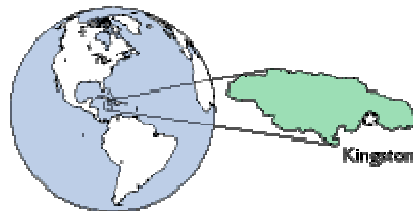


COUNTRY REVIEW

Jamaica



22 July 2010

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EULER HERMES COUNTRY RISK GRADE: D

Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.

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Strengths

- Changes of government occur within a constitutional framework.
- Government policy is operating within the framework of an IMF stand-by programme.
- Adequate Business Environment.

Weaknesses

- High crime rates impact negatively on business.
- High dependence on commodities and tourism and vulnerability to natural disasters.
- Poor growth record.
- Precarious fiscal deficits and debt dynamics.
- Wide current account deficits and relatively low FDI coverage.

Country Risk Assessment

Ratings	Jamaica		Median Grade D	Nicaragua	Peers	
	Latest	Previous			Ecuador	Kenya
Systemic Political Risk:	P2-	P2-	P3-	P3-	P4	P4
Systemic Economic Risk:	E6	E6	E6	E6	E5	E5
ME rating:	ME6	ME6	ME6	ME6	ME5	ME5
<i>Structure</i>	5.7	5.7	6.0	4.7	5.0	6.0
<i>Policy</i>	6.0	5.8	5.6	5.6	4.6	6.0
<i>Solvency</i>	5.6	5.8	4.3	5.2	3.2	2.8
<i>External Liquidity</i>	4.3	6.0	4.3	5.6	5.6	4.8
SBE rating:	SBE4	SBE4	SBE5	SBE5	SBE5	SBE5
COUNTRY GRADE:	D	D	D	D	D	D

Nomenclature:

Political Risk Ratings are on a scale of P1 (lowest risk), P2+, P2-, P3+, P3-, P4 (highest risk).

Economic Risk Ratings are on a scale of E1 (lowest risk), E2, E3, E4, E5, E6 (highest risk).

ME (Macro-Economic) ratings are on a scale of ME1 (lowest risk), ME2, ME3, ME4, ME5, ME6 (highest risk).

The constituent parts of the ME rating are on a scale of 1.0 (best) to 6.0 (worst).

SBE (Structural Business Environment) ratings are on a scale of SBE1 (best), SBE2, SBE3, SBE4, SBE5, SBE6 (worst).

Country Grades are on a scale of AA, A, BB, B, C, D where AA is the lowest and D the highest country risk.

Source: Euler Hermes Country Risk Unit

ECONOMIC STRUCTURE

Country Profile

Capital city:	Kingston
Population:	2.72 mn (2009)
GDP:	USD 12415 mn (2009)
Currency:	Jamaican dollar (JMD)
Form of state:	Parliamentary democracy
Head of government:	Prime Minister Bruce Goulding
Next elections:	by October 2012

Major Industries (% of GDP at market prices, 2008)		Global Assumptions		2010	2011
Agriculture, forestry & fishing	5.4%	Real GDP grth (% yr/yr) *		3.3	2.9
Mining & quarrying	1.7%	Inflation (% av) *		1.2	1.4
Manufacturing	8.9%	Dated brent (USD/b)		75	70
Construction	8.0%	* World			
Utilities	4.1%				
Services	71.9%				

Main Exports (% of total, 2009)		Main Imports (% of total, 2009)	
Crude materials (excl. Fuels)	35.6%	Crude materials (excl. fuels)	15.8%
Food	17.9%	Food	27.6%
Mineral fuels	16.2%	Mineral fuels	16.2%
Chemicals	15.4%	Chemicals	15.4%
Beverages & tobacco	7.7%	Beverages & tobacco	7.7%
Lead Export Markets (% of total exports, 2008)		Lead Import Markets (% of total imports, 2008)	
US	36.6%	US	38.9%
EU	18.5%	Caricom	19.3%
Canada	9.7%	Latin America	17.8%
UK	8.4%	EU	4.8%

Basic indicators

Selected economic indicators	2007	2008	2009	2010f	2011f
Nominal GDP (USD mn)	12,909	13,994	12,415	13,655	14,669
Population (mn)	2.70	2.71	2.72	2.72	2.73
GDP per capita (USD)	4,781	5,164	4,564	5,020	5,373
Real GDP growth (% yr/yr)	1.5	-0.9	-2.7	-0.5	1.0
Inflation (% eop)	16.8	16.8	10.2	11.0	8.5
Fiscal balance (% of GDP)	-4.6	-7.3	-10.8	-6.5	-4.3
Current account balance (% of GDP)	-15.8	-20.0	-6.1	-5.9	-6.9
External debt/GDP (%)	78	72	79	81	83
External debt/Exports of goods & services (%)	135	125	151	167	174
Interest payments/Exports of goods & services (%)	7	9	11	12	11
Foreign exchange reserves (USD mn)	1,879	1,773	2,080	2,526	2,526
Import cover (months)	3.3	2.3	3.3	3.1	3.0
Exchange rate assumption:	69.19	72.76	87.89	88.30	90.00
f: CRU central forecast					

Sources: National, IMF, World Bank, Euler Hermes Country Risk Unit

Political Stability

Two parties dominate politics, the Jamaica Labour Party (JLP), which formed the first post-independence government in 1962, and the People's National Party (PNP), which has been in power since 1989. Both parties have a market-oriented, pro-business policy stance. Although election related violence is commonplace—in part owing to politicisation of criminal gangs—poll results are generally accepted and transfers of power occur within a constitutional framework. Security issues (related to criminal gangs) are a serious problem, but the political framework should endure in the near term.

