Economic Alert iQ

First Citizens
Research & Analytics

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Regional
Prepared by: Yuri Seedial, Analyst I, First Citizens Research and Analytics
Yuri.Seedial@firstcitizenstt.com

Rating action:

- Fitch Ratings has upgraded Jamaica's Long-term foreign and local currency IDRs to 'B' from 'B-' and revised the Rating Outlooks to Stable from Positive. In addition, Fitch upgrades Jamaica's senior unsecured Foreign- and Local-Currency bonds to 'B' from 'B'. The country ceiling has been affirmed at 'B' and the Short-Term Foreign-Currency IDR affirmed at 'B'.

Rating Drivers:

- The Jamaican government's commitment to adhering to the targets set by the IMF under the EFF arrangement has favorably impacted the rating. Although the policies are somewhat austere in nature and have proven to be unpopular, the goals of the IMF are backed by diverse stakeholders making the successful completion of the program vital across all sectors.
- A slight relaxation in the targeted primary fiscal surplus target in December allowed government to increase public investment, although the surplus is expected to come in at 7.25% of GDP in 2015 and 7% of GDP in FY 2016.
- An increase in 2015 Government revenues, boosted by Fiscal reforms and tax hikes, despite below- target economic growth, positively affected the rating.
- The buyback of the PetroCaribe debt, in July 2015, owed to Venezuelan national oil company PDVSA, for half of its face value, as well as the country's re-immergence in both external and domestic capital markets saw the reduction of the country's debt by 10pp of GDP. Government debt repayments in the coming FY2016-2017 are relatively light at just 3.3% of GDP.

- Lower oil prices slashed the import bill in 2015 and helped drive down the current account deficit to 3% of GDP, from 7.7% of GDP in 2014. Subdued energy prices, a change in the energy mix and a more competitive Jamaican dollar promise to keep the CAD in check through 2017.
- Tourism and remittances, the main sources of foreign exchange, are performing well. Reserves increased USD441m (or by 17.8%) during 2015, boosted by external government borrowing, as well as FX purchases and borrowing by the Bank of Jamaica. Reserves now cover between four and five months of current external payments (CXP), closing the gap with the 'B' median.
- Government debt/GDP is still very high at an estimated 124.7% of GDP in March 2016, compared with a 'B' median of 52% of GDP and over 60% of it is denominated in foreign currency. Debt interest payments still consume 27% of revenues, and current spending accounts for over 90% of the total, squeezing the amount available for investment. While Jamaica has avoided imposing punitive losses on bondholders, it has twice re-profiled domestic debt (in 2010 and 2013), which constitutes a default under Fitch's methodology.

Jamaica’s economic performance:

- A gradual economic recovery is underway, recovery as the impact of a drought eases, and public employees receive the first base wage increase after a five-year freeze. Real GDP growth is projected at about 1.5% in FY2015/16, and 2.5% for the next fiscal year. Growth will be supported by the opening of new and refurbished capacity in the tourism industry and new private infrastructure investments such as a major north-south highway, investment in a port and special economic zones.
- The unemployment rate declined to 13.1% in July and employment gains are being generated in the tourism and business process outsourcing sectors.
- Falling energy prices have helped lower inflation to an average of 3.7% in 2015.

PetroCaribe:

- On 23rd July the Government of Jamaica raised USD2 billion on the international capital market through the issue of two new Eurobonds.

- Three quarters of this sum or USD1.5 billion is being used to purchase USD3.2 billion in debt owed to state owned Venezuela oil company Petroleos de Venezuela SA (PDVSA) by Jamaica's PetroCaribe Development Fund (PDF), at USD0.46 on the dollar or a discount of 54%.
- The recent PetroCaribe liability management operation is an important step in reducing Jamaica's public debt.
- The buyback has immediately reduced the debt-to-GDP ratio by about 10% of GDP, and the Net Present Value (NPV) gain of the transaction is estimated at about USD300 million.
- This proactive operation will help keep public debt on a clear downward trajectory, with debt-to-GDP now projected at 125% by the end of this fiscal year from the current 137%.

Rating Sensitivities:

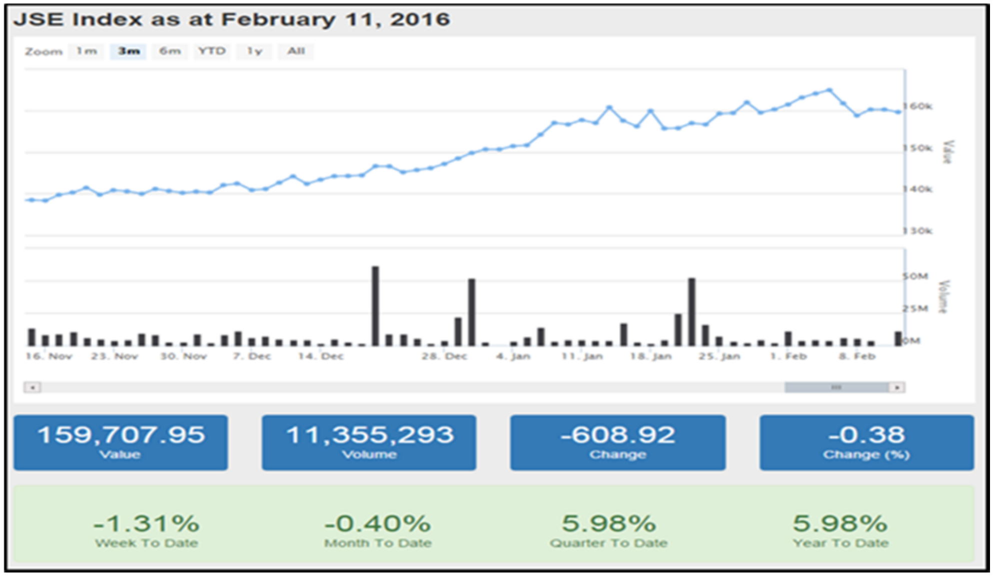
- Higher economic growth and improved fiscal performance leading to faster debt reduction.
- Further reserve accumulation and strengthening in the balance of payments would improve confidence in the Jamaican dollar. This would ease pressure on government solvency and inflation.
- Failure to adhere to the IMF programme would remove a source of balance of payments support and hurt private sector and creditor confidence, renewing concerns about fiscal and external financing.

Jamaica's Credit Ratings:

Fitch	S&P	Moody's
B	B	Caa2

Jamaica's Capital Market performance:

- On December 30th 2015, Jamaica Stock exchange was named the best performing Exchange in the world for 2015 having surged approximately 80% for the year. YTD the JSE main index is up 5.98%



Source: Jamaica Stock Exchange

Jamaican Government Bond Tenor	Price (USD)	YTD Price Change	Coupon
2025	**106.88**	**0.28%**	**7.63%**
2028	**99.28**	**2.01%**	**6.75%**

Source: Bloomberg

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