

## JAMAICA

### 1. General trends

The Jamaican economy faced severe challenges in 2012 due to the delays in the signing of a new IMF agreement and the consequent uncertainty as growth continued to weaken. Economic growth in 2012 was negative at 0.3%, with the goods sector declining by 1.5% and the service sector showing no growth. This was due to weak international demand, especially for major exports, and weak domestic demand as well as the uncertainty generated by the lack of a new IMF agreement (which was not signed until April 2013).

As a result of the signing of an extended Fund facility with the International Monetary Fund, it is now expected that there will be greater confidence in the economy due to expected foreign exchange inflows from IMF, the World Bank and the Inter-American Development Bank in support of Jamaica's medium-term economic programme. This programme is aimed at fiscal consolidation and medium-term growth. In addition, the country's international reserve position is expected to improve due to the signing of the IMF agreement and the fact that other international financial institutions have promised additional financial resources. The economy is expected to grow at 0.5 % in 2013 and will show more robust growth in the following year.

First-quarter economic performance in 2013 resulted in negative growth of 1.3% with the biggest decline (10%) occurring in agriculture, followed by a 6.8% drop for mining and quarrying. Inflation in 2012 inched up to 8% from 6% in 2011 due to draught conditions in the early part of the year followed by Hurricane Sandy, which affected food prices later in the year. Imported inflation due to the pass-through of higher grain prices and exchange rate depreciation also helped to increase this rate.

The fiscal situation continued to be a challenge as the fiscal deficit was 4.1% of GDP with a primary surplus of 5.3%, both of which represented improvements over last year due to attempts at fiscal consolidation. The debt-to-GDP ratio, which was 130%, continued to depress the economy as a large proportion of government expenditure (55%) went towards debt repayments. The February 2013 national debt exchange was a success, as more than 97% of investors took the offer. The objective was to reduce interest rates and lengthen maturities of government debt instruments. The current account deficit narrowed to 12.5% of GDP, aided by lower imports due to depressed demand, and, as a consequence, lower deficits in the income and goods sub-accounts. Lower private and official investment inflows caused the net international reserves of the Bank of Jamaica to decline by US\$ 839 million in 2012.

### 2. Economic policy

#### (a) Fiscal policy

The immediate challenge facing the Jamaican economy is linked to the fiscal situation, which remains extremely weak. The fiscal overall and primary balances as a share of GDP were a negative 4.1% and a positive 5.3% and represented improved performance in fiscal year 2012 relative to fiscal year<sup>1</sup> 2011. The improvement also reflected attempts at fiscal consolidation in anticipation of the signing of an

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<sup>1</sup> The fiscal year runs from 1 April to 31 March of the following year.

IMF agreement (extended Fund facility) that was submitted to IMF in April 2013. The programme will run for four years and will be underpinned by a number of obligations aimed at controlling public spending and raising revenue. Between 2011 and 2012 tax revenue increased from 22.9% of GDP to 23.6% of GDP while expenditure declined from 31.9% of GDP to 29.5% of GDP. The revenue improvement was underpinned by a number of revenue measures including a widening of the general consumption tax base which was accompanied by a slight decline in the rate from 17.5% to 16.5%. In addition, a number of tax rates were increased including a tax on dividends payable to residents. On the expenditure side, capital and other spending tended to be below the amounts budgeted. For example, while capital expenditure was 4.2% of GDP in 2011, it fell to 2.8% in 2012. This decline was due to delays in executing capital projects.

