

Jamaica

1. General trends

The Jamaican economy deteriorated in 2009, forcing the government to enter a 27-month International Monetary Fund (IMF) stand-by arrangement which will provide US\$ 1.2 billion over the period. The agreement, which was signed in February 2010, was designed to restore confidence in the Jamaican economy. While the proximate cause of the economic problems was the global recession and its impact on export demand, deeper issues lay in the cumulative effects of an expanding public debt, relatively large current account and fiscal deficits, and falling investor confidence.

In 2009, the economy contracted by 2.7% owing to weak external and domestic demand and a weak investment climate. In these circumstances, inflation moderated to 10.2% as compared to 16.9% the year before. It is anticipated that under the stand-by arrangement, inflation will decline to between 7.5% and 9.55% in fiscal year 2010/2011.¹ The figures for the quarter ending in March 2010 show that the consumer price index (CPI) increased by 4.1%, which was higher than the 2.8% for the quarter ending in December 2009. Meeting the inflation target of between 7.5% and 9.5% will depend on whether or not additional taxes are imposed and fuel prices remain stable. After experiencing moderate fluctuation during the first few months of 2009, the exchange rate stabilized as a result of inflows from a number of multilateral institutions.

The low demand for exports due to the recession abroad resulted in lower foreign exchange inflows,

especially from mining, combined with lower inflows from remittances and private investment. The impact of declining output and cuts in the public-sector workforce caused the unemployment rate to inch up from 10% in October 2008 to 11.6% in October 2009.

Under the government's medium-term economic programme² approved as part of the stand-by arrangement, it is expected that growth will be 0.5% in fiscal year 2010/2011 and will increase to 2% in each year from fiscal year 2011/2012 through to 2013/2014. This growth rate projection is based on the country meeting tight fiscal and monetary policies designed to adjust the Jamaican economy within the context of IMF scrutiny and review. From the first review of the targets under the programme it appears that all the targets were met, including a variety of structural reforms, and as a result the IMF will disburse Special Drawing Rights (SDR) 63.7 million to Jamaica.

¹ The fiscal year runs from April to March.

² This programme runs to fiscal year 2013/2014.

