

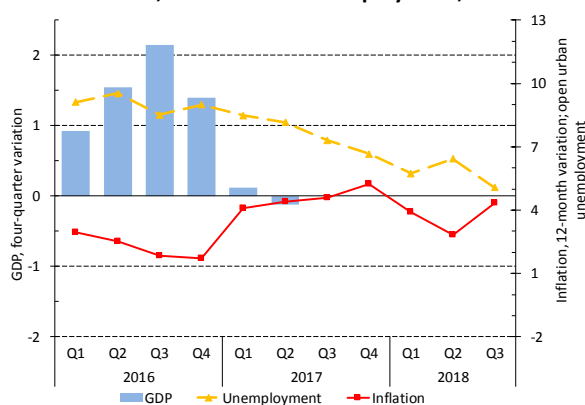
## Jamaica

The Jamaican economy posted growth rates of 1.2%, in the first quarter of 2018 and 1.8% in the second quarter, with a projection for the year overall of 1.5%, followed by 1.8% in 2019. The government's main policy objective in 2019 will be 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 a formal agreement with IMF upon the expiration of the current agreement, which ends in 2019. The positive growth posted so far in 2018 has improved business optimism and the latest Survey of Business and Consumer Confidence report suggests rising confidence in the economy. Accordingly, the government's overall focus on promoting economic expansion underpins the hope that growth will continue to build gradually after the IMF agreement expires. In April 2018, the third review of the IMF arrangement found that strong programme implementation continued to anchor macroeconomic stability, after all quantitative performance criteria and structural benchmarks for end-December 2017 had been met. The Jamaican authorities have treated the stand-by arrangement as precautionary, that is, effectively an insurance policy against unforeseen economic shocks that are beyond their control. Inflation was 5.2% in 2017 and is likely to come in at a lower rate in 2018. A higher rate than this would likely be linked to increased energy prices and exchange-rate depreciation, despite fiscal restraint.

Fiscal challenges continue to be the biggest concern as the Government of Jamaica seeks to control its public finances, with public expenditure control being a major strategy of the adjustment. In fiscal year 2017/18, most categories of government expenditure were below budget and overall government expenditure was 1.4% below budget. Capital expenditure —the category that has tended to bear the brunt of the adjustment— was 3.5% below budget. This resulted in a primary surplus of 7.8% of GDP, which met the IMF target. In the framework of the reduction in borrowing requirements, loan receipts were some 3.2% below budget. With respect to taxation, the revenue and grants component was 1.3% above budget; in fact, all categories of revenue outperformed the budget. Meanwhile, non-tax revenue was 1.8% below budget.

The economy's main challenge is the debt overhang, which stood at 121.2% of GDP in fiscal year 2016/17 and is projected at 94.3% in 2018/19. External debt accounts for the largest component, at 61.20%, versus 38.8% for domestic debt. The government has been leveraging the low interest rates in international markets to reduce debt service costs: for example two Eurobonds were opened in August 2017, raising US\$ 869 million, which will be used 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, since some 34.6% of Jamaica's total debt is subject to interest-rate variations.

**Jamaica: GDP, Inflation and Unemployment, 2016-2018**



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

The exchange rate appreciated by 2.8% in 2017, compared to a depreciation of 6.3% in 2016. At May 2018, the six-month average of the exchange rate with the United States dollar appreciated by 2.0%, relative to the same measure at May 2017. The bilateral exchange rate, which stood at 136.9 Jamaican dollars (J\$) per US\$ 1 in August 2018, was J\$ 131.75 in October 2018. Under the Foreign Exchange Intervention and Trading Tool (B-FXITT), the system of foreign-exchange management introduced in 2017, the Bank of Jamaica conducts weekly (pre-announced) interventions that reflect market conditions.

Exchange-rate depreciation will remain an upside risk throughout 2019, but the central bank intends to manage a moderate depreciation as part of its intervention strategy. Faster depreciation would occur should the government miss fiscal targets by a significant margin, which would damage confidence and reignite capital flight. Despite recommendations by IMF that the central bank intervene less frequently in order to build up reserves, the monetary authorities are expected to step up foreign-exchange sales if they need to contain faster depreciation, imported inflation or higher external debt servicing costs. Factors such as severe weather—which would increase imports—and commodity price swings could also accelerate depreciation. While the currency depreciation may be improving competitiveness,<sup>1</sup> especially in light of falling oil prices, it may also add to inflation, increase the foreign-exchange component of debt service and fuel demand for wage increases.

Monetary policy in 2017 turned accommodating, owing to the significant moderation in inflation that resulted mainly from lower international oil prices. The central bank continued to refine its monetary policy framework to strengthen the relationship between the policy rate and market interest rates. In this regard, in July 2017 it transitioned to using the interest rate payable on overnight deposits as the signal rate. The signal rate was subsequently reduced twice, to 3.50% and 3.25%, in the third and fourth quarters of 2017, from 3.75% as at July 2017, reflecting the generally favourable outlook for inflation over the near- to medium-term amid improved macroeconomic fundamentals.

