Jamaica: Financial Development, Access, and Inclusion: Constraints and Options

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Jamaica: Financial Development, Access, and Inclusion: Constraints and Options

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Abstract

Despite tremendous strides in recent years toward economic stabilization, debt reduction, and structural reform, financial sector development and access in Jamaica lag behind peers. Development-related indicators have remained stubbornly static over the past several decades, including with respect to poverty rates, income equality, economic informality, and the vibrancy of the private sector. In this context, a combination of economic and policy-related factors, as well as geographic, social, and demographic issues have all influenced the development of Jamaica's financial sector. Recent improvements in institutional capacity, policy discipline, and structural measures suggest that there is considerable scope to accelerate financial sector development and to broaden access and inclusion. This paper aims to review a number of metrics and indicators related to financial market development, highlight some country-specific challenges facing financial deepening and inclusion, and put forward recommendations regarding areas for reform. The government's first ever national financial inclusion strategy launched in 2016 is also discussed.

JEL Codes: G1, G21, H6, O1, E5, E6

Key Words: financial access, financial deepening, financial sector development, financial inclusion, banking sector competition, Jamaica

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A. Overview

Despite tremendous strides in recent years toward economic stabilization, fiscal responsibility, and debt reduction, financial sector development and access in Jamaica lags behind peers. Development-related indicators have remained stubbornly static over the past several decades, including with respect to poverty rates, unemployment, income equality, and regarding the vibrancy of the private sector. While many economic and non-economic factors are relevant to these outcomes, financial sector development, access, and inclusion are key issues with implications for the economy's potential for growth and transformation.

A combination of economic and policy-related factors, as well as geographic, social, and demographic issues have all influenced the development of Jamaica's financial sector. While performance on many related metrics for the country appears to lag that of peers in the region and beyond, recent improvements in institutional capacity, policy discipline, and structural reforms suggest that there is considerable scope to promote faster development and broader access to finance.

This paper reviews indicators related to financial market development, access, and inclusion in Jamaica, and provides a diagnostic of key impediments in related areas. It also considers some country-specific challenges that Jamaica faces with respect to financial deepening and inclusion, and reviews the government's first ever national financial inclusion strategy, launched in 2016. To this end, Section B introduces the concepts of financial development, access, and inclusion, as well as reasons why related issues are increasingly seen as crucial focal areas for development. Section C considers Jamaica's socio-economic circumstances and the history of macroeconomic and financial policies that have had implications for the development of Jamaica's financial sector. Sections D and E review the structure of Jamaica's financial sector, as well as various indicators of access and inclusion. Section F considers country-specific barriers to financial access and inclusion, linked to cross-country evidence regarding common challenges. Section G provides an overview of Jamaica's new national financial inclusion strategy, and the final section puts forward some observations and conclusions.

B. Introduction

Relatively recent research suggests strong positive linkages between financial sector depth, access to financial services, and economic development outcomes. For example, evidence presented in the World Bank's 2014 Global Financial Development Report found that financial inclusion (FI)—typically defined as the proportion of individuals and firms that use financial services[1]—is important for development and poverty reduction, and that the poor stand to benefit considerably from the use of basic payments, savings, and insurance services. Similarly, for firms, particularly small and newly established enterprises, access to financial services is associated with stronger innovation, job creation, and growth performance. Other research also

[1] Financial services can include any form of transaction, payment, savings, credit, and insurance.

finds a strong positive relationship between financial inclusion and income equality. In this context, FI-supporting policies are becoming increasingly recognized as key pillars of sound, effective, and comprehensive strategies aimed at accelerating inclusive economic development.

Financial inclusion also has been identified as a key enabler as it relates to achieving the United Nations (UN) Sustainable Development Goals (SDGs). Access to financial services for people and businesses is considered to be among the most important building blocks for achieving the 2030 SDGs, and related issues are featured as targets in 8 of the 17 goals (see Box 1).[2] These include SDG1 on eradicating poverty; SDG 2 on ending hunger, achieving food security, and promoting sustainable agriculture; SDG 3 on promoting health and well-being; SDG 5 on achieving gender equality and economic empowerment of women; SDG 8 on promoting economic growth and jobs; SDG 9 on supporting industry, innovation, and infrastructure; and SDG 10 on reducing inequality. Additionally, in SDG 17 on strengthening the means of implementation, there is an implicit role for greater financial inclusion through greater savings mobilization for investment and consumption that can spur growth.

Box 1. United Nations Sustainable Development Goals

The SDGs were developed to succeed the Millennium Development Goals (MDGs). There are 169 targets for the 17 goals. Each target has between one and three indicators used to measure progress toward reaching the targets. In total, there are 304 indicators that will measure compliance. The 17 SDGs are listed below, and those with a direct link to financial inclusion are highlighted (blue bold text). For a discussion of the specific targets related to each goal that link to financial inclusion, refer to the United Nations Sustainable Development Knowledge Platform.

Goal 1. End poverty in all its forms everywhere.
Goal 2. End hunger and achieve food security and improved nutrition and promote sustainable agriculture.
Goal 3. Ensure healthy lives and promote well-being for all at all ages.
Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
Goal 5. Achieve gender equality and empower all women and girls.
Goal 6. Ensure availability and sustainable management of water and sanitation for all.
Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all.
Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
Goal 10. Reduce inequality within and among countries.
Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable.
Goal 12. Ensure sustainable consumption and production patterns.
Goal 13. Take urgent action to combat climate change and its impacts.
Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development.
Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.
Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

[2] See the following for additional information: http://www.uncdf.org/financial-inclusion-and-the-sdgs

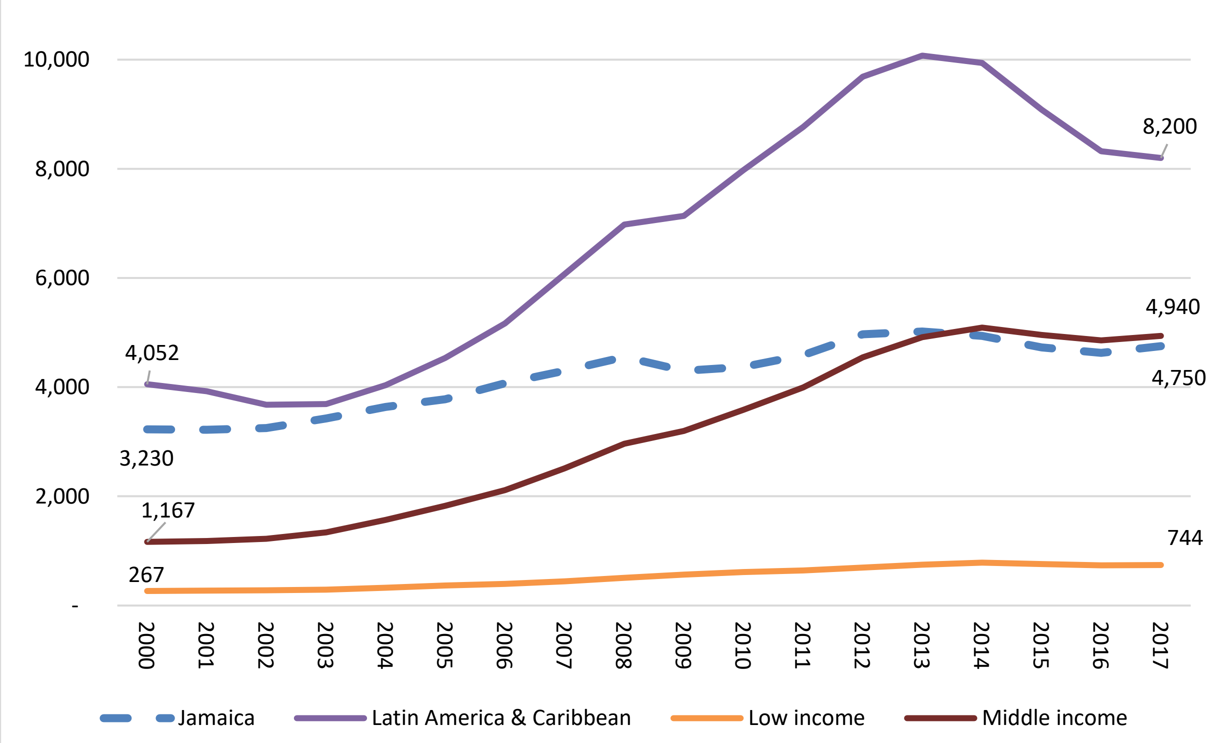
Goal 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Source: [UN Sustainable Development Knowledge Platform].

C. Economic and Social Context—Links to Financial Development

Jamaica is a small, open, middle-income economy, characterized by modest growth rates and high debt levels. Jamaica's history of development is beset by slow growth, crises, and only modest progress toward poverty reduction and development. For example, per capita income levels have increased by about 86 percent (nominal terms) from 2000 through 2017—from a gross national income (GNI) per capita of US$3,230 to about US$4,750 (Figure 1). However, over the same period, the average per capita income grew by nearly 450 percent for the Latin American and Caribbean region as a whole—from US$1,167 to US$4,940. Similarly, the increase in the average per capita income for middle-income countries was about 180 percent, and 156 percent for low-income countries.

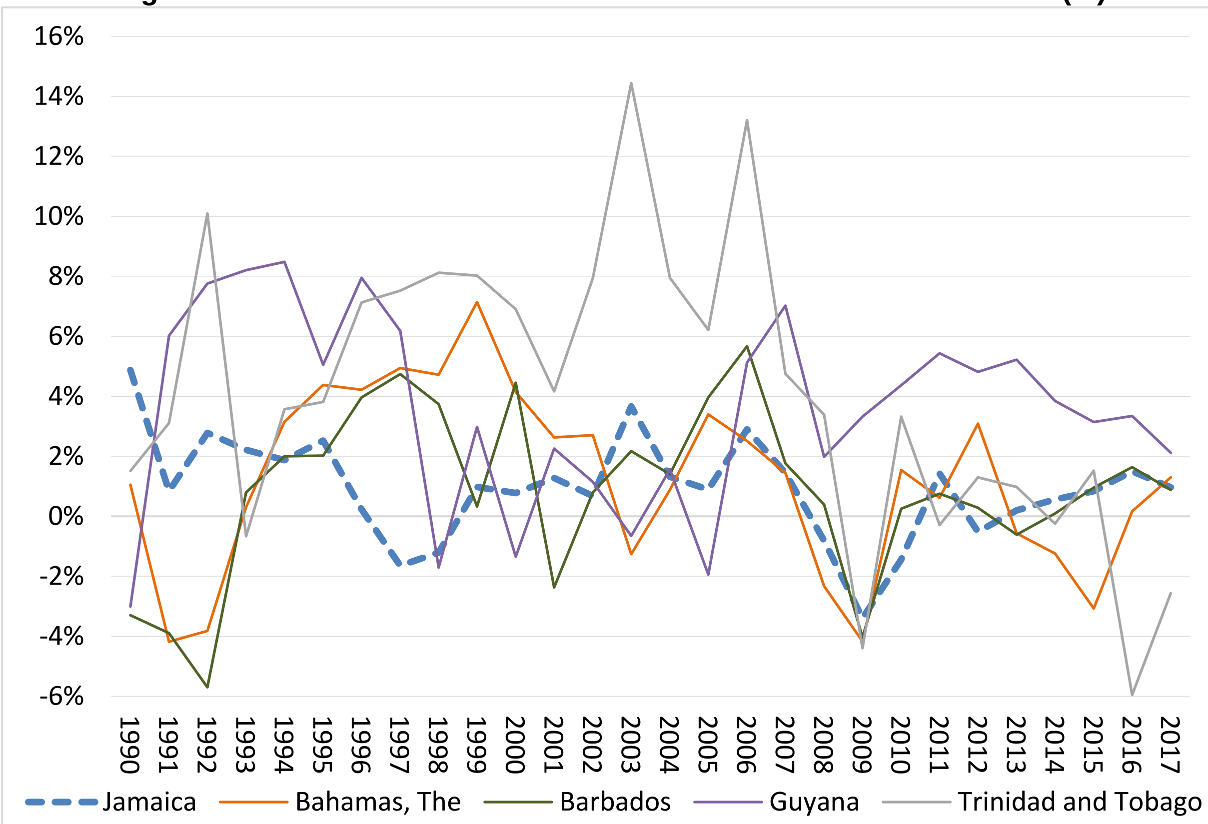
Figure 1. Per Capita Gross National Income (GNI)—Jamaica vs. Peer Groups
(Atlas method, current US$)



Source: World Bank WDI database.

Real output growth has been underwhelming, including when compared to the countries in the Caribbean region. Since 1990, Jamaica's average real GDP growth rate has been approximately 1 percent per year. This is well below the approximately 3 percent and 4 percent averages of other countries from the Inter-American Development Bank's Caribbean Country Department (Figure 2), and for Latin America and the Caribbean, respectively. Years of high deficits, public enterprise borrowing, financial sector crises, and bailouts resulted in rapid debt accumulation that has stifled growth and development.

