

## JAMAICA

### 1. General trends

On the heels of several quarters of positive growth, the Jamaican economy expanded by 1.4% in 2016, which was an improvement on the 1.0% achieved in 2015. The economy is expected to grow at 1.6% in 2017, assuming robust growth in the agricultural sector and continued improvement in tourism receipts and remittance flows.

Economic policymaking will be influenced by the government's three-year stand-by arrangement with the International Monetary Fund (IMF), which was signed in November 2016. This agreement, which is valued at US\$ 1.64 billion, will replace a US\$ 932 million, four-year extended fund facility signed in May 2013. The government has stated that it intends to treat the stand-by arrangement as precautionary and will thus not make drawdowns unless economic conditions deteriorate sharply. This is largely designed to boost confidence while the fiscal consolidation efforts continue.

The inflation rate was 1.7% in 2016, which is low by historical standards. The central bank has thus adopted a more accommodative monetary policy stance, aiming to boost growth by reducing interest rates and creating more opportunities for interbank borrowing. There may be more scope for further interest rate cuts in 2017, assuming that inflation rates remain relatively low.

The key challenge to the economy continues to be the large debt burden, which is likely to persist for the medium term. At the end of 2016, the debt stock was 2.15 trillion Jamaican dollars (J\$) or 128% of GDP. As a result, the fiscal consolidation programme designed to restrain expenditure and increase revenue is still necessary to stabilize and bring down the debt burden.

After an initial acceleration in depreciation, the Jamaican dollar settled at J\$ 128.44 = US\$1.00, reflecting an annual nominal rate of depreciation of 6.7%. The Bank of Jamaica's strategy is to intervene when there are significant deviations between the two currencies since excessive depreciation gives rise to inflation and greater economic uncertainty.

The current account deficit narrowed to US\$ 103.0 million, or 0.8% of GDP in 2016. This was the fifth consecutive year of improvement and the lowest deficit in 15 years, for which one main reason was the improvement in the services balance. Consequently, gross reserves reached US\$ 3.295 billion, representing 24.7 weeks of projected goods and services imports, at the end of 2016.

### 2. Economic policy

#### (a) Fiscal policy

Jamaica's medium-term macroeconomic programme and policies are supported by a three-year stand-by arrangement with IMF. The arrangement replaced the extended fund facility that was to conclude in March 2017. One major change is that the frequency of the formal reviews of the quantitative performance criteria and the structural benchmarks under the stand-by arrangement were adjusted from quarterly to semi-annual. IMF funding under the stand-by arrangement is being treated as precautionary, but it affords the country access to approximately 1.1953 billion of the Fund's special drawing rights

(SDR), or 312% of Jamaica's quota in IMF, equivalent to US\$ 1.6 billion, under certain conditions. This is designed to boost confidence and to signal that the fiscal consolidation programmes will continue. The first assessment under the stand-by arrangement for the December 2016 quarter was completed in April 2017, with the economy receiving positive marks. On successful completion of this review, IMF will make approximately SDR 126.0 million (US\$ 170.0 million) available to Jamaica. The remaining funds will become accessible in six tranches upon successful completion of subsequent reviews.

The fiscal performance in fiscal year 2016/17<sup>1</sup> reflected further expenditure compression and attempts at increasing revenue. Expenditure relative to the budgeted amounts was down in almost all categories and by 0.1% overall. At the same time, capital spending was down by 6.4% relative to budget projections. Overall revenues and grants were up by 1.8% relative to the budget. With respect to taxation, the new government kept its electoral promise to reduce the tax burden to zero for those below the income tax threshold of J\$ 1.5 million a year. This was a two-phase process that began in July 2016 and was completed in March 2017. The measure was paid for by an increase in gas taxes: while it removed over 200,000 individuals from the income tax rolls, the increased fuel tax will affect the poor and will have distributional consequences as a result of the policy shift from direct to indirect taxes.

The public debt overhang remains a significant challenge to the performance of the economy. At end-December 2016, Jamaica's stock of debt was J\$ 2.15 trillion, or 128.0% of GDP, lower than the 131.0% of GDP at the end of 2011. The decline has been slow because of the staggering size of the debt in the context of low growth.

