

JAMAICA

1. General trends

The Jamaican economy grew by 0.8% in 2015, reflecting an uneven but positive performance in each quarter. Growth of 1.2% is projected in 2016 owing to an improvement in tourism receipts, the agricultural sector and remittance flows, which should boost domestic demand.

The economic policies of 2016 will continue to focus on fiscal consolidation within the context of the 48-month Extended Fund Facility (EFF) signed with the International Monetary Fund (IMF) in May 2013. All quantitative targets and key structural benchmarks under the EFF arrangement between the IMF and the Government of Jamaica for December 2015 and March 2016 quarters were met. The agreement, which is worth US\$ 932 million, was accompanied by pledges from the World Bank and the Inter-American Development Bank (IDB) worth US\$ 510 million each over the life of the agreement. It is hoped that by the time the IMF agreement comes to an end in May 2017, there will be enough confidence in the economy to help sustain growth.

The key economic challenge continues to be the large debt burden, which is likely to remain as high as 96% of GDP by fiscal year 2019/20. Addressing this challenge will require continued monitoring of spending and higher tax revenue. The April 2016 budget put forward by the recently elected government pledges to focus on fiscal responsibility, job creation and economic growth.

On the heels of falling oil prices and dampened domestic demand, inflation—which has been trending downward—stood at 3.7% in 2015 and is not expected to exceed 5% in 2016. As regards the external sector, in 2015 the current account deficit narrowed by US\$ 802 million to US\$ 326 million, which represented 2.3% of GDP. A key reason was the improvement in transfers and falling imports owing to lower commodity prices, mainly of oil. Consequently, net international reserves rose to US\$ 2.437 billion, with gross reserves representing 23.5 weeks of projected goods and services imports at the end of 2015 compared with 18.3 weeks at the end of 2014.

2. Economic policy

(a) Fiscal policy

In 2015, the fiscal situation improved and the government met its obligations under the EFF. The tenth review under the EFF carried out by the IMF at the end of September 2015 found that Jamaica had met all of its targets for 2015. In particular, net international reserves came to US\$ 2.437 billion at the end of 2015, exceeding the target of US\$ 1.641 billion. Provisional information for 2016 also suggests that the government is on track to achieve its targets under the EFF for 2015/16. According to the Bank of Jamaica, the primary balance target for 2015/16 under the EFF-supported programme was revised downwards by approximately 5.3 billion Jamaican dollars (J\$) to facilitate greater public investment and stimulate growth. For April-December 2015, the primary surplus exceeded the revised EFF target of J\$ 60.7 billion by J\$ 5.3 billion. Similarly, the overall deficit of J\$ 14.5 billion for the review period surpassed the budgeted deficit of J\$ 16.8 billion. The new budget was crafted to reflect the need for a primary surplus of about 7% under the EFF, but this will be difficult to achieve in the context of slow growth.

The performance in fiscal year 2015/16 reflected further curbs on spending and attempts to increase revenue. Overall spending relative to the budget was down by 0.5%, and the largest decline was in interest payments, which fell by 4.5%. At the same time capital spending rose by 7.7%, above budget projections. Overall revenues and grants were down by 0.5% relative to the budget.

The public debt overhang remains a significant challenge to economic performance. At the end of March 2016, Jamaica's debt stood at J\$ 2.069 trillion or 126.8% of GDP, compared with 131.4% of GDP at the end of 2011. This slow decline is attributable to the staggering size of the debt in a context of weak growth.

In 2015/16, external debt represented 50% of GDP, while the foreign-exchange component of overall debt stood at 58.7% of GDP. The fact that external debt is denominated in foreign currencies represents an additional burden in case of devaluation of the Jamaican dollar. With respect to debt servicing, the ratio of interest to GDP fell from 10.9% in 2010/11 to 7.8% in 2015/16. Debt servicing, in the form of interest and amortization payments, accounts for a sizeable portion of the budget.

The new government is pursuing its plan to raise the income tax threshold to J\$ 1.5 million a year. A J\$ 7 per litre increase in taxes on gasoline has been introduced to pay for this measure and, while it is expected to remove about 200,000 people from the income tax roll, the higher fuel tax will affect low-income sectors.

