JAMAICA

COUNTRY ECONOMIC REVIEW 2020

Jamaican dollar (J$); United States dollar (US$). **US$1 = J$142.4**

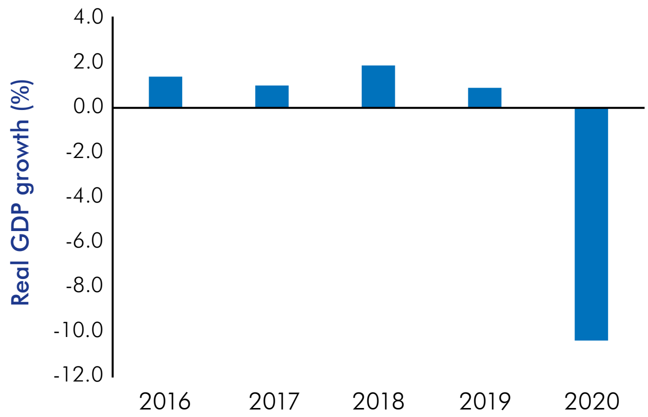
OVERVIEW

The economy was buffeted by the COVID-19 pandemic after much progress in economic stabilisation and reforms in recent years. The first confirmed case of the virus was reported on March 10, 2020. The number of confirmed cases have since increased to 12,915 persons based on 138,968 administered tests as at December 31, with 302 related deaths. The pandemic led to a sharp contraction in economic activity and rising unemployment. It disrupted fiscal operations and placed upward pressure on the public debt. Despite the adverse outcomes, prudent fiscal policy in the past and careful management of the pandemic led to an affirming of the country's credit rating of B+, although the outlook remains negative, given the uncertainty, related to the pandemic. Economic activity is expected to return to positive, albeit moderate growth in 2021.

KEY DEVELOPMENTS IN 2020

Economic activity contracted deeply. The Caribbean Development Bank (CDB) estimates a contraction of 10.2% in real gross domestic product (GDP) compared with low growth of 0.9% in 2019 (see Chart 1). The decline reflected a steep fall-off in tourism activity, as tourist arrivals fell by 66.9% (as at November). The social mobility restrictions due to COVID-19 led to adverse negative shocks to tourism and throughout the economy. In particular, manufacturing, transportation and other services were especially hard hit with double-digit declines in the second and third quarters. These declines were partly offset by higher levels of output in agriculture, forestry and fishing (2.5%) and construction activity (7.0%) in the third quarter. Value added for mining and quarrying is estimated to have grown in the fourth quarter, relative to the corresponding quarter of 2019 when the Alpart alumina refinery was closed. There were increases in both alumina and crude bauxite production.

Chart 1: Real GDP growth

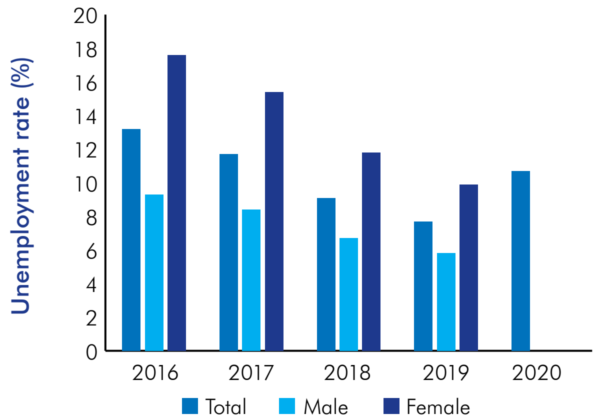


Sources: *Statistical Institute of Jamaica (STATIN), CDB.*

Inflation for the 12 months to December was recorded at 5.2%, within the target range of 4% to 6%. This outturn largely reflected higher food prices as a result of adverse weather conditions that reduced agricultural supply.

The unemployment rate increased to 10.7% in October (see Chart 2). This was 3.5 percentage points higher than the rate of 7.2% for the same period in 2019. Females were impacted slightly more by the rise in unemployment to 13.0% compared with 8.6% for males. The unemployment rate for youth aged 14-24 years rose to 27.8%, compared with 21.1% in October 2019. These trends may be due to the likelihood that women and youth are highly represented in the industries most disrupted by the pandemic (hotels and restaurants and personal services) and have borne a disproportionate share of the job losses.

Chart 2: Unemployment



Source: *STATIN.*

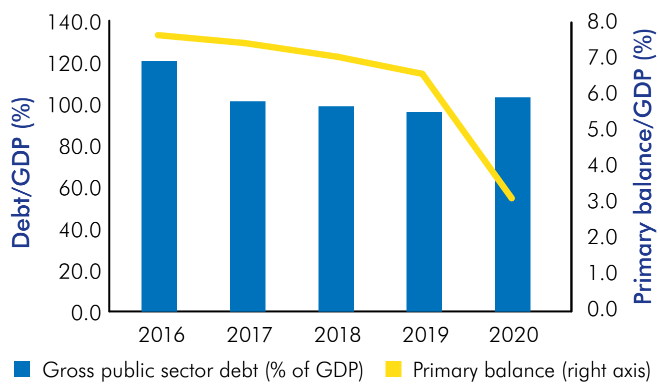
The pandemic led to a deficit fiscal outturn (see Chart 3). Fiscal operations, as estimated in the supplementary budget, is projected to yield a fiscal deficit of 3.5% for fiscal year (FY) 2020/2021; the first fiscal deficit in the past four years and a primary surplus of 3.1% of GDP. The primary surplus fell below the target of 5.4% (which was suspended) and the average balance of 7.2% over the previous six years.