In 2018, commercial bank credit to the private sector expanded, registering an annual rate of 19.3% in the second quarter. The increase was reflected in loans and advances to both businesses and individuals. Business lending increased by 17.4% and went largely to the mining, electricity, gas and water, and agriculture and fishing industries.

In the context of higher international oil prices and the nascent recovery in domestic demand in the second half of the year, the current account deficit of Jamaica's balance of payments deteriorated in 2017, after five consecutive years of improvement. Net international reserves stood at US\$ 3.208 billion

**Jamaica: main economic indicators, 2016-2018**

	2016	2017	2018 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	1.4	1.0	1.5
Per capita gross domestic product	1.0	0.7	1.2
Consumer prices	1.7	5.2	4.7 <sup>b</sup>
Money (M1)	21.8	11.2	19.9 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	10.0	12.0	-8.9 <sup>c</sup>
	<b>Annual average percentage</b>		
Open urban unemployment rate <sup>e</sup>	13.2	11.7	9.2 <sup>f</sup>
Central government			
Overall balance / GDP	0.1	0.5	0.2
Nominal deposit rate <sup>g</sup>	1.4	1.6	1.5 <sup>h</sup>
Nominal lending rate <sup>i</sup>	16.5	14.9	14.2 <sup>c</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	4 413	4 829	...
Imports of goods and services	6 335	7 512	...
Current account balance	-103	-713	...
Capital and financial balance <sup>j</sup>	482	1 197	...
Overall balance	379	484	...

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

a/ Estimates.

b/ Figures as of October.

c/ Figures as of September.

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/ Figures as of August.

i/ Average lending rate.

j/ Includes errors and omissions.

<sup>1</sup> There are limits to which devaluation can improve competitiveness in a small open economy.

at end-2017; gross reserves amounted to US\$ 3.781 billion and represented 27.0 weeks of projected goods and services imports, relative to 24.7 weeks at end-2016.

The economic growth rate picked up from 1.0% in 2017 to 1.2% in the first quarter of 2018 and 1.8% in the second. The strongest growth driver in the first quarter was the goods-producing sector, with expansion of 3.0% —to which most industries made a positive contribution—, while the service-producing sector grew by 0.7%, again with positive contributions across the board and a strong growth performance from tourism in particular. More specifically, apart from tourism, growth was driven by increased capacity utilization especially in the manufacturing and mining and quarrying industries; as well as major infrastructure works, including road rehabilitation and expansion projects; and construction and renovation of hotels and residential and commercial buildings. The outturn in the second quarter represented the strongest quarterly growth in two years and marked 14 consecutive quarters of positive growth. Improved weather conditions; the positive impact of resumption in the fourth quarter of 2017 of operations at the Alpart Refinery, Jamaica's largest producer of alumina; and higher levels of construction activities all contributed to this growth. However, further growth was stymied by plant downtime, which impacted output in the manufacturing industry, as well as a decline in the average length-of-stay by foreign nationals, which hurt real value added in the hotels and restaurants industry. The growth projection is 1.5% for 2018 overall and 1.8% for 2019, on the back of continued tourism growth and increasing credit expansion by the domestic private sector.

Inflation was 5.2% in 2017 and is likely to be lower in 2018, as the June figure was 2.5% year-on-year. The monthly inflation rate did not exceed 1.1% between March and October 2018. A higher-than-anticipated rate for the year overall would be linked to increased energy prices and exchange-rate depreciation despite fiscal restraint.

Wage restraint has been an important part of the agreement with IMF. For fiscal year 2017/18, the wage and salaries bill amounted to J\$ 178 billion, which is 1.3% lower than the budget and represented 9% of GDP. Given its commitment to maintain the ratio of public debt to GDP on a downward path over the medium term, the risk of fiscal fatigue may make it hard for the government to keep the wage bill from growing while pursuing public sector reforms.

Jamaica's unemployment rate fell to 9.7% at April 2018, 2.5 percentage points below the rate a year earlier. This reflected growth of 1.2% (14,700 people) in the employed labour force, combined with a decline of 1.5% (20,700) in the labour force. In this context, the number of unemployed persons declined by 21.3%, while the labour force participation rate fell by 1.1 percentage points to 64.3%.

By gender, the historic disparity between male and female rates of unemployment remained evident, despite a larger fall in the rate for women: from 15.2% to 11.4%, compared to a drop from 8.0% to 5.8% for men, between July 2017 and July 2018. Notwithstanding the overall decline in joblessness, youth unemployment rates continue to be relatively high: 19.4% in the 20–25 age group in July 2018, with male and female rates of 15.7% and 24%, respectively.