

JAMAICA

1. General trends

The coronavirus disease (COVID-19) pandemic has been particularly challenging for Jamaica. According to the Ministry of Health and Wellness, by 31 December 2020, 12,915 positive cases had been recorded in Jamaica, of whom 10,532 had recovered and 303 had sadly died. GDP fell by an estimated 9.9% in 2020, relative to growth of 0.9% in 2019, the largest decline in the country's history.¹ This estimated contraction in 2020 largely reflects the impact of COVID-19 on travel (with a decline of around 70% in tourism), production, distribution and entertainment activities. Value added fell sharply in the services industries—including hotels and restaurants, other services and transport, and storage and communication—which were hit by slumps in travel and port activity in 2020.

Jamaican financial markets were affected by significant uncertainty over the impact of the COVID-19 pandemic on the economy. The Jamaican dollar (J\$) depreciated by J\$ 10.08 (7.1%) against the United States dollar in 2020, after depreciating J\$ 4.85 (3.7%) in 2019. As a result of the impact of the pandemic on major trading partners and the fallout from the tourism sector, the country saw a decline in foreign exchange inflows. Despite this, Jamaica's current account deficit remained at sustainable levels, supported by stronger than expected remittance inflows and a fall in imports. Jamaica's international reserves have remained at healthy levels, standing at around US\$ 3.1 billion at the end of 2020.

Annual headline inflation was 4.5% in 2020, within the target range of 4.0% to 6.0% set by Bank of Jamaica (BOJ). In addition, 12-month year-on-year inflation was within the target for 11 out of the 12 months, except in June 2020 when it breached the upper limit owing to a temporary agricultural food price shock caused by drought conditions. The inflation outturn was primarily driven by higher prices for goods and services within the health and personal care divisions, reflecting a shift in consumption patterns during the COVID-19 pandemic. These rises were partly offset by slower non-agricultural food price inflation and generally lower crude oil prices, which contributed to a fall in transport-related costs.

As expected, labour market conditions also worsened because of the pandemic. The unemployment rate spiked, reaching 12.6% in July 2020 and although there was some improvement to 10.7% in October 2020, it remained well above the 7.2% recorded in October 2019. The decline in employment reflects job losses, largely owing to a fall-off in domestic demand and in the number of hours worked.

Public debt remains a significant issue for the Jamaican economy. Jamaica's Fiscal Responsibility Framework targets a debt-to-GDP ratio of 60.0%, which the country was on course to achieve in the 2025/26 fiscal year but now looks set to reach in 2027/28. Under the Framework, circumstances beyond the governments control can trigger an escape clause to postpone targets.

¹ The closest figures are the declines of 6.5% in 1975, 5.7% in 1980, 4.6% in 1985, 3.9% in 1974 and 3.2% in 2009 (2021 Budget).

2. Economic policy

(a) Fiscal policy

The COVID-19 pandemic came at a time when Jamaica was making significant progress in reducing fiscal imbalances, lowering public debt and undertaking structural reforms to support a faster economic growth, while securing price and financial system stability. In light of the pandemic, the Government has placed increased priority on health and social expenditures. Additionally, given the attendant effect on economic activity, financial support for businesses (particularly MSMEs and those operating in the tourism sector) has also been provided, including to farmers who sell to hotel operators. These expenditures have largely been channelled through the COVID-19 Allocation of Resources for Employees (CARE) Programme, for a total J\$ 19,691.4 million.

According to the Ministry of Finance and the Public Service, at 31 December 2020, the total stock of public debt was J\$ 2,072,505.7 million, J\$ 60,645.6 million or 3.0% more than the J\$ 2,011,860.1 million recorded at 31 March 2020. This was driven by increases in both the domestic and external components of the central government debt portfolio, partially offset by a reduction in public bodies' net debt. The rises generally came from revaluation effects linked to depreciation of the Jamaican dollar against the United States dollar in the external portfolio and net financing inflows in the domestic portfolio.

