EPOC
Economic Programme Oversight Committee

Update on the GOJ Economic Reform Programme (ERP)

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As the Russia-Ukraine war persists, supply chain disruptions, increasing commodity and energy prices, protracted inflation and higher interest rates are real risks to Jamaica's economic recovery

The EPOC met on April 1, 2022 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, and to highlight key projections for FY2022/23.

The following were key highlights noted by EPOC:

- **Inflation hits a high of 10.7% as inflationary expectations remain high**
- **BOJ projects inflation to peak at 9.0% - 11.0% over the next 10 -12 months, but there are upside risks to this forecast on account of the Russia-Ukraine conflict**
- **BOJ increased the policy rate to 4.5% on March 29 and is willing to take further actions on the next policy announcement date of May 19, subject to the incoming data**
- **As at February 2022, Fiscal Targets, Revenue and Grants and the fiscal and primary balance targets were behind budgeted targets**
- **Net International Reserves declined since December 2021 but remain strong at US$3.60B**
- **GDP records growth of 6.7% for Q-4 of calendar year 2021, BOJ maintains growth projections of 2-4% for FY 2022/23**

PROGRAMME REVIEW APRIL 2021 - FEBRUARY 2022

Selected GOJ Fiscal Indicators for FY2021/22 (April – February)

Selected GOJ Fiscal Indicators	Status FY2021/22*	Actual (Provisional) (FY2021/22)	Budget Target (FY2021/22)	Variance ($)**	Variance (%)**	Actual (Provisional) (FY2020/21)	Variance ($)***	Variance (%)***
Revenue & Grants (J$B)	🔴	602.6	615.5	-12.9	-2.1	490.2	112.4	22.9
Tax Revenue (J$B)	🔴	516.7	519.0	-2.3	-0.5	431.0	85.6	19.9
Non-Tax Revenue (J$B)	🔴	76.1	85.4	-9.3	-10.9	52.5	23.5	44.8
Total Expenditure (J$B)	🟡	625.0	627.6	-2.6	-0.4	576.5	48.5	8.4
Recurrent Expenditure (J$B)	🟡	580.9	584.7	-3.8	-0.7	532.0	48.9	9.2
Capital Expenditure (J$B)	🔴	44.1	42.9	1.2	2.8	44.5	-0.5	-1.0
Fiscal Balance (J$B) (Surplus + / Deficit -)	🔴	-22.4	-12.1	-10.3	-85.4	-86.4	64.0	74.1
Primary Balance (J$B) (Surplus + / Deficit -)	🔴	103.3	113.7	-10.4	-9.2	32.8	70.5	214.7

🟡 Within Budget 🔴 Below Target/Missed Target

*Status for Actual relative to Budget for FY2021/22
**FY2021/22 actual performance relative to budget targets
***FY2021/22 actual performance relative to FY2020/21
Note: Discrepancies in the table due to rounding of figures

Selected GOJ Fiscal Indicators for FY2021/22 (April – February) relative to FY2019/20 (April – February)

Selected GOJ Fiscal Indicators	Status FY2021/22*	Actual (Provisional) (FY2021/22)	Actual (Provisional) (FY2019/20)	Variance ($)	Variance (%)
Revenue & Grants (J$B)	⬆️	602.6	568.1	34.5	6.1
Tax Revenue (J$B)	⬆️	516.7	506.8	9.8	1.9
Non-Tax Revenue (J$B)	⬆️	76.1	55.9	20.2	36.1
Total Expenditure (J$B)	⬆️	625.0	567.3	57.6	10.2
Recurrent Expenditure (J$B)	⬆️	580.9	512.9	68.0	13.3
Capital Expenditure (J$B)	⬇️	44.1	54.4	-10.3	-19.0
Fiscal Balance (J$B) (Surplus + / Deficit -)	⬇️	-22.4	0.7	-23.1	-3187.3
Primary Balance (J$B) (Surplus + / Deficit -)	⬇️	103.3	121.1	-17.8	-14.7

⬆️ Above pre-COVID levels ⬇️ Below pre-COVID levels

Note: Discrepancies in the table due to rounding of figures

FY2019/20 fiscal numbers will be used in the analysis as a benchmark year for the fiscal quantitative performance criteria and can be considered a normalized (pre-COVID) year.