The huge public debt continued to be the biggest fiscal challenge as the debt-to-GDP ratio stood at 130% at the end of 2012, of which 56.8% was external debt. The external debt in Jamaican dollar terms increased by 2.4% in 2012 due to the depreciation of the Jamaican dollar. It is anticipated that debt sustainability should improve under the IMF programme, and in February 2013 the national debt exchange was successfully launched. The IMF programme is underpinned by a legislated fiscal responsibility framework (FRF) under which by the end of fiscal year 2015/2016, the overall fiscal balance should be zero, the debt-to-GDP ratio should be under 100% and there should be a wage bill of no more than 9% of GDP. These targets are a bit ambitious in light of low growth and weak demand in major export markets. The government will also address public debt reduction through debt-asset swaps (for example, land and buildings) by at least 1% of GDP over the IMF programme period. A preliminary valuation of these assets will be completed by end-June 2013. The legal and administrative processes involved in the exchange of these assets will be fully laid out, an action plan for their completion developed by September 2013 and the specific operations will be executed before the end of fiscal year 2013/2014.

## **(b) Monetary policy**

The monetary policy stance was mildly contractionary in 2012, in light of the deteriorating exchange rate, growing economic uncertainty and the need to contain inflation. The money supply increased by 4.6%, which was about half the expansion in 2011, while interest rates on the bank's 30-day certificates of deposit were maintained at 6.25% throughout the year. The lack of money supply expansion would have been linked to the decline in remittances as well.

The weighted average interest rate in 2012 inched up slightly to 18.4% while the deposit rate fell from 2.44% to 2.10%, which resulted in an increase in the interest rate spread. In the March quarter of 2013, the overall weighted average lending rate of commercial banks declined to 17.97% and there were declines in average lending rates on all categories of private sector loans.

Credit to the private sector, however, grew by 16.2% in 2012; the bulk of this was loans and advances made up of a mixture of business and personal loans. Business lending rose by 15.9% while personal lending increased by 22.1%. The latter may have been driven by loans for motor vehicle purchases and debt consolidation. While the credit expansion seems unusual in a fairly depressed environment, it may well be that a substantial portion of these loans was directed to foreign exchange purchases. It is also important to note that the ratio of nonperforming loans to total loans improved in 2012. In the March quarter of 2013 the stock of credit to the private sector grew by 5.3% relative to the December 2012 quarter. This is significant in light of the uncertainty in the economy. The credit expansion was largely loans and advances, which grew by 6.3%; this growth was stronger than the expansion seen in the last five March quarters. The majority of loans and advances went to the following sectors: electricity, gas and water; construction and land development; and entertainment.

In early 2013, in anticipation of the signing of the IMF agreement, the Bank of Jamaica launched an expansionary policy to stimulate growth through investment. As a result, the bank cut its policy rate to 5.75%. This adjustment was in the context of generally weak demand conditions and moderate inflation expectations, despite the depreciation of the exchange rate. The lowering of the bank's policy rate was consistent with the successful implementation of the national debt exchange, which resulted in a decline in interest rates on selected domestic Government of Jamaica securities between 1 and 5 percentage points. In addition, in the March quarter, there was a decline in the expansion of broad money (M3) by 0.6% in comparison with a 2% increase in the prior-year quarter. This was due to a US\$ 241.3 million decline in net international reserves.

Given financial stability concerns, a contingency planning framework is in place with the Financial Regulatory Council (FRC) taking the lead role in ensuring appropriate coordination and communications. The FRC is an inter-agency policy-level group chaired by the Bank of Jamaica. Funds from the multilateral institutions will be devoted to re-establishing a Financial Sector Support Fund (FSSF) as a backstopping mechanism, primarily to provide temporary assistance to solvent financial institutions, in the amount of approximately US\$ 760 million. This fund was established by the government and will be administered by the Bank of Jamaica, as was the case in 2010.

#### **(c) Exchange rate policy**

The foreign exchange market faced excess demand in 2012, and the Bank of Jamaica was very vigilant in trying to support the currency in light of the increasing uncertainty surrounding the Jamaican economy. This was due to the decline in private inflows and lower official receipts relative to 2011. Loss of confidence and some capital flight saw the Jamaican dollar weaken against the United States dollar. The exchange rate depreciated to J\$ 92.7=US\$ 1 at the end of 2012, which was a nominal depreciation of 6.8%. In the March quarter, the weighted average selling rate of the United States dollar depreciated by 6% to J\$ 98.98=US\$ 1. This followed a depreciation of 3.3% in the December quarter and was above the average depreciation rate of 2.1% in the preceding five March quarters. This suggested the impact of growing uncertainty on the financial system. The increased pace of depreciation is linked to a US\$ 255.3 million decline in net private capital flows during the quarter. The exchange rate is likely to depreciate more slowly now that an IMF agreement is in place.

