

Update on the GOJ Economic Reform Programme (ERP)

December 2023 • Communiqué #44

Jamaican economy continues on a growth path; inflation dips into target range but remains a concern for the BOJ; BOJ maintains tight monetary policy stance

The EPOC met on November 17, 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:

- For the second consecutive month, the inflation rate (5.1% for October 2023) has remained within the BOJ's target range but is projected to rise above the target between December 2023 and March 2025
- For April-September 2023, Tax Revenues exceeded the Second Supplementary Estimates by \$6.9B (1.8%) while to-

tal Expenditure was marginally in line with the budgeted estimates

- Jamaica records a Current Account Surplus (CAS) of US\$241M, marking the first surplus in over two decades
- Net International Reserves (NIR) stood at US\$4.6B at end-October 31, 2023 and remain more than adequate
- As at end-June 2023, all indicative targets and structural benchmarks under the IMF Precautionary Liquidity Line (PLL) and the Resilience and Sustainability Facility (RSF) have been achieved
- Real GDP was estimated to have grown by 1.9% for the July-September 2023 quarter.

PROGRAMME REVIEW APRIL – SEPTEMBER 2023

Jamaica's selected fiscal indicators for April to September 2023 resulted in an improved fiscal deficit and a primary surplus that exceeded budgeted expectations.

The Second Supplementary Estimates (SSE), tabled in Parliament on July 18, 2023, will serve as the benchmark for the actual performance analysis from April to

September 2023. The revision of the First Supplementary Budgeted estimates includes the authorization of payments from the Contingency Allocation under the Ministry of Finance and the Public Service to facilitate payment of additional remunerations due in FY2023/24 based on the implementation of the public sector compensation restructure.

Selected GOJ Fiscal Indicators	Status April-Sept 2023 Relative to Budget*	April-Sept. 2023 (Provisional)	April-Sept. 2023 Budget * Target	Variance (\$)**	Variance (%)**	April-Sept. 2022 (Actual)	Variance (\$)**	Variance (%)**
				April - Sept. 2023 (Prov. vs Budget)			April - Sept. 2023 Prov. vs April - Sept. 2022 Actual	
Revenue & Grants (J\$B)	●	427.1	418.7	8.4	2.0	372.0	55.1	14.8
Tax Revenue (J\$B)	●	390.1	383.2	6.9	1.8	340.4	49.7	14.6
Non-Tax Revenue (J\$B)	●	32.5	31.5	1.0	3.0	28.9	3.6	12.4
Total Expenditure (J\$B)	●	454.8	454.9	-0.2	0.0	357.1	97.7	27.4
Recurrent Expenditure (J\$B)	●	432.4	428.0	4.4	1.0	332.8	99.7	30.0
Capital Expenditure (J\$B)	●	22.3	26.9	-4.6	-17.1	24.3	-2.0	-8.0
Fiscal Balance (J\$B) (Surplus + / Deficit -)	●	-27.7	-36.2	8.6	23.6	14.9	-42.6	-285.2
Primary Balance (J\$B) (Surplus + / Deficit -)	●	56.2	43.7	12.5	28.7	86.6	-30.4	-35.1

● Above/Better than Budget ● Within Budget ● Outside Budget

* Based on Second Supplementary Budget Estimates
Note: Discrepancies in the table due to rounding of figures

Revenue & Grants exceeded the Second Supplementary Budget Estimates

For April to September 2023, Revenue and Grants of \$427.1B surpassed the Second Supplementary Budget by \$8.4B (2.0%). This comprised Tax Revenue of \$390.1B and Non-Tax Revenue collection of \$32.5B. In comparison to the same period in 2022, the Revenue and Grants increased by \$55.1B, reflecting increased economic activities and ongoing improvements in Jamaica's labor market.

Total Tax Revenue for the review period outperformed the Second Supplementary Estimates by \$6.9B (1.8%) demonstrating a \$49.7B (14.6%) improvement compared with the performance for April to September 2022. This favourable outturn, in relation to the budget, can be attributed predominantly to increased receipts from:

- PAYE, ahead by \$5.3B (9.1%)
- SCT (imports), higher by \$2.9B (8.8%)
- Other Companies, which was above budget by \$2.5B (8.1%).

