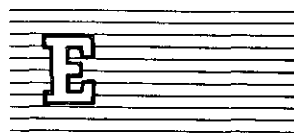


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ECONOMIC SURVEY
OF LATIN AMERICA

1981

JAMAICA



This preliminary version of the *Economic Survey of Latin America, 1981* is being distributed in the form of a general introduction, under the symbol E/CEPAL/L.268, and a number of addenda, each containing a study of the economic evolution of a country of the region. These studies will not be published in alphabetical order, but in order of completion. The final version of the complete *Survey* will be published once the observations regarding this preliminary version have been received.

Notes and explanation of symbols

The following symbols have been used in the tables in this Survey:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (-) indicates a deficit or decrease, unless otherwise indicated.

A full stop (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1969/1970.

Use of a hyphen (-) between years, e.g., 1960-1970, signifies an annual average for the calendar years involved, including the beginning and the end years.

References to "tons" mean metric tons, and to "dollars" United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual growth rates or rates of variation mean cumulative annual rates.

Figures and percentages in tables may not necessarily add up to the corresponding totals, because of rounding.

JAMAICA

1. Recent economic trends: Introduction and summary

In 1981 the Jamaican economy showed a modest but definite reversal of the continued decline in output which it had suffered since the early 1970s. The gross domestic product (GDP) expanded 2% in real terms —the first such increase since 1973 (see table 1), and at the same time inflation decelerated sharply, from almost 30% in 1980 to less than 5% in 1981, while unemployment also went down, even if only slightly.

Though the 1981 recovery was slight indeed, especially in view of the wide gap to be closed, it is certainly impressive given the systematic decline in virtually all indicators which had beset the economy for the previous seven years (see figure 1).

Thus, as of 1973, after 15 years of close to 3% growth in per capita income, the Jamaican economy entered into a tailspin, with per capita income falling for eight consecutive years, at an average rate of 3% per year, so that in 1980 per capita income was one-fourth below its 1972 peak, or virtually where it had stood 20 years earlier.

Moreover, whereas in the earlier 1970s domestic savings were equivalent to 20% of the gross domestic product, in 1980 they had fallen to 6%, less than external savings.

The composition of external capital flows in turn shifted heavily from direct investment in the early 1970s (principally related to the cycle of bauxite expansion) to official borrowing in the period after 1973. As a result, the level of foreign debt, which in 1972 was actually less than the international reserves, increased eightfold by 1980, exceeding 50% of GDP (as opposed to just over 10% in 1972). At the same time, the level of foreign exchange reserves fell from the equivalent of 2.4 months of imports in 1972 to 0.8 months in 1980. Finally, the central government's fiscal deficit rose from 5% of GDP in 1972 to over 12% in 1980, having reached 19% in 1976, while inflation (which was under 10% in 1972) was almost 30% in 1980. In short, a moderately robust economy in the early 1970s had gone into a tailspin after 1972, showing disequilibria on the principal fronts: negative growth of output, sharp declines in savings, heavy indebtedness, and high inflation.

It is with this negative backdrop in mind that the 1981 experience is especially remarkable. Yet important as is the reversal—especially as regards growth and inflation—there are also signs that it may be due to transitory factors (IMF lending) rather than to structural changes which would permit strong sustainable growth.

There is some consensus that at the root of the failures of the Jamaican economy from 1973-1980 was the over-expansion of public sector expenditures, which grew from 15% of GDP in 1972 to over 30% in 1980. Given Jamaica's heavy dependence on the external sector (imports and exports each account for some 50% of GDP), a strongly expansive domestic policy would have short-lived benefits for consumption (these peaked in 1975); rather it would quickly tend to generate balance-of-payments deficits and inflation. Since subsequent efforts at stabilization succeeded in controlling imports via quantitative restrictions but failed to curb public sector growth, private sector growth and exports were hamstrung.

To the extent that private sector growth was limited by supply bottlenecks arising out of quantitative restrictions, the elimination of the latter in 1981 contributed to this turnaround. Similarly, to the extent that uncontrolled government deficits adversely affected private sector activity and fired inflation, their reduction in 1981 no doubt contributed to the sharp decline in inflation.

Nevertheless, two structural problems remained. The balance of payments was strongly in deficit in 1981, with the negative balance on current account equalling almost 14% of GDP, close to

Table 1
JAMAICA: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at factor cost (millions of dollars at 1970 prices)	1 384	1 298	1 298	1 294	1 275	1 206	1 230
Population (millions of inhabitants)	2.04	2.07	2.10	2.13	2.16	2.19	2.22
Per capita gross domestic product (dollars at 1970 prices)	678	627	618	608	590	551	554
Annual growth rates							
B. Short-run economic indicators							
Gross domestic product	-1.6	-6.2	-	-0.4	-1.5	-5.4	2.0
Per capita gross domestic product	-3.1	-5.5	-1.4	-1.6	-3.0	-6.6	0.5
Gross income ^b	2.9	-9.3	1.0	-4.4	-4.8	-3.6	1.0
Terms of trade (goods and services)	19.4	-9.7	3.3	-10.9	-8.9	4.3	-2.6
Current value of exports of goods and services	6.7	-15.4	7.1	16.4	4.5	16.3	2.9
Current value of imports of goods and services	21.1	-13.8	-17.5	13.6	16.2	15.2	20.9
Consumer price index							
December-December	15.7	8.3	14.1	49.4	19.8	28.6	4.7
Variation between annual averages	17.5	9.7	11.2	34.9	29.1	27.3	12.6
Money	20.2	2.4	37.6	17.6	7.6	35.5	-12.9
Wages and salaries ^c	6.2	4.5	-7.8	-14.0	-12.0
Rate of unemployment ^d	20.5	22.4	24.2	24.5	27.7	27.3	25.9
Current income of government	23.8	-5.3	7.5	59.0	7.8	-2.3	41.1
Total expenditure of government	32.5	21.1	3.1	36.9	11.9	14.2	17.0
Fiscal deficit/total expenditure of government ^d	31.4	46.3	44.0	34.9	37.2	46.2	40.0
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-161	-135	71	81	-64	-76	-323
Balance on current account	-288	-307	-47	-61	-149	-175	-338
Variation in net international reserves	-39	-189	-15	-62	-166	81	-180
External debt ^e	706	965	1 052	1 236	1 495	1 607	1 800

Source: CEPAL, on the basis of official data.

^a Preliminary figures.

^b Gross domestic product plus terms-of-trade effect.

