Jamaica

1. General trends

During 2008, the economy of Jamaica suffered the effects of the worldwide economic downturn through lower export demand, falling commodity prices, slowing in tourism and related economic activities, and stagnation of remittances from abroad. The real economy contracted by an estimated 0.6% and the unemployment rate rose from 9.9% to 10.9%. External accounts deteriorated during 2008, with widening trade and current account deficits and a steady loss of international reserves, raising concerns about exchange rate stability and debt sustainability. The fiscal deficit expanded dangerously, fuelled by lower-than-expected fiscal revenues.

Against this scenario, the fiscal and monetary authorities redoubled efforts to counter the worst effects of the economic slowdown and to stabilize markets through measures such as the establishment of liquidity lines and special loan facilities, the implementation of stimulus packages and the reinforcement of social programmes and safety nets. However, with very limited fiscal space, high public debt, currency depreciation and rising domestic interest rates, it is agreed that the economy will decline further in 2009, with projections forecasting contraction of 3%, which would be the worst performance since 1998.

In this context, the country's authorities will need to ensure a substantial and steady provision of financial resources in order to keep the economy stable and meet increased requirements for promotional and social programmes. The government has already secured several contingency loans with a number of multilateral agencies, but if the financial and economic situation continues to deteriorate, the funds already secured may be not enough, forcing the authorities to seek additional financing.

2. Economic policy

(a) Fiscal policy

The negative impact of the economic crisis interfered with the targets set by the government for the fiscal year 2008-2009.[1] Fiscal revenues weakened, growing only 7.6% and falling 10.6 percentage points short of the original expectations for the fiscal year. This mainly resulted from the sharp contraction in capital income (-79.9% or 0.7% of total fiscal revenues), and non-tax revenue (-11.8%). Similarly, there was an acute shortfall in the bauxite levy, whose yield was almost half of its budgeted target. Tax revenue grew by 12.2%, mainly thanks to good results from a tax amnesty, which substantially increased income tax receipts; even with the boost from the amnesty, however, the receipts were still 7.1 percentage points below the goal established in the budget. In contrast, income from

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

Table 1
JAMAICA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	0.7	1.3	1.0	3.5	1.4	1.0	2.7	1.4	-0.6
Per capita gross domestic product	-0.1	0.6	0.2	2.8	0.7	0.4	2.1	0.9	-1.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-12.5	6.7	-6.8	7.0	-11.2	-6.8	16.2	-6.0	-5.1
Mining	-1.0	2.9	2.1	5.0	2.2	2.8	1.2	-2.7	1.1
Manufacturing	0.4	-0.8	-2.0	-0.5	1.4	-4.4	-2.3	0.2	-1.2
Electricity, gas and water	2.2	0.7	4.6	4.7	-0.1	4.2	3.2	0.6	0.9
Construction	0.7	-0.2	-1.0	5.1	8.4	7.5	-1.9	4.6	-5.5
Wholesale and retail commerce, restaurants and hotels [c]	2.1	-0.5	0.4	2.2	2.1	2.1	3.8	1.7	0.7
Transport, storage and communications	6.5	4.8	6.2	4.0	1.4	0.9	4.4	3.3	-2.2
Financial institutions, insurance, real estate and business services	1.9	3.4	3.5	4.6	2.2	0.6	1.7	3.3	1.2
Community, social and personal services	-0.3	1.0	1.4	1.5	0.9	1.1	2.1	1.2	0.1
					Millions of dollars				
Balance of payments									
Current account balance	-367	-759	-1 074	-773	-509	-1 009	-1 183	-2 038	-3 223
Goods balance	-1 442	-1 618	-1 871	-1 943	-1 945	-2 581	-2 943	-3 841	-4 981
Exports, f.o.b.	1 563	1 454	1 309	1 386	1 602	1 664	2 134	2 363	2 761
Imports, f.o.b.	3 004	3 073	3 180	3 328	3 546	4 246	5 077	6 204	7 742
Services trade balance	603	383	315	552	572	670	628	425	355
Income balance	-350	-438	-605	-571	-583	-676	-616	-662	-680
Net current transfers	821	914	1 087	1 189	1 446	1 578	1 749	2 040	2 083
Capital and financial balance [c]	886	1 624	832	342	1 203	1 238	1 413	1 598	3 118
Net foreign direct investment	394	525	407	604	542	582	797	...	...
Other capital movements	492	1 099	425	-263	661	656	616	...	...
Overall balance	518	865	-242	-432	694	229	230	-440	-105
Variation in reserve assets [d]	-499	-847	261	448	-686	-228	-230	440	105
Other financing	-19	-18	-19	-16	-8	-1	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [e]	100.0	101.7	101.2	116.9	113.6	104.4	104.8	108.5	101.8
Net resource transfer (millions of dollars)	517	1 168	208	-246	612	561	797	937	2 438
Gross external public debt (millions of dollars)	3 375	4 146	4 348	4 192	5 115	5 372	5 794	6 123	6 344
					Average annual rates				
Employment									
Labour force participation rate [f]	63.3	63.0	63.6	64.4	64.3	64.2	64.7	64.9	65.4
Unemployment rate [g]	15.5	15.0	14.2	11.4	11.7	11.3	10.3	9.8	10.6
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	6.1	8.7	7.3	14.1	13.7	12.9	5.8	16.8	16.9
Variation in nominal exchange rate (annual average)	9.4	7.7	5.3	19.3	6.0	1.7	5.5	5.0	5.7
Nominal deposit rate [h]	10.5	9.4	9.1	8.3	6.7	5.9	5.3	5.0	5.1
Nominal lending rate [h]	32.9	29.4	26.1	25.1	25.1	23.2	22.0	22.0	22.3
					Percentages of GDP				
Money and credit [i]									
Domestic credit	34.6	35.6	35.4	40.5	35.7	34.7	30.2	30.4	34.4
To the public sector	28.9	29.3	26.7	29.6	23.4	21.3	14.9	12.8	15.4
To the private sector	7.6	8.3	10.0	12.5	13.3	14.1	15.8	18.2	19.8
Others	-1.9	-2.0	-1.3	-1.7	-1.1	-0.6	-0.4	-0.6	-0.8
Liquidity (M3)	34.6	34.9	35.2	33.8	34.1	33.2	32.5	33.7	29.9
Currency outside banks and local-currency deposits (M2)	26.2	26.1	25.5	22.7	22.8	22.7	23.0	22.7	20.1
Foreign-currency deposits	8.4	8.7	9.8	11.1	11.3	10.5	9.5	11.0	9.8

