JAMAICA

1. General trends

In 2022, the Jamaican economy grew by an estimated 3.9%, driven by a sustained rebound in tourism and related services, combined with increased production and distribution activity, owing to the lifting of restrictions related to the coronavirus disease (COVID-19) pandemic. In the first quarter of 2023, this growth continued, with expansion of 4.2%. However, in that same quarter, although the output of the services sector grew by 5.4%, the goods sector’s output rose only a modest 1.0%. This economic growth is subject to downside risk, owing to rising inflation, stoked by the conflict between the Russian Federation and Ukraine. In fact, because soaring oil prices have also driven up food prices, the rate of inflation was 9.4% in December 2022, some way above the target of 4%–6% set by the country’s central bank, Bank of Jamaica (BOJ).

According to the central bank, the Jamaican dollar (J$) experienced at least four cycles of upswings (depreciation) followed by downswings (appreciation), but the swings were less pronounced than in the previous year. The currency depreciated on an annual average basis by 1.8% against the United States dollar in 2022, compared to 5.9% in 2021. Despite the challenges, the central bank maintained a solid net international reserves (NIR) position in 2022, while gross reserves amounted to US$ 4.518 billion, equivalent to around 25.2 weeks of projected goods and services imports.

Fiscal restraints had to be lifted because of expenditures on COVID-19 relief efforts. Therefore, Jamaica’s debt-to-GDP ratio, which was 94.9% in March 2020, had increased to 109.7% by March 2021. The severity of the adjustment will depend on the strength and duration of economic growth in the near term. The situation will require careful macroeconomic management, as cuts in public spending, especially capital spending, also harm the private sector.

Total public debt at the end of the 2022/23 fiscal year is projected at J$ 2.162 trillion or 79.7% of GDP. This represents a 14.5 percentage point decrease in debt-to-GDP compared to the end-March 2022 position, mainly owing to an estimated 16.8% increase in nominal GDP in the 2022/23 fiscal year. The debt-to-GDP ratio is projected to fall to 60% by 2027/2028.

2. Economic policy

(a) Fiscal policy

The COVID-19 pandemic erupted when Jamaica was making progress in reducing fiscal imbalances, lowering its public debt to GDP ratio and undertaking structural reforms. In response to the pandemic, the government delivered direct and indirect support across the 2020/21 and 2021/22 fiscal years, costing J$ 40.6 billion equivalent to 2% of GDP. Unsurprisingly, Jamaica’s debt-to-GDP ratio, which was 94.9% in March 2020, had increased to 109.7% by March 2021. The severity of the adjustment will depend on the strength and duration of economic growth in the near term. The situation will require careful macroeconomic management, as cuts in public spending, especially capital spending, also harm the private sector.

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The return to positive growth should result in an increase in revenue, at least in line with pre-pandemic trends. In the 2022/23 fiscal year, the revenues and grants category was some 2.3% below budget and tax revenue was 2.4% below what was budgeted. All categories of income tax revenue were above budget, except taxes on dividends and taxes on interest. Revenue from production and consumption taxes was 7.1% below projections, with most individual categories of such taxes below budget. Revenue from taxes on international trade was below projections by 2.3% overall. Turning to expenditure, recurrent spending was 1.9% under budget while capital spending was 8.4% below projections. The primary surplus narrowed as a result of these trends, reaching 6.1% of GDP in the 2022/23 fiscal year, compared to 6.8% of GDP in 2021/22.

(b) Monetary policy

Although COVID-19 had a smaller impact in the year, the conflict in Ukraine fuelled substantial rises in international commodity and shipping prices, adding to domestic inflation, which remained above the central bank’s inflation target rate of 4.0%–6.0%. In response, the BOJ Monetary Policy Committee (MPC) employed a three-pronged monetary policy approach, starting in the last quarter of 2021: (i) raising the policy interest rate by 450 basis points (bps) to 7.0% in 2022, following increases totalling 200 bps in the last quarter of 2021; (ii) implementing measures to maintain tight Jamaican dollar liquidity conditions; and (iii) reducing volatility in the foreign-exchange market by reintroducing absolute limits on the foreign-currency net open positions of authorized dealers and providing United States dollar liquidity support to the market.

