JAMAICA OBSERVER

Jamaica suffering from most austere budget due to IMF agreement – US report

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KINGSTON, Jamaica – A new paper from the Center for Economic and Policy Research (CEPR) in the United States (US) finds that Jamaica is running the most austere budget in the world, with a primary surplus of 7.5 per cent, due to its four-year International Monetary Fund (IMF) agreement.

According to the report, which comes ahead of US President Barack Obama's trip to Jamaica today, the Government's interest payments on the debt and austerity have brought public investment to a low.

The remainder of a release from CEPR:

The paper, " Partners in Austerity: Jamaica, the United States and the International Monetary Fund" by Jake Johnston, notes that Jamaica has a debt-to-GDP ratio of nearly 140 per cent and its public interest burden is one of the very highest in the world, at over 8 per cent of GDP last year.

Coupled with the IMF-backed austerity, high interest payments have all but displaced needed capital spending, reducing government capital expenditure to a low of 1.6 per cent of GDP in FY 2014/15.

The paper notes that after three consecutive quarters of economic growth, GDP fell by 1.4 percent in the third quarter of 2014, and the Jamaican economy is smaller today than it was in 2008. With anemic growth and continued austerity, social indicators have drastically worsened, with the poverty rate doubling since 2007. Unemployment, at 14.2 percent, remains higher today than during the height of the global recession.

"When President Obama travels to Jamaica this week, he will be going as someone partly responsible for the high unemployment and poverty that the country is suffering through," Jake Johnston said. "This paper shows that through its leadership role in the IMF, the US is imposing unnecessary pain on Jamaica through harsh austerity and a debt trap."

Jamaica has suffered declining average living standards over the past 20 years, with GDP per capital actually falling by 0.3 percent annually over the past two decades.

Jamaica's 7.5 percent primary budget surplus dwarfs even the budget surpluses being demanded of crisis-hit countries such as Greece, which was expected to run a primary surplus of 3.0 percent of GDP this year and 4.5 percent for years thereafter – and even this is widely considered politically unsustainable.

The paper finds that Jamaica's high debt-to-GDP ratio comes even after two debt restructurings, both as preconditions to receiving IMF support. After multilateral loans were cut off in 2012 following the breakdown of Jamaica's previous IMF agreement, net flows from the multilateral banks turned negative for two consecutive years. Even after the signing of the new IMF agreement, Jamaica paid $138 million more to the IMF than it received last year, and Jamaica still owes the World Bank and Inter-American Development Bank over $650 million through 2018.

This paper concludes that multilateral debt relief for Jamaica would likely free up more resources than new loans. Finally, the paper finds that without hundreds of millions in financial support from Venezuela and investment from China, the impact of IMF-led austerity would likely be far worse, making the ongoing program politically untenable.

"Alternatives to IMF-imposed austerity are key if Jamaica is going to emerge from its debt trap and begin economic recovery," Johnston said. "Perhaps most important would be debt cancellation."