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## Jamaica

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### 1. General trends

In 2003 the Jamaican economy recorded its highest growth rate in a decade (2.1%). This achievement was attributable to the continued buoyancy of the mining sector (4.8%) and to an upturn in activities linked to tourism and agriculture (5.7%). The economic performance of the real sector, however, was adversely affected by the climate of uncertainty and the loss of confidence in the local currency observed in the first half of 2003, which resulted in a sharp exchange-rate depreciation. These developments were triggered by the official announcement in December 2002 that the deficit estimated for fiscal year 2002, at 7.6% of GDP, would far exceed the target set by the authorities (4% of GDP).<sup>1</sup>

The currency devaluation prompted the Bank of Jamaica to adopt a contractionary monetary policy, which translated into a significant rise in interest rates. In addition, the authorities intervened in the foreign-exchange market, thereby drawing down net international reserves. At the same time, the government introduced a series of changes in tax laws and cutbacks in public spending. Thanks to this package of measures, the deficit for fiscal year 2003 was reduced by more than one percentage point, and exchange-rate depreciation slowed down in the second half of 2003, enabling the central bank to adopt a looser monetary policy. However, the slippage in the local currency's value affected the inflation rate, which rose to double digits for the first time in six years (14%).

On the external front, Jamaica's overall balance-of-payments position worsened, despite a reduction in its current account deficit (from 13.3% of GDP in 2002 to 12.4% in 2003). This situation was due to a decline in the surplus on the capital and financial account between 2002 and 2003 as a result of the government's decision not to resort to external refinancing to meet its external debt-servicing obligations.

In 2004 the Jamaican economy is expected to grow by 2.3%, driven by the mining sector (6%) and tourist arrivals (7%). Inflation will probably remain in the double digits, and the deficit for fiscal year 2004 is likely to be between 3% and 4% of GDP.

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1 Jamaica's fiscal year runs from April to March.

Table 1  
JAMAICA: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003 <sup>a</sup>
<b>Annual growth rates<sup>b</sup></b>									
<b>Gross domestic product</b>	1.0	1.0	-1.7	-0.3	0.9	0.8	1.5	1.1	2.1
<b>Per capita gross domestic product</b>	0.1	0.1	-2.5	-1.2	0.0	-0.1	0.6	0.2	1.2
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	2.6	4.2	-13.7	-1.5	1.0	-12.0	5.8	-7.0	5.7
Mining and quarrying	-6.8	7.5	3.3	3.3	0.1	-1.0	2.6	3.3	4.8
Manufacturing	-0.8	-3.3	-2.5	-4.4	-1.6	0.4	0.7	-0.8	-1.0
Construction	7.2	-5.4	-3.9	-5.8	-1.7	0.7	2.2	2.3	1.1
Wholesale and retail commerce, restaurants and hotels	4.0	5.4	0.9	-1.6	0.9	1.6	-1.2	1.2	2.1
Transport, storage and communications	9.8	9.1	5.7	5.6	6.8	6.5	5.1	6.3	3.0
Financial institutions and insurance	1.9	-7.8	-18.7	-1.7	-0.5	1.5	0.2	0.3	1.3
Real estate and business services	4.3	5.5	-4.3	-1.2	7.0	3.1	-8.3	6.1	4.9
Community, social and personal services	0.8	-0.2	0.5	1.1	-1.5	0.0	1.4	0.6	1.3
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-99	-143	-332	-334	-216	-367	-759	-1 118	-1 003
Merchandise trade balance	-829	-994	-1 132	-1 131	-1 187	-1 442	-1 618	-1 870	-1 949
Exports, f.o.b.	1 796	1 721	1 700	1 613	1 499	1 563	1 454	...	...
Imports, f.o.b.	2 625	2 715	2 833	2 744	2 686	3 004	3 073	...	...
Services trade balance	494	453	467	477	655	603	383	271	444
Income balance	-371	-225	-292	-308	-333	-350	-438	-606	-633
Net current transfers	607	624	625	628	647	821	914	1 087	1 135
Capital and financial balance <sup>c</sup>	126	414	162	378	80	886	1 624	...	...
Net foreign direct investment	81	90	147	287	429	394	525	...	...
Financial capital <sup>d</sup>	45	324	15	91	-349	492	1 099	...	...
Overall balance	27	271	-170	44	-136	518	865	...	...
Variation in reserve assets <sup>e</sup>	56	-202	205	-27	155	-499	-847	244	432
<b>Other external-sector indicators</b>									
Total gross external debt (millions of dollars)	...	...	3 278	3 306	3 024	3 375	4 146	4 348	4 192
Total gross external debt (% of GDP)	...	...	48.8	48.1	44.4	47.8	55.9	57.4	57.4
<b>Employment</b>									
Labour force participation rate <sup>f</sup>	69.0	67.7	66.6	65.6	64.5	63.3	63.0	63.6	62.0
Unemployment rate <sup>g</sup>	16.2	16.0	16.5	15.5	15.7	15.5	15.0	15.1	13.1
<b>Prices</b>									
Variation in consumer prices (December-December)	25.5	15.8	9.2	7.9	6.8	6.1	8.7	7.3	14.1
Variation in nominal exchange rate (December-December)	19.4	-11.8	3.6	2.6	10.7	10.2	4.3	6.0	19.4
Real deposit rate <sup>h</sup>	26.2	20.8	14.1	15.5	13.3	12.2	10.1	8.9	-6.5
Real lending rate <sup>h</sup>	48.6	37.8	31.9	30.1	24.6	22.1	19.5	18.3	4.6
<b>Millions of Jamaican dollars</b>									
<b>Central government</b>									
Current income	56 643	61 299	65 196	72 842	83 839	97 611	97 770	109 466	142 251
Current expenditure	44 442	64 225	72 113	84 743	93 166	95 782	113 678	141 080	173 248
Budget out-turn	3 806	-14 966	-20 787	-19 171	-12 583	-3 172	-21 413	-31 861	-28 838
Primary balance	...	...	...	...	...	...	29 597	30 259	59 332
Interest	17 971	27 280	24 564	34 589	41 784	42 920	51 010	62 121	88 170
External	...	...	...	...	6 804	8 614	10 657	15 186	16 709
Domestic	...	...	...	...	34 980	34 306	40 353	46 935	71 461