Figure 2. Real GDP Growth in Jamaica and Selected Peer Countries (%)



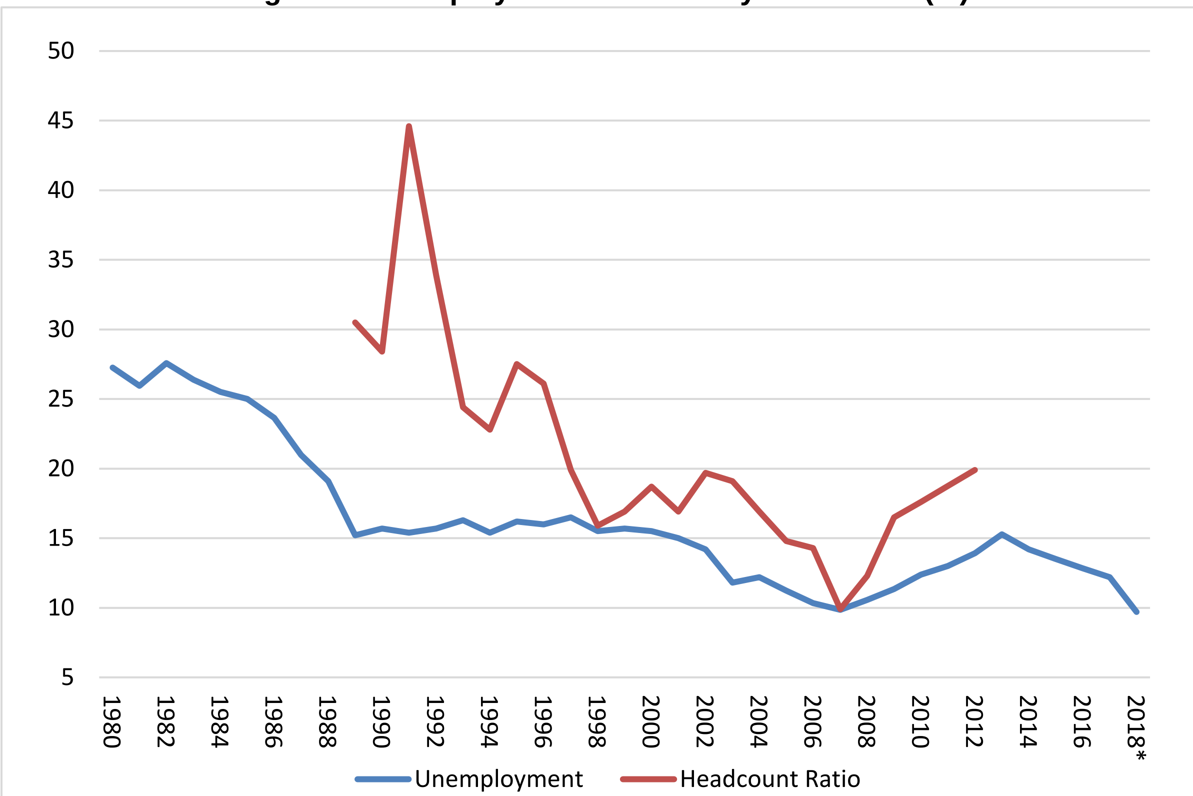
Source: World Bank WDI database.

Socio-economic indicators had been improving since the 1980s, but deteriorated considerably following the global financial crisis. Prior to the global economic and financial crisis, both the rate of unemployment and the poverty headcount ratio (i.e., the proportion of the population living below country-specific poverty lines[3]) had been decreasing steadily—both reaching then historic lows of about 10 percent in 2007. However, this trend reversed with the onset of the global economic crisis, which contributed to reductions in output, employment, and remittances from abroad. As a consequence, between 2007 and 2012, the rate of unemployment increased by about half and the incidence of poverty doubled (Figure 3). These increases were more pronounced in urban areas, where the poverty headcount ratio quadrupled from 5 to 19 between 2007 and 2012. While the economic stabilization and a return to positive output growth supported by the initiation of IMF-led adjustment programs since 2013 has helped reduce the

[3] Headcount ratio data are compiled from official government sources or are computed using national (i.e., country–specific) poverty lines.

rate of unemployment, poverty has remained stubbornly high, as indicated by a headcount ratio of over 20 percent in 2015 (latest available data).

Figure 3. Unemployment and Poverty Headcount (%)



Note: (*) Latest data from Jamaican Statistical Institute for end-March 2018.
Source: IMF World Economic Outlook (WEO, April 2018), World Bank WDI, and Jamaican Statistical Institute databases.

Financial sector underdevelopment and a lack of access to credit have long been considered major impediments to poverty reduction and growth in Jamaica. Slow progress with poverty reduction, economic growth, and development in Jamaica can be linked to a number of factors—far too many to discuss comprehensively in this paper. Certainly, the country's relatively small size, narrow economic base, and susceptibility to external shocks and natural disasters have been important drivers. In particular, Jamaica's location and geographic features make it one of the most vulnerable countries in the world in terms of susceptibility to natural disasters. Its high concentration of economic activity in the tourism and related services sectors have amplified this vulnerability. For example, the damage from 1988's Hurricane Gilbert is estimated to have been on the order of one quarter of GDP (see Box 2).

Box 2. Jamaica's Vulnerability to Natural Disasters

Jamaica is highly exposed to natural hazards of varying intensity and severity, including hurricanes, earthquakes, droughts, floods, and landslides. Jamaica ranks 19th in the world in terms of exposure to natural hazards. Between 1988 and 2012, 11 named storms made landfall in Jamaica, causing significant physical and financial damages. The assessed damage of US$1 billion from Hurricane Gilbert, which passed directly over the island as a Category 3 hurricane in 1988, represented 26 percent of GDP. From 2004 to 2010, there were five severe hurricanes and storms that caused damages above US$200 million each, representing losses ranging from 1.9 to 5.7 percent of GDP in the corresponding year. Those include Ivan in 2004, with assessed damages and losses worth US$580 million, and Dean in 2007 for US$329 million.

Jamaica's exposure to climate hazards is mainly due to its location within the North Atlantic Basin. Tropical storms are the most significant hazard in terms of influence area and severity level. In addition, although to a lesser extent, the country is highly exposed and vulnerable to earthquakes given its tectonic setting, dense population demographics, and socio-economic factors. This exposure to natural hazards affects some of the primary drivers of the economy (tourism and agriculture). Jamaica's infrastructure and tourism sectors have historically accounted for 73 percent of damages and loss from natural disasters since 2000. The adverse impacts of hurricanes have also affected natural resources, including the decline in the health of coral reefs, loss of seagrass beds, severe beach erosion, and loss of forested areas. In addition, the country has experienced loss of life and property, periodic isolation of communities, and disruptions to the school system and health services.

Source: IDB (2018).

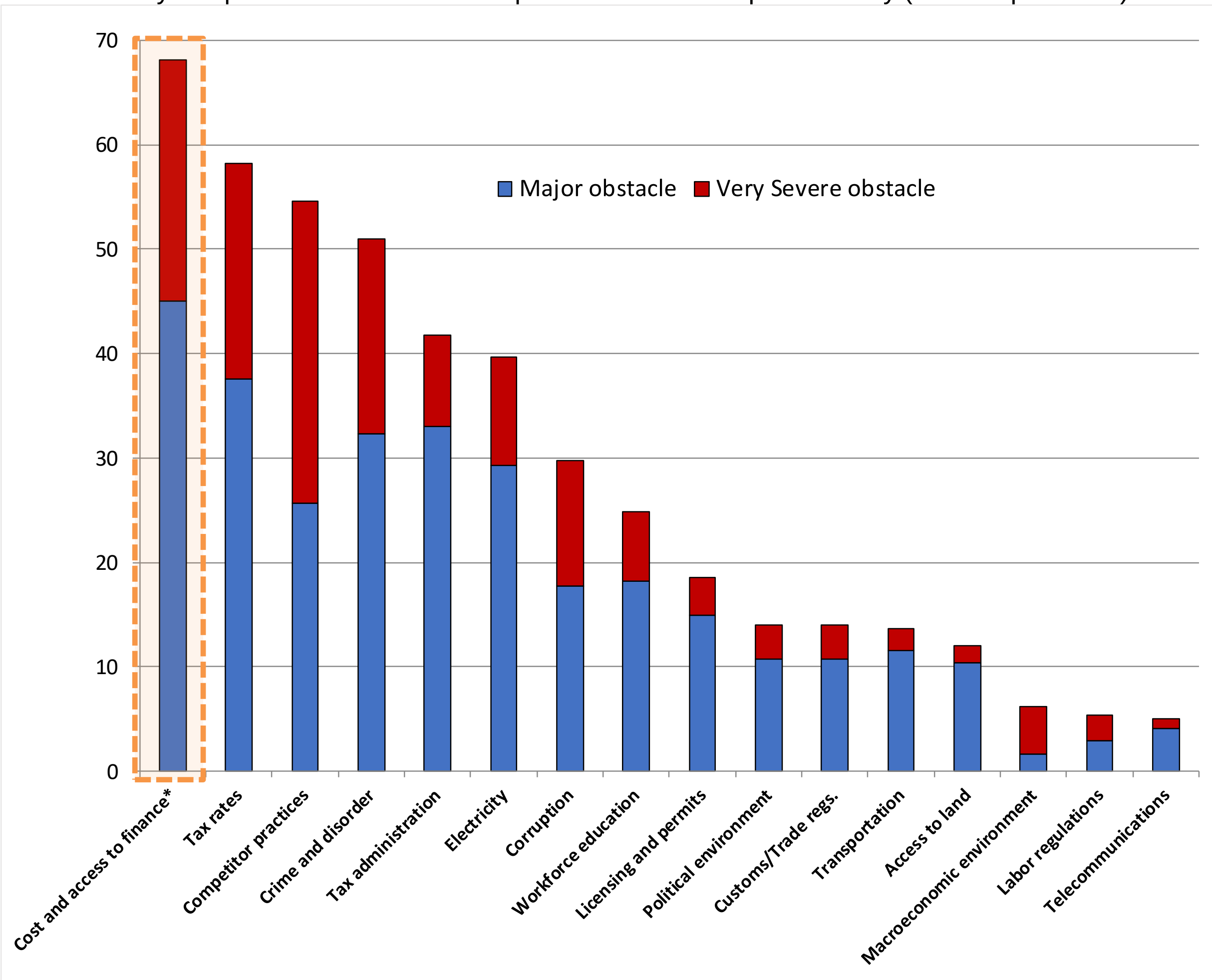
The lack of financial development and access has also been identified as a key impediment to growth, development, and poverty reduction by studies and surveys (including enterprise surveys) conducted across many countries on every continent. Jamaica is no exception. In this context, both the lack of access to financing and the costs of credit have been identified as among the most important barriers to private sector growth and development by businesses themselves. For example, firms responding to the 2014 PROTEqIN Caribbean enterprise survey[4] ranked access to finance and the costs of finance (when the two survey questions are aggregated) as the most significant constraint, in aggregate, on firm-level productivity and performance (Figure 4). Other significant constraints identified by the PROTEqIN survey include tax rates and administration, competitor business practices, crime and disorder, electricity, and

[4] PROTEqIN is a Caribbean enterprise and indicator survey, first undertaken as part of the World Bank's 2010 Latin American and Caribbean Enterprise Surveys (LACES). It was last updated in 2014. The methodology was designed to attain two key objectives: 1) benchmarking economies' business and investment climates across the world; and 2) assessing effects of conditions and changes in business environment constraints on firm-level productivity and performance. The sample size for Jamaica included 242 firms for which data was collected. The project was sponsored by Compete Caribbean, which is funded by the Inter-American Development Bank (IDB), the UK's Department for International Development (DFID) and the Government of Canada.

corruption. A number of other related survey-based assessments of obstacles to private sector growth and development find similar results.[5]

Figure 4. Constraints on Firm Productivity and Performance in Jamaica

Survey Responses to 2014 PROTEqIN Caribbean Enterprise Survey (% of respondents)



Note: (*) Individual (i) cost and (ii) access to finance indicators were aggregated to produce result graphed above.

Source: Based on data from 2014 PROTEqIN survey previously complied for Schmid (2017).

Addressing impediments to financial access is imperative if Jamaica is to create conditions for faster and more inclusive development. Any robust and effective development strategy must identify the binding constraints and focus on addressing the most burdensome obstacles to progress in a sequential manner. That said, some challenges are easier to address than others, inasmuch as they are more directly linked to policy levers within the control of the government or other actors operating in the economy. In Jamaica's case, the above-referenced diagnostic

[5] For example, the IMF reported similar results based on World Bank WDI and Doing Business data, with financial access and costs ranked as the second most severe obstacle to private sector development, after crime, and ahead of taxes, electricity, and informality (for details, see: IMF, 2016a).

identifies crime as—by far—the most important impediment to progress, a finding supported by other research.[6] Unfortunately, challenges related to crime and citizen security, economic informality, and the costs of energy are among the most difficult issues to address. Any attempts to do so would require long horizons, considerable investment, and actions across a broad range of policy areas, with generally uncertain results. Considering ways to accelerate financial sector development and encourage access to finance for a broader proportion of the population may represent a more tractable and practically achievable area of focus, with the potential for considerable impact on near-term development outcomes. As outlined in Figure 5, many countries at considerably lower levels of income and development have made tremendous strides in this area in the recent past—particularly Sub-Saharan Africa.

