Update on the GOJ Economic Reform Programme (ERP)

EPOC – Economic Programme Oversight Committee

December 2024 • Communiqué #47

Fiscal risks elevated as the Jamaican economy slows

The EPOC met on December 2, 2024 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:

- **Revenues and Grants for April to October 2024 were marginally ahead of budget, while Total Expenditures were within budget in the First Supplementary Estimates (FSE)**
- **Tax Revenues forecasted for FY 2024/25 were revised upward from $899.23B in the original budget to $905B in the FSE.**
- **Non-Tax revenues were increased in the month of October by $33.2B, due primarily to the over-performance of the securitization transaction, which exceeded the target of $45B by $25B.**
- **Total Expenditures forecasted for FY 2024/25 were revised upward by $40.3B to $1,064,083B in the FSE**
- **Inflation outturn was 4.9% for October 2024. BOJ projects it to remain in the target range of 4.0%-6.0%**
- **The BOJ has continued to lower its policy rate, which now stands at 6.25%**
- **Net International Reserves (NIR) is at US$5.6B at the end of October 2024 and continues to comfortably exceed the Adequacy benchmark.**

FISCAL PROGRAMME REVIEW: APRIL – OCTOBER 2024

Jamaica's fiscal indicators for April to October 2024 showed both fiscal and primary surpluses, outperforming budgeted expectations.

First Supplementary Estimates (FSE)

As a result of additional expenditures, including hurricane Beryl-related spending, which emerged subsequent to the approval of the original FY2024/25 budget in March 2024, the First Supplementary Estimates (FSE) was tabled in Parliament on October 8, 2024, along with the 2024/25 Interim Fiscal Policy Paper, and approved on October 15, 2024.

Selected GOJ Fiscal Indicators	Status April-October 2024 Relative to Budget	April-October 2024 Provisional	April-October 2024 Budget*	Change ($)	Change (%)	April-October 2023 (Actual)	Change ($)	Change (%)
				April-October 2024 (Prov. vs Budget)			April-October 2024 vs April-October 2023	
Revenue & Grants (J$B)	🟢	595.4	591.6	3.7	0.6	494.5	100.9	20.4
Tax Revenue (J$B)	🟢	475.7	474.1	1.5	0.3	449.9	25.8	5.7
Non-Tax Revenue (J$B)	🟢	115.6	113.2	2.4	2.1	39.5	76.1	192.8
Total Expenditure (J$B)	🟡	592.0	598.2	-6.2	-1.0	530.0	62.0	11.7
Recurrent Expenditure (J$B)	🟡	562.7	567.6	-5.0	-0.9	503.4	59.2	11.8
Capital Expenditure (J$B)	🟡	29.3	30.5	-1.2	-4.1	26.5	2.7	10.3
Fiscal Balance (J$B) (Surplus + / Deficit -)	🟢	3.4	-6.5	9.9	151.9	-35.5	38.9	109.6
Primary Balance (J$B) (Surplus + / Deficit -)	🟢	107.6	97.4	10.1	10.4	62.3	45.3	72.6

🟢 **Above/Better than Budget** 🟡 **Within Budget**

*** Based on FY2024/25 First Supplementary Estimates. Note: Discrepancies in the table due to rounding of figures**

Revenue and grants surpassed the budget target

For April to October 2024, Revenue and Grants totaled $595.4B, exceeding the First Supplementary Estimates by $3.7B (0.6%), with October receipts contributing $142.7B (24%) of the total. This strong performance was driven by higher-than-expected Tax and Non-Tax Revenues. Despite the estimated contraction in the July to September 2024 quarter, Revenue and Grants increased by $100.9B (20.4%) compared to the similar period in 2023. The significant increase was driven primarily by Non-Tax revenues.

Total Tax Revenue for the review period amounted to $475.7B, surpassing the budgeted estimates by $1.5B (0.3%) and reflecting a $25.8B (5.7%) improvement compared to April to October 2023.

Non-Tax Revenue of $115.6B was $2.4B (2.1%) above budget and $76.1B (192.8%) higher than receipts collected for April to October 2023. This largely reflects inflows from the securitization transaction which yielded an inflow of $70.7B for the GOJ in 2024.

Of note, the revenue neutral measures, announced during the FY 2024/25 budget presentation by the Minister of Finance in March 2024, reflected a tax revenue loss of $25.1B, with an offsetting increase in Non-tax revenue due to inflows from the planned securitization of receivables during FY 2024/25.

