THE PRIVATE SECTOR ORGANISATION OF JAMAICA

PSOJ

Monthly Economic Bulletin

Inside This Issue

April 25, 2014 **March 2014 Issue**

The CEO'S Remarks

Having come to the end of the main budget presentations for fiscal year 2014/15, it is appropriate for us to now take a look at what is to be expected in the coming year. No doubt the sectoral presentations (which many persons forget are a part of the budget process), will take on even more meaning this year because this time much of the future prospects for the economy depends on the plans to be implemented at the sectoral levels. This is because in the past growth came primarily from government spending and loans; in this new dispensation, growth now depends on what happens in the private sector, and this depends significantly on the sectoral developments.It is clear from the budget that government expenditure will no longer drive growth, and there is a great reliance on private sector led growth.

Many have said that it is the private sector which must lead the growth initiative, as if to say the private sector has the responsibility to ensure that growth happens. Nothing could be further from the truth, as the role of the private sector is to maximize business growth, and this will no doubt reflect in overall economic growth once the environment is supportive of this.

It is within this context that we must analyse the budget presentations, and also assess the structural changes under the IMF programme. In other words, are the policies that are being put in place ones that will encourage private sector investments and economic activity. Secondly, are these policies likely to provide the economy with the greatest level of returns, both to private and public interest.

The first thing we can say is that the recent business confidence numbers (for first quarter 2014) reveal that confidence is returning to the private sector, with most persons interviewed expecting profits to increase by around 15 percent. Businesses are feeling slightly better about the prospects of the country, and this was reflected in a 20 percent increase in the confidence index, even though it is important to note that the confidence index still has a far way to go before returns to previous highs.

This confidence is also supported by the fact that the most recent unemployment numbers show that unemployment has decreased from 14.5% to 13.5%, which is not a huge fall but shows that confidence is returning and is trending in the right direction.

We have, however, in the past seen these positive trends that have not resulted in the sustainable development needed, so why is it different this time.

It is a fact that these positive trends are supported by slight improvements in; the balance of payments, the fiscal deficit position, the debt / GDP ratio, and from where we sit at the PSOJ we are seeing many young persons getting into entrepreneurship using local produce to create innovative products.

It is against this background that we must also emphasize how important it is to continue the support for legislative and fiscal reforms, and to also ensure that the bureaucratic inhibitors are removed so that both public and private businesses can operate more efficiently. Improving the current system requires the development of the approval process, the TCC process, the business formation process and the application of technological solutions will reduce the bureaucracy . Improvements in the public transportation system and the creation of a crime free society fundamental building blocks hat are required to promote business confidence that will pull the economy out of this recession .

The important thing to do now is to create an environment in which businesses and individuals will become more productive, and globally competitive.

The information in this bulletin points to many improvements in some macroeconomic indicators, but the local currency continues to slide, interest rates are trending upwards and the IMF tells us we need to become competitive. Embedded in these problems are productivity issues and a crippling bureaucracy that remains a big inhibitor to businesses. The PSOJ's Economic Policy Committee recognizes this and hence the elimination of bureaucracy and SME development remains two of the fundamental pillars of our agenda.

Economic Highlights March 2014

Global economic recovery continues, albeit under moderated growth forecast for the world economy, which is expected to grow at 3.6% and 3.9% in 2014 and 2015 respectively. Concerns deepen for Latin America and the Caribbean countries which had the largest downward revision for growth and is expected to grow at 2.5% and 3.0% 2014 and 2015.

While global food prices rose, fuel prices fell during March. The IMF's Food and Beverage Index increased by 7.2% while its Fuel Energy Index declined by 1.7% . These price changes will impact both global and local inflation in the near future. In addition, these changes are likely to impact the volume of domestic exports and the cost of imports.

The GOJ has designed a budget in which lower expenditure is projected for the fiscal year. Concerns deepen as to the degree to which this may reduce economic growth and compromise future revenue targets. New revenue measure will cost the public J$6.7 billion more, in nominal terms. There has been significant push back on the tax package..

March 2014 inflation of 1.1% is significantly higher than February 2014 but remains within the normal seasonal range. Point to point inflation at end March was 8.3% while the calendar year to date is 1.7%. This is due mainly to increases in food and beverages of 0.4% and Housing, Electricity, Water and Gas and other fuels of 4.3%

Significant exchange rate depreciation took place in March. The Jamaica Dollar lost 1.1% of its value to the US Dollar and closed at J$109.57 to US$1. It also lost 0.9% of its value to the CAD and closed March at J$98.93 to CAD$1. The Dollar gained relative to the GBP by 0.4% and closed the month at J$181.77 to one GBP.

Benchmark interest rates rose on GOJ 30-day, 90-day and 180-day T-bills by 25 bps, 27 bps and 33 bps respectively. Rates on domestic currency loans increased in March by 1.12% while data as at February indicates that foreign currency loan rates fell by 0.03%.

The Net International Reserves (NIR) increased in March by US$234.67 million. At end March, the stock of NIR at the BOJ was US$ 1,303.62 million. The stock of gross reserves was US$1, 817.6 million. The reserves for the month was sufficient to finance 19.45 weeks of goods imports, a significant improvement relative to the international standard of 12 weeks.

The Monetary Base contracted in March by J$239 million (0.3%). Data for the previous month showed that money supply (M2) increased by J$4.5 billion or 1.71%. The ratio of foreign currency deposits to total deposits also increased in March. At the end of March the ratio stood at 43.2%.

Remittance inflows continued to increase in January. Net remittance flows for the month amounted to US$137.9 million, this represents an increase of US$8.0 million or 6.2% when compared to the corresponding period last year.

Jamaica's Current Account deficit improved by approximately US$17.5 million or 4% in the last quarter of 2013. the improvement was due mainly to a US$90 million (17.32%) increase in the country's Current Transfer account in 2013 relative to the same period in 2012. The improvement in the Current Transfers Account was due mainly to a US$52.6 million increase in the Official Transfer account and also to a US$37.7 million increase in the Private Transfers account. In spite of this positive development in the Current Transfers account, the overall current account had a deficit of US$420.3 million. At the same time last year the deficit was US$437.9 million, which shows a slight improvement year over year. The most significant factor contributing to this deficit is the large imbalance (US$1061.8 million) between Jamaica's exports and its imports. The country was better of last year this same time by importing US$64.9 million less, which is due mainly to fluctuations in oil related imports.

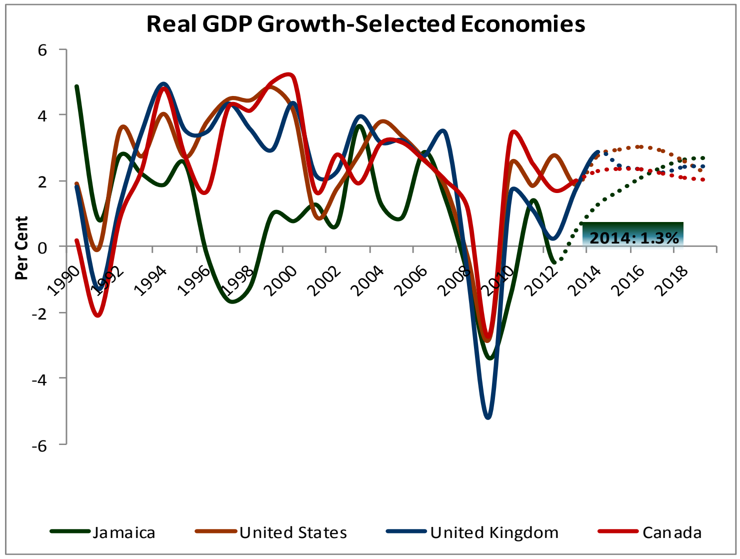
The production and export of alumina in Jamaica increased in March 2014 by 16,593 tonnes (12.02%) and 38,421 tonnes relative to March 2013. Bauxite production and exports also increased by 12,224 tonnnes (2.65%) over March 2013. Year to date, both the production and exports of alumina increased by 11.45% and 7.49% respectively. The year to date production and export of bauxite fell by 6.21% and 5.5% respectively.

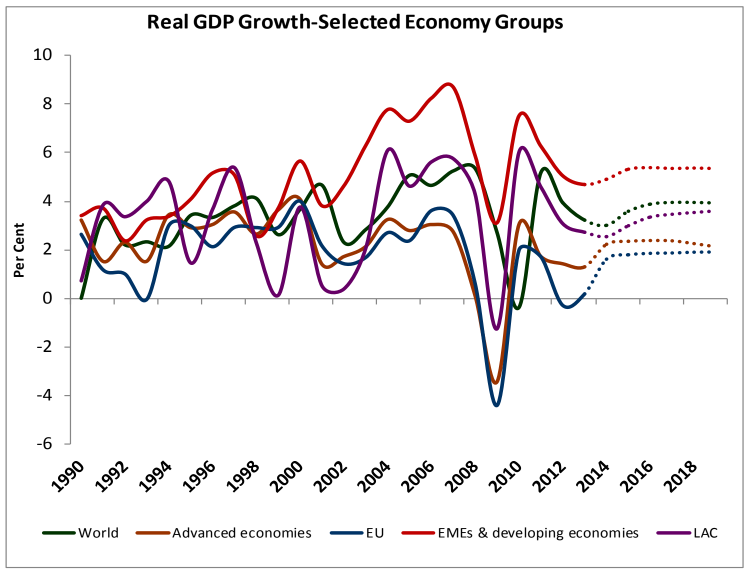
Global Outlook

The projected global economic and financial recovery has far reaching implications not just for Emerging Market Economies, but more so for highly indebted and low growth economies such as Jamaica. Global growth is critical because it pulls local growth in Jamaica and raises the fiscal dividend for the government. For Jamaica, global growth, and in particularly growth for the major trading partners is desirable because the fundamental engineering of the current IMF programme requires higher growth and a sustainable revenue flow. In this light the current world economic outlook from the IMF is positive news even in the presence of the revised lower targets for Emerging Market Economies and Latin America and the Caribbean.

The International Monetary Fund, in its April 2014 World Economic Outlook, revised the projected growth rates for the world economy for 2014 and 2015 from 3.7% and 4.0% to 3.6% and 3.9%, respectively. The IMF is of the view that the growth in the world economies is likely to be uneven and that there are still downside risks to growth in some economies. The projected growth rate for the advanced economies including the United States, Canada and the United Kingdom is unchanged at 2.2% for 2014 and 2.3% for 2015. Inflation for these advanced economies has been revised downwards to 1.5% and 1.6% for 2014 and 2015, in light of projected lower commodity prices.

Output growth in Emerging Market Economies (EME) has also been revised downwards, but is still expected to be much higher than those of the more developed economies for 2014 and 2015. The revised average growth rate of output for EMEs is projected to be 4.9% and 5.3% for 2014 and 2015, respectively. China is still projected to the lead economic growth with rates of 7.5% and 7.3% for 2014 and 2015, respectively. Inflation rates for the EMEs have also been revised downwards. The projection is for inflation of 5.5% and 5.2% for 2014 and 2015, respectively.





