EPOC

Economic Programme Oversight Committee

Update on the GOJ Economic Reform Programme (ERP)

September 2020 | Communiqué #33

CHALLENGING PATH TO ECONOMIC RECOVERY

The EPOC met on September 11, 2020 to review the macro fiscal programme of the Government of Jamaica (GOJ) for the fiscal year 2020/21 and over the medium term. EPOC looked in depth at the fiscal and monetary assumptions and actions which underpin Jamaica's recovery path.

Based on the preliminary performance results, the GOJ is on track to meet the Quantitative Performance Targets for GOJ ERP for end-June 2020, with the exception of the inflation target. However, the implementation of a majority of the Priority Actions for the GOJ ERP has been delayed relative to the timelines established in November 2019, due in large part to the impact of the COVID-19 pandemic.

SELECTED QUANTITATIVE PERFORMANCE TARGETS AND POLICY ACTIONS STATUS UPDATES

TARGETS	STATUS	COMMENTS
FISCAL INDICATORS		
Tax Revenues	● (On Track)	Exceeded target
Primary Balance	● (On Track)	Continues to exceed target - Missed July target
MONETARY INDICATORS		
Non-Borrowed Reserves	● (On Track)	Continues to exceed target - Projected to fall behind target
Gross Reserves	● (On Track)	Exceeds reserves adequacy benchmark
Inflation (12-month point-to-point)	● (Off Track)	6.3% at end-June was outside the BOJ's target range of 4.0% - 6.0%**
JAMAICA'S PRIORITY ACTIONS		
Priority GOJ Actions (Oct 2019-Jun 2020)	● (Off Track)	6 Targets met 18 Delayed as a result of COVID-19 disruption
Economic Reform Programme (ERP)	● (Off Track)	GOJ ERP off-track as priority GOJ actions off track. However, Quantitative performance criteria are on track

**However at end-July 2020, the Inflation rate was at 5.7% within the BOJ's target range

KEY ● On Track ● Off Track

The following are key highlights of the GOJ's macro fiscal performance for the April to June 2020 quarter:

Fiscal Indicators

- **Revenue & Grants of $161.7B exceeded the budgeted amount by $9.6B (+6.3%)** largely due to higher than projected **Tax Revenues of $143.9B** ($10.0B or 7.5% higher than budgeted).
  - o Total Revenues & Grants for April-July 2020 was $40.3B (20%) less than revenues collected in April-July 2019.
- **Total Expenditure, net of amortization, totaling $212.7B was ahead of budget by $0.9B (0.4%) and was $17.9B higher, relative to the same period in 2019/20.**
  - o **Capital Spending of $15.5B** was higher than budget by $1.7B (+12.0%)
  - o **Recurrent Programme Expenditure of $83.3B** was $0.9B (+1.1%) above budget and was $18.1B (27.8%) higher, relative to April-July 2019.
- **The Fiscal Deficit of $50.9B was lower than the projected deficit of $59.6B.**
- **The Primary Deficit of $10.8B**, which was $7.1B (39.7%) ahead of Budget target, emanated mainly from the higher than expected performance of Revenue & Grants.

Monetary Targets

- **The 12-month point-to-point inflation rate** at July 2020 was 5.7%, within the BOJ's target range of 4.0% to 6.0%. This was lower than the rate of 6.3% recorded in the previous month but higher than the same measure at July 2019 (4.3%).[1]
- **Core inflation**, measured as the change in the Consumer Price Index excluding the prices of agricultural commodities & fuel, was 4.2% at July 2020, which was higher relative to the rate at June 2020 (4.1%) and July 2019 (2.4%).
- **Non-borrowed reserves (NBRs)** - While as at the end of June NBR posted US$2.66B, ahead of the target of US$2.58B, the BOJ projects that the stock of NBRs will be US$320.3M below the targeted floor of US$2.61B to settle at US$2.29B as at end-September 2020.
- As at September 7, 2020, **Gross International Reserves (GIR)** stood at US$3.63B and remains above the 100% Reserve Adequacy at 105.8% while **Net International Reserves (NIR)** were US$2.65B.
- **Foreign Exchange** - The value of the Jamaican dollar on September 21, 2020 was J$142.58 to US$1.00, reflecting a depreciation of 1.8% ($2.57) for the quarter to date (as at September 21, 2020). This follows a depreciation of 3.4% ($4.62) for the June 2020 quarter, relative to the end of the previous quarter.
  - o Since March 2020, BOJ has injected over US$750M into the foreign exchange market via flash and direct sales, reduction in the foreign currency cash reserve requirement as well as repo and swap arrangements.
- The BOJ has maintained its accommodative monetary policy stance by holding the **overnight policy rate unchanged at 0.5% per annum.** 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%.

