



# Jamaica and the Global Financial Crisis

# Outline

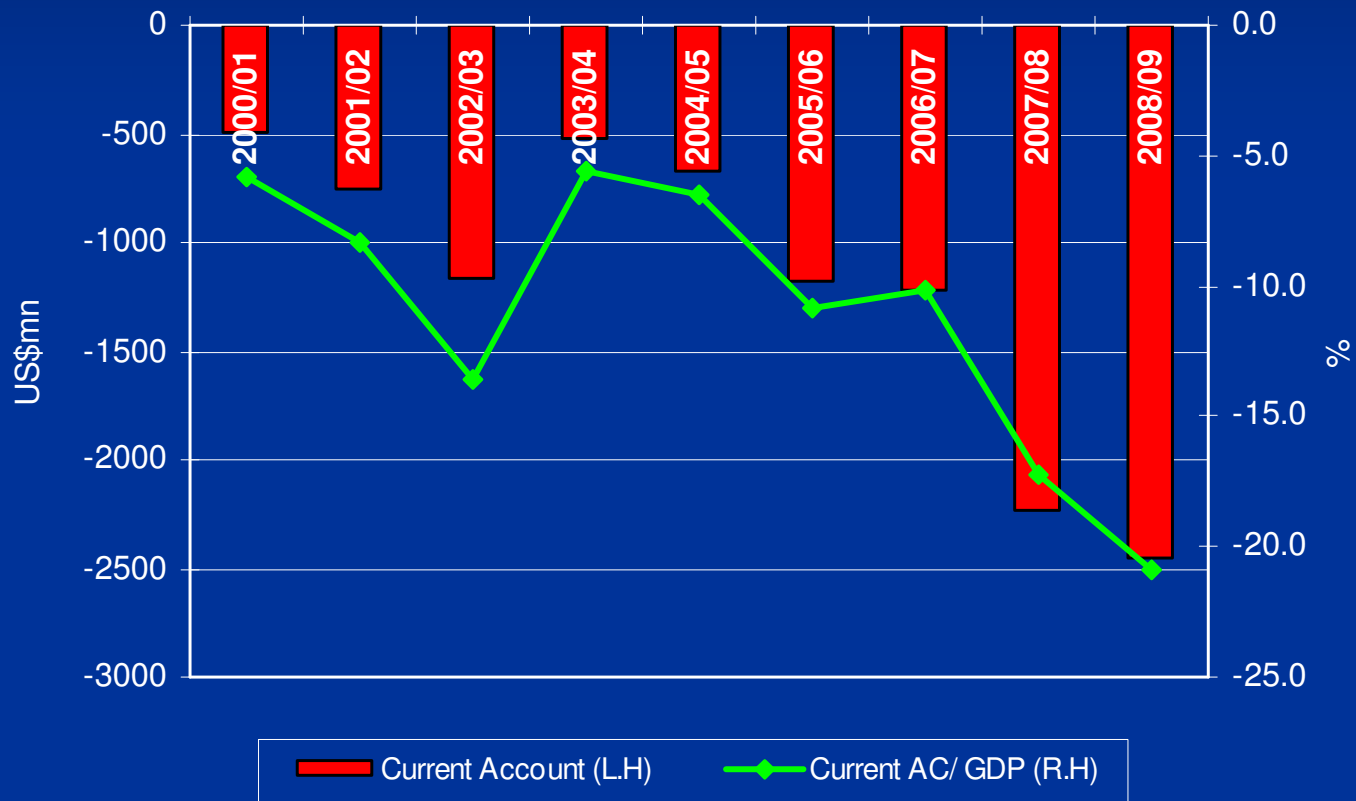
- **Pre-Stand By Jamaica**
- **Jamaica Debt Exchange pre-condition to the IMF-SBA**
- **Post-Stand By Jamaica**
- **Key Issues**

