JAMAICA

1. General trends

The Jamaican economy posted positive growth of 1.7% in 2018, compared with 1.0% in 2017. It was the strongest expansion for a calendar year since 2011, capping more than 12 consecutive quarters of positive growth, and was owed primarily to a faster pace of growth in mining and tourism. There was also significant growth in construction, driven by various road rehabilitation projects and a rebound in domestic agriculture production, which had declined because of adverse weather conditions in 2017. In 2019, growth is expected to be 1.9%, assuming that tourism remains buoyant and agriculture is not affected by inclement weather.

Economic policymaking continues to be influenced by the government’s three-year stand-by arrangement with the International Monetary Fund (IMF), which was signed in November 2016 and will come to an end in 2019. This agreement, valued at US$ 1.64 billion, replaces a US$ 932 million, four-year extended fund facility which ended in March 2017. The government has treated the stand-by arrangement as precautionary, meaning that no drawdowns would be made unless economic conditions deteriorated sharply. This was designed to boost confidence in the economy while the fiscal consolidation programmes and other structural reforms continue.

The annual average inflation rate was 2.4%, which was significantly lower than the 5.2% seen in 2017. Over the course of 2018, the Bank of Jamaica continued to ease monetary policy, lowering the policy interest rate on five occasions—by a total of 150 basis points—to 1.75% at year end. The further loosening of the monetary policy stance was intended to foster greater credit expansion with a view to boosting growth. The bank is transitioning towards an inflation-targeting regime and has set a target range of 4%–6%.

The public debt overhang, despite trending downwards, remains a significant challenge to economic performance. By 31 March 2019, Jamaica’s debt-to-GDP ratio had fallen to 96%, its lowest level and the first time below 100% in nearly two decades. Consequently, the fiscal consolidation programme designed to curb expenditure and increase revenue is still needed to stabilize debt and bring it down to manageable levels.

Throughout 2018, the exchange rate was characterized by cycles of appreciation and depreciation, with the Jamaican dollar (J$) experiencing at least four cycles of upswings followed by downswings. At end-2018, the Jamaican dollar had depreciated by 2.2% year-on-year against the United States dollar, compared with a point-to-point appreciation of 2.7% at the end of 2017. By December 2018 the US dollar was being sold at J$ 127.7= US$ 1.

At the end of 2018, net reserves amounted to US$ 3.532 billion and stood at 110.5% of the IMF Assessing Reserve Adequacy (ARA) metric. Net reserves represented approximately 19.0 weeks of projected goods and services imports at the end of 2018, relative to 23.0 weeks at end of 2017.
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, which replaced the extended fund facility and is slated to conclude at the end of 2019. One major change under the new arrangement is that formal reviews of the quantitative performance criteria and structural benchmarks are now semi-annual instead of quarterly. The Government of Jamaica is treating the IMF funding as precautionary, but it affords access to approximately US$ 1.6 billion (1,195.3 million special drawing rights (SDR), or 312% of the country’s quota) under certain conditions. In April 2019, the Executive Board of IMF concluded its fifth review under the stand-by agreement and concluded that Jamaica had met all performance criteria as at end-December 2018. IMF supported the reduction in the primary surplus target by 50 basis points to 6.5% of GDP to facilitate higher spending on social assistance, citizen security and rural infrastructure in the budget for fiscal year 2019/20.

In the framework of fiscal adjustment, in 2018 overall expenditure relative to budget was down by 2.2%, with almost all categories down on the budgeted amounts. At the same time capital spending was 3.8% below budget. Overall revenues and grants edged up by 0.2% relative to the budget, with the biggest percentage increase seen in grants, although tax revenue slipped by 0.3% relative to budget. At the same time, interest payments were down by 5.2% and amortization down by 11%. Central government operations for April to December 2018 resulted in a fiscal surplus of 0.8% of GDP, which was above the budgeted deficit (supplementary) of 0.2% but within the IMF target.

Despite trending downwards, the public debt overhang remains a significant challenge to economic performance. Fiscal discipline contributed to the reduction in the debt-to-GDP ratio from 135.3% in fiscal year 2012/13 to 101.0% in fiscal year 2017/18. The debt trajectory has maintained a steady decline and is estimated to stand at 96.4% at the end of fiscal year 2018/19 and at 90.9% at the end of 2019/20, which is 5.1% below the internal target of 96.0%. All other things being equal, the government is on track to meet the debt-to-GDP target of 60.0% or less by the end of fiscal year 2025/26.

