CAPITAL MARKETS LIMITED

Market Guide

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THIS ISSUE

"How many millionaires do you know who have become wealthy by investing in savings accounts?" Robert G, Allen

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Optimism Amid Uncertainty: Jamaica's 2025 Macroeconomic Outlook

For Jamaica, 2025 presents a mix of hopes, challenges, and uncertainties; however, we anticipate several economic themes will characterise this year. These themes will build on the success and challenges of 2024, even as risks emerge from the external environment. After growing at a clip in 2023, economic activity slowed markedly in 2024 exacerbated by the impact of Hurricane Beryl in the September quarter. However, construction, tourism, and inbound remittances had already been facing headwinds at the start of the year, from high interest rates and the US travel advisory, with growth slowing markedly in Q2 (0.2%). Furthermore, Hurricane Beryl weighed on growth through the rest of 2024, with Q3 growth coming in at -3.5 %. Against this background, expectations are for below 1% growth for 2024. Despite the lacklustre growth, there was notable progress in taming inflation – which allowed the BOJ to start reducing interest rates – and continued fiscal stability during the year, which paved the way for greater optimism in 2025. Signs of continued easing in price pressures and moderating domestic demand allowed the Bank of Jamaica's (BOJ) Monetary Policy Committee (MPC) to unanimously agree to reduce the policy rate by 25bps to 6.75% in August 2024, following this action with 3 more cuts in 2024, to end the year with their policy rate at 6.0%. On the fiscal front, the government of Jamaica (GOJ) remained committed to fiscal consolidation as evidenced by the GOJ ending the fiscal year (FY2023/2024) with a primary surplus of 6.0% of GDP and a debt-to-GDP at 72.0%, down from 79.7% of GDP at the end of FY2022/2023. As we settle into 2025, on the heels of the successes and challenges of the past year, what are the major themes that are expected to play out this year? We see soft growth, an acceleration of monetary policy easing, impending elections, and a souring of global trade relations as the major themes that are expected to shape Jamaica's economic and financial market narrative this year.

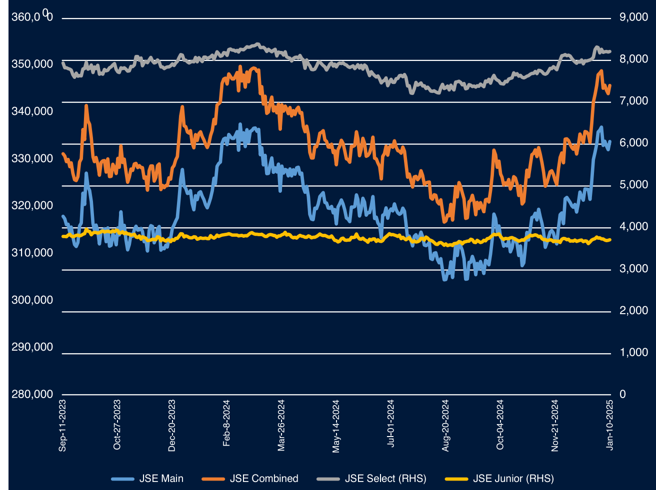
Recovery, But Soft Growth Outlook

Locally, though the economy should rebound from the effects of Hurricane Beryl, economic activity is expected to grow below the post-COVID pace in 2025. Supported by strength in the tourism industry, historically low unemployment rates contained inflation, and the stable albeit lacklustre growth forecast for the global market[1], the local economy is anticipated to grow to 2.2% in 2025, up from an estimated 0.8% growth in 2024, according to the World Bank[2], before converging toward its long-term potential (1%-2% growth). Though rebounding, the 2025 growth outlook will be far below the 4.9% average expected growth across the Caribbean economies, which will be led by countries like oil-rich Guyana (12.3%) and the Dominican Republic (4.7%). That said, strong tourism inflows in 2025, supported by the projected 12.9% increase in winter arrivals, should buttress growth, while efforts to rebuild damaged structures such as buildings and roads will lead to an uptick in the construction sector. Monetary policy easing on the back of low and stable inflation should support households' ability to borrow and finance consumption while increasing companies' willingness to borrow and invest locally. Against this background, both private consumption and investments should accelerate, which augurs well

