



Update on the GOJ Economic Reform Programme (ERP)

May 2024 • Communiqué #45

Tax Revenues underperform, Inflation moves within BOJ target range, NIR hits historic highs

The EPOC met on April 12, 2024 to review the Fiscal and Monetary Quantitative Performance indicators under the Government of Jamaica's Economic Reform Programme.

- End-March 2024 Tax Revenues significantly underperformed budget
- Inflation of 5.6% for March 2024 signals a return of the rate to the Bank's target range
- Net International Reserves (NIR) at historic levels of US\$5.14B at end-March 2024
- All indicative targets and structural benchmarks under the IMF Precautionary and Liquidity Line (PLL) and the Resilience and Sustainability Facility (RSF) at end-December 2023 were met.

The following were key highlights noted by EPOC:

PROGRAMME REVIEW: APRIL 2023 – MARCH 2024 PERFORMANCE AGAINST FOURTH SUPPLEMENTARY ESTIMATES

Jamaica's selected fiscal indicators for April to March 2024 underperformed budget with both Fiscal balances and Primary surplus targets being behind the fourth supplementary estimates.

Selected GOJ Fiscal Indicators	Status FY2023/24 Relative to Budget*	FY2023/24 Provisional (Prov.)	FY2023/24 Budget *	Variance (\$)	Variance (%)	FY2022/23 (Actual)	Variance (\$)	Variance (%)
				FY2023/24 (Prov. vs Budget)			FY2023/24 Prov. vs FY2022/23 Actual	
Revenue & Grants (J\$B)	●	925.3	947.7	-22.4	-2.4	827.8	97.5	11.8
Tax Revenue (J\$B)	●	831.6	856.4	-24.8	-2.9	752.8	78.7	10.5
Non-Tax Revenue (J\$B)	●	83.8	82.4	1.4	1.7	67.3	16.5	24.4
Total Expenditure (J\$B)	●	924.1	938.5	-14.4	-1.5	820.0	104.1	12.7
Recurrent Expenditure (J\$B)	●	868.2	879.5	-11.2	-1.3	766.8	101.4	13.2
Capital Expenditure (J\$B)	●	55.9	59.0	-3.2	-5.4	53.2	2.7	5.0
Fiscal Balance (J\$B) (Surplus + / Deficit -)	●	1.2	9.1	-8.0	-87.2	7.8	-6.6	-84.9
Primary Balance (J\$B) (Surplus + / Deficit -)	●	173.3	181.9	-8.5	-4.7	159.2	14.2	8.9

● Target Missed/ Below Target ● Above/Better than Budget ● Within Budget

* Based on Fourth Supplementary Estimates. Note: Discrepancies in the table due to rounding of figure

Revenues and Grants behind 2023/24 budget targets

Revenue Outturn – Full Year 2023/24

Total Revenues and Grants outturn of \$925.3B was \$97.5B (11.8%) greater than the previous year but was behind budget by \$22.4B (2.4%).

Tax Revenues outturn of \$831.6B was \$78.7B (10.5%) greater than the previous

year but came in \$24.8B (2.9%) behind budget.

Income and Profits revenues underperformed budget

The revenue outturn from taxes on income and profits was \$274.1B which is \$15.7B (5.4%) behind budget and \$38.3B (16.3%) higher than the previous year.

Specifically, Corporate Income tax came in at \$93.2B which was \$14.3B

behind target and basically flat year over year. Notably, PAYE was in line with budget at \$134.6B and \$27.2B (25.3%) above previous year.

Production and Consumption revenues marginally behind budget

Revenues from Production and Consumption, which came in at \$263.0B were lower than the budget by \$3.6B but \$30.3B (13%) above the previous fiscal year. Noteworthy is

General Consumption Tax (local), which was marginally ahead of budget at \$158.8B and was \$28.2B (21.6%) greater than the previous year.

Revenues from International Trade behind budget

International trade receipts had a total outturn of \$294.5B, which was \$5.5B behind budget but was however \$10.1B (3.6%) greater than the previous fiscal year earnings.