In December 2022, the central bank announced a conditional pause in its policy rate adjustments and indicated that, in the absence of new shocks, future monetary policy decisions would depend on the continued pass-through effect of past policy rate changes on deposit and loan rates. BOJ also signalled that its future decisions would be conditional on it observing more pass-through of international commodity price reductions to domestic prices and on the United States Federal Reserve not exceeding its stated policy rate increases.

According to BOJ data, the weighted average yields on Government of Jamaica 180-day treasury bills had increased to 8.18% by end-2022 from 4.33% at end-2021. The daily averages of private money market rates also rose during the year. In contrast, the weighted average rate on bank loans to the private sector in December 2022 was 11.74%, down 7 bps relative to December 2021. However, the weighted average deposit rate in December 2022 was 1.62%, up 54 bps relative to December 2021.

(c) Exchange-rate policy

In 2022, the exchange rate continued to be characterized by cycles of appreciation and depreciation. Evidence suggests the Jamaican dollar experienced at least four cycles of upswings (depreciation) followed by downswings (appreciation). However, these swings were less pronounced than in the previous year. The Jamaican dollar depreciated on an annual average basis in 2022 by 1.8% against the United States dollar, compared to 5.9% in 2021.

There was relative stability in the foreign-exchange market during 2022, against a backdrop of improved foreign-exchange inflows associated with re-opening of the economy and central bank measures to attenuate episodic demand pressures. Specifically, BOJ provided approximately US$ 1.5 billion to the system through Bank of Jamaica Foreign Exchange Intervention and Trading Tool (B-FXITT) sale operations, direct sales to key entities and foreign-exchange swaps.
According to BOJ, in 2022, it purchased approximately US$ 2.3 billion from the system via surrenders from authorized dealers and currency exchanges as well as foreign-exchange swaps. Turning to 2023, the Jamaican dollar appreciated during the first quarter of 2023, relative to the December 2022 quarter. The weighted average selling rate closed the first quarter of 2023 at J$ 150.91=US$ 1.00, reflecting appreciation of 0.8% relative to the previous quarter and 1.9% relative to the end of March 2022.

(d) Other policies, programmes and projects

A number of reforms have been proposed for the financial sector, with comprehensive reviews of the penalty regimes in the Securities Act, the Banking Act, the Insurance Act and the Pensions Act. The planned changes include stiffer penalties for white-collar crime in the financial sector. In addition, security dealers will be required to publish their financial statements and report material events pursuant to the same standards as public companies listed on the Jamaica Stock Exchange (JSE). The government also intends to tighten regulations on insider trading and on related party transactions by security dealers, and introduce a fixed-penalty regime for companies that breach regulations on anti-money-laundering and combating the financing of terrorism (AML/CTF).

Under the current regulatory regime, Jamaica has a sector-by-sector regulatory approach, whereby BOJ regulates deposit-taking institutions and the Financial Services Commission (FSC) regulates non-banking financial institutions. The intention is to adopt a “twin peaks” model, establishing BOJ as the single prudential regulator for deposit-taking institutions and non-bank financial institutions and restructuring FSC to oversee market conduct and consumer protection.

To deepen financial inclusion, which is a long-standing challenge in the financial sector, and to facilitate expansion of the digital economy, BOJ introduced a Central Bank Digital Currency (CBDC) called JAM-DEX, which was rolled out nationally in phases over the course of 2022. According to the budget statement for the 2022/23 fiscal year, JAM-DEX was successfully used by pilot groups in two constituencies for wage payments to over 100 workers employed in the Constituency Development Fund Employment Generation (Christmas Work) Programme. The pilot also saw upwards of 70 small merchants signing up across both constituencies. By 18 February 2023, a total of 190,000 JAM-DEX customers had been onboarded using the Lynk digital payments application, including 185,410 individuals, 90 small merchants, and 4,500 micro-merchants. Total JAM-DEX transaction activity for 2022 was valued at J$ 357 million.

3. The main variables

(a) The external sector

Following a small surplus of 0.6% in 2021 and a deficit of -0.5% of GDP in 2022, the current account is likely to remain in deficit from 2023 to 2025. The reserves cushion has stayed healthy in recent years, and that should remain the case even as growth slows to the rates that prevailed prior to the COVID-19 pandemic. Jamaica’s external position relies heavily on trends in tourism earnings and remittances; tourism earnings are recovering, but the global inflation will weigh on investment and growth in 2023, while remittances inflows will likely remain firm, helping to offset a widening trade deficit.