Total Expenditure for April-September 2023 marginally in line budget

Expenditure (net of amortization) of \$454.8B for the assessment period was in line with the \$454.9B projected for the supplementary budget.

This marked a \$97.7B (27.4%) increase compared with the corresponding period in 2022, underpinned by a \$74.9B (56%) % rise in employee compensation from \$133B to \$206B.

The higher interest spending reflected increased payments stemming from drawdowns made under the International Monetary Fund's (IMF) Rapid Financing Instrument (RFI) in August 2023. Additionally, it reflected higher than projected Secured Overnight Financing Rates (SOFR), the new floating rate benchmark for most external financing.

Total Recurrent Expenditures of \$432B exceeded the budget by \$4.4B. This was however offset by a \$4.6B shortfall in Capital expenditure which brought total expenditure in line with budget.

Capital Expenditure, totaling \$22.3B, fell \$4.6B below the budget for the period due to a slower-than-planned execution of capital

projects. It is important to highlight that, throughout the past fiscal years, the procurement delays remain a major factor affecting project executions, which has contributed primarily to recurring shortfalls in the budgeted capital spending.

Fiscal and Primary Balances better-than-programmed

The Central Government operations for the initial half of FY2022/23 generated a fiscal deficit of \$27.7B and a primary surplus of \$56.2B, which were both better than the Second Supplementary Estimates by \$8.6B (23.6%) and \$12.5B (28.7%), respectively. This positive performance, in relation to the budget, was mainly attributed to a 2.0% surplus in Revenue & Grants and Expenditure being in line with the budgeted estimates.

Notable Fiscal Development

Jamaica's Natural Disaster Risk Financing Strategy – "IMF Structural Benchmark"

The GOJ has adopted a risk layering approach to financing risks from natural disasters. This involves establishing adequate funds and reserves to retain the costs associated with high frequency, low severity events such as floods or heavy rainfall, and transferring risks related to low frequency, high severity events such as major hurricanes and earthquakes through insurance and other facilities. The GOJ maintains a National Disaster Fund (NDF), capitalized at \$465.6M as at end-June 2023, and a Contingencies Fund which, as at end-June 2023, amounted to \$5,104.2M. The Government also has in place an International Development Bank Contingent Line of Credit which provides access to US\$285.0M if the country is affected by a hurricane and/or earthquake of a specified severity.

The GOJ renewed its insurance policy with the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF-SPC) for FY2023/24, effective June 1, 2023. The policy provides financial protection against Tropical Cyclone, Earthquake and Excess Rainfall events. Total coverage under the FY2023/24 policy amounts to US\$233.9M.

The implementation of the Government's multi-layered approach to disaster risk financing was further advanced in July 2021,

with the historic launch of a Catastrophe Bond (CAT bond). The instrument provides financial protection of up to US\$185M against losses from named storms for three Atlantic tropical cyclone seasons, ending December 2023. Pay-outs to Jamaica will be triggered when a named storm event meets the parametric criteria for location and severity in accordance with the terms of the bond.

The GOJ is in the process of establishing a National Natural Disaster Reserve Fund (NDRF) to supplement the existing portfolio of risk financing instruments.

GOJ Global Bond

The Jamaican government continues to exhibit a resolute dedication to debt sustainability and in its ongoing efforts manage Jamaica's public debt, the GOJ has successfully launched its first-ever Jamaican dollar-linked bond in the international capital markets valued at \$46.6B (US\$300M). The proceeds from this issuance will be used to pay down on the US\$1.76B in existing global bonds.

This local currency bond will contribute to mitigating the GOJ's exposure to US dollar-denominated debt, as international investors participating in this bond will absorb the Jamaican dollar exchange rate risk.

