

JAMAICA

1. General trends

The Jamaican economy grew by an estimated 4.3% in 2021, driven by a partial rebound in tourism and related services and expansion of production and distribution activities. However, this recovery was from a very low 2020 baseline, owing to closures in response to the coronavirus disease (COVID-19) pandemic. The GDP growth has continued in 2022, at a rate of 6.0% in the first quarter and 5.7% in the second quarter, on the back of further reopening of the economy. The government's priority now is to lift more restrictions, but downside risks remain, as vaccine hesitancy is high in the country, which has one of the lowest vaccination rates in the Caribbean.

Inflation, stoked by the conflict between the Russian Federation and Ukraine, has broken above the Bank of Jamaica's target range of 4%–6%, hitting 7.3% for 2021. Soaring oil prices will have a knock-on effect on food prices, and as a significant importer of both fuel and food, Jamaica is heavily exposed on both fronts.

The Jamaican dollar (J\$) came under pressure in 2020 and 2021, owing to low foreign-exchange inflows from tourism. This pressure will continue as the conflict between the Russian Federation and Ukraine drives up import prices, causing Jamaica's terms of trade to deteriorate. Some support is likely from an economic recovery in the United States, boosting external demand for Jamaican exports and supporting remittance inflows from workers.

Despite these challenges, Bank of Jamaica maintained a solid international reserves position for 2021. At year-end 2021, reserves amounted to US\$ 4.833 billion, 156.9% of the International Monetary Fund (IMF) Assessing Reserve Adequacy (ARA) metric and an equivalent of around 33.5 weeks of projected goods and services imports.

The expenditure required to combat COVID-19 forced the government to lift fiscal restraints. As a result, Jamaica's debt-to-GDP ratio was 94% in March 2020 and rose to 110% by March 2021. The 2022 budget, which is based on strong growth, projected a debt-to-GDP ratio of 96% for March 2022.

2. Economic policy

(a) Fiscal policy

The COVID-19 pandemic erupted at a time when Jamaica was making significant progress in remedying fiscal imbalances, lowering public debt and undertaking structural reforms to support faster economic growth while ensuring price and financial system stability. In response to the pandemic, the Government of Jamaica has attached greater importance to health and social expenditures. In addition, given the pandemic's knock-on effect on economic activity, financial support has also been provided to businesses, particularly MSMEs, the tourism sector and farmers who sell produce to hotel operators. Overall, according to the Ministry of Finance and the Public Service, the government delivered direct and indirect support across the 2020/21 and 2021/22 fiscal years for a total of J\$ 40.6 billion, equivalent to 2% of GDP.

To effectively address the impact of the ongoing pandemic, adjustments have been made to the central government's operations, to target a primary surplus of 3.0% of GDP rather than the original 5.4%. The surplus shrank dramatically in the 2020/21 fiscal year (April–March), to an estimated 2.5% of GDP from about 6% the year before, owing to a decline in tax revenue and a rise in pandemic-related spending, including tax cuts, concessional loans, wage subsidies, cash transfers and grants.

The combined fiscal and broader macroeconomic effects of the pandemic have also reversed the consistent downward trend in debt. As a result, Jamaica's debt-to-GDP ratio, which was 94% in March 2020, had increased to 110% by March 2021. According to the 2022 budget projections, the ratio will return to 96% by March 2022.

The outlays and economic disruption resulting from COVID-19 have affected both the Government's revenue and its expenditure, redefining the trajectory of the Jamaican economy. From April 2021 to March 2022, revenues and grants fell 0.1% and tax revenue rose 1%. On the expenditure side, overall spending declined by 1.8%, including all its subcategories except interest on domestic debt, which rose by 1.6%.

(b) Monetary and exchange policy

While the Bank of Jamaica maintained an accommodative monetary policy stance in 2020, this changed in 2021. To mitigate pandemic-related supply and demand shocks and guide inflation back within the Bank of Jamaica's target range in the medium term, the Bank's Monetary Policy Committee agreed to tighten monetary policy. It did so by raising the policy interest rate (the rate offered to deposit-taking institutions on overnight placements with the central bank) by 200 basis points to 2.50% per annum and by maintaining other measures to contain Jamaican dollar liquidity expansion, to ensure that exchange rate movements do not threaten the inflation target range of 4%–6%.

