



# Jamaica

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 Last Updated: January 2016

COUNTRY		CREDIT RATING		Major Trade Partners	
Real GDP (%) Q3 2015	1.5%	S&P Foreign Currency	B (Stable)	US: Venezuela; T&T; Canada; China; Netherlands; UK	
Next General Election	2016	Fitch Foreign Currency	B- (Positive)	Alumina, bauxite, sugar, rum and coffee	
Exchange Rate (USD/JMD)	121.21	Moody's Foreign Currency	Caa2 (Positive)	GDP Composition	Agriculture 6.9%, Retail Trade 16.3% and Public Services 10.4%
Financial Year	April - March				

## RECENT ECONOMIC DEVELOPMENTS

### ECONOMIC OUTLOOK

**POSITIVE**

In the September 2015 quarter, real GDP is estimated to have increased within the range of 1% to 2%, following two consecutive quarters of expansion. The estimated performance of the quarter in review mainly reflected expansion of the goods producing industries, in particular Agriculture, Forestry & Fishing and Manufacture. In addition, Hotels & Restaurants is assessed to have been the driver for growth within the services industry. Real GDP growth for FY2015/16 is projected to remain in the range of 1% to 2%, with the pace of expansion increasing over the medium-term. This projection is predicated on the continued recovery in the economies of Jamaica's major trading partners, expected improvements in business and consumer confidence as well as further gains in external competitiveness, which is expected to stimulate net external demand. It is expected that economic growth should be strengthened as local and international investors seize the opportunities afforded by the general improvement in confidence, low and stable inflation as well as increased external competitiveness in the context of an expanding global economy. The co-existence of a low nominal interest rate environment and real rates of return to creditors offer opportunities for new investments and further private capital inflows. These prospects was bolstered by the pick-up in private sector credit and expansion in the stock market, thus indicative of new prospects for investments and overall output expansion. The strengthening of growth should also be supported by the continued timely implementation of critical structural reforms over the course of the IMF Program.

### INFLATION

**POSITIVE**

As at September 2015, Jamaica recorded its lowest annual inflation rate in 40 years of 1.8%. The deceleration in headline price growth is due in part to lower oil prices, and as these base effects diminish over the latter part of 2016, prices are projected to tick back up. Further to this, inflation may trend upwards as the effects of the severe draught that plagued harvests in 2015 spill over into 2016, pushing food prices upwards. Lower inflation will support greater purchasing power for Jamaican households, such that we expect private consumption will return to positive territory after contracting each of the past three years. Jamaica's economy is dominated by private consumption, to an even greater degree than its regional peers, with private consumption accounting for 85.0% of total GDP in 2014, compared to the Caribbean average of 75.0%. An increase in private consumption supplied by an increase in private sector credit also has inflationary tendency and would result in an uptick in inflation in 2016. However, more disciplined government spending will work to keep inflation relatively subdued by historical standards - inflation is projected to average 4.1% in 2015 and 5.7% in 2016, far below the average of 10.8% seen over the past decade.

### TRADE BALANCE/ BOP

**POSITIVE**

Developments in the economy had a favorable impact on Jamaica's terms of trade (TOT) index. The index is estimated to have improved by 33.8% for the September 2015 quarter relative to the comparable period in 2014. This improvement reflected a decline of 28.6% in the Import Price Index (IPI), the impact of which was partially offset by a fall of 4.4% in the Export Price Index (EPI). The estimated decline in the IPI was largely attributed to the impact of the continued decline in the prices of crude oil and grains. The lower EPI mainly reflected a weakening of alumina prices supported by lower implicit tourism prices due to reduced tourism travel, the impact of which was partly offset by higher coffee and sugar prices. For the next four quarters, Jamaica's TOT is expected to continue to record gradual improvements. This outlook is largely underpinned by the assumption for a notable recovery in the EPI for the March 2016 quarter, supported by a mild upward trend in import prices. Consistent with the expectation that a number of advanced and emerging market economies will continue to expand into 2016/2017, prices in the international commodities market are expected to rise, though slowly, as global demand strengthens.