Table 1
JAMAICA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 ^a
Annual growth rates^b									
Gross domestic product	1.3	1.0	3.5	1.4	1.0	2.7	1.5	-0.9	-2.7
Per capita gross domestic product	0.5	0.2	2.7	0.7	0.3	2.1	1.0	-1.4	-3.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	6.7	-6.8	7.0	-11.2	-6.8	16.2	-5.8	-5.2	12.1
Mining	2.9	2.1	5.0	2.2	2.8	0.9	-2.6	-2.5	-50.2
Manufacturing	-0.8	-2.0	-0.5	1.4	-4.4	-2.2	0.7	-1.4	-5.0
Electricity, gas and water	0.7	4.6	4.7	-0.1	4.2	3.2	0.6	0.9	2.2
Construction	-0.2	-1.0	5.1	8.4	7.5	-1.9	4.6	-6.7	-4.6
Wholesale and retail commerce, restaurants and hotels	-0.5	0.4	2.2	2.1	2.1	3.9	1.4	0.4	-0.6
Transport, storage and communications	4.8	6.2	4.0	1.4	0.9	4.4	3.3	-2.3	-4.4
Financial institutions, insurance, real estate and business services	3.4	3.5	4.6	2.4	0.4	2.0	3.3	1.0	0.6
Community, social and personal services	1.0	1.4	1.5	0.9	1.1	1.8	1.6	0.1	-0.0
Millions of dollars									
Balance of payments									
Current account balance	-759	-1 074	-773	-509	-1 009	-1 183	-2 038	-3 223	-912
Goods balance	-1 618	-1 871	-1 943	-1 945	-2 581	-2 943	-3 841	-4 981	-3 123
Exports, f.o.b.	1 454	1 309	1 386	1 602	1 664	2 134	2 363	2 761	1 386
Imports, f.o.b.	3 073	3 180	3 328	3 546	4 246	5 077	6 204	7 742	4 510
Services trade balance	383	315	552	572	670	628	425	355	752
Income balance	-438	-605	-571	-583	-676	-616	-662	-680	-586
Net current transfers	914	1 087	1 189	1 446	1 578	1 749	2 040	2 083	2 046
Capital and financial balance ^c	1 624	832	342	1 203	1 238	1 413	1 598	3 118	869
Net foreign direct investment	525	407	604	542	582	797	751	1 361	670
Other capital movements	1 099	425	-263	661	656	616	847	1 757	199
Overall balance	865	-242	-432	694	229	230	-440	-105	-44
Variation in reserve assets ^d	-847	261	448	-686	-228	-230	440	105	44
Other financing	-18	-19	-16	-8	-1	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^e	101.8	101.9	116.7	113.5	104.4	105.6	109.1	102.3	113.8
Net resource transfer (millions of dollars)	1 168	208	-246	612	561	797	937	2 438	283
Gross external public debt (millions of dollars)	4 146	4 348	4 192	5 120	5 376	5 796	6 123	6 344	6 594
Average annual rates									
Employment									
Labour force participation rate ^f	63.0	65.8	64.4	64.3	64.2	64.7	64.8	65.4	63.8
Unemployment rate ^g	15.0	14.2	11.4	11.7	11.3	10.3	9.8	10.6	11.4
Annual percentages									
Prices									
Variation in consumer prices (December-December)	8.6	7.3	13.8	13.6	12.6	5.6	16.8	16.9	10.2
Variation in nominal exchange rate (annual average)	7.9	5.8	18.1	6.2	2.2	6.0	4.8	5.7	21.2
Nominal deposit rate ^h	9.4	9.1	8.3	6.7	5.9	5.3	5.0	5.1	5.8
Nominal lending rate ^h	29.4	26.1	25.1	25.1	23.2	22.0	22.0	22.3	22.6
Percentages of GDP									
Central governmentⁱ									
Total income ^j	24.5	25.0	27.6	27.9	26.8	26.9	28.7	27.1	29.9
Current income	23.3	23.4	26.2	26.2	25.5	26.3	27.2	26.2	28.3
Tax income	21.6	22.0	24.2	24.3	23.4	24.0	24.6	24.2	26.7
Capital income	0.7	1.4	1.3	0.9	1.2	0.4	1.0	0.2	0.7
Total expenditure ^k	29.6	31.8	32.9	32.2	29.9	31.5	32.9	34.5	37.1
Current expenditure	27.1	30.1	31.9	30.4	27.6	28.6	28.3	30.5	33.3
Interest	12.2	13.3	16.2	15.0	12.7	12.4	11.4	12.3	14.6
Capital expenditure	2.4	1.7	1.0	1.8	2.2	3.0	4.6	4.1	3.7
Primary balance	7.1	6.5	10.9	10.7	9.7	7.8	7.2	4.9	7.4
Overall balance	-5.1	-6.8	-5.3	-4.3	-3.0	-4.7	-4.2	-7.4	-7.2

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 ^a
	Percentages of GDP								
Money and credit¹									
Domestic credit	35.6	35.4	40.5	35.7	34.7	30.3	30.3	35.4	34.0
To the public sector	29.3	26.7	29.6	23.4	21.2	14.9	12.8	15.8	16.3
To the private sector	8.3	10.0	12.5	13.3	14.1	15.8	18.2	20.4	19.3
Others	-2.0	-1.3	-1.7	-1.1	-0.6	-0.4	-0.6	-0.8	-1.6
Liquidity (M3)	34.9	35.2	33.8	34.1	33.2	32.6	33.6	30.8	29.6
Currency outside banks and local-currency deposits (M2)	26.1	25.5	22.7	22.8	22.7	23.1	22.7	20.7	19.9
Foreign-currency deposits	8.7	9.8	11.1	11.3	10.5	9.6	10.9	10.1	9.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

^b Based on figures in local currency at constant 2003 prices.

^c Includes errors and omissions.

^d A minus sign (-) denotes an increase in reserves.

^e Annual average, weighted by the value of goods exports and imports.

^f Economically active population as a percentage of the working-age population.

^g Percentage of the economically active population; nationwide total. Includes hidden unemployment.

^h Average rates.

ⁱ Fiscal years, from April to March.

^j Includes grants.

^k Includes statistical discrepancy.

2. Economic policy

(a) Fiscal policy

The budget for fiscal year 2009/2010 was geared to reducing the fiscal deficit to 5.5% of GDP from 7.3% of GDP in fiscal year 2008/2009. However, this target was far too ambitious and the overall deficit was substantially higher than planned at 7.2% of GDP.

