

JAMAICA

1. General trends

The Jamaican economy posted a disappointing growth rate of 0.5% in 2017, but the first quarter results for 2018 were positive, at 1.2%, thanks to a number of factors, including improved expansion in the mining and agricultural sectors and greater investment arising from lower interest rates. Growth is expected to remain positive for the year overall but, despite high initial expectations, may come in at no more than 1.3% owing to the prospect of increasing energy costs and inclement weather conditions. Achieving stronger growth than this will depend on improved tourism receipts, lower energy costs and higher remittance flows.

Economic policymaking continues to be influenced by the government's three-year stand-by arrangement with the International Monetary Fund (IMF) signed in November 2016. This agreement, which is valued at US\$ 1.64 billion, replaces a US\$ 932-million, four-year extended fund facility which ended in March 2017. The government intends to treat the stand-by arrangement as precautionary and to make no drawdowns unless economic conditions deteriorate sharply. This is largely aimed at boosting confidence in the economy while the fiscal consolidation programmes and other structural reforms continue.

The inflation rate jumped from 1.7% in 2016 to 5.2% in 2017; however, the Bank of Jamaica, Jamaica's central bank, expects lower inflation in 2018 and has adopted a more accommodative monetary policy stance. The policy rate, which tracks interbank borrowing, was lowered to 2.50% in May 2018, in a move designed to boost growth by reducing the cost of investment.

The public debt overhang trended downwards and the debt-to-GDP ratio is projected to be 109.7% of GDP in fiscal year 2018/19, down from 122.3% in fiscal year 2016/17. This high debt remains a significant challenge to economic performance and the fiscal consolidation programme designed to restrain expenditure and increase revenue is still necessary to stabilise and reduce it to manageable levels.

The exchange rate appreciated by 2.8% at the end of 2017, compared to a depreciation of 6.6% in 2016, and settled at 128.44 Jamaican dollars (J\$) to US\$ 1. The central bank's strategy is to intervene in the event of significant deviations between the two currencies, since excessive depreciation gives rise to inflation and greater economic uncertainty.

Turning to the external sector, in 2017 the current account deficit widened, chiefly because of the deterioration in the goods and service balance. In the context of higher official capital inflows, the central bank net international reserves increased by US\$ 488.9 million to US\$ 3.208 billion at end-2017. Gross reserves amounted to US\$ 3.781 billion and represented 27.0 weeks of projected goods and services imports.

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 that concluded in March 2017. One major change with the new arrangement is that the formal reviews of the quantitative performance criteria and structural benchmarks will now be semi-annual instead of quarterly, as previously. 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 Jamaica's quota in IMF) under certain conditions. In October 2017, the Executive Board of IMF completed the second review under the stand-by arrangement, concluding that the country had successfully met all targets as at end-June 2017. According to the Bank of Jamaica, the continuation of this remarkably strong performance under the IMF-supported economic programme points to an improving economy and consolidation of macroeconomic stability. The central bank cites the improving equities market, greater exchange-rate flexibility and high levels of investor confidence.

In line with the fiscal adjustment under the IMF programme, the performance in fiscal year 2017/18 reflected further expenditure compression and attempts to increase revenue. Overall expenditure relative to budget was down by 1.4%, with almost all categories down on the budgeted amounts —capital spending by as much as 3.5%. On the revenue side, overall revenues and grants were up by 1.3% relative to the budget, with the biggest percentage increase being capital revenue arising from the sale of government assets. At the same time, interest payments were down by 1.7% and amortization up by 3.8%. In addition, the primary surplus of US\$ 143.9 billion represented 7.8% of GDP, which exceeded the IMF target.

Although narrowing, the public debt overhang remains a significant challenge to economic performance. The debt-to-GDP ratio is projected as 102.1% of GDP for fiscal year 2018/19, down from 122.3% in 2016/17. The debt-to-GDP ratio that year was 39.3% for domestic debt and 60.7% for external debt, a high share that implies foreign-exchange risks. The implied average interest on debt was 6.3%¹ of GDP as of December 2017 and had been trending downwards from 10.9% of GDP in 2010/11. Notwithstanding, debt service payments including interest and amortization for fiscal year 2017/18 represented 66% of total expenditure and 72.6% of total current expenditure.