#### **(d) Other policies**

Jamaica's macroeconomic policy will be driven by the 48-month arrangement under the IMF extended Fund facility, which will provide some US\$ 750 million in financial support. As part of the prerequisites, a new tax package designed to raise some J\$ 19.9 billion was implemented to narrow the large budget deficit, and a national debt exchange was implemented in February 2013. The debt exchange was geared at reducing the debt-to-GDP ratio by at least 8.5% by 2020. The agreement, which is underpinned by a medium-term macroeconomic policy, will be monitored quarterly from 25 April 2013 to 20 March 2017, with the outcome in each case triggering the release of resources. In light of the fiscal challenges and as part of the legislated Fiscal Responsibility Framework, the government is committed to achieving several targets by fiscal year 2015/2016. Among these are an overall fiscal balance that is zero, a debt-to-GDP ratio of no more than 100%, and a wage-to-GDP ratio of no more than 9%. The target for the primary surplus will be 7.5% in fiscal year 2013/2014; to this end, a series of revenue measures are contemplated that will raise J\$ 23.7 billion in additional revenue. Several of the measures will include increases in tax rates.

Central to the medium-term strategy is the containment of expenditure, through a number of measures. Among these will be the containment of wages, which are a large percentage of recurrent expenditure. The government has signed a memorandum of understanding with the public sector and trade unions, but the effectiveness of this agreement will hinge on inflation control. Other measures are improved targeting of social spending to save resources and the reform of the public sector through the elimination of posts and non-filling of positions. There will be a five-year public sector investment programme to manage capital spending, as well as monitoring of public bodies to avoid debt build-up.

The programme broadly aims at generating growth of at least 2% by fiscal year 2016/2017, premised on the assumption that investment plans will be implemented and structural reforms will be successful. Inflation is targeted to be 8.75% in fiscal year 2012/2013 and around 8% by fiscal year 2016/2017. In addition to fiscal consolidation, it is anticipated that the balance of payments deficit will be reduced to sustainable levels.

Some of these policies have downside risks. The most significant is the challenge of raising additional taxes in an environment of weak domestic and international demand as well as weak demand for domestic and foreign investment.

### **3. The main variables**

#### **(a) The external sector**

The data for 2012 suggest that Jamaica's current account deficit of the balance of payments improved in 2012 by US\$ 207 million to reach 12% of GDP. This was due to a reduction in the deficits in a number of sub-accounts. For example, imports declined by 2.0% while exports saw a marginal increase of 0.2%, with the overall goods balance recording a deficit of 2.8%. The important service account surplus declined by 3.9% relative to last year, due to marginal increases in travel receipts and a decline in other services and transport. This was partially as a result of reduced port activity. The small rise in travel receipts was due to the rise of a mere 1% in stopover visitors and a 17.4% increase in cruise arrivals, which are not the main source of tourist income. The data available for January 2013 suggested that arrivals are down by 4%. The income account showed improvement with a deficit of 2.2%, much of which was attributable to lower investment income going abroad and a decline in interest payments by the government. The performance of transfers was also weak: gross private transfers made up of remittances rose by 0.8% for 2012 compared with 2.5% in 2011; this is related to challenging economic conditions in major source markets such as the United States. The capital and financial account surplus was 7.2%, reflecting a decline in net private and official investment due to delays in signing the IMF agreement. Overall net private and official investment were insufficient to cover the current account deficit, and net international reserves deteriorated by US\$ 839 million to US\$ 1.126 billion or just over three months of import cover. Given the IMF agreement and promises of financial support from the IDB and the World Bank, the balance of payments should improve before the end of the year. For the first quarter there was an increase in net export demand as exports of goods and services expanded by 12.9% while imports of goods and services declined by 4.4%. The increase in exports was driven by non-traditional exports.