..... *Projections; Source-IMF World Economic Outlook Database*

The projection for growth for Latin America and the Caribbean has been revised downwards for 2014 and 2015 by 0.4% and 0.3%, respectively. These countries are however, expected to grow faster than the developed economies but slower than the EMEs. Latin America and the Caribbean are expected to grow at 2.5% and 3% for 2014 and 2015, respectively. This revision of the projected growth rates is a worrying sign for many countries within the region. This is especially so for Jamaica that has lagged the region for many years in many of the important ingredients necessary for growth.

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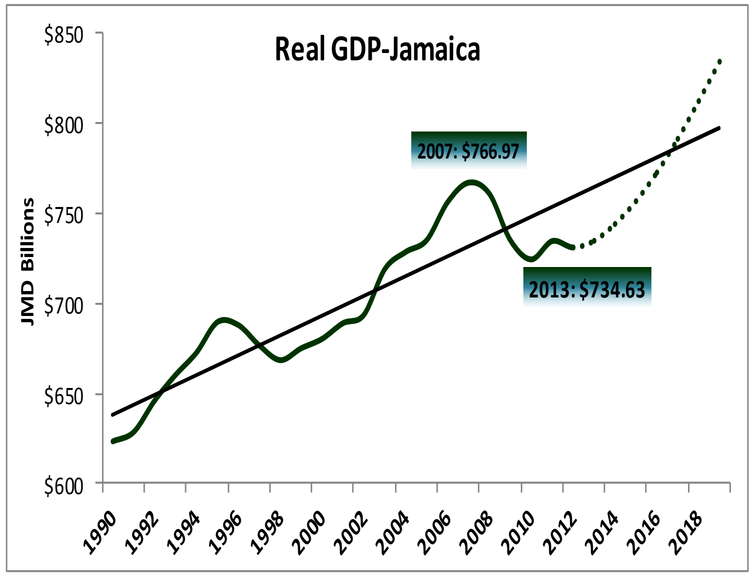
Global Outlook: Domestic Introspection

The IMF asserts that there continues to be a significant output gap in many of the world economies and therefore recommends continued accommodative policy for many of these countries. That is, continued liquidity support to lower interest rates and stimulate investment. The IMF sees a troubling trend for the EMEs; this is the slowing down or reversal of foreign direct investment, which is usually a critical component of economic growth for these countries.

The financial conditions in EMEs remain tight and as such an increase in capital cost is expected. In addition, both inflation and exchange rate risks remains high. In this case, the IMF is concerned about the lower than forecasted inflation rates which implies lower than expected local demand for goods and services, a precursor that the recessionary conditions may be far from abating in these countries.



····· *Projections; Source-IMF World Economic Outlook Database*

For Jamaica, the post-recession output gap is a problem, worth serious consideration. Inability to close this gap will seriously compromise the structural integrity of the current IMF programme which requires real growth in output of between 1.28% to 2.7% over the next four years. Prior to the last recession of 2008, Jamaica grew at an average of 1.62% (2000-2007). The value of real output in 2007 was J$766.97 billion, in 2013 the real value declined to J$734.63 billion (4.2%). The IMF projects that the country will close this gap somewhere in 2018 by growing at an average rate of approximately 2.03%.

The question is, will this gap be closed, and will Jamaica meet the required growth rate? Are these projections by the IMF overly optimistic? A good place to start the analysis is to examine the projected growth rates of the United States, Canada and Europe. Historically, Jamaica grew on average about 41.3% of the real growth of the US economy. So a more realistic annual growth rate for Jamaica over the next four years is just about 1.13% on average. However, Jamaica has grown faster than the US in the past so a more overly optimistic growth figure for Jamaica is between 1.3% to 3.5% over the next four years. This last scenario though probable, is the least likely since the level of productivity in the in the economy is generally low. For growth of 1.5% to 3.5% to occur, Jamaica would need significant boost in investment, remittance flows, tourist arrivals and greater levels of bauxite and alumina production. While the boost in these factors are possible ways of closing the gap other possible sustainable alternatives may exist.

Closing this current output gap and growing on a sustainable long term basis really requires a strategy to significantly improve Jamaica's level of productivity and international competitiveness. Contrary to popular belief that such a strategy requires massive amounts of government expenditure. To grow and develop Jamaica must begin by using its current resources in the most efficient manner possible (increase productivity), and what this requires is more productive expenditure on education, tourism security and justice.

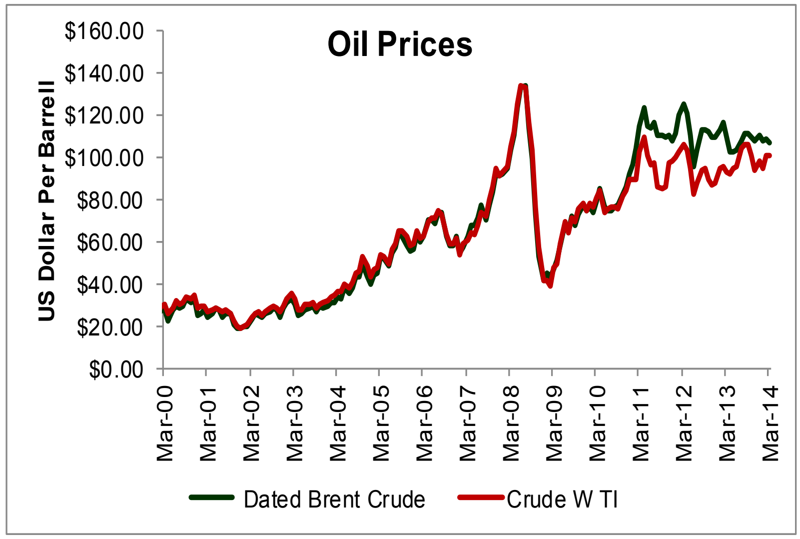
International Commodity Prices

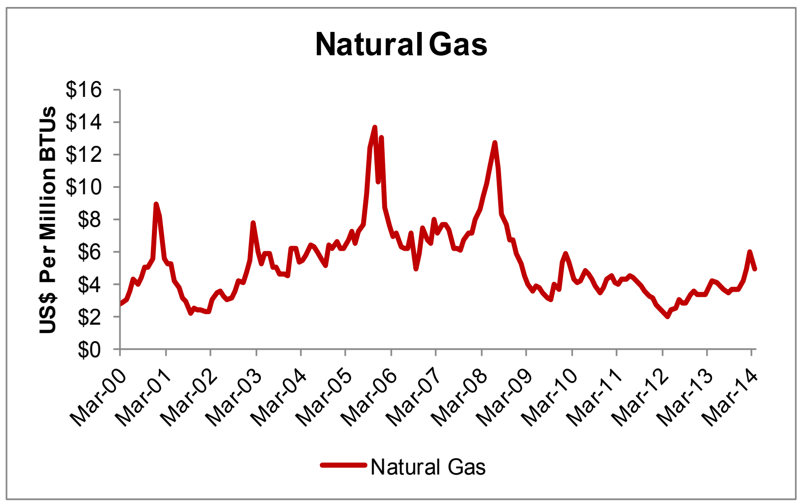
Crude Oil Prices

Both selected crude oil benchmark indices, the European Brent and the West Texas International suffered declines for the month of March 2014. The indices declined by US$1.41 (1.29%) and US$0.13 (0.13%). The benchmark indices closed in March at US$107.41 and US$100.57 per barrel respectively. In February 2014, the two indices recorded price increases of 1.15% and 6.01% respectively, relative to January 2014. For January 2014 relative to December 2013, they recorded reductions of 2.77% and 2.97% respectively.

Oil price forecast for 2014 and 2015 are conditional on important drivers such as weather, demand and supply conditions and international political development such as those in Ukraine. The usual cyclical movements in crude oil prices, retail gas and energy cost over the course of the year are expected.

Cooler than expected weather, and transportation glitches in the United States have resulted in relatively higher than forecasted prices. Prices are however expected to fall during the remainder of the year. In Europe, a similar pattern is expected and prices are expected to decline at the end of 2014. However, an important variable to monitor is the growth in the world economy, which may cause demand for energy to increase more than expected and hence cause oil prices to move beyond forecast. The United States Energy Information Administration forecast is for prices per barrel to remain below US$120, averaging US$100 for 2014.





Natural Gas

Natural gas prices fell in March by US$1.10 (18.33%) to end the month at US$4.88 per thousand cubic meters. Gas prices have been very volatile over the last three years. Over the three year period, beginning March 2012, prices moved by -46%, 76% and 28%, per year. The American Energy Association forecast is for prices to increase in 2014 over 2013 and maintain this trajectory over the short term. The increase in price is expected to be driven by faster growth in consumption in the industrial and electric power sectors and later by growing demand for export at LNG facilities. This especially, as more persons move away from fossil fuels and seek cleaner energy alternatives.

International Commodity Prices

March 2014 Issue

Wheat

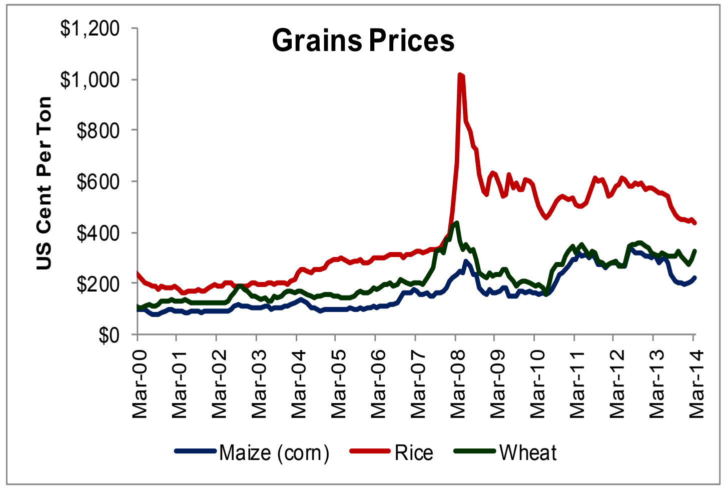
In March 2014, wheat prices rose by US$31.29 (10.1%) and settled at US$323.55 per tonne when compared to February 2014. Relative to March 2013, prices have increased by 4%. Annually, for prices moved by –10% and 9% for 2012 and 2013, respectively. Oil price movement and weather conditions will continue to play a significant role in prices over the next 12 months. Experts forecast a tighter supply of wheat for 2014, which is expected to result in higher prices. However, developments in Ukraine are expected to temper prices for US market. In addition rainfall experienced in March may significantly improve crop yields in other competing commodities which are already impacting current wheat prices in the United States.

