Economic Programme Oversight Committee (EPOC) Update on the GOJ Economic Reform Programme (ERP)

June 2020 Detailed Communiqué #32

MOST RECENT RESULTS

The EPOC met on June 2, 2020 and reviewed the performance of the economy for the period ended April 2020.

EPOC reviewed the Quantitative Performance Targets and Priority Actions Matrix FY2019/20 – FY 2020/21 which formed the basis for the monitoring of the GOJ Economic Reform Programme (ERP) following the expiry of the IMF Stand-By Arrangement on November 10, 2019.

PROGRAMME REVIEW APRIL 2019-MARCH 2020

Selected GOJ Fiscal and Monetary Indicators for FY2019/20

Selected GOJ Fiscal and Monetary Indicators	Actual (Provisional) (April 2019 – March 2020)	Budget Target* (April 2019 – March 2020)	Variance $	Variance %
Revenue & Grants (J$B)	649.8	645.3	4.5	0.7
Tax Revenues (J$B)	579.4	577.5	1.9	0.3
Recurrent Expenditure (J$B)	560.0	571.3	-11.3	-2.0
Capital Expenditure (J$B)	70.4	71.3	-0.9	-1.3
Primary Balance (J$B)	150.9	141.8	9.1	6.4
	Actual			
Inflation (%) **	4.8	4.0-6.0		
Non-Borrowed Reserves (NBR) (US$M)****	2,937	2,540***	398.0	15.7
Net International Reserves (NIR) (US$M) ****	3,238			
Gross International Reserves (GIR) (US$M) ****	3,689			
GIR/ARA (% of Assessment of Reserves Adequacy, ARA) ****	110.8			

* 3rd Supplementary Budget FY2019/20
** CPI point-to-point movement as at end-March 2020
*** Adjusted target (as at April 15, 2020)
**** Actual as at end-March, 2020
Note: Discrepancies in the table due to rounding of figures

SELECTED FISCAL INDICATORS

Fiscal and Primary Targets: FY April 2019–March 2020

For the fiscal year, **ALL FISCAL AND MONETARY TARGETS WERE MET**.

A fiscal surplus of $19.40B was recorded against a projected surplus of $2.65B due to:

- **Revenue & Grants** of $649.8B exceeded the budgeted amount by 0.7% due to higher than projected Tax Revenues

  Tax revenues of $579.4B for the fiscal year which outperformed the budget by 0.3%.

- **Total Expenditure** (Recurrent & Capital) of $630.4B was $12.3B (-1.9%) lower than budget
  · Recurrent Expenditure was $11.4B (-2.0%) below budget due mainly to lower than budgeted costs interest (-$7.63B) and programmes (-$3.2B)
  · Capital Expenditure of $70.4B was also marginally behind the projected spend by $0.9B (-1.2%).

PRIMARY BALANCE EXCEEDS BUDGET TARGET BY $9.1B for FY2019/20

- The higher than expected Revenue & Grants performance and the lower than budgeted expenditure for the FY resulted in the higher than budgeted Primary Balance of $150.9B which exceeded the budget target of $141.8B by $9.1B.

SELECTED MONETARY INDICATORS

INFLATION

The 12-month point-to-point inflation rate at March 2020 of 4.8%, was within Bank of Jamaica's target range of 4.0% to 6.0% but higher than the same measure at March 2019 (3.4%).

Core inflation

Core inflation, measured as the change in the Consumer Price Index excluding the prices of agricultural commodities & fuel, was 3.3% at March 2020. This was higher compared with March 2019 (2.3%). The main driver of core inflation for March 2020 was price increases being administered to water rates.

INTERNATIONAL RESERVES

For end-March 2020, the stock of non-borrowed reserves (NBRs) was US$397.6M above the target of US$2.54B. Gross international reserves (GIR) increased by US$57.4M to US$3,688.5M for the March 2020 quarter. The NIR at the end-March 2020 stood at US$3.28B.

