

Towards Long-term Resilience and Growth

**Presentation: PIOJ Economic Growth Forum
May 27 2021**

Governor Richard Byles

Sustainable, strong economic growth a long-standing challenge for Jamaica...



- ❑ Growth has remained low, averaging 1% for the last 5 years prior to COVID-19 shock
- ❑ Growth well below averages in other developing economies and our main trading partners

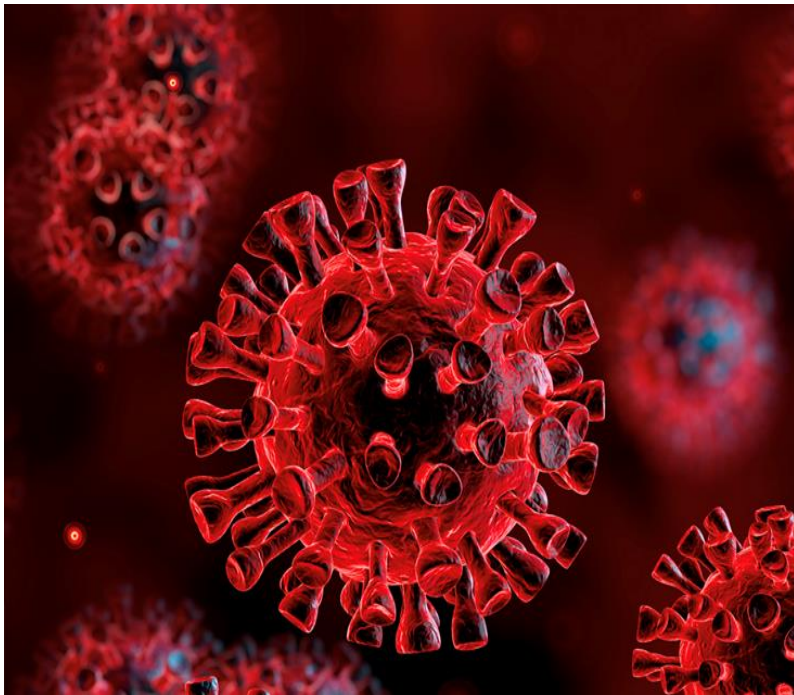


OUTLINE

- ❖ Impact of COVID-19 shock on Jamaican Economy
- ❖ Policies Initiatives to ensure adequate liquidity in the financial system
- ❖ Growth Impediments, Opportunities and Policy Lessons

COVID-19 pandemic severely impacted domestic economic activity...

COVID-19 Outbreak had a significantly adverse effect on economic activity in Jamaica...



- Strict stringency measures
- Severe impact on production and economic activities in key sectors
- Virtual halt in tourism at start of pandemic

Buffers in place prior to COVID-19 impact...



Pre-COVID-19 Buffers

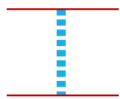
- ✓ GOJ bank balances in excess of **\$87 billion**.
- ✓ Jamaica's gross reserves at end-February 2020 approx. **US\$3.6 billion**.
- ✓ BOJ's policy rate at historic low of **0.5%** supporting credit and GDP expansion.

These buffers allowed the Government and BOJ to respond quickly and effectively to the significant fallout due to the pandemic...

COVID-19 impact on domestic GDP growth...

