

## Update on the

# **GOJ Economic Reform Programme (ERP)**

## September 2024 · Communiqué #46

### FISCAL PROGRAMME REVIEW: APRIL – JULY 2024

Jamaica's selected fiscal indicators for the period April to July 2024 exceeded budget expectations, with both the Fiscal and Primary balances outperforming projections

Selected GOJ Fiscal Indicators	Status April-July 2024 Relative to Budget	April-July 2024 Provisional (Prov.)	April-July 2024 Budget	Change (\$)	Change (%)	April-July 2023	Change (\$)	Change (%)
Selected GOJ Fiscal Indicators				April-July 2024 (Prov. vs Budget)		(Actual)	April-July 2024 vs April-July 2023	
Revenue & Grants (J\$B)	•	301.9	289.0	12.9	4.5	280.6	21.3	7.6
Tax Revenue (J\$B)	•	270.8	267.1	3.7	1.4	256.4	14.5	5.6
Non-Tax Revenue (J\$B)	•	27.5	20.5	7.0	34.2	22.0	5.6	25.3
Total Expenditure (J\$B)	0	336.2	342.3	-6.2	-1.8	299.0	37.1	12.4
Recurrent Expenditure (J\$B)	0	316.8	322.0	-5.2	-1.6	284.4	32.4	11.4
Capital Expenditure (J\$B)	0	19.4	20.4	-1.0	-4.8	14.6	4.8	32.7
Fiscal Balance (J\$B) (Surplus + / Deficit -)	•	-34.3	-53.4	19.1	35.8	-18.4	-15.8	-86.0
Primary Balance (J\$B) (Surplus + / Deficit -)	•	21.7	2.3	19.4	856.8	34.6	-12.9	-37.2

Above/Better than Budget

Within Budget

#### Revenue and Grants exceeded budget target

Total Revenue and Grants of \$301.B for April to July 2024 outperformed the budget projections by \$12.9B (4.5%), with contributions of \$270.8B from

Tax Revenue and \$27.5B from Non-Tax Revenue. This outturn represents a year-overyear increase of \$21.3B (7.6%) compared to April to July 2023, reflecting ongoing improvements in domestic economic activities, though at a slower

pace, along with gains in corporate profits and labor market conditions.

Tax Revenue surpassed the budget by \$3.7B (1.4%) for the review period. This was primarily due to stronger-than-expected total Income and Profits, which was \$5.5B higher than budget, as Other Companies and Tax on Interest were ahead by \$2.8B (17.1%) and \$2.3B (21.8%), respectively. However, this positive impact was tempered by the lower-than-projected receipts from

The EPOC met on September

2, 2024 to review the Fiscal

and Monetary Quantitative

Performance indicators un-

der the Government of Ja-

maica's Economic Reform

The following were key

**Revenues and Grants for** 

April to July 2024 outper-

formed budget while Ex-

highlights noted by EPOC:

#### Note: Discrepancies in the table due to rounding of figure

penditures were within budget

Jamaica successfully completes the IMF programme amid slowing GDP growth

> Inflation of 5.1% for July 2024 remains within the Bank's target range

**BOJ** lowered its policy rate to 6.75%, marking the first reduction from since August 2019

Net International Reserves (NIR) totaling US\$5.1B at end-July 2024 remain robust

Except for the fiscal balance, all targets and structural benchmarks for the third review under Jamaica's Precautionary and Liquidity Line (PLL) and Resilience and Sustainability Facility (RSF) arrangements with the International Monetary Fund (IMF) were met

Production and Consumption, and International Trade, despite Special Consumption Tax (SCT) imports surpassing the target by \$1.3B (5.7%). Notably, travel tax with inflows of \$9.5B was \$2.1B behind target reflecting slower than projected visitor

Non-Tax revenue, which exceeded the budget by \$7.0B (34.2%), was positively impacted by the drawdown of the Government of Jamaica's (GOJ) insurance policies with the Caribbean Catastrophe Risk Insurance Facility (CCRIF).

## Expenditure marginally behind budget

Government expenditure (above-the-line (above-the-line spending), which amounted to \$336.2B, was \$6.2B (1.8%) below the budget but \$37.1B (12.4%) higher than the total spending for April to July 2023. The shortfall relative to budget primarily reflected lower-than-anticipated recurrent spending. Total recurrent spending for April to July 2024 was \$32.4B higher compared to the same period in 2023 due to higher programme spending and increased wage bill, consequent on the public sector compensation re-structure. Capital Expenditure of \$19.4B was \$986M behind budget but exceeded capital spending for the similar period in the previous fiscal year by \$4.8B.

