



UNDP LAC C19 PDS N°. 9

Social and economic impact of the COVID-19 and policy options in Jamaica

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Abstract

As the rest of the world, Jamaica is confronting the problems derived from the Covid-19 pandemic. Economically and socially, Jamaica will face a very difficult year. The sudden stop in tourism and the fall in alumina prices, the two main exports, are generating an increase in unemployment and a fall in the projected GDP. Unlike previous crises, Jamaica is in a robust fiscal and macroeconomic position to develop a strong emergency response. The Government has established two sets of stimulus policies, but these responses are showing limitations that should be addressed fast. On the one hand, the fiscal stimulus is based mainly on a 1.5 percent consumption tax reduction and it's not targeted to those most affected. On the other hand, the targeted cash grants have already exhausted the budget allocation and the wide range of new emergency programs will generate administrative inefficiencies. The Government should redirect the fiscal effort to sustain businesses and jobs and increase cash transfers through existing social programs for unemployed formal and informal workers.



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Introduction to the series:

Evidence, Experience, and Pertinence in Search for Effective Policy Alternatives

The Covid-19 pandemic is one of the most serious challenges the world has faced in recent times. The total cost in terms of human lives is yet to unfold. Alongside the cost of lives and deep health crisis, the world is witnessing an economic downfold that will severely impact the wellbeing of large parts of the population in the years to come. Some of the measures that are currently being used to counteract the pandemic may impact our future lives in non-trivial ways. Understanding the association between different elements of the problem to broaden the policy space, with full awareness of the economic and social effects that they may bring, is the purpose of this series.

Thus far, the impossibility of targeted isolation of infected individuals and groups has led to policies of social distancing that impose a disproportionately high economic and social cost around the world. The combination of policies such as social distancing, lockdowns, and quarantines, imply a slowdown or even a complete stop in production and consumption activities for an uncertain period of time, crashing markets and potentially leading to the closure of businesses, sending millions of workers home. Labor, a key factor of production, has been quarantined in most sectors in the economy, borders have been closed and global value chains have been disrupted. Most estimates show a contraction of the level of output globally. For the Latin America and Caribbean region, the consensus forecasts are at -3 to -4%, and it is not until 2022 that the region is expected to go back to its pre-crisis output levels in scenarios that foresee a U-shaped crisis pattern. According to ECLAC, more than 30 million people could fall into poverty in the absence of active policies to protect or substitute income flows to vulnerable groups.

We face a crisis that requires unconventional responses. We are concerned about the level-effect: the impact of the crisis on the size of the economies and their capacity to recover growth after the shock. But we are equally concerned about the distributional impact of the shock. The crisis interacts with pre-existing heterogeneity in asset holdings, income-generation capacity, labor conditions, access to public services, and many other aspects

that make some individuals and households particularly vulnerable to an economic freeze of this kind. People in the informal markets, small and micro entrepreneurs, women in precarious employment conditions, historically excluded groups, such as indigenous and afro-descendants, must be at the center of the policy response.

UNDP, as the development agency of the United Nations, has a long tradition of accompanying policy-making in its design, implementation, monitoring and evaluation. It has a mandate to respond to changing circumstances, deploying its assets to support our member states in their pursuit of integrated solutions to complex problems. This series aims at drawing from UNDPs own experience and knowledge globally and from the expertise and capacity of our partner think tanks and academic institutions in Latin America and the Caribbean. It is an attempt to promote a collective reflection on the response to the Covid-19 health crisis and its economic and social effects on our societies. Timeliness is a must. Solutions that rely on evidence, experience, and reasoned policy intuition –coming from our rich history of policy engagement– are essential to guide this effort. This series also contributes to the integrated approach established by the UN reform and aspires to become an important input into the coherent response of the United Nations development system at the global, regional, and national levels.

Ben Bernanke, former Governor of the US Federal Reserve, reminds us in his book *The Courage to Act* that during crises, people are distinguished by those who act and those who fear to act. We hope this policy documents series will contribute to the public debate by providing timely and technically solid proposals to support the many who are taking decisive actions to protect the most vulnerable in our region.

Luis F. Lopez-Calva

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Regional Director, Latin America and the Caribbean
New York, March 2020*



Introduction

The world is facing a global pandemic of unprecedented scale in recent history. The Covid-19 is a health threat that every country is trying to cope with using the resources and mechanisms they have at hand. Quarantines and curfews are currently the best actions against the Covid-19 but at the cost of a potentially dramatic economic recession. Developing countries will face a rise in unemployment and poverty, which should be addressed quickly and decisively. In this context, the UNDP Covid-19 Policy Documents Series is an attempt to promote a collective reflection on the response to the health crisis and its economic and social effects on our societies.

This document reviews the social, fiscal, and economic context of Jamaica, identifying strengths and weaknesses, and presenting ideas to improve the policy toolkit needed to deal with this international crisis. In addition to community social distancing policies and working hours restrictions, the Government has established two sets of stimulus policies, the Fiscal Stimulus Response program and the Covid Allocation of Resources for Employees program (CARE). These programs attempt to maintain consumption, protect businesses, sustain employment, and protect unemployed and informal workers.

Unlike previous crises, Jamaica is in a better position to develop an emergency response to the crisis and reduce its impact on poverty and unemployment. Jamaica shows very promising fiscal numbers, which reflect the financial reforms and macroeconomic stability achieved in recent years. However, poverty is still prominent, especially in rural areas, growth is slowing down and inflation increased during the last quarter of 2019. The fiscal and economic stimulus response from the government was a good attempt to buffer the economic impact of COVID-19 on the unemployed and informal population; however, the continued restrictions to suppress the virus has placed a strain on the government's ability to respond adequately to the needs of those impacted. The Government needs to evaluate an increase in social spending through the expansion of the various social programs that could target those households most affected by the Covid-19 crisis.

The decrease in the economic activity

The Jamaican economy is heavily dependent on services, which account for 72.6 percent of GDP. Tourism is the main industry, representing 7.8 percent of GDP, followed by exports of bauxite and alumina that account for 3.6 percent of GDP.¹ The economy stalled in the fourth quarter of 2019 contracting 0.5 percent, the weakest quarter in five years, ending 2019 with a modest 0.9 percent growth. The deceleration in GDP growth reflected mainly a contraction in Mining & Quarrying.²

The slowdown of the economy at the end of 2019 is worrisome in the novel international context generated by the Covid-19. Each of the sectors that have had a growth reduction will be further affected by the curfew and working limitations implemented by the government as well as by the global economic recession. Activities such as tourism, restaurants and bars, retail, and construction will face a significant paralysis. The consequences will be seen in the increase of unemployment and poverty levels and a decrease in government tax revenues which, could be used to counteract the economic stagnation.

¹ Statistical Institute of Jamaica (STATIN) statinja.gov.jm.

² Bank of Jamaica. Quarterly Monetary Policy Report. February 2020 Vol. 30 Number 3.



The fall in the prices of primary products

Jamaica had a negative trade balance of 4.7 billion dollars in 2019, as imports exceed exports by 3 to 1. Imports are composed primarily by Oil (26.2 percent) -which accounts for 40 percent of oil consumption in the country- followed by machinery/equipment (23 percent), food (14.7 percent), chemicals (12.3 percent), and manufactured goods (12.1 percent).³ Exports are predominately bauxite and alumina, which represent 63 percent of the total exports. Agricultural commodities and food, such as bananas, citrus, coffee, yams, and ackee, represent about 11 percent of the total exports, while manufactured goods only represent 4 percent of the total.⁴

■ Table 1. Jamaican Exports, in total value and percentage.

Commodities	J\$ (millions)	Percent
Total Domestic Exports	235,449	100 %
Total Traditional Exports	158,241	67 %
Agriculture	2,406	1 %
Mining and Quarrying	147,568	63 %
Manufactures	8,267	4 %
Total Non-Traditional Exports	77,208	33 %
Food	22,905	10 %
Beverages & Tobacco (excl. Rum)	8,511	4 %
Raw Materials	3,081	1 %
Other	42,710	18 %

Source: STATIN

It is estimated that the value of exports from the Caribbean will fall by at least 9.3 percent in 2020. Most of the reduction in the value of exports corresponds to the drop in prices, estimated at 7.2 percent, while the volume exported is expected to register a contraction of 2.1 percent.⁵ Jamaican export destinations are led by the United States, 30 percent of the total, followed by Germany (11 percent), Canada (9.4 percent), Netherlands (6.1 percent), and Russia (4.2 percent). China only represents 3.1 percent of total exports.⁶

Bauxite and alumina, the main source for the manufacture of aluminum are, by large, the main commodity exported. Jamaica's alumina buyers are varied: Germany represents 18 percent, Canada 16 percent, Netherlands 13 percent, USA 10 percent, and Russia 9.4 percent, and the remainder distributed between 14 different countries.⁷ Two factors have impacted the industry in recent times. First, the two-year shutdown of the Alpart alumina refinery for major equipment revamp. This event could explain, in part, the slowdown in Mining for the fourth quarter of 2019. Secondly, the significant fall in alumina prices. Alumina prices decreased some 730 USD/Tonne or 32 percent since the beginning of 2020 as a consequence of a decrease in demand and a weak performance of aluminum future prices on the Shanghai Futures Exchange market (Figure 1).

