

# Managing the Post-COVID Inflation Shock

*– Lessons from a Small, Open, Developing, Inflation Targeter –*

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Governor  
Bank of Jamaica

# Conclusion...

- Despite facing the same shocks as LAC countries (the COVID-19 pandemic and the subsequent conflict between Russia and the Ukraine), Jamaica performed exceptionally well:
  - Exchange rate remained relatively stable
  - Foreign exchange reserves increased
  - Fiscal and monetary policies successfully anchored inflation.

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2. Jamaica's Policy Responses.
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# Jamaica is a very small Caribbean Island ...



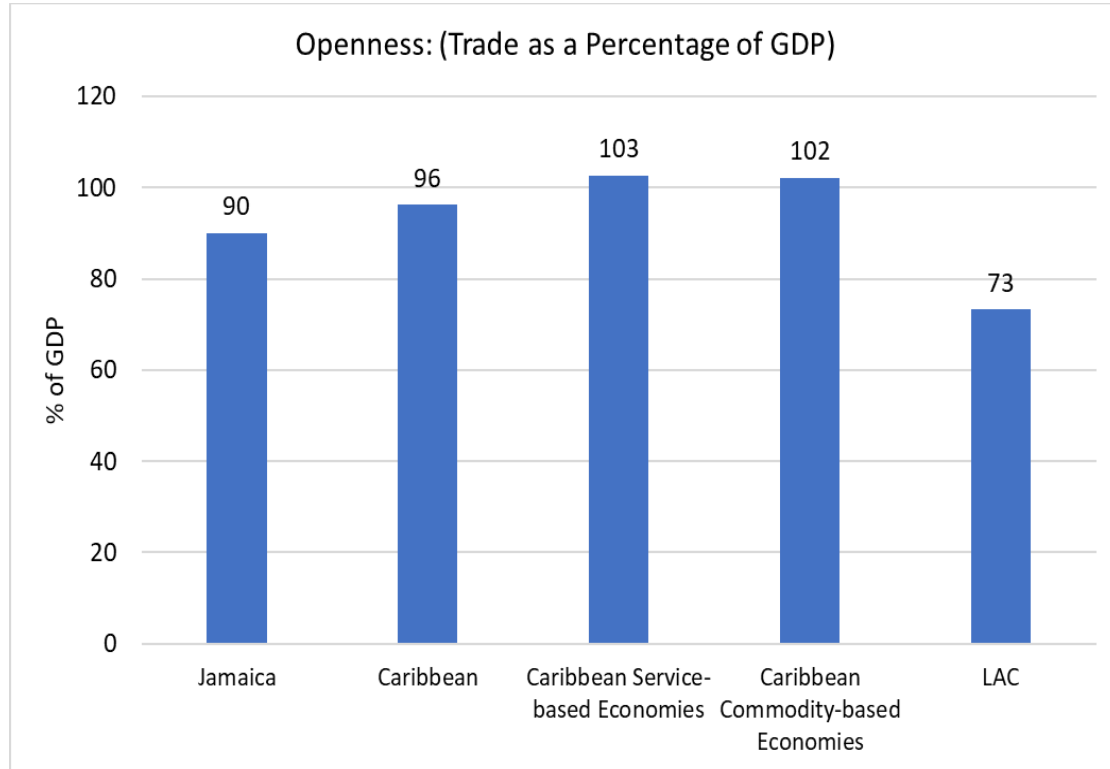
Size: 10,991 sq. km  
4,244 sq. mi

Population: 2.8 Million  
(2023 est.)

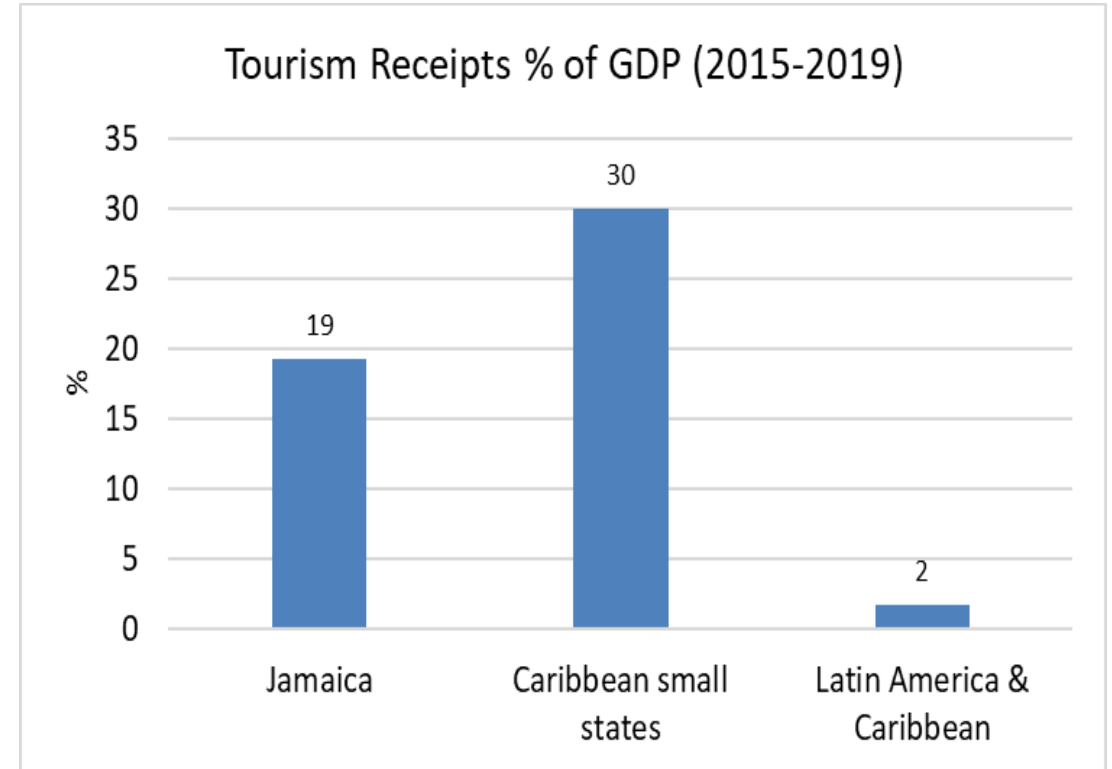
GDP/Capita: US\$6,840



..that is open and highly dependent on tourism...

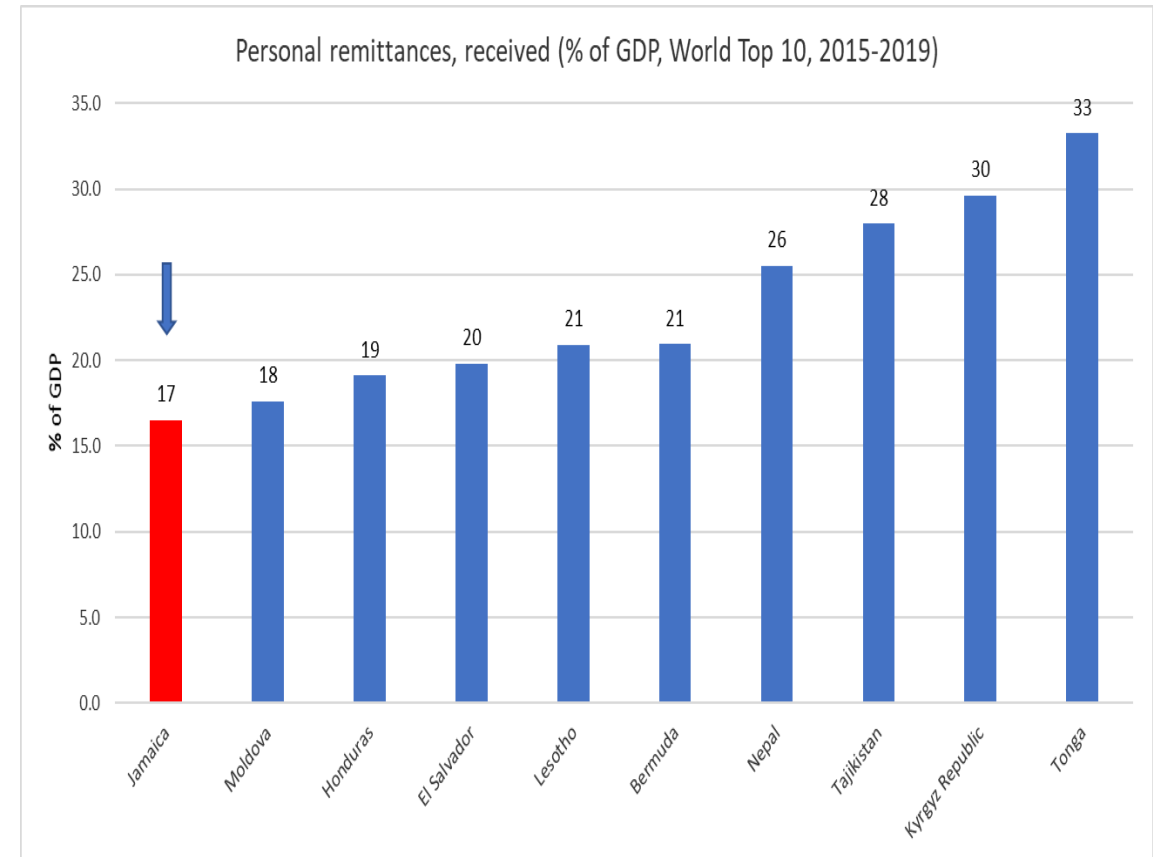
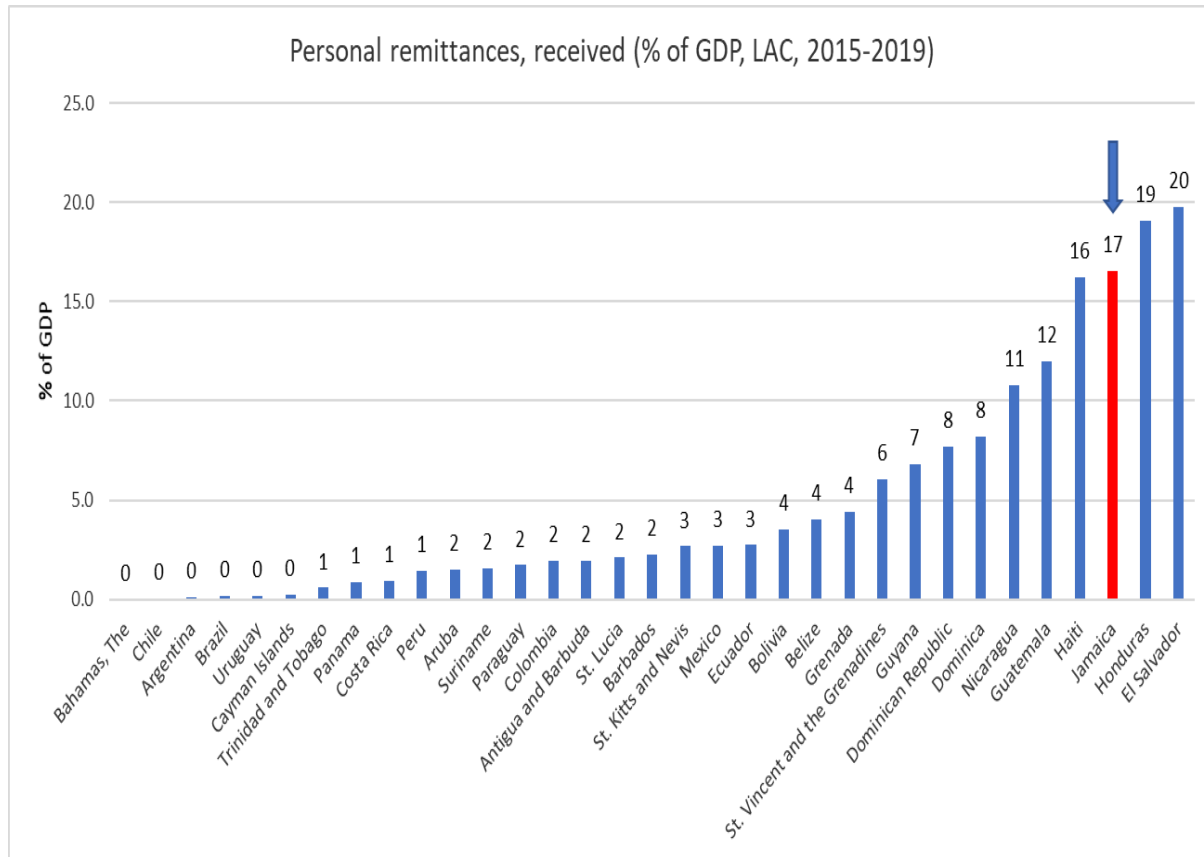


