

2022 ECONOMIC & FINANCIAL MARKET OUTLOOK:

Balancing Risks and Recovery

Global economic and market forecasts 1

Global economic outlook 1-2

- Given the threats of elevated inflation, new COVID-19 variants and new waves of infections in 2022, the global recovery is expected to continue albeit at a slower pace.
- The policy priorities are expected to shift from pandemic fighting to building resilient economies to bring the economy back to pre-pandemic levels of GDP. Moreover, inflation is expected to remain elevated, and given this outlook, the majority of the world's central banks are expected to enact less accommodative monetary policy throughout 2022.

Global bond market outlook 3

- Global bond market prices are expected to fall off in 2022 and remain volatile over the short term as inflation continues to evolve and central banks around the world adjust policy accordingly.
- In the emerging market bond space, persistent inflationary pressures and accompanying policy tightening are common themes.

Global energy outlook 4

- For 2022, the EIA expects an increase in oil prices, with Brent and WTI averaging \$82.87/b and \$79.35/b, respectively.
- These expectations are fuelled by OPEC+'s approval of the 400,000 barrel-a-day increase scheduled for February 2022, which is expected to outpace slowing growth in global oil consumption, especially in light of renewed concerns about COVID-19 variants.

Local economic outlook 5

- GDP is expected to be driven by recovering tourism activity and the spill-over effects to industries such as Agriculture, Distribution, and Manufacturing. However, real GDP is not expected to return to pre-pandemic levels until at least 2023.
- The continued global spread of COVID-19 poses downside risks to Jamaica's continued recovery.

Local inflation outlook

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- Consumer prices have been trending higher since August 2021 and more importantly, inflation has been above the BOJ's target range since. Inflation expectations have also been on the rise since August 2021.
- For 2022, inflation is expected to remain high due to factors such as the lagged impact of higher international commodity and shipping prices, elevated US inflation, seasonal agricultural price changes, and rising domestic demand.

Local external accounts outlook

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- The external accounts deteriorated in 2021 as the ongoing spread of COVID-19 hampered the rebound of the tourism sector more than expected; however, this performance is expected to improve in 2022 as tourism is expected to continue improving.
- It is expected that the country's current account deficit will narrow to 0.2% of GDP in 2022, from an estimated 0.7% in 2021, resulting from a recovery in tourism and elevated remittances.

Local fiscal and debt outlook

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- Jamaica is expected to remain committed to fiscal consolidation in 2022, despite the ongoing COVID-19 pandemic, and this combined with an improving economic performance should fuel better fiscal and debt performance in 2022/23.
- Both the return to fiscal surplus and expected economic growth should help the GOJ to reduce its net debt to 100.7% and 89.3% in 2021/22 and 2022/23, respectively, from 110.1% in 2020/21. Expectations are for continued economic rebuilding into 2022, committed management of public finances, and anticipated debt repayment, which should lead to lower debt and interest burdens.

GLOBAL ECONOMIC OUTLOOK

Global Economic and Market Forecasts

Table 1: Global Economic Forecasts (2021-2022)

Economic Forecasts	Year	US	UK	Canada	LAC
GDP (%)	2021e	5.6	7.2	4.7	6.8
	2022f	4.0	4.7	4.1	2.4
Inflation Rate (%)	2021e	7.0	4.8	4.8	9.7
	2022f	2.8	2.6	2.0	6.9
Unemployment Rate (%)	2021e	4.2	4.1	7.5	10.0
	2022f	3.5	4.9	5.7	9.3

Sources: Fitch Solutions, ILO, S&P Global, Statista, IMF e/f = estimate/forecast

Despite the threat of new COVID-19 variants and new waves of infections in 2022, the global recovery is expected to continue, albeit at a slower pace. Global economic activity is expected to expand by 4.4% in 2022, before moderating to 3.8% in 2023 (IMF, 2022). The outbreak of the Omicron and more transmissible variants will continue to fuel some mobility restrictions. However, we are of the view that the economic activity is unlikely to revert to 2020 levels, as vaccines reduce the severity of illness and hospitalisations connected to the virus. Moreover, there is evidence that supply disruptions are easing, although shipping costs will remain elevated at least until the end of 2022¹. Inflation has been higher and more broad-based, particularly in the United States and emerging market countries; however, we expect that this will dissipate as supply chain disruptions ease. That being said, there will continue to be divergence in the rate of economic recovery across regions because of large disparities in vaccine access and policy support². Growth in advanced economies is expected to regain its pre-pandemic trend path in 2022. On the other hand, aggregate output for the emerging market and developing economies (excluding China) is expected to remain about 5.5% below the pre-pandemic forecast and return to pre-pandemic

run rates in 2024. However, health risks abound, and will hold back a full return to normalcy as low vaccination rates in developing countries are likely to cause, more highly transmissible COVID-19 variants to emerge. The new waves of more transmissible variants, coupled with uneven vaccine distribution and vaccine hesitancy are risks to the global outlook. That being said, vaccination protection is expected to limit the severity of outbreaks, especially in developed countries. Global supply chain disruptions have started showing early signs of easing, though there are still risks and full resolution will take time. However, continued easing together with tighter monetary policy, should help to moderate inflationary pressures this year.

Policy Priorities

In 2022, policy priorities will be slightly different from what they were at the beginning of the pandemic. The foremost policy priority in 2022 will be to vaccinate adequate numbers in every country to prevent the emergence of more virulent virus mutations. Moreover, overcoming vaccine-related challenges including hesitancy, access, and logistics in some countries, while simultaneously continuing the push for widespread testing, are also expected

¹ IMF World Economic Outlook 2022

² IMF 2021

to remain amongst the top health policy priorities. The World Health Organisation (WHO) Vaccine Strategy aims to inoculate 70% of the population in each country by mid-2022. Fiscal policy is expected to remain supportive but needs to be well-targeted, carefully calibrated, and tailored to country-specific circumstances. In countries with high levels of vaccination, fiscal policy is expected to gradually shift from pandemic-fighting emergency measures toward promoting a transformation to more resilient economies. In countries with lower vaccination rates, the foremost priority will be increasing vaccination rates, including combating vaccine hesitancy. Moreover, health-related spending and protecting the most vulnerable, such as women and the poor, are also expected to remain at the forefront. Less accommodative monetary policy is a common theme amongst central banks. Central banks, especially in emerging markets have shown that they are prepared to act quickly and aggressively with policy rate increases in response to rising inflation and inflation expectations.

Inflation Outlook

Inflation is expected to remain elevated in the near term, averaging 3.9% in advanced economies and 5.9% in emerging market and developing economies this year, before subsiding in 2023. This outlook is primarily dependent on well-anchored, medium-term inflation expectations, an ease in the supply chain woes, monetary policy tightening, and demand rebalance away from goods-intensive consumption towards

services. Moreover, the increase in fuel prices is also expected to moderate during 2022–23, due to global production increases, and will help contain headline inflation. Similarly, food prices are expected to increase at a more moderate pace of about 4.5% in 2022 and decline in 2023. Furthermore, the expected improvement in the global supply chain is expected to positively impact the inflation rate. On the flip side, the emergence of new COVID-19 variants that reverse the improvements made in the supply chain and increased energy price volatility are downside risks that could exacerbate inflationary pressures³.

Interest Rate Outlook

Given the inflation outlook, more central banks around the world are expected to tighten monetary policy in 2022 to combat rising inflation, continuing the trend that commenced with emerging markets' central banks in 2021. While emerging market central banks have been quicker to respond, the initial expectation among developed market central banks was that high inflation was being driven by the surge in demand caused by the reopening of developed economies and the resulting supply chain bottlenecks. Expectations, therefore, were for inflation to be transitory; however, the evidence has shown that inflation is proving to be more persistent reaching multi-decade records in several countries. Consequently, central banks are now keener to tighten monetary policy as the recovery gains momentum and high inflation persists. Given the inflation outlook, an increasing number of the world's major

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central banks are expected to reverse accommodative monetary policy enacted in 2020 to shore up their economies from the effects of the COVID-19 pandemic. Bloomberg's outlook for the world's top twenty-three (23) central banks in 2022, covering 90% of the world economy, shows that less accommodative policy is a common theme among nations. Increasingly rattled by the inflation outlook, the Bank of England raised its policy rate in December and the Federal Reserve is set to hike interest rates for the first time since 2018. Bank of Canada is set to follow suit as inflation is also at a multi-decade high. Thirteen other central banks among the top 23 are also expected to tighten monetary policy in 2022, including most of the emerging market institutions that led the charge with rate hikes in 2021. By contrast, the European Central Bank and Bank of Japan could end the year where they started, with rates at record low levels as they try to safeguard growth. In contrast, the People's Bank of China cut its benchmark rate in January 2022, as officials try to cushion a slowdown in the world's second-largest economy.

³ IMF World Economic Outlook 2022

GLOBAL BOND MARKET OUTLOOK



After a strong rebound driven by the global recovery and the rise in commodity prices, the global bond prices experienced an overall downward movement in prices in 2021 due to expectations of the Fed's tightening of monetary policy. This fall-off in bond prices is expected to continue in 2022 as the US Federal Reserve is expected to tighten monetary policy with at least 3 rate increases anticipated this year given persistent inflation and rising inflation expectations. According to Federal Open Market Committee minutes published on January 5, 2022, officials said a strengthening economy and higher inflation could lead to earlier and faster interest rate increases than previously expected. Traders anticipate a March quarter hike with a 61.3% probability. Furthermore, new and more contagious COVID-19 strains will also drive volatility in bond markets and pose a downside risk to improved investor confidence. This could put upward pressure on yields and reduce capital gains on some bonds.