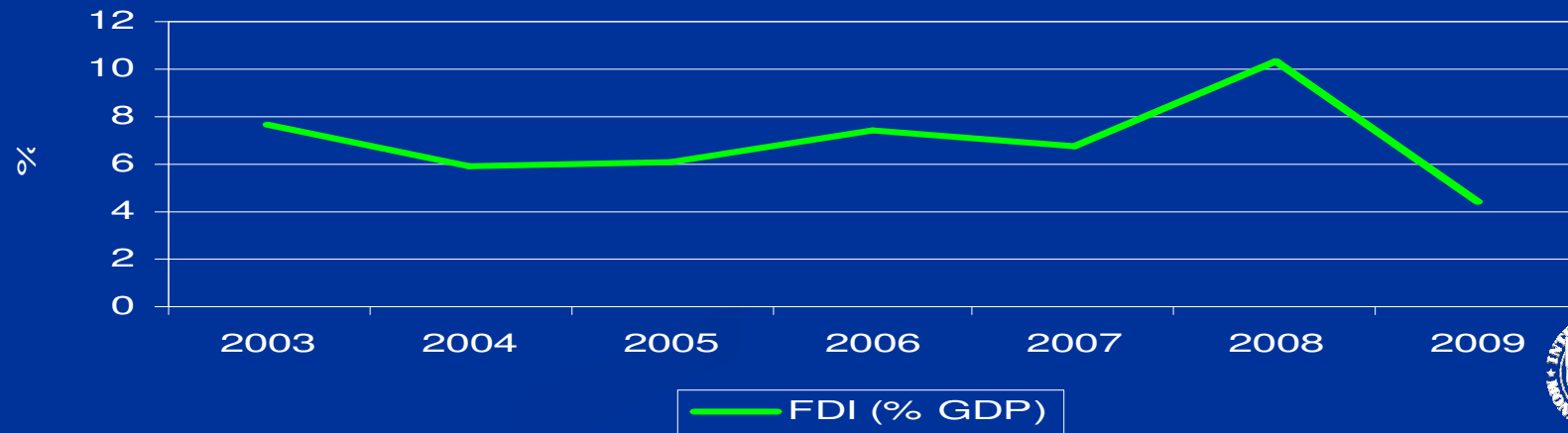
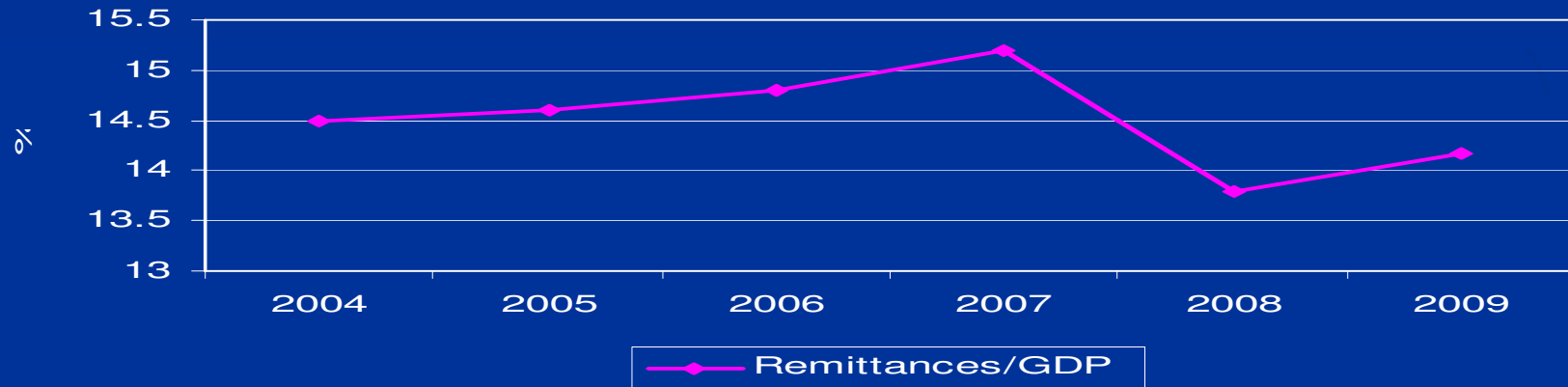
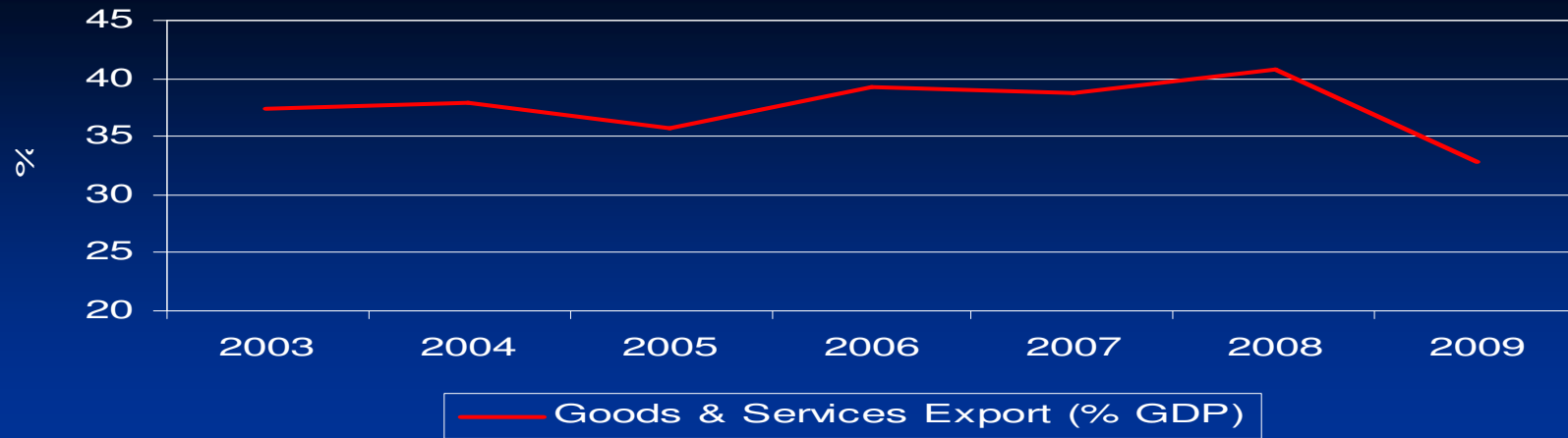


