

Notes on Jamaica's COVID-19 Economic Recovery

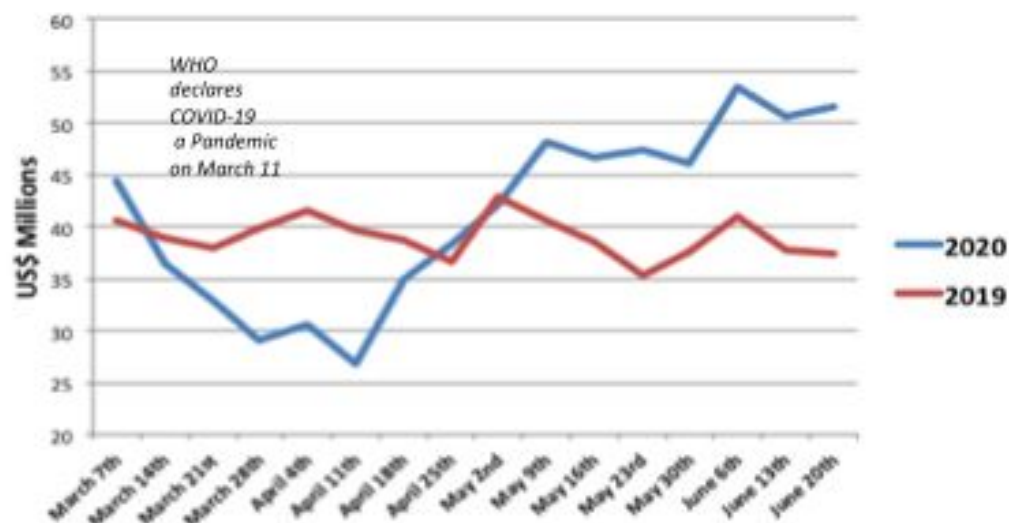
Hon. Nigel Clarke, D.Phil., MP

Minister of Finance and the Public Service

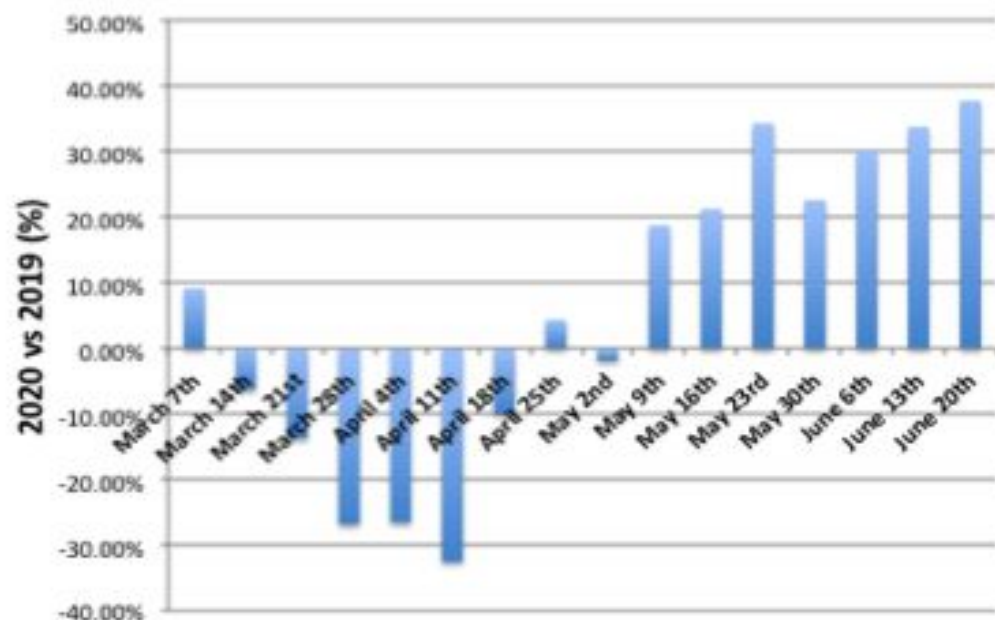
COVID-19 Economic Impact

- Demand Shock
- Supply Shock
- Expected 12% Decline in GOJ Revenues
- Fall in FX Inflows
- Widening of Current Account Deficit from approx 2%-3% to 7%
- Lower FDI
- Increase in Unemployment
- Weakened Credit Quality
- Decline in Economic Output – 4% -6% for 2020/21