### FISCAL ACCOUNTS

**Neutral**

Central Government's operation in the September 2015 quarter resulted in a fiscal deficit of JMD3.7 billion, relative to the budgeted deficit of JMD12.9 billion. This positive outcome for the quarter reflected lower than anticipated Expenditure which was partially offset by lower than budgeted Revenue and Grants. Against this background, the current deficit was JMD2.4 billion or JMD4.2 billion below the implicit targeted deficit. For the 9 months ended September 2015 the primary surplus stood at JMD50.8 billion or JMD10.8 billion above the targeted surplus under the IMF's EFF program. Jamaica's C-Efficiency (GCT&SCT) ratio, which captures the efficiency of Government tax collection was 78.5% for the September 2015 quarter relative to an implicit budget target of 70.8%. As at the end of September 2015, Revenues and Grants was JMD567.9 million below budget while expenditure was JMD9.7 billion below budget for the June 2015 quarter, primarily reflecting lower than planned capital spending and interest payments. This shortfall in Revenue was largely due to lower grants and bauxite levy receipts as the other categories of revenue were relatively in line with budget.

### IMF ARRANGEMENT

**POSITIVE**

The Executive Board of the International Monetary Fund (IMF) completed the tenth review of Jamaica's economic performance under a program supported by a four-year Extended Fund Facility (EFF) of approximately USD932.3 million. The completion of the review enables the disbursement of USD39.7 million. The four-year EFF arrangement with Jamaica was approved by the IMF's Executive Board on May 1, 2013. Jamaica's economic performance under the authorities' economic program is on track and has remained strong. All performance criteria up to the end of September 2015 were broadly met. Structural reforms have also advanced in line with the program. Half-way into the authorities' four-year reform program, investment and growth prospects are gradually improving. Growth has been revised down to 1.5% in 2015/16 and 2.5% for 2016/2017 on account of unusually dry weather for a second year in a row disrupted the agriculture sector as well as the underperformance of the manufacturing sector. However solid prospects in Tourism and Business Services Sectors are expected to propel economic growth moving forward.

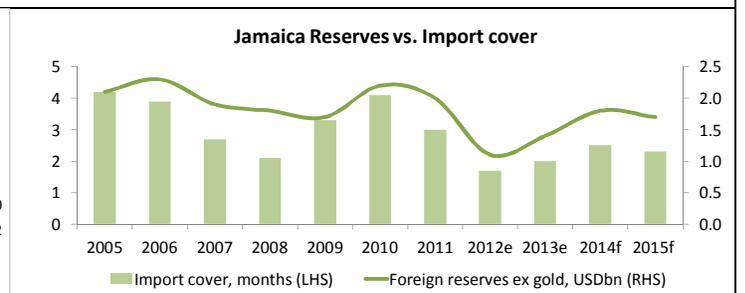
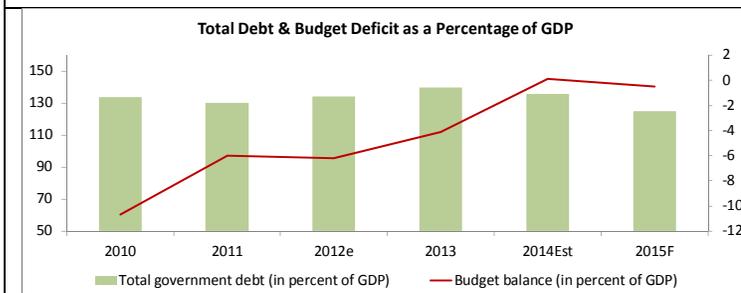
### CREDIT RATINGS

**POSITIVE**

On May 28 2015, Moody's Investors Service upgraded Jamaica's government bond rating and government-related entities to Caa2 from Caa3. Moody's decision to upgrade Jamaica's rating was driven by 1) fiscal consolidation and strong commitment to structural reforms and 2) improving balance of payments position and reduced external vulnerabilities. As a result of this rating action, the long-term foreign currency bond ceiling changed to B2 from B3. The long-term foreign currency deposit ceiling changed to Caa3 to Ca. On 29 September, 2015, Standard & Poor's (S&P) Ratings Services affirmed its "B" rating on long-term foreign and local currency and affirmed its "B" short term foreign and local currency sovereign credit ratings on Jamaica. S&P's outlook on the long term sovereign credit ratings is stable.

## OUTLOOK

Despite the authorities demonstrating resolve in implementing the IMF program and policy, more sustainable signs of improvements in growth will be important to endure the social consensus and confidence needed to continue on the reform route. Although Jamaica's debt buy-back positively affected the Government's fiscal accounts, vulnerability to key macro-fiscal shocks, including to growth and the exchange rate (owing to a large and growing share of FX-denominated debt) still remain. Revenue shortfalls or failure to contain the government wage bill could undermine the fiscal position. Currently, we acknowledge the improvement in these indicators, but we remain cautious on Jamaica due to the still weak economic growth, fiscal flexibility and high government debt burden.



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