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
	Percentages of GDP								
Central government [j]									
Total income [k]	26.3	24.5	25.0	27.6	27.9	26.9	26.8	28.8	26.4
Current income	25.4	23.3	23.4	26.2	26.2	25.6	26.2	27.3	25.5
Tax income	22.6	21.6	22.0	24.2	24.3	23.4	23.9	24.7	23.5
Capital income	0.4	0.7	1.4	1.3	0.9	1.2	0.4	1.1	0.2
Total expenditure [l]	27.1	29.6	31.8	32.9	32.2	29.9	31.5	33.1	33.6
Current expenditure	24.9	27.1	30.1	31.9	30.4	27.7	28.5	28.4	29.6
Interest	11.2	12.2	13.3	16.2	15.0	12.7	12.4	11.4	12.0
Capital expenditure	2.4	2.4	1.7	1.0	1.8	2.2	3.0	4.7	3.9
Primary balance	10.3	7.1	6.5	10.9	10.7	9.7	7.8	7.2	4.8
Overall balance	-0.8	-5.1	-6.8	-5.3	-4.3	-3.0	-4.6	-4.2	-7.2
Public-sector external debt	42.8	51.1	51.3	51.2	58.0	55.3	55.9	53.9	48.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2003 prices.
[c] Includes errors and omissions.
[d] A minus sign (-) denotes an increase in reserves.
[e] Annual average, weighted by the value of goods exports and imports.
[f] Economically active population as a percentage of the working-age population.
[g] Percentage of the economically active population. Includes hidden unemployment. Nationwide total.
[h] Average rates.
[i] The monetary figures are end-of-year stocks.
[j] Fiscal years.
[k] Includes grants.
[l] Includes statistical discrepancy.

grants greatly surpassed the amount originally set for 2008-2009.

Fiscal expenditures stayed on target, growing by 19.5% in nominal terms, with just a minimal deviation (0.7%) over the original budget provisions. This was accomplished through a reduction in capital expenditure, compensating slightly higher than expected disbursements on remunerations and interest payments.

