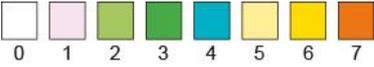


Jamaica

	<p>COUNTRY RISK CATEGORY</p> <h2>7/7</h2> <p>The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.</p> 	<p>EKN'S POLICY</p> <p>Sovereign risks: No transfer risks are covered.</p> <p>Other public risks: No transfer risks are covered.</p> <p>Bank risks: Restrictive risk assessment.</p> <p>Corporate risks: Restrictive risk assessment.</p>
	<p>EKN'S OUTSTANDING GUARANTEES IN THE COUNTRY</p> <p>Short-term transactions: SEK 0 million</p> <p>Medium and long-term transactions: SEK 7.4 million</p>	<p>See "EKN'S POLICY" section</p> <p>DATE 21/02/2013</p>

Debt burden hampering economic development

Jamaica is essentially a stable country with democratic traditions and a well-developed institutional framework. However, the Jamaican economy has been stagnating for a long period and public debt has reached a level that is difficult to handle. As over half of government revenue goes to interest payments, investments have failed to materialise and the growth rate has been slow. In addition, the external balance has deteriorated and international reserves have declined, which results in a risk of sharp currency movements. Long-term debt relief is needed, but is being resisted in a country that is concerned about its credit rating. A limited debt renegotiation and an IMF agreement is imminent, but this will probably not be enough to get the economy back on its feet.

STRENGTHS

- The Jamaican government has a long history of managing its external commitments
- Relatively strong institutional framework
- Political stability
- Well-developed domestic capital markets

WEAKNESSES

- Very high public debt burden that is inhibiting growth
- Protracted negotiations for a new IMF agreement has contributed to a loss of confidence
- External imbalances and declining international reserves
- High crime rate

POLITICS

Stable democracy but with problems of violence

Since independence in 1962, political power in Jamaica has alternated between the social democratic party PNP and the more right-wing JPL. Although the democratic process has certain deficiencies and voter turnout is low, elections are conducted in an orderly manner and are considered to be free and transparent by international observers. The institutional framework is relatively strong and the well-developed administration has historically demonstrated a good ability to deal with instability.

After the election in December 2011, Portia Simpson Miller of the PNP took office as Prime Minister, supported by an overwhelming majority in the Parliament. She is regarded as influential outside of Jamaica and has expressed her desire to transform the country into a republic, and to reduce widespread homophobia. However, the country's economy will be at the top of the agenda. In the election campaign, she promised to focus on taking the country out of the debt trap, encourage foreign investment and reduce unemployment. Some initiatives have indeed begun, but the chances of achieving effective results are severely constrained by the precarious economic situation. Her first year as Prime Minister was marked by protracted negotiations on a new IMF agreement. As a new agreement is imminent, the major political challenge in the future is expected to be in the implementation of the drastic measures that this will entail. Simpson Miller's popularity and long political experience are factors that can help alleviate this difficult task.

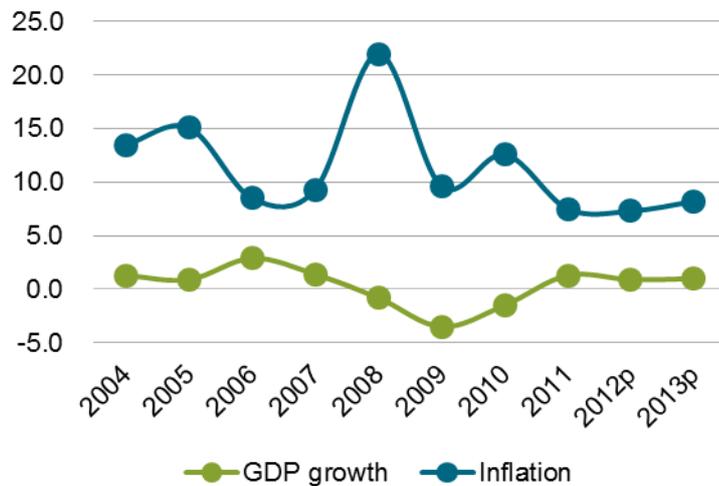
One problem with a political dimension is the extensive violence. The number of murders per capita has declined in recent years, although it still remains among the highest in the world. The violence originates from many parts of society, a substantial part is gang-related, another part is carried out by the police and military, while another part has political connotations and has increased at election times. Moreover, Jamaica's geographical position between the US and the drug-producing countries in Latin America has led to the rise in crime linked to drug trafficking. High unemployment among young people along with poverty and misery in the slums is a breeding ground for violence, which is not expected to decrease in the short term.