Revenue Outturn – March 2024

Selected GOJ Fiscal Indicators	March 2024 (Provisional)	March 2024 Budget	Variance (\$)	Variance (%)	March 2023 Actual	Variance (\$)	Variance (%)
			(Actual vs Budget)			March 2024 Prov. vs March 2023 Actual	
Revenue & Grants (J\$B)	131.2	160.5	-29.3	-18.3	128.2	3.0	2.3
Tax Revenue (J\$B)	111.9	140.0	-28.1	-20.1	110.0	1.9	1.7

The revenue underperformance relative to budget for 2023/24 was primarily due to the revenue outturn for the month of March 2024. Total Revenues for March 2024 were 2.3% higher than March 2023 but was \$29.3B (18%) less than budgeted. Tax Revenues for March 2024 were 1.7% higher than March of the previous year but \$28.1B (20.1%) less than budgeted.

Expenditures marginally behind budget

Expenditure (net of amortization) totaling \$924.1B for FY2023/24 was \$14.4B (1.5%) lower than programmed. This was primarily

attributed to lower-than-planned: Recurrent Programme spending (down \$10.3B) and Capital Expenditure (down \$3.2B). Total Wages and Salaries of \$378.2B was however, in line with budget.

Public Sector Compensation and Interest costs drove the increase in Expenditures

Expenditure for FY2023/24 was \$104.1B (12.7%) higher relative to FY2022/23, underpinned by a \$101.4B increase in Recurrent Spending. This increase in recurrent expenditures was substantially driven by the public sector compensation

restructure exercise which led to a \$60.3B (19.0%) increase above previous year and Interest Costs which were marginally in line with budget but \$20.8B (13.7%) above previous year due to higher interest rates in the domestic and international markets.

Fiscal and Primary Balances underperform targets

The Central Government operations reflected a fiscal surplus of \$1.2B which was \$8.0B behind the target of \$9.1B.

The primary surplus of \$173.3B also fell

short of budget surplus by \$8.5B. This was, however, \$14.2B above the primary surplus of \$159.2B recorded for FY2022/23.

FY2023/24 Debt to GDP is projected to close the fiscal year at 72.2%, ahead of the initial projection of 74.2%

Total Debt is estimated to be \$2.2T or 72.2% of GDP at end-March 2024, representing a 4.9 percentage point reduction over the outturn at end-March 2023.

The GOJ FY2024/25 Budget

In March 2024, the Government of Jamaica (GOJ) presented the **FY2024/25 National Budget with expenditures of \$1.341 trillion**, which was \$249.2B (22.8%) higher than the Fourth Supplemental budget for FY2023/24.

Budgeted Expenditures (net of amortization) of \$1.02T, which comprises \$943.7B in Recurrent Expenditure and \$80.0B in Capital Spending, represents a 10.8% increase over the \$924.1B for FY2023/24.

The overall budgeted recurrent expenditure for 2024/25 includes recurrent programme spending of \$327.8B and Compensation of Employees of \$442.0B.

Total Wages and Salaries, the main component of Compensation of Employees, is budgeted at \$414.2B, an increase of \$36.0B (9.5%) relative to the 2023/24 outturn.

The \$80B capital expenditure of the GOJ includes \$20B to commence the implementation of the "Shared Prosperity through Accelerated improvement to our Road network (SPARK)" programme for FY2024/25.

The Debt Service Expenditure of \$491.2B, which includes budgeted interest payments of \$173.8B and \$317.8B allocation for Amortization, was above the 2023/24 outturn by 58.6%.

Funding of the Budget

The 2024/25 budget will be funded by the expected \$1.24T in Revenue and Loan receipts, which is \$99.9B above the estimate for FY2023/24. This budget includes Tax and Non-tax earnings of \$924.4B and \$103.7B, respectively.

Securitization of receivables

There will be a flow of \$45B from the sale of receivables of which \$20B is included in non-tax revenues and \$25B to fund the Revenue measures.

