Statement
by
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IMF CARIBBEAN GOVERNORS MEETING

FISCAL AND DEBT SUSTAINABILITY IN THE JAMAICAN CONTEXT

Madam Managing Director, Fellow Ministers and Colleagues:

This morning, I would like to give you a brief overview of Jamaica's recent experience and key lessons in tackling our unsustainable fiscal deficit and large debt burden.

Many of our Caribbean neighbours also face the twin challenges of fiscal and debt unsustainability. Our experience in Jamaica is encouraging. It demonstrates that strong, decisive, and early fiscal consolidation, if accompanied by adequate external, financial and technical support, can generate early gains in macroeconomic stability. Nonetheless, these gains are not enough to generate adequate and inclusive growth to measurably improve social welfare. These require far-reaching structural reforms, aggressive pursuit of strategic private investments, a broad national ownership, and strong leadership of reforms.

Allow me to give you some more perspective on our experience.

- At end fiscal year 2012/13, prior to approval of the current IMF program;
- Our public debt had reached approximately 145% of GDP— representing one of the highest in the world.

- Our central government primary balance was 5.4 % of GDP. For every dollar of total spending, debt service accounted for 44 cents.
- The Treasury bill rate was at 6.2% and inflation recorded 9.1%
- The external current account of the balance of payments recorded a deficit 10.0 % of GDP, and gross reserves were 11.5 weeks of imports.
- These factors and others contributed to real GDP growth of only 1 %.

Today, Jamaica's economic indicators have improved thanks to a very strong and sustained fiscal consolidation accompanied by deep reforms aimed at resolutely addressing our debt overhang.

- Our public debt has been reduced to 120 % of GDP
- Our overall public sector balance has increased to 1.6 % of GDP.
- Treasury bill rate have fallen to 5.7 %, and annual inflation has slowed to 1.8 % in August, aided in part by low oil prices. As government's dominance recedes, private sector credit has been picking up notably in key productive sectors, construction, and utilities.
- Our external balances have also improved. The current account deficit is now at around 1.8 % of GDP, and gross reserves have risen to over 25 weeks of imports.
- As a response to the improvement in our global competitiveness—our ranking increased by 11 points last year—, net foreign direct investment has risen to 6.2 % of GDP, up from 3.6 % of GDP in FY 2013/14.
- This year we expect real growth to reach around 2 percent reflecting stronger private sector confidence.

Madam MD, let me share a few of the difficult actions that we undertook over the last few years aimed largely at improving fiscal and debt sustainability.

- We have maintained a primary surplus of over 7 percent of GDP as a key anchor to arrest the unsustainable debt dynamic---probably the highest fiscal savings effort in any Fund-supported programme.
- To support this difficult step, we adopted fiscal rules that included legislation aimed at reducing our debt to GDP to 60.0 % by 2025.
- We also adopted a range of reforms to ensure that new borrowing for capital projects is firmly in line with our broader medium term fiscal programme. Thus, all new capital projects are vetted by a cabinet sub-committee before they enter the budget.
- As stipulated in our new fiscal responsibility legal framework, we have also restrained our wage bill to around 10 percent of GDP to help make space for much-needed capital investments; and we expect to reduce the wage bill to 9 % in line with legislation.
- As part of a broader pubic financial management reform, we have improved our cash management by adopting a treasury single account that encompasses central and some public sector entities.
- We have pursued a range of tax policy and administration reforms aimed at broadening the tax base and increasing revenues. The initial effort focused on adopting a more transparent and generalized regime of fiscal incentives applicable to all sectors. Our most recent effort involved increasing the threshold for PIT with a view to shifting the tax burden to indirect taxation, and easing the burden on PAYE tax payers. We expect to further increase

the threshold in April 2017. We recognize the implications of this for strong revenue administration capacity and enforcement, especially at the ports.

- As international market opportunities presented themselves, we have actively restructured our commercial debt to reduce annual debt service payments, to extend our debt maturities, and to create more fiscal space for medium term programmes.
- Finally, in recognition of the need to mitigate the cost of the austerity reforms, we have safeguarded spending on social and poverty reducing programmes.

Madam Managing Director,

As we look ahead, we are resolute in our commitment to further strengthen Jamaica's fiscal and debt sustainability. We are, however, acutely conscious of the need to demonstrate national gains to the population from the austerity reforms.

Thus, we are now concluding discussions with the Fund on a three-year successor precautionary arrangement to support our broader structural reforms. Under this arrangement, we will:

•Maintain the downward trajectory of our debt through an annual primary fiscal surplus of 7 percent of GDP.

•Accelerate inclusive economic growth by facilitating transformative private sector projects, reducing administrative and other hindrances to doing business in Jamaica, and broadening access to finance by SMEs.

•Firmly address improving the efficiency of the public sector through a comprehensive program of public sector transformation. The program will include a time bound plan for mergers, closures, and privatization of entities.

•Create more fiscal space for growth-promoting capital spending by reducing our wage bill to 9 percent of GDP by FY 2018/19.

•And, finally, we will further mitigate the social costs of the adjustment by broadening and increasing our allocations to social programmes.

Madam Managing Director,

Jamaica has had to strike a difficult balance in the last few years. Our population has been patient as we pursued strong fiscal consolidation measures to improve macroeconomic stability. With our very large debt burden we simply had no fiscal buffer to engage in an economic stimulus.

Notwithstanding, we believe that with the deep-rooted reforms we are now pursuing, Jamaica's growth prospects and capacity to reduce unemployment and poverty has improved enormously.

I thank you.