Real GDP Projections

Growth: 0.5 – 1.5%

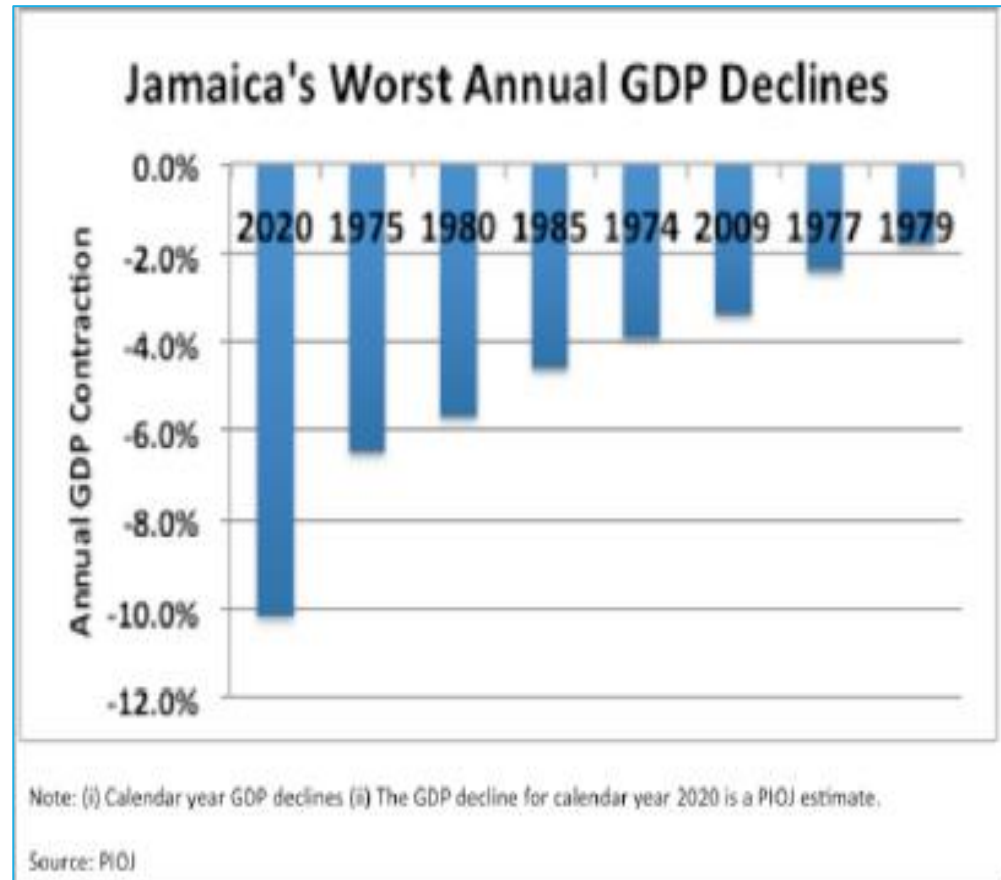


**PRIOR TO COVID-19
FY2020/21**

**CURRENT VIEW
FY2020/21**



**Contraction
Range: 10 - 12%**

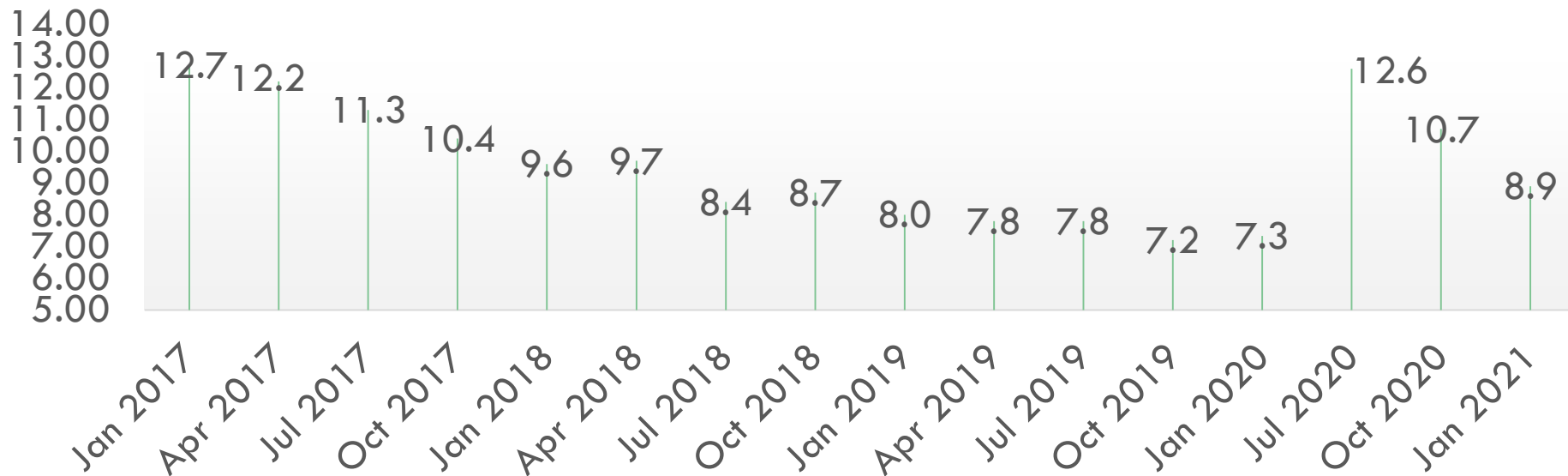


- **COVID-19 has resulted in largest contraction in real GDP witnessed in Jamaica's history.**

