

JAMAICA

1. General trends

The Jamaican economy recorded growth of 0.2% in 2013, having contracted by 0.5% in 2012. Indeed, the economy posted positive growth in the last two quarters of 2013 after a period of stagnation. This was followed by growth of 1.6% in the January to March quarter of 2014 with the goods-producing sector increasing by 5.6% and the services sector growing by 0.3%. For 2014, growth of 1.2% is predicted with satisfactory results expected from such sectors as mining and quarrying, agriculture, forestry and fishing, construction and hotels and restaurants. This last sector is expected to benefit from more robust performances in the major tourist markets of Europe and the United States.

The economic policies of 2013 were conducted within the framework of a 48-month extended fund facility (EFF) with the International Monetary Fund (IMF). The approval resulted in Jamaica receiving loan inflows totalling US\$ 207.2 million of which US\$ 87.9 million was allocated for budgetary support. The agreement is also expected to attract support in excess of US\$ 1 billion from other multilateral agencies.

The major challenge to the economy was the fiscal stress arising from high debt equivalent to 131.9% of GDP, and the deteriorating exchange rate despite the signing of the IMF agreement. In the context of these developments, the Jamaican dollar registered a year-on-year depreciation of 13.3% vis-à-vis the United States dollar in December 2013, following a depreciation of 6.6% for 2012. Not only does depreciation have an inflationary impact, since imported goods cost more in local currency, it also affects the external debt burden as that debt is denominated in foreign exchange.

Despite the depreciation, however, inflation remained in single digits for calendar year 2013. Specifically, headline inflation was 9.5% in 2013 up from 8.0% in 2012. The data indicated that Jamaica's current account deficit declined to US\$ 1.413 billion or 9% of GDP for 2013, compared with a deficit of US\$ 1.729 billion or 13% of GDP for 2012. The improvement for 2013 was reflected in all subaccounts, particularly the trade balance, owing to a sharp decline in imports.

2. Economic policy

(a) Fiscal policy

The fiscal situation continues to be fragile and the central focus was on the need to pass various IMF tests based on the primary and overall balance of the public sector, including minimum spending requirements to protect the most vulnerable. Economic reviews for the April–June and July–September quarters were successfully completed during the year, and the country is on course to satisfy all the targets for the remaining two quarters of fiscal year 2013/2014.

The government budget for fiscal year 2012/2013 was drawn up within the context of the extended fund facility (EFF) and for the period April to September 2013, central government operations resulted in an actual deficit of J\$ 19.6 billion compared with the projected deficit of J\$ 24.8 billion and a deficit of

J\$ 47.5 billion posted for the same period in 2012. This resulted in a primary surplus of J\$ 61.7 billion for the period, which exceeded the EFF target. This represented a primary surplus of 7.5% of GDP in financial year 2013/2014 compared with a surplus of 4.5% in 2012/2013. Revenues and grants for April to December 2013 were some J\$ 10.9 billion below budget but were above the amount registered for the same period in 2012. This weak revenue performance was due to lower-than-expected tax revenue.¹ At the same time, expenditure was also below budget, reflecting a decline in both capital and recurrent expenditure.

On the recurrent side, the benefits received were due to higher than anticipated savings from the National Debt Exchange, under which domestic debt instruments were exchanged for lower returns over a longer period and lower-than-expected wages and salary increases.

The public debt, estimated at some 131.9% of GDP, grew moderately by 6.9% to J\$ 1.932 trillion and reflected increases in both domestic and external debt. In fiscal year 2012/2013, the domestic debt was equivalent to 75.5% of GDP and this fell to 69.4% of GDP in fiscal year 2013/2014. On the other hand, the external debt over the same period rose from 60.2% of GDP to 62.2% of GDP. Devaluation of the currency adds to the external debt burden since that debt is denominated in foreign exchange. Some 54.4% of Jamaica's debt is denominated in Jamaican dollars.

