

JAMAICA

1. General trends

The Jamaican economy recorded growth of 0.4% in 2014. Positive results in the first two quarters of 2014 (growth of 1.6% and 1.2%, respectively) were succeeded by a poor performance during the second half of the year. GDP growth stood at 0.3% in the first quarter of 2015, with a 0.6% increase in services but a 0.7% decline in the goods-producing sector. The economy is expected to grow by 1.1% in 2015 with an improvement in bauxite exports, higher tourism receipts, continued flows of remittances, which boost domestic demand, and an upturn in agriculture.

Fiscal consolidation will remain the focus of economic policy in 2015, within the context of the 48-month Extended Fund Facility (EFF) which was signed with the International Monetary Fund (IMF) in May 2013. The agreement, worth US\$ 932 million, was accompanied by pledges of US\$ 510 million each from the World Bank and the Inter-American Development Bank (IDB). In 2014 alone, loans of US\$ 224 million and US\$ 312 million were approved by the World Bank and IDB, respectively, upon completion of the IMF reviews. In March 2015, the country underwent a seventh successful quarterly review. This will help to boost domestic private sector confidence and attract the interest of international investors.

The key challenge to the economy continues to be the heavy debt burden, currently equivalent to 132.5% of GDP, and likely to remain in excess of 100% until 2020. This, of necessity, will require continued monitoring of expenditure and increases in tax revenue.

The Jamaican dollar (J\$) continued to depreciate throughout 2014, but strengthened slightly against the United States dollar from J\$ 115.5 in January 2015 to J\$ 114.5 in April 2015. With oil prices on the decline and subdued domestic demand, inflation remained on the low side, at around 6.4%, in 2014 and diminished over the first four months of 2015. By the end of the year, it should be below 6%.

On the external front, the current account balance deteriorated by US\$ 159.9 million in 2014, to stand at US\$ 1.160 billion or 8% of GDP. Indeed, the decline in exports had outpaced the fall in imports and commodity prices, resulting in a higher trade deficit. Net international reserves amounted to US\$ 2.0 billion or 18.4 weeks of import cover at the end of 2014, strengthened by the US\$ 800 million Eurobond issuance of July 2014.

2. Economic policy

(a) Fiscal policy

The fiscal situation continues to be a challenge, but has improved as the government has been complying strictly with its IMF obligations under the EFF. In March 2015, IMF completed the seventh review and released US\$ 39 million, which brought total disbursements to US\$ 591 million. The budget of fiscal year 2015/2016 attests to the government's adherence to its tight fiscal policy stance. Expenditure is projected to be J\$ 665.5 billion, including debt servicing of J\$ 310 billion or 46.5% of total

expenditure. Emphasis is placed on wage restraint as public sector wages and salaries represented 55% of non-debt expenditure. Capital expenditure was squeezed in the adjustment process and amounted to just J\$ 30.5 billion or 4% of the overall budget. Although the budget was crafted to reflect the need for a primary surplus of about 7.5%, as set out in the EFF, this will be difficult in the context of slow growth.

The performance of fiscal year 2014/2015 resulted in the first fiscal surplus in 20 years, at 0.1% of GDP, reflecting the lower expenditure and higher revenue. Overall expenditure was 4.5% below initial budget projections, with the sharpest decline occurring in interest payments. Capital spending was 33% below the budget. On the revenue side, overall revenues and grants came in 3.8% below the initial budget. The primary surplus also fell short of the budget, but still met the IMF target of 7.6% of GDP.