Emerging Bond Market Outlook

After a lacklustre 2021, 2022 will be a year of conflicting forces for the EM hard currency bond market; however, some areas will present opportunities for improved returns. Emerging Market economies are currently faced with higher

inflation due to elevated energy and food prices, which make up a large proportion of these countries' consumption baskets. This high inflation and the expectations for higher US fed rates have resulted in weaker EM currencies. Historically, weaker currencies lead to poor bond performance because of the rising cost of sourcing dollars to make debt payments on dollar-denominated bonds⁴. However, while rising inflation remains a risk, EM central banks began aggressively raising rates in 2021 to bring inflation under control. While elevated inflation and rising interest rates will put downward pressure on returns, improving economic conditions and corporate performance in EM markets will help to temper the risks of default, thereby improving their attractiveness. This will especially be the case for EM sovereigns and corporates poised to benefit from the recovery in services (such as tourism and financial services) and commodity exporters (such as oil, gas, and aluminium). In particular, we expect greater demand for short-duration⁵ high yield sovereign and corporate bonds, which are less sensitive to interest rate changes. High-yield spreads are relatively wide, with room for narrowing as US treasury rates rise in response to forecast fed fund rate hikes. Despite the persistence of EM headwinds short-duration high-yield EM bonds will remain attractive to less risk-averse investors.

⁴ 2022 International Bonds Outlook: Neutral, for Now, Dec 2021

⁵ Duration is a way of measuring how much bond prices are likely to change if and when interest rates move.

GLOBAL ENERGY OUTLOOK

In 2021, energy prices recovered markedly from 2020 lows as increasing COVID-19 vaccination rates, loosening pandemic-related restrictions, and a growing world economy resulted in global energy demand rising faster than supply. Brent's 2021 annual average of \$71/b was the highest in the past three years. The price of West Texas Intermediate (WTI) crude oil traced a similar pattern to Brent and averaged \$3/b less than Brent in 2021. Moreover, the US Energy Information Administration (EIA) natural gas spot price at Henry Hub averaged \$3.91 per million British thermal units (MMBtu) in 2021, nearly doubling the 2020 figure. For 2022, the EIA expects an increase in oil prices, with Brent and WTI averaging \$82.87/b and \$79.35, respectively. Henry Hub spot prices are expected to average \$3.92/MMBtu for 2022 and \$3.60/MMBtu in 2023⁶. These estimates come on the back of OPEC+'s approval of the 400,000 barrel-a-day increase scheduled for February 2022, which is expected to outpace slowing growth in global oil consumption, especially in

light of renewed concerns about COVID-19 variants. A greater than expected slowing in oil consumption following further disruptions by the still-evolving pandemic could result in lower oil and gas price estimates. This would be good news for oil importers such as Jamaica, as it could influence a reduction in the fuel import bill. On the flip side, it could reduce revenues for oil-exporting countries such as Trinidad & Tobago. One factor that could result in higher energy price forecasts, is the risk posed by the growing geopolitical tensions between Ukraine and Russia. Russia is one of the world's major oil producers, therefore the prospect of a Russian invasion of Ukraine and potential disruption to Russia's exports, if a conflict breaks out, would likely reduce global oil supply and put upward pressure on oil prices, at least for the short run. This would benefit oil-exporting nations through higher oil revenues, however, it would adversely affect oil-importing countries, and influence a rise in the already high global inflation. That being said, even

"...the risk posed by the growing geopolitical tensions between Ukraine and Russia could result in higher energy price forecasts."

after the distribution of vaccines, the resurgence of COVID cases remains a risk to the global oil market, which could adversely impact oil market dynamics in the medium to long term. If it results in the re-tightening of some COVID-19 measures and in-turn, a fall in energy demand and lower prices, this could weigh on liquidity and prevent near-term growth in profitability and economic performance for respective companies and countries that benefit from increased prices. This would however be a plus for energy importers. A shift to more climate-friendly energy supply patterns could also weigh on traditional fossil fuels.



⁶ EIA forecast as of February 8, 2022

LOCAL ECONOMIC OUTLOOK

Table 2: Jamaica's Economic Forecasts (2021-2022)

	Economic Forecasts	2021 est.	2022proj.
	GDP Growth	4.6%	2.7%
	CPI Inflation	7.3%	6.0%
	Unemployment Rate	7.1%	n.a
	Fiscal Balance/GDP	0.3%	0.3%
	Primary Balance/GDP	6.1%	5.6%
	Debt/GDP	100.7%	89.3%
	Current Balance/GDP	-0.7%	-0.2%
	Net International Reserves (US\$Bn)	4.00	n.a

Source: BOJ, MOF, Fitch Solutions, IMF

Following a rebound of 4.6% in 2021, the Jamaican economy is projected to grow by 2.7% in 2022 (IMF). This is predicated on estimated growth in the tourism, real estate, construction, transportation, manufacturing, distribution, and global services sectors. Improved performance from these sectors is expected to outweigh the potential decline in the mining and quarrying sector, which will face the adverse effect of plant closures. Increased tourism demand is anticipated due to consumers' willingness, especially Americans, to travel to short-haul destinations, such as the Caribbean. This will be bolstered by continued progress in vaccination rates in source markets and a rise in employment levels. Jamaica should also benefit from the spill-over effects of tourism to other sectors such as agriculture and manufacturing. The current boom in the real estate sector is also forecasted to continue driven by rising demand for industrial real estate, commercial spaces for companies in the BPO sector, and residential developments. This demand for real estate, expansion, and renovation projects in the tourism sector, as well as infrastructure development, will support demand for construction activities, fuelling growth in that sector. Additionally, a fall in unemployment, which has already dipped below

its pre-pandemic low of 7.2% (currently 7.1%), will also boost domestic spending and private consumption, buttressing Jamaica's GDP. The limited use of lockdown to stem the spread of the virus will support normalisation of business hours, which in turn should improve commercial activity, the demand for labour, and a rise in disposable income, which should fuel demand. Furthermore, although the growth in remittances is expected to decelerate from 15.6% in 2021 to 2.1%⁷ in 2022, the increase in inflows will also boost private consumption.

The rising interest rate environment will have varying effects on the growth of some sectors, especially financial and insurance services, which will also impact the GDP outlook. Banks will likely see higher net interest income as rising employment supports loan growth, and higher interest rates rate improve interest income. Additionally, the current rising interest rate environment should reduce life insurers' assets and liabilities, but the net effect is expected to be positive as the impact on the value of liabilities is expected to be greater. However, security dealers could realise reduced net interest income as their cost of funds is expected to rise faster than their asset

⁷ Fitch Solutions (2021)


yields. Owing to the diverse effect of interest rates on different segments of the sector, we are neutral on the growth prospects for the financial sector.

The country's low vaccination rate and the emergence of new variants are the biggest risks to the current growth forecast. Jamaica's low vaccination rate, which currently stands at 25.6%, makes it the second least vaccinated country in the Caribbean behind Haiti, and susceptible to increased spread of new and existing COVID-19 variants, which could undermine current forecasts. The low vaccination rates are currently pressuring our health system in contrast

to countries with better vaccination, and this may have spill-over effects on other sectors through loss of manpower or productive hours due to higher staff illness. To reduce the adverse effect on the health system, policy markets will have to work to overcome vaccine hesitancy and increase the inoculation rate. This would slow the spread of the virus and foster greater easing of restrictions. However, the overall impact of a lower vaccination rate on commercial and economic activity could be tempered by the fact that the GOJ has indicated that it will no longer use no-movement days to control the spread of the coronavirus.

Table 3: Jamaican Sector Outlook

■ Positive Outlook ■ Negative Outlook ■ Neutral Outlook

Sector	Outlook
 TOURISM	<p>The tourism industry is expected to see a stronger recovery in 2022, which will support growth in other sectors, such as agriculture, entertainment, and manufacturing, as well as private demand through increased employment and higher disposable incomes. The Minister of Tourism estimates that the country will record total visitor arrivals of 3.2 million by the end of 2022, with cruise passengers accounting for 1.1 million (71% of the pre-pandemic level) and stopover arrivals 2.1 million (78% of the pre-pandemic level), while earnings are projected at US\$3.3 billion. This will put the country's total visitor arrivals at 76% of its pre-pandemic levels. The sector is expected to surpass pre-pandemic figures by the end of 2024. The near-term recovery in stopover arrivals will be supported by increased air travel, as US airline operators like American Airlines and JetBlue are planning to increase their flights to Jamaica beginning in June 2022, driving inbound visitor arrivals in the second half of 2022. However, the cruise sector will be slower to recover than air arrivals. While operators like Carnival and Royal Caribbean have resumed cruises to the Caribbean, several cruises have been paused or cancelled in recent weeks, due to coronavirus outbreaks on-board. This could result in weaker than projected cruise visitor arrivals during the peak winter season. That being said, we expect that disruptions to travel will decline in the coming quarters as the current Omicron surge wanes and vaccinations increase in Jamaica and source markets. Supported by vaccination, travel numbers will be driven by Western consumers' willingness, especially Americans', to travel to short-haul destinations such as the Caribbean, in 2022. Their willingness to travel will also be influenced by excess savings built up during the pandemic owing to government intervention, which Westerners will draw on to boost consumption. These savings are estimated to be worth about 8.6% of US GDP (Fitch Solutions).</p> <p>The investment climate in the tourism sector also remains positive which will help to boost growth in the sector. Jamaica is poised to benefit from foreign and local direct investment which should result in a 7,500⁸ or more increase in room inventory by the end of 2023. These projects will help to generate more than 20,000 new full and part-time jobs and bolster the sector's growth, and its return to pre-pandemic levels. It will also positively influence the growth in other sectors such as construction, manufacturing, and agriculture and bolster private consumption to fuel economic growth.</p> <p>However, as the recent disruptions caused by the Omicron variant have shown, the industry remains vulnerable to the evolving pandemic, especially in light of the low vaccination rate in Jamaica. The country's low vaccination rate and crime rate present</p>

⁸ This increase is expected between 2021-2023.