# PRE-STAND BY JAMAICA

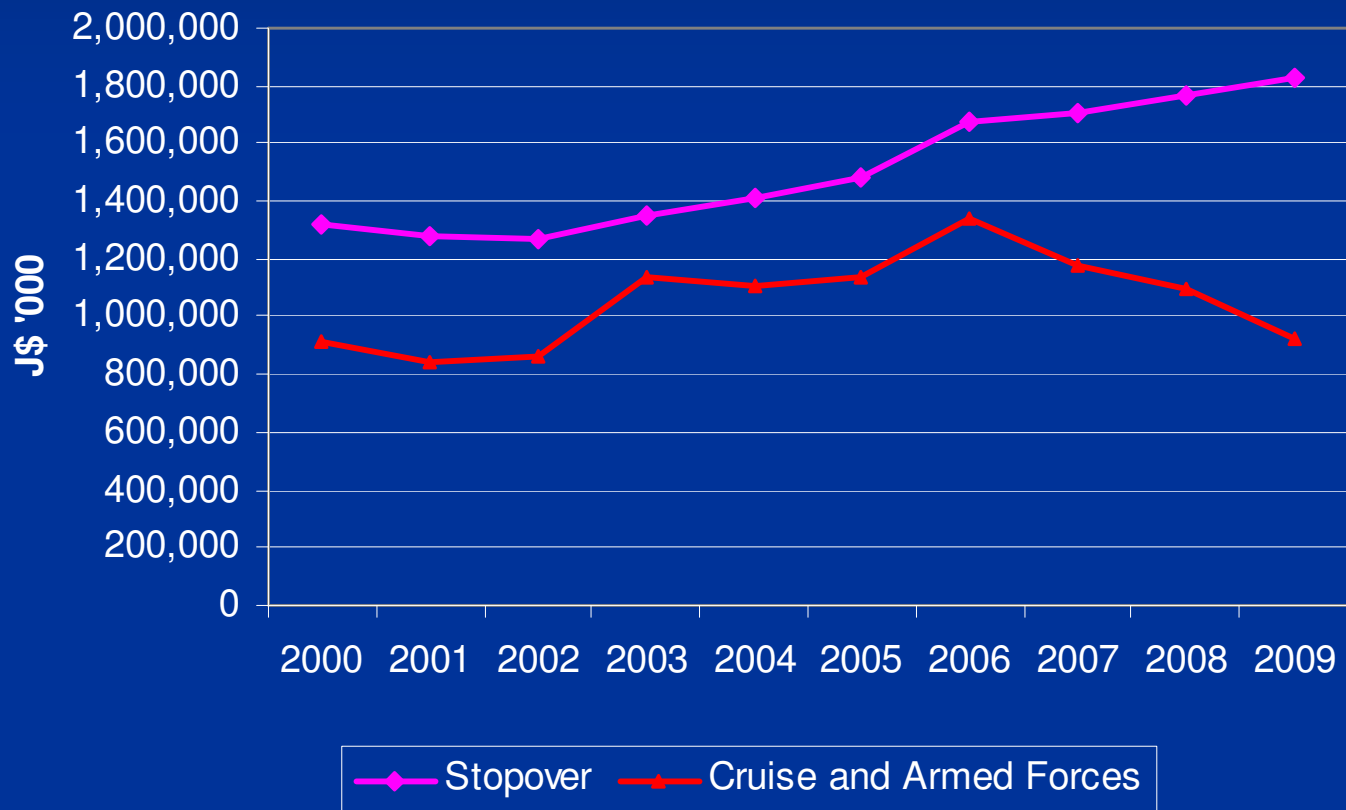


# Persistent national savings gap

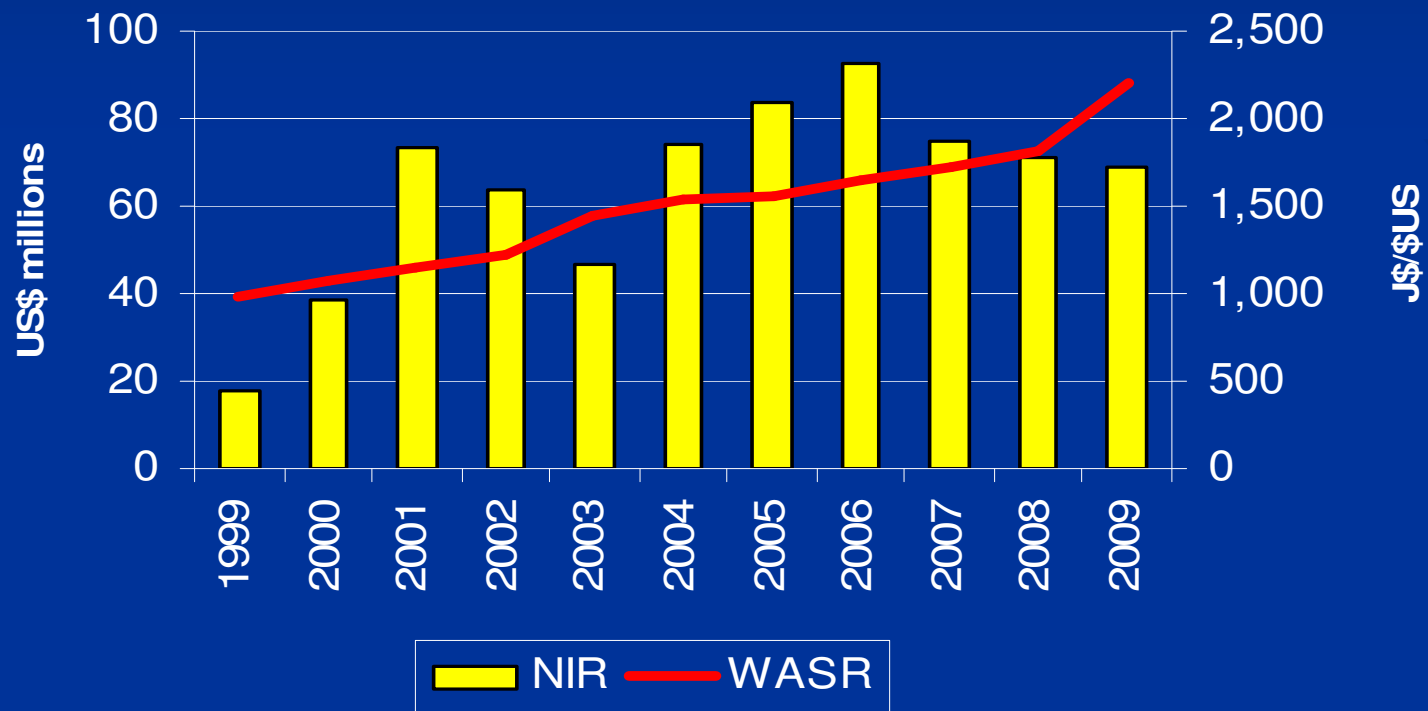