The central bank maintained a strong NIR position in 2022. Despite a significant decline in the first quarter, NIR ended the year at US$ 3.976 billion, owing to growth in the remainder of the year. However, this outturn reflected a moderate decline of US$ 24.5 million relative to end-2021. According to BOJ, at
end-2022, gross reserves amounted to US$ 4.518 billion, equivalent to around 25.2 weeks of projected
goods and services imports.

(b) Economic activity

In 2022, the economy grew by an estimated 3.9%, driven by a sustained rebound in tourism and
related services, combined with increased production and distribution activity owing to the lifting of
restrictions related to the COVID-19 pandemic. In the first quarter of 2023 this growth continued, with
expansion of 4.2% year-on-year. However, in that same quarter, although the output of the services sector
grew by 5.4%, the goods sector’s rose by a modest 1.0%.

In the first quarter of 2022, overall growth was 6.4% year-on-year, with growth of 8.9% in services
and 0.4% for the goods sector. In the goods sector, agriculture, forestry and fishing and construction posted
growth of 8.2% and 3.5%, respectively, while mining and quarrying declined by 60.0%. In the case of
services, all sectors posted growth, including hotels and restaurants with an exceptionally large increase of
107.1%.

In the second quarter, growth was 4.8% year-on-year. The goods producing sector declined by -
2.0% while the service sector continued to grow at 7.2%. In the goods sector, despite the overall decline,
most subsectors showed growth, but this was offset by a substantial decline (-62.5%) in mining and
quarrying, owing to a 76.8% fall in alumina production. This was caused by the continued closure of the
Jamalco refinery, which was hit by a fire in August 2021. As a result, the alumina capacity utilization rate
was 9.8%, down 32.4 percentage points year-on-year. Turning to services, the biggest increase was in hotels
and restaurants, which grew by 56.0%. Much of this came from a 110.0% year-on-year increase in foreign
national tourism arrivals in the second quarter of 2022, to 399,310 visitors.

In the third quarter, real year-on-year growth was 5.9%, with the service sector growing 6.0% and
the goods sector growing 5.6%. However, in the goods sector there was a -27.6% decline in mining and
quarrying, while agriculture forestry and fishing grew by 17.0%. All the services sectors posted growth in
the quarter, led by hotels and restaurants, which grew by 35.3%.

In the last quarter, overall growth was 3.8% year-on-year. The service sector grew by 3.6% and the
goods sector by 4.7%. The largest expansion was in mining and quarrying, at 99.0%, reflecting higher
alumina production as operations at the Jamalco plant resumed. The agriculture, forestry and fishing sector
grew by 5.9%, while construction declined by 4.8%. Lastly, in services, all sectors posted growth, except
for producers of government services which declined by 0.8%. The largest increase was in hotels and
restaurants, which grew by 21.6%.

(c) Prices, wages and employment

Domestic inflation remained above the central bank’s inflation target of 4.0%–6.0% in 2022,
continuing the trend seen since August 2021. After peaking at 11.8% in April 2022, annual headline
inflation trended downwards to 9.3% in December 2022. Moving into 2023, the key external drivers of
inflation, such as grain, fuel and shipping prices, continued to decline as expected, although geopolitical
tensions remain high and could reverse this trend. As a result of this, and of tight monetary and fiscal
policies and lower inflation expectations, domestic inflation slowed. Annual inflation in March 2023 was
6.2%, mainly reflecting lower energy and transport services inflation, partly offset by increases in
agricultural prices.
Labour market conditions continued to improve in 2022, as reflected by a decline in the unemployment rate to an average of 6.3% relative to the 8.8% recorded in 2021. Notably, the unemployment rate reached a low for 2022 of 6.0% in April, comparing favourably to the pre-pandemic low of 7.2% in October 2019. The reduction in the unemployment rate in 2022 reflected growth of 4.8% in employment and 2.0% in the labour force. The male unemployment rate, which was 7.5% in April 2021, fell to 5.2% in April 2022, while the male youth unemployment rate fell from 21.1% to 17.1% over the same period. Meanwhile, the female unemployment rate fell from 10.8% to 8.2% and the female youth unemployment fell from 28.0% to 16% in April 2022. In March 2023, the government announced in its 2023/23 budget presentation a 44% increase in minimum wage to a total of J$ 13,000 per week effective from 1 June 2023. This represents the largest increase in the minimum wage in 20 years.