

2015: STAYING THE COURSE TOWARDS PROSPERITY IN JAMAICA

By Bert van Selm, IMF Resident Representative in Jamaica

Over the past two years, Jamaica has implemented ambitious policy changes that averted a full-blown economic crisis and laid the foundation for a gradual recovery of economic growth and employment. On December 19, just ahead of the holiday season, the IMF's Executive Board completed the sixth review of Jamaica's Fund-supported economic reform program. IMF Management commended the Jamaican authorities for consistently strong performance, with the economic outlook improving as a result. The reforms have been painful for many, but they provide a solid basis for ongoing tangible progress in 2015 and beyond.

Economic Growth

2014 saw the return of economic growth to Jamaica, with growth in both 2013/14 and 2014/15 estimated and projected around 1 percent. Growth is expected to increase to around 2 percent in 2015/16, supported by both domestic and global trends.

On the domestic side, the tightening of fiscal and monetary policies that was needed early on in the program to put the economy on the right track is already well behind us. The adverse impact of the tightening of the budget on economic growth will have played out by now, and the financial system has much more room for offering credit to private investors than a year ago. On the supply side, progress in improving the business climate—now well underway—should also support growth.

Global growth is set to increase in 2015, supported in particular by higher growth in the US—a key source of remittances, and tourists, to Jamaica—and lower oil prices, which will have a major impact on Jamaica's import bill. This provides a promising environment for accelerating growth in Jamaica.

Prudent fiscal policy

Reducing debt-to-GDP to a more manageable level is critical to increase domestic and international investor confidence, reduce crisis risks, and provide policy space in case of natural disasters. Multi-year fiscal consolidation on the basis of a clear anchor—the primary surplus target—is a key element of the strategy to reduce public debt. Jamaica ended FY2013/14 in March 2014 with a primary surplus of 7.5 percent of GDP, and is on track to end the current fiscal year with the same result.

To ensure prudent fiscal policies over the long run and lock in the gains of fiscal consolidation, in March 2014 parliament adopted an effective fiscal rule that takes into account Jamaica-specific characteristics, for example an escape clause to be activated in the event of an

extraordinary storm. The introduction of a fiscal rule in Jamaica signals a clear break from past policies, and is a key achievement of 2014.

Market access

In July 2014, Jamaica regained access to international capital market, with the issuance of a bond for US\$800 million—the first bond issued since 2011. The issuance was larger in size than any previous ones, and at more favorable terms. Since July the yield on Jamaica's external debt has continued to decline, as evidence of growing international confidence in its reform program. The issuance boosted Jamaica's reserves to a much more comfortable level, and global market access provides the country with an important policy tool going forward.

The reform agenda for 2015

Much has been achieved in two years of economic reforms, but the reform agenda remains extensive.

In the area of **tax reform**, with major reforms to corporate income tax policies now in place, the focus will shift to tax administration, with the Tax Administration of Jamaica and the Jamaica Customs Agency expected to use their enhanced power to enforce collections. Property tax reform, aimed at improving property valuation and strengthening payment discipline, should be ready before the start of the next (2015/16) fiscal year and help put local government finances on a sound footing.

Given the need to create a more service-oriented government, and with the three-year public sector wage agreement expiring in March of 2015, **public sector reform** is also high on the agenda. Phased implementation of a plan to enhance public sector efficiency through the introduction of a new HR system, sharing services, and divestment should start this year. Reform of the **public pension system**, aimed at ensuring that the system is sustainable in the long run, is expected to be tabled in parliament by June 2015.

Efforts to reduce the **high costs of electricity** are key to improving the business climate to support higher growth. Plans developed by the Electricity Sector Enterprise Team (ESET) foresee replacing current (oil-fired) generation capacity with gas, coal, and ethane-fired plants, and 2015 should see initial steps to implementation, with the conversion of the Bogue power station from oil to gas.

Strengthening of the **financial sector**, including non-banks, is also a key plank of the program for 2015. A phased reform of the securities dealers sector, including improvements in both the legal and the prudential framework, is now well underway, and the new Banking Services Act will become effective this year.

Conclusion

In sum, almost two years into the economic reform program, Jamaica's economy is in much better shape, owing to policies that have brought about a decisive break with the past. Much has been achieved, yet much remains to be done. We at the IMF are confident that Jamaica will stay the course, and are fully committed to support Jamaica on its journey towards a bright economic future.