Economic Outlook 2015: Recovery Underway

Flashback to 2014

2014 was filled with highs and lows, hits and misses, some of which caught the financial market off guard. The year was characterized by continued low interest rates, volatile equity markets and plunging oil prices. The low interest environment benefitted the US equities market as companies posted stronger earnings and investors searched for higher rates of return. The S&P 500 and the Dow Jones Industrial Average indices closed the year at record levels. The S&P 500 rose above the 2000 mark for the first time, while the Dow Jones closed at its highest level since March 2000. The year also saw the resurgence of the US dollar against most major currencies underscoring the sentiment that the US was finally on a steady growth path.

In terms of economic performance, the US posted the best performance among developed economies. However, economies within the Eurozone missed the mark. The euro bloc continued to endure economic weakness and deflation is now a major concern. In light of this, the ECB amped up its accommodative policy measures by announcing its intention to repurchase asset backed securities in another attempt to revive the economy and stave off falling prices.

Emerging economies had their own misses ranging from slowing growth in China and economic turmoil in Venezuela which placed the sustainability of the PetroCaribe agreement in question. Jamaica was hit by the Chikungunya virus (Chik-V) which negatively impacted the labour market through increased absenteeism and a reduction in productivity levels. There was also the fallout from the drought which led to a contraction in economic output in the Agricultural sector. Despite these setbacks, confidence in the local economy continued to improve following success in meeting quantitative performance targets and passing the seventh test under the Extended Fund Facility (EFF) with the IMF. These strides were acknowledged on September 19th by Standard & Poors (S&P) Ratings Services when it affirmed the 'B-' credit ratings on Jamaica, but revised the outlook to positive from stable. The change in the rating outlook signals the possibility of an upgrade if the positive momentum continues.

The Global Market

Following growth of 2.6% in 2014, both the IMF's and World Bank's latest projections put 2015 global economic growth in the 3.0% to 3.5% region. Improving labour market and accommodative monetary policy should help to accelerate growth momentum especially in the US and UK. In addition, the significant reduction in oil prices witnessed last year is expected to benefit many oil-importing countries. However, downside risks lie in the gradual slowdown in the Chinese and Japanese economies along with disappointing economic prospects in the Eurozone and some major emerging economies. In the Eurozone, continued deceleration and a stagnant labour market have stalled the economy which led the International Monetary Fund (IMF) to estimate that there is a one-in-three chance that the economic union will slip into a recession in 2015.

Central Banks are still employing monetary tools in an attempt to revive their respective economies. After witnessing the positive effect that Quantitative Easing and low interest rates has had on the US

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economy, Central Banks in several countries are likely to continue to use accommodative monetary policy tools to spur economic activity. Over a nineteen month period, the European Central bank is slated to inject over €$1.1Tn in the market through its own bond buyback programme. Meanwhile, Japan extended its quantitative easing programme in October 2014 and has taken it a step further, by not only increasing its monthly bond purchases, but has also increased its equity purchases as well. Both the Eurozone and Japan have seen economic contraction and are plagued by growing unemployment rates and deflationary environment. .

The US Economy

The US is the only major economy for which the IMF has raised its growth forecasts for the next two years. The US economy expanded by 2.4% in 2014 and the IMF is projecting that the US economy will grow 3.6% in 2015. This was predicated on the modest yet steady strides in the housing market. Additionally, strong private consumption will be supported by the boost in real household income following a reduction in unemployment rate to 5.4% along with the positive impact of the 40% decline in oil prices.

With the slack in the economy diminishing, the Fed is expected to raise rate as early as mid-2015, but the tightening is likely to be gradual due to subdued inflation expectations and unevenness in the housing market recovery. Since ending its bond purchasing programme in October 2014, the Fed has been diligently guarding its accommodative stance in hopes of correctly timing the introduction of an interest rate hike. A gradual adjustment in interest rates is important in order to avoid a retracement in the progress made in the economy thus far.

Europe

Expectations of worsening economic conditions in Europe and China were the main impetus for the IMF cutting its 2015 and 2016 growth forecasts for the global economy twice in 2014. The IMF is forecasting growth of just 1% in the Eurozone for 2015. This would be a marginal improvement over the 0.8% economic growth registered in 2014. Outside of the UK, the European economies were largely sluggish. The Eurozone's economic challenges are further exacerbated by increasing unemployment rates and near deflationary conditions. The persistent decline in consumer prices creates the danger that growth would stall as businesses and consumers shut their wallets and wait for prices to fall further.