³ The Observatory of Economic Complexity, based on data from the United Nations Statistical Division (COMTRADE).

⁴ Statistical Institute of Jamaica statinja.gov.jm.

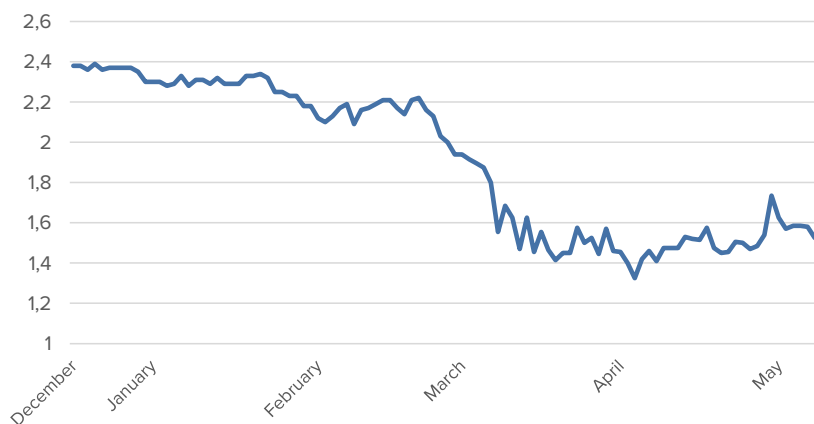
⁵ CEPAL. *América Latina y el Caribe ante la pandemia del COVID-19. Efectos económicos y sociales*. April 3rd 2020. N° 1.

⁶ 2017 Data. Source: The Observatory of Economic Complexity, based on data from the United Nations Statistical Division (COMTRADE).

⁷ The Observatory of Economic Complexity, based on data from the United Nations Statistical Division (COMTRADE).



■ Figure 1. Alumina Market Price (Thousand U.S. dollars per metric ton)



Source: Alumina Lmttd.

Another commodity that has shown a significant fall in price is oil. In the case of Jamaica, an oil importer, this is beneficial for its trade balance. Jamaica imports mostly refined petroleum, which represents 67 percent of Mineral fuel imports, followed by Crude Petroleum (19 percent) and Gas (14 percent).⁸ Given the fall in prices of these commodities in 2020, it's possible to estimate an 11 percent reduction in the value of the oil imports based on 2019 mineral fuel imports. This value can add up to 111 million US dollars, which represents 2 percent of the total Jamaican imports.⁹

If we estimate the net effect of the decrease in the price of Alumina and OIL, the result is still negative for Jamaica's trade balance by about 237 million US dollars, increasing the total negative balance by about 5 percent, to an estimated total deficit of 5 billion US dollars. Nevertheless, the fall in the international oil price could be an opportunity for the Jamaican government. An emergency increase on oil and gas taxes could be a transitory source of government revenue that could help pay for the costs of the measures to mitigate the social impact of the crisis. Further calculations for this alternative are presented in the section Policy Options of this document.

The Impact on Remittances

Jamaica's population is 2.7 million people, and the estimates of the Jamaican diaspora range between 3 to 5 million, indicating that there are at least as many individuals of Jamaican descent living outside the country as within it. A 2014 estimate by the Jamaica Diaspora Institute calculated that there are 1,700,000 diaspora residents in the US, 300,000 in Canada, and 800,000 in the UK.¹⁰ The World Bank is more cautious and projects 1 million Jamaican migrants, which still represents 40 percent of the population.¹¹

The Jamaican diaspora is a very important source of earnings for the population. Remittances have been steadily increasing over the years and represented 16 percent of GDP in 2018. Net remittance inflows in 2019 increased by 2.3 percent and reached a total of 2152.3 million US dollars. The largest source market of remittances is the US,

⁸ Trading Economics (tradingeconomics.com/jamaica/gasoline-prices), Macro Trends (www.macrotrends.net/2516/wti-crude-oil-prices-10-year-daily-chart?q=refined+petroleum), Macro Trends (www.macrotrends.net/2478/natural-gas-prices-historical-chart). Accessed on April 17th 2020.

⁹ Statistical Institute of Jamaica statinja.gov.jm.

¹⁰ University of West Indies and Caribbean Policy Research Institute. Economic Value of The Jamaican Diaspora. R1802 MAY 2017

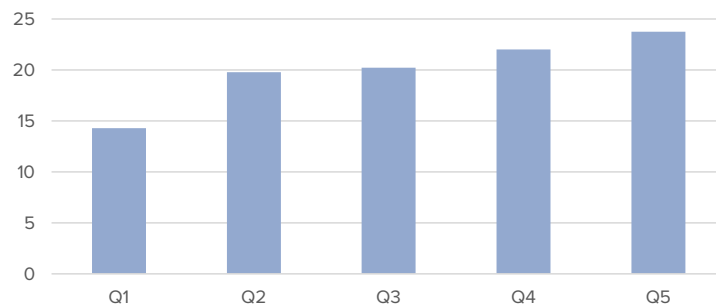
¹¹ World Bank. Investing Back Home: The Potential Economic Role of the Caribbean Diaspora, World Bank Group, 2016.



while it represents around 30 percent of the diaspora, the economic inflow accounts for 63.2 percent of the total remittances. The remaining share comes from the UK (13.5 percent), followed by Canada (9.3 percent) and Cayman Islands (8.1 percent).¹²

Remittances are widely spread in Jamaican society. The Jamaica Survey of Living Conditions shows that 51 percent of the population (49.5 percent of households) receive remittances. These numbers are split in approximately equal proportion between urban and rural areas. If we analyze remittances by poverty quintile, we observe that the poorest population receive proportionally fewer remittances than the richest quintiles. Figure 2 shows the share of remittances by poverty quintile, with Q1 and Q5 receiving 14.3 percent and 23.7 percent of the total remittances, respectively.¹³

■ Figure 2. Percent Share of Remittances by poverty quintile.



Source: JSLC 2017

Remittance flows are broadly affected by three macroeconomic factors: the diaspora size in destination countries, the income of these migrants in the destination countries, and the income of the population within the country of origin.¹⁴ Statistical analysis shows that flows to Jamaica are partially influenced by movements in US real GDP as well as employment in the Health Care & Social Assistance sector.¹⁵ It's hard to predict how remittances will behave in the near future. While income in Jamaica's population will decrease pushing inflows up, so will the expected income of the Jamaican diaspora in countries such as the US where unemployment is rising significantly.

The performance of the remittances during the 2008-2009 economic crisis could be a useful comparison to project behavior. During that period, remittances dropped 12 percent from 2008 to 2009 due to the international crisis¹⁶ but began a recovery in 2010 (+6 percent) that continued up until the end of 2019 with a total increase of 34 percent.¹⁷ There is no official data on remittances for March and April 2020, but the expectations are of a big drop in inflows.

The remittance structure is composed of 485 listed Remittance Locations in the whole country. These locations are private companies such as Western Union and Moneygram.¹⁸ This structure is currently being used for the payment of the Compassionate Grant program. However, the government is evaluating alternatives due to the prospect that people queuing up to receive payments poses certain logistic and health challenges.¹⁹

¹² Bank of Jamaica. Remittances Bulletin. December 2019.

¹³ Jamaican Survey of Living Conditions 2017.

¹⁴ University of West Indies and Caribbean Policy Research Institute. Economic Value of The Jamaican Diaspora. R1802 MAY 2017

¹⁵ Roach, K. (2014). Estimating the Cyclical of Remittance Flows to Jamaica from the USA. Bank of Jamaica Working Paper.

¹⁶ Bank of Jamaica. Remittances Update. April 2010.

¹⁷ Bank of Jamaica. Remittances Update. December 2019.