In fiscal year 2016/17, the external debt was projected at 75.6% of GDP, but the foreign-exchange component of the overall debt was more than 50% of GDP. The fact that the external debt is denominated in foreign exchange creates an additional burden with each devaluation of the currency. With respect to debt service, interest payments are projected at 8.3% of GDP, so that total debt service, including interest and amortization, represent a sizeable portion of the budget.

In light of the fiscal adjustment initiatives being undertaken, in the budget for fiscal year 2017/18 the government has increased benefits under the conditional cash transfer programme called Programme of Advancement Through Health and Education (PATH). An additional J\$ 3.68 billion has been allocated for these benefits, bringing the total provision to J\$ 11.47 billion, an increase of 47% over the provision in 2016/17.

## **(b) Monetary policy**

In 2016 the central bank, Bank of Jamaica, adopted an accommodative monetary policy, reducing the signal interest rate —the rate payable on its 30-day certificates of deposit— from 5.25% to 5% in May 2016. This reduction occurred in the context of a generally favourable outlook for lower inflation, and an overall improvement in macroeconomic performance. The benchmark rate is likely to remain on hold in the short term, as the central bank should have no need to raise it thanks to recent fiscal consolidation plus the control of inflation. It will likely climb gradually during 2018, however, as fuel-related prices pick up moderately and monetary policy in the United States is tightened.

The rate cut is part of the central bank's plan to switch its benchmark interest rate from the 30-day certificate of deposit rate to an overnight rate during the period 2017-2021, in order to make the monetary policy transmission mechanism more effective. In March 2017, the central bank took the first

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

step in this direction by reducing the overnight lending rate from 7.25% to 7% and increasing the overnight deposit rate from 3% to 4%.

Growth in narrow money (M1J) fell from 20.8% in 2015 to 15.5% in 2016, reflecting a decline in the growth rates of currency in circulation, from 20.8% to 15.4%, and of demand deposits, from 25.9% to 13.3%, between these two years. Meanwhile, growth in the broad Jamaican dollar money supply (M2J) also declined, from 4.8% in 2015 to 12.3% in 2016.

In 2016, the stock of commercial bank credit to the private sector grew by 14.8%, steeply up on the 9.6% rate posted in 2015, and was largely denominated in Jamaican dollars. Meanwhile, the weighted average lending rate fell marginally, from 16.92% in 2015 to 16.9% in 2016, and the deposit rate fell from 1.64% to 1.34%, causing the interest rate spread to narrow from 15.34% to 14.85%.

Total loans and advances to the private sector expanded by 13.6% in 2016 relative to 9.9% in 2015. The expansion for 2016 reflected an increase in the supply of credit to both businesses (12.6%) and individuals (16.6%). According to the Bank of Jamaica, loans and advances grew 13.4% in the professional and other services segment, 30.89% in the tourism segment, and 11.30% in manufacturing.

With respect to the integrity of the banking system, according to the Bank of Jamaica, deposit-taking institutions were largely resilient to macroprudential stress tests, thanks to their capital position.<sup>2</sup> This augurs well at this time since the economy seems to be on the upswing.

From the point of view of monetary policy, two important policy shifts are under way. The Bank of Jamaica plans to move towards a transparent and more market-based exchange-rate pricing mechanism through foreign-exchange auctions. This is likely to improve competitiveness in the foreign-exchange market and facilitate the Bank's market-based purchase of international reserves. Secondly, the Bank is seeking to further enhance financial sector supervision, crisis preparedness and the framework for combating money-laundering and terrorism financing.

### (c) Exchange-rate policy

The weighted average selling rate of the Jamaican dollar vis-à-vis the United States dollar closed the last quarter of 2016 at J\$ 128.44 = US\$1.00, reflecting an annual rate of depreciation of 6.7%, compared with 7.7% at the end of the previous year. Net foreign-currency outflows from authorized dealers and bureaux de change increased in the last quarter of 2016, as a result of a net demand for United States dollars to satisfy current account transactions.

The central bank accordingly provided United States dollar liquidity support to the market in the amount of US\$ 97.0 million during the last quarter of 2016, relative to US\$ 250.8 million and US\$ 224.2 million in the second and third quarters, respectively. Despite IMF recommendations that the central bank intervene less frequently in order to build up reserves, the monetary authorities are expected to step up foreign-exchange sales should it be necessary to contain acceleration in currency depreciation, imported inflation or rises in external debt servicing costs.