Monetary Performance

Inflation rate is within the BOJ's 4% - 6% target range; Inflationary expectations fall; the BOJ projects inflation to rise above the range over the upcoming quarters

- **The 12-month point-to-point inflation rate of 5.1% at October 2023** was within the Bank's target range and lower than the outturn of 5.9% at September 2023. This decline is consistent with the overall favourable downward trend observed since April 2022, when inflation reached its recent peak at 11.8%.
 - o Other key drivers to annual inflation such as grains prices, shipping costs continue to decline.
- The business sector's expectation for inflation 12 months ahead declined to 8% in September 2023 from 8.8% at the previous survey in July 2023.
- **Core inflation, which measures the change in prices excluding food and fuel prices, increased slightly to 5.7% at October 2023 relative to the 5.5% at September 2023.**

The BOJ maintains its Policy Rate

at 7.0%

Effective November 21, 2023, the Central Bank's Monetary Policy Committee (MPC) has held the overnight policy rate at 7.0%. This rate has remained unchanged since November 2022. The BOJ has also maintained its tight Jamaican dollar liquidity conditions while ensuring relative stability of the foreign exchange market.

These policy actions stem from the MPC's perspective that, despite inflation falling within the Bank's target range for the second consecutive month, it is projected to rise above the BOJ's target range between December 2023 and March 2025 quarters. The projected acceleration in inflation primarily reflects the announced increases in selected public passenger vehicles (PPV) fares in October 2023 and April 2024.

The Committee, however, acknowledged that the inflation outlook could be skewed to the downside and could be lower than projected, albeit predominantly attributed to fiscal measures aimed at cushioning the impact of the increase in PPV fares which were announced by the GOJ. Other factors include the relative stability observed in core inflation, the outlook for oil prices to trend downwards and the likelihood of the United States Federal Reserve Board (Fed) maintaining its policy rate in the near term.

Upside risks to the inflation outlook include higher than projected wage adjustments in the context of a tight labour market, second round effects from the PPV fare increases and sharp increases in domestic agricultural price inflation over the near term.

The MPC also noted that future monetary policy decisions will depend on incoming data relative to the strength of the potential risks in inflation and maintains that the BOJ is committed to using the full sets of tools at its disposal including further tightening of monetary policy, if the upside risks to inflation materialize.

Jamaica achieves Current account surplus in FY22/23 for the first time in decades

Jamaica recorded a Current Account Surplus (CAS) of US\$352.4M for FY2022/23. This surplus marks a milestone achievement, representing the first time in decades that Jamaica has not reported a current account deficit.

This Current Account Surplus was driven by the robust recovery in tour-

Balance of Payments (US\$MN)	FY2021/22	FY2022/23	Change	2022Q2 April-June	2023Q2 April-June	Change
Current Account Balance	-100.8	352.4	453.1	13.7	241.0	227.3
CAB/GDP (%)				0.08	1.26	1.18
Goods & Services	-3,170.3	-2,941.5	228.5	-772.7	-583.2	189.6
Goods	-3,267.8	-4,576.6	-1,309.3	-1,189.6	-1,034.4	155.2
Exports	1,455.8	2,088.0	632.2	464.9	515.1	50.2
Imports	4,723.1	6,664.7	1,941.6	1,654.5	1,549.5	-105.0
Services	97.0	1,635.1	1,538.1	416.9	451.2	34.4
Primary Income	-486.0	-248.1	237.9	-96.7	-41.2	55.5
Secondary Income	3,555.6	3,542.0	-13.5	883.2	865.4	-17.8

* Source: Bank of Jamaica

ism and travel, increased exports and continued strong inflows from remittances.

This positive performance continued into the first quarter of FY2023/24, where Jamaica recorded a CAS of US\$241M, an improvement of US\$227M over the US\$13M surplus recorded for the same quarter in FY2022/23. This progress was driven by the US\$34.4M increase in the services account underpinned by tourism and travel, increases in exports of US\$50M and a US\$105M reduction in imports. A marginally lower secondary income was observed, with the major contributor being strong remittances, which continues to be significantly ahead of 2019 net inflows.

Jamaica's Reserves remain buoyant and more than adequate

The net international reserves (NIR) stood at US\$4.6B at October 2023.

