



# Economic Programme Oversight Committee (EPOC)

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

October 2019      Communiqué #29

**Most recent results** The EPOC met on November 1, 2019 and reviewed the latest available results for the period ended August 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 through to the end of August 2019, Jamaica is on track to meet the indicative targets for end-September 2019, with the exception of the inflation target. The sixth and final review under the SBA was completed at the meeting of the Executive Board of the IMF held on November 4, 2019, and the SBA will expire on Sunday, November 10, 2019.**

Selected Fiscal and Monetary Indicators				
Selected IMF PSBA Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs)	Actual (Jun. 2019)	Target (Jun. 2019)	Actual (Aug. 2019)	Indicative Target (Sept. 2019)
Primary Balance of Central Government (J\$B) *	37.9	19.0	54.3	35.7
Tax Revenues (J\$B) *	137.4	115.0	222.9	242.0
Non-Borrowed Reserves (US\$M) **	2,587	2,202	2,527	2,187
Inflation (%) ***	4.2	2.5-6.0	4.1	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 THROUGH AUGUST 2019

### FISCAL PERFORMANCE

Selected GOJ Fiscal and Monetary Indicators				
Selected GOJ Fiscal and Monetary Indicators	Actual (Provisional) (August 2019)	Budget Target (August 2019)	Actual (Provisional) (April-August 2019)	Budget Target (April-August 2019)
Revenue & Grants (J\$B)	48.6	47.8	250.6	245.9
Tax Revenues (J\$B)	43.0	43.4	222.9	219.5
Recurrent Expenditure (J\$B)	50.5	50.7	229.6	230.6
Capital Expenditure (J\$B)	7.6	5.9	23.2	25.8
Primary Balance (J\$B)	4.9	6.0	54.3	49.7
	Actual			
Non-Borrowed Reserves (NBR) (US\$M)(as at Sept. 30, 2019)	2,720			
Net International Reserves (NIR) (US\$M) (as at Sept. 30, 2019)	3,098			

**SELECTED FISCAL INDICATORS**  
**Fiscal and Primary Surpluses exceed April – August 2019 Target**  
Revenue & Grants of \$250.6b for the first five months of the fiscal year (April-August) exceeded the budgeted amount of \$245.9b (+1.9%).

**Tax Revenues**  
Tax collections of \$222.9b outperformed budget (+\$3.3b) which was also 7.2% higher than the \$207.9b recorded for the same period in the 2018/19 fiscal year.

**Expenditures**  
Expenditure for the first five months of the fiscal year (April-August) was \$3.6b below budget (-1.4%). Of this amount, Recurrent Expenditure was \$1.0b below budget, while Capital Expenditure was \$2.6b below budget (-10.1%).

Capital expenditure which has been lagging behind the budget, on a year-to-date basis, amounted to \$7,574.4mn in August and was \$1,631.6mn ahead of the monthly target. This acceleration in the expenditure has lowered the year-to-date shortfall from \$4,249.1mn seen for the April to July 2019 period to \$2,617.5mn at end-August 2019.

**PAYE**  
It should be noted that PAYE lagged behind budget by \$1.64b for the April to August 2019 period. This was due to the baseline projected for the beginning of the 2019/20 fiscal year being lower than the actual at the beginning of the fiscal year.

**Interest Costs**  
Interest costs for the April to August 2019 period was \$56.4b which was \$3.7b below the projected \$60.15b.

**PRIMARY BALANCE EXCEEDS BUDGET TARGET BY \$4.6B**  
As a result of the Revenue and Grants performance for the first five months of the fiscal year, the Primary Balance of \$54.3b exceeded the \$49.7b budget target for April-August 2019.

**FISCAL BALANCE**  
The fiscal balance for the period April-August 2019 showed a deficit of \$2.2b which was \$8.3b above the deficit of \$10.5b that was budgeted.

### MONETARY TARGETS

**International Reserves**  
As at October 31, 2019, Jamaica's Net International Reserves stood at US\$3,169.6m.

**Non-Borrowed Reserves**  
As at end September 2019, Non-borrowed reserves (NBR) closed at US\$2,720.2m, which was US\$532.9 million above the target of US\$2,187.2m.

Non-borrowed reserves (NBR) are projected to close end December 2019 at US\$2,719.7m, which is US\$329.7 million above the target of US\$2,390.0m.

**Inflation**  
The 12-month point-to-point inflation rate at September 2019 was 3.4 per cent, below Bank of Jamaica's target range of 4.0 per cent to 6.0 per cent and lower than the same measure at September 2018 (4.3 per cent).

**Core Inflation**  
Core inflation, measured as the Consumer Price Index excluding the prices of agricultural commodities & fuel (CPIAF), was 2.9 per cent at September 2019, higher than the outturn of 2.4 per cent for August 2019 and September 2018, respectively.