PROGRAMME REVIEW FOR FY2020/21 (ANNUAL)

SUPPLEMENTARY COVID BUDGET

FY2020/21 Pre-COVID & Post- COVID (Proposed) Budget Targets

Selected GOJ Fiscal and Monetary Indicators	Pre-COVID Budget Target* (FY2020/21)	Post-COVID Budget Target** (FY2020/21)	Variance ($)	Variance (%)
Revenue & Grants (J$B)	660.9	579.9	-81.0	-12.3
Tax Revenues (J$B)	588.8	510.1	-78.7	-13.4
Recurrent Expenditure (J$B)	586.8	596.7	9.9	1.7
Capital Expenditure (J$B)	74.2	46.1	-28.1	-37.9
Primary Balance (% of GDP)	5.4	3.4		
Total Expenditure & Payments (J$B)	853.5	838.2	-15.3	-1.8
Fiscal Balance (J$B) (Surplus + / Deficit -)	-0.1	-62.9	-62.8	56,758.2
Primary Balance (J$B) (Surplus + / Deficit -)	132.5	74.7	-57.8	-43.6
Non-Borrowed Reserves (NBR) (US$M)***	3,236	2,180	-1,056	-32.6
Net International Reserves (NIR) (US$M)***	3,522	2,466	-1,056	-30.0
Gross International Reserves (GIR) (US$M)***	3,828	3,351	-477.0	-12.5
Balance of Payments (US$M) (Surplus + / Deficit -)	370.2	-1,109.8	-739.6	199.8
Real GDP Growth (%) ****	1.1	-5.1		
Debt to GDP (%) ****	85.7	97.5		

* Approved Budget
** Proposed 1st Supplementary Budget FY2020/21 – Tabled but not yet approved
*** Pre-COVID figures are based on IMF's 6th Review while Post-COVID figures are based on IMF's Request for Purchase under the Rapid Financing Instrument—Staff Report, May 2020
**** Source: Ministry of Finance & the Public Service

FISCAL TARGETS-ASSUMPTIONS

The FY 2020/21 approved pre-COVID budget was underpinned by the following key macroeconomic assumptions, including: Real GDP growth of 1.1%; inflation of 4.4%, and a 1.3% contraction in imports. The First Supplementary Estimates were predicated on an updated macroeconomic framework, based on the expected economic fallout due to reduced business activities resulting from the COVID-19 pandemic. It reflects: Real GDP contraction of 5.1%; inflation of 4.3%; and imports contraction of 32.6%.

The First Supplementary Budget for FY2020/21 was tabled in Parliament on May 13, 2020.

FISCAL DEFICIT OF $63.0B

Revenues & Grants have seen a projected reduction from the pre-COVID budget of $81B from $660.9B to $579.9B. Due to this fall off of revenues and grants, the GOJ has reduced recurrent and capital Expenditure by $18.1B from $661B down to $642.8B in the post-COVID budget. With the above change in projections, a fiscal deficit of $63.0B is projected against the pre-COVID approved budget which was essentially a balanced budget with a negligible deficit of $111M.

GOJ CASH BUFFER-$70B

When amortization and other outflows are included, total expenditure and payments projected in the Supplementary budget falls marginally by $15B (1.8%) from $853B in the pre-COVID budget to $838B in the supplementary budget. The overall deficit of $70.8B has been covered by the cash holdings of $70B which the GOJ carried over from the previous 2019/20 fiscal year.

Debt to GDP Targets- Fiscal Rules suspended

Due to the fallout in the domestic and global economy, the GOJ sought permission and received approval from Parliament to suspend the Fiscal rules for the fiscal year ending March 31, 2021. Within the approval received was the shifting of the 60% debt to GDP target by two years from 2025/26 to 2027/28.

MONETARY TARGETS

International Reserves

The fallout in tourism and remittances due to the pandemic directly impacted Jamaica's International Reserves. With the expected continued fallout in FX inflows, Jamaica's NIR, non-borrowed reserves and GIR are anticipated to continue to decline over the fiscal year. Against this background, the GOJ and the IMF project a balance of payments current account deficit of US$1.1B and Jamaica's NIR closing Fiscal year 2020/21 at US$2.47B.

Monetary Actions-Injection of liquidity

The Bank of Jamaica (BOJ) has maintained its accommodative monetary policy stance by holding the overnight policy rate unchanged at 0.5%. This decision reflects BOJ's view that the current monetary policy stance is adequate to keep inflation within the target of 4.0% to 6.0%.

