CARIBBEAN DEVELOPMENT BANK

COUNTRY ECONOMIC REVIEW 2018

JAMAICA

JAMAICA ECONOMIC BRIEF 2018

OVERVIEW

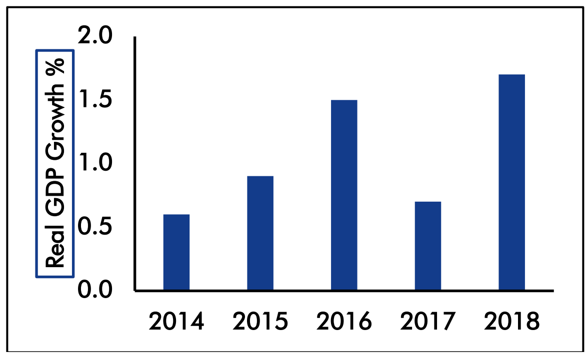
Jamaica's economy grew by 2.4% in 2018. This was led by increased tourism and construction activity. Inflation decreased as food prices fell, while unemployment was lower than in the previous year. An accommodative monetary stance contributed to credit growth, which coincided with improvements in doing business conditions and an increase in consumer confidence. Fiscal performance was strong; and debt as a percentage of gross domestic product (GDP) declined. The external trade deficit worsened; but the level of foreign exchange reserves was still comfortably above the required threshold. The medium-term outlook remains positive, underpinned by a combination of higher investment and productivity growth supported by ongoing reforms. However, key downside risks, including macroeconomic and weather-related shocks, policy reversal of the structural reforms, and high crime rates can derail growth prospects.

KEY DEVELOPMENTS IN 2018

Real GDP is estimated to have expanded by 1.9% in the year to September 2018 (see Chart 1). The increased activity reflected positive growth in tourism, construction and mining. The increase in tourism was evident from a higher number of stopover visitor arrivals (2.21 million) (mn) over the period January to November 2018, up 5.3%[1], associated with an increase in airlift to the island. Construction performance was largely driven by a rise in public capital expenditure, as well as other domestic investments.

Headline inflation decreased to 2.4% in the year to December 2018, compared with 5.2% the previous twelve months. This outturn was on account of a decline in prices for agricultural products (in the food sub index), associated with an increase in supplies as Jamaica recovered from adverse weather conditions[2] in the second half of 2017. This decline was partly offset by higher energy costs associated with the lagged impact of increases in oil prices.

Chart 1: Real GDP Growth



Sources: Statistical Institute of Jamaica (STATIN), Planning Institute of Jamaica (PIOJ), and the International Monetary Fund (IMF).

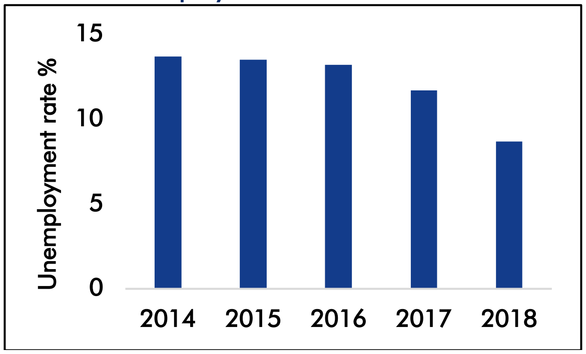
Unemployment fell once again. Latest available data from the Statistical Institute of Jamaica (STATIN) show that the unemployment rate dropped to 8.7% in October 2018, 1.8 percentage points below the rate at October 2017 (see Chart 2). In July, the rate had fallen to an all-time low of 8.4%. The construction and wholesale and retail sectors accounted for the largest increases in employment. Construction

[1] Whereas cruise passengers numbered 1.62 mn (5.6% decline from 2017).

[2] Over the last two decades, the frequency and intensity of hurricanes and high-intensity rainfall events have increased, with the country averaging at least one storm event per annum, resulting in cumulative damage and loss estimated at JM$121 billion (bn) (2% of GDP) and the loss of 72 lives.

provided increased youth employment, as did business process outsourcing. Increased labour market participation was a result of improvements in the doing business environment and macroeconomic stability.

Chart 2: Unemployment

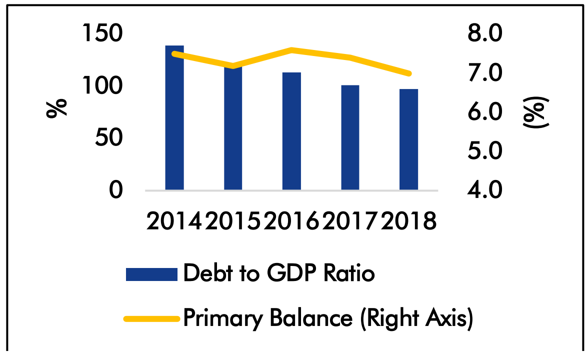


Sources: STATIN.