The total debt service as a share of revenue and grants is estimated at 45.8% for end-2018/19, down from 65.5% in the previous period. The projected reduction in this ratio over the medium term implies improved capacity on the part of the government to meet its debt service obligations.

Among the important tax measures announced in the last budget were the abolition of the minimum business tax of J$ 60,000 a year on specified taxpayers, the raising of the general consumption tax threshold to J$ 10 million and the replacement of the ad valorem stamp duty by a flat fee. These were designed to stimulate business activity.

(b) Monetary policy

The Bank of Jamaica maintained its accommodative monetary policy stance in 2018 to spur economic recovery. The bank lowered the policy interest rate by year end to an historic low of 1.75% to quicken the pace of credit expansion in support of higher levels of growth and job creation, which were consistent with the inflation target. During the March quarter of 2019, the policy interest rate was lowered to 1.25% in an effort to stimulate an expansion in private sector credit.

The Bank of Jamaica’s monetary policy objective is to bring and maintain inflation within the target of 4.0% to 6.0% set by the Minister of Finance and the Public Service. Inflation at this level will facilitate
the sustained growth and development of the economy. In a first step towards codifying a full-fledged inflation-targeting regime, amendments to the Bank of Jamaica Act were brought before Parliament in October 2018.

In line with increasing economic activity, narrow money (M1J) grew by 24% and 22% in the March and December quarters of 2018 and by 13% in the March quarter of 2019. At the same time, demand deposits grew by 29%, 29% and 15.9% over the same periods. Meanwhile, growth in the broad Jamaican dollar money supply (M2J) also increased by 18.9%, 13.9% and 11.6% in the same periods respectively.

In 2018, the stock of commercial bank credit to the private sector grew by 15.3% as against 11.1% in 2017. Meanwhile, growth in credit to households remained strong at 12.0%, although at a slower rate than the 16.7% seen in 2017. Annual growth (year-on-year) in private sector lending by deposit-taking institutions was 14.4% at March 2019. The expansion in credit was underpinned by 15.2% growth in loans and advances, up from the 13.4% and 13.8% recorded at the end of December 2018 and the end of March 2018, respectively. The acceleration in overall private sector lending was mainly attributable to a 16.7% increase in lending to the productive sector, compared with the 15.4% increase at December 2018.

With regard to the integrity of the banking system, the Bank of Jamaica reported that deposit-taking institutions were largely resilient to macroprudential stress tests, thanks to their capital position. This augurs well at a time when the economy has begun a slow recovery.

On the monetary policy front, a number of important changes are being considered. The central bank has been moving towards a transparent and more market-based exchange-rate pricing mechanism via a floating exchange-rate system. This is likely to improve competitiveness in the foreign exchange market and facilitate the bank’s market-based purchase of international reserves. Another initiative of the bank is to further enhance financial sector supervision and crisis preparedness and strengthen the framework for combating money laundering and the financing of terrorism. The central bank is also supporting legislation that will strengthen its independence.

(c) Exchange-rate policy

Throughout 2018, the exchange rate was characterized by periods of appreciation and depreciation, with the Jamaican dollar experiencing at least four cycles of upswings followed by downswings. At the end of 2018, the Jamaican dollar had depreciated by 2.2% year-on-year against the United States dollar, compared with an appreciation of 2.7% at the end of 2017. The exchange rate appreciated during the March quarter of 2019.

Despite IMF recommendations that the central bank intervene less in order to build up reserves, the monetary authorities are expected to step up foreign-exchange sales if there is a need to contain acceleration in currency depreciation, imported inflation or rises in external debt servicing costs. The weighted average selling rate of the Jamaican dollar against the United States dollar was J$ 126.47 = US$ 1 at the end of the March 2019 quarter, reflecting an appreciation of 0.98% relative to the previous quarter and a depreciation of 0.38% relative to the end of the March 2018 quarter.1

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1 In June 2018, the Bank of Jamaica introduced and successfully implemented the Bank of Jamaica Foreign Exchange Intervention and Trading Tool (B-FXITT), which allows the central bank to conduct its intervention operations at a market-determined price that accurately reflects market conditions at the time of the operation.
(d) Other policies

In the budget presentation of March 2018, the Minister of Finance and the Public Service mentioned a number of initiatives geared towards stimulating growth and building resilience, including the Bank of Jamaica (Amendment) Act 2018, currently before a joint select committee of Parliament, which aims to modernize the central bank, strengthen its governance and ensure capital adequacy; the establishment of a fiscal council to monitor compliance with the rules instituted in 2010, as the government seeks to strengthen the fiscal responsibility framework; and the development, by the Ministry of Finance, of a public financial management policy for natural disaster risk, which is intended to provide layers of protection that include a natural disaster fund, contingent credit available in the event of a natural disaster and catastrophe bonds or catastrophe-linked insurance. This policy is critical in light of the challenge posed by climate change.