The central government deficit expanded from 4.2% of GDP in fiscal year 2007-2008 to 7.2% of GDP in fiscal year 2008-2009, considerably surpassing the target set in the budget (3.9% of GDP). Faced with increased funding requirements, the government mainly resorted to domestic financing, with expanded credit from the banking system and the issue of debt instruments. The government also relied on bond emissions in international markets and direct loans from multilateral institutions. In these efforts, the government faced increasingly adverse conditions, with rising interest rates and continuing foreign exchange volatility. Furthermore, during the last quarter of the year Jamaica's debt and credit ratings were downgraded by the international rating agencies, increasing the difficulties and costs of financing.

In 2008, as a result, the domestic debt stock grew by 9% and the external debt stock rose by 3.6%. As of December 2008, the total public debt stock (domestic and external) rose to US$ 13.9 billion, some 106.9% of GDP, and by the end of fiscal year 2009-2010 it is expected to reach 108.9% of GDP.[2] Improving debt management has become a very pressing issue because of the heavy burden that debt servicing represents for the public finances, with interest payments alone accounting for 25% of total budgetary expenditure, while debt servicing (amortization and interest payments) represented around 55% of total expenditure during the fiscal year 2008-2009.

In April 2009, the government submitted to the parliament its proposed budget for fiscal year 2009-2010. In real terms, it was 4.5% below the previous budget, reflecting austerity efforts to balance public revenue and expenditure, with a targeted fiscal deficit of 5.5% of GDP. To reach this goal, the main fiscal policy challenges will be to increase revenue while holding expenditure down. The government plans to streamline public agencies, improve financial and budget management, and improve revenue collection through tax reform.

In its budget submission, the government announced a tax package, including a major increase in the special fuel tax and higher customs user fees levied on selected petroleum products, wider coverage of the general consumption tax, and the establishment of a Forensic Data-Mining Intelligence Unit to monitor own-account workers, but also a 100% increase in the income tax threshold. Efforts to increase revenue have encountered

2 Following a GDP revision in 2008, public debt as a percentage of GDP decreased significantly.

Table 2
JAMAICA: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	3.3	2.4	0.4	-0.4	-0.0	-0.9	-0.3	-1.1	...	...
Gross international reserves (millions of dollars)	2 614	2 472	1 943	1 906	2 106	2 477	2 281	1 795	1 663	1 661
Real effective exchange rate (index: 2000=100) [c]	107.4	108.8	108.9	108.8	104.9	103.1	99.3	99.7	110.7	114.4 [d]
Consumer prices (12-month percentage variation)	8.0	7.7	9.0	16.8	19.9	24.0	25.3	16.9	12.4	9.5 [d]
Average nominal exchange rate (pesos per dollar)	67.46	68.08	69.14	71.01	71.29	71.37	72.12	76.73	86.29	88.91
Nominal interest rates (annualized percentages)										
Deposit rate [e]	5.2	5.2	5.0	4.9	4.9	4.7	5.5	5.5	5.9	5.9
Lending rate [e]	22.1	22.9	21.9	21.0	22.2	21.8	22.3	23.0	22.5	23.3
Stock price index (national index to end of period, 31 December 2000=100)	314	312	333	374	372	380	353	277	273	280
Domestic credit (variation from same quarter of preceding year)	9.3	8.1	17.8	13.7	6.9	20.4	17.5	32.9	28.6	14.1 [f]
Non-performing loans as a percentage of total credit	2.1	2.0	2.0	2.0	2.1	2.2	2.4	2.6	2.7	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2003 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] Average rates.
[f] Data to April.

political and social backslashes, however, and in May the government announced a partial reversal of some of the new tax measures, retaining exemptions in the general consumption tax on basic items while increasing the special consumption tax on cigarettes, liquor and other non-essential items.

Securing financing from multilateral sources to support fiscal and debt sustainability has become another priority for the government. By April 2009, Jamaica had successfully negotiated close to US$ 1 billion in contingency loans from multilateral institutions such as the World Bank, the Inter-American Development Bank and the Caribbean Development Bank. Furthermore, the government engaged in pre-emptive talks with the IMF regarding a line of credit for an additional US$ 1 billion.

In 2008, the government implemented a variety of measures to reduce the negative social impact of the economic slowdown and rising prices. It introduced subsidies on basic food items, tax and tariff reductions for essential products, and adjustments to the national minimum wage. Significant efforts are also being made to increase the scope and coverage of social programmes, such as the Programme of Advancement Through Health and Education (PATH). The government plans to expand PATH coverage to an additional 120,000 beneficiaries in 2009, thanks to funding from multilateral agencies. The authorities have also announced an increase in the education budget, an expansion of the School Feeding Programme and a strengthening of the Constituency Development Fund, which implements projects such as home repairs for the indigent, school and community centre repairs, and agriculture projects.