Rice

Relative to February 2014, prices in March fell by US$11.75 (2.63%). In this context, rice prices declined from US$564.52 to US$435.25 (23%) per tonne between March 2013 and March 2014. This reduction follows eleven (11) months of decline. Prices increased in only two (2) months of the review period, December 2013 and February 2014. Experts believe that international rice prices will continue to remain low this year. There are a number of supply side and political factors that continue to influence prices. Higher than normal inventory levels, import duties in many of the major importing countries and over production in 2013 are just some of these factors. The Food and Agricultural Organization (FAO) forecast for 2014 into 2015 are for rice utilization, rice stock and rice production to increase and as such, prices are expected to decline over the same period.

Corn

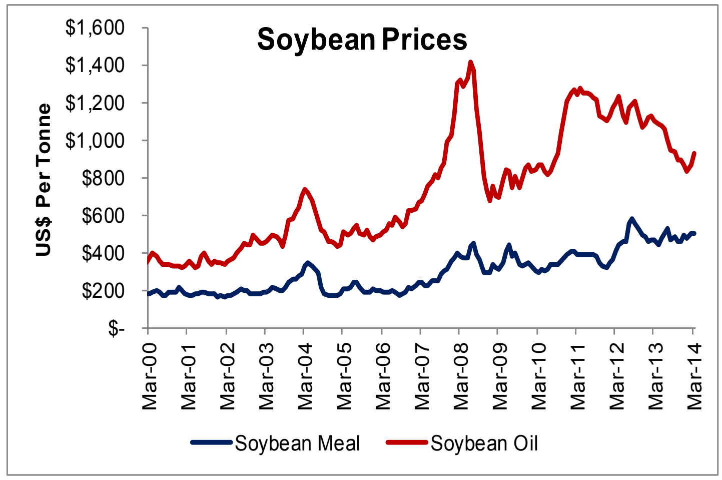
In March 2014, corn prices increased for the third consecutive month. Despite this, prices have been volatile since November 2006 and are expected to remain on this



Prices increased in March 2014 by US$13.01 (6.21%) and closed the month at US$222.33 per tonnne. Between March 2013 and March 2014 prices fell by 28%. However, between March 2012 and March 2013 prices increased by 10%. The stability of corn prices will be conditional on good weather conditions, oil price movements and the political environment in Ukraine that accounts for 16% of global export market. Already, cold weather conditions are impacting planting acres in the US and hence corn futures have been increasing. Fertilizer prices are expected to decline, which should temper prices over the course of the year. The most significant driver of corn prices is crude oil prices which are expected to increase in the first half of 2014, then decline in the latter half. Experts predict that supplies will continue to increase given inventory levels and the size of acres under cultivation.

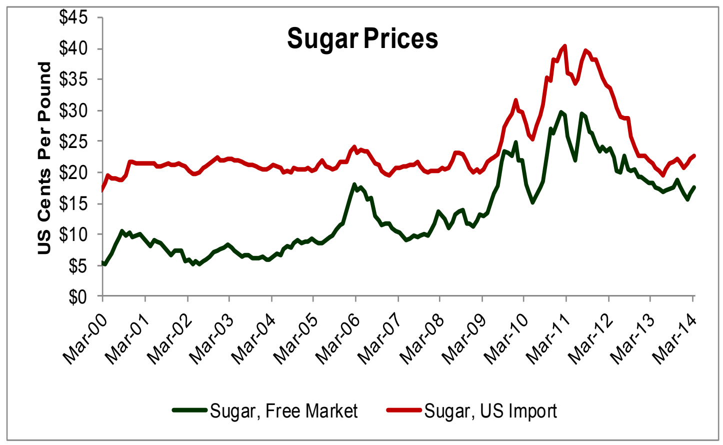
Soybean

Prices for both soybean meal and soybean oil increased in March 2014 by US$7.33 (1.47%) and US$54.89 (6.27%). Prices closed the month at US$506.69 and US$928.54 per tonne, respectively. In February, prices also increased for both commodities marginally over January by 5.41% and 5.09%, respectively. For the past three consecutive years to March, soybean meal prices have increased by 3% 15% and 8% , respectively. In contrast, the price of soybean oil price have fallen for the past three consecutive years to March 2014 by 4%, 8% and 16%, respectively. Crude oil price movements are expected to impact both soybean meal and soybean oil prices. Experts predict a moderate to neutral market for 2014.



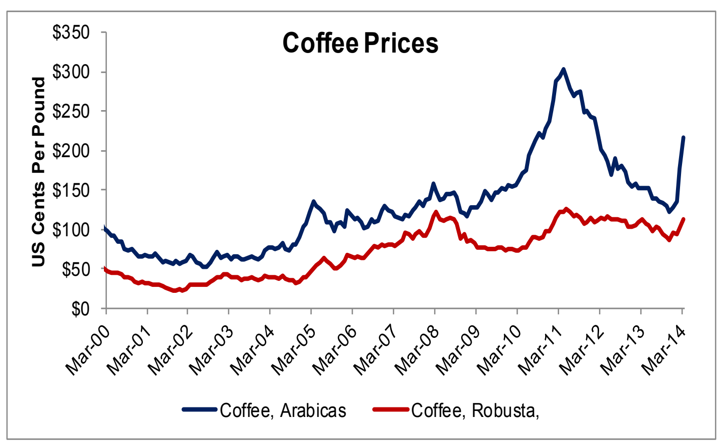
Sugar Prices

Sugar prices increased in March for both the Free Market Index and the US Import index by approximately one cent (5.6%) and 9 cents (1.8%) to close at US$0.18 and US$0.23 respectively. Over the last year, the price of the Free Market sugar declined by 4% while the US import prices have increased by 5%. For the same period, 2013 over 2012, both indices fell by 23% and 36% respectively. The FAO reports that sugar price indices averaged about 253.5 points in March. The observed increases in prices arose in light of concerns of declining exports from Brazil and Thailand due to drought .



Coffee Prices

The price of both the Arabica and the Robusta Coffee increased in March to US$2.16 (22.57%) and US$1.12 (10.64%), respectively. These three consecutive months of price increases for both indices was preceded by a trend decline in prices beginning March 2013. In April 2011, coffee prices were at record levels of US$3.30 and US$1.21 per pound, respectively. Since then, prices have fallen by 29% and 8% respectively to the current level in March 2014. Experts believe that lower production in Brazil, Africa and Central America is fuelling the upward movements in prices. This price surge could be negated by production increases in Asia and other eastern countries.



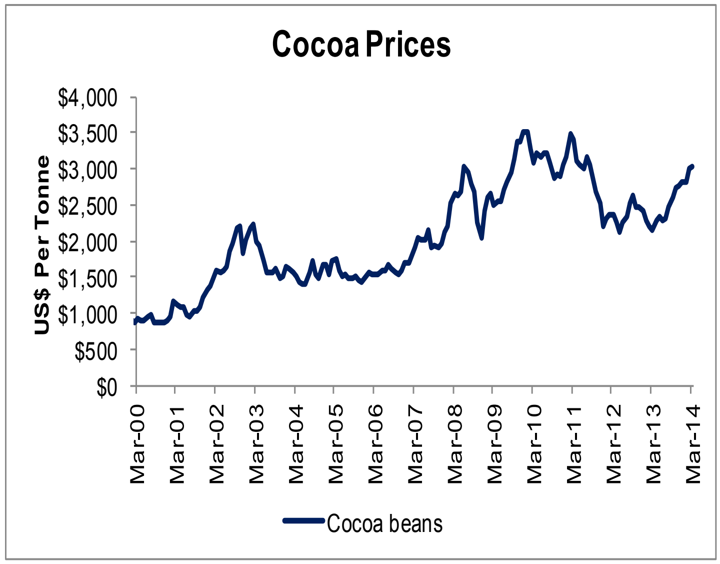
Cocoa Prices

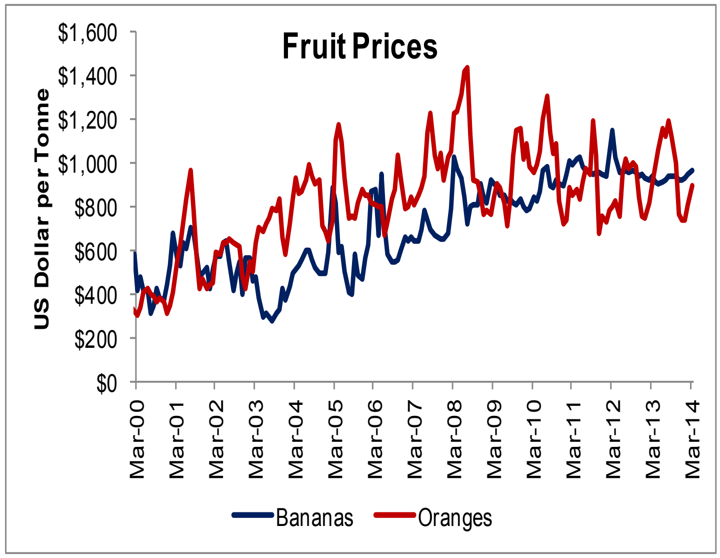
In March 2014, Cocoa prices rose by US$48.91 per tonne (1.63%) and ended the month at US$3,041 per tonne. In comparison to the same period last year, prices have increased by 4%. Prices also rose in February 2014 by 6.%. Expert at Rabobank believes that a third consecutive cocoa deficit will send prices skyrocketing. The analyst estimates a deficit of over 100,000 tonnes which will send prices rising by over 12% over 2013 prices.

International Commodity Prices

Orange Prices

Orange prices increased in March 2014 by US$90.00 (11.11%), relative to February 2014. This uptick in price movement was preceded by a 9.46% increase in February 2014 relative to January 2014. For the corresponding period last year, prices fell by 1%, however, there was an increase in prices by 3% for the same period in 2013. Experts predict that prices could continue to increase over much of 2014. These forecasts are due mainly to droughts conditions in the world's largest producer, Brazil. Additionally, the impact of citrus greening disease in the state of Florida, which produces approximately 70% of the Oranges in the United States is also expected to boost prices.





Banana Prices

Banana prices increased in the four consecutive months leading up to March 2014. Prices closed at US$967.00 per tonne in March 2014. This represents an increase of $21.00 (2.19%) relative to February 2014. Prices also increased by 3% when compared to the corresponding period last year.

Beef Prices

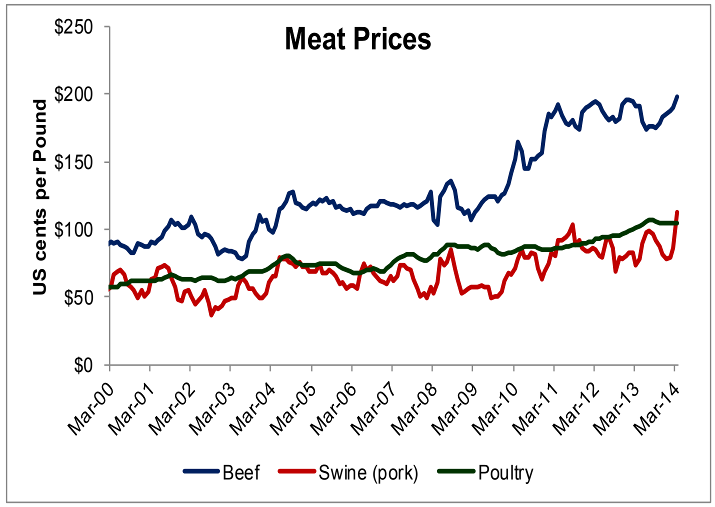
Beef prices have increased for six consecutive months and have ended March 2014 at US$1.98 per lbs., representing an increase of US$0.78 (4.07%) over February 2014. March prices are 3% higher than they were in 2013. In the United States, inventories are down by 21% when compared to last year. This decline is contributing to the higher than expected price levels.