1 IMF, World Economic Outlook Update, January 2025

2 World Bank, Global Economic Prospects, January 2025

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	344,610.60	-0.30%	-0.94%
Main Market Index	333,074.26	-0.19%	-0.81%
Select Index	8,083.72	-1.34%	-2.43%
Junior Market Index	3,639.67	-1.58%	-2.55%

WINNERS & LOSERS FOR THE WEEK ENDED JANUARY 17, 2025

	$ Change	% Change
CAC	+$0.34	+17.35%
EPLY7.75	+$3.00	+15.79%
KEX	-$1.97	-15.40%
JETCON	-$0.16	-13.22%

MARKET OVERVIEW

With most stock prices falling, seven of the nine stock market indices posted declines in trading activity last week. Across the indices 47 stocks appreciated, 66 declined, and 14 remained firm. The Junior Market sustained the largest decline week-over-week, with the strongest performance delivered by the Financial Index. Knutsford Express (KEX: -15.40%) and Blue Power Group Limited (BPOW: -12.27%) led the decliners. KEX released its six months unaudited financial results during which the company reported topline growth of J$1.05Bn (+8.8%), driven by increased passenger volumes across all routes. However, earnings fell 24.16% as rising operating expenses and a heavier tax burden weighed on the company's profitability. The Select Index was also down 1.34%, largely due to share price depreciation in the top four heaviest weighted stocks in terms of market capitalisation namely – NCB Financial Group Ltd. (NCBFG: -0.31%), GraceKennedy Ltd. (GK: -0.43%), TransJamaican Highway Ltd. (TJH: -4.32%) and Carreras Ltd. (CAR: -3.16%). TJH and CAR were two of the volume leaders in the overall market last week.

The week's gainers were the Financial Index (+1.24%), and the USD Equities Index (+0.46%). Scotia Group Jamaica Limited led the Financial Index with a 9.04% increase in its share price. The stock also traded at a new 52-week high of J$59.90 on January 17, surpassing its previous 52-week high of J$57.94. The USD Equities Index benefitted from a 1.27% rise in Proven USD shares and a 0.22% rise in MPC Clean Caribbean Energy Ltd. USD shares. No new developments were reported to explain these gains.

for Jamaica's growth outlook. Resilience in major economies, like the United States (U.S.), should also benefit the local economy by boosting exports. Nevertheless, some external risks could lead to slower growth given Jamaica's strong economic ties with countries like Europe and China, whose economies are still facing challenges (such as continued economic weakness in Europe and challenges in the property market in China). Remittance inflows are also expected to continue to decline marginally, due to moderate growth in remitting countries and the likelihood of increased U.S. deportations of undocumented nationals. This could also cause further headwinds to growth. Furthermore, the inherent risks of natural disasters, compounded by climate change, extreme weather events such as hurricanes, or severe drought, could adversely impact the growth outlook.

More Accommodative Monetary Policy

With inflation expected to remain within target along with softness in the economy, the BOJ is expected to continue to reduce policy rates into 2025. Slowing energy[3] and commodity[4] price growth and overall soft aggregate demand will continue to allow inflation to moderate toward the lower limit of its target (4.0-6.0%) in 2025. This projection is premised on an improved oil market outlook with the ceasefire of the Israel-Hamas war, strong oil production in North America, a rebound in the local agricultural sector, and the BOJ's expectations for inflation to remain within its target over the next eight quarters. Given this, BOJ's key policy rate is expected to continue to decline through 2025 and end the year at 5.0%. Against this backdrop, financial conditions will ease as the decline in loan rates will help lower borrowing costs, alleviating pressure on Jamaican consumers (businesses and individuals). However, if weakness in domestic aggregate demand and inflation remains within target, the BOJ may accelerate the pace of its policy loosening. In this scenario, Fitch expects the policy rate to be reduced to 4.50% to stimulate the local economy.

