EPOC
Economic Programme Oversight Committee

# Update on the GOJ Economic Reform Programme (ERP)

**July 2023 • Communiqué #43**

## Jamaican economy continues on a growth path; inflation remains a concern for the BOJ; monetary policy remains tight

The EPOC met on June 4, 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, albeit ending May 2023 at 6.1%, just outside BOJ's target range**
- **For April-May 2023, Tax Revenues grow year over year by $18.7B (18.3%) and exceeds YTD targets by $10.5B (9.6%)**
- **For April-May 2023, Total Expenditure grew by $30.7B (26.1%) year over year driven by Public Sector Compensation growth of $23.8B (52.8%)**
- **Net International Reserves (NIR) of US$4.2B as at May 31, 2023 remain strong**
- **Jamaica kicks off IMF programme strong, exceeding quantitative targets and meeting structural benchmarks**
- **Real GDP grew by 4.2% for the January-March 2023 quarter and by 4.7% for FY2022/23**
- **Real GDP has surpassed pre-COVID levels**
- **Debt-to-GDP exceeds target of 79.7% to close FY2022/23 at 77.1% down from 94.2% for FY2021/22**

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

### Jamaica's selected fiscal indicators for FY2022/23 (April-March) generated a fiscal and primary surplus better than budgeted

For FY2022/23, the Central Government performance generated a:

- **Fiscal Surplus of $7.8B (0.3% of GDP)**, which was $0.9B ahead of the targeted surplus.
- **Primary Surplus of $159.2B**, equivalent to 5.8% of GDP, which was above the programmed surplus of $158.1B and $0.8B higher compared with the primary surplus attained for FY2021/22.
- **The debt-to-GDP ratio at 77.1% as at March 2023 performed better than projected (79.7%) and represents a 17.1 percentage point reduction over the 94.2% at end-March 2022.** The GOJ remains committed to meeting its debt target of 60% or less by end-FY2027/28.
- **Wages and Salaries was $95.2B (42.8%) ahead of 2021/22 Actual Payment**

Wages and Salaries of $317.9B was generally in line with the budget of $318.0B but was $95.2B (42.8%) higher than the $222.7B for FY2021/22. This total reflected increases and retroactive payments for the first year of the public sector compensation reform for groups that finalized agreements.

## PROGRAMME REVIEW FOR APRIL-MAY 2023

| Selected GOJ Fiscal Indicators | Status April-May 2023 Relative to Budget | April-May 2023 (Provisional) | April-May 2023 Budget * Target | Variance ($) | Variance (%) | April-May 2022 (Actual) | Variance ($) | Variance (%) |
|---|---|---|---|---|---|---|---|---|
| | | | | Apr-May 2023 (Prov. vs Budget) | | | Apr-May 2023 Prov. vs Apr-May 2022 Actual | |
| Revenue & Grants (J$B) | ● (green) | 129.8 | 117.4 | 12.3 | 10.5 | 107.8 | 22.0 | 20.4 |
| Tax Revenue (J$B) | ● (green) | 120.6 | 110.0 | 10.5 | 9.6 | 101.9 | 18.7 | 18.3 |
| Non-Tax Revenue (J$B) | ● (green) | 8.2 | 5.6 | 2.7 | 48.0 | 5.4 | 2.8 | 52.9 |
| Total Expenditure (J$B) | ● (yellow) | 148.3 | 151.9 | -3.5 | -2.3 | 117.6 | 30.7 | 26.1 |
| Recurrent Expenditure (J$B) | ● (yellow) | 138.5 | 140.6 | -2.2 | -1.6 | 108.7 | 29.7 | 27.3 |
| Capital Expenditure (J$B) | ● (yellow) | 9.9 | 11.2 | -1.3 | -12.0 | 8.9 | 1.0 | 11.4 |
| Fiscal Balance (J$B) (Surplus + / Deficit -) | ● (green) | -18.6 | -34.4 | 15.9 | 46.1 | -9.8 | -8.7 | -88.5 |
| Primary Balance (J$B) (Surplus + / Deficit -) | ● (green) | 6.1 | -10.2 | 16.3 | 159.4 | 10.5 | -4.4 | -42.3 |

● (green) **Above/Better than Budget** ● (yellow) **Within Budget**

*** Based on FY2023/24 Budget Estimates. Note: Discrepancies in the table due to rounding of figures**

**Revenue and Grants outperformed budget target**

For the first two months of FY2023/24, Revenues and Grants totaling $129.8B, exceeded budget by $12.3B (10.5%) due mainly to buoyant tax revenue. This performance was $22.0B above the $107.8B earnings collected for April-May 2022 consequent on higher Tax and Non-Tax Revenues by $18.7B (18.3%) and $2.8B (52.9%), respectively.