Swine (Pork) Prices

The price for pork (swine) increase for three consecutive months to March 2014. For March 2014 prices increased by US$0.27 (31.1%) to US$1.13 per lbs. In comparison to the similar period last year, prices have increased by 54%. Inventories in the US are down by 11%. Experts at the Pig Site declare that this is responsible for the increase in 2014 prices.

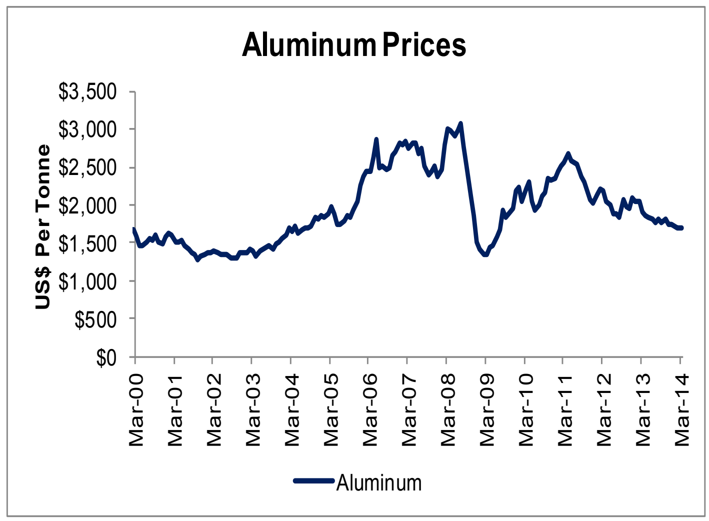
International Commodity Prices

Poultry Prices



Like pork, the price of chicken has increased for the three months, January to March 2014. The price of chicken increased in March by roughly one US cent (0.72%) and ended at US$1.05 per lbs. Prices in March 2014 are approximately 4% higher than they were in March 2013. For chicken, inventories are down just 5% and hence inventory levels should not play a significant role in the movement of prices.

Aluminum Prices



Aluminum prices rose by 0.6% for March 2014 relative to February 2014. For the corresponding period of 2013 prices fell by 11.0%. Annually, prices declined for three consecutive years since 2012 by 15%, 12% and 11%, respectively. Aluminum markets seems to be heating up somewhat because of increased demand in the automobile industry. However, market experts still believe that prices will continue to fall throughout the year. This is due primarily to the level of global inventories and production plans for 2014. Current developments in Indonesia on the ban of mineral ore exports are expected to impact both the supply of bauxite and aluminum prices in the coming months. The growth in the scrap metal industry recycles significant amount of aluminum back into the supply chain.

Domestic Bauxite & Aluminum Production

The production and export of aluminum and bauxite for 2014 is likely to remain in line with 2013 as global conditions affecting the industry remain similar. The production of alumina in Jamaica increased in March 2014 by 16,593 tonnes (12.02%) relative to March 2013. Similarly, bauxite production increased by 12,224 tonnnes. (2.65%).

For the year to date, the increase in alumina production is 11.45% while the year to date production of bauxite fell by 6.21%.

For March 2014 relative to 2013, the export of alumina increased by 22.24% while bauxite exports increased by 2.33%. For the year to date, Alumina exports increased by 7.49 % while bauxite exports fell by 5.5%.

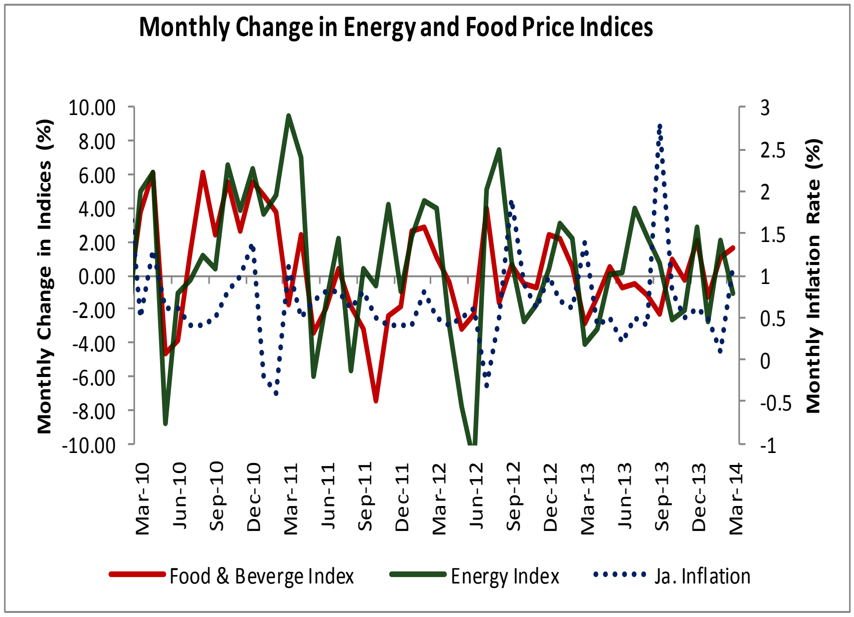
Please see chart on page 21

Impact of International Commodity Prices on Jamaica

There were significant prices increases in eighty per cent of the commodities analysed for the month of March. Of the fifteen commodities analysed, prices of twelve commodities increased while prices of three declined. Notably, the prices of oil, gas and rice fell for the month. A quarterly analysis of two international price indices developed by the IMF indicated that the Fuel Energy Index fell by 1.7% while the Food and Beverage Index increased by 7.4%. This coincides with a domestic depreciation of 3.01% and 3.5% against the USD and the GBP for the March quarter.

Understanding these movements in international commodity prices and the domestic exchange rate is very important in understanding inflation for Jamaica. Increases in commodity prices have at minimum five fundamental ways of impacting inflation in the domestic economy. Increases in commodity prices increase production cost, motivate movements in the exchange rate, drive inflation, and interest rates and induce a multiplier inflationary effect through the production process.

Rising domestic production cost drives inflation and exchange rate which in turn drives interest rates. Both inflation and interest rates movements may become self - supporting and hence may lead to price and financial instability.



The multiplier effect of commodity prices is an important transmission mechanism channel. For example, higher oil price creates a chain reaction on all good and services. Other commodity prices impact the domestic economy in the same manner. Grains are common inputs to production within the Agricultural Sector . Therefore, increases in this these commodities will have a pass-through effect on Agricultural products such as meat and some processed foods. These price increases then creates a further chain reaction and the process continues.

The graphs show the relationship between movements in international prices and movements in domestic inflation. A cursory examination suggests that domestic inflation lags international price movements by approximately two months. This would imply that the movements in the international price indices in March should be observed in Jamaica around end-May 2014. Also the inflation rate (1.1%) observed in Jamaica for March would have been influenced by increased international commodity prices between January and February 2014. Experts at the Intelligence Unit forecast suggest that commodities prices will fall later this year, which should have a positive impact on domestic inflation.

Feature Article: Central Government Budget 14/15

An examination of the proposed central government budget for FY2014/2015 may lead one to conclude that the budget is more expansionary relative to budget for FY2013/2014 in a context where higher expenditure is projected for this fiscal year. However, though basic economics explains that increased government spending will increase economic activity and through the multiplier process, eventually lead to an increase in output; a closer examination of the proposed FY2014/2015 budget will reveal that the budget is contractionary as increased expenditure forecasted for FY2014/2015 has been redirected away from capital expenditure towards the financing of recurrent expenditure, in the form of financing for domestic and international debt, which usually doesn't generate as much as capital expenditure, or wages, in terms of a multiplier effect. To add further to the contractionary nature of budget for the year, the central government has introduced an additional, $6.7 billion in revenue measures for the fiscal year. What this means is a removal of disposable income from households and firms that could otherwise drive aggregate demand.

CENTRAL GOVERNMENT SUMMARY ACCOUNTS (J$ Millions)			
	Prov. Outturn	**Budget**	**Variance**
	FY2013/14	**FY 2014/15**	
Revenue & Grants	**397,178.20**	**427,888.50**	**30,710.30**
Revenue	**386,550.80**	**419,243.60**	**-805,794.40**
Tax Revenue	343,836.10	384,286.00	-728,122.10
Non-Tax Revenue	41,047.10	34,186.40	-75,233.50
Bauxite Levy	1,009.50	17.9	-1,027.40
Capital Revenue	658.11	753.3	-1,411.41
Grants	10,627.40	8,644.90	-19,272.30
Expenditure	**395,420.70**	**439,282.59**	**-834,703.29**
Recurrent Expenditure	360,248.90	404,654.49	-764,903.39
Programmes	93,967.70	110,281.06	-204,248.75
Wages & Salaries	156,361.70	161,704.31	-318,066.01
Interest	109,919.51	132,669.12	-242,588.63
Domestic	68,728.90	81,242.61	-149,971.51
Foreign	41,190.60	51,426.51	-92,617.12
Capital Expenditure	35,171.80	34,628.10	-69,799.90
Fiscal (Surplus + / Deficit -)	**1,757.50**	**-11,394.09**	**9,636.58**

For several years, a number of experts have touted that in order to achieve any form of sustainable growth, let alone development, Jamaica must first seek to curtail its expenditure to match its revenue or "live within its means" and ensure that our macroeconomic framework is strong enough to encourage private sector investment. While the Government's significant curtailment of expenditure during the past fiscal year has been commendable, there is the concern that these budgetary measures may be too austere. In light of this the implementation of a credible growth strategy is urgently required.

The budget proposed by the central government in April 2014 shows a reduction in capital expenditure of approximately $10.9 billion to facilitate increased spending on recurrent items (recurrent expenditure is projected to increase by $46.3 billion). This reduction reflects a cut in capital A expenditure, and in other cases an accounting reclassification in which some capital items were reclassified as recurrent expenditure items. Although the cut in expenditure is unavoidable in the context of containing government expenditure, the fact is that capital expenditure is crucial to the development of infrastructure, and maintenance of critical services makes it unsustainable for capital expenditure to be cut too rapidly in an economy that has become heavily reliant on government expenditure. It is recommended that with improvements in macroeconomic stability, increased economic growth and further improvements in government revenue, that the government revive its investments in domestic capital projects in an effort to further the economic recovery process.

