

Research Update:

Jamaica Long-Term Ratings Raised To 'BB-' From 'B+' On Improved Finances; Outlook Stable

13-Sep-2023

Overview

- Jamaica has weathered the pandemic and related downturn and maintained its commitment to prudent public sector finances and debt reduction, while continuing to implement key reforms like the recent central bank modernization.
- The economy is expanding, supporting government finances and propelling the country's debt burden lower.
- As a result, S&P Global Ratings raised its long-term foreign and local currency sovereign credit ratings on Jamaica to 'BB-' from 'B+', and affirmed its short-term foreign and local currency sovereign credit ratings at 'B'.
- The stable outlook reflects our expectation that the government will remain committed to prudent fiscal policies and reducing debt, as well as supportive economic policies including a flexible exchange rate regime and effective monetary policy.

Rating Action

S&P Global Ratings raised its long-term foreign and local currency sovereign credit ratings on Jamaica to 'BB-' from 'B+', and its transfer and convertibility assessment to 'BB' from 'BB-'. At the same time, S&P Global Ratings affirmed its 'B' short-term foreign and local currency sovereign credit ratings on Jamaica. The outlook is stable.

Outlook

The stable outlook reflects our expectation that Jamaica will continue to pursue cautious macroeconomic policy and maintain its commitment to prudent public sector finances and debt reduction. We assume that small fiscal surpluses will sustain a decline in debt over the next one-two years. Furthermore, we expect tourism will continue to support external balances and GDP growth.

Downside scenario

We could lower the ratings during the next two years if we believed a changing fiscal policy would lead to sustained deficits, reversing debt reduction and resulting in a persistently higher debt burden; or if the economy fails to perform as expected, weakening the country's external position.

Upside scenario

We could raise the ratings over the next two years if Jamaica's trend economic growth rate rose consistently and converged with that of peers at a similar level of economic development. That, along with continuity in fiscal policy, would increase the sovereign's economic resilience.

Rationale

Flexibility and performance profile: We expect continued fiscal surpluses this year; however, Jamaica remains vulnerable to external shocks

Jamaica remained committed to meeting its ambitious debt reduction targets during the pandemic and related contraction, and we believe the government remains committed to debt reduction and prudent public finances. After eroding in 2020, the country's debt-to-GDP balance is trending down to new historical lows, supported by a return of fiscal surpluses and growing economy.

We expect the government will report a small surplus in the current fiscal year (ending March 31, 2024), of J\$10 billion, or 0.3% of GDP, similar to the surplus in the previous fiscal year. We expect the average annual change in net

government debt will be 0.8% over the next three-four years, reflecting future surpluses as well as the negative effect of a likely depreciating Jamaican dollar on the value of the country's large external debt.

Jamaica's net debt to GDP is falling and reached a historical low of 64% in 2022. We believe this ratio will continue to decline, to just below 60% by the end of 2024. The government's interest burden remains high but is also decreasing. We expect it will fall modestly to 17.5% of government revenues in fiscal 2024 and to less than 15% by 2026. The government estimates its financing needs will be J\$139 billion this year, and we expect it will meet them through a combination of predominantly concessionary multilateral funding and domestic borrowing.

Jamaica's debt burden has significant exposure to exchange rate movements, as approximately 60% of general government debt is denominated in foreign currency. This exposure and the depreciation of the Jamaican currency are significant to our assessment of the change in net general government debt, as currency depreciation can offset debt reduction somewhat.

We assess Jamaica's contingent liabilities from the financial sector and all nonfinancial public enterprises as limited. The limited assessment of contingent liabilities of banks is based on our Banking Industry Country Risk Assessment score of '8' (with '1' being the lowest-risk category and '10' the highest) and the ratio of banking sector assets to GDP of less than 100%.

Jamaica's external accounts returned to a small deficit position of 0.8% current account as a percent of GDP in 2022. This is lower than the surplus reported in the previous year, but in line with our expectations. Remittances continued to bolster external balances, reaching \$3.4 billion (about 20% of GDP) in 2022. We expect remittances to gradually return to previous levels over the next one-two years. We expect the current account will remain at levels more in line with Jamaica's historical trends, with a deficit of 0.6% of GDP in 2023. Nevertheless, a growing economy (including continued strength in tourism) will support external balances and foreign exchange, and current account deficits will average about 0.9% of GDP over the next four years.