ECONOMY

Historically low growth and weak outlook

The country's economic situation has been hit hard by austerity over recent decades. Unlike in many other countries in the region, the income per capita today is the same as it was at the beginning of the 1990s. Growth outlook is the weakest in Latin America and the Caribbean, and is hampered principally by the large public debt burden. For many years around half of government revenue has gone to interest payments, which for a poor country like Jamaica has meant that a lot of much-needed investment has failed to materialise.

GDP GROWTH AND INFLATION (%)



The past decade has been characterised by low growth and fluctuating inflation (IMF WEO).

The economy is based on revenues from tourism, bauxite-mining, basic manufacturing and agriculture. All sectors are dependent on international developments, particularly in the US, and have been severely impacted by the global economic slowdown. Moreover, the country is prone to recurrent hurricanes that cause structural damage. The latest occurrence was in October 2012 when the Sandy hurricane caused damage to the local economy, reduced tourism and destroyed export-related infrastructure. An economic upswing in the US is however expected to have a positive impact on the Jamaican economy.

In addition to the dependence on a limited number of sources of income, the economic structure is also weak in that productivity is low and the informal sector is large. The tax base is small and tax exemptions are not uncommon. Both the number of employees and salaries in the public sector are oversized. Reduced labour costs was an important criterion in the previous IMF program, but the government of the time did not fulfil this. This was one of the reasons why a large part of the planned IMF loans were never forthcoming. Looking ahead, wage cuts are expected to be a priority, but could be difficult to achieve given the large influence of trade unions and the ruling party PNP's traditional support among government officials.

Moreover, Jamaica's economic situation has deteriorated since the last IMF agreement expired in May 2012. The absence of an IMF programme has restricted the possibilities of multilateral financing and reduced confidence in the country's ability to pay, with the risk of an exodus of capital as a consequence. If no agreement is reached, the risk of payment default is high, while a new agreement would mean significant austerity measures and sacrifices from the general population. The protracted negotiations on a new IMF agreement have therefore overshadowed most of the economic and political debate, and indicate that it would be difficult to achieve a long-term credible economic plan for the country. An agreement with the IMF is likely, however, because there really is no other option. The country has a long tradition of compliance with the rules of the international financial market.

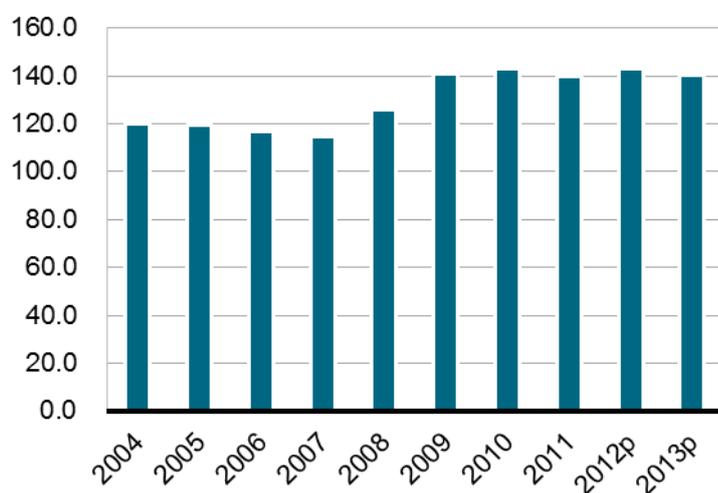
In February 2013 the IMF and Simpson Miller announced that an agreement is imminent, providing that Jamaica satisfies a number of criteria. In addition to reduced payments in the public sector, a tax reform is a key element. A debt exchange was also announced which means that domestic investors will be persuaded to exchange existing bonds for new ones with lower interest rates and longer repayment terms, which could eventually reduce the debt. The IMF loans announced are considerably less than the country's previous programs and are distributed over a longer time. In combination with a high debt burden and austerity measures, low growth can therefore be expected even with an IMF agreement.