Tax Revenue of $120.6B for the review period outperformed the budget target of $110.0B largely on account of higher inflows relative to budget from:

- PAYE, which was ahead by $5.7B (35.1%)
- Travel Tax, higher by $1.3B (33.1%)
- Tax on interest, up $1.3B (32.4%)
- GCT (Imports), above by $1.2B (6.5%)

Non-Tax Inflows of $8.2B, which exceeded budget by $2.7B (48.0%), was attributed to higher than projected miscellaneous revenue.

**Total Expenditure grew by 26.1% Year-over-Year (April-May), driven by Public Sector Compensation growth of 52.8%**

The Central Government Expenditure (net of amortization) of $148.4B for April-May 2023 reflected a shortfall of $3.5B (2.3%) relative to budget. This outturn however was $30.7B above the $117.6B spend recorded for April-May 2022 driven primarily by increased Employees Compensations, which increased by $23.8B Year-over-Year (April-May).

- Programmes expenditure of $44.9B came in $3.9B behind budget but was marginally ahead of previous year (April-May) expenditure by $1.6B or 3.8%.
- Interest Expenditure of $24.6B was marginally ahead of budget but 21% ahead of the April-May 2022 period due to higher interest rates on GOJ debt.
- Capital Expenditure of $9.9B fell below budget by $1.3B due to a slower pace of project execution.

**Fiscal and Primary Balances better-than-programmed**

The fiscal performance for April-May 2023 generated a fiscal deficit of $18.6B and primary surplus of $6.1B. The fiscal deficit outturn reflected an improvement of $15.9B (46.1%) relative to the projected deficit of $34.4B.

A primary surplus of $6.1B was recorded against a projected deficit of $10.2B. The over-performance resulted from a shortfall in expenditure (by 2.3%) along with a 10.5% Revenue & Grants surplus relative to budget.

The Fiscal and Primary balances while ahead of target underperformed the previous year balances by $8.7B and $4.4B, respectively as a result of the significant increases in Public Sector compensation and to a lesser extent interest costs.

**NOTABLE FISCAL DEVELOPMENT**

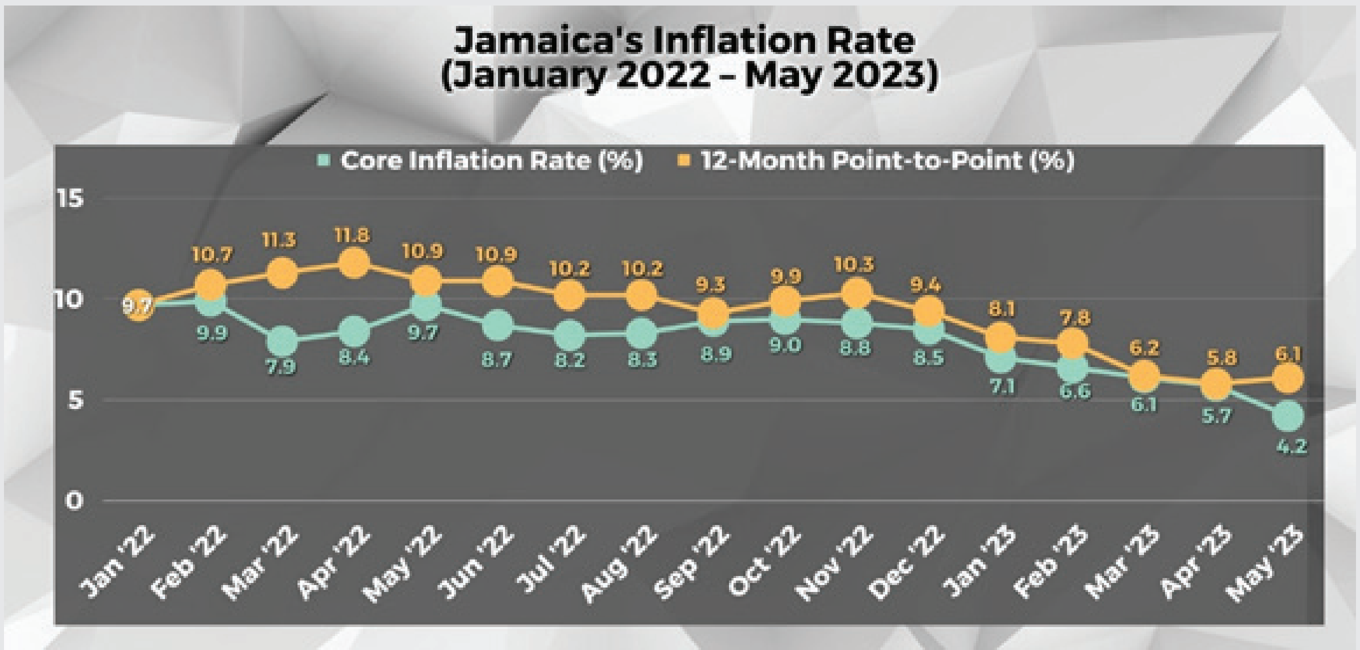
**Public Sector Wages and Salaries target as a percent of GDP repealed**