In order to arrest the deterioration in the public finances, the government was forced to introduce new fiscal measures that raised a variety of tax rates in September 2009 and January 2010. These measures included increasing the special consumption tax on fuels and raising the general consumption tax rate to 17.5% from 16.5%. The outcome for fiscal year 2009/2010 was an increase in revenue of 18.2%, representing an increase from 27.1% to 29.9% of GDP. Expenditure underwent a similar increase, which suggests that no major fiscal adjustments occurred.

This lack of adjustment also translated into a higher debt burden. The total stock of debt by December 2009 was 123.3% of GDP, up from 109.9% of GDP in 2008. By December 2009, the domestic and external portions of the debt were 69.1% and 54.2% of GDP, respectively, up from 59.8% and 45.3% of GDP, at the end of 2008. The rapid increase in these ratios was the reason for the downgrading of Jamaica's credit rating earlier in the year.

Debt servicing of J\$ 120 million constituted 47% of the expenditure budget, but this was less than the 60% share of the year before. The relative importance of debt service payments can be seen in relation to other expenditures. For example, education services were 14.2% of the expenditure budget, while national security and health services were 7.5% and 6.2%, respectively. Despite the limited fiscal space, in 2009 the government increased the amount allocated to social safety net programmes by some 56% in the face of the global recession and has plans to expand these programmes by a further 16% in fiscal year 2010/2011.

To address the difficulties in the fiscal accounts, significant structural fiscal policy changes were expected to occur under the stand-by arrangement. One such change was the introduction of a fiscal consolidation strategy focused on streamlining the public sector, including the divestment of some public bodies. Other changes include reforms to the financial system and a comprehensive debt management strategy. With respect to fiscal consolidation, the government passed legislation to establish a fiscal responsibility framework. In addition, Air Jamaica, the Sugar Company of Jamaica, the Port of Kingston, Norman Manley International Airport and a number of other public entities were to be divested. For the first time, the consolidated accounts of public

Table 2
JAMAICA: MAIN QUARTERLY INDICATORS

	2008				2009 ^a				2010 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	0.3	-0.9	-0.3	-1.1	-3.1	-3.7	-2.3	-2.2
Gross international reserves (millions of dollars)	2 106	2 477	2 281	1 795	1 663	1 661	2 007	1 752	2 414	2 527
Real effective exchange rate (index: 2000=100) ^c	105.4	103.7	99.9	100.3	111.2	115.3	114.8	113.8	105.7	103.0 ^d
Consumer prices (12-month percentage variation)	19.9	24.0	25.3	16.9	12.4	9.0	7.2	10.2	13.3	14.1 ^d
Average nominal exchange rate (Jamaica dollars per dollar)	71.26	71.37	72.12	76.77	86.24	88.92	88.91	89.24	89.62	88.47
Nominal interest rates (annualized percentages)										
Deposit rate ^e	4.9	4.7	5.5	5.5	5.9	5.9	5.9	5.4	4.2	4.0 ^f
Lending rate ^e	22.2	21.8	22.3	23.0	22.5	23.3	22.7	21.9	21.4	21.5 ^f
Stock price index (national index to end of period, 31 December 2000 = 100)	372	380	353	277	273	280	277	288	298	301
Domestic credit (variation from same quarter of preceding year)	6.9	20.4	17.5	32.9	28.6	17.1	12.7	3.0	-7.3	-3.5 ^f
Non-performing loans as a percentage of total credit	2.1	2.2	2.4	2.6	2.8	3.6	3.7	4.2	5.1	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

^b Based on figures in local currency at constant 2003 prices.

^c Quarterly average, weighted by the value of goods exports and imports.

^d Data to May.

^e Average rates.

^f Data to April.

entities were reported as part of the annual budget and it was anticipated that there would be a public sector wage freeze. These changes, coupled with a variety of quantitative performance criteria, were expected to create the conditions for fiscal consolidation while reducing the crowding-out effects these public entities had on the private sector.³

(b) Monetary and exchange-rate policy

The main objective of monetary policy in 2009 was to restore foreign exchange stability and contain inflation. The most important aspect of this policy initiative was the need to respond to the increasing demand for foreign exchange. In the first quarter of 2009, the primary tools of the Bank of Jamaica's monetary policy were the use of certificates of deposit and an increase in the cash reserve

³ The targets related to the primary balance of the central administration, overall balance for public entities, central government direct debt, cumulative net increase in central government-guaranteed debt, the central government accumulation of net arrears, central government accumulation of tax arrears and central government accumulation of external arrears.

requirement. These tools were designed to reduce liquidity in the domestic banking system.