LIST OF REVENUE MEASURES	Revenue Impact (\$B)	% of GDP
Reverse Income tax credit for certain individuals	(1.400)	0.339
Increasing the annual personal income tax threshold from \$1.5M to \$1.7M.	(8.951)	0.266
Removal or GCT on imported raw food	(2.420)	0.072
An increase in tax exemption benefits for pensioners	(1.073)	0.032
An increase in the de minimis value for imported goods from US\$50 to US\$100	(0.864)	0.026
An increase in the passenger duty-free threshold for personal household effects not imported for sale or commercial exchange from US\$500 to US\$1,000	(0.331)	0.010
Remove GCT tax on the cost of armoured vehicles	(0.050)	0.001
A reduction in the corporate income tax rate from 33.3 to 25.0% for independent power producers (IPP) producing 75.0% or more of their energy from renewable sources.	(0.031)	0.001

CENTRAL GOVERNMENT BUDGET 2024/25 vs FY 2023-24 FOURTH SUPPLEMENTARY ESTIMATES and PROVISIONAL OUTTURN

(in millions of dollars)

Item	Budget	4th Suppl Estimates	Variance		Provisional	Variance	
	FY 2024/25	FY 2023/24	\$	%	FY2023/24	vs 2024/25 Budget	%
Revenue and Grants	1,033,594.6	947,666.3	85,928.3	9.1%	925,283.0	108,311.6	11.7%
Tax Revenue	924,376.3	856,372.3	68,004.0	7.9%	831,573.9	92,802.4	11.2%
Non-Tax Revenue	103,701.1	82,395.1	21,306.0	25.9%	83,780.8	19,920.3	23.8%
Bauxite Levy	887.5	1,342.4	-454.9	-33.9%	1,795.5	-908.0	-50.6%
Capital Revenue	0.0	0.0	0.0	-	0.0	0.0	-
Grants	4,629.7	7,556.4	-2,926.7	-38.7%	8,132.9	-3,503.2	-43.1%
Expenditure	1,023,725.1	938,524.0	85,201.2	9.1%	924,110.8	99,614.3	10.8%
Recurrent Expenditure	943,725.1	879,496.7	64,228.5	7.3%	868,247.2	75,477.9	8.7%
Programmes	327,848.7	302,767.7	25,081.0	8.3%	292,463.8	35,384.9	12.1%
Compensation of Employees	442,047.7	404,001.3	38,046.4	9.4%	403,618.2	38,429.5	9.5%
Wages & Salaries	414,198.7	378,533.7	35,665.0	9.4%	378,213.2	35,985.5	9.5%
Employers Contribution	27,849.0	25,467.6	2,381.4	9.4%	25,405.0	2,444.0	9.6%
Interest	173,828.7	172,727.7	1,101.1	0.6%	172,165.3	1,663.4	1.0%
Domestic	67,972.9	71,553.3	-3,580.4	-5.0%	70,905.9	-2,933.0	-4.1%
External	105,855.8	101,174.4	4,681.5	4.6%	101,259.4	4,596.4	4.5%
Capital Expenditure	80,000.0	59,027.3	20,972.7	35.5%	55,863.5	24,136.5	43.2%
Capital Programmes	80,000.0	59,027.3	20,972.7	35.5%	55,863.5	24,136.5	43.2%
Fiscal Surplus	9,869.5	9,142.3	727.1	8.0%	1,172.3	8,697.2	741.9%
Amortization	317,339.6	138,627.1	178,712.5	128.9%	137,571.6	179,768.0	130.7%
Domestic	170,678.8	21,731.3	148,947.5	685.4%	21,692.9	148,985.9	686.8%
External	146,660.9	116,895.8	29,765.0	25.5%	115,878.8	30,782.1	26.6%
Primary Surplus	183,698.2	181,870.0	1,828.2	1.0%	173,337.5	10,360.7	6.0%
Total Expenditure	1,341,064.8	1,091,838.1	249,226.7	22.8%	1,061,682.4	279,382.4	26.3%