Labour market conditions adversely impacted...

- **74,300 job losses** at January 2021 relative to a year earlier, of which **over 50% (38,900)** in the *Services Industry*.

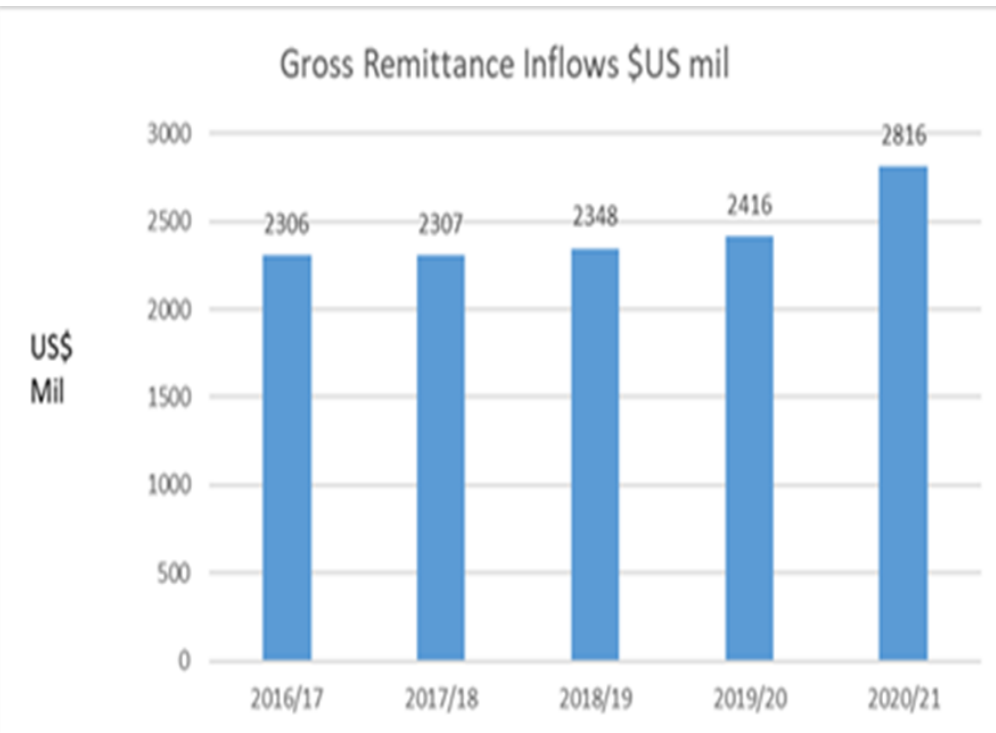
Unemployment Rate (%)



External Accounts have remained resilient...