Expenditure on wages and salaries amounted to \$139.3B, aligning with the budget but representing a \$6.4B increase over the same period in 2023. Similarly, interest costs of \$56.0B for the review period were broadly in line with the budget.

#### **Fiscal and Primary Balances** outperformed targets

For the review period, the Central Government operations resulted in a fiscal deficit of \$34.3B compared to a budgeted deficit of \$53.4B. This deficit was however higher than the \$18.4B deficit recorded for April to July 2023.

A primary surplus of \$21.7B was generated for the review period. This exceeded the budgeted surplus of \$2.3B but was \$12.9B lower than the surplus reported for April to July 2023.

# **Notable Fiscal Developments**

Jamaica benefitted from the GOJ's Disaster Risk Financing Strategy following the passage of Hurricane Beryl

Facility	Amount (\$USM)	Amount (\$JB)	Drawdown (Yes/No)
Contingencies Fund and National Natural Disaster Fund		4.5	Yes
CCRIF Tropical Cyclone Policy	16.6	Equivalent of 2.6	Yes
CCRIF Excess Rainfall Policy	10.3	Equivalent of 1.6	Yes
IDB Credit Contingent Claim	385		No
World Bank Cat Bond	150		No
IMF Precautionary and Liquidity Line	963		No

# **Monetary Performance**

The Bank of Jamaica (BOJ) has signaled that inflation is becoming more anchored within its target range

The 12-month point-to-point in-flation rate of 5.1% for July 2024 marked the fifth consecutive month that inflation remained within the Bank's 4.0% to 6.0% target range. This continued downward trend is attributed to a fall in agricultural prices, lower international commodity prices, and a

generally stable exchange rate. Core inflation, measured as the annual change in the Consumer Price Index (CPI) excluding the prices of all food types and fuel prices (including transport), was 4.7% as at July 2024.

#### **BOJ reduced its Policy Rate by 25** basis points to 6.75%

The BOJ's Monetary Policy Committee (MPC) announced its decision to reduce the policy rate—the rate offered to deposit-taking institutions on overnight balances—from 7.0%, where it had remained unchanged since November 2022, to 6.75%, effective August 20, 2024. The MPC concluded that inflation is becoming more anchored in the Banks target range of 4-6% and reflects its assessment that the prevailing economic environment is conducive to a further cautious easing of its monetary policy stance.

The BOJ's next policy announcement is scheduled for September 30, 2024 and any future decisions to further ease its monetary stance will remain contingent on incoming data.

#### Jamaica's Reserves remain substantial at US\$5.1B

At end-July 2024, Jamaica's gross international reserves totaled US\$5,145.0M, representing 121.1% of the Assessing Reserve Adequacy metric for FY2024/25, which was set at US\$4,250.14M. The country's net international reserves (NIR) stood at US\$5,067.8M at end-July

### Foreign exchange market has remained relatively stable since the start of the year

The exchange rate at the end-August 2024, at J\$158.09 to US\$1.00, reflected a depreciation of 1.04% (J\$1.63) compared to the end-June 2024, and a year-over-year depreciation of 1.64% against the US dollar. There was an increase in the depreciation rate for July to August 2024 relative to the same two months in 2023.

## Remittances continue to normalize

Net remittance inflows of US\$1,070.0M, for April to July 2024 declined by US\$7.2M (0.7%) compared to the same period in the previous fiscal year. This was driven by a US\$8.9M (0.8%) reduction in total remittance inflows, which was partially offset by a US\$1.8M (2.4%) decrease in remittance outflows.

The BOJ expects remittances to nor-

malize over the near term.

## year for Q1 2024/25

For the June 2024 quarter, Jamaica welcomed 700,059 tourists, reflecting an annual decline of 0.8% relative to growth of 11% for June 2023 quarter. Preliminary data indicated that, for the month of July 2024, a total of 245,860 tourists visited Jamaica, a decline of 10.0% relative to July 2023. The US travel advisory issued on January 30, 2024 may have impacted visitor arrivals.

Disbursements of new loans to the private sector in June 2024 declined by \$17.4B (23.7%) compared to June 2023 reduction stemmed from a 17.9% de BOJ's ongoing tight monetary policy over the past three years. However, this in credit to individuals.

#### Jamaica successfully completed the 18-month IMF programme under the Jamaica's Precautionary and Liquidity Line (PLL) and Resilience and Sustainability Facility (RSF)

as precautionary and the completion of the reviews allow for a drawdown the GOJ on September 4, 2024.

