EPOC
Economic Programme Oversight Committee

# Update on the GOJ Economic Reform Programme (ERP)

## March 2023 • Communiqué #42

## Jamaica's economy continues on a growth path as inflation trends downwards

The EPOC met on February 24, 2023 to review the Fiscal and Monetary Quantitative Performance indicators under the Government of Jamaica's Economic Reform Programme.

**The following were key highlights noted by EPOC:**

- **Inflation rate continues to trend downwards, ending February 2023 at 7.8% relative to 8.1% at January 2023**
- **Tax Revenues outperformed the Third Supplemental budget**
- **Wages and Salaries to GDP continue to breach the 9% fiscal rule and is projected to close the year at 11.4%**
- **EPOC recommends a review of the GOJ Wages to GDP 9% fiscal rule as it continues to be breached**
- **Net International Reserves of US$3.9B as at February 2023 remain strong**
- **Real GDP growth of 3.4% was estimated for the October-December 2022 quarter, an indication that Real GDP has returned to pre-COVID levels and projected to close the Fiscal year at 5.1%**
- **GOJ projects 1.6% GDP growth rate for 2023/24**
- **Debt to GDP is projected to close the fiscal year at below 80% as Primary and Fiscal balances exceed targets**
- **Debt to GDP is projected to fall to 74.2% in 2023/24**

### The GOJ FY2023/24 Budget Overview

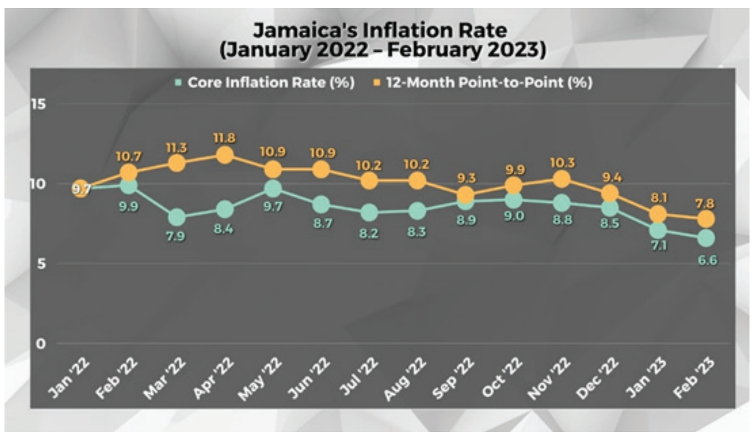
In March 2023, the Government of Jamaica (GOJ) presented the FY2023/24 National Budget with expenditures of $1,021.7B, a $19.2B (1.9%) increase over the FY2022/23 Fourth Supplementary Budget estimates. Notable components of the expenditure includes:

| EXPENDITURE CATEGORIES | FY2023/24 (As presented | FY2022/23 (Fourth Supplementary Estimates | Variance ($) | Variance (%) |
|---|---|---|---|---|
| Wages and Salaries (J$B) | 338.7 | 318.0 | 20.7 | 6.5 |
| Capital Expenditure (J$B) | 75.4 | 58.0 | 17.3 | 30.0 |
| Interest Costs (J$B) | 155.1 | 151.2 | 3.9 | 2.6 |

- **The budget will be largely funded by projected Tax Revenues of** $824.3B which is projected to increase by $58B (7.6%) year over year.
- **A fiscal surplus of $9.9B (0.3% of GDP) and a primary surplus of $165.0B, equivalent to 5.6% of GDP is projected for FY2023/24.**
- **Debt to GDP is projected to fall by 5.5% from 79.7% for 2022/23 to 74.2% in 2023/24.**

## Monetary Performance

**Inflation on a downward trajectory but risks remain**




* Core Inflation is a measure of the change in prices excluding food and fuel prices.