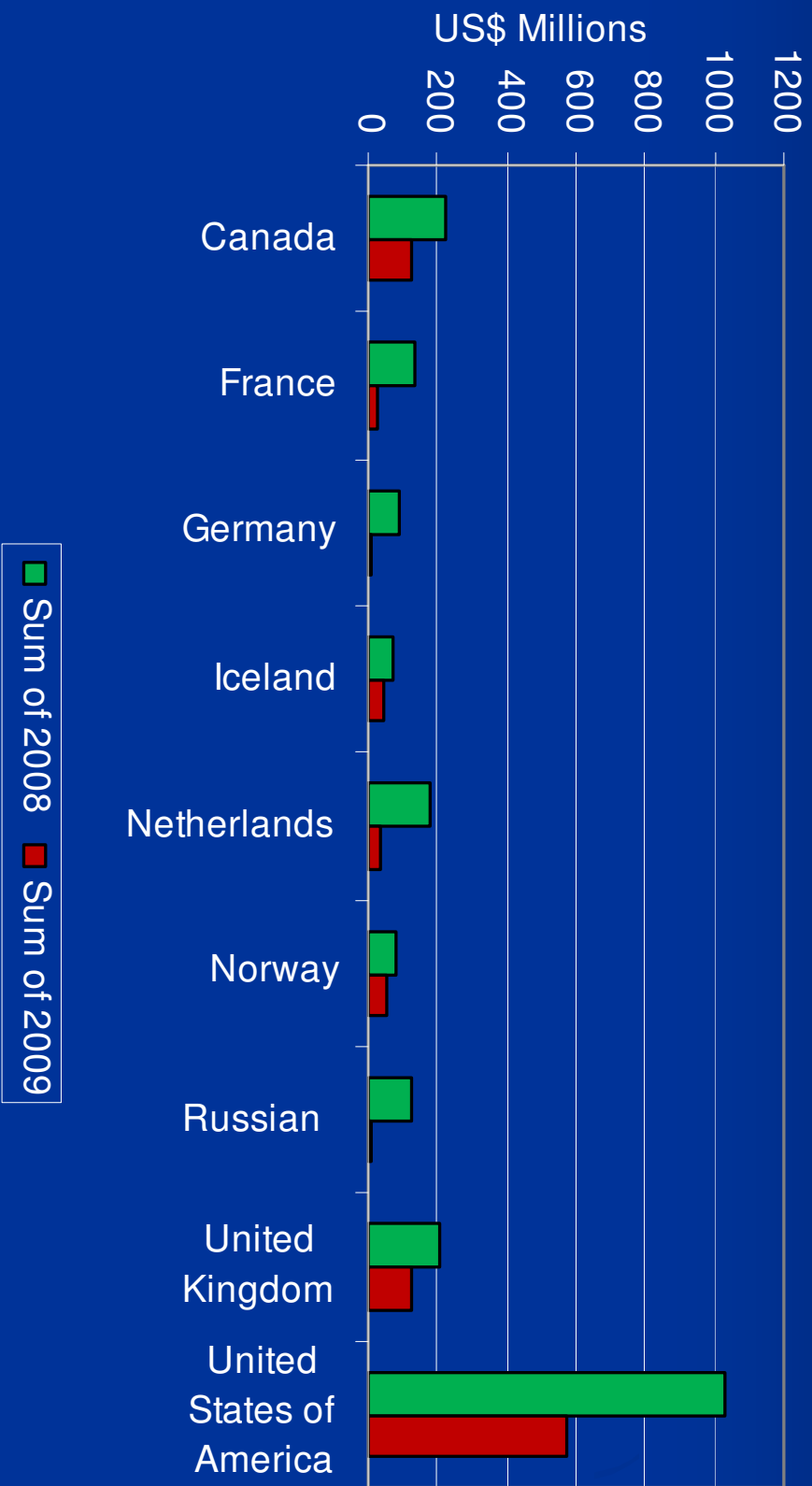
# Fall in economic activity in the developed world leads to decline in Tourist arrivals