3. The main variables

(a) The external sector

The provisional data suggest a widening of the current account deficit to 3% of GDP in 2018 as against 2% in 2017, reflecting a deterioration in the goods and services balance by 5% from 2017 on the heels of increased fuel prices and increased imports driven by higher domestic demand. However, the goods and services deficit was slightly narrower than in 2017. Closer inspection of the goods and services balance shows that although there was a slight deterioration in the goods balance, there was an improvement in the services balance (9%) driven by higher tourism earnings and remittances.

The Bank of Jamaica estimates net earnings from services to have increased to US$ 1.315 billion, up from US$ 1.197 billion in 2017. At end-2018, net reserves amounted to US$ 3.532 billion and represented 110.5% of the IMF Assessing Reserve Adequacy (ARA) metric. Gross reserves represented approximately 19.0 weeks of projected goods and services imports at end-2018, relative to 23.0 weeks at end-2017.

(b) Economic activity

The Jamaican economy grew by 1.7% in 2018—following an increase of 1.0% in 2017—thanks to a faster pace of growth in mining and tourism. There was also significant growth in construction. In addition, domestic agriculture output improved after having suffered the effects of unfavourable weather conditions in May, June and November 2017. The economy was bolstered by positive performances in each quarter, with total value added at constant prices growing 1.4%, 2.2%, 1.9% and 2% respectively. In the January to March quarter, the goods-producing sector grew by an estimated 2.8%, with all segments registering improvements in real value added during the review quarter. The services sector was estimated to have grown by 0.9%, reflecting increases in real value added in all segments, including finance and insurance services and the hotels and restaurants segment, which grew by an estimated 1.9%.

In the second quarter, in terms of real sector developments, the goods-producing sector is estimated to have grown by 7.2% year-on-year. This was largely attributed to performances in the agriculture, forestry and fishing industry, which was up by 12.5% thanks primarily to favourable weather conditions, and mining and quarrying, which expanded by an estimated 31.6% on the back of increased production of both crude bauxite and alumina. The services sector was estimated to have edged up by 0.7%, with growth registered in all segments.
During the July to September quarter, the goods-producing industries grew by 5.3%, while real value-added for the services industry expanded by 0.8%. The improved economic performance was driven mainly by gains in mining and quarrying (52.9%), construction (3.8%), and hotels and restaurants (2.1%). Growth slowed to 0% in the agriculture, forestry and fishing industry, reflecting the negative impact of drought conditions that led to low yields and crop losses. In the services sector, growth was seen in all segments, with the exception of electricity and water supply, which slipped by 0.1%.

In the final quarter, the goods-producing sector grew by 4.9% and the services sector by 1.1%. All segments showed positive growth, except for electricity and water supply.

(c) Prices, wages and employment

The annual inflation rate was 2.4% in 2018, down from 5.2% in 2017. The largest increases were seen in the prices of food and beverages (2.3%), water supply (9.5%), and electricity, gas and other fuels (5.6%). In most other categories, inflation was lower than that registered in 2017.

Annual inflation at March 2019 accelerated to 3.4%, but remained below the floor of the central bank’s target range of 4.0% to 6.0%. This rate largely reflected the impact of higher prices for agricultural foods, processed foods and other services, which was partly offset by a decline in electricity costs. The Bank of Jamaica projects that over the next eight quarters, inflation will average 4.5%, dipping below the floor of the target range at various points during the period, then gradually approach the 5.0% target. This forecast is mainly predicated on domestic demand that is lower than capacity, although demand is improving, and moderate increases in international commodity prices. However, inflation is likely to be in the upper range of the target in 2019, as fuel prices may rise and domestic demand could increase.

The trade unions representing over 95% of public sector employees have signed a four-year wage deal for the period 2017–2021. This will help to maintain wage stability and boost certainty in the public sector. The Minister of Finance, in the last budget presentation, said that the government will be conducting a review of public sector compensation to simplify, streamline and make it more transparent and equitable, while addressing imbalances and inequities over time. All this is designed to maintain the public sector wage bill at the target rate of 9% of GDP for fiscal year 2018/19, in line with the fiscal responsibility law.