Remittance Inflows (US\$M) 2020 vs 2019

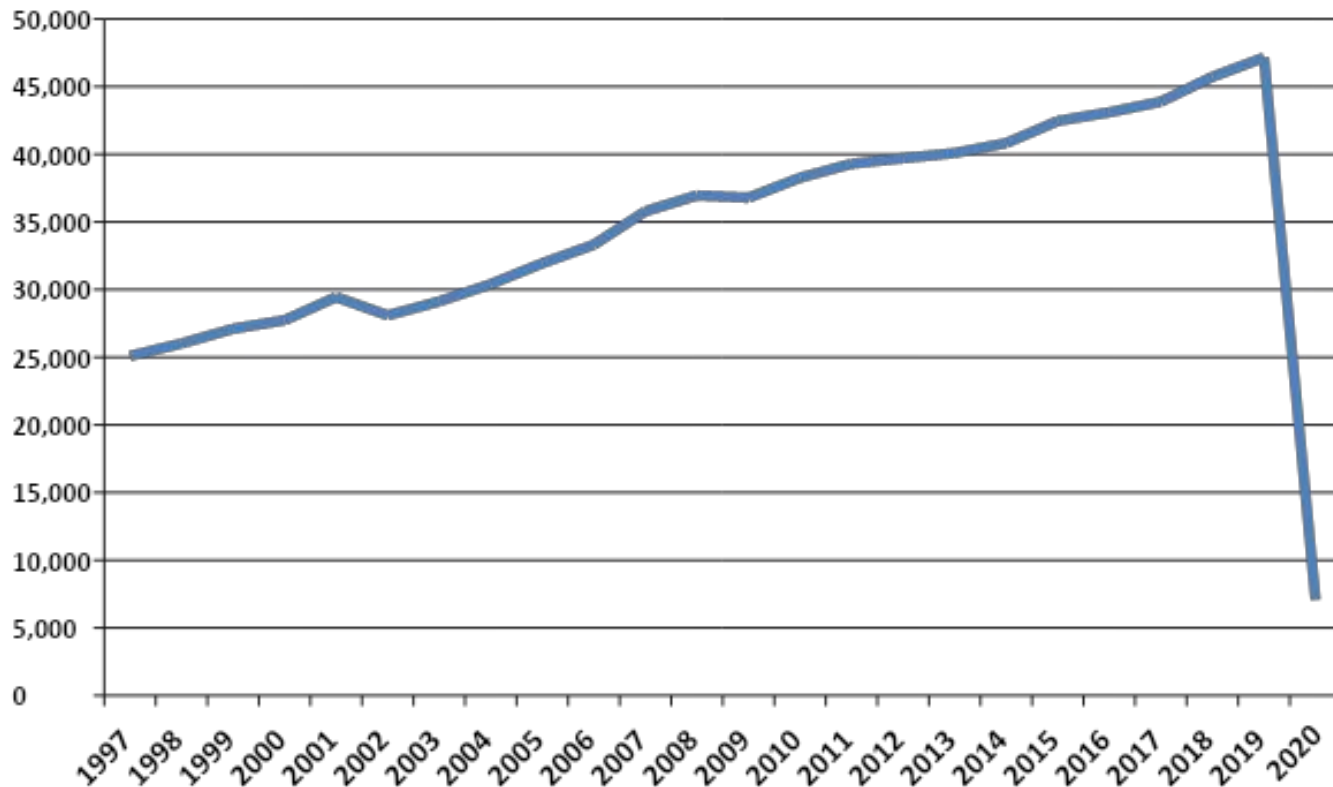


Change in Remittance Inflows (%) 2020 vs 2019



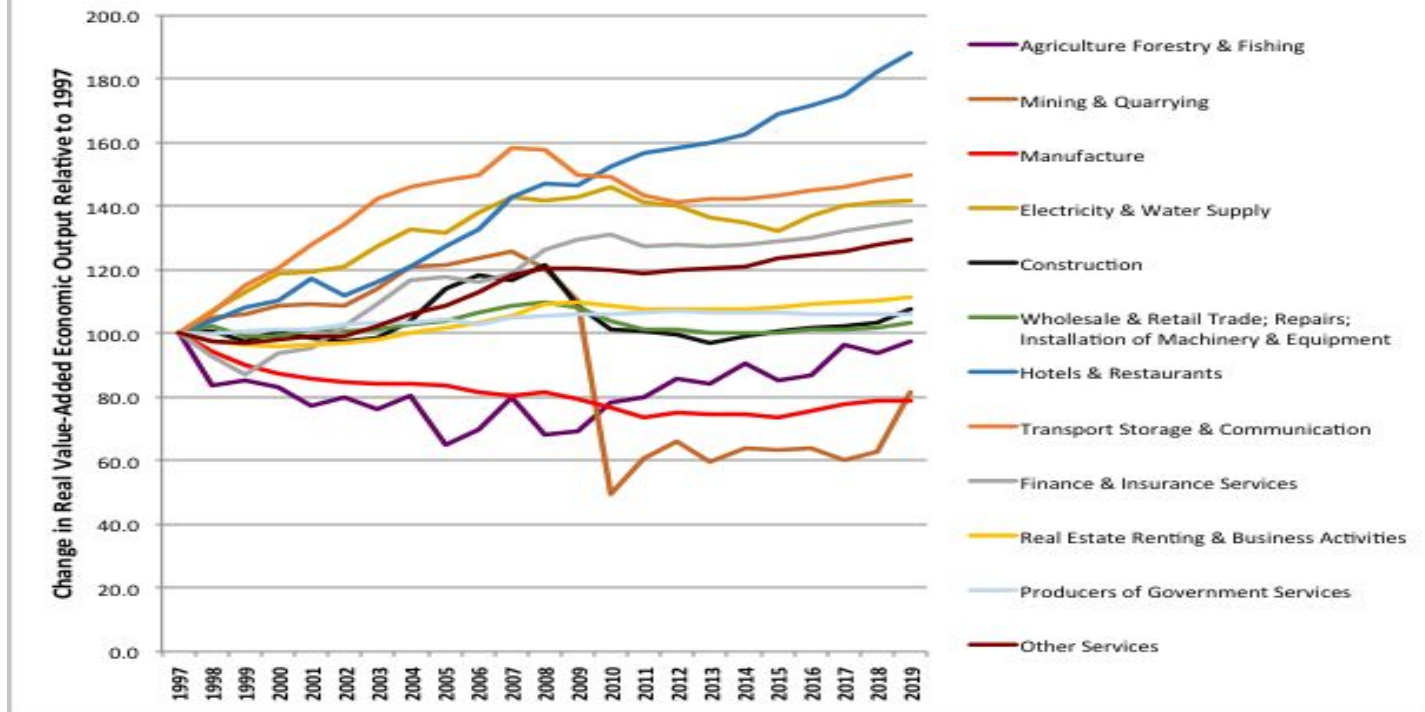
Tourism Sector GDP

Value Added by Hotels and Restaurants
Constant 2007 prices in J\$ Millions



Real economic output from the tourism sector, adjusted for inflation, grew by 180% between 1997 and 2019, far outstripping the real increase in the size of the Jamaican economy over that period of 14%. Economic output in tourism that took 23 years to build was lost in a single quarter

**Comparative Change in
Real Value-Added Economic Output by Sector
1997 -2019**



Given the current structure of the Jamaican economy, economic recovery will require a recovery of the tourism sector, given its contribution. Tourism has grown at an average quarterly rate of 3% over the past 23 years, almost six times the rate of the overall economy. It will be difficult to recover if this, our best performing sector by far – in terms of growth of economic output – does not recover. This is a simple fact. We cannot have our heads in the sand about this. We will need other sectors to recover too. However, we have to recover from the “knock-out blow” that our fastest growing sector, has received while ensuring that other sectors recover too. In doing so we want economic output in a recovered tourism sector to benefit the wider economy in a more substantial way than in the past. Deeper local supply linkages, more consistent quality, better prices, more sustainable environmental practices.

Worst Annual GDP Contractions in Jamaica's History

YEAR	ANNUAL GDP DECLINE	PRINCIPAL CAUSE
1976	-6.5%	Commodity price & supply shocks and social turmoil
1980	-5.7%	Balance of Payments crisis
1985	-4.5%	Commodity price shock
2009	-3.2%	Global financial crisis