In light of the ongoing adjustment, no new tax measures were introduced in the new budget for fiscal year 2018/19. However, new pressures are emerging from the public sector for wage increases in order to regain lost ground from the long period of adjustment. The 2018/19 budget proposed an expenditure of J\$ 773.7 billion, with non-debt spending at J\$ 484.7 billion and debt expenditure at J\$ 289.0 billion, which demonstrated the continuing challenge represented by debt.

(b) Monetary policy

In 2017 the central bank's monetary policy continued to be accommodative, especially in light of low inflation expectations. In an effort to enhance the effectiveness of monetary policy in the Jamaican economy, in 2017 the central bank continued to refine its policy operations in order to strengthen the transmission of its policy interest rate to market rates.

¹ See Government of Jamaica, Medium-Term Debt Management Strategy 2018/19 – 2020/21.

In March 2017, the central bank took the first step towards transitioning its policy rate to an overnight interest rate, replacing use of the benchmark 30-day certificate of deposit, by reducing the overnight lending rate (the rate at which commercial banks can borrow from each other) from 7.25% to 7.0% and increasing the overnight deposit rate from 3.0% to 4.0%.

The Bank of Jamaica then lowered the rate on overnight deposits to 2.75% in February 2018 and again to 2.50% in May. This policy stance reflects the central bank's assessment of inflation for the next four quarters and beyond: in this case, that inflation will fall slightly below the lower end of its target range of 4.0%–6.0% over the next three quarters, before rising towards the centre of the target in the following quarter.

Narrow money (M1J) grew by 13.8% in 2017, reflecting growth of 10.3% in cash in circulation and 16.6% in demand deposits. Meanwhile, growth in the broad Jamaican dollar money supply (M2J) also increased to 30.2% in 2017, up from 12.9% in 2016.

In 2017, the stock of commercial bank credit to the private sector grew by 37.3%, a much faster rate than the 13.8% in 2016, and was largely denominated in Jamaican dollars. Meanwhile, the weighted average lending rate fell marginally, from 16.5% in 2016 to 14.9% in 2017, and the deposit rate rose from 1.4% to 1.6%, causing the interest rate spread to narrow from 14.77 to 13.26 percentage points.

Total loans and advances to the private sector expanded by 30.5% in 2017 relative to 13.8% in 2016. The expansion for 2017 reflected an increase in the supply of credit to businesses (15.7%) and a significant increase in loans to individuals (45.7%). By destination sector, the Bank of Jamaica reported that loans and advances grew 29.5% to professional and other services, 17.9% to tourism and 42.1% to the manufacturing sector.

With regard to the integrity of the banking system, deposit-taking institutions were largely resilient to macroprudential stress tests, thanks to their capital position.² This augurs well at a time when the economy seems to be on the upswing.

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

(c) Exchange-rate policy

The exchange rate appreciated by 2.8% in 2017, compared to a depreciation of 6.3% in 2016, mainly owing to increased United States dollar supply which offset periodic bouts of increased demand, particularly during the first three quarters of the year. These stronger foreign-exchange supplies originated primarily from large tourism inflows, as well as the structural reforms aimed at deepening the foreign-

² Annual Report of the Bank of Jamaica, 2017 (see [online] http://boj.org.jm/uploads/pdf/boj_annual/boj_annual_2017.pdf).

exchange market. As a result, intervention sales fell to US\$ 594.9 million, from US\$ 870.2 million in 2016.

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 an acceleration in currency depreciation, imported inflation or rises in external debt-servicing costs. The weighted average selling rate of the Jamaican dollar closed the March 2018 quarter at J\$ 125.98 = US\$ 1, reflecting a depreciation of 0.8% relative to the previous quarter and an appreciation of 2.1% relative to end-March 2017.

In June 2017, the Bank of Jamaica successfully implemented the its Foreign Exchange Intervention and Trading Tool (B-FXITT), a mechanism that allows the bank to conduct its intervention operations at a market determined price that accurately reflects market conditions at the time of the operation.

The stability of the currency and lower inflationary expectations should help improve the performance of several sectors, including manufacturing.

(d) Other policies

In the budget presentation of March 2018, the Minister of Finance and the Public Service referred to a number of initiatives and projects which should stimulate growth, including bauxite investments by Jiuquan Iron and Steel (JISCO); investments by China Harbour Engineering Company Limited (CHEC) in the North-South Highway development projects; the South Coast Highway improvement project; town revitalization in Morant Bay; a public bodies investment programme; and the establishment of Naggio Head Technology Park, which is designed to facilitate business process outsourcing (BPO). In addition, a tax reform working group has been set up, comprising representatives from both major private sector organizations and key ministries, to examine customs reform and tax compliance.