TOURISM

downside risks to the sector's growth forecast. The country's full vaccination rate is 25.6% as of Feb 18. Unless the government can overcome vaccine hesitancy among the population and increase the percentage of the population that is inoculated, the low rate could leave the country vulnerable to future outbreaks. Additionally, high crime rates in Jamaica have emerged as a downside risk to the tourism sector's recovery, especially at this time. On January 10, the US State Department upgraded its travel advisory for Jamaica to "Level 4 – Do Not Travel," citing the increased prevalence of violent crimes. This could deter visitors.



AGRICULTURE

The sector should continue to grow this year owing to the recovery in the global economy, which will drive increased demand for exports and more robust local demand, including the improving demand for agricultural produce from the local tourism industry. Further, the aforementioned factors are also expected to increase the productivity of the manufacturing sector, which will also enhance the demand for inputs from the agriculture sector. The rebound in the economy on the back of the relaxation of restrictions on movement, business operating hours, and the re-opening of schools, will aid the recovery in the labour market and growth in disposable incomes. These factors augur well for stronger domestic private consumption and increased demand for agricultural produce.

The sector will realise growth through investments and research that should aid in lifting productivity, supply, and the resilience of the sector. The Ministry of Agriculture and Fisheries has started an initiative that will focus on Food Security, Agribusiness Development, Climate Smart Technologies, and Export Expansion (FACE). The new initiative will largely revolve around research aimed at uncovering techniques and technology for adoption by farmers across several sectors to improve their efficiency, productivity, crop yields, and competitiveness. There is also a US\$6Mn Agriculture Project being led by the Ministry, which is intended to deliver fresh fruits and vegetables for the domestic market, including satisfying demand from the tourism sector. The Agriculture Minister will also be tabling the Agro-Investment (Amendment) Bill which will give the Agro Invest Corporation wide-ranging powers and allow it to place a renewed focus on investment generation to support continuous growth and advancement in the sector. Emphasis is also being placed on research and development to improve the resilience, growth, and sustainability of the sector. This includes investment in the rehabilitation of Research Centres across the island, a project which will take place over the period 2022/2023 to 2027/2028.

Efforts are being made to expand the opportunities for local farmers through new export markets for various crops including coffee and mango. Europe, which has a large consumer base and accounts for 33% of global coffee consumption, is a strong prospect as a new and important coffee export market for Jamaica. The sector will receive support to boost export into the European market through a joint project between the Government and the Caribbean Export Development Agency. Another area being explored is mango production and distribution. The Chief Executive Officer (CEO) of the Agro Investment Corporation (AIC), Dr. Al Powell, says Jamaica has the potential to expand its foothold in the global market for mango, which is valued at US\$18Bn. Jamaica is now able to export to many countries in the world, on top of our traditional markets such as the United Kingdom, Canada, the United States, and in recent times, Cayman, Barbados. Consequently, the opportunities are seen as significant. To capitalise on the opportunities, the Ministry of Agriculture and Fisheries, through the AIC has established a mango agro park in Spring Plains Clarendon. The combination of these factors, if executed effectively, will increase agricultural sector output and exports, and the overall growth of the sector.



AGRICULTURE

However, adverse weather conditions and elevated agricultural input prices, such as the prices of fertilizers and animal feed could pose a downside risk to the sector's growth. Increased global demand, rise in energy prices used to convert materials into the applicable farm-use state, periodic spikes in global COVID-19 cases and supply chain challenges, are keeping fertilizer prices elevated and input costs high for farmers. While there will likely be an increase in consumer prices to offset some of the increased costs, the rise in end-user agriculture prices will likely be smaller, which could limit profit margins for produce and meat providers, constraining the value added by the segment. Furthermore, adverse weather conditions, such as droughts and heavy rains, are the primary risk to the sector including crops and livestock. This could potentially lead to shortages, which result in a slower than expected growth from the sector over the near term. Research and investments to improve the resilience of the sector should help to mitigate these risks over the medium term.



MANUFACTURING & DISTRIBUTION

The manufacturing and distribution sector declined in 2020 by an estimated 5.4%; however, for the nine months ended September 2021, the sector reported growth estimated at 5.3%, pointing to a recovery that is expected to continue in 2022. Sustained demand for consumer staples such as household foods, both domestically and in some export markets had driven the expansion in the sector. The social distancing measures implemented caused a significant shift in consumer demand from services to goods. This included more at-home dining; increased spending on groceries for students engaging in at-home schooling, and for lockdowns and extended curfew periods; growth in demand for furniture for home offices, and products to make the extended time at home more comfortable. The mobility restrictions also accelerated e-Commerce activity, and those companies that were nimble were able to benefit by leveraging online channels and distribution services to continue to serve customers. The heightened importance and demand for e-Commerce also led to the Jamaica Manufacturers and Exporters Association (JMEA) helping small manufacturers to tap into the wider market by distributing their products through online channels such as Amazon. However, increased demand for goods also created supply chain challenges globally, which presented opportunities for some strategic local companies to increase exports to the overseas market. All these factors bolstered growth within the sector. However, supply chain challenges, while creating some opportunities for increased exports, also caused raw material shortages and a sharp rise in shipping costs, which fuelled higher input prices that reduced profit margins for some companies, and dampened overall growth or value added by the sector.

In 2022, as the economy continues to reopen, and e-Commerce activity expands, global trade will continue to aid in growth in our local manufacturing sector, but the sector's performance will also be influenced by a shift from 'at-home' consumption to 'away-from-home' consumption. Global trade is set to grow by 5.4% in 2022 despite global supply chain challenges (Euler Hermes, 2021). Local manufacturers and distributors will therefore benefit from the general growth in trade. This will be driven by increased demand from major trading partners such as the US, which is the country's main export market accounting for 41.3%⁹ of exports (in 2020). There is a growing consensus that the United States will enjoy solid economic growth in 2022 despite concerns about inflation, supply chain disruptions, COVID-19, and Federal Reserve tightening. The strong growth prospects, accumulated savings, and higher disposable income should support an increase in demand for Jamaican exports, supporting growth in the sector. e-Commerce will also remain a driver of growth in the sector. The rebound along with greater digitisation, and increased demand for convenience will sustain the rise in e-Commerce, especially as the pandemic and some social distancing measures persist. This is a global trend that is forecast to fuel world e-Commerce sales growth of 12.2% in 2022 (eMarketer, 2022), which will benefit not just domestic distributors, but also some

⁹ Fitch Solutions (2022)



MANUFACTURING & DISTRIBUTION

manufacturers, especially given their access to Amazon as a channel for distribution to the external market. Further, as the economy continues to reopen, there will be a normalisation of demand for goods and services as restrictions on mobility are gradually lifted. However, as the pandemic continues to evolve in 2022, we do not anticipate full normalisation this year. Against this background, there could be a deceleration in the growth in at-home consumption relative to the past 2 years. This will be influenced by the reopening of schools, absence of lockdowns, lifting of work from home policies by government agencies and some private sector companies, and rebound in sectors such as tourism. We, therefore, expect greater demand from schools, restaurants, and hotels to be a major driver of the sector's growth. While there will likely be a deceleration in the growth in at-home consumption, higher disposable incomes, as sectors such as tourism and BPO fuel employment, will drive private consumption and support higher output from the sector.

There are also government initiatives that should benefit the sector. This includes the implementation of the National Five-Year Manufacturing Growth Strategy, which was tabled in Parliament in July 2020. It is aimed at achieving \$81Bn per year in manufacturing output by 2025, up from the pre-pandemic value of \$67.41Bn. This Five Year Strategy has been developed to focus attention on the environment necessary to grow and expand Jamaica's manufacturing industry and increase the industry's contribution to the country's economic development projections. Enhancing workforce productivity; improving cost competitiveness; expanding infrastructure; facilitating market expansion and incorporating innovation strategies are the five strategic areas that will be targeted to achieve this outcome. The Ministry of Industry, Investment, and Commerce has also indicated plans to advance trade by widening the export basket to include traditional and non-traditional export products, such as craft and nutraceuticals. More consumers are focusing on health and wellness, especially as the current pandemic has incited the adoption of healthier habits. This will support demand for products such as nutraceuticals. The Ministry will also focus on Northern Caribbean markets to achieve diversity, and will continue to coordinate trade facilitation measures to improve the business climate for local and international traders.

That being said, supply chain challenges, while they are expected to decline in the latter half of the year, will remain above pre-pandemic levels and continue to negatively impact input prices, limiting the overall growth of the sector. On the other hand, global supply-chain disruptions could remain high until H2 2022 amid renewed COVID-19 outbreaks around the world, and demand and logistic volatility. This will continue to adversely impact the cost of raw and intermediate goods used in manufacturing, driving up input costs and cost margins. However, we could see greater pass-through of increased costs to consumers as the economy and employment continues to improve this year, increasing consumers' purchasing power. Therefore, we could see a sustained rise in the Producer Price Index and Consumer Price Index in H1 2022. Following this, it is anticipated that international trade flow volume could normalise at some point in H2 2022, driven by a cooling down of consumer spending on durable goods, given an expected shift towards more sustainable consumption behaviours. Additionally, the normalisation should also be driven by less acute input shortages as inventories improve towards pre-crisis levels, especially as companies increased Capex to build out storage space and other warehouse infrastructure. There was also an increase in the expenditure on port infrastructure which should help to reduced shipping congestions. As such the adverse impact of supply chain challenges on the sector could decline in the second half of the year.