All structural benchmarks were achieved, and the BOJ exceeded the reserves. Although the indicative target for the fiscal balance was narrowly missed due to a smaller-than-expectnegligible impact on the debt consol-

#### Labour market remain robust as Unemployment remains low at measurement definition

STATIN's revised Labour Force Survey for January introduced several changes which incorporated recommendations from the International Labour Organization (ILO)'s most recent International Conferences on Labour .

- A change to the definition of work. Work is now more narrowly defined as work performed for pay or
- was raised from 14 to 15

## Visitor arrivals declined year-over-

## New loan disbursements declined

bringing the total for April to June 2024 to \$185B, down from \$189.7B for the same quarter in 2023. The quarter's cline in credit to businesses across all productive sectors, except agriculture, and demonstrates the impact of the was partially offset by a \$13.8B increase

On August 30, 2024, the IMF Executive Board concluded the third and final reviews under Jamaica's PLL and the RSF. The PLL continues to be treated US\$980M under the PLL and US\$258M under the RSF which was drawn on by

indicative target for net international ed surplus at March 31, 2024, this had a idation plan.

# 5.4% adjusted upwards for new ILO

Among these changes are:

- An update to the age limit which
- A change to the definition of those

The CCRIF policies are among the GOJ's Disaster Risk Financing (DRF)

portfolio, which also includes a Contingent Credit Facility with the IDB (with available financing of up to US\$385M), and a Catastrophe Bond (with available financing of up to US\$150M). Furthermore, the GOJ's arrangement with the IMF under the Precautionary

The GOJ received a total payout of \$4.2B (US\$26.9M) from the Caribbe-

an Catastrophe Risk Insurance Facility

Segregated Portfolio Company (CCRIF

SPC) after Hurricane Beryl triggered its

parametric tropical cyclone insurance

policy (payout of \$2.6B or US\$16.6M)

and excess rainfall insurance policy

(payout of \$1.6B or US\$10.3M). In addi-

tion to the CCRIF policies, the portfolio

includes the Contingency Fund and

the National Natural Disaster Fund

(with available financing in excess of

classified as unemployed.

The new LFS indicated that, for January 2024, there were 1,486,400 persons in the labour force. Of this total, 1,405,700 were employed, and 5.4% or 80,700 were unemployed

	January 2024	October 2023 (Prior to New Classifi- cation)
Labour Force	1,486,400	1,377,600
Employed	1,405,700	1,320,400
Unemployed	80,700	57,300

## Source: STATIN

#### Flat Q1 GDP performance and contractionary fiscal year outlook due to Hurricane Beryl

The Planning Institute of Jamaica (PIOJ) estimated that for the April to June 2024 quarter, real GDP was relatively flat at 0.1% compared to the same period in 2023. This was largely driven by a flat outturn of 0.1% in the Hotel and Restaurant industry, a key driver of Jamaica's growth post COVID. Construction continues to decline. The Mining and Quarrying industry has normalized, while Agriculture, with a growth rate of 2.7%, continues to perform well this quarter. However, due to the impact of Beryl, a decline is ex-

#### GDP projections for 2024/25 reduced by the BOJ and PIOJ

The PIOJ also noted that the short-term outlook for the July-September 2024 quarter points to a contraction in output, primarily due to the impact of Hurricane Beryl on sectors such as Electricity and Water, and Agriculture. However, the full fiscal year 2024/25 projection is for lower than budgeted growth of 1.8% by the GOJ with growth estimates ranging from -1.0% to 1.0%, largely dependent on the pace of recovery from the effects of Hurricane

The Bank of Jamaica has projected real GDP within the range -1.0% to 0.5% for FY2024/25, driven by contractions in Agriculture, Forestry & Fishing and Construction. However, for FY2025/26, real GDP is projected to grow within the range of 1.5% to 3.5%, reflecting a rebound from the adverse effects of Hurricane Beryl and settle at the long run growth rate of 1-2% in the medium

## **Outlook and Highlights**

Jamaica's growth projections has been reduced from 1.8% to a range of -1.0% to 0.5% for FY2024/25

The global economy, despite relatively

and Liquidity Line (PLL) provides access to approximately US\$963.0M.

Hurricane Bervl did not trigger the Catastrophe Bond and there were no drawdowns from the contingent Credit Facility or the PLL. The GOJ remains committed to prudent management of resources, including disaster risk financing, to ensure the country is well-prepared for any storms or hurricanes later in the season.