The public debt overhang remains a significant challenge to the performance of the economy. The debt stood at J\$ 2.038 trillion at the end of 2014, which was 4.8% above the 2013 figure, reflecting an expansion in both domestic and external debt. This level represented 132.8% of GDP and is projected to remain in excess of 100% by 2020 in line with the EFF arrangements. The external debt, which stood at US\$ 8.659 billion in 2014, increased owing to new borrowing of some US\$ 800 million from the international capital market, US\$ 206.8 million from IMF for balance-of-payments support and a further US\$ 25 million from the Caribbean Development Bank (CDB), as part of policy-based loans. This increase was, however, offset by some repayments. In fiscal year 2013/2014, the external debt was equivalent to 45% of GDP, but the foreign-exchange component of the overall debt amounted to 58.7% of GDP. Considering that the external debt is mostly denominated in foreign currencies, devaluation would create an additional burden. With respect to debt service, the Bank of Jamaica reported that the ratio of external debt service to exports increased from 29.0% at the end of 2013 to 37.4% at the end of 2014, owing mainly to higher external amortization payments.

In order to lock in the gains of fiscal consolidation, a number of policies are being pursued to bring down the debt to acceptable levels. On the fiscal side, the reforms include the government's adoption of a legally binding rule to ensure a sustainable overall balance, the introduction of a five-year public sector investment programme, which began in fiscal year 2013/2014, and the review of public sector remuneration to help inform policy reforms.

With respect to taxation, the granting of waivers is to be restrained, avenues for charitable contribution will be harmonized and waivers for such contributions will be discontinued. The objective is to reduce the number of loopholes in the country's tax legislation. A number of administrative tax reforms are being envisaged, including an expansion of staff in the tax offices in order to monitor compliance and obtain more information on taxpayers.

(b) Monetary policy

With the exchange rate stabilized and inflation under control, the Bank of Jamaica has maintained its 30-day certificate of deposit rate at 5.75% since February 2013.

The money supply (M1) grew by 4.2% in 2013 and by 12.4% in 2014. Currency in the hands of the public expanded by 7.1% and 8.4%, respectively, in 2013 and 2014, while demand deposits grew by 1.7% and 16.4%. The weighted average local deposit rate rose from 2.04% in 2012 to 3.01% in 2014, while the lending rate fell from 17.5% in 2013 to 17.18% in 2014. This reduction in the interest rate followed lower average rates within the framework of the National Debt Exchange.

Credit to the private sector grew by 16.3% in 2013 and was dominated by Jamaican dollar transactions. In 2014, it grew by only 4.8%. Loans and advances, the largest component of private sector credit, expanded by 5.53%, following 18.3% growth in 2013. This slowing credit growth reflects a moderation of both business and personal loans and was felt across most sectors. The stock of loans to businesses increased by 4.5% in 2014, following a 12% expansion in 2013. Despite this slow growth, there were positive signs in some sectors, including agriculture and fishing (14.6%), distribution (11.6%), professional and other services (8.6%) and tourism (7.95%).

At the end of 2014, the quality of the commercial bank loan portfolio improved in relation to 2013. The ratio of non-performing loans to total loans fell to 4.9% in 2014, compared with 5.4% in 2013. According to the Bank of Jamaica, the improvements in the commercial banks' business loans portfolio reflected loan write-offs and net repayment of past-due loans by some sectors.

(c) Exchange-rate policy

The pace of currency depreciation slowed to 7.8% in 2014, after the 13.3% depreciation recorded in 2013. The weighted average selling rate against the United States dollar was J\$ 104.26 at the end of 2013 and J\$ 114.66 at the end of 2014. Several factors explain the slower pace of depreciation: a successful Eurobond issue in July 2014, which suggested confidence regarding future prospects, and the decline in the net demand for foreign exchange to meet current account transactions, especially those arising from lower fuel imports. According to the central bank, remittance inflows were particularly strong (up by 7.4%) in late 2014. Overall, net private capital flows were sufficient to cover current account transactions.

While depreciation may increase competitiveness in some sectors, it placed pressure on the Bank of Jamaica to intervene to prevent a rapid deterioration of the currency. Given the weak domestic and external demand, the value of the Jamaican dollar may slip further by the end of 2015, to about J\$ 118 to the United States dollar, but this also depends on the ability of the economy to meet IMF targets.