In order to lock in the gains of fiscal consolidation, a number of policies are being pursued which will bring down the debt to an acceptable level. On the fiscal side, the reforms include government's acceptance of a legally binding rule to ensure a sustainable global balance, the introduction of a five-year public-sector investment programme beginning in fiscal year 2013/2014 and a review of the public-sector remuneration to help inform policy reform.

With respect to taxation, the granting of waivers is to be stopped, avenues for charitable contribution will be harmonized and waivers for such contributions will be discontinued. The objective is to reduce loopholes through which taxpayers can reduce their tax contribution to the government. There are also a number of administrative tax reforms, including an expansion of staff in the tax offices, which is designed to improve compliance and provide more information on taxpayers.

The budget of 2014/2015 was a continuation of the previous budget and was crafted in the context of the EFF. Some 23% of the budget was earmarked for development of infrastructure and wages are constrained as part of the Memorandum of Understanding between the Government of Jamaica and the public-sector unions.

(b) Monetary policy

The monetary policy stance of the government in 2013 was mildly expansionary in light of the growing uncertainty arising from exchange-rate variations and concerns over inflation. Growth in the money supply M1J was fairly constant, at 10.5% in 2012 and 11.6% in 2013. Over the same period, currency in the hands of the public expanded from 3.6% to 7.1% while demand deposits declined from 15.5% to 14.7%. The weighted average local deposit rate diminished from 2.10% in 2012 to 2.04% in 2013, while the lending rate was lowered from 18.4% to 17.5% over the same period. As a consequence, the interest spread, which was 16.3% in 2012, fell to 15.5% in 2013. This reduction in the interest rate was in keeping with the lower average rates introduced under the Jamaica Debt Exchange programme. The Jamaica 30-day certificate of deposit was reduced to 5.75% in February 2013 and was maintained at that level throughout the year and into the first quarter of 2014.

¹ The impact of the low revenue outturn was cushioned by the increase in grants from the European Union.

Credit to the private sector in 2013 grew by 16.3% and was dominated by Jamaican dollar transactions. The increase in private-sector credit for 2013 primarily reflected significant growth in personal loans as a consequence of an expansion in unsecured consumer loans in the first quarter and the transfer of the loan portfolio of a building society to a commercial bank in August 2013.

Loans and advances, the largest component of private sector credit, expanded by 18.3% compared with growth of 15.9% in 2012. This growth was reflected across most sectors.

The stock of loans to businesses increased by 12.0% in 2013, up from 10.7% in 2012. For the year under review, the growth in business loans was reflected in all sectors, in particular distribution (9.7%), electricity, gas and water (36.1%) and professional and other services (14.7%).

At the end of 2013 there was an improvement in the quality of the commercial bank loan portfolio in relation to 2012. The ratio of non-performing loans to total loans declined to 5.4% at the end of 2013 from 7.0% at the end of 2012. Similarly, the ratio of non-performing loans to total private sector loans declined to 5.6% at the end of 2013 from 7.5% at the end of 2012. A bill, currently being prepared by the Chief Parliamentary Counsel, seeks to amalgamate the provisions of the Banking Act, Financial Institutions Act and the Bank of Jamaica (Building Societies) Regulations into one piece of legislation. It is expected to include amendments that will give the Bank of Jamaica more supervisory responsibilities over deposit-taking institutions.

(c) Exchange-rate policy

In December 2013, the foreign exchange rate was J\$ 104.26 = US\$ 1.00, representing a nominal depreciation of 13.3%. This represents a real depreciation of the Jamaica dollar relative to the United States dollar of 5.2%. This compares with nominal and real depreciation rates for 2012 of 6.6% and 3.1%, respectively.

This deterioration of the currency occurred despite the signing of the EFF as there was lingering uncertainty about the economy. While depreciation may enhance competitiveness in some sectors, it placed pressure on the Bank of Jamaica to intervene to prevent too large a deterioration of the currency. The accelerated pace of depreciation was observed at a time when net international reserves (NIR) were relatively low and the current account deficit high.

The depreciation of the currency was due to inadequate levels of private inflows to meet higher foreign-exchange demand, owing to uncertainty during the first half of 2013 surrounding the terms of an agreement with the IMF and the resulting delay in its signing. The decline in the NIR in 2013 contributed to the unease in the foreign-exchange market.

