

Most recent results The EPOC met on September 27, 2019 and reviewed the latest available results for the period ending June 2019. The table below shows the results of selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs).

The sixth and final review mission by the International Monetary Fund (IMF) under the current precautionary Stand-By Arrangement (SBA) was conducted over the period September 9–19, 2019. Based on the preliminary results for performance through the end of June 2019, the Government of Jamaica (GOJ) has met the targets for the quantitative performance criteria (QPCs) and indicative targets (ITs) for the IMF SBA as at end-June 2019.

The sixth review will be completed at the meeting of the IMF Executive Board tentatively scheduled for November 2019, and marks the successful conclusion of the SBA. As stated in the IMF press release issued at the end of the sixth review mission, the SBA will expire on November 8, 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 (Jun. 2019)	Target (Jun. 2019)
Primary Balance of Central Government (J\$B) *	153.6	141.6	37.9	19.0
Tax Revenues (J\$B) *	542.9	516.0	137.4	115.0
Non-Borrowed Reserves (US\$M) **	2,632	2,202	2,587	2,202
Inflation (%) ***	3.4	2.5-6.0	4.2	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.

Structural Benchmarks

The GOJ has also met all twenty-two (22) structural benchmarks (SBs) for the November 2016 to September 2019 period, including eight (8) macro-fiscal SBs, and fourteen (14) SBs for public sector transformation, public bodies and public service reform. It should be noted that there is only one (1) structural benchmark currently remaining under the SBA, namely 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.

PROGRAMME REVIEW THROUGH JULY 2019

Selected GOJ Fiscal and Monetary Indicators

Selected GOJ Fiscal and Monetary Indicators	Actual (Provisional) (July 2019)	Budget Target (July 2019)	Actual (Provisional) (April-July 2019)	Budget Target (April-July 2019)
Revenue & Grants (J\$B)	48.2	47.2	202.1	198.1
Tax Revenues (J\$B)	42.4	41.9	179.8	176.1
Recurrent Expenditure (J\$B)	53.2	51.2	179.2	180.0
Capital Expenditure (J\$B)	0.5	4.9	15.6	19.9
Primary Balance (J\$B)	11.4	8.2	49.3	43.7
	Actual			
Non-Borrowed Reserves (NBR) (US\$M) (as at August 30, 2019)	2,527			
Net International Reserves (NIR) (US\$M) (as at August 30, 2019)	2,936			

SELECTED FISCAL INDICATORS

Fiscal and Primary Surpluses exceed April–July 2019 Target
Revenue & Grants of \$202.1B for the first four months of the fiscal year (April-July) exceeded the budgeted amount of \$198.1B (+2.0%). Tax collections of \$179.8B outperformed budget (+\$3.8B).

EXPENDITURES

Expenditure for the first four months of the fiscal year (April-July) was \$5.1B below budget (-2.5%).

Of this amount, Recurrent Expenditure was \$0.8B below budget, while Capital Expenditure was \$15.6B which was \$4.2B below budget (-21.4%), or \$1.79b below the

capital expenditure for the same period of April-July 2018.

Capital Expenditure was about 78.6% of the total programmed for the period. The slower than programmed implementation of some capital projects, most notably the South Coast Highway Improvement Project, was responsible for the below target performance.

FISCAL BALANCE

The fiscal balance for the period April - July 2019 showed a surplus of \$7.3B which was \$9.0B above the deficit of \$1.7B that was budgeted.

PRIMARY BALANCE EXCEEDS BUDGET TARGET BY \$5.6B

As a result of the Revenue and Grants performance for the first

four months of the fiscal year, the Primary Balance of \$49.3B exceeded the \$43.7B budget target for April-July 2019.

MONETARY TARGETS International Reserves

As at September 26, 2019, Jamaica's Net International Reserves stood at US\$3,080.7 million.

Non-Borrowed Reserves

Non-borrowed reserves (NBR) are projected to close end September 2019 at US\$2,763.3m, which is US\$576.1 million above the target of US\$2,187.2m.

Inflation

The 12-month point-to-point inflation rate at August 2019 was 4.1 per cent, within Bank of Jamaica’s (BOJ’s) target range of 4.0 per cent to 6.0 per cent.

Core Inflation

Core inflation, measured as the Consumer Price Index excluding the prices of agricultural commodities & fuel (CPIAF) of 2.4 per cent at August 2019, was lower when compared with the rate at July 2018 (2.6 per cent).

Lending to the Productive Sector

Lending to the productive sector by Deposit Taking Institutions (DTIs) reflected annual growth of 16.5% at June 2019 relative to 15.8% at June 2018, and was mainly underpinned by lending to businesses in the Professional and Other, Distribution, and Construction industries.