#### **(b) Economic activity**

The overall performance of the economy in 2012 was disappointing, with GDP shrinking by 0.3% as a number of sectors declined. Among these were mining and quarrying, which fell by 9.1% (contributing 2% to GDP); construction dropped by 3.8% (contributing 7% to GDP); and transport,

storage and communications contracted by 1.6% (contributing 11% to GDP). The decline in construction reflected the level of uncertainty in the economy, while mining and quarrying reflected the challenges in the bauxite sector due to slowing demand for alumina and the decline in capacity utilisation partly due to mechanical difficulties. In terms of sectors that grew positively, agriculture, forestry and fishing grew by 2.6% (contributing 7% of GDP), while hotels and restaurants grew by 1.8% (contributing 6% of GDP). Growth in agriculture was much slower in 2012 than in 2011 and reflected modest expansion in domestic agriculture and the impact of the hurricane plus drought conditions in the early part of the year. Other growth sectors were wholesale and retail commerce (0.4%) and financial institutions and insurance (0.2%). The first quarter data suggested that the goods producing sectors (agriculture, mining and quarrying, and construction) declined by 2.8% while the service sectors remained flat with growth of less than 1%. The overall impact on growth was a 0.7% decline. The full impact of the hurricane was felt during this quarter, as agriculture declined by 10% and the problems in mining continued as it posted a 6.8% drop.

It is expected that with weak domestic and international demand, the economy will grow by 0.5% in 2013 and will show higher rates in future years as the IMF programme begins to inspire more confidence in the economy.

### **(c) Prices, wages and employment**

Inflation was 8% in 2012 compared with 6% in 2011; the factors responsible for this were tax increases, food price increases in the wake of Hurricane Sandy, imported inflation due to grain prices earlier in the year and the exchange rate pass-through. At the same time, inflationary impulses were moderated by some reduction in oil prices and the generally weak domestic demand conditions. Price increases occurred in the three major regions of Jamaica: the greater Kingston Metropolitan Area (10.0%), the other urban centres (6.9%) and rural areas (6.9%). The increases in prices were largely due to a 14.3% rise in food and non-alcoholic beverage prices. A significant source of the price increase has been the broadening of the general consumption tax base, even though the rates were cut slightly. Inflation in the March quarter was 2.7%, similar to the rate in the December quarter. The outlook for 2013 is an inflation rate of near 10%, which would reflect demand pressures and higher import prices.

Real wages contracted by 3.2% in 2012, compared with 1.8% growth in 2011. This reduction was seen across all sectors except mining and quarrying. There were significant declines in real wages (12.4%) in the hotel and restaurant sector, reflecting the smaller demand for labour over that period.

Weak growth conditions drove the unemployment rate up from 13.7% in October 2012 to 14.2% in January 2013. The rate of unemployment continues to vary by gender, with the male unemployment rate at 10.3% in January 2013 and the rate for females at 18.9%. Unemployment may remain at these high rates due to the lacklustre economic growth projections in the short to medium term.