This increase in Core inflation largely reflected monthly increases of 6.9% and 4.7% in Communications and Education, respectively, in September 2019.

**Foreign Exchange Market**  
On 31 October 2019, the value of the Jamaican Dollar vis-à-vis the US dollar was J\$140.12 = US\$1.00, reflecting a depreciation of 3.67 per cent (\$4.96) for the month. This followed appreciation of 1.84 per cent (\$2.54) for September 2019.

On an annual basis, the Jamaica Dollar at 31 October 2019 depreciated by 8.96 per cent (\$11.53), compared to a depreciation of 0.38 per cent (\$0.51) at the end of September 2019 and depreciation of 1.03 per cent (\$1.31) for the twelve months to 31 October 2018.

**Real Effective Exchange Rate**  
There was an estimated loss in competitiveness of 0.6 per cent at September 2019, as measured by the change in the annual average Real Effective Exchange Rate (REER), relative to the same measure at September 2018.

**STRUCTURAL BENCHMARKS**  
The GOJ has also met all twenty-three (23) structural benchmarks under the SBA, including eight (8) macro-fiscal structural benchmarks and fifteen (15) structural benchmarks for public sector transformation, public bodies and public service reform.

### EPOC'S OVERVIEW AND RECENT DEVELOPMENTS

**Labour Market Update**  
The results of the July 2019 Labour Force Survey by STATIN indicate that the total number of persons in the labour force was 1,360,800, an increase of 26,100 persons compared with July 2018. The employed labour force for July 2019 was 1,254,100 persons, an increase of 31,500 persons or 2.6% compared with July 2018.

The unemployment rate for July 2019 was 7.8%, or 0.6 percentage point lower than the 8.4% recorded for July 2018, and maintains the lowest unemployment rate on record. The male unemployment rate remained at 5.8% and the female rate declined to 10.2%, down from 11.4% in July 2018. The unemployment rate for youth 14-24 years was 20.2% in July 2019, which represented a decrease of 2.0 percentage points when compared to 22.2% in July 2018.

The number of persons outside of the labour force decreased from 752,700 in July 2018 to 726,000 in July 2019.

**Balance of Payments Update**  
Preliminary data on Jamaica's balance of payments for the June 2019 quarter reflected a current account deficit of US\$51.9m which represents a deterioration of US\$82.6m relative to the corresponding period of last year. This decline was primarily driven by the Goods sub account which saw a deterioration of US\$211.3m. This was due to Imports increasing by US\$179.5m and Exports decreasing by US\$31.9m year over year. The decline in the Goods sub account was partially offset by improvement of US\$76.5m in the Services sub account which reflected an increase of 17.8% in Tourist expenditure.

The inflows from the capital and financial accounts were not sufficient to finance the deficit in the current account and therefore there was a drawdown on reserves of US\$67.9m.

### UPDATE ON INSTITUTIONAL FRAMEWORK POST IMF

**Central Bank Independence**  
The Joint Select Committee completed its clause by clause review of the BOJ Act on June 13, 2019 and is completing its report for submission to Parliament.

**Fiscal Council**  
The Cabinet submission on the Fiscal Council was approved by Cabinet in August 2019. Drafting instructions were prepared by the Ministry of Finance and the Public Service and sent to the Chief Parliamentary Counsel in October 2015. The submission to Parliament of legislation establishing the Fiscal Council will be likely delayed until April 2020.

**EPOC's OUTLOOK**  
Jamaica's macroeconomic indicators remain favourable, however, there was a marked slippage in the Current account balance of the Balance Of Payments which required a drawdown on reserves of US\$67.9m in the June 2019 quarter. This is an area that EPOC will continue to monitor closely.

The deterioration in the Current account had as a major contributor a notable increase in imports year over year which does imply greater demand for FX. However, Exports were down and this is where there has to be a sustained effort by the public and private sectors to increase Jamaica's export numbers.

There was also increased volatility in the FX market in October 2019 due to increased demand and lower inflows of FX into the market.

Tourism arrivals for the fiscal year to 28 October 2019 increased year over year by 6.3%.

GOJ's Fiscal performance continues to outstrip budget as Tax Revenues continue to outperform and show above inflationary growth levels coming in at 7.2% increase over the previous year.

Projections for global growth were once again reduced to 3% for 2019 by the Chief IMF Economist and there remains a high level of uncertainty for Investors as international Trade tensions continue which could have a negative impact on foreign direct investments as investors remain on the sidelines.

So while Jamaica has maintained relative macroeconomic stability there still remain significant challenges and risks to overcome if we are to achieve the GOJ's medium term growth target of 2%.

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