(b) Monetary policy

The central bank's monetary policy was accommodative in 2015. The Bank of Jamaica reduced the signal interest rate, the rate payable on its 30-day certificate of deposit, to 5.25% in 2015, against the backdrop of a generally favourable outlook for lower inflation and an overall improvement in the domestic macroeconomic environment. The policy adjustments were not seen as a threat to the continued achievement of monetary targets under the EFF-supported programme, which were met comfortably in 2015. The central bank continued to hold the interest rate on its overnight certificate of deposit at 0.25%, while requirements for local currency cash reserves and liquid assets were maintained at 12.0% and 26.0%, respectively. The liquidity of the Jamaican dollar continued to be managed through the use of regular and special open market operation instruments, as well as a variety of repo instruments.

Growth in narrow money (M1J) expanded from 8% in 2014 to 20.8% in 2015, reflecting higher growth in currency held by the public (from 8.4% in 2014 to 15.3% in 2015) and demand deposits (from 7.5% in 2014 to 25.9% in 2015). Meanwhile, growth in the broad Jamaican dollar money supply (M2J) accelerated to 14.8% in 2015, up from 3.3% in 2014 and stronger than the average growth of 5.0% recorded over the previous five years.

In 2015, commercial bank credit to the private sector grew by 9.6% and was largely denominated in Jamaican dollars. This represented a marked acceleration compared with the increase of 4.8% in 2014, but was generally in line with the average growth of 9.5% in the previous five years. Total loans and advances to the private sector grew by 9.9%, compared with 5.5% in 2014. The expansion in 2015 reflected an increase in the supply of credit to both businesses and individuals. In 2015, loans to businesses increased by more than double the rate of 4.5% recorded in 2014. According to the Bank of Jamaica, this was seen across most sectors, particularly professional and other services (23.6%), tourism (13.7%) and manufacturing (24.8%). Meanwhile, the weighted average lending rate fell from 17.18% in

2014 to 16.92% in 2015, while the deposit rate dropped from 2.64% to 1.62%, leading to a widening of the interest rate spread from 14.54% to 15.30%.

There was a marked improvement in the quality of the commercial bank loan portfolio in 2015 compared with 2014. This improvement is consistent with the decline in the ratio of non-performing loans to total loans from 5.0% in 2014 to 4.1% in 2015. Similarly, the ratio of non-performing loans to total private sector loans fell from 5.4% in 2014 to 4.2% in 2015, owing to loan write-offs and the net repayment of past-due loans in some sectors.

(c) Exchange-rate policy

The weighted average selling rate of the Jamaican dollar versus the United States dollar was J\$ 120.42 to US\$ 1 at the end of December 2015, reflecting a slowing of the annual pace of depreciation to 5.02% from 5.67% at the end of the previous quarter and from 7.79% in 2014. In 2015, the lowest quarterly depreciation of the Jamaican dollar relative to its United States counterpart (0.33%) was recorded in the March quarter, which compared with a depreciation of 2.9% in the same period in 2014. The relatively low depreciation in the March 2015 quarter occurred against a backdrop of fairly tight Jamaican dollar liquidity in the second half of the quarter.

During the two following quarters, the exchange rate depreciated more rapidly, down by 1.66% and 1.74% in June and September, respectively, amid higher net demand for foreign exchange. As a result, the central bank responded with more frequent interventions in the market to address foreign-exchange shortfalls. The pace of depreciation in the exchange rate moderated during the last quarter of 2015, to 1.13%.

(d) Other policies

A number of fiscal reforms were implemented in 2015, including the establishment of a cash management unit in the Accountant General's Department, the tabling of legislation governing the tax regime in the special economic zone and the completion of pilot testing of ASYCUDA World at the Kingston port. ASYCUDA is a computerized customs management system that covers most foreign trade procedures. Proposals for a comprehensive overhaul of the Customs Act were also tabled in Parliament. With a view to strengthening financial stability, the government enacted the new Banking Services Act in September 2015, which assigned overall responsibility for financial stability to the Bank of Jamaica and finalized the transition from a retail repo business model for non-banks to a trust-based framework.

It was announced during the budget presentation that an IMF team will work with Jamaica on additional areas of tax reform. However, the policy space has been seriously restricted by weak (but improving) domestic and international demand and the heavy fiscal burden.

The impacts of the ongoing reform process were demonstrated in both the improved ease of doing business in Jamaica and renewed investor interest in the stock market. In fact, the World Bank ranked Jamaica as the top country for doing business in the Caribbean in 2015. The Jamaica Stock Exchange Main Index was also ranked as the top-performing stock index globally. This may be the result of lower returns from government instruments and local investors' increasing confidence in the economy.

