JAMAICA

ECONOMIC BRIEF

Jamaican Dollar (JM$); United States Dollar (US$) US$1 = JM$154.21

Overview

In 2022, Jamaica's economy continued towards a full recovery from the fallout of the pandemic. This was, however, tempered by high inflation which presented policymakers with the difficult trade-off of taming price increases against slowing the pace of the recovery.

Government's fiscal position remained positive during fiscal year (FY) 2022/23. Public debt as a ratio to gross domestic product (GDP) declined as the Government of Jamaica (GOJ) pursue its policy agenda of reaching 60% of GDP by FY 2027/28. Despite risks from geopolitical tensions, elevated price levels and monetary policy tightening, Jamaica's financial system was profitable, liquid, and well capitalised. After recording a current account deficit in 2021, a surplus was posted in 2022 due to increase travel receipts.

Prospects for growth in 2023 are positive. Output, however, is expected to decelerate and return to pre-pandemic levels. This outlook rests on the strong performance of the tourism sector and higher output from mining and quarrying. Inflation is expected to gradually approach its target in 2023, while the debt and fiscal scenarios are expected to improve further given GOJ's commitment to macro-fiscal stability. The outlook is, nonetheless, overshadowed by several risks, including continued monetary policy tightening and stubborn inflation.

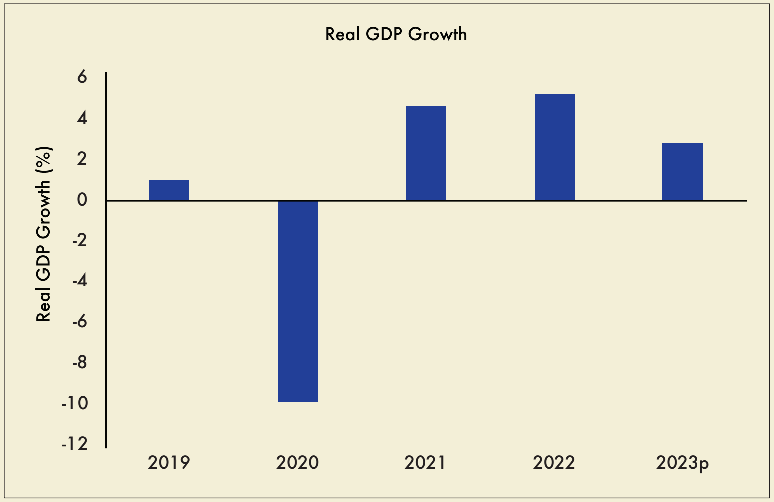
KEY DEVELOPMENTS IN 2022[1]

Jamaica's economy expanded at a faster pace of 5.2% relative to the previous year (see Chart 1). This outturn was buoyed by the full reopening of international borders and the removal of all domestic mobility restrictions which prompted an economy-wide recovery, except for the mining and quarrying sector, due to low-capacity utilisation.

[1]All comparisons are with respect to 2021, unless otherwise stated.

Indicative of the resilience of Jamaica's tourism product, the hotels and restaurants sector grew by 48.0% in 2022. This was due to continued pent-up demand for the brand Jamaica and the implementation of targeted marketing campaigns, such as the COVID-19 Resilience Corridor Strategy used to safely reopen the sector. As a result, stayover arrivals rose by 69.2% to 2.48 million (mn) visitors (equivalent to 92.4% of 2019 levels), up from 1.5 mn.

Chart 1: Real Gross Domestic Product Growth



Sources: *Caribbean Development Bank (CDB), Statistical Institute of Jamaica (STATIN), Bank of Jamaica (BOJ).*

The agriculture, forestry and fishing sector expanded by 9.0%. Though buffeted by increases in the price of inputs, the joint impact of favourable weather conditions, and robust demand for agricultural produce contributed to the sector's strong performance. Influenced by the full reopening of the economy and the spillover effects from the hotels and restaurants sector, noticeable growth was also recorded for transport, storage, and communication (6.5%); manufacturing (6.3%); and wholesale and retail trade, repairs and installation of machinery and equipment (5.7%).

Higher commodity prices and shipping costs pushed inflation above the Central Bank's target range of 4% to 6%. The average headline inflation rose by 10.4% when compared with 5.8% for 2021. The major contributors to higher consumer prices were Food and Non-Alcoholic Beverages (13.7%), water supply and miscellaneous services relating to dwelling (13.9%), and Restaurants and Accommodations Services (23.7%). After peaking at 11.8% in April, monthly inflation began decelerating, reaching 9.4% at year end.

