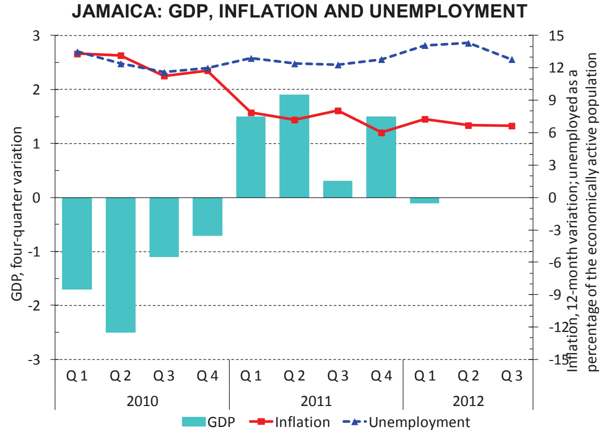
Jamaica

The Jamaican economy continued to experience uncertainty and fiscal stress due to the country’s large debt-to-GDP ratio and a substantial fiscal deficit. Economic conditions have been worsened by the lack of a new agreement with the International Monetary Fund (IMF), which would secure international funding for the balance of payments, as well as other forms of support. The damage caused by Hurricane Sandy in October represents an additional complication, because public funds will be needed to rebuild damaged infrastructure. While inflation has been relatively stable, the exchange rate has seen some slippage and fell by 4.8% between January and October. GDP is expected to decline by 0.2% given that both first-and second-quarter growth were negative (-0.1% and -0.2%, respectively), and fourth-quarter growth is also expected to be negative. Growth is projected at 0.1% in 2013, assuming that an agreement is signed with IMF. This agreement will likely have a strong emphasis on fiscal restraint and public sector reform, which could lead to job cuts.

The key policies pursued in 2012 were driven by the budget for 2012/2013, given the many fiscal challenges facing the economy. A number of tax measures were introduced with the aim of raising overall revenue of 25.38 billion Jamaican dollars (J$), including the reimposition of a dividend tax at 5%, an increase in the income tax threshold, and a reduction in the general consumption tax rate from 17.5% to 16.5%. In addition, general consumption tax was lowered on all tourism-related items. Measures were also put in place to strengthen the tax administration by consolidating various departments. Funds were disbursed under the PetroCaribe agreement with the Bolivarian Republic of Venezuela to fund the Jamaica Emergency Employment Programme (JEEP) and a number of social schemes, including the Jamaica Social Investment Fund. Some of these funds were also used to retire US$ 230 million of domestic debt.

The budget for fiscal year 2012/13[1], at J$ 612.4 billion, represented a nominal expenditure increase of 15% over last year; however, projected debt service costs will consume 54% of the budget, 22% in interest and 32% in principal. It is a matter of concern that while just over 55% of the budget is expected to be financed by tax revenue, the remaining 45% is to be financed by a combination of debt raised on the domestic financial market and overseas borrowing, when debt is already at very high levels. The budget was presented on the understanding that fiscal

JAMAICA: GDP, INFLATION AND UNEMPLOYMENT



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

[1] The fiscal year runs from April to March.

consolidation was necessary to encourage growth, but such consolidation is unlikely, given the demands on expenditure due to hurricane damage in October. One of the main tax changes, the cut in the general consumption tax (GCT) rate from 17.5% to 16.5%, did not seem to stimulate greater domestic demand, and revenues in the period April-September 2012 were 1.5% down on the prior-year period. The fiscal deficit, which was some 5.9% of GDP in the previous fiscal year, is likely to come in slightly higher this year at around 6.2%.

In terms of the public debt stock, the external debt as of May 2012 was 44% of the total debt stock, which increased marginally (by 2%) from January to May. The significant foreign-exchange component of the debt makes the debt burden susceptible to depreciation of the Jamaican dollar. The debt-to-GDP ratio remained high at 130.5% of GDP and is likely to remain so given the lack of robust growth of the economy.

On the monetary policy front, the Bank of Jamaica maintained its policy rate, the 30-day certificate of deposit, at 6.26%. There was a decline in most measures of money supply in the third quarter of the year, reflecting weak economic activity. Meanwhile, the weighted average lending rate came down from 18.34% in September 2011 to 17.36% in September 2012. In the second quarter of 2012, lending to the private sector was up by 4.2%, a significant increase given that credit growth had only been 1.1% in the preceding quarter. Much of this increase was due to personal, mainly consumption, lending, rather than business lending.