3. The main variables

(a) The external sector

The data point to mixed results for the external sector. The current account deficit narrowed from US\$ 1.128 billion in 2014 to US\$ 326.2 million in 2015, or from 8.1% of GDP to 2.3% of GDP. At the same time, exports grew by less than in 2014, while the services balance, including transfers, improved compared with the previous year. The performance of the goods sector was assisted by the decline in the price of fuel, while transfers were largely driven by remittance inflows.

Net earnings from services are estimated to have risen by US\$ 180.0 million (28.8%) to a total of US\$ 806.1 million in 2015. This reflects an increase of US\$ 84.0 million in inflows and a decline of US\$ 96.0 million in outflows. Tourism-related receipts accounted for US\$ 124.1 million of the estimated inflows, as foreign national stopover visitor arrivals grew by 2.3%, relative to 2014. With an even larger number of tourist arrivals forecast in 2016, growth in tourism receipts is expected to be even higher next year.

The capital and financial accounts posted surpluses in 2015. The overall capital account surplus and private investment inflows were more than enough to finance the current account deficit. Consequently, net international reserves rose to US\$ 2.437 billion, with gross reserves representing 23.5 weeks of projected goods and services imports at the end of 2015, compared with 18.3 weeks at the end of 2014.

(b) Economic activity

The Jamaican economy grew by 0.8% in 2015, up from 0.7% in 2014. The growth performance in the last three quarters was positive, though uneven, with rates of 0.7%, 1.5% and 0.7%, respectively. The expansion in 2015 was driven largely by higher external demand and, to a lesser extent, domestic demand. In particular, the global economic climate facilitated higher tourism spending and remittance inflows relative to 2014. Domestic demand conditions were also buoyed by lower levels of unemployment and low inflation, which were reflected in higher consumer confidence. Similarly, business confidence continued to be positively impacted by the implementation of structural reforms and the achievement of quantitative targets under the EFF programme.

GDP growth was underpinned by growth of 1.3% in the goods sector and 0.6% in the services sector. Within the goods sector, all segments expanded except for agriculture, which contracted by 0.1% owing to an extended drought. Manufacturing posted the strongest growth, at 3.1%, an improvement from the 0.8% contraction in 2014. A positive performance was seen in all segments of the services sector, except government services, which declined by 0.1%. The strongest expansion was in hotels and restaurants, at 2%, but this was less than the 3% seen in 2014. Visitor spending was bolstered by improved labour market conditions in major source markets as well as increases in visitors' length of stay.

The outlook for the Jamaican economy remains positive, with projected growth of 1.2% in 2016. This reflects the impact of improvements in the global economy and in the domestic business environment, as well as the expected recovery from the supply shocks that affected agriculture in 2015. Growth in private consumption, which usually accounts for about 80% to 85% of GDP, is projected to increase in 2016 owing to higher remittances and lower unemployment. However, government consumption will be restrained by the ongoing fiscal consolidation programmes. Growth in private investment may also show some improvement, though the termination of the IMF programme will likely create some uncertainty.

(c) Prices, wages and employment

Inflation dropped to 3.7% year-on-year in 2015, compared with 6.2% in 2014, marking the fifth consecutive year of single-digit inflation. This was below the central bank's projection of 5.5% to 7.5%, and the lowest level for a calendar year since 1967. The considerable decline in inflation largely reflected the significant decreases in electricity and transportation costs as international crude oil prices fell sharply. Upward price pressure stemmed primarily from the drought conditions during the year, which pushed up the prices of agricultural commodities.

According to the Bank of Jamaica, domestic inflation, as measured by the change in the consumer price index, is projected to rise in 2016, in line with an expected improvement in domestic demand and a narrowing of excess capacity conditions. Nevertheless, inflation declined to 1.3% for the December 2015 to March 2016 period, and it is not expected to exceed 5% in 2016.

There were a number of wage and administrative price developments in 2015. The Incorporated Masterbuilders Association of Jamaica granted an increase of 8.0% in artisans' wages in February. In addition, the government finalized negotiations with some 92% of public sector employees for wage increases of 4.0% for 2015/16.

In the 2016 budget presentation, the government committed to honouring all obligations to public sector workers under existing agreements. For the fiscal year 2016/17, J\$ 9.9 billion has been set aside to honour the second year of the 2015-2017 union agreements for wages, salaries and allowances and to fulfil the payment of long-outstanding settlements.

