

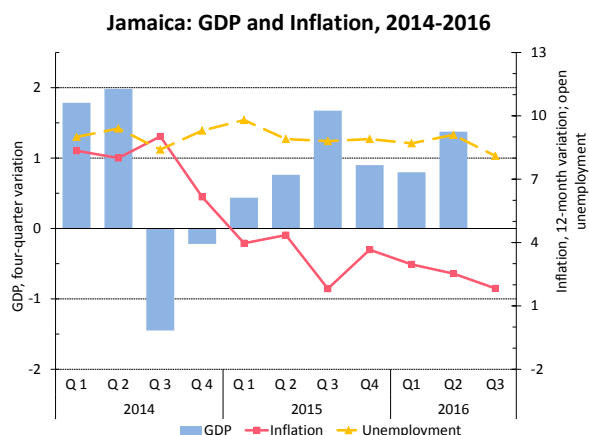
Jamaica

The Jamaican economy posted growth rates of 0.9%, 1.1% and 2.2% in the first three quarters of 2016, respectively, and it is projected that growth will be 1.1% in 2016 and 1.2% in 2017. The implication is of a gradual strengthening in growth, largely owing to the negotiation of a precautionary agreement between the government and the International Monetary Fund. The new agreement will be supported by a 36-month stand-by arrangement with the International Monetary Fund (IMF) that will allow the government to access SDR 1.2 billion and will replace the current extended fund facility (EFF). The Jamaican authorities have indicated that they intend to treat the stand-by arrangement as precautionary, i.e. effectively as an insurance policy against unforeseen economic shocks that are beyond the country's control. Inflation is likely to be no more than 4% in 2016 providing there are no adverse movements in the exchange rate. The ongoing structural reforms under the EFF, which expires in April next year, are expected to improve investor confidence, and in its thirteenth review the IMF praised the government for sticking to the programme, while warning that significant downside risks remained.

Fiscal challenges continue to be the biggest concern for the government as Jamaica seeks to control its public finances. At the end of September 2015, the IMF reported the successful completion of the ninth review, with the programme remaining on track thanks to expenditure restraint and tax increases of some 0.6% of GDP in 2015/16. Interestingly, the IMF revised the primary balance target downward by J\$ 5.3 billion to facilitate greater public investment. In September 2016, after the thirteenth review of the EFF, the IMF confirmed that the country had successfully met a number of quarterly quantitative targets and structural benchmarks. This will trigger the release of US\$ 39.6 million, which will shore up both the public finances and the balance of payments. Looking at fiscal operations for fiscal year 2015/16, total expenditure was below budget by 2.5% (J\$ 258 billion), while recurrent and capital expenditure were below the budget targets by 0.2% and 26.4%, respectively.

General elections were held on 25 February 2016 and a new government was installed in March. One campaign pledge was to take people earning less than J\$ 1.5 million a year out of income tax. This was done in two phases at a fiscal cost of 1% of GDP and reflects a policy shift from direct to indirect taxes.

The main challenge facing Jamaica is its debt overhang, which stood at 124% of GDP in fiscal year 2015/16 and is projected at 119% of GDP for 2017/18. In 2015/16, external debt was some 76.8% of GDP. Meanwhile, interest costs were 7.7% of GDP, which was a decline from 8.1% in the previous fiscal year. The government has been leveraging low interest rates in international markets to reduce debt service costs.¹ A high proportion of



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

¹ As an example, the government issued US\$ 2 billion in bonds in July 2015, of which US\$ 1.5 billion was to repurchase a portion of the PetroCaribe debt at a 54% discount, which helped to reduce the debt burden and lengthen

Jamaica's debt, some 60%, is denominated in foreign currency, which implies additional risks arising from exchange-rate depreciation. In addition, some 34.6% of total debt is subject to variable interest rates. The long-anticipated increase in United States interest rates will adversely affect debt repayment costs. The fiscal deficit was 0.3% of GDP in the 2015/16 fiscal year, with a primary surplus of 7.4% of GDP helping to reduce the heavy public debt burden.

The exchange rate of the Jamaican dollar depreciated by 5% in nominal terms in 2015, and the trend continued in 2016. By late September the rate was J\$ 127.5 per US\$ 1. Further deterioration is expected by the end of 2017, although the pace of devaluation has slowed as demand pressures in the foreign-exchange market have been tempered by Bank of Jamaica net sales. The central bank has shown willingness to intervene to contain faster depreciation, thereby curbing imported inflation and increases in external debt servicing costs (external debt is 59% of total public debt). However factors such as severe weather (causing imports to rise) and commodity price swings could cause the rate of depreciation to accelerate. While the depreciation of the currency may be improving competitiveness,² especially in light of falling oil prices, continued weakening will begin to affect inflation and contribute to stronger demand for wage increases.

