# Macroeconomic Outlook on Jamaica:

**Global Outlook**

The International Monetary Fund predicts a 2.4% growth rate in 2024, down from the 2.8% recorded in 2023. China exceeded expectations in 2023 with a growth rate of 5.2%, primarily due to changes in the statistical methodology, as analysts initially projected 4.3% growth. The estimated growth in the US was 2.6%, despite rising interest rates. Europe and Latin America expanded by 0.6% and 2.0%, respectively.

In 2024, China is expected to grow by 4.5%, below the 20-year average of 9.2%, influenced by challenges in the property market and high debt levels. The US is likely to experience lower growth at 1.0%, impacted by waning savings, slower job creation, and high-interest rates. Europe is expected to grow by about 0.7%, hindered by the underperformance of the German economy and gas supply challenges. Latin America's growth is projected at about 1.6%, influenced by slow global demand and export prices.

Inflation in the United States reached 3.4% in December, a 0.2% increase from November. Despite the uptick, it indicates a downward trend compared to June 2022, where inflation was down 570 basis points. In the Euro area, inflation moderated to 2.9%, up from 2.4% in November but lower than the 9.2% recorded the previous year. The United Kingdom and Canada recorded inflation rates of 4.0% and 3.4%, respectively. While inflation remains above the target of central banks, the market anticipates an apex in the rate-hiking cycle, with rate cuts expected in 2024.

Possible pockets of geopolitical instability in the Middle East and Eastern Europe pose an upside risk to commodity prices, keeping inflation relatively high despite a contraction in global demand. In this context, central banks may maintain current policy rates and reconsider rate cuts in 2024.

**Jamaica**:

After over a decade of engagement with the International Monetary Fund (IMF), Jamaica continues to see positive effects on its macroeconomic outcomes. In Q4:2023, S&P upgraded the sovereign's credit rating to BB- with a stable outlook. Despite elevated interest rates affecting growth and non-performing loans (NPLs), Jamaican banks maintain robust capitalization, and the unemployment rate continues to test new record lows.

Prudent fiscal and measured monetary policies in Jamaica have had a positive effect on the macroeconomic landscape, contributing to a reduction in external vulnerabilities and debt. Despite these achievements, structural impediments hinder the transition to higher sustained growth, including high crime rates, insufficient investments in education, low human capital development, high energy costs and corruption. Addressing these challenges is crucial for fostering long-term economic growth.

**Growth Outlook**

**We anticipate a deceleration in growth to approximately 1.6%-2.3% in 2024, following an estimated expansion of 4.7% in 2023**. Three key factors could impede growth this year: a high economic base, elevated interest rates, and a diminishing growth rate in visitor arrivals. Emerging from the pandemic, the surplus capacity in the economy, resulting from the substantial contraction in 2020, facilitated a robust recovery across most sectors in 2022-2023. However, with the economic base now surpassing pre-Covid levels, the potential for growth beyond the long-term rate is limited.

Bauxite & Alumina production faced significant disruptions due to force majeure in 2020 and 2021. With the main production facilities operational again, production is expected to persist in 2024, building on the increased capacity utilization that drove output growth in 2023. In the tourism sector, the pandemic highlighted a weak correlation between growth and the broader economy. Visitor arrivals are estimated to have surged to 4.1 million in 2023, reflecting a 23.7% increase from 2022. However, we anticipate a slowdown in growth in 2024, constrained by lower consumer spending in the US and a stagnant room count.

The construction sector is grappling with the burden of high-interest rates and escalating input costs, resulting in six consecutive quarters of contraction since Q2:22. The growth outlook remains subdued, with no anticipated changes in the BOJ's policy rate over the next 12 months. Moreover, the risk of a rate hike is plausible due to elevated inflation.

Fiscal Affairs:

During the period from April to November, revenue intake stood at $562.3 billion, aligning closely with the budget projections. In comparison to the same period in FY 2022/23, revenues exhibited a robust increase of $71.0 billion or 14.4%. Notably, there were commendable performances in Income & Profits and Production and Consumption taxes, with revenues rising by $39.1 billion (36.6%) and $12.2 billion (7.8%), respectively. Particularly noteworthy was the income from PAYE, which amounted to $84.1 billion, indicating a substantial increase of $27.9 billion (49.0%) compared to the corresponding period in the previous fiscal year.