Labour market conditions improved marginally in 2015 as the unemployment rate decreased to 13.5% from 13.7% in 2014. The decline reflected 1.0% growth in employment, which outweighed the 0.7% expansion of the labour force. The job-seeking rate also edged down by 0.1% compared with the previous year. Employment rose in all industries except agriculture, forestry and fishing, mining and quarrying, and transport, storage and communication. In January 2016, the unemployment rate fell to 13.3%, standing at 10.4% for men and 16.7% for women. The unemployment data by age group for the same month showed overall unemployment rates of 48.1% and 30.2% in the 20-24 and 25-34 age groups, respectively. The unemployment rates for men and women in these age groups were 37.4% and 27.7%, and 62.7% and 33.4%, respectively. Female and youth unemployment represent a considerable challenge in Jamaica that cannot be addressed without significant economic growth.

Table 1
JAMAICA: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
	Annual growth rates b/								
Gross domestic product	17.1	-0.7	-4.4	-1.5	1.7	-0.6	0.5	0.7	0.8
Per capita gross domestic product	16.6	-1.2	-4.9	-1.9	1.3	-1.0	0.2	0.3	0.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-8.1	-6.2	14.0	0.0	10.3	2.3	-0.7	-0.4	-0.1
Mining and quarrying	-2.9	-2.7	-50.4	-4.2	19.1	-8.7	2.7	0.9	0.6
Manufacturing	1.2	-0.3	-4.7	-4.3	1.8	-0.3	-0.5	-0.8	3.1
Electricity, gas and water	0.6	0.9	2.2	-4.3	0.3	-2.2	-2.0	-1.2	1.4
Construction	4.5	-7.6	-8.7	-1.3	0.8	-4.4	1.9	1.7	0.9
Wholesale and retail commerce, restaurants and hotels	1.2	0.1	-2.5	-2.3	0.7	-0.7	0.2	1.0	0.8
Transport, storage and communications	2.1	-3.1	-3.5	-2.7	-1.9	-0.1	0.4	0.8	1.1
Financial institutions, insurance, real estate and business services	4.1	2.2	0.9	-2.2	-0.2	-0.2	0.2	0.5	0.4
Community, social and personal services	1.5	0.3	0.0	-0.2	0.5	0.3	0.0	0.4	0.2
Balance of payments	Millions of dollars								
Current account balance	-2,038	-2,793	-1,128	-934	-2,063	-1,376	-1,281	-1,128	-326
Goods balance	-3,841	-4,803	-3,088	-3,259	-4,215	-3,906	-3,878	-3,759	-3,153
Exports, f.o.b.	2,363	2,744	1,388	1,370	1,666	1,728	1,580	1,449	1,261
Imports, f.o.b.	6,204	7,547	4,476	4,629	5,881	5,634	5,458	5,208	4,414
Services trade balance	425	428	770	810	674	532	632	626	806
Income balance	-662	-568	-668	-495	-518	-113	-256	-286	-312
Net current transfers	2,040	2,150	1,858	2,010	1,996	2,111	2,221	2,291	2,333
Capital and financial balance c/	1,598	2,688	1,098	586	1,795	553	1,102	1,929	698
Net foreign direct investment	751	1,361	480	169	144	411	681	594	790
Other capital movements	847	1,328	618	416	1,652	142	421	1,335	-92
Overall balance	-440	-105	-29	-348	-268	-823	-179	800	372
Variation in reserve assets d/	440	105	29	-431	218	823	179	-673	-440
Other financing	0	0	0	779	49	0	0	-128	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) e/	104.9	99.2	110.8	98.2	96.3	95.3	100.0	109.4	117.9
Net resource transfer (millions of dollars)	937	2,120	430	871	1,326	439	846	1,514	386
Gross external public debt (millions of dollars)	6,123	6,344	6,594	8,390	8,626	8,256	8,310	8,659	10,314
Employment	Average annual rates								
Labour force participation rate f/	64.9	65.4	63.5	62.4	62.3	61.9	63.0	62.8	63.1
Unemployment rate g/	9.8	10.6	11.4	12.4	12.6	13.9	15.2	13.7	13.5
Open unemployment rate h/	6.0	6.9	7.5	8.0	8.4	9.3	10.3	9.4	9.5
Prices	Annual percentages								
Variation in consumer prices (December-December)	16.8	16.9	10.2	11.8	6.0	8.0	9.7	6.2	3.7
Variation in nominal exchange rate (annual average)	4.8	5.7	21.2	-1.0	-1.6	2.9	12.8	11.1	5.4
Variation in minimum real wage	4.5	-5.2	0.3	-11.2	1.1	-1.5	-1.9	3.3	-3.4
Nominal deposit rate i/	5.0	5.1	5.8	3.5	2.3	2.1	1.6	1.3	1.4
Nominal lending rate j/	22.0	22.3	22.6	20.3	18.3	17.8	16.3	15.1	15.0

