

Update on the GOJ Economic Reform Programme (ERP)

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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 (Actual)	Change (\$)	Change (%)
				April-July 2024 (Prov. vs Budget)		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)	●	336.2	342.3	-6.2	-1.8	299.0	37.1	12.4
Recurrent Expenditure (J\$B)	●	316.8	322.0	-5.2	-1.6	284.4	32.4	11.4
Capital Expenditure (J\$B)	●	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

Note: Discrepancies in the table due to rounding of figure

Revenue and Grants exceeded budget target

Total Revenue and Grants of \$301.9B 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-over-year 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

Expenditures were within budget

- 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 arrivals.

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 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 restructure. 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 (J\$B)	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

The GOJ received a total payout of \$4.2B (US\$26.9M) from the Caribbean 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 addition to the CCRIF policies, the portfolio includes the Contingency Fund and the National Natural Disaster Fund (with available financing in excess of \$4.5B).

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

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

Hurricane Beryl 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-

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 public.

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.

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 inflation 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.

malize over the near term.

Visitor arrivals declined year-over-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.

New loan disbursements declined

Disbursements of new loans to the private sector in June 2024 declined by \$17.4B (23.7%) compared to June 2023, bringing the total for April to June 2024 to \$185B, down from \$189.7B for the same quarter in 2023. The quarter's reduction stemmed from a 17.9% decline in credit to businesses across all productive sectors, except agriculture, and demonstrates the impact of the BOJ's ongoing tight monetary policy over the past three years. However, this was partially offset by a \$13.8B increase 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)

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 as precautionary and the completion of the reviews allow for a drawdown US\$980M under the PLL and US\$258M under the RSF which was drawn on by the GOJ on September 4, 2024.

All structural benchmarks were achieved, and the BOJ exceeded the indicative target for net international reserves. Although the indicative target for the fiscal balance was narrowly missed due to a smaller-than-expected surplus at March 31, 2024, this had a negligible impact on the debt consolidation plan.

Labour market remains robust as Unemployment remains low at 5.4% adjusted upwards for new ILO 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. Among these changes are:

- A change to the definition of work. Work is now more narrowly defined as work performed for pay or profit.
- An update to the age limit which was raised from 14 to 15
- A change to the definition of those

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 Classification)
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 expected.

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 Beryl.

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 term.

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

high interest rates, remains resilient with growth holding steady and projected at 3.2% for 2024 and 3.3% for 2025.

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.

BOJ's Monetary Policy: Effective in Inflation Targeting, Drying up Domestic Demand, and Slowing Growth

Despite the expected rise in inflation above the Bank's target range between 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 of 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 flat 0.1%.

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 shocks.

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 growth.

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 likely to be