BALANCE OF PAYMENTS AND DEBT ISSUES

High public debt levels and a risk of exodus of capital

The Jamaican economy has been characterised by rising public debt for many years. In order to deal with the escalating debt levels, the Government implemented a debt exchange programme in 2010 that included domestic bondholders. Participation was at a record high of 99.2 percent, and nearly half of the public debt was affected. No direct write-down was carried out, but through extended repayment periods and lower interest rates the present value of the renegotiated debt decreased by 15-20 percent. However, the reprieve was short-lived and debt levels soon began to rise again. In early 2013 the national debt had risen to more than 140 percent of GDP, which makes Jamaica one of the countries in the world with the highest public debt.

PUBLIC DEBT (% OF GDP)



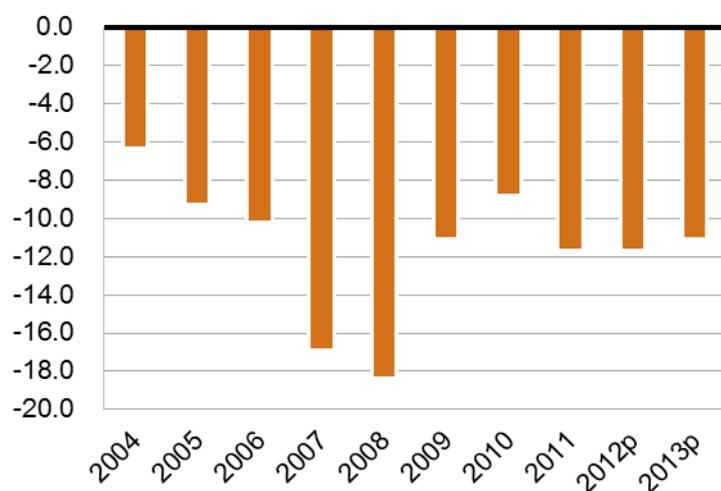
Public debt has long been at a fundamentally unmanageable level (IMF WEO).

Speculation about further debt renegotiations have led to the state's borrowing costs rising on international capital markets and to domestic investors to a greater extent requesting government securities with short maturities. The debt exchange programme that the government announced in February 2013 may possibly contribute to increased stability. Like the previous time, only domestic bondholders are affected, and only through renegotiation of interest rates and other conditions. The choice of including only domestic investors is a clear sign of the extremely strong desire to maintain good relations with international capital markets. The debt exchange programme and fiscal policy measures are designed to achieve a

debt level of 95 percent of GDP in 2020, but the prospects of achieving this are doubtful. Unless measures have the desired effect, further renegotiations may be considered, which could also include external lenders.

The external debt is also disturbingly high, with a level close to 100 percent of GDP and the trend is upwards. Since 2008, when the global economy slowed down, but oil prices remained high, the current account deficit has fallen slightly, but is still not at a sustainable level given the limited inflow of capital. This has led to both an increase in external debt and a rapid decline in international reserves.

CURRENT ACCOUNT BALANCE (% OF GDP)



The current account deficit is large and increases as the oil price rises (IMF WEO).

