

Most recent results The EPOC met on May 14, 2019 and reviewed the latest available results for the period ending March 2019. The table below shows the results of selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs).

Selected Fiscal and Monetary Indicators

Selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs)	Actual (Dec. 2018)	Indicative Target (Dec. 2018)	GoJ Budget Target**** (Apr. 2018-Mar. 2019)	Actual (Mar. 2019)	Programme Target (Mar. 2019)
Primary Balance of Central Government (J\$B) *	107.7	68.0	145.8	153.6	141.6
Tax Revenues (J\$B) *	388.7	360.0	544.5	542.9	516.0
Non-Borrowed Reserves (US\$M) **	2,522	2,200		2,632	2,200
Inflation (%) ***	2.4	2.0-6.5		3.4	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.

****Third GoJ Supplemental Budget Target

PROGRAMME REVIEW

FISCAL PERFORMANCE Selected IMF PSBA Fiscal and Monetary Targets

For the review period April 2018 to March 2019, the Fiscal Performance continued its positive trend.

SELECTED FISCAL INDICATORS Fiscal and Primary Surpluses exceed 2018-19 Targets

Revenue & Grants of \$629.0B for the fiscal year (April-March) exceeded the budgeted amount of \$627.6B (+0.2%) while Tax collections of \$542.9B fell below the third supplementary budget FY2018/19 (-\$1.6B).

Tax Revenues year over year increased by \$46.0b (9.3%) from \$496.8b for the period April 2017 through March 2018 to \$543.0b for the comparable period in FY2018/19.

EXPENDITURES BELOW BUDGET BY \$13.3b

Expenditure for the twelve months of the fiscal year (April-March) was \$13.3b below budget (-2.2%). Of this amount, Recurrent Expenditure was \$10.7b below budget (-2.0%), while Capital Expenditure was \$2.6b below budget (-3.8%).

CAPITAL EXPENDITURE UP 41.4% YEAR OVER YEAR

Capital Expenditure year over year increased by \$19.4b from \$46.8b for April 2017 through March 2018, to \$66.2b for the comparable period in FY2018/19.

INTEREST EXPENDITURE DOWN \$6.0b YEAR OVER YEAR

Interest costs up to March 2019 totaled \$129.2b which was \$6.0b below the \$135.2b for the comparative period for 2017/18, and \$7.0b below the budgeted figure of \$136.2b for the twelve months of the fiscal year 2018/19 (April-March), driven by lower interest rates on the GOJ debt.

FISCAL SURPLUS OF \$24.4b

The GOJ continues to run Fiscal surpluses with Tax Revenues and Grants exceeding Expenditure by \$24.4b for the April 2018-March 2019 period against the projected budget target of \$9.6b.

PRIMARY BALANCE EXCEEDS BUDGET TARGETS BY \$7.7b

As a result of the Revenue and Grants performance and the under-expenditure for the twelve months of the fiscal year, the Primary Balance of \$153.6b exceeded the \$145.8b budget target for April 2018-March 2019.

MONETARY TARGETS International Reserves

As at May 10, 2019, Jamaica's Net International Reserves stood at US\$ 3.021b.

Non-Borrowed Reserves

As at 08 May 2019, the projected stock of non-borrowed reserves (NBR) at end-June 2019 is US\$2,477.1m, US\$220 m above the indicative targeted floor.

Inflation Rate

The annual point to point inflation rate at April 2019 was 3.9 per cent, an acceleration relative to the 3.2 per cent recorded at April 2018. The acceleration in inflation mainly reflected the impact of higher vegetable and starchy food prices due to a greater than seasonal reduction in agricultural supplies.

The effect of this shock on inflation was supported by higher energy prices driven by an increase in international oil prices.

Notwithstanding the acceleration in inflation at April 2019, the low level of inflation relative to target is indicative of the lagged impact of low but improving domestic demand conditions, relative to capacity. This is reflected in a low core inflation rate which excludes the immediate influence of agriculture and energy which was 2.3 per cent at April 2019 compared with 2.5 per cent at April 2018.

BOJ MAKES AGGRESSIVE MONETARY POLICY ACTIONS Bank of Jamaica reduces Interest Rate to 0.75%

On Friday May 17, 2019 The BOJ announced the reduction of the policy interest rate by 0.50 pp to 0.75%. This decision reflected that Bank's assessment that projected inflation will approach the midpoint of the target gradually but at a slower pace than expected at the last forecast in February 2019. The decision is aimed at increasing the rate of expansion of Private Sector Credit.

Bank of Jamaica narrows Interest Rate Corridor to 200 bps

On 20 May 2019, Bank of Jamaica announces that, effective 20 May 2019, the width of the interest rate corridor is being reduced from 300 basis points to 200 basis points. This adjustment in the width of the interest rate corridor will result in a reduction in the standard interest rate on the Standing Liquidity Facility (SLF) to 2.75 per cent (the policy rate - 0.75 per cent per annum - plus 200 basis points) per annum.

Narrowing the width of the corridor is aimed at strengthening the signaling effect of Bank of Jamaica's monetary policy actions.

Bank of Jamaica reduces Cash Reserve Ratio

The Bank of Jamaica reduced the Cash Reserve Requirement by two percentage points to 7% effective June 3, 2019. The reduction is expected to increase liquidity in

the financial system by \$12.3 billion, and thereby should support the expansion of credit to businesses and households at lower rates.

Private Sector Credit Lending to the Productive Sector increases by 16.7%

The annual growth in total loans and advances (JMD and USD denominated) extended by Deposit Taking Institutions to the private sector was 15.2 per cent at end-March 2019. This reflected an acceleration when compared to growth of 13.4 per cent and 13.8 per cent at end December 2018 and end-March 2018, respectively.