In addition to raising the policy rate, the Bank also increased the rate on its Standing Liquidity Facility (SLF) to 4.50%. This higher policy rate and the Bank's other monetary policy signals triggered higher market interest rates in 2021. Weighted average yields on the Government of Jamaica's 180-day treasury bills had climbed to 4.33% by end-2021 from 0.86% at end-2020. Daily averages of private money market rates also rose during the year. In contrast, the weighted average lending rate on bank loans to the private sector in November 2021 was 11.78%, down 29 basis points relative to December 2020.

In June 2022, the Bank of Jamaica raised the policy rate to 5.50% per annum, effective from 30 June. The Bank also decided to maintain other measures to contain Jamaican dollar liquidity expansion and maintain stability in the foreign-exchange market. The recent decisions, including the policy rate hikes, will cause liquidity conditions to remain tight and interest rates on bank deposits and loans to rise further, making savings in Jamaican dollars more attractive relative to foreign currency assets, and borrowing in Jamaican dollars more expensive. In addition, the tightening of monetary policy will generally reduce consumer demand and consequently limit businesses' ability to pass on price increases.

Over the course of 2021, the Jamaican dollar fluctuated, but overall depreciated by an average of 5.9% against the United States dollar in 2021, compared to average depreciation of 6.6% in 2020. According to the Bank of Jamaica, the depreciation in 2021 was mainly caused by portfolio-related spikes in demand.

These demand pressures were attenuated by a number of Bank of Jamaica measures, injecting over US\$ 800 million into the economy, including a number of sale operations such as direct sales to key entities

and foreign-exchange swaps. The August 2021 special drawing rights allocation from IMF, an equivalent of US\$ 520.6 million, also bolstered the country's foreign currency reserves.

(c) Other policies

In the 2020/21 and 2021/22 fiscal years, the Government of Jamaica implemented a number of measures to invigorate the economy and provide pandemic-related support, several of which added to the overall fiscal deficit and to government debt. Firstly, the rate for General Consumption Tax was cut by 0.5 percentage points to 16.5% in 2020/21 at a cost of J\$ 14 billion. Some 240,000 Jamaicans who lost their jobs during the pandemic and were on pay-as-you-earn (PAYE) tax rolls received J\$ 18,000 per month for 13 months over part of the 2020/21 fiscal year and into 2021/22, at a cost of J\$ 7.9 billion. Over a similar period, Jamaicans working in 167 hotels and attractions received a comparable amount, costing the government some J\$ 4.1 billion. For the 2020/21 fiscal year, around 390,000 Jamaicans in the informal sector earning less than J\$ 1.5 million a year received support to the tune of J\$ 3.9 billion. Over the same period, some 90,000 persons impacted by closures of businesses received between J\$ 25,000 and J\$ 40,000 in grants at a total cost of J\$ 662 million. Some 85 hotels that lost revenue and needed to cover maintenance costs benefited from tourism relief grants of between J\$ 1 million and J\$ 5 million, at a cost for the government of J\$ 266 million. In addition, over a thousand small businesses received grants of J\$ 100,000, costing J\$ 152 million.

Other groups also received support, such as students, persons receiving assistance through the means-tested Programme of Advancement Through Health and Education (PATH), fully vaccinated persons aged over 60 and persons receiving Poor Relief. In addition, the Ministry of Agriculture and Fisheries established productivity incentives for farmers.

The Proceeds of Crime Act was amended to allow the Bank of Jamaica to permit opening of accounts with low-risk and less stringent Know Your Customer requirements, with a cap on balances. Such accounts will be free of any bank fees. In addition, to incentivize take-up, the government will deposit J\$ 1,000 in each of the first 100,000 accounts opened by different customers after 1 April. The government also intends to reduce asset tax on retail banks and other financial institutions, provided that they pass savings on to consumers, and promote greater competition by encouraging public bodies to hold deposits and current accounts with different financial institutions.

3. The main variables

(a) The external sector

According to the Bank of Jamaica, the current account of the balance of payments for the 2021/22 fiscal year is estimated to be in deficit by 1.0% of GDP, narrowing slightly from 1.1% of GDP in the prior fiscal year. This estimate is mainly based on rises in remittance inflows and travel-related expenditure, partly offset by higher imports and investment income outflows. The current account is projected to deteriorate over the 2022/23 and 2023/24 fiscal years, with deficits of 2.0%–3.0% of GDP, before improving in the medium-term.