General elections in September 2007 were won by the JLP led by Bruce Golding who became prime minister, ending 18 years of successive government by the PNP, a result that largely reflected voter disaffection with the government's failure to deal with rising crime, low economic growth and a number of corruption scandals. The JLP won a small 6 seat majority in parliament.

PM Golding's priorities of reducing crime and corruption and kick-starting the economy—the same issues that undermined the PNP government—are proving hard to achieve and both will continue to be troublesome, probably eroding support over time. In June 2010 the PM in June survived a vote of confidence over his handling of the extradition to the US of an alleged gang leader, which led to a week of unrest and violent deaths (in the PM's own constituency) but it remains to be seen how much damage this has done to his credibility. The broad direction of medium-term policy—accelerating growth through supply-side measures to improve investment, while improving public finances under the auspices of an IMF programme—is in the right direction, but the severe twin deficits (fiscal and current accounts) problem leaves little room for manoeuvre and the involvement of the IMF could still prove politically sensitive. However, the opposition is disunited.

Regional policy centres on membership of the Caribbean Community (Caricom) and Jamaica is a member of the Caricom Single Market and Economy. Other international relations are generally good, focused on the US and Canada and the UK.

Economic Stability

The economy is heavily dependent on alumina, bauxite and tourism and highly vulnerable to external economic shocks and natural disasters. Annual average growth of real GDP in the past ten years was less than 1% with real annual average GDP per capita growth a mere 0.4%. Low growth reflects a combination of adverse external factors, including natural disasters (hurricanes, floods) and poor domestic policy implementation.

In 2009 real GDP contracted by 2.7% (after -0.9% 2008). The economy was hit by a fall in tourism and a fall in production of alumina owing to lower prices and weak export demand. Falling real incomes and rising unemployment led to weak domestic demand. In Q1 2010 there was little improvement—alumina capacity utilisation was just over 30%, which also weighed on net exports, though bauxite production has begun to pick up—and with planned fiscal consolidation and higher inflation growth the economy is set to contract for the third successive year in 2010 (though at a slower pace, as tourism has improved) before returning to modest growth (around 1% in 2011).

The fiscal deficit (central government) widened to 10.8% in FY2009/10 from 7.3% in 2008/09, as revenues were flat as a proportion of GDP (and down on 2007/08) while expenditure rose sharply, mainly as a result of increased interest payments, which were the equivalent of 62% of revenues. The primary surplus rose slightly to 6% of GDP. The government also provided a fiscal stimulus in 2009 through increased financing through development banks. Public debt was 123% of GDP at end-2009.

At the start of 2010, recognising the unsustainability of the debt dynamics, the government undertook successfully a debt exchange of domestic debt, on a quasi-voluntary basis. While this did not involve a reduction of the principal outstanding it extended the maturity profile and lowered interest rates, significantly improving the debt service profile. The 2010/11 budget expects interest payments to be 5pp of GDP lower than in 2009/10 and the objective is to reduce the overall deficit to 6.5% of GDP, with a further cut to 4.3% in 2010/11.

The government agreed an IMF stand-by programme in February 2010, met the targets in the first review at end-March and appeared to be on track to have met the targets for the second review. Nonetheless, debt dynamics remain daunting—the primary surplus target is still 5% of GDP.

Monetary policy is based on a managed exchange rate regime to secure inflation objectives—set at 7.5-9.5% for 2010. The Net International reserves target consistent with the inflation objective is USD1.42bn and actual NIR was in excess of target at USD1.79bn. Inflation accelerated in the first few months of 2010, to 14% yr/yr in May, but with weak domestic demand, less exchange rate depreciation and private sector credit growth having slowed abruptly in the past six months, should start to ease to around 11% at end 2010 and 8.5% at end-2011.

The external current account deficit narrowed to 6.1% of GDP in 2009, having widened to 20% in 2008, as the decline in imports of goods and reduction of income payments, more than offset a sharp fall in goods exports and a reduction in inward remittances. Earnings from services (tourism) also held up reasonably well. In 2010 goods export growth will be constrained by alumina output but tourism should begin to recover and inward remittances should rise, but with import demand also beginning to pick up the deficit may remain close to 6% of GDP. The deficit could widen to 7% of GDP in 2011. Net FDI inflows cover 50-55% of the current account deficit in 2010-11. Gross FX reserves provide 3.7 months import cover and 140% of external debt due in 2010 (principal repayments and ST debt). NIR provide around 3 months cover and 135% of external debt falling due.

The external debt-GDP ratio is very high at 81% of GDP at end-2009, though the external debt-exports of goods and services ratio is slightly better at 165%. Interest payments as a proportion of exports of goods and services are also high at 12%.

Debt dynamics remain daunting and real GDP growth prospects relatively poor in 2010-11. However, though risks remain high, there has been some improvement in 2010, as the government has opted to pursue an adjustment programme with IMF-led international support and has re-structured the domestic debt.

Structural Business Environment

The Structural Business Environment is below average in our assessment.

Based on data and definitions from the World Bank's 2010 Doing Business Survey, of ten areas surveyed Registering Property, Trading Across Borders and Enforcing Contracts were weaker areas, ranking below average, while Paying Taxes was particularly weak and well below average. The World Bank Institute's Governance Research Indicator puts Regulatory Quality just above average, but Rule of Law and Control of Corruption well below average for the Caribbean region, with Regulatory Quality well above, Rule of Law just above and Control of Corruption just below average against the lower middle income group of countries. Transparency International's Corruption Perception Index, 2009, assigns Jamaica a score of 3.0—on a scale of 1 (bad) to 10 (good)—and a ranking of 99= out of 179 (the same as, among others, Dominican Republic, Bosnia-Herzegovina and Zambia). As a broad measure of the pro-business environment The Heritage Foundation's 2010 Index of Economic Freedom ranks Jamaica 57 out of 159.

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Charts