The slower pace of depreciation and lower inflation has helped to improve Jamaica's competitiveness as measured by the Bank of Jamaica's real exchange rate, and this should help improve the performance of several sectors, including manufacturing.

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<sup>2</sup> Bank of Jamaica, *Annual Report 2016*, Kingston, 2017.

#### **(d) Other policies**

In the budget presentation of March 2017, the Minister of Finance pointed out that the new IMF arrangement would benefit a series of reforms by boosting employment and GDP growth; progressively reducing poverty; strengthening the social safety net for the poor; improving public sector efficiency; reallocating public resources to growth-enhancing capital spending; rebalancing taxes from direct to indirect taxes; bolstering the resilience of the financial system; modernizing the monetary policy framework; and building the foundation for an eventual move to inflation targeting, while maintaining exchange-rate flexibility and continuing to build precautionary foreign reserves.

The reforms already enacted —the private and public sector pension reforms, Bank of Jamaica reform to limit lending to the government and reform to the management of public bodies— have already begun to bear fruit as evidenced by an improvement in doing business indicators and in tax collection.

### **3. The main variables**

#### **(a) The external sector**

The data suggest that the current account deficit narrowed by US\$ 327.1 million to US\$ 103.0 million, or 0.8% of GDP, in 2016. This was the result of a significant improvement in the performance of the services sector, including transfers, in turn driven largely by remittance inflows. Interestingly, with respect to goods, the value of both exports and imports fell, by 4.8% and 6.3%, respectively. The reduction in imports was due to a price reduction of mineral fuels which offset increased volume.

Net earnings from services increased by US\$ 153.1 million (17.1%) to US\$ 1.051 billion in 2016. The higher inflows primarily reflected an increase in receipts from travel, thanks to growth of 2.7% in stop-over visitor arrivals, relative to 2015. With larger tourism arrivals anticipated, growth in travel receipts is expected to be higher in 2017.

The deficit on the income balance widened in 2016, largely reflecting the impact of repatriated profits from foreign direct investments, as well as an increase in government interest payments. The overall surplus on the capital account, together with private investment inflows, was more than sufficient to finance the deficit on the current account. Consequently, gross reserves rose to US\$ 3.295 billion, which was equivalent to 24.7 months of projected goods and services imports, well above the 4.5 months suggested by IMF.

#### **(b) Economic activity**

The Jamaican economy grew by 1.4% in 2016, following an increase of 1.0% in 2015. In the last three quarters of 2016 the growth performance, though uneven, was positive with rates of 1.4%, 2.0% and 1.3%, respectively. The expansion in economic activity over the year was driven largely by an upturn of 3.4% in the goods-producing sector, and 0.8% in the services sector. At the same time, depressed energy prices provided a fillip to growth in light of Jamaica's heavy dependence on imported energy.

Within the goods sector, all subsectors posted positive growth except for mining and quarrying (-3.2%), which were hurt by depressed commodity prices and challenges at the country's largest bauxite plant. The greatest expansion in output was delivered by the agricultural sector (12.8%), which had shown negative growth in 2015. Of the other goods-producing sectors, manufacture and construction posted growth of 0.5% and 0.3%, respectively.

In the case of services, all subsectors, with the exception of producers of government services, posted a decline (0.1%) in 2016. The subsector with the strongest growth was electricity and water supply (4.0%) which has benefited from increased rates recently. Hotels and restaurants grew by 2.2%, which was better than the 1.9% achieved in 2015 and was driven by gains of 2.7% and 5.9% in stop-over visitor arrivals and expenditure, respectively, relative to the previous year. Visitor expenditure was bolstered by improved labour market conditions in major source markets, as well as increases in length of stay.

The outlook for growth in the Jamaican economy continues to be positive, with a projected 1.6% in 2017. This reflects the anticipated impact of improvements in the international economy and in the domestic business environment, including recovery from the supply shocks that affected agriculture in 2015. The Business Confidence Index for December 2016 shows a 15.4% increase over its year-earlier level, marking the best four consecutive quarters recorded in 15 years. In addition, growth in private consumption, which usually represents some 80%-85% of GDP, will likely increase owing to higher remittances and the slowing of the unemployment rate. On the other hand, government consumption will be restrained by the ongoing fiscal consolidation programmes.

