

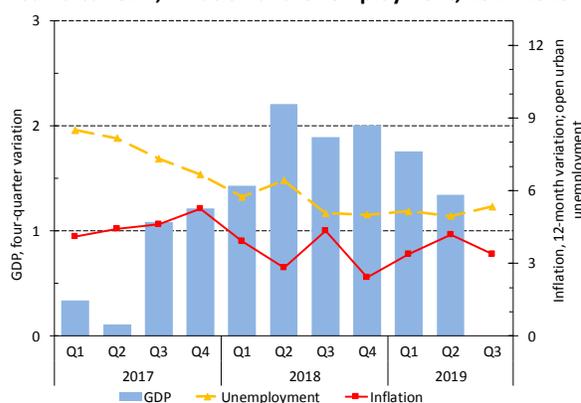
## Jamaica

The Jamaican economy posted growth rates of 1.5% in the first quarter of 2019 and 1.0% in the second, and projections are for 1.7% for 2019 overall and 1.6% in 2020. The government's main policy objective in 2019 was to meet the annual requirement of the three-year, US\$ 1.64 billion stand-by arrangement with the International Monetary Fund (IMF) signed in November 2016. The government is not expected to enter into another formal agreement with IMF upon the expiration of the current agreement in November 2019. The overall policy focus going forward will be on promoting economic growth to foster gradual expansion even after the IMF agreement expires. In June 2019, ahead of the sixth and final review under the stand-by agreement, strong programme implementation continued to anchor macroeconomic stability and all quantitative performance criteria and structural benchmarks for the period were met. Concluding the sixth review on 4 November, the Executive Board of IMF said that Jamaica's sustained policy discipline, together with a fully operational fiscal council and an independent central bank, would help institutionalize the gains achieved under successive Fund-supported programmes.

Fiscal challenges continue to be the main concern as the Government of Jamaica seeks to control its public finances. The primary surplus was almost 7.5% of GDP in fiscal year 2018/19,<sup>1</sup> with the public debt falling to about 95% of GDP at end-March 2019—the lowest figure since financial year 2000/01. Public expenditure control is a major part of the fiscal adjustment strategy and, in the first half of fiscal year 2019/20, most categories of government expenditure were below budget and overall government expenditure was 1.5% under budget. Capital expenditure, the category that has tended to bear the brunt of the adjustment, was 1.8% below budget. This resulted in a primary surplus of 7.8% of GDP, within the IMF target. For 2019, loan receipts were some 11.8% above budget, arising from an increase in external loans, as the Government of Jamaica has leveraged the low-interest regime prevailing internationally to reduce debt service costs. On the tax side, all the revenue components showed increases, and grants went up by 7.8%.

The principal challenge facing the Jamaican economy is the debt overhang, which is still high. External debt was the largest component, at 61.2%, while domestic debt was 38.8%. Strong fiscal discipline and prudent debt management helped to reduce the debt-to-GDP ratio from 135.3% in fiscal year 2012/13 to 101.0% in 2017/18. The ratio has continued to trend steadily downwards and is estimated to have reached 96.4% at the end of March 2019, heading for 90.9% at end-March 2020, 5.1 percentage points

**Jamaica: GDP, Inflation and Unemployment, 2017-2019**



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

<sup>1</sup> The fiscal year in Jamaica runs from 1 April to 31 March.

below the internal target of 96.0%. Based on the current trajectory, the government is on track to meet its debt-to-GDP target of 60.0% or less by the end of fiscal year 2025/26.

In 2018, the Jamaican dollar experienced at least four cycles of appreciation and depreciation, showing a year-over-year depreciation of 2.2% against the United States dollar at the end of the year, compared with an appreciation (2.7%) at end-2017. In 2019, the currency showed a faster quarter-on-quarter depreciation in the second quarter and closed the third quarter with a weighted average selling rate against the United States dollar of J\$ 131.07 = US\$ 1, reflecting a quarter-on-quarter depreciation of 3.5%.

Currency depreciation will remain a downside risk throughout 2020 but the Bank of Jamaica expects to manage a moderate depreciation as part of its intervention strategy. Depreciation could accelerate should the government fail to meet its fiscal targets by a significant margin, which could affect business confidence and reignite capital flight. Despite IMF recommendations that the central bank intervene less frequently in order to build up reserves, the monetary authorities may step up foreign-exchange sales if they need to contain faster depreciation, imported inflation or rises in external debt servicing costs. Factors such as droughts or floods (which could push up imports) and commodity price swings could also fuel depreciation. Although the depreciation of the Jamaican dollar may be improving the country's competitiveness,<sup>2</sup> especially in light of depressed oil prices, its persistence over time would begin to affect inflation and prompt demands for wage increases, especially among public servants.