The European Central Bank (ECB) has unveiled plans to introduce a Quantitative Easing programme in order to improve economic conditions. This would result in the ECB injecting roughly €1.1Tn in the economy by purchasing €60Bn of bonds each month until September 2016. Policymakers hope that this influx of cash will support headline inflation and stimulate the economy through increased spending. Despite the fact that there is likely to be a reduction in fiscal drag and the accommodative monetary policy may support improvements in lending conditions in 2015, structural economic issues and political risks still remain high. In addition, the fragmentation in economic performance may push some countries to exit the monetary union. As such, France and Germany should continue to lead growth in the bloc, however the issues in Greece will spark further speculation of its separation from the zone.

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Emerging Markets

Though global growth is anticipated to be weaker, emerging market and developing economies are likely to be the major contributors. Stronger domestic demand, lower oil prices and faster growth from advanced economies are expected to be the main drivers of any GDP outturn in 2015. However, the slowdown in large emerging markets such as China has weighed on forecasts. As property prices cooled and local governments struggled under heavy debt burdens, China's economy managed to grow by only 7.4% in 2014, the slowest pace in 24 years, and below the historical average growth rate of 8%. For 2015, growth is projected to moderate to 7.1% as the economy makes the transition to a more sustainable growth path and residential investment slows further.

The Latin American and Caribbean market is projected to face some headwinds during 2015. Though some countries such as Mexico, Costa Rica and the Dominican Republic are poised for robust growth in economic activity, the challenges in a number of South American countries have weighed on the regional outlook. It is anticipated that the weakening of key commodity prices and some metals that comprise a large portion of exports, will make for a lean year. Venezuela, Argentina, Brazil and Chile are expected to see the most significant downward pressures as these countries struggle against the falloff in key export resources. Meanwhile, tourism-dependent Caribbean countries will see benefits stemming from the rebound in some advanced countries. That said, the Caribbean region is expected to continue to face challenges in growing their economies against the background of high external and fiscal deficits and financial vulnerabilities. As such, the IMF is forecasting growth of 1.3% in the Latin American and Caribbean while emerging markets on a whole are expected to see a 4.7% increase in economic output for 2015.

PetroCaribe – Bitten by the Plunge in Oil Prices

With the plunge in oil prices, the future of the PetroCaribe Agreement is at the forefront of economic discussions for countries in the region. In recent times, the persistent decline in oil prices has compounded the fiscal and political factors that threaten the continued viability of the energy union. Venezuela is estimated to provide approximately 34% of PetroCaribe members' petroleum consumption under special financing arrangements through the agreement. This has resulted in member countries racking up over US$11Bn in PetroCaribe debt as at the end of 2013. Though the Venezuelan government has reassured beneficiary countries that the programme will remain in place, the deterioration in Venezuela's fiscal and current account due to lower oil prices and ongoing public protests resulting from the economic hardships in the country, may force its hand. Given increasing political pressures and the widening of fiscal gaps, Venezuela's ability to continue to provide subsidies is substantially diminished and the agreement may fall apart. Consequently, the uncertainty of the PetroCaribe Agreement looms over some Caribbean countries and any change could possibly derail already fragile fiscal positions.

Yet some countries may leverage the falloff in oil prices and Venezuela's current need for cash to repurchase their outstanding PetroCaribe debt. The repurchase could improve the debt profile of regional sovereigns by significantly reducing their debt to GDP ratios. The Dominican Republic has already tapped the international capital markets and repurchased it outstanding PetroCaribe debt at a substantial discount effectively reducing its debt to GDP ratio by 3 percentage points. Jamaica is widely tipped to follow the Dominican Republic's lead and repurchase its outstanding debt from the

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Venezuelan government.

The Jamaican Economy

The Planning Institute of Jamaica (PIOJ) estimates that for calendar year 2014, real GDP increased by 0.4%. This compares to growth of 0.2% recorded in 2013. The growth recorded for the calendar year reflected a strengthening of performance in the first half of the year when there was growth of 1.7%. For 2014, the Goods Producing Industry remained flat, and the Services Industry was estimated to have grown by 0.5%. The industries which recorded the largest growth during the year were Hotels & Restaurants (+ 2.8%); Construction (+ 1.3%); and Mining & Quarrying (+ 0.9%). Drought conditions, which prevailed during the months of June and July, adversely affected the performance of some industries, particularly, Agriculture and Electricity & Water.

