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Regional

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## S&P Affirms Jamaica's Credit Rating

### Rating Action:

- On September 29<sup>th</sup> 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.

### Rationale:

- The rating on Jamaica has been stifled by the fact that central government's debt and interest burden remain higher than most regional and global peers. S&P has projected that general government's debt burden would be 118% of 2015 GDP (2014: 128% of 2014 GDP) which would contribute to fiscal inflexibility. Accounting for the 10% decline in the country's debt burden was the repurchase of the USD\$3.25 Billion obligation owed by Jamaica to Petroleos de Venezuela SA (PDVSA) under the Petrocaribe Energy Cooperation Agreement.
- Debt interest payments are projected to consume approximately 29% of central government's revenues in the current fiscal year which is significantly higher than Jamaica's peers. These key indicators lead to the assessment that Jamaica's debt burden remains a notable credit weakness.
- A decline in Jamaica's current account deficit, on account of lower fuel imports and higher tourism earnings is projected. However these forecasted improvements may lead to external debt (net of international reserves and financial assets) of 132% of 2015 current account receipts (CAR) and external financing needs of 110% of CAR. These forecasts, however, imply substantial external liquidity needs and indebtedness levels, thus it is S&P's view that Jamaica's external position remains a credit weakness.

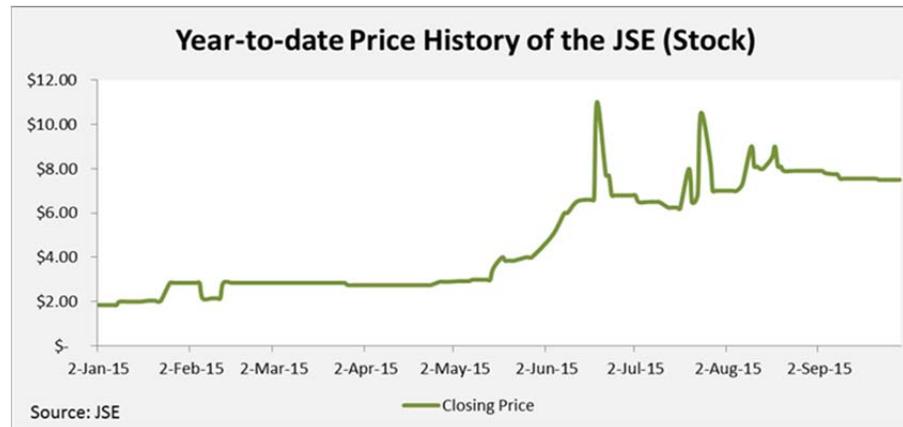
- Jamaica's stable democracy and open political system that promote political stability and policy predictability support the rating. Additionally, the government has recently signed agreements with the Jamaica Confederation of Trade Unions and Jamaica's Teachers' Association to increase salaries by 7% over two years, ending 2016/2017. However, there are still outstanding wage negotiations for central government workers which could hamper the goal of reducing the public-sector wage bill from 10% of GDP in 2014/2015 to 9% in the current fiscal year.
- The Government's growth stimulating projects ["improve the country's irrigation systems and continued progress on strategic investments, including the global logistics hub initiative, agro-parks, energy diversification, and encouraging growth in business-process outsourcing"] is expected to take several years before full impact on growth and unemployment is observed.
- Drought conditions which have been severe during 2015 fiscal year are projected to hamper GDP growth. Real GDP growth is expected to come in at 1.2% for 2015 up from 0.7% in 2014.
- Notably, inflation in Jamaica was recorded at its lowest levels in almost 50 years. As of August 2015 inflation fell to 3.5% forcing the Bank of Jamaica to drop interest rates to historically low levels.
- The strengthening of the financial sector by the passing of the new Banking Services Act and securities dealers reform, namely in the Repo Business, should provide more security to retail investors and boost the overall confidence in the industry.

**Outlook:**

- Jamaica's stable outlook is premised on the balancing act between the government's ability to generate sustained financial credibility and growth while reducing the country's vulnerability to exogenous shocks.
- An uptick in credit rating may be achieved if Jamaica, among other criteria, is able to gradually reduce government debt, achieve sustained improvement in external liquidity and have sustained economic growth over the next three years.

## Jamaica Government International Bonds and Yields

Name	Yield
Jamaican Gov't Bond 2017	3.45
Jamaican Gov't Bond 2025	6.34
Jamaican Gov't Bond 2028	6.62
Jamaican Gov't Bond 2045	7.85



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