As we settle into 2025, soft growth, an increased pace of interest rate cuts, the impending elections, and global relations are major themes expected to shape Jamaica's economic and financial market narrative.

Fiscal Policy Restraint Despite Elections Approaching

The Jamaican government has made good on its commitment to fiscal prudence, and, going forward, the GOJ is generally anticipated to remain committed to fiscal consolidation. Jamaica's institutional framework is strengthening, leading to improved public finances, more economic stability, and greater resilience to shocks, which will continue to be demonstrated throughout 2025. However, with elections constitutionally due this year, there are concerns about the possibility of increased fiscal spending due to political incentives, campaign promises, and the desire to respond to voter needs, which could erode the current fiscal trajectory of the country. That said, given the successes of the government's previous austerity measures, this has created greater room for government expenditure toward projects in critical areas such as Agriculture, Healthcare, Education, Housing, and Business Development (via SMEs). Considering this, we expect 2025 to provide a balance between fiscal prudence and increased spending to support growth and social infrastructure. Furthermore, Jamaica's political commitment to fiscal consolidation is expected to survive any possible change in administration, as policy differences between the parties are marginal, supporting policy continuity in the long run, which will further foster macroeconomic stability.

Global Relations and Policy Uncertainty

That said, outside of the local landscape, change in U.S. administration could have implications for the domestic economy, particularly on trade relations. The marked differences between Biden's and the new U.S. President, Donald Trump's policies on international relations, immigration, the environment, and most notably trade could also impact the growth outlook, inflation, and interest rate trajectory in Jamaica. Policy-generated disruptions to the ongoing disinflation process in the U.S. could interrupt the pivot to easing monetary policy, with implications for fiscal sustainability, financial stability, and economic growth. As such, any new policy that could disrupt the economic outlook for the U.S. or any of our main source markets would result in lower exports, remittances, tourism inflows, etc., to the country. This would lower local economic growth and could result in a looser BOJ policy to stimulate growth. In addition to risks from economic policy shifts, geopolitical conflicts could also affect trade routes as well as food and energy prices which would also affect the local market in 2025. A sharper-than-expected weakening of growth in China could also adversely affect exports. On the flip side, tepid economic growth in the Euro area and increased expectations for further monetary policy easing could help to offset any possible decline coming out of the U.S. or China.

The key themes emerging for 2025 are set to create both challenges and opportunities for local consumers and investors alike. Rebounding economic growth and a strong labour market could increase consumer confidence and by extension private consumption. Additionally, monetary policy easing and the lowering of borrowing costs will generally support financial conditions and are also anticipated to buoy domestic demand. With interest rates expected to decline throughout 2025, we expect that both primary and secondary stock market activities will pick up pace supported by lower borrowing costs and increased investor appetite. Greater demand and disposable incomes could also increase business confidence, leading to greater company growth

3 The energy price index is projected to drop by 6% in 2025 and 2% in 2026 after falling by 6% in 2024, according to the World Bank.

4 Commodity prices are expected to decline by 5% in 2025 and 2% in 2026, following a 3% decrease in 2024 according to the World Bank.

both organically and inorganically. This could also lead to greater comfort and confidence for private companies to list publicly. Further, the cut in interest rates will allow local issuers to refinance existing high-debt obligations at lower rates, which would propel an increase in local bond market activity. Considering the themes that are expected to play out this year, our base case scenario anticipates some rebound in local capital market activities, notwithstanding the risks to the outlook.

Foreign Exchange Market

For the week ending January 17, 2025, the Jamaican dollar depreciated slightly (-0.17%) with the USD selling rate moving to J$157.49 from J$156.22 on December 13, 2024. The depreciation, though muted, was primarily driven by robust end-user demand for USD in the market. Given the strong demand, the Bank of Jamaica (BOJ) intervened in the market with US$40.0Mn on January 17, 2025, through its BFXITT Auction. However, the supply intervention was not settled until Monday, January 20th, and therefore could provide some support for the foreign exchange rate this week.