Jamaica ranks among the most open economies in LAC.



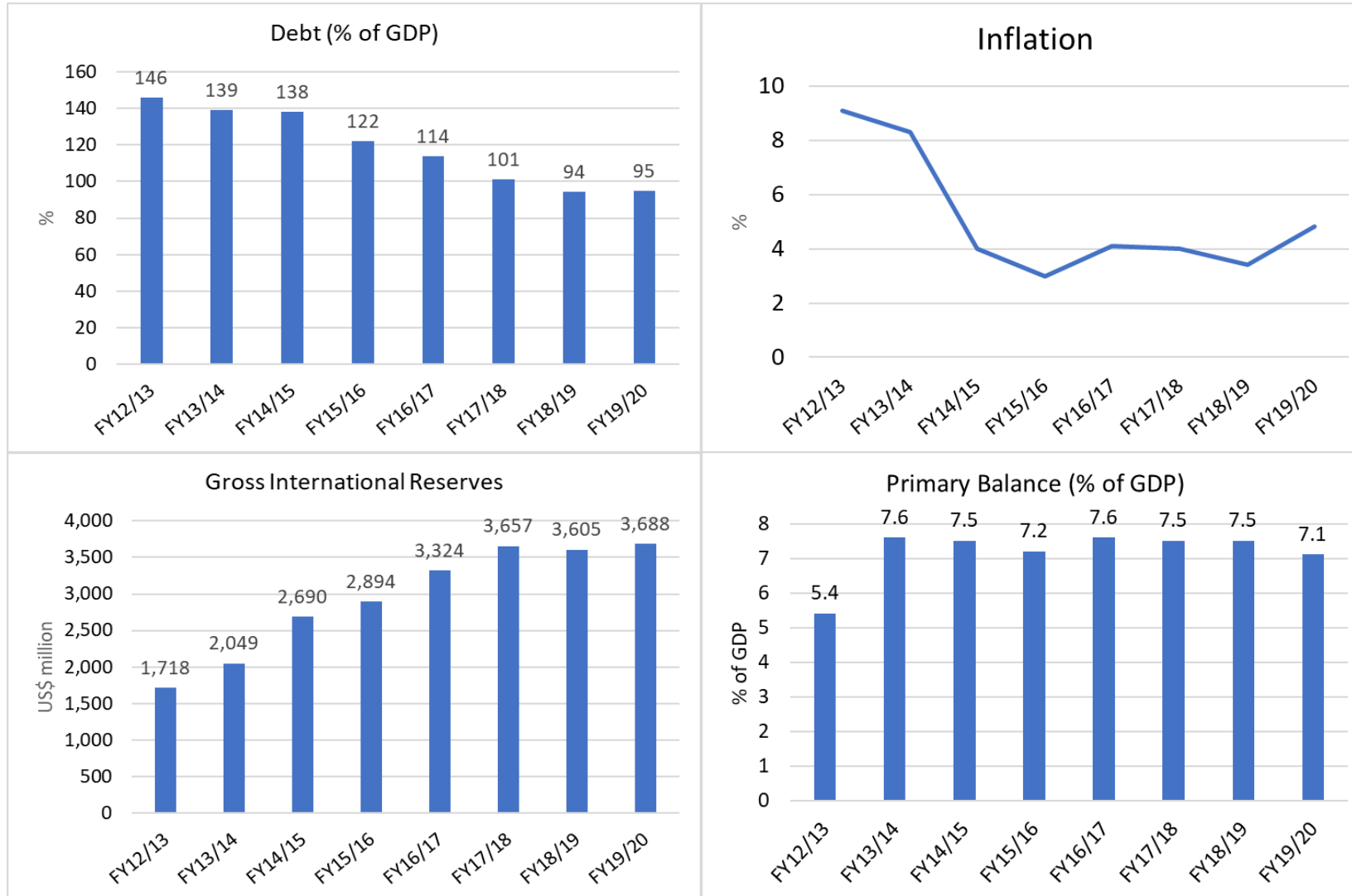
Jamaica has a high dependence on Tourism

# ...and where remittances play a significant role in the economy



Remittances as a per cent of GDP is one of the highest in the region (3rd highest in the LAC) and the world (10th out of 236 countries).

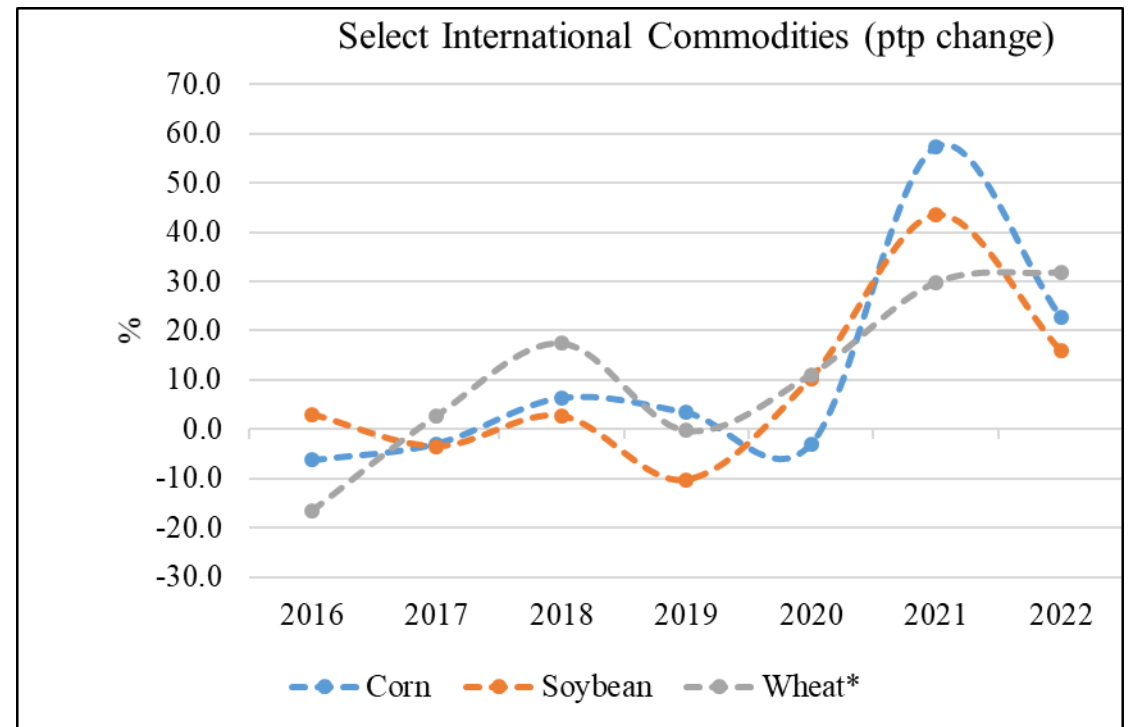
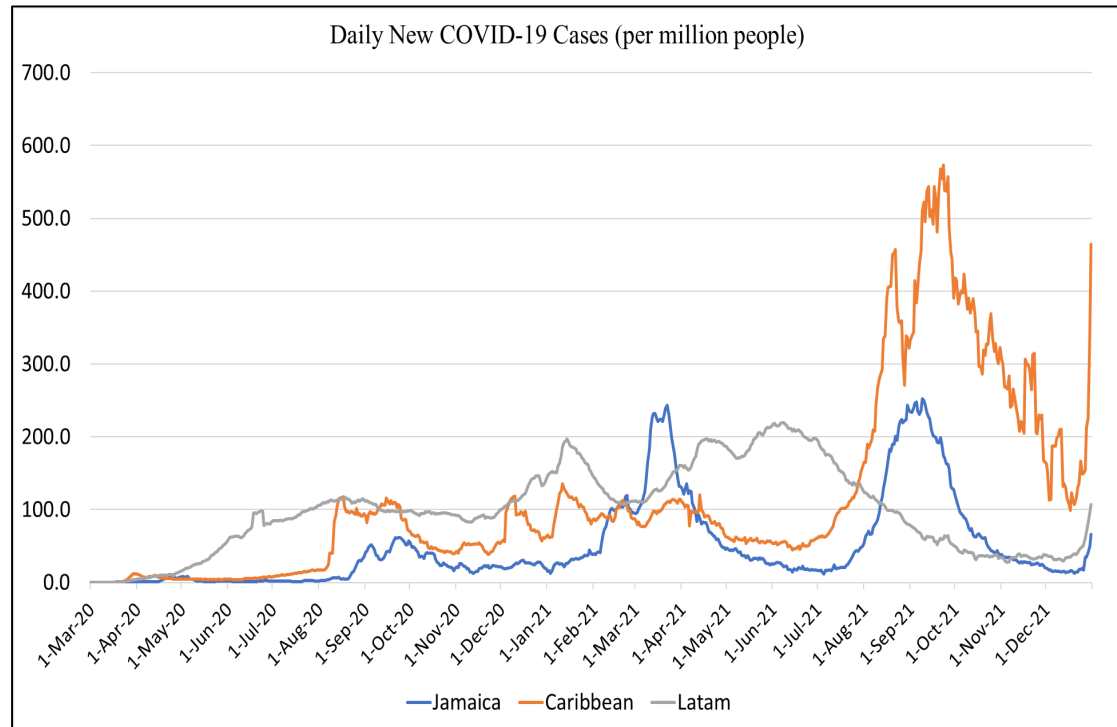
# Pre-pandemic macroeconomic conditions were strong



