



Jamaica

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COUNTRY		CREDIT RATING		Major Trade Partners	
Real GDP grew 0.5 (%) Q1 2016	0.5%	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)	126.37	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 March 2016 quarter, real GDP is estimated to have increased, albeit at slower pace, within the range of 0% to 1% following four consecutive quarters of expansion. This performance was underpinned by growth within all industries, except Agriculture, Forestry & Fishing, Mining & Quarrying and Producers of Government Services. The economic advancement in the review quarter emanated primarily from the services industries. Given the estimate for the March 2016 quarter, real GDP growth for FY2015/16 is estimated to be within the range of 0.5% to 1.5%, largely driven by growth in Electricity & Water Supply, Hotels & Restaurants, Construction and Transport, Storage & Communication. Growth was buoyed by improvement in net external demand and to a lesser extent an increase in private spending. Over the next four quarters, real GDP growth is expected to be between 1.0% to 2.0%, consequent on global demand as well as anticipated recovery in Agriculture, Forestry & Fishing and Electricity & Water Supply. 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. 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 end-March 2016 headline inflation decelerated to 3.0% relative to 3.7% at the end of the preceding quarter. The downturn was below the target range of 5.5% to 7.5% for FY2015/16. The deceleration, relative to the previous quarter, largely reflected declines in the cost of energy and transport-related services, which recorded deflation for the fifth successive quarter. Notably, there was a decline in agricultural prices relative to the previous quarter. With regard to core inflation, the outturn of 3.0% was particularly evident amongst processed foods. Notably, the other core measures CPI without Food and Fuel (CPI-FF) and CPI without Fuel (CPI-F) both decelerated to 3.1% and 4.8%, respectively from 4.2% and 6.1%, respectively in March 2015. The Jamaican Central Bank's projection for 12-month inflation over the next four quarters is between 4.5% and 6.5%. This forecast is largely dependent on international commodity prices gradually increasing, as well as continued improvement in domestic demand conditions. 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 by 21.9% for the March 2016 quarter relative to December 2015. This improvement reflected an annual decline of 16.1% in the Import Price Index (IPI), the impact of which was supported by a 2.3% 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 2015 will give Jamaica a strong start in 2016, helping it maintain a relatively narrow current account balance in the coming quarters. This will be further supported by a weaker Jamaican dollar, which has been allowed to steadily depreciate, falling by 7.6% y-o-y as at July 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 March 2016 quarter resulted in a fiscal surplus of JMD20 billion, JMD5.9 billion below the budgeted surplus. The outturn primarily reflected lower Revenue & Grants as well as higher than budgeted spending. Given this, there was an overall deficit of JMD28.5 billion for the quarter, JMD9.3 billion lower than the budgeted deficit. In this context, the primary balance for FY2015/16 was JMD95.9 million above the revised target outlined under the EFF program. Tax revenue for the fiscal period was JMD4.8 billion below the target. Jamaica's C-Efficiency (GCT&SCT) ratio, which captures the efficiency of Government tax collection was 72.4% for the March 2016 quarter relative to an implicit budget target of 73.2%. Expenditure for the quarter was JMD1.1 billion above budget reflecting higher than planned capital spending and wages & salaries. Higher capital spending was facilitated by the relaxation of the EFF primary surplus target to 7.25% of GDP from 7.5% of GDP, which allowed the Government to spend more on growth-inducing projects. Jamaica's public sector debt is currently estimated, for 2016, at 114.3% of GDP and according to Business Monitor International, total external debt was estimated at 100.5% of GDP in 2015.

IMF ARRANGEMENT

POSITIVE

The Executive Board of the International Monetary Fund (IMF) completed the twelfth 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 enabled the disbursement of USD80 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 down to 0.5%-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 Construction, Tourism and Business Services Sectors are expected to propel economic growth moving forward.

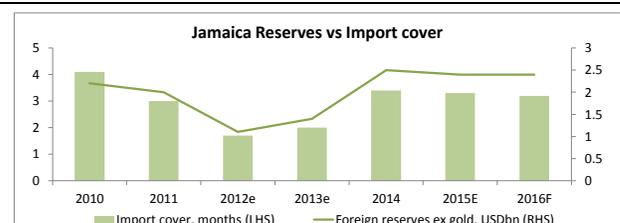
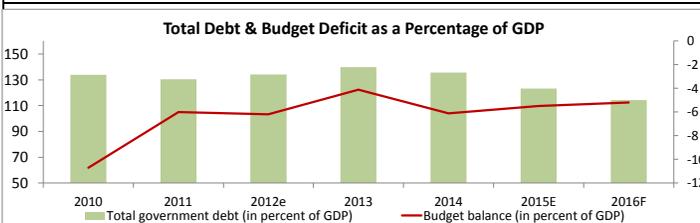
CREDIT RATINGS

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. 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. One major accomplishment of the new government was the setting up of a "super" ministry aimed at economic growth and job creation. Already, we have seen the creation of opportunities in logistics, animation and healthcare however we believe that there is much work ahead.



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