Jamaican Economy Panel

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Department of Economics
THE UNIVERSITY OF THE WEST INDIES
MONA CAMPUS

JEP Discussion 1 | April 2021

Jamaican Economy Panel (JEP)

The Jamaican Economy Panel is a new initiative, bringing together a selection of economic and public policy experts who will provide a monthly discussion on a particular topic. The JEP is an initiative of the United Nations Resident Coordinator's Office (UNRCO) and the Department of Economics at The University of the West Indies (UWI) Mona. The experts have been handpicked by the JEP team and bring together academia, the private sector and international institutions. All panelists, resident and abroad, either work in Jamaica or on issues relevant to the Jamaican economy. For any information about the JEP, feel free to reach out to **Olaf J. de Groot** (**olaf.degroot@un.org**), economist at the UNRCO.

Round 1: April 2021 – Recovery from the COVID-19 pandemic

As the first JEP round, it would have been remiss not to address the most important challenge the world and Jamaica are facing right, which is the economic recovery from the COVID-19 pandemic. In 2020, real GDP declined by approximately 10 per cent[1] , reversing years of economic growth. Short-term forecasts are rather uncertain, with IMF estimating GDP growth of 1.5 and 5.7 per cent respectively in 2021 and 2022, whereas the Bank of Jamaica estimates 2.0 to 4.0 per cent growth for the next three years[2]. The Economist Intelligence Unit (EIU) is more positive than others in the short run, forecasting 3.6 and 6.0 per cent respectively in 2021 and 2022, but expects a much steeper growth decline afterwards[3]. Finally, the Economic Commission for Latin America and the Caribbean (ECLAC) estimates a 2 per cent growth rate for 2021[4]. These figures are demonstrated in the table.

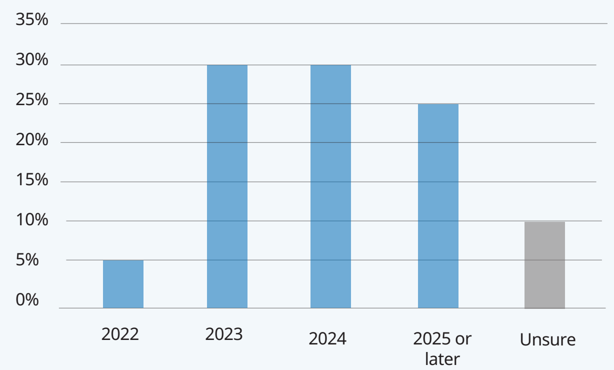
Forecasts of real GDP growth by different institutions

	2019	2020	2021	2022	2023	2024
IMF	1.0	-10.2	1.5	5.7	4.4	3.0
BOJ	0.9	-9.9	2.0-4.0			
EIU	0.9	-10.3	3.6	6.0	1.3	0.6
ECLAC	0.9	-9.0	2.0			

Returning to pre-COVID level of GDP

To gauge the perspectives of the panelists, the following question was asked: "When do you think Jamaica will return to its pre-COVID level of real GDP?". The answers provided by the panelists were distributed as shown in the accompanying figure.

Return to pre-COVID level of real GDP



The results indicate a high degree of uncertainty, with 2023 and 2024 being chosen most often as the year when the economy will return to its pre-COVID state, though with a substantial proportion also believing that it will take until 2025 or later to fully recover from the crisis. For those panelists who believe that GDP will not recover until 2024, the levels of uncertainty about the recovery are simply too great. The tourism sector, which is so important for Jamaica faces particularly high levels of uncertainty. **Therese Turner-Jones**, General Manager of IDB Country Department Caribbean, points out:

> "Tourism will not return to pre-crisis levels until Jamaicans are fully vaccinated. Global travel will only get back on track towards the end of 2023.

Dr. Andre Haughton, Senior Lecturer, UWI, Mona is one of those who believes that GDP should be able to recover by 2023, though even he points out the following:

> "[While] things might pick up by next year, the lack of proper control mechanisms for the virus will cause friction for key areas such as entertainment and sports."

Finally, many of the experts that do not believe a full recovery can take place until 2025 or later focus on the structural weaknesses of the Jamaican economy and they point to the fact that growth rates were low before the crisis, highlighting the absence of structural reforms that would enable to economy to grow more rapidly.

[1] https://statinja.gov.jm/PressReleases.aspx?field1=gdpq#, https://www.imf.org/en/Countries/JAM.
[2] http://www.boj.org.jm/uploads/pdf/qmp_report/qmp_report_october_december2020.pdf.
[3] http://country.eiu.com/Jamaica.
[4] https://repositorio.cepal.org/bitstream/handle/11362/46504/97/PO2020_Jamaica_en.pdf.