Total expenditure for the same period amounted to $598.8 billion, slightly below the revised budget by $3.2 billion (0.5%), yet considerably surpassing the previous budget by $127.0 billion (26.9%). Despite the strong revenue performance relative to the previous year, the central government accounts still recorded a fiscal deficit of $36.6 billion, which was an improvement of $2.0 billion over the revised budget. The primary balance stood at $75.3 billion, exceeding the target by $3.1 billion (4.3%).

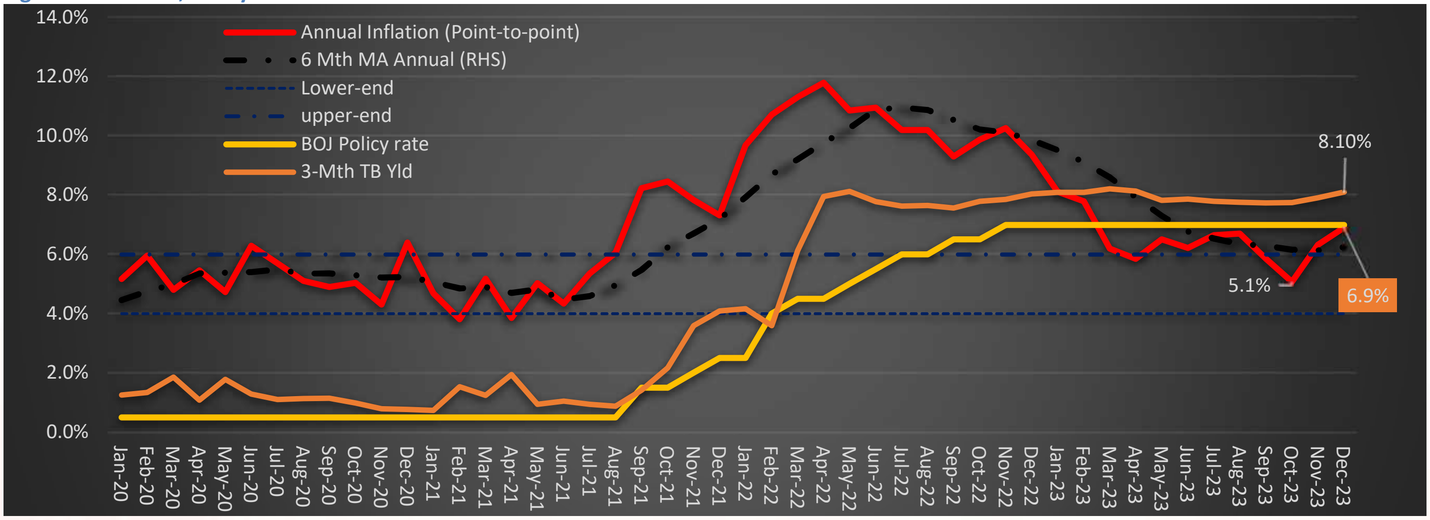
Considering the economic dynamism, we anticipate that revenue flows will remain robust, while expenditure flows are expected to stay within the budget, barring any external shocks. Consequently, we project the central government to generate a modest fiscal surplus at the conclusion of the budget cycle, with the debt-to-GDP ratio contracting to 74%.

In the context of the Medium-Term Fiscal Framework, we anticipate that the budget for FY 2024/25 will maintain a relatively balanced stance. Consequently, we do not foresee the introduction of new taxes, and expenditures will be carefully contained. Wage adjustments are expected to align with inflationary increases.

Our projections indicate a fiscal surplus, and we anticipate that the primary balance will remain high, exceeding 6.0% of GDP. This positive fiscal performance is anticipated to contribute to a further reduction in the debt-to-GDP ratio. This strategic approach reflects a commitment to fiscal responsibility and prudent financial management, positioning the economy for sustained stability and growth.

### Inflation, Monetary Policy, and Treasury Bill (T-bill) Yields

**Figure 1: Inflation, Policy Rate and T-bill Yields**




Sources: STATIN and JMMBIR

The point-to-point inflation rate surged to 6.9% in December, marking an increase from the previous month's 6.3%, accompanied by a month-over-month inflation rate of 0.5%. Despite external price reductions and the relative stability of the local currency, inflation experienced a cumulative rise of 2.1 percentage points in the November-December period. This upward trajectory is primarily attributed to fare increases for public passenger operators and adverse weather conditions impacting the agriculture sector in Q3. We anticipate that elevated inflation levels will persist through March 2024 and potentially into 2025.