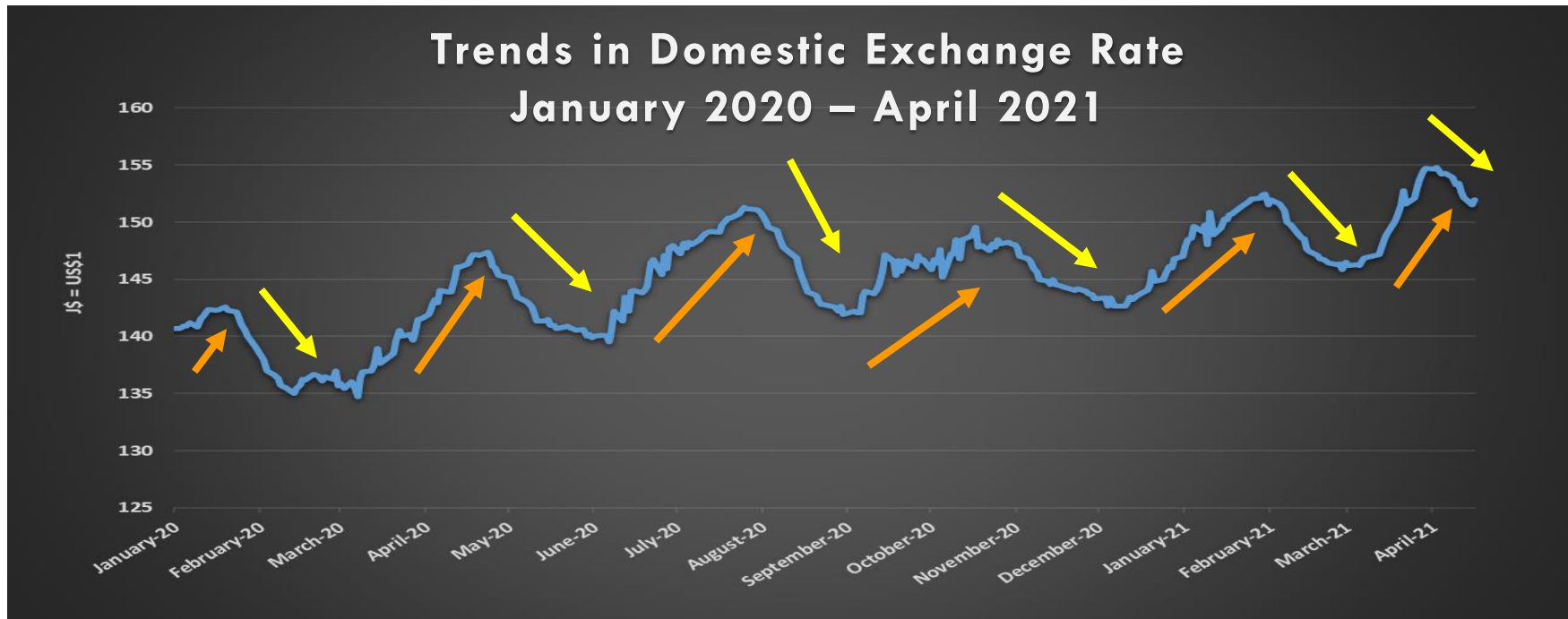
Jamaica's current account deficit expected to remain at sustainable levels between 1 – 3% of GDP in FY2020/21 supported by:

- Strong remittance inflows
- Notable fall in imports



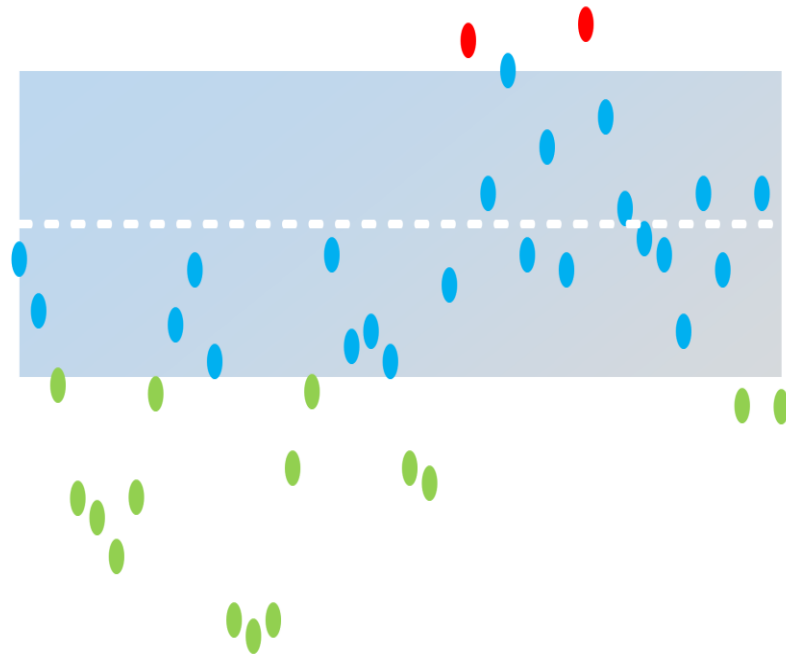
For first 11 months of FY2020/21, **Gross Remittance Inflows** totaled **US\$2.8 billion**, which far exceed performance in prior years.