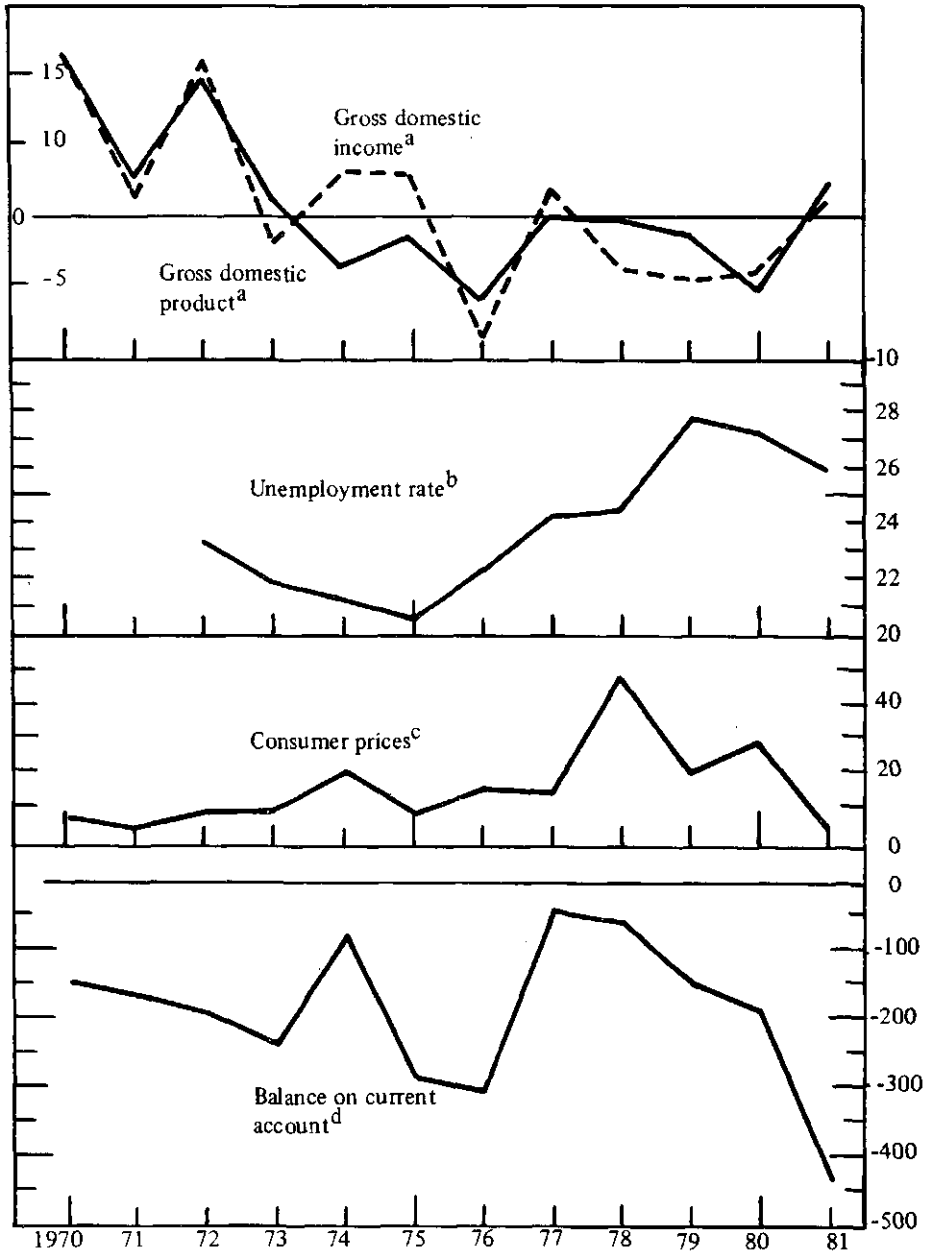
^c Real wages and salaries.

^d Percentage.

^e Public debt (including State-guaranteed private debt) and use of IMF credit (disbursed only).

double the 1980 deficit. Obviously, without the IMF credits import bottlenecks would have continued to plague the economy, for net private capital flows to Jamaica were far less than expected and the volume of exports contracted. More significantly, though the fiscal deficit was reduced, public sector savings were nonetheless negative; ominously, private savings fell to a historic low of 4% of GDP in 1981, considerably down from 1980s 8.5%. In short, the 1981 rise in investment was wholly due to the increase in external savings, since domestic savings fell by 50% to only 3% of GDP. Consequently, it may well be doubted whether private sector confidence has been restored, for IMF funding clearly took the place of domestic savings rather than generating an increase in them, thus suggesting that the private sector adopted a wait and see attitude rather than risking its own resources.

Figure 1
JAMAICA: MAIN ECONOMIC INDICATORS



Source: CEPAL, on the basis of official data.

^aAnnual growth rate.

^bAverage annual rate.

^cPercentage variation December to December.

^dMillions of dollars.

In short, important as was the turnaround of the Jamaican economy in 1981, and significant as was the greater control exercised over government deficits and inflation, sustainable growth calls for considerable increases in exports and domestic savings, neither of which was yet forthcoming.

2. Trends in economic activity

(a) *Global trends*

Three trends characterized the period of the 1970s (see table 2): (i) as a consequence of the expansive policy of the period and the decline in GDP, the share of public sector consumption in GDP rose sharply, from 12% in 1970 to 21% in 1980; (ii) correspondingly, domestic savings plummeted (falling from 20% in 1970 to 6% in 1980), as did investment (which fell to below 16% in 1980: half its 1970 share); and (iii) there was a strong increase in the share of both exports and imports in the economy, reflecting not so much growth in their volume as the rise in their relative prices and the decline of the GDP.

Table 2

JAMAICA: TOTAL SUPPLY AND DEMAND

	Percentage breakdown			Growth rates	
	1970	1980 ^a	1981 ^a	1980 ^a	1981 ^a
Total supply	137.4	153.4	158.8	-4.9	4.8
Gross domestic product	100.0	100.0	100.0	-4.4	2.0
Imports of goods and services ^b	37.4	53.4	58.8	-3.4	12.3 ^c
Total demand	137.4	153.4	158.8	-4.9	4.8
Domestic demand	104.2	103.8	109.4	-12.9	7.5
Gross domestic investment	31.6	15.7	17.0	-22.9	10.2
Gross fixed investment	31.4	14.8	15.3	-22.5	5.4
Changes in stocks	0.2	0.9	1.7	-29.4	100.0
Consumption	72.6	88.1	92.4	-11.1	7.1
Public	11.7	21.0	19.8	-3.8	-3.7
Private	60.9	67.1	72.6	-13.8	11.5
Exports of goods and services	33.2	49.6	49.4	22.1	-1.3

Source: World Bank and IMF.

^aProvisional figures.

^bThe external sector data used in this table differ from those used in the table on balance of payments because the base years differ.

^cReconciled with growth rates obtained from the balance of payments.

In 1981 the increase in public sector consumption was reversed, as was the decline in investment. Yet, significantly, domestic savings declined even further, while the trade deficit clearly worsened: both phenomena which reflect the impact of the IMF's lending programme.

Though the recovery was not at all strong, every sector of the economy expanded (see table 3). Because of its immediate sensitivity to the level of domestic demand, which grew 7 1/2% in 1981, the fastest growth was shown by the commerce and finance sector (7%), followed by agriculture (4%), real estate and business services (3%), and construction (2%).

(b) *Evolution of the main sectors*

(i) *Agriculture.* After two years of negative growth, by approximately 10% and 7% respectively, agricultural GDP grew 4% in 1981. Although an improvement on the previous year's output, this was well below the potential of the sector. This underutilization of potential is all the

Table 3

**JAMAICA: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY, AT FACTOR COST**

	Millions of 1974 Jamaica dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981	1971	1981	1979	1980	1981
Total gross domestic product	1 986	1 957	1 851	1 889	100.0	100.0	-1.5	-5.4	2.0
Goods	808	771	697	710	45.8	37.5	-4.6	-9.6	1.7
Agriculture	188	170	157	164	8.2	8.7	-9.7	-7.4	4.2
Mining	150	148	163	165	7.3	8.7	-1.6	9.9	1.3
Manufacturing	332	316	279	280	17.4	14.8	-4.8	-11.7	0.4
Construction	138	137	98	101	12.9	5.3	-0.7	-28.5	2.4
Basic services	153	153	148	148	6.6	7.9	0.1	-3.3	0.1
Electricity and water	24	23	24	24	0.9	1.3	-1.7	1.3	1.3
Transport, storage and communications	129	130	124	124	5.7	6.6	0.4	-4.2	0.2
Other services	1 025	1 033	1 006	1 031	47.6	54.6	0.8	-2.6	2.5
Commerce and finance	412	390	379	405	25.1	21.5	-5.2	-2.9	6.8
Real estate and business services	210	216	215	223	9.4	11.8	2.7	-0.3	3.3
Public administration and defence	344	364	367	373	8.9	19.7	5.7	0.8	1.6
Miscellaneous services	59	63	45	30	4.2	1.6	7.5	-28.9	-30.5

Source: Jamaica, Department of Statistics, *National Income and Product*, 1981.

^aPreliminary figures.