Despite challenges arising from the slow economic recovery, the Bank of Jamaica maintained a solid net international reserves position in 2021. At end-2021, reserves amounted to US\$ 4.833 billion, representing 156.9% of the IMF ARA metric and equivalent to coverage of around 33.5 weeks of projected goods and services imports.

(b) Economic activity

After declining by around 9.9% in 2020, primarily owing to closure of the tourism sector, GDP grew by an estimated 4.3% in 2021, on the back of a partial rebound in tourism and related services and expansion in production and distribution activities. Growth in value-added in the services industries was significant, particularly in hotels and restaurants, other services, and transport, storage and communication, owing to a pick-up in travel and port activity.

The robust growth has continued in 2022. In the first quarter, real GDP for the Jamaican economy grew by 6.0%. However, the goods-producing economy shrank by 2.1%. Although agriculture, forestry and fishing grew by 8.6% and construction by 1.1%, mining declined by 64.3% and manufacturing by 0.7%. On the services side, which grew by 8.9% as a result of the re-opening of the economy, all subsectors expanded, including hotels and restaurants by 105.7% and other services by 15%. Total foreign-national arrivals increased by 230.11% to 475,805. Cruise passenger arrivals totalled 99,798, after no arrivals in the first quarter of 2022. Based on data for January and February 2022, total visitor expenditure increased to US\$ 485.66 million relative to US\$ 169.22 million in the corresponding period of the prior year. The other subsectors grew by 0.0%–9.5% with no increase going to providers of government services.

In the second quarter of 2022, total GDP grew by 5.7% year-on-year. The real sector shrank by 0.4% while the service sector grew by 7.7%. The out-turn for the second quarter largely reflected the lifting of measures to manage the COVID-19 pandemic, as opposed to the same quarter of 2021, when some measures were still in effect. Other factors which contributed to the improved out-turn were increased agricultural production, higher demand from key trading partners, and improved employment and consumer confidence, resulting in growth in domestic demand. In the goods sector, agriculture grew by 12.6%, but mining and quarrying declined by 60.6%, owing to a 76.8% fall in alumina production. Manufacturing grew by 2.8%, while construction—which until recently had been growing robustly—declined by 4.2%. In services, real value-added for the hotels and restaurants industry grew by an estimated 55.4%, reflecting a sharp increase in visitor arrivals from all main source markets. Foreign-national arrivals for April–June 2022 totalled 399,310, up 110.0% on the same months of 2021. Other service subsectors grew by 5%–10%.

(c) Prices, wages and employment

During the year, domestic inflation repeatedly breached the target range of 4.0%–6.0% set by the Bank of Jamaica in consultation with the Ministry of Finance. These breaches were largely driven by the impact of the COVID-19 pandemic, including supply disruptions in international commodity markets and higher global shipping costs and prices for items such as grain and fuel. Inflation twice fell below the target range owing to supply shocks—lower food prices owing to surplus supply and weak demand—and a fall in energy-related costs. The overall rate of inflation in 2021 was 7.3%.

Stoked by the war between the Russian Federation and Ukraine, 12-month inflation was 11.3% in March 2022, easing slightly to 10.9% by June 2022. The June figure primarily reflected acceleration in inflation in processed food prices. Inflation for energy-related services also picked up, owing to elevated liquefied natural gas (LNG) prices and the continued impact of higher international grain and freight costs. Inflation is projected to stabilize in a range of 9.0%–11.0% for the remainder of 2022.

Looking forward, upside risks to inflation include greater supply chain disruption, higher than anticipated pass-through of imported inflation to domestic inflation, and even higher commodity prices, should the conflict between the Russian Federation and Ukraine deteriorate.

Labour market conditions improved in 2021. The unemployment rate at year-end was 6.0%, 3.0 percentage points lower than in April 2021 and the lowest rate on record. The youth unemployment rate was 15.5% at year-end, compared with 24.0% in April. The country is still recovering from job losses linked to the COVID-19 pandemic. Data reveal that employment had fallen by 151,100 persons by July 2020 from Jamaica's pre-pandemic employment high in January 2020. However, by April 2022 most of the employment lost during the initial stages of the pandemic had been regained, with a rise in the number of employed of 147,700 since July 2020. According to the Planning Institute of Jamaica (PIOJ) briefing note of August 2022, the labour market is expected to fully recover during the 2022/23 fiscal year.