(d) Other policies

The objective of the EFF programme is to help create the conditions for sustained growth through significant improvement in fiscal operations, a reduction of the debt and an improvement in competitiveness. A number of fiscal, administrative and monetary measures have been introduced to support the EFF. From the point of view of the banking sector, the Central Bank introduced a new standing liquidity facility (SLF) to help deposit-taking institutions meet their overnight cash demands. In addition the Central Bank is gradually lifting the cap on investment in foreign securities by security dealers and collective investment schemes.

The EFF also paved the way for the unlocking of funds for budgetary support from multilateral institutions and facilitated the achievement of conditions necessary for the country's ratings to be upgraded during the fiscal year. The outlook projected by the rating agencies was a movement of Jamaica's economic performance from stable to positive.

The overarching pillars of the EFF are aimed at fostering investments and sustainable growth and include the following:

- (i) A time-bound fiscal consolidation, supported by fundamental fiscal and monetary policy reforms, aimed at creating a stable, predictable and resilient macroeconomic environment.
- (ii) Structural reforms aimed at significantly strengthening Jamaica's external competitiveness and generating higher levels of factor productivity;
- (iii) The provision of appropriate safety nets to ensure social stability during the period of economic transformation.

It is to be noted however that the policy space has been seriously restricted by the weak albeit improving domestic and international demand and the heavy fiscal burden.

3. The main variables

(a) The external sector

The data for 2013 indicate that the current account balance improved by US\$ 315.5 million to US\$ 1.413 billion or 9% of GDP compared with 13% of GDP in 2012. This improvement was due to several factors. With respect to the merchandise balance there was some improvement but this is attributable to a greater relative decline in imports than in exports. At the same time, the services balance, the income balance and the net current transfers balance improved.

The services balance posted positive growth of 4.4 % but this did not represent a significant improvement since travel grew by only 1.3%. The slightly higher earnings from travel reflected growth of 1.6% in foreign national stay-over visitor arrivals compared with 2012. Overall, the deficit on the goods and services balance narrowed by 5.8%. The implication is that while some adjustment to the current account balance is taking place, it is occurring at a lower level of economic activity. The other significant account was that of transfers, which was positive with an 8.2% growth. In this sub-account, remittances remained robust with growth of 4.3%, approaching pre-crisis levels.

At the end of December 2013, the net international reserves stood at US\$ 1.048 billion, a decline of US\$ 77.8 million compared with December 2012. The reduction in net international reserves largely reflected net payments on behalf of the central government, the impact of which was partly offset by net purchases of foreign currency by the Bank of Jamaica. Gross international reserves amounted to US\$ 1.817 billion at 31 December 2013 and represented 12.6 weeks of estimated goods and services imports, down from 13.2 weeks at the end of 2012. The net international reserve stock at the end of March 2014 amounted to US\$ 1.303 billion, US\$ 255.8 million higher than the outturn for the end of December 2013 and US\$ 64.0 million above the target of US\$ 1.239 billion under the EFF. The Bank's gross reserves at

the end of March amounted to US\$ 2.048 billion, representing 14.6 weeks of projected goods and services imports.

(b) Economic activity

The performance of the economy improved in 2013 as the overall growth rate was 0.2% compared with a decline of 0.5% in 2012. This was due to an improved performance in a number of sectors. The goods-producing sectors, made up of agriculture, mining and quarrying, manufacture and construction, grew by 0.4%; however, this was the result of positive growth in mining and quarrying and construction. The performance of mining stemmed from improvements in the mining sub-industry which was associated with higher global aluminium demand, reflected in increased output at the JAMALCO and West Indies Alumina Company (WINDALCO) refineries. This led to a 5.5% increase in alumina production to 1,855 tonnes, which outweighed the 1.7% decline in crude bauxite to 4,688 tonnes.