The weak domestic demand and uncertainty surrounding an IMF agreement created bouts of instability in the foreign-exchange market, especially in the second quarter of 2012. The weighted average selling rate of the United States dollar dropped by 1.57% in the second quarter, a much faster rate than the 0.8% in the preceding quarter. The Bank was forced to intervene in the foreign-exchange market and sold US$ 134 million to slow the pace of local-currency depreciation. By the end of the second quarter, the exchange rate was J$ 88.7 to the United States dollar and in November it was hovering around J$ 90.1[2]. The exchange-rate situation may deteriorate further, depending on the actions or agreements that result from the government's ongoing negotiations with IMF.

[2] Between January and October the nominal rate of depreciation of the Jamaican dollar was 4.8%.

JAMAICA: MAIN ECONOMIC INDICATORS

	2010	2011	2012
	Annual growth rates		
Gross domestic product	-1.5	1.3	-0.2
Per capita gross domestic product	-1.9	0.9	-0.6
Consumer prices	11.8	6.0	7.2
Money (M1)	7.0	7.8	4.3
Real effective exchange rate [d]	-11.3	-2.4	-0.5
	Annual average percentages		
Open urban unemployment rate [f]	12.4	12.6	13.7
Central government overall balance / GDP	-6.4	-5.9	-6.2
Monetary police rate	9.0	6.6	6.3
Nominal lending rate [i]	20.3	18.3	17.9
	Millions of dollars		
Exports of goods and services	4 004	4 311	1 732
Imports of goods and services	6 454	7 874	5 600
Current account balance	-934	-2 069	-1 273
Capital and financial balance [l]	586	1 864	1 900
Overall balance	-348	-205	627

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Twelve-month variation to October 2012.
[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] January-July average.
[h] January-September average.
[i] Average lending rate.
[j] January-October average.
[k] Does not include services.
[l] Includes errors and omissions.

Growth rates in the first and second quarters of 2012 were -0.1% and -0.2%, respectively. In both quarters, the agriculture sector grew, by 6.5% and 6.9%, respectively, while mining and quarrying and construction declined by 5.0% and 10.2 % over the entire period. Manufacturing, transport, storage and communications, and government services also showed downturns in both quarters. In light of the hurricane damage, agriculture is likely to decline in the latter part of the year as well, while construction should rebound somewhat. The estimate for 2012 is negative growth of 0.2%, turning to a positive projection of 0.1% in 2013, assuming that an IMF agreement is reached in the first quarter of the year.

The lack of robust growth has continued to hamper the labour market. Unemployment rates moved modestly during the year, increasing from 14.1% in January to 14.3% in April, before falling to 12.8% in July. Most of the second-quarter reduction in the unemployment rate reflected the rate for women (down from 18.3% to 16.7%), while unemployment among men inched up from 10.5% to 10.6%. Given that a new IMF agreement will likely emphasize fiscal restraint and possibly public sector cuts, it could lead to a higher unemployment rate in 2013.

Inflation remained relatively stable with the 12-month variation to October 2012 at 7.2%. The largest increases occurred in the food and beverages and clothing and footwear categories, which were up by 10.8% and 11.2%, respectively. Food and beverage inflation is likely to be much higher in 2013, owing to hurricane damage to agricultural crops in 2012.

Over the period January to June, the current account was in deficit by US$ 639.3 million, which was an improvement over the corresponding period in 2011 and represented a narrower deficit across all subsectors except services. In the goods sector, the improvement was due to a 1% reduction in imports. In this period, current transfers increased by US$ 23.6 million to just over US$ 1 billion, owing largely to higher private transfers. Meanwhile, remittances continued to rise, with the gross figure reaching just under US$ 1.52 billion, or 1.1% more than in the year-earlier period. Such inflows represent a significant addition to foreign-exchange inflows, notwithstanding the weak performance of the United Sates, a major source of remittances to Jamaica. Overall, gross international reserves at the end of September were US$ 2.1 billion, or just over three months' cover of projected goods and services imports. Some further deterioration is likely in 2012, given the uncertainty surrounding the IMF agreement and its timing and specific details.