JAMAICA

Table 1	2021
Population, million	3.0
GDP, current US$ billion	12.4
GDP per capita, current US$	4158.3
School enrollment, primary (% gross)[a]	90.6
Life expectancy at birth, years[a]	74.6
Total GHG emissions (mtCO2e)	9.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020).

Jamaica's economy is rebounding, reducing poverty and pushing unemployment to historic lows. However, both GDP and poverty remain below pre-pandemic levels. The country faces high public debt, inflationary pressures, low labor productivity, and a weak enabling environment for greater private sector participation. A slower-than-expected recovery in tourism, higher inflation, and climate shocks, also pose significant risks.

Key conditions and challenges

Jamaica's real gross domestic product (GDP) per capita between 2010-19 averaged US$ 4,944, 2.6 percent lower than the previous decade. The income per capita has declined further during the pandemic and is not expected to return to its pre-COVID-19 before 2024. Declining income per capita coincided with a larger share of the population at work which suggest that the economy has been characterized by declining average labor productivity.

Weak economic growth in Jamaica is attributed to, among others, limited innovation and interconnectedness of enclave industries with the rest of the economy, as well as high and pervasive crime and violence which discourages investments. Jamaica is also prone to frequent climatic shocks affecting key sectors such as tourism and agriculture which often undermine the livelihoods of poor and vulnerable groups. Further, the cost of energy and internet connectivity are extremely high and there are gaps in human capital due to high emigration of skilled labor.

Jamaica has had some success in reducing poverty over the past three decades despite being among the slowest growing economies in LAC. However, sustaining this progress has been a challenge since the 2008 Global Financial Crisis due to waning resilience to major shocks.

Similarly, while Jamaica successfully reduced the public debt-to-GDP ratio from 145 percent of GDP in 2013 to 96.9 percent of GDP in 2021, it is among the highest in the region. Debt service absorbed 41.4 percent of revenues in 2021. This has limited the government's ability to utilize fiscal policy to drive growth and respond to shocks. As such, faster growth is needed to reduce the debt burden and create space for public investment and pro-poor interventions. Achieving the public debt to GDP target of no more than 60 percent by 2028 will require addressing constraints to growth, improving the efficiency and effectiveness of public spending, and addressing fiscal risks, including natural disasters.

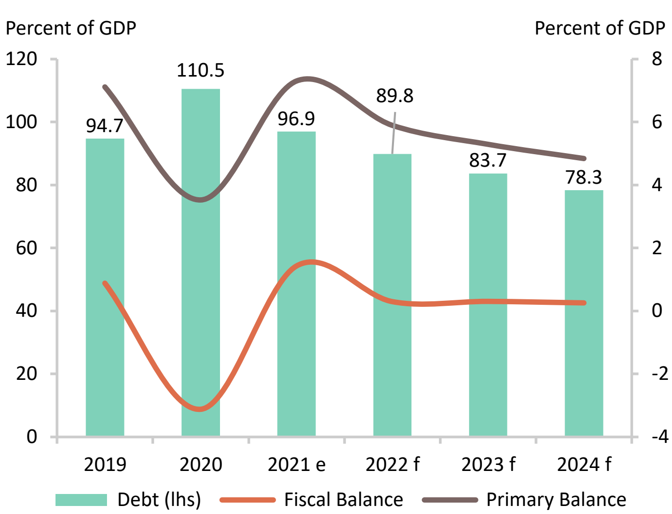
Jamaica remains highly vulnerable to external developments. It is heavily reliant on imported food and fuel, and its tourism sector accounts for more than 33.6 percent of GDP and one third of the workforce. Remittances are also a very important source of financing but affect the competitiveness of the economy.

Jamaica remains on the Financial Action Task Force's (FATF) grey list of non-compliant countries due to flaws in its anti-money laundering and counter-terrorism financing framework.

Recent developments

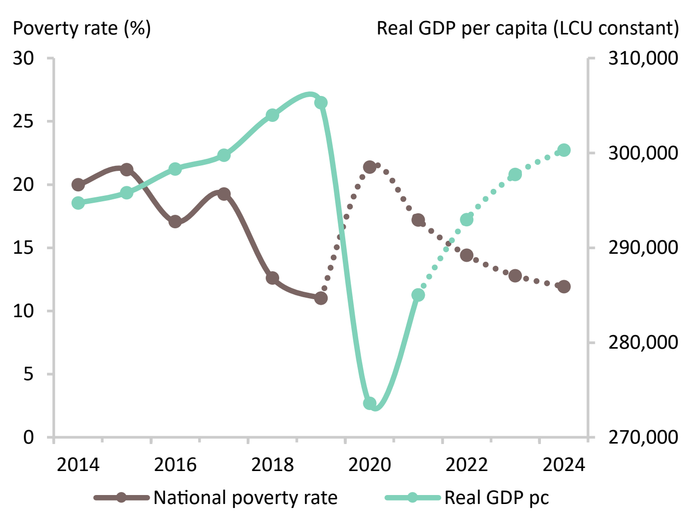
Real GDP expanded by 4.6 percent in 2021 due primarily to the gradual re-opening of the tourism sector supported by robust growth in agriculture which benefitted from favorable weather conditions. On the expenditure side, growth was driven by

FIGURE 1 Jamaica / Fiscal balances and public debt



Sources: GoJ, IMF, and World Bank staff estimates.