Specifically, the agriculture, forestry and fisheries sectors contracted by 0.5% while manufacture shrank by 0.8%. In the case of construction, the sector grew by 1.8% and mining and quarrying posted growth of 3.8%. With respect to the service industry, services grew by 0.1%. Given that services account for nearly 80% of the total economy, this meagre growth impacted significantly on the overall performance. There were three subsectors that posted negative growth in the services sector: electricity and water supply; wholesale and retail trade; and government services. In the case of water, increases in the price of this service, coupled with drought conditions, might have reduced demand, while wholesale and retail trade is probably be affected by the decline in manufacturing.

Growth in the first quarter of 2014 of 1.6% reflected a growth momentum in light of positive growth in the last three quarters. This was the result of 5.6% growth in the goods sector and 0.3% in the services sector. Within the goods sector, agriculture showed significant growth (18%), followed by mining and quarrying (8%) and construction (0.5%). On the other hand, manufacture declined by 0.3%. Barring adverse weather conditions in 2014, agriculture should continue to post positive growth.

With respect to services, the 0.3% growth rate was due to positive growth in most sectors except for government services, which contracted by 0.2%. Growth in services was led by hotels and restaurants (5.5%). The growth of the overall services sector depends heavily on the performance of tourism in the major source markets of Europe and North America.

(c) Prices, wages and employment

For the third consecutive year, Jamaica recorded single-digit inflation with 9.5% in 2013, up from 8.0% in 2012. The rise in inflation occurred against the background of sharp increases in transport and utility rates, continued currency depreciation and high crude oil prices. The impact of these inflationary impulses was moderated by generally weak domestic demand conditions, a reduction in international grain prices, lower communication costs, declining real wages and higher unemployment.

For 2013, other urban centres and rural areas recorded inflation of 10.1% and 9.0%, respectively, up from 6.9% and 7.0% in 2012. In contrast, the rate of price increase in the Greater Kingston Metropolitan Area decelerated to 9.6% from 10.0% in 2012. The relatively higher inflation across the regions in 2013 was primarily reflected in transport and communication costs.

The wage bill, which has come under the purview of the EFF as part of the fiscal consolidation process, accounts for a significant share of recurrent expenditure. The Wage Restraint Agreement signed with unions in March 2013 covered more than 82.0% of the public sector, well in excess of the prior action threshold of 70.0% under the EFF. This agreement is expected to contribute to the achievement of the government's wage target of 9.0% of GDP by March 2016. The annual targets for fiscal year 2013/2014 and fiscal year 2014/2015 are 10.6% and 9.7%, respectively. The reduction in the wage bill is supported by a wage freeze for the period 2012-2015, a commitment to no net hiring of workers over the medium-term and filling only critical vacancies.

The estimated public sector wage bill for fiscal year 2013/2014 was J\$ 157.3 billion, which was a 6.7% average percentage change compared with the previous fiscal year (J\$ 146.1 billion). Projections for fiscal year 2014/2015 indicate an increase to J\$ 161.2 billion, (Author, please confirm that these amounts are indeed in Jamaican dollars) an average percentage change of 2.5%. The increase in the wage bill was the result of payment of the third and fourth tranches of arrears relating to the implementation of the 7.0% increase under the Third Memorandum of Understanding (MOU III) between the Government of Jamaica and the Jamaica Confederation of Trade Unions (JCTU).

In terms of other wage increases, on the advice of the Minimum Wage Advisory Commission, in January 2014 the minimum wage was increased by 12%.

In light of the weak growth conditions, the unemployment rate increased from 14.5% in January 2013 to 15.4% in July 2013. However in October 2013 the rate fell to 14.9% and declined further to 13.4% in January 2014. In fact, the total employed labour force increased by 20,500 persons compared with January 2013. When the October 2013 labour force is examined closely, the male unemployment rate is 11% but the female unemployment rate is approximately 20%, a difference that has persisted for at least two decades.