^bIncludes miscellaneous services and household and private non-profit institutions, less imputed service charges.

more serious given the relative scarcity of land in Jamaica and the fact that well over one-third of the labour force is employed in agriculture.

Agricultural output for domestic consumption grew between 3% and 4%, with vegetables, pulses, spices, potatoes and fruit contributing significantly to this expansion (see table 4). Export-oriented agriculture showed a far more varied performance, since pimento, coffee, and cocoa grew strongly, but the two principal export crops (sugar and bananas) did poorly. Similarly, livestock production was mixed, with beef and poultry production declining, whereas hog production increased smartly.

All in all the performance of the agricultural sector, though improved, continued to be hampered by recurring problems: adverse weather conditions (including residual setbacks arising from the 1980 Hurricane Allen), unsatisfactory cultivation practices, praedial larceny, and inadequate transport facilities. The shortage of transport units to guarantee an uninterrupted flow of raw materials to the factories and inadequate milling operations continued to militate against increased sugar production.

Banana production suffered setbacks due to the late execution of the Jamaica Development Bank's credit programme to banana farmers, rejection of a high percentage of fruit at boxing plants and the delay in the commencement of regular shipments.

Several new agricultural policy initiatives were introduced during the year. These include the development of a national agriculture and food marketing policy, the establishment of incentives to encourage increased production, the introduction of a new system of zoning, the enactment of a major soil conservation and afforestation programme, the enlargement of inland fisheries,

Table 4
JAMAICA: INDICATORS OF AGRICULTURAL PRODUCTION
 (1970 = 100)

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^b
Index of agriculture, forestry and fishing production	124.7	111.1	107.8	112.3	9.3	-9.7	-7.4	4.2
Agriculture	138.6	122.7	123.2	128.4	18.1	-11.4	0.4	4.2
Export	84.3	75.0	62.1	65.1	13.2	-11.1	-17.2	4.8
Domestic	181.6	160.6	171.6	177.8	20.1	-11.6	6.8	3.6
Livestock	104.7	93.9	87.9	90.8	-4.5	-10.4	-6.3	3.3
Forestry	45.7	28.6	25.7	...	-42.9	-37.5	-10.0	...
Fishing	115.3	109.0	90.3	...	-	-5.4	-17.2	...
Production of some important export crops ^c								
Sugar cane (milled)	3 641	2 965	2 835	2 502	12.0	-18.6	-4.4	-11.8
Bananas ^c	75	69	33	19	-6.3	-8.0	52.2	-42.4
Citrus ^d	69	50	66	54	10.0	-27.5	32.0	-18.2
Pimento ^e	2 585	1 255	943	3 140	27.8	-51.5	-24.9	233.0
Copra	1 927	1 835	1 577	805	-37.6	-4.8	-14.1	-49.0
Cocoa ^e	4 493	3 416	4 379	5 344	-0.2	-24.0	28.2	22.0
Coffee ^e	1 504	2 267	1 310	1 505	24.5	50.7	-42.2	14.9

Source: Jamaica, Department of Statistics, *Production Statistics, 1980*; World Bank, *Jamaica: Development Issues and Economic Prospects, January 1982*.

^a Preliminary figures.

^b Exports only.

^c Thousands of metric tons.

^d Oranges and grapefruits only.

^e Metric tons.

improvement in dairy, beef and small livestock, the development of an efficient irrigation programme in conjunction with the Ministry of Local Government, the institution of the freehold system of land ownership, the rationalization of the agricultural credit scheme, and the organization of a comprehensive rural development programme.

(ii) *Mining*. It is difficult to exaggerate the importance of bauxite and alumina in the economy. These activities account for three-quarters of Jamaica's merchandise exports, one-third of government revenues, and one-seventh of GDP. Moreover, Jamaica ranks fourth in the world in terms of bauxite reserves, which are equivalent to well over 100 years of production at current extraction rates.

In 1981 the mining GDP grew 1.3%. Though the production and export of bauxite declined by 3% and 13% respectively, the industry as a whole remained buoyant thanks to the increase in the volume (4%) and value (10%) of alumina exports (see table 5). Consequently the value of exports for the industry as a whole rose 5% (see table 12 below). Total revenue from the production levy and royalties is estimated to have declined by 0.5%, with royalties falling by 8.8% and the production levy by 0.3%.

The contraction in bauxite production may be largely attributed to the reduced demand for bauxite and alumina in international markets and to a prolonged industrial dispute between bauxite and alumina companies and hourly-paid employees. These two situations combined to produce a significant build-up of bauxite inventories.

The reduction in bauxite prices and profits, plus increased inventories, stimulated the Government to arrange the sale of 1.6 million tons of bauxite to the US Government. Moreover,

Table 5
JAMAICA: MINING PRODUCTION

	Thousands of metric tons				Growth rates		
	1978	1979	1980 ^a	1981 ^a	1979	1980 ^a	1981 ^a
Bauxite	11 736	11 505	12 053	11 673	-2.0	4.8	-3.2
Alumina	2 116	2 096	2 458	2 556	-0.9	17.3	4.0
Gypsum	135	66	105	180	-51.1	43.9	71.4

Source: Jamaica, Department of Statistics, *Production Statistics*, 1980 and data supplied to CEPAL.

^aPreliminary figures.

the increase in alumina production greatly helped to offset the negative impact of the cutback in bauxite production.

Within the quarrying subsector, there was a continuation of the upward trend in production which had been evident since 1980. Improvement during 1981 was particularly noteworthy in the case of gypsum production, as a result of renewed activity in the construction sector. The trial quarrying of marble was carried out during the year.

(iii) *Manufacturing*. Manufacturing output increased by less than 1% in 1981: a meagre result, but one which nevertheless reversed the persistent decline of the past six years, including the 12% decrease in 1980. The slight recovery in manufacturing was largely due to the increased output of paints, cement and steel, demand for which grew because of the renewed activity in construction (see table 6). At the same time, however, there was a general decline in production in

Table 6
JAMAICA: INDICATORS OF MANUFACTURING ACTIVITY

	Thousands of metric tons				Growth rates		
	1978	1979	1980 ^a	1981 ^a	1979	1980 ^a	1981 ^a
Production of selected manufactures^b							
Sugar	292	283	232	205	-2.9	-18.1	-11.3
Flour (wheat)	49	38	49	48	-22.2	29.1	-2.3
Animal feeds	211	203	204	199	-3.5	0.4	-2.7
Rum and alcohol ^c	17	18	21	21	7.1	13.9	2.9
Fertilizers	30	31	29	25	4.4	-7.1	-12.9
Petroleum products ^c	1 173	1 371	1 079	860	16.9	-21.3	-20.4
Textile fabrics ^d	9 330	5 944	4 553	1 899	-36.3	-23.4	-58.3
Cement	294	226	144	165	-23.2	-36.0	14.1
Steel	14	10	9	13	-30.3	-5.1	42.6
Indicators of manufacturing production							
Electricity sales to industry by public utilities ^e	635	588	568	557	-7.3	-3.4	-2.0
Industrial employment ^{f,g}	79	74	77	82	-6.6	3.9	7.2

Source: Jamaica, Department of Statistics, *Production Statistics*, 1979, and *Statistical Digest*, February 1982.

^aPreliminary figures.

^bData relate to production of large manufacturing enterprises.

^cMillions of litres.

^dThousands of metres.

^eMillions of kWh.

^fThousands.

^gAnnual data are averages of April and October, except 1980 (average of April and November).

the food, beverages and tobacco subsector, together with a contraction of about 20% in the output of petroleum products, due to the curtailment of activity at the refinery as a result of the new processing arrangements under the Venezuela/Mexico Oil Facility. Nevertheless, as a result of the expansion and greater confidence, employment grew 7% in manufacturing as a whole.

