

# FISCAL ADJUSTMENT AND THE PROSPECTS FOR GROWING OUT OF DEBT IN JAMAICA

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# The Nature of the Presentation

- The Problem: Chronic public debt, resource pre-emption and low growth
- Fundamental structural problems already existed.
- The Simultaneous need for deep Adjustment and stronger Growth; A Policy Conundrum?
- The Paper: Perspectives on Economic Growth, The New IMF, Deficits, Public debt and Economic Growth, in Jamaica, The Impact of the Global Crisis, Policy Reaction and the IMF, Prospects for Growth and Debt sustainability

# Perspectives on Public Finance and Economic Growth

- Exogenous and endogenous growth theory
- The Orthodoxy of Keynesian Fiscal Stimulus
- Small Open Economies: Monetization and inflation  
The Impact of Fiscal Deficits
- Financing Fiscal Deficits: Financial markets, Interest Rates and Crowding Out
- External Financing and the External Accounts
- Debt Servicing and pre-emption of investment in Human and Physical Capital

# IMF Programmes and Economic Growth

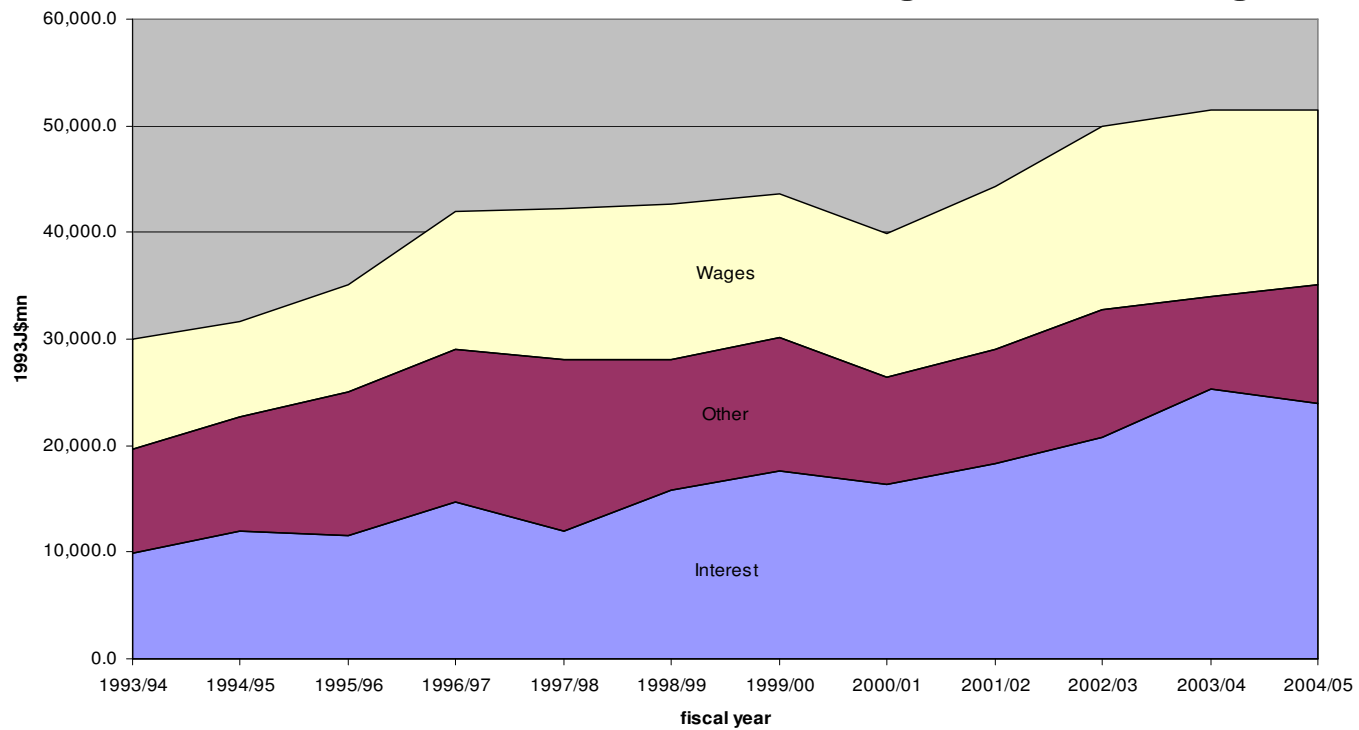
- The nature of IMF Programmes
- Financial Programming: Adjustment vs. Growth
- The Global Financial Crisis and the “New IMF”; less dogma, more money, frontloaded money but still has to guarantee capacity to repay.
- Options and Opportunities from Increased Financing