Table 1
JAMAICA: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Annual growth rates b/									
Gross domestic product	0.9	2.9	1.4	-0.8	-3.5	-1.5	1.3	-0.2	0.1
Per capita gross domestic product	0.3	2.3	1.0	-1.2	-3.9	-1.9	0.8	-0.7	-0.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-7.8	20.0	-8.1	-6.2	14.6	-0.3	10.3	2.5	-0.5
Mining and quarrying	2.4	0.7	-2.9	-2.7	-50.4	-4.2	19.1	-8.7	3.8
Manufacturing	-3.9	-1.9	1.2	-0.5	-4.8	-3.8	1.8	-1.0	-0.8
Electricity, gas and water	4.2	3.2	0.6	0.9	2.2	-4.3	0.3	-2.2	-2.0
Construction	7.9	-3.7	4.5	-7.6	-8.7	-1.3	0.8	-4.4	1.8
Wholesale and retail commerce, restaurants and hotels	2.0	3.8	1.2	0.1	-2.6	-2.3	0.7	-0.8	0.2
Transport, storage and communications	1.5	4.2	2.1	-3.1	-3.5	-2.7	-1.9	-0.1	0.2
Financial institutions, insurance, real estate and business services	0.1	2.2	4.1	1.9	0.2	-3.0	0.1	1.7	0.4
Community, social and personal services	1.3	2.0	1.5	0.4	-0.3	-0.4	0.6	0.5	0.0
Balance of payments									
Millions of dollars									
Current account balance	-1,071	-1,183	-2,038	-2,793	-1,128	-934	-1,959	-1,729	-1,413
Goods balance	-2,581	-2,943	-3,841	-4,803	-3,088	-3,259	-4,098	-4,158	-3,976
Exports, f.o.b.	1,664	2,134	2,363	2,744	1,388	1,370	1,663	1,747	1,597
Imports, f.o.b.	4,246	5,077	6,204	7,547	4,476	4,629	5,761	5,905	5,573
Services trade balance	608	628	425	428	770	810	668	588	614
Income balance	-676	-616	-662	-568	-668	-495	-518	-207	-267
Net current transfers	1,578	1,749	2,040	2,150	1,858	2,010	1,990	2,048	2,216
Capital and financial balance c/	1,301	1,413	1,598	-3,353	-1,463	-288	1,691	890	1,234
Net foreign direct investment	581	797	751	1,361	480	169	144	253	536
Other capital movements	720	616	847	-4,713	-1,943	-458	1,548	637	698
Overall balance	230	230	-440	-105	-29	-348	-268	-839	-179
Variation in reserve assets d/	-228	-230	440	105	29	-431	218	839	179
Other financing	-2	0	0	0	0	779	49	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) e/	100.0	102.1	105.0	99.2	110.9	98.3	95.9	95.9	100.2
Net resource transfer (millions of dollars)	623	798	937	-3,921	-2,131	-3	1,222	682	967
Gross external public debt (millions of dollars)	5,376	5,796	6,123	6,344	6,594	8,390	8,626	8,256	8,266
Employment									
Average annual rates									
Labour force participation rate f/	64.2	64.7	64.9	65.4	63.5	62.4	62.3	61.9	63.0
Unemployment rate g/	11.3	10.3	9.8	10.6	11.4	12.4	12.6	13.9	15.2
Open unemployment rate h/	5.8	5.8	6.0	6.9	7.5	8.0	8.4	9.3	10.3
Prices									
Annual percentages									
Variation in consumer prices (December-December)	12.6	5.6	16.8	16.9	10.2	11.8	6.0	8.0	9.7
Variation in nominal exchange rate (annual average)	2.2	6.0	4.8	5.7	21.2	-1.0	-1.6	2.9	12.8
Nominal deposit rate i/	5.9	5.3	5.0	5.1	5.8	3.5	2.3	2.1	1.6
Nominal lending rate j/	23.2	22.0	22.0	22.3	22.6	20.3	18.3	17.8	16.3