Table 1 (concluded)

	1995	1996	1997	1998	1999	2000	2001	2002	2003 <sup>a</sup>
	<b>Percentages of GDP</b>								
<b>Money and credit</b>									
Domestic credit	30.1	32.0	34.3	...	38.3	37.7	39.3	36.8	39.0
To the public sector	6.7	7.5	8.8	...	7.6	6.9	17.2	23.2	22.8
To the private sector	23.4	24.5	25.5	...	30.7	30.8	22.1	13.6	16.2
Money stock and local-currency deposits (M2)	36.8	35.8	37.1	37.5	40.9	40.4	40.8	...	...

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

<sup>a</sup> Preliminary figures. <sup>b</sup> Since 1999, based on figures in local currency at constant 1996 prices; prior to 1999, in constant 1986 prices. <sup>c</sup> Includes errors and omissions. <sup>d</sup> Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. <sup>e</sup> A minus sign (-) denotes and increase in reserves. <sup>f</sup> Economically active population as a percentage of the working-age population. <sup>g</sup> Unemployed population as a percentage of the economically active population. Includes hidden unemployment. <sup>h</sup> Weighted average.

## 2. Economic policy

### (a) Fiscal policy

In fiscal year 2003 the authorities succeeded in reducing the preceding year's fiscal deficit, of 7.6% of GDP, to 5.9%. They achieved this by curbing public spending and introducing new measures in May and June 2003 to boost tax revenues.

Total expenditure remained at the preceding year's level (37% of GDP), as cutbacks in spending on social programmes offset increases in the government wage bill and interest payments.

The tax measures included, among others, the expansion of the tax base for the general consumption tax and increases in taxes on telephone service and in customs duties on specific imports. While these initiatives raised the tax burden by 2.3 percentage points (from 24.6% of GDP to 26.9% between fiscal years 2002 and 2003), their impact on tax receipts was weaker than expected.

Despite efforts to rein in spending, the public debt increased from 150% of GDP at the end of 2002 to 187% at the end of 2003. This continues to be a matter of concern to the monetary and fiscal authorities, since a debt this large limits both their room for manoeuvre and the composition of public expenditure. The country's debt situation also explains why international agencies decided to downgrade its sovereign debt rating in January 2003 and again in February 2004.

The government forecasts a further decline in its fiscal deficit, to a range of 3% to 4% of GDP in fiscal year 2004, and expects to achieve equilibrium in the

subsequent period. The budget for fiscal year 2004—which assumes that economic growth will amount to 3% and that inflation will fall from its current high level to 6%—has as its centrepiece the reduction of central government outlays on the two biggest items of expenditure: wages and salaries (which account for 34% of the total) and interest payments on the domestic public debt (which account for 40%). To this end, the government and the Jamaica Confederation of Trade Unions agreed to reduce the growth of the wage bill by implementing a policy of public-sector wage and employment restraint between 1 April 2004 and 31 March 2006. Expenditure on interest payments is also projected to decline, as the central bank is expected to continue its policy of gradually lowering the cost of credit.