(d) Other policies

Both fiscal and macroeconomic policies are guided by the EFF under IMF. A number of fiscal, administrative and monetary measures have been introduced so far. In particular fiscal rules have been developed to strengthen the role of the auditor general and the Parliament with a view to promoting greater fiscal transparency. In addition, the amendments to the Financial Administration and Audit Act and the Public Bodies Management and Accountability Act have strengthened the rules governing budget preparation and approval.

From the point of view of the banking sector, the Bank of Jamaica introduced a new standing liquidity facility to help deposit-taking institutions meet their overnight cash demands. In addition, the Bank has been gradually lifting the cap on investment in foreign securities by security dealers and collective investment schemes. A new bill, currently being prepared by the Chief Parliamentary Counsel, seeks to amalgamate the provisions of the Banking Act, the Financial Institutions Act and the Bank of Jamaica (Building Societies) Regulations into a single piece of legislation. This bill is expected to include amendments that will give the Bank more supervisory responsibilities over deposit-taking institutions.

Other reforms being pursued include the following: the establishment of the Economic Programme Oversight Committee (EPOC), a public-private sector group to monitor and report publicly

on progress under the EFF; and legislative reforms which cover the new Insolvency Act, a new electricity bill, a new procurement bill, and a new customs bill.

The government has also strengthened the administrative powers of Tax Administration Jamaica and introduced an electronic platform for the payment of taxes. In addition, business registration has been streamlined and a 90-day timeframe has been instituted for development approvals. The operations of the Jamaica Customs have also been upgraded. Other changes include a new Fiscal Incentives Act, which introduces employee tax credits to relieve the investor of the potential cost of statutory deductions and provides for more generous capital depreciation allowances to amortize the value of the investment over the realistic life of the investment.

Policy space is, however, seriously restricted by the weak, albeit improving, domestic and international demand and by the heavy fiscal burden.

3. The main variables

(a) The external sector

Data for 2014 indicate that the current account balance deteriorated by US\$ 159.9 million to stand at US\$ 1.160 billion or 8% of GDP. The main factor in this deterioration was the higher trade deficit, as the 5% decline in exports outweighed the benefits that would otherwise have derived from the fall in imports and in commodity prices.

The services balance reflected positive growth due to improvements in travel receipts and remittance flows from abroad. Net earnings were up by 7.6% at US\$ 665.4 million in 2014, owing largely to remittances and increased travel receipts with higher-than-average expenditure per person. The higher remittances were linked to the improved economic performance of the United States economy. Overall, the deficit on the goods and services balance was US\$ 80.4 million in 2014, implying that, while some adjustment to the current account balance has been taking place, it occurred at a time of lower economic activity.

At the end of December 2014, net international reserves totalled US\$ 2.0 billion, an increase of US\$ 953.3 million over the 2013 year-end figure. This represented 18.4 weeks of goods and services imports. It is important to note, however, that these reserves were boosted by the US\$ 800 million bond issue in July 2014. Net international reserves swelled further during the first five months of 2015 to stand at US\$ 2.4 billion, or 20.8 weeks of import cover, following the disbursement of funds by IMF and loans from multilateral agencies.

(b) Economic activity

The Jamaican economy grew by 0.4% in 2014, compared with 0.6% in 2013. The slow growth was attributable to negative results in the second half of 2014 following a positive performance in the first half. Growth was mostly driven by international demand as domestic demand remained lacklustre. In sectoral terms, growth was positive in the goods sector except for agriculture, which declined by 4%, manufacturing (down by 1.2%) and electricity, gas and water (also down by 1.2%). Construction grew by 1.4%, and mining and quarrying posted growth of 0.9%. The services sector showed positive growth in all subsectors except for producers of government services, which recorded a decrease of 0.2%. The higher cost of services, combined with drought conditions, may have led to reduced demand for water.