Monetary policy in 2016 was accommodative, and the Bank of Jamaica cut its 30-day certificate of deposit rate from 5.25% to 5%. This policy move was due to a significant lowering of inflation expectations and a moderation of price increases that resulted mainly from lower international oil prices. Credit to the private sector grew by 9.6% in 2015, up on the 4.8% rise of 2014. There was some improvement in credit expansion in 2016, since annual growth in lending to the private sector was 14.8% at the end of June, as compared to 11.0% at the end of March, reflecting increased economic activity. Meanwhile, the weighted average local deposit interest rate fell to 1.62% from 2.64% in 2014, while the average lending rate fell to 16.92% from 17.18% in 2014.

As of June 2016, net international reserves remained strong at US\$ 2.26 billion. Gross reserves stood at US\$ 2.4 billion in December 2015, representing 23.5 weeks of projected goods and services imports. The decline thereafter was due to increased imports.

Economic growth rates in the first three quarters of 2016 were 0.9%, 1.1% and 2.2%, respectively. The largest contributor to growth in the first quarter was the service sector, followed by the goods-producing sector. Within the latter, mining and quarrying declined by 0.8%, reflecting lower commodity prices. Results in the second quarter were driven by increases in real value added in both the

the repayment period. Despite this and other measures, the debt overhang will remain large in the medium term without some debt relief, given low growth and constrained domestic demand.

² There are limits to how far devaluation can improve competitiveness in a small open economy.

Jamaica: main economic indicators, 2014-2016

| | 2014 | 2015 | 2016 ^a |
|--|----------------------------------|-------|-------------------|
| | Annual growth rate | | |
| Gross domestic product | 0.7 | 1.0 | 1.1 |
| Per capita gross domestic product | 0.3 | 0.6 | 0.7 |
| Consumer prices | 6.2 | 3.7 | 1.8 ^b |
| Money (M1) | 5.0 | 15.7 | 18.0 ^c |
| Real effective exchange rate ^d | 9.4 | 7.8 | 5.2 ^b |
| | Annual average percentage | | |
| Open urban unemployment rate | 13.7 | 13.5 | 13.3 ^e |
| Central government | | | |
| Overall balance / GDP | -0.5 | -0.3 | -1.0 |
| Nominal deposit rate ^f | 2.2 | 1.9 | 1.4 ^b |
| Nominal lending rate ^g | 17.2 | 17.0 | 16.6 ^b |
| | Millions of dollars | | |
| Exports of goods and services | 4,401 | 4,318 | 4,158 |
| Imports of goods and services | 7,452 | 6,571 | 6,516 |
| Current account balance | -1,114 | -395 | -303 |
| Capital and financial balance ^h | -1,588 | 882 | 520 |
| Overall balance | 246 | 828 | 197 |

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 July.

d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the monthly real effective exchange rate.

e/ Figures as of average from January to September.

f/ Average rate for saving deposits.

g/ Average lending rate.

h/ Includes errors and omissions.

goods-producing and service industries, with growth of 2.3% and 0.8%, respectively. With some improvement in agriculture and tourism, growth is projected at 1.1% by the end of 2016 and 1.2% in 2017. Remittance flows have also been improving due to better economic performance in the United States and United Kingdom. Interestingly, the performance of the manufacturing sector (1.1%) has been far from stellar despite the improvement in competitiveness resulting from the depreciating exchange rate.

The inflation rate in 2015 was 3.7%, and by end-September 2016 headline inflation was 1.8%. A rate of 3.8% is projected for the whole of 2016. Inflationary pressure has eased due to softer demand at both the domestic and international levels and lower commodity prices.

Wage restraint has been an important part of the agreement with the IMF under the EFF arrangement, and real wages declined by 0.2% in 2015 following a contraction of 3.4% in 2014. It is important to note that the government finalized negotiations with about 92% of public sector employees for a projected 4% wage increase in 2015/16. The target for the wage bill is 9% of GDP in fiscal year 2016/17, and the government is committed to keeping the ratio of public debt to GDP on a downward path over the medium term.

The unemployment rate fell gradually from 14.2% in January 2015 to 13.7% in July 2016. The decline in unemployment from 2014 onward was the outcome of 1.0% growth in employment outweighing an expansion of 0.7% in the labour force. There was also a decline of 0.1% in the job-seeking rate relative to the previous year.

The male jobless rate was 9.6% and the female rate 18.4% as of July 2016. Unemployment will only decline significantly when there is improved domestic activity and robust external demand. Meanwhile, youth unemployment continues to be a serious challenge. The overall unemployment rate in the 20-29 age group was 29.2% in July 2016, with male and female rates of 23.9% and 35.7%, respectively.