

History of the jamaican business cycle economics essay



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According to investopedia. com macroeconomics is focused on the movement and trends in the economy as a whole; this is accomplished by examining changes in unemployment, gross domestic product (GDP), rate of growth, national income and so on. However all of these phenomena are affected by international influences, government policies and other economic variables.

The Jamaican Business Cycle

“ Studies of the Jamaican business cycle include work done by Murray (2007) who determined the main drivers of the Jamaican Business cycle. Murray (2007) developed a structural vector autoregressive model of the Jamaican Economy. The purpose of the model was to identify and disaggregate the main factors that drive the Jamaican business cycle. The model also provided an additional mechanism for the examination of the transmission of monetary policy to effect changes to prices in Jamaica. The paper finds that domestic factors and international variables were the main drivers of the Jamaican business cycle. However, the international variables were found to be relatively less important than the other factors. The author also found that fiscal policy has a more direct impact on the business cycle than monetary policy conducted through interest rates.

Government Policies

Governments may use various policy instruments such as taxes and regulations to attain a macroeconomic objective, through their influence on consumer and producer spending and production cost. In Jamaica there are two main government policies which are being practiced, the monetary policy and the fiscal policy.

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Monetary Policy

This is implemented by the government through the central bank to control inflation and other factors by influencing the supply of money in the economy BOJ, (2011).

GDP Growth

Real GDP - first full year of positive growth but downside risks are ahead . Estimates from the planning institute of Jamaica (PIOJ) have shown that economic recovery continued throughout 2011, with fourth quarter growth amounting to 1. 7%. This brings annual growth to 1. 5%, the first full year of growth realized since calendar year 2007. The goods producing sector was the primary driver behind the increase with estimated full year growth of 4. 9%.

However, the service sector could only manage a meager 0. 2% advance relative to 2010. Nonetheless, with total public debt at J\$1. 63 trillion or 131% of GDP, Jamaica is one of the most indebted countries in the world. This situation is further exacerbated with tax revenue growth for fiscal year 2011/12 expected to be 3. 9%, the lowest level in over 20 years. Such low tax revenue growth adds pressure to central government to stimulate the economy through spending. In light of this, sustained robust economic growth is what the country requires to improve the fiscal health and reduce the debt burden.

How the international economy affects the national economy?

Jamaica does not exist in a vacuum by itself; in fact the Jamaican economy is very dependent on international trade for its survival. The tourism sector is dependent on tourists from overseas, there are many non-profit organizations that depend on the European Union for financial support and the list goes on. More noteworthy is the relationship Jamaica has with the International Monetary Fund (IMF). There are also many families in Jamaica who depend on remittances from relatives in America, Canada, England, etc. which they use to support themselves and which also adds to GDP growth in Jamaica.

It has long been said that if America sneezes proverbially, Jamaica will catch a cold. The thriving first class nation of the United States of America has been an economic hub of Jamaicans for many years and continues to be such. However this was interrupted in 2007, when America was going through a recession, this caused economic activity with that country to slow down significantly and this had a ripple effect on the Jamaican economy, which saw Jamaica reeling from the effect of a recession in the economy from 2008- 2011. Later the government of Jamaica had to re-establish a relationship with the IMF in order to receive low interest loans in order to assist with balance of payments by the government and stability of the local currency.

The forecasted national economic outlook for the period 2013 - 2015

Tax Budget 2012-2013

An analysis of the 2012/2013 budget presentation, shows a projected economic growth of 3. 2% for 2012, which will be preceded by a negative

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growth of about 1.3% of GDP. The economic concerns of high unemployment (12.8%), public sector deficit (7.3% of GDP), and the ratio of the debt to GDP (128% of GDP) remains. Some economists' project that real GDP is not projected to reach 2007 levels until sometime in 2013, while real per capita GDP won't fully recover until 2014. Further, full recovery in GDP is not projected to occur until 2017, almost 10 years after the recession commenced.

Given that debt and wages account for 78% of government expenditure; the government plans to reduce public spending through pension reform and attrition. In closing, we recognize the limited "degrees of freedom" the Ministry of finance and Planning had to craft this budget. The budget is expected to boost the primary surplus of the central government to around 6 percent of GDP.

Ability to Service Debt

Jamaica is given a B rating by three international rating agencies as at 2012. These rating agencies are Moody's, S&P, and Fitch. A 'B' rating indicates that Jamaica has a lot of speculative characteristics. This suggests that Jamaica is liable to maintain debt payments or default dependent on how adverseness of the economic climate.