By fiscal year 2019/20:

- The debt-to-GDP ratio trended down.
- Inflation at the lower end of the target range.
- Gross reserves healthy and rising.
- Primary surpluses above 7.0 per cent was maintained.

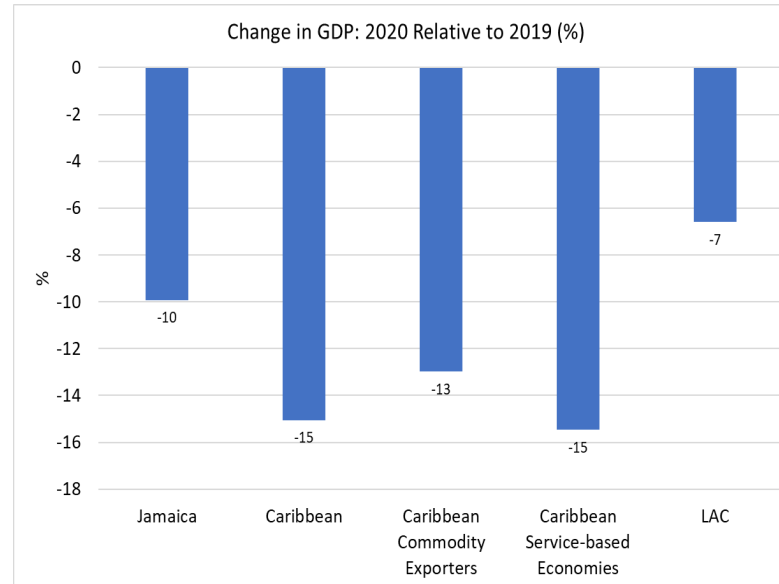
# ...and then came the twin shocks: The Pandemic/War



- Initial pandemic reactions included closing our borders and enforcing work-from-home orders.
- Containment measures resulted in relatively lower incidence of new cases.
- Following the pandemic, the Russia-Ukrainian conflict resulted in higher international commodity prices and inflationary pressures



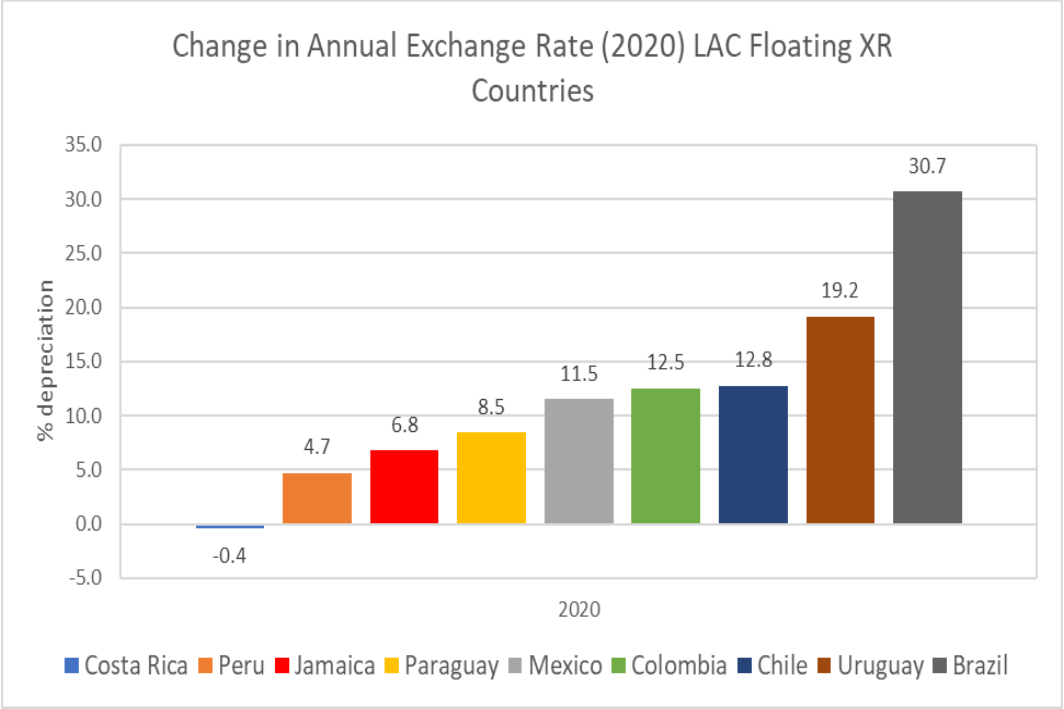
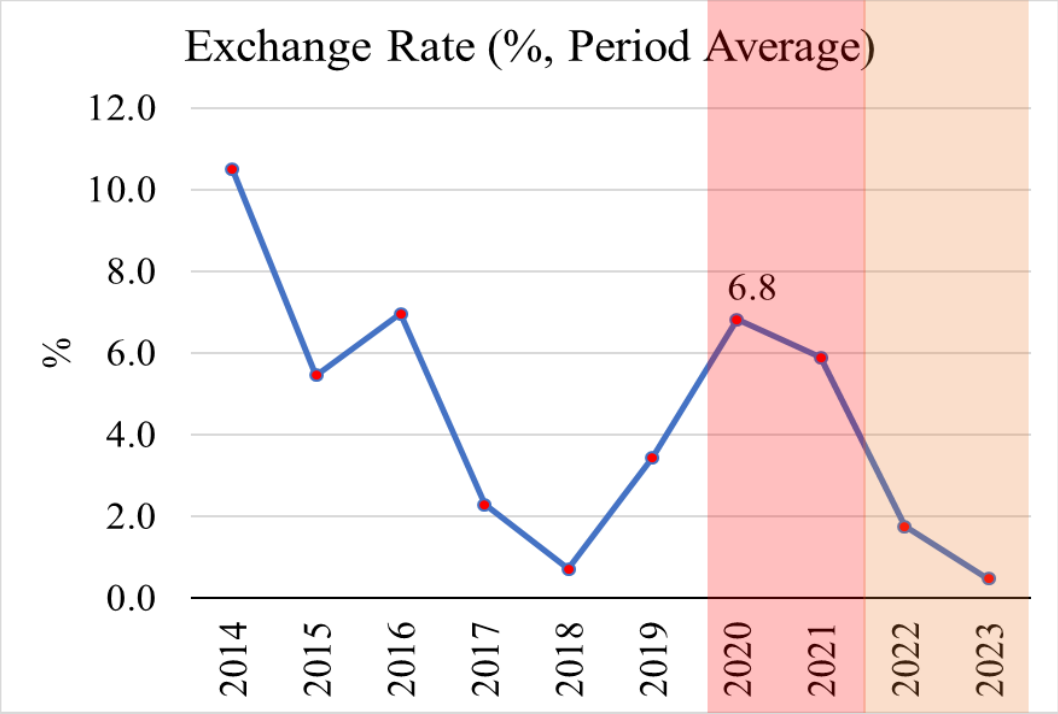
...which resulted in contractions in GDP



The adverse impact on GDP was much more severe than our forecast for a 6.0 per cent contraction