We expect the external debt of the public, private, and financial sectors, net of usable reserves and financial sector external assets, will be about 57.5% of current account receipts in 2023, and the country's gross external financing needs will remain fairly steady at 99.5% of current account receipts and usable reserves in 2023. Jamaica's net external liability position is substantially larger than its net external debt position, which could expose the country to elevated risk of disruptions to external funding.

External shocks are a risk for Jamaica. To address the country's vulnerabilities to weather-related events, the government has created a disaster risk policy framework to build resiliency and respond faster in the aftermath of a disaster, which served Jamaica well at the onset of the pandemic. The multilayered approach to mitigating the fiscal risks associated with a disaster includes a contingency fund, insurance, a disaster line of credit with a multilateral institution, and the issuance of a catastrophe bond. Although Jamaica has made progress on mitigating these risks, its economy and infrastructure remain vulnerable to physical risks.

As in other parts of the world, inflation in Jamaica remained elevated in 2023. The central bank has responded to rising inflation with a series of increases to the policy interest rate, which is now 7%, compared with 0.5% in August 2021. The Statistical Institute of Jamaica's most recent data show annual point-to-point inflation of 6.6%, which is above the Bank of Jamaica's target of 4%-6%. We believe that the bank will maintain cautious monetary policy and, combined with tight fiscal policy, this will support the return of lower inflation over the next several years.

Although the central bank has a relatively short track record under its recently enhanced autonomy from the government, we believe it will likely continue facilitating orderly movements in the floating exchange rate, as shown by the two-way movement recorded against the U.S. dollar in the past year. Although dollarization is still high in the financial system, it has declined during the past couple of years. In July 2023, about 37% of financial assets were denominated in U.S. dollars, down from 46% at the end of 2016.

Institutional and economic profile: Jamaica's economy will continue growing and the government will maintain its commitment to sustainable public sector finances

Jamaica's economy has recovered well following a sharp contraction in 2020, and we expect it will continue to grow, albeit at a slower pace, over the next few years. The economy is relatively well diversified; the 9.9% contraction in 2020 was less than that of some other Caribbean countries. Tourism fueled the post-2020 recovery and continues to support GDP growth. We expect slowing growth year over year as the dramatic impact of 2020 fades and the country returns to more normal growth. We expect real GDP growth of 2.1% in 2023, spurred by tourism and mining, followed by 1.6% growth in 2024, returning to pre-pandemic levels. Under our base-case scenario, we expect nominal GDP per capita will increase to \$6,800. Tourism, agriculture, mining, and manufacturing make Jamaica diversified for a small open economy, but its economy is vulnerable to hurricanes, flooding, and droughts. The government is pursuing legislation designed to further support diversification and economic growth. Nevertheless, growth is constrained by high security costs, perceived corruption, low productivity, low business competitiveness, and vulnerability to external shocks including weather-related ones.

Structural barriers historically impeded strong economic growth in Jamaica. Real GDP per capita had slowly begun to increase before 2020, and we expect the country's 10-year, weighted-average growth rate will be 1.29%, which, while increasing, remains below that of sovereigns in the same GDP category. Although the government is trying to boost trend growth through its reform agenda, the dividends of these efforts will take time to translate into higher GDP.

National elections were held in September 2020 and the incumbent Jamaica Labor Party (JLP) won a strong majority of 49 seats out of 63. Jamaica's two main political parties--the ruling JLP and the opposition People's National Party--share a similar outlook on economic policymaking and commitment to fiscal consolidation. This political commitment has survived changes in government and we believe is representative of bipartisan consensus on the general direction of macroeconomic policies. We expect the government will remain focused on its commitment to fiscal consolidation, which will foster macroeconomic stability.

Although we view Jamaica's policymaking as relatively effective, crime continues to aggravate civil society. This, in addition to concerns about the prevalence of corruption and the enforcement of contracts, hampers the country's productivity and growth prospects.