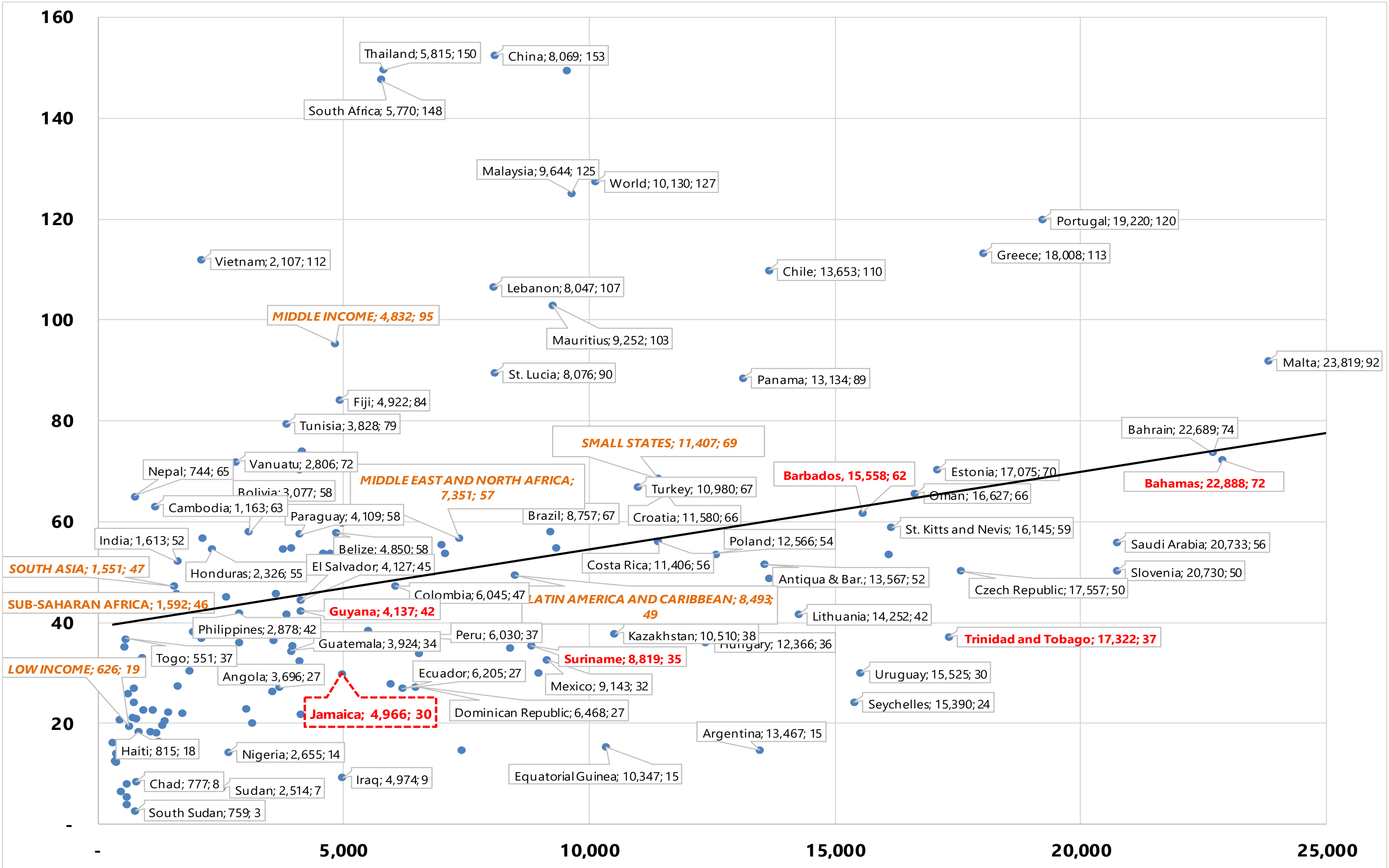
D. Jamaica's Domestic Credit Markets—A Diagnostic

Jamaica's financial sector is shallow relative to peers in the region at similar income levels, as well as compared with many countries at lower incomes. While any assessment of financial sector development will depend on the selected metric, Jamaica's ratio of domestic private credit[7] to GDP of 30 percent in 2015[8] (estimated at 32 in 2016)—a common indicator of financial sector depth[9]—was well below the average for middle-income countries[10] (94 percent), the average for all Latin-American and Caribbean (LAC) countries (49 percent), and a number of comparable countries in the region and beyond (see Figure 5). The private credit market is also considerably shallower than the average for Sub-Saharan African countries (46 percent), a region where successful policy efforts and progress toward increasing financial access have been observed in recent years.

[6] For additional discussion, see Sutton, et al. (2016).
[7] Private credit includes funds provided to the private sector by financial corporations—e.g., loans, purchases of non-equity securities, trade credit, and other accounts receivable establishing a claim.
[8] At the time of publication, 2015 was the latest data point available for Jamaica included in a comparable cross-country dataset—from the World bank data portal, based on IMF International Financial Statistics and data files, and World Bank and OECD GDP estimates.
[9] See IMF, "Financial Sector Assessment—A Handbook", for a discussion of related measures.
[10] Income groups are defined as per the World Bank's definition, with middle-income countries defined as those with a 2015 GNI per capita between $1,026 and $12,475, and low-income countries as those with a GNI per capita below $1,026 in the same year.

Figure 5. Financial Sector Depth vs. Economic Development

Domestic Private Credit (%GDP) vs. Per Capita Income (current US$) in 2015



Legend: First entry in text boxes corresponds to 2015 per capita GDP (current US$) and the second to domestic credit to private sector (% GDP).

Note: Sample limited to countries/groups with GDP per capita of less than US$25,000. Trend line is a linear regression but also includes regional averages.

Source: World Bank WDI and IMF WEO databases, and author calculations.

Compared to other Latin American and Caribbean countries, Jamaica ranks near the bottom for financial depth, behind only the Dominican Republic, Ecuador, Haiti, and Argentina.[11] As highlighted in Table 1, some other Caribbean countries actually display among the deepest private capital markets in the LAC region, particularly the Bahamas and Barbados, with domestic private credit-to-GDP ratios of 72 percent and 62 percent, respectively. Trinidad and Tobago and Guyana were in about the middle of the range, with domestic private credit ratios of 37 percent and 42 percent, respectively.

[11] This list excludes Cuba, for which comparable data were not available, as well as several other countries with deeper financial markets.

Table 1. Economic and Financial Sector Development in the LAC Region
Per Capita GDP (current US$) and Domestic Credit to the Private Sector (%GDP)

Country / Country Group	2015 GDP per capita (current US$)	2015 Domestic credit to private sector (%GDP)
NORTH AMERICA	*54,918*	*189.1*
EAST ASIA AND PACIFIC	*9,541*	*149.5*
HIGH INCOME	*40,078*	*146.6*
EUROPEAN UNION	*32,048*	*97.9*
MIDDLE INCOME	*4,832*	*95.4*
St. Lucia	8,076	89.6
Bahamas, The	22,888	72.3
PACIFIC ISLAND SMALL STATES	*3,636*	*69.9*
SMALL STATES	*11,407*	*68.6*
Brazil	8,757	66.8
Barbados	15,558	61.7
St. Kitts and Nevis	16,145	58.8
Grenada	9,212	58.1
Bolivia	3,077	58.1
Belize	4,850	57.8
Paraguay	4,109	57.5
MIDDLE EAST & NORTH AFRICA	*7,351*	*56.7*
Honduras	2,326	54.6
Dominica	7,070	53.6
St. Vincent and the Grenadines	6,740	52.7
Antigua and Barbuda	13,567	51.6
LATIN AMERICA & CARIBBEAN	*8,493*	*49.3*
SOUTH ASIA	*1,551*	*47.3*
Colombia	6,045	47.2
SUB-SAHARAN AFRICA	*1,592*	*45.7*
El Salvador	4,127	44.5
Guyana	4,137	42.3
Peru	6,030	37.4
Trinidad and Tobago	17,322	37.1
Nicaragua	2,096	36.9
Suriname	8,819	35.4
Guatemala	3,924	34.4
Mexico	9,143	32.5
Jamaica	**4,966**	**29.9**
Dominican Republic	6,468	27.1
Ecuador	6,205	27.0
LOW INCOME	*626*	*19.3*
Haiti	815	18.4
Argentina	13,467	14.7

Note: Sample limited to countries from LAC and both income and regional aggregates (in green and blue fonts, respectively). Caribbean countries listed in red font.
Source: World Bank WDI and IMF WEO databases, and author calculations.

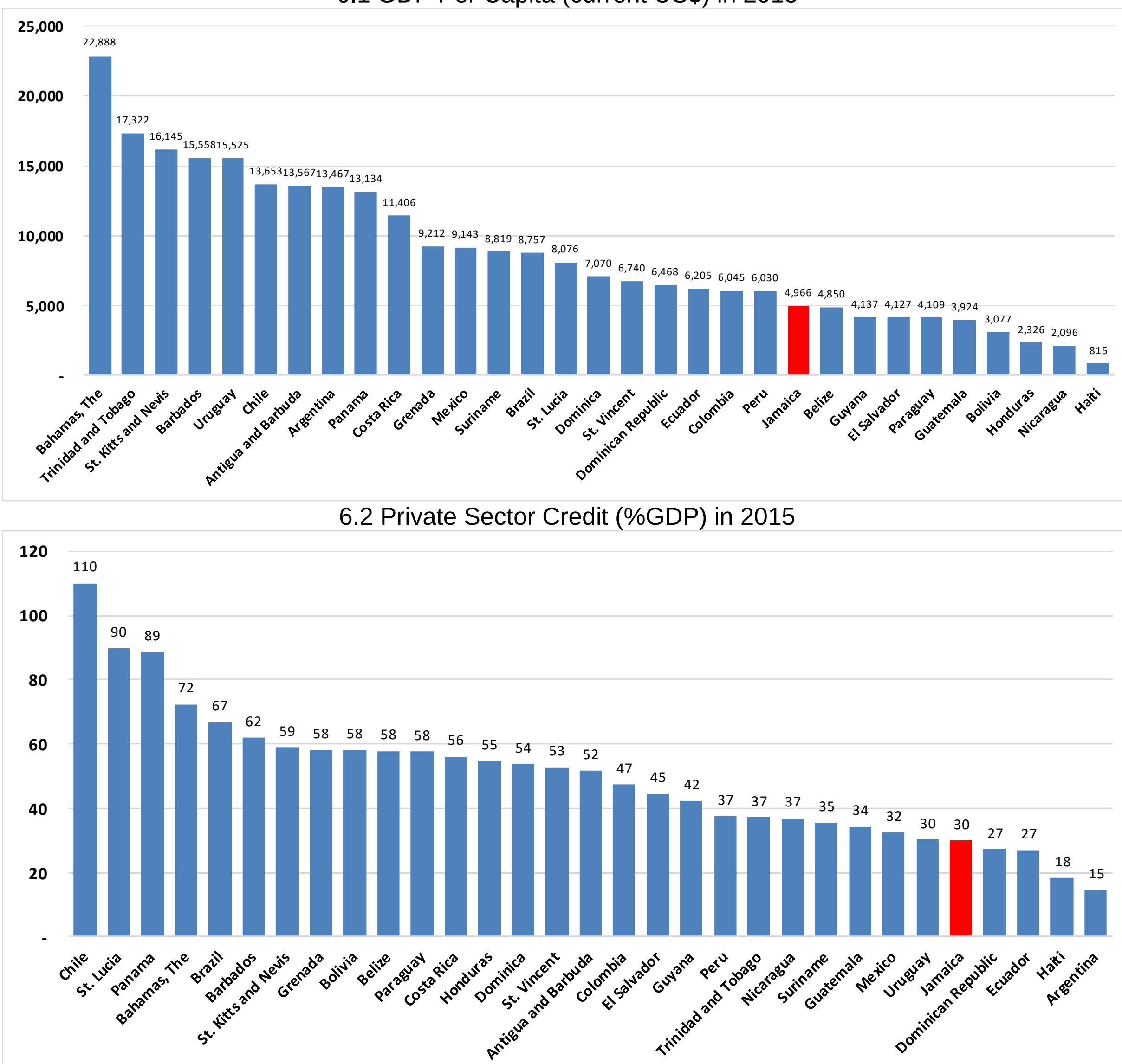
Jamaica performs relatively poorly in terms of financial sector development and depth compared to other countries in the region, including those at lower income levels. The level of income is unquestionably a factor influencing this outcome. Jamaica's per capital GDP ($4,966 in 2015)[12], ranked in the bottom third of LAC economies—about half of the regional average—, at 22nd out

[12] Data for 2015 used as it is allows for the broadest possible cross-country comparison. More recent data would not materially change rankings across countries.

of 31 countries for which comparable data were available (Figure 6.1). However, it ranked relatively lower in terms of terms of domestic private credit to GDP (~30 percent), at 27th out of 31 countries in the region, below some countries with much lower per capita income levels, including Bolivia (per capita GDP of $3,077 / private credit equal to 58 percent of GDP) and Honduras ($2,326 / 55 percent)--see Figure 6.2.

