

Jamaica

The coronavirus disease (COVID-19) pandemic has had a particularly severe impact on the Jamaican economy because it is so heavily dependent on tourism, which was one of the hardest-hit sectors of all. The closure of borders, businesses and schools, along with other strategies for curbing the spread of the virus, hurt economic performance as a whole. The emergence of the Omicron strain of the virus then dashed any nascent hopes of a return to normality, given the challenges faced by major source markets such as the United States.

The overall policy focus of the government of Jamaica will continue to be on protecting the population from community spread of COVID-19, reducing vaccine hesitancy and supporting further economic growth. According to the Bank of Jamaica, the economy contracted by 10% in 2020 (as compared to a 1% drop in 2019) largely as a result of the adverse impact of the pandemic on travel, production, distribution and the entertainment industry. Particularly sharp reductions in value added were seen in services industries, especially hotels and restaurants, the “other services” category, and transport, storage and communications. These industries were adversely affected by the steep drop-off in travel as well as the slowdown in activity at the country’s ports in 2020. The quarterly data for 2021 point to growth rates of -5.7% in the period from January to March 2021, 12.9% for April–June and 6.3% for July–September. The annual growth rate for 2021 is estimated at 4.0%.

The impact of the pandemic will derail some of the country’s hard-won fiscal gains, and there is likely to be a deterioration in the balance of payments if tourism receipts do not rebound soon.

Fiscal challenges continue to be the biggest concern for the Jamaican government as it strives to keep public finances under control while seeking to cope with the fallout from the pandemic. The containment of public expenditure was a major component of the government’s fiscal adjustment strategy even before the pandemic. In the period from April to November in fiscal year 2021/22, government revenues were -0.3% and grants were -18.2% below the budget target. Most categories of government expenditure were below budget, and overall government expenditure was -0.5% below target. In addition, capital expenditure was up by 0.7%. The steepest increases relative to the budget over that period were domestic interest payments (up by 3.8%) and external interest payments (up by 0.1%). The Minister of Finance had to go to Parliament a number of times for supplementary budget estimates in order to cope with the demands of the situation created by the pandemic. The public-sector primary balance was 2.5% of GDP in 2020 and will likely have increased to about 5% in 2021.

The main challenge facing the Jamaican economy continues to be the debt overhang, which is still considerable. External obligations represented the bulk of the debt, at 61.2% of the total, while domestic debt accounted for the other 38.8%. The macroeconomic effects of the pandemic have interrupted the downward trend in the debt/GDP ratio, which the Jamaican government had been working to maintain. Debt-to-GDP for fiscal year 2020/21 is estimated at 110.1%, which is 15.3 percentage points higher than the outturn for fiscal year 2019/20. The Jamaican government adopted a number of decisions aimed at fortifying its response to the pandemic, one of which was to allow the primary surplus to decline from 5.4% to 3.0% of GDP. With the anticipated roll-out of the COVID-19 vaccine programme, the government’s macrofiscal position is expected to strengthen, restoring the downward trend of the debt-to-GDP ratio (99% in 2020) to a trajectory consistent with the levels needed to align with the revised timeline for the achievement of a debt-to-GDP ratio of 60.0% or less by fiscal year 2027/28.

During 2020, the Jamaican economy and financial markets, as anticipated in the 2019 Preliminary Overview of the Economies of Latin America and the Caribbean, were shaken by the uncertainty surrounding the economic decline caused by the COVID-19 pandemic. The Jamaican dollar (J\$) depreciated by J\$ 10.08 (7.1%) against the United States dollar in 2020, as compared to a depreciation of J\$ 4.85 (3.7%) in 2019.

In 2020, despite the impact of the pandemic on the economy's export sectors as projected by the Bank of Jamaica, foreign currency flows into the foreign exchange market displayed more resilience than had been expected. Those inflows strengthened further in the second half of the year, thereby bolstering an increase in net international reserves.

There was no appreciable disruption in the operation of the foreign exchange market, thanks in part to the orderly adjustment brought about by a number of policy initiatives implemented by the Bank of Jamaica in order to provide liquidity assurance to the markets and maintain confidence, despite the challenges occasioned by the pandemic. This helped to temper any potentially adverse impact on domestic inflation and investor confidence.

If inflation remains under control, the Bank has stated that it intends to maintain this more accommodating monetary policy position until there are clear signs that economic activity in Jamaica is returning to its pre-pandemic levels.

As the low economic policy interest rate (0.5%) remained in place, market interest rates continued their downward trend in 2020. Improved liquidity conditions and the Bank's monetary policy signals were also major contributing factors in the continued downward trend in market interest rates. The weighted average yields on 180-day Treasury bills (T-bills) had declined to 0.86% at end-2020 from a rate of 1.60% at end-2019. In addition, the daily averages of private money market rates also declined during the year.

Lending activity slowed and there was a slight deterioration in loan quality for deposit-taking institutions (DTIs) as a wide cross-section of borrowers experienced difficulties associated with the COVID-19 pandemic. In response to those difficulties, DTIs introduced moratorium facilities aimed at cushioning the impact of the pandemic. For the year, DTIs generally recorded lower profits. This was largely a reflection of the lower interest income levels associated with the slowdown in loan growth and the increased use of moratorium facilities. The weighted average lending rate for bank loans to the private sector in December 2020 was 12.07%, a decline of 0.69 percentage point relative to December 2019.

In 2021, the pace of growth in overall funding was mixed. Total financing, which includes DTI credit for the private sector, corporate bond issues and public-sector credits, grew by 5.8% for the year ending in July 2021, down from the 8.0% annual growth rate recorded for the year ending in March 2021. However, private-sector financing rose by 9.1% for the year ending in July 2021, thus outpacing the 7.3% rate recorded for the year ending in March 2021.