LIST OF REVENUE MEASURES (cont'd.)	Revenue Impact (\$B)	% of GDP
Tax relief for some companies (Trust and Corporate service providers) that was under FSC which pay tax of 33.3% will be reduced to 25.0%	0	0
Income Tax Act will be amended to increase the maximum participating voting share capital of companies listed on the Junior Stock Exchange from \$500.0M to \$750.0M	0	0
TOTAL ESTIMATED LOSS (\$B)	(25.120)	0.747
Funded Bv: Securitisation of Government Receivables	25.120	
NET COST	0	0

Source: Ministry of Finance & the Public Service

The two big ticket revenue measures are the reverse income tax credit for individuals earning up to \$3M, which is expected to result in a revenue impact of \$11.4B and secondly the increase in annual personal income tax threshold from \$1.5M to \$1.7M which, based on their assessment, will have a revenue impact of \$8.9B.

The Bank of Jamaica (BOJ) noted that, based on preliminary assessment of the overall revenue measures, there is no significant threat to inflation.

The GOJ's budget is programmed to generate fiscal and primary balance surpluses of \$9.9B and \$183.6B (5.7% of GDP), respectively. Jamaica's debt to GDP ratio is projected to fall from 72.2% to 67.3% in FY2024/25.

The key macroeconomic projections that underpinned the GOJ's FY2024/25 Budget include real GDP growth of 1.8% and point-to-point inflation of 5.8%. The GOJ however highlights that downside risks to the growth forecasts could emanate from a slowdown in global economic activity.

New Catastrophe Bond Issued

The World Bank has priced a catastrophe (cat) bond that finances US\$150M of insurance coverage for the Government of Jamaica against named storm events. This is the renewal of the World Bank's 2021 cat bond for Jamaica, which seeks to ensure the availability of fiscal resources to enable an immediate response to emergency expenditures that could arise from a direct hit by a high intensity hurricane. This catastrophe bond covers hurricane seasons 2024, 2025, 2026 and 2027 and complements other disaster risk financing instruments that are in place.

Monetary Performance

Inflation on a general downward trend returns to BOJ target range

- **The 12-month point-to-point inflation rate for March 2024 was 5.6%**, within the Bank's target range of 4.0%-6.0%. The last time that inflation was within the target range was October 2023.
- **Core inflation, measured as the annual change in the consumer price index (CPI) excluding food and fuel prices, stood at 5.9% at March 2024.** This was lower than the 6.1% reported in both February 2024 and March 2023.

The BOJ's Policy Rate remains unchanged at 7.0% since November 2022

The BOJ's Monetary Policy Committee (MPC) announced its decision to maintain its policy rate (the rate offered to depos-

it-taking institutions on its overnight balances) at 7.0%, effective March 28, 2024. Additionally, the MPC also committed to maintaining relative stability in the foreign exchange market along with continued tight Jamaican dollar liquidity conditions.

At the time of the announcement, the BOJ's most recent assessment suggested that inflation would remain above the Bank's target range over the March 2024 to June 2025 quarters primarily due to the continuing impact of past and impending increases in public passenger vehicle (PPV) fares.

The Government has subsequently announced the postponement of the second phase PPV fare increase which was scheduled to take effect in April 2024.

The BOJ will be revising its projections based on the incoming data for consideration by the MPC at the next policy decision which is due on May 20, 2024.

Jamaica's Reserves remains more than adequate as the NIR exceeds US\$5B

The BOJ's gross international reserves (GIR) increased by US\$363.1M relative to end December 2023 to reach US\$5,231.8M at end March 2024. This amount represented 122.2% of the projected Assessing Reserve Adequacy (ARA) metric for FY2023/24. The increase was primarily attributed to net foreign exchange (FX) purchases totaling US\$448.1M and the allocation of funds from the IMF's Resilience and Sustainability Facility (RSF) to Jamaica, amounting to US\$253.9M. However, these gains were partly offset by net outflows of US\$329.8M from the GOJ.

The net international reserves (NIR) stood at US\$5,137.3M at March 2024.