The Government of Jamaica has however has developed a strategies in relation of the management of debt for the period 2013-2015. These strategies include; gradual increase the proportion of fixed rate debt, create and improve benchmark bonds along the domestic market yield curve, and generate liquidity. Jamaica's ability to service its debt has far reaching

implications for all Jamaicans. It therefore becomes very important that Jamaica starts to live up to the call made by conservative Jamaicans for the nation's people to grow what they eat and eat what they grow.

Financial Industry

The Jamaican financial industry consists of commercial banks, merchant and trust banks, credit unions, building societies and licensees under the Financial Institutions Act.

Regulations have multiplied and become more stringent as the increased exposure with technology and much more complex products and services in the industry requires the financial regulators to play a more crucial part.

It has become harder these last days to conduct businesses with financial institutions due to increased regulations to enhance security. Even the building societies requirements to open an account have tripled. Money Laundering is also being policed aggressively. Even though competition is rampant in the industry, regulations regarding compliance are militantly enforced.

There have been some acquisitions and mergers within the last year. We have seen JMMB acquiring Capital and Credit Merchant Bank and CIBC now seems to have shares in FCIB once again and so the name has been altered. Other than the relatively low interest rates due to our grave economic challenge, some banks here also offer wap services where you can do banking on your cell-phone. Scotia debit card now offers visa card facilities.

The quarterly balance sheet report by the Bank of Jamaica (BOJ) showed an increase in the total assets of the building societies which in September 2011 was \$182, 710, 790 and December 2011 a total of \$185, 394, 142 was recorded. They also saw an increase in the amount of residential loans from \$83, 345, 665 to \$84, 571, 798 and a decrease in Commercial loans which was \$1, 397, 112 in September 2011 and \$1, 319, 024 in December 2011. For the commercial banks in the year 2011 for September the total assets was \$587, 542, 579 and in December was \$613, 657, 809. This however was due to an increase in investments and also the collection of loans.

In an address at the EXIM's Secrets to Business Success Forum (held on February 15, 2011), the President of the Jamaica Bankers Association stated that there were strong signals of confidence in the local and international environment, he further went on to say that the economy is rebounding and that the financial sector plays a major role in the growth of this country's economy. The banks facilitate entrepreneurs by bringing their ideas to life and making the customers dreams into a reality. This can be seen through the various types of loans that are available for customers and reduction in the rates of loans offered by financial institutions. One such institution is Capital and Credit Renewable Energy loans where an individual who receives this loan can purchase a solar system to power their home or a solar water heater to place in their home. Jamaica National Building Society facilitates small business loans, Scotiabank facilitates loans for entrepreneurs even though it is an excruciating process to get one and this is one of the biggest drawbacks to entrepreneurship within the economy (Omar Azan said while speaking at Utech's Marketing Seminar 2011/2012). The question then is,

why do they advertise and promote a product that is so hard to obtain, if obtainable? Sprint Financial Services is presently offering loans for summer partying. What a way to go!

The financial industry definitely looks more promising, competitive, technologically advanced, and aiming to provide more satisfaction even though regulations have significantly increased. One of the biggest challenges the financial industry faces is to facilitate more amicable obtainable support for entrepreneurship within this country to boost the economy because small businesses are the most powerful engines for economic growth.

Manufacturing Industry

The manufacturing industry is often thought of as the heart and soul of a country's economy which produces goods on a massive scale and also provides jobs for over 60, 000 people.

The Jamaican manufacturing industry offers many opportunities to produce many goods at a lower rate than other Far East, Caribbean and Latin America competitors targeting the North American markets. According to the Jamaica Investment Forum of 2012, " The country provides significant qualitative and quantitative advantages as an offshore manufacturing location, as it allows companies to gain competitive advantages by offering its skilled and vibrant workforce, attractive fiscal incentives, and high levels of social stability, competitive labour costs, and strong intellectual property laws. Furthermore, Jamaica has a strategic geographic location at the centre of the main

shipping routes between North and South America, Europe and the Far East,
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as well as preferential access to the world's most important markets, combined to make Jamaica an ideal exporting platform." Vision 2030 Jamaica has put in place strategies that will exploit these opportunities in order to make the sector grow.