Local economic growth in 2015 is expected to be positive, but weak. While acknowledging the benefit of lower international oil prices on production costs and consumer purchasing power, this benefit is expected to be partially eroded by the introduction of recent tax measures such as the increased special consumption tax (SCT) on fuel and the imposition of GCT on residential electricity consumption in excess of 350kWh per month.

This year, the Agriculture and Hotels & Restaurants industries are expected to post good performances, being helped by recovery from last year's drought and improvement in tourism. Additionally, the government's success in passing its seventh IMF quarterly review should buoy confidence levels as it indicates continued commitment to fiscal discipline which has positive long term implications on growth sustainability. This has led to improved sentiments largely from the investment and international community. Confidence indicators suggest that businesses continue to have a more positive economic outlook than last year, but consumer optimism has declined. With the recovery from the drought and lower fuel prices the IMF has projected growth in FY2015/16 at 2.1%.

Despite these positives, there is still a long road ahead in creating a path of sustainable economic growth. Other areas of economic weakness lie in the job market where the unemployment rate remains high. While local unemployment stood at 14.2% as at October 2014, 0.7 percentage points lower year over year. The increase in business confidence has not been fully translated into a marked and tangible improvement in the level of employment, which suggests that businesses may be slow in undertaking investment and expansion decisions.

Inflation

The inflation rate was 6.4% for 2014, 3.3 percentage points below the 2013 outturn and the lowest rate registered in over three years. The outturn was largely impacted by both the actual and pass-through effects of lower oil and gas prices and the reduction in electricity rates which reduced inflationary pressures. The heavyweight index, 'Housing, Water, Electricity, Gas and Other Fuels', was the only division to show a downward movement over the year. A reduction in oil prices on the global market led to gas prices at the pump falling by approximately 20% as at December 2014. However, the 'Food and Non-Alcoholic Beverages' index registered the largest inflation movement over the course of 2014 as the division grappled with severe drought conditions for the first eight months of 2014. The index climbed by 10.1%. However, well needed rainfall helped to slow the pace of price increases later in the

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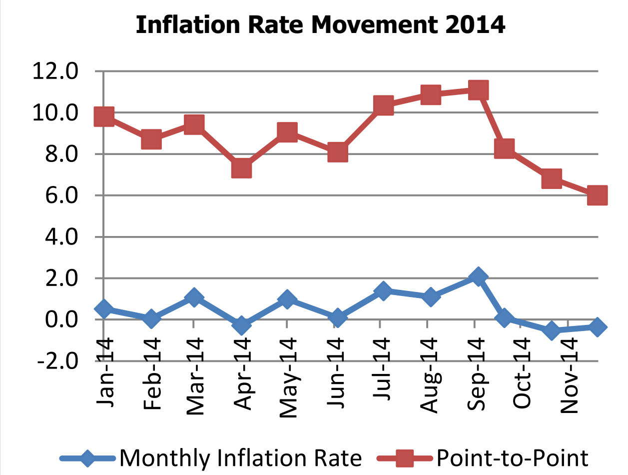
year as the agricultural sector rebounded and vegetable supply began to improve.

The depreciation in the local currency is expected to be relatively moderate this year and as such its impact on input costs will be lower. The positive effects of the decline in oil prices and the reduction in electricity rates will also reduce inflationary impulses. However, the positive impact of the lower oil prices may be tempered by the $7 per litre SCT on gasoline prices which took effect on March 13, 2015. Additionally, the Petroleum Corporation of Jamaica (PCJ) will have to pay a cess of $2 per litre on petroleum imports which will replace a 1% cess that was previously placed on imports. Of note, businesses have not been as quick to pass on the benefits of lower input costs and as such prices have not been falling as quickly. Still, the most imminent threat to lower inflation levels are that of extreme weather conditions which could cause an increase in food prices. Taking these factors into consideration, it is anticipated that headline inflation will range between 6% - 8% for 2015.