Foreign Exchange Market



- Annual average exchange rate depreciated by **6.5%** for FY2020/21, a faster pace of depreciation relative to the **4.0%** in the previous year

Inflation remained well behaved...



Jan 2018 Apr 2018 Jul 2018 Oct 2018 Jan 2019 Apr 2019 Jul 2019 Oct 2019 Jan 2020 Apr 2020 Jul 2020 Oct 2020 Jan 2021 Apr 2021

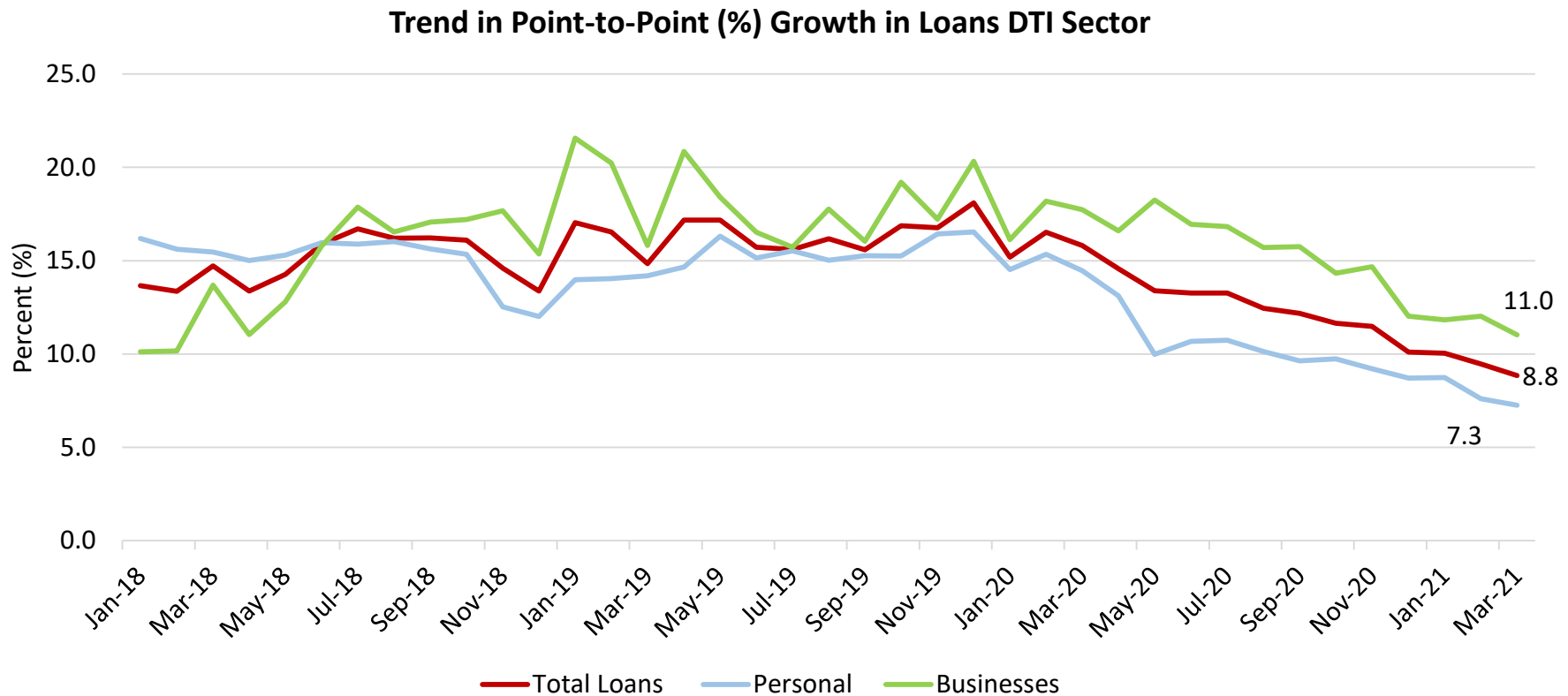
Over past 40 months, inflation has been below the 6% upper limit of the target on 38 occasions (95% success rate)

- Mainly due to temporary increases in agricultural prices

Inflation has gone below the 4% lower limit of the target on 15 occasions

- Mainly due to volatility in agricultural prices and declines in international oil prices.

