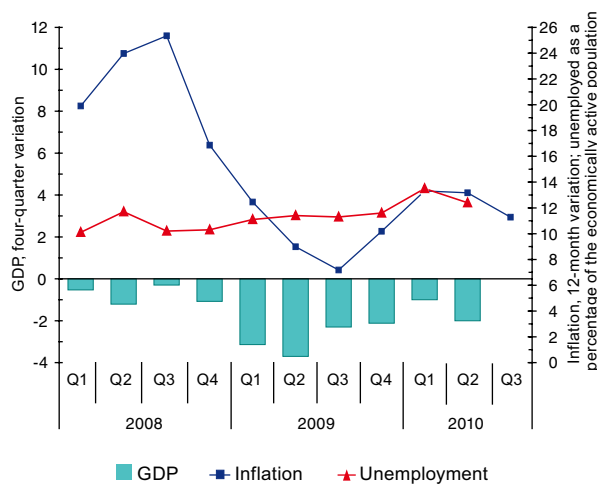


Jamaica

Despite substantial inflows under a 27-month stand-by agreement with the International Monetary Fund (IMF), Jamaica’s economic performance will remain lacklustre in fiscal year 2010/2011. Growth is expected to stand at between -0.5% and 0.5% in 2010. The budget for fiscal year 2010/2011 was crafted during one of the most challenging periods in recent years due to the unfavourable international economic and financial climate generated by the lower levels of economic activity in the world’s major economies. The IMF agreement will formalize a commitment to fiscal austerity measures aimed at forestalling any increase in the country’s massive debt burden and enabling the government to avoid default. The passage of a fiscal responsibility law and any future amendments should in time help to reduce the overall public-sector deficit. While investor sentiment has improved significantly since the approval of the agreement, the situation remains delicate given the additional demand generated by tropical storm Nicole and the impact of the austerity measures applied to the social sector. Extraordinary expenditure of US\$ 80 million for flood damage, recently approved by IMF, will provide much-needed relief, given the extensive damage to infrastructure in various areas of the country.

The budget presented for fiscal year 2010/2011 provided for a deficit equivalent to 6.5% of GDP, which was smaller than the central government deficit of 10.9% of GDP, recorded in 2009/2010 (April-March). Over the period April to August, revenues and grants surpassed budget estimates by 4.2%, although there were declines in non-tax revenue, capital revenue and the bauxite levy. Expenditure was 3.6% below budget estimates for the period April to August, with the biggest decline occurring in capital expenditure. It appears that the government will meet its overall fiscal target for fiscal year 2010/2011, since the IMF programme does not allow for much flexibility. In fact, the primary surplus for April to August was larger than budgeted, with an increase of 49.6%. Meanwhile, the public debt, which represented 130% of GDP in 2009/2010, is expected to decline only slightly by the end of the fiscal year because of sluggish GDP growth.

JAMAICA: GDP, INFLATION AND UNEMPLOYMENT



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

During the quarter ending September 2010, the Bank of Jamaica continued to ease its monetary policy stance in the face of weak domestic demand: it reduced the cash reserve requirement of deposit-taking institutions by 2% to 12%. This reduction occurred in a context of improved inflation prospects, a continued reduction in market-determined rates and a generally weak economy. During the quarter, the Bank slashed the interest rate applicable to its 30-day certificates of deposit (CD) by 100 basis points to 8.0%. The stock of private-sector credit extended by commercial banks for the September quarter grew by 1.0% to J\$ 220 billion, its highest level since December 2009. Most of this was personal lending (90%) with the rest going to the production sector.

The foreign-exchange market was relatively stable during the third quarter of 2010 and this reflected continued investor preference for Jamaican-dollar-denominated assets, particularly during the first two months of the quarter. Although inflows from new IMF lending will support the currency in the outlook period, a widening current-account deficit will lead to some weakening over the course of the coming months. Following an appreciation to around J\$ 85=US\$ 1 in the months leading up to October, reflecting an improvement in the current account, policy interventions and improved investor confidence, the exchange rate is expected to stabilize given the confidence springing from the IMF programme. At worst, with the increase in imports and other sources of currency demand, the currency could sustain a modest nominal depreciation to stand at J\$ 87.06=US\$ 1 by the end of 2010 and J\$ 88.09=US\$ 1 by the end of 2011.