### (b) Monetary and exchange-rate policy

In 2003 monetary policy was aimed at enabling the central bank to fulfil the two functions it assumed in the course of the year: maintaining monetary and financial stability and serving as the government's lender of last resort by providing it with enough resources to meet its liquidity requirements and establishing suitable financial conditions for the payment of public debt-servicing obligations. The bank adopted these two roles successively in the first and second halves of the year.

Consequently, monetary policy went through two distinct phases. In the first (January to June), the central

bank introduced a series of measures to curb exchange-rate depreciation, which intensified in the first five months of the year. The exchange rate rose by 18% between January and May 2003 (from 51.59 Jamaican dollars (J\$) per United States dollar in January to J\$ 61.08 in May).

In terms of economic policy, the most important measures were the restriction of liquidity through open-market operations and intervention in the foreign-exchange market. In addition, the Bank of Jamaica established a special reserve requirement for commercial banks and institutions, equivalent to 5% of their average local-currency liabilities.

The final outcome was a 5% contraction in M1, an interest-rate hike (which had negative effects on the government's fiscal accounts) and a US\$ 470-million decline in the stock of international reserves, aggravated by the redemption of a Eurobond in the first quarter of the year.

The second monetary policy phase, implemented in the second half of the year, was marked by a more stable macroeconomic framework. Currency depreciation slowed down (to 4.7% in the third quarter) and the exchange rate stabilized at J\$ 60.62. The monetary authorities took advantage of this situation to lower interest rates, which nevertheless remained higher than they had been the preceding year. Thus, the authorities were able to reduce the public debt burden and provide the liquidity needed to finance the government's fiscal deficit. During this period, net public-sector borrowing increased by 28% and the monetary base and M2 expanded by 13% and 11%, respectively.

Throughout the year, the central bank's monetary policy stance did not significantly affect the commercial banking system's liquidity position. The loan-deposit ratio increased from 0.41 in December 2002 to 0.5 in December 2003. Nominal lending rates rose marginally, and real rates declined owing to the increase in inflation (the average real lending rate fell from 10% in December 2002 to 4.6% in December 2003).

The downward trend in real interest rates, in conjunction with the level of economic growth and the Bank of Jamaica's stabilization efforts, boosted the demand for credit (by 22% in real terms).

More favourable macroeconomic conditions in 2004 have enabled the central bank to relax its monetary policy and reduce the structure of benchmark interest rates, thus lightening the burden of domestic public debt and lowering the cost of carrying out open-market operations. Between May 2003 and mid-2004, 90- and 180-day repo rates diminished from 20% and 24% to 14.4% and 14.55%, respectively. In accordance with the authorities' economic policy objectives, the nominal exchange rate depreciated in line with the fall in interest rates, by about 1%.

The decline in interest rates was attenuated by the strengthening of the international reserve position, which forced the authorities to carry out sterilization operations to avoid an unwarranted expansion in the monetary aggregates. The increase in net international reserves was due to the issuance of a regional bond and a euro-denominated bond on international capital markets, for a total of US\$ 250 million.

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### 3. The main variables

#### (a) Economic activity

The expansion of economic activity in 2003 (by 2.1%) was driven mainly by faster growth in the primary and tertiary sectors, although all branches of activity except manufacturing and government services posted positive growth rates.

The performance of agriculture (5.7% in 2003, compared to -7% in 2002) was attributable to an upturn in output for domestic consumption (17%), since export production declined (-0.6%). This improvement was due to better weather conditions and the official assistance provided to farmers who had suffered flood damage in 2002. A 2% decline in agricultural output is forecast for 2004, based on the possibility of adverse weather conditions.

Growth in the mining sector (3.3% in 2002 and 4.8% in 2003) was due to higher capacity utilization at the Jamalco and Alpart alumina refineries and to a rise in international prices. Conditions conducive to increases in capacity utilization should continue to be observed in 2004, leading to an estimated 11% upswing in production.

The manufacturing sector recorded negative growth similar to the preceding year's rate (-1%) owing to downturns in two basic components: food, beverages and tobacco and other manufactures. The decline in the first of these categories was due to a decrease in the production of milled sugar, the effect of the expansion of the tax base (which affected dairy products) and delays in the supply of raw materials. The performance of the second category ("other manufactures") reflected the

temporary closure of a refinery for repairs and maintenance in the third quarter of the year. As in previous years, the clothing and textile segments suffered from a lack of competitiveness. Manufacturing output will probably slide again in 2004, posting negative growth (-0.5%).