Jamaica's selected fiscal indicators outperformed initial budget but marginally underperformed relative to the third supplemental budget

Revenue & Grants below budget but ahead of previous FY and pre-COVID levels

For the period April 2021 to February 2022, Revenue & Grants totaling $602.6B fell short of the third Supplementary target by $12.9B (2.1%) due largely to lower than budgeted Tax Revenues and non-Tax Revenues. This performance was however higher than Revenues & Grants collected for April 2020 to February 2021 by $112.4B (22.9%) and pre-pandemic, April 2019 to February 2020, performance by $34.5B (6.1%).

Tax Revenue below budget but ahead of previous FY and nominally ahead of pre-COVID levels

Tax Revenue of $516.7B, for the review period, was below the third supplemental budget target by $2.3B (0.5%) which mainly reflected lower than programmed Special Consumption Tax and International Trade receipts mainly General Consumption Tax (Imports) and Custom Duty. Notwithstanding the below budget performance, tax revenue outturn nominally outperformed receipts from the previous fiscal year-to-February 2021 as well as that of April 2019 to February 2020 by $85.6B (19.9%) and $9.8B (1.9%), respectively.

Non-Tax Revenue also lower than budget but significantly higher than previous years due to the BOJ Dividend

Non-Tax Revenue of $76.1B, which included the $32.6B dividend payment received from the Bank of Jamaica earlier in the fiscal year, under-performed budget by $9.3B (10.9%) due primarily to lower than programmed miscellaneous receipts. This was however $23.5B (44.8%) higher relative to April 2020 to February 2021 and exceeded pre-COVID levels by $20.2B (36.1%).

Total Expenditure fell short of budget but surpassed previous year and pre-pandemic levels

Expenditure (above-the-line) of $625.0B was $2.6B (0.4%) below the Third Supplementary budget target for the review period. It was however higher than the corresponding period in FY2020/21 and FY2019/20 due mainly to higher recurrent spending, driven significantly by the GOJ's COVID-19 pandemic response and the increase in wages and salaries relating to the FY2021/22 public sector wage agreements.

While recurrent spending was above that of April 2020 to February 2021 and higher than spending for April 2019 to February 2020, it fell short of the $584.7B budgeted for the current fiscal year-to-February 2022.

Total Capital spending of $44.1B for the review period was ahead of the revised budget by $1.2B (2.8%). This expenditure was marginally in-line with spending for the corresponding period of FY2020/21 but was $10.3B (19.0%) below capital expenditure for the similar period of FY2019/20.

Interest Costs in line with budget but above the corresponding period in FY2020/21

Interest payments of $125.7B were marginally in line with budget and $6.5B higher than the similar period of FY2020/21. As the BOJ seeks to tighten monetary policy and with the BOJ continued increase in its policy interest rates, we see the rates on GOJ Treasury Bills steadily increasing with the benchmark 180 day Treasury Bill increasing to 6.37% in March 2022 from 3.92% in November 2021.

Fiscal and Primary Balance for Third Supplemental are behind target

Below budget tax revenue and expenditure for the April to February FY2021/22 period, generated a **Fiscal Deficit of $22.4B** relative to a budgeted deficit of $12.1B. This outturn was $64.0B (74.1%) better than the $86.4B deficit recorded for the similar period for FY2020/21.

The Central Government operations also led to a **Primary Surplus of $103.3B**, which was $10.4B behind the targeted surplus of $113.7B. This outturn significantly exceeded the surplus of $32.8B noted for the corresponding FY2020/21 period.

FY2021/22 Debt to GDP is projected to close the fiscal year at 96.3% lower than the initial projection of 100.7%

The debt-to-GDP ratio is projected to be 96.3% at end-March 2022 down from 109.7% at end-March 2021. This forecast was on the basis of real GDP growth projection within the range of 7.0% to 9.0% for FY2021/22, the expected tax revenues performance and the projected primary balance of 6.3% of GDP for FY2021/22. The debt ratio is programmed to continue on a downward path toward the debt-to-GDP target of 60% or less by FY2027/28.