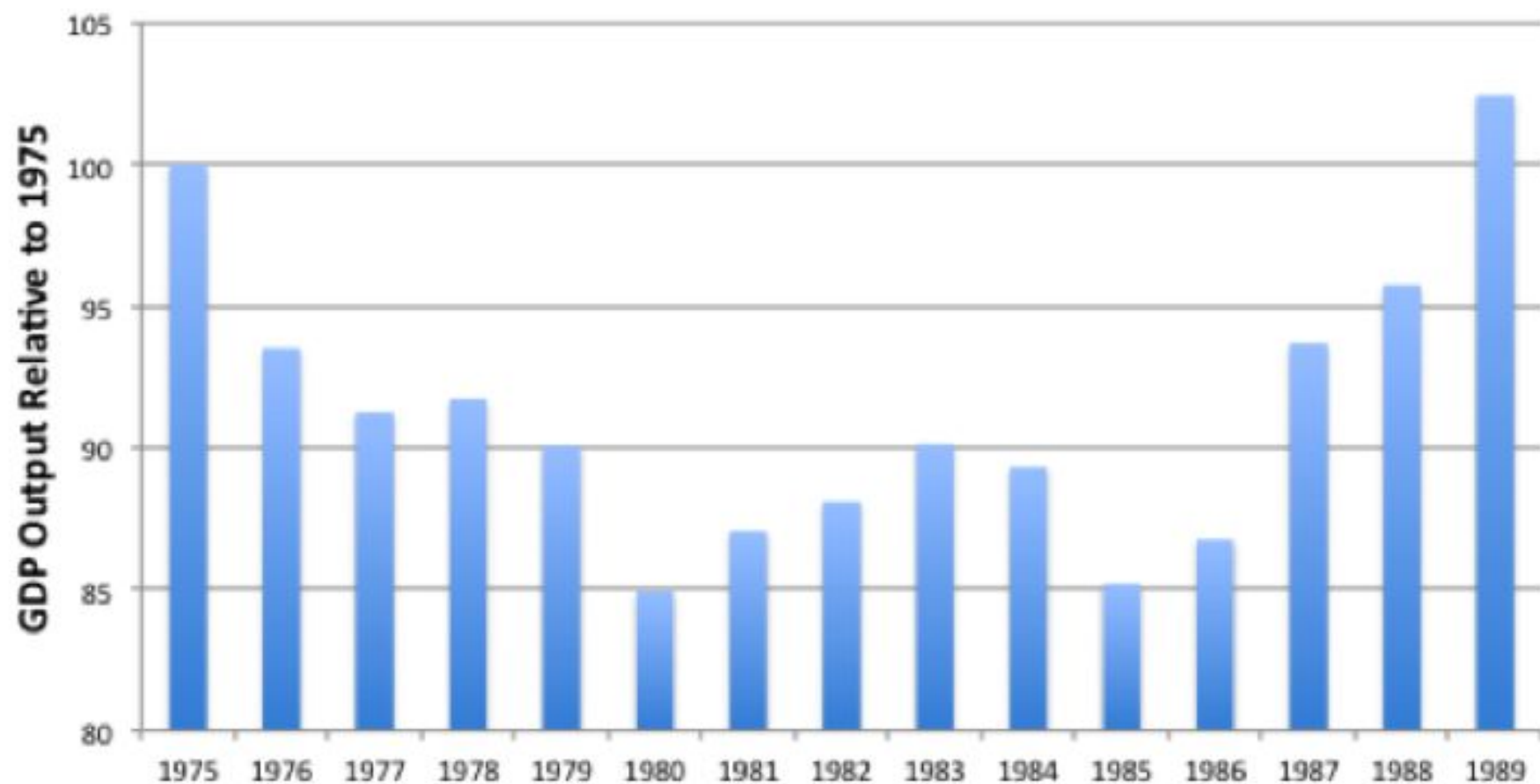
The annual economic contraction due to the pandemic will be among the worst, and could well be the worst in Jamaica's history

Worst Quarterly GDP Contractions since STATIN started to measure Quarterly Growth in 1997