There was a significant improvement in labour market conditions, as the unemployment rate fell to 8% in January 2019, sliding from 9.6% in January 2018 and 8.7% in October 2018. The employed labour force stood at 1,219,700 in October 2018, representing a year-on-year increase of 14,400 (1.2%). The rise in employment among women was more than twice that among men. The number of employed men was up by 4,300 to 672,400, while the number of employed women jumped by 10,100 to 547,300. Employment increased the most in the occupational group “professionals, senior officials and technicians”, which grew by 3.1% to 261,800 between October 2017 and October 2018. Women accounted for 7,600 of the 7,800 new jobs in this group. Despite the significant reduction in unemployment, the rates still vary when disaggregated by gender and age group. For example, the jobless rate was 6.1% for men in January 2019, compared with 10.3% for women. In the 20–24 age group, the overall rate was 19.7%, breaking down into 16.1% for men and 24.0% for women in the same period.
### Table 1
**JAMAICA: MAIN ECONOMIC INDICATORS**

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### Table 1 (concluded)

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<td>Tax revenue</td>
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<td>Total expenditure j/</td>
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<td>Overall balance</td>
<td>-6.4 -5.9 -4.2 0.1 -0.5 -0.3 -0.2 0.5 1.2</td>
<td>20.0 19.7 19.4 18.5 18.0 19.1 20.1 24.1 25.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>9.3 8.6 9.1 10.5 11.0 12.1 13.1 13.7 14.5</td>
</tr>
</tbody>
</table>

**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/ Includes an adjustment for workforce figures due to exclusion of hidden unemployment.
g/ Domestic Currency Overall Weighted Deposit Interest Rates.
h/ Average Weighted loans in local currency.
i/ Fiscal years, from April 1 to March 31.
j/ Includes statistical discrepancy.
### JAMAICA: MAIN QUARTERLY INDICATORS

<table>
<thead>
<tr>
<th>Source</th>
<th>Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.</th>
</tr>
</thead>
</table>
|        | 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/ Domestic Currency Overall Weighted Deposit Interest Rates.  
|        | f/ Figures as of April.  
|        | g/ Average Weighted Loans in local currency.  
|        | h/ Measured by J.P. Morgan. |

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q.1</td>
<td>Q.2</td>
<td>Q.3</td>
</tr>
<tr>
<td>Gross domestic product (variation from same quarter of preceding year) b/</td>
<td>0.3</td>
<td>0.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Gross international reserves (millions of dollars)</td>
<td>3 188</td>
<td>3 278</td>
<td>3 758</td>
</tr>
<tr>
<td>Real effective exchange rate (index: 2005=100) d/</td>
<td>121.1</td>
<td>123.9</td>
<td>126.8</td>
</tr>
</tbody>
</table>
| Consumer prices  
| (12-month percentage variation) | | | | | 4.1  | 4.4  | 4.6  | 5.2  | 3.9  | 2.8  | 4.3  | 2.4  | 3.4  | 4.8 c/ |
| Average nominal exchange rate (Jamaica dollars per dollar) | 128.6 | 129.0 | 128.5 | 126.4 | 125.8 | 127.2 | 134.9 | 129.1 | 130.0 | 132.6 c/ |
| Nominal interest rates (average annualized percentages)  
| Deposit rate e/ | 1.4  | 1.5  | 1.7  | 1.7  | 1.6  | 1.4  | 1.3  | 1.3  | 1.3  | 1.3  | 1.3  |
| Lending rate g/ | 15.3 | 14.9 | 14.8 | 14.6 | 14.4 | 14.1 | 14.1 | 13.8 | 13.3 | 13.3 c/ |
| Interbank rate | 5.5  | 4.9  | 3.1  | 2.6  | 2.1  | 2.8  | 1.7  | 2.3  | 2.1  | 1.3 c/ |
| Monetary policy rates | 5.0  | 4.8  | 3.6  | 3.3  | 2.8  | 2.4  | 2.0  | 1.9  | 1.5  | 1.0 c/ |
| Sovereign bond spread, Embi Global (basis points to end of period) h/ | 349  | 336  | 298  | 304  | 295  | 340  | 297  | 346  | 318  | 344 c/ |
| International bond issues (millions of dollars) | 0  | -  | 869  | -  | -  | -  | -  | -  | 600  | -  |
| Stock price index (national index to end of period, 31 December 2005 = 100) | 214  | 225  | 251  | 276  | 282  | 293  | 343  | 364  | 371  | 448  |
| Domestic credit (variation from same quarter of preceding year) | 17.9 | 13.1 | -0.5 | -6.0 | -5.0 | 3.3  | 23.1 | 28.0 | 31.3 | 30.3 c/ |