# Capital flows decline sharply, resulting in a decline in NIR and sharp depreciation in the exchange rate

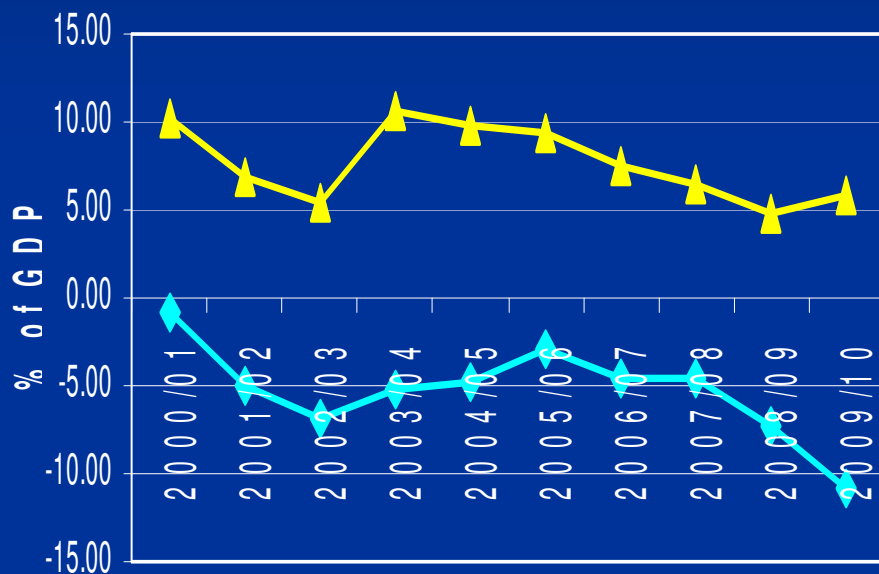


# US: dominant trading partner

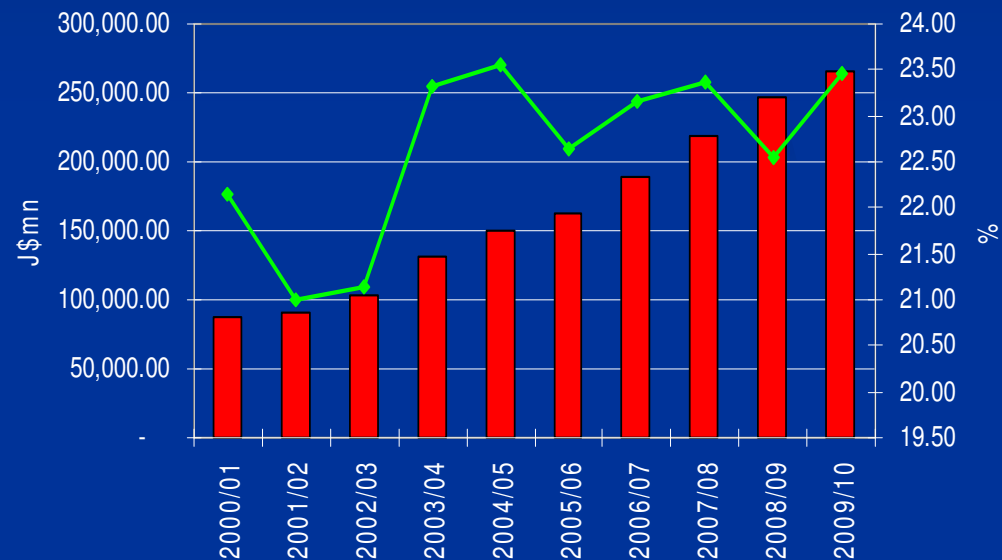




# Government sector hit by slower growth in tax revenues in the face of waning demand



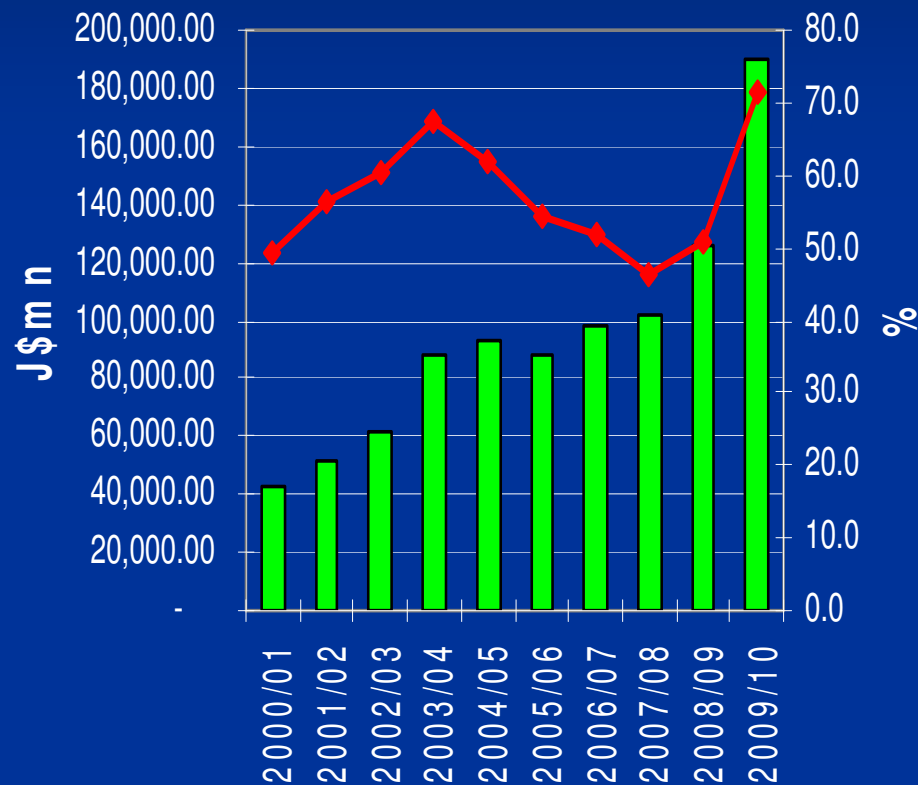
◆ Deficit ▲ Primary Balance



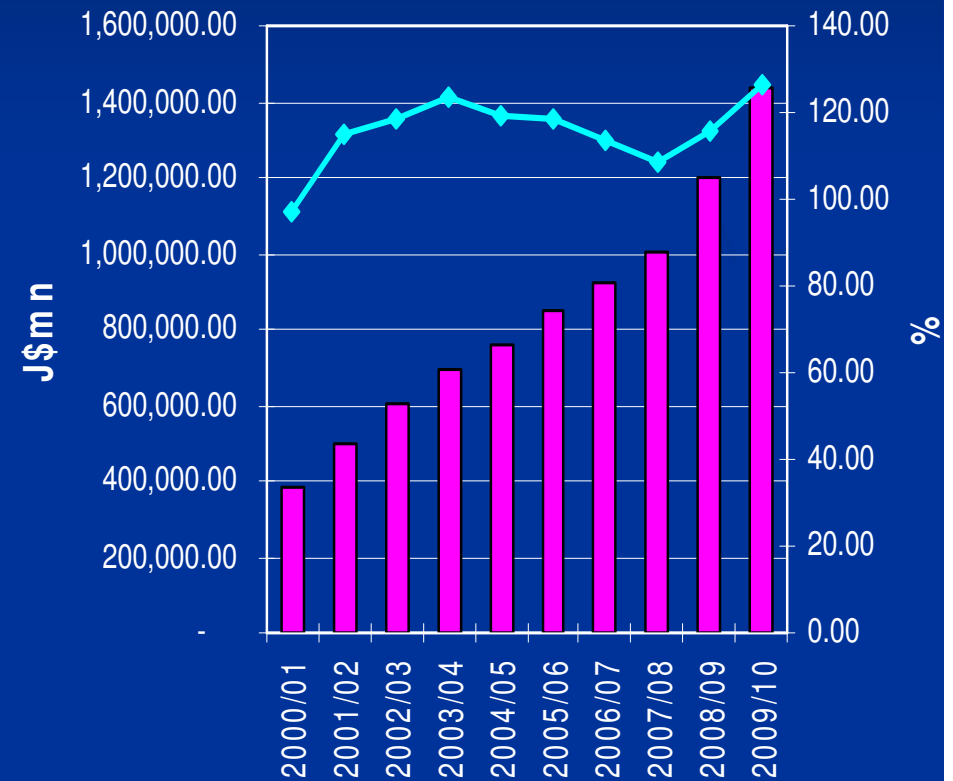
■ Tax (L.H.) ◆ Tax/ GDP (R.H)



# High interest costs reflected high interest rates and high debt. Declining trend in Debt/GDP ratio reversed



■ Interest (L.H) ◆ Interest/ Tax Rev (R.H)



■ Total Debt (L.H) ◆ Total Debt/ GDP (R.H)



## Hit to Key Sectors, Mining and Tourism as well as decline in Remittance and credit, results in negative real growth



# JAMAICA DEBT EXCHANGE

## Pre-condition to the IMF-SBA



# Objectives

- **Improve maturity profile**
- **Reduce Interest Expense by 30%**
- **Lower variable rate proportion of debt**

# Allocation Rules

- **Exchange shorter dated debt for longer dated debt**
- **Fixed rate debt can only be exchanged for fixed rate debt.**
- **USD debt can only be exchanged for USD debt**



# Debt Post-JDX

## Domestic Debt Instruments Profile

	Pre-JDX	Post-JDX
Simple Average Age of Debt	6.5	8.0
Weighted Average Age of Debt	4.5	8.9
Variable Rate Portion	54%	48%
Fixed Rate Portion	34%	38%
US\$ Portion	12%	11%
CPI Indexed	0%	3%