Central Government operations recorded a surplus for the first six months of the fiscal year (April-September 2018). This improved fiscal outcome is linked to a primary surplus of $73.8 billion (bn) or 3.6 % of GDP, above the 3% outturn for the same period in 2017 (see Chart 3). The primary surplus reflected the better-than-expected performance of international trade taxes, production and consumption taxes, and the containment of discretionary recurrent expenditure. Revenues from taxes on income and profits were marginally lower than expected.

Public debt for Fiscal Year (FY) 2018/19 is projected to drop to 97.4%, compared with the 104.1% in FY 2017/18, thus falling below 100% of GDP for the first time since FY 2000/01. Based on the current trajectory, public debt is on track to reach 60% of GDP by FY 2025/26.

Chart 3: Fiscal and Debt Performance



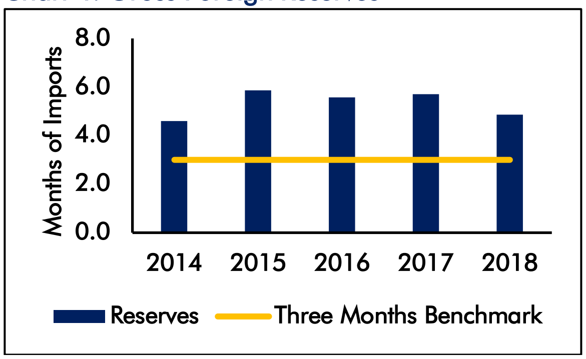
Sources: Ministry of Finance, Bank of Jamaica (BOJ), and IMF.

Noting the improvements in the macroeconomic and fiscal indicators, the rating agencies upgraded their credit ratings and outlooks. Fitch's reported a B+ rating with a positive outlook (January 2019); Standard & Poor's upgraded its rating to B with a positive outlook (September 2018); and Moody's assigned a rating of B3 with positive outlook (July 2018).

Accommodative monetary conditions as well as increased competition in the market for loanable funds continued to support growth in overall financing. Private sector credit grew by 16.2% in the year to the end of September 2018, compared with an expansion of 11.5% in the previous year. The growth in private sector credit reflected increased loans and advances to both businesses (utilities, tourism and manufacturing) and households (mortgage loans and instalment credit). Consistent with the relatively favourable macroeconomic environment, the commercial banks' asset quality and profitability improved.

The current account deficit widened, due in part to an increase in imports. The merchandise trade deficit grew by 7.6% to US$4.1 bn in the first 11 months of 2018, on account of increased imports of food, fuels, manufactured goods, machinery and transport equipment. However, the growth in tourism receipts, associated with increased stay-over visitors and remittance inflows, partially offset the current account deficit. This deficit was partly financed by private investment inflows. Inward FDI was estimated at US$578.8 mn for the period January to September 2018. This was supported by a drawdown of foreign reserves, which still comfortably exceeded the international benchmark of three months of imports. Reserves fell to an estimated 4.9 months (compared with 5.7 months in December 2017) (see Chart 4). Nevertheless, the import cover was marginally higher than the December 2014 level of 4.6 months.

Chart 4: Gross Foreign Reserves



Sources: BOJ and IMF.

OUTLOOK

The medium-term outlook is positive, with 1.7% growth projected for FY 2018/19. Tourism, manufacturing, agriculture, and construction are the sectors most likely to drive growth in the short term. The productivity-enhancing reforms and public investments that have been undertaken during the implementation of GOJ's reform programme are expected to contribute to increased domestic demand. At the same time, enhancements in agricultural productivity, especially through priority investments in infrastructure (including irrigation), will generate direct and indirect increases in incomes and a reduction in poverty. However, key downside risks, such as a slowdown in global growth, macroeconomic and/or weather-related shocks, policy reversal of the structural reforms, and high crime, could derail growth prospects.

DATA

The table below summarises the key economic and social indicators underpinning this Country Brief. These data are taken from a number of sources, and are the latest available at time of publication. Some are subject to revision.

Selected Indicators

	2014	2015	2016	2017	2018[e]
Real GDP Growth (%)	0.6	0.9	1.5	0.7	1.7
Average Inflation (%)	8.3	3.7	2.3	4.4	3.4
Unemployment (%)3	13.7	13.5	13.2	11.7	8.7
Primary Balance (% of GDP)	7.5	7.2	7.6	7.4	7.0
Public Sector Debt (% of GDP)	139.7	121.3	113.6	101.0	97.4

Sources: STATIN, PIOJ, and IMF.

Notes: e – estimate.