Foreign Exchange (FX) Market has remained relatively stable

At end-March 2024, the exchange rate



Update on the GOJ Economic Reform Programme (ERP)

May 2024 • Communiqué #45 (cont'd.)

of \$154.70 to US\$1.00 represented a 0.2% (\$0.25) appreciation relative to end December 2023. The appreciation in the Jamaican dollar was mainly driven by robust FX inflows as well as increased demand for Jamaican dollar liquidity to meet tax obligations, particularly in the latter part of the quarter.

During the quarter, the BOJ intervened in the market through the Foreign Exchange Intervention and Trading Tool (B-FXITT) flash sale operations on eight occasions, with an average sale of approximately US\$26.0M. These sales were marginally in line with the average of US\$26.8M sold for the December 2023 quarter.

Remittances continue to normalize

Net remittance inflows of US\$2,392.3M declined by US\$90.2M (3.6%) relative to the corresponding period in FY2022/23. This decline stemmed from a reduction of US\$77.5M (2.9%) in total remittance inflows, as well as an increase of US\$12.8M (7.8%) in remittance outflows.

Tourist arrivals well above pre-pandemic levels

For the March 2024 quarter 753,382 tourists visited Jamaica. This represented an annual increase of 7.6% over the same period last year. A total of 2.8M tourists visited Jamaica in FY2023/24, representing an annual increase of 9.0% relative to FY2022/23.

New loan disbursements continue to increase

Private sector credit expanded by 19.6% (\$10.6B) to \$64.5B as at January 2024, relative to January 2023. This outturn reflected growth in disbursements to individuals and businesses.

Based on the performance to end-December 2023 indicators, all targets and structural benchmarks for the second review under Jamaica's Precautionary and Liquidity Line (PLL) and Resilience and Sustainability Facility (RSL) Arrangements with the IMF were achieved.

On February 28, 2024, the IMF Executive Board concluded the Article IV consultation and second reviews under Jamaica's PLL and RSF arrangements.

The IMF staff indicated that the program performance under the Second Review of the PLL and RSF remains strong. All indicative targets and structural benchmarks for the PLL were met and the program continues to support efforts to build policy buffers, enhance financial supervision and strengthen the Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) framework. The RSF reform measures, to conduct climate impact assessments of projects, define investment projects' selection criteria, and advance inclusion of climate risks in financial supervision, were met. The reform measure to establish a natural disaster reserve fund was also assessed to be met, albeit with a minor deviation.

The successful completion of the review unlocked SDR191.45M (approximately US\$253.9M) under the RSF, which was credited to the GOJ on March 1, 2024. The third review, based on the March 31, 2024 quantitative targets, and program performance to end-June 2024, is scheduled for August 31, 2024.

Labour market continues to achieve historically low unemployment rates

Jamaica's unemployment rate at October 2023 declined to a historic low of 4.2% in October 2023 down from 7.1% in October 2021.

There was a positive movement in the labour force as at October 2023 as it increased by 48,900 compared to October 2021 principally reflecting a reduction of 5.5% in the number of persons outside the labour force.

GDP growth continues but is expected to moderate to historic range of 1%-2%

GDP grew by 2.6% for calendar year 2023 compared to growth of 5.2% for calendar year 2022.

The Statistical Institute of Jamaica (STATIN) reported that the Jamaican economy expanded by 1.7% for the October to December 2023 quarter compared to the same period in 2022. This growth represents the 14 consecutive quarter over which the economy grew.

The increase in GDP for the quarter reflected expansions in all Industries with the exception of Construction (-3.8%) and producers of Government Services (-0.4%) industries.

Notable growth of 8.3% and 21.5% were highlighted for the Hotels and Restaurants and Mining and Quarrying Industries, respectively.

For the January to March 2024 quarter, growth is projected to be within the range of 1.5% to 2.5%. The BOJ projects GDP growth of 1%-3% for 2023/24 and 1%-2% for 2024/25.

The Ministry of Finance and Public Service (MOFPS) projects growth of 1.8% for 2024/25, which is a key assumption driving the 2024/25 budget.

Outlook and Highlights

Global economic recovery is sluggish with downside risks

Despite a decline in global inflation from its peak in mid-2022, economic growth remained steady, defying predictions of a global recession. Global growth, estimated at 3.2% in 2023, is projected to continue at the same pace in 2024 and 2025.