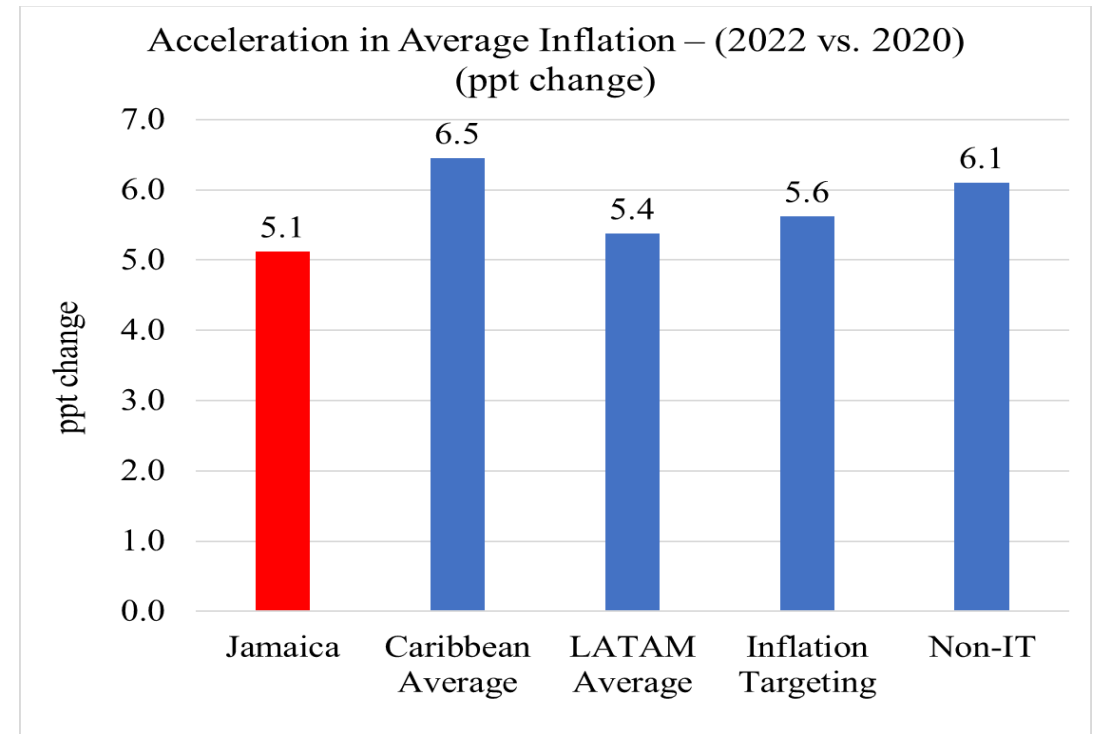
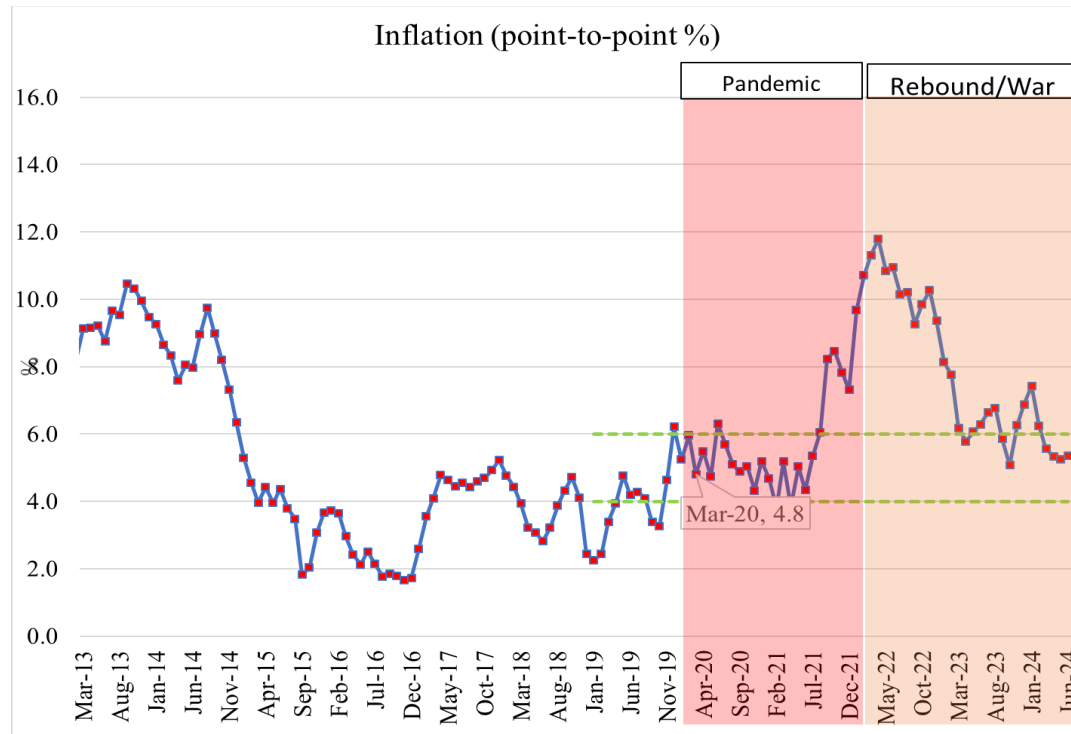
The decline for 2020 was lower than that for the Caribbean but ahead of the LAC.

# Jamaica recorded sharp exchange rate depreciation...but less than peers



Foreign exchange earnings from tourism declined by 65.0 per cent. Nevertheless, of the countries that have floating exchange rate regimes in the LAC, only Costa Rica and Peru fared better than Jamaica in 2020.

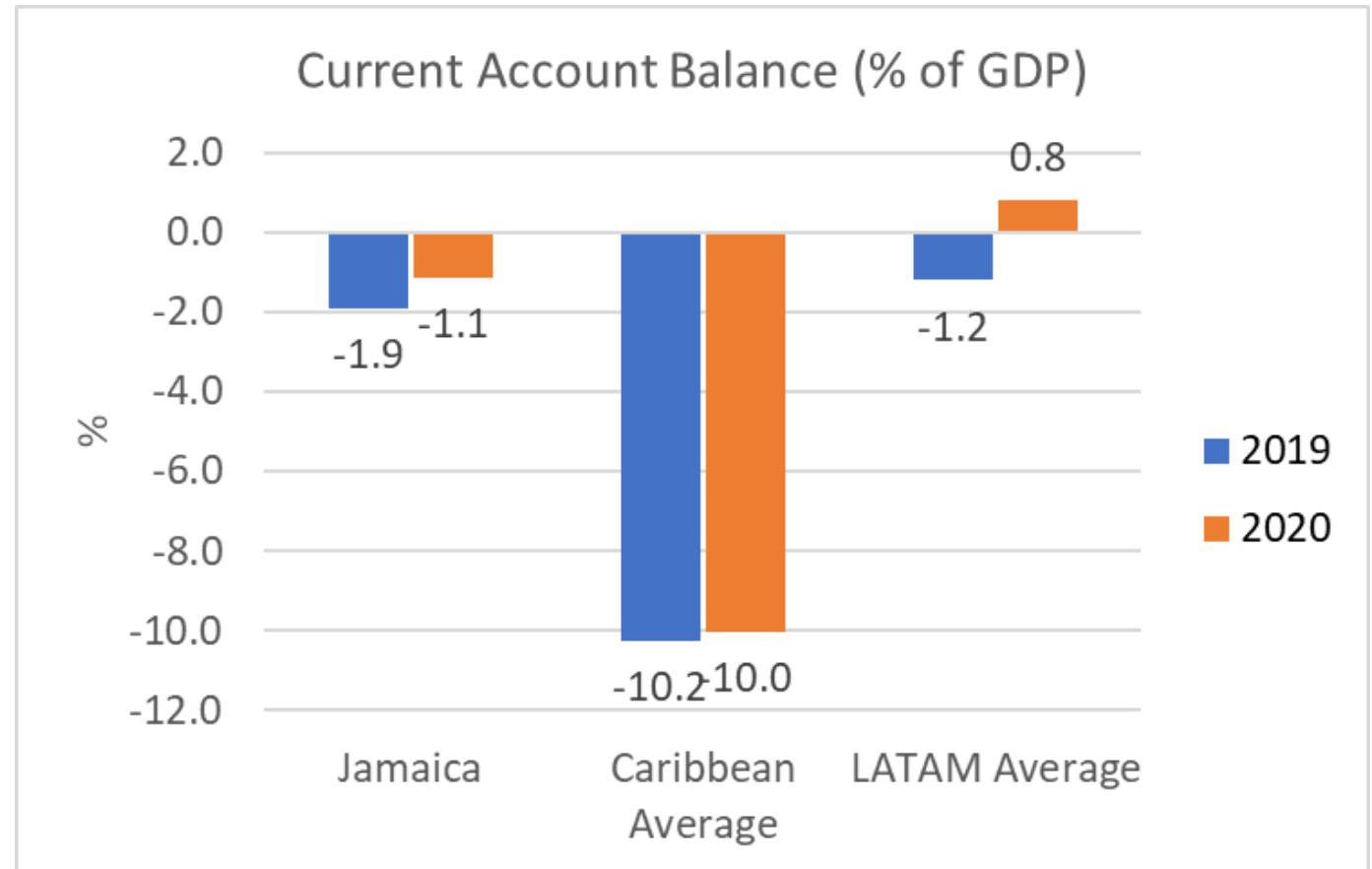
...and while inflation spiked, this was less than many countries.



- Inflation exceeded the BOJ's target range for 70 per cent of the period between March 2021 and March 2024.
- Jamaica fared better than many of the regional counterparts.

# Jamaica's external accounts were not severely impacted

- The current account recorded an improvement.
- ...due mainly to the fall in imports and a surprising rise in remittance inflows.