CONSTRUCTION

It is expected that growth in the sector will continue into 2022 aided by the development of affordable housing solutions, and as tourism and infrastructure projects are executed. However, the performance across sub-segments of the industry may vary due to its differing market dynamics. One segment that is expected to contribute to growth in the sector is tourism-related construction, which is expected to see a 7500 or more increase in room inventory by the end of 2023. This expansion is being fuelled by sustained confidence in the sector's recovery and anticipation that by 2024 the sector will surpass its pre-pandemic performance.

Additionally, private sector investment in the development of industrial and commercial spaces will also augur well for the expansion of the construction sector. Furthermore, in the commercial space, unrented spaces have added to inventory due to work from home policies and the shift away from brick and mortar establishments to online channels. These are being repurposed for rental by other types of companies. However, we believe the continued renaissance of new development and considerable refurbishment in downtown Kingston is positive news for both the commercial and high-end segments of the real estate market in that area. The revitalisation of the Kingston waterfront is buttressed by the imminent completion of the ROK hotel, a vital investment that is anticipated to accelerate Kingston's rebirth. The sprucing of buildings, rehabilitation of the adjacent road arteries, and a mandate by the Government to relocate several of its Ministry buildings to downtown should help to spur increased demand for a long-neglected area of Kingston. The foregoing demand is likely to outstrip supply given that Downtown Kingston is still littered with dilapidated structures that are in urgent need of demolishing to give birth to new cutting edge constructions (Wihcon Properties). Apart from the relocation or re-establishment of marquee businesses in the capital, the tax incentives should also sustain demand for real estate in Downtown Kingston for years to come. Furthermore, in the commercial property segment, demand for move-in ready spaces remains strong, especially in the BPO sector, considering the current outlook for the BPO sector (see GSS outlook). Further, the pandemic resulted in unprecedented disruption to the global supply chain, which prevented suppliers from delivering products to consumers, and presented opportunities in the industrial market. The challenges highlighted the need to improve supply chain resiliency and redundancy. Achieving this will include shifting from just-in-time delivery, increasing inventory requirements, and diversifying supply chains. This move to improve supply chain resiliency, along with the need for technological advancements, greater expected e-Commerce growth, and consumer spending are providing strong fundamentals for industrial real estate. As such, there has been an increase in demand for commercial properties such as warehouses, manufacturing, distribution, and logistics centres as retailers, manufacturers, distributors, and logistics companies expand their capabilities to accommodate higher inventory levels of raw materials, in-demand consumer goods, and more.

Investment in residential development should also boost value added in the sector, driven by affordable housing solutions, though softness in the high-end market could slow growth in the residential segment. There is excess demand for affordable housing, which will spur growth in this segment of the residential market. Globally, there is a boom in the residential market as remote working practices have increased the demand for residential real estate (RRE), and accommodative monetary policy and unprecedented fiscal stimulus and savings have improved its affordability. Although this year will be characterised by tightening monetary policy, higher mortgage rates, and rising house prices, the RRE market will be fuelled by a recovering economy and competitive job market, which is expected to support employment, and a rise in incomes. Locally, the segment for residencies priced below \$25Mn continues to manifest excess net demand, particularly for houses within the Kingston Metropolitan Area. The net demand is evidenced by the significant oversubscription for NHT developments and also the



CONSTRUCTION

relatively fast take-up of similarly priced properties on the periphery of Kingston and St. Andrew and within Southern St. Catherine. Therefore, considering the net demand that exists, the rebounding local economy, and improvement in employment, future large-scale affordable housing developments are expected to persist this year. Aside from affordability, buyers are looking for affordable housing in remote areas given: improvement in road networks and planned highways, the potential for continued telecommuting on a substantial magnitude even in a post-pandemic environment, overpopulation, and congestion of Kingston, and greater development of rural areas. Conversely, there is currently an oversupply in the high-end segment given that access to mortgages or cash financing of these properties by the local population remains limited (Wihcon Properties). This oversupply may worsen as businesses and foreign missions are anticipated to evaluate and consolidate their operations and staffing requirements, which may reduce the demand for rental spaces in this segment of the market. However, there are remote and previously underserved areas that are presenting opportunities in the high-end market, outside of Kingston. Drax Hall in St Ann is one such location transforming into an upscale commercial zone due to land availability and an increasing professional/upper-middle-class residential base. However, the targeted end-users for these new constructions may be skewed towards the short-stay segment, rather than long-termed tenancy arrangements, given how lucrative the Air BNB model has been in resort towns with close proximity to beaches and other natural attractions¹⁰. Considering the outlook for industrial, commercial, and affordable housing segments of the market, we believe these factors augur well for construction activity and therefore growth in the sector. However, the oversupply in the high-end residential market and the potential repurposing of empty commercial spaces could influence a deceleration in the rate of growth in the construction sector.

Government infrastructure spending also bodes well for construction activity. Ongoing infrastructure projects in 2022, following the historic allocation (J\$31.1Bn) by the GOJ for expenditure on physical infrastructure in FY 2021-22 budget, should also positively impact the construction sector. This includes the Southern Coastal Highway Improvement Project (SCHIP) for which the government has allotted \$17.4Bn to improve the alignment and capacity of the existing southern coastal main road to make it more safe and efficient, free from flooding, and equipped to support future development (JIS, 2021). This project involves the completion of the May Pen in Clarendon to Williamsfield in Manchester, part of Highway 2000. It also considers the continuation of construction works on infrastructure in St. Thomas, such as the Harbour View to Albion to Yallahs Bridge, Yallahs Bridge to Port Antonio construction, and the Morant Bay to Cedar Valley roadwork. The sector will also benefit from several projects in 2022, which commenced in 2021 and are expected to continue. This includes the construction of approximately 400 acres of additional special economic zone (SEZ) space at an estimated value of more than US\$1.3Bn. The projects include the development of data centres, facilities in the petrochemicals, logistics, commercial, educational, medical/pharmaceutical, and film industries, which should help to fuel growth in construction.

There are however downside risks to the outlook for the construction sector in the form of rising borrowing costs and elevated shipping and material costs. The current tightening monetary policy cycle which has thus far resulted in a 350 basis point increase in the BOJ's policy rate could pose downside risks as the higher interest rate environment will increase borrowing costs, which could dampen investment plans and the demand for housing solutions. Additionally, supply chain challenges will likely keep input costs for construction material elevated, which could increase the capital injection needed to complete projects, possibly delay the completion of some projects, and drive up property prices and weigh on demand.

¹⁰ Wihcon Properties (2021)

CONSTRUCTION



MINING

The global mining sector's rapid rebound in H2 2021, and rising demand for most mined commodities, have created robust conditions for producers and explorers, and it is expected that these conditions will persist into 2022, and in some cases beyond.

However, the current closure of two of Jamaica's major plants should result in a decline in the local sector's growth in the current year. Given that Jamaica exports crude bauxite and alumina, it is important to note that the bauxite market is expected to grow at a CAGR of 6.2% between 2022-2027, while the alumina market is forecasted to grow by 5% between 2021-2026¹¹. Globally, the sector's growth is being driven by both an increase in demand and prices. The product is extensively used in the chemical, abrasive, steel, cement, refractory, and other industries, and the increasing demand for these products is aiding the market growth. Furthermore, aluminium is the fastest-growing automotive material, especially in the electronic vehicle (EV) market because it is one of the cheapest and lightest materials. Therefore, the buzz around EV is helping to drive demand for aluminium. Additionally, to the benefit of the industry, the London Metal Exchange (LME) aluminium 3-month price¹² increased by more than 39% in 2021. The aluminium price spike is expected to continue in 2022 (averaging a 6% y-o-y increase) driven by high demand from the automotive industry, increased prices of energy resources¹³, and a supply shortage arising from China's diminishing production to decrease CO2 emissions. In addition to this, given that Russia is one of the world's largest aluminium producers, the prospect of a Russian invasion of Ukraine and a potential disruption to Russia's exports in the event of a conflict break-out, is also driving prices higher. In fact, on February 8th, 2022, the price rose to a 13-yr high to US\$3,236 a ton surpassing its previous peak in October 2021.

Despite favourable dynamics on the international market, we expect our domestic mining industry to contract in 2022 as the Alpart and Jamalco plants remain completely closed. The Alpart plant has been closed since 2019 to facilitate modernisation and expansion, following the fire in August 2021. This effectively shut down operations and resulted in a significant loss. It is estimated that the Jamalco plant will remain closed until June 2022, when it will be partially reopened. Following the fire, the Ministry of Transport and Mining will be implementing a three-stage resumption model to recover operations at the Clarendon-based facility. Stage one will involve the refinery being returned to action as a single-digester operation, mostly utilising existing infrastructure. The construction timeline is the end of June 2022 and should result in the resumption of alumina production at approximately 50% of the plant's capacity (Minister Montague). During stage two, the plant will be moved to a two-digester operation, which will significantly reduce reliance on JPS and improve power plant reliability by switching to the rental of gas turbines. This stage will be completed within nine months of stage one. This will be followed by stage three, which will include the construction of a new gas-fired powerhouse with heat recovery to replace the rented boilers. The focus will be placed on long-term solutions and improving Jamalco's efficiency and global competitiveness. The Minister of Transport and Mining has stated that there will be a decline in alumina production and the related foreign exchange earnings for 2021 into 2022 and possibly into 2023 until alumina production resumes.

The current shutdown of our two largest alumina plants will likely result in Jamaica missing out on peak market prices and the resulting benefits. Both the IMF and World Bank forecast that aluminium prices will peak in 2022, and the pace of price increases will then trend downwards to a steady growth path from 2024 onwards. The sector will therefore miss the increased export and revenues from the strong demand and prices, as well as the elevated growth opportunity that this would afford.