Chronic problems affecting output in the manufacturing sector have continued to be the shortage of foreign exchange and tight procedures regarding the acquisition of import licenses. The Government adopted several measures in an effort to revitalize the manufacturing sector, expand capacity utilization to 80% of existing productive capacity in 1981-1984 and provide additional capacity for the production of export items. These measures included (i) allocation of increased foreign exchange to industry; (ii) easing of procedures for obtaining import licenses and foreign exchange; (iii) encouragement of direct foreign investment to supplement local investment through various recently-formed organizations including the Jamaica National Investment Promotions Limited, which was established to generate additional investment throughout all sectors of the economy, with particular emphasis on manufacturing; (iv) upgrading of the skills and technology available to local industries, and (v) formulation of a new package of measures to stimulate the production of export goods. Through the Export Development Fund (EDF), US\$ 46.8 million was provided in 1981 to exporters who utilized US\$ 40.5 million of this total. Comparative figures for 1980 were US\$ 41.2 million granted to 77 exporters who utilized only US\$ 24.6 million.

(iv) *Construction.* With the exception of 1978, the construction sector had experienced a steady decline in output since 1974. In 1980, in particular, the fall was a calamitous 29%. Finally, in 1981, this decline was reversed, and construction output increased by well over 2%. One indicator of the renewed activity within the sector was the growth in the construction of private sector housing projects financed by developers. Even more evident, however, was the spurt in the construction of commercial establishments and office buildings. The upturn in construction activity was facilitated by the increase in loans and advances made by the commercial banks to the construction sector. Such loans increased by approximately 42%, while new mortgage loans extended by building societies grew by about 20%. As a result of this renewed activity, overall employment in construction grew steadily during the year (some 15%).

In an effort to meet the rising demand of the reactivated construction sector, the production of a number of building materials increased considerably, with cement production growing 14% (see table 7), its first increase since 1975. The additional output was due in part to the re-

Table 7

JAMAICA: INDICATORS OF CONSTRUCTION ACTIVITY

	1978	1979	1980 ^a	1981 ^a	Growth rates			
					1978	1979	1980 ^a	1981 ^a
Production of selected building materials								
Cement ^b	294	226	144	165	-11.7	-23.1	-36.3	14.6
Paint ^c	5 513	5 783	3 887	6 042	17.7	4.9	-32.8	55.4
Steel ^b	14	10	10	9	37.9	-30.3	-5.1	42.6
Bagasse board ^d	6	557	-	-	-83.0	894.6	-100.0	-
Employment ^e	33	32	25	29	-0.3	-3.0	-20.4	14.6

Source: Jamaica, National Planning Agency, Economic and Social Survey, 1980 and 1981, and Statistical Digest, February 1982.

^aPreliminary figures.

^bThousands of metric tons.

^cThousands of litres.

^dThousands of m².

^eThousands.

equipment of the plant, funds for which were obtained from the Inter-American Development Bank. An additional loan of US\$ 60 million will be used to expand the plant's capacity from 200 000 tons to 630 000 tons. There was a substantial increase in the production of gypsum and steel throughout the year as well. Although steel production rose significantly, it was unable to satisfy local demand due to the shortage of local scrap and the late availability of reasonable quantities of imported raw materials, whose importation was delayed by difficulties in obtaining licenses before procedures were liberalized in April 1981. Consequently, the value of imports of construction materials rose 42%, but even so several items needed for the termination of housing projects, including lighting fixtures and fittings, remained in short supply.

Despite the pickup of activity in 1981, construction was still way below its level of 10 years before, since several problems continued to severely hinder growth in the sector, among them the shortage of foreign exchange, the high cost and deficient supply of raw materials, high interest rates, and inadequate financing to the private sector for construction and land development.

(v) *Tourism*. Next to bauxite and alumina, tourism is the most important foreign exchange earner of the economy, accounting for one-sixth of Jamaica's exports of goods and services, directly employing some 1 1/2% of the island's labour force in hotels and tourist lodges alone, and with a much broader impact on the economy at large, once its effect on commerce, transportation, restaurants and services is taken into account.

Because of the boom in hotel construction, especially from 1968 to 1973, and the slowdown in tourist arrivals, hotel room occupancy rates fell below 40% in the mid-1970s. Recovery since then has been very slow, and tourist arrivals in 1981 were but 4% higher than in 1978 (see table 8).

Table 8

JAMAICA: INDICATORS OF TOURIST ACTIVITY

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Total visitors ^{bc}	533	594	543	552	37.9	11.4	-8.5	1.6
Long stay ^{bd}	370	401	385	397	45.3	8.3	-4.0	3.1
Short stay ^{be}	12	26	11	10	14.3	117.5	-58.6	-10.2
Other ^{bf}	151	167	148	146	24.9	10.6	-11.6	-1.5
Hotel room occupancy rate	40	48	44	42	38.4	20.0	-7.9	-6.1
Average length of stay ^g	9	9	10	10	-2.3	3.5	15.9	-1.0
Estimated expenditure ^{hi}	148	194	242	290	41.8	31.1	24.4	20.0
Direct employment ^{jk}	10 296	11 707	9 527	8 403	21.1	13.7	-18.6	11.8

Source: Jamaica, National Planning Agency, *Economic and Social Survey*, 1980 and 1981, and Bank of Jamaica, Research Department, *Statistical Digest*, February 1982.

^aPreliminary figures.

^bThousands.

^cExcludes nationals residing abroad.

^dThree or more nights.

^eOne or two nights.

^fIncludes cruise-ship passengers and members of the armed forces.

^gNights.

^hMillions of current dollars.

ⁱMinistry of tourism estimates.

^jUnits.

^kIn hotels, guest houses and cottages.

The recession in the United States and Great Britain, as well as the rise in transportation costs as a result of the 1979 oil price hike, have contributed to this marked slowdown in tourism in general and in the Caribbean in particular. The tension and violence associated with the recent election in Jamaica must also have played their role, however, for, while tourism to Jamaica fell almost 9% in 1980, it actually increased elsewhere in the Caribbean (for example, 9% in the Bahamas and 3% in Barbados). Consequently, the pickup in real tourist expenditures and in the number of visitors in 1981 (as compared to a fall elsewhere in the Caribbean) suggests that Jamaica will tend to recover its share of visitors to the Caribbean, as the image of violence and tension, which came to be associated with it, begins to fade.

(c) *Employment and unemployment*

One of the most serious manifestations of the slow but steady decline of the Jamaican economy from 1973 onwards was the high and growing rate of unemployment, characteristic of the period. To be sure, Jamaican statistics tend to overstate the magnitude of the problem as compared to other countries: firstly, because Jamaica includes among its unemployed those who are without work and desirous of work, even if they did not in fact seek work that week, which raises unemployment rates at least 50%; secondly, for reasons peculiar to Jamaican society, the proportion of the population of working age actually in the labour force (especially among women) is considerably higher than elsewhere. Be that as it may, the problem is clearly serious, and undoubtedly worsened in the past few years as the economy declined. In this light, the decline in the rate of unemployment during 1981 (of 1 1/2 percentage points), the growth in employment (over 4%), and very especially the growth of employment in construction, commerce and manufacturing (see table 9), are worthy of note.

Table 9

JAMAICA: EMPLOYMENT AND UNEMPLOYMENT^a

(1969 = 100)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Labour force	106.3	107.6	109.5	114.5	118.0	121.5	125.4	127.3	132.3	135.4
Employment	99.0	102.0	104.7	110.5	111.1	111.8	114.8	111.6	116.7	121.9
Agricultural ^b	86.9	86.7	96.8	97.4	104.8	104.8	110.4	99.7	113.2	117.3
Mining ^c	133.3	137.3	149.0	146.0	153.9	144.1	116.7	150.2	156.1	...
Manufacturing	115.1	116.4	117.3	118.8	108.1	110.5	111.5	104.2	108.3	116.1
Construction	92.4	98.6	95.0	105.7	89.9	78.1	78.0	75.6	60.2	69.0
Transport and communications ^d	116.0	121.0	121.0	144.1	143.8	134.9	133.8	133.8	157.1	...
Commerce	124.6	129.3	112.8	119.3	117.8	129.0	136.1	131.2	132.9	148.6
Public administration	123.6	130.7	138.9	180.0	194.5	203.5	198.8	201.2	198.6	192.7
Other	89.4	91.4	90.6	95.2	82.5	80.9	82.9	92.5	91.2	...
Unemployment	140.1	134.0	131.9	133.2	150.2	167.3	175.1	200.9	205.6	199.2
Rate of unemployment	23.2	21.9	21.2	20.5	22.4	24.2	24.5	27.7	27.3	25.9

Source: Jamaica, Department of Statistics, *The Labour Force, 1980* and National Planning Agency, Jamaica, *Economic and Social Survey*; and the World Bank.