Lower tax revenues and higher government fiscal stimulus spending contributed to the weakened fiscal outturn. Revenue and grants for the FY are estimated to be J$81 billion (bn) below the approved 2020/2021 budget, according to the Ministry of Finance and Public Service (MOF). Most of this decline can be attributed to lower border-related taxes, which comprise approximately 40% of tax revenue. Stimulus spending is expected to be approximately J$34 bn in FY 2020/2021. The key components of the fiscal stimulus included direct payments to households, tax relief and deferrals, social transfers, and business lending programmes.

The timeline to achieve the Government's debt target was deferred. The revised primary balance meant that the debt target of 60% of GDP by FY 2025/26 is unlikely to be attained, and therefore a two-year extension of the target timeline to FY 2027/28 was approved by Parliament. The impact of the pandemic also resulted in the revision of the fiscal rules. Public debt, which declined to 96.1% of GDP in FY 2019/2020 (its lowest level in two decades), is expected to rise to approximately 103% of GDP in FY 2020/2021.

Public spending was financed through diverse sources. The Government redirected resources from delayed capital projects and less urgent programmes, drew down on cash buffers built up over previous years, and accessed official lending, including the Rapid Financing Instrument of the International Monetary Fund.

Chart 3: Fiscal and debt performance



Source: *MOF.*

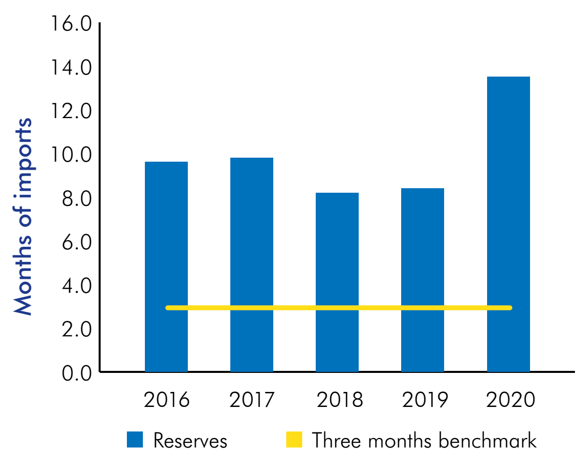
In December, Standard and Poor's (S&P) affirmed the Government's credit rating at B+, with a negative outlook. The S&P ratings considered the economic and financial realities faced by the country arising from the COVID-19 pandemic, and the actions undertaken by the Government to minimise the effects.

Accommodative monetary policy and preserving financial sector stability were prioritised to support a timely economic recovery. The Bank of Jamaica (BOJ) held its policy interest rate at 0.5% in December, and provided sizeable liquidity support in Jamaica and United States dollars (equivalent to 11% of GDP) to deposit-taking institutions (DTIs) and securities dealers. BOJ also allowed the exchange rate to adjust in response to the shock (annual average depreciation of 10.5%) but monitored and intervened, when necessary, to smooth undue foreign exchange volatility. BOJ's assessments of DTIs' balance sheets indicate they are adequately capitalised with prudent liquidity standards. The ratio of non-performing loans to total loans increased to 2.8% as at December, the highest share of non-performing facilities since end-2016 but well below the benchmark of 10%. DTIs' provisioning remained sufficient to withstand credit losses.

The current account deficit will increase but remains at a sustainable level. BOJ estimates that the current account deficit will amount to between 2% and 4% of GDP. This is supported by stronger than expected remittance inflows (which increased by 17.7% year on year as at September), lower imports, and lower levels of private capital outflows.

Foreign reserves remain above the international benchmark of three months of imports (see Chart 4). Net international reserves were US$3.1 bn as at December, an estimated 13.5 months of import coverage. The strong reserve position has been steadily growing due to sustained policy action over the past seven years and official lending.

Chart 4: Net international reserves



Source: *BOJ.*

OUTLOOK

Economic activity is expected to grow in 2021. While there remains uncertainty regarding the strength of the recovery, CDB projects economic growth of 3.0%. The improved economic prospects is premised on a gradual rise in tourist arrivals and the availability and steady roll-out of the COVID-19 vaccine. Although some capital projects have been delayed amid the pandemic, financial support to the tourism sector (part of the stimulus spending) has buoyed investor confidence. As a result, CDB expects that private investment will rebound in 2021.

Downside risks are high. Risks to the forecast include continued lockdowns in major tourism source markets, such as the United Kingdom and the United States of America, and delayed deployment of the COVID-19 vaccine. On the upside, a quicker than expected rebound in tourist arrivals and continued prudent economic management could spur investment activity and foster accelerated growth in the economy.

Public policy in the medium term will need to focus on a return to fiscal austerity, once COVID-19 disappears. As the Government remains committed to achieving its debt-to-GDP target of 60% in FY 2027/28, this will involve significantly rationalising expenditure to increase fiscal space, but may also slow the pace of the recovery.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	1.4	1.0	1.9	0.9	-10.4*
Average inflation (%)	2.3	4.4	3.7	3.9	5.2
Unemployment (%)	13.2	11.7	9.1	7.7	10.7**
Primary balance (% of GDP)	7.6	7.4	7.0	6.5	3.1
Public sector debt (% of GDP)	120.7	101.0	98.7	96.1	103.0

Sources: *STATIN, Planning Institute of Jamaica, CDB.*

*Note: *CDB estimate as at 31 March 2021. **For October 2020.*

Disclaimer