The Bank of Jamaica had maintained a strong net international reserves position in 2020, despite the adverse impact of the COVID-19 pandemic. While the level of reserves declined in the second and third quarters, the reserves position steadily improved in the fourth quarter, closing out the year at US\$3.1308 billion. This outturn represented a marginal decline of US\$ 31.7 million relative to end-2019. At the close of 2020, gross reserves amounted to US\$ 4.0857 billion, which represented 122.3% of the assessing reserve adequacy (ARA) metric used by the International Monetary Fund. Gross reserves at the end of 2020 represented approximately 38.9 weeks of projected goods and services imports, as compared to 22.9 weeks at the end of 2019. At the end of 2020, non-borrowed reserves

(NBR) accounted for 90.8% of the country's net international reserves, up slightly from 89.0% at the end of 2019.

The economy shrank by 10% in 2020. In the first quarter of 2021, economic growth was down by 5.7% as a direct result of the pandemic, but goods-producing sectors grew by 3% as the net result of a 2% drop in agricultural production, a 6.2% upswing in mining and quarrying activity, a 1.4% contraction in manufacturing and a 12.6% increase in construction that was driven by a boom in the housing sector (up by 25.8%).

The services sector contracted by 8.1%, largely as a consequence of downturns in hotels and restaurants (-56.2%) and in the transport, storage and communications industries (-6.6%). The performance of these sectors was hurt by the measures implemented, both globally and locally, to curb the COVID-19 pandemic, particularly in the areas of air and land transportation, tourist accommodations and entertainment services. Preliminary data on tourism receipts indicate that these revenues plunged by US\$ 520.7 million to US\$ 254.4 million, largely as a result of the sharp decrease in the number of stopover arrivals and the fact that there were no cruise passenger arrivals at all during the quarter.

In the second quarter of 2021, GDP growth was up by 12.9% over the second quarter of 2020. Much of this increase was attributable to the easing of COVID-19 restrictions, which bolstered both domestic and external demand for goods and services. According to the Planning Institute of Jamaica, goods-producing industries expanded by an estimated 7.8%. That upturn was shared by all goods industries except mining and quarrying, where activity was dampened by technical issues that interfered with alumina production, shipping scheduling issues and lower demand, which had an adverse impact on crude bauxite production. Within this sector, agriculture grew by 17.6%, mining and quarrying declined by an estimated 12.3%, manufacturing was up by 3.1%, and construction continued on its upward trend, with activity expanding by 18.3%.

The services sector's overall growth rate of 14% reflected real value added in all subsectors except government services, whose performance was flat. The electricity and water supply subsector grew by 4%, transport, storage and communications by 16.5%, wholesale and retail trade by 13.2%, and hotels and restaurants by 330.7%.

In the third quarter of the year—the most recent period for which data were available at the time of publication—the overall economic growth rate of 6.3% was the net result of a 7.3% expansion of the services sector and a 2.8% increase in activity in the goods-producing sector that was driven by manufacturing (8.5%), agriculture (7.2%) and construction (1.7%), while mining and quarrying slumped by 31.0%. All the subsectors in the services sector displayed positive growth rates, with hotels and restaurants (114.7%) and the “other services” category (15%) leading the way.

According to the Planning Institute of Jamaica, the prospects for the overall economy in the short term are brightened by the continued easing of COVID-19 containment measures on the domestic front and the gradual opening of the economies of Jamaica's trading partners. The resulting intensification of external demand for tourism services and higher employment levels are expected to boost domestic demand. Concern remains, however, about the possibility that more stringent containment measures might have to be reintroduced if new variants of the virus emerge and/or if further waves of COVID-19 infections occur. The final growth rate for 2021 is expected to come in at 4.0%.

For 2020, annual headline inflation was 5.2%, which was well within the target band of 4.0%–6.0%. The inflation rate was also within the target band for 11 out of the 12 months of the year, with only the rate in June 2020 breaching the upper limit as the result of a temporary shock to agricultural food prices owing to drought conditions. The inflation outturn mainly reflected the impact of higher

prices for goods and services in the health and personal care category, which were largely a reflection of a shift in consumption patterns in the context of the pandemic. The impact of that shift was partly offset by a slowdown in the rate of increase of food prices and generally lower crude oil prices, which contributed to a reduction in transport-related costs. Underlying or core inflation (a metric which removes the impact of changes in food and energy prices) generally remained subdued at below 4.0% during the year, although it was slightly higher than in 2019.

The annual inflation rate as of September 2021 was 8.2%, which was far above the 4.3% and 4.9% rates recorded in June 2021 and September 2020, respectively. According to the Bank of Jamaica, large increases in international commodity and shipping prices have been the main reasons why domestic inflation has risen above the upper limit of the target range, but an agricultural price shock and one-off hikes in regulated transportation and energy prices were significant factors as well. Over the next eight quarters, inflation is projected to average between 5.5% and 6.5%, whereas the average over the past two years has been 5.0%.

The unemployment rate was 12.6% in July 2020 but fell to 10.7% in October of that year. In January and April 2021, the rates were 5.8% and 5.1%, respectively, and by July 2021, the rate had fallen to 5.1%. Thus, after factoring out seasonal variations, it becomes clear that the unemployment rate has begun to return to pre-pandemic levels. The unemployment rates for men in July 2020 and July 2021 were 11.5% and 6.3%, respectively, while the rates for women for those same months were 13.9% and 11.3%, respectively, which suggests that the differentials between the sexes have remained more or less unchanged. Meanwhile, the youth unemployment rate was 30% in July 2020 (28% for males and 32.9% for females) and 23.9% (14% for males and 30% for females) in July 2021.