Key Statistics

Table 1

Jamaica--Selected indicators

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Economic indicators (%)										
Nominal GDP (bil. LC)	1,895	2,027	2,110	1,967	2,210	2,623	2,850	3,039	3,232	3,438
Nominal GDP (bil. \$)	14.81	15.73	15.83	13.81	14.66	17.10	18.68	19.49	20.22	20.92
GDP per capita (000s \$)	5.4	5.8	5.8	5.0	5.3	6.2	6.8	7.1	7.3	7.6
Real GDP growth	1.0	1.9	0.9	(9.9)	4.6	3.9	2.1	1.6	1.3	1.3
Real GDP per capita growth	0.8	1.7	0.8	(10.0)	4.5	3.7	2.0	1.4	1.2	1.2
Real investment growth	5.5	7.2	4.4	(8.4)	3.1	0.5	2.1	1.5	1.3	1.3
Investment/GDP	22.5	23.3	24.3	24.7	24.3	23.5	23.5	23.5	23.5	23.5
Savings/GDP	19.8	21.8	22.4	23.6	25.3	22.8	22.9	22.4	22.7	22.6
Exports/GDP	34.7	38.6	38.0	38.7	38.1	36.9	36.9	36.9	36.9	36.9
Real exports growth	5.1	8.2	3.6	(9.9)	4.6	4.0	2.1	1.5	1.3	1.3
Unemployment rate	10.4	8.7	7.2	10.7	7.1	6.6	6.0	7.0	7.2	7.2
External indicators (%)										
Current account balance/GDP	(2.7)	(1.5)	(1.9)	(1.1)	1.0	(0.8)	(0.6)	(1.1)	(0.9)	(0.9)
Current account balance/CARs	(5.1)	(2.7)	(3.3)	(2.3)	1.7	(1.2)	(1.1)	(2.0)	(1.7)	(1.8)

CARs/GDP	52.8	56.3	57.4	49.1	58.6	62.2	56.9	54.0	52.2	50.7
Trade balance/GDP	(24.0)	(22.3)	(25.5)	(21.3)	(19.0)	(27.0)	(25.1)	(24.7)	(23.8)	(23.3)
Net FDI/GDP	5.8	4.8	1.4	1.9	1.8	1.5	1.6	1.7	1.9	2.0
Net portfolio equity inflow/GDP	9.7	2.5	3.8	2.5	(0.0)	(4.4)	0.6	0.6	0.6	0.6
Gross external financing needs/CARs plus usable reserves	99.7	99.8	101.1	100.5	99.9	98.8	99.5	100.3	98.8	97.3
Narrow net external debt/CARs	100.2	88.3	76.5	108.3	74.8	57.7	57.5	56.1	53.0	48.5
Narrow net external debt/CAPs	95.4	86.0	74.0	105.9	76.1	57.0	56.9	55.0	52.2	47.7
Net external liabilities/CARs	280.8	279.2	276.9	363.2	278.6	225.3	228.2	231.8	231.6	230.1
Net external liabilities/CAPs	267.2	272.0	268.0	355.0	283.5	222.6	225.8	227.2	227.8	226.0
Short-term external debt by remaining maturity/CARs	32.3	34.6	31.9	45.0	41.5	37.4	34.8	36.0	36.1	36.0
Usable reserves/CAPs (months)	4.3	4.4	3.9	5.5	4.9	4.8	4.3	4.4	4.6	4.9
Usable reserves (mil. \$)	3,319	3,068	3,163	3,423	4,288	3,884	3,955	4,155	4,406	4,760
Fiscal indicators (general government; %)										
Balance/GDP	0.7	1.4	1.1	(2.9)	1.1	0.4	0.4	0.6	0.7	0.9
Change in net debt/GDP	(11.3)	(5.6)	(2.1)	8.5	0.7	(1.8)	1.8	0.5	0.5	0.3
Primary balance/GDP	7.8	7.8	7.3	3.7	7.3	6.2	5.9	5.6	5.1	4.8
Revenue/GDP	29.8	31.2	31.0	29.5	32.8	32.3	28.9	28.6	28.6	28.6
Expenditures/GDP	29.1	29.8	29.9	32.3	31.6	31.9	28.5	28.0	27.9	27.7
Interest/revenues	23.9	20.4	20.1	22.3	18.9	17.9	18.8	17.5	15.1	13.6
Debt/GDP	97.2	85.1	81.6	93.2	86.0	72.0	66.9	63.3	60.0	56.7
Debt/revenues	326.2	272.4	263.5	316.5	262.5	223.1	231.3	221.0	209.6	198.3
Net debt/GDP	89.6	78.2	72.9	86.7	77.9	63.8	60.5	57.3	54.4	51.4
Liquid assets/GDP	7.6	6.9	8.7	6.5	8.1	8.2	6.4	6.0	5.6	5.3
Monetary indicators (%)										
CPI growth	4.4	3.7	4.0	5.2	5.9	10.4	6.4	5.0	5.0	5.0
GDP deflator growth	6.5	5.0	3.2	3.5	7.4	14.2	6.4	5.0	5.0	5.0
Exchange rate, year-end (LC/\$)	124.30	126.80	131.18	141.71	153.92	151.01	154.18	157.71	161.95	166.67
Banks' claims on resident non-gov't sector growth	14.7	11.6	15.3	9.2	8.4	11.0	11.8	11.7	11.7	11.4
Banks' claims on resident non-gov't sector/GDP	42.2	44.0	48.7	57.1	55.1	51.5	53.0	55.5	58.3	61.1
Foreign currency share of claims by banks on residents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	67.8	40.2	38.1	38.7	39.7	39.2	39.2	37.3	35.6	35.6
Real effective exchange rate growth	0.1	0.2	0.4	(2.0)	(4.9)	4.6	N/A	N/A	N/A	N/A

