

Jamaica

The Jamaican economy posted growth rates of 1.6% in the January to March quarter and 1.2% in the April to June quarter. It is anticipated that this growth will continue to build gradually, with the International Monetary Fund (IMF) Extended Fund Facility (EFF) in place and growing confidence in the domestic private sector. Overall growth is expected to be 1.2% in 2014 and 1.6% in 2015. Meanwhile, inflation in 2014 is likely to be 9%, providing there are no adverse exchange-rate movements. The exchange rate is likely to depreciate more slowly, as the economy has met a number of quantitative targets and completed a number of reforms under the EFF programme. A recent World Bank report suggests a significant rise in the Doing Business Index which, together with a number of structural reforms, should increase the confidence of both domestic and international investors in the Jamaican economy.

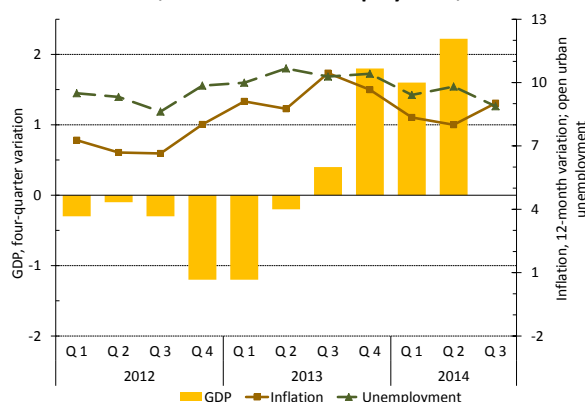
The fiscal challenges continue to be the most significant as Jamaica seeks to control its public finances. In June 2014, IMF concluded its fourth review of the EFF programme and confirmed that the country had successfully met a number of quarterly quantitative targets and structural benchmarks. Central to the programme is expenditure restraint. Over the period from April to September 2014, expenditure and revenues were down by 6.1% and 3.7%, respectively, relative to the budget estimates. At the same time, the fiscal deficit, at J\$ 18.9 billion, was some 24.9% below the budgeted amount over this period.

It is important to note that income and profit taxes as a whole, and taxes on companies other than those in the bauxite industry, were below the government's targets by 3.7% and 30.0%, respectively, suggesting that growth is still lacklustre despite some improvement in business confidence relative to two years ago. It is important to note also that capital expenditure was 43.7% below target, suggesting considerable compression of such spending. Due to the efforts to contain public expenditure, the central government's overall deficit is projected to narrow in 2014, and further improvements are expected in 2015. For these reasons, Standard & Poor's has revised Jamaica's B rating from stable to positive.

The total debt stock in fiscal year 2013/14 was 131.9% of GDP, and a figure of 129.3% is projected for the next fiscal year. Given its high share of foreign-currency denominated debt, devaluations of the Jamaican dollar could further increase the external debt burden. The debt-to-GDP ratio will remain high for some time and, despite efforts to increase primary surpluses, the lack of robust growth means that it cannot be brought down swiftly, so that it is projected at a still considerable 122.7% in fiscal year 2015/16.

By the end of June 2014, the rate of depreciation had slowed to 10.61% from 10.81% the previous quarter. The weighted average selling rate of the Jamaican dollar against the United States dollar was US\$ 1.00 = J\$ 112.20. The decline was

Jamaica: GDP, Inflation and unemployment, 2012-2014



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

due to slower imports and a reduced demand for financing of balance-of-payments transactions. In addition, inflows from current transfers increased by 4.4% relative to the corresponding quarter the year before.

As regards monetary policy, the Bank of Jamaica held its policy rate, which is the 30-day certificate of deposit, at 5.25%, compared with a rate of 6.26% in 2012. The policy rate has been kept unchanged since March 2013 as a way of countering weak domestic demand by helping to stimulate investment. Positive growth in lending to the private sector was only observed in distribution and in agriculture and fisheries. In response to concerns about liquidity constraints in the June quarter, the Bank of Jamaica has also been entering the foreign exchange market, injecting J\$ 31.8 billion and J\$ 12.4 billion into the system in the first and second quarters, respectively. This has also had a downward impact on selected market interest rates. Meanwhile, the weighted average lending rate declined from 16.72% in June 2013 to 14.76% in June 2014, while the average deposit rate fell from 1.50% to 1.40% over a similar period.