¹¹ Mordor Intelligence (2022)

¹² This is the price at which Jamaica exports at.

¹³ Energy can account for up to half of the cost of making aluminium, which is why traders nicknamed the commodity congealed electricity.



FINANCIAL SERVICES

We are neutral on the outlook for the financial sector in 2022 as a confluence of factors is expected to mute overall growth in the sector in 2022. The anticipated economic rebound will positively impact disposable incomes and the demand for financial services, but elevated inflation, rising interest rates, tight liquidity, still low FX supply, and digitisation will influence the various sub-sectors differently.

Banking: We anticipate positive growth in the banking sector in 2022 due to higher net interest and higher fee and commission income from increased demand for banking products. Improvement in economic performance and employment will support corporates' and households' liquidity and increase their ability to service debt, which should reduce the extent to which financial institutions increase loan loss provisions. This will help to improve their bottom-line. Additionally, the expected rise in interest rates will support increases in interest income in 2022. That being said, a higher interest rate may be a deterrent to some borrowers as it makes debt more expensive, reducing loan demand and partially offsetting some of the effects of higher interest rates on interest income. Intense competition may also limit banks' ability to raise interest rates. Further, companies in growing sectors will likely use a portion of debt to execute expansion plans to take advantage of existing opportunities. The sector should also benefit from the digital transformation, which it accelerated in 2020-2021 to deal with the challenges of the pandemic and bring services to customers remotely. This included a modernisation of their technology infrastructure, which should help the sector to reach more customers, improve efficiency and reduce costs.

Insurance: In 2022, insurers will benefit from a rising demand for coverage in a rebounding economy and additional technology investments to build upon upgrades made in response to the pandemic. The demand will be driven by the rising risk awareness in both life and non-life insurance, among consumers and businesses, following the shock of COVID-19. However, supply chain disruptions and rapid increases in demand for construction materials, auto replacement parts and labour will continue to drive claims costs higher for personal and commercial property losses. It is anticipated that this will prompt premium increases to counter the impact of elevated claims and low investment returns.

That being said, the current rising interest rate environment should reduce life insurers' assets and liabilities, but the net effect is expected to be positive as the impact on the value of liabilities is expected to be greater. Insurers' investments/assets are concentrated in fixed-income securities that return interest, largely bonds. Increasing interest rates, therefore, reduces the value of these interest-earning assets in the life insurers' portfolios. Similarly, liabilities are similarly sensitive to interest rates, as many of insurers' products, such as annuities, have a guaranteed rate of return, usually in the form of interest that is credited. However, their assets have a shorter duration¹⁴ than liabilities to allow insurers to consistently meet pay-outs to policyholders. The shorter duration of assets means the interest rate impact or decline in value will be lower than on liabilities resulting in a potential surplus effect as the present value of assets outweighs the present value of liabilities. This will translate to a positive impact on companies' bottom-line and the sector's value-added contribution to growth.

However, insurance companies may face disintermediation risk¹⁵. Life insurance policies issued at lower market rates may become less attractive to policyholders as interest rates continue to rise and new savings opportunities yield higher returns. Therefore, policyholders may choose to lapse their current policies and enter new policies with better-guaranteed returns. This could result in some insurance companies crystallising losses on assets through the sale at lower market values to cover the pay-out on lapsed policies. Some companies may also choose to reduce their spreads by offering

¹⁴ Duration is a way of measuring how much bond prices are likely to change if and when interest rates move.

¹⁵ This refers to the potential that policyholders may relinquish policies due to rising interest rates.



FINANCIAL SERVICES

customers higher, more attractive guaranteed returns on insurance products. This could have an adverse impact on insurers' profitability and poses a risk to the sub-sector's overall performance.

Securities: Securities dealers, will face significant risks to their profit margins as rising interest rates reduce the value of bonds and other fixed-income assets, and result in marked-to-market losses¹⁶. This potential loss will be partially offset by equity gains as local equity prices gradually recover following the drastic sell-down which occurred in H1 2020. The adverse impact on margins could also be partially countered by the addition of higher-yielding bonds to their portfolios. While, improving economic conditions and investor sentiments, as well as the increased implementation of digital tools to attract clients, could result in a greater demand for products, rising interest rates may lead to reduced net interest income for dealers because their cost of funds may rise faster than their asset yields. This could result in a contraction in spreads. These companies also continue to face competition, which may put downward pressure on earnings, as a number of entities pursue similar strategies to grow non-interest income through regional expansion in similar markets. These factors could therefore reduce the sector performance.

That being said, the sector should benefit from the deepening of the capital markets with developments in the alternative investment space, new IPOs, APOs, cross-listings on the JSE, demand for debt financing, increased use and development of the private market platform to improve market efficiency, and the possible introduction of other assets. These are increasing the availability and access to assets for investment and trading, boosting fee income, supporting securities dealers' bottom-line, and improving the quality of their balance sheets.

Although the economic recovery, rise in disposable incomes, increase in investor sentiments, and improved digital infrastructure will boost demand for financial products and services, factors such as the rising interest rate environment will have disparate impacts on the sector's performance, and as such, we are currently neutral on the sector.



GLOBAL SERVICES SECTOR

Having been one of the most resilient sectors during the pandemic, we forecast that the government's plans to develop the sector to diversify economic activity, nearshoring trends, and demand to improve efficiency and for greater business agility will drive the growth in the sector in 2022 and beyond. The country's heavy reliance on the tourism sector and the severe impact it had on unemployment, government coffers, and economic growth following the onset of the pandemic, have underscored the need to diversify the economy. The expansion of the global services sector represents one avenue through which the government intends to achieve this. The goal is to create the right framework and incentives that will increase domestic and foreign investment growth, increase the number of job opportunities that are generated across the outsourcing value chain; improve sector revenue generation to support government revenue streams; improve domestic service provider participation in the sector, and support overall economic diversification. Consequently, the GOJ is aiming to increase the sector's contribution to GDP from its current 4.9% and increase the number of jobs in the sector from 45,000 to 70,000 by 2025. To ensure effective execution, the government has created a Global Digital Services Roadmap for 2021-2025. Over the next five years, the strategy will focus on consolidating the island's strengths in complex customer service and building out niche services. It has identified several niches in the higher value segment to shift the current GSS services mix from 80%-20% to a 60%-40% mix, with 40% of the jobs being higher-valued niche areas, and 60% of the jobs being customer service-focused. The following niche sub-segments are being selected as key areas that offer the greatest potential for the Jamaican GSS: Knowledge Process Outsourcing

¹⁶ Mark-to-market losses can occur when financial instruments held are valued at the current market value.



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SECTOR

(KPO); Information Technology Outsourcing (ITO); Animation outsourcing; Voice-driven Services; Business Process Outsourcing (BPO); Legal Processing Outsourcing (LPO) and Vertical specialisation.

This sector is viewed as lucrative as there are several factors that are driving its current growth forecast of an 8.5% compound annual growth rate between 2021-2028¹⁷. This includes the fact that the pandemic has unearthed weaknesses in some supply chains resulting in losses for many firms, and is creating opportunities for the sector. The weaknesses that have been exposed are driving efforts by companies to improve supply chain resilience by reducing the risk of disruptions, and increasing production's self-sufficiency and autonomy, thereby shortening supply chains. This is forcing companies to change the way they organise production, which includes bringing various segments of the process closer to home, which is nearshoring. Jamaica is ideally positioned as a nearshore location for the Caribbean and the English-speaking North American markets, as it offers relatively low cost labour, and has an educated labour force, which make it primed to benefit from this trend. Additionally, companies are looking to take advantage of the numerous benefits that outsourcing offers including increased reach and efficiency, controlled costs, and improved focus on core business activities. The COVID-19 pandemic is driving organisations to outsource their non-core functions and focus on their core competencies to achieve higher growth. With the presence of robust IT infrastructure, a company can transfer data to a company on the other side of the globe which offers better services in an affordable, and safe manner. As this reduces costs, it allows companies to provide their services more effectively at competitive prices, increasing returns on investment and shareholder value for the outsourcer. Organisations are also focused on improving business agility. All organizations are impacted by factors such as the state of the economy, changes in technology and the dynamics of a particular geographical region or market. They need to focus on improving business agility to survive the constantly changing business dynamics. To stay competitive, organizations need to rapidly introduce new products and services to match consumer demand, reduce costs, measure performance data and market trends faster than ever before, and deliver exceptional customer service. Outsourcing provides access to specialised services in various areas with greater accuracy and speed, helping organisations to remain agile and adapt to the constantly changing needs and demands of today's digital world. It also allows companies to meet their diversification objectives. By providing access to new technology and skills, outsourcing allows organisations to develop new products or services that are complementary to their core business and appeal to their customers. These factors will continue to drive demand for global services, and present opportunities for growth in the domestic sector.

To support this expansion and evolution of the GSS, the GOJ is trying to create an ecosystem, which includes improving the capacity of the workforce, providing incentives to attract investment or support the sector's development, and enhancing the relevant infrastructure. The GOJ is enhancing the workforce's capacity by building an educated workforce with the skillsets to support the niche services identified, on a large scale. For this strategy to be successful, it requires that the labour force has skills in technology-based fields, such as general software development, animation, programming, and other areas, on a scale sufficient to attract investment. The first goal is to improve training systems in Jamaica to provide better-skilled workers across all the desired segments. To help to close the gaps, the Government has launched the GSS Project, a five-year initiative, being financed through a US\$15Mn loan support from the IDB. The project aims to train 30,000 Jamaicans to acquire new digital skills, transform Jamaica's ability to host more outsourcing investments, and also allow the sector to meet the growing demand for outsourcing services. To strengthen the skills development framework, the GOJ is partnering with HEART Trust NTA to enhance its job-readiness curricula to align

¹⁷ Managed Outsource Solutions (2021)



GLOBAL SERVICES SECTOR

training to GSS entry-level standards and to provide programmes that will facilitate large-scale upskilling through short-term certification for persons that already have a solid educational foundation. It is also partnering with universities to host job fairs to attract graduates to the BPO industry. The Ministry is also developing scholarship programs for training in IT and KPO services, such as web analytics, machine learning applications, and software development. Another notable mention is an initiative to train 1000 software programmers in a partnership with Amber Group, which will employ graduates at the end of their tenure.