^aAnnual data are averages of April and October, except 1980 (average of April and November).

^bIncludes forestry and fishing.

^cIncludes quarrying and refining.

^dIncludes public utilities.

3. The external sector

(a) *Introduction*

Jamaica, like all other oil-importing developing countries, was racked by the energy crisis of the 1970s. Nevertheless, this alone could only account for some deceleration in its previous solid rate of growth (as it did in other countries). The persistent decline in output must rather be attributed to the pursuit of an overly expansive domestic policy, which exacerbated rather than ameliorated the initial balance-of-payments disequilibrium (the deficit on current account exceeded 11% of GDP in 1976) induced by the oil crisis. Subsequent stabilization programmes aimed at dealing with such deficits—which included massive devaluation as well as import controls, but failed to curb public spending—succeeded in reducing the deficits, but at the cost of a severe restriction in the quantum of imports rather than through expansion of exports. Thus, at the end of 1980 the quantum of exports was still 1% below the 1976 level (when the stabilization programme was initiated) and almost 25% below the 1972 level (when the expansive public sector policy was set in motion), while the 1980 volume of imports was 27% less than in 1976 and less than half the 1972 level. Small wonder, then, that with increasingly severe import controls (even greater for non-fuel imports), such serious supply bottlenecks brought on a persistent decline in production in the period 1973-1980.

The inability to reduce current account deficits except at the cost of severely restricting output, coupled with the failure adequately to control public sector expenditures, accelerated inflation on the one hand and induced the flight of capital on the other, all of which complicated the pursuit of a policy aimed at restoring internal and external equilibria, notwithstanding IMF support.

In April 1981 a new stabilization programme was adopted backed by a new three-year Extended Fund agreement with the IMF which provided Jamaica with 500 million SDR units (about US\$ 650 million over the three years), 40% of which would be provided the first year. The terms of the arrangement included both short and long-term measures.

The long-term strategy involves the attraction of direct foreign investment, the establishment of export-oriented production, and the increasing of income derived from tourism. Short-term measures included a more liberal import policy in order to assure productive sectors of a steady and adequate supply of key imported inputs. Import licensing procedures were relaxed and certain items were released from the list of prohibited imports, with the importer given sole responsibility for obtaining the required foreign exchange. It also exempted from licensing requirements those importers who utilized retained funds to import goods not included on the prohibited list or imports financed through the Export Development Fund.

It was also proposed that, by fiscal year 1983/1984, the level of net international reserves of the Bank of Jamaica should be equivalent to at least three months of imports. The official exchange rate was to be maintained at J\$ 1.788=US\$ 1.00, (which implied the need to assure wage moderation and a sharp reduction in the rate of inflation to keep exports competitive).

Moreover, it was agreed that arrears on current international payments and transfers for current international transactions were not to exceed US\$ 170 million for fiscal year 1981/1982. The realization of these measures necessitated additional financial support from donor countries and multilateral financial institutions and refinancing from commercial banks. A group of multilateral agencies and donor countries operating under the aegis of the Caribbean Group for Co-operation in Economic Development, and co-ordinated by the World Bank, pledged balance-of-payments support amounting to approximately US\$ 450 million during 1982/1983. An agreement was reached with a steering committee of commercial banks for the deferment and refinancing of 100% of all principal payments to foreign commercial banks in respect of direct guaranteed debts of the Government of Jamaica maturing during the fiscal years 1981 and 1982. The sums falling due in the two years amounted to US\$ 47 and 41 million, respectively. The commercial banks also agreed to support a syndicated loan of US\$ 70 million to be floated by the Government of Jamaica; this was effected in July and oversubscribed by US\$ 1 million.

(b) *External sector performance in 1981*

Notwithstanding these efforts, the balance-of-payments situation deteriorated sharply in 1981, with the current account deficit nearly doubling. To be sure, thanks to the IMF agreements and the subsequent relatively easy foreign exchange availability, imports of goods and services rose 21% (see table 10), with imports of goods alone increasing by 25%. This eased supply bottlenecks and so permitted the turnaround in economic activity. The sharp upturn in imports also undoubtedly reflected the pent-up demand for imports from the previous years of stringency, and the need to renew production capacity. Thus, the imports of consumer and capital goods, which taken together had been compressed to less than 30% of all imports in 1980 as opposed to close to 50% in 1970-1974, grew by around 50% in 1981 (see table 11).

Table 10
JAMAICA: MAIN FOREIGN TRADE INDICATORS
(Annual growth rates)

	1975	1976	1977	1978	1979	1980	1981 ^a
Exports of goods FOB							
Value	7.5	-18.8	12.4	12.6	-1.5	17.7	1.2
Volume	-23.7	-10.8	-0.1	13.3	-2.1	-10.6	1.0
Unit value	41.0	-9.0	12.5	-0.6	0.6	31.6	0.2
Exports of services							
Value	4.7	-5.9	-5.8	27.2	19.8	13.4	6.6
Volume	-11.8	-14.8	-14.6	51.1	16.5	-6.6	-5.1
Unit value	18.7	10.5	10.3	-15.8	2.8	21.3	12.3
Exports of goods and services							
Value	6.7	-15.4	7.1	16.4	4.5	16.3	2.9
Volume	-20.4	-12.0	-4.4	23.4	3.9	-9.1	-1.3
Unit value	33.4	-4.9	13.0	-5.0	0.7	28.3	4.4
Imports of goods FOB							
Value	19.5	-18.4	-15.8	12.5	17.6	17.7	24.9
Volume	5.6	-24.5	-22.0	3.9	6.4	-9.1	18.6
Unit value	13.2	8.1	7.9	8.3	10.5	29.4	5.4
Imports of services							
Value	26.1	-0.8	-21.6	16.6	12.7	8.8	9.8
Volume	16.3	-5.6	-33.4	18.2	2.2	-0.1	2.0
Unit value	8.4	5.1	17.6	-1.4	10.2	8.9	7.7
Imports of goods and services							
Value	21.1	-13.8	-17.5	13.6	16.2	15.2	20.9
Volume	8.8	-18.4	-26.2	8.7	4.9	-5.9	12.3
Unit value	11.6	5.3	9.4	6.6	10.6	23.0	8.0
Terms of trade (goods)	25.4	-15.6	4.1	-7.6	-9.5	4.4	-4.5
Terms of trade (goods and services)	19.4	-9.7	3.3	-10.9	-8.9	4.3	-3.4
Purchasing power of exports of goods and services	-5.0	-20.6	-1.2	10.0	-5.3	-5.2	-4.6

Source: CEPAL, on the basis of official data

^aPreliminary figures.

Not unexpectedly, in view of the generally negative international situation, exports of goods and services grew poorly, increasing by only 3% in nominal terms (see table 10). This was because the decline of over 10% in bauxite and sugar exports almost completely cancelled out the gains in alumina and other exports (see table 12). Exports of services increased more than those of goods, but this was solely due to the much faster rise in the prices of services (12%) compared with goods (less than 1%).