The reverse income tax credit, one of the announced tax revenue measures, was projected to cost $11.4B. As of November 26, 2024, a total of 290,912 individuals have taken it up, costing $5.8B.

Expenditure below budget

Expenditure (net of amortization) amounted to $592.0B for the assessment period, falling $6.2B (1.0%) short of the $598.2B projected in the First Supplementary Estimates. This shortfall was attributed to lower-than-programmed recurrent spending and capital expenditure. Total spending for April to October 2024 represented a $62.0B (11.7%) increase compared to the corresponding period in 2023, driven by a $36.2B rise in recurrent programme spending and an $18.7B increase in wages and salaries, stemming from the public sector compensation restructuring.

Total interest costs of $104.2B was broadly in line with budget but was $6.3B (6.5%) ahead of April to October 2023.

Capital expenditure of $29.3B for April to October 2024 fell $1.2B below budget due to a slower-than-planned execution of capital projects, attributed to the adverse impact of inclement weather conditions. This was however $2.7B (10.3%) higher than the similar period in 2023.

Notably, while tax revenues and total expenditures are performing slightly better than budgeted, total expenditures grew by 11.7%, outpacing the 5.7% growth in tax revenue. This metric requires careful management to ensure fiscal sustainability.

Fiscal and Primary Balances better-than-programmed

The Central Government operations resulted in a fiscal surplus of $3.4B, outperforming the budgeted deficit of $6.5B. This also marked a significant improvement from the $35.5B deficit recorded in the same period last year.

The primary surplus of $107.6B was $10.1B (10.4%) above the budgeted surplus of $97.4B and $45.3B (72.6%) higher than the surplus reported for April to October 2023.

The significant improvement in the Fiscal and Primary balances year over year was primarily driven by the one off Securitization transaction which is reflected in Non-Tax Revenues.

<u>Notable Fiscal Developments</u>

First Supplementary Estimates (FSE)-2024/25 – approved October 15, 2024

Revenues and Grants-FSE-2024/25

Revenues and Grants are projected at $1,073.8B, an increase of $40.2 B (3.9%) over the originally approved budget.

Tax Revenues were increased from $899.23B in the original budget to $905B.

The Interim Fiscal Policy Paper reduced the projected GDP growth for 2024/25 from 1.8% to -0.2%, reflecting the adverse impact of Hurricane Beryl on the economy, as well as weakened domestic and external demand.

Due to the projected slowdown in

economic activity, most tax revenue line items were revised downward. However, some line items were increased which offset these forecasted reductions: PAYE was raised by $15.6B (12.1%) to $144.8B, Tax on Interest increased by $1.4B (3.7%), and GCT (local) rose by $1.8B (1.1%) to $174.7B.

Non-Tax revenue totaling $162.1B accounts for over 82.8% of the increase, rising by $33.2B (25.8%). This increase reflects additional resources derived from the securitization transaction.

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Total Expenditure FSE 2024/25

Total Expenditure above the line has been revised to $1,064.1B, reflecting an increase of $40.4B (3.9%) relative to the approved budget.

Recurrent Expenditure of $996.2B is programmed for the fiscal year, up 5.6%. The increase in Recurrent Expenditure reflects higher allocations relative to the original budget, to Programmes up by $31.3B (9.5%), Compensation of Employees up $11.6B (2.6%) and Interest costs up $9.6B (5.5%) and Amortization up $353m (0.1%). Capital Expenditure is programmed to decline by $12.1B (15.1%).

The $31.3B increase in Programmes expenditures was primarily driven by:

- $10.2B to public bodies requiring additional subvention inclusive of Jamaica Urban Transit Company ($818.6M), Transport Authority ($358M), Ministry of Transport ($1.54B), Airports Authority of Jamaica ($2.4B), among others.
- $11.8B to cover expenditures related to the government's relief and recovery efforts following the passage of Hurricane Beryl.

The increase in compensation reflects higher costs associated with wage settlements under the new public sector compensation system. The higher debt costs largely reflect higher interest payments on the domestic debt.

Second Supplementary Estimates (SSE)

The SSE for FY 2024/25 was tabled and approved by Parliament on November 26, 2024. The SSE reflected adjustments to the Ministries, Departments and Agencies consequent on the reassignment of subjects which took effect on October 30, 2024.

The adjustments have no material impact on the aggregates reflected in the First Supplementary Estimates.

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 be operationalized in January 2025.