# Deficits, Debt and Growth in Jamaica

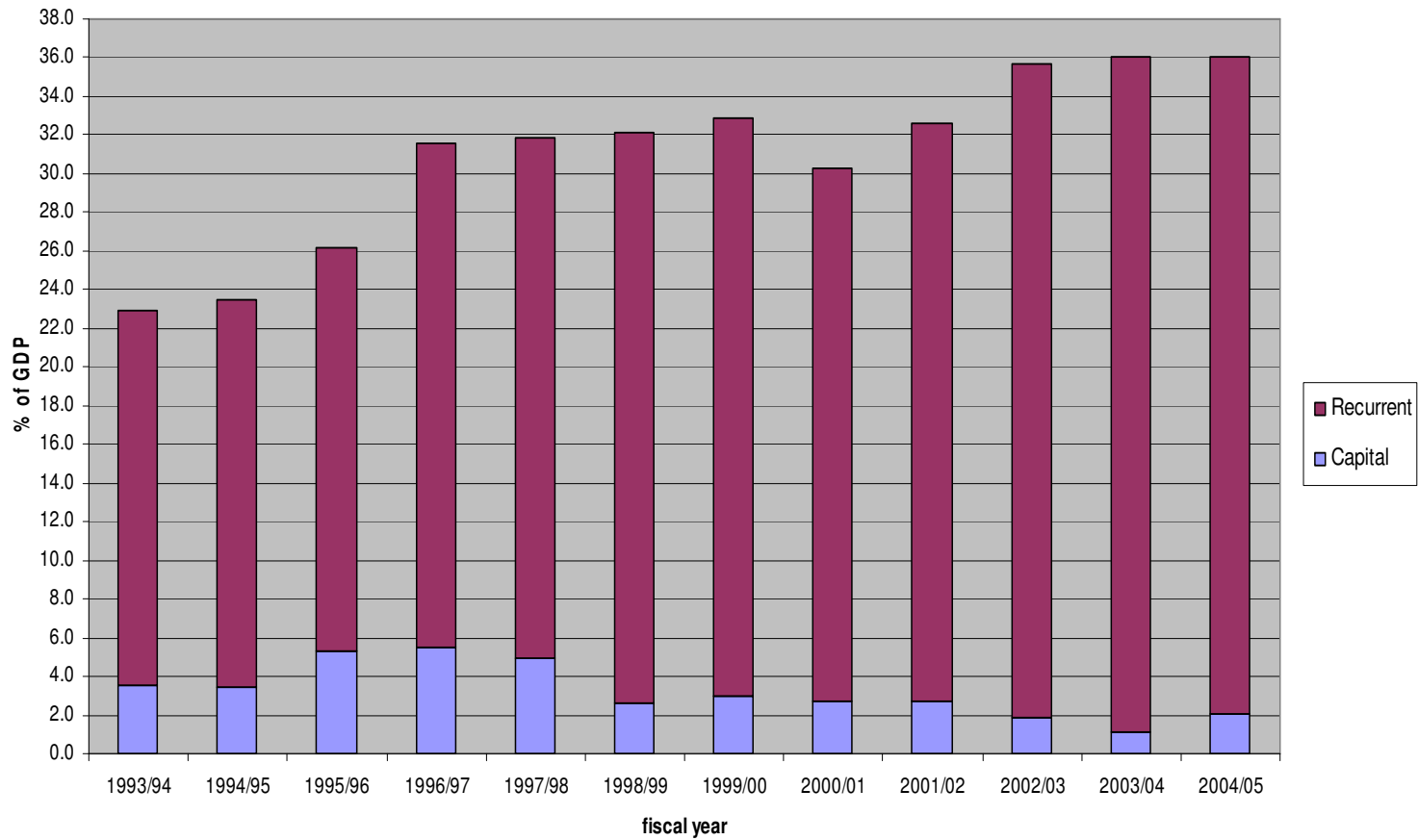
- The time path of fiscal balance
- Loss making public enterprises
- The time path of public debt (recent genesis in mid 1990s financial crisis)
- Trends in fiscal allocation; pre-emption of human and physical capital
- A record of inefficient investment
- Incentives vs. An enabling environment