The GOJ is also implementing policies and providing incentives to attract global BPO companies to invest in Jamaica. One such incentive is access to the Special Economic Zone Authority (JSEZA) which was established in 2016 under the Special Economic Zones Act and amongst its wide range of targeted industries, the offshore services industry is considered an important economic growth driver. As such, companies operating in the GSS receive varied incentives that include withholding tax exemptions, expedited business services, duty-free importation, corporate tax of 12.5%, and GCT-free importation. Finally, there are also plans to build out technology infrastructure in the form of a reliable broadband network to support the sector as well as the new work from home (WFH) model.

The aforementioned will support the development of the sector and help to attract investments to the sector to fuel growth. There have already been 10 new sites opened since the onset of the pandemic, and more capital projects are underway. The sector has already surpassed its pre-pandemic level, so we anticipate that the gradual execution of these plans will result in further growth in the sector in 2022 and beyond.



TRANSPORTATION

We anticipate that the transportation sector will grow in 2022 as increased vaccination facilitates relaxation of restrictions on the movement of people and gathering, fostering more travelling and social outings. The government has also re-instituted in-office work and we expect some private sector companies to follow suit or implement a hybrid format resulting in more motorist activity and business travel. Additionally, schools have re-opened for face-to-face sessions which will fuel greater motorway usage. The growth in e-Commerce should also spur demand for transportation.

The improved outlook for the manufacturing and distribution sector will also have spill-over effects for this sector. As was mentioned before, local manufacturers and distributors will benefit from global trade growth and rising domestic demand from the hotel industry, schools, and commercial entities, which will influence the transportation of raw materials, and finished goods. This should foster a rise in the volume of domestic cargo handled at our seaports.

Additionally, the sector will benefit from the forecasted increase in export and import activity. As the global economy improves, the exportation of more goods and services (particularly tourism) should spur more activity at both our seaports and airports. Considering the outlook for our tourism sector, the expectations for higher tourist arrivals should result in greater passenger movement at airports. Furthermore, the forecast for increased economic growth in the major goods' export markets should foster a rise in activity at our seaports. At the same time, forecasts for greater domestic employment, higher disposable income, and greater consumer spending should fuel demand for more imports which is typical in a recovering economy. This should also influence an increase in the inflow of cargo at our seaports. Owing to the aforementioned factors, we expect growth in the transportation sector. However, the evolution of new strains or upsurge in cases could threaten the outlook for the sector, as it could result in reduced use of transportation channels in the air, land, and sea.

Inflation

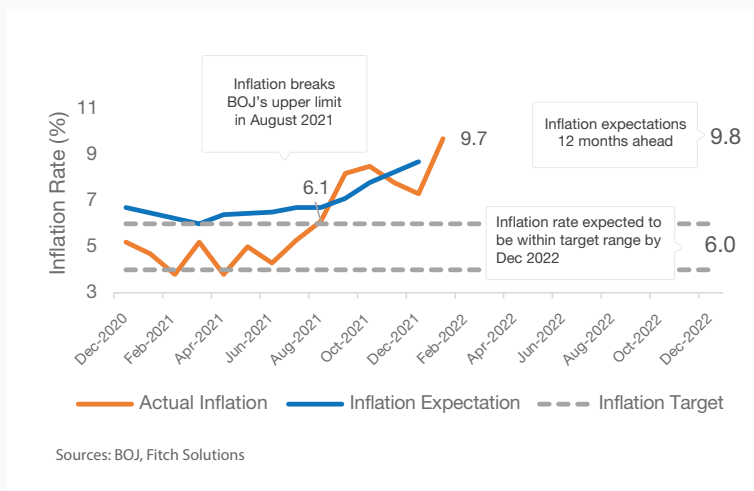
Since the latter part of 2021, Jamaica has been contending with elevated inflation levels, largely influenced by persistent supply chain challenges, high energy prices, and rising input costs. Consumers have also been faced with higher prices for local agricultural produce due to damage caused by heavy rains in 2021. Consequently, local consumer prices have been trending above the BOJ's target inflation range since August 2021, while inflation expectations have remained above the target and have steadily trended upwards (see Figure 2). The inflation rate closed 2021 at 7.3% and rose to 9.7% for the 12 months ended January 2022, with higher food prices (both local and imported), and electricity rates being the major drivers in 2021. In particular, imported food prices rose due to supply chain disruptions and shortages, which increased the cost of raw materials. Freight costs for producers have also spiralled due to a shortage of containers. Altogether they have resulted in higher prices for end products to consumers. This was a global occurrence as world food prices jumped 28%¹⁸ in 2021, their highest level in a decade. Locally, heavy rains in late summer 2021 destroyed crops and sent prices of agricultural produce soaring. Fuel costs rose on the back of a surge in natural gas and oil prices on the international market sending electricity rates higher. For 2021, Brent averaged \$71/b which was the highest in the past three years. The price of West Texas Intermediate (WTI) crude oil traced a similar pattern to Brent and averaged \$3/b less than Brent in 2021. Moreover, the natural gas spot price at Henry Hub averaged \$3.91 per Mn British thermal units (MMBtu) in 2021, almost doubling the 2020 average. The effects of the surge in energy prices were further compounded by the devaluation of the Jamaican dollar, which drove fuel and electricity rates higher for consumers.

Inflation is projected to continue breaching the upper limit of the Bank's target range over the next 8 to 10 months and peak between 9.0% and 11.0% over the same period¹⁹. This forecast assumes, inter-alia, the continued transmission of higher international commodity and shipping prices to domestic processed food, food-related services, and energy price inflation as well as a recovery in domestic demand. Food and shipping prices will

continue to be influenced by supply chain issues through mid-2022. Renewed virus outbreaks, China's zero-Covid policy²⁰, and expected trade volatility may continue to stress supply chains in the near term, which will keep prices elevated. However, three factors could start to normalise supply chains in the second half of 2022: cooling consumer demand, healthy inventory levels, and increased shipping capacity²¹. As supply chain issues abate and monetary policy changes are implemented and transmitted throughout the economy gradually, it is expected that the inflation rate will progressively decline, and could be within the BOJ's target range by December 2022 (see Figure 2).

The risks to this inflation forecast are assessed to

Figure 2: Inflation Trending Above the Central Bank's Target Range Since August 2021



be skewed to the upside²². Further increases in inflation expectations, stronger pass-through of international commodity and shipping prices to domestic prices, higher inflation among Jamaica's main trading partners, heightened inflation expectations, and the impact of adverse weather on agricultural food prices, are the major upside risks. On the other hand, downside risks to the forecast include weaker global growth from the possibility of geopolitical tensions as well as stronger than expected and more persistent supply constraints which could impact domestic economic activity and consequently demand²³. Lower energy-related prices could also put downward pressure on inflation levels. Currently, LNG prices are

¹⁸ Food and Agriculture Organisation (FAO) - 2022

¹⁹ BOJ Monetary Policy Briefing (February 2022)

²⁰ This includes the implementation of stringent measures such as city wide lockdowns to reduce covid numbers to zero

²¹ Euler Hermes, 2021

²² BOJ Monetary Policy Briefing (2022)

²³ BOJ Monetary Policy Briefing (February 2022)

forecasted to trend down throughout the calendar year 2022 as production increases, but notably, prices are projected to remain above pre-pandemic levels. According to the US Energy Information Administration (EIA), natural gas prices will average \$3.92 per million British thermal units (MMBtu) in 2022, more or less in line with its 2021 average of \$3.91/MMBtu. Crude oil prices are projected to be relatively stable in 2022 at an average of \$82.87/b and \$79.35 for Brent and WTI, respectively. The emergence of another COVID-19 variant that leads to a new wave of infection could adversely impact consumer energy demand and push prices down, reducing inflationary pressures. There is also supply uncertainty stemming from ambiguity about OPEC+ production decisions and the rate at which U.S. oil and natural gas producers will increase drilling, which could influence energy prices. Conversely, escalation of the political tensions in Eastern Europe could put upward pressure on energy prices and consequently inflation.

