

# JAMAICA at a Crossroads—Leveraging Macroeconomic Stability for Sustained and Inclusive Growth<sup>1</sup>

Constant Lonkeng Ngouana

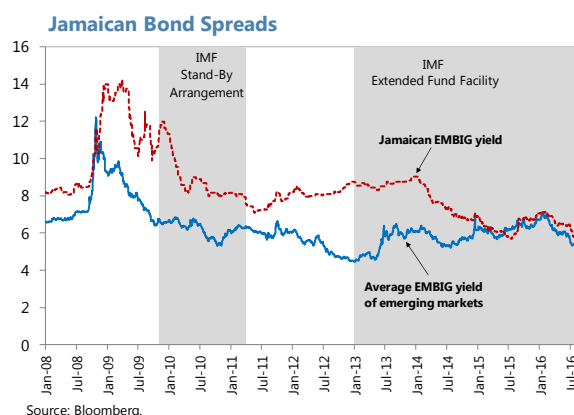
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September, 2016

## From a dangerous cliff to a quiet plateau

Only three and a half years ago, Jamaica was on the verge of an economic meltdown—net international reserves were below one billion U.S. dollars; the current account deficit was in double digits; public debt was at one and a half times the total value of goods and services produced in Jamaica; investor confidence was shaken; and the country was shut out of international capital markets with looming refinancing risks.

Fast forward to September 2016, Jamaica's economic landscape looks very different. The current account deficit has shrunk to low single-digits; net international reserves have nearly tripled; public debt, while still elevated, has been placed on a firm downward path, and risks to the public sector's balance sheet have been significantly contained. Access to international and domestic capital markets has been restored and external sovereign bonds are now trading at par with other emerging markets (text chart), on the back of several upgrades from credit rating agencies and record high investor confidence.



Source: Bloomberg.

## The journey so far

These major gains were achieved through the implementation of a decisive macroeconomic policy adjustment that was supported by the IMF's Extended Fund Facility. It included a strong and sustained fiscal consolidation—with primary surpluses of the central government at or in excess of 7 percent of GDP and overall tighter accounts of public bodies—and additional debt reduction with a PetroCaribe debt buyback. The government's macroeconomic policy also embedded substantial external adjustment, reflecting a more competitive exchange rate and low domestic inflation, supported also by low international oil prices.

In addition to improved macroeconomic management, there were major institutional reforms to tackle deep-seated growth bottlenecks. New legislation established a fiscal rule—anchored around a debt ceiling of 60 percent of GDP in 2025/26—to lock in the gains from fiscal consolidation, entrench fiscal discipline, and add credibility to the government's policy agenda. Discretionary tax waivers have been curtailed, and tax and custom administrations are being revamped to facilitate paying taxes and improve compliance. Meanwhile, the Bank of Jamaica (BoJ) is reforming its monetary policy and institutional frameworks, and monetary operations are being enhanced. Financial sector resilience has

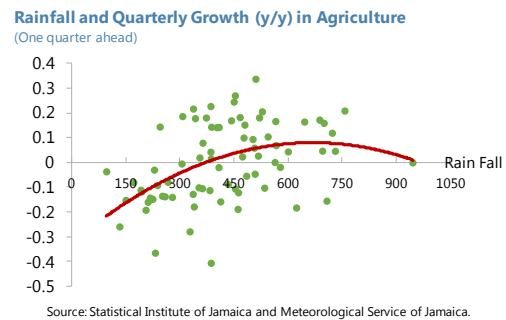
<sup>1</sup> A short version of this piece was published in The Gleaner on September 25 (link to the Press article below):

<http://jamaica-gleaner.com/article/focus/20160925/constant-lonkeng-ngouana-jamaica-crossroads-leveraging-macroeconomic>

also been strengthened, including with the transition of securities' dealers toward a trust-based framework.

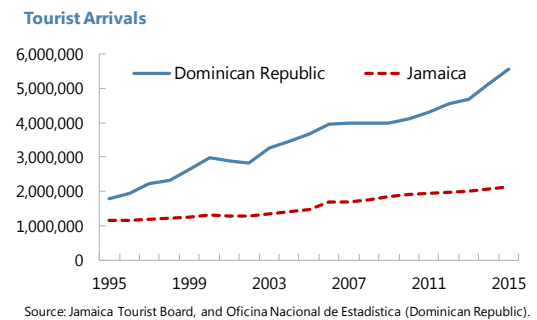
### Long-standing challenges remain

Despite these hard-won gains, economic activity has remained sluggish, poverty remains elevated, and unemployment is still high. Growth has underperformed relative to expectations, in part due to unexpected shocks (such as the Chik-V outbreak, prolonged drought, and weak global demand), highlighting Jamaica's vulnerability to exogenous factors. Agriculture—a large source of employment, including for the poor—remains at the mercy of Mother Nature (text chart).