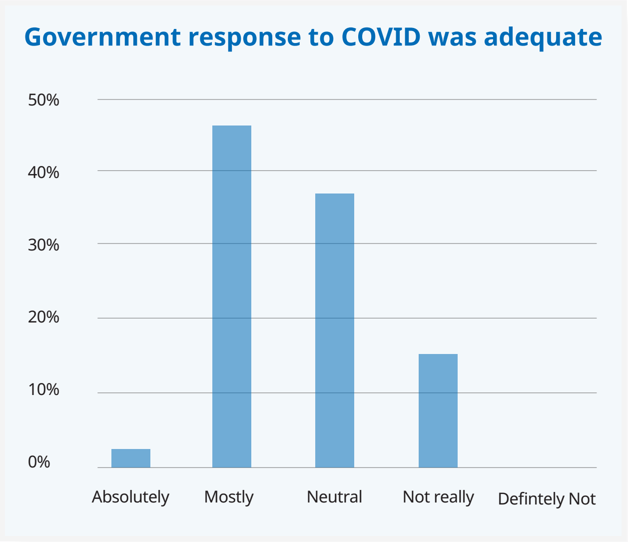
Government response to support the economic recovery

While the COVID-19 pandemic was clearly an external shock to the Jamaican economy, it is worth considering how the panelists rate the Government response to the shock. The first question posed to the respondents was the following: “Do you believe that the Government of Jamaica is doing enough to help the economy recover from the impact of COVID-19?”. As shown in the accompanying figure, most respondents were quite positive about Government policy in response to the crisis, with only a minority (15 per cent) arguing that the response was insufficient.

In their more detailed responses, the panelists mostly acknowledged the commitment to a tight fiscal policy focused on debt control. For example, **Olaf J. de Groot**, Economist at the UN Resident Coordinator’s Office points out the following:

> Debt control continues to be a key issue for the government, meaning that it may be underinvesting in the economic recovery. On the other hand, it is crucial to keep control over the debt burden, so the government is walking a tightrope.”

Some of the commenters point out that the Jamaican debt burden is such that any further government action could only be done when supported by the international community. **Dr. Patricia Northover**, Senior Fellow, SALISES, UWI, Mona, shares the following:

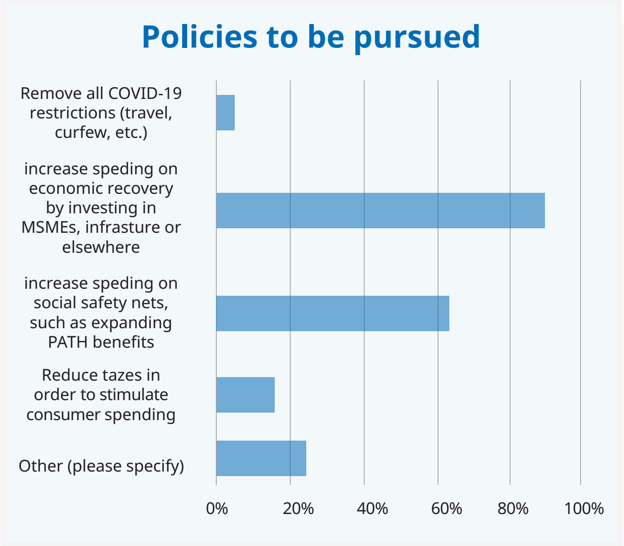


> “[T]o remain fiscally conservative, COVID spending was amongst the lowest in the region at 1.2% of GDP[5]. Given the scale and depth of the crises, much more will be needed in terms of public investments beyond the current (FY 2021/2) SERVE public expenditure programme of JMD 60 billion. However, a less conservative fiscal stance by a Caribbean small island state, such as Jamaica, will need the support of the global aid community as well as a rethinking of the logic of international debt ratings regimes, development finance and aid for vulnerable small states.”

In addition to evaluating current policies, it is also worthwhile exploring what the panelists recommend at this stage. The question asked to identify these was the following: “In your opinion, which of the following policies would be most beneficial for a rapid and sustainable economic recovery?”. This question aims to identify what the panelists see as the most fruitful way forward. As can be seen in the accompanying figure, there is overwhelming support for increasing investment in MSMEs, infrastructure and elsewhere. As **Keith Collister**, financial analyst and Observer columnist states:

> Putting money behind a strategy of increasing digitalization for school students and small business, as well as finding a way to provide quick flexible equity capital for small business, would make our eventual recovery faster.

Increasing spending on social safety nets, including the expansion of PATH benefits also is supported by a large majority of the respondents. There is only meagre support for tax reductions or the immediate removal of COVID-19 restrictions. As for other policies, different ideas are mentioned that focus on increasing the competitiveness of the Jamaican economy. Amongst the main challenges that should be overcome in the short run are low productivity, a high regulatory burden and limited integration with Global Value Chains. **Ozan Sevimli**, Resident Representative, World Bank Jamaica and Guyana, for example, argues the following:



> Investments in digital transformation and critical energy infrastructure would enable the country to ensure the recovery is more inclusive and sustainable.”

Conclusion

The first round of the Jamaican Economy Panel focused on the economic recovery in Jamaica. The panelists are somewhat pessimistic about the timing of the post-COVID recovery, with 2024 being the average expectation. However, the panelists generally think the Government of Jamaica has done a decently good job at supporting that process of economic recovery, yet they have specific suggestions for what policies would help the recovery at this stage.

The COVID-19 pandemic is not the cause of the structural challenges hampering the Jamaican economy, but it has helped to bring some of those challenges to the fore. The productivity gap is one of the key drivers of the structurally low level of economic growth. This means that investments in infrastructure, education and the access to finance for MSMEs will be necessary to increase the level of growth in the medium-to-long term.

[5] https://www.cepal.org/en/publications/46071-economic-survey-latin-america-and-caribbean-2020-main-conditioning-factors-fiscal