Foreign Exchange Market

After witnessing the steepest depreciation in over a decade in 2013, depreciation pressures eased to 7.8% in 2014, reflecting market and IMF consensus the currency was moving closer to its fair value. Although there were bouts of demand pressure particularly at the start of the year, fairly steady flows from multilaterals helped to augment supply in the latter part of the year. Additionally, supplies were boosted as the improvement in the jobs market in advanced economies, especially in sectors such as retail that provide a high level of employment for immigrants, resulted in remittance inflows finally surpassing its pre-recession levels. Data as at December 2014 indicated that at US$2,159.7Mn, year-to-date remittance inflows were at its highest level in over 10 years. At the same time, the country's Net International Reserves benefitted handsomely from the successful issuance of a global bond last year. The NIR stood at US$2,001.97Mn as at the end of December 2014, enough to cover an estimated 17.92 weeks of imports. With NIR at relatively healthy levels, the BOJ had more resources to intervene in the market. Although the Central Bank was not as active as in prior years, this also assisted in slowing the depreciation rate.

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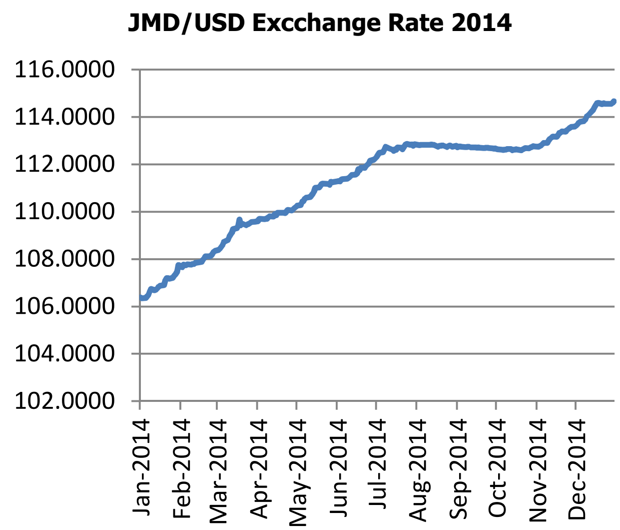
The J$ depreciated by 1% in January 2015 which was slower than the average 1.3% pace in the prior two years. Our view is that this pace will slow further into 2015. Continued positive performance in the IMF tests augurs well for increased confidence in the local currency. The IMF has advised that the BOJ should continue to capitalize on opportunities to increase foreign exchange reserves, as market conditions allow, and to continue to permit a moderate pace of depreciation of the exchange rate to offset inflation differentials and help maintain competitiveness. The net demand on the current account is also a significant factor affecting exchange rate movement. The current account deficit shrunk during 2014 and the narrowing is expected to continue over the medium term, supported also by the decline in oil prices. Data as at September 2014 indicate that the current account deficit has narrowed by 29.1% when compared to the corresponding 2013 nine month period.



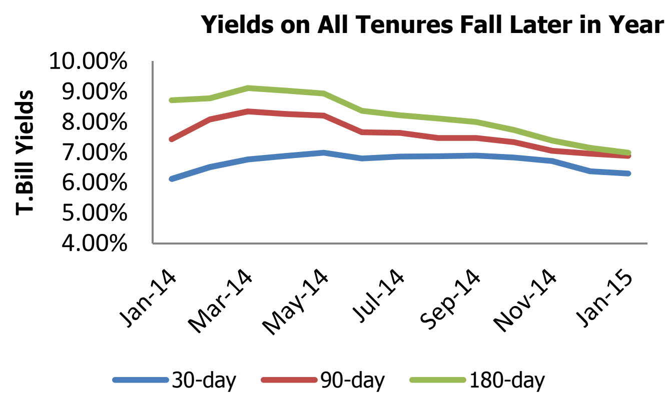
The significant improvement is in line with projections from S&P Rating Services that the deficit is likely to decline by 2.9 percentage points to 7% of GDP for 2014 before falling further to 6.1% of GDP in 2015[1]. It is anticipated that as import costs decline and the chase for the greenback eases in mid-year, the rate of depreciation will continue to moderate. Given these fundamentals as well as the inflation differential between Jamaica and its main trading partner, for the 2015 calendar year we are projecting that the local currency will depreciate by roughly 5%-7% against the USD.

[1] The current account deficit was estimated to have declined to 8.4% of GDP in FY2013/14 from 10.8% of GDP in FY2012/13.