Feature Article: Central Government Budget 14/15

Recurrent expenditure for the fiscal year is projected at J$404.7 billion, an increase of J$46.3 billion relative to the revised estimates of FY 2013/2014. A total of J$22.7 billion (49%) of the increase in recurrent expenditure is budgeted to be spent on interest payments (mainly domestic interest payments). Increased recurrent expenditure was budgeted for allocation to the ministries of Tourism, Agriculture, Justice and Science, Technology, Energy and Mining. All other sectors experienced a reduction in expenditure; in particular there were respective cuts in expenditure for Ministry of Education ($5.7 billion) and Ministry of Justice ($1.3 billion). It is critical to remember that it is more important how the expenditure is spent than how much is spent. However, in the current environment, in which the state of education and national security, Jamaica's most critical ministries, requires significant improvements, it is dubious that the current year's allocations will be sufficient to begin the transformation. While we wait for the government revenues to improve, and to be allocated to retool and improve the critical components of our social economy, our best course of action is to speedily implement public sector reform in order to improve efficiencies and zero-tolerance policy for corruption and bureaucracy to ensure that monies are not wasted through leakages.

In order to finance the increased budgetary expenditure without adding to the stock of already burdensome debt, the Government has introduced a tax package of approximately $6.7 billion in new taxes that will be financed by both businesses and individuals alike.

A significant, yet controversial levy on withdrawals from deposit-taking institutions (DTIs) and encashment by securities dealers which was earlier proposed was removed by the Minister of Finance. The Finance Minister has now proposed the introduction of a General Consumption tax (GCT) on all imported services. This measure represents a 15% tax on all insurance premiums paid by Jamaican residents to non-residents. This measure is projected to yield approximately 2.3 billion Jamaica dollars. Included in these new measures are the application of a temporary 1% asset tax for life insurance companies, this is expected to yield J$900 million for the government.

In addition, a new tax is to be placed on services imported into Jamaica. The government expects this measure to level the playing field as currently local service providers are paying this tax. Two other proposed taxes has also been withdrawn, these include the premium tax for regionalized and non-regionalized life assurance companies and also the removal of the investment tax for assurance companies of 20%.

Having considered the impact of the current 2014/15 budget on the economy's ability to grow, attention must now be placed on the government's ability to meet its revenue targets. The question that should be asked is whether too much attention was placed on passing the IMF quarterly test rather than on a more balanced approach that leans much more towards creating real growth in the economy. The truth is that the IMF programme does not address the issues that are at the core of Jamaica's growth and development problems, they were never meant for growth and development. The onus is therefore on the government of Jamaica to craft the correct growth and development framework. The growth and development of the economy requires strategic direction, and therefore requires deliberate action to ensure the right environment is created to facilitate this.

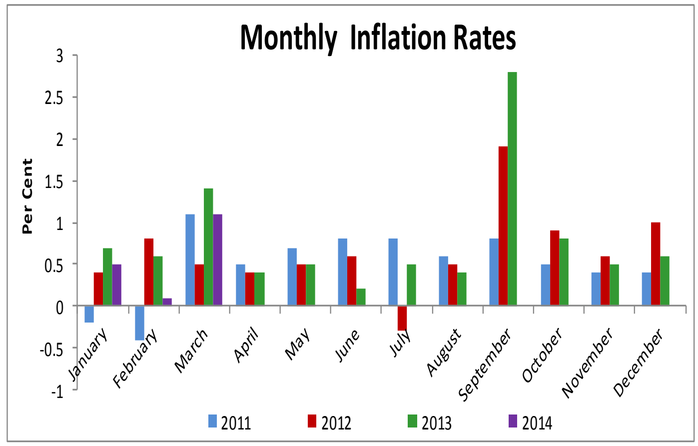
To address this the PSOJ has drafted a policy document that promotes debt reduction through an integrated public sector reform programme that promotes economic growth, increases general productivity and facilitates economic development. The government need to move towards such a programme before further economic inertia sets in.

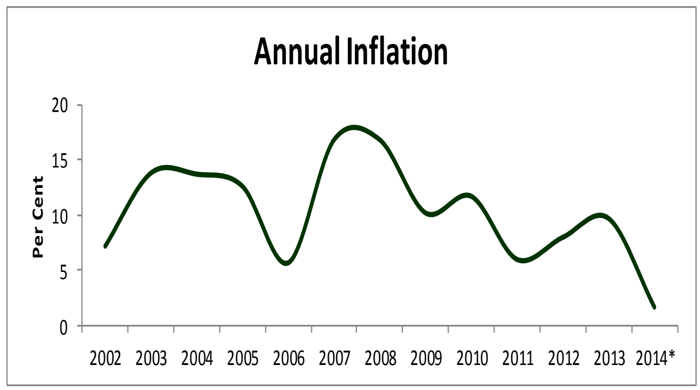
Monthly Inflation Update

The inflation rate for March 2014 was 1.1%, a decline of 0.3% relative to March 2013. The 12-month point to point rate as of the end of March 2014 was 8.3%, which was also represents the inflation for the fiscal year. The calendar year to date inflation rate is 1.7%.

Inflation in all the three regional areas remained relatively low when compared to the similar period in 2013 . In the Greater Kingston Metropolitan area (GKMA) inflation for The month was 1.0%. Inflation for Other Urban Centers (OUC) was 1.1% while the rate for the Rural Areas was 1.1%.

For the twelve major divisions reported by the Statistical Institute the heaviest weighted division Food and Non-Alcoholic Beverages increased by 0.4%, while Housing, Electricity, Water Gas and other Fuels increased by 4.3%. Miscellaneous Goods and Services and Restaurants and accommodation Services increases by 1.2% and 1.3% respectively. Three other divisions with significant changes are Transportation (0.8%), Furnishing, Household Equipment and routine household Maintenance increased by 0.5% while the Division Recreation and Culture increased by 0.4%.

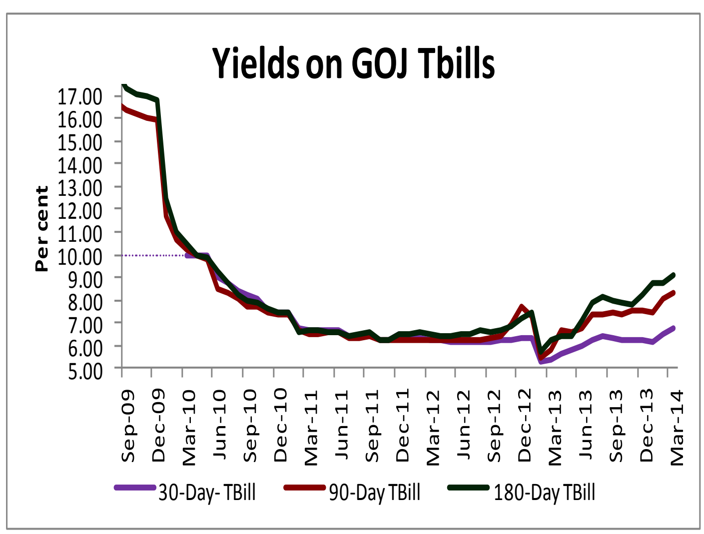




**-inflation for the Calendar year to March 2014*

Monthly Interest Rates: GOJ T-Bills

For March 2014, yields on GOJ 30-Day, 90-day and 180-day Treasury Bills increased by 25 bps, 27 bps and 33 bps respectively, relative to February 2014. This movement contributed to the increase in yields on GOJ Treasury Bills for the FY2013/14 of 139 bps, 253 bps and 289 bps for the 30-day, 90-day and 180-day tranches. For the previous fiscal year, yields on the three tranches of GOJ securities declined by 87 bps, 45 bps and 25 bps respectively. The uptick in rates for the fiscal year is reflective of persistent tight Jamaica Dollar liquidity conditions. Additionally, increased rates on longer term tenors reflects a generally uncertainty in the outlook for economic performance over the medium to long term.

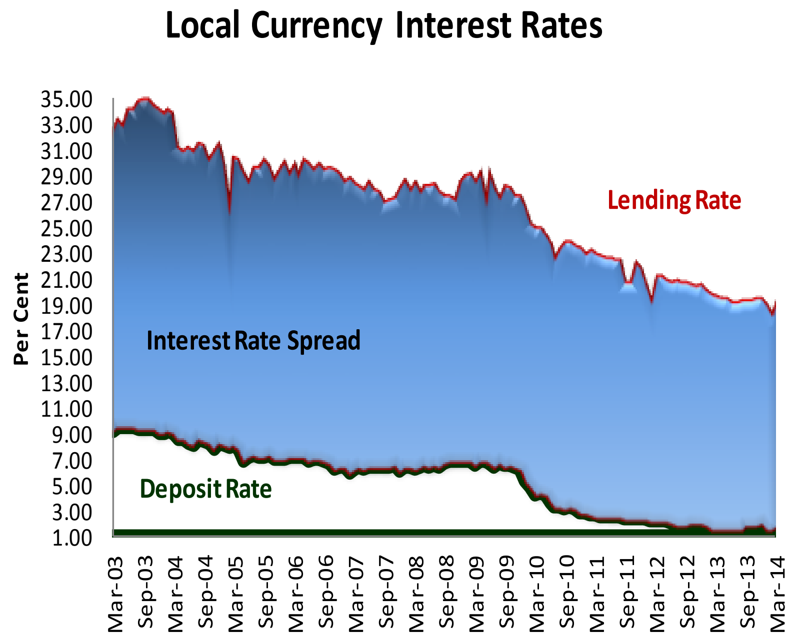


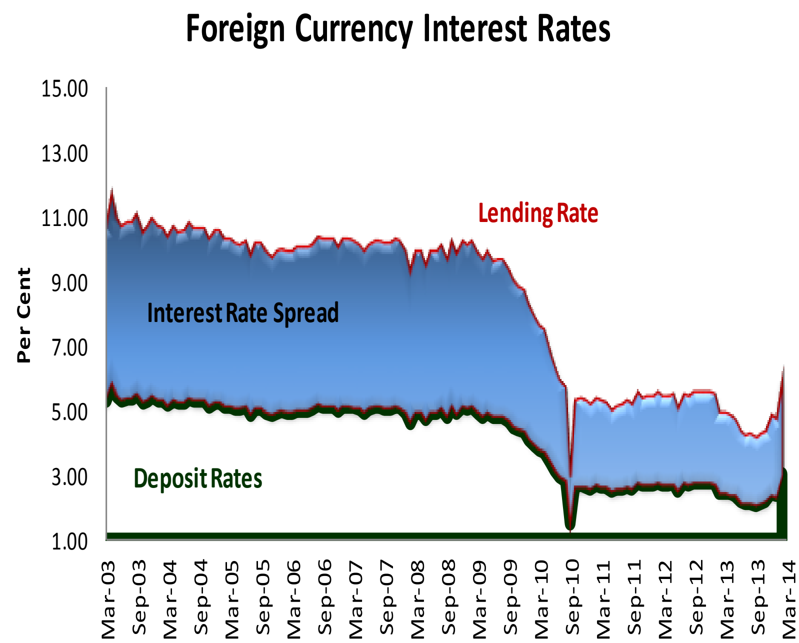
Monthly Interest Rates Update

During the period April 2013 to March 2014 the average weighted interest rates on domestic currency loans moved from 17.92% to 17.57%, a decline of 0.35%. Of the six loan types in this category, five had increases while Installment Credit fell by 1.07%. Of the remaining five: Mortgages, Personal Credit, Commercial Credit, Local Government & other Local Entities and Central Government increased by 0.05%, 0.6% ,0.43%, 1.64%,and 2.29%, respectively.

