GOJ UPDATE

Adrian A. Stokes
IMF Program: What Should You Know?

- Extended Fund Facility that runs to 2016/17
- Program aims to eliminate fiscal deficit by 2016 and reduce Debt/GDP to 96% by 2020
  - Fiscal consolidation and debt reduction
  - Structural reforms to improve economic competitiveness
  - Private/Public Partnerships
  - Strengthen social safety net
Projection: Primary Surplus

Hmmm Sustained fiscal discipline??

Scotiabank

May 2013 | GOJ MEDIUM TERM ECONOMIC PROGRAM |
Projection: Fiscal Balance

-2.0
-1.5
-1.0
-0.5
0.0
0.5
2014 2015 2016 2017

SGJ
GOJ
The Pain Gap

Economic Output Trajectory

2008 Financial Crisis

Historical Trend

Projection

May 2013 | GOJ MEDIUM TERM ECONOMIC PROGRAM |
Economy will not return to 2007 level until fiscal Y/E 2016
Macro Outlook
Real Interest Rate

Real Interest Rate on 180-day T-bill

Negative real returns persist amid rising inflation and relatively low interest rates.

Source: SJIL, STATIN, BOJ
Interest Rates & Inflation

- **J$ Short Term Rates**
  - BOJ will remain accommodative for the foreseeable future
  - Economy still very weak
  - Second round inflation pass through low
- **J$ Long Term Rates** ~expected future short rates
  - Driven by solvency concerns: sustainability of fiscal program
- **Inflation**: we expect inflation to range between 8%-10% for the current fiscal
Monthly Exchange Rate Movement

CYTD deprec: 6.54%
MTD: -0.29%

JAD/USD (% Change)

- Apr-13: 0.47%
- Mar-13: 1.83%
- Feb-13: 3.15%
- Jan-13: 1.25%
- Dec-12: 1.18%
- Nov-12: 0.88%
- Oct-12: 1.29%
- Sep-12: 0.12%
- Aug-12: 0.14%
- Jul-12: 0.65%
- Jun-12: 0.89%
- May-12: 0.05%
- Apr-12: 0.00%
- Mar-13: 0.50%
- Feb-13: 1.00%
- Jan-13: 1.50%
- Dec-12: 2.00%
- Nov-12: 2.50%
- Oct-12: 3.00%
- Sep-12: 3.50%

Source: BOJ, SUL
Real Exchange Rate

Dec 2006=100


Source: SIJL's Portfolio Advisory Group
## Credit Rating

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>FY 2013/14</th>
<th>FY 2014/15</th>
<th>FY 2015/16</th>
<th>FY 2016/17</th>
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<tbody>
<tr>
<td><strong>Best</strong></td>
<td></td>
<td>B/Stable</td>
<td>B/Stable</td>
<td>BB+/Stable</td>
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<td><strong>Modal</strong></td>
<td>CCC+/Stable</td>
<td>CCC+/Stable</td>
<td>B-/Stable</td>
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<td>B/Stable</td>
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<tr>
<td><strong>Worst</strong></td>
<td>CCC+/Negative</td>
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</tr>
</tbody>
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Structural Reform Measures

• Secured Transactions Framework to facilitate improved access to credit
• Insolvency Act
• Establish flexible work arrangements by the end of FY 2013/14
• Streamline the Business registration process through the use of a multi-purpose registration instrument
• M-Commerce
• Increase MSME-financing wholesaled through the DBJ
• Far Reaching Tax Reforms
• Labour Market Reform – flexible work arrangements by end of FY13/14
What You Need to Know

- Program is **difficult** but not **crazy**
- Important risks:
  - Execution (Project management and political)
  - Shocks (economic and weather)
- Government has more work to do on increasing revenue and/or cutting expenditure
- Unemployment is likely to remain high over the life of the program
- Far reaching structural reforms that will improve the ease of doing business