*Source: Bank of Jamaica*

# Financial Sector Post-JDX

- **Challenges**
  - **Lower interest earning**
  - **Increasing credit risk (NPL)**
  - **Appreciation of the Jamaican dollar**
- **However, institutions showing resilience**
  - **Capital adequacy ratios remain sound**
  - **Remain profitable despite lower earnings**
  - **No use of Financial Sector Stability Fund**



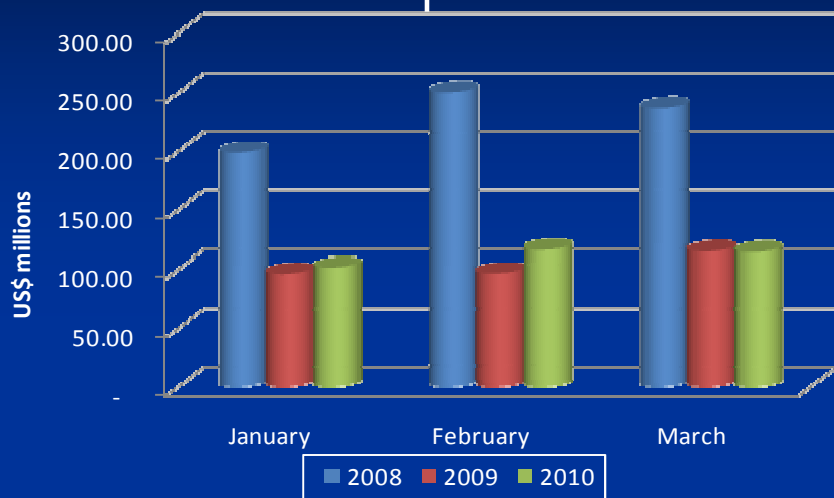
# POST-STAND BY JAMAICA

## 2<sup>nd</sup> Review

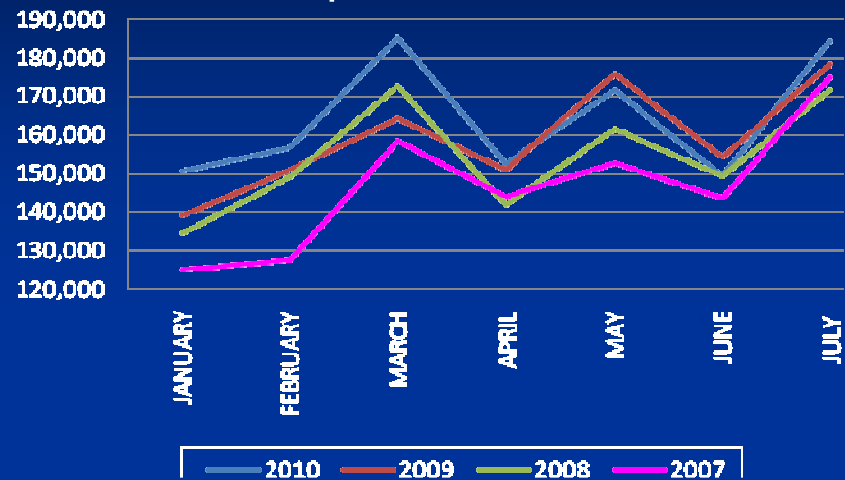


# ...There has been improvement key variables

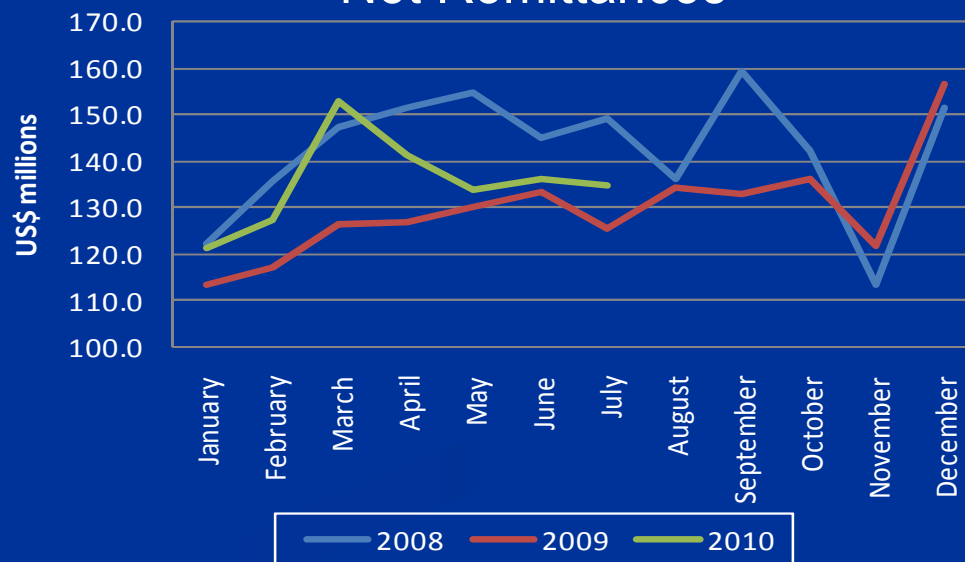
## Exports



## Airport Arrivals

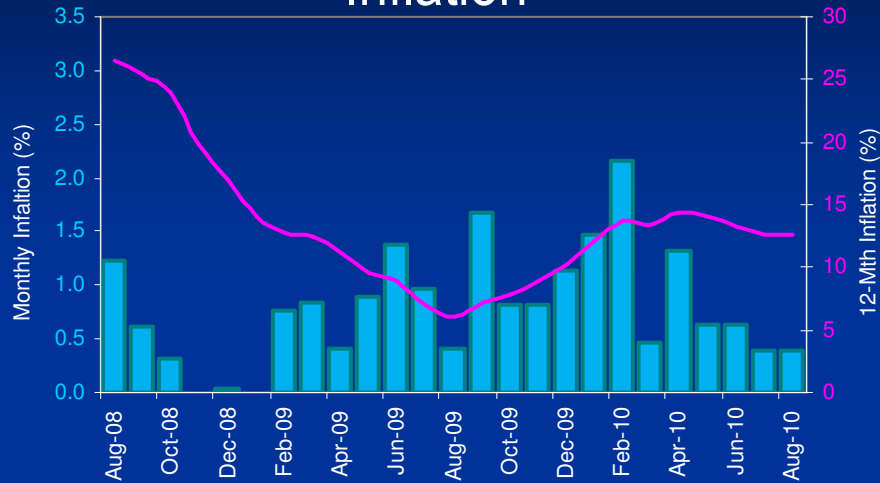


## Net Remittances

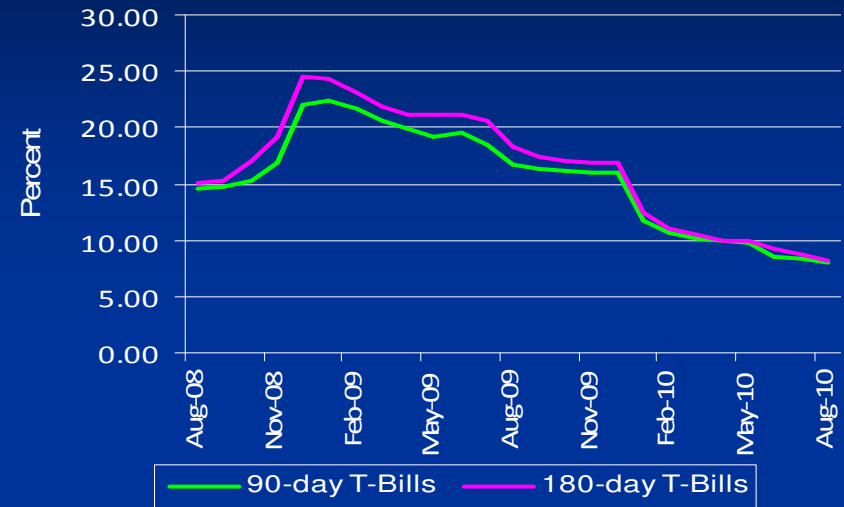


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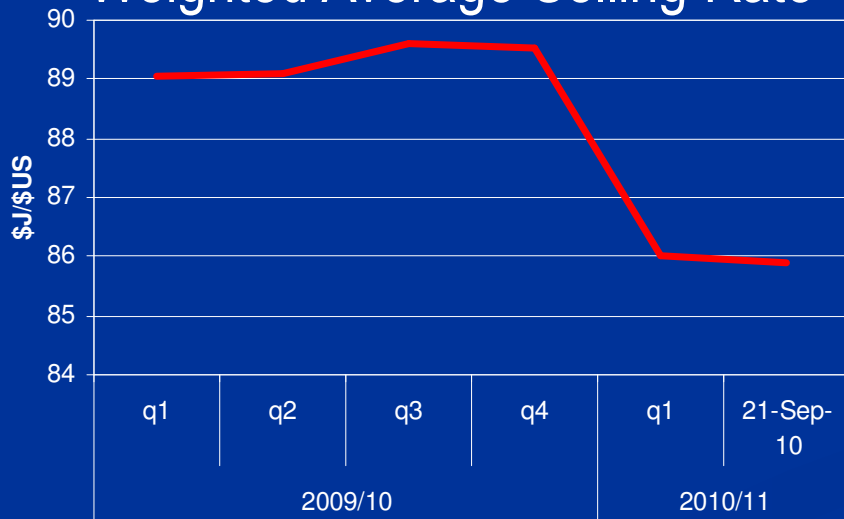
## Inflation