Table 1  
**JAMAICA: MAIN ECONOMIC INDICATORS**

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	1.4	1.0	2.7	1.4	-0.6	-3.0	-1.3	1.3	-0.3
Per capita gross domestic product	0.7	0.4	2.1	1.0	-1.0	-3.3	-1.6	0.9	-0.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-11.2	-6.8	16.2	-6.0	-5.1	12.1	2.2	9.8	2.6
Mining and quarrying	2.2	2.8	1.2	-2.7	1.1	-52.1	-4.0	19.4	-9.1
Manufacturing	1.4	-4.4	-2.3	0.2	-1.2	-4.6	-3.2	1.8	-0.7
Electricity, gas and water	-0.1	4.2	3.2	0.6	0.9	2.2	-4.3	1.6	-0.3
Construction	8.4	7.5	-1.9	4.6	-5.5	-5.8	-4.2	0.8	-3.8
Wholesale and retail commerce, restaurants and hotels	2.1	2.1	3.8	1.7	0.7	-1.1	-1.7	0.9	0.7
Transport, storage and communications	1.4	0.9	4.4	3.3	-2.2	-4.4	-2.4	-1.9	-1.6
Financial institutions, insurance, real estate and business services	2.4	0.4	1.7	3.3	1.2	0.8	-2.5	-0.5	0.2
Community, social and personal services	0.9	1.1	2.1	1.2	0.1	0.1	0.9	-0.1	-0.3
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-502	-1 071	-1 183	-2 038	-2 793	-1 128	-934	-2 110	-1 906
Goods balance	-1 944	-2 581	-2 943	-3 841	-4 803	-3 088	-3 259	-4 258	-4 143
Exports, f.o.b.	1 602	1 664	2 134	2 363	2 744	1 388	1 370	1 665	1 667
Imports, f.o.b.	3 545	4 246	5 077	6 204	7 547	4 476	4 629	5 922	5 810
Services trade balance	578	608	628	425	428	770	810	670	644
Income balance	-583	-676	-616	-662	-568	-668	-495	-518	-403
Net current transfers	1 446	1 578	1 749	2 040	2 150	1 858	2 010	1 996	1 996
Capital and financial balance c/	1 196	1 301	1 413	1 598	2 688	1 098	586	1 905	1 065
Net foreign direct investment	542	581	797	751	1 361	480	169	144	273
Other capital movements	655	720	616	847	1 328	618	416	1 761	793
Overall balance	695	230	230	-440	-105	-29	-348	-205	-840
Variation in reserve assets d/	-686	-228	-230	440	105	29	-431	205	841
Other financing	-9	-2	0	0	0	0	779	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) e/	107.7	100.0	102.1	105.0	99.2	111.1	98.5	96.2	96.2
Net resource transfer (millions of dollars)	605	623	798	937	2 120	430	871	1 386	662
Gross external public debt (millions of dollars)	5 120	5 376	5 796	6 123	6 344	6 594	8 390	8 390	8 875
Employment	<b>Average annual rates</b>								
Labour force participation rate f/	64.3	64.2	64.7	64.9	65.4	63.5	62.4	62.3	62.7
Unemployment rate g/	11.7	11.3	10.3	9.8	10.6	11.4	12.4	12.6	13.7
Open unemployment rate h/	6.4	5.8	5.8	6.0	6.9	7.5	8.0	8.4	9.2
Prices	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	13.6	12.6	5.6	16.8	16.9	10.2	11.8	6.0	8.0
Variation in nominal exchange rate (annual average)	6.2	2.2	6.0	4.8	5.7	21.2	-1.0	-1.6	2.9
Nominal deposit rate i/	6.7	5.9	5.3	5.0	5.1	5.8	3.5	2.3	2.1
Nominal lending rate j/	25.1	23.2	22.0	22.0	22.3	22.6	20.3	18.3	17.9

Table 1 (concluded)