Foreign Exchange Market

On 30 September 2019, the value of the Jamaican Dollar vis-à-vis the US dollar was J\$135.16 = US\$1.00.

On an annual basis, the Jamaica Dollar at 30 September 2019 depreciated by 0.3%.

Real Effective Exchange Rate

There was an estimated loss in competitiveness of 0.4 per cent at August 2019, as measured by the change in the annual average Real Effective Exchange Rate (REER) at August 2019, relative to the same measure at August 2018.

EPOC’S OVERVIEW AND RECENT DEVELOPMENTS

GDP Growth

STATIN recorded growth of 1.3% for April through June 2019. The economy outperformed the PIOJ projection of 1% for the quarter. This was impacted by a downturn in Agriculture, Forestry and Fishing of -1.7% which was offset by growth of 4.6% in Mining and Quarrying and 5.8% growth in the Hotels and Restaurants Industry.

Interim Fiscal Policy Paper

An Interim Fiscal Policy Paper

was released to the public on September 24, 2019. Of note was the reduction in the GDP Growth target from 1.5% to 0.7% due to the announced closure of the Alpart alumina plant for 18-24 months to facilitate upgrading of the plant facilities. However, the GOJ is committed to accelerating the growth in real GDP to 2% in the medium term.

First Supplementary Budget

The First Supplementary estimates for 2019/20 were tabled in September 2019, which takes into account the fiscal performance to date, including higher debt service costs arising from a debt management transaction.

The supplementary estimates include:

- Recurrent additional expenditures of \$9.9b
- The additional expenditure of \$9.9b was primarily for housekeeping matters.
- Tax Administration Jamaica- \$1.457b
- GCT Refund- \$694.7m
- Pensions-\$622.8m
- Ministry of Economic Growth and Job creation- \$1b
- Ministry of National Security- \$1.4b
- University of Technology subvention-\$1b.
- Amortization which is related to the debt management operation increases by \$40.2b.
- This debt management operation actually reduces the debt stock by US\$34.2 million and reduces future interest cost by US\$18.2m. The MOFPS should be congratulated on this operation.

BOJ holds policy rate

On September 30, 2019, the BOJ announced its decision to hold the policy rate at 0.5%. The BOJ’s Monetary Policy stance continues to be accommodative.

Tax Revenues

Tax Revenues continue to outperform targets and are up by 6.8% or \$11.4b year to date over the same period last year, despite the Tax give backs in the removal of distortionary taxes and reduction of ad valorem taxes of \$14b in the Budget presented for 2019/20.

Productive Sector

EPOC notes the positive trajectory in the growth in credit to the Productive Sector which is a good leading indicator. However, for growth levels to accelerate, greater levels of borrowing are required.

MSME Sector

The MSME Sector is fertile ground for growth and there is significant effort being

made by the Private Sector, the Bank of Jamaica and the Government of Jamaica in addressing the access to finance issues which have plagued the sector.

The MSME Sector contributes greater than 50% of GDP and between 70-80% of the employed labour force, but as at December 2018 receives 10.7% of loans from the Banking Sector. This presents a real opportunity for Jamaica if we can really nurture and create appropriate financing solutions for this sector to stimulate inclusive growth.

Inflation

The BOJ projects that inflation will average 4.3 per cent over the next eight quarters before gradually approaching the Bank’s 5.0 per cent target in the medium term. This outlook reflects relatively lower inflation over the medium term. The Bank of Jamaica’s inflation forecast is mainly predicated on the continued impact of low domestic demand conditions (relative to capacity) and larger declines in international commodity prices.

EPOC Post IMF

As the current three-year Precautionary Stand-By Arrangement (PSBA) with the IMF comes to an end in November 2019, EPOC is happy to continue to serve at the pleasure of the Minister of Finance, the Hon. Dr. Nigel Clarke for one (1) year in the first instance, under a new Memorandum of Understanding. This extended period of service will be aligned with completion of the Institutional strengthening of the Fiscal Council and completion of activities related to the Central Bank achieving Independent status.

Fiscal Council and Central Bank Independence

It is anticipated that legislation and regulations establishing the Fiscal Council and an Independent Central Bank will be completed within the next fiscal year.

OUTLOOK

Jamaica’s macroeconomic indicators remain strong. However, growth levels continue to hover below 2% and growth projections for the current fiscal year have been lowered to 0.7%. This is occurring within the context of ongoing trade tensions globally, and the fear of a further slowdown in global growth especially amongst Jamaica’s main trading partners.

Jamaica has to remain resolute and continue the economic reforms which have worked well for macroeconomic stability, and continue to drive towards the GOJ’s medium term growth target of 2%. Jamaica needs all hands on deck.