The economy grew by 0.3% in the first quarter of 2015, reflecting 0.6% growth in the services sector but a 0.7% decline in the goods-producing sector. Within the goods sector, all subsectors, other than mining and quarrying (up 0.2%) and construction (up 1.4%), posted negative growth, with the largest decline occurring in manufacturing (-3.1%). By contrast, the results were mostly positive for the services sector during the first quarter of 2015, especially for the tourism subsector, which is the principal foreign-exchange earner and the leading employer. Outputs for hotels and restaurants were up by 4% year-on-year, total arrivals increased by 9.9% and visitor expenditure rose by 5.2%.

For the rest of 2015, while manufacturing will continue to show little improvement, tourism is expected to expand as demand from the United States and Europe improves and as Jamaica diversifies its markets. Stronger aluminium prices would encourage growth in mining output and also attract new investment; increased capacity utilization and a rally in crude bauxite production during the first quarter of 2015 already point to a trend in this direction.

Agriculture is expected to recover later in the year as the weather-related shocks that had adversely affected agricultural output (down 0.5%) in the first quarter of 2015 are likely to be short-lived. Lastly, construction will be driven by the government's Major Infrastructure Development Programme, which includes road improvements. The economy is expected to grow by 1.1% in 2015 as confidence in the economy is restored.

(c) Prices, wages and employment

Inflation as measured by the point-to-point change in the all Jamaica consumer price index was 6.4% in 2014, down from 9.5% in 2013 and 8.0% in 2012, marking the third consecutive year of single-digit inflation. The slowing pace of inflation was observed against the background of lower electricity and transport costs, due to plummeting oil prices and weaker domestic demand.

Consumer prices declined for the fourth consecutive month in February 2015, bringing 12-month cumulative inflation down to 4.5%. With depressed commodity prices, the rate of inflation is projected at 5% for 2015, close to the historically low rate of 4.4%, recorded 43 years ago.

The Wage Restraint Agreement signed with the unions in March 2013 covers 82% of the public sector (well in excess of the prior action threshold of 70% under the EFF). This Agreement is expected to contribute to the achievement of the government's wage target of 9.0% of GDP by March 2016. The annual targets for fiscal years 2013/2014 and 2014/2015 were 10.6% and 9.7%, respectively. The reduction in the wage bill has been further supported by a wage freeze for the period 2012-2015, a commitment to rule out net hiring of workers over the medium-term and to fill only critical vacancies.

The estimated public sector wage bill for fiscal year 2014/2015 was J\$ 165.2 billion, up from J\$ 157.3 billion in fiscal year 2013/2014. This amount accounts for some 55% of the non-debt recurrent budget and includes: back-pay owed to selected public sector workers; new pay rates for correctional officers and medical doctors; the 2.5% annual performance increment; the final one-off payment owed to public sectors workers under the 2012-2015 heads of agreement; and amounts for new wage settlements.¹

¹ In terms of other wage increases, on the advice of the Minimum Wage Advisory Commission (MWAC), the minimum wage was raised by 12% in January 2014.

In light of the weak growth conditions, the unemployment rate remained constant at 14.2% between October 2014 and January 2015, but marked an increase over the rate of 13.8% registered in July 2014. The male unemployment rate rose from 9.9% in October 2014 to 10.7% in January 2015, while the female unemployment rate fell from 19.4% to 18.5% as about 6,000 jobs were added. Meanwhile, the overall unemployment rate for the 20-24 age group was 33% in January 2015; for men, it was 29.4% and, for women, 37.5%. Thus, while overall unemployment rates are high, they are much worse for young people. In recognition of this challenge, the government has implemented the Jamaica Emergency Employment Programme (JEEP), which is estimated, according to the recent budget, to have provided employment for more than 50,000 Jamaicans at an approximate cost of J\$ 8 billion. Given the current economic challenges, the unemployment rate is expected to remain high for some time.