¹⁸ Bank of Jamaica. boj.org.jm/financial_sys/licencedremittance.php?option=?&parish= Accessed April 21, 2020

¹⁹ Ministry of Finance. mof.gov.jm



The Impact on Tourism

Jamaica’s tourism industry has been growing steadily in the last decade, going from 2.7 million visitors in 2009 to 4.2 million in 2019. Out of that total, 37 percent are cruise passengers and 63 percent are stopover visitors. Around 95 percent of the total revenues by tourism are foreign visitors, as domestic tourism is marginal.²⁰

The total value added from tourism is close to 7.8 percent of GDP. This could be a modest estimate, as the informal market of services is deeply integrated with tourism. Calculations on the composition of services that represent tourism in Jamaica show the prominence of accommodations, followed by food and beverages. The industry also branches into transportation, travel agencies, and other recreational services (Table 2).²¹

Table 2. Value Added by Tourism, 2018.

Industries	J\$ (millions)	Percent of GDP	Percent of Exports
Accommodation services for visitors	55,678	3.4%	22%
Food and beverage services	21,493	1.3%	9%
Passenger transport services	9,055	0.5%	4%
Transport equipment rental services	3,593	0.2%	1%
Travel agencies and other reservation services	1,179	0.1%	0%
Tourism related recreational services	13,927	0.8%	6%
Recreational sports and cultural services	23,585	1.4%	9%
Total Tourism	128,509	7.8%	52%

Source: STATIN

Table 2 also shows that Tourism has a more important role in exports than in GDP. Hotels and accommodation represent around 22 percent of total exports, followed by food and beverages (9 percent). In turn, the expenditure on accommodation and restaurants by residents in Jamaica that travel abroad, i.e. “Hotels imports” and “Restaurants imports”, represented 3.8 percent and 1.1 percent of total imports in 2015, respectively.²² While significant (4.9 percent), the potential reduction in imports is insignificant compared to the potential losses in exports due to the tourism crisis.

With flights and cruises taking a halt due to the pandemic, the tourism industry will suffer a heavy hit in 2020. It’s difficult to predict when this industry will recover, given that it’s a luxury service in a context of a global recession, and that travel bans will probably remain enforced until countries evaluate that the Covid-19 spread is under control. The Cruise industry, in particular, is facing a difficult challenge, as it has been the focus of several coronavirus outburst early this year. The fact that almost 40 percent of the tourism in Jamaica arrives in cruise ships, reflects the importance that this situation has for the local economy.

The impact on Tourism is already very serious. The Minister of Tourism has informed that approximately 120,000 people, or 75 percent of the workers employed directly in the Jamaican tourism industry, have been laid off already.

²⁰ Statistical Institute of Jamaica

²¹ Statistical Institute of Jamaica

²² Martín Cicowiez and Romina Ordoñez (2018) The Economic Impacts of Private Tourism-Related Investments in Jamaica. Inter-American Investment Corporation (IIC).



Of the 40,000 remaining formal workers directly employed by the industry, mostly hotel staff, many are working either two or three days a week, for a fraction of their normal pay.²³ These numbers might not be representing the total number of workers laid off, as informality is high in this industry. Unregistered workers represent 47 percent of the Hotels and Restaurants industry and 60 percent in Transportation.²⁴

Financial and Macroeconomic Conditions

In terms of financial variables, Jamaica has shown significant improvements over the last six years. A strict Stand-By Agreement with the IMF required Jamaica to produce an annual primary surplus of 7 percent to reduce its debt-to-GDP ratio. Public debt fell under 100 percent of GDP in 2018/19 and it was expected to decline below 60 percent by 2025/26, in line with the provisions of the Fiscal Responsibility Law.²⁵ Unemployment hit at a historic low in 2019 (7.8 percent) and the labor force expanded, credit recovery was gaining force, foreign exchange reserves are comfortable, and inflation was subdued. Gross reserves are close to the IMF's Assessment of Reserve Adequacy (ARA) metrics, which puts them in a good position to buffer the external shocks expected for the short and medium terms. However, for most of the past 6 years, growth has been low, and the last quarter of 2019 showed the lowest rate in years.²⁶

Jamaica had a gross external debt of 14 billion US dollars in September 2019. Short-term debt is 2 billion US dollars (14 percent of the total debt) none of which is General Government or Monetary Authorities related.²⁷ Out of the total long-term debt stock, 8 percent corresponds to IMF credit and 6 percent to World Bank, while other multilateral creditors represent 15 percent and bilateral creditors 5 percent. The rest of the long term external debt is 43 percent private creditors of public debt and 24 percent private nonguaranteed debt.²⁸ These numbers show that 33 percent of the total long term debt could be renegotiated with official creditors such as the World Bank and IMF to ease the pressure on the government's financial sustainability.

According to the latest IMF review from November 2019, the balance of payments risks are mitigated by a moderate current account deficit and adequate reserves. The current account deficit is estimated to have declined last year to 2.2 percent of GDP, due to resurgent mining exports and tourism receipts.²⁹ This improvement will be jeopardized due to the fall in commodity prices and the sudden stop in tourism. Depending on the type and size of the stimulus the Jamaican government ends up implementing, the current account deficit will rise over the medium term.

The Bank of Jamaica has kept the benchmark interest rate steady at 0.50 percent up until May 18th, 2020 when a new decision is scheduled. The interest rate is expected to lower down to 0.25 if not further. In the face of the Covid-19 outbreak, the Bank of Jamaica announced a series of measures: a temporary increase in the limit on the foreign currency net open positions of authorized dealers by 5 percentage points, and the removal of the limit on the amounts that deposit-taking institutions can borrow overnight without being charged a penalty rate. The Bank also commenced a bond-buying program to purchase Government securities on the secondary market from financial institutions.³⁰

²³ Jamaica Observer. Bartlett appeals for regional unity in responding to COVID-19. Sunday April 19th 2020. www.jamaicaobserver.com/news/bartlett-appeals-for-regional-unity-in-responding-to-covid-19_192353. Accessed on April 21, 2020.

²⁴ Statistical Institute of Jamaica.

²⁵ The World Bank. Jamaican Overview. Accessed on April 8th 2020 www.worldbank.org/en/country/jamaica/overview.

²⁶ IMF Sixth Review Under The Stand-By Arrangement—Press Release; Staff Report; And Statement By The Executive Director For Jamaica. November 2019.

²⁷ Bank of Jamaica. www.boj.org.jm/

²⁸ International Debt Statistics, 2020, The World Bank datatopics.worldbank.org/debt/ids/countryanalytical/JAM#

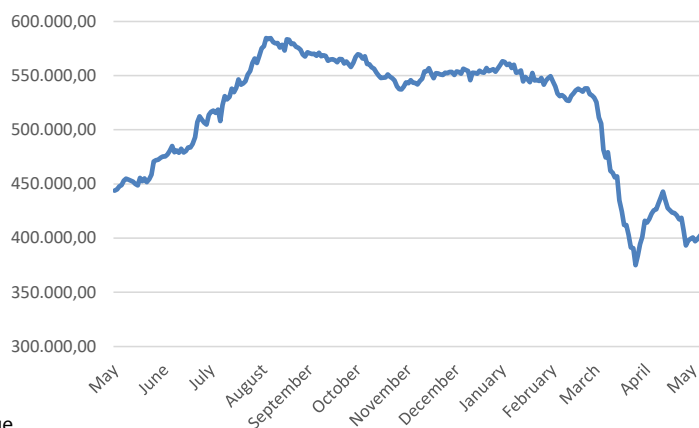
²⁹ IMF, Sixth Review Under The Stand-By Arrangement—Press Release; Staff Report; And Statement By The Executive Director For Jamaica. November 2019.

³⁰ Trading Economics. Jamaican Forecast. tradingeconomics.com/ Accessed on April 7th



Following the improvements in the fiscal and macroeconomic scenarios, the Jamaican Stock Exchange (JSE) Market Index showed a 500 percent increase in the last five-year period, becoming a strong market for investment. The JSE Market Index is a major stock market index which tracks the performance of all ordinary companies listed on the Jamaica Stock Exchange. But due to the Covid-19 outbreak, the JSE decreased 126898 points or 24.97 percent since the beginning of 2020 until late April, returning to levels of early 2019.³¹ It remains to be seen if the market's turbulence will stabilize or whether we are witnessing a "flight to quality" capital outflow.