Credit Growth

- The annual growth in total loans and advances extended by Deposit-Taking Institution (DTIs) to the private sector at end-June 2020 was 13.3%, which was lower than the growth of 15.8% and 15.7% at end-March 2020 and end-June 2019, respectively.
  - o Loans to consumers grew by 10.7% at end-June 2020, slower than 14.5% growth recorded at end-March 2020.
  - o Loans to businesses reflected the demand for working capital while growth in personal loans continued to decelerate as households were adversely impacted by the general curtailment in economic activity.

GDP Growth

- The Planning Institute of Jamaica (PIOJ) indicated that, for April-June 2020, real GDP is estimated to have contracted by 18% compared with the similar quarter of 2019.
  - o The highest downturn was in Hotels & Restaurants, down 87.5%, due to a fallout in tourist arrivals and the number of persons utilizing restaurant services.

EPOC Chairman Keith Duncan shares Jamaica's Plan with a group of residents at a previously held 'On The Corner'.

EPOC'S OUTLOOK

PIOJ PROJECTS FURTHER CONTRACTIONS FOR 2020/21

Within the context of the COVID-19 pandemic, the World Economic Outlook (WEO) in June 2020, revised the global economic contraction from 3.0% to 4.9% for 2020. The Planning Institute of Jamaica (PIOJ) has also revised its previous projection for a contraction of the Jamaican economy within the range of 4.0% to 6.0%, to a downturn within the range of 8.0% to 10.0% for the FY2020/21. This revision is largely predicated on the resurgence of the virus in major trading partner countries, as well as updated assessments of the impact of the crisis on some sectors of the Jamaican economy. The PIOJ also projected that the economy will contract within the range of 8.0% to 10.0% for the July-September 2020 quarter. The Institute also anticipates growth in output to resume in FY2021/22, given the cycling-out of the impact of the closure of the Alpart refinery, as well as an expected reduction in the impact of the COVID-19 pandemic on economic activities. However, GDP levels are not anticipated to recover to pre-COVID levels until FY2022/23.

Economic Recovery — Downside Risks are Great

The COVID-19 pandemic creates a great amount of uncertainty globally and locally as to the path for economic recovery and therefore creates significant downside risk for Jamaica achieving its fiscal and monetary macroeconomic targets and the projected recovery of the economy.

Fiscal Risks

As at the end of July, the GOJ ran a fiscal deficit of $50.9B, and while being ahead of budget, it is projected that Jamaica will close the year with a fiscal deficit of $63B. These projections are guided by the assumptions that the GDP would have contracted by 5.1% and that Tax Revenues would have rebounded significantly over the last two quarters of the fiscal year. With the revised projections of a downturn of 8.0%-10.0%, the Tax Revenues out turn is at risk. The GOJ however remains committed to achieving the 3.5% primary balance target which could likely mean reallocation and reduction of expenditures to achieve said target.

Risks to Monetary Targets

Jamaica closed the FY2019/20 with NIR levels at US$3.24B. This has been reduced to the current NIR levels as at September 7 of US$2.65B. Notably, the NIR decline is expected to slow and is projected to close FY2020/21 in line with the projections of US$2.47B. This reduced rate of decline is predicated on the non-repetition of some of the measures implemented by the Central Bank (CB) in the first half of the year, repayment of some of the CB loans issued earlier and further support from the multilateral financial institutions (MFIs). Further, net remittances have been buoyant with an increase of 20.9% for the period April through June 2020 relative to the same period in the previous year. The projections also assume some improvement in Tourism over the year, especially in the December 2020 to March 2021 Winter Season. The recovery of the Tourism sector will be critical to Jamaica's recovery and our earning of foreign exchange to ensure that we minimize our call on our net international reserves.

Tourism

Jamaica's recovery is predicated on Tourism's recovery from a baseline for the April to June 2020 quarter, where we saw tourist arrivals and visitor expenditure of 7,188 and US$16.2M, respectively, a downturn of over 98% for both indicators relative to the similar period in 2019. The Jamaica Tourist Board also indicated that for the period July to August 2020, total tourist arrivals of 85,754 was 87% lower relative to the similar period in 2019. The GOJ and the tourism sector need to ensure that the successful work done in creating the safe corridor is built on and effectively marketed. This is vital for the country to get the necessary levels of forward bookings and give ourselves the best chance to be ready for the winter season. Putting in place the measures to support a relatively buoyant winter season with increased tourist arrivals and expenditure will drive economic activity through the tourism sector and its downstream linkages. This effort is imperative if we are to realize our fiscal and monetary targets.

It's Not an Easy Road

EPOC is of the view that, as we face community spread of the virus it has compounded the great uncertainties and significant risks to Jamaica's economic recovery. However, if all of us as citizens diligently practice the infection control protocols and the GOJ continues its proactive and prudent macro-fiscal management, along with its efforts in managing the spread and the impact of the COVID-19 virus, we will give ourselves the best chance to see a sustained recovery of our economy, jobs and businesses over time.

[1] Inflation decelerated to 5.1% in August 2020, based on data published by STATIN since the last EPOC meeting.