Jamaica's gross international reserves (GIR) increased by US\$101.8M to US\$4.89B at end-September 2023 quarter. This outturn largely reflected net FX purchases of US\$304.9M and the IMF Resilience Sustainability Facility (RSF) allocation of US\$254.6M. The impact of these were offset by GOJ Net outflows of US\$413.5M.

As at October 2023, the GIR stood at US\$4.74B which represented 113.4% of the Assessing Reserve Adequacy (ARA) metric.

The Bank projects that the gross reserves will continue to remain adequate in the medium-term, largely on account of continued strong performance on the services and secondary income accounts and higher net private capital inflows.

Foreign Exchange Market has remained relatively stable

As at October 31, 2023, the Jamaican dollar depreciated year-over-year by 1.3% against the US dollar, compared with an appreciation of 0.98% over the same period of 2022.

The BOJ remains committed to preserving the stability of Jamaica's banking system by ensuring sufficient levels of capital and liquidity. From January 2023 to October 2023, the Bank executed sales of approximately US\$886.8M through its B-FX-ITT facility, in addition to a US\$10.0M sale to Public Sector Entities. This signifies a 28.9% increase compared to the corresponding period in 2022.

The Bank net purchased from the market US\$893.1M, buoyed mainly by inflows from remittances and tourism.

Remittances continue to normalize

During the January to September 2023 period, remittance inflows to Jamaica totaled US\$2,525.6M, a 1.2% decline compared to the inflows for January to September 2022. BOJ expects remittances to normalize or decline further for FY2023/24.

Tourist Visitor Arrivals continues to exceed pre-COVID levels

In the September 2023 quarter, Jamaica welcomed 678,057 tourists, a year-over-year increase of 8.8%, which is more moderate compared to the 53.0% increase recorded for the same period in 2021. Visitor arrivals for the September 2023 quarter showed a 7.7% increase compared to the pre-pandemic period of September 2019. Despite predictions of weakness in source markets, it is anticipated that visitor arrivals will continue to improve.

The pace of growth for Private Sector Credit has increased but still remains below pre-pandemic levels

Private sector credit grew by 12.2% at September 2023 and is marginally above the growth of 11.7% achieved in September 2022. The overall expansion in loans and advances was underpinned by increases of 13.5%

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and 11.2% in loans to the productive and the individual sector, respectively. Total Private sector credit in September 2023 accounted for 40.9% of GDP, slightly lower than the 42.7% of GDP observed a year earlier.

Jamaica's credit rating upgraded by Credit Rating Agencies

On October 18, 2023, Moody's Investor Service upgraded the GOJ's long-term issuer and senior unsecured ratings from B2 to B1 and adjusted the country's economic outlook from Stable to Positive. This enhancement follows positive evaluations by Standard and Poor's Global Ratings (S&P) in September 2023 and Fitch Ratings in March 2023.

Moody's decision to raise the rating is based on the analysis that, despite faced with various external shocks, the GOJ has consistently maintained a sustainable fiscal policy anchored on Jamaica's medium term debt target.

As at June 2023, all the quantitative indicative targets and structural benchmarks under the IMF Precautionary and Liquidity Line (PLL) and Resilience and Sustainability Facility (RSL) Arrangements were achieved

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, providing a total access of US\$1.7B (with US\$968M allocated to the PLL and \$764M for the RSF).

The first review of the approved IMF arrangement under the PLL and RSF, aligned with the country's efforts to enhance its resilience to climate change risks, was successfully completed during the IMF Executive Board of Directors meeting on August 31, 2023.

At end-March 2023, the central government's overall fiscal balance stood at J\$7.8B, surpassing the target of J\$7.5B.

NIR totaling US\$4.15B at end-March 2023 exceeded the indicative target of US\$3.54B. The target for end-September 2023 was adjusted upwards to account for more robust reserve accumulation in FY2023/24.

The IMF noted that Jamaica's "economic fundamentals and institutional policy frameworks are sound, the country has a track record of implementing sound policies, and it remains committed to doing so in the future."