Selling	Close: 10/1/25	Close: 17/1/25	Change
J$/US$1	$157.22	$157.49	+$0.27
J$/CDN$1	$110.00	$110.23	+$0.23
J$/GBP£1	$195.07	$193.44	-$1.63

Global Bond Prices

The global bond market showed signs of recovery last week as underlying inflation, as represented by monthly core U.S. consumer price (CPI) data for December was released, indicating a slower-than-expected rise. Core CPI, which excludes volatile food and energy costs, increased by 0.2% on a monthly basis, marking its smallest gain in six months and breaking a streak of 0.3% increases. The market was quick to react to the data with treasury yields dipping 16 basis points to 4.62%, likely reflecting expectations of easing inflation pressures and a potential shift in the Federal Reserve's monetary policy stance. Economists noted that sustained disinflation could lead to a rate cut as early as March, contingent on further subdued inflation data and weakening payroll figures. Emerging market bonds experienced week-over-week price gains, likely driven by the release of CPI data. Sovereign bonds from countries such as Costa Rica, Panama, Barbados, Bermuda, and the Dominican Republic rose in value, accompanied by corresponding declines in their yields.

That said, despite strides in core CPI data, sustained headline disinflation continues to be an elusive goal. U.S. annual headline inflation for December remained elevated at 2.9%, 90 basis points above the Fed's goal, with prices rising at a faster pace than in November (2.7%).

Looking prospectively, inflation risks persist, particularly as President Donald Trump's proposed economic policies—including broad tariffs, tax cuts, and stricter immigration measures, are anticipated to amplify price pressures. These initiatives could disrupt progress toward disinflation by stalling price stability gains, especially considering their potential to drive up costs across key sectors of the economy. Economists warn that such policies might entrench inflation above 2.0%, compelling the Federal Reserve to adopt a more cautious approach to interest rate cuts. A Reuters poll reflects this sentiment, with a slim majority forecasting no more than two rate cuts in 2025. As markets await the release of January 2025 CPI data on February 12, concerns over policy-induced inflationary pressures could exacerbate the challenges of achieving sustainable price stability.

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
ALSEA (7.75%) 2026	Ba3/Stable	105.00	4.93%	BUY
BACR (5.75%) 2026	A/Stable	104.75	2.72%	BUY
BERMUD (3.72%) 2027	A2/Stable	101.25	3.07%	BUY
BERMUD (4.75%) 2029	A2/Stable	101.075	4.27%	BUY
CHTR (4.2%) 2028	Ba2/Stable	100.25	4.11%	BUY
CWCLN (6.88%) 2028	BB-/Stable	102.75	5.73%	BUY
DOMREP (5.50%) 2029	BB/STABLE	101.00	5.22%	BUY
DOMREP (5.95%) 2027	BB/STABLE	103.75	3.98%	BUY
DOMREP (6%) 2028	BB/STABLE	103.00	5.05%	BUY
DOMREP (8.63%) 2027	BB/STABLE	106.75	5.37%	BUY
GEOPAR (5.5%) 2027	B+/Stable	101.50	4.69%	BUY
GM (5.4%) 2029	Baa2/Stable	104.00	4.45%	BUY
GS (3.85%) 2027	BBB/Stable	101.75	2.94%	BUY
GS (5.8%) 2026	BBB/Stable	104.00	3.11%	BUY
LTMCI (7.88%) 2030 **(NEW!)**[5]	BB-/Positive	103.75	7.00%	BUY
M (5.88%) 2030	BBB-/Stable	99.50	5.99%	BUY
NFLX (5.88%) 2028	Baa1/ Positive	107.00	3.87%	BUY
NFLX (4.88%) 2030	Baa1/ Positive	103.00	4.24%	BUY
NRG (3.88%) 2032	BB+/Stable	92.00	5.25%	BUY
PRIOBZ (6.13%) 2026	BB-/Stable	104.25	2.93%	BUY
PRMRPA (10.75%) 2028	B+/Stable	109.50	7.64%	BUY
PYPL (2.85%) 2029	A-/Stable	95.25	3.97%	BUY
SFC (5.3%) 2028	BB-/Positive	101.50	4.80%	BUY