Sources: Government of Jamaica, Statistics Institute (Economic Indicators), Bank of Jamaica, Ministry of Finance (External Indicators), Ministry of Finance, (Fiscal Indicators), International Monetary Fund, and Bank of Jamaica (Monetary Indicators).

Adjustments: 2023-2026 real and nominal GDP and 2023-2026 CPI and 2023-2026 J\$ estimates by S&P Global Ratings.

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on

capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Jamaica--Ratings score snapshot

Key rating factors	Score	Explanation
Institutional assessment	4	Civil society with high crime rates. More uncertain checks and balances owing to less enforcement of contracts and respect for the rule of law.
Economic assessment	6	Based on GDP per capita (\$) as per Selected Indicators in Table 1. Weighted average real GDP per capita trend growth over a 10-year period is 1.29%, which is well below sovereigns in the same GDP category. The Jamaican economy is vulnerable to physical risks and natural disasters.
External assessment	4	Based on narrow net external debt and gross external financing needs as per Selected Indicators in Table 1. The net external liability position is worse than the narrow net external debt position by over 100% of CAR, as per Selected Indicators in Table 1.
Fiscal assessment: flexibility and performance	1	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1.
Fiscal assessment: debt burden	5	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators in Table 1. Over 40% of gross government debt is denominated in foreign currency.
Monetary assessment	4	Jamaica's exchange rate regime is a managed float, and it has a short track record. The Bank of Jamaica' operational independence has been enshrined in new legislation; it uses market-based monetary instruments such as the overnight rate; CPI as per Selected Indicators in Table 1 is typically below 10%. The central bank has the ability to act as lender of last resort for the financial system.
Indicative rating	bb-	As per Table 1 of Sovereign Rating Methodology".
Notches of supplemental adjustments and flexibility	0	None
Final rating		
Foreign currency	BB-	
Notches of uplift	0	Default risks do not apply differently to foreign- and local-currency debt.
Local currency	BB-	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' Sovereign Rating Methodology, published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [Criteria | Governments | Sovereigns: Sovereign Rating Methodology](#), Dec. 18, 2017
- [General Criteria: Methodology For Linking Long-Term And Short-Term Ratings](#), April 7, 2017
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

- [General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments](#), May 18, 2009

Related Research

- [Sovereign Rating Score Snapshot](#), Sept. 6, 2023
- [Sovereign Rating History](#), Aug. 16, 2023
- [Sovereign Rating List](#), Aug. 16, 2023
- [Sovereign Risk Indicators](#), July 10, 2023
- [Banking Industry Country Risk Assessment: Jamaica](#), June 6, 2023
- [2022 Annual Global Sovereign Default And Rating Transition Study](#), April 28, 2023

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Upgraded

	To	From
Jamaica		
Transfer & Convertibility Assessment		
Local Currency	BB	BB-
Jamaica		
Senior Unsecured	BB-	B+
Air Jamaica Ltd.		
Senior Unsecured	BB-	B+
National Road Operating and Constructing Co. Ltd		
Senior Unsecured	BB-	B+

Upgraded; Ratings Affirmed

	To	From
Jamaica		
Sovereign Credit Rating	BB-/Stable/B	B+/Stable/B

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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