Growth in lending to the private sector was lower in the June quarter than the quarter before, despite increased liquidity in the banking system. It was also observed that the ratio of non-performing loans to total private-sector loans fell by 11% on an annual basis.

Net international reserves stood at US\$ 1.0 billion at the end of the first quarter and had risen to US\$ 1.4 billion by the end of the second quarter, or slightly less than 12 weeks of import cover. Reserves were up to US\$ 2.0 billion by the end of November 2014, buoyed by a US\$ 800 million Eurobond issue on the international capital market. Some US\$ 68 million were also received for budgetary support under the EFF after the country passed the IMF test in September 2014. The balance of payments is estimated to have remained broadly unchanged in 2013 and 2014, with the current account balance holding steady at about 10% of GDP. Growing confidence in the private sector and greater international demand are likely to lead to a better performance in 2015.

Growth rates in the first two quarters of 2014 were 1.6% and 1.2%, 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 grew by 5.6% and 3.6%, respectively, in the two quarters, while for services the growth rates were 0.3% and 0.5%, respectively. In the first quarter, only manufacturing declined in the goods sector, while agriculture grew by 18%. For services, the only decline was in government, a drop that was unsurprising given the fiscal consolidation programme put in place by the IMF. In the second quarter, mining and manufacturing declined and agriculture grew by 12%, while in services electricity and water showed some decline alongside government. The World Bank recently reported a significant improvement in the Doing Business Index for Jamaica, and this is likely to translate into better growth outcomes in the medium term, especially given the strong commitment of policymakers to the IMF programme. The projections are

Jamaica: main economic indicators, 2012-2014			
	2012	2013	2014 ^a
	Annual growth rate		
Gross domestic product	-0.6	0.6	1.2
Per capita gross domestic product	-1.1	0.0	0.7
Consumer prices	8.0	9.7	9.0 ^b
Money (M1)	4.7	5.9	3.5 ^c
Real effective exchange rate ^d	-2.7	4.3	4.2 ^b
	Annual average percentage		
Open urban unemployment rate	9.3	10.3	9.4 ^e
Central government			
Overall balance / GDP	-4.1	0.1	-0.7
Nominal deposit rate	2.1	1.6	1.3 ^f
Nominal lending rate ^g	17.8	16.3	15.1 ^f
	Millions of dollars		
Exports of goods and services	4,420	4,353	4,830
Imports of goods and services	7,940	7,730	8,000
Current account balance	-1,905	-1,386	-1,475
Capital and financial balance ^h	518	-812	2,089
Overall balance	-839	-179	614

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

a/ Estimates.

b/ Figures as of September.

c/ Figures as of August.

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

e/ Figures as of July.

f/ Figures as of October.

g/ Average lending rate.

h/ Includes errors and omissions.

for 1.2% growth in 2014 and 1.6% in 2015, based on the expectation that international and domestic demand will improve slightly next year.

The inflation rate was 9.5% in 2013, and the Bank of Jamaica's projection is that inflation in 2014 will be between 7% and 9%. Factors that could cause inflation to rise above this range are higher oil prices and utility rates and exchange-rate depreciation. On the other hand, weaker than expected commodity demand, a fall-off in commodity import prices and expansion in local agriculture are factors that could reduce inflation. Exchange-rate pressure is perhaps the factor most likely to push inflation outside the target range.

The IMF agreement has limited any significant wage increases within the public sector. In turn, weak domestic demand has been due to the depression of real wages and high unemployment in the economy. The unemployment rate dropped from 16.3% in April 2013 to 13.6% in April 2014. While part of the reduction was due to the participation rate, unemployment has also started to decrease, with male unemployment falling from 12.0% to 10.4% over the period and female unemployment, which has traditionally been higher, from 21.3% to 18.4%. At the same time, youth unemployment has been high, with rates of between 22.0% and 24.0%. The unemployment rate is likely to remain elevated for some time before the economy picks up again.