The growth mainly resulted from increased lending to the productive sector which reflected annual growth of 16.7 per cent at end-March 2019, relative to 11.4 per cent for the corresponding period of 2018. Loans to consumers grew by 14.2 per cent, a deceleration relative to the growth of 15.5 per cent recorded at end-March 2018.

Foreign Exchange Market

On 10 May 2019, the value of the Jamaican Dollar vis-à-vis the US dollar was J\$136.54 = US\$1.00, reflecting a depreciation of 1.17 per cent (\$1.58) for the month to date. This follows depreciation of 6.72 per cent (\$8.49) for April 2019.

The depreciation in the value of the Jamaican Dollar for the review period was influenced by: (1) strong demand from the energy, manufacturing and telecom sectors (2) increased demand related to capital market funding and portfolios.

Structural Benchmarks

All Structural Benchmarks under the Programme have been met.

EPOC ENCOURAGES TIMELY DELIVERY ON CRITICAL REFORMS

EPOC reiterates support for Flexible Exchange Rate and Inflation Targeting

EPOC continues to stand firmly behind a market determined and flexible exchange rate, as the GoJ and the BoJ continue to move towards full-fledged inflation targeting within the context of a resourced, modernized and autonomous Central Bank.

EPOC calls for Implementation of FX Platform and Regulations around FX Hedging products

EPOC welcomes the dialogue which has resulted from the recent volatility in the FX market, which has led to greater discussion with the Private Sector around bringing forward critical reforms which will bring transparency and price discovery to the FX Market. These reforms are important elements of a deepening of the FX market. The following are also important:

- The implementation of a FX Market Trading Platform, which is behind the targeted implementation date of March 2019. This platform, when implemented, is to be integrated with the payments and settlement systems by June 2019, and subsequently regulations are to be issued by September 2019, which will allow all market participants to trade all FX transactions by the end of 2019.
- Completing the consultation with the Industry around the benchmarks and pricing approaches for FX forward contracts, which was to be completed by March 2019 and the draft regulations for FX Market hedging and reporting.

We urge the GoJ, the BoJ, the Financial Industry and the Private Sector to work with urgency to deliver these critical complementary reforms to ensure market transparency and price discovery, which should contribute to reduced volatility in the FX Market.

EPOC CALLS FOR IMPLEMENTATION OF NIDS

The implementation of the National Identification System (NIDS) has been a key deliverable under the Economic Reform Programme since 2009. The GoJ has fallen behind on implementation timelines over this extended period. Under the current IMF/PSBA Programme, timelines have slipped and the implementation is now faced with legal challenges.

There is broad consensus around the benefits of NIDS as it would greatly enhance the seamless

delivery of services to all Jamaicans by the Public and Private Sector. NIDS will ease and reduce the cost of doing business in Jamaica for all stakeholders.

EPOC strongly urges the GoJ, the opposition and other stakeholder groups to urgently get this game changing initiative back on track and not allow any further slippage.

Institutional Framework post IMF

Jamaica just completed the fifth and penultimate review under the current IMF PSBA. Jamaica faces one more IMF review under the Programme. The plans around consolidating, preserving and building on the gains of the Economic Programme hinges on the Institutional Framework that is established and left in place. EPOC acknowledges the efforts of the GoJ in enhancing fiscal responsibility and inflation targeting, through the establishment of the Fiscal Council and the greater independence of the Central Bank. This is complemented by the National Disaster Risk Financing Policy.

Under the IMF PSBA, the Fiscal Council is to be established by September 2019 and EPOC stands ready to provide support where needed to ensure implementation.

EPOC looks forward to the National Disaster Risk Financing Policy being completed and submitted to Parliament by June 2019.

The Autonomy of the Central Bank is also an important pillar in the Institutional Framework, and we note that there is currently a clause by clause review of the BoJ Act that is currently underway, by a joint select Committee of Parliament. EPOC would like to see these deliberations completed in a thorough and timely manner, which could see this desired Central Bank Autonomy in place by the end of the Calendar year 2019.

Public Sector Transformation

Whilst the GoJ has met all Structural Benchmarks for Public Sector Transformation, there remains a significant body of work to be done to achieve an efficient Public Service which delivers seamlessly to all stakeholders. These areas of focus are namely: 1) Rationalizing the inequitable allowance structure, 2) Prioritizing government functions and shedding those that are unaffordable or not needed, 3) Overhauling compensation to reward performance.

EPOC'S CONCLUSION AND OUTLOOK

Jamaica's Fiscal position continues to be in a good place with Jamaica exceeding targets and running a Fiscal surplus for 2018/19. The Bank of Jamaica continues in its accommodative stance with the reduction of interest rates to all-time lows, and for the second time in the past three months, the cash reserve ratio of the Banks have been reduced.

The implementation of these policy measures continues to contribute to the reduction in Jamaica's debt levels. Interest costs to the GoJ also continue to fall. The growth in credit to the Productive Sector is increasing year over year eclipsing the growth in consumer credit.

The recent aggressive Monetary Policy Actions should certainly create further stimulus to the Financial Sector to lend at lower and more favourable terms to the Private Sector which should spur greater growth in private credit and domestic investments.

Where concerns have been raised around the volatility of the Jamaican dollar, the Minister of Finance and the Bank of Jamaica have taken steps to deepen the consultation with Civil Society, to accelerate the complementary reforms to Jamaica's flexible exchange rate regime.

As Jamaica moves into the final review under the Economic Programme, which would be in the last quarter of the 2019 calendar year, EPOC is strongly urging the GoJ, the BoJ and other stakeholders to remain focused on the implementation of the Institutional Framework that will protect the macroeconomic stability which Jamaica has achieved with great effort and sacrifice.

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