

Jamaica

The coronavirus disease (COVID-19) pandemic has had a devastating impact on the Jamaican economy because of the country's heavy reliance on tourism services and the closing of its border, businesses and schools to prevent the spread of the virus. A partial reopening of the border to tourists, while important, will not bring a return to normality, given the challenges faced by major source markets, including the United States. In 2020, the overall policy focus was on protecting the population from community spread and reducing the impact of a likely recession. The Jamaican economy posted a decline of 1.7% in the first quarter of 2020 and 18% in the second quarter. Growth was 0.9 % in 2019 and is projected at -9% in 2020 and 2% in 2021. At the sixth and final review of the US\$ 1.64 billion stand-by agreement with the International Monetary Fund (IMF) on 4 November 2019, the Executive Board of IMF said that Jamaica's sustained policy discipline, together with its fully operational fiscal council and independent central bank, would help institutionalize the gains achieved under the successive Fund-supported programmes. The impact of COVID-19 will derail some of the hard-won fiscal gains made over time, and the balance of payments is likely to deteriorate by as much as 6% of GDP as tourism receipts decline.

Fiscal challenges continue to be the biggest concern as the Government of Jamaica seeks to control the public finances amid the COVID-19 pandemic. The control of public expenditure has been a major part of its fiscal adjustment strategy. In fiscal year 2020/21, government revenues for the period April to September were up 3.9%, with a sizable 9.6% increase in grants. Most categories of government expenditure were below budget, and overall government expenditure was 1.8% below target. In addition, capital expenditure was up by 6.2%. The Minister of Finance has had to go to Parliament a second time for Supplementary Estimates this year so far, and some 36.8 billion Jamaican dollars (J\$) are reported to have gone on COVID-19-related expenses. If this is combined with increased interest costs in the Second Supplementary Estimates relative to the 2020/21 budget, the total impact of COVID-19 expenditure on the Government of Jamaica to date is J\$ 43.8 billion.

The main challenge facing the Jamaican economy continues to be the still-large debt overhang. The largest component of the debt (61.2%) is external, while domestic debt accounts for the remaining 38.8%. The impact of COVID-19 means that the debt burden will increase to about 100% of GDP in fiscal year 2020/21. In view of the COVID-19 crisis, the government has postponed the debt target of 60% of GDP to fiscal year 2027/28 from 2025/26.

In 2020, the nominal exchange rate depreciated during the June quarter relative to the previous quarter. The weighted average selling rate of the Jamaican dollar against the United States dollar closed the June 2020 quarter at J\$ 140.01 to US\$ 1, reflecting depreciation of 3.3% relative to the previous quarter and of 6.8% relative to end-June 2019. Depreciation is likely to accelerate as inflows from tourism continue to fall. The depreciation in the exchange rate during the June 2020 quarter was underpinned by tightened United States dollar liquidity due to a decline in inflows, particularly from tourism. Pressure for appreciation in the latter part of the quarter reflected improved confidence following the signing of the Rapid Financing Instrument (RFI) for US\$ 520 million between the Government of Jamaica and IMF on 15 May 2020. Factors such as recent floods (leading to higher imports) and commodity price swings could also cause the rate of depreciation to accelerate. While the depreciation of the currency may be improving competitiveness, especially in light of depressed oil

prices, continual depreciation will begin to affect inflation and encourage public servants in particular to demand higher wage increases.

The stated monetary policy objective of the Bank of Jamaica is to achieve and maintain inflation within the target of 4.0% to 6.0%, a level the Bank considers will facilitate sustained economic growth and development. In this spirit, the Bank of Jamaica maintained an accommodative monetary policy stance during 2019 with the aim of fostering faster credit expansion in pursuit of higher levels of economic activity and job creation to support inflation and keep it within the Bank's target range. Specifically, the Bank reduced its policy interest rate on four occasions by a total of 125 basis points to a historic low of 0.50% per annum. It also lowered the cash reserve requirement on two occasions by a cumulative 5 percentage points to 7.0%, which increased liquidity in the financial system by J\$ 28.1 billion. This latter policy, which has continued, was specifically designed to free up more liquidity to fight the pandemic.