## PROGRAMME REVIEW FY2022-23 (APRIL-JANUARY)

### Selected GOJ Fiscal Indicators

| Selected GOJ Fiscal Indicators | Status FY2022/23 (Apr-Jan) Relative to Budget* | Actual (Provisional) (FY2022/23) (Apr-Jan) | Budget Target* (FY2022/23) (Apr-Jan) | Variance ($) FY2022/23 (Apr-Jan) Prov. vs Budget | Variance (%) | Actual (Provisional) (FY2021/22) (Apr-Jan) | Variance ($) FY2022/23 (Apr-Jan) Prov. vs FY2021/22 (Apr-Jan) Actual | Variance (%) |
|---|---|---|---|---|---|---|---|---|
| Revenue & Grants (J$B) | Above/Better than Budget | 635.3 | 631.8 | 3.6 | 0.6 | 549.7 | 85.6 | 15.6 |
| Tax Revenue (J$B) | Above/Better than Budget | 583.1 | 578.7 | 4.4 | 0.8 | 468.1 | 115.0 | 24.6 |
| Non-Tax Revenue (J$B) | Above/Better than Budget | 46.1 | 46.1 | 0.0 | 0.1 | 72.1 | -26.0 | -36.0 |
| Total Expenditure (J$B) | Within Budget | 626.6 | 628.9 | -2.3 | -0.4 | 563.5 | 63.1 | 11.2 |
| Recurrent Expenditure (J$B) | Within Budget | 584.9 | 587.3 | -2.4 | -0.4 | 524.1 | 60.8 | 11.6 |
| Capital Expenditure (J$B) | Within Budget | 41.7 | 41.6 | 0.1 | 0.2 | 39.4 | 2.3 | 5.8 |
| Fiscal Balance (J$B) (Surplus + / Deficit -) | Above/Better than Budget | 8.8 | 2.9 | 5.9 | 203.8 | -13.8 | 22.5 | 163.8 |
| Primary Balance (J$B) (Surplus + / Deficit -) | Above/Better than Budget | 130.7 | 124.8 | 6.0 | 4.8 | 95.8 | 34.9 | 36.4 |

Above/Better than Budget   Within Budget   * Based on FY2022/23 Third Supplementary Budget Estimates. Note: Discrepancies in the table due to rounding of figures

## Jamaica's selected fiscal indicators for FY2022/23 (April-January) were ahead of the Third Supplementary Budget estimates

**Tax Revenue surpassed budget target and previous year outturn**

For the review period, Tax Revenue of $583.1B was $4.4B (0.8%) ahead of budget and $115.0B (24.6%) above receipts collected for April 2021-January 2022. This positive performance relative to budget was mainly attributable to higher than programmed outturns from greater economic activity than budgeted.

**Total Expenditure marginally within budget**

For April-January 2023, expenditure (net of amortization) of $626.6B was $2.3B (0.4%) lower than the supplementary budget estimates but was $63.1B (11.2%) higher compared with the corresponding period in 2021/2022.

**Wages and Salaries $45.2B (24.6%) ahead of 2021/22**

Wages and salaries of $229.5B was $0.3B (0.1%) below budget but was 24.6% greater than the $184.2B for the same period in the 21/22 fiscal year. This number reflects increases and retroactive payments for the first phase of the public sector compensation reform for groups that finalized agreements up to December 2022.

**Capital Expenditure**

Capital Expenditure of $41.7B for the review period was largely in line with the budget of $41.6B but was $2.3B (5.8%) higher compared with the spending for April-January 2022. This was largely due to higher spending on major public infrastructure projects including the Southern Coastal Highway Improvement Project.

**The April 2022-January 2023 period registered higher than budgeted performances for both the Central Government's Primary and Fiscal Balances**

The Central Government operations for the review period generated a fiscal surplus of $8.8B, which was $5.9B ahead of the programmed surplus of $2.9B and a Primary Surplus of $130.7B, which was $6.0B (4.8%) higher than the $124.8B target. Jamaica's primary surplus was $34.9B (36.4%) above the $95.8B surplus recorded for April-January 2022.

## NOTABLE FISCAL DEVELOPMENTS

**The new Public Sector Compensation System**

The ambitious Public Sector Compensation review and the completion of the negotiations and implementation of the new compensation model are well underway.

Over 100,000 public servants or 95% of the Public Sector have completed negotiations and have signed compensation agreements for the three-year agreement from 2022/23 through 2024/25.

With vast majority of public bodies signing off, the fiscal risk of carrying over large balances into the FY23/24 has been significantly reduced.

- **Public Sector Wages and Salaries as a percent of GDP: Fiscal rule - 9% of GDP**

| Fiscal Year (FY) | FY2019/20 | FY2020/21 | FY2021/22 | FY2022/23 | FY2023/24 | FY2024/25 |
|---|---|---|---|---|---|---|
| Wages and Salaries (J$B) | 195.9 | 208.0 | 222.5 | 318.0 | 338.7 | 352.6 |
| Share of GDP (%) | 9.2 | 10.7 | 9.6 | 11.4 | 11.4 | 11.2 |

From a historical perspective, in FY2019/2020, Wages and Salaries as a percent of GDP at 9.2% was marginally in breach of the fiscal rule. Subsequently, in 2020/21 and 2021/22 as GDP contracted due to the impact of COVID-19, this ratio deteriorated to 10.7% and 9.6% in both years, respectively.

