

Jamaica

Jamaica's economic performance improved with respect to the previous year (2.6% in 2006, up from 1.4% in 2005), with the upturn led by agriculture and tourism. Mining slowed and construction and manufacturing stagnated. Favourable growth prospects, the decline in the inflation rate and rising capital inflows allowed the Bank of Jamaica to lower interest rates and shorten its maturity structures. This led to a decrease in the yield on treasury bills, which eased the burden of interest payments on public debt. The external sector performed well, since the capital and financial account surplus more than offset the current account deficit and the stock of net international reserves therefore increased.

The main objective of Jamaica's economic policy is to reduce the public debt stock, which is an obstacle to growth and development. The containment of current and, especially, capital expenditure in the early months of the year underpinned the government's efforts to narrow the fiscal deficit (from 3.3% in fiscal year 2005-2006 to 2.4% for 2006-2007).¹ Achieving this goal requires expenditure restraint and, to a lesser degree, measures to broaden the tax base and improve tax administration. In the first six months of the fiscal year the government remained on track towards its target, with the fiscal gap at 1.2% of GDP. This was mainly thanks to expenditure control efforts, since fiscal revenues fell below target.

Expenditure trends were attributable to the reduction of capital spending and, to a lesser extent, of current expenditure, reflecting lower-than-expected wage payments. In May, the government signed an agreement with the Jamaica Confederation of Trade Unions with a view to controlling the expansion of the wage bill for 2006-2008. Revenues reflected delays in pension-fund tax payments and a decrease in consumption tax receipts owing to the closure of the country's only cigarette factory. The delay in disbursements of grants from the European Union was also a contributing factor.

The deficit was financed from domestic sources. External debt obligations were serviced through the issue

of a Eurobond. The debt stock rose from US\$ 842 billion to US\$ 884 billion between January and August 2006.

The Bank of Jamaica adopted a conservative monetary policy in the first quarter of the year and switched to an expansionary stance thereafter. The factors prompting the change of course included favourable international conditions, rising international reserves and exchange-rate stability (the exchange rate depreciated by 5% between September 2005 and the same month in 2006), as well as a tight fiscal policy, the economic upswing and the fall in the rate of inflation.

In April the monetary authorities shortened open-market instrument maturities and cut interest rates. The central bank eliminated 280- and 365-day instruments and turned its focus to shorter-term paper (with maturities of 30 to 180 days). It reduced interest rates by 650 and 700 basis points, respectively, on 30- and 180-day instruments between April and September. This was reflected in a reduction in the rates on treasury bills (690 basis points from March to September 2006), which reduced the cost of servicing domestic debt towards late 2006.

The decline in the central bank's key rates did not lower the cost of credit and thus failed to stimulate demand for loans. Personal loans constituted the largest component of private credit (46% of the total).

¹ Fiscal year 2005-2006 runs from 1 April 2005 to 31 March 2006.

The pace of economic activity rose with respect to 2005, led mainly by agriculture and tourism. The performance of agriculture (down 7.3% in 2005 and up 14% in 2006) reflected the sector's recovery following the damage caused by natural disasters the year before. The improvement was most visible in traditional export products including bananas, coffee and citrus. Mining slackened its pace of growth slightly with respect to the previous year (2.8% in 2005 and 2.5% in 2006). The sector benefited from rising external demand, but the positive effects of increased capacity in bauxite plants were partly offset by technical difficulties in alumina refineries.

Manufacturing contracted by 1.3% in 2006 (after shrinking by 1% in 2005), reflecting the closure of Jamaica's only cigarette factory and the decline in cement supply in the first two quarters. Construction (7% in 2005 and -2.0% in 2006) reflected the cement shortage, which caused postponements and delays in infrastructure projects. Tourism saw a strong upswing of 14% in 2006, as a result of favourable international conditions, improved marketing efforts and the hosting of leisure events.

The rate of inflation trended downwards to reach single-digit levels (12.9% and 5.8% in 2005 and 2006), thanks to moderate price rises for food products, lower international oil prices and exchange-rate stability. Food and drink was the most influential component in prices (69% of the total), followed by housing and other home expenditures (14% of the total). The rate of unemployment fell slightly, reflecting the overall performance of the economy.

The balance of payments posted an overall surplus, since the current account deficit was more than offset by the capital and financial account surplus. As a result, the stock of net international reserves rose by US\$ 240 million.

Table 1
JAMAICA: MAIN ECONOMIC INDICATORS

	2004	2005	2006 ^a
Annual growth rates			
Gross domestic product	0.9	1.4	2.6
Consumer prices	13.7	12.9	5.8 ^b
Money (M1)	19.0	15.7	14.3 ^c
Real effective exchange rate ^d	-1.4	-7.6	0.2 ^e
Annual average percentages			
Unemployment rate ^f	11.7	11.3	11.2 ^g
Central government overall balance/GDP	-4.8	-3.3	...
Nominal deposit rate	6.7	5.9	5.3 ^h
Nominal lending rate	25.1	23.2	22.1 ^h
Millions of dollars			
Exports of goods and services	3 899	4 095	4 447
Imports of goods and services	5 272	6 077	6 570
Current account	-509	-1 079	-1 117
Capital and financial account	1 203	1 308	1 357
Overall balance	694	229	240

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

^a Preliminary estimates.

^b Twelve-month variation to October 2006.

^c Year-on-year average variation, January to August.

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

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

^f Includes hidden unemployment.

^g Estimate based on data from January to July.

^h Average from January to September, annualized.

The increased current account deficit (US\$ 1.117 billion in 2006 compared with US\$ 1.079 billion in 2005) was attributable to a large rise in merchandise imports (16%) which cancelled out the gains in exports of traditional goods and growth in the tourist sector. The capital and financial account surplus reflected the rise in private capital flows (US\$ 674 million in 2006, up from US\$ 582 million in 2005), mainly to the tourism sector, and the resources generated by an international bond issue.