In light of the depressed government investment spending, these projects are expected to provide an important boost to infrastructure development.

3. The main variables

(a) The external sector

The provisional data show a widening of the current account deficit, reflecting a downturn in the goods and services balance as a result of increased fuel prices and higher imports, driven by higher domestic demand. The result on the goods and services balance reflects the combination of a deterioration by 3.7% of GDP in the goods balance and an improvement of almost 1% of GDP in the services balance, thanks to higher tourism earnings and remittances.

The Bank of Jamaica estimates net earnings from services to have increased by US\$ 138.7 million (11.8%) to US\$ 1.165 billion in 2017. The estimated inflows primarily reflected an increase of US\$ 246.8 million in receipts from travel. Notably, while the length of stay of tourists has decreased, earnings have increased.

The deficit on the income account narrowed owing to lower repatriation of profits on foreign direct investment, while the surplus on the current transfers account rose owing to growth in remittances.

In the context of higher official capital inflows, the central bank's net international reserves increased by US\$ 488.9 million to US\$ 3.208 billion at end-2017. Gross reserves amounted to US\$ 3.781 billion and represented 84.1% of the IMF assessment of reserve adequacy (ARA) measure. Gross reserves represented 27.0 weeks of projected goods and services imports at end-2017, compared with 24.7 weeks at end-2016.

(b) Economic activity

The Jamaican economy grew by 0.5% in 2017, following an expansion of 1.4% in 2016. The 2017 performance was largely driven by a 0.9% upturn in the services sector, while the goods sector declined by 0.5%.

Within the goods sector, all subsectors posted positive growth except mining and quarrying (-4.0%) and agriculture, forestry and fishing (-4.6%), which usually make a relatively large contribution to growth. In the case of agriculture, there was a fall in domestic crop production, while traditional export agriculture registered growth. The outturn reflected declines in all quarters, largely as a result of unfavourable weather conditions, in particular flood rains in May 2017, as well as agricultural pests on some crops.

All the services subsectors registered positive growth in 2017. The strongest gains were posted by the hotels and restaurants segment (3.7%), which far outstripped its previous year's performance (2.1%), reflecting an 8.7% jump in arrivals of foreign nationals relative to 2016, although the average length of stay declined from 8.7 to 8.4 nights between the two years, which partially offset the value added of the industry. The increase in foreign national arrivals was primarily attributed to growth in source markets and the introduction of additional flights on both existing and new routes. Meanwhile, electricity and water supply decreased by (0.9%).

In 2018, growth in private consumption—which usually contributes some 80%–85% of GDP—will likely increase, owing to rising remittances and the slowing of the unemployment rate. On the other hand, government consumption will be restrained by the ongoing fiscal consolidation programmes.

The outlook for growth in the Jamaican economy continues to be positive and economic growth is projected to be 1.3% in 2018, reflecting the anticipated impact of improvements in the international economy and in the domestic business environment, including recovery from supply shocks that affected agriculture in 2017. In the first quarter of 2018 growth was reported at 1.2%, largely thanks to increased external demand from Jamaica's main trading partners, which supported increased exports of some goods and services, particularly tourism; meanwhile, greater hotel room and air seat capacity facilitated growth in stopover visitor arrivals. Capacity utilization also increased, especially in manufacturing and mining and quarrying (production at the Alpart alumina refinery resumed in the final quarter of 2017) and some major infrastructure works are under way, including road rehabilitation and expansion projects. Despite increasing confidence, there are such downside risks such as the impact of weather-related events on agriculture and pressure for wage increases from public servants, which could affect the fiscal consolidation efforts.

(c) Prices, wages and employment

Inflation picked up slightly in 2017, ending the year at 5.2%, and is expected to average between 4% and 6% in 2018 owing to higher commodity price rises, local-currency depreciation and slightly stronger domestic demand. The sharp decline in inflation in the past few years largely reflected the

reduction in international crude oil prices and depressed domestic demand. Annual inflation at March 2018 was 3.9%, representing a slowdown relative to the 5.2% at end-December 2017; this was due to a decline in agricultural prices as supplies picked up following adverse weather conditions in the June and December 2017 quarters.