The Bank of Jamaica's stated monetary policy objective is to achieve and maintain an inflation target of between 4.0% and 6.0%, a level that is believed will facilitate sustained growth and economic development.<sup>3</sup> In 2018, the Bank's monetary policy continued to be accommodative and the policy interest rate was reduced on five occasions, by a total of 150 basis points, to stand at 1.75% at year-end. The Bank then loosened the monetary policy stance further in 2019, aiming to foster greater private sector credit expansion and thereby support stronger economic growth, job creation and the inflation target. In the second quarter, the policy interest rate thus reached a historic low of 0.75%, which reflected the generally favourable outlook for inflation over the near- to medium-term amid improved macroeconomic fundamentals.

Annual growth in private sector credit by deposit taking institutions at end-June 2019 was 16.8%, up from the 16.1% recorded at the end of the first quarter. This growth was underpinned by a 15.7% expansion in loans and advances, above the 14.8% recorded at end-March 2019, driven mainly by an increase of 16.5% in lending to the productive sector, chiefly in the categories of professional and

**Jamaica: main economic indicators, 2017-2019**

	2017	2018	2019 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	1.0	1.7	1.7
Per capita gross domestic product	0.7	1.4	1.4
Consumer prices	5.2	2.4	3.4 <sup>b</sup>
Money (M1)	11.2	20.0	16.8 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	1.2	-4.4	-7.9 <sup>b</sup>
	<b>Annual average percentage</b>		
Unemployment rate <sup>e</sup>	11.7	9.1	7.9 <sup>f</sup>
Central government			
Overall balance / GDP	0.5	1.2	-0.6
Nominal deposit rate <sup>g</sup>	1.6	1.4	1.2 <sup>b</sup>
Nominal lending rate <sup>h</sup>	14.9	14.1	13.6 <sup>b</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	4 829	...	...
Imports of goods and services	7 512	...	...
Current account balance	-713	...	...
Capital and financial balance <sup>i</sup>	1 197	...	...
Overall balance	484	...	...

**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 May.

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/ The figure correspond to the average from the first to the third quarter.

g/ Average rate for saving deposits.

h/ Average lending rate.

i/ Includes errors and omissions.

<sup>2</sup> This said, there are limits to the extent to which devaluation can improve competitiveness in a small open economy.

<sup>3</sup> The inflation target was set by the Minister of Finance and the Public Service.

other business services, and distribution and construction. Credit expansion in the last two quarters of 2019 is expected to be positive but relatively low as the end of the IMF agreement may create a wait-and-see attitude among the business community.

Preliminary data show that Jamaica's current account deficit worsened to 3.1% of GDP in 2018 relative to 2.7% of GDP in 2017. Consequently, the net international reserve position stood at US\$ 3.005 billion at end-2018. It was fairly unchanged at the end of June 2019, at US\$ 3.035 billion, which represented about 24 weeks of projected goods and service imports.

The economic growth rate was 1.7% in 2018 and 1.5% and 1.0%, respectively, in the first two quarters of 2019. In the first quarter, the goods-producing sector posted expansion of 1.8%, with most industries making a positive contribution, and services registered growth of 1.5%, again generally across the board, with tourism in particular performing well. Total visitor expenditure is estimated to have grown by 11.5% to US\$ 945 million, within which stopover expenditure increased by 13% to US\$ 880.9 million. In the second quarter, growth in the goods-producing industry remained flat while real value added for the services industry expanded by 1.4%, with gains made in all segments. The outturn in the real sector was attributed mainly to improved performances in mining and quarrying (4.5%) and manufacturing (1.7%) and a decline of 2.5% in the agriculture, forestry and fishing industry. The latter sector was adversely impacted by drought conditions owing to below-normal rainfall. The growth outlook for 2020 is positive but modest, at 1.6%, driven mainly by tourism receipts and a favourable performance in agriculture and industry.

Inflation was 2.4% in 2018, year-on-year, down from 5.2% in 2017, but picked up in 2019 to 3.4% in the first quarter and 4.2% in the second. This acceleration was mainly due to higher prices for agricultural food items, particularly vegetables, and for electricity. The Bank of Jamaica projects that the inflation rate will average 4.3% over the next eight quarters, before gradually approaching the midpoint of the target range (5.0%) in the medium term. This forecast is predicated chiefly on the impact of low domestic demand conditions and larger declines in international commodity and energy prices.

The unemployment rate fell to 7.8% in July 2019, from 8.0% a year earlier, reflecting growth of 0.9% (11,318 people) in the employed labour force. Given that the labour force increased slightly as a percentage of the population, the proportion of persons aged 14 or over outside the labour force fell from 36.1% to 34.8% in this period.

The breakdown by gender of the unemployment rate shows the historic gap persisting between male and female rates. The unemployment rate remained at 5.8% in both July 2018 and July 2019 for males, while for females it fell from 11.5% to 10.2%. Despite the overall decline in unemployment, youth joblessness remains relatively high, at 17.3% in the 20–24 age group overall in July 2019, with male and female rates standing at 14.1% and 21.4%, respectively.