The average weighted rates for domestic currency loans increased by 1.12% in March 2014. During the month, three loan categories declined while three increased. Installment Credit, Mortgages and Commercial Credit fell by 0.05%, 0.02% and 0.13%; while Personal Credit, Local Government and other Local Entities and Central Government interest rates increased by 0.17%, 0.81% and 0.61%, respectively.

Foreign Currency Weighted Loan Rates fell both during the month of February and during 2013 by 0.03% and 0.23% respectively. During the month installment credit and Personal Credit increased by 0.03% and 0.27% respectively while mortgages, Commercial Credit and Local Government and Other Private entities had declines of 0.02%,0.03% and 0.08% respectively. At the end of the month, the average rate stood at 7.30%. **See page 19**

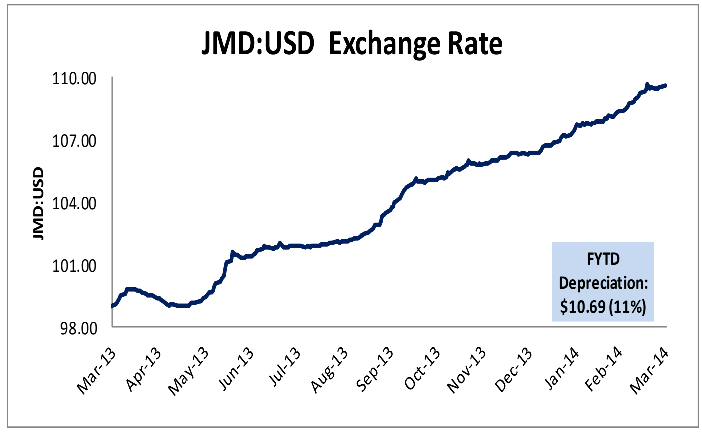




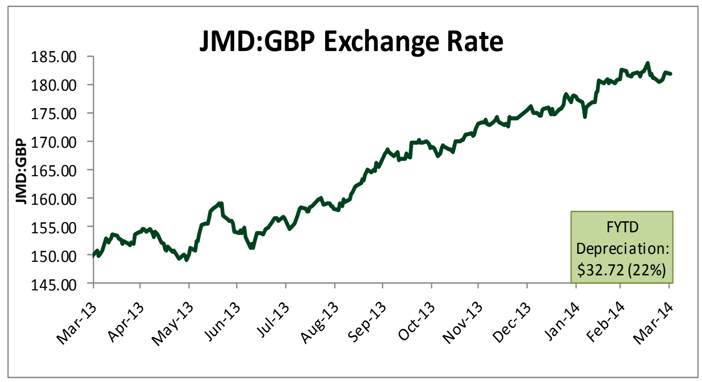
Domestic Currency Weighted Loan Interest Rates (%) March 2014							
Change	Instalment Credit	Mortgage Credit	Personal Credit	Commercial Credit	LGOPE	Central Govt.	Overall A/W Rate
Monthly Change	-0.05	-0.02	0.17	-0.13	0.81	0.61	1.12
Annual Change	-1.07	0.05	0.60	0.43	1.64	2.29	-0.35
End of Month	16.54	9.84	25.18	12.94	11.99	10.89	17.57
Foreign Currency Weighted Loan Interest Rates (%) February 2014							
Monthly Change	0.03	-0.02	0.27	-0.03	-0.08	n/a	-0.03
Annual Change	0.91	-2.64	0.23	-0.19	-0.53	n/a	-0.23
End of Month	8.59	6.78	15.69	6.93	6.30	n/a	7.30

Monthly Exchange Rates Update

JMD:USD

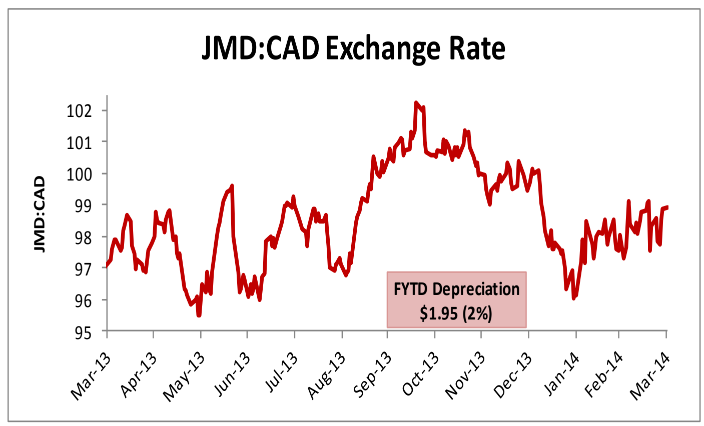


The Jamaica Dollar continues to depreciate relative to the US dollar. During March the Dollar lost J$1.23 (1.1%) of its value and ended trading at J$109.57 to USD$1.00. In February it lost 0.6% of its value while in January it lost 1.3% of its value. Between March 2013 and March 2014, the Jamaica Dollar depreciated by 10.82% moving from J$108.89 to US$1.00 to J$109.57 to US$1.00. This continued depreciation is due to excess demand for US dollars in the Forex Market. The Dollar ended trading in March at a weighted average buying rate of J$108.99:US$1.00, a decline of 1.4% relative to February 2014.



JMD:CAD

The Jamaica Dollar depreciated relative to the Canadian dollar by J$0.87 (0.9%) and ended March at J$98.93 to CAD1. During February the dollar lost 0.9% of its value . Between the period March 2013 and March 2014, the Jamaica Dollar depreciated by J$1.95 (2%), moving from J$96.98 to CAD1.00 to J$98.93 to US$1.00. This continued depreciation is due to excess demand for the Canadian Dollar. On the buying side, the dollar ended trading in March at J$97.19 to CAD1.00, a decline of 1.1%.



JMD:GBP

The Jamaica dollar appreciated by J$0.79 (0.4%) relative to the Great Britain Pound during March, trading at J$181.77 to each Pound. During February the Dollar lost 3.0% of its value, while in January the pace of expansion was much slower, resulting in a depreciation of 0.61%. Between March 2013 and March 2014, the Jamaica Dollar depreciated by J$32.72 (22%) moving from J$149.06 to GBP1.00 to J$181.77 to GBP1.00. This continued depreciation is due to excess demand for the Pound. On the buying side, the Dollar ended trading in March at J$179.38 to GBP1.00 up from J$178.05 to GBP1.00 a decline of 0.75%.

The general expectation is that depreciation in the three major trading currencies may continue in the short term. However, with the improvements in the NIR and the BOP, the pace of depreciation of the exchange rate may be slower.

FX-Trends CYTD Changes

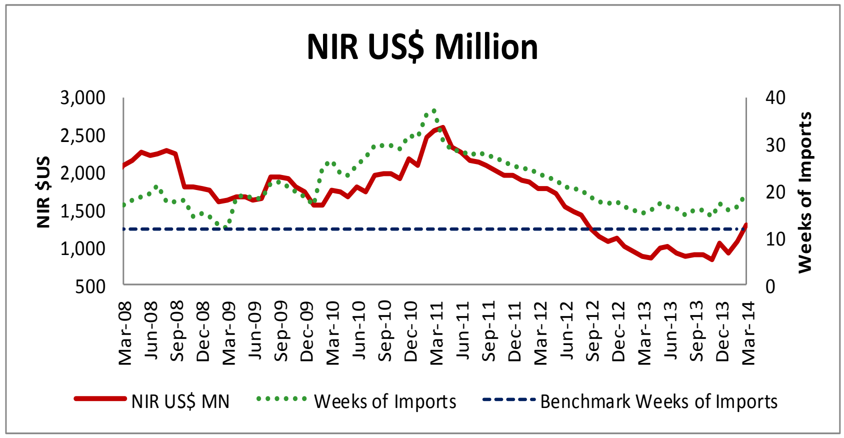
	J$/US$	%	J$/GBP	%	J$/CAD	%
2014	3.20	3.0%	6.07	3.5%	-0.79	-0.8%
2013	13.41	14.4%	26.16	17.3%	2.75	2.9%

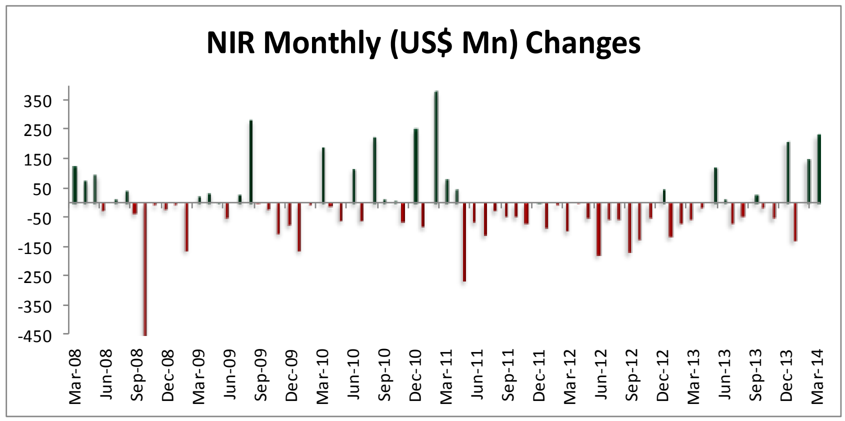
Net International Reserves & Money Supply

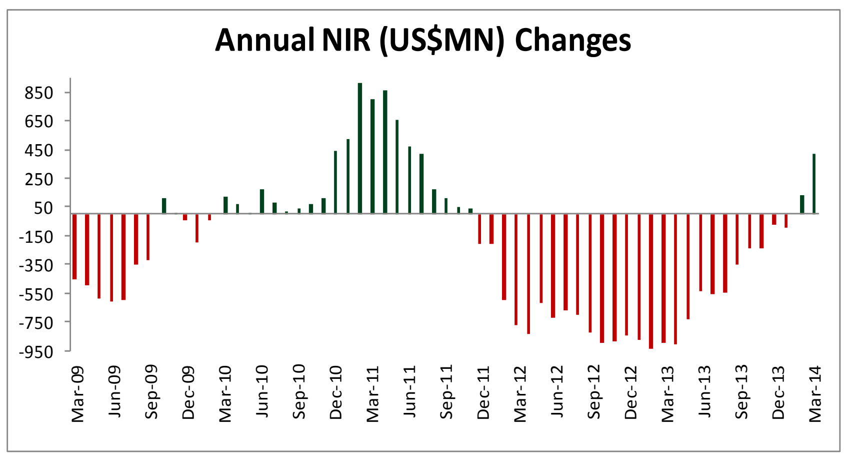
March 2014 Issue

Net International Reserves

During March 2014 the Net International Reserves (NIR) was US$1,303.62 million, an increase of US$234.67 million over February 2014. In comparison to the corresponding period last year, the NIR increased by US$419.37 million or 47.4%. This increase in NIR is a positive sign for the economy. However the picture changes considerably when February 2014 is compared to the corresponding period for 2012 and 2011, during which the NIR declined by 26.6% and 48.94% , respectively. At the end of March, the reserves were sufficient to finance 19.45 weeks of goods imports which represents 7.45 weeks over the international benchmark of 12 weeks of goods imports.







