

I. DEVELOPMENTS IN 1982

The overall performance of the Jamaican economy during 1982 led to a slight but positive growth despite the effects of the international recession. Based on preliminary estimates real Gross Domestic Product (GDP) grew by 0.2 per cent during 1982 with a number of sectors recording significant growth during the year. The construction sector grew by 12.9 per cent while manufacturing grew by 4.2 per cent. Miscellaneous services grew by 8 per cent largely as a result of increased earnings from the Tourism sector. Earnings from Tourism during 1982 were some US\$337.8 mn. compared with US\$284mn. in 1981.

The unemployment rate in October 1982 was some 27.9 per cent of the labour force. During the year to October the labour force grew by 2.5 per cent while the number of persons employed declined by 0.7 per cent. The Human Employment and Resource Training Programme (HEART) is designed to provide training and employment for some 4,000 youths each year, with an expansion of 10,500 when the programme becomes fully operational. The rate of inflation during the year was somewhat moderate as the rate of price increases as measured by the Consumer Price Index on a point-to-point basis was 7 per cent. However, on a mean annual basis it was 6.5 per cent.

The balance of payments reported an overall surplus of US\$81.3mn. in 1982, compared with a deficit of US\$90.5mn. in 1981. This surplus was essentially due to net capital inflows of some US\$465.6mn. during 1982. The value of exports, however, fell by some 21.1 per cent due largely to the significant reduction in earnings from bauxite and alumina. Foreign exchange earnings from these amounted to US\$513.3mn. in 1982 compared with US\$760.2mn. in 1981.

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The reduction in earnings from bauxite and alumina had serious effects on the Government's budget in the 1982/83 fiscal year. Moreover higher debt service payments led to a rise in recurrent and capital expenditure. Tax revenues rose by some 20 per cent and this reflected the Government's effective tax collection system. At the same time, the overall budgetary deficit increased by almost 9 per cent.

With respect to monetary policy, the major objective of 1982 was the regulation of money supply growth and domestic credit expansion consistent with the balance of payment and growth targets fixed under the E.F.F. programme. During the first half of 1982 there was a high level of liquidity within the banking system; the situation was, however, reversed during the latter half of the year. The voluntary liquid assets ratio was maintained at 40 per cent for 1982.

II. DEVELOPMENTS IN 1983

The first year of the three-year Extended Fund Facility (E.F.F.) programme with the I.M.F. was successfully completed in March 1982, and up to December 1982 all the performance criteria of the second year programme were successfully completed.

It is against this background that 1983 began. Faced with unfavourable world economic conditions, declining earnings from bauxite and alumina and a general shortage of foreign exchange, the Government introduced a set of economic measures to safeguard the economy.

On January 10, 1983 the following measures became effective:

- a) A two-tier foreign exchange market was established. The official market rate of exchange remained at J\$1.78 = US\$1.00 while in the formalised parallel foreign exchange market, rates were to be determined by commercial banks on the basis of supply and demand. In the official market the banks operate as agents of Bank of Jamaica while in the

parallel market they operate as principals. Certain transactions such as debt payments, imports of basic foods, bauxite/alumina and hotel receipts were to be transacted at the official rate of exchange. Those commodities which were not specifically designated would be transacted at the formalised parallel rate.

- b) Non-traditional exporters were allowed to retain 50 per cent of their export sales to countries outside the CARICOM region. These retained funds can be utilised for the importation of raw materials, spare parts and capital goods, or they can be sold to commercial banks at the going parallel market rate of exchange.
- c) A quota system was introduced to bring about a more efficient allocation of foreign exchange resources among the broad categories of imports and to ensure that the overall import target was not exceeded. Purchases of foreign exchange from the parallel market would be in accordance with import quota allocations and approvals by the Exchange Control Department of the Bank of Jamaica.

With regard to monetary policy, the statutory liquid assets ratio for commercial banks was raised from 28.5 per cent to 34.5 per cent in February 1983. It was further increased to 36 per cent in April at which time the voluntary liquid assets ratio of 40 per cent was terminated. In addition, effective 1st June 1983, foreign currency balances resulting from purchases on the parallel market are classified as part of commercial banks' liquid assets. The high growth trend in credit demand which began in the last quarter of 1982 continued through the first five months of 1983 when time deposit interest rates rose to a high of 17 per cent. Since then, however, the commercial banks' liquidity situation improved, and this has led to a drop in these rates as well as the rates offered on Government short term securities.

Jamaica did not meet the performance criteria under the second year IMF programme, which ended 31st March, 1983, due to a shortfall in inflows of foreign exchange on the official market, which resulted from the failure of certain loan inflows to materialize. The Government requested, and got a waiver from the Fund and this enabled Jamaica to draw down US\$40.4mn. during June 1983. Since then, the performance criteria at the end of June were successfully met. Inflows from the parallel market were well on target. In order to meet the targets originally established for this programme certain adjustments were made to the external accounts and to the fiscal budget as well.

Effective 16th June the following economic measures designed to safeguard the economy were taken:

- a) The import level was reduced by approximately US\$159mn. to US\$1,220mn. and the value of cash transactions to be financed in the official market would be US\$1,076mn. while those to be financed in the parallel market would be some US\$528mn. The import of capital goods would be reduced by US\$101mn., US\$53mn. for consumer goods, while raw material imports would be reduced by US\$5mn.
- b) A number of commodities which were previously imported at the official rate of exchange were transferred to the parallel market. (See Ministry Paper 24, 1983).
- c) With respect to the fiscal budget, the overall Government expenditure would be reduced by approximately J\$147mn., given the shortfall in external resources. This was necessary, because had it not been done there would have been increased public sector credit demand on the banking sector which would reduce credit availability to the productive sector. Moreover, given the state of the economy, increased taxation or running a larger deficit were both unacceptable.

Other developments concerning the parallel market included the introduction of the CARICOM rate of exchange (J\$2.25 = US\$1.00) in May. In addition, since the end of August transactions on the parallel market are carried out at rates determined through rate fixing procedures established collectively by commercial banks.

For the first six months of 1983 foreign earnings from bauxite and alumina continued to decline. During that period US\$155.3mn. was earned compared with US\$259.8mn. during the corresponding period of 1982. The rate of inflation during the period continued to be moderate as the rate of price increase as measured by the Consumer Price Index on a point-to-point basis was 6.7 per cent.

The Government introduces "Agro 21", which as planned, is expected to put some 250,000 acres of land in new production for gross earnings of some US\$500mn. in foreign exchange over the next four years. The programme is also designed to reduce dependency on imported staples, to increase export earnings particularly in non-traditional exports and to help alleviate unemployment by employing some 90,000 people over the next four years.

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