



Remittance Critical to Jamaica staying Afloat in 2020

The economic crisis induced by COVID-19 is projected to be devastating for most economies in 2020. As the global population adjusted to life under travel restrictions and many stayed at home, in fear of the virus, economic activity came to a near standstill. Consequently, unemployment spiked during the peak of the pandemic - in the second quarter.

Although economic activities and employment levels around the world have rebounded, to varying degrees, they are still far from pre-crisis levels and as a result our near-term outlook remains highly uncertain. According to the International Monetary Fund (IMF), global Gross Domestic Product (GDP) is projected to decline by 4.4% in 2020 but expected to commence a recovery in 2021 with a global growth of 5.2%. Countries in Latin America & the Caribbean are expected to see a more severe contraction this year of 8.1% and experience a slower recovery rate in 2021 with growth of 3.6%.

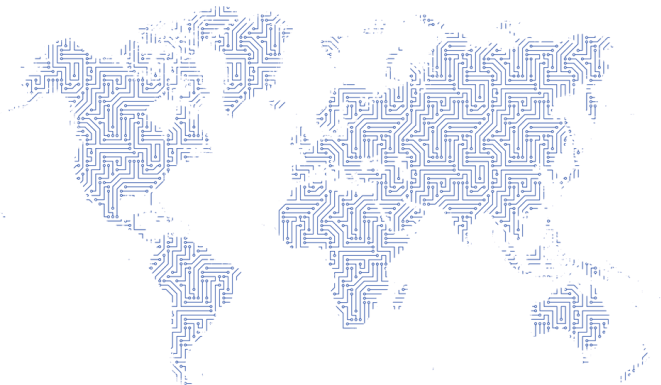
Similar to other economies in Latin America and the Caribbean, Jamaica's economy is expected to experience a steeper contraction in 2020, due to a combination of factors including the importance of the acutely impacted tourism sector to Jamaica's economy and its relatively greater dependence on external financing, including remittances. According to the IMF, Jamaica is projected to see a contraction of 8.6% in 2020 before expanding by 3.6% in 2021.

COVID-19 Impact on Remittances

Remittance flows to low-and-middle income countries (LMICs) hit a record high of US\$548.0 billion in 2019 and was larger than foreign direct investment (FDI) flows of US\$534.0 billion and overseas development assistance (ODA) of around US\$166.0 billion. In 2019, Jamaica's remittance inflows were US\$2.57 billion or 15.6% of GDP while FDI amounted to approximately 4.0%. As tourism, which contributed approximately US\$3.7 billion in 2019, had declined by over 60.0% up to September 2020¹, many households will be looking towards remittances to augment their consumption during this period of low economic growth.

Due to the impact COVID-19 is having on the trajectory of economic activities in the major migrant-hosting countries, including the United States, Europe and the Gulf Cooperation Council countries remittance flows to LMICs were projected to decline by 7.2% in 2020 followed by a further decline of 7.5% in 2021 in the World Bank's latest projections. These declines mark the largest seen in recent history and steeper than the 5.0% drop recorded in 2009 during the global recession. Unsurprisingly, the main factors impacting the projected declines in remittances were weak economic growth and job uncertainties in migrant-hosting countries, weak oil price and in many remittance-source countries, an unfavourable exchange rate versus the US dollar.

According to the World Bank remittances to Latin America and the Caribbean are expected to contract by only -0.2% and reach US\$96 billion in 2020. This would mark the first negative growth in remittances to the region since 2009. Consistent with the trend globally, remittances to the region contracted in the second quarter of 2020 but had largely rebounded after. Remittance flows to Jamaica contracted March to April and recovered after with an increase of over 43.0% in July 2020, when compared to July 2019. The United States of America (USA) remained Jamaica's largest source of remittances in the period, followed by Canada, United Kingdom (UK), and the Cayman Islands, with a ratio of 67.0%, 11.1%, 10.8% and 7.3%, respectively. On a year-to-date basis, up to July 2020, Jamaica's 13.4% growth in remittance inflow was among the highest in the region².