Monetary Base

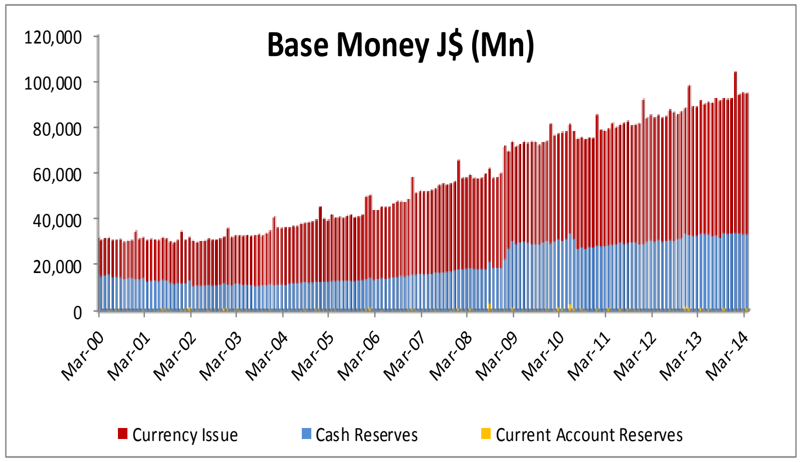
The Bank of Jamaica has been strategically injecting liquidity in the banking system during 2013 and continues to do so in 2014. The monetary base contracted in March by J$239 million or by 0.3%. The contraction is due to a decline of J$26.5 billion in the Net Domestic Assets (NDA) which was partially offset by an increase in the NIR of J$24.9 billion. For the period March 2013 to March 2014 the monetary based expanded by 3.0%. This reflects a 6% increase in currency issue and an decrease of 13% in commercial banks' current account balances. similarly, cash reserves declined by 0.5%. For March 2014 over February 2014, cash reserve and currency issue reduced by 2.1% and 0.4%, respectively while the current account balance increased by 182.9%. While these point to point statistics are showing relatively large changes, the average increase in the monetary base for the period March 2013 to March 2014 is just 0.61%.

INTEREST RATES (CONTD)

Interest rates on savings and loans increased during March 2014. At the end of March 2014, the average rate on commercial Bank saving and lending accounts were 1.98% and 17.57%, respectively. Between April 2013 and March 2014, the rates on savings increased by 0.31% while lending rates fell by 0.35%.

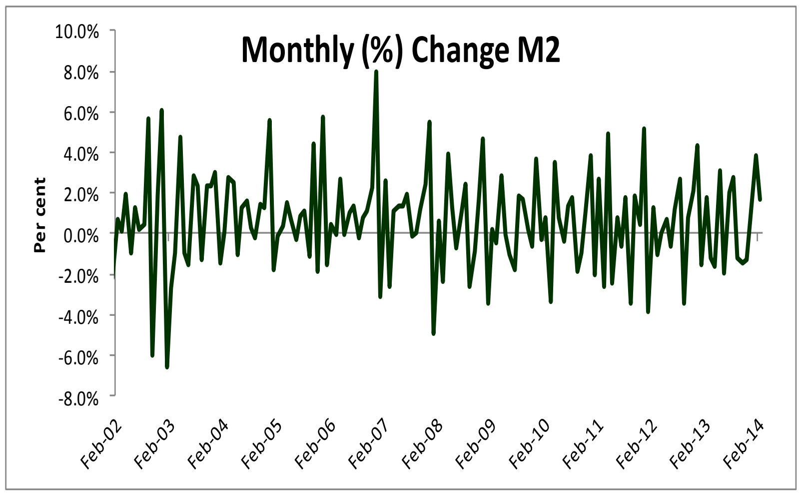
Net International Reserves & Monetary Supply

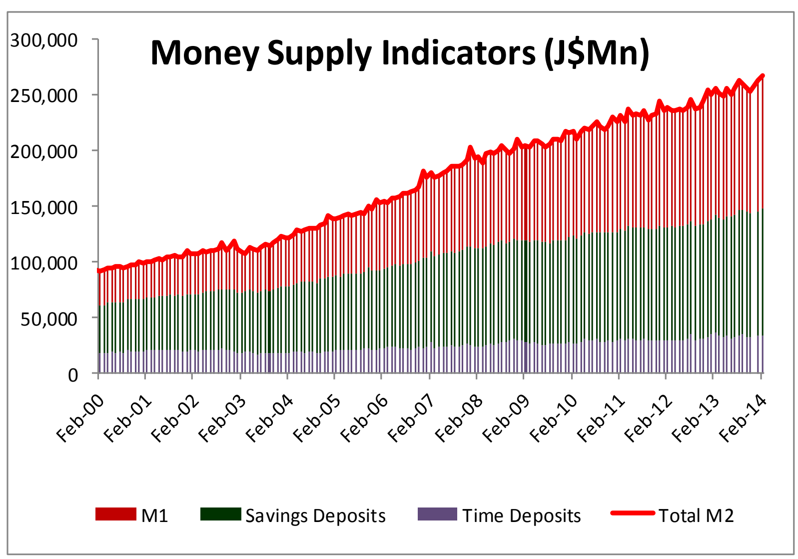
This implies that the Central Bank has been very strategic in influencing the amount of liquidity in the system. Growth in the monetary base is normally in line with growth in the real economy. The JIS reports that real growth for the January to March quarter is expected to be approximately 1.7% and 1% for the fiscal year. This corresponds with the average growth base money growth over this period, 0.61%.



Money Supply

For the month of February 2014, M2 increased by J$4.5 billion (1.71%), for the period February 2013 over February 2014 this monetary aggregate increased by J$14.89 billion (5.9%). The average change for the same period is 0.4%. This small increase in the money supply is in line with the growth in the economy and is strategically done to curtail inflation while injecting liquidity.





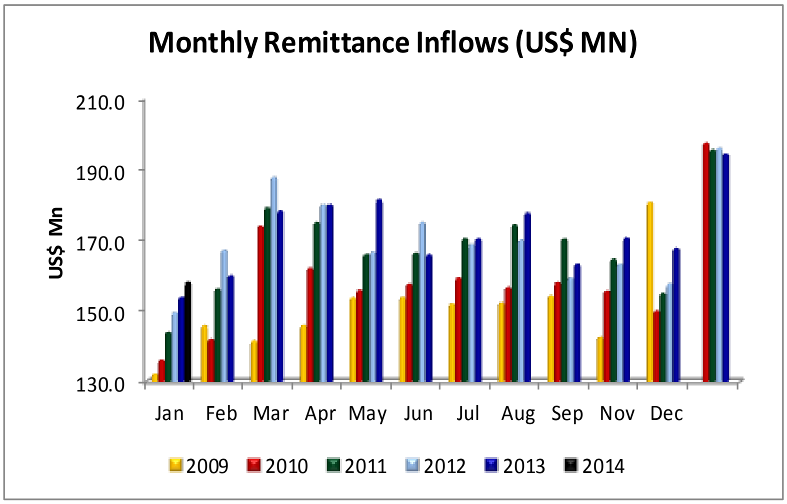
Remittance Inflows

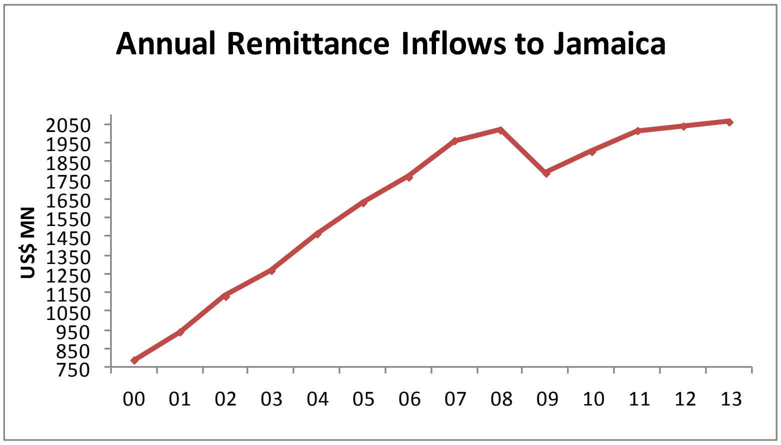
Remittance outflows continues to fall while gross and net remittance increased in January 2014. The BOJ reported an increase in net remittance flow for January 2014 of US$137.9 million, an increase of US$8.0 million or 6.2% when compared to the corresponding period of 2013. Total remittance inflows for the month amounted to US$158.2 million. Outflows for the month amounted to US$20.3 million which represents a 16.12% reduction when compared to the corresponding period last year in which outflows were US$24.2 million.

For the fiscal year to January 2014, gross remittance flows amounted to US1,730.6 million, an increase of US$39.0 million (2.3%). Since 2011, total inflows has surpassed the two billion dollar mark. In January 2013 gross remittances grew by 1.1% when compared to January of 2012.

With an average annual growth rate of over 3% over the last three years and a 15% share of GDP annual remittances continue to be a significant contributor to the health of the Jamaican economy. It continues to out perform tourism, bauxite, sugar and coffee as contributor to the pool of foreign exchange for the country. In addition, the World Bank reported that some forty per cent (40%) of Jamaicans receive remittances from abroad. This contributes to spending power and hence increase economic activities.

As the world economy and in particular the US and UK and Canada continues to rebound, remittance inflow, to Jamaica should continue on this positive growth trajectory. It may even surpass expectations in 2014.





Bauxite & Aluminium Production and Export (Tonnes.)			
Monthly			
	Mar-14	**Mar-13**	**Change**
Production			
Aluminium	154,582	137,989	12.02%
crude Bauxite	473,409	461,185	2.65%
Export			
Aluminium	211,157	172,736	22.24%
Bauxite	463,032	452,479	2.33%
CYTD			
	Mar-14	**Mar-13**	**Change**
Production			
Aluminium	475,671	426804	11.45%
Crude Bauxite	1,159,414	1,236,130	-6.21%
Export			
Aluminium	498,736	463,997	7.49%
Crude Bauxite	1,143,414	1,209,924	-5.50%

Balance of Payments

Jamaica's Current Account deficit improved by approximately US$17.5 million or 4% in the last quarter of 2013, when compared to the same period in 2012. This improvement in the Current Account was due mainly to a US$90 million (17.32%) improvement in the country's Current Transfer account in 2013 relative to the same period in 2012.

