JAMAICA

Economy

After almost a decade of sustained decline, the Jamaican economy is on the rebound. The Seaga Government, elected in October 1980, is following policies designed to revive the economy and to correct serious structural weaknesses. Following seven years of negative growth, a positive rate of about 2 percent was achieved in 1981.

The serious decline during the 1970's was the result of a variety of external and domestic factors. With its reliance on imported oil for 99% of its energy needs, Jamaica was particularly vulnerable to the increases in world oil prices. The open Jamaica economy is very sensitive to international price and demand fluctuations for commodities. The mid-1970's recession in industrialized countries prompted declines in export volumes and prices of Jamaica's major exports, bauxite/alumina and sugar. On the domestic side, the government lost the confidence of the private sector which led to reduced productive investment and accelerated the outflow of skilled workers and capital. By the end of the 1970's, activity in the construction sector had dropped by 76 percent since 1973, and by 28 percent in the manufacturing sector. Export volumes of bauxite and alumina were below 1973 levels and sugar exports were at less than 50 percent of the 1970 total. Unemployment and inflation both hovered around 30 percent. In summary, at the time of its election in late 1980, the Seaga Government faced serious and chronic balance of payments difficulties, a very high level of external debt (US $1.5 billion), the exhaustion of foreign exchange reserves and significant accumulation of arrears on external payments.

The Seaga Government's political philosophy and economic strategy are oriented toward increased reliance on the role of private initiative and toward a reduction in government regulation of commerce and industry and in state participation in production. The three-year economic recovery programme announced in April, 1981 is based on a two-part strategy: a) increase utilization of existing capacity, with emphasis on export-oriented sectors, and b) adjust industrial and agricultural policies, moving toward a more liberal free market orientation with less protection and greater export incentives. Among government priorities are the reduction of unemployment and the return of utility services and social and economic infrastructure to levels of efficiency which will support economic growth. 1981 has shown some encouraging signs -- stabilization of the economy, the positive growth rate of 2 percent and the check on inflation which dropped to 4.6%. Furthermore, the Recovery Programme has attracted wide international support. It is backed by an IMF Extended Fund Facility Agreement which provides up to US $657 million over the 1981-84 period. The IMF funds are to be used for liquidating arrears and re-establishing adequate reserve levels. The Jamaican programme has also been strongly supported by the World Bank and 15 bilateral donors. This includes the expanding Canadian development assistance programme in Jamaica.