

Jamaica

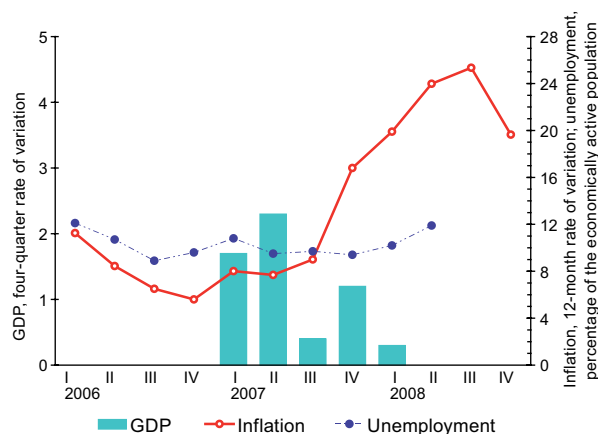
2008 has been a year of challenges for the Jamaican economy. With its heavy dependency on food and oil imports, the importance of the tourism sector for its economy and the considerable weight that workers' remittances have for thousands of households, Jamaica is extremely vulnerable to external shocks. The global financial crisis has therefore had a significantly negative impact on macroeconomic indicators. The forecast for real GDP growth in 2008 has been substantially reduced to 0%, while inflation is expected to stand at 20% by the end of the year. Furthermore, there are fears that the poor performance of the trade balance could be aggravated by a further deterioration in the terms of trade, while the surplus in the services balance has declined because of higher transportation and freight costs. This, in turn, has resulted in a significant deterioration in the current account balance. In 2009, GDP growth will be marginal at best (estimated at around 0.5%).

The Jamaican fiscal and monetary authorities have concentrated their efforts on economic stabilization, attempting to control inflationary pressures and maintaining a stable foreign-exchange market. The Government introduced several measures aimed at curbing inflation, preserving the population's purchasing power and promoting private investment and business. These measures included a rise in the income tax threshold, reductions of the transfer tax and stamp duty on property and securities transactions and elimination of the withholding tax on dividends (the latter takes effect from January 2009). Moreover, during 2008 the Government implemented a tax amnesty programme, waiving up to 80% of interest and penalties on unpaid taxes in exchange for the full payment of the principal. This amnesty, aimed at increasing the tax net and bringing in additional income, resulted in a slight increase in fiscal revenues during the second quarter of 2008, thereby offsetting the shortfall in receipts from the bauxite levy and other sources.

Although the central government accumulated a primary surplus equivalent to 3.7% of GDP for the period April-October of the fiscal year 2008/2009, the overall fiscal balance during the same period recorded a deficit equivalent to 4.1% of GDP. With debt servicing already claiming over 50% of the budget, the status and evolution of external and domestic debt remains a major concern

and a constraint on public policies. Total public debt was the equivalent of about 112% of GDP in August 2008. During the first eight months of 2008, the total public debt stock increased by 3.7%, while the external debt, which accounts for 44.3% of total public debt, grew by 4.9%. The domestic debt stock grew by 3.1%.

JAMAICA: GDP, INFLATION AND UNEMPLOYMENT



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

Monetary policy has been tightened, with the monetary base contracting at a faster pace than originally programmed by the monetary authorities. The Bank of Jamaica raised interest rates from 13.5% to 14% in June to mitigate inflationary expectations. So far, the policies implemented by the Jamaican Government and central bank to mitigate inflationary pressures and speculative expectations have produced a mixed outcome. The exchange rate was fairly stable for most of the year, with the Jamaican dollar recording a small accumulated nominal depreciation of 1.48% vis-à-vis the dollar by September 2008. However, increased pressures on the exchange market during October-November prompted the Bank to intervene to reduce excess liquidity in local currency. It also has programmed increasing interest rates in December to mitigate the demand for foreign currency. Price inflation has been considerable, with headline inflation of 16.9% accumulated up to September (one of the largest increases in the Caribbean), while food inflation topped 19% during the same period.