Figure 6. Financial Development in Latin America and the Caribbean

6.1 GDP Per Capita (current US$) in 2015

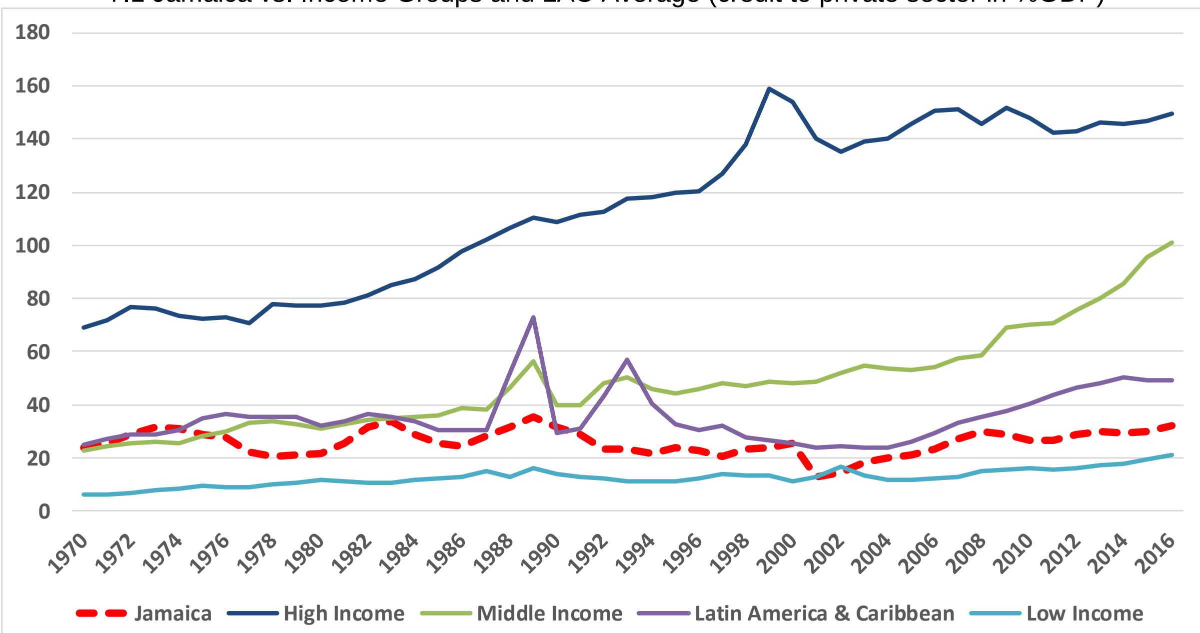


Source: World Bank WDI and IMF WEO databases and author calculations.

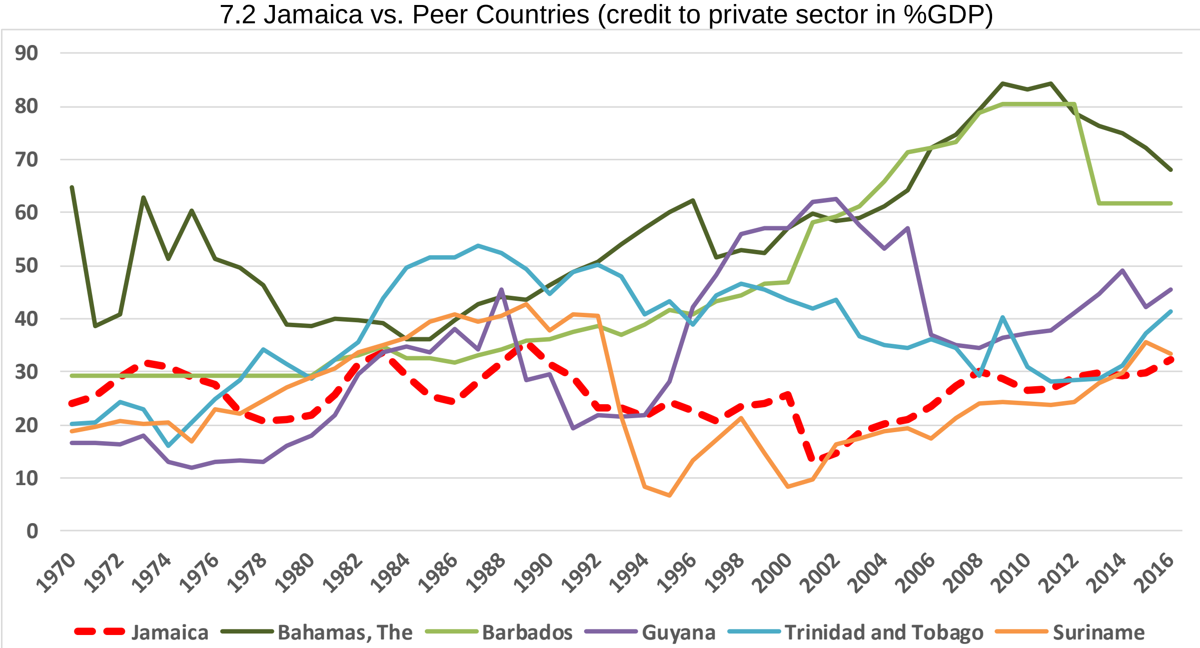
Like other countries in the Caribbean region, financial deepening in Jamaica has been slow since the 1970s, in part owing to policy inconsistency driving poor performance, external shocks, and financial crises. The pace of financial deepening has been slow in Jamaica, with private credit-to-GDP ratios accelerating by an average of only 0.25 percent of GDP per year between 1970 and 2015 (see Figure 7.1). In comparison, the average for other middle-income countries (in the aggregate) has increased from the same level in 1970 (about 22 percentage points of GDP) by a factor of four through 2015, reaching 95 percent of GDP in 2015. Jamaica also compares poorly to regional peers, with the poorest showing on this measure in 2015 (Figure 7.2).

Figure 7. Financial Deepening Since 1970

7.1 Jamaica vs. Income Groups and LAC Average (credit to private sector in %GDP)



7.2 Jamaica vs. Peer Countries (credit to private sector in %GDP)

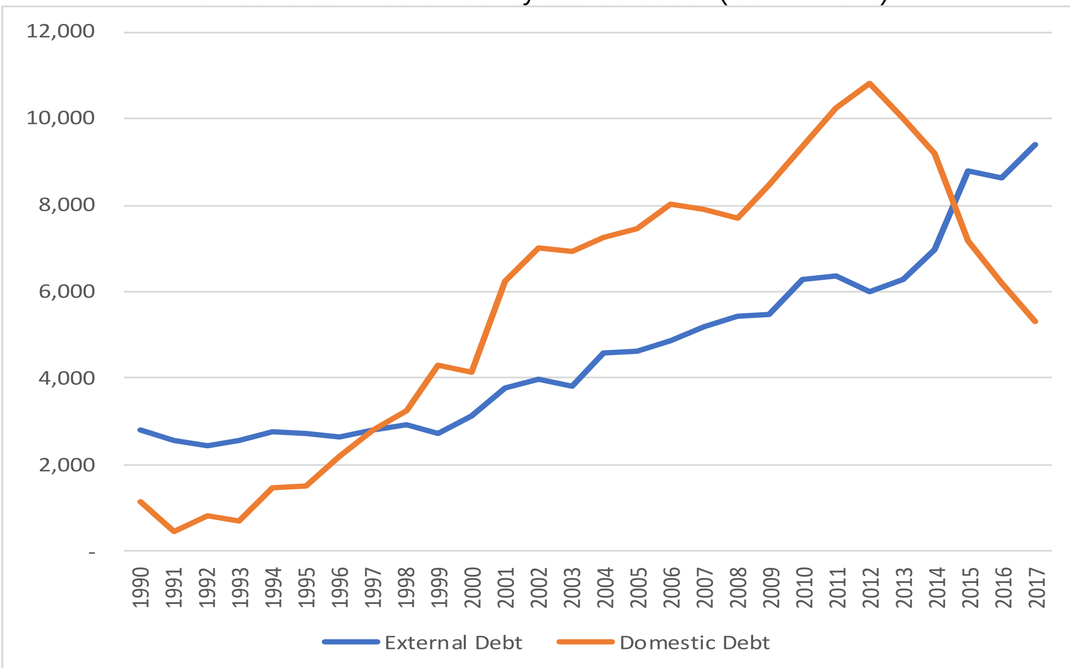


Source: World Bank WDI and IMF WEO databases and author calculations.

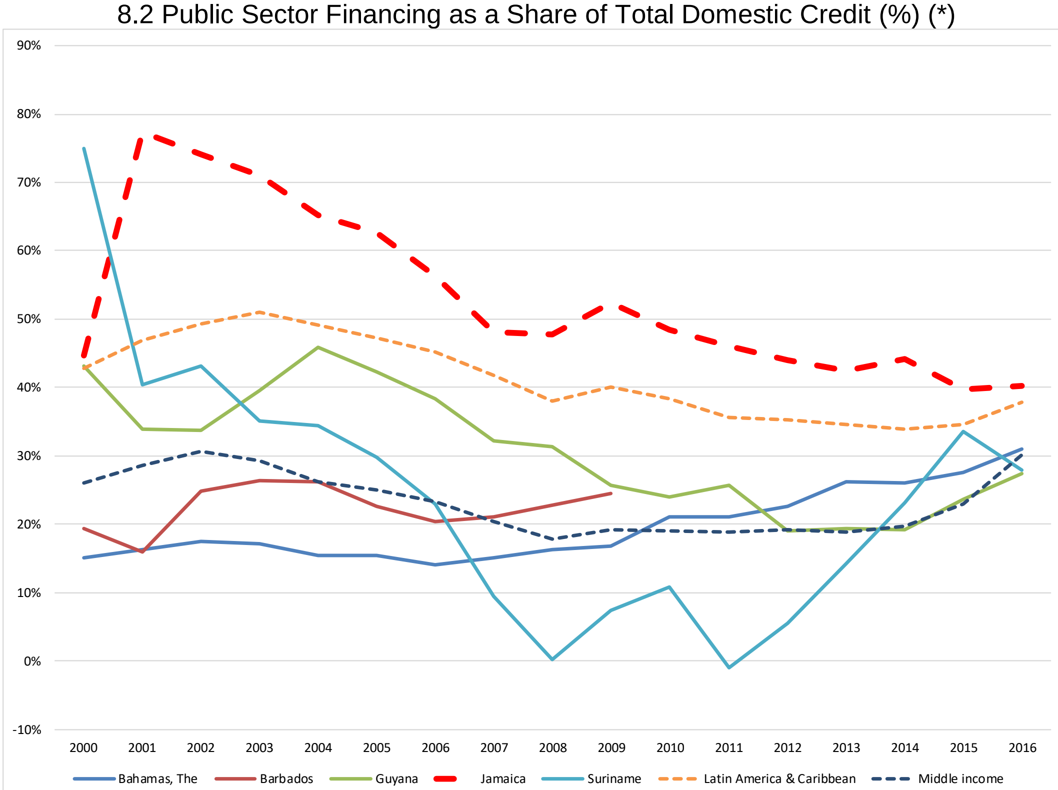
From a policy perspective, high debt levels and substantial government borrowing are key factors that have constrained private credit and financial development. Fiscal indiscipline, high public debt, and resulting difficulties in maintaining continuous access to external credit markets forced the Jamaican government to rely on domestic financial markets—particularly the banking system—to meet a large proportion of its funding needs (Figure 8.1). Given the limited size of the domestic credit market, this heavy reliance has crowded out private financing, as banks and other lenders allocated most of their lending capacity to the government rather than businesses and individuals (Figure 8.2). Of the Caribbean countries assessed, Jamaica displayed the highest average share of domestic financing to the public sector from 2000 to 2016 (53 percent). This was also much higher than the average for other countries in the LAC region (41 percent), and middle-income economies (23 percent). From 2001 to 2006, government crowding out reached as high as 77 percent, and averaged over 70 percent between 2001 and 2005. Put another way, there have been periods during which as little as one-fifth of domestic credit capacity has been available to the private sector for borrowing and investment.

