FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Jamaica's Ratings at 'BB-'; Outlook Positive

Fri 21 Feb, 2025 - 3:14 PM ET

Fitch Ratings - New York - 21 Feb 2025: Fitch Ratings has affirmed Jamaica's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB-'. The Rating Outlook is Positive.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

Ratings Fundamentals, Continued Positive Outlook: Jamaica's 'BB-' ratings reflect stronger governance than the peer median, significant progress with debt reduction, a sound fiscal framework and a strong political commitment to deliver large primary surpluses. Debt-to-GDP has fallen to a forecast 70.8% in fiscal 2024/2025 from a high of 135.3% of GDP in fiscal 2012/2013. The ratings remain constrained by deep structural weaknesses including subdued growth potential owing to a high crime rate, low productivity and weak demographics, and vulnerability to external shocks including weather-related.

The Positive Outlook reflects Fitch's expectation of continued improvement in debt metrics and further strengthening of the policy framework over the next few years, including climate risk mitigants.

Large Primary Surpluses: Despite the economic downturn last year caused by Hurricane Beryl and extensive rain in the fall, we forecast that the overall surplus in the fiscal year ending in March 2025 will be slightly better at 0.3% of GDP than fiscal year 2023/24 at 0.0% of GDP. This is in part due to one-off revenues from insurance payments as well as concession proceeds from airports.

The primary surplus will shrink to 5% of GDP in fiscal 2024/25 from 5.7% of GDP in fiscal year 2023/24. Revenues are forecast to grow by 9% yoy driven by improvements in tax administration as well as continued labor market strength that drove consumption and tax revenues.

Expenditure growth is being driven by a large increase in the public sector wage bill which has grown by nearly 50% over the last three years, although part of this increase is due to the reclassification of certain personnel allowances in program expenditures to wages. Fitch projects a balanced budget in FY25/26 moving to a deficit of nearly 1% of GDP in fiscal 2026/27, which would still be in line with reaching the government's debt target of 60% on time by fiscal year 2027/28.

Declining Debt Trajectory: Fitch forecasts these large primary surpluses will reduce general government debt GDP to 66.3% of GDP in fiscal year 2025/26 from 70.8% this fiscal year. Debt is expected to fall to 63.5% in fiscal 2026/2027, putting it on track to meet the government's debt target, although the 60% target is still higher than the current 'BB' median of 55.6%.

Stable Policy Framework: Jamaica has remained committed to an economic policy framework built on two key pillars: Bank of Jamaica's (BoJ) inflation-targeting monetary policy and fiscal policy anchored on debt reduction targets. The policy framework proved flexible enough to cope with the recent shocks without undermining medium-term fiscal and inflation expectations.

The government has built a record of fiscal prudence that has gained credibility in recent years and may be further strengthened over the next several years, including through the successful implementation of the new fiscal commission. Parliamentary elections are due by September 2025. However, there is broad economic policy consensus across the two main political parties. We therefore do not expect significant policy deviations, no matter the outcome of the elections.

Inflation Falls to Target: Inflation fell to 5%, the midpoint of the BOJ's target range, at year-end 2024. The BoJ has enhanced its credibility over the last four years since gaining full independence in 2021 by hiking policy rates proactively, by a cumulative 650 basis points, when inflation began to spike in late 2021.

However, the monetary policy transmission mechanism is constrained by the high concentration of the banking system that only passes policy rate moves to deposit and lending rates slowly. Inflation began to move toward its target range in July 2024, allowing the bank to begin cutting its policy rate by 100 bp in 2H24.

Hurricane Impacted Growth in 2024: Jamaica faced a 3.5% GDP decline in 3Q24 yoy due in large part to the damages caused by Hurricane Beryl in July 2024. A tropical storm and continuous rains further dented growth in 4Q24 with growth falling a further 0.7%. Adverse weather especially hurt the agriculture and construction sectors. The mining sector also suffered as damages to the ports halted exports of alumina.

The key tourism sector also fell marginally due in part to capacity constraints from airlift. Fitch estimates that growth fell 0.7% in 2024 overall. Fitch forecasts real growth to rebound to 2.5% in 2025 and 1.7% in 2026, in line with its medium-term potential rate (around 1%-2%), which is particularly weak relative to its rating peers.