5 Issuer- LATAM Airlines Group S.A., Industry- Airline, Type-Senior Secured, Callable-Yes, Coupon Rate- 7.875%, Coupon Payment- Semi-annually, Maturity- April 15, 2030, Risk Profile - Moderate

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
TPHLTT (9%) 2029	Ba3/Stable	108.50	6.79%	BUY
TRAJAM (5.75%) 2036	BB/Positive	98.50	5.93%	BUY
TRITOB (4.5%) 2026	BBB-/Stable	101.75	3.31%	BUY
BEEFBZ (4.88%) 2031	BB/Stable	85.65	7.22%	BUY
KINGAIR (6.88%) 2036 **(NEW!)**[6]	BB/Stable	103.25	6.36%	BUY
MINSUR (4.50%) 2031 **(NEW!)**[7]	BBB-/Stable	93.75	5.62%	BUY
NRG (6.00%) 2033 **(NEW ISSUE!)**[8]	BB+/Stable	101.75	5.72%	BUY
NRG (6.25%) 2034 **(NEW ISSUE!)**[9]	BB+/Stable	103.50	5.77%	BUY
BANORT (5.75%) 2031	Baa2/ Positive	98.25	1.49%	SELL
CSOLNO (6%) 2027	B+/Stable	14.75	349.65%	SELL
NFE (6.5%) 2026	B+/Stable	101.50	5.53%	SELL
NFE (6.75%) 2025	B+/Stable	101.75	5.39%	SELL

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	101.90	5.84%
	2039	112.75	6.54%
	2045	111.75	6.80%

*NB: The rates quoted above are opening indicative levels on the international market and are subject to change as market conditions vary throughout the trading session. Additionally, the prices quoted to clients of NCB Capital Market Limited (NCBCML) are adjusted to reflect the costs associated with completing the transaction on the respective client's behalf.

Local Corporate Bonds

Name	Maturity	Coupn	Price	Yield
PBS	2025	6.50%	100.85	6.03%
BDHR	2027	8.15%	100.35	8.02%
SJPC	2032	8.85%	103.75	8.18%

Money Market

Last week, liquidity in the JMD money market was reduced further, marking the third consecutive week of decline since the beginning of 2025. As at January 17, 2025, the aggregated current balances held by Deposit Taking Institutions (DTIs) was J$27.59Bn, marking a 50.0% decline from the previous week's $55.18Bn.

Demand for money market instruments remained high, as evidenced by the oversubscription in the BOJ's latest 30-day Certificates of Deposit (CD) Auction. The average yield from said auction inched up 19 basis points to 6.59% from 6.40% the previous week. The auction was oversubscribed as total bids amounted to J$37.64Bn relative to the $33.0Bn issue size, implying a bid-to-offer ratio of 1.14x, similar to the CD auction done in the previous week.

6 Issuer- Kingston Airport Revenue Finance Limited., Industry- Airline, Type- Senior Secured Corporate Bond, Callable-Yes, Coupon Rate- 6.75%, Coupon Payment- Semi-annually, Maturity- December 15, 2036, Risk Profile - **Moderate**

7 Issuer- Minsur S.A., Industry- Metals and Mining, Type- Senior Unsecured, Redeemable-Yes, Coupon Rate- 4.50%, Coupon Payment- Semi-annually, Maturity- October 28, 2031, Risk Profile - **Moderate**

8 Issuer- NRG Energy Inc.., Industry- Energy, Type- Senior Unsecured, Callable-Yes, Coupon Rate- 6.00%, Coupon Payment- Semi-annually, Maturity- February 01, 2033, Risk Profile - **Moderate**

9 Issuer- NRG Energy Inc.., Industry- Energy, Type- Senior Unsecured, Callable-Yes, Coupon Rate- 6.25%, Coupon Payment- Semi-annually, Maturity- November 01, 2034, Risk Profile - **Moderate**