Figure 8. Public Borrowing and Domestic Private Credit

8.1 Jamaica—Public Debt by Source Sector (USD millions)



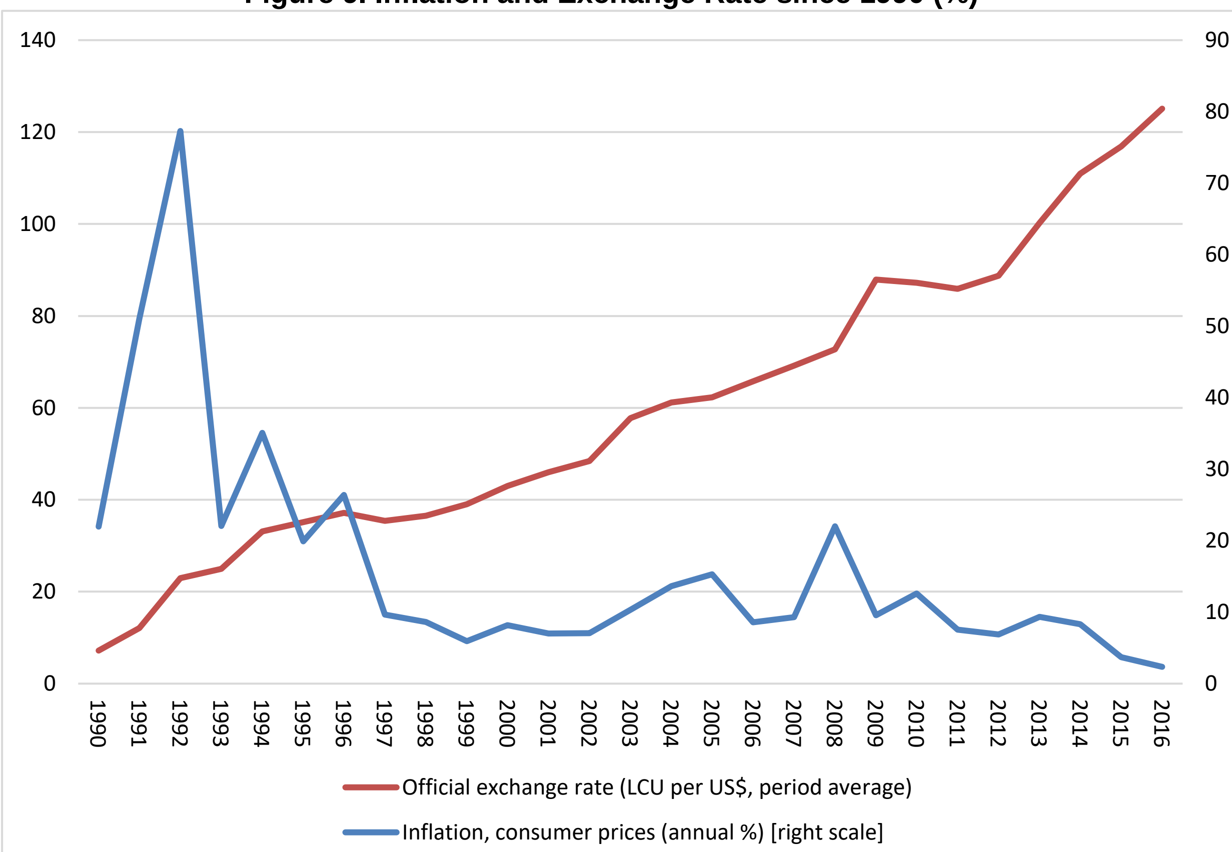
8.2 Public Sector Financing as a Share of Total Domestic Credit (%) (*)



Note: (*) Calculated as the percentage of total domestic financing absorbed by the public sector. Trinidad and Tobago not included as the government was a large net re-payer of private credit during the period, resulting in negative values. Comparable data for Barbados not available from 2009-2016. Source: World Bank WDI & IMF WEO databases, and author calculations.

Policy indiscipline has also resulted in high inflation, currency depreciation, and interest rate volatility, distorting incentives to save, consume, and invest. The long history of fiscal indiscipline has driven losses for investors in real terms. This contributed to high and volatile rates of inflation as well as high domestic interest rates. For example, inflation (as measured by the change in the annual average consumer price index) averaged over 16 percent per year from 1990 to 2016, with a standard deviation of 16 percent, and a single year peak of nearly 80 percent in 1992 (Figure 9). This drove large positive inflation differentials with key trade partner currencies such as the US dollar, contributing to depreciation pressures. In this context, the Jamaican dollar depreciated by an average of 14 percent per year against the US dollar from 1990 to 2016, and by as much as 90 percent in a single year. Taken together, these factors have created considerable uncertainty in terms of investment, and distorted incentives to save in domestic currency and regarding consumption, leading to considerable dollarization of deposits and assets. In this context, more than 45 percent of deposits were denominated in US dollars in 2016, making Jamaica's level of deposit dollarization among the highest in the region.[13]

Figure 9. Inflation and Exchange Rate since 1990 (%)

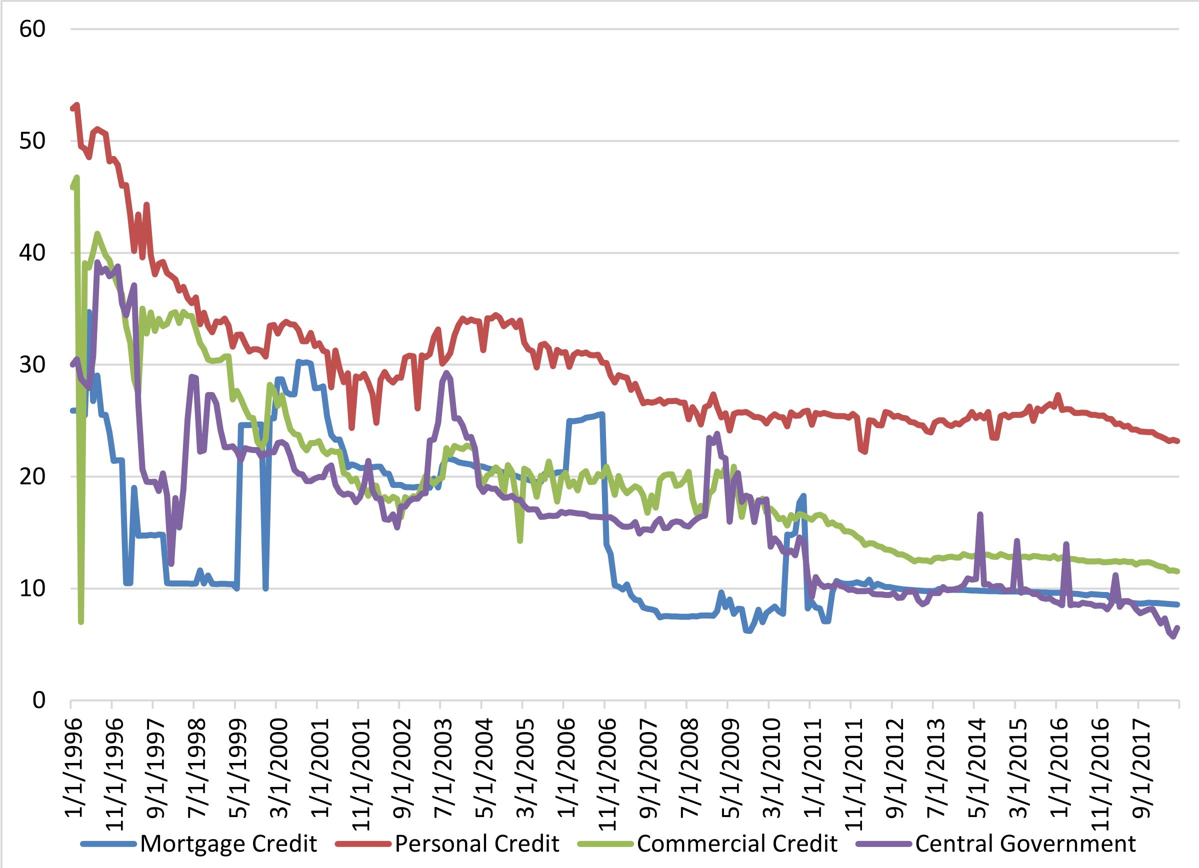


Source: World Bank WDI database and author's calculations.

[13] IMF 2016(b)—see Box 4 (p. 20) for more information.

Domestic interest rates also displayed considerable volatility over the period, further distorting household and business investment decisions. As highlighted in Figure 10, volatile inflation and exchange rates were reflected in local interest rate movements, with the cost of credit to the government, households, individuals, and businesses displaying extreme variability. From the mid-1990s to 2017, the interest rates on personal and commercial credit were as high as 53 percent and 46 percent, respectively.

Figure 10. Domestic Interest Rates (%)



Source: Bank of Jamaica.

Unsustainable debt burdens also precipitated domestic debt restructurings that imposed losses on investors, adversely affecting market development. While high inflation and currency depreciation have both involved costs for investors in real adjusted terms, domestic public debt restructurings have caused more direct nominal losses. Following the initiation of an IMF-supported program under the Extended Financing Facility in 2013, the government launched a par-on-par exchange of government domestic debt securities called the National Debt Exchange (NDX). While the face value of the securities was preserved, interest rates on fixed-rate debt and adjustment margins on variable rate debt were reduced by between 1 and 5 percentage points. The goal of the exchange was to generate interest savings equivalent to 8.5 percent of GDP by 2020. In addition, maturities were extended to reduce refinancing risks. This debt exchange was the second such operation in three years, as the government had previously initiated the Jamaica Debt Exchange (JDX), as part of a package of reforms that accompanied the 2010 Stand-By Arrangement with the IMF. Like the NDX, the JDX did not modify the face value of securities to be exchanged, but did imply losses for the domestic investor base via reductions in interest rates and a concessional rescheduling of maturities.

Looking forward, these policy-driven impediments to financial sector development have abated in recent years, and there is reason for optimism. After an extended period of stagnation, the growth outlook is beginning to improve, leading to lower unemployment and improving private sector confidence. Stabilization efforts are taking root, leading to improving output performance, prospects, and confidence, despite recent shocks to the agricultural sector. Along these lines, business and consumer confidence (survey based) are at all-time highs, and foreign investment in key export-oriented sectors is accelerating (IMF, 2018).

Fiscal consolidation has been the cornerstone of the government's medium-term policy platform, supported by the efforts of international development partners. Success in reducing public debt to its lowest level in two decades by maintaining large primary fiscal surpluses has helped reduce inflationary pressures and support internal balance—i.e., higher employment in the context of low inflation. This, along with the central bank's recent shift from a mixed policy mandate—that has in the past included, inter alia, output, employment, and implicit exchange rate objectives—to an inflation-targeting regime, has helped to moderate inflation and expectations, despite increases in consumption taxes.

The shift to inflation targeting will increase the transparency, independence, and prudence of monetary and exchange rate policies, and will support conditions conducive to private credit growth and financial development. As the foundation of the Bank of Jamaica's (BOJ) new inflation-targeting regime, the Ministry of Finance and Public Service approved a continuous medium-term inflation target for the first time in September 2017—initially set at between 4 and 6 percent—, as well as the BOJ's first pre-announced calendar of monetary policy decisions (for 12 months, to be updated semi-annually) in February 2018.[14] The BOJ's new focus on price stability will free it from continuous objectives regarding the exchange rate beyond smoothing transitory external shocks. This will allow the exchange rate to act more freely as a shock absorber in the face of evolving external demand conditions, helping to support the economy's competitiveness while bolstering confidence as reserve buffers deepen. This also reflects a major step toward more effective and efficient policymaking.

Inflation targeting will also help insulate the BOJ from undue pressures or influence from the government regarding financing or other conflicting policy objectives, and allow fiscal and monetary policies to operate in a more effective manner, including by facilitating countercyclical measures when required. While still early days of inflation targeting, the new framework should usher in a new era of lower and more stable interest rates, inflation, with additional constraints

[14] See: Bank of Jamaica, "Bank of Jamaica's Medium-Term Inflation Target", Press Release, 27 November 2017.

on the BOJ's ability to finance the government. These and related reforms should provide positive incentives for financial deepening and a de-dollarization of the deposit base.

In summary, while many factors have limited financial market development in Jamaica, policy imprudence and inconsistency are among the most significant drivers. Jamaica's private domestic credit market is a fraction of the size of the average middle-income country, and it trails both LAC regional peers and most of its Caribbean contemporaries. The sector has remained stagnant for decades, and this lack of progress is largely attributable to policy indiscipline, leading to overborrowing, inappropriate monetary policies, high and volatile inflation and interest rates, and long-term exchange rate depreciation—all issues that have imposed uncertainty and real losses on domestic investors. The significant share of domestic credit allocated to the government has also choked off private lending and exposed creditors to severe losses, as public insolvency has required debt restructurings.

While more remains to be done to stabilize the economy and ensure long-term fiscal sustainability, recent strides in this direction are encouraging. Success to date under IMF-supported programs in reducing debt burdens and domestic financing needs have set the stage for renewed domestic investor confidence, as well as private sector expansion. Surveys of business sentiment suggest that conditions are ripe for domestic market development. These developments suggest that policy prudence and predictability—a necessary condition for market development—is now within reach. However, as the size and depth of credit markets are largely a reflection of the supply side of the equation, progress on this front alone would not be sufficient to promote broader financial inclusion. The next section focuses on financial access and inclusion—more closely related to the demand side of the financial development equation—which also faces challenges in Jamaica.

