The Debt Crisis in Jamaica – the Caribbean's Greece?

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PETER CLEGG, DEC 13 2013

The economy of Jamaica is in great difficulties and has been for some time. Jamaica is one of the most indebted countries in the world with debts totalling US$19 billion, equivalent to 140% of GDP. Servicing of the debt accounts for about 50% of total budgeted expenditure, and 45% of the 2012/13 budget was financed by borrowing. Further, growth has been sluggish for several years, with a 1.5% decline in 2010, 1.3% growth in 2011, but another decline of 0.3% in 2012. Unemployment and poverty levels are high, and the external current account deficit has widened. The International Monetary Fund (IMF) noted that low economic growth, declining productivity, and reduced competitiveness were key problems, but also linked these to Jamaica's "unsustainable debt burden".

However, recalibrating the economy and reducing debt levels is a real challenge. The last Jamaica Labour Party (JLP) government signed an agreement with the IMF in February 2010 for a Standby Loan Agreement worth US$1.27 billion. In return the government committed to reduce the level of debt and interest rate costs, and reform the financial sector. However, the IMF agreement stalled and the last disbursement authorised by the Fund took place in January 2011. The present People's National Party (PNP) government returned to the IMF and agreed a four-year Extended Fund Facility (EFF) worth US$932 million in May 2013. The PNP believes there is no alternative. As Finance Minister Peter Phillips argued in February 2013, "Quite frankly … this is essentially a matter of the survival of the Jamaican nation as a viable nation state".

To secure the EFF the government is pushing through a series of difficult reforms, including, a debt swap, tax raising measures, and reducing the public-sector wage bill. Eight months into the agreement the IMF stated that "overall policy implementation is strong" and that performance targets were being met. However, much more work needs to be done and the underlying tension between the very high and barely sustainable debt burden on the one hand, and encouraging growth on the other has to be addressed. Debt continues to displace much needed investments and prevents long-term growth. However, any serious attempt to reduce the debt through public spending cuts also damages Jamaica's growth prospects. The particular focus on spending cuts is unfortunate as the country has been running primary budget surpluses for the last 20 years. As the Center for Economic and Policy Research argued in 2011, the most important factors causing budget targets to be missed are "lower-than-projected revenue and higher-than-anticipated interest payments – not increased spending".

Under these conditions it is not surprising that several key sectors of the economy have been under-performing. In 2012 these included mining and quarrying, which fell by 9.1% (contributing 2% to GDP); construction dropped by 3.8% (contributing 7% to GDP); and transport, storage and communications contracted by 1.6% (contributing 11% to GDP). In terms of sectors that grew positively, agriculture, forestry and fishing grew by 2.6% (contributing 7% of GDP), while hotels and restaurants grew by 1.8% (contributing 6% of GDP). The first quarter 2013 data suggested that the goods producing sectors (agriculture, mining and quarrying, and construction) declined while the service sectors remained flat. For example, tourist arrivals saw little improvement year-on-year. So the macroeconomic position of Jamaica is extremely challenging, but there are hopes that the IMF-backed reforms will provide some relief. Foreign exchange inflows from the IMF, the World Bank and the Inter-American Development Bank will help. It is also expected that IMF support more generally will inspire greater confidence in the economy.

Another and quite different source of crucial support for Jamaica is being provided by Venezuela. Venezuela provides about one-third of Jamaica's total oil consumption at a discounted price under the Petrocaribe initiative. In addition, since 2005 Jamaica has received USS2.4 billion in the form of long term loans based on its oil purchases. Funds have been invested in improving the country's physical infrastructure, investing in renewable energy resources, and supporting the operation of several public bodies. Further, and very importantly, resources have been allocated for the refinancing of Jamaica's domestic public sector debt. In addition, Jamaica has reportedly accessed Petrocaribe funds for recurrent expenses not limited to debt servicing. So the Jamaican economy is being supported in a variety of ways and the IMF predicts that it will grow by 0.4% in 2013 and 1.2% in 2014.

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