Labour market remains tight as unemployment rate remains at an all-time low of 4.5%

The labour market remains very tight as the unemployment rate held steady at 4.5% in July 2023, mirroring the rate recorded in April 2023. This signals a continued improvement in the labour market compared to the 6.6% observed in July 2022. Since July 2022, approximately 47,100 individuals secured employment, with the largest increase in the 'Real Estate and Other Business Services' and 'Construction' industries. For the similar period, the number of persons outside the labour force declined by 16,800 from 739,600 to 722,800 persons, which is a positive development as more people begin to actively seek work.

GDP Performance - PIOJ projects 1.9% growth for Q2 and 1%-2% growth for 2023/24 FY

The Planning Institute of Jamaica (PIOJ) estimated real GDP growth of 1.9% for the September 2023 quarter relative to the corresponding quarter in 2022. All industries, with the excep-

tion of Agriculture, Forestry, and Fishing; Construction; Wholesale and Retail Trade; and Producers of Government Services are projected to experience growth. The overall performance during the review quarter was largely influenced by increased employment levels, which contributed to higher demand. Additionally, the Mining & Quarrying industry saw the strongest growth, a result of improved capacity utilization. The tourism sector maintained its growth momentum, evident in enhanced performances across the Hotels & Restaurants industry.

For FY2023/24, the PIOJ projects real GDP growth within the range of 1.0% - 2.0% down from 4.7 % for FY2022/23. This projection is largely underpinned by continued expansion in most industries, higher employment resulting in increased domestic demand. Strong growth momentum is projected for the Mining sector and the Hotels and Restaurants Industry and related industries.

Global inflation and monetary policy actions by the US federal Reserve and the "higher for longer interest rates" narrative continue to drive monetary policy both globally and in Jamaica

While the US Fed Reserve has held interest rates in 5.25%-5.5% range, the Fed guidance has been higher interest rates for longer periods. This creates a floor for many Central banks including the BOJ, as they seek to maintain an interest rate differential between US FED interest rate and the Jamaican policy rate of 7%.

The IMF baseline forecast for global growth is 3.0% in 2023 and a decline to 2.9% in 2024. The US economy is expected to slow into the last quarter of 2023 and into 2024 based on the aggressive rate hikes of the US FED over the recent past.

Despite a slowing growth in the global and US economy, Jamaica's economy continues to record positive growth, quarter over quarter, over the last 14 quarters even as growth rate normalizes in the range of 1%-3%.

Upside risks to domestic inflation continue to occupy the BOJ's minds as future domestic wage

adjustments exceeding projections in the context of a tight domestic labor market, could contribute to a further increase in inflation projections. Additionally, the second-round effects from increased public passenger vehicle (PPV) fares, increased agricultural prices and worsening supply chain conditions, could also negatively impact BOJ's inflation projections. The GOJ, through the Ministry of Finance, would have announced reductions in the JUTC bus fares to offset the increases which were granted to PPV transport operators to cushion the impact on inflation into the new calendar year.

Higher interest rates and a tight monetary policy, if sustained in the 'higher for longer' scenario, could create a real dilemma for the GOJ and the BOJ balancing the upside risks for inflation and the downside risks for GDP growth, as the impact of a sustained tight monetary policy begin to take greater hold on the private sector. This could slow domestic investments, spending, economic activities, and tax revenues which could have a negative impact on the macroeconomic assumptions and specifically the fiscal projections.

EPOC recognizes the GOJ's efforts to ensure sustainability of Jamaica's public debt. The GOJ, in its efforts to remain fiscally prudent, has projected a public debt of 74% of GDP in FY2023/24 and is committed to a further decline to 60% of GDP by FY2027/28, as prescribed by the Fiscal Responsibility Law. This commitment to debt reduction has seen the continued increase in fiscal space, which has allowed for the significant public sector compensation increases along with increase in GOJ expenditures inclusive of higher interest costs, programs and capital expenditure.

EPOC acknowledges the GOJ for meeting its targets under the Precautionary and Liquidity Line and Resilience and Sustainability Facility Arrangements and encourages the GOJ to maintain its focus on execution of its policy commitments, structural benchmarks and quantitative targets under both programs which come to a close in approximately 18 months.

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