Interest Rates

Since cutting the 30-day interest rate on open market instruments in February 2013, the BOJ lowered its benchmark rate to 5.5% in April 2015.

Tight liquidity conditions early in 2014 resulted in the rising of yields across all T.Bill tenures. In particular the 30 day instrument rose by 74 basis points in the first 7 months of the year. Rates in the inter-broker market also rose during the period. However things took a different turn by the September 2014 quarter as improved JMD liquidity allowed for a general decline in rates. At the end of the year 30day T.Bill yield stood at 6.38%, up 26 basis points since the start of 2014, while 90 day T.Bill yield stood at 6.96% (-47 basis points). The 180 day T.Bill yield stood at 7.14% (-158 basis points).



With JMD liquidity to remain tight this year it is likely that this will contribute to higher short term rates. The heavy involvement of the BOJ in the market has been reflected in the offering numerous instruments and special repurchase agreements for deposit taking financial institutions (DTIs). In January, the Central Bank sold US$142Mn to augment supplies, taking an equivalent of J$16.4Bn from the market. Tightened liquidity conditions have also been precipitated by new indexed notes amounting to J$5.6Bn in February. If the rates on special repurchase agreements such as the occasional term repurchase operation (OTRO) and six month repurchase operations (SMRO) are used as an indicative measure of short term rates, then it is expected that T.Bills should increase. OTROs and SMROs are used by BOJ to provide liquidity to deposit taking institutions. The yield on the most recent 90 day OTRO stood at 9.15% relative current 90day T.bill yield of 6.88%.

Fiscal

The fiscal outturn for the Year to December 2014 showed a deficit of $28.8Bn, which was 14.8% lower than anticipated, driven primarily by expenditure cuts. The primary balance stood at $66.5Bn and was only 0.8% above budget, but virtually on the floor of the IMF's $66Bn target for December. With not much cushion between the floor and the year to date primary surplus outturn, sustaining a 7.5% primary surplus over the medium-term will be challenge. The IMF has indicated that the government's ability to achieve this target will hinge on a targeted one percentage point of GDP reduction in the wage bill (to 9% of GDP). This will likely be achieved through a rationalization of the public sector, given that public servants will be more reluctant to accept an extension of the current wage freeze. Sustaining the primary surplus will hinged on the ability to reduce the wage bill. [2] Public-sector wages were frozen for three years starting in 2012 as part of the government's effort to reduce its wage bill. The government has relied, so far, on natural attrition and cutting unfilled posts in the civil service, as well as the wage freeze, to reduce its spending burden. However, it may be difficult to reach the spending target without job cuts.[3] With the wage freeze having expired in March 2015, brokering a new wage agreement will be quite a challenging task for the government and as such alternative efficiency measures may have to be explored.

Expenditure totaled $315.7Bn, with all expenditure line items being lower than target. The most significant deviation from budget was capital expenditure which was 31.1% lower than the targeted amount $26.5Bn.

On the other hand, tax revenues continued to underperform, coming in 3.6% lower than budget at $258.6Bn. The outturn fell short of the IMF floor of $260Bn. While tax revenues from PAYE exceeded target by 4.1%, this was offset by lower corporate profits which fell behind budget by 30.1%, causing revenues from *Income and Profit* to trail budget by 4.4%. Other factors that contributed to the underperformance of tax revenues were lower than expected GCT receipts both locally and from international trade.

In an effort to bolster tax revenues the government announced a $10.4Bn new tax package for FY2015/16. Success in implementing the new tax measures and enforcing tax compliance augur well for the government's tax revenue target and primary surplus target under the IMF program. Historically these targets have proven to be quite ambitious. With tax revenues underperforming the IMFs tax floor for the period to December 2014, it will be critical for the government to achieve and enforce these targets which will have the effect of instilling greater confidence in the sovereign and the success of the IMF program.