■ Figure 3. Jamaica Stock Exchange (JSE) Market Index



Source: Jamaica Stock Exchange

Measures in place

The first actions taken by the Jamaican government amid the Covid-19 outbreak on January 31st were the ban imposed on travel to and from China and the 14-day quarantine for all travelers entering from this country. In late February, travel restrictions expanded to include Italy, South Korea/Republic of Korea, Singapore and Iran, and later the UK. By mid-March, all travelers from countries with local transmission and any Jamaicans who had contact with those persons were required to self-quarantine for up to 14 days. Finally, on March 21st Jamaica closed all air and seaports to incoming passengers while exiting passengers were permitted to leave based on travel availability.³²

Classes were canceled on March 13th, including early childhood institutions, primary and prep schools, secondary schools, community and teacher's colleges, and community-based training programs. The cabinet approved the procurement of 65,000 tablets for provision to 40,000 students and 40,000 teachers as well as the provision of offline servers for schools to facilitate offline learning.³³

Public places and mass gatherings have been limited to 10 persons and maintaining social distance and the use of masks is required. Public transport service is limited to seated passengers only and taxis are required to transport only one passenger. From April 22nd to May 6th all citizens should remain at home from 6 pm to 6 am, except for essential services workers. In addition, a community quarantine was declared for 3 communities: Bulls Bay, St Andrew, and St. Catherine.³⁴

³¹ Trading Economics. Jamaican Forecast. tradingeconomics.com/ Accessed on April 7th

³² CEPAL, *Observatorio COVID-2019 América Latina y el Caribe: acciones por país*. www.cepal.org/en/topics/covid-19

³³ Ibid.

³⁴ House of Parliament. japarliament.gov.jm/index.php/publications/resolution Accessed on April 6th 2020. Jamaica Observer. New curfew hours islandwide, mask wearing now mandatory. April 20th 2020. www.jamaicaobserver.com/latestnews/_New_curfew_hours?profile=1228. Accessed April 22, 2020.



Public and private sector workers – except for essential services – have their duties limited and working from home is encouraged. Non-essential business hours were limited to an 8 am – 4 pm schedule. Supermarkets, pharmacies, and corner shops are allowed to close at 5:00 pm and markets are allowed to operate from 6 am to 4 pm except on Sundays when they close. On March 25th, under the Trade Sales of Goods During Period of Declaration Order 2020, the government instituted penalties for those businesses that increase prices, with fines of up to J\$2 million.³⁵

The Government has focused assistance efforts through two main policies: the Fiscal Stimulus Response program and the Covid Allocation of Resources for Employees program (CARE). The first one is a strategy to maintain consumption and protect enterprises from the economic crises, while the second is an alleviation program to sustain employment and protect unemployed and informal workers. In total, both programs aim to allocate a J\$25 billion (US\$183 million), representing around 1.2 percent of 2019 GDP, making it the largest fiscal stimulus in Jamaica's history. But given that most of it is tax exemption, the direct spending is calculated to be close to J\$10 billion (US\$73 million).

The Fiscal Stimulus Response to Covid is composed of a reduction in general consumption tax (GCT) from 16.5 percent to 15 percent that projects a return of J\$14 billion back to consumers and a J\$1 billion Micro, Small and Medium Enterprises (MSME) tax credit for cash-flow support to MSME³⁶ and a reduction in regulatory fees for coconut, coffee, cocoa, and spice farmers to incentivize production. Also, the Banking sector has volunteered to forgo the reduction of the asset tax for one year, which could represent an extra J\$3 billion.³⁷ The total fiscal stimulus could then be estimated between J\$15 and J\$18 billion.

The Fiscal Stimulus shows some limitations. The first issue that comes up is the problem of targeting. A 1.5 percent reduction in GCT will not increase consumption among those that lose their main income due to unemployment. Moreover, the lack of targeting makes this policy regressive, as higher-income households get a larger share of the taxes foregone. The focus of the help should be but on households that lost their main income through direct transfers, this will make spending more efficient and produce a larger aggregated impact on consumption.

A second problem is that the tax credit stimulus for MSME is marginal compared with the GCT reduction. MSME tax cuts, if increased, could help businesses maintain employment (it could be a requisite for the benefit), target vulnerable jobs, and favor consumption. Sustaining MSME is a direct way to sustain jobs and incomes. The Government should review the composition of the fiscal stimulus to focus the effort on businesses' sustainability rather than GCT cuts.

The second large effort, the CARE program, is composed of nine sub-programs, the most important of which are the Business Employee Support and Transfer of Cash (BEST Cash), the Supporting Employees with Transfer of Cash (SET Cash), the Compassionate Grant and the Covid PATH³⁸ Grant. Table 3 summarizes the universe covered and the benefits provided by all the sub-programs. The BEST Cash seeks to sustain employment subsidizing salaries for registered workers in registered businesses that are operating in the hotel, tours, attraction companies, and

³⁵ House of Parliament. japarliament.gov.jm/index.php/publications/resolution Accessed on April 6th 2020.

³⁶ This measure provides micro- small & medium-sized enterprises (MSMEs), with annual revenues less than or equal to \$550 million, a non-refundable tax credit of \$375,000. This credit can be used in addition to the employment tax credit (ETC) which provides a credit against the payroll tax equivalent to the lesser of: (i) 30 percent of the income tax liability or (ii) employee and employer statutory contributions (excluding PAYE). The maximum credit will be \$5,000 per employee. Jamaica Observer. Surviving tax season in Jamaica amid the COVID-19 pandemic. March 22 2020. www.jamaicaobserver.com/sunday-finance/surviving-tax-season-in-jamaica-amid-the-covid-19-pandemic_190169 . Accessed April 22, 2020.

³⁷ Ministry of Finance and Public Service. mof.gov.jm/mof-media/media-centre/press/2633-fiscal-stimulus-response-to-the-covid-19.html Accessed on April 6th 2020.

³⁸ PATH stands for Programme of Advancement Through Health and Education



segments of the tourism industry. The SET CASH focuses on newly unemployed registered workers and transfers cash to individuals where it can be verified that they lost their employment since March 10th (the date of the first Covid-19 case in Jamaica). Both SET and BEST pay a benefit of J\$ 9,000 per fortnight (about 64 percent of the minimum wage) for up to three months. Unlike BEST and SET, the Compassionate Grant provides support for all people, as long as they are not registered workers and do not receive other Covid related benefits. The benefit is a one-time payment of J\$ 10,000, which represents about 35 percent of a month's minimum wage. Finally, the PATH Grant sets up a temporary 50 percent increase in benefits for the current beneficiaries of the social program PATH between April and June. Further on, this program is described in the Social Policies Interventions section.

The CARE program has a cap of J\$10 billion (US\$73 million) that has rapidly become insufficient. The government has recently informed that 480,000 individuals have applied for the benefits, 84 percent of which applied for the Compassionate Grant and 16 percent for the SET Cash.³⁹ Given the benefits of these two programs, the spending can be projected to be around J\$8.2 billion. In addition, CARE has informed that the Covid PATH Grant represents J\$1.1 billion, and the budget already allocated for the Tourism Grants, Farmers, Homeless, and Constituency Development add up to \$1.7 billion. Based on these back of the envelope calculations, the CARE program already exceeds its budget by J\$1 billion, and that is without considering the resources for BEST Cash (potentially J\$ 2.1 billion), and the General Grants for small businesses. The Government has already flagged this situation, admitting that the CARE program is at the limit of the budget provided.⁴⁰ This is one of the most urgent problems that the Government should address in the next weeks.

Table 3. Covid-19 Economic Response Measures Implemented by the Government of Jamaica.