BOJ has also implemented other measures to ensure there is adequate access to JMD & USD liquidity in the market. These measures include: a reduction in the cash reserves requirement (returning US$70M & J$14B to DTIs); liquidity injection to the market via its short-term lending facilities and its asset purchase programme, valued at $57B along with a raft of other measures from March 2020 to May 15, 2020 which have seen an injection of over US$338m of liquidity which has ensured that the financial markets have remained liquid.

External Financing-IMF Rapid Financing Instrument (RFI)

On May 15, 2020, the IMF Executive Board approved Jamaica's request for emergency financial assistance amounting to 100% of its quota under the Rapid Financing Instrument (RFI). Total disbursement under the facility amounted to approximately US$520M (SDR 382.9M) and the facility will help to meet the country's urgent balance of payments current account deficit of US$1.1B which is projected. There is also possible support from the World Bank, Inter-American Development Bank and the Caribbean Development Bank.

PROGRAMME REVIEW FOR FY2020/21 (APRIL)

Fiscal and Monetary Targets - April 2020

Selected GOJ Fiscal and Monetary Indicators	Actual (Provisional) (April 2019)	Actual (Provisional) (April 2020)*	Variance $	Variance %
Revenue & Grants (J$B)	46.1	36.8	-9.3	-20.3
Tax Revenues (J$B)	41.3	31.9	-9.4	-22.8
Recurrent Expenditure (J$B)	46.0	47.4	1.3	2.9
Capital Expenditure (J$B)	6.1	2.7	-3.4	-56.2
Primary Balance (J$B)	(7.2)	(2.2)	-9.3	-130.5
		Actual		
Non-Borrowed Reserves (NBR) (US$M)		2,832**		
Net International Reserves (NIR) (US$M) (as at May 26, 2020)		2,930		
Gross International Reserves (GIR) (US$M) (as at May 26, 2020)		3,893		
GIR/ARA (%) of Assessment of Reserves Adequacy (ARA) (as at May 26, 2020)		118.7		

* Same as Budget
** Actual as at April 30, 2020

FISCAL PERFORMANCE FOR APRIL 2020 LOWER RELATIVE TO APRIL 2019

For the first month of the FY2020/21 (April), a fiscal deficit of $13.28B was recorded relative to a deficit of $6.02B in the similar period in FY2019/20.

This increased deficit was the result of lower:

- **Revenues & Grants**
  - Tax Revenues of $31.9B was $9.4B (-$22.8%) less than the tax collected in the same month of 2019. Revenues from International Trade and Production & Consumption fell by $4.3B (-25.7%) and $5.9B (-33.9%), respectively, while Income and Profits increased by $0.7B (+9.6%).
  - PAYE, one of the main contributors to Tax Revenues, increased by $0.58B (+11.6%) for the period

- **Total Expenditure**
  - Increased Recurrent Expenditure on programmes (+$2.4B) and lower capital programme spending (-$3.4B), resulted in $50.0B Expenditure for April 2020, $2.1B (-4.0%) lower relative to April 2019 spend of $52.1B.

FISCAL & PRIMARY DEFICIT RECORDED FOR APRIL 2020

The decline in Revenue & Grants as well as Expenditure led to a fiscal deficit of $13.3B and a primary deficit of $2.2B for April 2020, against a fiscal deficit of $6.0B and a $7.2B primary surplus in April 2019.

MONETARY TARGETS

As at May 26, 2020, Net International Reserves (NIR) stood at US$2.93B, while Gross International Reserves (GIR) was US$3.89B. The GIR would have been boosted by the inflow of the funds from the IMF. The stock of gross reserves represented 118.7% of the projected ARA metric.

PHASED RE-OPENING OF THE ECONOMY

GDP Growth - PIOJ Projections

Within the context of a GOJ projected downturn in the economy of 5.1% for the fiscal year 2020/21, preliminary estimates by the Planning Institute of Jamaica (PIOJ) indicated that for January–March 2020, real GDP is estimated to have contracted by 1.7% compared with the similar quarter of 2019. This projection would have ended the 20 consecutive quarters of no economic contraction. The January–March 2020 outturn partly reflected the impact of the implementation of measures to manage the COVID-19 pandemic commencing in mid-March 2020. It also reflected a 37.0% fall in the Mining & Quarrying industry which was largely due to lower capacity utilization following the closure of Alpart in September 2019. Hotels and Restaurants, which was directly impacted by the COVID-19 travel restrictions, fell by 13.9%.

