

JAMAICA

1. General trends

The Jamaican economy grew again in 2019, albeit at a slower rate of 0.9% in 2019, relative to 1.9% in 2018. However, a downturn is expected in 2020 owing to the impact of the coronavirus disease (COVID-19) pandemic on the Jamaican economy. Public policy has focused on protecting people, and all activities have been affected, with fiscal support being provided to many sectors. As a result of the pandemic, tourism, which is the engine of the economy, has almost ground to a halt. Furthermore, gross remittances declined by 9.8% between January and April 2020 and GDP is expected to contract by 5.3% in 2020.

The economic policy of the past three years was influenced by the US\$ 1.64 billion Stand-by Arrangement (SBA) with the International Monetary Fund, an agreement that was treated as precautionary and which ended in November 2019.

The annual average inflation rate in 2019 was 6.2%, slightly above the 6.0% upper limit of the Bank of Jamaica (BOJ) target. During the year, BOJ continued to ease monetary policy, reducing its policy interest rate on four occasions by a total of 125 basis points to a record low of 0.50% per annum. The central bank also lowered the cash reserve requirement on two occasions by a cumulative 5 percentage points to 7.0%, increasing liquidity in the financial system by J\$ 28.1 billion.

Public debt fell to an estimated 91.1% of GDP at end-2019, down from 120.2% in 2016. The public debt overhang, despite trending downwards, remains a significant challenge to the performance of the economy, and the expenditures to address COVID-19 will undoubtedly increase the debt burden. Therefore, the fiscal consolidation programme to rein in expenditure and increase revenue is still necessary to bring these high debts down to manageable levels.

Throughout 2019, the exchange rate against the United States dollar was characterized by cycles of appreciation and depreciation. In fact, the Jamaican dollar experienced five marked cycles of upswings followed by downswings. On average in 2019, the Jamaican dollar depreciated by 3.6% against the United States dollar, compared with depreciation of 0.9% in 2018.

The weighted average selling rate (WASR) closed the first quarter of 2020 at 135.39 Jamaican dollars (J\$) to US\$ 1.00, with depreciation of 2.1% on the fourth quarter of 2019 and depreciation of 7.1% relative to end-March 2019.

BOJ maintained a strong net international reserve position during 2019, with reserves rising by US\$ 157.1 million to close at US\$ 3.163 billion. Gross reserves amounted to US\$ 3.631 billion at end-2019, representing more than 110% of the IMF Assessing Reserve Adequacy (ARA) metric.

2. Economic policy

(a) Fiscal policy

Jamaica's medium-term macroeconomic programme and policies were supported by a three-year SBA with IMF, which came to an end in November 2019.

The end of the agreement marked six and a half years of continuous IMF-supported reform programmes under two successive arrangements. Macroeconomic stability has improved, public debt is significantly lower, and unemployment is at a historic low. Despite this, for most of the past six years, economic growth has remained slow. The Jamaican government has nonetheless remained committed to policy continuity, in order to build confidence in the economy.

As part of fiscal adjustment, in 2019 overall expenditure was down by 1.9% relative to the total budget and all categories of current expenditure ended the year under budget. Final capital spending was also 1.2% lower than budgeted. On the revenue side, overall revenues and grants were 0.7% higher than budgeted, and capital and non-tax revenue were overbudget the most, in percentage terms. Interest payments were down by 5.5% and amortization was 5.3% under budget. Central government operations for fiscal year 2019 resulted in an overall surplus of 0.9 % of GDP which was smaller than the year before.

The COVID-19 crisis will be the focus of fiscal policy in 2020, as a raft of incentives have had to be rolled out to support households and businesses. Despite the country's fiscal constraints, which limit the scope for strong stimuli, the relief programmes (estimated to amount to 1.2% of GDP), include tax breaks, targeted credits and direct cash transfers to those most affected by the containment measures. Other actions have been taken to help farmers affected by the agriculture sector fallout caused by the closure of the tourism industry and lower demand for agricultural produce from hotels and related business.

Despite trending downwards, the public debt overhang remains a significant challenge to the performance of the economy. Fiscal discipline contributed to a reduction in the debt-to-GDP ratio from 135.3% in fiscal year 2012/13 to 101.0% in 2017/18. Debt has continued to decline steadily and was estimated to be 96.4% at the end of fiscal year 2018/19 and 90.9% at the end of 2019/20, 5.1 percentage points below the internal target of 96.0%.

