

Kiwanis Club of Kingston

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IMF support for Small States—implications for Jamaica

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Views expressed are those of the speaker alone and should not be reported as representing the official position of the International Monetary Fund.



Recent IMF papers on Small States

- 2013 paper, *Macroeconomic Issues in Small States and Implications for Fund Engagement*
- ... followed by a 2014 Guidance Note on the *IMF's Engagement with Small Developing States*.

Small economies are different

- Fixed cost in the public sector (diseconomies of scale in the provision of public goods)
- Fixed cost in the private sector (less competition)
- High trade costs
- Susceptibility to natural disasters (including earthquakes, hurricanes, climate change)
- Economic concentration raises vulnerability to shocks

... hence macroeconomic outcomes
are different.

- Volatility—in particular in fiscal and external balances
- Increasing economic growth is a challenge
- Higher dependence on trade taxes
- High trade openness
- High rates of outward migration

Is Jamaica small?

- Definition frequently used is a population of less than 1.5 million...
- ... but of course for countries just above that, a lot of the issues are similar.
- The IMF has member states that are much smaller than Jamaica, e.g. Tuvalu at 11,000 people

Some small states are very successful

- Small states in continental Europe that effectively integrate economic activities with those of larger neighbors (Luxembourg, San Marino)
- Small states in Europe's periphery that were doing very well-- at least prior to the 2008-09 global financial crisis (Iceland, Cyprus)
- Small states rich in natural resources: Brunei, Bahrain (population under 1.5 million); Kuwait, Qatar (just above)

IMF activities with a focus on small states

- Lending...
- ... often at very low rates (size is a factor that feeds into 'PRGT eligibility', supporting eligibility for several small states in the region: Dominica, Grenada, St. Lucia, St. Vincent and the Grenadines)...
- ... and sometimes with little or no conditionality (Rapid Credit Facility)
- High-level Conferences, e.g. in the Bahamas in September 2013, follow up conference in the pipeline
- Active TA program (supported by CARTAC in Barbados), other regional TA centers

Seychelles 2008-13: an example of successful adjustment

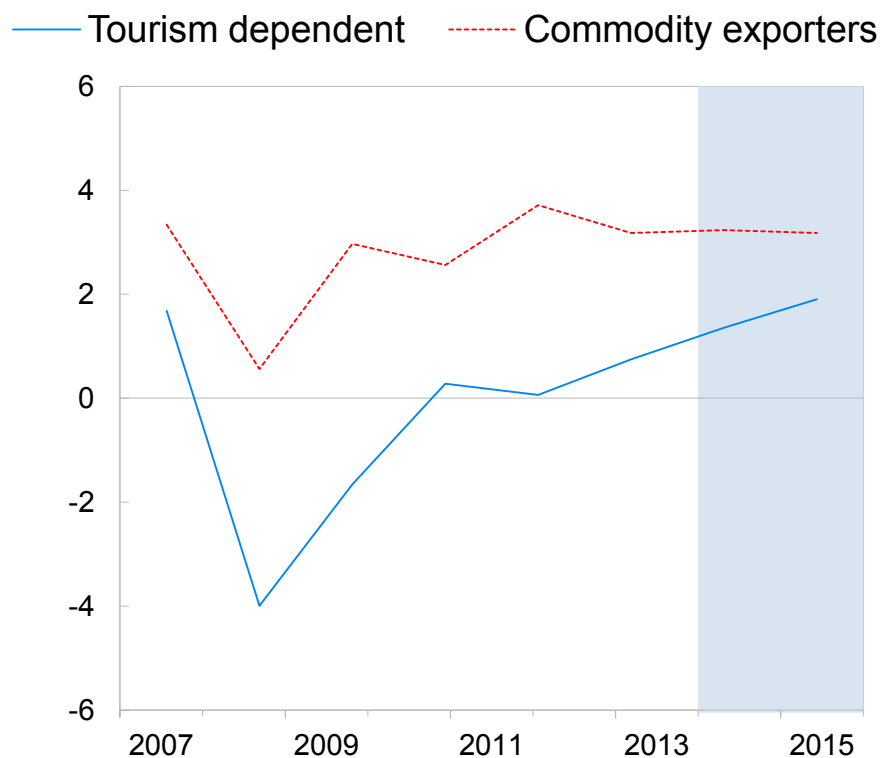
- Crisis in 2008: public debt at 131 percent of GDP, 2007 fiscal deficit 8 percent of GDP, reserves at 0.5 months of imports
- Four year EFF from 2009-13, with good results: return to growth (3.5 percent in 2013), 2013 fiscal balance in surplus, public debt at 72 percent of GDP, reserves at 4 months of imports
- Key lessons:
 - Importance of ownership and consensus
 - Benefits of exchange rate flexibility
 - Debt restructuring early in the program
 - TA played an important role
 - Diversification: attracting tourism from non-traditional markets

Caribbean small states

- Analyzed in a complement paper to the 2013 *Small States* paper (*Caribbean Small States—Challenges of High Debt and Low Growth*)
- Financial sector relatively large
- Growth has stagnated in the last two decades, except in commodity exporters (Belize, Guyana, Suriname, Trinidad and Tobago)
- High labor costs, high electricity costs
- Very high debt to GDP in many Caribbean small states
- High vulnerability from natural disasters

Growth in the Caribbean is expected to pick up a little—with some shift towards tourism-dependent economies

Real GDP Growth
(Percent change)



Source: IMF, *Regional Economic Outlook*.

Note: Commodity exporters include Belize, Guyana, Suriname and Trinidad and Tobago; tourism-dependent economies include Antigua and Barbuda, the Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and Grenadines.

Jamaica's Economic Reform Programme, supported by a 4-year IMF EFF

- Raising economic growth by restoring fiscal and debt sustainability...
- ... by improving the business climate....
- ... and by pursuing strategic investments in infrastructure...
- ... supported by broad agreement on the need to reform the economy...
- ... and policies to protect the most vulnerable.
- Strong performance to date—three reviews completed
- Next review mission coming up in May.

Thank you!

- Questions?