The construction sector expanded more slowly (by 1.1% in 2003, compared to 2.3% in 2002). This activity benefited from the expansion and upgrading of infrastructure projects (including Highway 2000 and the North Coast Highway) and from an increase in capital outlays by public utility companies. In 2004 construction will probably continue to grow at its current pace.

Tourism became the fastest-growing activity in 2003, after having faltered slightly in 2002. This performance was based on higher levels of investment, efforts to diversify the country's tourism offerings and an increase in the number of cruise-ship calls at Jamaican ports. The number of tourists, consisting mainly of cruise-ship passengers, rose by 13%, while tourist expenditure rose by 10%. In 2004 the tourism sector's performance will be buoyed by continued growth in cruise-ship arrivals and in the number of long-stay visitors, due in part to the national airline's resumption of air service to and from North America.

### **(b) Prices, wages and employment**

In 2003 inflation was in the double digits (14.1%) for the first time in six years. This was a consequence of exchange-rate depreciation, the tax measures implemented in May and June, the rise in international oil prices and increases in transport costs and in the minimum wage.

In 2004 inflation over the 12 months ending in June subsided to 12.2%. This suggests that inflation will remain in the double digits in 2004 but will be somewhat lower than in 2003. This will have an impact on monetary policy management and on the public authorities' capacity to meet their declared targets.

In terms of wages and salaries, in 2003 the government negotiated a settlement of the wage demands being made by civil servants and teachers. In February 2004 the government and the Jamaica Confederation of Trade Unions signed a memorandum of understanding in which they agreed to reduce the growth of the wage bill for a period of two years. Under the agreement, the public-sector wage bill may not increase by more than 3%.

Unemployment fell from 15% in 2002 to 13% in 2003, although this change was due to a decline in the registered labour force rather than an increase in the employed population. Labour statistics disaggregated by gender show that the decrease in the labour force was

particularly pronounced among women. In addition, women experienced a sharper decline in unemployment: from 21% to 18% between 2002 and 2003, whereas unemployment among men dipped from 11% to 10% over the same period.

### **(c) The external sector**

The overall balance-of-payments position was negative, as the surplus on the capital and financial account was insufficient to offset the current account deficit (12.4% of GDP in 2003). Consequently, the amount of net international reserves diminished from US\$ 1.6 billion in 2002 to US\$ 1.169 billion in 2003.

The trade balance worsened (from -22% of GDP in 2002 to -24% in 2003) owing to a 29% increase in the oil bill following the surge in international oil prices and the expansion of demand for non-mineral imports. Other categories of imports, including consumer and capital goods, went down (by 4% and 14%, respectively) because of shrinking demand for consumer durables, the package of tax measures referred to earlier and the lower level of investment in the telecommunications sector.

Exports, meanwhile, expanded for the first time in three years, owing to the high alumina output (12%), which accounts for 58% of total external sales. Trends in other traditional exports were varied, since sales of bananas and sugar posted positive growth, while those of coffee, rum and bauxite declined.

The services trade balance showed a bigger surplus (US\$ 444 million in 2003, as against US\$ 271 million in 2002) because of a 13% increase in tourist arrivals; this, in turn, reflected favourable external conditions and the authorities' efforts to improve competitiveness in the tourism industry. The largest increase was observed in the European market (from 0.2% in 2002 to 29% in 2003).

Unilateral transfers, which are one of the country's main sources of external financing, went up (from 14% of GDP in 2002 to 15% in 2003), reflecting the improvement in the United States economy.

The balance-of-payments capital account exhibited a US\$ 17-million deficit in both 2002 and 2003, while the financial account ran a smaller surplus in 2003 than in 2002 (US\$ 588 million, compared to US\$ 891 million in 2002). This outcome was due to the redemption of a bond, which resulted in a decrease in financial flows under the heading "other investment".

The macroeconomic imbalances that surfaced in 2003 and the downturn in the country's international credit rating (in June of that year) discouraged the authorities from seeking additional financing on

international capital markets. Lastly, private capital inflows increased (from US\$ 814 million in 2002 to US\$ 956 million in 2003), albeit more slowly than expected because of the low levels of activity in telecommunications and financial services.

The current account deficit is expected to narrow further in 2004 (to 11% of GDP). However, this target is predicated on robust growth in the mining and tourism sectors and, even more importantly, on stable international oil prices.