With the completion of the Public Sector review and the implementation which was initiated in the 2022/23 fiscal year, Wages and Salaries are projected at $318B for FY2022/23, a 64% increase from $222.5B in 2021/22. This $318B is projected at around 11.4% of GDP. In the upcoming fiscal year 2023/24, Wages and Salaries are projected to increase to $338B remaining around 11.4% of GDP.

The GOJ, in their efforts to increase and rationalize compensation, will continue to breach the current Wages and Salaries Fiscal rule for the foreseeable future. By any measure, this significant increase in Public Sector Compensation is relatively high and should be managed downwards through efficiency and productivity gains as a percentage of GDP over the medium term as we experience growth in GDP.

**EPOC recommends that the Wages as a percent of GDP rule, be reviewed bearing in mind the current reality or the breach is accepted for a specific time frame until this can be brought within the 9% fiscal rule or revised number.**

**Fiscal Commission**

The Minister of Finance and the Public Service (MOFPS), Dr. Nigel Clarke, in his FY2023/24 budget speech, advised that Mr. Courtney Williams was selected as Jamaica's first Fiscal Commissioner.

The Fiscal Commissioner has commenced the process to finalize the structure of the Commission and will commence operations during 2023/24.

**IMF Precautionary and Liquidity Line (PLL) and Resilience and Sustainability Facility (RSF)**

The IMF has approved the GOJ's request for a 24 month Precautionary and Liquidity Line (PLL) and the Resilience and Sustainability Facility (RSF) with combined access of US$1.7B (PLL allocation US$968M and $764M for the RSF). The PLL provides financing to cushion against any potential global risks and balance of payments needs to countries with sound policies, while the RSF will help to support Jamaica's agenda to strengthen physical and fiscal resilience to climate change. The RSF offers favourable financing terms and will assist Jamaica in the management of its exposure to external refinancing risk and possible savings on debt servicing costs.

- **The 12-month point-to-point inflation rate of 7.8% at February 2023 represents ten consecutive months of decline, having peaked at 11.8% in April 2022.** It remained above the Bank of Jamaica's (BOJ's) 4.0% - 6.0% target range since August 2021.
- Core inflation decelerated to 6.6% at February 2023 from 7.1% at January 2023.
- The BOJ's latest assessment indicates that, assuming no new shocks, annual inflation is however expected to fall within the Bank's inflation target range of 4-6% by the December 2023 quarter.

**The BOJ maintains its Policy Rate at 7.0% effective February 20, 2022**

The BOJ's Monetary Policy Committee (MPC) recently announced its decision to maintain its policy rate (the rate offered on its overnight balances) at 7.0% and to sustain the foreign exchange (FX) market stability.

In keeping with the tight monetary policy of containing liquidity and inflation, effective April 1, 2023, the BOJ increased both the domestic currency and the foreign currency cash reserve requirements (CRRs) applicable to deposit taking institutions (DTIs) by 1%.

**US Federal Reserve Bank increases rates by 25 bps on March 22, 2023**

The BOJ has indicated that the United States Federal Reserve Board (Fed) appeared to be slowing the pace of rate increases and as expected, the Federal Reserve increased interest rates by 25 basis points on March 22, 2023. However, what was more significant was that the Fed signaled that they may be close to the top of their rate hiking cycle. This signal by the Fed is expected to figure into the BOJ's analysis and monetary policy actions going forward.

**Jamaica's International Reserves remain at healthy levels**

Jamaica's gross reserves remained buoyant at US$4.4B end-February 2023, representing 112.2% of the Assessing Reserve Adequacy metric for FY2022/23. As at end-February 2023, Net International Reserves remained robust at US$3.9B. The BOJ projects that gross reserves will continue to remain adequate (above the ARA 100% benchmark) into the medium-term.

**Tourism Visitor Arrivals remain buoyant**

638,669 tourists visited Jamaica for the December 2022 quarter, reflecting an annual increase of 42.6% relative to the corresponding period of 2021. Visitor arrivals for the quarter were 105.1% of the total arrivals in the comparable period in 2019 (prior to the COVID-19 pandemic). For January 2023, a total of 215,799 tourists visited Jamaica, representing an increase of 75.8% relative to January 2022 and an increase of 5.7% compared with January 2019.