E. Financial Access in Jamaica—An Overview

The size and structure of the credit sector, as well as the ability of the population to access banking and related services, affect the development of the broader retail financial system. Data on related issues have recently become more readily available, thanks in part to growing awareness of the importance of these issues for development and poverty reduction, as well as the existence of new surveys undertaken by multilateral institutions, and data being complied by central banks and supervisory authorities.

Some indicators of physical access to the retail banking system in Jamaica have remained broadly unchanged over the past decade, with the notable exception of automated tellers. The number of commercial banks operating in Jamaica has increased from six in 2005 to eight in 2017, while the number of credit unions and other depository corporations has fallen (Table 2). The number of commercial bank and credit union branches has increased slightly over the period, but decreased for depository corporations. The number of automated teller machines (ATMs) has nearly doubled from 369 to 710 from 2005 to 2017, suggesting an appreciable increase in physical access to services over the period.

Table 2. Retail Banking Sector Overview

	2005	2010	2015	2017
Commercial Banks	6	7	6	8
Number of Branches	124	118	107	140
Branches per 100,000 adults	6.7	6.1	5.1	6.6
Branches per 1,000 km^2	11.9	11.6	10.4	13.7
Credit Unions and Cooperatives	50	48	34	28
Number of Branches	66	69	79	79
Branches per 100,000 adults	6.0	5.7	5.1	4.8
Branches per 1,000 km^2	10.7	10.8	10.4	9.9
Other Depository Corporations	65	61	45	39
Number of Branches	246	241	240	236
ATMs	369	513	669	710
ATMs per 100,000 adults	19.2	24.9	30.4	31.8
ATMs per 1,000 km^2	34.1	47.4	61.8	65.6

Source: IMF Financial Access Survey Database and author's calculations.

Jamaica compares well with other middle-income and LAC developing countries on some indicators of financial access, though less well regarding the volume of deposits relative to the size of the economy. The proportion of Jamaica's population making use of banking services declined slightly over the past 10 years, but remains very high compared to middle-income and developing LAC economies (Table 3). For example, Jamaicans have more than one deposit account per person (i.e., many Jamaicans have more than one account or bank with more than one institution)—1077 per 1000 adults—in 2015, compared to 652 and 746 for middle-income countries and those from Latin America and the Caribbean, respectively. However, the volume of total deposits compared to GDP in Jamaica did not increase from 2005 to 2015, and was well below that displayed by these two groups—that is, 35 versus 43 percent of GDP for both groupings, on average.

Table 3. Financial Access Indicators

	Jamaica			Middle-income	LAC (/1)
	2005	2010	2015	2015	2015
Savings (deposits)					
Commercial banks (deposit accounts per 1,000 adults)	1,257.6	1,034.3	1,077.7	652.1	747.5
Commercial banks (deposits as %GDP)	35.1	32.9	35.2	42.5	42.9
Credit unions and cooperatives (deposit accounts per 1,000 adults)	717.5	882.9	982.2	N.A.	N.A.
Credit unions and cooperatives (deposits as %GDP)	3.6	4.2	4.1	N.A.	N.A.
Credit (loans)					
Commercial banks (loan accounts per 1,000 adults)	160.5	180.4	206.7	153.2	222.0
Commercial banks (loans as %GDP)	18.8	21.8	24.8	N.A.	N.A.
Credit unions and cooperatives (loan accounts per 1,000 adults)	116.1	112.7	91.0	N.A.	N.A.
Credit unions and cooperatives (loans as %GDP)	3.0	3.3	3.6	N.A.	N.A.

Note: (/1) Latin America and Caribbean includes only developing countries.
Source: IMF Financial Access Survey and World Bank Global Financial Inclusion databases.

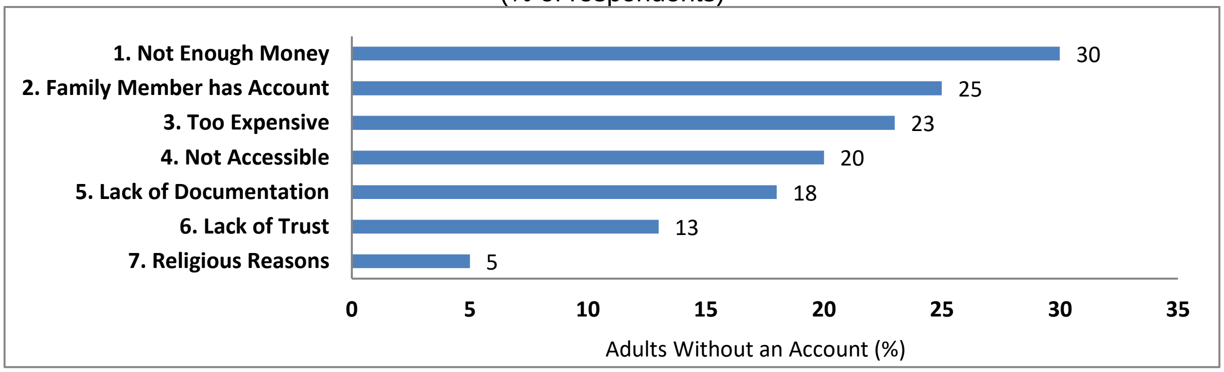
The breadth and volume of retail lending appears to be improving, albeit from a low base. Jamaica's commercial banks increased the number of loans extended to customers by about 20 percent from 2005 to 2015—from 161 to 207 loan accounts per 1000 adults (Figure 3). This represents some degree of convergence toward the average for the same statistic displayed by other LAC countries, of 222 loan accounts per 1000 adults in 2015. Jamaica compares well against other middle-income countries that had about 153 loan accounts per 1000 adults. While the volume of lending also increased between 2005 and 2015—from about 19 percent of GDP to nearly 25 percent of GDP—, this was from a relatively low base.

In summary, while there is reason for optimism with regard to the number of Jamaicans using banks and holding accounts, the modest volume of lending to individuals reflects the shallowness of credit markets. The following section will consider recent research into key factors limiting financial access and inclusion across the world, and how these may relate to Jamaica's own country-specific circumstances. While there are limits to what can be inferred from such an analysis, some characteristics of the Jamaican economy, population, and social factors relate closely to commonly-cited barriers to inclusion.

F. Country-specific Barriers to Financial Inclusion

The World Bank's 2014 Financial Development Report provided an extensive analysis of financial development, access, and inclusion issues. This analysis identified seven major reasons why people from both developed and developing countries do not own or use formal bank accounts, based on a cross-country survey of 70,000 unbanked individuals across regions. The survey found that a lack of financial resources (no. 1), high costs of opening and maintaining accounts (no. 3), a lack of accessibility of financial service providers (no. 4), and a lack of required documentation (no. 5) were among the most common reasons for remaining outside of the formal financial system (Figure 11). Many of the impediments to financial inclusion identified from the cross-country survey are directly relevant to Jamaica.

Figure 11. Reasons for Not Having a Bank Account
(% of respondents)



Note: Respondents could choose more than one reason.
Source: World Bank Financial Development Report 2014.

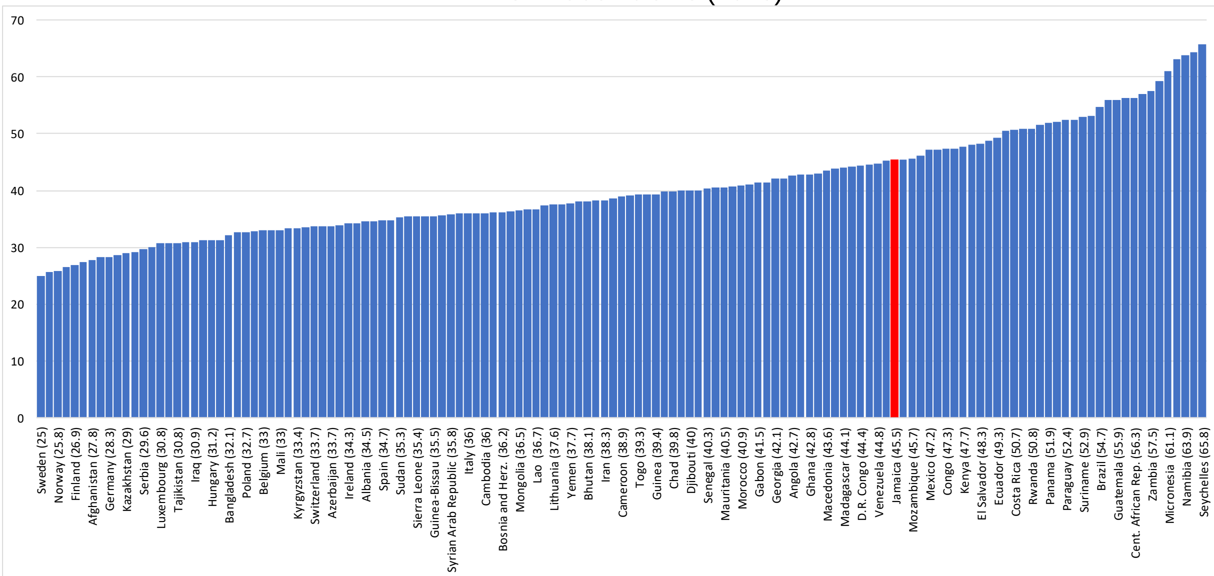
Jamaica is toward the bottom of the middle-income spectrum, so the most commonly cited factor—lack of resources (no. 1)—is a driver of financial inequality. As indicated in the World Bank survey, not enough money was the most significant factor limiting financial inclusion for the countries and demographic groups assessed. As noted above, with a per capita GDP level of $4,966, Jamaica falls toward the lower end of middle-income bracket of between $1,026 and $12,475. Furthermore, low per capita income in Jamaica is only part of the problem; income distribution is highly skewed toward the wealthiest elites.

In this context, Jamaica displays a highly stratified economy in terms of income distribution, particularly when compared to other countries in the region. In 2013, Jamaica displayed a Gini index coefficient of 46—where an index of zero implies perfect income equality, and a coefficient of 100 implies perfect inequality[15]—and a share of national income held by the richest 20 percent of the population of 53 percent (average from 2000 to 2015) (Figure 12). This places Jamaica near the bottom in terms of the global distribution of outcomes for these measures. While the positive relationship between poverty, inequality, and a lack of formal participation in the financial system has been well established[16], efforts to reduce poverty and improve the distribution of wealth must involve the full spectrum of public policies, and long and uncertain horizons.

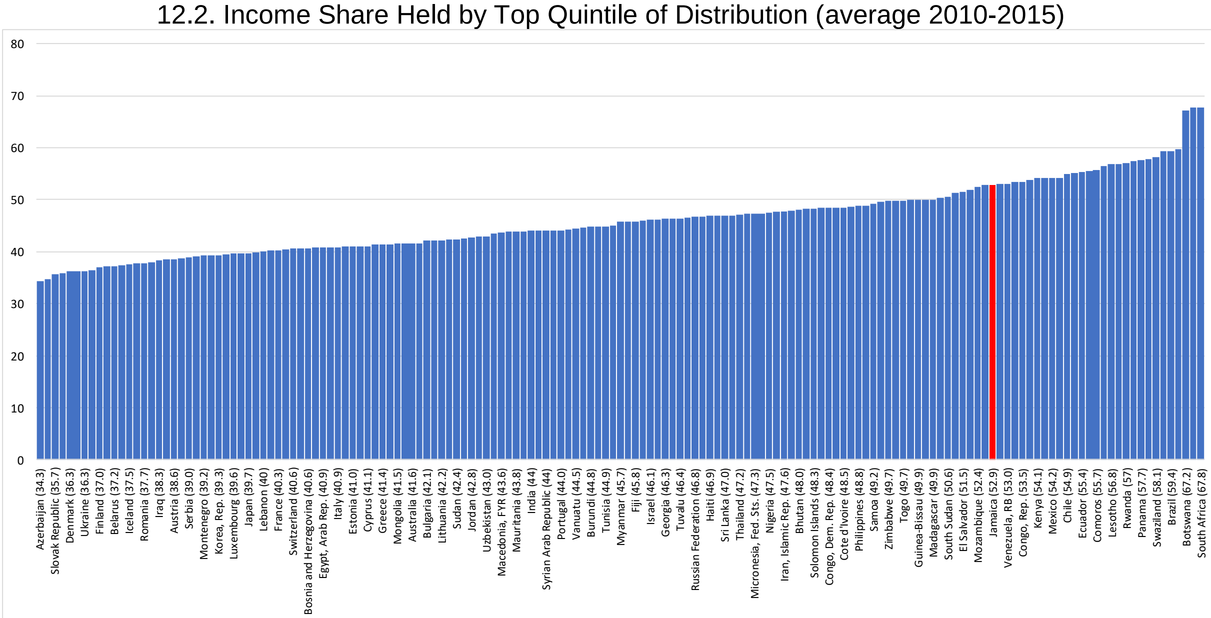
[15] The Gini index measures the extent to which the distribution of income deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line.
[16] For example, see "Financial inclusion, rather than size, is the key to tackling income inequality." (BBVA Research Paper, Feb. 2015). This study finds that FI contributes significantly to reducing income inequality, although the size of the financial sector per se is not an important factor.