Table 11
JAMAICA: IMPORTS OF GOODS, CIF

	Millions of US dollars		Percentage Breakdown		Growth rates
	1980	1981 ^a	1980	1981 ^a	1981 ^a
Total	1 171	1 485	100.0	100.0	26.8
Consumer goods	132	193	11.2	13.1	46.5
Food	73	105	6.2	7.1	44.1
Other	59	89	5.0	6.0	49.5
Raw materials	842	995	71.9	67.0	18.2
Petroleum	447	499	38.2	33.6	11.6
Other	395	496	33.7	33.4	25.6
Capital goods	198	297	16.9	19.9	50.2
Construction materials	47	67	4.0	4.5	41.6
Transport equipment	35	64	3.0	4.3	83.0
Other machinery and equipment	105	152	9.0	10.2	44.6
Other	10	14	0.9	0.9	35.6

Source: Bank of Jamaica, Report and Statement of Accounts, 1981.

^aPreliminary figures.

Table 12
JAMAICA: SELECTED EXPORTS OF GOODS

	Millions of US dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981	1971	1981	1979	1980	1981
Total	792	815	941	970	100.0	100.0	2.9	15.5	3.1
Main traditional exports	642	639	790	807	73.8	83.2	-0.5	23.6	2.2
Alumina	348	368	537	588	36.9	60.6	5.8	45.9	9.5
Bauxite	234	214	198	172	26.4	17.7	-8.5	-7.5	-13.1
Sugar	60	57	55	47	10.5	4.9	-5.0	-3.5	-14.5
Other exports	150	176	151	163	26.2	16.8	17.3	-14.2	8.0

Source: Bank of Jamaica, Report and Statement of Accounts, December 1981; World Bank, Jamaica: Development Issues and Economic Prospects, February 1982.

As a result of this very disparate movement in exports and imports, the trade deficit for 1981 was just over US\$ 280 million, a tenfold increase over 1980. Though inflation in Jamaica decelerated sharply in the course of the year, it nevertheless exceeded the increase in the price of its imports, with the result that as the exchange rate remained fixed, the competitiveness of Jamaica's domestic production with respect to its imports deteriorated 4% in 1981 (see table 13). To be sure, there is no certainty that the exchange rate prevailing in 1978-1980 was the correct one. Yet in view of Jamaica's balance-of-payments disequilibria in recent years, and furthermore given the liberalization of imports in 1981, it would have seemed reasonable for the exchange rate to suffer a devaluation and not a revaluation, as actually occurred in order to improve Jamaica's competitiveness. This is all the more so considering the evidence¹ indicating that Jamaica's

¹Mahmood Ayub, *Made in Jamaica*. World Bank Occasional Paper, 1981.

Table 13

**JAMAICA: EVOLUTION OF EFFECTIVE NOMINAL AND REAL EXCHANGE
RATES FOR EXPORTS AND IMPORTS^a**

(1980 = 100)

Annual and quarterly averages	Index of effective nominal exchange rate for:		Index of effective real exchange rate for:	
	Exports ^b	Imports ^b	Exports ^c	Imports ^c
1970	46.4	45.7	90.1	92.0
1971	46.0	45.2	89.4	90.1
1972	45.6	45.2	89.3	89.9
1973	52.1	51.6	94.5	95.2
1974	51.6	51.0	89.0	89.6
1975	50.9	50.5	84.4	84.8
1976	48.3	49.3	79.1	80.7
1977	57.6	59.5	92.3	94.6
1978	79.4	81.8	101.4	104.0
1979	96.6	98.2	106.9	107.6
1980	100.0	100.0	100.0	100.0
1981	94.8	97.8	92.9	96.0
I	98.9	99.8	96.1	97.2
II	95.5	98.1	94.8	97.5
III	92.1	96.1	90.0	94.8
IV	93.1	96.9	90.8	94.7

Source: Statistical Appendix.

^aFor a detailed explanation of the methodology used, see the introduction to the Statistical Appendix.

^bThese indexes are the result of multiplying the weightings of exports or imports (table 2) by the indexes of the nominal exchange rate. The products are then added together to give the indexes of the effective nominal exchange rate.

^cA similar procedure to that described in note b is employed using tables 1 and 2.

manufactured goods in this period cost 34% more than world prices. Consequently, it is to be doubted whether the trade balance can be significantly improved in the short run unless the currency is devalued or Jamaica's inflation falls well below that of its major trading partners.

In the short run, heavy capital flows will be needed to cover the trade and current account deficits. The agreements with the IMF, private banks and donor countries were aimed at doing just that.

Capital flows in 1981 were virtually the same as in 1980, once the IMF credit of US\$ 160 million is included; thanks to this, debt repayments were increased from US\$ 94 million in 1980 to almost US\$ 260 million in 1981 (see table 14). Overall, 1981 concluded with a balance-of-payments deficit of close to US\$ 220 million, financed either by the IMF credit or by a drawing down of reserves. As a result, the overall level of foreign debt rose substantially in the course of the year, reaching nearly US\$ 1 800 million (see table 15). The composition of the debt shifted significantly: the proportion due to commercial banks and other commercial sources declined, whereas that due to international institutions and bilateral sources rose considerably. Nevertheless, despite the decline in the proportion of debt due to commercial sources, there was a significant shortening of the debt maturity, inasmuch as a substantial proportion of long-term debts contracted in earlier years began to bunch up.

4. Monetary and fiscal policy

Monetary and fiscal developments during 1981 were strongly influenced by the three-year Extended Fund Facility arrangement between the IMF and the Government of Jamaica. As noted before, the new arrangement stipulates that close to 500 million SDR units are to be made available

Table 14

JAMAICA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1970	1975	1976	1977	1978	1979	1980	1981
Exports of goods and services	499.3	1 050.7	878.6	949.5	1 113.0	1 165.1	1 358.9	1 400.3
Goods FOB	341.4	808.6	656.3	737.8	831.1	818.2	962.7	974.0
Services ^a	157.9	242.1	222.2	211.8	282.0	346.9	396.2	426.3
Transport and insurance	27.6	74.4	76.8	74.4	100.2	114.1	113.8	97.6
Travel	95.5	128.5	105.8	105.5	146.9	195.4	240.7	284.4
Imports of goods and services	590.0	1 284.9	1 103.5	891.1	1 032.3	1 197.6	1 386.0	1 682.0
Goods FOB	449.0	969.6	791.7	666.7	750.1	882.4	1 038.2	1 296.7
Services ^a	141.0	315.3	312.0	224.3	282.2	315.0	347.8	385.2
Transport and insurance	87.8	193.4	170.9	147.5	182.2	202.8	216.7	246.4
Travel	15.5	52.2	58.9	11.9	10.4	10.9	11.7	13.8
Merchandise balance	-107.6	-161.0	-135.3	71.1	81.0	-64.2	-75.5	-322.7
Trade balance	-90.7	-234.2	-224.9	58.5	80.8	-32.4	-27.1	-281.7
Factor services	-84.7	-76.2	-83.6	-120.7	-156.6	-186.6	-229.6	-179.5
Profits	-103.9	-59.1	-46.6	-29.0	-92.1	-81.7	-111.9	-2.9
Interest received	15.2	21.6	11.5	9.7	8.9	7.9	11.5	14.7
Interest paid	-9.5	-65.2	-77.1	-109.4	-95.7	-129.1	-151.1	-213.3
Others	13.5	26.5	28.5	7.9	22.3	16.3	22.0	22.1
Unrequited private transfer payments	26.9	22.7	2.0	15.1	15.1	70.0	81.7	123.3
Balance on current account	-148.5	-287.8	-306.5	-47.1	-60.6	-149.0	-175.1	-337.8
Unrequited official transfer payments	-4.4	5.0	3.9	5.0	10.6	10.1	9.0	0.9
Long-term capital	160.7	227.9	101.8	4.4	4.4	-0.9	235.2	58.0
Direct investment	161.4	-1.8	-0.6	-9.7	-26.5	-26.4	27.7	-11.6
Portfolio investment	-6.4	-4.1	3.8	0.0	0.0	0.0	0.0	0.0
Other long-term capital	5.7	233.8	98.6	14.1	30.9	25.5	207.5	69.6
Official sector ^b	2.0	153.7	87.6	8.9	208.1	79.3	221.0	75.2
Loans received	9.4	159.4	118.7	60.7	302.7	185.3	337.7	333.5
Amortization payments	-3.1	-4.0	-29.3	-50.7	-92.3	-110.9	-93.8	-258.4
Commercial banks ^b	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans received	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors ^b	3.7	80.1	11.0	5.3	-177.2	-53.9	-13.5	-5.7
Loans received	0.0	115.1	56.8	35.6	0.0	0.0	80.4	72.6
Amortization payments	0.0	-20.9	-29.3	-39.9	-177.2	-53.9	-80.4	-78.3
Basic balance	7.8	-54.9	-200.8	-37.6	-45.6	-139.8	69.1	-278.9
Short-term capital	-0.4	94.8	-25.1	-44.6	26.2	9.3	52.3	-70.4
Official sector	2.4	25.6	14.1	24.9	36.4	-0.3	85.6	-57.5
Commercial banks	0.0	2.3	4.8	-0.1	4.8	2.7	-11.6	5.5
Other sectors	-2.8	66.9	-44.0	-69.4	-15.0	6.8	-21.7	-18.4
Errors and omissions (net)	7.3	-83.0	41.7	67.9	-33.8	-34.6	-82.4	131.5
Balance on capital account	163.3	244.5	122.5	32.8	7.4	-16.4	214.2	120.2
Global balance ^c	14.8	-43.2	-184.0	-14.2	-53.2	-165.4	39.2	-217.7
Total variation in reserves ^c (- sign indicates an increase)	-24.9	39.0	188.6	14.6	62.4	165.9	-80.8	188.3
Monetary gold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Special Drawing Rights	-6.4	1.2	4.1	-16.4	11.5	5.3	0.5	-1.3
IMF reserve position	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	-2.8
Foreign exchange assets	-14.6	63.6	89.1	1.1	-22.7	-10.3	-41.6	23.8
Other assets	-3.7	-25.0	30.9	2.9	0.0	0.0	2.5	8.1
Use made of IMF credit	0.0	-0.7	64.5	27.0	73.6	170.9	-42.2	160.4