Deceleration in loan growth...



- In addition, non-performing loans slightly worsened since onset of pandemic

BOJ Initiatives to ensure adequate FX liquidity



- FX swap arrangements
- Intervention sales through B-FXITT
- Direct sales to energy sector
- Reduction in FX cash reserve requirement
- Provided a US dollar repurchase facility

Total FX Liquidity Support provided by BOJ since March 2020 approximately **US\$1.3 billion (9.5% of GDP)**

BOJ Initiatives to assure adequate JMD liquidity...

- Reduction in cash reserve requirement
- Special bond-buying programme for GOJ and BOJ securities
- Removing the limit on the amount that DTIs can borrow overnight
- Re-introduction of a lending facility for DTIs
- Re-activating the Emergency Liquidity Facility
- Loan facility to Credit Unions and re-activated an intermediation facility

**Total JMD Liquidity Support more than
\$83.8 billion (about 4.3 % of GDP)**

Overall financial support by BOJ to market since COVID-19 pandemic is substantial, above 13.8% of GDP



Other BOJ Initiatives in response to pandemic...

Financial Holding Companies (FHCs) and DTIs agreed to make only limited dividend distribution up to end-March 2021.

This agreement was relaxed in April 2021.



Financial Institutions have been trying to ease the burden...



- ✓ Payment accommodations have totalled approximately **\$210 billion** since onset of the crisis
- ✓ Outstanding stock of moratorium reflecting a significant decline since start of pandemic to **\$65 billion** at February 2021.

In all of this ...



Tiered KYC for banks implemented to increase financial access to low-risk unbanked individuals

BOJ developing a Central Bank Digital Currency (CBDC) that will be **more efficient, highly secured** and **universally acceptable**



Growth Impediments, Opportunities and Policy Lessons from the Pandemic



Growth Outlook...



- ❑ Partial recovery in GDP in FY 2021/22 in range of **5% to 8%**
- ❑ Growth expected to be in the range of **2% to 4%** over the **medium term**
- ❑ Downward risk to Jamaica's long run growth given Covid-scars – **below 2%**

Lessons learned from this crisis ...



- There is a greater need for financial inclusion and digitization of the Jamaican economy.



Growth Opportunities

Effective Strategies to Improve Growth Opportunities

- ✓ Reforms to improve the quality, quantity and productivity of Jamaicans
- ✓ Reforms aimed at further improving the business environment and boosting competitiveness
- ✓ Reforms for criminal justice and prevention
- ✓ Access to finance reforms
- ✓ Strategic and targeted investment projects



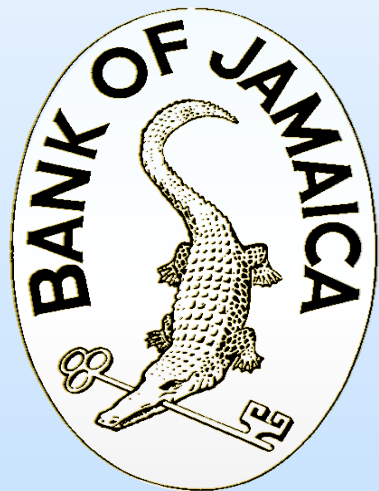
The push for growth must take place over the long term...

Policies focused on ensuring that:

- ✓ **Inflation** is Low, Stable and Predictable
- ✓ Financial system remains **sound**
- ✓ Debt levels are at **sustainable** levels



We implore the private sector to continue being proactive in seeking out opportunities to innovate and encourage increased economic activity as we work together for recovery



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