Figure 12. Income Inequality

12.1. Gini Coefficients (2013)



12.2. Income Share Held by Top Quintile of Distribution (average 2010-2015)



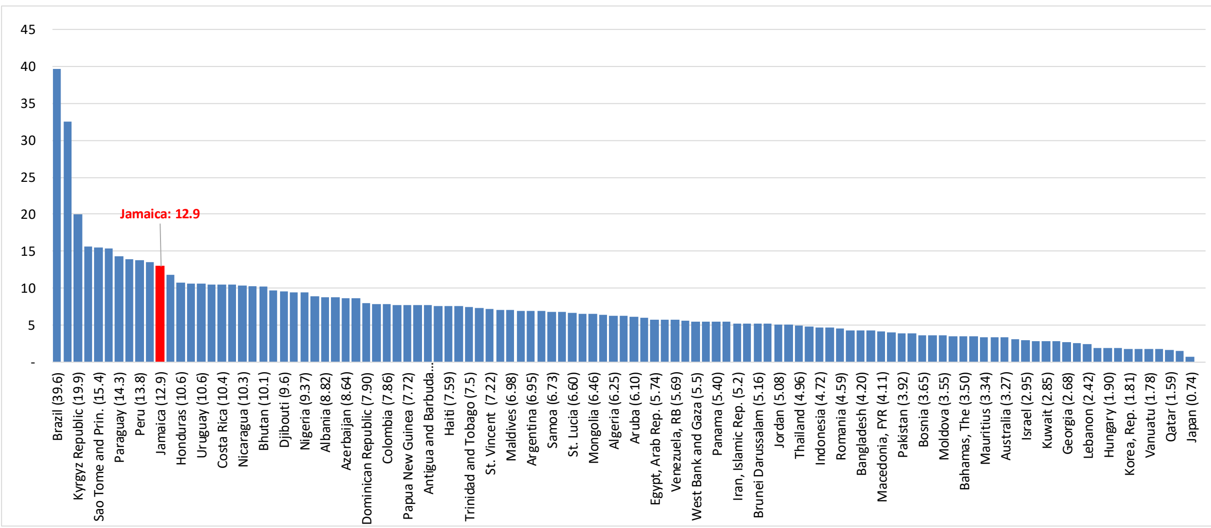
Source: UN Development Program Human Development Indicators and World Bank WDI databases.

The high costs of financial services (no. 2) and the lack of competition for at least some categories private of lending within the sector appear to be significant barriers to inclusion in Jamaica. The World Bank survey found the high cost of services to be the third most significant barrier to financial access and inclusion throughout the world. One indicator pointing to the high cost of accessing credit in Jamaica is the spread between deposit and lending rates**.** High spreads make borrowing less attractive and/or feasible for consumers and businesses alike and tend to dampen incentives to both save (e.g., low returns) and invest.

In 2016, banks in Jamaica were among the most profitable in the world, suggesting that the cost of services remains high. Banks operated with an average interest rate spread of 13 percent in 2016, which places Jamaica in the 84th percentile of the 121 countries for which information is available. As highlighted in Figure 13.1, spreads in Jamaica are considerably higher than the average for all other middle- or low-income countries (6 and 8 percent, respectively) and Latin American and Caribbean countries (8 percent). While a number of factors can influence outcomes in these areas including sector depth, bank funding and business models, risk-related considerations, etc., the profitability and costs associated with basic banking services are very high in Jamaica. In this context, the government has committed to complete a study on factors affecting banking competition, which is scheduled for completion in 2019.

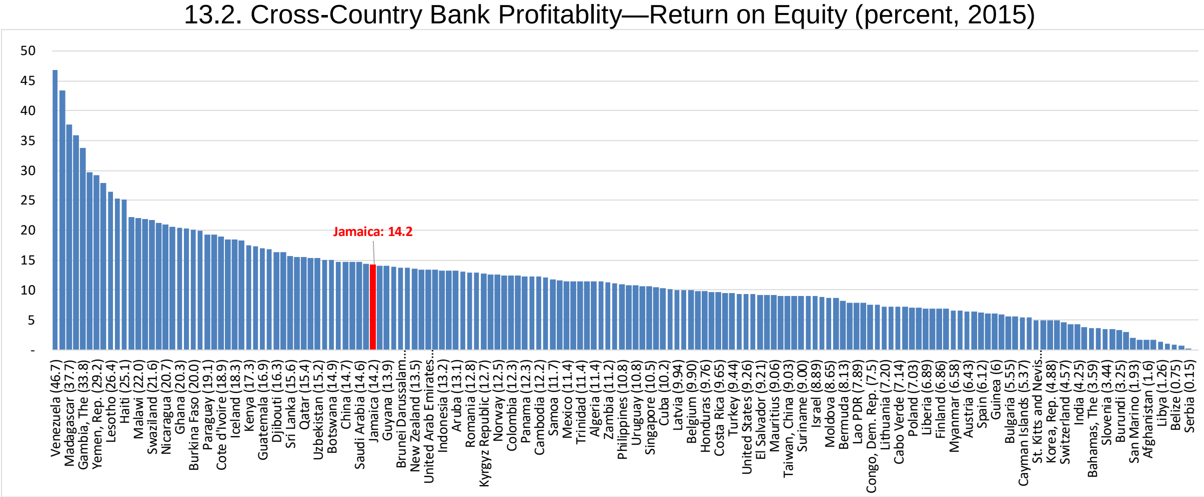
Figure 13. Costs of Financial Services and Lack of Competition

13.1. Cross-Country Costs of Banking Services—Interest Rate Spreads (percent, 2016)



Source: World Bank Development Indicators data. 121 countries for which data was available.

13.2. Cross-Country Bank Profitablity—Return on Equity (percent, 2015)



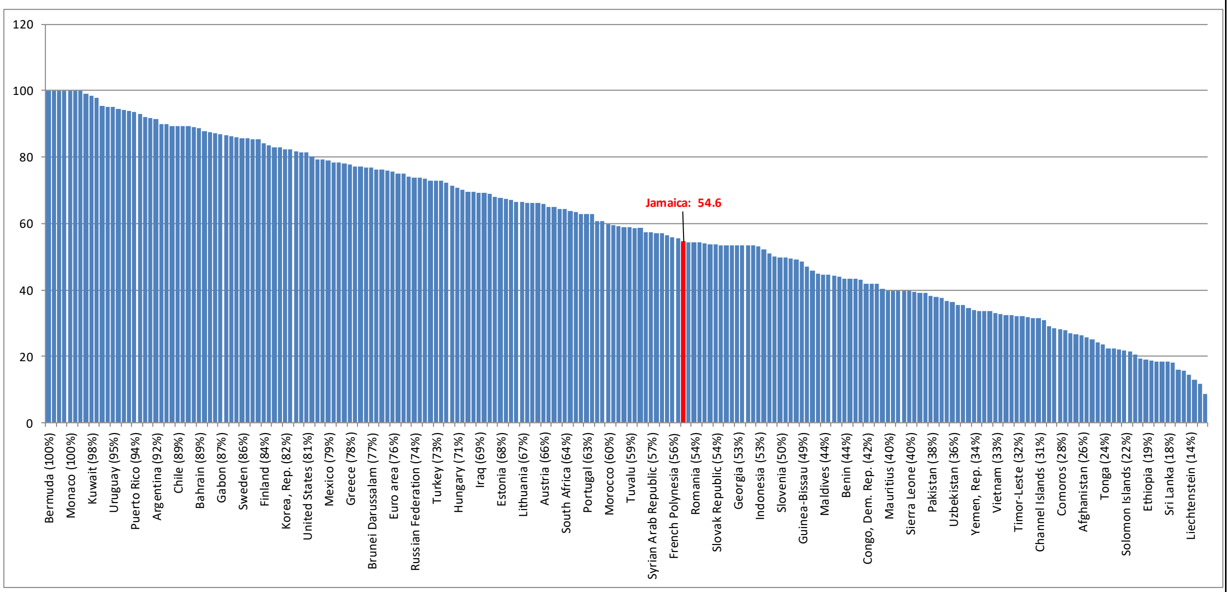
Note: 166 countries with positive values shown.
Source: World Bank Financial Development and Structure database.

Another indicator pointing to high costs of credit in Jamaica are strong profit margins and returns on equity (ROE)[17] for commercial banks. As above, a banking sector characterized by wide spreads between deposits and loans suggests that banks are not sufficiently incentivized to compete with one another for deposits and customers. In this context, one might expect returns to equity to be higher than might be observed in countries where competition (or other factors) incentivizes financial institutions to compete on price. By this measure, Jamaica hosts a highly profitable banking sector, with an average ROE of 14 percent in 2011[18], ranking it in the 72nd percentile out of 166 countries for which cross-country data were available across all income groups and regions (Figure 13.2).

Accessibility to financial services (no. 4) is another challenge reported in the World Bank financial access survey relevant to Jamaica. As outlined above, the relative scarcity of banks and their branches or access points relative to population suggests that lack of access is a potential impediment to financial inclusion in Jamaica. A factor contributing to this concern is the relatively low level of urbanization. In this context, only about 55 percent of the Jamaican population resides in urban areas, where access points (particularly bank branches) for services tend to be most concentrated (Figure 14).

Figure 14. Urban Population

(% of total population, 2014)



Note: 216 countries with available data.
Source: World Bank WDI database and author calculations.

Another key impediment to financial inclusion identified by the World Bank survey was a lack of trust in banks and related institutions (no. 6), or by implication, a lack of trust in the financial

[17] Defined as the average return on assets (net income/total equity).
[18] Note that 2011 was used to ensure cross-country data comparability. The Bank of Jamaica reported that ROE for deposit-taking institutions was 16.1 percent at end-September 2017 in the 2017 Financial Stability Report.

system or policy environment within which they operate. There are obviously a number of factors relevant to this finding, including assessments of a country's financial stability, the quality of regulation and/or supervision, and issues such as bank-specific risk characteristics. In this context, Jamaica fares quite well on most common indicators of financial sector soundness (Table 4). Loans and deposits have been growing but so have assets and capital. Important indicators such as non-performing loans (NPLs) have decreased from the peak following the world financial crisis while provisioning has increased on average to over 100 percent. Capital adequacy ratios are above the legally required 10 percent for reporting institutions. Finally, as discussed above, deposit taking institutions remain profitable, with strong profit margins.

Table 4 Financial Soundness Indicators

	2010	2011	2012	2013	2014	2015	2016	2017
Balance Sheet Growth (%, year on year)								
Capital	5.1	5.3	4.0	18.3	7.4	8.5	12.6	11.1
Loans	-1.4	4.8	12.9	14.1	6.6	9.4	18.3	9.2
NPLs	36.1	44.0	-10.8	-12.9	0.2	-11.6	-16.9	-15.4
Liquidity								
Domestic currency liquid assets 2/	36.2	30.5	26.7	26.3	31.5	26.5	27.4	29.3
Asset Quality								
Provisions for loan losses / NPLs	69.9	75.2	90.3	95.7	101.6	106.7	116.6	115.9
NPLs / loans	6.5	8.9	7.0	5.4	5.0	4.1	3.5	3.5
Capital Adequacy								
NPLs / Capital + Provisions for Loan Losses	20.2	28.4	24.1	18.6	17.4	14.6	11.0	10.2
Capital Adequacy Ratio (CAR)	18.2	16.1	14.1	15.1	15.9	14.9	14.5	14.5
Profitability (calendar year) 3/								
Pre-tax profit margin	21.1	30.8	21.4	19.0	18.9	19.5	26.7	22.7

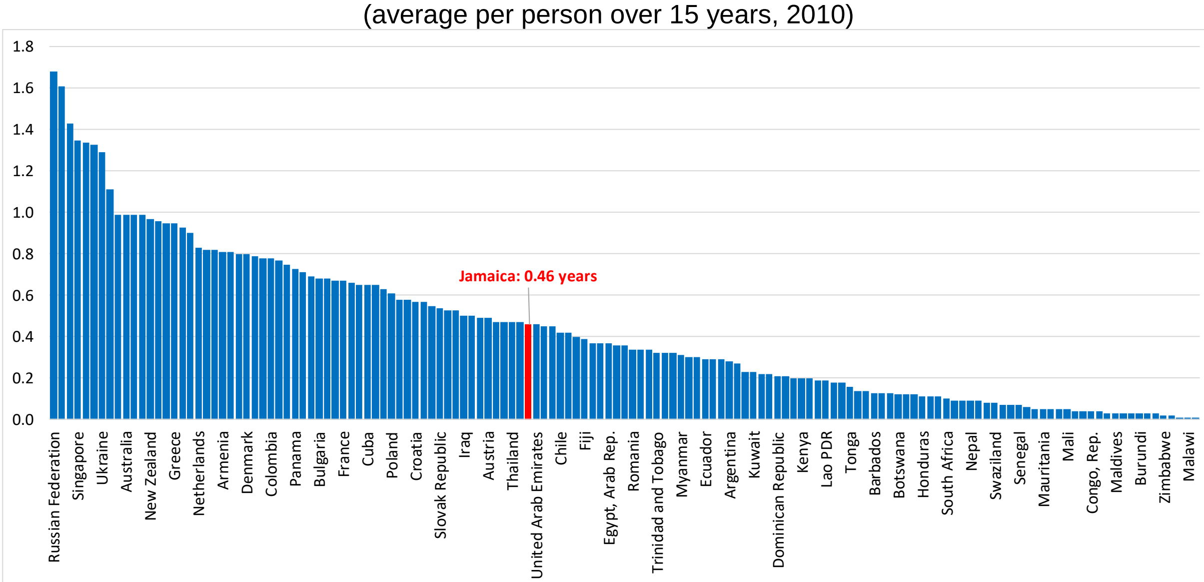
Notes: 1/ Commercial banks, building societies, and merchant banks. 2/ Percent of prescribed liabilities. 3/ The significant increase in profitability for 2011 is due to an up-stream dividend from one insurance subsidiary to its parent bank. Without such dividend pre-tax profit margin and return on average assets would be 18.1 and 2.3 percent, respectively.
Source: IMF (2018) and Bank of Jamaica.