Dates to watch this week

International · Local

January 2025

MON	TUE	WED	THUR	FRI
20	21	22	23	24
BIL - Annual/ Extraordinary General Meeting	PAL - Annual/ Extraordinary General Meeting	PBS - 9.25% Pref. Shares – Preference Share Dividend Payment Date (US$0.23/share) PBS - 10.50% Pref. Shares – Preference Share Dividend Payment Date (J$25.89/share)		SGJ – Dividend Payment Date (J$0.45/share)
			(US) Initial Jobless Claims	S&P Global Manufacturing PMI

Recommendations

Ticker	Closing Price (January 21, 2025)	P/E	Avg. Sector P/E	Current Recommendation
GK	$73.51	8.7x	17.4x	**BUY**
LASD	$4.35	11.1x	13.7x	**BUY**
OMNI	$1.05	15.6x	19.8x	**BUY**
SALF	$3.45	19.2x	13.7x	**SELL**

Regional News

Mexican President Might Avoid Trump's 'Day One' Tariffs

In late November, U.S. President-elect Donald Trump sent shockwaves through global trade by threatening 25% tariffs on Mexico and Canada, effectively ripping up a regional trade agreement if the two countries didn't do more to curb migration and the flow of drugs. It was a big test for Mexico's new President, Claudia Sheinbaum, the country's first female leader who had taken office just eight weeks earlier. Analysts thought the scientist-turned-politician might be too rigid and reserved to navigate the volatile U.S. leader with the relative aplomb of her predecessor, Andres Manuel Lopez Obrador. As Trump prepares to take office, Sheinbaum has publicly sparred with the incoming U.S. president but has also shown concrete results that could help show that Mexico is serious about cooperating on migration and security, as well as China. It is hard to know if that will be enough or if the threat of tariffs on Trump's first day in power is wholly realistic, but experts and former diplomats say Sheinbaum has made a solid start. "It's a very pragmatic and proactive approach by Sheinbaum and her team," said Gema Kloppe-Santamaria, a global fellow of the Wilson Center's Mexico Institute. Trump has repeatedly accused the Mexican government of not doing enough to stop migrants and drugs from entering the U.S. and has threatened sweeping tariffs to force more action. He has also railed against Chinese plants setting up shop in Mexico. However, since taking office, Sheinbaum has intensified an already historic crackdown against migrants traveling toward the U.S. border by detaining an unprecedented 475,000 migrants between October and December and has left open the possibility that Mexico might be willing to accept non-Mexicans deported from the United States. Her government has also seized a record 1,100 kilograms of illicit fentanyl and unveiled new tariffs against some Asian goods and confiscated counterfeit Chinese products in several Mexican cities.

Source ~ Reuters

Brazil Economic Activity Beats Forecasts in November Despite Monetary Tightening

TEconomic activity in Brazil exceeded market expectations in November, official data showed on Thursday, adding to a string of stronger-than-anticipated performances despite the central bank's ongoing monetary tightening cycle. The IBC-Br index, a leading indicator of gross domestic product (GDP), rose 0.1% in seasonally adjusted terms from October, while economists polled by Reuters had expected no change. On a non-seasonally adjusted basis, the index - which incorporates proxies for output in agriculture, industry, and services, as well as tax data on production - climbed 4.1% compared to November 2023 and increased 3.6% over 12 months. The positive performance came despite weaker-than-expected data in November for the service sector, the main driver of Brazil's economy, along with negative readings for retail sales and industrial output. Finance Minister Fernando Haddad has stated that Latin America's largest economy likely expanded by 3.6% in 2024, more than double the forecasts by private economists at the beginning of last year. The expansion has been fueled by strong household consumption and rising investment amid a tight labor market.

