

Amidst signs of economic recovery, Jamaica's economy remains vulnerable

The EPOC met on September 17, 2021 to review the macro fiscal programme of the Government of Jamaica (GOJ) and the monetary performance of the Bank of Jamaica (BOJ) for the fiscal year 2021/22. **The following were key highlights noted by EPOC:**

- GOJ Tax Revenues, April-July 2021, are \$17.1B (10.7%) ahead of budget and 39.4% ahead of the previous year, due to recovery in International Trade and Tourism
- July 2021 Tax Revenues were noticeably

ahead of budget, which the Ministry of Finance and the Public Service (MOFPS) infers, are strongly correlated to the reduced COVID-19 restrictions

- Businesses expect Inflation to trend up to 7.4% in the next 12 months
- Remittances remain strong increasing by US\$230.4M (25.1%) for the fiscal year to July 2021 relative to the corresponding period in 2020 but are expected to slow over the current fiscal year

- Net International Reserves are more than adequate at US\$3.93B
- COVID-19 positivity rates remain high while Vaccination levels increase but lag behind our regional peers

Based on the preliminary results for performance to date through to the end of June 2021, the GOJ has met the available Quantitative Performance Targets for the GOJ ERP for end June 2021.

PROGRAMME REVIEW APRIL - JULY 2021

Fiscal Performance

Selected GOJ Fiscal Indicators for FY2021/22

Selected GOJ Fiscal Indicators	Status FY2021/22*	Actual (Provisional) (FY2019/20)**	Actual (Provisional) (FY2021/22)	Variance (\$)	Variance (%)	Actual (Provisional) (FY2020/21)	Variance (\$)***	Variance (%)***	Budget Target (FY2021/22)	Variance (\$)****	Variance (%)****
Revenue & Grants (J\$B)	●	202.1	225.5	23.5	11.6	161.7	63.8	39.4	208.3	17.3	8.3
Tax Revenues (J\$B)	●	179.8	176.7	-3.1	-1.7	143.9	32.7	22.8	159.6	17.1	10.7
Total Expenditure (J\$B)	●	194.8	229.8	35.1	18.0	212.7	17.2	8.1	237.2	-7.3	-3.1
Recurrent Expenditure (J\$B)	●	179.2	209.0	29.9	16.7	197.1	11.9	6.0	214.3	-5.3	-2.5
Capital Expenditure (J\$B)	●	15.6	20.8	5.2	33.3	15.5	5.3	33.9	22.8	-2.0	-8.9
Fiscal Balance (J\$B) (Surplus + / Deficit -)	●	7.3	-4.3	-11.6	-159.0	-50.9	46.6	91.5	-28.9	24.6	85.1
Primary Balance (J\$B) (Surplus + / Deficit -)	●	49.3	38.2	-11.1	-22.5	-10.8	49.0	454.7	11.8	26.4	223.2

- Target Met
- Target Off-Track

*Status for Actual relative to Budget for FY2021/22
 **FY2019/20 is used as the fiscal performance benchmark
 ***FY2021/22 actual performance relative to FY2020/21
 ****FY2021/22 actual performance relative to budget targets
 Note: Discrepancies in the table due to rounding of figure

Jamaica exceeded all its 2021/22 fiscal budget targets, with the exception of Recurrent and Capital Expenditures.

FY 2019/20 fiscal numbers will be used in the analysis as a benchmark year for the fiscal quantitative performance criteria, as it precedes the pandemic and can be considered a normalized year.

Revenue and Grants continue to outperform budget target as economic activity increases

- Revenue and Grants of \$225.5B, which exceeded budget by \$17.3B (8.3%), resulted from the over-performance of tax receipts of \$176.7B. This was higher than

the Revenue and Grants of \$161.7B for the same period in 2020/21 by \$63.8B (39.4%). It also exceeded the Revenue and Grants of \$202.1B for April to June 2019 by \$23.5B (11.6%). Total revenue and grants include a BOJ dividend of \$32.6 billion paid to the GOJ in April of 2021.

- **BOJ DIVIDEND:** Without the one-off BOJ Dividend of \$32.62B paid out in April 2021 (Non-Tax Revenue), total Revenue and Grants amounting to \$192.9B would have exceeded same for the corresponding period in 2020 by \$31.1B and would have fallen short of that of April-July 2019 by \$9.2B.
- **FY to July 2021 Tax Revenues, which performed creditably at \$176.6B, was below the outturn for the similar pe-**

riod in 2019 by \$3.1B (1.7%) but was ahead of budget by \$17.1B (10.7%). Tax collections for the month of July 2021 exceeded the amounts received for July 2020 (by \$9.1B) and July 2019 (by \$3.0B) due to the easing of COVID-19 containment measures during the month.