To effectively address the impact of the ongoing pandemic, the central government's operations were revised to target a primary surplus of 3.0% of GDP rather than the original 5.4% of GDP. The combination of the fiscal impact of the pandemic and its broader macroeconomic effects interrupted the consistent downward trend in debt. The Ministry of Finance and the Public Service projects total public debt at the end of the 2020/21 fiscal year of J\$ 2,144,453.5 million [ed: Jamaican dollars] or 110.1% of GDP, 22.9% higher than estimated in the 2020/21 budget.

The expenditures and economic disruption caused by COVID-19 have affected both revenue and expenditure and has interrupted the adjustment trajectory of the Jamaican economy. From April 2020 to January 2021, revenues and grants were 0.8% higher than budgeted for the period, with tax revenues 0.6% higher and grants up 32.2%. Overall expenditure and recurrent expenditure both fell by around 0.5%, while capital expenditure was largely unchanged. Principal payments (amortization) of public debt were 0.9% greater than budgeted.

(b) Monetary policy

During 2020, BOJ maintained an accommodative monetary policy stance, maintaining the policy interest rate at a historic low of 0.50% per annum throughout the year, based on its expectation that inflation would generally remain within the target range of 4.0% to 6.0% over the next two years.

The BOJ took a number of pre-emptive measures in response to the COVID-19 pandemic to ensure adequate access to liquidity in Jamaican dollars and foreign currency, for both financial institutions and the public. The initiatives to bolster supplies of United States dollar liquidity included: (i) reducing the foreign currency cash reserve requirement for deposit-taking institutions (DTIs) to 13.0% from 15.0%, effective from 15 May 2020, thus injecting approximately US\$ 70 million into the financial system; (ii) provision of US\$ 167.0 million via the Bank's foreign exchange swap arrangement, which was introduced in January 2020;² (iii) United States dollar repurchase operations with financial institutions in May 2020, totalling US\$

² This amount was repaid in full by the end of the year.

136.6 million, US\$ 119.0 million of which had been repaid by 31 December 2020; (iv) direct sale of US\$ 344.22 million to public sector entities and other approved entities; and (v) flash auctions for a total of US\$ 292.30 million to authorized dealers and currency exchanges through the Bank of Jamaica's Foreign Exchange Intervention Tool (B-FXITT), limiting re-sale of these funds to end-users, with a specified maximum spread.

The Bank also temporarily increased the limit on the foreign currency net open positions of authorized dealers by 5.0 percentage points. This effectively raised the limit on the positions of these institutions (either long or short) to 25.0% of regulatory capital, thereby enabling authorized dealers to provide more foreign currency to their clients. Total liquidity support to the market from these initiatives was in excess of US\$ 1.0 billion or over 7.0% of GDP.

Meanwhile the deposit rate and lending rate which averaged 2.6% and 13%, respectively, in 2019, fell to 2.5% and 12.1% in 2020. This reflected generally depressed demand, owing to lower economic activity. Meanwhile M1, known as "narrow money", which grew by 15.8% in January 2019 and 12.4% in January 2020, and by 15.3% and 19.2% in November 2019 and 2020, respectively (year-on-year).

(c) Exchange-rate policy

The Jamaican economy and financial markets were affected by significant uncertainty stemming from the COVID-19 pandemic. The Jamaican dollar depreciated in 2020 by J\$ 10.08 (7.1%) against the United States dollar, compared to depreciation of J\$ 4.85 (3.7%) in 2019.

Inflows to the foreign exchange market were not significantly affected by the COVID-19 crisis, even though a sharp fall-out in such inflows had been anticipated. The total purchased by authorized dealers and currency exchanges from foreign exchange earners in 2020 amounted to US\$ 7,841.3 million, representing a moderate decline of 6.3% relative to 2019. The decline in inflows was most evident from individuals, hotel accommodation and tourism activities and the distributive sector (Wholesale and Retail), and was partly offset by higher inflows from remittances and financial services.