The start of wage negotiations between the government and unions representing public sector workers in late March 2017 is proving contentious in light of the prolonged fiscal austerity, which has already lasted four years. Government efforts to merge some departments also could increase frustration, as the process is likely to involve job cuts. The government has reinforced the social protection components of its loan agreement with IMF; however, without significant economic growth in the short term, the public will be frustrated. The government reached an agreement with the Jamaica Teachers' Association for a 16% pay rise over four years, with a percentage to be paid retroactively in 2018. The government is offering public sector workers in general a 16% increase over four years, with 5% in the first year, a further 2% in the second year, and 4% and 5%, respectively, in the third and fourth years. However, given the history of inflation in Jamaica, the unions are reluctant to commit to so long a period.

Labour market conditions improved significantly in 2017, as the unemployment rate declined by 1.5 percentage points to 11.7%, relative to the previous year. This reflected growth of 2.3% in employment, which outweighed the expansion of 0.5% in the labour force. It was also associated with a decline of 1.2 percentage points in the job-seeking rate relative to 2016. Employment rose in all industries except for mining, quarrying and refining; electricity, gas and water; and wholesale and retail trade, where it remained flat. Jamaica's unemployment rate fell further in January 2018, to 9.6 %, 2.1 percentage points below the figure at October 2016 and the lowest rate since December 2007. The fall in unemployment reflected growth of 1.9% (22,600 people) in the employed labour force, combined with a decline of 1.6% (21,200) in the overall labour force. Despite the significant reduction in unemployment, the rates are still high when disaggregated by gender and age group. For example, the jobless rate was 7.5% for men, compared with 12.1% for women, and in the 20-24 age group, the overall rate was 34.9%, breaking down into 32.8% for men and 37.8% for women.

Table 1
JAMAICA: MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012	2013	2014	2015	2016	2017 a/
	Annual growth rates b/								
Gross domestic product	-4.3	-1.5	1.7	-0.6	0.5	0.7	0.9	1.4	0.5
Per capita gross domestic product	-4.8	-1.9	1.3	-1.0	0.1	0.3	0.5	1.0	0.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	14.0	0.0	10.3	2.3	-0.8	-0.5	-0.1	12.9	-4.0
Mining and quarrying	-50.4	-4.2	19.1	-8.7	2.7	0.9	1.0	-3.3	-4.0
Manufacturing	-4.8	-4.3	1.8	-0.3	-0.5	-0.8	2.0	1.9	1.5
Electricity, gas and water	2.2	-4.3	0.3	-2.2	-2.0	-1.2	1.4	3.7	0.9
Construction	-8.7	-1.3	0.8	-4.4	1.9	1.7	1.1	0.5	0.9
Wholesale and retail commerce, restaurants and hotels	-2.5	-2.3	0.7	-0.7	0.2	1.0	0.9	0.7	1.3
Transport, storage and communications	-3.5	-2.7	-1.9	-0.1	0.4	0.8	1.0	0.7	0.7
Financial institutions, insurance, real estate and business services	1.0	-2.2	-0.2	-0.1	0.3	0.7	0.6	0.9	0.8
Community, social and personal services	0.0	-0.2	0.5	0.3	0.0	0.4	0.4	0.3	0.4
External-sector indicators	Millions of dollars								
Real effective exchange rate (index: 2005=100) c/	110.7	98.1	96.2	95.2	99.8	106.0	104.9	115.4	129.2
Net resource transfer (millions of dollars)	430	871	1 326	400	860	1 472	430	-88	-270
Gross external public debt (millions of dollars)	933	1 043	1 206	1 358	1 246	1 216	1 143	1 162	1 241
Employment	Average annual rates								
Labour force participation rate d/	63.5	62.4	62.3	61.9	63.0	62.8	63.1	64.8	65.1
Unemployment rate e/	11.4	12.4	12.6	13.9	15.2	13.7	13.5	13.2	11.7
Open unemployment rate e/	7.5	8.0	8.4	9.3	10.3	9.4	9.5	9.0	7.7
Prices	Annual percentages								
Variation in consumer prices (December-December)	10.2	11.8	6.0	8.0	9.7	6.2	3.7	1.7	5.2
Variation in nominal exchange rate (annual average)	21.2	-1.0	-1.6	2.9	12.8	11.1	5.4	7.1	2.4
Variation in minimum real wage	0.2	-11.2	1.1	-1.5	-1.9	3.3	-3.4	5.5	-1.8
Nominal deposit rate f/	6.7	3.8	2.6	2.2	1.8	2.2	1.9	1.4	1.6
Nominal lending rate g/	21.5	20.4	20.0	18.6	17.7	17.2	17.0	16.5	14.9