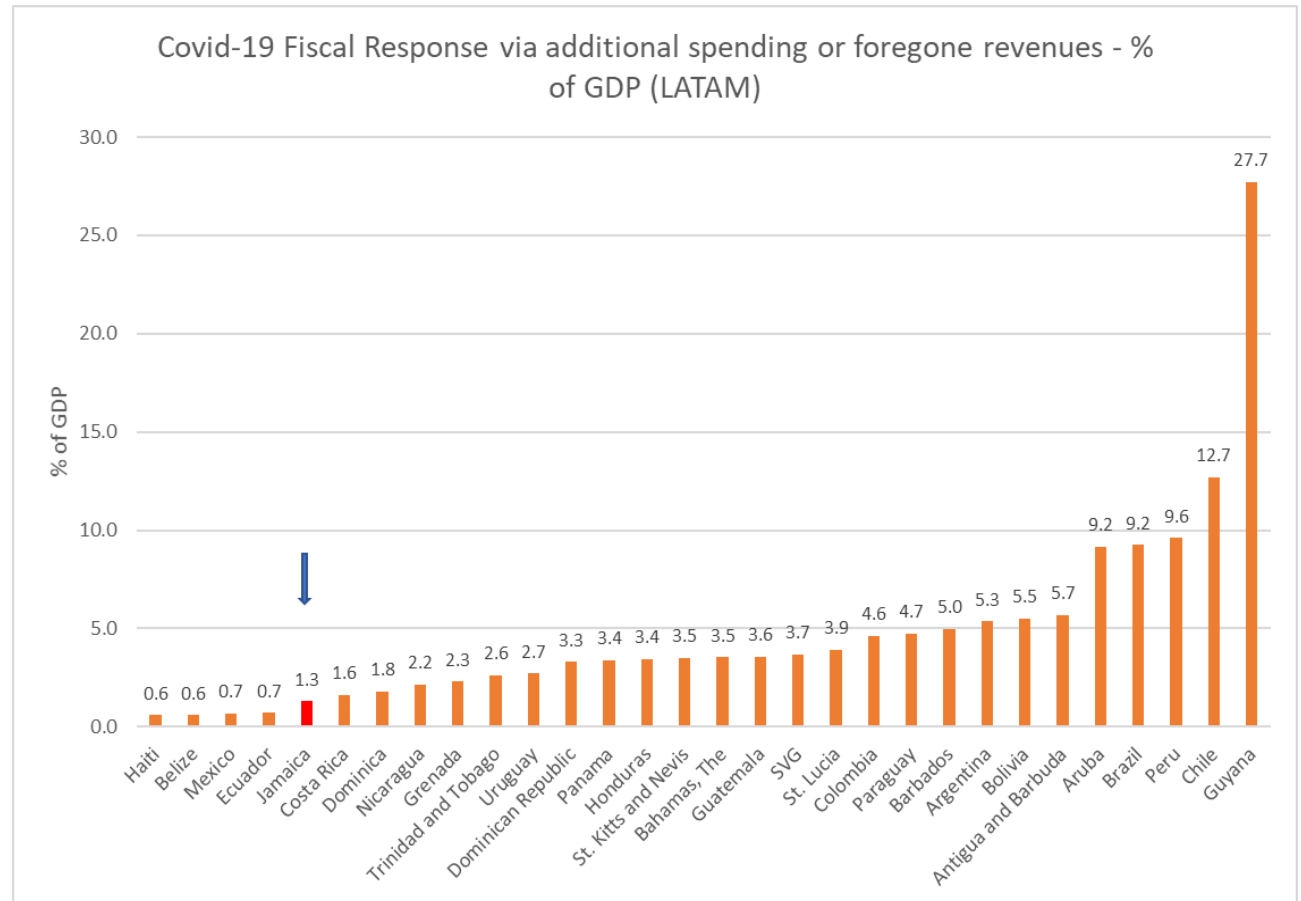
## ..and the Financial System Remained Sound and Liquid

- Despite challenges such as:
  - Decline in the sector's profitability
  - Deterioration in asset quality
- Capital adequacy ratios remained well above regulatory requirements throughout the period.

# Policy Responses

# Fiscal response was targeted at supporting the vulnerable...

Jamaica's stimulus package was more restrained than those of its Caribbean peers.



# Monetary/Macroprudential Policy Responses: 1st Phase

The Bank responded differently during the first phase of the shock relative to the second phase:

## First Phase (2020-2021)

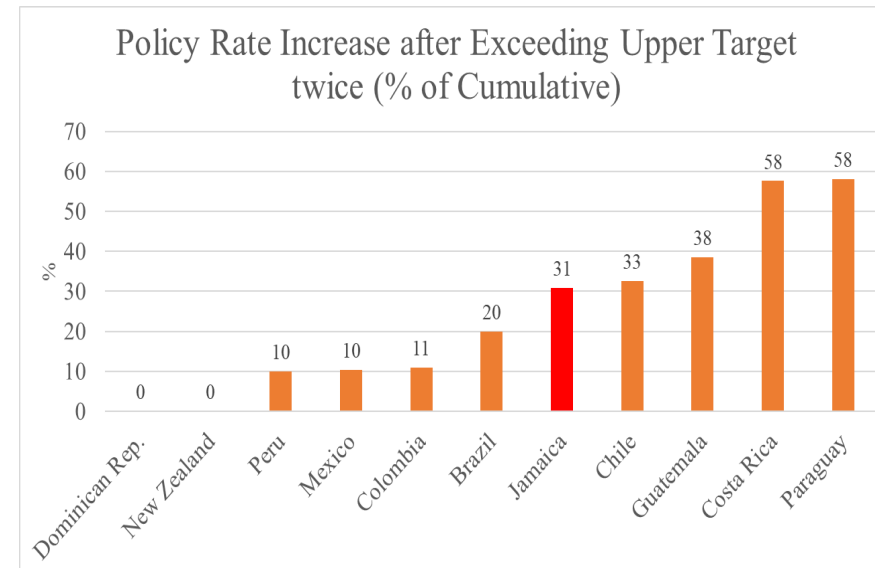
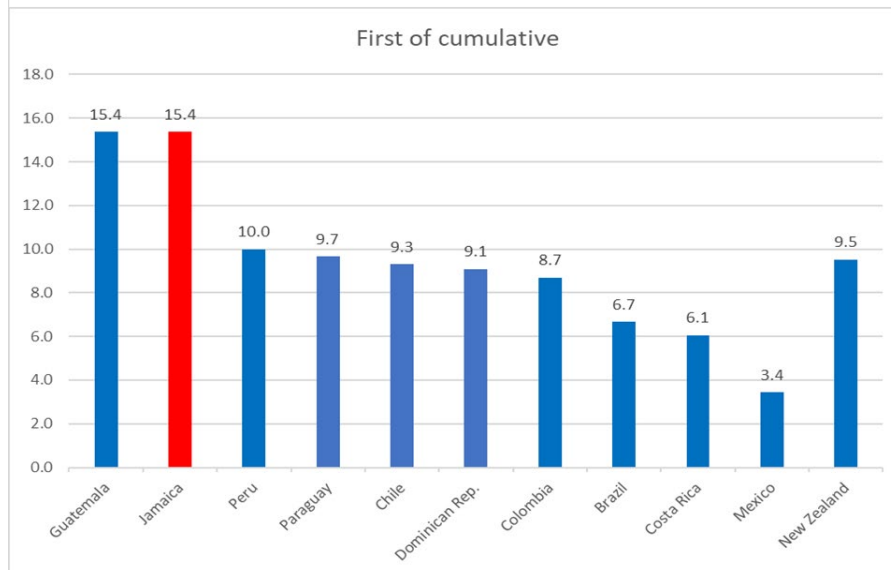
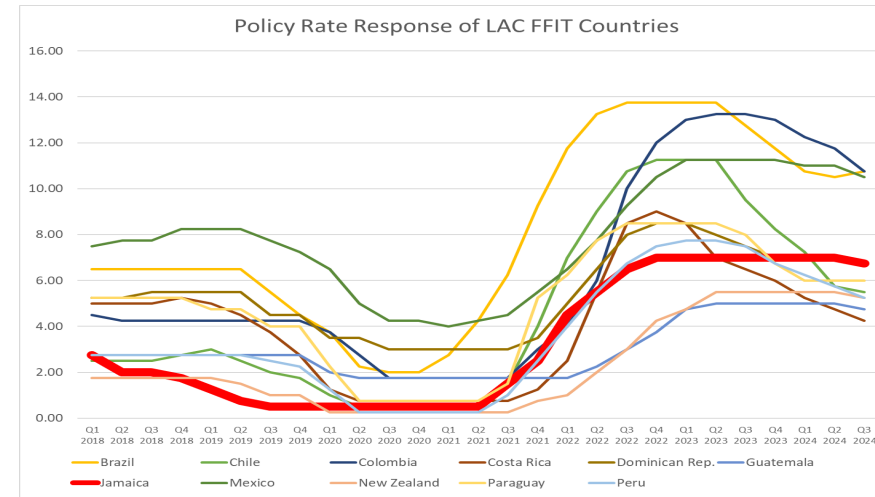
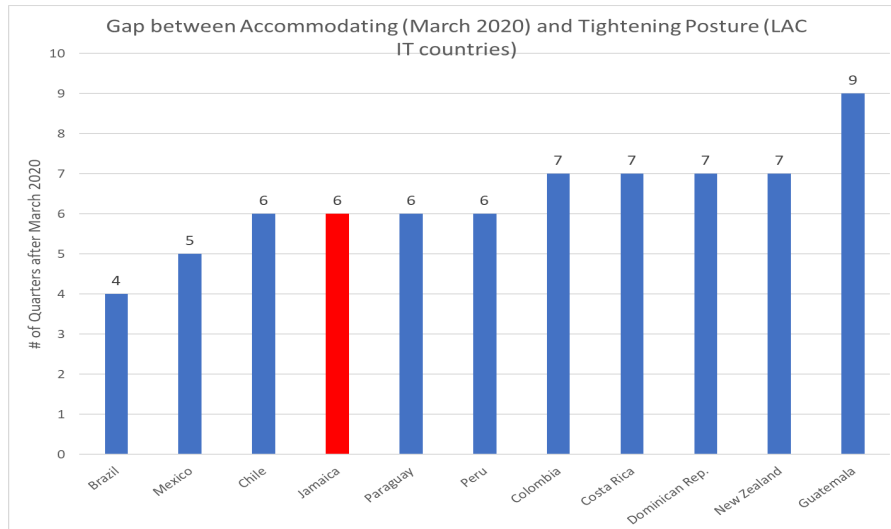
- Policy rate held at historic lows.
- Central Bank injected liquidity:
  - USD liquidity: Above 7 per cent of GDP.
  - JMD liquidity: 4 per cent of GDP.
- Regulatory Interventions: Capital buffers relaxed, penalties suspended for loan moratoria.