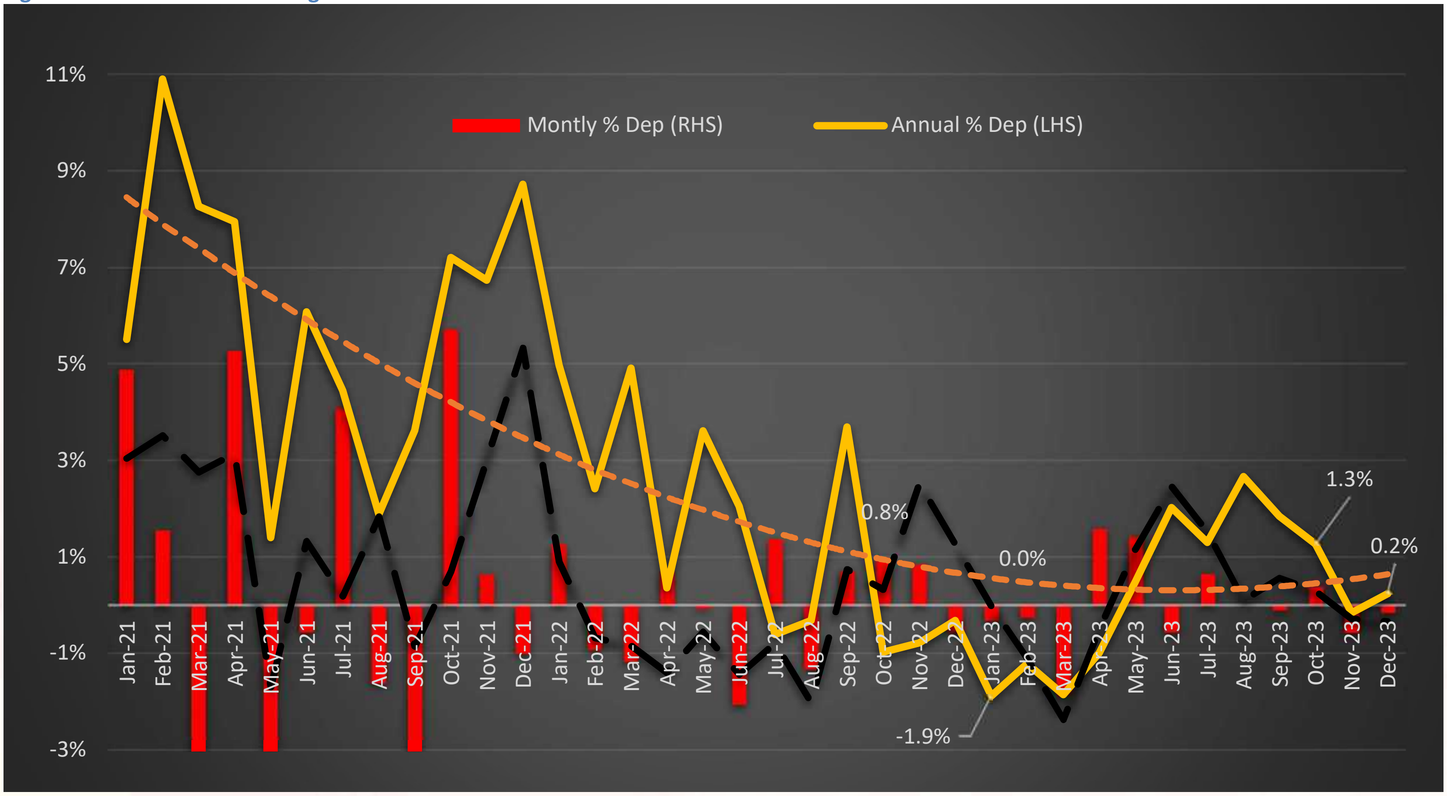
The Bank of Jamaica (BOJ) projects inflation to remain above the upper limit of its forecast band of 4%-6% until March 2025, primarily due to the price pressures resulting from fare increases granted to private operators of public passenger vehicles. In response to the central bank's concerns, the Government of Jamaica reduced bus fares on the Jamaica Urban Transit by 15% in December, with an additional 15% reduction scheduled for June 2024. We estimate that the cumulative 30% reduction in bus fares could potentially lower the point-to-point inflation rate by 0.6%-0.8%. However, the risk to the inflation forecast remains tilted towards the upside. Our internal projections suggest that inflation may exceed the BOJ's target band by the end of March 2024 and into 2025, influenced by dynamics in the international and domestic economies.

In December, the BOJ maintained its policy rate at 7.0%, despite concerns about inflation surpassing the policy rate, triggering fears of a potential rate hike. However, we believe the BOJ will deploy alternative measures to mitigate inflation. Notably, the BOJ actively participates in the foreign currency market, and further actions may be employed to address the evolving economic landscape.

