

JAMAICA

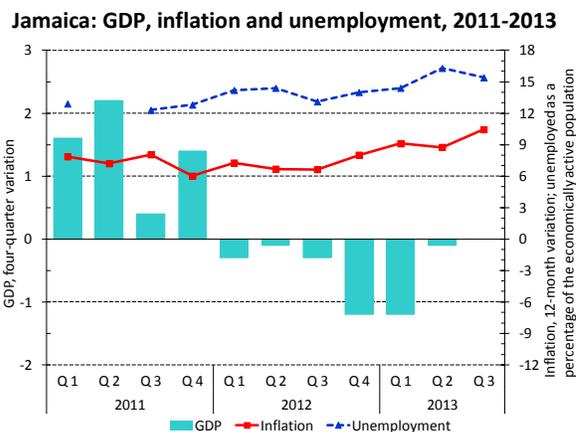
The Jamaican economy posted growth rates of -0.7, -0.4 and 0.7%, respectively, in the first three quarters of 2013. This was partly due to a lack of confidence in the economy on the part of the private sector, and to the fact that external demand for Jamaican exports remained weak. An extended fund facility (EFF) was signed with the International Monetary Fund (IMF) in March 2013 to the tune of US\$ 932 million and the economy passed the first IMF test under the new arrangement and received a disbursement of US\$ 207 million in May of which US\$ 87.9 million was for budgetary support. Overall growth is not expected to exceed 0.1% in 2013, but economic activity is likely to pick up in 2014 to about 1.2%. Meanwhile inflation since December 2012 was 10.1%, partly due to the changes in the value of the Jamaican dollar (J\$), which depreciated by 6% in the first quarter and by a further 2.5% by the end of June.

The fiscal challenges were the most significant as Jamaica sought to restrain its public finances. The passing of the first IMF test in May meant that a number of fiscal targets were met. As regards fiscal operations over the period April-August 2013, expenditure and revenues were 5.3% and 3% below budget, respectively. Over this period the fiscal deficit of J\$ 17.7 billion was some 21% below the budgeted amount. It is important to note that while overall tax revenue was below target, taxes on income and profits (10.1%), dividends (52.7%) and interest (37.5%) were also below budgeted amounts, reflecting the lacklustre economic activity. Given the efforts at containing expenditure, the central government overall deficit is likely to be 1.7% of GDP in 2013, down from 4.0% in 2012.

The total debt stock in 2012 was 137% of GDP and this was reduced to 127% in the January-August period. Over this period the external debt was 45% of total debt. Given the exchange-rate movements (devaluations), the high percentage of debt denominated in foreign exchange poses considerable risks. The debt-to-GDP ratio will remain high for some time and, given the lack of robust growth and low primary surpluses, the ratio cannot be brought down swiftly. In 2013 and 2014 this ratio is expected to remain close to 127% of GDP.

The economic uncertainty has impacted on the movement of the Jamaican dollar, which depreciated by 6% in the first quarter and by 2.5% in the second quarter of 2013. As a result, the weighted average selling rate of the Jamaican dollar vis-à-vis the US dollar was US\$ 1.00 = J\$ 101.38 at the end of June 2013. Since then the rate has fluctuated and is likely to be US\$ 1.00 = J\$ 104.38 at the end of 2013. The depreciation in the second quarter was largely due to the continued weakness of net private capital (NPC) inflows.

In terms of monetary policy, the Bank of Jamaica maintained its policy rate, which is the 30-day certificate of deposit, at 5.25% compared with a rate of 6.26% in 2012. Despite this, however, liquidity was tight as the Bank issued more long-term instruments as part of its open-market operations. Meanwhile the weighted average lending rate declined on average from 18.44% in 2012 to 17.97% in 2013, but was much higher than in June 2012. In the second quarter of 2013, credit to the



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

private sector expanded by 2.7% compared with the corresponding period in 2012. Much of this increase was due to personal and other lending rather than business lending. Meanwhile loans and advances to the business sector grew by only 1.4%. These marginal changes reflected weak domestic demand, sluggish external demand and the risk-averse nature of the domestic private sector.