Measures	Target enterprise/population	Benefit Estimations
Tax Measures		J\$ 15,000 Mn
Reduction in General Consumption Tax	All products taxed with GCT	Reduction from 16.5 percent to 15 percent (estimated in \$14,000 Mn)
Tax credit for cash-flow support	Micro, Small and Medium Enterprises	Estimated in \$1 billion
A reduction in regulatory fees to incentivize production.	Coconut, coffee, cocoa and spice farmers	No data available
Economic Stimulus Measures		J\$ 10,000 mn
A. Covid Allocation of Resources for Employees (CARE)		
1. Set Cash	Registered workers laid off after March 10th, 2020, with less than J\$1.5 mn yearly salary	Cash transfer of J\$ 9000 per fortnight until June
2. Best Cash	Registered workers in Tourism, with less than J\$1.5 mn yearly salary	Cash transfer of J\$ 9000 per fortnight until June
3. Covid-19 General Grants	a) Registered barbers, hairdressers, beauty therapists, cosmetologists, market vendors, taxi and bus operators; b) Registered bar and night club operators; c) Registered craft vendors, JUTA, MAXI, and JCAL operators.	a) onetime amount of J\$25,000 b) onetime amount of J\$40,000 c) onetime amount of J\$40,000
4. Covid-19 Compassionate Grants	Anyone in need not formally employed	A one-time grant of \$10,000
5. Covid-19 Path Grants	Persons enrolled in PATH	One additional PATH payment between April and June (50 percent increase).
6. Covid-19 Small Business Grants	Registered small businesses with sales of J\$50 million or less with registered employees	One-time grant of J\$100,000
7. Covid-19 Tourism Grants	Registered businesses operating in the tourism sector (hotels, attractions, and tours)	A one-off grant from a pool of J\$1.2 billion allocated

³⁹ Ministry of Finance mof.gov.jm/mof-media/media-centre/press/2637-goj-s-care-programme-set-to-help-workers-amid-covid-19-layoffs.html Accessed on April 22, 2020.

⁴⁰ Ibid.



8. Covid-19 Student Loan Relief	All loans from the Student Loan Bureau (SLB).	Deferral of loan and interest payments until July 2020
9. Other Covid-19 Support Programmes	a) Assistance to small farmers b) Homeless assistance c) Constituency Development Fund	a) J\$200 mn allocated b) J\$150 mn allocated c) J\$189 mn allocated
B. National House Trust	a) Mortgagors who are laid off b) Mortgagors that contribute to NHF	a) moratorium on all loan payments of three months b) reduction in interest rates on new loans by 1 percent c) reduction in all existing loans by 0.5 percent

Source: Ministry of Finance

One conclusion that emerges from Table 3 is that the CARE program has too many subprograms that will make its administration and implementation difficult. An urgent crisis is not a good moment to develop new administrative circuits, especially when many government workers are affected by the curfew. In this context, the help would be better targeted and channelized through existing programs. The Covid-19 crisis hits businesses and employment (formal and informal), thus, programs should focus mainly on businesses' survival, the sustainability of jobs, and the protection of informal and unemployed workers. We already mentioned the need to increase tax help for MSMEs, which could help business survival and job sustainability. For unemployment benefits, resources could be administered and transferred using the National Insurance Scheme (NIS) structure, which has the record of all contributing workers. Regarding informal workers, increasing spending through Covid-19 Path Grants would be a fast and efficient way to reach those households most affected by the crisis.

Reduction in consumption and investment

In early 2020 the expectations among the businesses were low and firms were not convinced about current business conditions. The Present Business Conditions Index developed by the Jamaica Chamber of Commerce declined from 167.9 to 149.1 points, driven mainly by uncertainty around the climate for investment and expansion as well as the companies' profitability being worse than expected.⁴¹ This expectation could only worsen with the recent actions taken against the pandemic.

In this context, banks, credit unions, and other financial institutions have begun announcing Covid-19 relief packages. Most of these packages offer solutions on three main areas: extension of credit terms; working capital support; and the waiving of fees.⁴² As mentioned earlier, the interest rate remains unchanged at 0.5 percent, but the Bank of Jamaica has tried to ensure uninterrupted system-wide liquidity through the removal of limits on the amounts that deposit-taking institutions can borrow overnight without being charged a penalty rate and a broadening of the range of acceptable repo collateral. The government is also encouraging the banks to reschedule loans and mortgages, in line with the mortgage rate cuts announced by the National Housing Trust.⁴³

It's hard to calculate the reduction in consumption and investment at this point, given that most curfew policies are less than a month old. Nevertheless, there are already signs of economic slowdowns. Google's COVID-19 Community Mobility Report⁴⁴ of Jamaica shows that mobility trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters decreased 57 percent by the first week of April. Mobility trends for places like public transport hubs such as bus decreased 53 percent while trends for places of work decreased by 42 percent.

⁴¹ Business confidence dips, consumers stable, Jamaica Gleaner, January 22, 2020. Accessed on April 5th 2020 Jamaica- gleaner.com/print/772527

⁴² The Private Sector Organization of Jamaica (PSOJ). Financial Institutions Covid-19 Relief Packages psoj.org/covid-19 Accessed on April 5th 2020.

⁴³ IMF. Policy Responses to Covid-19. Accessed on April 4th, 2020 www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#J

⁴⁴ This report shows how visits and length of stay at different places change compared to a baseline (the median value, for the corresponding day of the week, during the 5-week period Jan 3-Feb 6, 2020). www.google.com/covid19/mobility. Accessed April 22, 2020



Assessing the Economic Impact

The country entered the curfew in good financial health but with less than ideal numbers on growth and inflation. As previously mentioned, Jamaica has presented low growth rates in recent years, and expectations for 2020 were low, close to 1 percent.⁴⁵ Currently, we cannot project with confidence the magnitude of the economic impact. Firstly, it's unclear how long will the Covid-19 remain threatening global health at the current pace. Its impact on the global economy will vary significantly depending on this time frame. Secondly, the Government of Jamaica is still in the midst of presenting a full response to the crisis through fiscal and monetary policies. These actions will seek to limit the scope of the crisis by stimulating the aggregate demand and thus counteracting the loss in domestic product. Nonetheless, we can do a back of the envelope estimation based on Jamaica's economic trend at the end of 2019, the global estimations on the Covid-19 impact, and the countries' previous behavior in global crises.

The global economy is likely to experience a historic decline in output in the second quarter of 2020 generating a global recession. J.P. Morgan expects a double-digit contraction in global growth in the first half of the year, with GDP contractions through the second quarter or until the outbreak fades.⁴⁶ Regionally, the Caribbean Development Bank released its estimations that worldwide, the global growth will be at least 2 percentage points lower than previous estimates, while for the Caribbean region as a whole, the impact could be even more profound.⁴⁷ In accordance with these projections, ECLAC forecasted a drop in GDP of at least 1.8 percent and as high as 4 percent or more for the Caribbean region.⁴⁸ More recent calculations by the IMF projected a more dramatic scenario for Jamaica, and estimate a 5.6 percent fall in GDP.⁴⁹

When we look at the Jamaican case, we can see a direct impact of the international crisis in two areas. On the one hand, it is estimated that if a travel ban prompted by the virus were to last for one, two, or three months, tourism activity in the Caribbean would contract by 8 percent, 17 percent, or 25 percent, respectively.⁵⁰ For the case of Jamaica, this would entail a GDP drop of 0.51 percent, 1 percent, or 1.6 percent, only considering the decline in tourism. On the other hand, current expectations project a drop of 9.3 percent of exports in the Caribbean (7.2 percent due to prices and 2 percent due to volume).⁵¹ Based on this projection, we could expect a drop of approximately 1.36 percent in Jamaica's GDP. Thus, adding losses from tourism and exports alone, we have approximately a 2.96 percent reduction in the GDP.

Other activities, such as wholesale and retail, manufacturing, and construction will be directly affected by domestic restrictions. To estimate the potential impact, it is useful to compare this crisis to the 2008–2009 one. Both are external crises that impact the country through, firstly, a fall in commodity prices, lower exports, a decrease in tourism and potentially also remittances, and secondly, through financial markets, capital outflows and currency depreciation.⁵² During the last global recession, wholesale and retail fell 3.7 percent, while manufacturing and construction dropped 4.8 percent and 8.7 percent respectively. If we apply this behavior to the current added value composition, we could expect a 1.87 percent drop in the GDP driven by these three sectors.

⁴⁵ Trading Economics Accessed on April 6th, 2020 tradingeconomics.com/jamaica/gdp-growth-annual

⁴⁶ JP Morgan. Fallout from COVID-19: Global Recession, Zero Interest Rates and Emergency Policy Actions. Accessed on April 4th, 2020 www.jpmorgan.com/global/research/fallout-from-covid19

⁴⁷ The Caribbean Community (CARICOM) caricom.org/caribbean-needs-financial-backing

⁴⁸ CEPAL. América Latina y el Caribe ante la pandemia del COVID-19. Efectos económicos y sociales. Accessed on April 3rd, 2020. No 1.

⁴⁹ International Monetary Fund (2020). World Economic Outlook.

