Jamaica's 2013 IMF Agreement

Deal or No Deal

In 2012, the Government of Jamaica (GOJ) requested from the International Monetary Fund (IMF), a four (4) year Extended Fund Facility in the amount of SDR 615.38 million (US$932.3mn). This arrangement was prompted by the social and economic challenges that the country has been facing and in part due to the failure of the last IMF agreement. The arrangement centres around five main pillars: debt reduction, improving fiscal adjustment supported by fiscal reform, improving price and non-price competitiveness, and improving social protection and structural reform to boost growth and unemployment. The program is in its implementation phase and a number of specific actions have been taken by the government to achieve the results agreed upon with the IMF. These actions include: a national debt exchange, measures of tax reform and a public sector rationalization program. The government is of the belief that the conditions outlined in the IMF agreement will set Jamaica on a path to recovery and on a growth trajectory. While it is clear that the agreement will correct the short term macroeconomic instabilities, the main concern is whether it is sufficient to correct the underlying causes of Jamaica's poor growth performance or whether it will make conditions worse.

The issue of debt sustainability is a critical pillar of the IMF program if Jamaica is to have any measure of sustainable growth. Debt sustainability is two-fold, reducing the debt as a percentage of GDP and reducing the debt service ratio as a percentage of tax revenue. Currently, Jamaica's debt ratio is 146.9 per cent; the aim is to reduce this ratio to 126.5 percent by 2017 and by extension to a maximum of 96 per cent in 2020. If these are achieved, Jamaica will be on the path to achieving debt sustainability. As the first step to achieving these targets the government engaged in a National Debt Exchange (NDX) program in which a number of locally issued GOJ instruments were exchanged into longer-maturity and lower-coupon bonds. The significance of this program is that it provided savings of approximately 8.6% of GDP. Although the NDX was both necessary and successful, it is important the correct measures are taken to ensure these savings are maintained and the rate of interest remains moderate. This can only be done by practising fiscal responsibility which is the second pillar of the IMF agreement.

Fiscal sustainability and responsibility include, among other things, maintaining fiscal balance and increasing the primary surplus. That is, the government should ensure that only what is collected in taxes is used to finance government expenditure including interest payments. This will only be achieved through maintaining public sector efficiency, tax reform and achieving economic growth. In the agreement, a plan was set out to increase tax revenues, while decreasing government expenditure in a bid to reduce the current fiscal deficit. Among other things, the program also addresses public sector efficiency by freezing wages and hiring in some areas, while reducing the amount of jobs in other areas through a public sector rationalization program. Collectively these fiscal consolidation programs are expected to achieve savings of 36.4 per cent of GDP by the year 2020. While the statistics are promising, these measures are short run corrections to the problem of fiscal discipline. They are important to ensure that the government contain expenditure to prevent the debt stock from rising above its current level. They are austerity measures which are neither sustainable nor practical in the long run without economic growth because they do not address the root cause of the problem. Therefore the only permanent solution to the problem is economic growth. That is private sector led economic growth which can only be achieved if impediments are removed and the fundamentals corrected. The fundamental impediments to economic growth in Jamaica are macroeconomic instability, lack of export competitiveness, lack of productivity, government inefficiency and the high energy cost that plague our private sector manufacturers and other businesses. Completing a successful IMF-supported economic program without addressing these issues will take Jamaica to a roundabout which at best will lead right back to where it is now.

In addressing macroeconomic stability, the agreement proposes that single digit inflation in 2013/2014 and beyond is a primary target. The central bank will focus primarily on the interest rate as the main tool of monetary policy, until eventually it will pursue an inflation targeting monetary policy. These are all general goals that seriously need to be addressed if the economy is to achieve any measure of sustainable growth, but they are all symptoms of the underlying problems which were mentioned above. Importantly, it is stated in the agreement that the exchange rate is overvalued by between 9 and 22 per cent and that a real depreciation will improve price competitiveness. While the argument that a depreciated exchange rate is 'good' for the economy would hold in countries that are export-oriented, this analysis cannot be applied to Jamaica. To a large extent the products that are exported contain high import content. Therefore, a depreciated currency infers higher input cost and hence more expensive and less competitive exports, unless there can be significantly improved efficiency with production of goods and services by the private sector.

In conclusion, the IMF agreement pinpoints some critical aspects of the Jamaican economy that must be addressed immediately for the country to elevate itself out of its current crisis. The program is a `short term step that should provide the necessary room for the government to take actions that would lead to long run stability and economic growth. Specifically, the program focuses on the current debt overhang. The program also highlights the intermediate steps that the government must take to get the economy on this path. We should not be myopic; achieving this target in 2020 does not mean our economy is 'out of the woods'. Fiscal discipline must be maintained, the problem of energy cost affecting investors must be properly addressed; macroeconomic stability, low and stable inflation rate, a competitive exchange rate backed by production and productivity in the real sector; a competitive, educated and productive labour force; and an efficient and less bureaucratic regulatory system are what should be coupled with this IMF program to steer Jamaica unto the path of sustainable economic growth and stability.

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