# Composition of Real Recurrent Expenditure

- Real Expenditure (1993 \$mn):
- Interest vs. Wages vs. Non-Wage

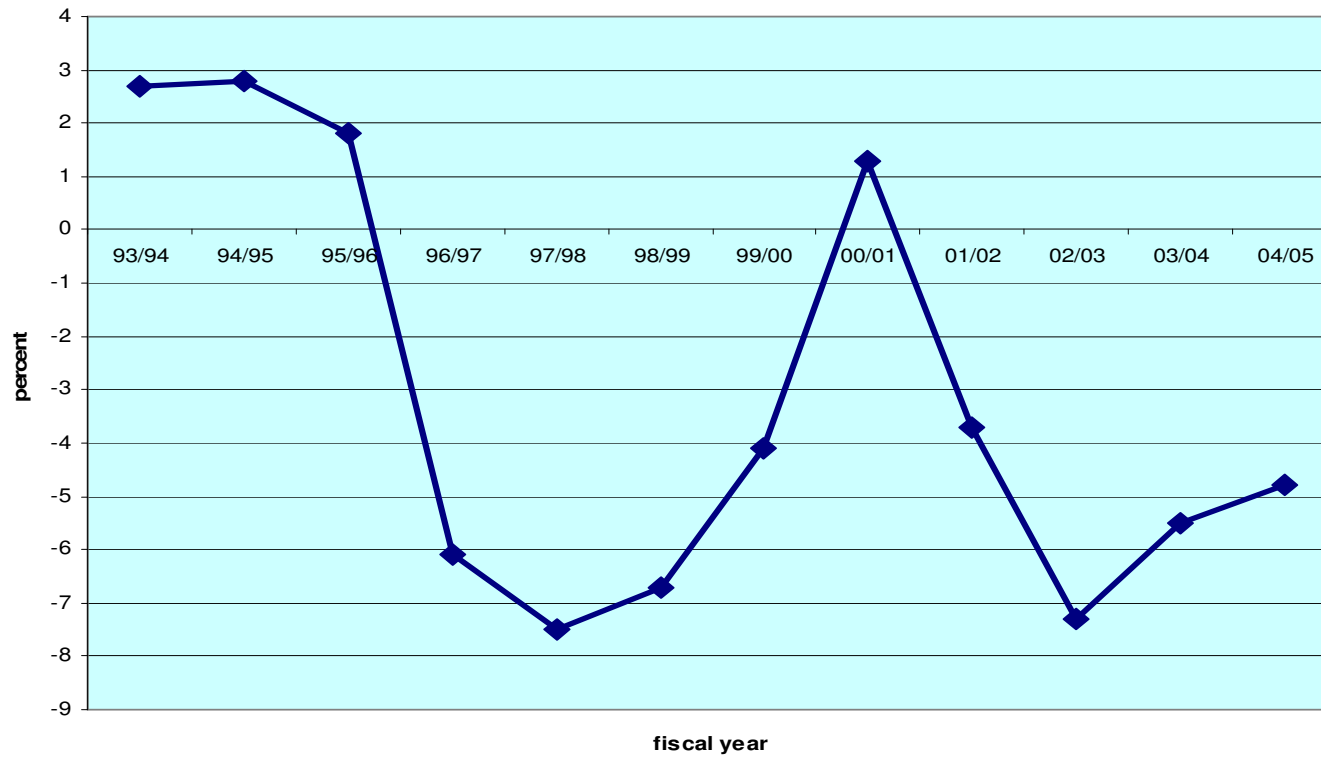


## Capital vs. Recurrent Expenditure 1993/94 –2004/05



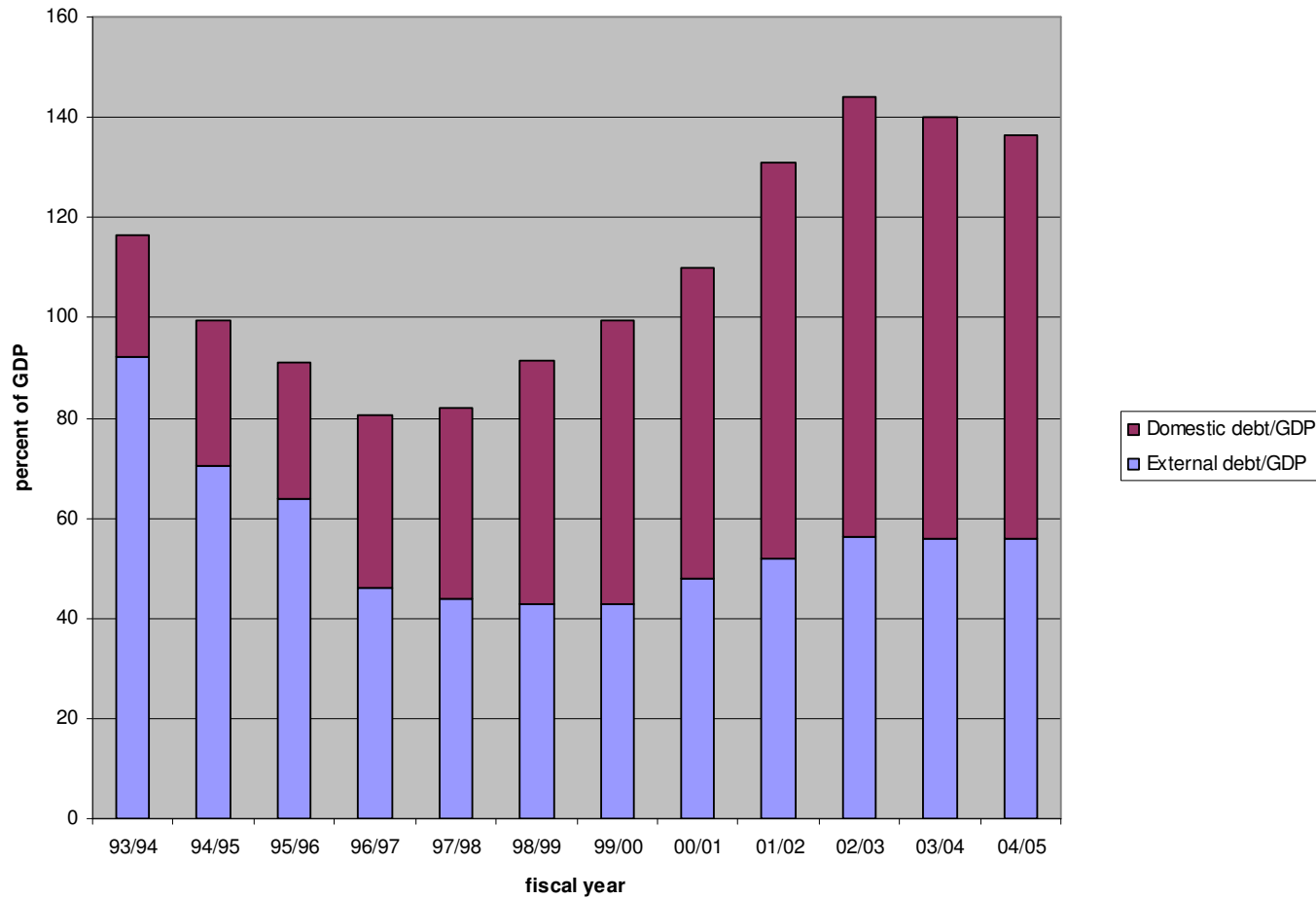
## Fiscal Balance 1993/94 – 2004/05

- Central Government Budget Balance



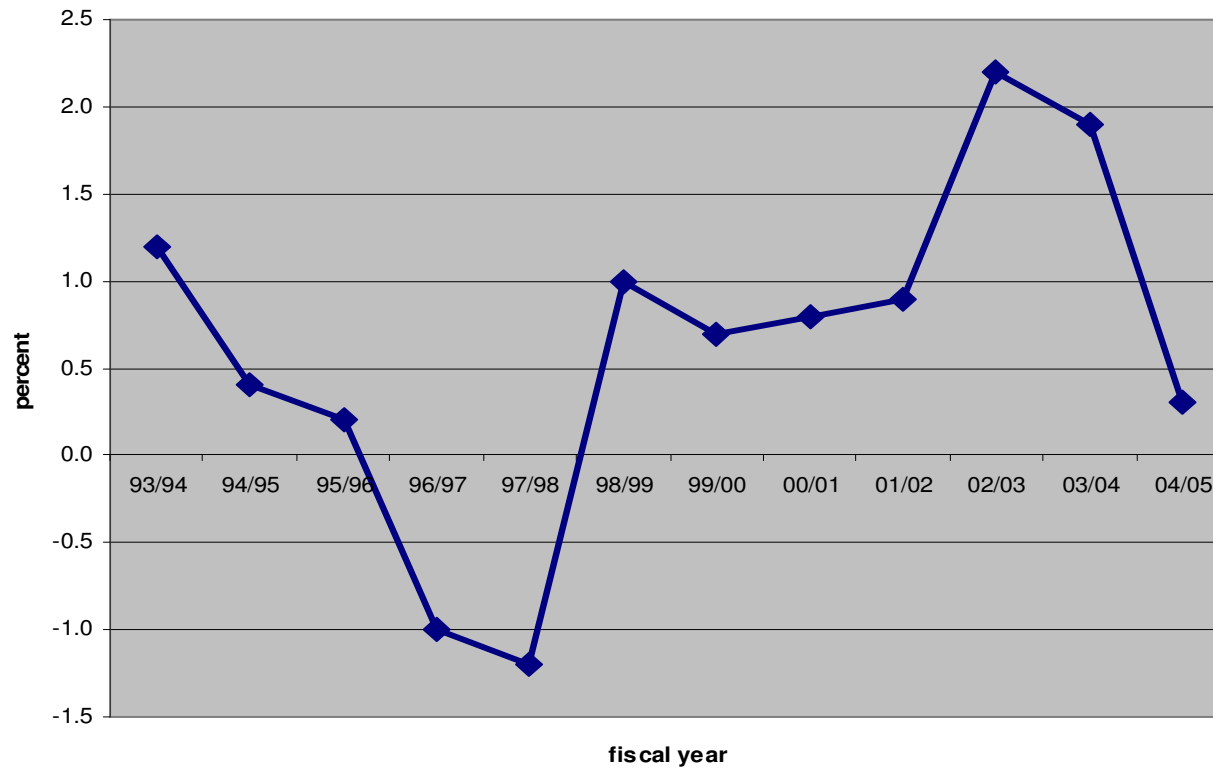


# Public Debt and Composition

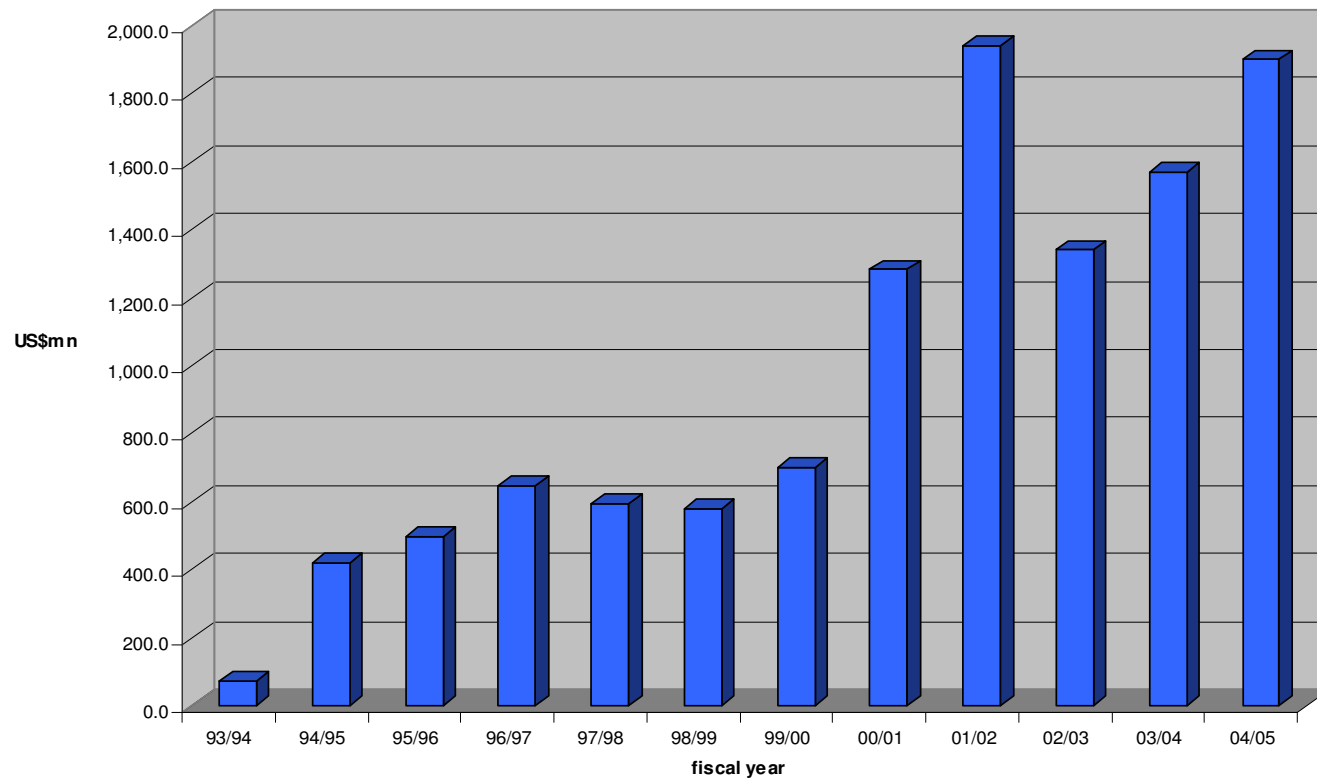


# Real GDP Growth 1993/94 – 2004//05

- Fiscal Year Real GDP Growth (%)



# Net International Reserves 1993/94 – 2004/05



# The Impact of the Global Financial Crisis

- Sharp decrease in forex inflows from mining, remittances, tourism, private capital inflows and direct foreign investment.