CURRENCY POLICY

Declining international reserves

Jamaica applies a “managed float”, which means that the central bank intervenes in order to influence the exchange rate and increase stability. The exchange rate has been relatively stable against the dollar, but has depreciated since 2010. However, the depreciation would have been much more pronounced had the currency floated freely. A sharp real appreciation has consequently taken place, which has contributed to a fall in competitiveness. Although a sharp depreciation would improve the situation, the authorities are trying their best to avoid it. As more than half of government bonds are denominated in foreign currency, this could result in a significant increase in debt levels. In early 2011, international reserves were sizeable by international standards, but they have since declined at an accelerating rate. In 2012, international reserves fell by almost 50 percent. In early 2013, international reserves covered three months of imports, which can be seen as the minimum level. A new IMF agreement would contribute to more confidence in the currency, but any fears of payment default would increase the risk of a substantial drain on foreign exchanges.

FINANCIAL SECTOR

Weak public finances threaten the financial system

The banking system has proven to be resilient in the context of international financial crises and the debt exchange in 2010. No financial institution then needed to seek support from the Financial System Support Fund that was established in cooperation with the IMF. At an aggregate level, the banks are well capitalised and have good profitability. The proportion of nonperforming loans has grown from three to nine percent between 2008 and 2011, but this is not currently considered to pose a systemic risk.

Despite this, risk in the financial system is high. The problems overshadowing everything else are related to the financial position of the Jamaican government. First and foremost, the exposure to the public sector is high; the domestic financial sector accounts for 44 percent of the public debt, which represents 62 percent of GDP. The assets of commercial banks comprise 23 percent of government securities and loans to the public sector. Moreover, a third of the loans in the banking system are denominated in foreign currencies, which means an additional risk factor in a country with Jamaica's external exposure. For debt restructuring or further depreciation, neither payment defaults nor banks becoming insolvent can be excluded. The government has previously demonstrated a strong propensity to support the banks, but because of the weak public finances, the likelihood of state aid has fallen sharply.

The two largest banks have a combined market share of over 70 percent. Banks fund themselves mainly through deposits, which until now have been a relatively stable source of funding but pose a risk if distrust increases and could lead to a run on the banks. Domestic capital markets are relatively well developed, although the government financing needs have led to public sector loans dominating the credit market. The market for the private sector is less developed and therefore more expensive. The possibilities of obtaining credit information have long been poor but is under improvement. The regulatory environment is relatively weak, but experience from past financial crises shows that the regulating authority and the policy makers have taken appropriate measures to prevent and forestall any collapse of the financial system. Transparency is adequate and there is a requirement for financial institutions to publish audited financial statements in accordance with IFRS standards within three months after the period of closure.

BUSINESS ENVIRONMENT

Relatively favourable business environment

In relation to Jamaica's country risk category, the business environment is relatively favourable. The World Bank's Doing Business ranking for 2013 places the country at number 90 of 185, better than most countries with a similar country risk category and better than all the BRIC countries for example. Of special interest is the relatively uncomplicated bureaucracy that makes it easier for companies and investors to establish themselves.

However, storm clouds and obstacles to investment remain on the horizon. What is particularly ominous is that the ranking has been gradually deteriorating since 2006, when the country was placed as number 43 of 155. Inefficiencies in the judicial system and the tax system are factors that are pulling the ranking down. In addition, the high level of crime and