Global inflation is forecasted to decline steadily, from 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025, however the geopolitical tensions could cause worsening of supply

chain conditions which could precipitate increases in shipping costs and higher oil prices.

Jamaica

Against this global background, the BOJ projects GDP growth of 1%-2% for FY2024/25, while the GOJ's projections are at the top of the range at 1.8% GDP growth. These GDP projected growth numbers could be at risk, as the contractionary monetary policy continues in earnest.

The tight liquidity conditions and the elevated interest rates in the domestic market are adversely impacting businesses and consumers. This has begun to show visible signs as corporate income taxes have underperformed the GOJ budget targets and have remained flat year over year.

Financial Services have been negatively impacted, as they have seen margin compression. Financial institutions have been unable or reluctant to pass on interest rate increases on loans to their clients as pointed out by the BOJ where weighted average interest rates private sector loans increased by just 40 basis points (0.4%).

The knock-on effect of spread compression in the Financial Sector as the Minister of Finance and Public Service has pointed out, is that Financial Services profitability has fallen year over year and lower taxes have been remitted.

Inflation projections

The BOJ has highlighted that inflation is on a general downward trend. However, the Bank, in communicating its policy decision to hold the policy rate at 7% announcement on March 28, 2024, also projected inflation to exceed the target range of 4%-6% until the September 2025 quarter.

However, with the postponement of the April 1, 2024, increase in PPV fares, it is expected that there could be some moderation in the BOJ projections for inflation over the next 18 months and from recent statements from the Central Bank Governor, Jamaica could see possible interest rate reductions, which businesses and the consumers would welcome.

There however remain upside risks as supply chain conditions could deteriorate with the geopolitical risks along with adverse weather events.

Fiscal Risks are elevated

Tax Revenues were significantly behind budgeted targets for the month of March 2024 by \$28B (20%) and only marginally ahead of the March 2023 outturn. There would be increased risks to the revenue targets outlined in the 2024/25 Budgets, as the Tax Revenues, while increasing by over 10% year over year, missed the estimates in the fourth supplementary budget.

Degrees of freedom on expenditures

are limited

With these updated numbers, which were not available when the budget was crafted, it is expected that the MOF will need to factor this into their plans going forward and revisions seem highly likely.

The GOJ has projected inflows of \$45B from the securitization of receivables in the 2024/25 budget which will fund the revenue measures and is included in the non-tax revenue line of the budget. These are one off inflows for the year and are more than likely not repeatable as a funding source into the 25/26 financial year.

With significant increases in Public Sector Wages and Salaries from \$222B in 2021/22 or 9.6% of GDP to \$414B (12.6% of GDP) in 2024/25 discretionary spending is limited and this reduces the flexibility in expenditures.

With this unprecedented increase of approximately \$200B over the past three fiscal years, it is important that productivity levels within the public service are increased. To this end, the MOF has committed resources to the design and implementation of a performance management system, which should drive increased productivity and greater efficiency in delivery of services to the people of Jamaica.

Optimal Monetary Policy mix

As the macroeconomic variables continue to be stable with inflation trending downwards and Net International Reserves being at historic levels, there is a window of opportunity to optimize the monetary policy mix.

The BOJ has been proactive and ahead of the curve in targeting inflation but may need to, as the BOJ Governor has indicated, look to ease interest rates armed with Jamaica's healthy international reserves which gives the BOJ the ability to continue its successful efforts in maintaining exchange rate stability with minimal risks to the inflation targets.

Easing of monetary policy could change the market dynamics and bring some relief to businesses and consumers who could begin to reposition for investments in the real economy.

As the GOJ has demonstrated the political will to maintain fiscal responsibility and the BOJ as Jamaica's independent central bank has been committed to inflation targeting, with some signs of weakness in tax revenues it seems apparent that there will have to be adjustments to the policy mix to ensure Jamaica can continue to maintain its stellar record of macroeconomic stability and debt reduction.