- **The strong performance of Tax Revenues relative to budget** was driven primarily by higher than budgeted International trade receipts, which out-performed budget in all categories. The largest outturns were noted in General Consumption Tax (imports) and Custom Duty, which were ahead of target by \$5.3B and \$2.8B, respectively and reflected higher than projected import volumes, as well as higher foreign exchange

rates. Travel Tax was also higher by \$2.7B due to a sharp increase in visitor arrivals.

- **April to July 2021 Tax Revenues** also outperformed Tax Revenues of \$143.9B for April to July 2020 by \$32.7B due largely to higher outturns for GCT (Imports) (by \$8.9B), Custom Duty and GCT (local) (both by \$4.3B), Travel tax (by \$2.9B) and Special Consumption Tax (SCT) (\$3.1B).

Total Expenditure, net of amortization, of \$229.8B was \$7.3B (3.1%) lower than budget but was higher relative to the similar period in 2020/21 and 2019/20 by \$17.2B (8.1%) and by \$35.1B (18.0%), respectively.

- **Capital Expenditure** reflected a shortfall of \$2.0B (8.9%) relative to budget due to a slower

than planned pace of project execution. The expenditure for capital projects was \$5.2B (33.3%) higher than the capital spending for the corresponding period of FY 2019/20.

- **Recurrent Expenditure** was \$5.3B (2.5%) below budget due mainly to lower than budgeted programme spending due mainly to delayed procurement and a short fall in Wages and Salaries due to the delays in finalizing wage negotiations for 2021-2025.

Fiscal Balance

For the first four months of FY2021/22 (April-July), the **fiscal deficit of \$4.3B** was lower than the budgeted deficit of \$28.9B. This favourable performance was

driven largely by a strong tax revenue performance as well as lower than programmed expenditure. This deficit compares to the GOJ's fiscal deficit of \$50.9B for the similar period in 2020/21 and a fiscal surplus of \$7.3B for the similar period in FY2019/20.

Primary Surplus of \$38.2B for April-July 2021 was \$26.4B better than target

- The higher than expected Revenue & Grants and the lower than budgeted expenditure for the FY, resulted in a primary surplus which exceeded the budget target of \$11.8B. The fiscal year to date primary surplus was however, lower than the surplus of \$49.3B noted for the corre-

sponding period in 2019/20 and is better than the deficit of \$10.8B for 2020/21.

IMPORTANT FISCAL DEVELOPMENTS

Public Sector Wage negotiations

The public sector wage and salary negotiations are now far advanced and it is anticipated that there will be a signing to effect the agreements shortly. As such, EPOC would like to acknowledge and congratulate the GOJ and the Jamaica Joint Confederation of Trade Unions for the level of maturity, sensitivity and good governance displayed through-

out the process.

First Supplemental Budget to be tabled

As Tax Revenues exceed budgeted targets, the GOJ will present the FY2021/22 First Supplementary Estimates on September 28, 2021 and as indicated, the Minister of Finance will target the requirements of the health sector and more targeted support for the vulnerable population.

Budget Cycle for 2022/23

The FY2022/23 National Budget cycle is set to commence with the Minister of Finance issuing the budget call by September 30 2021, which will contain the economic and fiscal parameters to govern the preparation of the estimate of expenditures.

Monetary Performance

Bank of Jamaica signals likely rate increase as inflation breaches its target range

Month	Monthly Inflation Rate	Point-to-Point Inflation Rate	Core Inflation
August 2019	0.8%	4.1%	2.4%
August 2020	0.2%	5.1%	3.4%
July 2021	1.5%	5.3%	7.8%
August 2021	0.9%	6.1%	7.8%

12-month point-to-point Inflation (August 2020 – August 2021)

- **The 12-month point-to-point inflation rate at August 2021 of 6.1% was above the BOJ's target of 4.0% - 6.0%.** Most categories of goods and services show steepening of the inflation curve, with the highest annual inflation recorded for Education and Electricity, Gas and Other Fuel.

Core Inflation

- Core inflation, measured as the change in prices excluding agricultural commodities and fuels prices, was 7.8% at August 2021, which was similar to the rates at July 2021 but well above the 3.4% for August 2020.