(b) Monetary and exchange-rate policy

Monetary policy in 2008 focused on the easing of liquidity constraints in exchange markets and the holding down of inflationary pressures, in the face of heightened uncertainty and volatility in international and domestic financial markets. A significant reduction in the supply of United States dollars during the second half of the year led the Bank of Jamaica to implement several measures aimed at increasing the supply of United States dollars to prevent further depreciation of the local currency and absorb excess liquidity to keep inflation under control. Those measures included the implementation of a special loan facility for security dealers, and the establishment in November 2008 of an intermediation facility in domestic and foreign currency.

Higher interest rates, expanded availability of special financial instruments such as certificates of deposit, and higher reserve requirements were also aimed at reducing excess liquidity. Despite these efforts, the Jamaican dollar depreciated substantially, and as of December 2008 the average exchange rate was J$ 80.2 to US$ 1, reflecting a cumulative 13.9% depreciation since December 2007, when the exchange rate against the United States dollar averaged J$ 70.4. Moreover, depreciation pressures intensified during the first months of 2009, with the average exchange rate increasing to J$ 88.4 to the United States dollar, reaching a cumulative 10.2% depreciation for the first quarter.

Expansion of the monetary base slowed in comparison to previous periods, standing at 9.6% during 2008, significantly below the target set by the Bank of Jamaica at the beginning of the year (12.6%) and the level recorded in 2007 (also 12.6%). However, during the last quarter of the year the monetary base grew thanks to a seasonal increase in currency issue and rising statutory requirements. At the same time, domestic interest rates were gradually increased during 2008, with the deposit rate averaging 5.33% by December, while the average lending rate topped 23.17% in the same month.

3. The main variables

(a) Economic activity

The Jamaican economy suffered a decline in output during 2008, recording growth of -0.6% as compared with 1.4% in 2007. This was mainly the result of declining external and internal demand. Construction was the sector most adversely affected by the economic slowdown, while agriculture, transport and communication and manufacturing also recorded negative results. The major economic sectors (financial services and tourism), however, still managed to post positive growth.

The 5.5% contraction in construction, which represents 8% of GDP, following a 4.6% expansion in 2007, was due to a sharp decline in private and public investment projects and residential construction. This contraction led to an equivalent fall in the market for construction inputs such as cement, sales of which declined by 7.8% during 2008. The lagged effects of hurricane Dean and heavy floods during 2007 (a 5.1% contraction) continued to hamper agricultural activities, which make up 5% of GDP, further exacerbated by the passage of tropical storm Gustav in September. Efforts by the Ministry of Agriculture to boost agricultural output have been encouraging but the sector still has a long way to go before it recovers fully.

The 2.2% contraction in transport and communication (12% of GDP) reflected shrinking levels of activity in other sectors, with lower demand for water and air transportation services because fewer ships were calling at Jamaican ports, reduced domestic cargo movement, and institutional problems faced by Air Jamaica. In the case of the manufacturing sector (9% of GDP), the 1.2% fall was principally due to significant falls in production of beverages, chemicals and metal products, while food production showed mixed results.

As for sectors which posted positive results, the expansion of financial services (which represent 21% of GDP) reflected increased buoyancy (1.2% growth) in the banking sector. Mining (4% of GDP) expanded by 1.1%, following a 2.7% contraction recorded in 2007, owing to a partial recovery of the bauxite and alumina industry despite production problems, electric power cuts and weak external demand. In the first months of 2009, however, the bauxite and alumina industry was hit by serious cuts in activities owing to falling international demand.

Commerce and hotel and restaurant activities (25% of GDP) grew by 0.7% thanks to expansion in hotels and restaurants (2.7%) while wholesale and retail commerce posted practically zero growth. Tourism activities started to slow during 2008, with arrivals from the United States growing marginally (1.4%), while those from Europe contracted by 1.4%. Arrivals from Canada increased significantly, however (23.9%), probably owing to increased purchasing power resulting from the appreciation of the Canadian dollar against the United States dollar. Thanks to the greater numbers of Canadian visitors, the number of stay-over visitors increased by 3.7% in 2008. Total cruise-ship passengers fell 7.7%, however, and foreign exchange earnings from tourism contracted by 0.5%. Data for the first quarter of 2009 show that the contraction in tourism deepened and accelerated, with total stay-over arrivals down 11.8% and cruise-ship passenger arrivals down 25.7% compared to the first quarter of 2008.