In an effort to further reduce expenses and the debt burden, the government may consider the redeeming its debt with Petro Caribe, in a similar fashion to that of the Dominican Republic. In January, DOMREP issued two global bonds which were used to redeem $4.1Bn in outstanding debt accumulated with Venezuela's state-owned company (PDVSA) under the PetroCaribe agreement from 2005-2014. DOMREP struck a deal to pay $1.9Bn for nearly all of the $4.1Bn it owed Petroleos de Venezuela SA. The Venezuelan government, in an attempt to raise needed cash and quell growing social turmoil, sold the debt owed by DOMREP to Goldman Sachs at a 52% discount. DOMREP then bought the debt back by issuing two global bonds. The transaction had the effect of reducing the sovereign's debt by an estimated 3.3% of GDP.[4]

[2] IMF Report

[3] S&P Report:Jamaica

[4] Under Petrocaribe, 19 Caribbean and Central American countries receive petroleum and refined products from Venezuela, paying only a portion of the bill upfront and financing the rest for 1% or 2% interest over 25 years.

It is possible that Jamaica may consider going this route in light of the fact that the sustainability of Petro Caribe has come in question given the current fiscal challenges of Venezuela. Moreover with confirmation that Jamaica can raise low cost funding internationally, it is possible that government could use the low interest rate environment as an opportunity to raise funding to redeem the Petro Caribe debt, which would help to improve fiscal flexibility by reducing the debt stock. Jamaica's current debt under the PetroCaribe agreement stands at approximately US$3.8Bn.[5] A debt buyback with similar discount as the DOMREP deal, would result in an immediate reduction of those claims to US$1.8Bn and an immediate reduction in the country's debt stock which would place Jamaica on a more creditable path of achieving its debt to GDP target of 100.6% by FY2019/2020.

The passage of a new fiscal rule in early 2014, should anchor fiscal policy, and market expectations, after the end of the IMF program (in 2017). The fiscal rule seeks to put a cap on what the country can spend and ensures a more sustainable budget. Aspects of the rule includes limiting the annual budgeted overall fiscal deficits of the public sector (covering all fiscal activities), to achieve a reduction in public debt to no more than 60% of GDP by 2025/26. Measures will include transparency and accountability through parliamentary hearings and public statements by officials. The Minister of Finance and Planning will be required to explain deviations from the fiscal rule in a mid-term budget review in parliament, and outline corrective steps to get back on track with the annual fiscal rule target.

The Progression of the IMF Programme

Fiscal & Monetary Metrics	2014		2015			
	Dec-2014 Targets	Dec-2014 Actual	End-Mar Targets	End-Jun Targets	End -Sep Targets	End – Dec Targets
Primary Balance	$66.0Bn	$66.8Bn	**$121Bn**	**$17Bn**	**$40Bn**	**$65Bn**
Tax revenue	$260Bn	$258.6Bn	**$384Bn**	**$88Bn**	**$189Bn**	**$287Bn**
Central Government Direct Debt	$92.4Bn	$67.9Bn	**$90.6Bn**	**$4.5Bn**	**$0.0Bn**	**$12.0Bn**
NIR	US$1.30Bn	US$2.0Bn	**US$1.40Bn**	**US$1.52Bn**	**US$1.51Bn**	**$1.66Bn**

Structural Benchmarks 2015	
Government to finalize a review of public sector employment and renumeration that serves to inform policy reform	**Mar-2014**
Broader tax reform to become effective, including the modernization of taxes and lower tax rates	**Mar-2014**
Strengthening the tax compliance system by increasing the number of auditors, upgrading software etc	**Ongoing**

[5] Bloomberg

Entity by entity review of specific tax incentives in the context of new tax incentives in the context of the next tax incentives legislation by end-2014/15	**Jan-2015**
New Cash Management Unit in the Account General Department	**Sep-2015**
Legislation for the new public sector pension system for April 2016 implementation	**Nov-2015**
Pilot testing of ASYCUDA World (covering imports and exports) in Kingston port	**May-2015**
Implement integrated tax software package for all major tax types	**Dec-2015**

Despite missing an indicative tax revenue target, the IMF Board approved the 7th quarterly review under the EFF. Outside of the tax revenue floor which was adversely affected by falling oil prices, the government has passed all other quantitative performance criteria. In addition, the government was on target with its structural benchmarks. We expect that the government will continue to be challenged on the fiscal front in light of weak growth and the impact of falling oil prices on tax revenues. However the implementation of key structural benchmarks to broaden the tax base, improve compliance and increase efficiency of the public sector will help to meet future targets.