Table 1 (concluded)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Central government h/	Percentajes of GDP								
Total revenue	28.2	27.3	26.2	26.2	27.7	26.7	27.5	28.7	30.4
Tax revenue	25.0	24.3	23.5	24.3	24.0	24.1	24.8	26.1	26.9
Total expenditure i/	39.6	33.7	32.0	30.4	27.6	27.2	27.8	28.6	29.9
Current expenditure	36.3	28.9	28.1	27.5	25.0	25.7	25.8	26.2	27.4
Interest	17.7	11.1	9.7	9.7	7.7	8.1	7.6	7.9	7.3
Capital expenditure	3.2	4.8	3.9	2.9	2.6	1.5	2.0	2.4	2.5
Primary balance	6.3	4.7	3.9	5.5	7.8	7.6	7.3	8.0	7.8
Overall balance	-11.4	-6.4	-5.9	-4.2	0.1	-0.5	-0.3	0.1	0.5
Non-financial public sector public debt	126.3	131.7	131.4	133.9	135.5	131.8	128.1	122.3	109.7
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	34.9	27.5	27.8	29.3	29.8	32.2	29.1	30.0	26.3
To the public sector	16.7	11.5	10.4	9.9	9.3	12.5	9.4	6.8	2.4
To the private sector	19.7	18.1	19.0	21.0	22.3	21.6	22.0	23.9	30.0
Others	-1.4	-2.1	-1.6	-1.6	-1.7	-1.9	-2.3	-0.7	-6.1
Monetary base	7.6	7.4	7.4	7.4	7.2	7.1	7.4	8.0	9.0
Money (M1)	9.2	9.0	9.1	9.0	8.4	8.6	9.6	10.4	10.9
M2	20.3	20.0	19.8	19.4	18.5	18.0	19.1	20.2	24.2
Foreign-currency deposits	10.8	9.3	8.6	9.1	10.5	11.0	12.1	13.1	13.8

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/ 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

	2016				2017				2018	
	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/	0.9	1.5	2.1	0.1	0.1	-0.1	0.8	1.1
Gross international reserves (millions of dollars)	2 768	2 806	3 022	3 150	3 188	3 278	3 758	3 709	3 736	3 701
Real effective exchange rate (index: 2005=100) c/	109.6	114.3	117.7	119.9	122.1	126.4	131.4	137.0	114.1	103.0
Consumer prices (12-month percentage variation)	3.0	2.5	1.8	1.7	4.1	4.4	4.6	5.2	3.9	3.9
Average nominal exchange rate (Jamaica dollars per dollar)	121.1	123.7	127.0	128.9	128.6	129.0	128.5	126.4	125.8	127.2
Nominal interest rates (average annualized percentages)										
Deposit rate d/	1.5	1.4	1.4	1.4	1.4	1.5	1.7	1.7	1.6	1.4 e/
Lending rate f/	16.9	16.5	16.3	16.2	15.3	14.9	14.8	14.6	14.4	14.2 e/
Interbank rate	4.0	4.1	4.2	5.4	5.5	4.9	3.1	2.6	2.1	2.8 e/
Monetary policy rates	5.3	5.2	5.0	5.0	5.0	4.8	4.5	3.8	2.9	2.7 e/
Sovereign bond spread, Embi Global (basis points to end of period) g/	469	478	396	375	349	336	298	304	295	340 c/
International bond issues (millions of dollars)	-	-	364	-	-	-	869	-	-	-
Stock price index (national index to end of period, 31 December 2005 = 100)	147	153	157	184	214	225	251	276	282	293
Domestic credit (variation from same quarter of preceding year)	-3.2	5.8	6.8	9.5	17.9	13.1	-0.5	-6.0	-4.9	2.5 e/

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

d/ Savings interest rate.

e/ Figures as of May.

f/ Average lending rate.

g/ Measured by J.P.Morgan.