a staff consultation with IMF staff on the outlook for inflation and the proposed policy response. Noteworthy, the BOJ's medium-term inflation target range of 4.0% to 6.0% is within the PSBA inflation target range of 2.5-6.0% for end-March 2019.

PROGRAMME REVIEW

FISCAL PERFORMANCE

Selected IMF PSBA Fiscal and Monetary Targets
For the review period April to January 2019, the Fiscal Performance continued its positive trend.

Selected Fiscal Indicators
Tax Revenues remain buoyant, Capital Expenditure significantly up year over year

Tax Revenues Outperform Budget
Revenue & Grants of $496.5B for the first ten months of the fiscal year (April-January) exceeded the budgeted amount of $492.8B (+0.8%).

Tax Revenues year over year increased by $42.0b (10.7%) from $391.5b for the period April 2017 through January 2018 to $433.4b for the comparable period in FY2018/19.

Expenditures behind Budget by $6.4b
Expenditure for the first ten months of the fiscal year (April- January) came in at $482.2b, and was $6.5B below budget (-1.3%). Of this amount, Recurrent Expenditure was $6.1B below budget (-1.4%), while Capital Expenditure was $0.3B below budget (-0.7%).

Capital Expenditure up 49.6% year over year
Capital Expenditure year over year increased by $16.8b from $33.8b for April 2017 through January 2018, to $50.6b for the comparable period in FY2018/19. This represents a 49.6% increase year over year.

Interest Expense $2.9b below budget
Interest costs to the GOJ continue to be below budget due primarily to lower interest rates on GOJ debt. Interest expenses were $104.6b against a budget of $107.6b for the period April 2018 through January 2019.

Fiscal Balance $14.3b
The GOJ continues to run Fiscal surpluses with Tax Revenues and Grants exceeding Expenditure by $14.3b for the April 2018-January 2019 period.

Primary Balance
As a result of the **Revenue and Grants** performance and the under-expenditure for the first ten months of the fiscal year, the **Primary Balance** of $118.9B exceeded the $111.6B budget target for April 2018-January 2019.

MONETARY TARGETS

International Reserves
As at March 20, 2019, Jamaica's Net International Reserves stood at US$3.019b.

Non-Borrowed Reserves are provisionally projected at US$2.58b for end-March 2019, significantly exceeding the IMF PBSA Programme Target of US$2.20bn.

Inflation remains relatively low at 2.4% as at February 2019
The 12-month point-to-point inflation rate at February 2019 was 2.4%, below Bank of Jamaica's target of 4.0% to 6.0%.

This lower out-turn of inflation was driven by a decline of 2.5% in the index for the Housing, Water and Electricity division, which saw declines in pricing levels for electricity, sewage and water rates.

In the BOJ Quarterly Press Briefing of February 20, 2019 the BOJ Governor outlined that inflation is projected to increase to near 5% in the June 2019 quarter. This acceleration, the Governor pointed, out is to come from rising food prices. However, the Governor expects that inflation will fall below the target at a number of points during 2019.

Foreign Exchange Market
On 20 March 2019, the value of the Jamaican Dollar vis-à-vis the US dollar was J$124.90 = US$1.00, reflecting an appreciation of 3.03% ($3.90) for the month-to-date. This follows appreciation of 5.36% ($7.29) for February 2019.

The appreciation in the value of the Jamaica Dollar for the review period was influenced by: (1) buoyant USD liquidity as institutions remained willing to net sell given the current trend in currency appreciation and (2) low demand for US dollars as end users anticipated lower rates.

Real Effective Exchange Rate
As at January 2019, Jamaica recorded an annual point-to-point gain of 2.6% in relative price competitiveness as measured by the real effective exchange rate (REER). The BOJ opines that this indicator, in conjunction with improvements in other macroeconomic indicators, suggests that the Jamaican dollar is currently fairly valued.

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 December 2018 period. The GOJ has also met the fourteen (14) structural benchmarks for public sector transformation, public bodies and public service reform through end December 2018.

ECONOMIC OVERVIEW

Recent economic data positive and growth enhancing

Economic Growth
The PIOJ on February 20th 2019 estimated real GDP growth of 1.8% for calendar year 2018, and projects growth of 1.5% to 2.0% for Fiscal Year 2018/19. In the GOJ Fiscal Policy Paper FY2019/20 the GOJ projected growth in real GDP of 1.5% for FY2019/20.

Financing of the Non-Financial Sector
The BOJ reported that total Private Sector Financing grew by 13.4% in real terms over the year to December 2018 compared to 10.2% for the comparable period in 2017.

Of note is the 12-month increase in Credit to businesses by deposit-taking institutions (DTIs), which increased at 15.2% as at end-December 2018, which outpaced the 12% growth for Consumer Credit by DTIs over the same period. Credit conditions eased for all business sizes, evidenced by reduced interest rates, increases in the caps on loan-to-value and lower debt-service requirements.

Relative to the September 2018 quarter, the BOJ Credit Conditions Survey indicated that, on average, indicative interest rates on new local currency loans to businesses fell by 0.4% to 13.65%.

HIGHLIGHTS OF GOJ BUDGET FOR FINANCIAL YEAR 2019-20

GOJ and IMF Agree to Primary Surplus reduction
The Primary Surplus Target under the IMF Programme has been reduced to 6.5% as the GOJ debt reduction targets were ahead of budget; the GOJ Debt levels are projected to fall to 96.4% in 2018/19, one year ahead of projections.

Fiscal Space Increased
As a result of the increase in Fiscal Space due to an over-performance of Tax Revenues in 2018/19 of $4b, and the reduction in the Primary Surplus Target to 6.5% (or $10b), the GOJ has been able to introduce a reduction and abolishment of a number of distortionary taxes. The GOJ positions this as a stimulus to economic activity which would lead to increased growth levels.

These tax initiatives are primarily focused at the MSME and the Real Estate sectors.

Social Spending
The GOJ has also been able to increase spending on Social Programmes from $16b in FY2018/19 to $20b in FY2019/20 which is aimed at the vulnerable in our country.

National Security
Capital Expenditures have been increased in the area of National Security by 61% to $20b for FY2019/20.

National Housing Trust benefits
Interest rates were lowered on NHT Facilities as well as the introduction of an Inter-generational loan facility. In conjunction with the lowered transaction costs on Real Estate transaction, this should provide further stimulus to the Housing Market.

Asset Tax
EPOC welcomes the removal of the distortionary Asset Taxes on Non-Financial Institutions as a first step and EPOC looks forward to the Minister of Finance continuing in the same vein with the Financial Sector, thus further streamlining the corporate income tax rates in the near future.

CONCLUSION

Overall, EPOC is of the view that the Economic Programme remains on track and is cautiously optimistic that Jamaica will see annual growth levels moving consistently above the 2 percent levels into the medium term, despite a weakening outlook for the Global Economy.

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