With the implementation of the new public sector compensation system, the Wage to GDP ratio is projected to average 11.4% of GDP over the medium term. The Financial Administration and Audit (FAA) Act was amended by Parliament in March 2023 to repeal the Wage to GDP fiscal rule of 9%.

The Central Government however, remains committed to fiscal prudence and is projected to deliver fiscal and primary balance consistent with the achievement of the medium term fiscal rule Debt to GDP target of 60%, or less, by end-FY 2027/28.

## Monetary Performance

### Inflation rate is marginally above the upper end of the BOJ's 4% - 6% target range, while inflationary expectations fall




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

- **The 12-month point-to-point inflation rate of 6.1% as at May 2023** was marginally above the Bank of Jamaica's (BOJ) target range. This outturn was higher than the 5.8% recorded for April 2023, which was the first month since July 2021 when the inflation rate fell within the Bank's target range.
- The key external drivers of headline inflation such as grains, fuel and shipping prices, continued to decline, broadly in line with the Bank's expectations.
- **Core inflation moderated** to 4.2% at May 2023 from 5.7% at April 2023 and was well below the outturn of 9.4% at May 2022.
- The BOJ anticipates that inflation will average between 4.0% - 6.0% for the December 2023 and March 2024 quarters which is below the average inflation rate of 6.3% projected for the June and September 2023 quarters. This outlook is consistent with global consensus forecasts for a continued fall in commodity prices and a further decline in inflation expectations and the Bank's overall monetary policy stance.

**The BOJ held its Policy Rate at 7.0% effective May 19, 2023**

The BOJ's Monetary Policy Committee (MPC) announced its decision to hold the policy interest rate at 7.0% and to maintain tight Jamaican dollar liquidity in the money market while it continues to foster relative stability in the foreign exchange market. This decision to maintain the policy rate was informed by the MPC's view that, although the incoming data were generally positive, the inflation rate may temporarily rise again above the Bank's inflation target range over the next two to three months due to higher cost of communication, household labour and agricultural price increases.

Additionally, the MPC noted that interest rates in the domestic and capital markets and the term rates offered on deposits by Deposit-Taking Institutions (DTIs) have generally increased in line with the policy rate. The BOJ has also acknowledged that the monetary transmission channels are now delivering results in slowing the growth of credit, as the DTI sector continues to make small adjustments to rates on savings deposits and loans.

The MPC also took note of the fact that the pace of monetary tightening by the United States (US) Federal Reserve Board (Fed) has slowed, and recent developments suggest that interest rates in the US are at or near their peak.

While the Committee is satisfied that its monetary policy actions, since October 2021, have been effective in achieving their objectives, it noted the need to maintain the policy stance until inflation is firmly anchored within the 4.0% to 6.0% corridor.

