2014: A Crucial Year For Jamaica’s Economy

By Bert van Selm, IMF Resident Representative in Jamaica

On December 18, just ahead of the holiday season, the IMF’s Executive Board completed the second review of Jamaica’s Fund-supported economic reform program. The IMF management commended the Jamaican authorities for strong performance, and noted that there are tentative signs of an economic recovery. With this achieved, Jamaica is now well positioned for further gains in economic performance in 2014 and beyond.

The Achievements of 2013

In 2013 Jamaica averted an immediate crisis and took action to put the economy on a path to recovery. But with a history of low growth, high unemployment, and poverty, and one of the highest levels of public debt in the world, there are no easy and quick solutions. The government has adopted a series of measures that, although painful in the short term should, over time, reduce debt and restore confidence and competiveness. Importantly, the measures spread the burden across the Jamaican economy—with a wage freeze for civil servants, a debt exchange for financial investors, increases in taxes and the tariffs for water and transportation, and higher import prices as the exchange rate was allowed to adjust.

For such a program to be successful, broad agreement on the need to reform the economy and rebuilding trust in it are critical. In this regard, it is heartening to see that reform efforts have been supported by the Partnership for Jamaica Agreement, and benefited from the active involvement of private stakeholders such as through the Economic Programme Oversight Committee (EPOC).

Debt

Nonetheless, major challenges remain: growth is too low, and unemployment and public debt are much too high. IMF projections show debt-to-GDP declining from 146 percent of GDP in March 2013 to 138 percent of GDP by the end of this fiscal year. That’s a significant gain in one year—but of course the debt remains much too high for comfort. Gradually reducing debt-to-GDP to a more manageable level will be critical to increase investor confidence, reduce crisis risks, and provide policy space in case of natural disasters.

Fiscal consolidation

Reducing debt will require a sustained period of fiscal consolidation. A primary surplus target of 7.5 percent of GDP has been set for the four-year program period, with only slightly lower surpluses thereafter. The good news is that the adjustment effort—*getting* to 7.5 percent—

should be accomplished in a few months' time. So, the adverse impact of tightening the budget on economic growth should become less pronounced in 2014 and beyond.

Growth and the business climate

Reducing the debt-to-GDP ratio will also require higher GDP growth, which has been sluggish for far too long. Impediments to growth urgently need to be addressed, including by reducing the cost of electricity, improving the business climate, and implementing the tax policy reforms and modernizing its administration. Putting in place a one-stop shop for business registration would send an important signal that Jamaica is truly open for business—the recent adoption by Parliament of a 'superform' to facilitate business registration is therefore very welcome. And reducing the time required for the government to decide on construction permits should also be very high on the agenda. In these areas, tangible progress is needed as soon as possible in 2014.

Tax reform—policy and administration

On tax reforms, the incentive legislation passed by Parliament in December 2013 is a major step forward. The legislation will make the tax system more pro-growth and more robust. It will broaden the tax base, reduce exemptions, eliminate ministerial discretion, and reduce effective rates. The new Employment Tax Credit creates incentives for increased employment—critical, with unemployment at 15.4 percent of the labor force. And this credit can also significantly reduce the rate of effective CIT, to as low as 17.5 percent, which enhances Jamaica's competitiveness. At the same time, much remains to be done to address Jamaica's poor record concerning the *ease* of paying taxes, for example through E-filing.

Fiscal rule

Another important reform planned for early 2014 is the adoption of an effective fiscal rule—to keep a tight rein on the annual budgets and lock in the gains of fiscal consolidation. Jamaica-specific characteristics will of course need to be taken into account. For example, given the frequency of hurricanes, a credible rule must contain a clause to be activated in the event of an extraordinary storm. Public consultation is envisaged early in the new year, to explain the objectives and expected benefits.

Financial sector reform

Strengthening of the financial sector, including non-banks, and broadening investment opportunities for smaller savings is also a key plank of the program for 2014. In this context, a phased reform of the securities dealers sector, including improvements in both the legal and the prudential framework, is necessary to further enhance the stability of the sector, and to better protect its clients. We are looking forward to work with the authorities and the sector to further develop a concrete and comprehensive action plan, and to start implementing it.

Conclusion

In sum, at the start of 2014, Jamaica's economy is in better shape than a year ago. Much has been achieved, and yet much remains to be done. We at the IMF are confident that Jamaica will stay the course towards a brighter economic future.