The country's manufacturing industry however, has been impacted greatly by a number of social factors. These factors have made many people critic the sector for decades " rendering the industry all but dead with its contribution to Gross Domestic Product (GDP) declining on a daily basis." In an article written by Al Edwards in the Jamaica Observer, the past president of the Jamaica Manufacturers Association (JMA) Mr. Omar Azan pointed out that the manufacturing industry is important to the Jamaican economy, as it is one of the major contributors to GDP of the entire goods-producing sector at 8.3 per cent. Mr. Azan nonetheless highlighted that " while the sector is strong in these areas, there are limitations in the workplace such as management, supply chain management, marketing, technology application and productivity as well as limitations within the overall environment that must be dealt with to amplify the contribution of the sector to growth." Even though many limitations were pointed out about the industry, the JMA past president agreed with an article written by K. Thelwell who is a Senior Investment Analyst at Stocks & Securities Ltd. Mr. Azan speaking at the Investment & Capital Markets Conference on January 26, 2011 highlighted that " manufacturing has direct links to other sectors of the economy. The multiplier effect is great, because growth in manufacturing fuels growth in other sectors." He further encouraged that, " manufacturing is thriving and adapting to the changing climate, and as such one cannot continue to act as

though the services sector is the only engine of growth, because if we do, we will not only continue to expose ourselves to the shocks, but will also fail to capitalize on the opportunities that exist in manufacturing.”

The Jamaican manufacturing industry is very competitive with major companies such as the Jamaica Broilers Group Ltd., Seprod Limited, Desnoes and Geddes Ltd and much more companies. The industry does not only faces high competitiveness from local companies but are also impacted greatly by other major foreign based companies, who provide similar products to that of the local companies at a more convenient price. The Government of Jamaica however puts in place regulations to protect the local companies and is seeking to do more to help the sector grow according to the goals set out in Vision 2030 Jamaica. In an article written by K. Thelwell who was mentioned earlier, she compared the manufacturing industry with other industries in the country, and indicated that the manufacturing has done better than the other industries since 2010. Additionally, L. Thelwell indicated that manufacturing stocks has done better than the JSE Main Index. In the economic outlook of Jamaica for the year 2013 - 2015, the PIOJ that is the Planning Institute of Jamaica is expecting to see continued growth in the manufacturing industry, also according to Vision 2030 Jamaica the sector plan for manufacturing is one of the strategic priority areas, and as such showed that during the period 2004 -2008 manufacturing as a total percentage of GDP was 8. 4%, and are expecting this to increase to 13% in the year 2015. This is especially possible with the vast amount of opportunities in the medical and electronic sectors (and more), within the manufacturing industry.

Tourism industry

Over the years the Tourism Industry has been a major contributor to the Jamaican economy. Foreigners from far and wide have chosen Jamaica as their destination of choice. With our famous Dunn's River Falls and Bob Marley Museum it is no wonder that our international neighbors have decided to take notice. With over three million visitors to our shores each year, tourism is one of Jamaica's leading industries. There are spin-off benefits as a result of this sector. As a result of tourism the manufacturing industry benefits indirectly from the business generated through the hotels in catering for tourists on our shores. The transport industry benefits from commuter tourists who are desirous of seeing the sites. When tourists come to Jamaica they spend their foreign currency with local businesses this adds further value to GDP growth.

The tourism Industry Outlook 2013-2015

Despite the positive attributes of the tourism industry, it is not projected to do very well in the period from 2013-2015. Since the global recession in 2007-2011, many still have not recovered from its effects in a complete way. Many Americans have lost their employment, businesses, homes and the list goes on. In Jamaica where tourism officials are still optimistic about the tourism industry, the stakeholders within the tourism industry have a different story.

On October 31, 2011, it was announced by the prime minister of Jamaica that sixty billion dollars would be invested in the tourism industry which is expected to create about 21, 648 jobs in the construction of hotel rooms

throughout the next four years. However more rooms does not automatically equate to more tourists, in fact hotels have been sold due to the fact that its operating costs exceed its revenues. This is evidence that not all players in the industry are experiencing profitable business.

The Tourism industry has continued to move forward despite the various setbacks that it has been experiencing since the global recession. With all variables taken into consideration, the tourism industry is expected to experience growth. With a 3.4% increase in stopover arrivals for the period January to June 2012, moving from 1,045,876 for the same period last year to 1,081,480 and cruise passenger arrivals reflect an exceptional 39.9% increase. It is however not clear what percentage of cruise passengers actually get off board and check into a Jamaican hotel and utilize its services, it is believed that this is an indication of potential growth and that this growth should continue through the winter tourist season and beyond on into 2015.

There is also great optimism for upcoming months, of further tourist arrival based on continuous activities scheduled for Jamaica 50th year of independence celebration. Which will seek to; attract visitors from the Diaspora, who will be visiting to attend the Jubilee celebrations.

Another qualitative factor that our group anticipated with lead to added performance in tourism for 2012-2013 is the summer Olympic. Jamaica has the best track and field athletes in the world and should perform well at the summer Olympics. This will bring added exposure to the island and with ultimately increase the potential of the tourism industry.

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