⁵⁰ CEPAL. COVID-19 Will Have Grave Effects on the Global Economy and Will Impact the Countries of Latin America and the Caribbean. Accessed on April 7th, 2020. www.cepal.org/en/pressreleases/covid-19-will-have-grave-effects-global-economy-and-will-impact-countries-latin

⁵¹ CEPAL. América Latina y el Caribe ante la pandemia del COVID-19. Efectos económicos y sociales. Accessed on April 3rd, 2020. No 1

⁵² Levy, Santiago (2020) Suggestions for the Emergency. [UNDP LAC C19 PDS No. 2](https://undp.org/publications/undp-lac-c19-pds-no-2)



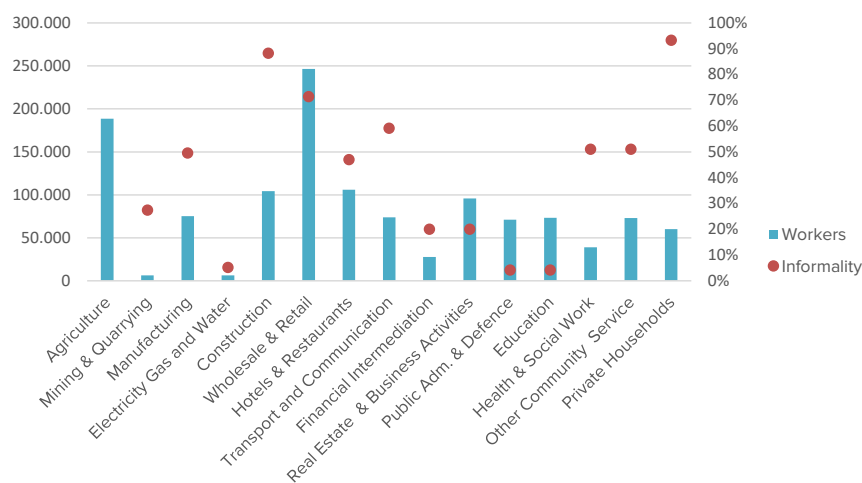
Adding the calculations on tourism and exports to the projected impact of retail, construction, and manufacturing, we arrive at an overall decrease of 4.83 percent of the GDP. This number seems consistent and ranges between the estimations of ECLAC and the IMF. But yet again, we have only seen the start of both the pandemic in Jamaica as well as the reaction of the Government.

In terms of inflation, the last quarterly monetary report by the Bank of Jamaica states that annual inflation accelerated to 6.2 percent in December 2019 and has remained at 5.96 percent point to point in February 2020. This outturn puts inflation around the upper limit of the Bank’s target of 6 percent annual inflation. The Bank of Jamaica projected an average 4.7 percent inflation over the next eight quarters (March 2020 to December 2021) based on higher imported inflation and accommodative monetary conditions, partly offset by a restrictive fiscal stance.⁵³ The impact of the Coronavirus, while flagged by the Bank, was not taken into account for these projections. The IMF remains positive and projected moderate inflation of 4.9 for 2020 amid the Covid-19 crisis.⁵⁴ However, looking back to the 2008-2009 crises, we find that inflation was 22 percent in 2008 and 9.58 percent in 2009.⁵⁵ Given the similarities with the previous crises, but acknowledging that Jamaica is standing in a very different fiscal position, we should expect inflation to be around the upper 6 percent limit, but not to soar, like in the past.

Effect on Employment

According to 2013 data from the Statistical Institute of Jamaica, only 173,000 employees worked in large establishments of 10 people and more. This entails that 85 percent of the workforce is employed by Micro, Small and Medium Enterprises or are independent workers.⁵⁶ Out of the total 1,248,400 workers at the end of 2019, Wholesale and Retail represented the largest sector with 20 percent of employment, followed by Agriculture (15 percent), Hotels and Restaurants (8 percent), Construction (8 percent) and Manufacturing (6 percent). It’s worth noting that while aluminum raw materials are important in terms of GDP and exports, they are not labor-intensive. Bauxite and Alumina only represent 1 percent of all employees.

■ Figure 4. Projected Number of Employees and Percentage of Informality by Sectors, October 2019



Source: STATIN

⁵³ Quarterly Monetary Policy Report. Bank of Jamaica. February 2020 Vol. 30 Number 3

⁵⁴ International Monetary Fund (2020). World Economic Outlook.

⁵⁵ Statistical Institute of Jamaica (STATIN) statinja.gov.jm

⁵⁶ Statistical Institute of Jamaica (STATIN) statinja.gov.jm



In a context of uncertainty, and forced by the curfew measures implemented, many businesses are considering temporary cost-saving measures.⁵⁷ Firstly, businesses can resort to part-time working arrangements that imply the reduction of employee working hours and their correspondent compensation. This measure requires an agreement between the employer and the employee and should be revised periodically as the circumstances of the pandemic evolve.

Secondly, businesses can do short-term layoffs. Jamaican labor code allows businesses to shut down temporarily and suspend employees without pay. Under the Employment (Termination and Redundancy Payments) Act, an employee can be laid off without pay for up to 120 days. This cost-cutting strategy, albeit temporary, may allow businesses to avoid foreclosure, but affects employees significantly. After 120 days, if the employee is not reinstated, he/she may request to be made redundant and receive the corresponding compensation.⁵⁸

Finally, employers may shut down indefinitely and lay off employees paying redundancy compensation. An employee (except a seasonal employee) is entitled to two weeks' pay for the first ten years of employment and three weeks' pay for each succeeding year. This is applicable, naturally, to registered employees. But given the high level of informal workers in Jamaica (60 percent of the workforce⁵⁹), many may go home empty-pocketed.

As mentioned earlier, for employees who may be made redundant or laid off, the Government has established the BEST Cash and SET Cash programs. These policies provide temporary cash transfers of J\$ 9,000 per fortnight to laid-off formal workers earning less than J\$1.5 million per year (4 times the minimum wage) and a subsidy of the same amount for each registered employee that an enterprise retains.⁶⁰ Current numbers show that approximately 77,000 formal workers applied for the unemployment benefit, and it's unclear how many jobs will be subsidized given that the CARE program has reached its budget limit of J\$10 billion (see section Measures in Place).⁶¹

In this context, informal workers in endangered industries are the most vulnerable. The number of formal workers calculated by official statistics is 39 percent of the workforce (currently close to 480,000 workers), the rest of the workforce is divided among informal workers (41 percent), Agricultural (17 percent), and domestic workers (3 percent). Sector-wise, the highest rates of informality are among Construction (88 percent), Wholesale and Retail (72 percent), Transport and Storage (60 percent), and Domestic Work (93 percent) (See Figure 4 above).⁶²

Estimations calculate that 40.3 percent of GDP is generated by Jamaica's informal sector, including micro, small, medium, and even large firms. Most of these enterprises and workers do not have a bank account, and either maintain total financial self-sufficiency or run their affairs through informal financial institutions. There has been an increase in the number of informal firms operating in the banking sector, loaning to individuals and small businesses at interest rates that are higher than that of commercial banks.⁶³

If we focus on Tourism, which will be the industry most affected as a result of Covid-19, we find that Hotels and Restaurants have an informality rate of 47 percent. However, Tourism is larger than just accommodations and food,

⁵⁷ Justine Collins, Employment contracts and the coronavirus: Telework, layoffs and hazard pay. Jamaica Gleaner. April 3rd 2020. jamaica-gleaner.com/print/778612 Accessed on April 3rd 2020

⁵⁸ Ibid.

⁵⁹ Statistical Institute of Jamaica (STATIN), Labour Force Survey 2016. statinja.gov.jm

⁶⁰ Justine Collins, Employment contracts and the coronavirus: Telework, layoffs and hazard pay. Jamaica Gleaner. April 3rd 2020 Accessed on April 3rd 2020. jamaica-gleaner.com/print/778612

⁶¹ Ministry of Finance mof.gov.jm/mof-media/media-centre/press/2637-go-j-s-care-programme-set-to-help-workers-amid-covid-19-layoffs.html Accessed on April 22, 2020.

⁶² Projected numbers based on Labour Force Survey 2016. Statistical Institute of Jamaica (STATIN) statinja.gov.jm/

⁶³ OECD (2018) Latin American and Caribbean Competition Forum - Session I: Informal Economy in Latin America and the Caribbean: Implications for Competition Policy - Contribution from Jamaica - 18-19 September 2018, Buenos Aires, Argentina. DAF/COMP/LACF(2018)20.



so the impact will hit on the informal workers of the other industries as well. As mentioned, the work situation in tourism is dramatic; the Minister of Tourism has informed that 120,000 (75 percent) of the workers employed directly in the Jamaican tourism industry have been laid off.⁶⁴

The CARE program has received up until April 17th a total of 403,000 applications for the Compassionate Grant that covers informal unemployed workers. This number most probably includes new and previous unemployed workers, so it's unclear how many were directly affected by the Covid-19. As mentioned, the government has capped the total benefits and it's uncertain when they will reopen for new applications. The benefit is a one-time payment of J\$10,000, which represents 35 percent of a month's minimum wage, which is low given the expected duration of the crisis. There are, nonetheless, other social programs that target indirectly this population, such as the Covid-19 PATH Grants that increased transfers for the April and June payments of PATH benefits. This issue is further developed in the section Social Policy Interventions.