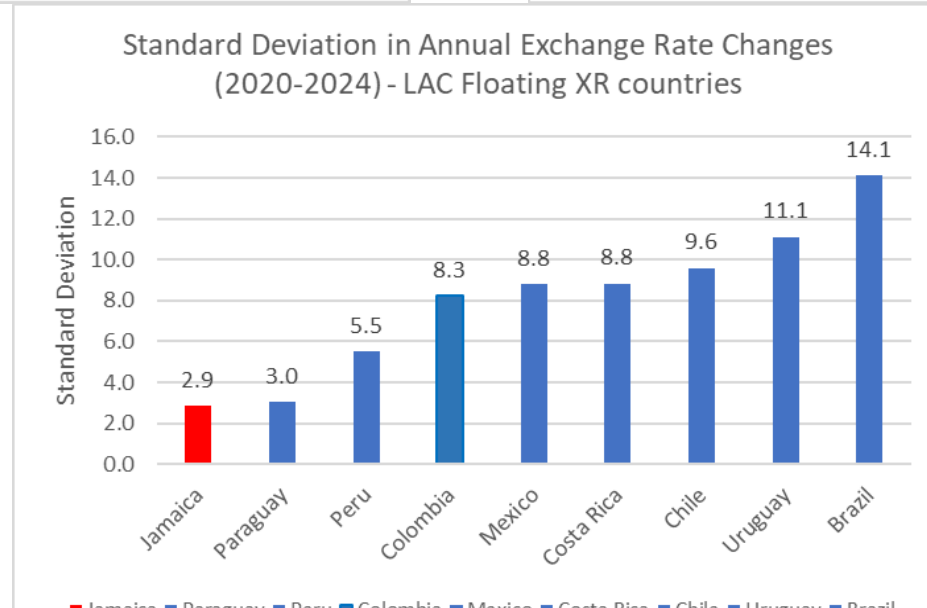
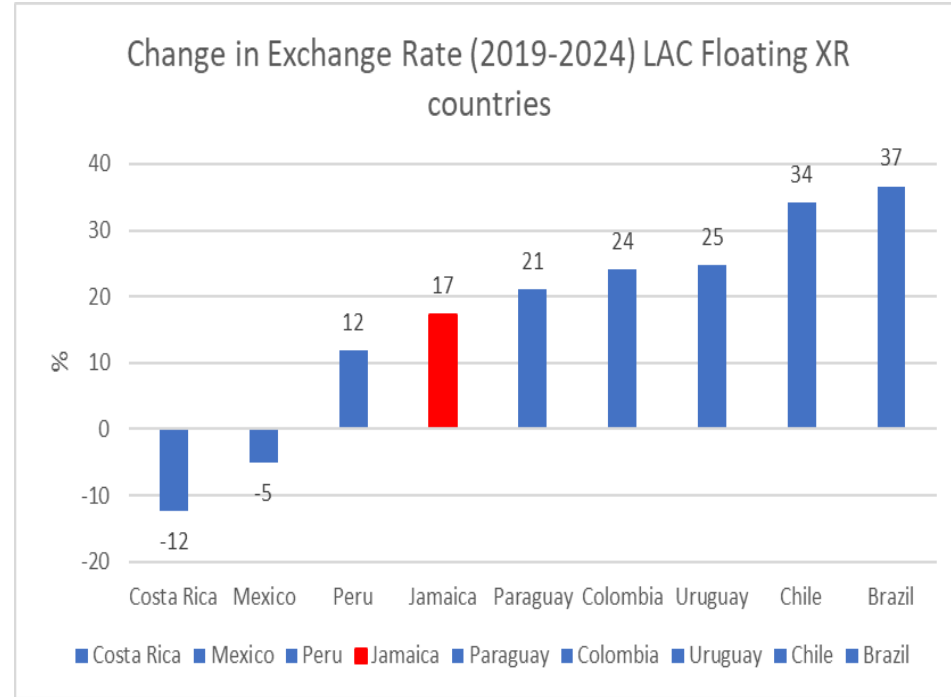
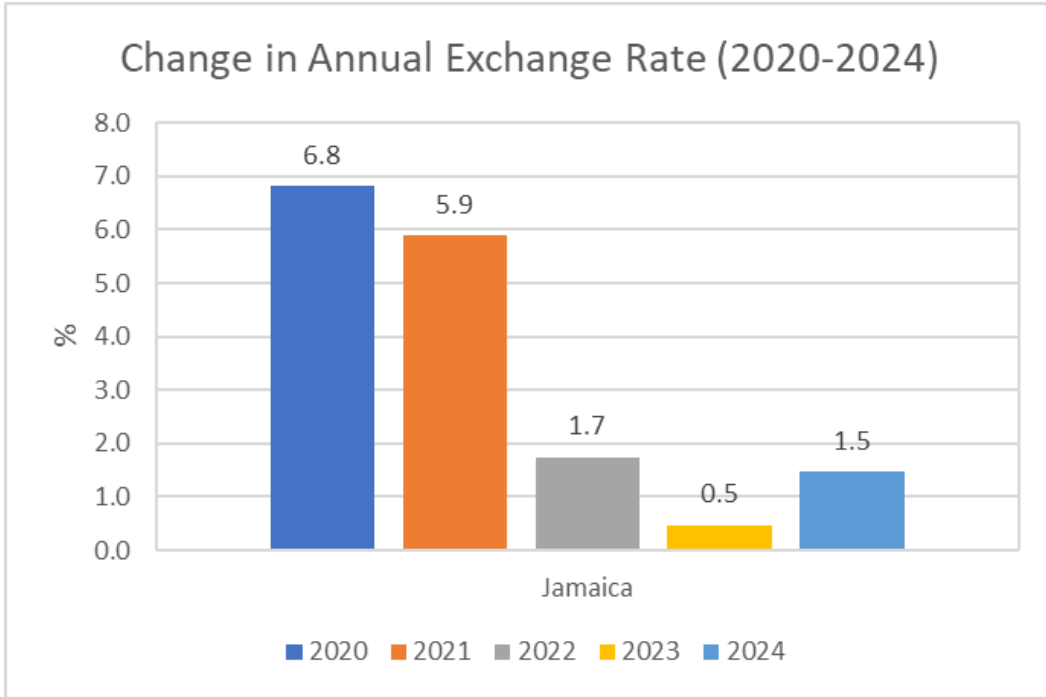
# Monetary/Macroprudential Policy Responses: Second Phase:

- Response to Inflation Spike was 3-pronged:
  - Increased policy rate by 650 basis points (0.5 per cent → 7 per cent) over 2021-2022.
  - More aggressive open market operations to tighten liquidity
    - Increased net absorption (2021: \$2 billion, 2022: \$42 billion, 2023: was \$46 billion)
  - Increased intervention in the foreign exchange market.
    - US\$1.5 billion spent in 2022 through the Bank of Jamaica Foreign Exchange Intervention and Trading Tool (B-FXITT), a significant increase compared to US\$820 million in 2021.
- Credit Channel of the Monetary Transmission however weak

