



Economic Programme Oversight Committee (EPOC)

Update on 3-year IMF Precautionary Stand-By Arrangement (PSBA)

June 2019 Communiqué #27

Most recent results The EPOC met on June 28, 2019 and reviewed the latest available results for the period ending April 2019. 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 2019, Jamaica is on track to meet the targets for the quantitative performance criteria and the indicative targets for the IMF SBA for end-June 2019.

Selected Fiscal and Monetary Indicators

Selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs)	Actual (Mar. 2019)	Indicative Target (Mar. 2019)	Actual (Apr. 2019)	GOJ Budget Target (Apr. 2019)	Target (Jun. 2019)
Primary Balance of Central Government (J\$B) *	153.6	141.6	7.16	6.98	19.0
Tax Revenues (J\$B) *	542.9	516.0	41.3	40.2	115.0
Non-Borrowed Reserves (US\$M) **	2,632	2,200	2,572		2,202
Inflation (%) ***	3.4	2.5-6.0	3.9		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-June 2019.

PROGRAMME REVIEW

FISCAL PERFORMANCE

Selected IMF PSBA Fiscal and Monetary Targets

For the month of April 2019, the first month in the new fiscal year, the positive trend continued with fiscal performance being ahead of the GOJ budgeted targets.

SELECTED FISCAL INDICATORS Fiscal and Primary Surpluses exceed April 2019 Target

Revenue & Grants of \$46.1b for the first month of the fiscal year (April) exceeded the budgeted amount of \$44.6b (+3.5%).

Tax Revenues for April 2019 came in \$41.3b and outperformed budget by \$1.2b and was 9.1% or \$3.5b higher than April 2018.

EXPENDITURES

Total expenditure for the first month of the fiscal year (April) was \$0.25b above budget (+0.5%).

Recurrent Expenditure was \$1.0b below budget as interest expenditure was \$1.1b lower than budget.

Capital Expenditure for April 2019 was \$6.1b or \$1.3b above the budgeted target of \$4.8b, and 132.9% or \$3.47b above the capital expenditure for April 2018.

FISCAL BALANCE

The fiscal balance for the month April 2019 showed a deficit of \$6.0b which was \$1.3b above the deficit of \$7.3b that was budgeted.

PRIMARY BALANCE EXCEEDS BUDGET TARGET BY \$173m

As a result of the Revenue and Grants performance for the first month of the fiscal year, the Primary Balance of \$7.16b exceeded the \$6.99b budget target for April 2019.

MONETARY TARGETS International Reserves

As at end-June 2019, Jamaica's Net International Reserves stood at US\$3,035.3 million.

Non-Borrowed Reserves

As at end-June 2019, the stock of non-borrowed reserves (NBR) is US\$2,587.3 million, US\$385.3 million above the targeted floor.

Inflation

The 12-month point-to-point inflation rate at May 2019 was 4.8%, within Bank of Jamaica's target range of 4.0%-6.0% but higher than the same measure at May 2018 (3.1%).

The acceleration in inflation was supported by higher prices for food, in

particular unprocessed foods and higher energy prices driven by an increase in international oil prices.

Core Inflation

Core inflation, measured as the Consumer Price Index excluding the prices of agricultural commodities & fuel (CPIAF), was 2.4 per cent at May 2019, a slight increase when compared with the 2.3 per cent that was registered in both April 2019 and May 2018. This measure of core inflation has been below 2.5 per cent since April 2018. Relatively low underlying inflation is symptomatic of low (relative to capacity), albeit improving demand conditions over the preceding four quarters, as well as the moderated second round effects of lower oil prices.

FINANCING OF THE NON-FINANCIAL PRIVATE SECTOR

The annual growth in total private sector financing (JMD and USD denominated loans and advances extended by DTIs to the productive sector and for personal use and corporate financing by nonfinancial businesses via exempt distribution) was 19.3% at March 2019. This was an acceleration when compared to the growth of 16.2% at March 2018.

In real terms, total private sector financing grew by 15.4% over the year to March 2019, compared with 11.8% for the comparable period in 2018.