### **(c) Prices, wages and employment**

Inflation remained low throughout 2016, ending the year at 1.7%. It is expected to pick up to 3.0% on average in 2017, owing to commodity price rises, local-currency depreciation and slightly stronger domestic demand. The sharp decline in inflation largely reflected the reduction in international crude oil prices and depressed domestic demand.

Compensation of employees in the budget for fiscal year 2017/18 was estimated at J\$ 193.2 billion and accounts for 35.6% of the expenditure budget. This covers the cost of wages and salaries, as well as provisions for statutory deductions and the government's contribution to public sector health insurance schemes. The wage and salaries bill came in at J\$ 179.5 billion, a 5.2% increase over the previous year, but the wage-to-GDP ratio edged down from 9.7% in fiscal year 2016/17 to 9.5% in 2017/18.

Labour market conditions improved somewhat in 2016, as the unemployment rate decreased to 12.9% in October 2016 from 13.5% in 2015. The decline in unemployment resulted from the growth in employment outweighing the expansion of the labour force. With the exception of manufacturing, construction and installation, wholesale and retail commerce, hotel and restaurant services, and real estate and rental services, all sectors have all experienced negative growth in employment. In January 2017, the unemployment rate fell to 12.7% relative to 13.3% a year earlier. By age group, overall unemployment in the 20-24 and 25-34 age groups was 42.8% and 28.7%, respectively, in January 2017. By gender, the unemployment rates in these age groups were 33.8% and 22.9%, respectively, for men, and 57.5% and 31.2%, respectively, for women. Clearly, then, female and youth unemployment remain a considerable challenge in Jamaica and will not be substantively addressed without sustained and inclusive economic growth.

Table 1  
**JAMAICA: MAIN ECONOMIC INDICATORS**

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	-0.8	-4.3	-1.5	1.7	-0.6	0.5	0.7	1.0	1.4
Per capita gross domestic product	-1.3	-4.8	-1.9	1.3	-1.0	0.1	0.3	0.6	1.0
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-6.2	14.0	0.0	10.3	2.3	-0.7	-0.5	-0.1	11.7
Mining and quarrying	-2.7	-50.4	-4.2	19.1	-8.7	2.7	0.9	1.0	-3.2
Manufacturing	-0.3	-4.7	-4.3	1.8	-0.3	-0.5	-0.8	3.6	0.5
Electricity, gas and water	0.9	2.2	-4.3	0.3	-2.2	-2.0	-1.2	1.4	3.6
Construction	-7.6	-8.7	-1.3	0.8	-4.4	1.9	1.7	1.1	0.3
Wholesale and retail commerce, restaurants and hotels	0.1	-2.5	-2.3	0.7	-0.7	0.2	1.0	0.9	0.7
Transport, storage and communications	-3.1	-3.5	-2.7	-1.9	-0.1	0.4	0.8	1.0	0.2
Financial institutions, insurance, real estate and business services	2.2	1.0	-2.2	-0.2	-0.1	0.3	0.5	0.5	1.0
Community, social and personal services	24.3	0.8	-2.7	-0.3	-0.2	-0.1	0.1	0.4	0.5
External-sector indicators	<b>Millions of dollars</b>								
Real effective exchange rate (index: 2005=100) c/	99.2	110.8	98.2	96.2	95.3	99.9	106.1	105.0	113.8
Net resource transfer (millions of dollars)	2 120	430	91	1 277	135	-1 171	-1 886	-51	39
Gross external public debt (millions of dollars)	6 344	6 594	8 390	8 626	8 256	8 310	8 659	10 314	10 244
Employment	<b>Average annual rates</b>								
Labour force participation rate d/	65.4	63.5	62.4	62.3	61.9	63.0	62.8	63.1	64.8
Unemployment rate e/	10.6	11.4	12.4	12.6	13.9	15.2	13.7	13.5	13.2
Open unemployment rate e/	6.9	7.5	8.0	8.4	9.3	10.3	9.4	9.5	9.0
Prices	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	16.9	10.2	11.8	6.0	8.0	9.7	6.2	3.7	1.7
Variation in nominal exchange rate (annual average)	5.7	21.2	-1.0	-1.6	2.9	12.8	11.1	5.4	7.1
Variation in minimum real wage	-5.2	0.2	-11.2	1.1	-1.5	-1.9	3.3	-3.4	5.5
Nominal deposit rate f/	6.6	6.7	3.8	2.6	2.2	1.8	2.2	1.9	1.4
Nominal lending rate g/	21.4	21.5	20.4	20.0	18.6	17.7	17.2	17.0	16.5