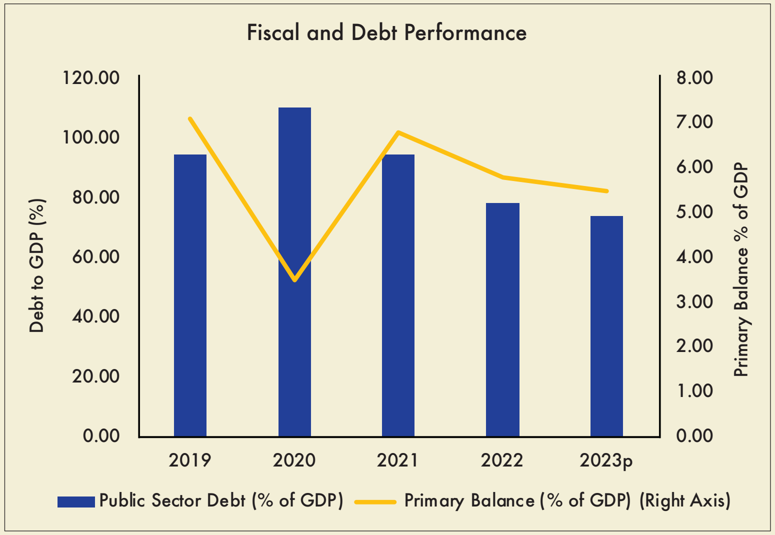
The strong rebound in employment growth continued. The unemployment rate fell from 8.5% to 6.6% in 2022, equivalent to 53,000 new jobs. Females benefited most from the increase in employment, estimated at 42,000 jobs, concentrated mainly in the service sectors. Labour force participation rose by 2.3% to 1,357,700, while youth unemployment fell by 7.2 percentage points to 16.7%.

The Government's fiscal balance improved in FY 2022/23 on account of higher tax revenue receipts. Total revenue rose by 14.9% to JM$827.6 billion (bn) during the year – exceeding total expenditure, which grew by 17.3% to JM$820.0 bn, resulting in a fiscal surplus of JM$7.6 bn (0.3% of GDP) compared with JM$8.7 bn (0.9% of GDP) for the year before. Equally, the primary balance improved to a surplus of JM$159.0 bn (5.8% of GDP) in FY 2022/23, compared with JM$158.4 bn (6.8% of GDP) (see Chart 2).

Inflation, public sector compensation and increased social protection spending led to a 18.3% increase in recurrent expenditure. Double-digit increases were observed for most expenditure categories – wages and salaries (42.8%); interest payment (10.5%); and programmes (2.9%). To mitigate the impact on the vulnerable, GOJ provided a range of targeted but temporary cost of living support. The independent fiscal commission was introduced during the year, which will further strengthen GOJ's fiscal framework.

Jamaica successfully managed its debt in FY 2022/23. Robust expansion in nominal GDP and firm commitment to reducing public debt by GOJ resulted in the debt-to-GDP ratio decreasing from 94.7% in FY 2021/22 to 78.2% in FY 2022/23. GOJ strategy to restructure the debt portfolio resulted in a decrease in external debt by 2.7% due to a significant reduction in short-term multilateral debt held by the Government by 51.7%. Consequently, the share of external debt decreased from 63.2% in 2021 to 62.9% in 2022.