**Foreign Exchange Market remain relatively stable**

At February 28, 2023, the exchange rate of J$153.71 to US$1.00 reflected an annual point-to-point appreciation of 1.2% ($1.90). This follows a 2.4% ($3.66) depreciation for the same period last year. At March 17, 2023, the exchange rate was J$151.99 to US$1.00.

Jamaica's foreign exchange supply remains adequate driven by improvements in visitor arrivals and continued strong net remittance inflows.

**Growth in Private Sector credit has picked up**

The annual growth in total loans and advances extended by Deposit Taking Institutions (DTIs) to the private sector at end-November 2022 was 11.8%. This was higher than the growth of 7.9% at end-November 2021 but lower than the 16.5% at end-February 2020.

**Jamaica's GDP returned to pre-COVID levels in the December 2022 quarter**

The Planning Institute of Jamaica (PIOJ) estimated that real Gross Domestic Product (GDP) grew by 3.4% for the October to December 2022 quarter. This is an indication that economic activity returned to pre-COVID levels in the end-December 2022 quarter.

**GOJ projects GDP growth at 5.1% for 2022/23 and to revert to 1.0% – 2.0% after COVID-19 recovery**

The PIOJ forecasted that the economy will grow within the range of 3.0% to 5.0% for the January to March 2023 quarter, led by continued strong performance in the Hotel and Restaurants industry. The GOJ projects growth of 5.1% for 2022/23.

**GDP Projections for FY2023/24**

The Ministry of Finance has projected a growth rate of 1.6% for FY2023/24. Over the medium term real GDP is expected to revert to the 1.0% to 2.0% range.

## EPOC highlights Global uncertainty

**Heightened uncertainty in Global markets**

The global fight against inflation and the impact of the Russia-Ukraine war continue to be the major factors shaping economic outlook. The IMF, in its latest report, projects for global growth to slow from an estimated 3.4% in 2022 to 2.9% in 2023. Geopolitical tensions continue and there is always the risk that this could escalate and lead to trade disruptions and exacerbate global supply shortages.

Inflation, while receding, remains a risk locally and globally as interest rates remain elevated. This along with tight liquidity conditions have caused continued stress to the global financial system, as seen with the US Banking failures.

**Risks to Jamaica's growth trajectory**

The risks to Jamaica are the further slowdown of Jamaica's trading partner's economies and tourism source markets, which could slow Jamaica's growth levels below projections and could negatively impact tax revenues and fiscal performance.

**Public Sector Compensation System - Looking forward to increased productivity**

EPOC acknowledges the implementation of the long overdue newly implemented Public Sector compensation system. Through fiscally responsible management and the strong recovery of economic activity and tax revenues, the GOJ has been able to increase Wages and Salaries by 64% and nominally by $95B year over year to accommodate increases to the Public Sector. While not without its challenges, we are happy that the negotiations, although sometimes rocky, have seen 95% of the Public servants signing wage agreements.

The new Public Sector Compensation system is a potential game changer for Jamaica, as it brings increased compensation levels to the Public Sector workers who have sacrificed for many years through wage freezes and incremental increases. We are hopeful that we would see reduced attrition going forward in the public sector and increased productivity with the implementation of the performance management system over the next two years.

**As the Wages to salaries of GDP continue to be at elevated levels and in breach, EPOC recommends that the Wages as a percentage of GDP rule, be reviewed bearing in mind the current reality or that the breach is accepted for a specific time frame until this ratio can be brought within the 9% fiscal rule or a revised number.**

## EPOC's Outlook

**Jamaica's economy on growth path as inflation continues to decline**

Based on the trend of reducing inflation and the continued reduction in international commodity prices, there is an increasing possibility that inflation could fall into the target range of 4.0% – 6.0% ahead of the BOJ's December 2023 projected timeframe. This may give the Central Bank some comfort to contemplate an earlier than anticipated loosening of monetary policy, which would bolster Jamaica's economic growth trajectory.

Jamaica's financial system remains stable and strong despite the hikes in interest rates and tight monetary policy. Private credit continues to increase from the COVID-19 lows which is a positive leading indicator for continued growth. EPOC is therefore cautiously optimistic despite global headwinds that growth will continue to hit GOJ medium term growth targets.

We have a great degree of confidence that macro-economic stability will be maintained and that the GOJ will continue to reduce debt levels in line with Jamaica's fiscal rules. This should ensure that the increasing fiscal space created will allow the buildup of buffers and increasing investments in infrastructure, increased compensation for the Public Sector, along with improved delivery of services to our tax paying Jamaican citizens.