Sources ~ Reuters

International News

IMF Lifts US Outlook, Warns Countries Against Protectionism, Subsidies

The International Monetary Fund (IMF) raised its global growth forecast for 2025 by 0.1 percentage points on Friday, citing stronger-than-expected growth in the U.S. that offsets downward revisions for Germany, France, and other major economies. In its latest World Economic Outlook, the IMF projected global growth of 3.3% for both 2025 and 2026. It also forecasted a decline in global headline inflation to 4.2% in 2025 and 3.5% in 2026, paving the way for further monetary policy normalization and signaling an end to recent global economic disruptions. However, the IMF noted that projected growth remains below the historical average of 3.7% from 2000–2019. It also warned against unilateral measures such as tariffs, non-tariff barriers, or subsidies, which could harm trade partners and provoke retaliatory actions. The new forecast comes just days before the inauguration of U.S. President-elect Donald Trump, who has proposed significant trade and immigration policies, including a 10% tariff on global imports, a 25% punitive duty on goods from Canada and Mexico until stricter drug and immigration controls are enacted, and a 60% tariff on Chinese goods. While rising confidence and positive sentiment in the U.S. could drive near-term demand and growth, the IMF cautioned that excessive deregulation—especially in the financial sector—could create "boom-bust dynamics" with global repercussions over the longer term. The IMF also expressed concern about potential moves by the incoming U.S. administration to deregulate digital currencies, emphasizing the importance of ensuring proper oversight of cross-border payments to prevent future systemic risks. Trade restrictions, such as tariffs, could increase costs for businesses by limiting access to essential inputs, while stricter immigration policies could create labor shortages, further driving up costs. Higher inflation, in turn, could constrain the Federal Reserve from implementing planned interest rate cuts, potentially tightening financial conditions globally. Additionally, looser fiscal policies in the U.S., driven by tax cuts and expansionary measures, may boost short-term economic activity but could necessitate larger fiscal adjustments later. Such adjustments could undermine the role of U.S. Treasuries as a global safe-haven asset and lead to fiscal vulnerabilities, the IMF warned.

Source ~ Reuters

UK to Have Third-Strongest G7 Growth in 2025, IMF Forecasts

Britain is set to have the fastest growth among major European economies this year, according to the International Monetary Fund, a boost to finance minister Rachel Reeves who is under pressure over a slowdown since her party came to power in July. The IMF on Friday raised its forecast for British growth for 2025 by 0.1 percentage points to 1.6%, making it the third-strongest among the Group of Seven advanced economies after the United States and Canada. The IMF outlook for British gross domestic product growth in 2026 remained at 1.5%, again the third-fastest in the G7 and unchanged from its October estimate. IMF Chief Economist Pierre-Olivier Gourinchas said the “modest” growth upgrade reflected a net positive impact from Reeves’ first budget on Oct. 30 - as greater public investment would outweigh headwinds created by higher taxes - as well as rising household incomes and Bank of England rate cuts. The BoE was likely to cut rates around once per quarter in 2025, he added. Responding to the upgrade for 2025, Reeves said she would “go further and faster” to deliver economic growth. The Bank of England forecast growth of 1.5% in 2025, partly reflecting a short-term boost to the economy from a temporary increase in public spending announced by Reeves on Oct. 30. Last month, the Organisation for Economic Cooperation and Development also raised its forecast for British economic growth to 1.7% from 1.2% previously. However, Reeves’ spending plans are based on forecasts from the government’s Office for Budget Responsibility which pencilled in growth of 2% for 2025 and 1.8% for 2026. British government 30-year borrowing costs hit their highest since 1998 on Monday - the biggest losers in a global bond selloff driven by concerns about higher inflation and borrowing under the imminent presidency of Donald Trump. However, British bond prices recovered later in the week after weaker-than-expected British and U.S. inflation data and slower-than-expected GDP growth in November, the first month after Reeves set out her budget plan. Reeves - whose future has been questioned by opposition lawmakers - doubled down on her budget decisions on Friday, saying they had been made in the national interest to put public finances back on “a firm footing”. Britain’s economy stagnated in the third quarter of 2024, when the prospect of big tax rises in the Labour government’s budget hit companies, and the BoE estimates there was zero growth in the final quarter of 2024 too.

Source ~ Reuters

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