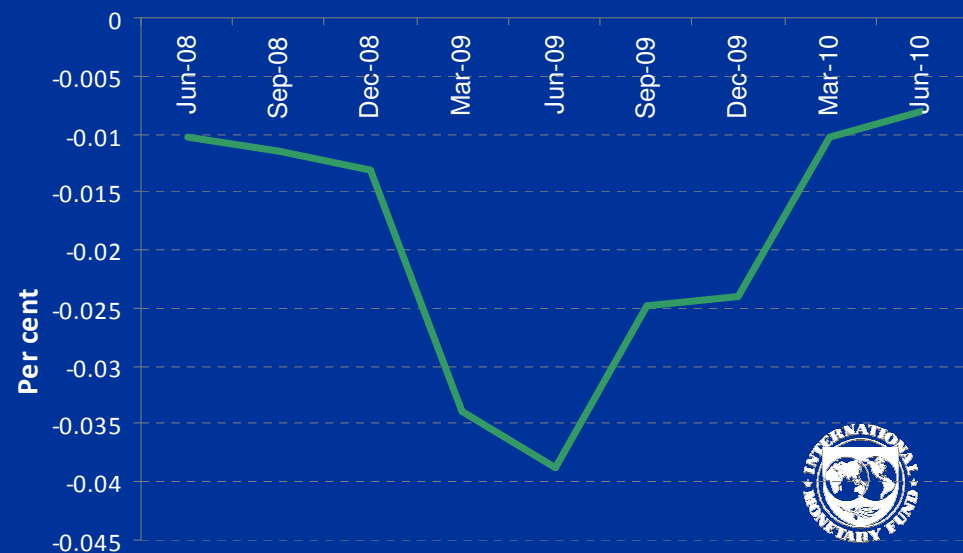
## Interest Rates



## Weighted Average Selling Rate

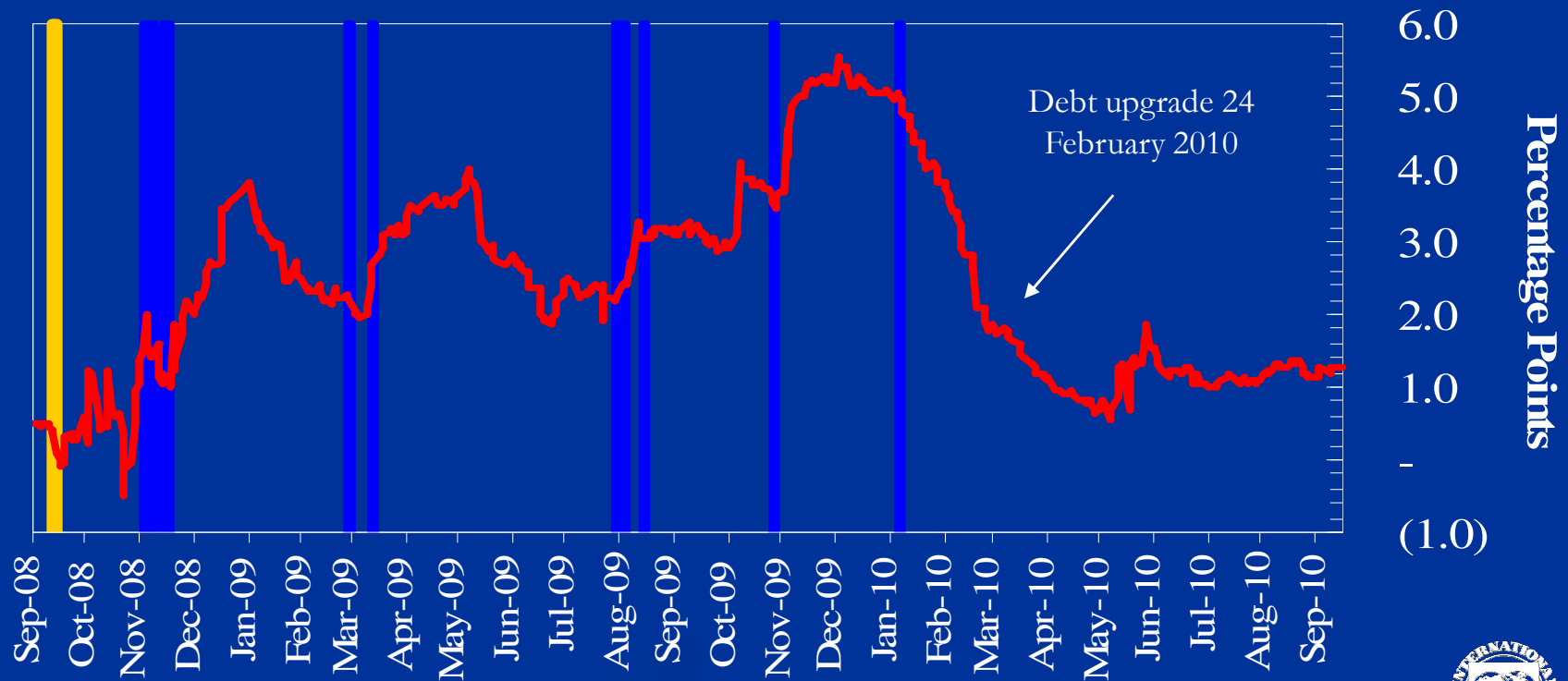


## Real GDP Growth



# ...Jamaica Global Bond EMBI+ Spread have declined since JDX, indicating investor confidence has improved

- Debt Downgrade News Events
- Lehman Bros. Files for Bankruptcy
- JA GLOBAL-EMBI SPREAD



# ...All Quantitative Performance Criteria (PC) met

## Program Monitoring: Quantitative Performance Criteria (PC) under Jamaica's SBA

(in J\$ billions)	SBA PC 2nd Review Status end Jun-10
<b>Fiscal targets</b>	
1. Primary balance of the central administration (floor)	6.5 ✓
2. Overall balance of public entities (floor)	-3.0 ✓
3. Cumulative net increase in central government direct debt (ceiling)	30.9 ✓
4. Cumulative net increase in central government guaranteed debt (ceiling)	3.2 ✓
5. Central government accumulation of domestic expenditure arrears (ceiling)	0.0 ✓
6. Central government accumulation of tax refund arrears (ceiling)	0.0 ✓
7. Consolidated government accumulation of external arrears (ceiling)	0.0 ✓
<b>Monetary targets</b>	
8. Cumulative change in net international reserves (floor)	-310.2 ✓
9. Cumulative change in net domestic assets (ceiling)	31.3 ✓



# Structural Benchmarks

- **Fiscal Reforms**
  - **Central Treasury Management System**
  - **Fiscal Responsibility Framework**
  - **Public sector rationalization plan**
  - **Tax incentives**
  - **Tax and customs administration**
  - **Divestment of public enterprises**



# Structural Benchmarks

- **Financial Sector Reforms**
  - **Unlawful Financial Organizations**
  - **Risk Weighting on forex GOJ bonds**
  - **Amendments to BOJ Act**
  - **Capital Requirements for Securities Dealers**



# KEY ISSUES





# But there are risks to the outlook

- **Global economy is expected to continue growing**
  - **4.8 percent in 2010 and 4.2 percent in 2011.**
- **But downside risks have risen sharply**
  - **Recent turbulence reflecting concerns about fiscal sustainability and policy responses**

# Risks to the outlook

## Given . . .

- Limited scope for fiscal stimulus
- If private demand fails to pick up

## Could lead to...

- A worsening unemployment situation
- Feedback on bank balance sheets



# Other risks to the outlook

- **Natural disaster (impact of recent rains)**
- **Volatility in commodity (oil) prices**
- **Inadequate buy-in**
- **Social Tensions**

# Stakeholders: Stay the course, build for the long haul

<b>Government</b>	<ul style="list-style-type: none"> <li>▪ Improve Tax administration</li> <li>▪ Improve Debt Management operations (middle office)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Public sector rationalization</li> </ul>	<ul style="list-style-type: none"> <li>▪ Central Treasury Management System</li> </ul>	<ul style="list-style-type: none"> <li>▪ Implement Fiscal Responsibility Framework</li> </ul>
<b>Regulators (BOJ and FSC)</b>	<ul style="list-style-type: none"> <li>▪ Stable exchange rate, Low inflation and cost of credit</li> <li>▪ Effective supervision</li> </ul>	<ul style="list-style-type: none"> <li>▪ Contingency planning/crisis preparedness</li> <li>▪ Adequate capital and liquidity buffers</li> </ul>	<ul style="list-style-type: none"> <li>▪ Establish Central Securities Depository to improve market efficiency</li> </ul>	
<b>Private Sector</b>	<ul style="list-style-type: none"> <li>▪ Foster productivity growth;</li> <li>▪ increase competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>▪ Advocacy (push for reforms)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Build confidence</li> </ul>	



Thank you