Monetary Performance

Inflation is more anchored within the Bank of Jamaica (BOJ) target range

- The Statistical Institute of Jamaica (STATIN) reported a **12-month point-to-point inflation rate (October 2023-October 2024) of 4.9%**. This was lower than the 5.7% recorded at September 2024 and the 5.1% at October 2023.
- 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), of 4.5% at October 2024, is supported by the lagged impact of tight monetary policy, moderating demand and lower inflation expectations.

BOJ has further reduced its Policy Rate by 25 basis points to 6.25%

Effective November 22, 2024, BOJ's Monetary Policy Committee (MPC) reduced its policy rate—the rate offered to deposit-taking institutions on overnight balances—by 25 basis points to 6.25%. The decision to continue gradually easing its monetary policy stance reaffirms its commitment to maintaining stability in the foreign exchange market. It also reflects the Committee's assessment that inflation is stabilizing within the Bank's target range of 4.0% to 6.0% following the temporary impact of Hurricane Beryl on prices and that the inflation outlook has improved.

The BOJ stated that inflation is expected to remain broadly within the Bank's target range over the next two years, primarily supported by the continued moderation in imported inflation and inflation expectations.

The MPC highlighted that, based on current information, any future interest rate adjustments, if necessary, will be gradual and dependent on incoming data. The next policy announcement is set for December 20, 2024.

Jamaica's Reserves remain strong at US$5.7B

At October 31, 2024, Jamaica's gross international reserves remained more than adequate at US$5,663.5M, equating to 131.6% of the Assessing Reserve Adequacy (ARA) benchmark of US$4,302.4M for FY 2024/25. The country's net international reserves (NIR) amounted to US$5,595.5M at the end-October 2024 and are projected to remain adequate throughout the medium term.

Foreign exchange market remains stable with slight appreciation over recent months

As at end-November 2024, the exchange rate was J$157.26 to US$1.00, reflecting an appreciation of 0.91% (J$1.44) compared to the end-September 2024. However, there was a slight year-over-year depreciation of 1.33% (J$2.07) against the US dollar.

The foreign exchange market has been sufficiently supported through the Bank's use of its foreign reserves to enhance market flows. The BOJ sold approximately US$1.1B via its B-FXITT facility during the 12 months to the end-November 2024, compared to US$936.8M in the corresponding period in 2023. Notably, the Bank also net purchased approximately US$1.1B during this period, which contributed to the increase in gross reserves.

Remittances show marginal increase

For the fiscal year-to-August 2024, net remittance inflows increased by US$2.9M (0.2%) to US$1,350.1M compared to the corresponding period in 2023. This growth was primarily attributed to a US$1.6M (0.1%) rise in gross remittance inflows. Additionally, the increase was reinforced by a US$1.3M (1.4%) reduction in gross remittance outflows.

Balance of Payments record a surplus

Preliminary data for the March 2024 quarter showed a current account surplus (CAS) of US$228.9M (1.3% of GDP), an improvement of US$40.9M compared to the same period in 2023. This was largely driven by a reduction in imports.

Visitor arrivals declined year-over-year for Q3 2024/25

For the September 2024 quarter, Jamaica welcomed 634,305 tourists, reflecting an annual 6.4% decline compared to the September 2023 quarter.

For October 2024, 186,384 tourists visited Jamaica, reflecting a decline of 1.1% relative to the comparable period in 2023. Similarly, for November 2024, an estimated 213,110 tourists visited Jamaica, reflecting a decline of 3.4% relative to the comparable period in 2023.

New loan disbursements continue to decline

Due to the lagged effect of a tight monetary policy, the growth in private credit continues to slow as new disbursements of Jamaican Dollar loans to the private sector in September 2024 declined in real terms by 2.3% relative to September 2023. This reduction was primarily attributed to a 6.0% decline in credit to households and was partly offset by a 1.4% increase in new credit to businesses.

Jamaica's historic unemployment rate of 3.6% is among the lowest in the Caribbean

STATIN recently revised its Labour Force Survey, introducing several changes based on recommendations from the International Labour Organization (ILO).

As at July 2024, Jamaica recorded its lowest-ever unemployment rate of 3.6%, representing 52,600 individuals in the unemployed labor force. The total labor force comprised 1,461,600 persons, of whom 1,409,000 were employed.