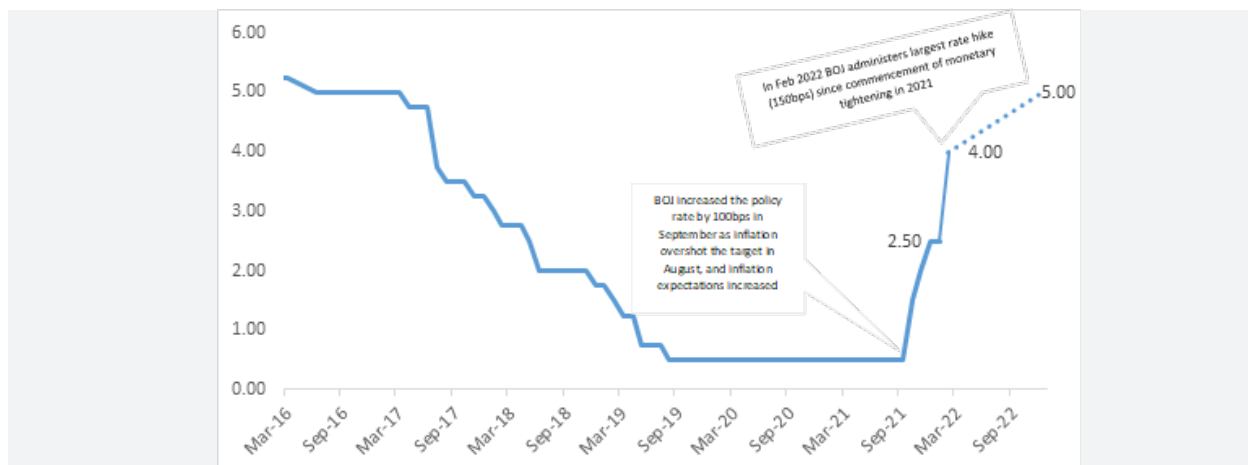
Interest Rates

In response to the surge in domestic inflation, the Bank of Jamaica (BOJ) has been aggressively raising interest rates since September 2021. The Bank implemented a 100 basis points (bps) rate hike to take its benchmark rate to 1.5% in September. This was followed by three additional interest rate hikes in November (50bps), December (50bps), and February (150bps), which has raised the policy rate to 4.0%. The

decision to reduce the level of monetary policy accommodation was based on BOJ's assessment that, following the breach in the inflation target in August 2021, the risks of continued breaches had intensified²⁴. Additionally, the increases in international commodity prices and shipping costs had a higher than expected pass through to local prices and contributed to further increases in inflation expectations²⁵. The December 2021 inflation expectations survey indicated that expected inflation 12 months ahead was 9.8%, above the previous survey's outturn of 8.9%²⁶, and significantly above the 7.1% and 7.8% for September and October surveys, respectively²⁷.

Considering that both the Central Bank and businesses expect inflation to remain above the upper bound of the BOJ's target range in the near term, the Bank could implement additional rate hikes in 2022. We anticipate that by the end of 2022, the BOJ could hike its benchmark interest rate by at least an additional 100bp to 5.0% (refer to Figure 3), as inflation will remain above the target inflation range of 4.0% to 6.0% until about Q4 2022 (refer to Figure 2). Notably, persistently higher inflation expectations will also factor into the BOJ's decision to increase rates in 2022. The BOJ indicated in September that the break in the inflation rate target happened earlier than expected. A continuation of this surprise acceleration to the upside in the coming months could lead the BOJ to respond with a more aggressive set of interest rate hikes than currently anticipated.

Figure 3: BOJ's Policy Rate Direction



Sources: BOJ & NCBCM Research

²⁴ Bank of Jamaica's Quarterly Monetary Policy Report – Nov 2021

²⁵ Bank of Jamaica's Quarterly Monetary Policy Report – Nov 2021

²⁶ Survey of Businesses' Inflation Expectations – Dec 2021

²⁷ Notably, inflation expectations have been consistently above or at the upper end of the BOJ's target range and trending higher at every survey since April 2021

External Accounts

The external accounts deteriorated in 2021 as the ongoing spread of COVID-19 continued to hamper the rebound of the tourism sector. Following the improvement in the current account deficit to 0.1% of GDP in 2020, the balance is estimated to have worsened to a deficit of 0.7%²⁸ of GDP in 2021, due to a rise in import costs and the ongoing impact of the pandemic on exports, especially on Jamaica's tourism product. Visitor arrivals up to November was 1.28Mn, an increase of only 3.4% relative to the corresponding period of 2020 and still 65.8% below the pre-pandemic 2019 figure of 3.75Mn visitors. However, of note, when Q1 2020 tourism numbers are removed to reflect only the pandemic outturn, there has been a 418.7% increase in arrivals between Apr-Nov 2021, which points to a level of recovery. Remittance inflow continued its robust growth in 2021, rising about 15.6% to US\$3.36Bn (see Figure 4). This helped to partially offset Jamaica's trade deficit, which was influenced by sustained global supply chain challenges and the surge in demand as economies reopened in 2021 fuelling higher import value of raw materials, intermediate goods, consumer goods, fuels, and lubricants.

It is expected that the country's current account deficit will narrow to 0.2% of GDP in 2022 (see Figure 5), from an estimated 0.7% in 2021, resulting from a recovery in tourism and elevated remittances. It is anticipated that the tourism industry will make a stronger recovery in 2022 than in 2021 as the Omicron surge wanes and vaccination efforts continue in Jamaica and major source markets, thereby accelerating the rebound of this critical industry. It is forecasted that overnight stays will grow by 48.7% in 2022, compared to 24.2% in 2021, though the industry is not expected to return to pre-pandemic levels until about 2024. US airline operators such as American Airlines and JetBlue are planning to increase their flights to the island beginning in June 2022, which should drive inbound visitor arrivals in H222. However, cruise travel is expected to be slower to recover than air. While many cruise operators have resumed voyages to the Caribbean, several cruises have been paused or cancelled in recent weeks due to COVID-19 outbreaks on board, which could negatively impact demand for cruises to the Caribbean. Furthermore, it is estimated that the expansion of Jamaica's remittances will moderate in 2022²⁹, though it should

remain wide by historical standards, as Jamaicans abroad benefit from stronger labour markets in the island's main source markets, the US, UK, and Canada.

Figure 4: Jamaica's NIR and remittances sustained upward trend in 2021, however the pace of growth in remittances is set to decelerate in 2022.

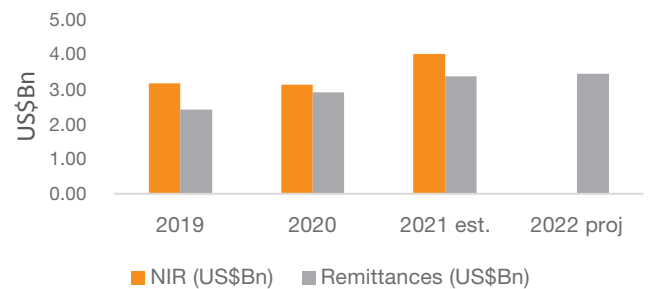
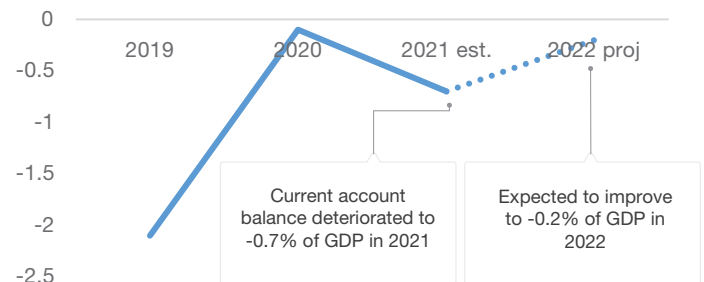


Figure 5: Current account deficit to narrow in 2022



Sources: BOJ, Fitch Solutions est/proj = estimated/projected

Exchange Rate

Against the background of strong demand and weak hard currency inflows, the JMD depreciated by 8.0% relative to the US dollar during 2021. This decline was tempered by BOJ's intervention in the FX market through FX sales and robust remittance inflows spurred by falling unemployment and robust fiscal stimulus in source markets.

The JMD currency is expected to weaken relative to the US dollar in 2022 as the country's domestic tourism activity recovers gradually but remains below pre-pandemic levels, limiting USD inflows. However, the depreciation will be limited as the country is still expected to run a

²⁸ Fitch Solutions (2022)

²⁹ Remittance growth is projected to decelerate to 2.1% in 2022, from 15.6% y-o-y in 2021 and 21.4% in 2020, as fiscal stimulus is broadly withdrawn.

narrower current account deficit in 2022 as remittance inflows and rebounding tourism activity widens the secondary income surplus and services trade surplus, respectively³⁰. The expected bettering of the current account balance and its influence on net international reserves (NIR) are forecasted to support external account stability. The NIR increased by 27.9% to US\$4.00Bn at the end of December 2021, relative to the end-December 2020 (see Figure 4). Higher reserves, combined with an improving investment environment, barring any increased risk from COVID-19 variants, will help to mitigate risks to the country's external accounts in the event of a balance of payments shock.

Fiscal and Debt Outlook

Jamaica is expected to remain committed to fiscal consolidation in 2022, despite the ongoing COVID-19 pandemic, and this combined with a continued rebound in economic activity should

fuel improved fiscal and debt performance in FY 2022/23. After the pandemic interrupted three years of fiscal surpluses, the government of Jamaica (GOJ) is projected to record a small fiscal surplus (0.3%) once again in FY 2021/22 (see Figure 6). This will be aided by the recovery which began in 2021 and its influence on increased revenue collection and grants. This will also aid the government in meeting its expenditure demands. Based on information released by the Ministry of Finance, the fiscal operations over the April-July 2021 period resulted in actual revenues exceeding budgeted revenues by J\$17.3Bn, while actual expenditure was less than budget by J\$7.3Bn. Supported by continued domestic recovery, the GOJ is forecasting that it will be able to sustain this fiscal surplus to the end of 2022/23FY. This is also expected to fuel an improvement in the primary balance, which has remained positive throughout the pandemic due to pre-pandemic fiscal reforms and savings. The

**primary balance
forecasted to fall to
5.6% of GDP**

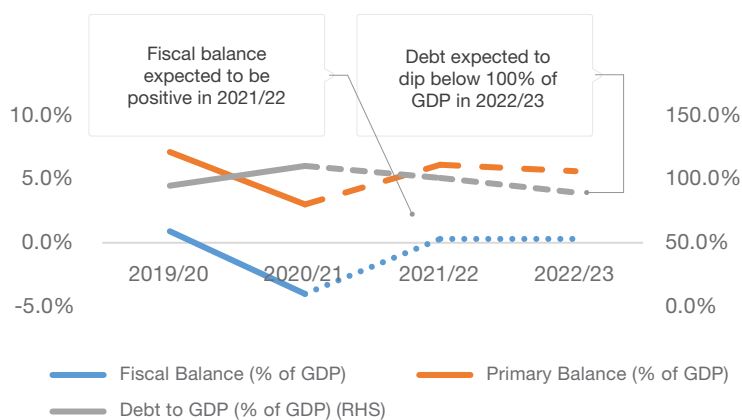
**net debt expected
to reduce to
89.3% of GDP**

primary balance is forecasted to increase to 6.1% by the end-March 2022 and fall to 5.6% during the 2022/23 fiscal year.