Total debt service as a percentage of revenue and grants is estimated at 45.8% for fiscal year 2018/19, down from 65.5% in 2017/18. The ratio is also projected to decline over the medium-term, improving the government's capacity to meet debt service obligations. However, in light of COVID-19 and the tourism industry challenges, debt service payments are likely to increase in 2021 since the emergency expenditures draw on reallocated funds and new loans. The country's tight fiscal policy is likely to be relaxed this year, as the government will have to sacrifice short-term debt dynamics if it is to cushion the impact of the inevitable GDP contraction in 2020 and provide a boost to the recovery when it eventually materializes. The recovery cannot be robust if failing businesses are not supported.

(b) Monetary policy

During 2019, BOJ maintained accommodative monetary policy aimed at promoting faster credit expansion to support economic activity and job creation. In terms of actual policies, the central bank reduced its policy interest rate on four occasions, bringing it to a historic low of 0.50% per annum. The central bank also lowered the cash reserve requirement on two occasions by a cumulative 5 percentage points to 7.0%, increasing liquidity in the financial system by J\$ 28.1 billion.

The BOJ monetary policy objective is also to maintain inflation between 4.0% and 6.0%. Inflation within this target range is projected to facilitate sustained growth and economic development. However, no robust growth has yet occurred.

In line with the positive but slower economic growth, narrow money (M1) grew from 14.16% in December 2018 to 11.6% at end-2019. Broad money (M2) grew over the same period by 9.5%, a similar

rate to the prior year. At February 2020 Broad money (M2) had grown by 16.1% year-on-year, compared to the BOJ projection of 13.0%. This growth in broad money at February 2020 reflected a 16.2% increase in local currency deposits, mainly owing to growth in savings and demand deposits of 14.7% and 21.5%, respectively. This is not surprising in light of increasing saving in response to the COVID-19 crisis.

In 2019, net loans by deposit-taking institutions (DTI) expanded by 17.2% in a context of increasingly favourable credit conditions. Loans to corporations and households increased by 20.3% and 16.5%, respectively, compared to 15.3% and 12.4% the previous year. At the end of the year, gross loans accounted for half of DTI assets, the first time this has happened in over two decades.

According to the Quarterly Monetary Policy Report (QMPR), annual growth in total private sector loans and advances by DTIs was 16.5% in February 2020 relative to growth of 18.1% in December 2019. The growth in overall private sector loans and advances mainly resulted from an increase of 18.2% in lending to the productive sector, underpinned by loans to the transport, construction and distribution industries. Lending to consumers also expanded, by 15.3%, relative to 16.5% in December 2019.

Turning to the integrity of the banking system, according to BOJ, continued positive macroeconomic conditions meant that risks to financial stability remained subdued in 2019. DTIs remained sound, well-capitalized, liquid and profitable, and asset quality improved in the year. The financial system continued to demonstrate resilience in macroprudential stress tests during the year. Notably, the central bank's macrofinancial and microprudential indices remained well below their respective crisis thresholds, demonstrating the relative health of the banking system.

In monetary policy, a number of important changes are being considered. BOJ has been moving towards a transparent and more market-based exchange rate pricing mechanism, with a floating exchange rate system. It is hoped this will improve competitiveness in the foreign exchange market and facilitate the central bank's market purchases for international reserves. Secondly, BOJ is seeking to further enhance financial sector supervision, crisis preparedness, and the anti-money laundering and combating the financing of terrorism framework. The central bank is also supporting legislation that will strengthen its independence.

(c) Exchange-rate policy

Throughout 2019, the exchange rate was characterized by cycles of appreciation and depreciation. According to the data, the Jamaican dollar experienced five marked cycles of upswings followed by downswings. On average in 2019, the Jamaican dollar depreciated by 3.6% against the United States dollar, compared with depreciation of 0.9% in 2018. The depreciation of the local currency in 2019 was mainly due to spikes in demand to fund real sector and other activities.

The weighted average selling rate (WASR) closed the first quarter of 2020 at J\$ 135.39 to US\$ 1.00, with depreciation of 2.1% on the fourth quarter of 2019 and depreciation of 7.1% relative to end-March 2019. In light of the expected decline in tourism receipts owing to the closure of the sector in response to COVID-19 and a possible slow return to normality, the Jamaican dollar is likely to depreciate significantly in 2020. A major source of foreign currency is remittances. Gross remittances fell by 9.8% or US\$ 19.9 million between January to April 2020.