Jamaica's output growth is projected to be between -0.5% and 0.5% for 2010. Real GDP contractions of 0.4% in the first quarter of 2010 and 0.1% in the second quarter resulted in a 0.8% decline in the first half of 2010. The September quarter saw weak growth of between 0.0 and 1.0%, due to the continued contraction in the non-tradable industries, in particular, construction, finance and insurance services, and electricity and water supply. On the other hand, the tradable industries recorded marginal growth supported primarily by the significant expansion in mining and quarrying, which saw bauxite and alumina production increase by 34.1% and 32.3%, respectively. The tourism sector, an important source of employment and foreign exchange, will fare better than the goods-producing sectors in 2010/2011, but it will not return to the robust growth of recent years, owing to weaker demand and delayed investment in new hotels and tourism infrastructure. For example, there was only a 3.1% increase in stopover visitors and a 1.9% rise in visitor expenditure for the first six months of 2010. Aggregate demand continued to decline, albeit, at a

JAMAICA: MAIN ECONOMIC INDICATORS

	2008	2009	2010 ^a
Annual percentage growth rates			
Gross domestic product	-0.9	-2.7	0.0
Per capita gross domestic product	-1.4	-3.1	-0.4
Consumer prices	16.9	10.2	11.2 ^b
Money (M1)	2.2	7.2	8.9 ^c
Real effective exchange rate ^d	-6.2	11.2	-10.4 ^e
Annual average percentages			
Urban unemployment rate ^f	10.6	11.4	13.0 ^g
Central government overall balance / GDP ^h	-7.4	-7.2	...
Nominal deposit rate ⁱ	5.1	5.8	3.7 ^j
Nominal lending rate ⁱ	22.3	22.6	20.6 ^j
Millions of dollars			
Exports of goods and services	5 538	4 038	4 420
Imports of goods and services	10 164	6 356	6 500
Current account	-3 223	-1 128	-580
Capital and financial account ^k	3 118	1 084	420
Overall balance	-105	-44	-160

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund and national sources.

^a Preliminary estimates.

^b Twelve-month variation to October 2010.

^c Twelve-month variation to September 2010.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year variation, January to October average.

^f Includes hidden unemployment.

^g Average of the figures of January and April.

^h Fiscal year.

ⁱ Annualized averages.

^j Average from January to October.

^k Includes errors and omissions.

slower rate than in the comparable period of 2009. This performance reflected decreases in private and public consumption spending and gross fixed capital formation, which cancelled out the effect of the improvement in net external demand.

From January to September 2010, headline inflation was 6.7%. The largest price increase over the period was a 6.8% escalation in the prices of food items over the period. Within this category, vegetables and starchy foods rose by 13.6% and 9.1% respectively. This was due to prolonged drought conditions in the early part of the year and, later, to the effects of tropical storm Nicole. Some other subcomponents of the index also saw significant price increases over this period. For example, although electricity, housing and water rose by just 2.3%, housing rents increased by as much as 12.3%. In addition, transport rose by 19.5% due to increases in fuel taxes and higher fares for public transport.

The current account deficit will widen gradually to 11.9% of GDP by 2011, since import spending will inevitably increase in line with rising global energy prices. Although aluminium prices are forecast to recover in 2010 and 2011, export earnings in the remainder of 2010 will be undermined by weak production levels. Tourism earnings will register minimal growth but will remain steady, underpinning the small services surplus. Although

inflows of remittances in 2010/2011 will remain below 2008 levels, the current transfers surplus will continue to contribute around US\$ 1.9 billion to the current account, a slight increase over 2009. As private capital inflows from international bond issues and foreign direct investment (FDI) remain historically weak, the government will make up the shortfall with capital inflows from multilateral finance institutions. The net international reserves

target under the stand-by agreement for the September quarter was US\$ 1.353 billion, but the actual figure was US\$ 1.693 billion, an increase of US\$ 609.7 million. This was partly due to inflows of US\$ 200 million from the Inter-American Development Bank, despite some decline in private capital inflows. Gross reserves at the end of September stood at US\$ 2.790 billion, or five months of projected goods and services imports.