PRODUCTIVE SECTOR Lending to the Productive Sector increases by 20.8%

Lending to the productive sector by Deposit Taking Institutions (DTIs) accelerated to 20.8% in April 2019, relative to 11.0% for the corresponding period of 2018. Growth was primarily reflected in Professional & Other Business Services, Construction, Distribution and Electricity and Water industries. Loans to individuals grew by 14.7%, a moderation relative to growth of 15.0% as at April 2018.

Foreign Exchange Market

On July 5, 2019 the value of the Jamaican Dollar vis-à-vis the US dollar was J\$133.44 = US\$1.00, reflecting a depreciation of 1.8 per cent (\$2.37) for the month to date. This follows appreciation of 1.3 % (\$1.75) for June 2019. On an annual

basis, the Jamaica Dollar at July 5, 2019 depreciated by 2.20 per cent (\$2.87).

The depreciation in the value of the Jamaica Dollar for the month to 05 July was influenced by lower sales amid a decline in earner inflow to the market.

Real Effective Exchange Rate

At May 2019, Jamaica recorded an annual point-to-point gain of 2.8% in relative price competitiveness, as measured by the real effective exchange rate (REER). This gain in competitiveness stemmed mainly from changes in relative exchange rates. Jamaica's nominal average exchange rate for the month depreciated on an annual basis against the USD by 6.8%, relative to depreciation of 1.5% in the trade weighted exchange rates of Jamaica's main trading partners.

Structural Benchmarks

All Structural Benchmarks under the Programme have been met.

SELECTED MACROECONOMIC INDICATORS

Bank of Jamaica holds Policy rate unchanged

On June 27, 2019, the Bank of Jamaica (BOJ) announced its decision to hold the policy interest rate unchanged at 0.75%, effective June 28, 2019. This was based on the BOJ's assessment "that monetary conditions are appropriate to support the achievement of the inflation target of 4 per cent to 6 per cent over the medium term."

Gross Domestic Product (GDP)

STATIN reported that the economy recorded growth during the fourth quarter of fiscal year 2018/19. GDP for January-March 2019 increased by 1.7%, relative to the similar period in the previous year. Mining and Quarrying, Hotels and Restaurants and Construction were the standouts recording growth of 11.1%, 7.3% and 3.4% respectively. Growth was recorded in all the goods producing industries with the exception of the Manufacturing industry which decreased by 1.4%. Agriculture, Forestry and Fishing had marginal growth of 0.3%. The economy grew by 1.9% in the fiscal year 2018/2019 when compared to fiscal year 2017/2018.

EPOC'S CONCLUSION AND OUTLOOK

EPOC notes that Tax Revenues continue to outperform targets and show strong year over year performance.

The Bank of Jamaica, while holding interest rates stable at 0.75%, continues to maintain an accommodative monetary stance. While inflation has increased to 4.8% as at the end of May 2019, EPOC notes that core inflation has remained relatively flat at 2.4% which suggests that domestic demand has not increased to sufficient levels to increase core price levels.

EPOC notes positive trajectory in the growth in credit to the Productive Sector which is increasing year over year eclipsing the growth in consumer credit over the same period.

This continuing BOJ accommodative stance, along with high levels of liquidity, should continue to provide 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 and demand for goods and services.

EPOC welcomes the announcement by the Minister of Finance and the Public Service, the Hon. Dr. Nigel Clarke, that the IMF will maintain its office in Jamaica after the current Stand-By Arrangement ends in the final quarter of calendar year 2019. EPOC believes that the maintenance of the office will be of great value to Jamaica, as the IMF provides high quality technical assistance to Jamaica and should surely be very supportive to the GOJ post the IMF Stand-By Arrangement.

As Jamaica moves into the final review under the SBA, which would be completed in the last quarter of the 2019 calendar year, EPOC is hopeful that the GOJ, the BOJ and other stakeholders will remain focused on the implementation of the Institutional Framework, that will protect the macroeconomic stability and the gains made under successive IMF Economic Reform Programmes.

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