Treasury Bills (T-bill) yields typically closely align with the policy rate, and given the expectation of no change in the policy rate, fluctuations in yields are likely to reflect Jamaican dollar (J-dollar) liquidity conditions. We anticipate that T-bill yields will generally stay in line with the current levels, experiencing marginal fluctuations influenced by prevailing liquidity conditions.

**Exchange Rate**

**Figure 2: Jamaica to US Exchange Rate**




Sources: JMMBIR

We anticipate low volatility in the foreign exchange market throughout 2024, partially attributed to the active intervention of the central bank in the foreign exchange market. Over the past 24 months, foreign exchange market volatility has significantly diminished, mainly due to the central bank's interventions, coupled with tight Jamaican dollar (J-dollar) liquidity and robust external flows. As of December, the Jamaican dollar traded at an exchange rate of $154.95 to US$1, reflecting a marginal depreciation of 0.2% compared to December 2022. The apparent low volatility conceals periodic variations in demand and supply.

Foreign currency inflows exhibit occasional lumpiness, and without the central bank's intervention, the value of the local currency would likely experience more pronounced fluctuations. We project modest economic growth and further moderation in commodity prices, contributing to relatively low to moderate growth in the demand for foreign exchange. On the supply side, we anticipate a moderation in inflows from tourism and remittances. These inflows, along with periodic sales from the central bank, are expected to adequately meet the demand. Our internal forecast suggests that the Jamaican dollar will depreciate at a slow to modest pace in 2024, with reasonably balanced upside and downside risks.

**Sectoral Outlook**

Table 1: Sectorial Growth Outlook

| | 2019 | 2020 | 2021 | 2022 | 2023 (e) | 2024 (f) |
|---|---|---|---|---|---|---|
| Agriculture Forestry & Fishing | 0.4% | 0.8% | 3% | 9% | 9% | 7% |
| Mining & Quarrying | -11.4% | -27.3% | 2% | -14% | 104% | 40% |
| Manufacture | 1.8% | -7.5% | 4% | 6% | 3% | 3% |
| Electricity & Water Supply | 1.3% | -4.7% | 4% | 2% | 5% | 6% |
| Construction | -0.6% | -1.2% | 3% | 3% | -2% | -0.2% |
| Wholesale & Retail Trade; Repairs; Installation of Machinery & Equipment | 1.1% | -7.0% | 3% | 6% | 1% | 2% |
| Hotels & Restaurants | 4.9% | -60.0% | 10% | 55% | 15% | 8% |
| Transport Storage & Communication | 0.8% | -13.6% | 5% | 7% | 5% | 2% |
| Finance & Insurance Services | 3.7% | -4.2% | 2% | 1% | 2% | 1% |
| Real Estate Renting & Business Activities | 0.8% | -2.7% | 3% | 2% | 2% | 1% |
| Producers of Government Services | 0.4% | 0.2% | 1% | 0% | 0% | -0.2% |
| Other Services | 2.0% | -30.0% | 8% | 11% | 5% | 2% |
| **GROSS DOMESTIC PRODUCT AT MARKET PRICES** | **0.9%** | **-11.4%** | **3.06%** | **5.2%** | **4.7%** | **2.1%** |

Source: JMMIR

**Wholesale Retail Trade, Repair & installation of Machinery (Distributive Trade)**

The Wholesale and Retail Trade, Repair & Installation of the Machinery Industry (Distributive Trade) accounts for approximately 19% of the GDP and employs 248,600 individuals, constituting 17.5% of the labor force. This sector is heavily reliant on imports and is influenced by various domestic economic factors such as employment rates, remittance flows, and inflation. Despite a recent decline in unemployment, the sector has faced challenges due to lower remittance flows, offsetting potential gains, and ongoing inflation impacting household spending on goods and services.

Essentially, this sector engages in the bulk importation of items like rice, meat, grains, and other finished products, which are subsequently repackaged and distributed to retailers or wholesalers. The repair and installation segment also depends on importing finished parts, with value-added from the service and labor applied during the repair process.

With a forecast of relatively stable GDP growth, the sector is expected to undergo a modest but consistent increase in the coming quarters. Financial services play a crucial role for business operators and customers in this sector, offering transactional, depository, and corporate solutions.

**Construction**

The overall outlook for the sector is mixed. On the one hand, construction activities will remain robust in the low- to medium-segment of the housing market, supported by ongoing government projects. The favourable factor of the low cost of materials is expected to benefit developers. However, there is a likelihood that some mortgage seekers, especially those seeking funding outside the National Housing Trust (NHT), may delay committing to fixed long-term credit obligations given the current high interest rate economic environment.