The last report on unemployment published by the Government showed a historic low of 7.2 percent. Among the unemployed population, many had their last job in Wholesale and Retail (16 percent), Construction (14 percent), and Hotels and Restaurants (11 percent).⁶⁵ This is not surprising given the high rate of worker's rotation in these industries. As with GDP, we can look at past trends to project the potential unemployment generated by the Covid-19 crisis. During 2008 and 2009 the global crisis affected the Jamaican labor market and unemployment rose to 11 percent. Currently, each point increase in unemployment means that 13,400 workers lose their jobs. Therefore, a 4-point increase in (temporary) unemployment could mean that 53,600 people would be laid off and will need a new source of income. However, Tourism alone is showing around 120,000 layoffs according to the government, which would represent more than a doubling in unemployment, around 16.1 percent. These numbers are dramatic and should push the government to increase the scope and amount of cash transfers for informal and unemployed workers.

Citizen Safety and Security

Citizen security and public safety are some of the main challenges faced by the Jamaican government. Different analyses point to the negative effects of gang violence on growth and development, especially due to the reduction in tourist arrivals.⁶⁶ In the World Economic Forum Global Competitiveness Report 2017-2018, 15 percent of Jamaican business persons identified crime and theft as the most problematic factor for doing business, while 12.6 percent pointed to tax rates, and 9.7 percent mentioned corruption as the greatest problem.⁶⁷

Jamaica's violence problem started in the mid-1970s, and since then the per capita murder rate has steadily increased by an average of 4.4 percent per year. In 2019 Jamaica had the second highest murder rate in Latin America and the Caribbean region with 60 per 100,000 people.⁶⁸ Jamaican gangs use diaspora connections to carry out criminal activities, particularly transnational drug trafficking networks. The number of gangs has increased from 191 in 2010 to 381 in 2018, with Kingston and St. Andrew experiencing most of the increases. In the same period, gang-related violence was responsible for 56 percent of murders in Jamaica, with a high of 78 percent in 2013.⁶⁹

⁶⁴ Jamaica Observer. Bartlett appeals for regional unity in responding to COVID-19. Sunday April 19th 2020. www.jamaicaobserver.com/news/bartlett-appeals-for-regional-unity-in-responding-to-covid-19-192353 Accessed on April 21, 2020.

⁶⁵ Statistical Institute of Jamaica (STATIN) statinja.gov.jm/

⁶⁶ Joanna Callen and Diana Thorburn, Transforming Citizen Security a Yaad. Executive Summaries. CAPRI March, 2020

⁶⁷ Klaus Schwab (2017). The Global Competitiveness Report 2017-2018. World Economic Forum.

⁶⁸ Callen and Thorburn 2020, op.cit.

⁶⁹ Joanna Callen, Guns Out: The Splintering of Jamaica's Violent Gangs, CAPRI March, 2020



Jamaica's gangs must be considered in the existing context of poverty, social exclusion, and weak rule of law. Therefore, an increase in unemployment and poverty might exacerbate the crime problem of gang violence, deriving in more deaths and a worst context for economic and social recovery.

Policy Options

In line with the series of recommendations presented in the UNDP Covid-19 Policy Documents Series, the Government must increase emergency spending without running a serious fiscal risk. This budgeting could include loans from multilateral lending institutions and actions from the monetary authority. The Government should also expand loan programs to firms and households in the formal sector and transfers to households in the informal sector.⁷⁰

This document has already reviewed in detail the J\$25 billion stimulus program launched by the Government to counteract the economic shock of the pandemic. As said, a large part of this stimulus is based on a 1.5 percentage point reduction in the GCT (J\$14 billion) and a tax credit for MSMEs (J\$1 billion). While tax cuts can take the pressure off prices and moderate inflation, they might not necessarily boost consumption. A decrease in GCT is a regressive policy, as higher-income households will benefit more. Thus, a shift in the resources from the GCT to the MSMEs might generate a healthier and more progressive impact on the economy. The sustainability of MSMEs is directly linked with the sustainability of employment, formal and informal. By reducing unemployment the policy will reduce the fall in consumption and alleviate the economic burden of those most affected.

The stimulus package seems in line with the objective of not risking the fiscal deficit as well as not undoing the fiscal successes achieved in recent years. But given recent years improvements, there is space to increase emergency help. Two alternative policies can increase the fiscal stimulus. Firstly, the government could look into the use of monetary policies to stimulate investment and aggregated demand. A reduction of the interest rate from 0.5 to 0.25 or even 0 would be a step forward and would allow businesses to acquire loans to pay for salaries. In addition, given that foreign exchange reserves are high, an increase in the money supply could also be a strong instrument to increase spending and targeted cash grants, but with caution, as it will have a direct impact on inflation.

Secondly, given the current low oil prices, the government could introduce a temporary oil tax to help increase the stimulus expending. The Government, together with the Bank of Jamaica, is reviewing the oil situation to evaluate the next steps in a way that maximizes returns on taxpayer dollars.⁷¹ Jamaica consumes 53,000 barrels of oil per day⁷², and gasoline prices in Jamaica have fallen 3 percent since December.⁷³ This generates the potential for extraordinary tax revenue of 92 million US dollars in a year (130 percent of the current CARE program budget). But a tax on oil is not without its risk. The literature on carbon taxes is cautious about the benefit of such strategies, and some authors argue that oil taxes can be regressive, as lower-income households spend a larger proportion of their incomes on energy and goods whose production uses energy, and as a result, they would pay a disproportionate share of any tax on gasoline.⁷⁴ But if the revenues are targeted correctly, the overall impact of a tax increase should be positive.

⁷⁰ Constantino Hevia and Andy Neumeyer, A Conceptual Framework for Analyzing the Economic Impact of COVID-19 and its Policy Implications. [UNDP LAC C19 PDS No.1](#). March 2020

⁷¹ Ministry of Finance. <https://mof.gov.jm/mof-media/media-centre/press/2643-statement-from-the-minister-of-finance-and-the-public-service-on-potential-oil-price-hedging.html>. Accessed April 22, 2020.

⁷² U.S. Energy Information Administration (EIA) <https://www.eia.gov/international/overview/country/JAM> Accessed April 17th 2020

⁷³ Trading Economics, <https://tradingeconomics.com/jamaica/gasoline-prices> Accessed April 17th 2020.

⁷⁴ Levinson, A. (2019). Energy efficiency standards are more regressive than energy taxes: Theory and evidence. *Journal of the Association of Environmental and Resource Economists*, 6(S1), S7-S36.



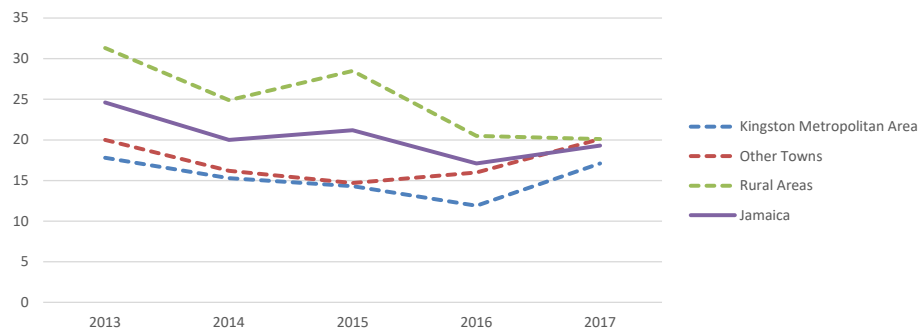
Given the fiscal responsibility Jamaica has shown, multilateral institutions should be confident that the country will behave responsibly and honor its dues. International organizations can provide budgetary support through a mix of grants and low-cost loans to boost the CARE program and reduce fiscal risks. Jamaica has already applied to return to the IMF to gain relief support under the Rapid Financing Instrument (RFI). This type of instrument, designed for emergencies, will allow the country to access funding without the usual conditionalities such as those under stand-by agreements and extended fund facilities.⁷⁵

The CARE program has already exhausted its budget allocation, and this benefit will be insufficient in the short term. Jamaican government should evaluate significant increases in cash transfers. This policy is in line with the type of emergency spending UNDP recommends, but its success will be dependent on the budget allocated to the program and the efficiency of the distribution. On the efficiency side, it was previously mentioned that administrative problems could derive from the multiplicity of new subprograms. Amid the implementation of fiscal and economic stimulus, the government affirmed that “the systems to deliver a targeted intervention of this scale, in the required timeframe, do not exist and have to be built from scratch.”⁷⁶ Previous crisis experiences worldwide show that countries that tried to implement programs from scratch were unable to do so promptly.⁷⁷ The Government should thus focus help through a reduced number of existing programs; taxes and loans to sustain businesses and jobs, and direct transfers through NIS and PATH (both in the Ministry of Labour and Social Security) for unemployed formal and informal workers. In this way, the benefits will be better targeted and its implementation will use the administrative structure already in place.

