

Economic Alert iQ



Tuesday 21st June 2016 – 10:25 am

Regional

Prepared by: Yuri Seedial, Analyst I, First Citizens Research and Analytics

Yuri.Seedial@firstcitizenstt.com

Recap:

- On 1 May 2013, the Executive Board of the International Monetary Fund (IMF) approved a four-year Extended Fund Facility (EFF) arrangement for Jamaica to support the authorities' comprehensive economic reform agenda.
- The EFF arrangement amounts to SDR 615.38 million (about USD 948.1million), the equivalent of 225% of Jamaica's quota in the IMF.
- The financing arrangement forms a critical part of a total funding package of USD2 billion from Jamaica's multilateral partners including the World Bank and the Inter-American Development Bank, with each having preliminarily agreed to allocate USD 510 million for 2013/14 through 2016/17.

Eleventh and Twelfth review of Jamaica's IMF supported program:

- On June 17, 2016, the Executive Board of the International Monetary Fund (IMF) completed the combined eleventh and twelfth reviews under the EFF for Jamaica. The completion of the reviews enabled the disbursement of an amount equivalent to SDR 56.64 million (about USD80 million) bringing the total disbursements under the arrangement to the equivalent of SDR 530.42 million (about

USD748.2 million).

- Following the Executive Board's discussion on the 17th of June, Mr. Mitsuhiro Furusawa Deputy Managing Director and Acting Chair issued a statement highlighting:

Jamaica's economic performance:

- A gradual economic recovery is underway, with growth projected at about 1.7% in FY2015/16, and 2.0 % for the next fiscal year.
- The unemployment rate declined and is estimated to end 2016 at 12.2%. Employment gains are being generated in the tourism and business process outsourcing sectors.
- Inflation fell to 3.0% in March 2016 versus 3.7% in the comparable month in 2015, due to lower energy and agricultural commodity prices.
- Net international reserves were USD2.4 billion at end-March 2016 (5.75 months of imports of goods and services).

PetroCaribe Recap:

- On 23rd July 2015 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 PetroCaribe liability management operation was an important step in reducing Jamaica's public debt.
- The buyback 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 114% by the end of this fiscal year from 123% in 2015.**

Direct/Indirect Benefits to Jamaica from EFF Agreement:

- Macro-economic stability- Evidenced by managed inflation rates and currency stability (after planned initial depreciation).
- Fiscal consolidation and stability- Evidenced by increased reserves and reduced current account deficits.
- Reduced Public debt.
- Tax policy reforms leading to increased Government Revenues.
- Financial Sector confidence- Evidenced by improved returns on the stock market, successful re-entrance into the local international and bond markets and the influx of foreign investments.
- Business confidence is at an all-time high and private credit growth is recovering.

Further Goals:

- Reduced Government Wage Bill.
- Proper implementation of proposed Tax-reform.
- Implementation of Public Sector human resource management system.
- Stronger and more sustainable economic growth.
- Reduction of Financial costs to private sector while expanding access.
- Improved public sector resource allocation.

Rating action:

- On September 29th 2015 Standard and Poor's Rating Services (S&P) affirmed its 'B' long-term and short-term foreign and local currency sovereign credit ratings on Jamaica. Additionally, the outlook on the country's long-term sovereign credit remains stable. S&P has also affirmed the 'B+' rating on Jamaica's transfer and convertibility risk.
- In Feb 2016, Fitch upgraded its long-term and short-term foreign and local currency sovereign credit ratings on Jamaica to B (Stable) from B- (Positive).

Security	Tenor	Bid Price	Bid Yield	1-Year Price Change (Percentage)	1-Year Yield Change (Basis Points)
Jam 10.625%, 06/20/17	1 Year	106.990	3.377%	-6.24%	14.80 bps
Jam 8.5%, 02/28/36	20 Year	114.861	7.087%	-1.30%	9.50 bps



Follow us on Twitter [@FCISResearch](https://twitter.com/FCISResearch)

Disclaimers

All information contained in this article has been obtained from sources that First Citizens Investment Services believes to be accurate and reliable. All opinions and estimates constitute the Author's judgment as of the date of the article; however neither its accuracy and completeness nor the opinions based thereon are guaranteed. As such, no warranty, express or implied, as to the accuracy, timeliness or completeness of this article is given or made by First Citizens Investment Services in any form whatsoever. First Citizens Investment Services and/or its employees or directors may, where applicable, make markets and effect transactions, or have positions in securities or companies mentioned herein. Neither the information nor any opinion expressed shall be construed to be, or constitute an offer or a solicitation to buy or sell.