Chart 2: Fiscal and Debt Performance



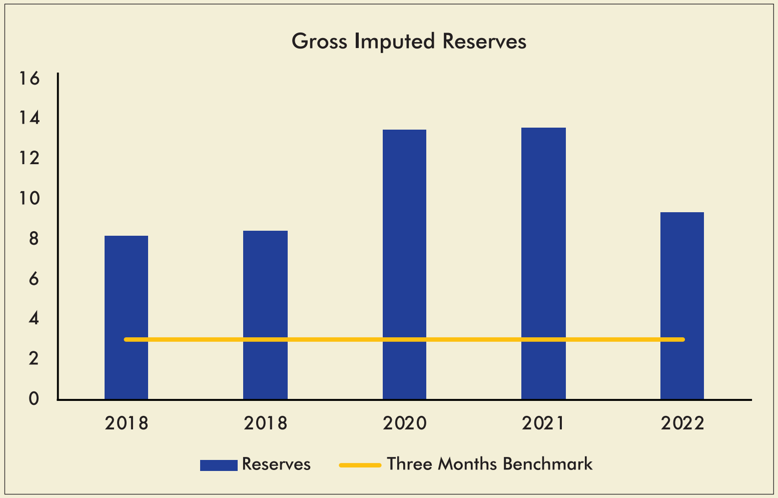
Sources: *CDB, BOJ.*

The financial system remained sufficiently capitalised and liquid. Mirroring the general improvement in the economy, asset quality measured by the ratio of total non-performing loans to total loans declined to 2.6% from 2.9% in 2021. The Capital Adequacy Ratio was 14.2%, above the statutory requirement of 10%. Credit from commercial banks rose in Jamaica, despite efforts by the Central Bank to curb inflation. Consequently, the stock of loans and advances from the banking sector grew by 13.9% at the end of 2022, compared with a year prior. A similar trend was noticed for the credit union sector from which total credit net of provisions rose by 8.0% to JM$108.0 bn.

To slow inflation and dampen the expansion of liquidity, BOJ implemented seven back-to-back policy rate hikes. This resulted in an overall increase of 450 basis points (bps) on top of a 200-bps increase in the last quarter of 2021, consequently raising the rate from 2.5% at the start of the year to 7.0% at the end of 2022. These higher policy rates, however, were not fully reflected in commercial banks' lending rates during the year, with the average weighted lending rate declining by 0.07 percentage points, moving from 11.47% in 2021 to 11.40% in 2022.

The external current account registered a deficit of US$129.8 mn (0.8% of GDP), compared with a surplus of US$149.3 mn (1.0% of GDP) in 2021. This was because of the deterioration of Goods and Secondary Income sub-accounts, despite being partially offset by the Services and Primary Income sub-accounts. On the goods account, a trade deficit of US$5,908.1 mn was recorded (34.7% of GDP), driven by a 53.5% increase in the importation of fuel. At the same time, the secondary income balance worsened due to lower inflow of remittances in the amount of US$56.9 mn. Improvement in the Services account was due to an increase of US$268.5 mn in travel receipts due to added stayover arrivals and an 8.9% increase in average daily expenditure per person. During the year, gross international reserves declined marginally by 0.6% to JM$3,976.2.6 mn – equivalent to 9.4 months of import cover (see Chart 3).

Chart 3: Gross Imputed Foreign Reserves



Source: *BOJ.*

OUTLOOK

The Jamaica economy will continue to grow in 2023; however, at a lower rate. Growth is estimated at around 2.8%, driven by tourism, agriculture, and mining, and supported by public sector investments including the projects funded by the International Monetary Fund's Resilience Sustainability Trust. The materialisation of this forecast rests on the evolution of inflation both in Jamaica and its main tourist source markets, which can hamper growth in the medium term. However, inflation is expected to gradually recede to the Central Bank's target range over the near term.

Improvements in the macro-economic conditions in Jamaica will boost GOJ's fiscal position and support efforts at reducing the debt-to-GDP ratio to 60.0% by FY 2027/28. However, this is expected to be partially counterbalanced by higher interest payments associated with inflation indexed debt instruments and a higher wage bill originating from the recent public service wage restructuring. Consequently, the primary balance surplus is projected slightly below 2022 at 5.5% of GDP.

Risks to the outlook include a slowdown in the global economy, elevated inflation, and those related to climate hazard. To mitigate such risks, GOJ must continue to prioritise economic and fiscal resilience, by advancing reforms that enhance productivity and boost growth, while replenishing buffers.

DATA

The table below summarises the key economic and social indicators underpinning this country economic review. These data are taken from a several sources and are the latest available at time of publication. The 2023 data are estimates and are subject to revision.

Selected Indicators

	2019	2020	2021	2022	2023e
Real GDP Growth (%)	1.0	-9.9	4.6	5.2	2.8
Average Inflation (%)	3.9	5.2	5.7	10.4	7.0
Unemployment (%)	7.2	10.7	8.5	6.6	n. a
Primary Balance (FY, % of GDP)	7.1	3.5	6.8	5.8	5.5
Public Debt (% of GDP)	94.7	110.5	94.7	78.2	74.2

Sources: *GOJ, BOJ, STATIN, CDB.*

Notes: e-estimate; n.a – not available.