- Impact through financial system exposure leading central bank to pledge 15% of foreign reserves.
- Six quarters of negative growth to June 2009 with 30,00 job losses.
- Fiscal underperformance, debt rating warnings and downgrades

# Policy Response and the IMF

- A crisis recognition lag
- A policy reaction lag (supplementary estimates 08-09 and budget 09-10)
- Overoptimistic revenue and the missing medium term
- Weighing and choosing the IMF Financing “Option”
- The Road not taken; formal debt restructuring

# Prospects for Growth and Debt Sustainability

- Jamaica needs to adjust with or without the IMF but the IMF presents prospects for forex liquidity support and catalyst for other foreign financing.
- Jamaica needs to be in a position to service old and new debt so adjustment is inevitable.
- In adjusting, resources have to be reallocated to ensure economic buoyancy to service debt.
- Implications for restructured Government with fewer functions.

# Enhancing Economic Growth

- Waiting for green shoots in the North Atlantic
- Reallocating from recurrent (wages, interest and pensions) to capital expenditure
- Rebalancing revenue and recurrent expenditure to borrow for capital
- Tax reform (including incentive system) for revenue and supply side enhancement
- Alternative incentives: the efficiency of public bureaucracy, entrepreneurial education, social stability and public safety..

# Conclusion

- Jamaica faces the challenge of defining and undertaking growth friendly adjustment.
- The degrees of freedom for adjustment are severely limited.
- Jamaica is running out of time for adjustment.
- Expenditure and taxation reform can have significant social welfare costs that if not effectively managed, may yield negative social reaction.
- Reform will demand significant political courage, transparency and effective communication and a sense of equity in burden sharing.