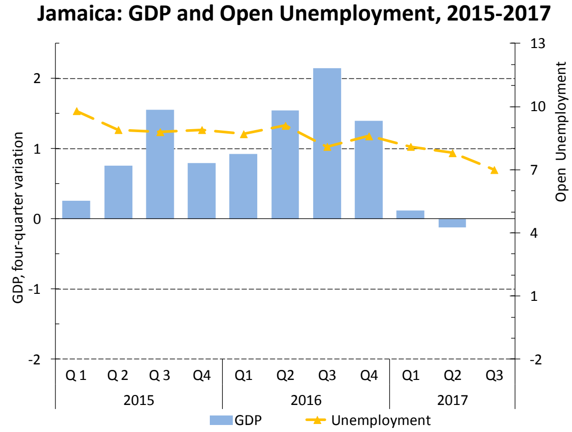
Jamaica

The Jamaican economy posted growth rates of 0.1%, in the first quarter of 2017 and 0.3% in the second. Growth was 1.3% in 2016 and will not exceed 1.2% in 2017 overall, but will return to 1.4% in 2018. The government's main policy objective in 2018 will be to meet the annual requirement of the three-year, US$ 1.64 billion stand-by arrangement with the International Monetary Fund (IMF), which was signed in November 2016 (replacing a US$ 932 million, four-year extended fund facility signed in May 2013). The focus will be on promoting economic growth, which has stalled at less than 2% in recent years. The hope is that growth will continue to build gradually with the new IMF agreement in place. At the second review of the programme, in October 2017, all performance criteria and structural benchmarks had been met. The Jamaican authorities have indicated that they intend to treat the arrangement as precautionary, that is, effectively as an insurance policy against unforeseen economic shocks beyond the country's control. Inflation came in at 1.7% in 2016 and is likely to be higher in 2017 — it stood at 4% in June— as a result of increased energy prices and exchange-rate changes, despite fiscal restraint.

Fiscal challenges continue to be the government's biggest concern as Jamaica seeks to control its public finances. In October 2017, IMF reported the successful completion of the second review of the stand-by arrangement, thanks to expenditure restraint and tax increases. In fiscal year 2016/17, most categories of government expenditure were below budget and overall expenditure was 1% below budget. Capital expenditure was as much as 6.4% below budget. This resulted in a primary surplus of 8.4%, compared to the budget target of 7.8% of GDP. As part of the reduction in borrowing requirements, loan receipts were some 11.8% below budget. On the taxation front, the government raised the minimum personal income tax threshold from 592,800 Jamaican dollars (J$) (US$ 4,200) to J$ 1.5 million, effective from April 2017, and anticipates that increases in indirect taxes will compensate for the loss of income tax earnings in the 2017/18 fiscal year.

The main challenge facing Jamaica is the debt overhang, which stood at 124% of GDP in fiscal year 2016/17 and is projected at 119% in 2017/18. At December 2016, external debt was 61.3% of total debt and domestic debt, 38.8%. The large foreign-exchange component of the debt carries foreign-exchange risks: at the end of December 2016 foreign-currency represented 61% of total debt and the domestic foreign-exchange component was 8%. The Government of Jamaica has been leveraging the low interest rates in international markets to reduce debt service costs. For example, in August 2017, the government reopened two Eurobonds and raised US$ 869 million, which it will use to retire more expensive debt maturing in 2019-2025. The long-anticipated increase in United States interest rates will also adversely affect debt repayment costs, given that some 34.6% of total debt is subject to interest-rate variations.

Jamaica: GDP and Open Unemployment, 2015-2017



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

With respect to the exchange rate, the weighted average selling rate of the Jamaican dollar vis-à-vis the United States dollar closed the second quarter of 2017 at J$ 128.62 = US$ 1.00, reflecting an annual rate of depreciation of 1.8%, relative to 5.4% at the end of the previous quarter.

Jamaica: main economic indicators, 2015-2017

	2015	2016	2017 [a]
	Annual growth rate		
Gross domestic product	1.0	1.4	1.2
Per capita gross domestic product	0.6	1.0	0.8
Consumer prices	3.7	1.7	4.1 [b]
Money (M1)	15.7	19.5	25.0 [c]
Real effective exchange rate [d]	-1.0	8.7	6.6 [b]
	Annual average percentage		
Open urban unemployment rate [e]	13.5	13.2	11.1 [f]
Central government			
Overall balance / GDP	-0.3	0.1	-0.9
Nominal deposit rate [g]	1.9	1.4	1.4 [c]
Nominal lending rate [h]	17.0	16.5	15.0 [i]
	Millions of dollars		
Exports of goods and services	4 314	4 413	…
Imports of goods and services	6 610	6 335	…
Current account balance	-430	-103	…
Capital and financial balance [j]	870	482	…
Overall balance	440	379	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of September.
c/ Figures as of February.
d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.
e/ Includes hidden unemployment.
f/ Figures as of average from January to September.
g/ Average rate for saving deposits.
h/ Average lending rate.
i/ Figures as of July.
j/ Includes errors and omissions.