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Central government k/	Percentajes of GDP								
Total revenue	26.7	26.9	28.5	27.7	28.2	27.3	26.0	27.5	27.8
Tax revenue	23.2	24.0	24.8	24.7	24.9	24.3	23.5	24.4	24.0
Total expenditure l/	29.7	31.6	33.2	35.2	39.5	33.7	32.5	31.5	27.6
Current expenditure	27.5	28.6	28.6	31.1	36.3	28.9	28.2	27.5	25.2
Interest	12.6	12.5	11.5	12.6	17.7	11.1	9.7	10.4	7.7
Capital expenditure	2.2	3.0	4.7	4.1	3.2	4.8	4.3	3.0	2.5
Primary balance	9.6	7.8	6.7	5.0	6.3	4.7	3.2	6.4	7.8
Overall balance	-3.0	-4.7	-4.8	-7.6	-11.4	-6.4	-6.5	-4.0	0.1
Public debt	121.1	117.7	113.0	120.3	134.4	136.1	131.5	134.1	126.7
Money and credit	Percentajes of GDP, end-of-year stocks								
Domestic credit	34.1	30.4	30.6	34.4	34.9	27.5	27.8	29.3	29.8
To the public sector	20.7	14.9	12.9	14.5	16.7	11.5	10.4	9.9	9.3
To the private sector	14.0	15.8	18.3	20.8	19.7	18.1	19.0	21.0	22.3
Others	-0.6	-0.4	-0.6	-0.9	-1.4	-2.1	-1.6	-1.6	-1.7
Monetary base	7.1	7.4	7.4	7.2	7.6	7.4	7.4	7.4	7.2
Money (M1)	8.9	9.9	10.1	9.1	9.2	8.9	9.1	9.0	8.4
M2	22.2	23.1	22.9	21.1	20.3	20.0	19.8	19.4	18.5
Foreign-currency deposits	10.4	9.6	11.0	10.3	10.8	9.3	8.6	9.1	10.5

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 2000 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) indicates an increase in reserve assets.

e/ Annual average, weighted by the value of goods exports and imports.

f/ Nationwide total.

g/ Nationwide total. Includes hidden unemployment.

h/ Nationwide total. Includes an adjustment to the figures for the economically active population for exclusion of hidden unemployment.

i/ Savings interest rate.

j/ Average lending rate.

k/ Fiscal years, from April 1 to March 31.

l/ Includes statistical discrepancy.

Table 2
JAMAICA: MAIN QUARTERLY INDICATORS

	2012				2013				2014	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	-0.3	-0.1	-0.3	-1.2	-1.2	-0.2	0.4	1.8	1.6	...
Gross international reserves (millions of dollars)	2,708	2,526	2,239	1,968	1,789	1,817	1,738	1,712	1,832	1,924 c/
Real effective exchange rate (index: 2005=100) d/	96.3	97.0	96.4	95.1	95.3	95.6	96.7	97.1	97.5	99.2 c/
Consumer prices (12-month percentage variation)	7.3	6.9	5.9	7.5	8.5	9.0	9.9	10.0	8.8	7.3 c/
Average nominal exchange rate (Jamaica dollars per dollar)	87	87	89	91	95	99	102	104	108	110
Nominal interest rates (annualized percentages)										
Deposit rate e/	2.1	2.1	2.1	2.1	2.0	1.6	1.6	1.2	1.3	...
Lending rate g/	18.4	17.8	17.5	17.4	17.2	16.9	16.3	14.6	15.6	14.8 f/
Interbank rate	3.6	4.7	6.7	3.7	5.2	4.2	5.1	6.4
Monetary policy rates	6.3	6.3	6.3	6.3	6.1	5.8	5.8	5.8
Sovereign bond spread, Embi Global (basis points to end of period) h/	579	640	662	711	680	623	637	641	531	494
International bond issues (millions of dollars)	250	-	1,500	-	1,300	-	-	500	1,000	...
Stock price index (national index to end of period, 31 December 2005 = 100)	87	84	83	88	78	83	81	77	72	68
Domestic credit (variation from same quarter of preceding year)	10.4	10.2	13.8	12.5	15.8	18.5	18.4	11.7	11.8	14.2 c/

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 2000 prices.

c/ Figures as of May.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Savings interest rate.

f/ Figures as of April.

g/ Average lending rate.

h/ Measured by J.P.Morgan.