Table 1
JAMAICA: MAIN ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
	Annual growth rates b/								
Gross domestic product	2.9	17.1	-0.7	-4.4	-1.5	1.7	-0.6	0.6	0.4
Per capita gross domestic product	2.3	16.6	-1.1	-4.8	-1.9	1.2	-1.1	0.0	-0.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	20.0	-8.1	-6.2	14.0	0.0	10.3	2.3	-0.7	...
Mining and quarrying	0.7	-2.9	-2.7	-50.4	-4.2	19.1	-8.7	2.7	...
Manufacturing	-1.9	1.2	-0.5	-4.8	-4.1	1.7	-0.7	-0.5	...
Electricity, gas and water	3.2	0.6	0.9	2.2	-4.3	0.3	-2.2	-2.0	...
Construction	-3.7	4.5	-7.6	-8.7	-1.3	0.8	-4.4	1.9	...
Wholesale and retail commerce, restaurants and hotels	3.8	1.2	0.1	-2.5	-2.3	0.7	-0.7	0.2	...
Transport, storage and communications	4.2	2.1	-3.1	-3.5	-2.7	-1.9	-0.1	0.4	...
Financial institutions, insurance, real estate and business services	2.2	4.1	2.2	0.9	-2.2	-0.3	0.1	0.3	...
Community, social and personal services	2.0	1.5	0.3	-0.1	-0.3	0.5	0.3	-0.1	...
Balance of payments	Millions of dollars								
Current account balance	-1,183	-2,038	-2,793	-1,128	-934	-2,063	-1,379	-1,320	-1,160
Goods balance	-2,943	-3,841	-4,803	-3,088	-3,259	-4,215	-3,904	-3,881	-3,731
Exports, f.o.b.	2,134	2,363	2,744	1,388	1,370	1,666	1,728	1,580	1,453
Imports, f.o.b.	5,077	6,204	7,547	4,476	4,629	5,881	5,632	5,462	5,184
Services trade balance	628	425	428	770	810	674	536	618	665
Income balance	-616	-662	-568	-668	-495	-518	-122	-277	-386
Net current transfers	1,749	2,040	2,150	1,858	2,010	1,996	2,111	2,221	2,292
Capital and financial balance c/	1,413	1,598	2,688	1,098	586	1,795	555	1,140	1,960
Net foreign direct investment	797	751	1,361	480	169	144	411	741	701
Other capital movements	616	847	1,328	618	416	1,652	145	399	1,259
Overall balance	230	-440	-105	-29	-348	-268	-823	-179	800
Variation in reserve assets d/	-230	440	105	29	-431	218	823	179	-673
Other financing	0	0	0	0	779	49	0	0	-128
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) e/	102.1	104.9	99.2	110.8	98.2	96.3	95.3	99.9	109.4
Net resource transfer (millions of dollars)	798	937	2,120	430	871	1,326	433	864	1,446
Gross external public debt (millions of dollars)	5,796	6,123	6,344	6,594	8,390	8,626	8,256	8,310	8,659
Employment	Average annual rates								
Labour force participation rate f/	64.7	64.9	65.4	63.5	62.4	62.3	61.9	63.0	62.8
Unemployment rate g/	10.3	9.8	10.6	11.4	12.4	12.6	13.9	15.2	13.7
Open unemployment rate h/	5.8	6.0	6.9	7.5	8.0	8.4	9.3	10.3	9.5
Prices	Annual percentages								
Variation in consumer prices (December-December)	5.6	16.8	16.9	10.2	11.8	6.0	8.0	9.7	6.2
Variation in nominal exchange rate (annual average)	6.0	4.8	5.7	21.2	-1.0	-1.6	2.9	12.8	11.1
Variation in minimum real wage	7.3	4.5	-5.2	0.3	-11.2	1.1	-1.5	-1.9	3.3
Nominal deposit rate i/	5.3	5.0	5.1	5.8	3.5	2.3	2.1	1.6	1.3
Nominal lending rate j/	22.0	22.0	22.3	22.6	20.3	18.3	17.8	16.3	15.1