# Jamaica's monetary tightening cycle was earlier and more aggressive than many IT LAC countries

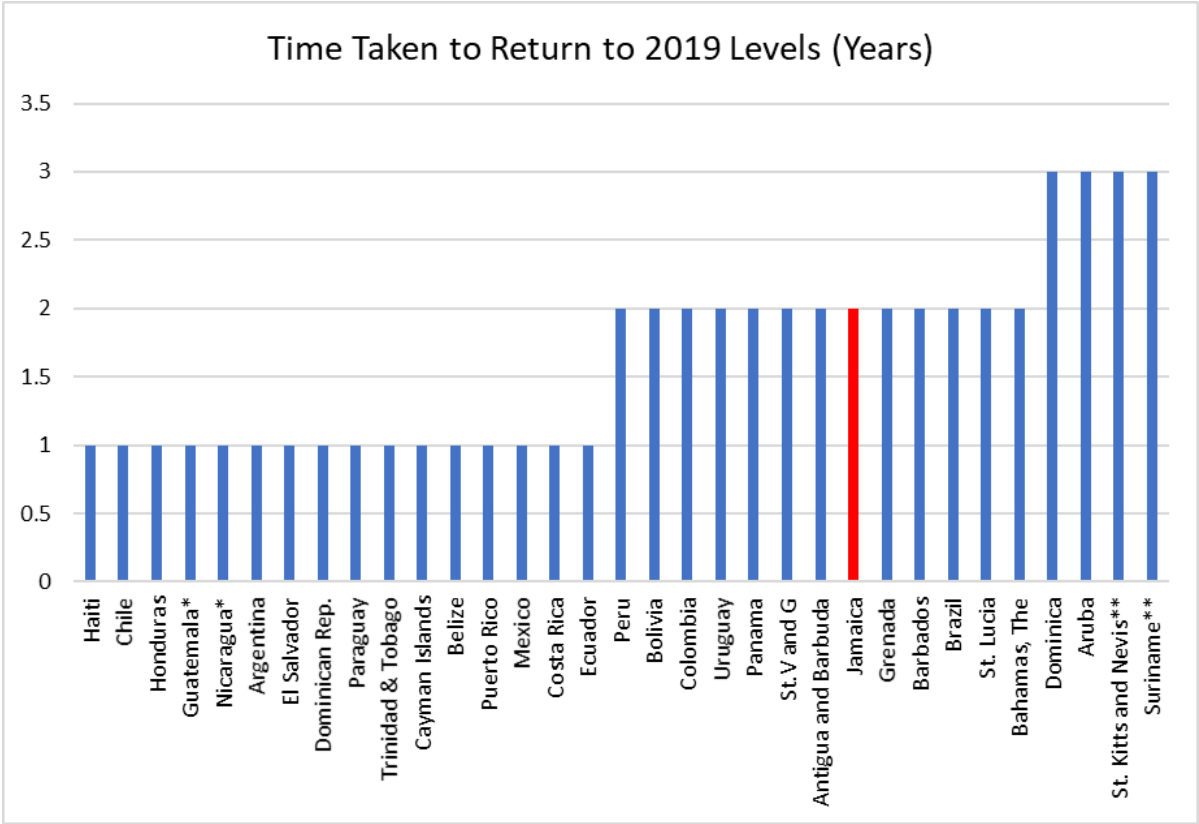
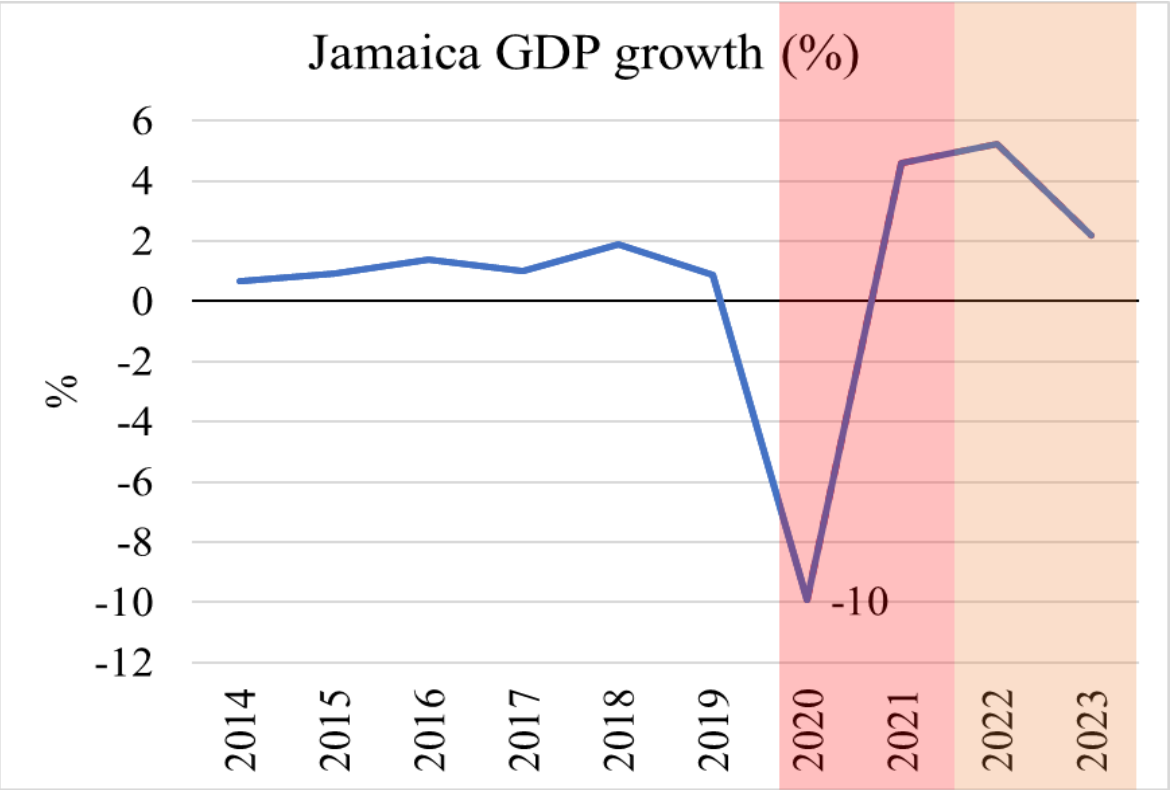


... and strategic FX market interventions ensured that the exchange rate remained stable

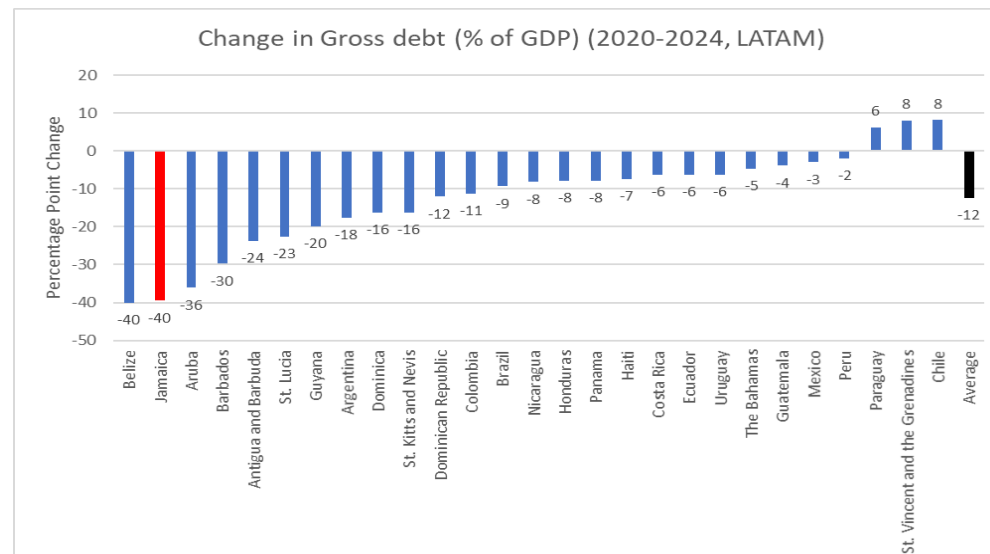
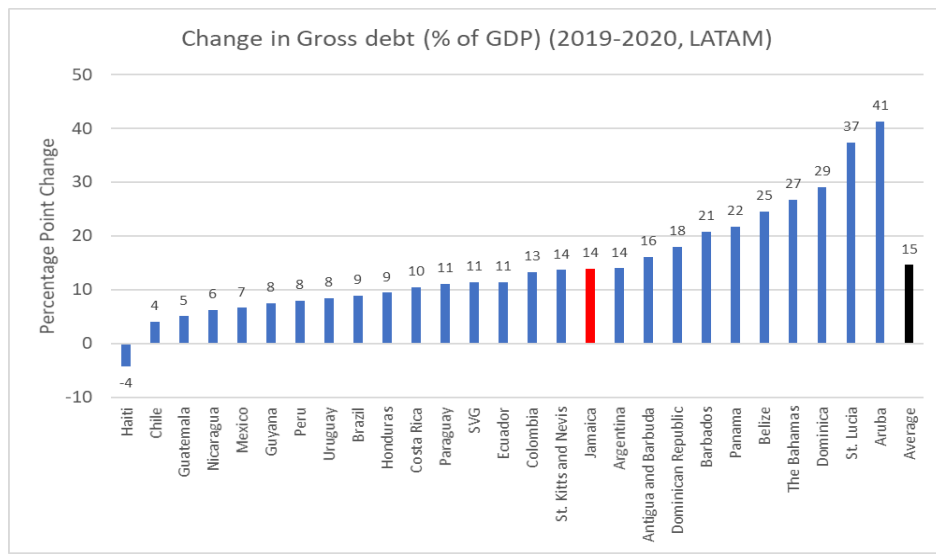
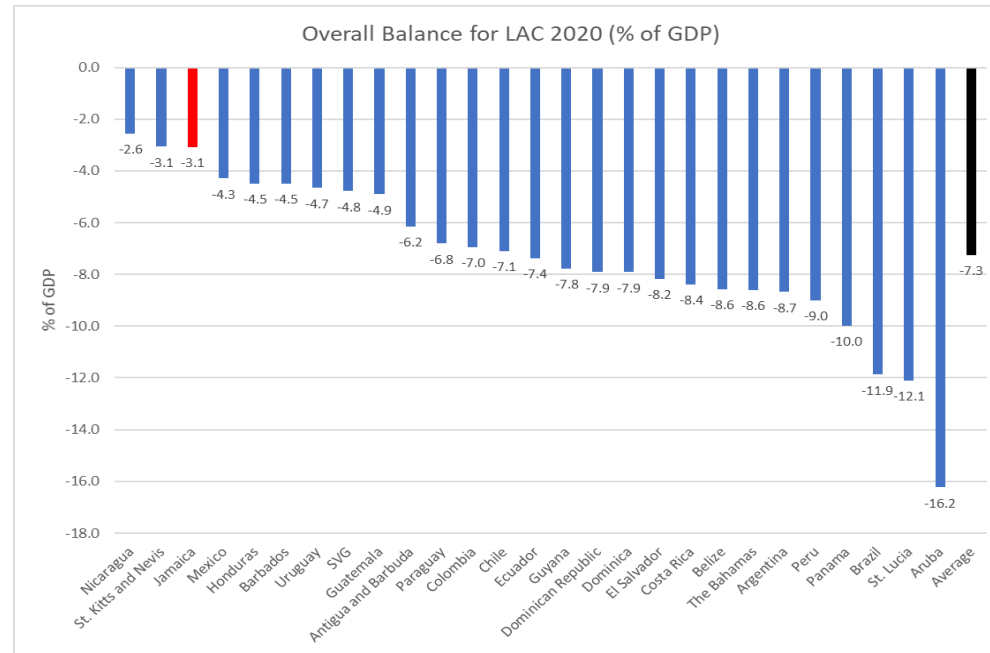
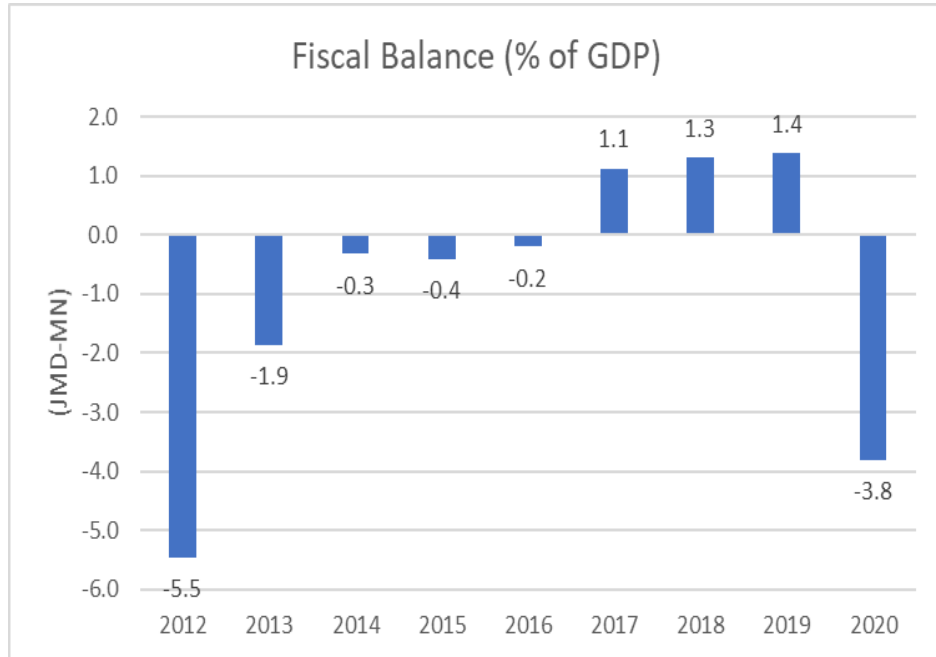