Bond Market

2014 was a good year for JAMAN bonds as there was a general uptrend in prices. Success in meeting the quarterly targets under the EFF and improved investor confidence aided the movement in prices. As a result, the GOJ was able to re-tap the international capital markets in July, raising funds at significantly reduced rates. There was also a vote of confidence from S&P ratings agency which reaffirmed its ratings on Jamaica but revised its outlook to positive from stable. These strides had the effect reducing the country's credit risk profile while fueling greater buying interest, which saw bonds both on the short end and long end of the curve posting good gains.

JAMAN Bond Price Movement Jan to Dec 2014

Maturity	Price Movement
2017	5.5%
2019	10.1%
2022	-2.5%
2025	12.1%
2036	12.0%

Given the positive price performance, and the view that the positive outlook has been fully priced in, the upside potential on these bonds is likely to be limited. Further, US interest rates are set to increase in mid- 2015 prompting some investors may return to safer US assets. That said, given that interest rates should remain relatively low (especially in Europe) and there may still be some amount of yield chasing, we could see some modest demand for JAMAN bonds and bonds from other emerging markets. These two conflicting factors account for our expectation of fairly stable prices in 2015.

Activities in the global bond market are expected to be quite dynamic in FY2015, stemming from the divergence of monetary policy between the US and other developed economies. The accommodative measures being implemented by the European Central Bank (ECB) will have the effect of increasing

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market liquidity in the euro bloc, causing a falloff in interest rates. The buy-back will also result in a dearth of attractive investment opportunities in government securities in the Zone. Within this context investors will be searching for yield pick opportunities, with some of these inflows making its way into US Treasuries where it is expected that short term interest rates could rise by mid 2015 given the stronger outlook for the US economy. The strengthening of the US currency against most currencies also result in greater interest in US denominated assets.

Stock Market

Despite the passing of successive IMF tests and positive signals from the Jamaican economy, investor interest in the local stock market remained subdued in 2014. End of year results indicated that the JSE Main index declined by 5.74%, while the Junior Market moved down by 9.37%, and the All Jamaican Composite Index moved down by 2%. The Jamaica Select Index inched up by a mere 1.91%. The underperformance was largely attributable to lower investor sentiments towards local currency investments given continued depreciation in the currency, and still weak economic conditions which have negative implications for the profitability of listed companies.

Five newcomers were added during 2014- Margaritaville Turks, 138 Student Living Jamaica Ltd and Sterling Investments Ltd were main market entrants while Knutsford Express and Sweet River Abattoir were the junior market entrant. Margaritaville Turks generated the most interest given it was a USD denominated stock.

The slow-down in listings especially on the junior market, is due in part to the amendment to the tax incentive which took effect January 1st 2014. Based on the reform, companies listed on the Junior Market on or after January 1st 2014 are slated to benefit from relief of 100% of income tax payable in the first five years from the date of admission to the Junior Market. This differs from the original incentive where companies would benefit from 100% tax relief for the first five years of listing in addition to a 50% relief for another 5 years.

From a valuation standpoint, the stock market appears to be attractive relative to historical averages. At 7.5X in 2014, the P/E ratio is lower than the 9.79X recorded three years ago (2011).

Conclusion

2015 will mean different things to various economies. While some advanced economies will continue to see growth and consider normalization of monetary policy, that tool will be in full force for others still in an economic rot and fiscal austerity will be the order of the day for the Caribbean.

For Jamaica, meeting the IMF targets will again be the main focus. There are green shoots as growth is headed in the right direction, the deficit has declined and inflationary impulses are subdued. Jamaica may employ a strategy similar to the Domincan Republic style PDVSA deal which would also be a well needed sweetener in the bitter environment. The challenge though has always been maintaining the growth momentum given the vulnerabilities to external shocks and resistance from affected groups.

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Disclosure

Company Identification:

NCB Capital Markets Ltd (formerly Edward Gayle and Co.) established in 1968 is Jamaica's oldest stockbrokerage. The company became a part of the NCB Group in 1994 and a fully owned subsidiary in October 2002. In December 2002, the then Edward Gayle and Co. was merged with another NCB subsidiary, NCB Investments. The products distributed by this combined subsidiary cover the traditional money market product offerings (J$ and US$ Repos), primary dealer services, stock brokerage and investment advisory services. Edward Gayle was renamed NCB Capital Markets Ltd. in October 2003.

Important Disclosures

The views expressed in this report are the views of NCB Capital Markets Ltd at the date of this report.

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