FIGURE 2 Jamaica / Actual and projected poverty rates and real GDP per capita



Source: World Bank staff calculations. Notes: Poverty projections are estimated based on 2018 JSLC. (b) Projection using growth semi-elasticity of poverty = -1 and GDP per capita in constant LCU.

private consumption and net exports. In parallel, the unemployment rate fell to a historic low of 6 percent in April 2022.

Inflation averaged 5.9 percent in 2021, within the 4-6 percent target range. For the first seven months of 2022, the inflation rate averaged 10.8 percent. In this context, the central bank adjusted its policy rate by a total of 550 basis points to 6 percent between September 2021 and August 2022.

The fiscal account recorded a surplus of 1.4 percent of GDP in 2021. Higher tax and non-tax collections boosted revenues by 1.3 percentage points to 30.9 percent of GDP. Spending fell by 3.3 percentage points to 29.5 percent of GDP, reflecting lower program, compensation, and capital expenditures. Lower spending on programs included the unwinding of temporary programs instituted in 2020 to support households and businesses. In this context, the public debt to GDP ratio fell by 13.6 percentage points to 96.9 percent of GDP as of March 2022.

Jamaica's recorded a current account surplus of 0.9 percent of GDP in 2021. This was driven by a 15.5 percent increase in visitor arrivals and a 20.4 percent increase in remittances. Tourist visitors are still down 32.5 percent from pre-pandemic levels as of May 2022. Jamaica ended 2021 with an official reserve cover of 7.8 months of total imports, up 22.8 percent from 2020. Most of the increase was driven by the allocation of the IMF's Special Drawing Rights.

The poverty rate is estimated to have declined to 18 percent in 2021, from 23 percent in 2020. Although the employment rate slightly surpassed pre-pandemic levels in October 2021, the quality of employment has deteriorated, with higher informality and fewer average hours worked relative to pre-pandemic levels. Lower-income households are feeling strained as prices continue to rise. Notably, at end-2021, approximately 45 percent of households ran out of food in a month, compared to about 20.3 percent before the pandemic.

Outlook

Real GDP growth is expected to average 2.1 percent between 2022-24. Agriculture and tourism will remain key drivers of growth and will be supported by mining and quarrying given the planned reopening of a major alumina plant in the fourth quarter of 2022. On the demand side, growth will be driven by private consumption, net exports, and investments including several public infrastructure projects. Inflation is expected to continue to accelerate in 2022, before falling over the medium term.

Monetary policy will continue to balance support to growth while strengthening efforts to dampen inflation expectations and avert pressures on the currency. Jamaica's financial sector remains sound, though an economic shock may pose stability challenges.

The fiscal account is expected to record an average annual surplus of 0.3 percent of GDP over the medium-term with stronger revenues underpinned by the continued economic recovery. Spending is expected to remain flat as saving from programs and interest offset higher outlays in 2022 (less than 0.1 percent of GDP) to vulnerable households to counter the impact of higher electricity prices. Financing needs will decline, pulling debt below 80 percent of GDP by 2024.

The current account is forecast to run a deficit of 5.8 percent of GDP principally reflecting increased spending on imports of capital and intermediate goods. Gross reserves will remain at healthy levels, averaging more than 5 months of imports.

Poverty is projected to fall to around 12 percent by 2024 as household incomes improve with the economic recovery. Disruptions in learning during the pandemic may have longer-term effects on human capital and the future earning potential of students, if not addressed adequately.

Significant downside risks to the economic outlook include slower-than-expected tourism recovery, higher inflationary pressures, worsening crime, and social unrest, tightening of financial markets, natural disasters, and the possibility of a worsening of the war in Ukraine.

TABLE 2 Jamaica / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	0.9	-10.0	4.6	3.2	2.0	1.2
Private Consumption	1.0	-13.2	3.0	2.9	2.0	1.4
Government Consumption	3.1	11.7	2.1	8.5	2.2	2.1
Gross Fixed Capital Investment	1.0	-15.9	-4.6	10.6	13.1	-9.5
Exports, Goods and Services	3.6	-30.0	26.0	5.9	3.1	1.0
Imports, Goods and Services	4.2	-26.7	11.9	10.2	7.8	-3.3
Real GDP growth, at constant factor prices	1.0	-10.0	4.6	3.2	2.0	1.2
Agriculture	0.4	-1.4	8.3	1.3	2.0	2.2
Industry	-0.7	-5.7	2.4	4.9	1.1	0.6
Services	1.6	-12.1	4.9	2.9	2.3	1.3
Inflation (Consumer Price Index)	3.9	5.7	5.9	9.6	6.0	5.0
Current Account Balance (% of GDP)	-2.3	-0.4	0.9	-6.6	-7.2	-3.6
Net Foreign Direct Investment Inflow (% of GDP)	1.4	1.9	1.8	1.8	2.1	2.3
Fiscal Balance (% of GDP)[a]	0.9	-3.1	1.4	0.3	0.3	0.3
Debt (% of GDP)[a]	94.7	110.5	96.9	89.8	83.6	78.3
Primary Balance (% of GDP)[a]	7.1	3.5	7.3	5.9	5.3	4.8
GHG emissions growth (mtCO2e)	-1.9	-12.7	5.6	3.6	-0.2	1.5
Energy related GHG emissions (% of total)	80.8	79.0	80.4	81.5	81.8	82.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal balances are reported in fiscal years (April 1st -March 31st).