	July 2024	Apr 2024	Variance ($)	Variance (%)
Labour Force	**1,461,600**	1,483,100	-2,500	-1.4%
Employed Labour Force	**1,409,000**	1,420,300	-11,300	-0.8%
Unemployed Labour Force	**52,600**	62,800	-10,200	-16.2%
Unemployment Rate (LU1)	**3.6%**	4.2%		
Labour Participation Rate	**67.8%**	68.8%		

Source: STATIN

GDP downturn largely driven by Hurricane Beryl

The Planning Institute of Jamaica (PIOJ) reported an estimated 2.8% contraction in Real Value Added for the July–September 2024 quarter compared to the corresponding quarter in 2023, primarily due to Hurricane Beryl and other adverse weather events. The downturn impacted both Goods-Producing and Services industries, with sectors such as Agriculture, Mining, Hotels & Restaurants, Electricity & Water, and Transport & Communication experiencing the most significant effects. Damage to infrastructure, flight cancellations, and disruptions to essential services such as electricity and telecommunications were major contributors to the decline.

This economic disruption is underscored by the estimated $32.2B in damage and losses caused by Hurricane Beryl, equivalent to 1.1% of Jamaica's 2023 GDP. Nearly 50% of the total losses were within the Infrastructure sector, amounting to $15.9B. The largest impacts were recorded in Transport Infrastructure at $10.3B, followed by Electricity Infrastructure at $4.1B, highlighting the vulnerability of Jamaica to climate change and weather related shocks.

Continued GDP contraction projected for the remainder of 2024/25

The PIOJ has projected that the economy contracted 2.8% for the July to September 2024 quarter due primarily to the impact of Hurricane Beryl. The Institute is forecasting continued economic contraction within the range of ***-1.5% and 0.0% for the October–December 2024 quarter, resulting in an estimated annual contraction of between -1.0% and 0.0%***.

For the fiscal year 2024/25, the PIOJ projects growth to remain between -1.5% and 0.0%. This forecast is supported by the BOJ, which projects a downturn in the range of -1.0% to 0.5% for FY 2024/25.

Outlook and Highlights

Fiscal Risks

Tax Revenues at risk

Whilst the MOF has made downward adjustments to GDP growth to -0.2% and reduced tax revenue projections, EPOC urges caution, highlighting that the risks of economic performance are skewed to the downside. If this underperformance materializes, it could negatively impact tax revenues.

Growth in Public Sector Salaries

Jamaica should consider the reintroduction of the Wages and Salaries Fiscal Rule to cap Wages and Salaries as percentage of GDP

As GDP moderates and slows, wages and salaries, which were projected to be 12.8% of GDP for FY2024/25, could increase in relation to GDP. With wages and salaries being already high and consuming approximately 45% of tax revenues and 40% of total revenues for the Fiscal Year, Jamaica could continue to see this ratio moving higher, as economic activity slows along with growth in tax revenues. Projections currently indicate that wage levels could rise to 13.4% of GDP by 2027/28, consuming 46% of tax revenues and 43% of total revenues.

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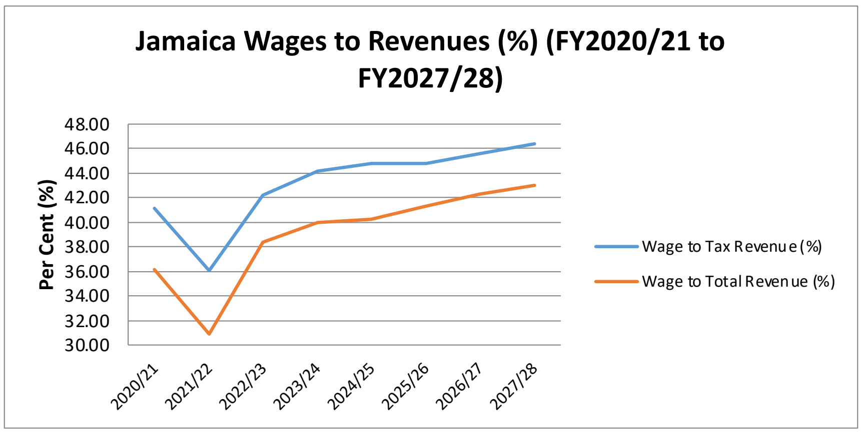
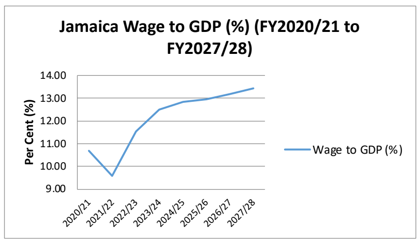
Wage to GDP and Tax Revenues (2020-2028)

