

## Jamaica

Badly affected by the impact of Hurricane Dean in August 2007, the Jamaican economy is expected to grow by only 1.5% in 2007 as compared to 2.5% in 2006. Inflation recorded an estimated annual rate of 8.5%, below the Bank of Jamaica target of 9-10%, despite food price increases in the wake of the hurricane. Meanwhile, the fiscal deficit for the fiscal year 2007-2008<sup>1</sup> is estimated at 4.3% of GDP (4.5% was budgeted for that fiscal year) owing to above-budget revenue. The trade deficit widened to 31% of GDP, resulting in a current account deficit of 13.5% of GDP (10.7% in 2006). Jamaica's economic management continues to be constrained by its huge debt burden of some 135% of GDP and tight fiscal measures will have to be continued for some considerable time. The country's economy is expected to grow by 3% in 2008.

Jamaica's economic policies have been guided by the Medium Term Socio-Economic Policy Framework (MTF) which was approved in 2004 and embodies the development strategy for the period 2004-2007. The MTF aims at achieving macroeconomic stability through prudent fiscal management, keeping inflation down to single figures and promoting private-sector development as well as social stability.

The main economic policy challenge in 2007 was public debt management. Current levels of public debt, around 135% of GDP, are well above any level that can be considered as sustainable. The debt burden is so great that, despite a primary fiscal surplus of some 10% of GDP<sup>2</sup> in 2007, the fiscal deficit reached 4.3% of GDP. The primary fiscal surplus was achieved through increased revenue, associated mainly with improved tax administration through an aggressive tax compliance programme.

Roughly 45% of the public debt is external and 55% is domestic. Approximately 8% is denominated in or linked to the United States dollar. In addition, around 36% of the public debt is subject to variable interest rates. This means that public finance is highly vulnerable to exchange-rate depreciations and domestic interest-rate rises, and the economic-policy space for manoeuvre is extremely tight.

In the context of relatively high domestic liquidity and some exchange-rate instability, the Bank of Jamaica kept its interest rate for open-market operations unchanged at 12%.<sup>3</sup> M1 expanded by 20.3% as of August 2007 (16.2% in 2006), and the growth of credit to the private sector also accelerated; during the second quarter it grew by 5.4% year on year, exceeding the Bank of Jamaica target of 2.9%, driven by personal loans and borrowing by the tourism sector. As a result, personal loans accounted for the majority of credit

<sup>1</sup> The fiscal year runs from 1 April to 31 March.

<sup>2</sup> In the budget for fiscal year 2007-2008, interest payments make up 37% of current expenditure, whereas amortization accounts for 68% of capital spending.

<sup>3</sup> This is the 180-day reverse repurchase known as "repo".

to the private sector (55%), absorbing resources that preferably should have been devoted to productive investment. The monetary authorities also intervened in the foreign-exchange market to foster exchange-rate and price stability. The Jamaican dollar (J\$) depreciated by almost 6% against the United States dollar. Inflation posted an estimated annual rate of 8.5%, below the Bank of Jamaica target of 9-10% but above the 5.8% recorded in 2006. Given the inflation-rate differential, this means that the real bilateral exchange rate remained fairly constant.

Economic growth was particularly affected by two main events during the third quarter of 2007. In August, Hurricane Dean hit the country and had a significant impact on agriculture, whose output dropped by 6%. Second, general elections held in September brought to power the Jamaica Labour Party (JLP), which had been in opposition since 1989. Its electoral platform had focused on anti-crime and anti-corruption policies. On the economic front, the challenge will be to jump-start economic growth and rebuild infrastructure after Hurricane Dean. The new government will face the same fiscal constraints as its predecessors. Although it has announced the privatization of the Jamaica Sugar Company, which should be completed by June 2008, no major changes in economic policy are expected.

On the expenditure side of GDP, the most dynamic component was gross fixed investment, which posted an annualized 5.2% growth rate. Investment was especially strong in mining (alumina and bauxite), attracted by still-high international commodity prices.

Hurricane Dean had a heavy impact on the result of the external sector, through a combination of slower export volume growth and higher import volumes of agricultural products. As a result, the trade balance posted a deficit of around US\$ 3,342 million, or 31% of GDP (29% in 2006). The services surplus dropped by 5.3% to US\$ 595 million as compared to 2006, owing to a deterioration of tourism earnings associated with lower-than-expected arrivals during the Cricket World Cup in the first quarter of the year and the recovery

## JAMAICA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	1.4	2.5	1.5
Per capita gross domestic product	0.8	1.9	0.9
Consumer prices	12.9	5.8	8.5 <sup>b</sup>
Money (M1)	15.7	16.2	20.3 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	-7.7	0.8	4.0 <sup>e</sup>
<b>Annual average percentages</b>			
Unemployment rate <sup>f</sup>	11.3	10.3	9.9 <sup>g</sup>
Overall public sector balance / GDP <sup>h</sup>	-3.4	-5.3	-4.3
Nominal deposit rate	5.9	5.3	5.1 <sup>i</sup>
Nominal lending rate	23.2	22.0	22.1 <sup>i</sup>
<b>Millions of dollars</b>			
Exports of goods and services	4 095	4 856	5 048
Imports of goods and services	6 007	6 999	7 573
Current account	-1 009	-1 097	-1 436
Capital and financial account	1 238	1 327	1 174
Overall balance	229	230	-262

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Yearly estimate.

<sup>c</sup> Twelve-month variation to August 2007.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Year-on-year average variation, January to October 2007.

<sup>f</sup> Includes hidden unemployment.

<sup>g</sup> Estimate based on data from January to April.

<sup>h</sup> Fiscal year.

<sup>i</sup> Twelve-month average to October, annualized.

of Cancún as a tourist destination after the natural disasters of recent years. This was partly offset by an increase in the current-transfers surplus of around US\$ 140 million, mainly owing to workers' remittances. All in all, the current account deficit widened from 10.7% of GDP in 2006 to 13.5% in 2007. Capital inflows were not enough to finance the external gap, resulting in an overall balance-of-payments deficit of some US\$ 262 million (compared with a balance-of-payments surplus of US\$ 230 million in 2006).