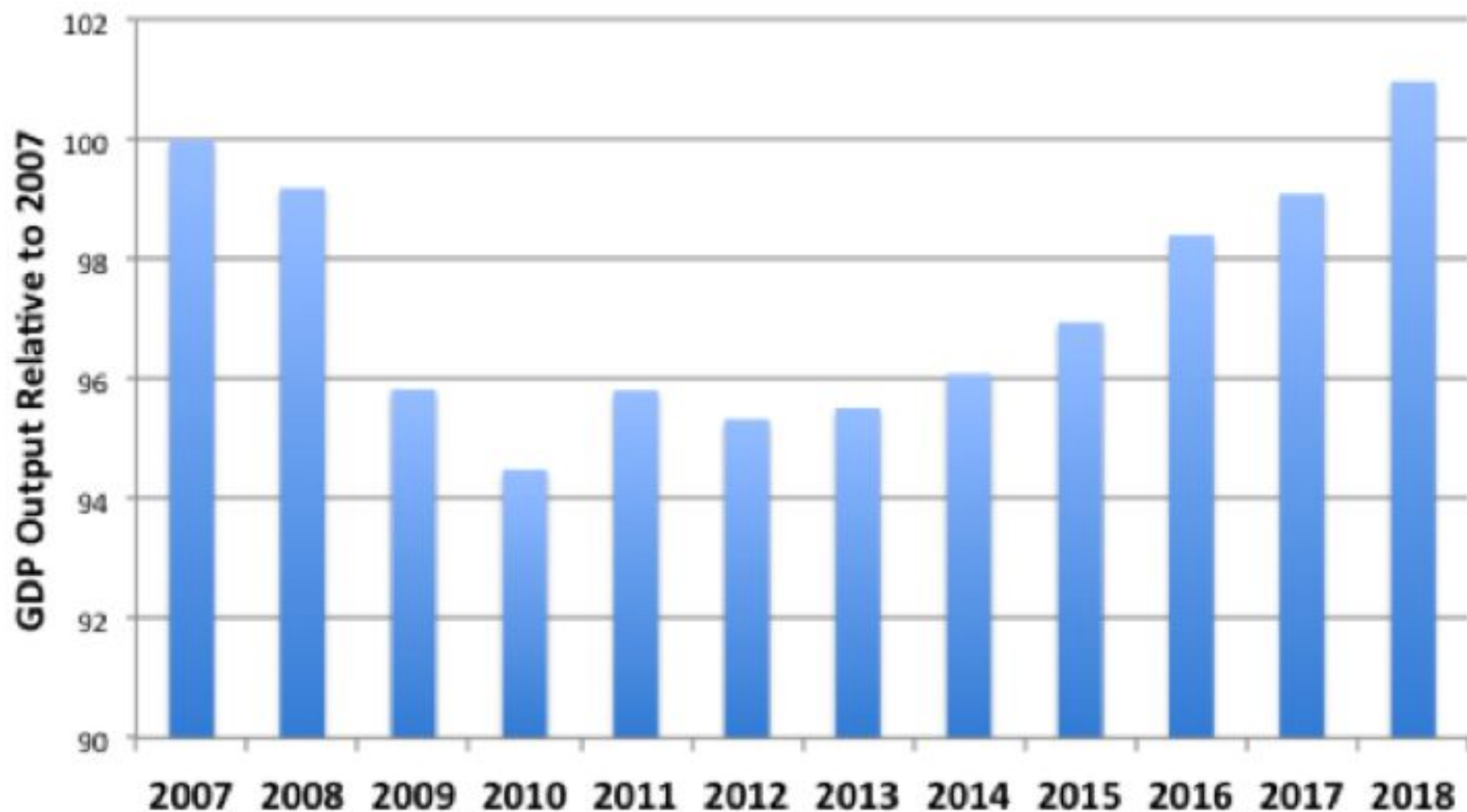
YEAR	QUARTERLY GDP DECLINE	PRINCIPAL CAUSE
Q2 2009	-4.6%	Global Financial Crisis
Q1 2009	-3.9%	Global Financial Crisis
Q1 1997	-3.2%	Local Financial Sector Crisis
Q4 2009	-2.6%	Global Financial crisis

The quarterly economic contraction for the June 2020 quarter due to the pandemic is expected To be 12% - 14% which will be the worst, by far, in Jamaica's history

**GDP output using 1975 as Base Year
Deep "U Shaped" 14-Year Economic Recovery
1975 - 1989**



GDP output using 2007 as Base Year
Deep "U Shaped" 11-Year Economic Recovery
2007 - 2018



What Kind of Recovery can Jamaica Expect?

- Jamaica's COVID-19 Economic Recovery will take time but less than in prior crises
 - Fiscal Responsibility has provided buffers – lower debt
 - Monetary Reforms have provided buffers – increase in non borrowed reserves by US\$1 billion between 2016 and 2019
 - Pre-COVID Monetary Easing has Provided Buffers – entered the crisis with record low interest rates
 - Capitalisation of the Central Bank has Provided Buffers – The GOJ's \$20.6 billion capitalisation of BOJ and settling of losses of \$33.2 billion by the GOJ in 2018/19 and 2019/20 has given the BOJ policy strength which is useful at this time
 - Disaster Contingency Policy has Provided Buffers - \$4.5 billion in contingency fund placed in 2018/19 and 2019/20 came in handy”
 - GOJ Cash reserves have provided buffers – Accumulation and deployment of \$87 billion of GOJ cash reserves have cushioned the impact. Accumulated from fiscal over-performance, privatisations, reintegration of public bodies and originally intended to pay down on debt, these cash resources have assisted at this time of crisis
- Two- Four year recovery. That is two- four years to surpass the level of aggregate economic output we had as at December 2019. Will require preservation of macro-economic stability and the pursuit of reform with ambition.

Please see the COVID-19 Economic Recovery Task Force Report for more details

<https://www.mof.gov.jm/documents/documents-publications/document-centre/file/2431-covid-19-economic-recovery-task-force-rebuild-jamaica.html>