Source: 1975-1980: International Monetary Fund, *Balance of Payments Yearbook* (magnetic tape, March 1982); 1981: CEPAL, on the basis of official data.

^aServices also include other official and private transactions, but not factor services.

^bIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^cThe difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

Table 15

JAMAICA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1970	1972	1975	1976	1977	1978	1979	1980	1981 ^a
Debt ^b (millions of US dollars)	129	210	706	965	1 052	1 236	1 495	1 607	1 800
Gross reserves (millions of US dollars)	139	160	126	32	48	59	63	105	85
Debt index (1970 = 100)									
Current prices	100	163	547	748	816	958	1 159	1 246	1 395
Constant prices	100	155	409	543	556	609	667	585	621
Debt service as a percentage of: ^c									
Exports ^d	0.5 ^e	1.4	7.3	13.3	22.2	25.1	24.2	21.7	39.3
Gross domestic product ^f	0.4 ^e	0.1	1.5	2.2	3.7	3.4	5.0	5.2	6.2
Debt uses									
Interest	56.5	23.0	24.0	20.7	43.1	24.0	23.6	68.6	38.7
Amortization	43.5	30.9	14.6	21.7	56.9	41.4	28.3	32.4	61.3
Investment	-	25.8	61.4	-	-	34.4	34.1	-	-
Consumption	-	20.3	-	57.6	-	0.2	14.0	-	-
Average rate of interest	...	8.5	9.5	7.7	6.4	6.8	7.7
Average maturity ^g (years)	...	9.4	11.5	14.3	15.2	17.6	17.7	12.2	9.2

Source: CEPAL, on the basis of data provided by the World Bank, IMF and the Bank of Jamaica.

^aPreliminary figures.

^bDisbursed public and State-guaranteed private debt and use made of IMF credit.

^cOn the basis of balance of payments data.

^dAmortization and interest payments as a proportion of exports of goods and services.

^eReceipts.

^fInterest payments as a proportion of the gross domestic product.

^gOn commitments of each year.

to Jamaica over a three-year period, 40% of which is expected to be provided during the fiscal year 1981/1982. In order to receive this foreign exchange, Jamaica committed itself to concrete limits on net banking system credit to the public sector, to ceilings on the net domestic assets of the Bank of Jamaica, as well as to restraint on new foreign borrowing by the public sector or by the private sector with public sector guarantees.

(a) *Fiscal policy*

The fiscal measures outlined in the Extended Fund Facility arrangement were designed to speed the attainment of surpluses on the fiscal sectors current account (to make up for the reduced inflow of foreign exchange after the big contribution in the first year of the arrangement) and to lessen strain on the domestic banking system in order that the maximum volume of domestic financial resources be made available to the productive sector.

The proposed fiscal objectives over the three-year period included the reduction of overall central government expenditure to no more than 30% of the gross domestic product by the end of the three-year programme period, with the level of government expenditure expected to be held at 33% of GDP during the fiscal year 1981/1982; the lowering of the current account deficit to 3.5% in 1981/1982 and its eventual conversion into a surplus of 1% of GDP by the 1983/1984 financial year; and a tightening of the overall deficit (net amortization) to 10% of GDP.

In large measure, fiscal sector performance succeeded in adhering to the spirit, if not the letter, of its specific objectives. Current revenues were increased by over 40% (see table 16), largely thanks to the steps taken to reorganize tax administration and to apply strict tax

Table 16

JAMAICA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	1980 ^a	1981 ^a	Growth rates 1981
Current revenue	1 050	1 482	41
Current expenditure	1 547	1 664	8
Current surplus (+) or deficit (-)	-497	-182	-63
Capital revenue	1	6	500
Capital expenditure	572	816	43
Total revenues	1 051	1 488	42
Total expenditures	2 119	2 480	17
Overall surplus (+) or deficit (-)	-1 068	-992	-7
Financing			
Foreign	360	644	79
Domestic	708	348	-51

Source: Bank of Jamaica, Report and Statement of Accounts, December 1981.

compliance and collection procedures. This increase is all the more impressive in real terms, for inflation was only 13% (mid-year to mid-year). On the expenditure side, current expenditure for the fiscal year was virtually on target, increasing 8% in nominal terms and consequently declining in real terms. This was due largely to wage restraint within the public sector, as well as to careful management of discretionary payments. As a result, the fiscal deficit on current account was reduced by well over half, falling to 3.5% of GDP (down from over 10% in 1980). Gross capital expenditure, including amortization payments, rose 43% in 1981, whereas capital revenues were virtually nil. Consequently, the overall fiscal deficit, though down 7% with respect to 1980, was still close to J\$ 1 billion.

The major highlight in the area of financing the budget was naturally enough the sharp increase in foreign borrowing to cover the deficit. The share of the deficit financed by foreign borrowing almost doubled in the course of 1981, rising from 34% in 1980 to 65%. As a result, the domestic banking system's resources were freed from the need to give support to the public sector, and could hence provide credit for the private sector.

(b) *Monetary policy*

In line with the reduction of the public sector deficit, monetary policy was relatively contractive, focussing on the lowering of inflation, the mobilization of savings, and the channelling of the available domestic credit to priority sectors.

The M_1 money supply, i.e., currency plus demand deposits, increased but 6% in 1981 as compared to the 20% increase in 1980 (see table 17). This increase was so small, notwithstanding the large increase in domestic credit, because of the contractive influence of the marked decline in net foreign assets of the banking system on the domestic money supply, as well as because of the shifting of funds from demand deposits (M_1) into time deposits (quasi-money). This substantial decline in net foreign assets in 1981 is, of course, the counterpart of the large influx of funds acquired under the new IMF agreement for debt servicing and the aforementioned deterioration in the balance of trade. The large shift from demand to time deposits was due to the payment of higher interest rates on the latter (these rose 3 percentage points in 1981) and to the exemption of interest payments from income taxes.

