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Statement by Mr. Casey on Jamaica
Executive Board Meeting 83/1
January 3, 1983

Since the staff papers are fully comprehensive, my comments can be brief.

After several years of "slumpflation", emigration of experienced entrepreneurs and a weak external position, the economy of Jamaica finally began to turn around in 1981. The following table brings together the important trends and ratios.

	1980	1981	Est. 1982
	Percentage Change		
Real GDP	-5.4	2.0	0.4
CPI	28.5	4.8	6.8
Net Domestic Credit	39.6*	37.0*	29.0*
	As Percentage of GDP		
Fixed Investment	14.5	18.2	22.3
Overall Balance of Central Government	-17.0*	-14.1*	-15.3*
Current External Deficit	-6.2	-17.1*	-15.4*
Overall External Deficit	-2.3	-2.8	0.9*
	Pro Memoria		
Gross Reserves of Central Bank in months of imports	0.6*	1.0*	1.4*
External Debt Service Ratio (%)	15.5	20.7*	23.6*
Unemployment Rate (%)	27.3	25.9	26.0

*Fiscal year.

As the staff point out, the first year of the EFF Program (April 1981-March 1982) was successful on virtually all fronts. Indeed, to date, all performance criteria have been met, including the most recent one dated 29 December, 1982 pertaining to the net foreign asset position of the Bank of Jamaica.

The recovery of real GDP would have accelerated into 1982 if it were not for the slump in world demand for bauxite and alumina and some residual difficulties in agriculture. Nevertheless, the manufacturing and construction sectors and the investment ratio were buoyant in 1982, which will help the diversification process, and will hopefully lead in time to a reduction of the very high unemployment rate. Tourism also grew strongly as Jamaica made substantial gains in recovering its traditional share of the Caribbean tourist market. Hotel occupancy recovered from about 38 per cent in 1981 to 52 per cent in 1982.

The severe externally-caused problems in the bauxite sector have inevitably slowed down the pace of adjustment on the fiscal and external accounts and led to an increase in external borrowing and the debt service ratio. The bauxite sector had been expected to contribute over 1 percentage point to GDP growth in 1982; the actual outcome was more like minus 3 percentage points. Government revenue from bauxite is now expected to be sharply reduced - by the equivalent of almost 2-1/2 per cent of GDP although this will be offset in part by prepayment arrangements described by the staff on page 15. Given these extraordinary shocks, the authorities have done well to keep the broad architecture of the program in place to date. The extent to which other, and by definition more painful, adjustment measures can be taken for the third year of the program is currently being discussed with the authorities.

Further streamlining of state enterprises and an increased pace of Government divestment would appear to be two areas where further adjustment might be achieved without incurring unacceptable social costs. With the inflation rate coming down it should also be possible to achieve moderation on the wage front.

Despite sterilization measures, credit expansion would appear to be somewhat excessive in relation to the nominal growth of GDP but this reflects renewed confidence on the part of the private sector, a "catch up" effect and a fall in velocity. In any event, the growth in the monetary aggregates has not been inflationary since considerable progress has been made with respect to the inflation rate. (The slight acceleration in the

CPI to 6.8 per cent in 1982 is due almost entirely to the elimination of Government subsidies on public transport.) Interest rates are now positive in real terms and are helping to encourage productive investment.

Ultimate unification of the dual exchange system and the concomitant dismantling of complex regulations are desirable goals which the authorities are actively examining. Several important intermediate steps in this direction have already been taken by the authorities who see these measures as crucial to the encouragement of the private sector and the drive towards export-led growth. The authorities are planning to institutionalise the informal market, make the import licensing system more automatic and relax the foreign exchange surrender requirement of exporters.

My Jamaican authorities wish to express their gratitude to the staff for this incisive Article IV report and review of the extended arrangement.