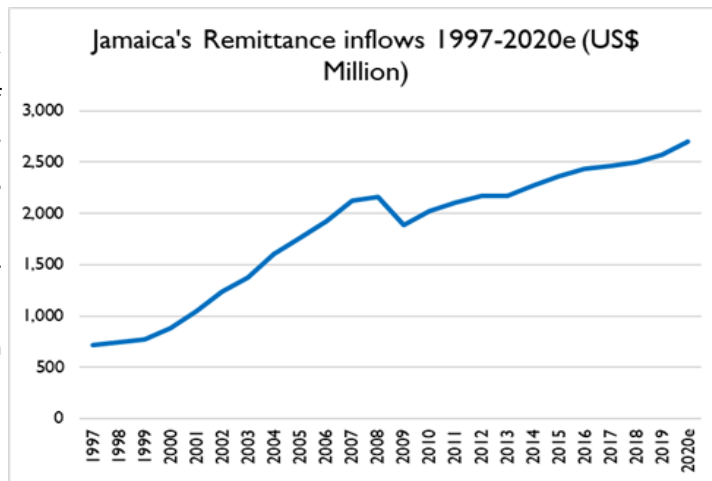


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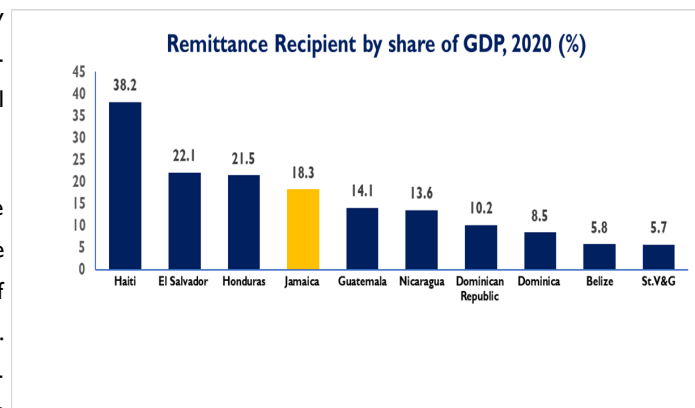
Anecdotally, the spike in July probably reflects the fact that the lockdowns in the months prior to July, resulted in funds being accumulated and remitted once restrictions were eased in the source countries.

It is also likely that the policy response by the various source countries governments assisted migrants and enabled them to remit funds to their dependents. Remittance flows are characterized as countercyclical during a growth slowdown in the recipient country and has helped Jamaica adjust to external and macroeconomic policy shocks (Maimbo and Ratha, 2005). The data presented in graph seem to concur with this, up to 2008. According to the data retrieve from the World Bank, remittance inflows to Jamaica climbed from US\$715 million to US\$2.16 billion over the period. The upward trend in remittances persisted during US economic downturn following the “9/11 Attack” and during local disasters as the May floods in 2002 and Hurricanes Ivan and Dean in 2004 and 2007, respectively³.

However, in 2009, during the global financial crisis, remittance inflows declined by approximately 12.0% before a return to growth in 2010. The results of the Bank of Jamaica (BOJ) survey conducted in 2010 found that about 70% recipients of the respondents indicated that remitters were impacted from reduced hours, job losses, job uncertainty, higher bills or mortgage payments. The BOJ survey also highlighted that in 2008/2009 majority of senders were concentrated in service-oriented occupations such as nursing, teaching, housekeeping and hotels and restaurant work which were less impacted back then. However, given the nature of COVID-19, which spreads during face to face interaction, these occupations are now the most impacted.



Notwithstanding its resilience so far, remittance to Jamaica which have become an important source of foreign exchange and balance of payments support could slow over the ensuing periods. The fact that unemployment is still very high in the US⁴ and the other main remittance source countries is the main support for our view. Additionally, the fact that the US Democrats and Republicans are yet to agree on a second stimulus plan adds further uncertainty, which is likely to negatively impact remittance flows to the country. According to World Bank remittance to Jamaica is projected to grow by 5.0% in 2020 for an estimated US\$2.7 billion. At this level remittance inflows to Jamaica will account for 18.3% of the country's GDP in 2020.



While a decline may be the most likely scenario, the resiliency in remittance cannot be downplayed. The resiliency in remittance likely stems from the strong ties between the migrant sending money back home and the recipients as well as the high motivation of majority of the senders to remit money altruistically, to support their family in Jamaica. However, the passing of a second stimulus in the US is critical to the resilience of remittance in the short term while the return of growth in the source countries is critical to growth of remittance over the medium to long term.

1. Jamaica Information Service - Ministry of Tourism
2. Bank of Jamaica – Remittance Bulletin - July 2020
3. Bank of Jamaica – Remittance to Jamaica Survey 2010
4. US Unemployment at 6.9% October 2020 – U.S. Bureau Labor Statistics

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