After coming under stress in 2020, when foreign-currency receipts from tourism and bauxite exports

plummeted, the depreciation of the Jamaican dollar is likely to ease in 2021, as the United States dollar is expected to weaken, accompanied by a global recovery in manufacturing.

(d) Other policies, programmes and projects

To support access to sufficient Jamaican dollar liquidity, BOJ instituted the following measures: (i) removing the limit on the amounts that DTIs can borrow overnight via the overnight repurchase facility, without being charged a penal rate; (ii) reducing the domestic cash reserve requirement from 7% to 5%, effective from 15 May 2020, thus injecting around J\$ 14.0 billion into the financial system; (iii) a facility to repurchase Government of Jamaica fixed and variable rate bonds and to enable early redemption of BOJ instruments, thus injecting J\$ 51.1 billion into the system; (iv) establishing an intermediation facility at the request of the financial industry; (v) providing liquidity support for credit unions on designated dates from July to December 2020 (one credit union, is reported to have accessed \$45.0 million via this facility); and (vi) an Occasional Term Repurchase Operation (OTRO) through which credit was made available to DTIs for six months, with a wider pool of securities eligible as collateral. The total liquidity support to the market from these initiatives was roughly J\$ 76.0 billion, around 4.0% of GDP.

In addition to these measures, the approval in May 2020 of US\$ 520.5 million (equivalent to 382.9 million special drawing rights or SDRs) through the Rapid Financing Instrument (RFI) Facility from the International Monetary Fund (IMF) provided Jamaica's market with assurance that the country had the capacity to withstand potential near-term shocks to its balance of payments.

According to BOJ a major milestone for the Bank was the receipt of technical support which contributed to the passage of the 2020 Bank of Jamaica (Amendment) Act in December 2020. The amendments will strengthen the governance of BOJ and its independence in carrying out its mandate, while bolstering the Bank's balance sheet. The Bank has also successfully implemented the first phase of its foreign currency trading platform, which allows DTIs and currency exchanges to buy and sell foreign currency online, modernizing the means by which institutions trade with authorized dealers as well as providing greater transparency for market operations.

3. The main variables

(a) The external sector

According to BOJ, the total amount of remittances for the full year of 2020 was US\$ 2.91 billion. This is an increase of 20% on 2019, when the total was US\$ 2.47 billion. The Bank of Jamaica maintained a strong net international reserves (NIR) position in 2020, despite the adverse impact of the COVID-19 pandemic. While there were declines in the second and third quarters, NIR improved steadily in the last quarter to end the year at US\$ 3,130.8 million.

This outturn represented a marginal decline of US\$ 31.7 million relative to end-2019. At end-2020, gross reserves amounted to US\$ 4,085.7 million, equivalent to 122.3% of the IMF Assessing Reserve Adequacy (ARA) metric and around 38.9 weeks of projected goods and services imports relative, compared to 22.9 weeks at end-2019. At end-2020, non-borrowed reserves (NBR) accounted for 90.8% of NIR, up from 89.0% at end-2019. The improvement was in keeping with the BOJ strategic focus on strengthening the sustainability of its external liquidity position through continued reductions in its stock of borrowed reserves.

(b) Economic activity

The COVID-19 pandemic is having a significant impact on Jamaica's macroeconomic environment and performance. The global spread of the virus, combined with the effect of government-mandated measures aimed at halting virus spread in Jamaica, contributed to lower value added in several domestic industries and a contraction in economic activity. The annual fall in GDP in 2020 is the largest on record, at an estimated 9.9%, after growth of 0.9% in 2019, largely reflecting the adverse impact of COVID-19 on travel (with a fall of around 70% in tourism), production, distribution and entertainment activities.

In the first quarter of 2020, real GDP for the Jamaican economy contracted by an estimated 2.4% compared with the same quarter of 2019. This ended a run of 20 consecutive quarters without economic contraction. Several measures were implemented to manage the COVID-19 pandemic from mid-March onward, including closure of international borders to the movement of persons—which curtailed external demand and essentially halted all tourist-related activities—and curfews, which restricted opening hours of some businesses and limited demand for certain goods and services. In addition, all schools were closed, and general stay-at-home and work-from-home orders were issued. This disrupted a raft of economic activities connected to all levels of the education sector.

