JAMAICA

Political Outlook:

Jamaica's last general election was February 25, 2016 when the ruling Jamaica Labour Party obtained a narrow victory over the People's National Party, winning 32 of 63 parliamentary seats and confirming Andrew Michael Holness, ON, MP, as Prime Minister. Since then, the Jamaican government has enacted a number of policies that have helped improve the executive branch's efficiency, transparency and governance.

Policies sustained by the precautionary Standby Agreement (SBA) (2016-19) and its predecessor Extended Fund Facility (EFF) (2013-16) facilitated a significant improvement in public sector transformation and a host of vital macroeconomic variables, producing remarkable results.

In 2017, the Government of Jamaica (GoJ), created the Transformation Implementation Unit (TIU) which has, to date realized approximately $1 billion in savings from the rationalization of public bodies.

In 2019, the stamp duty tax was abolished, and transfer tax rate reduced to promote competition within the financial services market by removing the cost to change service providers.

In 2020, General Consumption Tax (GCT) was lowered by 1.5 base points to 15%. The importance of this reduction is underscored by the 'reach' of the tax. Had the tax cut targeted the Pay as You Earn (PAYE-type of tax) this would only benefit a few hundred thousand Jamaicans who fall in the formal economy. GCT is a broad-based tax initiative that will benefit the wider society to include the informal sector which accounts for 2/3rd of the economy.

As of March 2020 however, the Government's focus has shifted to its management of the Covid-19 Pandemic. The GoJ has implemented several measures to strategically slow down the economy whilst safeguarding the nation's health.

Economic Outlook:

The Jamaican economy has experienced 19 consecutive quarters of growth from 2014-2020. This is due to low and stable inflation, accumulation of gross international reserve, decreased public debt and reduced unemployment.

The Bank of Jamaica (BoJ) successfully maintained an inflation rate within the target range of 4% – 6 % over the past two years. To put this in context, over the past 25 years (excluding 2018-2020) the country saw inflation rates as high as 25% with an average rate of 11% for same period.

The nation has, over the past two years continued to maintain a foreign currency reserve instrumental to the central banks' ability to stabilise the dollar, maintain liquidity, manage inflation and inspire consumer confidence in the economy.

Public debt, as a percentage of Gross Domestic Product (GDP) decreased from 101.1% (2018) to 94.4% (2019), coming from a high of 145.8% at the start of 2013. Between 2018 and 2020 unemployment rates decreased from 9.45% to an all-time low of 7.4% (halving the 2014 14.2% rate). The Central Bank decreased the policy rate from 1.75% (2018) to 0.5% (2020). The lowered policy rate aims to boost economic activity by fostering credit expansion. The aforementioned indicators have led to the creation of fiscal space.

This fiscal space has allowed the government to, in light of the Covid-19 pandemic, create a seven-billion-dollar contingency fund to be used as the need arises. The Finance Minister announced an additional J$5.4 billion supplementary fund that will be distributed to taxpayers who have since lost their sources of income due to the virus.

The Bank of Jamaica on April 24 announced that will suspend the distribution of profits by way of declaring dividends in any manner (cash or stock) for the 2020 financial year, until further notice. The BoJ said this is being done with a view to conserving capital and further enhancing licencees' lending and loss absorption capacities.

The BoJ says notwithstanding the current effects of the pandemic on normal business activities, the fundamentals of the Jamaican financial system continue to be strong with licensee's capital and liquidity exceeding current regulatory requirements and established prudential norms.

Investment Trends:

The scope of investment has changed drastically in the last decade. Between 2007-2013 investors shifted their interests from Repurchased Agreements and Government bonds to private equity, stocks, private bonds and real estate (as Jamaicans tapped into the Airbnb market) from 2014-present.

The Jamaica Stock Exchange (JSE) was determined to be the world's best performing Exchange by Bloomberg in 2015 and 2018. In 2017, the Exchange listed its first non-traditional financing agency, Sygnus Group. They offer customised, flexible and alternative lending channels that cater specifically to medium-sized firms in a bid to promote expansion and growth. They target a number of sectors (to include but are not limited to), financial services, energy, real estate, manufacturing and distribution. In 2019, the region's first renewable energy company, MPC Caribbean Clean Energy (MPCCEL) was listed on the JSE underscoring the effort to diversify the energy sector.

For the 2018-2019 period, agencies such as Standard and Poors (S&P), Moody's and Fitch, upgraded Jamaica's ratings from B to B+ with a positive outlook. Congruently consumer and business confidence in the economy remain positive, with both indices recording increases for the first quarter of 2019.

Following the coronavirus outbreak, the Fitch rating agency subsequently revised Jamaica's outlook to "Stable" from "Positive", while affirming its long-term foreign currency issuer default rating at B+.

Fitch said the revised outlook reflected the shock to Jamaica from the ongoing global novel coronavirus disease (COVID-19) health crisis, adding that due to the pandemic, the country will experience a sharp contraction in its main sources of foreign currency revenues — tourism, remittances and alumina exports.

The Jamaican government noted that Fitch "forecasts that the gains made in keeping the its debt-to-GDP on a downward trend will be disrupted". As such, Fitch expects the economy to contract by 4.0 per cent in 2020 but will recover in 2021 with estimated growth of 2.0 per cent.

Fitch also highlighted that Jamaica had other mitigating factors to help cushion the impact on the economy. These include a balanced budget in the financial year 2019/2020, liquid local sources of financing, a reasonable foreign reserve position, strong relations with international financial institutions, and a benign debt amortization profile for the next couple of years.

The International Monetary Fund (IMF) has also projected that the Jamaican economy will contract by 5.6 per cent in 2020 from its previous growth forecast of 1.0 per cent, arising from what the lending agency describes as the 'Great Lockdown'.

The IMF stated that it is "very likely" that the global economy will experience its worst recession since the Great Depression and surpass that seen during the global financial crisis a decade ago. Jamaica experienced its worst decline during the period of the global financial crisis at negative 4.8 per cent in 2009.

To note, alternative funding is being provided for firms in the key sectors the Caribbean Development Bank (CDB) contends are poised for growth in 2020, namely tourism, manufacturing, agriculture, and construction.

Overall investors are optimistic about the Jamaican economy as they are reaping rewards from policy continuation, macroeconomic stability and growth in the private sector. Like the rest of the world however, investment outlook will be negatively impacted by the Corona-19 pandemic.