The exchange rate will remain under pressure throughout 2018 but the Bank of Jamaica will manage moderate depreciation as part of its intervention strategy. A recovery in the United States economy will aid this by boosting tourism and remittances receipts.

Depreciation would be faster should the government miss fiscal targets by a significant margin, which would damage confidence and reignite capital flight. Despite IMF recommendations that the central bank intervene less frequently in order to allow reserves to build up, the monetary authorities are expected to step up foreign-exchange sales if they need to contain depreciation, imported inflation or rises in external debt-servicing costs. Factors such as severe weather (which would push up imports) and commodity price swings could also quicken depreciation. While the Jamaican dollar's depreciation may be improving competitiveness, especially amid falling oil prices, continual depreciation will begin to affect inflation and encourage stronger demand for wage increases.

Monetary policy was accommodative in 2016 and the Bank of Jamaica cut its 30-day certificate of deposit rate from 3.75% to 3.5% in August, and to 3.25% in November. This policy move reflected significantly lower inflation expectations, as well as the easing of inflation mainly thanks to falling international oil prices. The central bank also advanced its plan to use its overnight certificate of deposit (CD) rate —the rate at which commercial banks borrow from each other— as its policy rate, as part of its efforts to make monetary policy transmission more effective.

In 2016 credit to the private sector grew by 11.4%, faster than the 2015 rate of 9.6%. The credit expansion continued into 2017, with annual credit growth standing at 32.9% at the end of March and 31.1% at the end of June, reflecting increased economic activity and stronger confidence by the private sector. Meanwhile weighted interest rates fell to 14.98% in June 2017.

The current account balance has seen steady improvement, as the deficit narrowed to 2.6% of GDP in 2016 from 2.8% in 2015. This was the fifth year of improvement and the lowest deficit in 15 years. Net reserves of the central bank amounted to US$ 2.7 billion, while gross reserves were US$ 3.3 billion at the end of 2016, the equivalent of approximately 24 weeks of goods and services imports. Net reserves slipped to US$ 2.6 billion by June 2017, which may be linked to interventions by the Bank of Jamaica.

The bank is also introducing a new system of foreign-exchange management, known as the foreign-exchange intervention and trading tool (B-FXITT), under which it will conduct pre-announced weekly interventions reflecting market conditions. It will also conduct flash interventions if those conditions warrant.

The economic growth rate was 1.4% in 2016, 0.1% in the first quarter of 2017 and 0.3% in the second. In the first quarter, the largest contributor to growth was the service industry (0.5%) while the goods-producing sector contracted by 1.1%. Within the latter sector, agriculture declined by 2.5%, and mining and quarrying by 10.8%, reflecting weak external demand. The outturn in the second quarter reflected a poor performance in the goods sector (-2.5%) combined with a positive performance in the services sector (1.2%). Remittance flows have also been improving owing to better economic performances in the United States and the United Kingdom. Interestingly, the manufacturing sector's performance has not been stellar despite the competitiveness gains from the depreciating exchange rate. The growth projection for 2018 is 1.3% on the back of continued tourism growth and expansion of credit to the domestic private sector.

After a rate of 1.7% in 2016, headline inflation is projected to be much higher at 4% at end-June 2017, owing to increased energy prices and exchange-rate changes, despite fiscal restraint.

Wage restraint has been an important part of the agreement with IMF. For fiscal year 2017/2018, the wages and salaries bill amounted to US$ 179.5 billion, a 5.2% increase over fiscal year 2016/17. However, the wage-to-GDP ratio is programmed at 9.5% of GDP in the budget, down from 9.7% in fiscal year 2016/2017. The actual wage bill was 9% of GDP in fiscal year 2016/17 and the government is committed to maintaining the ratio of public debt to GDP on a downward path over the medium term. However, it may prove difficult for the government to hold down wages while pursuing public sector reforms, given the likelihood of fiscal fatigue.

The unemployment rate fell to 12.9% in October 2016 from 13.5% a year before. Over that period, 34,000 new jobs were created of which, importantly, 25,500 went to women.

In July 2016 the unemployment rate for males was 9.6% and for females, 18.4%. In July 2017 overall unemployment fell further to 11.3%, reflecting a decline in the rate relative to 2016 for both sexes: to 8.0% for men and 15.2% for women. Unemployment will only ease significantly with improved domestic activity and robust external demand. Meanwhile, youth unemployment continues to be a serious challenge.