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
Central government k/	<b>Percentajes of GDP</b>								
Total revenue	27.8	26.7	27.0	29.0	27.7	28.1	27.3	25.9	26.1
Tax revenue	24.2	23.2	24.0	24.8	24.7	24.9	24.3	23.4	23.9
Total expenditure l/	32.0	29.7	31.6	33.2	35.2	40.3	32.4	32.4	31.2
Current expenditure	30.3	27.5	28.6	28.6	31.1	36.2	28.9	28.1	28.3
Interest	14.9	12.6	12.5	11.5	12.6	17.7	11.1	9.7	9.6
Capital expenditure	1.8	2.2	3.0	4.7	4.1	4.1	3.5	4.3	2.9
Primary balance	10.6	9.6	7.8	7.2	5.0	6.3	4.7	3.3	4.5
Overall balance	-4.3	-3.0	-4.7	-4.3	-7.6	-11.4	-6.4	-6.5	-5.1
Public debt	...	121.1	117.7	113.0	120.3	134.4	136.1	131.3	133.3
Money and credit	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	36.0	34.1	30.4	30.6	34.4	34.8	27.5	27.8	29.2
To the public sector	23.3	20.7	14.9	12.9	14.5	16.6	11.5	10.4	9.9
To the private sector	13.3	14.0	15.8	18.3	20.8	19.6	18.1	19.0	20.9
Others	-0.6	-0.6	-0.4	-0.6	-0.9	-1.4	-2.1	-1.6	-1.6
Monetary base	7.2	7.1	7.4	7.4	7.2	7.6	7.4	7.4	7.4
Money (M1)	34.0	32.6	32.7	33.9	31.4	31.1	29.3	28.3	28.4
M2	22.7	22.2	23.1	22.9	21.1	20.3	20.0	19.7	19.3
Foreign-currency deposits	11.2	10.4	9.6	11.0	10.3	10.8	9.3	8.6	9.1

**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 2000 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) indicates an increase in reserve assets.

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

f/ Nationwide total.

g/ Nationwide total. Includes hidden unemployment.

h/ Nationwide total. Includes an adjustment to the figures for the economically active population for exclusion of hidden unemployment.

i/ Savings interest rate.

j/ Average lending rate.

k/ Fiscal years, from April 1 to March 31.

l/ Includes statistical discrepancy.

Table 2  
**JAMAICA: MAIN QUARTERLY INDICATORS**

	2011				2012				2013	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	1.5	1.9	0.3	1.5	-0.1	-0.2	-0.2	-0.9	-1.3	...
Goods exports, f.o.b. (millions of dollars)	418	462	407	378	444	427	417	460	...	...
Goods imports, c.i.f. (millions of dollars)	1 390	1 442	1 523	1 568	1 469	1 443	1 538	1 454	...	...
Gross international reserves (millions of dollars)	3 435	3 157	2 949	2 820	2 639	2 385	2 116	1 981	1 718	1 864 c/
Real effective exchange rate (index: 2005=100) d/	96.3	97.0	96.4	95.1	95.3	95.6	96.7	97.1	97.5	99.2 c/
Consumer prices (12-month percentage variation)	7.9	7.2	8.1	6.0	7.3	6.7	6.6	8.0	9.1	9.2 c/
Average nominal exchange rate (Jamaica dollars per dollar)	86	86	86	86	87	87	89	91	95	99
Nominal interest rates (annualized percentages)										
Deposit rate e/	2.4	2.2	2.3	2.1	2.1	2.1	2.1	2.1	2.0	1.6 f/
Lending rate g/	18.5	18.1	18.4	18.3	18.4	17.8	17.5	17.4	17.2	17.3 f/
Interbank rate	4.0	3.4	3.3	3.7	3.6	4.7	6.7	3.7	5.2	3.8 f/
Monetary policy rates	7.0	6.8	6.4	6.3	6.3	6.3	6.3	6.3	6.1	6.1 f/
Sovereign bond spread, Embi Global (basis points to end of period) h/	405	400	629	637	579	640	662	711	680	623
International bond issues (millions of dollars)	400	-	-	294	250	-	1 500	-	1 300	- c/
Stock price index (national index to end of period, 31 December 2005 = 100)	83	85	88	91	87	84	83	88	78	83
Domestic credit (variation from same quarter of preceding year)	-11.6	-5.2	-5.2	6.7	10.4	10.2	13.8	12.5	15.8	17.1 c/

**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 2000 prices.

c/ Figures as of May.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Savings interest rate.

f/ Figures as of April.

g/ Average lending rate.

h/ Measured by J.P.Morgan.