Important Fiscal Developments

The GOJ FY2022/23 Budget is credible and achievable but risk levels are high

In March 2022, the Government of Jamaica (GOJ) presented **the FY2022/23 National Budget with expenditures of $912.0B**, which comprises

Non-Debt Expenditure	$604.5B
Debt Service Expenditure	$307.5B
Total	$912.0B

The Non-Debt Expenditure of $604.5B represents a 5.2% increase over the Third Supplemental budget of FY 2021/22 and is broken out as follows Central Government Non-Debt Expenditure:

Recurrent Expenditure	$539.4B
Capital Expenditure	$ 65.1B
Total	$604.5B

The budget will be funded by expected Tax Revenue of $671.5B for the FY2022/23, an increase of $63.3B (10.8%) from the $606.2B estimated for FY2021/22. It also includes Non-Tax Revenue of $65.4B (a decline from the $97.1B expected for FY2021/22). The GOJ anticipates that the budget is set to generate fiscal and primary balance surpluses of $6.8B and $145.2B (5.9% of GDP) respectively. Jamaica's debt to GDP ratio is projected to fall from 96.3% to 87.3%.

Public Sector Transformation

A major deliverable under the Public Sector Transformation is the Public Sector Compensation Restructuring where salary bands and allowances will be rationalized for greater efficiency, improvement in compensation and simplicity. This increase in compensation will be implemented over 3 years as at April 1, 2022, which will cost over $100B.

Wages to GDP Ratio will be breached
The Public Sector Wage Bill has breached the fiscal rule since FY2019/20 and is expected to close FY2021/22 at 9.9% of GDP and 10.9% of GDP for FY2022/23. This increase in Public Sector Compensation will lead to a significant rise in the wage bill, which is projected at 11.4% for FY2023/24 and once again breach the Wage to GDP target of 9%. The Ministry of Finance will have to amend the appropriate legislation.

EPOC acknowledges the efforts of the GOJ in response to Public Sector Compensation Reform and Transformation but stresses the need for the Public Sector Transformation to be focused on tangible and quantitative methods to realize the efficiencies through shared services, performance based compensation, digitization and continued rationalization of entities among other efficiency reforms, that could help offset increases in the Public Sector Compensation.

EPOC highlights risks to growth and budget forecasts
EPOC believes that the FY2022/23 Budget projections are credible and achievable but notes the risks to the growth and revenue projections due to possibilities of further disruptions in the international markets due to geopolitical tensions, global inflationary pressures, higher interest rates and supply side disruptions, which could create a drag on the Jamaican economy and slow growth and revenue intake.

While the GOJ has assumed a 3.5% growth rate in GDP for 2022/23, the Bank of Jamaica Monetary Policy Committee, in its statement on March 29th indicated that growth could come in at the low end of the BOJ projection of 2-4% GDP growth.

COVID-19 remains a live risk and we could see a fifth wave, which would find Jamaica vulnerable with approximately 25% of the population being vaccinated.

Monetary Performance – Inflation remains elevated

Selected Monetary Indicators	Actual (Provisional) (FY2020/21)	Actual (Provisional) (FY2021/22)	Target (FY2021/22)
Inflation (%)*	3.8	10.7	4.0 - 6.0
		(As at March 25, 2022)	
Gross International Reserves (GIR) (US$M)		4,250.2	
Net International Reserves (NIR) (US$M)		3,591.8	
GIR/ARA (% of Assessment of Reserve Adequacy, ARA)		138	100.0

*12-month point-to-point Inflation as at end-February 2021 and end-February 2022

BOJ Monetary Policy Committee projects that inflation could breach target range for longer and at higher rates than previously expected

BOJ's Survey of Businesses' Inflation Expectations indicated that business expects an inflation rate of 9.8% for the next 12 months (ending December 2022).