Indicative of the ample growth in domestic credit and of the efforts to reactivate key sectors of the economy was the large increase (37%) in loans and advances outstanding (see table 18), with notable increases in loans to agriculture (especially for the rehabilitation programme for sugar and bananas) and manufacturing.

Table 17
JAMAICA: MONETARY BALANCE

	Balance at end of: (millions of Jamaica dollars)			Growth rates		
	1979	1980	1981	1979	1980	1981
1. Money	541	647	687	7.6	19.6	6.2
Currency outside banks	219	257	281	27.2	17.4	9.3
Demand deposits	322	390	406	3.3	21.1	4.1
2. Factors of expansion	959	1 564	2 072	13.1	63.1	32.5
Foreign assets (net)	-761	-852	-1 382			
Domestic credit	1 720	2 416	3 454	21.0	40.5	43.0
Government (including official entities)	1 065	1 636	2 383	23.5	53.6	45.7
Private sector	702	872	1 196	17.3	24.2	37.2
Other financial institutions	-47	-92	-125			
3. Factor of absorption	418	917	1 385	19.2	119.4	51.0
Quasi-money (savings and time deposits)	742	906	1 231	19.3	22.1	35.9
Other items (net)	-324	11	154			

Source: Bank of Jamaica, Report and Statement of Accounts, December 1981.

The slower growth of the money supply (both M_1 and M_2 decelerated), plus the increased availability of goods, contributed to the sharp decline in the rate of inflation. Thus, the average growth rate of prices fell from 27% in 1980 to under 13% in 1981 (see table 19).

The decline appears all the sharper (inflation of under 5%) when the 12-month period December 1980 to December 1981 is compared with the previous period (see figure 2) or if the focus is on food products alone. This sharp deceleration is all the more impressive given the fact that in May 1981 price controls were lifted on over 40% of the items previously controlled, while other goods were removed to categories involving a lesser degree of control. To be sure, the ongoing recession, the high level of under-utilized capacity, and the fixed exchange rate tended to put a lid on any sharp rise in prices.

Table 18
JAMAICA: DESTINATION OF CREDIT TO THE PRIVATE
SECTOR, BY KIND OF ACTIVITY
(Millions of Jamaica dollars)

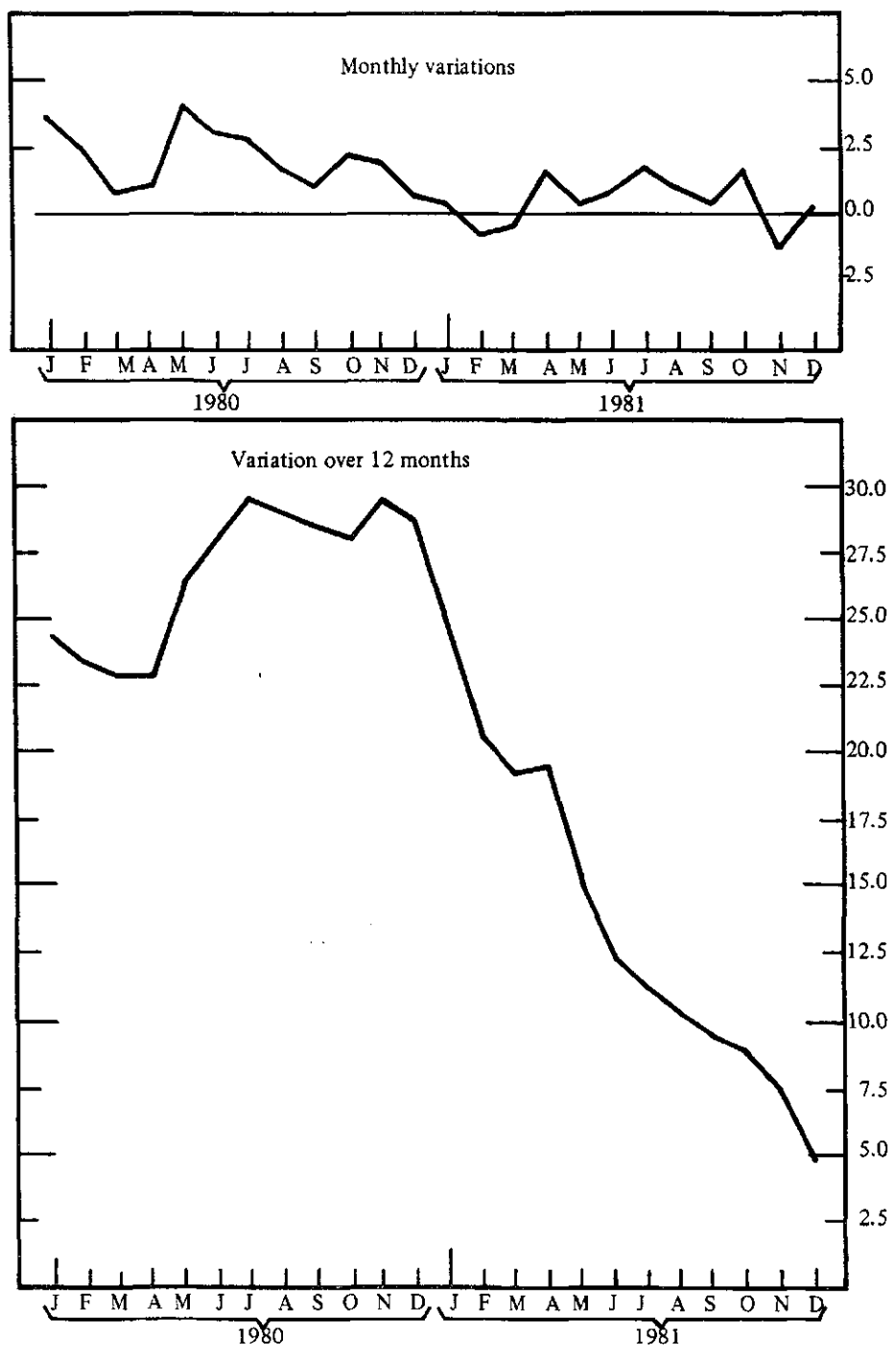
	At end of:				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Commercial bank loans and advances outstanding, of which:	768	901	1 088	1 495	17.4	20.8	37.4
Agriculture	82	93	118	193	13.7	26.5	63.8
Manufacturing	133	164	213	317	23.6	29.7	49.0
Construction and land development	128	126	127	181	-1.4	1.8	42.4
Central and local government	28	29	24	24	2.5	-17.5	2.6
Personal	119	167	188	193	40.4	12.2	2.4
Distribution	81	80	90	122	-0.4	11.4	36.3

Source: Bank of Jamaica, Research Department, Statistical Digest, February 1982.

^aPreliminary figures.

Figure 2

JAMAICA: SHORT-TERM EVOLUTION OF CONSUMER PRICES



Source: International Monetary Fund, *International Financial Statistics*.

Table 19

JAMAICA: EVOLUTION OF INTERNAL PRICES

	1975	1976	1977	1978	1979	1980	1981
	Variation between annual averages						
Total	17.5	9.7	11.2	34.9	29.1	27.3	12.6
Food and beverages	17.8	8.9	9.4	36.8	33.4	33.4	10.3
	Variation December - December						
Total	20.6	15.7	14.1	49.4	19.8	28.6	4.7
Food and beverages	19.8	15.5	12.3	54.1	24.5	33.7	1.3

Source: Jamaica, Department of Statistics, Consumer Price Indexes, Annual Review, 1980, and Jamaica Economic and Social Survey, 1981.