The negative expectations for 2009 are very worrisome; as the global recession deepens, forecasts for GDP point to a contraction of the order of 3%. Tradable sectors are expected to be worst affected owing to a fall in export demand, reduced commodity prices, and fewer tourist arrivals. Stimulus measures such as tax cuts and soft loans for business, manufacturing and tourism activities, and promotional programmes and subsidies for the agricultural sector are being put in place by the government, but these measures are unlikely to be sufficient to lift Jamaica out of the recession.

(b) Prices, wages and employment

Consumer price inflation reached 16.8% by the end of 2008 (December-December), equal to the rate registered in 2007. Inflation peaked in August, however, recording a staggering annualized figure of 26.5%. Inflationary pressures declined during the last months of 2008, partially thanks to cooling commodity prices and the monetary and exchange rate policy measures adopted by the Bank of Jamaica to slow currency depreciation.

The categories recording the highest annual increases were food and non-alcoholic beverages (24%) and alcoholic beverages and tobacco (27%), with particularly strong increases in the cost of oils and fats (43.4%), vegetables (38.4%), and bread and cereals (33.5%). On the other hand, housing, utilities and fuels registered moderate annual inflation (9.3%) thanks to very low increases (4.7%) in electric power, gas and other fuels owing to price controls, subsidies and the government's other anti-inflationary measures.

The authorities expect a fall in inflation in fiscal year 2009-2010, with a forecast rate of 11%-14%. Lower import prices and weaker domestic demand are the main factors that will push inflation down, although increases in the fuel tax rate in the first half of 2009 will probably filter through to transportation and utilities costs.

In 2008, the labour force increased by 1% to 1.3 million persons, with an average participation rate of 65.4% (compared with 64.8% in 2007). Slowing economic activity led to a rise in the unemployment rate from 9.9% in 2007 to 10.9% in 2008, largely reflecting job losses in construction and installation activities because of the scaling down or suspension of several major tourism and infrastructure projects. This is a major concern, since unemployment is expected to increase further in 2009, when falling tourism flows, the closure of bauxite plants and the slowdown in manufacturing will adversely affect labour markets.

Following the high level of inflation in 2008, the government decreed compensatory salary increases for public servants and an adjustment of the national minimum wage on the order of 17.5%.

(c) The external sector

External accounts deteriorated significantly in 2008, with a widening of the trade and current account deficits. While merchandise exports grew by 16.9% compared to 2007, totalling US$ 2.761 billion, this was considerably surpassed by the large expansion in merchandise imports (24.8%), which topped US$ 7.742 billion at the end of 2008. Consequently, the merchandise trade deficit in goods rose by as much as 29.7%.

The trade surplus in services saw a substantial reduction (-16.3%), mainly owing to the increased deficit in transportation services. The income balance deficit and the net current transfer surplus did not alter significantly, amounting to -4.7% and 14.6% of GDP for 2008, respectively. However, the 3.1% growth of net remittances in 2008 was just a fraction of the rise recorded in 2007 (13%), and with a total of US$ 1.712 billion as of December 2008, net remittances as a percentage of GDP fell to 12% from the 2007 figure of 12.9%. Moreover, these flows started to contract in absolute terms in 2009, with a 11.9% fall during the first quarter compared to the same period in 2008. Overall, the current account deficit grew by 58.1%, reaching 22.5% of GDP (15.8% in 2007).

The capital account reversed the US$ 36 million deficit recorded in 2007, achieving a US$ 22 million surplus. The financial account enjoyed a substantial expansion, almost doubling its surplus from US$ 1.634 billion in 2007 to US$ 3.096 billion in 2008, equivalent to 21.6% of GDP. This was the result of positive net flows of private and official investments. Nonetheless, it was not enough to compensate for the current account deficit, resulting in another balance-of-payments deficit (0.7% of GDP).

Net international reserves declined during 2008, standing at US$ 1.773 billion in December, a net -5.6% reduction from the level recorded in December 2007. According to estimates from the Bank of Jamaica, the amount of gross foreign assets available was equivalent to 13.6 weeks of imports of goods and services.

For 2009, it is expected that the trade and current account deficits will diminish, reflecting weaker overall import demand, and lower prices for some key imports such as foodstuffs and oil.