



Jamaica

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 Research & Analytics

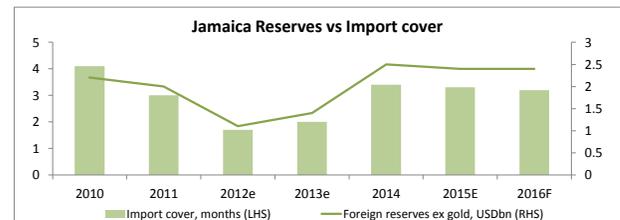
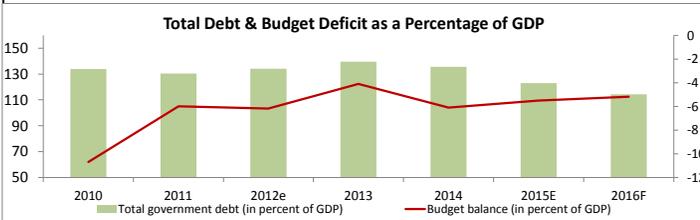
COUNTRY		CREDIT RATING		Major Trade Partners	
Real GDP Q2 2016	1.0%	S&P Foreign Currency	B (Stable)	US: Venezuela; T&T; Canada; China; Netherlands; UK	
Next General Election	2021	Fitch Foreign Currency	B (Positive)	Alumina, bauxite, sugar, rum and coffee	
Exchange Rate (USD/JMD)	129.19	Moody's Foreign 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 June 2016 quarter, real GDP is estimated to have accelerated, relative to the preceding quarter, within the range of 0.5% to 1.5% following five consecutive quarters of expansion. This performance was underpinned by growth within all industries, except Mining & Quarrying and Producers of Government Services. The expansion during the quarter was mainly associated with a recovery from adverse weather conditions and production disruptions experienced in the corresponding quarter of 2015. Given the estimate for the June 2016 quarter, real GDP growth for FY2016/17 is estimated to be within the range of 1.0% to 2%. Near-Medium term growth is expected to strengthen against the background of higher foreign and domestic investments, recovery in key industries as well as improvements in domestic spending. Further, Jamaica's growth prospects should be bolstered by improvements in external competitiveness as a result of the structural and macroeconomic reforms undertaken under the IMF-EFF programme. 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 continued expansion in the stock market, indicative of new prospects for investments and overall output expansion.
INFLATION	POSITIVE	For the June 2016 quarter, annual inflation decelerated to 2.5% relative to the preceding quarter. This outturn primarily reflected a moderate increase in domestic agricultural prices which was partly offset by declines in the cost of energy and transport-related services. The outturn for core inflation was also low and represented the seventh consecutive quarter of deceleration. The trend performance of core inflation is consistent with a reduction in the degree of exchange rate pass-through to prices, continued fiscal restraint under the Extended Fund Facility (EFF) Supported Programme and prudent monetary policy adjustments. Inflation is expected to remain flat for the September and December quarters to end FY2016/17 within the target range of 4.5% to 6.5%. This outlook is largely predicated on international commodity prices remaining at moderate, though increasing levels throughout the rest of the fiscal year. 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 2015, 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 should 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 marginally by 25.8% for the June 2016 quarter relative to annual increases of 25.4% registered in March 2016. This improvement reflected an annual decline of 13.5%(y-o-y) in the Import Price Index (IPI), the impact of which was supported by a 8.8% increase in the Export Price Index (EPI). The decline in the IPI was mainly due to lower prices for consumer goods (non-durable and durable), capital goods, fuel and other raw materials. Over the next four quarters, the improvement in the TOT is expected to be tempered by the projected increases in commodity prices. In addition the earnings from tourism is expected to grow at a slower pace consistent with a slowdown in global growth. An impressive performance in its external accounts at the close of 2016 will give Jamaica a strong start in 2017, helping it maintain a relatively narrow current account balance (-2.60% of GDP) in the coming quarters. This will be further supported by a weaker Jamaican dollar, which has been allowed to steadily depreciate, falling by 5.7% y-o-y as at September 2016. BMI forecasts that the current account deficit, which came in at 2.3% of GDP in 2015 - far narrower than the forecasted deficit of 6.8% - will widen to 2.9% of GDP in 2016 (compared to the previous forecast of 6.2%), before stabilizing between 3-4% over the subsequent years.
FISCAL ACCOUNTS	STABLE	Central Government's operation in the June 2016 quarter resulted in a fiscal deficit of JMD7.9 billion, JMD18.9 billion above the budgeted deficit. The outturn primarily reflected higher Revenue & Grants as well as lower than budgeted spending. Given this, there was an overall deficit registered JMD10.8 billion for the quarter, JMD20.4 billion lower than the budgeted deficit. Tax revenue for the fiscal period was JMD7.9 billion higher than target. Jamaica's C-Efficiency (GCT&SCT) ratio, which captures the efficiency of Government tax collection was 82.6% for the June 2016 quarter relative to an implicit budget target of 76.4%. Expenditure for the quarter was JMD10.8 billion below budget reflecting administrative delays and a slower than anticipated execution of projects largely accounted for the lower than planned programme and capital spendings. Jamaica's public sector debt is currently estimated, for 2016, at 121.3% of GDP and according to Business Monitor International, total external debt was estimated at 100.7% of GDP in 2015.
IMF ARRANGEMENT	POSITIVE	The Executive Board of the International Monetary Fund (IMF) completed the thirteenth review of Jamaica's economic performance under a program supported by a four-year Extended Fund Facility (EFF) of approximately USD932.3 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 June 2016 were broadly met. Structural reforms have advanced broadly in line with the program and investment and growth prospects are gradually improving. Growth has been revised upwards to 1%-2% for 2016/2017 against the background of higher foreign and domestic investments, recovery in key industries as well as improvements in domestic spending. Solid prospects in Construction, Tourism and Business Services Sectors are expected to propel economic growth moving forward.
CREDIT RATINGS	STABLE	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. Jamaica's economy will continue to recover in 2016, on the back of a strong rebound in private consumption. In 2017, accelerating tourist arrivals and rising investor interest in Jamaican infrastructure projects will spur a further uptick in real GDP growth. Additionally, this growth will be driven primarily by an uptick in private consumption, with support from improving investor sentiment and solid net export dynamics. Private consumption should return to positive growth in 2016 and 2017 after contracting each of the past three years, supported by strong tourist arrivals and low inflation while continued low energy prices and further weakening of the exchange rate should continue to drive net exports.



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