Social Policy Interventions

Jamaica’s social protection system is well established and has a variety of programs aimed at poverty reduction. The country’s social protection strategy is based on a series of long-term development projects, such as the Vision 2030 Jamaica: National Development Plan⁷⁸, the Jamaica Social Protection Strategy⁷⁹, and the National Poverty Reduction Programme⁸⁰. Poverty has shown improvement in recent years, moving from a national average of 24.6 percent in 2013 to 19.3 percent in 2017. Rural areas present a higher incidence of poverty, currently around 20.1 percent (Figure 5).⁸¹

■ Figure 5. Prevalence of poverty in Jamaica, by regions.



Source: STATIN

⁷⁵ Jamaica Observer. Exceptional times require exceptional action. April 19th 2020. www.jamaicaobserver.com/sunday-finance/this-crisis-knows-no-boundary-imf-rep-says-exceptional-times-require-exceptional-actions_192255. Accessed April 21, 2020.

⁷⁶ Ministry of Finance. We Care Brochure, page 3. <https://jis.gov.jm/media/2020/04/CARE-Brochure-Ministry-of-Finance-2020.pdf> Accessed April 20th 2020.

⁷⁷ International Labour Organisation and World Bank. (2012). Inventory of Policy Responses to the Financial and Economic Crisis. Washington, DC.

⁷⁸ Vision 2030 www.vision2030.gov.jm

⁷⁹ Planning Institute of Jamaica (2014), Jamaica Social Protection Strategy.

⁸⁰ Planning Institute of Jamaica (2013). National Poverty Reduction Programme.

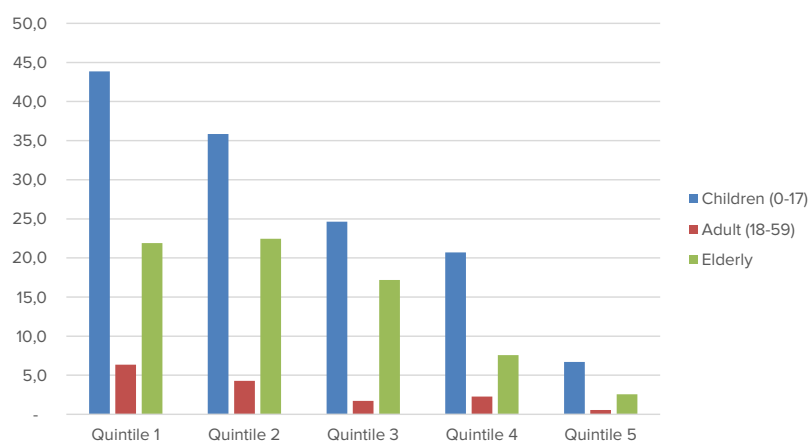
⁸¹ Statistical Institute of Jamaica (STATIN) statinja.gov.jm/

The largest social assistance program is PATH, a conditional cash transfer program run by the Ministry of Labor and Social Security (MLSS) aimed at reducing poverty and promoting children’s education. MLSS also provides additional support to poor and vulnerable households and individuals through smaller programs, such as the Rehabilitation Grants. Other major social assistance programs include the National Health Fund (NHF) and the Jamaica Drug for the Elderly Programme (JADEP) that provide subsidized medication. Several smaller cash and in-kind transfer programs complete Jamaica’s offering of social assistance.

Since its launch in 2002, PATH has become Jamaica’s leading social assistance program. Its objective is to reduce poverty and help break the intergenerational transmission of poverty. It targets poor and vulnerable families that are identified through the Beneficiary Management Information System (BMIS). The specific categories of beneficiaries are children from birth to completion of secondary school (0–17 years); pregnant and lactating women; People with disabilities; the poor elderly without a pension; and poor adults.

PATH’s final objective is to reach poor households, and for that purpose, it targets primarily children. In 2018/19, PATH had close to 272,000 paid beneficiaries with a majority (65 percent) being children, which covered 26.9 percent of households in the country⁸². Figure 6 shows that 43.9 percent of children in the 1st quintile are PATH recipients, followed by 21.9 percent of the elderly and 6.3 percent of the working-age adults. These numbers show that PATH has a significant role in poverty alleviation and that its structure can target fast those households most affected by the crisis.

■ Figure 6. Percentage of Population Receiving a PATH benefit, by age group and quintile.



Source: Jamaican Survey of Living Condition 2017

As mentioned, PATH can be an instrument to target unemployed and informal workers. The 2017 Living Conditions Survey shows that 40 percent of households with a formal worker in the 1st and 2nd quintiles received a PATH benefit, and this number is higher for households with informal workers (44.8 percent in Q1 and 37 percent in Q2). Therefore, the use of PATH, even if it is through children-targeted benefits, can reach workers laid off from the labor force.

⁸² Jamaican Survey of Living Conditions 2017.



Given the size and trajectory of PATH, this program stands as the best way to provide temporary help targeted to the most vulnerable. Moreover, the Government has issued exceptional increases in PATH's transfers for April and June, as part of the CARE program. The Covid PATH Grants should be extended beyond current beneficiaries and projected over time, as the recession is expected to last longer than June.

Conclusion

Jamaica is in the early stages of the Covid-19 pandemic, with only 381 confirmed cases as of April 29th. The Government has been farsighted in implementing actions to protect the population and flatten the contagion curve as early as possible. Schools have been closed, social gathering restricted and the commercial activity reduced to essential services. Economically, the country has been directly affected by the fall in Tourism. With airports and sea-ports closed without a clear horizon, this sector will have a strong negative impact on the economy. The reduction in global demands for commodities and the fall in prices has affected bauxite and alumina, the main exports. The recession will soon affect construction, wholesale and retail, and services, deriving in higher unemployment and poverty.

Jamaica is better prepared to cope with this economic crisis than ever before, showing strong macroeconomic and fiscal numbers, and ending 2019 with record low unemployment. Growth and inflation, on the other side, showed adverse numbers in the last quarter of the year. The policies announced by the Government show precaution and an aversion to fiscal risk. Tax reductions on consumption, loans, and benefits for MSME, in addition to a variety of benefits for unemployed and informal workers, try to tackle the problems generated by the Covid-19. However, the budget allocation has already shown its limitation and the target methodology could be improved significantly. This document has, on the one hand, proposed further actions to fund the emergency effort, such as the reduction in interest rates, the request of grants and loans from multilateral institutions, an increase in the money supply, and a temporary tax on Oil. On the other hand, it has proposed a reduction in the number of programs and the distribution of the benefits through existing programs.

While fiscal responsibility is a good sign, with poverty levels close to 20 percent and labor informality around 60 percent, the government has to increase the emergency transfers and channel resources to poor households and informal workers more aggressively. The CARE program has run out of budget very quickly, and new allocations should be evaluated as soon as possible. Besides, the multiple subprograms will limit the rapid and efficient implementation of help. The efforts should be targeted to sustain businesses and jobs, and transfer direct help to unemployed and informal workers. For that purpose, the Government could use the social spending structure already in place, like the NIS and PATH.

Jamaica has a wide range of social programs for poverty reduction that has developed and improved over the years. Using a program such as the Covid PATH Grants to temporarily increase transfers and increase beneficiaries could be the fastest and most efficient way to reach those households that are most vulnerable to the crises.

The following weeks will give a clearer picture of the health and economic crisis Jamaica is facing, as well as the effectiveness of the government's response. The UNDP, as the development agency of the United Nations, will continue to collaborate on policymaking design and support member states in their pursuit of solutions to the challenges ahead.



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