Net loans and allowances grew by 17.2% during 2019 as deposit-taking institutions capitalized on increasingly favourable credit conditions and sustained demand for debt from households and corporates. In 2019, loans to corporates and households increased by 20.3% and 16.5%, respectively (compared with 15.4% and 12.0% the previous year).

Despite the economic shock caused by the pandemic, annual growth in the monetary base as of June 2020 was 17.1%, as compared to an earlier projection of 4.7%. This stronger growth was due to significantly higher than anticipated currency issuance, owing to greater-than-expected demand for precautionary cash because of the pandemic.

The Bank of Jamaica maintained a strong net international reserve position for 2019, with an increase of US\$ 157.1 million to US\$ 3.163 billion relative to 2018. At the end of 2019, gross reserves amounted to US\$ 3.631 billion and represented 110.7% of the IMF Assessing Reserve Adequacy (ARA) metric. Gross reserves at the end of 2019 also represented approximately 22.9 weeks of projected goods and services imports, as compared to 19.5 weeks at the end of 2018. The duration of the crisis, however, will have an impact on the government's ability to maintain reserve adequacy. In its Quarterly Monetary Policy Report (QMPR), the Bank of Jamaica anticipates a balance-of-payments current account deficit in the range of 6.0% to 7.5% of GDP for fiscal year 2020/21, a significant deterioration compared with the deficit of 1.1% of GDP in fiscal year 2019/20. The outlook for gross reserves has improved relative to the previous projection, however, owing to a favourable outturn in June 2020 and lower projected imports. Projections for the current account face significant downside risks, primarily owing to the impact of a possible second wave of COVID-19 in the United States, which would reduce stopover arrivals. It is also likely that cruise ship arrivals will take much longer to recover.

The economic growth rate was 0.9% in 2019 and -1.7% and -18%, respectively, in the first two quarters of 2020. In the first quarter of 2020, there was a contraction of 1.5% in the goods-producing sectors and a similar contraction in the service economy, with hotels and restaurants contracting by 13.5%. The data on total airport arrivals during the quarter indicate a 17.9% decline during January to March 2020, largely reflecting the impact of the restrictions imposed locally and globally as a result of COVID-19. Jamaican GDP contracted by an estimated 18% in the April to June 2020 quarter compared with the corresponding quarter of 2019. Meanwhile, manufacturing contracted by an estimated 7%, with all industries registering a decline, while services are estimated to have shrunk by 20.6%, reflecting a fall in real value added in all industries, with the exception of producers of government services, which remained flat. Real value added in the hotels and restaurants industry contracted by an estimated 87.5%, reflecting a sharp decline in visitor arrivals and the number of people utilizing restaurant services.

The measures implemented to manage the spread of COVID-19 included the closing of borders to passenger traffic for two of the three months in the quarter. This resulted in stopover arrivals falling by 98.9% to 7,188 visitors. Total visitor expenditure was US\$ 16.2 million, 98.1% lower than in the year-earlier period.

Low energy prices and constrained demand meant that inflation moderated for most of 2019. Annual headline inflation fell below the Bank's target of 4.0% to 6.0% on six occasions, but closed the year above the target. The periods of lower-than-targeted inflation were the result of lower international oil prices, which contributed to a fall in domestic energy-related costs, and of lower food prices. In December 2019, the upper bound of the inflation target was exceeded because of higher costs for vegetables and starchy foods and energy-related goods and services. The shock to vegetable and starchy food prices was primarily related to adverse weather conditions (drought followed by heavy rains) that affected the island between June and October 2019, as well as crop diseases which affected some items. Higher prices for energy-related goods and services in the December 2019 quarter were due to an increase in international oil prices. The inflation rate for 2019 was 3.9%, which is quite low by historical standards. In 2020, annual inflation accelerated to 6.3% in June 2020 from 4.8% in March 2020. This was mainly due to rising food prices, supported by an increase in the cost of electricity and in water and sewerage rates.