**Jamaica's International Reserves continue on a growth path**

At May 31, 2023, Jamaica's gross reserves of US$4.7B represented 112.7% of the projected Assessing Reserve Adequacy (ARA) metric for FY2023/24. Net International Reserves as at the same period, remained substantial at $4.2B.

The BOJ anticipates that the gross reserves will continue to remain adequate into the medium-term largely influenced by higher than previously projected private capital inflows and higher GOJ inflows. The current account deficit (CAD) for FY2023/24 is projected to deteriorate within the range of 0.5% - 1.5% of GDP from an estimated surplus of 0.5% – 2.5% for FY2022/23 and is expected to be over financed after accounting for foreign direct investment inflows.

**Foreign Exchange Market has remained relatively stable**

At July 4, 2023, the Jamaican dollar depreciated on a Year-over-Year basis by 2.1% against the US dollar, compared with a depreciation of 0.9% over the same period of the previous year.

The BOJ continues its timely interventions in the market, as it maintains exchange rate stability. The Bank sold approximately US$398.3M via its B-FXITT facility January to May 2023, complemented by sale of US$10.0M to Public Sector Entities. For the period January to May 2023, the BOJ net purchased from the market US$517.5M.

As a result of the efforts to minimize imported inflation, the BOJ has a deliberate policy to maintain Foreign Exchange (FX) stability. The market, in the past, had become accustomed to high exchange rate volatility and higher levels of depreciation. However, as the BOJ has implemented these measures to maintain relative stability, the market has become less skittish and as a result, reduced volatility of the FX market and the exchange rate has traded in tighter bands.

**Tourist Visitor Arrivals have exceeded pre-COVID levels**

For the March 2023 quarter, 700,447 tourists visited Jamaica. This represented an annual increase of 45.0% relative to the annual increase of 223.9% for the corresponding period of 2021. Visitor arrivals for the quarter represented 104.3% of the total arrivals in the comparable period in 2019 (prior to the COVID-19 pandemic). Notwithstanding the forecast for lower than previously projected growth in source markets, visitor arrivals are expected to continue to improve albeit at much lower levels of growth, as the COVID bounce and visitor arrivals level off.

**Remittances for FY2022/23 fell marginally below last fiscal year**

For the FY2022/2023, net remittance inflows declined by 0.5% to US$3,224.5M relative to the US$3,240.0M reported for FY2021/22. The BOJ anticipates that remittances will fall further for FY2023/24.

**Private Sector Credit continues to slow relative to pre-pandemic levels**

Total Private Sector Credit as a percentage of GDP at end-March 2023 was 42.6%, which was lower than the 43.8% at end-March 2022. The annual growth in Total Deposit-Taking Institutions (DTIs) as at end-March 2023 was 12.2%, which was higher than the 9% growth recorded at end-March 2022 but lower than the 16.5% at end-February 2020 (pre-pandemic).

New disbursement of loans to the Private Sector declined by 5% ($5.9B) in March 2023 relative to March 2022. The BOJ indicated that over the six months to March 2023, the flow of new loans to the private sector declined in real terms.

**New IMF Programme Targets under the Precautionary and Liquidity Line (PLL) and Resilience and Sustainability Facility (RSF)**

On March 1, 2023, the International Monetary Fund (IMF) approved a 24-month Precautionary and Liquidity Line (PLL) and a Resilience and Sustainability Facility (RSF) for Jamaica with combined access of US$1.7B (PLL allocation US$968M and $764M for the RSF).

**Precautionary and Liquidity Line (PLL)**

The PLL will support the further strengthening of the institutional framework for fiscal policy, the consolidated supervision of financial conglomerates, enhance the regime for the resolution of non-viable Financial Institutions, bring the AML/CFT framework to international good practice and adopt the Special Data Dissemination Standard (SDDS).

The PLL facility will also provide insurance against risks from higher commodity prices, a global slowdown, tighter than envisaged global financial conditions and new COVID outbreaks.

**Resilience and Sustainability Facility (RSF)**

The RSF arrangement will accelerate Jamaica's agenda to fast-track the transition to renewable power generation, increase resilience to climate change, enhance the climate focus in fiscal policy framework and strengthen the management of climate risks by Financial Institutions.

