



Jamaica

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COUNTRY		CREDIT RATING		Major Trade Partners	
Real GDP grew 0.6 (%) Q4 2015	0.6%	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)	121.95	Moody's Foreign Currency	Caa2 (Positive)	GDP Composition	
Financial Year	April - March			Agriculture 6.9%, Retail Trade 16.3% and Public Services 10.4%	

RECENT ECONOMIC DEVELOPMENTS

ECONOMIC OUTLOOK

STABLE

In the December 2015 quarter, real GDP is estimated to have increased within the range of 1% to 2%, following three consecutive quarters of expansion. The estimated performance of the quarter in review mainly reflected expansion of the goods producing industries, in particular Manufacturing and Food & Beverages as well as an increase in Electricity and Water supply. 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 1.0 to 2.0%**, 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. 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 were bolstered by the pick-up in private sector credit and expansion in the stock market, 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 December 2016, Jamaica recorded its annual inflation rate at 3.7% down from the 6.4% a year prior. 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 marginally tick back up. The consumer price index fell in January 2016 by 0.4% to give a 12-month inflation rate of 3.7%, which was below the 5.3% recorded for the same period in 2015. Inflation for fiscal year 2015/16 is now expected to come in well below the target range of 5.5 to 7.5%. The Jamaican Central Bank's projection for 12-month inflation over the next four quarters is between 4.5% and 6.5%. 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.

TRADE BALANCE/ BOP

STABLE

Developments in the economy had a favorable impact on Jamaica's terms of trade (TOT) index. The index is estimated to have improved by 20.2% for the December 2015 quarter relative to the comparable period in 2014. This improvement reflected a decline of 22.7% in the Import Price Index (IPI), the impact of which was partially offset by a fall of 7.1% in the Export Price Index (EPI). The estimated decline in the IPI was largely attributed to the impact of the continued lower prices for fuel, raw materials, consumer goods and capital goods. 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 cocoa prices. For the next four quarters, Jamaica's TOT is expected to continue to record gradual improvements. The forecast reflects continued decline in the IPI in the first two quarters, offset by an increase in the final two quarters of the year. The impact of the IPI on the TOT is expected to be offset by growth in the EPI, largely predicated on an improved outlook for tourism prices.

FISCAL ACCOUNTS

STABLE

Central Government's operation in the December 2015 quarter resulted in a fiscal deficit of JMD11 billion, relative to the budgeted deficit of JMD2.5 billion. During the quarter, while Revenue & Grants was above budget it was insufficient to offset the above budget spending. The fiscal account recorded an overall deficit of JMD10.7 billion, JMD9.3 billion lower than the budgeted deficit. Despite the December 2015 outturn, Central Government activities resulted in a primary surplus of approximately JMD66.0 billion for the fiscal year to date, JMD5.3 billion above the revised Quantitative Performance Criteria under the EFF program. Jamaica's C-Efficiency (GCT&SCT) ratio, which captures the efficiency of Government tax collection was 76.8% for the December 2015 quarter relative to an implicit budget target of 68.9%. Expenditure for the quarter was JMD10.5 billion above budget reflecting higher than planned wages & salaries and capital spending. The improvement in Revenue was largely due to the impact of the newly implemented tax reform measures on compliance which stood as a major criteria under the EFF agreement with the IMF. Jamaica's public sector debt is currently at 132% of GDP and according to Business Monitor International, total external debt was estimated at 105.4% of GDP in 2015.

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 advanced broadly 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.

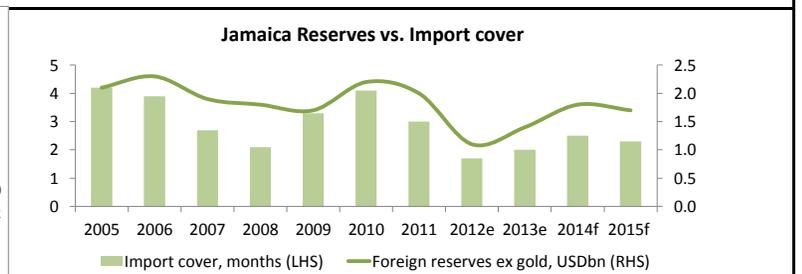
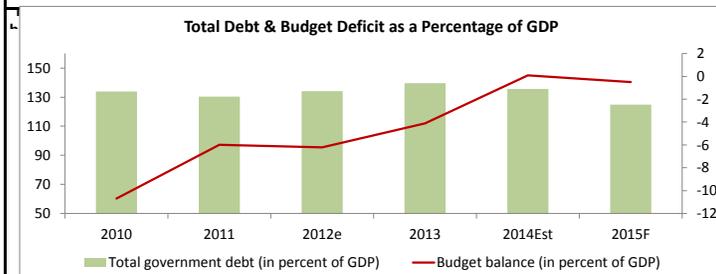
CREDIT RATINGS

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 authorities demonstrating resolve in implementing the 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 extremely high government debt burden, particularly the total external debt. The Jamaica Labor Party (JLP) won the 2016 General Elections after claiming 33 of the 63 constituency seats and Prime Minister elect Andrew Holness was sworn in as the country's 12th Prime Minister. Mr. Holness has indicated that his Government would continue with the IMF agreement while adopting a holistic approach to generating sustained economic growth for Jamaica.



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