

Jamaica

The world economic crisis has seriously exacerbated Jamaica's already dire economic situation and the government is in negotiation with the International Monetary Fund (IMF) for an agreement in the amount of US\$ 1.2 billion, or 10% of the country's GDP. Underlying these difficulties are chronic fiscal deficits, the high public debt-to-GDP ratio (110% in 2008) and difficulties in financing the 2009/2010 budget. Furthermore, reduced foreign-exchange inflows from remittances and exports of services and downward pressure on the currency have led international rating agencies to downgrade the country's sovereign rating. The economy is expected to contract by 3% in 2009 with a slow recovery in 2010, when growth is projected to reach 1%.

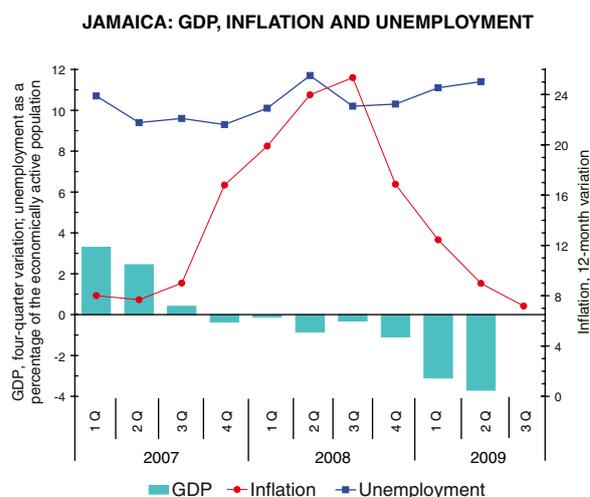
In September, the government presented a supplementary budget for fiscal year 2009/2010,¹ in which it revised the fiscal deficit from 5.5% to 8.7% of GDP to take into account a 1.9% decline in revenue and grants between April and September 2009 compared with the same period in 2008 and a 29% rise in recurrent expenditure over the same period. This expanding deficit also reflected an increase of 115% in domestic loan receipts. With revenue expected to fall further, the fiscal deficit will probably widen more to about 12% of GDP in fiscal year 2009/2010. The adjustments needed to address the fiscal deficit will force the government to reduce primary expenditure, and this is likely to push up the unemployment rate, which had already risen from 10.6% at the end of 2008 to 11.3% in July 2009.

Between January and September, the public debt stock increased by 2.6% to J\$1.16 billion, of which 55% was external debt. The debt service ratio had been rising from 13.5% in fiscal year 2007/2008 to 14.6% in fiscal year 2008/2009. Relatively weak import demand by mid-year, together with the receipt of US\$330.8 million in special drawing rights from the IMF, helped to maintain stability in the exchange rate.

The Bank of Jamaica employed a less restrictive monetary policy stance in the September quarter as inflation declined and thus interest rates on its securities were generally reduced. For instance, the Bank cut its 80-day repurchase agreement (repo) rate by 17% in mid-September. Despite

the gradual reduction in lending rates, however, private sector credit also declined by 0.7%, reflecting a continuing fall in private consumer spending and investment.

The foreign-exchange market was relatively stable during the third quarter after a period of volatility between September 2008 and February 2009 during which the currency fell by 22% in nominal terms. The exchange rate has now been stabilized at around 89 Jamaican dollars (J\$) to the United States dollar, following intervention by the



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

¹ In Jamaica the fiscal year runs from 1 April to 31 March.

central bank and some improvement in the current account. In light of the impending IMF agreement, the exchange rate is likely to remain stable through to the end of the year.

In terms of growth performance, real GDP declined by 2.9% in the first quarter and by 3.7% in the second, so that the decrease for the first half of the year was 3.3%. This outcome was due to an 8.9% contraction in the goods-producing sector (made up of agriculture, mining, manufacturing and construction), which accounts for around a quarter of GDP. Mining and quarrying posted the sharpest decline (43.4%), largely due to a slump in bauxite and alumina production. The 50% cutback in production at the Alumina Partners of Jamaica (Alpart) plant has slashed foreign exchange earnings, revenues from bauxite production and the employment rate.

The contribution of services to GDP (around three quarters) declined by 1.4% in the first quarter, 0.6% in the second and an overall 1.2% for the half-year. In this sector, the steepest reduction (7.2%) was recorded in transport, storage and communication, while hotels and restaurants, which capture substantial income from tourism, recorded growth of 1.4%. This was due to a 3.4% increase in stay-over tourist arrivals in the first six months of the year. Visitors from all markets except Canada however, showed a decline. Arrivals of cruise ship passengers, the lower yield segment of tourists, were down by 14%. GDP is expected to contract by around 3% in 2009 and then start to recover to an estimated 1% in 2010.

Inflation eased during 2009, standing at 7.2% at the end of September. However, for the third quarter, it increased to 3.1%, up from 2.7% in the second. This marginal increase was due to higher fuel costs and shortages of some agricultural commodities. Overall, non-food inflation (3.7%) exceeded food inflation (2.2%). Inflation is now projected to be in the range of 10%-12% at the close of the year instead of the 14% forecast in the budget. This, however, is subject to depreciation of the Jamaican dollar, and to the extent of increases in oil and other commodity prices for the rest of the year.

The balance-of-payments current account deficit narrowed substantially thanks to a sharper decline in imports than in exports. For the first seven months of 2009, the

JAMAICA: MAIN ECONOMIC INDICATORS

	2007	2008	2009 ^a
Annual percentage growth rates			
Gross domestic product	1.4	-0.6	-3.0
Per capita gross domestic product	0.9	-1.0	-3.4
Consumer prices	16.8	16.9	7.7 ^b
Money (M1)	14.8	2.2	5.2 ^c
Real effective exchange rate ^d	3.5	-6.2	11.1 ^e
Annual average percentages			
Unemployment rate ^f	9.8	10.6	11.3 ^g
Central government overall balance/GDP ^h	-4.7	-7.4	-11.0
Nominal deposit rate ⁱ	5.0	5.1	5.9 ^j
Nominal lending rate ^k	22.0	22.3	22.8 ^j
Millions of dollars			
Exports of goods and services	5 069	5 539	1 400 ^l
Imports of goods and services	8 486	9 914	4 200 ^l
Current account balance	-2 038	-2 794	-700
Capital and financial account balance ^m	1 598	2 689	836
Overall balance	-440	-105	136

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 October 2009.

^c Twelve-month variation to September 2009.

^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 figures for January, April and June.

^h Fiscal year.

ⁱ Average interest rate on savings.

^j Average from January to October, annualized.

^k Average lending rate.

^l In 2009, refers to goods only.

^m Includes errors and omissions.

deficit stood at 3.8% of GDP, 83% lower than the deficit observed during the same period in 2008. The goods balance showed a deficit of 23% of GDP, 45% smaller than in 2008. Slacker domestic demand led to a fall of 39% in merchandise imports. Goods exports contracted by 54% and current transfers (which consist largely of workers' remittances) by 10%. Owing to the increase in tourism, the surplus on the services account rose by 70%. On the other hand, the capital and financial accounts deteriorated by 85% relative to the period January to July 2008. Most of this decline in the capital account was the result of a fall in private investment flows (84.3%), due to growing uncertainty about the future of the Jamaican economy.