- The survey conducted over the period, December 13, 2021 to January 10, 2022, reflected an increase compared with November 2021 survey of expectations.

12-month point-to-point Inflation rate of 10.7% at February 2022 remains outside BOJ's 4.0% - 6.0% target range

- This outturn represents the seventh successive month that inflation has been above the Bank's target range. It was higher than the 9.7% at January 2022 and well above the 3.8% at February 2021.
- At its forecast in February, the Monetary Policy Committee (MPC) projected that inflation will continue to breach the upper limit of the Bank's target range over the next 10 to 12 months, peaking in the range of 9.0% to 11.0% over this period.
- However, at its meetings on March 25 and 28, 2022, the MPC noted that inflation will continue to successively breach the target range for a longer period and at higher rates than previously anticipated.

Core Inflation remains elevated

- As at February 2022, core inflation, measured as the change in prices excluding agricultural commodities and fuels prices, was 10.8%. This represents a 0.6 percentage point increase relative to the 10.2% at January 2022, and was markedly higher than the 3.5% recorded at February 2021.

Bank of Jamaica (BOJ) indicated that inflation remained elevated due to the continued lagged and second round impact of international commodity and shipping prices, which continue to adversely impact domestic transport-related and utility costs and processed food prices.

The BOJ continues to increase its policy rate, a measure to influence a return of inflation to the Bank's target range
The BOJ's policy rate was increased by a total of 200 basis points for calendar year 2021 from 0.5%, obtained since August 2019, to 2.50% per annum effective December 20, 2021. Following this increase, the BOJ has further announced a total of 200 basis points increase to the policy rate to 4.50% (March 30, 2022). The Bank also decided to continue pursuing other measures to contain Jamaican dollar liquidity, maintain exchange rate stability through FX sales in the foreign exchange market while ensuring adherence to FX investment limits by regulated financial institutions.

These policy actions are intended to tighten liquidity conditions and further increase interest rates on deposits and loans, making savings in Jamaican dollars more attractive relative to foreign currency assets and borrowing in Jamaican dollars more expensive. This increase is also expected to temper the demand for foreign currency, hence moderating the pace of depreciation in the exchange rate and reducing demand in the economy generally and, consequently, the ability of businesses to pass on price increases to consumers.

Notwithstanding these policy adjustments, the Central Bank noted that, while interest rates in the money markets have increased, banks have not, in a substantive manner, passed on the policy rate increases to their customers to date.

The BOJ's Monetary Policy Committee (MPC) has signaled that it is prepared to take further actions at the next meeting in May 2022 depending on the incoming data.

Jamaica's International Reserves remain healthy
At March 25, 2022, Gross International Reserves of US$4.3B represented the equivalent of 138% of the level considered adequate. Jamaica's Net International Reserves also remain strong at US$3.6B.

This buoyant performance was primarily driven by the US$352.1M (13.5%) increase in net remittances to US$2.9B for the fiscal year to February 2022 as well as a significant 338.6% increase in total visitor arrivals relative to the fiscal year to February 2021. Tourist arrivals of 1,465,114 represents 69.1% of the total arrivals for the comparable period in 2019. Of note, BOJ estimates that Jamaica ran a current account surplus in the fiscal year just ended.

While BOJ expects growth in remittances to taper off, the Bank projects that gross reserves will continue to remain robust. This will be supported by a current account deficit of the balance of payments ranging between 0.5% and 1.0 % of GDP, which reflects expectations for further recovery in the tourism sector.

Foreign Exchange Market – BOJ continues to intervene in the market
At April 8, 2022, the exchange rate was J$155.51 to US$1.00, representing an annual point-to-point depreciation of 4.8%, lower than the depreciation of 6.8% for the same period last year.

The BOJ indicates that the volatility in the foreign exchange market has reduced over January to March 2022, relative to the previous quarter. This is in the context where the BOJ conducted foreign currency sales to the market along with swaps, which amounted to US$382.9M.