In the mining and quarrying industry, capacity utilization was lower, following the temporary closure of Jamaica's largest alumina refinery in September 2019 to upgrade capacity. This was accompanied by a continued deceleration in construction-related activities owing to the end of major road infrastructure projects, sluggish start-up of new projects, and a slowdown in housing starts and lower hotel and commercial construction. The contraction was partially tempered by an uptick in agriculture production, as well as increased manufacturing activity.

In the second quarter of 2020, real GDP for the Jamaican economy contracted by an estimated 18.0% compared with the same quarter of 2019, largely reflecting the maintenance of the same COVID-19 response measures as in the first quarter and the closure of international borders to passengers, which curtailed external demand and essentially halted all tourist-related activities. Business and consumer confidence were weaker owing to uncertainty as to the duration and impact of the pandemic, and demand was lower because of lower income, caused by job losses and reduced work hours.

In the third quarter, the economy contracted by an estimated 10.6% compared to the same quarter of 2019, largely reflecting the impact of a surge in confirmed COVID-19 cases globally and locally, with Jamaica recording an increase from 30 June to 30 September of over 800% to 6,555 confirmed cases. This hurt economic activities through reduced demand and slower re-opening. The Planning Institute of Jamaica (PIOJ) has reported that the declines were tempered by improved weather conditions, which facilitated growth in the agriculture, forestry and fishing industry and an uptick in construction, owing to the latter's exemption from some COVID-19 management measures.

In the last quarter of 2020, the economy contracted by 8.3%. All major components of the service sector showed a decline, with hotels and restaurants contracting by a considerable 52.8%, the next largest decline being transport storage and communication (15.2%). The goods sector, meanwhile, declined by 0.6%.

Jamaica is still being deeply affected by COVID-19 and there has been a resurgence in cases with evidence of the Delta variant of COVID-19. Nonetheless, according to PIOJ in the first half of 2021 the economy grew by 2.3% year-on-year, with the goods sector growing 5% and the service sector 1.4%. Agriculture, manufacturing and construction all expanded, the latter by 13.8%. Most service sectors also grew, except for electricity and water supply (-1.6%) and hotels and restaurants (-2.5%). The challenges remain severe, since the economy is so heavily dependent on tourism, especially from the United States which is also in the grip of the pandemic.

(c) Prices, wages and employment

In 2020, annual headline inflation was 4.5%, remaining within the target range of 4.0% to 6.0% set by BOJ for 11 of the 12 months, only breaching the upper limit in June 2020 owing to a temporary shock to agricultural food prices caused by drought conditions and an increase in prices for health and personal care goods and services that may be linked to behaviours during the COVID-19 pandemic. The impact of these factors was partly offset by a reduction in food price inflation, as well as lower demand for transport services and generally lower crude oil prices, which contributed to a reduction in transport-related costs.

Trade unions representing over 95% of public sector employees signed a four-year wage deal for 2017–2021 to encourage wage stability and more certainty in the sector, aiming to maintain the public sector wage bill at the target of 9% of GDP in the 2018/2019 fiscal year, in accordance with the fiscal responsibility law. However, if inflation increases, there will be the demand for higher wages after 2021.

In April 2021,³ there were 119,400 unemployed, 13.5% more than in April 2019. Of these, 53,400 were male, up 34% on 2019, and 66,000 were female, compared to 64,500 in 2019. The number of unemployed youth (14–24 years) was 47,600, an increase of 21%. The overall unemployment rate rose 1.2 percentage points from 7.8% for 2019 to 9% for 2020. The unemployment rates for males and females were 7.5% and 10.8% respectively. The youth unemployment rate (14–24 years) was 24%, up 4.6 percentage points compared to 2019. The unemployment rate for males in this age group was 21.1% and for females it was 28%.

³ No labour force survey was conducted in April 2020 owing to COVID-19.