Both the return to fiscal surplus and expected economic growth should help the GOJ to reduce its net debt to 100.7% and 89.3% in 2021/22 and 2022/23, respectively, from 110.1% in 2020/21 (see Figure 6). Expectations are for continued economic rebuilding into 2022, committed management of public finances, and anticipated debt repayment (\$272.2Bn was allocated in the FY2021/22 budget to service debt; amortisation payments of \$146.26Bn and interest payments of \$125.99Bn), have resulted in a favourable revision to Jamaica's creditworthiness. In October 2021, S&P Global Ratings changed Jamaica's outlook to stable from negative to reflect the favourable fiscal outlook.

That being said, there are risks to the forecasted fiscal and debt trajectory given rising interest rates, the depreciation of the Jamaican dollar, and the still-evolving pandemic. With 27.2% of its debt at variable rates, the government is currently facing an increase in its interest burden

Figure 6: Jamaica's Debt and Fiscal Performances to improve in 2021/22-2022/23



Sources: Fitch Solutions, S&P Global

³⁰ Fitch Solutions 2022

owing to the rising interest rate environment. As interest rates rise, the GOJ's interest burden on its variable rate debt will rise, increasing its debt servicing costs above current projections, and negatively impacting the fiscal balance. Additionally, while the GOJ is not expected to issue foreign debt in the near to medium-term, around 64.0% of the current debt is denominated in foreign currency. This exposes the country to exchange-rate risk, especially as the currency is expected to continue on a depreciatory trend against the US dollar. That being said, rising interest rates and currency depreciation have resulted in increases in its debt service requirements, the GOJ has simultaneously

increased its budgetary allocation to debt servicing by \$17.6Bn³¹, to support its ability to meet its obligations, which will continue to support its fiscal health. New variants of COVID-19 that lead to a sharp rise in cases could also undermine the economic recovery, revenues. A rise in demand for pandemic-related spending could challenge the fiscal and debt projections. However, this risk is mitigated by the government's expressed unwillingness to continue to use lockdowns to manage the pandemic. This should reduce the impact of any surge in cases on economic activity and revenues, support continued improvements in fiscal health.

LOCAL FINANCIAL MARKET OUTLOOK

Stock Market

2022 is shaping up to be a better year for the Jamaican Stock Market aided by a gradual recovery in the economy, the adaption of business and consumers to the new normal, and activities that are expected to drive greater market participation. However, for the first half of the year, the overall performance of the stock market is expected to remain depressed due to low demand as investors remain sceptical given the uncertainties plaguing the economy and the market. The manufacturing and distribution sector is expected to remain strong this year, especially producers of consumer staples. Additionally, with the expected hikes in the interest rate, some banking company stocks may see a rebound in their interest income as the higher interest rate will provide them with a higher spread. However, loan demand is expected to recover slowly as rising interest rates undermine some of the effects of the recovering economy. Tourism is expected to pick up pace in 2022 premised on improved vaccination rates in source markets coupled with a bettering of the overseas labour markets. Consequently, listed companies that operate in the tourism industry should benefit from



this development. However, much of this recovery may already be priced into tourism stocks. Manufacturing and distribution companies should benefit from the spill-over effects of the recovery in tourism. The performance of the real estate sector is expected to be driven primarily by rising demand for industrial real estate and commercial spaces for companies in the BPO sector. Companies on the stock market that are providers of such spaces are anticipated to experience improved performances especially as companies seek more space for expansion and more BPO companies flock to our shores aided by government incentives. The construction sector is expected to continue benefitting from this construction boom, but the rate of growth may decelerate as some empty commercial spaces may be repurposed and excess inventory in the high-end residential rental market will cause a slowdown in new construction in that segment in 2022. Regional conglomerates and companies generally

³¹ Minister Clarke outlined these plans in the Second Supplementary Estimates - 2022

are also expected to experience improved performances in 2022 due to higher inoculations rates in the region, gradual ease in supply chain pressures, dissipation of the Omicron surge, and the progressive rollback of accompanying measures implemented to curb the outbreak. The aforementioned factors could drive investor interest and support a level of price appreciation in the general market.

We anticipate that several companies will seek out growth opportunities and ways to diversify revenues. We foresee increased mergers and acquisitions, regional expansions, export-led growth, and investments in facilities and technologies to improve efficiency and cater to increased demand, which will in turn drive value for shareholders. We also anticipate that more companies will embrace and build out their e-commerce platforms and increase digitalisation to drive efficiency. Considering these factors, we expect both the main and junior market indices to see growth this year as corporate earnings and investor sentiment continue to improve, supporting appreciation in some stock prices. Tourism stocks should also see further recovery as the sector continues to improve, although we are of the view that some of the recoveries may already be priced in. Moreover, the economic recovery, coupled with more expansion plans and gradual improvement in the investment climate will support new IPOs, APOs, and cross-listings which will subsequently increase index value. However, we do not expect the indices to surpass their pre-pandemic levels to reach new highs in 2022. Although the economy will rebound, it is not expected to reach pre-COVID levels until at least 2023, and this will hamper the return to

pre-COVID spending and corporate profit levels for some firms.

However, there are several risks to the market outlook, namely high inflation, the resulting hike in interest rate, and the continuous mutation of the COVID-19 virus. These factors are expected to create some level of uncertainty and bouts of volatility in the equity market. Rising inflation will impact the overall market as well as individually listed companies, and could pose downside risks to stock market performance. This could lead



to a softening in the demand and prices for growth stocks as more investors seek out value stocks that are trading at a discount to their fair value. On the other hand, a rising interest rate environment will likely reduce the valuations of some companies, as investors' required rate of return increases, raising the discount factor for those higher distant future cash

flows, particularly for growth stocks. The rising interest rates will also entice some investors to purchase fixed-income assets as bond yields rise. The combination of these factors could also help to keep the combined index below pre-pandemic highs. Further, investor sentiment is still being impacted by negative COVID news, which could spark sell-downs, but to a significantly lesser extent than in 2020.

Bond Market

Local Corporate Bond Market

In the short-term, new issuances in the local corporate bond market could slow in light of rising interest rates and the accompanying uncertainty. Increased market interest rates will mean higher costs for new debt issuances and issuers are likely to cancel refinancing plans. However, as inflation stabilizes around the BOJ's target range, and monetary policy actions are more predictable, we expect that activity in this space will pick up.

In line with the softening in the primary market, secondary market activity is expected to be slow in 2022, primarily driven by the anticipated increases in the policy interest rate by the Bank of Jamaica. Moreover, there is a stark preference for USD assets over JMD assets because investors are of the view that local bonds do not compensate for the level of inherent risk. Additionally, with the anticipated rate increases, investors are more willing to invest in shorter-term assets because of reduced risk and relatively more attractive rates. This newfound appeal of short-term instruments has and is expected

to continue impacting the secondary trading of local bonds because investors are again more inclined to look at short-term instruments, which have become more attractive in the rising interest rate environment. Nonetheless, brokers, led by NCB Capital Markets have been working to build a more vibrant secondary market for a local corporate bond, which should improve the tradability and liquidity of local corporate bonds. Moreover, the JSE's private market platform is also expected to contribute to activity for the asset class. We anticipate that more companies will list on the platform due to a myriad of benefits that can accrue to brokers, companies, and investors from doing so.

Alternatives Market

Globally, alternative assets that promised a steady absolute return enjoyed a further surge in demand in 2021 and this is expected to continue in 2022. Investors particularly turned their sights to the private equity space. Possibilities to invest in non-publicly traded companies had long been the exclusive privilege of large institutional investors, but in recent years, significant efforts have been made to ensure that private markets become accessible also to smaller institutional and even retail investors³².

Regionally, the most common forms of alternative investments are private equity, venture capital, and mezzanine financing, and these have been evolving to become an integral part of the financial system and the wider economy. Alternative investments have risen to critical importance, especially in the areas of infrastructure and SME financing as the business models of traditional commercial banks cannot facilitate the types of financing required. Case in point, regional governments are now looking

to alternative financing as a means of satisfying the significant demand for funding infrastructure assets in Latin America and the Caribbean (LAC) region due to years of underinvestment further complicated by fiscal challenges arising from COVID-19.

In the local space, the need for more investment solutions, diversification, and higher returns will continue to fuel the development of the alternatives market. Several financial institutions have started to place more focus in that area such as NCB Capital Markets, Sagicor Investments, JMMB Group, and Barita Investments. In 2022 we expect that these institutions and others will likely continue building out their alternative financing operations, to take advantage of the opportunities that are present in the market, and those that arose due to the COVID-19 pandemic. NCBCM, through Stratus Alternative Funds, has already launched Caribbean Mezzanine II (CMF II), Tourism Response Impact Portfolio (TRIP), and the Opportunity Fund. These funds provide investors with a broad range of non-traditional high-yielding alternative investment solutions and are tailored for investors with varying risk appetites.

³² Kaiser Partner Bank – 2021

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