(d) Other policies

In the budget presentation of March 2019, the Minister of Finance outlined a number of initiatives to stimulate growth and improve efficiency in the banking system. These measures included: a BOJ foreign-exchange trading platform to promote greater inter-bank trading and increase the depth and liquidity of the market; introduction of derivative products such as forwards and swaps by BOJ to improve the functionality of the foreign-exchange market and the experience of end-users; an increase in the threshold below which regulatory approval is not required to issue securities in United States dollars; and the Bank of Jamaica (Amendment) Act 2018 to modernize, strengthen and increase independence and resources for BOJ, which is currently before a Joint Select Committee of Parliament. However, the progress of these proposals is uncertain in light of the challenges of responding to the COVID-19 crisis.

3. The main variables**(a) The external sector**

The current account deficit of 2% of GDP in 2019 is expected to jump to about 5% in 2020 as a result of the fallout in many sectors, including tourism and remittance inflows.

The reserve position in 2019 was bolstered by a large improvement in the service balance to 10.8% of GDP relative to 8% in 2018, while most other categories remained the same. The exception was the goods balance, where there was an increase in the deficit to 25% of GDP, largely owing to a decline in exports (2% of GDP) and a slight rise in imports.

BOJ maintained a strong net international reserve position during 2019, with reserves increasing by US\$ 157.1 million to close at US\$ 3.163 billion. Gross reserves amounted to US\$ 3.631 billion at end-2019, more than 110% of the IMF Assessing Reserve Adequacy (ARA) metric. The drastic changes in the pattern of economic activity in Jamaica because of the COVID-19 pandemic will affect Jamaica's external accounts. The current-account deficit in the balance of payments is projected to worsen by more than five percentage points of GDP in fiscal year 2020/21 to 7.5% from the 2.3% estimated for 2019/20. As a precaution, the Government of Jamaica has obtained support from IMF amounting to 100% of its quota (the equivalent of 382.9 million special drawing rights (SDR) or approximately US\$ 520 million) under the Rapid Financing Instrument (RFI).

(b) Economic activity

The Jamaican economy grew by an estimated 0.9% in 2019, after expanding 1.9% in 2018. Nevertheless, quarter-on-quarter growth progressively slowed during the year from 1.5% in the first quarter to 0.1% in the fourth quarter. Growth during the year largely reflected faster growth in manufacturing and tourism, partly offset by declines in mining and construction. Manufacturing growth was supported by rises in food production and petroleum refining. The decline in mining was largely related the temporary closure of the Alpart alumina processing plant for upgrades and softer demand owing to slower global economic growth. In construction, the downturn was mainly a result of various road rehabilitation projects being completed and the start of the Southern Coastal Highway Improvement Project (SCHIP) being delayed. In agriculture, growth slowed, primarily as a result of the impact of adverse weather on domestic food production.

The COVID-19 pandemic stifled growth in the first quarter of 2020. Real GDP contracted by an estimated 1.7% in the first quarter of 2020 compared with the final quarter of 2019. In particular, the

services industry contracted by 2.5%, largely reflecting a downturn in transportation, storage and communication, hotels and restaurants, and other services.

GDP is projected to decline by 5.3% in 2020 as a result of the fallout in tourism, and its impact on agriculture, remittances and foreign direct investment. Despite domestic policies, since the economy is heavily dependent on external tourism source markets, and especially the United States, the situation abroad will clearly affect Jamaica's performance in 2020 and even 2021.

(c) Prices, wages and employment

Annual inflation was 6.2% in 2019, within the lower limit of the BOJ target range. This rise was largely due to higher agricultural prices because of drought conditions, and higher fuel prices. The BOJ monetary policy objective is to maintain inflation within between 4.0% and 6.0%. The inflation target range is a policy choice by the Minister of Finance and the public service in consultation with BOJ. Inflation at this level is expected to facilitate sustained growth and development in the economy.