At the end of March 2009, the interest rate on 30-day Bank of Jamaica repos⁴ stood at 17% and that on 90-day repos at 18%. Increased bidding for foreign exchange forced the government to issue higher-cost debt instruments and this helped to restore some stability in the foreign exchange markets. Monetary policy was eased later in the year in response to improved confidence in local financial markets and as a result, interest rates on all open market instruments declined by 450 basis points. By the end of September, for example, interest rates had fallen as markets began to adjust in anticipation of an IMF agreement. By the end of March 2010, the 30-day repo rate stood at 10% and all remaining tenors were withdrawn. Rates on other instruments also tended to decline late in 2009. For example, the average yield on three- and six-month treasury bills dropped from 22.01% and 24.45%, respectively, in December 2008 to 15.95% and 16.8%, respectively, at the

⁴ Repos are monetary policy tools used by the Bank of Jamaica. A repo involves the central bank selling a government security it owns and agreeing to buy back the same security at a specified rate at an agreed future date.

end of 2009. Despite the decline in interest rates, lending to the private sector rose by only 0.9% in 2009, compared with growth of 28% in 2008.

In January 2010, the government launched the Jamaica Debt Exchange, the purpose of which was to trade in high-cost debt for new instruments of longer duration, and this led to a decline in the three- and six-month treasury bill rates to 10.18% and 10.49%, respectively. The success of this programme helped to ease the pressure of meeting immediate interest payment obligations. During 2009, nominal growth in M1 was 7.2%, as against 5% in 2008. In addition, there was slower growth in point of sale transactions with credit cards as households were concerned about servicing their debt. Lending to the private sector increased by only 0.9% in 2009, reflecting the generally depressed economic conditions.

The foreign exchange market was relatively stable in 2009, with a small nominal depreciation of 0.78%, and since the stand-by arrangement the currency has actually appreciated slightly, reflecting the increased foreign exchange inflows from multilateral institutions. For example, the weighted average selling rate of the Jamaica dollar moved from J\$ 89.6 per US\$ 1 at the end of December 2009 to J\$ 89.51 per US\$ 1 at the end of March 2010, a small appreciation of 0.1%.

The central bank's monetary policy stance in 2010 will continue to focus on moderating inflation and maintaining a stable nominal exchange rate in line with the medium-term programme. It is also anticipated that the IMF agreement will help to boost investor confidence and improve domestic investment.

3. The main variables

(a) Economic activity

The 2.7% decline in the Jamaican economy in 2009 was the result of a combination of factors that included weak external and domestic demand, tighter credit conditions in the first part of the year and lower consumption and investment spending. On the external side, the uncertainty in the world economy and recession among major trading partners affected demand. On the domestic side, falling incomes, rising unemployment, lower remittance inflows and tight credit conditions earlier in the year restricted domestic demand. When the sectors are broadly disaggregated into services and goods, it transpires that while the goods sector contracted by 10.3%, the service sector declined by only 0.6%. The main industries that showed some decline were mining and quarrying, manufacturing, transport, storage and communication, and construction; together these sectors represent some 30% of GDP.

At the sectoral level, the most significant decline was in mining and quarrying, which contracted by 50.2% in 2009, so that the sector's share of GDP fell to 2%. This decline was due to lower international demand for alumina and the closure of three alumina companies operating in Jamaica. Apart from alumina, capacity utilization at the lone bauxite plant fell to 71.1% in 2009 from nearly 90% the year before. Mining and quarrying is also an important foreign exchange earner and bauxite's and alumina's contributions to traditional domestic export

earnings fell by 25.4% and 70.1%, respectively, between 2008 and 2009. It is anticipated that there will be greater activity in both industries this year as world demand for these commodities revives.

Manufacturing declined by 5% in 2009 to 8.3% of GDP. This decline was far greater than that seen in 2008 (1.4%) and was mainly due to falling food and beverage production. Manufacturing suffered from weak external and domestic demand due to lower incomes.

A noteworthy performance was rendered by the agriculture, forestry and fishing, which improved by 12.1% in 2009 and contributed 5.6% of GDP. Because of weak domestic demand, the construction sector declined by 4.6% in 2009 to 8% of GDP. Both private and public sector investments were affected and this showed up in lower cement sales.