However, the most pressing issue for Jamaica's economy is the decline in GDP growth: real GDP contracted by 0.3% between January and September compared with the same period of 2007. The productive sector that suffered the most dramatic decline was agriculture, forestry and fishing, reflecting the impact of hurricanes Dean (August 2007) and tropical storm Gustav (August 2008), dry spells, fire damage and a reduction in the use of essential inputs such as fertilizers. Other sectors posting weak performances were transport, storage and communication, manufacturing and construction. On the other hand, mining and quarrying and most service sectors still managed to post positive growth rates. Although agriculture, electricity and mining are expected to gradually recover from the damage caused by hurricanes, this will not be sufficient to boost domestic output during 2008: growth is forecast at 0%.

Regardless of the global economic slowdown, tourist arrivals had not decreased by mid-2008. On the contrary in fact: by June 2008 accumulated tourist arrivals totalled 1.6 million, which was a slight increase on the same period of 2007. However, this increase is mainly attributable to a strong rise in stop-over arrivals by both foreign nationals and non-resident Jamaicans. On the other hand, cruise arrivals (a key indicator for tourism activity) declined significantly during the same period. The Jamaican government has lowered its forecast of growth for tourist arrivals in 2009 from 30% to 6%.

The deterioration of the current account deficit, fuelled by a widening deficit in the trade balance, has been one of the main issues threatening Jamaica's economic stability during 2008. Although the volume of goods exported increased marginally during the first half of the year, principally thanks to buoyant alumina exports, this was

JAMAICA: MAIN ECONOMIC INDICATORS

	2006	2007	2008 ^a
Annual growth rates			
Gross domestic product	2.5	1.2	0.0
Per capita gross domestic product	1.9	0.6	-0.5
Consumer prices	5.8	14.3	19.6 ^b
Money (M1)	19.3	14.8	10.6 ^c
Real effective exchange rate ^d	0.2	3.1	-5.7 ^e
Annual average percentages			
Unemployment rate ^f	10.3	9.9	11.1 ^g
Central government overall balance / GDP ^h	-5.4	-4.9	-4.1 ⁱ
Nominal deposit rate ^j	5.3	5.0	5.0 ^k
Nominal lending rate ^l	22.0	22.0	22.1 ^k
Millions of dollars			
Exports of goods and services	4 782	4 939	5 297
Imports of goods and services	7 098	7 902	10 025
Current account	-1 183	-1 800	-3 422
Capital and financial account	1 413	1 390	4 486
Overall balance	230	-410	1 065

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 November 2008.

^c Twelve-month variation to September 2008.

^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 Average of the January and April figures.

^h Fiscal year.

ⁱ Data for April to October in fiscal year 2008-2009.

^j Interest rate for savings, average.

^k Average from January to September, annualized.

^l Average interest rates on loans.

completely offset by a huge expansion in the import bill, which represented approximately 55% of GDP by June. Such a development is due to the steep increase in expenditure on fuel, food and chemical imports. Consequently, the accumulated trade deficit amounted to the equivalent of 35% of GDP during the first half of the year, a rise of 50% compared with the same period in 2007. However, the import bill is expected to stabilize gradually, thanks to the fall in international prices for fuel, food and other essential supplies during the final quarter of 2008.

Unlike in recent years, the tourism-driven services surplus and the current transfers surplus (boosted by workers' remittances) failed to offset the trade deficit. As a result, by June the accumulated current account deficit had more than doubled (compared with June 2007) and amounted to US\$ 1.391 billion or 20% of GDP. This deficit was compensated by a capital and financial account surplus, driven by considerable growth of private investment inflows, which grew by 95.6% in the first half of 2008 (led by the foreign acquisition of Jamaica's largest rum producer). This enabled the Bank of Jamaica to increase its net international reserves, during the first half of the year. However, its intervention in the exchange market during the last quarter translated into a substantial reduction of international reserves (US\$ 1.8 billion by November).