By the end of March 2020, annual inflation had slowed to 4.8%. This deceleration primarily reflected a slowdown in food price inflation and a decline in transport-related costs, partly offset by an acceleration in housing, water, electricity, gas and other fuels. BOJ projects average inflation of 4.4% for the next eight quarters, followed by a gradual rise towards the mid-point of the target range (5.0%) in the medium term. The current forecast is mainly based on the impact of the COVID-19 pandemic, which is expected to result in smaller year-on-year increases in several components of inflation, including energy and transport and non-processed food prices. Nonetheless, given the decline in foreign exchange due to COVID-19, and depending on the duration of the crisis, prices are expected to rise owing to deterioration of the exchange rate.

In the labour market, conditions improved significantly, as the unemployment rate fell to 7.3% in January 2020, from 9.8% in July 2019. At the same time, the employed labour force increased from 1,360,800 in July 2019 to 1,369,500 in January 2020, an increase of around 6%. In addition, opposing trends in employment were seen for men and women. While the number of employed men decreased by 2,200 over the period, the number of women in employment rose by 10,900. Employment increased for women in all occupations while for men employment only increased for skilled agriculture and fisheries workers, and fell in all other categories.

Youth employment continues to lag, with unemployment at 20.2% in July 2019, although the percentage did fall to 19.0% in January 2020. In light of the COVID-19 challenge and the virtual collapse of the tourism sector, which is an important source of employment and foreign exchange earnings, unemployment is likely to increase, especially towards the end of the year. While Jamaica has begun to open its borders to tourists, the lack of a vaccine and the ongoing challenges in the United States will stifle employment for some time.

Table 1
JAMAICA: MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
	Annual growth rates b/								
Gross domestic product	1.7	-0.6	0.5	0.7	0.9	1.4	1.0	1.9	0.9
Per capita gross domestic product	1.2	-1.2	-0.1	0.1	0.4	0.8	0.5	1.5	0.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	10.3	2.3	-0.8	-0.5	0.0	12.9	-3.5	4.1	0.2
Mining and quarrying	19.1	-8.7	2.7	0.9	1.0	-3.3	-4.1	33.8	-11.5
Manufacturing	1.7	-0.2	-0.4	-0.8	2.0	1.9	1.9	0.9	1.4
Electricity, gas and water	0.3	-2.2	-2.0	-1.2	1.4	3.6	0.8	-0.2	1.0
Construction	0.8	-4.4	1.9	1.7	1.4	0.4	1.0	3.3	-0.5
Wholesale and retail commerce, restaurants and hotels	0.7	-0.7	0.2	1.0	0.9	0.7	1.5	1.2	1.5
Transport, storage and communications	-1.9	-0.1	0.4	0.8	1.0	0.7	1.0	1.4	0.8
Financial institutions, insurance, real estate and business services	-0.2	-0.1	0.3	0.7	0.6	0.9	1.1	0.8	2.5
Community, social and personal services	0.5	0.3	0.0	0.4	0.4	0.3	0.5	0.3	0.9
External-sector indicators	Millions of dollars								
Real effective exchange rate (index: 2005=100) c/	96.2	95.2	99.7	98.1	87.5	91.5	92.6	88.5	83.2
Net resource transfer (millions of dollars)	871	1 326	400	860	1 591	452	-247	480	-568
Gross external public debt (millions of dollars)	8 626	8 256	8 310	8 659	10 314	10 244	10 103	9 937	9 253
Employment d/	Average annual rates								
Labour force participation rate	62.3	61.9	63.0	62.8	63.1	64.8	65.1	64.1	62.8
Open unemployment rate e/	12.6	9.3	10.3	9.5	9.8	9.0	7.7	5.6	5.0
Prices	Annual percentages								
Variation in consumer prices (December-December)	6.0	8.0	9.7	6.2	3.7	1.7	5.2	2.4	6.2
Variation in nominal exchange rate (annual average)	-1.6	2.9	12.8	11.1	5.4	7.1	2.4	0.9	3.1
Variation in minimum real wage	1.1	-1.5	-1.9	3.3	-3.4	5.5	-1.8	1.5	
Nominal deposit rate f/	2.6	2.2	1.8	2.2	1.9	1.4	1.6	1.4	1.2
Nominal lending rate g/	20.0	18.6	17.7	17.2	17.0	16.5	14.9	14.1	13.0

Table 1 (concluded)