Resilient External Sector: Jamaica's current account moved to a surplus position in 2023, reaching 2.9% of GDP. Fitch estimates that the surplus narrowed to 1.3% of GDP in 2024, and we expect it to continue to narrow in 2025-26 but remain in a small surplus position. Foreign direct investment is expected to average close to 3% of GDP as well. While the current account balance contains a large trade deficit, it is offset by a tourism-driven services surplus and a large surplus on secondary incomes, consisting mainly of remittances from the diaspora.

Improving External Balance Sheet: Jamaica's external balance sheet has continued to improve. Net sovereign external debt is forecast to fall to below 10% of GDP this year from a high of 41.6% in FY 2015/2016 because of deleveraging and a significant buildup in international reserves. Official net international reserves increased by nearly USD825 million in 2024 to USD5.6 billion by year-end. Jamaica has no need to issue external foreign-currency debt on the global financial markets given its fiscal surplus and low external maturities.

Sound Banking Sector: The banking sector is well capitalized, and non-performing loans remained at low levels. As of September 2024, the capital adequacy ratio was 14.5%, well above the regulatory requirement of 10%, and the NPL ratio was 2.4%, below the five-year pre-pandemic average.

ESG - Governance: Jamaica has an ESG Relevance Score (RS) of '5[+]' for both Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption. These scores reflect the high weight that the World Bank Governance Indicators (WBGI) have in Fitch's proprietary Sovereign Rating Model. Jamaica has a medium WBGI ranking at 56.4, reflecting a recent track record of peaceful political transitions, a moderate level of rights for participation in the political process, moderate institutional capacity, established rule of law and a moderate level of corruption.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Public Finances: Slower than expected fall in debt/GDP due to fiscal loosening or a large economic shock;

--Macro/Public Finances/External: An external shock that weakens growth, public finances and/or external liquidity such as a natural disaster or sharp fall in tourism.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Public Finances: Continued decline in the government debt-to-GDP ratio and interest burden that brings the debt burden closer to the peer median;

--Macro/External: Evidence of improved growth potential and/or enhanced resilience of economic growth to weather shocks.

SOVEREIGN RATING MODEL (SRM) AND QUALITATIVE OVERLAY (QO)

Fitch's proprietary SRM assigns Jamaica a score equivalent to a rating of 'BB-' on the Long-Term Foreign-Currency (LT FC) IDR scale.

Fitch's sovereign rating committee did not adjust the output from the SRM to arrive at the final LT FC IDR.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centered averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

COUNTRY CEILING

The Country Ceiling for Jamaica is 'BB', 1 notch above the LT FC IDR. This reflects moderate constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of +1 notch above the IDR. Fitch's rating committee did not apply a qualitative adjustment to the model result.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Jamaica has an ESG Relevance Score of '5[+]' for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Jamaica has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Jamaica has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Jamaica has a percentile rank above 50 for the respective Governance Indicators, this has a positive impact on the credit profile.

Jamaica has an ESG Relevance Score of '4[+]'for Human Rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Governance Indicators is relevant to the rating and a rating driver. As Jamaica has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Jamaica has an ESG Relevance Score of '4' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Jamaica as for all sovereigns. As Jamaica restructured its public debt in 2013, this has a negative impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Jamaica	LT IDR	BB-	Affirmed	BB-
	ST IDR	B	Affirmed	B
	LC LT IDR	BB-	Affirmed	BB-
	LC ST IDR	B	Affirmed	B
	Country Ceiling	BB	Affirmed	BB
senior unsecured	LT	BB-	Affirmed	BB-

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Country Ceiling Criteria (pub. 24 Jul 2023)

Sovereign Rating Criteria (pub. 24 Oct 2024) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Country Ceiling Model, v2.0.3 (1)

Debt Dynamics Model, v1.3.2 (1)

Macro-Prudential Indicator Model, v1.5.0 (1)

Sovereign Rating Model, v3.14.2 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Jamaica	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

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