The pace of Private Sector Financing continues to slow
The annual growth in total loans and advances extended by Deposit Taking Institutions (DTIs) to the private sector at end-January 2022 was 6.2%, which was lower than the growth of 10.0% at end-January 2021. Growth in loans to businesses decelerated to 2% from 11.8% at end-January 2021 whilst growth in lending to retail was marginally up at 9.5% relative to 8.7% for the period ending January 2021.

BOJ is walking a tightrope balancing between containing inflation and contracting growth
EPOC recognizes that the BOJ is balancing several risk factors at this point in time, in ensuring that it fulfills its mandate of low and stable inflation in the 4-6% target range whilst managing the tightening of monetary policy with the consequent slowing of domestic demand and economic activity.

Jamaica's foreign reserves are robust and the financial system remains resilient. As a result of the recent surge in inflation and the expectations noted in the business survey report, the BOJ continues to take pre-emptive strikes in moderating inflationary expectations to bring inflation within the target range of 4%-6% but it has to proceed with caution to ensure that Jamaica's growth trajectory remains positive.

THE JAMAICAN ECONOMY CONTINUES TO REBOUND

GDP Performance
The Statistical Institute of Jamaica (STATIN) reported that real GDP grew by 6.7% for the October to December 2021 quarter, which represents the sixth consecutive quarterly growth since the decline in the April-June 2020 quarter. The Services Industry saw growth of 9.0% across all sectors except Government Services. Hotels and Restaurants continue to drive growth with a 79.5% growth. In the Goods Producing Industries, there was marginal growth of 0.5%, which was pulled down by Mining and Quarrying, which saw a 60.5% decline.

The BOJ projects growth of 7-10% for FY2021/22 and 2-4% for FY2022/23.

The BOJ Monetary Policy Committee has indicated in its Summary statement on March 29th that growth in GDP in 2022/23 is likely to come in at the lower end of the 2-4% range.

Jamaica's real GDP is expected to be back at pre-COVID levels in 2023/24.

Rising Inflation and tightening monetary policy actions, along with supply chain disruptions are major downside risks to growth. The Ukraine/Russia war has only exacerbated these risks and has added further uncertainty.

The labour market continues on a path of improvement
Jamaica's unemployment rate of 7.1% at October 2021 represents the lowest rate since the October 2019 rate of 7.2% while the number of persons employed increased by 76,600 persons to 1,234,800 persons relative to October 2020.

EPOC's Outlook is Cautious as Inflation, rising commodity prices and interest rates are major risk to Jamaica's continued recovery

As the IMF and rating agencies continue to cut global growth forecasts for 2022, the Jamaican economy continues to show signs of economic recovery, specifically in tourism and related sectors. EPOC notes that, while the country has not yet fully recovered to pre-pandemic levels of economic output, the pace of the recovery is encouraging and the effective management of our macro-fiscal indicators, social safety net and balancing the opening of the economy with the risks of the COVID-19 virus has worked for the Jamaican economy. The one area where Jamaica has underperformed is the low vaccination levels, which continue to be a risk even as we see the pandemic receding globally.

We have seen that the movements in commodity and fuel prices globally have led to reduction in purchasing power, which is causing tremendous hardships globally and locally on businesses and consumers, especially the most vulnerable. We welcome the targeted measures by the GOJ to ease the pain on the most vulnerable. This should help in keeping social cohesion. However, while Jamaicans have proven to be resilient, inflation is eroding purchasing power so we expect that the GOJ, as they have indicated, will continue to support the most vulnerable as resources become available.

Jamaica has lifted most restrictions and has discontinued the use of the Disaster Risk Management Act (DRMA). This considerable easing will see the return of the entertainment industry and a return to some degree of normalcy, which will definitely have a positive impact on the recovery of the economy.

Rising inflation and tightening monetary policy actions, along with supply chain disruptions, are major downside risks to growth. The Ukraine/Russia war has only exacerbated these risks and has added greater uncertainty.

COVID-19 however remains a live threat to the economy as we note the spread of the virus in Asia and Europe.

EPOC remains cautious on Jamaica continuing on its growth path, as the risks remain high. However, we note the underlying strength of the Jamaican economy and are hopeful that this growth momentum will continue albeit slower than previously projected.