Table 1 (concluded)

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
Central government k/	Percentajes of GDP								
Total revenue	26.9	28.5	27.7	28.2	27.3	26.1	26.2	28.5	26.1
Tax revenue	24.0	24.8	24.7	24.9	24.3	23.4	24.3	25.2	23.5
Total expenditure l/	31.6	33.2	35.2	39.6	33.7	32.0	30.3	29.0	26.6
Current expenditure	28.6	28.6	31.1	36.3	28.9	28.1	27.5	25.9	25.1
Interest	12.5	11.5	12.6	17.7	11.1	9.7	9.6	8.4	7.9
Capital expenditure	3.0	4.7	4.1	3.2	4.8	3.9	2.9	3.1	1.5
Primary balance	7.8	6.7	5.0	6.3	4.7	3.9	5.5	7.8	7.4
Overall balance	-4.7	-4.8	-7.6	-11.4	-6.4	-5.9	-4.2	-0.6	-0.5
Non-financial public sector public debt	117.8	110.9	112.3	126.3	131.7	131.4	133.9	135.5	132.7
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	30.4	30.6	34.4	34.9	27.5	27.8	29.3	29.8	31.6
To the public sector	14.9	12.9	14.5	16.7	11.5	10.4	9.9	9.3	12.3
To the private sector	15.8	18.3	20.8	19.7	18.1	19.0	21.0	22.3	21.2
Others	-0.4	-0.6	-0.9	-1.4	-2.1	-1.6	-1.6	-1.7	-1.9
Monetary base	7.4	7.4	7.2	7.6	7.4	7.4	7.4	7.2	6.9
Money (M1)	9.9	10.1	9.1	9.2	8.9	9.1	9.0	8.4	8.4
M2	23.1	22.9	21.1	20.3	20.0	19.7	19.4	18.5	17.6
Foreign-currency deposits	9.6	11.0	10.3	10.8	9.3	8.6	9.1	10.5	10.8

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

	2013				2014				2015	
	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/	-1.2	-0.2	0.4	1.9	1.8	2.0	-1.4	-0.3	0.4	...
Gross international reserves (millions of dollars)	1,789	1,817	1,738	1,712	1,832	1,955	2,730	2,473	2,410	2,793 c/
Real effective exchange rate (index: 2005=100) d/	97.0	99.5	101.0	102.2	105.8	110.6	110.9	110.1	112.3	113.8 c/
Consumer prices (12-month percentage variation)	8.5	9.0	9.9	10.0	8.8	7.9	9.3	7.2	4.6	4.2 c/
Average nominal exchange rate (Jamaica dollars per dollar)	94.7	99.2	101.5	103.9	107.6	110.4	112.5	113.1	115.0	115.2
Nominal interest rates (average annualized percentages)										
Deposit rate e/	2.0	1.6	1.6	1.2	1.3	1.4	1.2	1.3	1.4	1.4 f/
Lending rate g/	17.2	16.9	16.3	14.6	15.6	14.8	14.9	15.0	15.0	15.0 f/
Interbank rate	5.2	4.2	5.1	6.5	10.1	8.0	4.6	4.1	3.9 h/	...
Monetary policy rates	6.1	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8 h/	...
Sovereign bond spread, Embi Global (basis points to end of period) i/	680	623	637	641	531	496	443	485	437	350
International bond issues (millions of dollars)	1300	-	-	500	1,000	-	800	-	925	-
Stock price index (national index to end of period, 31 December 2005 = 100)	78	83	81	77	72	68	69	73	80	93
Domestic credit (variation from same quarter of preceding year)	15.8	18.5	18.4	11.7	11.8	16.3	13.3	15.3	6.2	...

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/ Figures as of May.

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

e/ Savings interest rate.

f/ Figures as of April.

g/ Average lending rate.

h/ Figures as of January.

i/ Measured by J.P.Morgan.