The net international reserves (NIR) stock was US\$ 1.003 billion at the end of June, US\$ 119.0 million above the outturn for the end of March 2013. The Bank's gross reserves at the end of June 2013 amounted to US\$ 1.88 billion or 12.9 weeks of projected goods and services imports. The net addition of US\$ 28.5 million in reserves in September 2013 results from a rise of US\$ 26.1 million in foreign assets held by the central bank, and a reduction of US\$ 2.5 million in liabilities to IMF. The balance of payments is estimated to improve slightly in 2013 with the current account deficit narrowing from 12% to 9% of GDP in 2013. The lack of confidence by the private sector and the weak domestic and international demand are likely to depress growth at the end of 2013 and in early 2014.

The growth rates in the first three quarters of 2013 were -0.7%, -0.4% and 0.7% respectively. When the data were disaggregated to reveal the contribution of the goods (25%) and service (75%) sectors to real GDP, it was observed that the goods sector had declined by 4.5% and 1.6%, respectively, in the first two quarters the most significant decline was in agriculture, which posted negative growth of 11.4% and 8.0%, respectively, in the same quarters. Mining and manufacturing also declined in the first quarter, while construction rallied slightly (by 0.7%). In the second quarter only mining and construction showed positive growth. The services sector in the first two quarters declined by 0.2% and 0.3% respectively. In the third quarter only manufacture declined within the goods sector, while most industries in the services sector recorded positive results. On the upside, a better performance is forecast for the agricultural sector, the mining sector is showing signs of recovery while services are expected to benefit from the incipient recovery in the overseas market, especially the United States. Economic growth in 2013 was 0.1% and is likely to be 1.2 % in 2014, assuming that external demand, especially for tourism services, improves.

From December 2012 to September 2013, the average inflation rate was 8% and is likely to be 10% in 2013. Inflation, as measured by the All Jamaica 'All Divisions' Consumer Price Index, increased by 2.8% in September 2013, the highest monthly movement experienced since July 2008. This movement was influenced significantly by the hike in bus and taxi fares, which resulted in the transport division's recording the highest movement for the month: 17.1%. Recent increases in the cost of water will also see rises in the overall inflation rate. Assuming a stable exchange rate and stronger demand as the economy recovers in 2014, the inflation rate is likely to climb to 11%.

The IMF agreement has limited any significant wage increases within the public sector. In turn, the weak domestic demand has been due to the depression of real wages and rising unemployment among the workforce. The unemployment rate, which was 14.5% in 2012 jumped to 16.3% in 2013, while the

Jamaica: main economic indicators, 2011-2013

	2011	2012	2013 ^a
	Annual growth rate		
Gross domestic product	1.4	-0.5	0.1
Per capita gross domestic product	4.3	1.5	2.5
Consumer prices	6.0	8.0	10.3 ^b
Money (M1)	7.8	4.7	7.3 ^c
Real effective exchange rate ^d	-2.4	0.0	4.2 ^b
	Annual average percentage		
Open urban unemployment rate ^e	12.6	13.9	15.4 ^f
Central government			
Overall balance / GDP	-6.5	-4.0	-0.5
Monetary policy rate	6.6	6.3	5.9 ^f
Nominal lending rate ^g	18.3	17.8	16.6 ^b
	Millions of dollars		
Exports of goods and services	4 285	4 268	4 610
Imports of goods and services	7 873	7 767	7 750
Current account balance	-2 110	-1 906	-1 247
Capital and financial balance ^h	1 905	1 065	1 967
Overall balance	-205	-841	720

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

^a Estimates.

^b Figures as of October.

^c Figures as of September.

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

^e Includes hidden unemployment.

^f Figures as of July.

^g Average lending rate.

^h Includes errors and omissions.

rates for males and females were 11.7 and 19.9, respectively. Compared with 2012, the male unemployment rate, which was historically lower than that of females, increased by 1.4%, while the female unemployment rate rose by 2.2%. This sharper increase in the female rate may be due to the lack of growth in services. The unemployment rate is likely to remain high due to low domestic activity, combined with weak external demand.