Table 1 (concluded)

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
Central government h/	<b>Percentajes of GDP</b>								
Total revenue	27.7	28.2	27.3	26.2	26.3	27.8	26.6	27.8	29.8
Tax revenue	24.7	25.0	24.3	23.5	24.4	24.1	24.0	25.2	27.3
Total expenditure i/	35.2	39.6	33.7	32.0	30.4	27.6	27.1	28.1	30.0
Current expenditure	31.1	36.3	28.9	28.2	27.5	25.1	25.6	26.1	27.5
Interest	12.6	17.7	11.1	9.7	9.7	7.7	8.1	7.7	8.3
Capital expenditure	4.1	3.2	4.8	3.9	2.9	2.6	1.5	2.0	2.5
Primary balance	5.0	6.3	4.7	3.9	5.5	7.8	7.6	7.4	8.1
Overall balance	-7.6	-11.4	-6.4	-5.9	-4.2	0.1	-0.5	-0.3	-0.2
Non-financial public sector public debt	112.3	126.3	131.7	131.4	133.9	135.5	131.8	128.1	128.0
Money and credit	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	34.4	34.9	27.5	27.8	29.3	29.8	32.2	28.9	30.1
To the public sector	14.5	16.7	11.5	10.4	9.9	9.3	12.5	9.3	6.8
To the private sector	20.8	19.7	18.1	19.0	21.0	22.3	21.6	21.9	24.0
Others	-0.9	-1.4	-2.1	-1.6	-1.6	-1.7	-1.9	-2.3	-0.7
Monetary base	7.2	7.6	7.4	7.4	7.4	7.2	7.1	7.3	8.0
Money (M1)	9.1	9.2	9.0	9.1	9.0	8.4	8.6	9.6	11.0
M2	21.1	20.3	20.0	19.8	19.4	18.5	18.0	19.0	20.8
Foreign-currency deposits	10.3	10.8	9.3	8.6	9.1	10.5	11.0	12.0	14.6

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

d/ Nationwide total.

e/ Nationwide total. Includes hidden unemployment.

f/ Savings interest rate.

g/ Average lending rate.

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

i/ Includes statistical discrepancy.

Table 2  
**JAMAICA: MAIN QUARTERLY INDICATORS**

	2015				2016				2017	
	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/	0.4	0.8	1.7	0.9	0.9	1.4	2.0	1.1	...	...
Gross international reserves (millions of dollars)	2 410	2 707	2 872	2 862	2 768	2 806	3 022	3 150	3 188	3 324 c/
Real effective exchange rate (index: 2005=100) d/	103.1	104.7	105.2	107.0	109.1	112.7	115.8	117.7	118.2	120.1 c/
Consumer prices (12-month percentage variation)	4.0	4.4	1.8	3.7	3.0	2.5	1.8	1.7	4.1	4.8 e/
Average nominal exchange rate (Jamaica dollars per dollar)	115.2	115.5	117.5	119.5	121.1	123.7	127.0	128.9	128.6	129.0
Nominal interest rates (average annualized percentages)										
Deposit rate f/	2.4	1.8	1.7	1.6	1.5	1.4	1.4	1.4	1.4 g/	...
Lending rate h/	17.0	17.0	17.0	17.0	16.9	16.5	16.3	16.2	16.1 g/	...
Interbank rate	3.9	4.3	3.9	...	...	...	...	...	...	...
Monetary policy rates	5.8	5.5	5.3	5.3	5.3	5.2	5.0	5.0	5.0	...
Sovereign bond spread, Embi Global (basis points to end of period) i/	437	350	462	469	469	478	396	375	349	337 c/
International bond issues (millions of dollars)	925	-	2 000	-	-	-	364	-	-	- c/
Stock price index (national index to end of period, 31 December 2005 = 100)	80	93	92	144	147	153	157	184	214	225
Domestic credit (variation from same quarter of preceding year)	6.2	-7.5	-4.2	-3.0	-3.2	5.8	6.8	9.5	17.3 j/	...

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

a/ Preliminary figures.

b/ Gross domestic product measured in basic prices. 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/ Figures as of April.

f/ Savings interest rate.

g/ Figures as of January.

f/ Average lending rate.

g/ Measured by J.P.Morgan.

j/ Figures as of February.