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# Update on the GOJ Economic Reform Programme (ERP)
## July 2023 • Communiqué #43 (cont'd.)

**Jamaica: PLL Quantitative Targets**

| | March 31, 2023 Target | March 31, 2023 Actual | September 30, 2023 |
|---|---|---|---|
| **Indicative Targets** | **Million** | **Million** | **Million** |
| Overall Fiscal Balance of the Central Gov. (floor)[1] | J$ 7,506 | J$ 7,786 | J$3,625 |
| NIR (floor) | US$ 3,535 | US$ 4,152 | US$ 3,620 |

Source: IMF staff estimates.
[1]Cumulative flows from April 1 through March 31.

**IMF Fiscal and NIR targets are surpassed under the Precautionary Liquidity line**

A team from the IMF visited Jamaica during the period June 12 -16, 2023 to assess the performance of the Programme. The IMF's Executive Board is expected to consider these reviews in August 2023.

Arising out of the IMF June Review, the IMF reported that "the fiscal balance recorded an overall surplus in FY 2022/23. International reserves continued to increase over the last fiscal year, strengthening external buffers in line with the objectives in the authorities' program".

The IMF review further indicated that "the authorities continue to treat the PLL as Precautionary" which means that the authorities have not drawn down on the PLL.

The IMF also noted that "the authorities had made good progress in implementing their policy agenda under the Precautionary and Liquidity line. They overperformed on indicative targets and met structural benchmarks supporting efforts to bring the AML/CFT to international best practice and improve data adequacy".

**IMF Review of Performance under the Resilience and Sustainability facility**

The IMF also reported that "Significant progress is being made by the Authorities with their ambitious agenda to green the economy and make it more resilient to climate change" as they are "completing reform measures that will introduce important climate-related elements in the fiscal framework that will make available about US$255M under the arrangement".

**BOJ balances growth and inflation as it maintains tight Monetary Policy and seeks to sustainably maintain inflation in the 4-6% range**

The Restrictive Monetary Policy actions of the Central Bank over the past fifteen (15) months are now beginning to slow the growth of credit as the monetary transmission channels begin to impact DTIs, which is manifested in upward adjustments to rates on deposits and loans.

Inflation has declined and seems to have leveled off at the top end of the target range. However, the BOJ has indicated that inflation is expected to temporarily move above the target range during the June and September 2023 quarters before returning to the 4.0% to 6.0% range for the December 2023 and March 2024 quarters. This is in line with global projections as inflation continued to ease globally, consistent with continued declines in international commodity prices and the impact of monetary tightening by major central banks.

The Bank of Jamaica, while noting that the risks to inflation are balanced, is laser focused on containing inflation within the target range as inflation has taken a toll on Jamaican citizens, especially the more vulnerable. Therefore, the Central Bank continues to maintain a tight monetary policy as Private Credit slows.

The Ministry of Finance, in its Fiscal Policy Paper, projects 1.6% GDP growth rate for 2023/24. Therefore, the Bank of Jamaica will have to walk the tightrope in balancing the risks of volatile inflation and the growth of the economy.

The Jamaican economy, after the impressive recovery from COVID-19, is projected to move back into the historical 1%-2% growth range. This leaves little room for reduction in growth levels and the prolonged tightening of monetary policy could see the Jamaican economy performing below growth projections and could possibly slip into negative growth territory for a quarter or two.

## KEY HIGHLIGHTS

### Inflation Rate
**continues to trend downwards, albeit ending May 2023 at 6.1%, just outside BOJ's target range**

### Tax Revenues
**for April-May 2023, grew Year-over-Year by $18.7B (18.3%) and exceeds YTD targets by $10.5B (9.6%)**

### Total Expenditure
**For April – May 2023 grew by $30.7B (26.1%) Year- over-Year driven by Public Sector Compensation growth of $23.8B (52.8%)**

### Real GDP has surpassed pre-COVID levels

### IMF Programme
**Jamaica kicks off IMF programme strong, exceeding quantitative targets and meeting structural benchmarks**

### Real GDP
**grew by 4.2% for the January-March 2023 quarter and by 4.7% for FY2022/23**

### Debt-to-GDP
**exceeds target of 79.7% to close FY2022/23 at 77.1% down from 94.2% for FY2021/22**