Nevertheless, there is an expectation that demand for housing solutions will remain relatively strong for houses built by entities such as the NHT, Gore, New Era, Kemtek and similar developers. Despite some challenges, the sector is anticipated to maintain a level of resilience driven by ongoing construction activities and sustained demand for housing solutions from reputable developers. A potential upside to the sector could come from plans recently announced by the Prime Minister to expand housing solutions and infrastructure development in St. Thomas.

**Manufacturing**

The Manufacturing sector has experienced robust growth since the COVID-19 pandemic, supported by strong economic growth, a significant increase in visitor arrivals, elevated remittance flows, and, more recently, a decline in commodity prices. Over the period Q2:21 to Q3:23, the sector expanded each quarter at an average growth rate of 5%.

With anticipated overall economic growth and an expansion in tourism, the Manufacturing sector is projected to continue to grow in 2024, with an expected growth rate ranging from 3% to 5%. In addition to supplying locally processed goods to the general population, the sector plays a crucial role in providing a substantial share of the foods, beverages, and oils used in hotels.

The Manufacturing sector employs 83,000 persons or 6.1% of the employed labour force. Its growth however will remain capped by the relatively high cost of electricity and competition from cheap imported alternatives.

**Mining & Quarrying**

The mining sector faced significant challenges due to the closure of the JAMALCO refinery, one of only two on the island, following extensive damage to the powerhouse caused by a fire on August 22, 2021. This resulted in a contraction in growth in the sector at an annualized rate of over 50% for the period Q4:21 – Q3:22. The reopening of JAMALCO in late Q3:2022 was positive for the sector, with output expanding at on average 125% each quarter from Q1:23 to Q3:23. Over said period, the utilization rate increased from 24.5% to over 40%.

The price of aluminium experienced a surge, rising 20% year-on-year to US$3,400/Mt in March 2023 following Russia's invasion of Ukraine. However, prices have since stabilized at around US$2,200/Mt. With China operating at a lower growth rate, metal prices are expected to remain relatively stable, albeit with a high downside risk.

In 2024, the mining sector is expected to see increased alumina production and modest growth in the utilization rate at both Windalco and JAMALCO, contributing to the overall boost in output for the sector.

**Hotel, Restaurant and Entertainment**

Based on data from the Ministry of Tourism, Jamaica is expected to reach 3.88 million visitors in 2023, with 2.74 million stopover arrivals and 1.13 million cruise-ship passengers. The estimated earnings from visitor activities amount to US$4.2 billion, constituting 24.7% of GDP.

The Hotels, Restaurants, and Entertainment (HRE) sector contributes 6.2% to the total GDP, with 'Accommodations' accounting for around 3%. Employment in Accommodation and Food Services combined is approximately 117,600 persons, representing 8.5% of the labour force. The HRE sector experienced robust growth, expanding at a quarterly average rate of 15.2% during the first three quarters of 2023. Activities are expected to remain buoyant in 2024.

While growth in the Accommodation component may be constrained by the base effect and limitations on room capacity and available airline seats to Jamaica, the overall sector is anticipated to thrive. Over the next four years, a sustained increase in hotel rooms and private accommodations, like bed and breakfast, will support growth of 3%-5% in the sector.

**Transportation & Communication**

The Transportation & Communication Sector, constituting 10.9% of GDP and employing 79,000 individuals (5.8% of the labour force), plays a significant role in the domestic economy. The Transport sub-industry encompasses entities like JUTC, taxi operators, private bus operators, and trucking companies (e.g., Zoukie-trucking), constituting 4.5% of the employed labour force (approximately 62,500 persons).

The sector experienced robust growth averaging 7.5% over the last 10 quarters. It is closely linked with construction and logistics companies such as Kingston Wharves and Kingston Container Terminal, which are vital in the Wholesale and Distributive Trade.

The recent 30% increase in carriage fares for private motor vehicle operators of public vehicles is expected to impact the industry positively. However, private operators may be impacted by the substitution effect as the JUTC gradually reduces bus fares over the next six months. In 2024, we anticipate continued growth in the sector, driven by stabilized construction output and increased output in Distributive Trade. The Communication sub-sector, however, is expected to experience low growth, with no significant rise in subscribers to the dominant communication networks. We expect usage by current subscribers to grow at a slow rate.

# APPENDIX

## IMPORTANT DISCLOSURES

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