The electricity and water sector grew by 2.2% to 3.6% of GDP because of increased generating capacity. There was also the return to normal levels of electricity generation after the disruption from tropical storm Gustav. Alongside electricity, water production also improved.

The hotel and restaurant sector contracted marginally by 0.8% in 2009 to account for 25.1% of GDP, a slight change from the previous year's growth of 0.2%. However, this sector performed relatively well, especially considering that it contracted sharply in almost all other Caribbean countries. The decline in growth was a reflection of weak international demand for travel consequent on lower incomes in major travel markets abroad and lower

demand for restaurant services at home. However, this slower growth was moderated by the normalization of the industry after the tropical storm in 2008 and the fallout from Mexico due to the influenza A (H1N1) virus there, and by heavy discounting on the part of Jamaican tourist operators to increase capacity utilization. As a result, total stopovers actually increased by 3.6% in 2009.

(b) Prices, wages and employment

Headline inflation declined to 10.2% in 2009, well down from the 16.9% inflation rate of the previous year. This decline was due to moderate price increases for imported food and an improvement in agricultural production. Significant increases occurred in the Greater Kingston Metropolitan Area and other urban centres, where prices rose by 11% and 11.6%, respectively, while the rate of increase was less in rural areas.

Price increases were largely due to developments in the categories of housing; water, gas, electricity and other fuels; food and alcoholic beverages; and miscellaneous goods and transport, which saw rises of 23%, 12.9%, 8.1% and 6.1%, respectively. These sectors accounted for 77.1% of the overall price increase. Prices were also pushed higher by a number of revenue-raising measures, such as an increase in the general consumption tax rate and the special consumption tax on fuels.

Under the stand-by arrangement with the IMF, it is anticipated that inflation will decline to between 7.5% and 9.55% in fiscal year 2010/2011. The figures for the quarter ending in March 2010 show that the CPI rose by 4.1%, which was an increase on the 2.8% for the December 2009 quarter and 1.3% higher than in the March 2009 quarter. These increases have been linked to tax rises that have impacted transportation and other household costs.

In 2009, the global recession and lower production at home impacted employment. The employed labour force declined from 1,174,500 in 2008 to 1,113,400 in 2009 and the average unemployment rate was 11.4%. During this period, the unemployment rate for men rose from 8.1% to 8.7%, while for women it rose from 14.5% to 15.1%. It appears that the decline in women's employment occurred mostly in the female-dominated retail sector, which was affected by lower domestic demand. The largest loss of

jobs in 2009 (7,500 workers) occurred in this sector. It is anticipated that with wage restraint under the IMF arrangement and an easing of the international recession, business activity will improve in 2010 and employment will increase.

(c) The external sector

In 2009, the current account deficit of the balance of payments narrowed from US\$ 3,223 million (23% of GDP) in 2008 to US\$ 911.9 million, or 7.3% of GDP. This improvement was due to an amelioration in the balance on the combined goods and services accounts of the balance of payments, whose deficit declined from 33% to 19% of GDP in 2009. In particular, imports of goods declined from 55% of GDP in 2008 to 36% of GDP in 2009 (a 42% drop in imports). Remittances from abroad, which are an important element in the current transfers balance, fell from US\$ 2,021.3 million in 2008 to US\$ 1,791.5 million in 2009. As a share of GDP, however, remittances remained constant at 14.4%. There seems to have been some improvement since then, as remittances increased by 9.7% year-on-year from January to March 2010, whereas over the same period in 2009 they declined by 15%.

The income balance registered a smaller deficit, moving from US\$ 680 million in 2008 to US\$ 586 million in 2009, while the capital and financial account balance had a smaller surplus, down from US\$ 3,118 million (22.2% of GDP) to US\$ 868 million (7.0% of GDP) in 2009. This result was partly due to the decline in investment from abroad.

However, net private and official inflows were not sufficient to cover the current account deficit, and the net international reserves of the Bank of Jamaica declined by US\$ 43.6 million to US\$ 1.57 billion in December 2009.

By March 2010, gross reserves were US\$ 2.4 billion, or 17 weeks of goods and services imports. Gross reserves were buoyed up by the receipt of US\$ 640 million from the IMF as part of the stand-by arrangement plus an additional US\$ 200 million from the Inter-American Development Bank and a further US\$ 199.5 million from the World Bank. It is projected that as international demand improves, the current account deficit may decline to about 5.5% of GDP.