Although tourism has been the main source of growth, the globally appealing “Brand Jamaica” could be better leveraged for growth purposes—tourist arrivals grew by an average 3 percent per year over the past two decades, only about half of the growth rate recorded in the Dominican Republic (text chart). More importantly, the linkages between tourism and the rest of the economy have remained weak at best.

On the social side, the government has consistently sheltered the public social spending floor from the fiscal adjustment, but there is wide scope for strengthening the design and coverage of the social safety net. About one out of five Jamaicans still lives in poverty. Extending the social safety net substantially beyond the flagship program PATH would ensure that the most vulnerable groups of the population are included in the development process, as envisaged by the government.



### Passing the baton—from the public to the private sector

Interestingly, Jamaica has embarked on a journey of moving from a government-led economy to private-sector-led growth. Government net borrowing from the banking system is almost nonexistent now, thanks to the central government's near-balanced budget. The retrenchment of the government from the financial system, however, is yet to translate into broad-based private credit expansion. Weak private credit is in fact one of the main impediments to growth in Jamaica. Domestic private debt is only about one-fifth of the total value of goods and services produced in the economy (about three times lower than domestic public sector liabilities), one of the lowest among emerging market economies. Implementation of policies for improved access to finance ought to be an integral part of any private-sector-led growth undertaking in Jamaica.

Maximizing the job-generating potential of private businesses requires labor market legislation and policies that strike the right balance between employment protection and providing the flexibility for firms to adapt to an evolving business environment, as well as create incentives to move from the informal to the formal economy. Decisive policy actions are needed to effect comprehensive public sector transformation that would sharply improve public service delivery, remove burdensome red tape, and generate efficiency gains. This would also provide additional fiscal space for much-needed social and development spending to foster sustained and inclusive growth, shared among all

Jamaicans. Public sector transformation would also help achieve the broader objectives of improved business climate and enhanced competitiveness, critical in a globalized economic environment.

### **Addressing crime**

The newly formed Economic Growth Council (EGC) identifies crime as a major impediment to Jamaica's growth—an unsafe environment affects citizens' well-being, imposes a huge cost on businesses, and makes it harder to maximize Jamaica's tourism potential. Containing crime would require an approach to national security that embeds not only a "corrective arm", but also, and perhaps more importantly, a "preventive arm", including through community-based social programs and a clearly articulated communication campaign.

### **Plugging the brain drain**

One of the symptoms of lackluster economic activity and perceived limited job opportunities in Jamaica is the high propensity of Jamaicans, particularly skilled ones, to migrate—nearly as many Jamaicans live outside of Jamaica as they do in the island. This brain drain could in principle be thought of as an implicit subsidy by Jamaica to migrants' host countries, in the form of a highly educated labor force. This poses the dual policy challenge of leveraging the Diaspora in the short-term (beyond remittances) and maintaining an economic environment conducive to a vibrant labor market that would retain Jamaica's trained labor force within its boundaries over the medium-term.

### **Domestic ownership for long-lasting reforms**

Yet another unique "Jamaican brand" is the significant ownership, engagement of various stakeholders, and substantial local communication around the government's reform agenda and its implementation. The Economic Policy Oversight Committee (EPOC) has been actively monitoring the government's commitments and progress under its reform program and reporting to the wider public. This has been an enviable mark of domestic ownership that is being replicated in other IMF-supported programs (in Grenada, for example). This model could extend well beyond the IMF's financial engagement in Jamaica, including for monitoring adherence to the country's Fiscal Responsibility Law.

### **Where to from here?**

Leveraging the tremendous macroeconomic progress over the past few years and overcoming a long history of weak policy credibility provides a golden opportunity to pursue policies that further improve Jamaica's resilience to domestic and external shocks. Strong measures should be taken to improve the business climate and access to finance to unlock Jamaica's growth potential and promote job creation. Equally important are preserving fiscal discipline, as the country reaffirms its commitment to inclusive growth and national security; and revamping the Bank of Jamaica's monetary toolkit to improve monetary policy transmission.