Table 1 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Central government k/	Percentajes of GDP								
Total revenue	28.5	27.7	28.2	27.3	26.2	26.3	27.8	26.6	28.3
Tax revenue	24.8	24.7	25.0	24.3	23.5	24.4	24.1	24.0	25.5
Total expenditure l/	33.2	35.2	39.6	33.7	32.0	30.4	27.6	27.1	28.6
Current expenditure	28.6	31.1	36.3	28.9	28.2	27.5	25.1	25.6	26.5
Interest	11.5	12.6	17.7	11.1	9.7	9.7	7.7	8.1	7.8
Capital expenditure	4.7	4.1	3.2	4.8	3.9	2.9	2.6	1.5	2.0
Primary balance	6.7	5.0	6.3	4.7	3.9	5.5	7.8	7.6	7.5
Overall balance	-4.8	-7.6	-11.4	-6.4	-5.9	-4.2	0.1	-0.5	-0.3
Non-financial public sector public debt	110.9	112.3	126.3	131.7	131.4	133.9	135.5	132.7	127.0
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	30.6	34.4	34.9	27.5	27.8	29.4	29.8	32.1	29.5
To the public sector	12.9	14.5	16.7	11.5	10.4	9.9	9.3	12.5	9.5
To the private sector	18.3	20.8	19.7	18.1	19.0	21.0	22.3	21.5	22.3
Others	-0.6	-0.9	-1.4	-2.1	-1.6	-1.6	-1.7	-1.9	-2.4
Monetary base	7.4	7.2	7.6	7.4	7.4	7.4	7.2	7.0	7.5
Money (M1)	10.1	9.1	9.2	9.0	9.1	9.0	8.4	8.6	9.7
M2	22.9	21.1	20.3	20.0	19.8	19.4	18.6	17.9	19.4
Foreign-currency deposits	11.0	10.3	10.8	9.3	8.6	9.1	10.5	11.0	12.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2007 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) indicates an increase in reserve assets.

e/ Annual average, weighted by the value of goods exports and imports.

f/ Nationwide total.

g/ Nationwide total. Includes hidden unemployment.

h/ Nationwide total. Includes an adjustment to the figures for the economically active population for exclusion of hidden unemployment.

i/ Savings interest rate.

j/ Average lending rate.

k/ Fiscal years, from April 1 to March 31.

l/ Includes statistical discrepancy.

Table 2
JAMAICA: MAIN QUARTERLY INDICATORS

	2014				2015				2016	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	1.8	2.0	-1.4	-0.2	0.4	0.8	1.7	0.9	0.8	...
Gross international reserves (millions of dollars)	1,832	1,955	2,730	2,473	2,410	2,707	2,872	2,862	2,768	2,799 c/
Real effective exchange rate (index: 2005=100) d/	105.9	110.6	110.9	110.2	113.2	116.0	119.0	123.4	126.7	128.1 c/
Consumer prices (12-month percentage variation)	8.3	8.0	9.0	6.2	4.0	4.4	1.8	3.7	3.0	2.1 c/
Average nominal exchange rate (Jamaica dollars per dollar)	107.6	110.4	112.5	113.1	115.2	115.5	117.5	119.5	121.1	123.7
Nominal interest rates (average annualized percentages)										
Deposit rate e/	1.3	1.4	1.2	1.3	1.4	1.4	1.4
Lending rate f/	15.6	14.8	14.9	15.0	15.0	15.0	15.0
Interbank rate	10.1	8.0	4.6	4.1	3.9	3.9	3.9
Monetary policy rates	5.8	5.8	5.8	5.8	5.8	5.5	5.3	5.3	5.3	5.3
Sovereign bond spread, Embi Global (basis points to end of period) g/	531	496	443	485	437	350	462	469	469	478
International bond issues (millions of dollars)	1000	-	800	-	925	-	2,000	-	-	-
Stock price index (national index to end of period, 31 December 2005 = 100)	72	68	69	73	80	93	92	144	147	153
Domestic credit (variation from same quarter of preceding year)	11.8	16.3	13.3	15.3	6.2	-7.5	-4.2	-3.0	-0.9	6.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2007 prices.

c/ Figures as of May.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Savings interest rate.

f/ Average lending rate.

g/ Measured by J.P.Morgan.