Without further monetary policy interventions, the BOJ anticipates that inflation over the next 9-12 months will be higher than previously expected and exceed the 4-6% targeted band due to higher international com-

modity prices, shipping costs and imported inflation. This has led to increases in domestic transport-related costs, processed food and utility prices. The near-term risks to this forecast are skewed to the upside.

The BOJ maintained the overnight Policy Rate at 0.5% per annum at the Monetary Policy Committee (MPC) meeting August 19, 2021. The MPC also signaled possible increase in benchmark rate at its next MPC meeting due on September 30, along with implementing other measures aimed at moderating inflation expectations, including containing Jamaican dollar liquidity and seeking to ensure that movements in the exchange rate do not further threaten the inflation target.

Jamaica's Reserves remain healthy Gross International Reserves at US\$4.82B, remain above the 100% Reserve Adequacy at 146.4% while the Net

International Reserves were US\$3.93B as at September 13, 2021. Jamaica's reserves, which are more than adequate, were boosted by:

Buoyant Remittance inflows, which is expected to taper off end FY2021/22

- ✓ Provisional data for the fiscal year to July 2021 indicated that net remittance inflows totaling US\$1,147.0M, represented an increase of US\$230.4M (25.1%) relative to the corresponding period in 2020.

The receipt of an IMF allocation of Special Drawing Rights (SDRs) of \$520.6B in August 2021.

Improvement in visitor arrivals

- ✓ For the June 2021 quarter, 371,270 tourists visited Jamaica relative to the 7,188 visitors in 2020. Despite improvements relative to 2020, total visitors for the June 2021 quarter was 61.2% fewer than for the similar period in 2019.

Foreign Exchange Market

On September 23, 2021, the value of the Jamaican dollar vis-à-vis the US dollar was J\$148.24=US\$1.00, reflecting an appreciation of 0.2% (\$0.27) for the quarter to date. This follows a depreciation of 1.3% (\$1.94) for the June 2021 quarter relative

to the March 2021 quarter.

The Pace of growth in Private Sector Financing has slowed but DTIs remain committed to issuing credit

The annual growth in total loans and advances extended by Deposit Taking Institutions (DTIs) to the private sector at end-June 2021 was 9.1%, which was lower than the growth of 13.3% at end-June 2020 and 16.5% at end-February 2020, immediately prior to the start of the pandemic.

- The slowdown in the annual growth in DTIs credit to the private sector was mainly reflected in loans to business, which grew by 8.7% at end-June 2021 relative to growth of 18.2% and 16.9% recorded at end-February 2020 and end-June 2020, respectively.
- **The growth in lending to consumers** at June 2021 was 9.4%, relative to growth of 15.3% at end-February 2020 and 10.7% at end-June 2020. Growth in personal loans continued to be adversely impacted by COVID-19.
- **The growth in DTI lending to the productive sector** reflected lending to businesses in the Transport, Mining, Other Professional Services and Tourism, industries. Noticeably, on an annual basis,

constructions loans have been declining. However, businesses continued to demand loans for working capital needs.

Jamaica's Priority Actions

The implementation of the majority of the Priority Actions for the GOJ ERP was delayed relative to the timelines established in November 2019, due, in large part, to the impact of the COVID-19 pandemic. These timelines are to be revised.

Major Priority Action Achievement of the GOJ ERP

In addition to the major achievements of the GOJ to establish Central Bank Independence and advance legislation for an Independent Fiscal Commission, the most recent GOJ accomplishments include:

- **National Natural Disaster Risk Financing Policy**

EPOC congratulates the GOJ on becoming the first in the Caribbean and the first island state in the world to independently access the catastrophe bond (CAT bond) market on July 23, 2021, with the successful completion of a CAT bond issuance through the World Bank that secured US\$185.0M in financial protection against major hurricanes. EPOC highlights this as good governance, in taking the steps in the right direction based on Jamaica's location in the hurricane belt.

Prospects for growth

GDP Projections

The Planning Institute of

Jamaica (PIOJ) estimated that real Gross Domestic Product (GDP) for the Jamaican economy grew by 12.9% in the April to June 2021 quarter compared with the corresponding quarter of 2020. This performance was boosted significantly by a 330.7% increase in the Hotels and Restaurants industry, which reflected a sharp increase in visitor arrivals following the closure of the island's borders to passenger movement for most of the corresponding quarter of 2020.