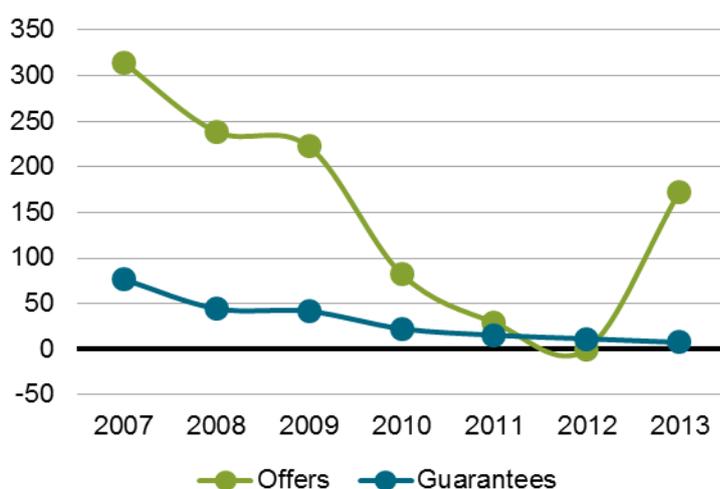
violence is impairing the ability to conduct business, and is contributing to an overload of the justice system. Corruption levels have generally improved gradually over the past decade, but are still having a negative impact on the business environment. Overall, the business climate is acceptable, but there are still structural problems that are preventing the growth that the country needs.

EKN'S EXPOSURE

Limited exposure

EKN has long experience in export deals to Jamaica, but the exposure has shifted significantly over time and at the beginning of 2013 was about SEK 178 million. The vast majority of this is made up of offers. The remainder, guarantees of over SEK 7 million, consists of two transactions with the Ministry of Finance. Since 2007, EKN has primarily approved guarantees in transactions with a risk period of one year or less. In terms of volume, the construction and transport sectors dominate, while there is a greater flow of transactions in other industries.

OFFERS & GUARANTEES AT JANUARY 1, SEK MILLION



EKN's offers have varied significantly over time, while the guarantees have been gradually declining since 2007 (EKN).

PAYMENT EXPERIENCE

Historically strong willingness to pay

The Jamaican government has a long history of managing its payments abroad despite a difficult financial situation. The state is concerned about its credit rating and on maintaining good relations with the international capital markets. This includes, for example, payments to foreign creditors being made as planned, even when domestic debts have been renegotiated. The willingness to pay externally is strong. EKN's experience in both the private and public sectors is generally positive. Other export credit agencies in the OECD also report good payment experiences.

EKN'S POLICY

Gradual tightening up of EKN's policy

Over the last decade, EKN has gradually increased the country risk category and the policy for the issuing of guarantees with Jamaican risk objects. After consultation with other export credit agencies in the OECD, Jamaica was placed in the highest country risk category, 7, in June 2012. Because of the country's public finance problems EKN decided in February 2013 that, in normal cases, not to issue guarantees in transactions where the risk is on the state or on other public purchasers. For transactions with private companies and banks, EKN will make a restrictive risk assessment putting particular emphasis on the debtor being able to handle sharp exchange rate fluctuations. In transactions where the risk is placed on a bank, the exposure to the public sector is also a reason for particular restrictiveness.

OFFICIAL COUNTRY DATA AND CREDIT RATINGS

OFFICIAL COUNTRY DATA	CREDIT RATING	
Area: 10,991 km ² (Sweden: 450,295 km ²)		
Population: 2.7 million (2011)		
Population growth: 0.7 % (2012)		
GDP: USD 14 billion in 2010 (Sweden: USD 458 billion in 2010)		
GDP/capita: USD 5,473 in 2011 (Sweden USD 58,228 in 2011)		
	COUNTRY CEILING	SOVEREIGN RATING
	Moody's: Ba3	B3
	S&P: B	SD
	Fitch: B-	C

COUNTRY ANALYST

EKN's country analyst for Jamaica:

Charlotte Svensson

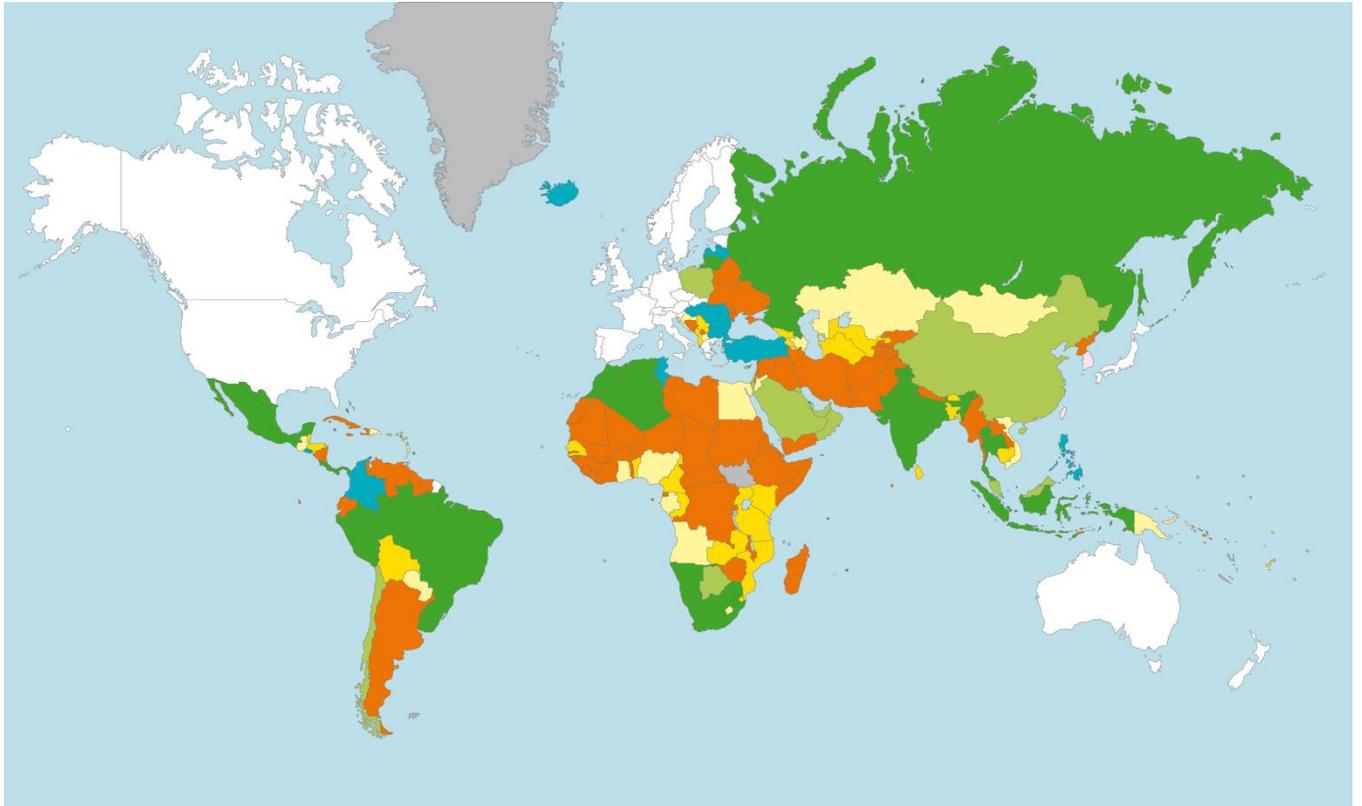
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DISCLAIMER

The country risk analysis is based on a range of sources and reflects information that is relevant to EKN at the time of publication. Analyses, assessments and conclusions reflect EKN's perception of the development in the country. The responsibility for how the information is used or interpreted rests solely with the user, and EKN cannot be held responsible for any loss or damages. Feel free to quote the report, but then specify EKN as the source.

EKN'S VIEW OF THE WORLD



The country risk categories range from 0 to 7.

The lower the number the better the credit rating the country has.



EKN – CREATING CONFIDENCE IN YOUR EXPORTS

EKN is a government agency that supports Swedish exports and the internationalisation of Swedish industry. This we do by offering exporting companies and banks guarantees for payment and financing, together with advice on business structure and risk management. Our services provide an extra level of confidence, increased competitiveness and more opportunities for successful export transactions.

The Swedish Export Credits Guarantee Board

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