	$J Billions			$J Billions				
Fiscal Year	Wages and Salaries	GDP	Wage to GDP (%)	Tax Revenues	Total Revenues	Wage to Tax Revenue (%)	Wage to Total Revenue (%)	
2020/21	208	1948.8	10.67	505.69	575.4	41.13	36.15	Actual
2021/22	222.48	2322.2	9.58	616.37	720.22	36.10	30.89	Actual
2022/23	317.88	2753.5	11.54	752.84	827.78	42.22	38.40	Actual
2023/24	378.53	3029.6	12.49	856.37	947.67	44.20	39.94	Estimated
2024/25	414.2	3229.3	12.83	924.38	1028.59	44.81	40.27	Projected
2025/26	445.95	3444.2	12.95	996.23	1078.22	44.76	41.36	Projected
2026/27	481.62	3653.9	13.18	1056.54	1139.84	45.58	42.25	Projected
2027/28	520.15	3875	13.42	1120.45	1209.37	46.42	43.01	Projected

Source: MOFPS Fiscal Policy Papers



Growth in Public Sector Wages and Salaries are concerning



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 GDP growth to ensure that the Wages to GDP ratio is stabilized and reduced over the medium term.

The 9% Wages to GDP ratio was removed in April 2023 when the Financial Administration and Audit (FAA) Act was amended. The ratio is projected to be in the 12% to 14% range over the medium term.

These ratios are extremely worrisome, as the wages and salaries reduce 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 that supports the vulnerable.

EPOC is therefore reiterating its previous call 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 under control.

EPOC cautious on Jamaica's GDP growth recovery, Intensified Fiscal discipline and restraint is required

The World Economic Outlook (WEO) projects global growth to remain steady at 3.2% for 2024 and 2025. However growth in Jamaica's largest trading partner the USA is expected to contract from 2.8% in 2024 to 2.2% in 2025.

Inflation continues to trend down resulting in central banks gradually reducing interest rates.

It is anticipated that central banks will continue to ease monetary policy in the near term in response to incoming economic data. The US Federal Reserve Bank is scheduled to meet on December 17-18, 2024 to decide on the US Fed benchmark rate. It is widely expected that the Fed will reduce interest rates by another 25 basis points, which should provide the BOJ with the runway for a further reduction in interest rates on December 20th, when the Bank announces their decision on policy rate.

With the elevated geopolitical risks and the possible changes in economic policy in Jamaica's main trading partner the USA, there is a high degree of uncertainty around projected global growth and the interest rate path.

Jamaica's growth projections for FY2024/25 have been reduced from 1.8% to -0.2% by the Ministry of Finance in the Interim Fiscal policy paper tabled on October 8, 2024. The PIOJ projects GDP growth for 2024/25 in the range of -1.5% to 0.0%. The MOF also projected growth of 1.9% for 2025/26 while the BOJ projects GDP growth for 2025/26 within the range of 1.0% to 3.0% due to a normalization in economic activity.

EPOC notes that there was a slowdown in the Jamaican economy to 0.2% in the April to June 2024 quarter which was impacted by a below budgeted growth in visitor arrivals and the lagged effect of the BOJ tight monetary policy which slowed domestic demand and activity. This was further compounded by Hurricane Beryl along with the weather events that Jamaica continues to experience to date. While the MOF and the BOJ expect to see growth normalize and rebound in 2025/26, EPOC is cautious as the pathway to this recovery is fraught with uncertainty.

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

Achieving the growth projections, fiscal balance targets and the debt reduction strategies will become challenging and will require significant political will, particularly as the country is in the midst of an election campaign leading up to the General Elections scheduled for next year.

Gratitude is a Must

EPOC extends its sincere gratitude to the Ministry of Finance & the Public Service (MOFPS), the Bank of Jamaica (BOJ), its Committee members and support team for their unwavering dedication and collaborative efforts in ensuring the Committee fulfills its mandate. Their diligent work in providing accurate economic and financial data, insightful sectoral updates, and forward-looking guidance has been instrumental in fostering transparency and building public confidence in Jamaica's economic trajectory.

These contributions not only support informed decision-making among policymakers and stakeholders but also play a critical role in enhancing Jamaica's economic resilience and driving sustainable growth. The Committee deeply appreciates their steadfast commitment to this essential work, which continues to strengthen the foundation for a brighter and more secure economic future for the country.