Another factor closely associated with the issue of trust in financial institutions is the level of financial literacy. Generally speaking, financial literacy refers to the level of knowledge and understanding that individuals have regarding the nature of the banking system, the advantages of using the formal financial system for savings and credit, as well as how these issues relate to their day to day budgeting. Some countries have undertaken detailed surveys of levels and perceptions regarding financial literacy.[19] To date, no such study has been undertaken for Jamaica. However, as in other countries, the level of financial literacy is strongly correlated with levels of higher education. In this context, Jamaica fares poorly, with among the lowest levels of

[19] For a discussion of financial literacy surveys and related methodologies, see: http://www.oecd.org/finance/financial-education/2015finlitmeasurementexercise.htm

tertiary education among middle-income countries, based on cross-country comparable data available for 2010 (Figure 15). At that time, Jamaican adults—on average—had undertaken 0.46 years of tertiary education. While admittedly only a proxy for overall financial literacy, this and related data certainly suggest that financial literacy is likely to pose impediments to broader use of formal financial systems.

Figure 15. Years of Tertiary Education
(average per person over 15 years, 2010)



Note: Reflects 143 countries for which data was available.
Source: World Bank WDI database and author calculations.

In summary, evidence now available for Jamaica regarding many of the common impediments to financial access point to deficiencies in a number of crucial areas. Low income levels and high income inequality have long been associated with poor financial development and inclusion outcomes in other parts of the world. On related measures, Jamaica fares poorly. Furthermore, the country's geography and demographics are likely to limit access to banking services for a large segment of the population. A lack of competition and/or incentives for retail banks to diversify away from traditional clients and business lines—particularly the government and its historically large presence in credit markets—are likely to have limited the attractiveness of providing credit to small customers, including smaller enterprises and individuals—particularly the poor. Finally, limited access to higher education and low financial literacy have impeded both the growth of the financial sector and the use of its services by a large proportion of the population.

While the level of economic and financial sector development, per capita national income, and income disparity are clearly barriers to inclusion, these are challenges that can only be addressed via a comprehensive program of macroeconomic and social reforms, that will only bear fruit over relatively long horizons. Other country-specific factors, policies, and market failures can, however, be addressed with more focused policies and initiatives, that have the potential to produce appreciable results over shorter horizons. In line with the challenges outlined above, such initiatives could include the following:

- Safeguarding macroeconomic stability: The government of Jamaica has made tremendous strides in establishing macroeconomic stability. Going forward, policy reforms and institutional innovations should be buttressed by continued fiscal prudence and limits on government recourse to the domestic credit market. Without such policies, financial development and inclusion in Jamaica will continue to lag behind its peers in these and related areas.

- Stimulating competition for financial services: Measures aimed at reducing regulatory and other potential barriers to competition for financial services in the local market could help reduce the cost of borrowing. More competition, along with a sustained reduction in government borrowing from the domestic market, would help to compress wide lending spreads currently faced by private borrowers in aggregate. If implemented without compromising financial stability or prudential standards, this could encourage broader use of credit by individuals, as well as small and medium-sized enterprises, with the benefits accruing to all sectors of the economy.

- Increasing physical and virtual access to customers: Given the relatively large proportion of the population living outside urban areas, financial access could be expanded by increasing access points in underserved areas. While data are limited at present, the expansion of mobile and virtual banking could also help in this regard, and related regulatory hurdles should be addressed.

- Simplifying regulations: Adjustments to know-your-customer and other regulatory hurdles faced by potential customers could help broaden the base of savers and borrowers. While evidence suggests that a large proportion of Jamaicans have established accounts, making services easier to access for rural or informal populations—who often lack certain types of information required to establish accounts or access credit—could help expand access.

- Financial literacy: Initiatives aimed at improving financial literacy, particularly for rural and/or lower income groups and populations, would help encourage the those not actively using the banking system to seek out financial services, or to diversify the types of services that they use (e.g., from simple savings accounts, to forms of mobile payment and personal or business credit, etc.).

These and related initiatives or reforms are best anchored in multi-disciplinary country financial inclusion strategies involving many government ministries. As issues related to financial inclusion have become more broadly recognized as impediments to broader economic development, countries have begun developing comprehensive initiatives and strategies aimed at addressing these concerns. In this context, Jamaica recently put forward such a strategy, with support for its design from international partners and private sector interlocutors. The next section presents the main pillars of this new strategy.

G. Jamaica's New Financial Inclusion Strategy

Jamaica launched its first national financial inclusion strategy in 2016. Recognizing the importance of financial sector development and inclusion for achieving the country's development objectives, Jamaica's Cabinet approved the National Financial Inclusion Strategy (NFIS) in May 2016, with time-bound deliverables to be achieved by 2020 and beyond. Major goals of the NFIS including increasing citizens' use of financial services, improving resilience of the sector, and supporting investment in the domestic economy.

The strategy was developed with input from 16 ministries, departments, and agencies in the public sector, as well as representatives of the private sector and non-governmental organizations. The NFIS will focus on 53 action items mapped to key implementing agencies and entities, centered on four main pillars—(i) financial access, (ii) resilience, (iii) financing for growth, and (iv) responsible finance. The development of both governmental and private sector infrastructure (Table 5) will support these initiatives.

Table 5. Jamaica's National Financial Inclusion Strategy

Theme	Proposed action
Financial access and usage	
Access points and payments infrastructure	Frame an access policy to facilitate a fair and open payments infrastructure
Basic accounts	Evaluate, design, and implement a policy framework for opening transaction accounts with graded KYC requirements
Government payments	Design a strategy to shift government payments, including direct benefit transfer schemes, wages, and supplier payments, from cheques to retail electronic payment products
Remittances	Review and revise the regulatory framework to facilitate the development of financial products linked to remittances, including remittance-based payment cards
Financial Resilience	
Savings, insurance, pensions	Develop a legal and regulatory framework for micro-insurance
	Promote the development and use of more savings products, including commitment savings products, to respond to the needs of the low-income population.
	Promote a retirement product for low-income and informally employed people, with low fees and easy contributions and a focus on payments infrastructure, product design, and eligibility
Financing for Growth	
Agriculture finance	Evaluate options for strengthening or restructuring the National People's Cooperative Bank of Jamaica Limited (NPCB) and enhance the regulation and supervision of the NPCB

	Support banks, credit unions, NPCB, and micro-finance institutions to develop lending programs to sustainably serve the agriculture sector
	Promote the private financing of risk-coping investments (water harvesting, ponds, greenhouses)
Housing Finance	Design and deploy housing finance solutions for low- and informal income households, e.g. housing microfinance
	Review and strengthen the National Housing Trust's (NHT) role in providing liquidity to lenders
	Provide liquidity to credit unions
	Assess the size and operations of the mortgage insurance fund and determine need for resources
Micro, small, and medium enterprises (MSME) finance	Revamp the partial credit guarantee scheme to provide adequate incentives for lenders to participate
	Review/revise the legal, regulatory, and tax framework for assignment of receivables (factoring)
	Review/revise the legislative framework and/or develop leasing law as necessary
	Develop the legal and regulatory framework and infrastructure for the development of venture capital
Responsible finance	
Consumer protection	Ensure the appropriate legal framework and mechanisms for market conduct supervision of deposit taking institutions, credit unions, and microfinance institutions
	Strengthen the Financial Services Commission's (FSC) capacity for market conduct supervision of insurance, pension, and securities sectors
	Strengthen FSC's handling of complaints and dispute resolution
	Compile and widely disseminate information periodically on fees and charges levied by banks and nonbanks
	Establish an independent dispute resolution scheme for consumers of DTIs, credit unions and microfinance institutions
Financial capability	Develop a comprehensive National Financial Literacy Action Plan
Supporting infrastructure	
Anti-money laundering and countering financing of terrorism (AML/CFT)	Review and revise AML/CFT framework to ensure an adequate balance between financial inclusion and financial integrity
Enabling regulatory and supervisory framework	Adopt the Micro-Credit Act and the Credit Union Regulations
Financial sector's inclusion plans	Encourage DTIs and other financial institutions to develop individual financial inclusion plans
Informality	Conduct an assessment of measures needed to reduce informality
Land registration and titling	Accelerate land titling efforts and measures to facilitate land use
Secure transactions	Review and enhance as necessary collateral registry regulations

Source: NFIS 2017.

Jamaica's first National Financial Inclusion Strategy provides a sound basis for progress toward deeper and faster financial sector development. Given the early stages of implementation, it may be some time before it is possible to assess the NFIS' effectiveness or the adequacy of its structure in terms of breadth, targeting, and the agencies tasked with delivering its outputs. What is clear is that the strategy will raise awareness and facilitate coordination across agencies regarding its key objectives. The inclusion of specific targets and time-bound actions is consistent with emerging best practices in this area.[20]

H. Conclusions

Jamaica's financial sector is shallow compared to peer countries. Evidence discussed in this paper suggests that it suffers from a number of barriers to improving financial inclusion and development. Many of these challenges have historical roots, driven in part by poorly conceived or executed macroeconomic policies, crises that have adversely affected the banking sector, and government domestic financing crowding out private credit and investment. Recent success in restoring macroeconomic stability and strengthening institutions under successive adjustment programs has supported fiscal prudence and public debt reduction, and created a more conducive environment for financial sector development in the future. This progress towards greater stability and predictability with respect to policies, inflation, interest and exchange rates is a necessary condition in terms of providing the private sector with more powerful incentives to save and invest. Unfortunately, this is just the first step toward broader financial inclusion, and additional efforts will be needed in a number of key areas.

Country-specific factors that have stunted both financial development and inclusion in Jamaica are linked to its level of economic development, geography, as well as other socio-economic factors. While the level of economic and financial sector development, per capita national income, and its distribution are clearly barriers to inclusion, these are challenges that can only be addressed over long horizons. Other country-specific factors, policies, and market failures also constitute important barriers to financial inclusion, many of which can be addressed by implementing focused policies and initiatives with potential to produce results in the shorter term. In line with challenges outlined above, such initiatives include:

- Safeguarding macroeconomic stability: Policy reforms and institutional innovations undertaken to date should be buttressed by continued prudence and limited recourse to the domestic credit market. Without a continuation of these policies, the level of financial development and inclusion will continue to lag that of peers.

- Stimulating competition for financial services: Measures aimed at reducing regulatory and other potential barriers to competition for financial services in the local market could help reduce borrowing costs. If implemented without compromising financial stability or prudential

[20] For a detailed discussion of recommended areas of coverage and specific targeting of national strategies for improving financial inclusion, see the Alliance for Financial Inclusion's "National Financial Inclusion Strategies: A Toolkit" (2016).

standards, this could encourage broader use of credit by individuals and small and medium-sized enterprises, with benefits for all sectors of the economy.

- Increasing physical and virtual access to customers: Given the large proportion of the population living outside urban areas, it is likely that financial access could be expanded by increasing access points in underserved areas. While data are limited at present, the expansion of mobile and virtual banking could also help in this regard, and related regulatory hurdles should be addressed.

- Simplifying regulations: Adjustments to know-your-customer and other regulatory hurdles for potential customers could help broaden the base of savers and borrowers. While evidence suggests that a large proportion of Jamaicans have established accounts, making services easier to access for rural or informal populations—who often lack the information required to establish accounts or access credit—could help expand access.

- Financial literacy: Initiatives aimed at improving financial literacy, particularly for rural or undereducated populations, would help encourage the unbanked to seek out financial services and to diversify the services that they wish to take advantage of from banks.

Jamaica's 2017 National Financial Inclusion Strategy includes objectives in a number of the areas outlined above, as well as others aimed at supporting broader access. Like many other countries at similar stages of development, Jamaica must address a broad spectrum of issues that act as breaks on private sector growth and income accumulation. Jamaica has made great strides in this direction in recent years, and continued policy discipline and progress are required, particularly as it relates to focused reforms aimed at providing all parties—both credit providers and consumers—with stronger incentives and confidence to save, borrow, invest, and in so doing expand the domestic financial system.

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