PIOJ also projects real GDP growth to fall within the range of 4.0% – 6.0% for July to September 2021. Early indicators reflect continued increase in preliminary airport arrivals, up by 304.8% to 169,782 persons for the month of July.

The PIOJ has revised the estimated real GDP growth to fall within the range of 6.0%–10.0% for FY2021/22. This view was concurred by the BOJ, as they anticipate growth within the range of 7.0%–10.0%. **The BOJ further noted that the expected drivers of economic rebound include the tourism sector (and related sectors), easing curfew restrictions and continued strong growth in Construction.**

The Tourism industry is expected to fully recover in FY2023/24, the same period in which the economy is expected to attain pre-COVID GDP levels.

Unemployment Rate continues downward trend

The unemployment rate of 9% as at April 2021 signals continued improvement in the labour market relative to the rate of 12.6% at July 2020, the highest level of unemployment following the onset of the pandemic

in Jamaica. This indicates that approximately 84,400 persons have gained employment since July 2020.

PIOJ expects employment to return to pre-COVID levels in FY2022/23.

EPOC's OUTLOOK IS CAUTIOUS

The Jamaican economy continues to strengthen quarter over quarter, which is very encouraging.

Revenues were buoyed by the one-off BOJ dividend of J\$32.6B. However, nominal Tax Revenues, which have shown significant recovery year over year, but remained below 2019 levels, indicate that economic activity, while increasing, is still behind 2019 levels of activities.

Jamaica's foreign exchange reserves remain healthy, as tourism recovers and remittances continue to be buoyant. Remittances have been of great help to the most vulnerable in our population and EPOC acknowledges our Jamaican Diaspora who have responded to the needs of their families and friends at home in Jamaica.

Inflation levels have breached the target range and the BOJ has signaled a likely increase in interest rates, which may be required to maintain price and macro-economic stability but could be a dampener on domestic demand and could marginally slow economic recovery if this rate increase is indeed effected by the BOJ.

Consistency of COVID-19 measures is required to maintain stability and confidence for sustained economic activities

The pandemic continues and the third surge in COVID-19 cases driven by the Delta variant and the easing of COVID-19 restrictions in the month of July overwhelmed the health infrastructure and necessitated onerous restrictions on movement, which significantly curtailed economic activity. We have observed a slowing of cases in this third wave.

This third wave has left Jamaicans very traumatized and uncertain about the future and could likely impact their decisions to spend and invest. This could also contribute to slowing domestic demand and hence economic activity.

We therefore, have to find the optimal mix of COVID-19 measures, which allows for the containment of the spread of the virus and allows for some level of normalcy and continuity in our day to day lives.

Vaccination and discipline is Jamaica's path to recovery

Critical to Jamaica's recovery, is firstly, getting Jamaicans vaccinated, especially our vulnerable population, 60 years and older, who are more seriously afflicted and are more likely to become hospitalized and to die. Secondly, Jamaicans must remain disciplined in adhering to the protocols to minimize the spread of the virus.

EPOC urges all Jamaicans to make the responsible choice to get vaccinated to ensure they preserve their lives, the lives of their families, their communities and their colleagues in their workplaces. Achieving high levels of vaccination of our population will see Jamaica back to a high degree of normalcy and economic activity.

Growth, Fiscal and Monetary Economic indicators provide comfort, Inflation has to be curbed

EPOC is satisfied that, at this point in time, with all the attendant risks, our economy is on a recovery path. Our fiscal performance has definitely been outperforming expectations and from a monetary perspective, our international reserves are solid, with our challenge being our inflation rates, which are trending upwards.

Notwithstanding the positive economic indicators, EPOC is quite seized with the high level of risks and the many factors, which could derail Jamaica's recovery. It is clear that it will continue to be a balancing act between public health and economic activity and the only way to reduce restrictions on movement and economic activity is to control the spread of the virus.

This Pandemic crisis requires a united and selfless response by all Jamaicans

We are imploring our political, business and civil society leaders to reduce divisiveness and pettiness and be constructive in battling the common enemy the COVID-19 virus.

Gratitude extended to the Frontline engaged in the COVID-19 fight

Again, we acknowledge the work and dedication of the GOJ, our health care workers, the MOHW, security forces and all essential workers in the private and public sector who have worked assiduously, putting their lives at risk to manage and curtail the spread of the virus while ensuring that the wheels of the economy can continue to turn. We know it's not an easy job and for that, we salute and thank you.