# Impacts of Policy Actions

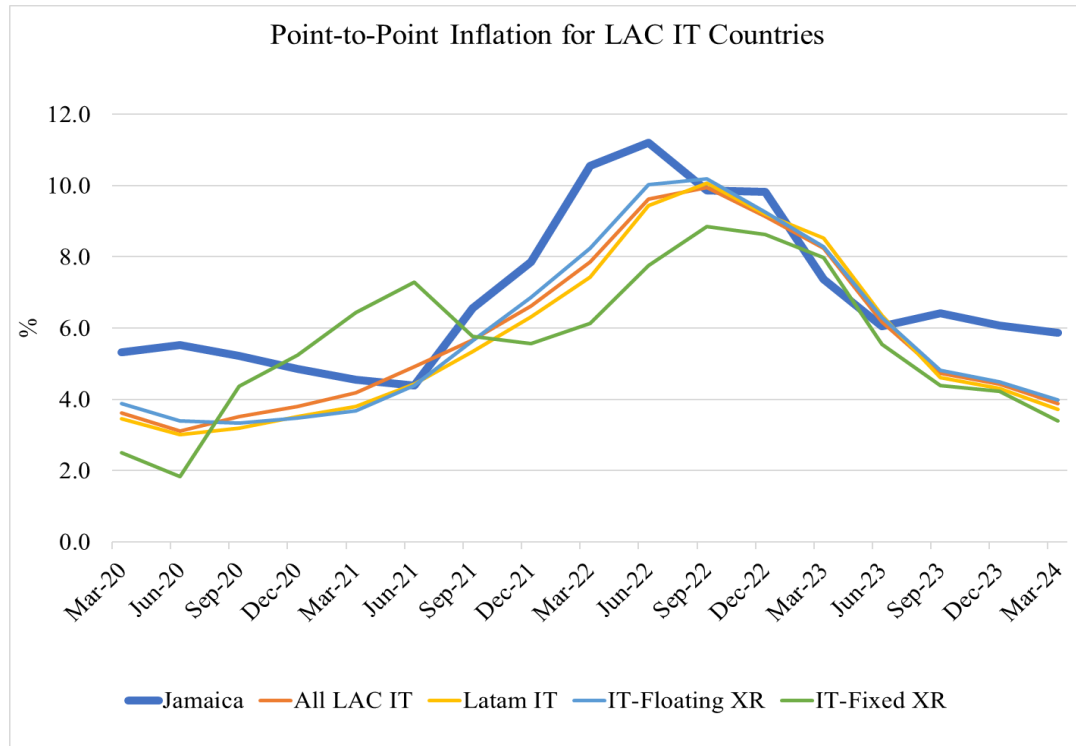
# Rebound in Jamaica's GDP to pre-pandemic levels consistent with Peers



# Fiscal deviations were temporary...



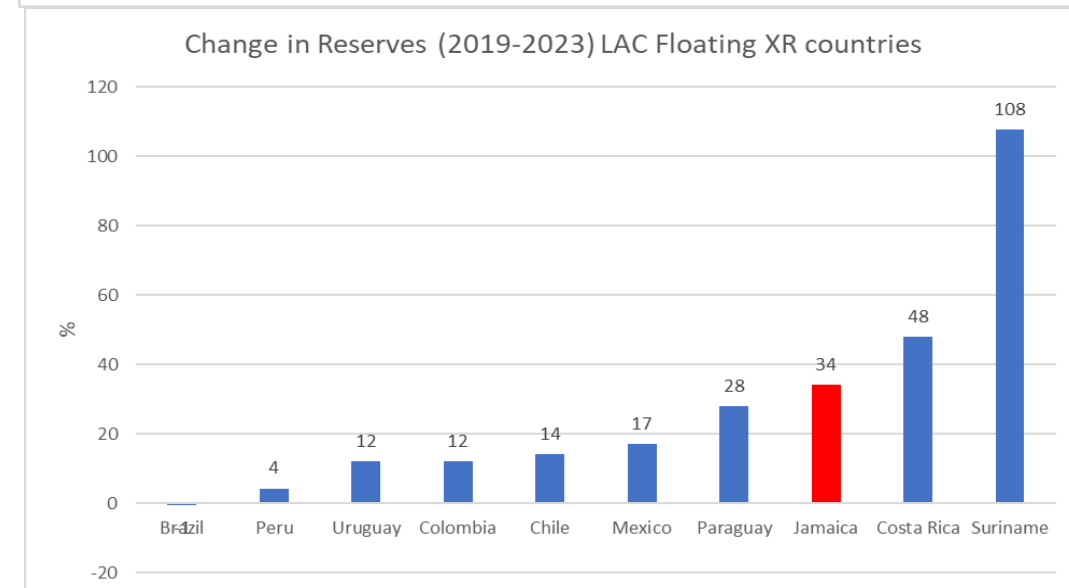
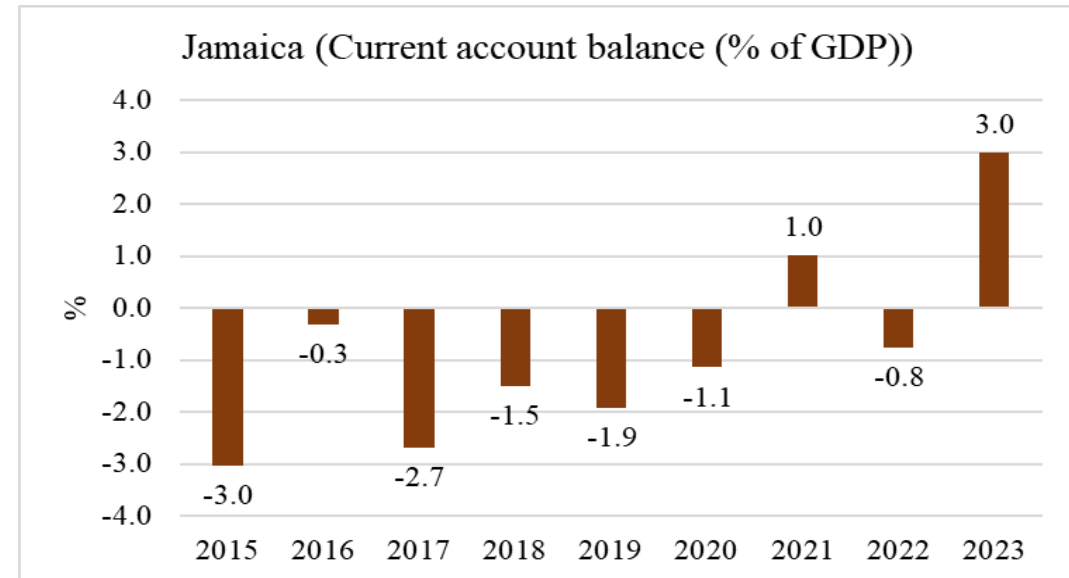
# Inflation returned to target faster than most in the region...



*Jamaica has a higher inflation target rate than most of the LAC*

# ...and there were notable improvements in the Current Account and GFA...

- Due in large part to a sharp rebound in tourism and continued strong remittances.
- Foreign exchange reserves increased by 34 per cent between 2019 and 2023, outperforming some regional counterparts.
- Due to IMF Flows
  - Rapid Financing Instrument (RFI) : US\$520.5 Mn
  - Resilience and Sustainability Facility: US\$574 Mn
- and GOJ Inflows:
  - Liability management exercise: US\$1.64 Bn





# Key Takeaways & Lessons Learned

- Buffers (fiscal and monetary) are important
- Institutions matter in times of crises. Jamaica's policy responses (fiscal and monetary) credible.
- Strong and early monetary policy action are crucial, particularly for a new inflation targeter.
- Credible and transparent intervention frameworks are useful in managing exchange rate volatility.
- Limited pass-through of policy rates indicates structural issues in the financial sector.
- Remittances were clearly countercyclical.

# Remaining Challenges & Future Policy Directions

- Weaknesses in the Bank's monetary transmission mechanism need to be fixed.
- High level of openness continues to expose us to external shocks, implying the need to maintain buffers and build resilience
- Next challenge is achieving sustainable higher growth.