For the April–June 2020 quarter, PIOJ projects that the economy will contract within the range of negative 12.0% to negative 14.0%. This downturn is predicated on the anticipated impact of the COVID-19 pandemic, which led to a fall in demand for goods and services due to the full roll-out of measures to contain the spread of COVID-19.

Formation of the COVID Economic Recovery Task Force

To minimize the extent of the expected economic fallout and to ensure a safe and phased recovery of the economy, the GOJ has formed the COVID Economic Recovery Taskforce chaired by the Honourable Minister of Finance, Dr. Nigel Clarke. This taskforce includes the following sub-committees: Tourism & Aviation; Agriculture; Global Services; Local Services; Construction & Infrastructure; Manufacturing; COVID Resilient Jamaica; New Economy; and Macro-Fiscal. These sub-committees were charged with firstly developing solutions geared towards the phased, structured and controlled reopening of businesses and secondly, developing proposals for all the sectors to ensure that growth levels for the year 2021/22 may significantly rebound with greater productivity and higher growth levels.

Phased opening of the Economy

EPOC supports the gradual reopening of the economy in order to 'balance lives and livelihoods' and to recover from the drastic reduction in economic activity. This however should continue to be done in a phased, structured, safe and controlled manner.

The GOJ has been relaxing curfew restrictions and opened Community Bars and Churches along with safety protocols and has allowed the expiration of the "Work from Home" order effective June 1, 2020. Subsequently, there has been the announced phased reopening of the border to all nationals and non-nationals between June 1 and June 15. On the heels of the opening of the borders, the GOJ recently announced the opening of beaches and rivers with safety protocols.

Tourism and opening the Borders

Many countries across the globe have been struggling with the opening of their borders. EPOC welcomes the decision to commence the phased opening of the borders and with it the Tourism Sector. The fallout from the closure of the borders and the Tourism sector has had significant impact on over 300,000 workers in the Sector along with all the sectors in the downstream from Tourism which have felt the spill-over effects.

EPOC expects that this phased opening will continue and we will see, in the near future, restaurants and other places of entertainment and sports being opened with restrictions and safety protocols in due course.

Managing risks

EPOC acknowledges the risks of the opening of the borders but appreciates that it is imperative to begin to prepare ourselves for the new normal in the tourism, travel and aviation industries.

We would specially like to acknowledge the GOJ and Ministry of Health and Wellness (MOHW) for their sustained efforts and the building of capacity, technology, knowledge and manpower which has now given us a high degree of confidence in managing the increased risks that we face with the opening up of our economy.

Jamaicans must remain disciplined

EPOC believes that Jamaica has to find the balance of living with COVID, getting our people back to work and increasing economic activity. As protocols for the workplaces are being developed by stakeholders with the MOHW, EPOC implores all GOJ Departments and Agencies, schools, business owners, workers, customers and all citizens of Jamaica to observe and be disciplined in practicing the safety protocols in order to ensure that we contain the spread of the virus. We must continue to protect our vulnerable populations as we make every effort to return our economy to full production.

EPOC's OUTLOOK

EPOC highlighted that, through prudent and well-structured economic reform efforts, Jamaica has achieved macroeconomic stability over the past 7 years which has given us a foundation to execute Jamaica's recovery path.

The GOJ projects that the economy will contract by 5.1% in FY2020/21 but is expected to return to pre-COVID levels in FY2022/23.

EPOC believes that the road to recovery will be difficult; however, we believe that Jamaica has an accommodative monetary policy, sufficient liquidity, adequate international reserves and fiscal buffers that will see us through this challenging current fiscal year and should see Jamaica returning to a growth path in 2021/22.

Gratitude

EPOC would like to extend its gratitude to the GOJ, the MOHW, the Public health employees, the MOFPS, the MLSS and the Security Forces for their efforts to date in managing and containing the spread of the virus and their best efforts in taking care of Jamaica's most vulnerable citizens. Jamaica has so far done a commendable job with all its challenges, uncertainty and anxiety in keeping the curve flat.