**Supplementary Estimates expected** Given Jamaica's recent macroeconomic developments, a supplementary budget is expected to be presented to Parliament by end-September 2024. This budget will incorporate the fiscal impact of Hurricane Beryl, revenue measures announced by the Minister of Finance and the Public Service during his budget presentation in March 2024, and other emerging fac-

high interest rates, remains resilient with growth holding steady and projected at 3.2% for 2024 and 3.3% for

Globally inflation is trending lower as Central banks, including the Bank of Canada and the European Central Bank, have begun easing their policy rates. It is expected that Central Banks globally will continue to ease monetary policy in the short term, driven by incoming data. This should reinforce the BOJ's recent monetary policy direction and therefore, it is expected that the BOJ will continue easing monetary policy including further reduction in interest rates.

#### **BOT's Monetary Policy: Effective** in Inflation Targeting, Drying up Domestic Demand, and Slowing

Despite the expected rise in inflation above the Bank's target range be-tween August and December 2024 EPOC has observed a sustained downward trend in Jamaica's inflation rate into the 4.0%-6.0% target range demonstrating the effectiveness the BOJ's monetary policy actions in recent years. This achievement, consistent with the Bank's mandate to reduce domestic demand and economic activity, has led to lower growth in loans to businesses and reduced economic activity, as reflected in the PIOJ's Q1 GDP growth estimate of a

## **Balancing Inflation and growth**

EPOC believes that the BOJ's mandate could possibly take into consideration balancing inflation targeting with the growth dynamics of the economy, especially given that Jamaica has little margin for erosion of growth, as the economy normalizes in its long-term growth rate of 1% to 2%.

Looking ahead, the risks to the domestic GDP forecast are skewed to the downside over the short to medium term, depending on the pace of easing of monetary policy, including the pace and quantum of reduction of interest rates, domestic and external demand and also the risks of weather-related

However, if the estimated impact from Hurricane Beryl is overestimated and/ or the recovery from the Hurricane is faster than forecasted. Jamaica could see an upward adjustment to GDP

## **Fiscal Risks**

## Tax Revenues at risk

In the 2024/25 budget tabled by the Minister of Finance and Public Service (MOFPS), the GDP growth target was 1.8%. In light of the estimated slowing of the economy for the April to June 2024 quarter and the impact of Hurricane Beryl, the growth projections have been reduced to -1.0% to 0.5% for FY2024/25. EPOC, therefore expects that with the

estimated reduction in economic activity, tax revenues are highly like to be tors that may influence Jamaica's fiscal outlook.

### Securitization of Receivables

The Minister of Finance shared a target of \$45B for securitization of receivables to fund the capital expenditure associated with the SPARK Programme, as well as fiscal measures that were tabled in the 2024/25 Budget. EPOC understands that work is ongoing in this area and it is expected that details will be shared with the

#### **Fiscal Commission**

The Fiscal Commission, which was established to create a robust framework that will enhance Jamaica's fiscal transparency and accountability, is expected to commence operation in calendar year 2025.

negatively impacted.

#### Jamaica needs to contemplate the reintroduction of the Wages and Salaries Fiscal Rule

As GDP moderates and slows, wages and salaries, which were projected to be 12.6% of GDP, could increase in relation to GDP. With wages and salaries being already high and consuming approximately 44% of total tax revenues. Jamaica could continue to see this ratio moving higher, as economic activity slows along with growth in tax revenues.

These ratios are extremely worrisome as the wages and salaries reduces fiscal flexibility and, if not controlled, could crowd out other areas of expenditure including capital expenditure and services to the Jamaican public including the social safety net which support the vulnerable.

As the GOJ completes outstanding negotiations with sections of the Public Sector and goes into a new round of wage negotiations in the upcoming 2025/26 fiscal year, it is important that the growth in wages and salaries be kept lower or in line with the growth in GDP to ensure that productivity levels are increased or maintained.

EPOC is therefore of the view that the GOJ needs to look at capping the Wages to GDP ratio once again by reintroducing the Wages to GDP fiscal rule. The same disciplined approach to debt reduction could be pursued to bring this ratio back in line with the target defined in this fiscal rule.

EPOC is very cautious in its outlook for the Jamaican economy, as a marked slowing of the economy compounded by Hurricane Beryl is observed.

This slowdown in the economy brings along with it, the attendant risks of lower than budgeted growth in tax revenues along with increased expenditures in the Public Sector wages and salaries currently consuming an oversized share of GDP and Tax revenues. The fiscal risks loom large.

Achieving the fiscal balance targets and the debt reduction strategies will become challenging and will require significant political will to maintain Jamaica's impressive fiscal performance.

EPOC strongly encourages the GOJ and the BOJ to optimize the fiscal and monetary policy mix, which may require some fiscal adjustments accompanied by more aggressive easing of monetary policy and interest rate reductions in order to maintain macro fiscal stability and to proactively move the Jamaica back into the medium term growth range of 1% to 2%.

ADVT.