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
Central government h/	Percentajes of GDP								
Total revenue	26.2	26.2	27.7	26.7	27.5	28.4	29.6	31.1	...
Tax revenue	23.4	24.3	24.0	24.1	24.8	26.0	26.2	26.8	...
Total expenditure i/	32.0	30.4	27.6	27.2	27.8	28.6	29.1	29.8	...
Current expenditure	28.1	27.5	25.0	25.7	25.8	26.2	26.6	26.6	...
Interest	9.7	9.7	7.7	8.1	7.6	7.9	7.1	6.4	...
Capital expenditure	3.9	2.9	2.6	1.5	2.0	2.4	2.5	3.3	...
Primary balance	3.9	5.5	7.8	7.6	7.3	7.7	7.6	7.6	...
Overall balance	-5.9	-4.2	0.1	-0.5	-0.3	-0.2	0.5	1.2	...
Non-financial public sector public debt	129.4	130.2	129.4	112.9	108.4	104.4	97.1	92.4	...
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	27.8	29.3	29.8	32.2	29.1	30.0	26.3	31.1	32.7 j/
To the public sector	10.4	9.9	9.3	12.5	9.4	6.8	2.4	4.4	3.7
To the private sector	19.0	21.0	22.3	21.6	22.0	23.9	29.9	32.2	33.6
Others	-1.6	-1.6	-1.7	-1.9	-2.3	-0.7	-6.0	-5.5	-4.6
Monetary base	8.7	9.5	10.2	12.5	11.0	12.2	12.5	13.2	13.7
Money (M1)	9.1	9.0	8.4	8.6	9.6	10.4	10.9	12.4	12.2 j/
M2	19.7	19.4	18.5	18.0	19.1	20.1	24.2	25.9	26.4 j/
Foreign-currency deposits	8.6	9.1	10.5	11.0	12.1	13.1	13.8	14.5	14.9 j/

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 2007 prices.

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

d/ Nationwide total.

e/ Open unemployment rate includes an adjustment for workforce figures due to exclusion of hidden unemployment.

f/ Domestic Currency Overall Weighted Deposit Interest Rates.

g/ Average Weighted loans in local currency.

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

i/ Includes statistical discrepancy.

j/ Figures as of May.

Table 2
JAMAICA: MAIN QUARTERLY INDICATORS

	2018				2019				2020	
	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/	1.4	2.2	1.9	2.0	1.7	1.3	0.6	0.0	-2.3	...
Gross international reserves (millions of dollars)	3 736	3 701	3 626	3 472	3 568	3 551	3 487	3 623	3 615	3 786
Real effective exchange rate (index: 2005=100) c/	91.0	91.9	88.7	82.4	81.6	84.7	83.3	83.1	84.1	84.0 d/
Open unemployment rate e/	5.7	6.4	5.1	5.0	5.2	4.9	5.3	4.7	5.2	...
Employment rate e/	57.7	58.2	58.6	58.4	59.1	59.6	60.1	59.8	60.8	...
Consumer prices (12-month percentage variation)	3.9	2.8	4.3	2.4	3.4	4.2	3.4	6.2	4.8	4.0 d/
Average nominal exchange rate (Jamaica dollars per dollar)	125.8	127.2	134.9	129.1	130.0	132.0	134.9	136.1	136.9	141.5 d/
Nominal interest rates (average annualized percentages)										
Deposit rate f/	1.6	1.4	1.3	1.3	1.3	1.2	1.1	1.1	1.1 g/	...
Lending rate h/	14.4	14.1	14.1	13.8	13.3	13.2	12.9	12.5	12.3	...
Interbank rate	2.1	2.8	1.7	2.3	2.1	1.4	0.9	0.7	0.9	1.0 d/
Monetary policy rates	2.8	2.4	2.0	1.9	1.5	0.9	0.6	0.5	0.5	0.5
Sovereign bond spread, Embi Global (basis points to end of period) i/	295	340	297	346	318	327	330	282	577	479 d/
International bond issues (millions of dollars)	0	-	0	-	600	-	815	-	225	-
Stock price index (national index to end of period, 31 December 2005 = 100)	282	293	343	363	372	448	494	488	363	363
Domestic credit (variation from same quarter of preceding year)	-5.0	3.3	23.1	28.0	31.3	27.8 d/

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Gross domestic product measured in basic prices. Based on figures in local currency at constant 2007 prices.

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

d/ Figures as of May.

e/ Nationwide total.

f/ Domestic Currency Overall Weighted Deposit Interest Rates.

g/ Figures as of February.

h/ Average Weighted loans yn local currency.

i/ Measured by J.P.Morgan.