The improvement in the Current Transfers Account was due mainly to a US$52.6 million (115.6%) increase in the Official Transfer account, a gift from the European Union and also to a US$37.7 million increase (7.93%) in the Private Transfers account. The Bank of Jamaica reported that a 3% increase in private inflows (remittances) and a 16% reduction in private transfer outflows is responsible for this positive development.

In spite of this positive development, the overall current account still showed a deficit of US$420.3 million, an improvement of US$17.5 million relative to the deficit at December 2012. The most significant factor contributing to this deficit is the large imbalance of US$1061.8 million between Jamaica's exports and imports, or the trade deficit. This deficit is reflects an improvement of US$64.9 million relative to the deficit of US$996.9 million at end December 2012.

In the last quarter of 2012 Jamaica exported US$90.8 million more than it did in 2013. The fall in exports in 2013 was due mainly to reductions in foods (sugar), mineral fuels, chemicals (ethanol) and beverages and tobacco. This was offset by an increase in Crude Material and Re-exports. There was also a fall in imports, which was due to reductions in capital goods such as machinery and equipment and construction materials

The December quarter was sufficiently financed by both Private and Official Investment that amounted to US$563.2 million. Consequently, the NIR increased to US$1, 303.62 at end December 2013.

BALANCE OF PAYMENTS SUMMARY (US$MN)	Dec-12 Qtr.	Dec-13 Qtr	Change
1. CURRENT ACCOUNT	**-437.9**	**-420.3**	**17.5**
a. GOODS BALANCE	**-996.9**	**-1061.8**	**-64.9**
Exports (f.o.b.)	457.3	366.5	-90.8
Imports (f.o.b.)	1454.2	1428.3	-25.9
b. SERVICES BALANCE	**101**	**100.4**	**-0.7**
Transportation	-196.7	-184.7	12
Travel	412.2	438.2	26
Other Services	-114.4	-153.1	-38.6
c. INCOME	**-62.9**	**-70**	**-7.2**
Compensation of employees	16.5	15.9	-0.6
Investment Income	-79.4	-86	-6.6
d. CURRENT TRANSFERS	**520.9**	**611.1**	**90.2**
Official	45.5	98.1	52.6
Private	475.4	513	37.7
2. CAPITAL & FINANCIAL ACCOUNT	**293.3**	**265.1**	**-28.2**
A. CAPITAL ACCOUNT	**-7.2**	**-5.6**	**1.6**
a. Capital Transfers	**-7.2**	**-5.6**	**1.6**
Official	0.2	1.7	1.5
Private	-7.3	-7.2	0.1
b. Acq./disposal of non-prod. non-fin'l assets	**0**	**0**	**0**
B. FINANCIAL ACCOUNT	**445**	**425.9**	**-19.1**
Other Official Investment	45.3	133.2	87.8
Other Private Investment (incl. Errors & Omissions)	267.5	430.4	163
Reserves	132.2	-137.7	

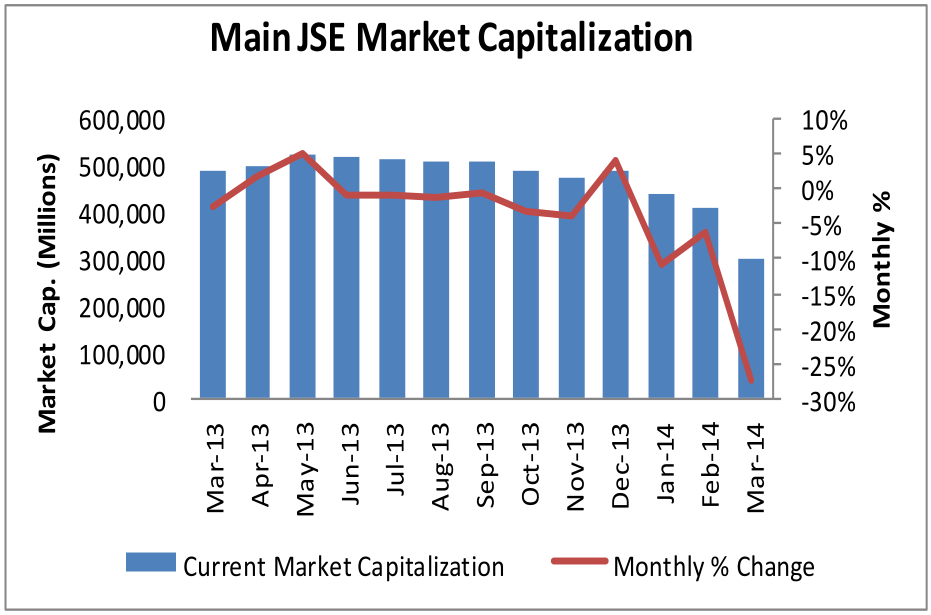
Stock Market Update

The Jamaica Stock markets had mixed results for March 2014. Of the four stock indices, the main JSE market index declined by 1,451.53 points (1.93%) during March. In addition, the year to date and one year declines were 6.7% and 8.4%, respectively.

The JSE Cross Listed Index opened and close the month at 585.9 points, the JSE Combined Index declined by 1,232.27 points (1.59%) while the JSE US Equities Index advanced by 0.14 (0.11%). On the last trading day for March 2014, the overall market activity resulted from trading in thirty three (33) stocks of which 15 declined, 12 advanced and 6 traded firm. Market volume amounted to 541,275,683 units which were valued at $1,206,468,574.41.

The volume leader was LIME which traded 438,868,828.00 units (81.08%). They were followed by Desnoes and Geddes Ltd., which traded 30,968,574 (5.72%). Next in line was the Jamaica Money Market Brokers Ltd., which had 19,869,680 units (3.67%).

The top four advancing stocks for the month of March were Hardware and Lumber (25.0%), Ciboney (16.67%) Kingston Wharves (7.83%) and Grace Kennedy limited (3.02%). The biggest declining stocks were Sagicor Investments Jamaica (16.61%), Caribbean Cement Company (14.46%), Supreme Ventures (12.86) and Pulse Investment (12.64%).



Index	Points Change	% Change	Closing Position
JSE Market Index	-2062.63	-2.52	81,986.30
JSE Cross Listed Ind.	-30.46	-3.68	826.89
JSE Com. Index	-1846.8	-2.21	83,491.96
JSE US Equities	4.5	5.93	75.93

The top four advancing stocks for the year to date were, LIME (168.75%), Hardware and Lumber (63.93%), Ciboney (40.0%) , and Caribbean Cement Company (18.29%). The top declining stocks on a year to date basis were Supreme Ventures Ltd. (24.46%), Pulse Investments (12.64%), Kingston Properties Ltd (11.11%) and Desnoes and Geddes Ltd (9.8%).

Total market capitalization for March 2014 stood at J$297,804,404.584, a reduction of J$113,013,305,716.4 (27.5%). This reduction is due mainly to the delisting of First Caribbean from trading on the Jamaica stock exchange due to the inability of the company to meet the Jamaica Stock exchanges 20% minimum ordinary share ratio. The bank will continue to trade on the Barbados Stock Exchange.

JAMAICA STOCK EXCHANGE TOP TEN WINNERS & LOSERS (MARCH 31, 2014)							
TOP 10 ADVANCING	%	OPEN PRICE $	CLOSE PRICE $	TOP 10 DECLINING	%	OPEN PRICE $	CLOSE PRICE $
1 MONTH							
Hardware & Lumber	25.00%	8.00	10.00	Sagicor Investments Jamaica	(16.61%)	18.00	15.01
Ciboney Group	16.67%	0.06	0.07	Caribbean Cement Company	(14.46%)	4.84	4.14
Kingston Wharves	7.83%	6.00	6.47	Supreme Ventures	(12.86%)	2.41	2.10
GraceKennedy Limited	3.02%	56.35	58.05	Pulse Investments	(12.64%)	0.87	0.76
Carreras Limited	2.36%	34.68	35.50	Salada Foods Jamaica	(11.00%)	9.00	8.01
Scotia Group Jamaica	1.89%	20.62	21.01	NCB Jamaica	(8.58%)	19.34	17.68
Sagicor Group Jamaica	1.63%	9.19	9.34	Berger Paints (Jamaica)	(5.56%)	1.80	1.70
Gleaner Company	0.91%	1.10	1.11	Jamaica Money Market Brokers	(4.86%)	7.40	7.04
Scotia Investments Jamaic	0.83%	25.29	25.50	Jamaica Stock Exchange	(4.76%)	2.10	2.00
Seprod Limited	0.82%	10.91	11.00	Sagicor Real Estate X Fund	(4.53%)	7.07	6.75
YEAR-TO-DATE							
		$	$			$	$
LIME	168.75%	0.16	0.43	Supreme Ventures	(24.46%)	2.78	2.10
Hardware & Lumber	63.93%	6.10	10.00	Pulse Investments	(12.64%)	0.87	0.76
Ciboney Group	40.00%	0.05	0.07	Kingston Properties Limited	(11.11%)	4.50	4.00
Caribbean Cement Compar	18.29%	3.50	4.14	Desnoes & Geddes	(9.80%)	5.10	4.60
Sagicor Real Estate X Fun	11.20%	6.07	6.75	Sagicor Group Jamaica	(8.16%)	10.17	9.34
Jamaica Stock Exchange	11.11%	1.80	2.00	Pan Jamaican Investment Trust	(7.45%)	53.00	49.05
NCB Jamaica	7.94%	16.38	17.68	Sagicor Investments Jamaica	(6.19%)	16.00	15.01
Jamaica Broilers Group	7.06%	4.53	4.85	Jamaica Money Market Brokers	(6.13%)	7.50	7.04
Kingston Wharves	6.77%	6.06	6.47	Mayberry Investments Limited	(5.00%)	2.00	1.90
GraceKennedy Limited	5.41%	55.07	58.05	Jamaica Producers Group	(3.89%)	19.00	18.26
1 YEAR							
Caribbean Cement Compar	392.86%	0.84	4.14	Pulse Investments	(52.50%)	1.60	0.76
Ciboney Group	133.33%	0.03	0.07	Carreras Limited	(32.92%)	52.92	35.50
Hardware & Lumber	129.89%	4.35	10.00	Barita Investments Limited	(27.16%)	3.35	2.44
LIME	115.00%	0.20	0.43	Seprod Limited	(23.88%)	14.45	11.00
GraceKennedy Limited	22.70%	47.31	58.05	Supreme Ventures	(16.00%)	2.50	2.10
Jamaica Producers Group	20.85%	15.11	18.26	Pan Jamaican Investment Trust	(12.36%)	55.97	49.05
Kingston Wharves	17.64%	5.50	6.47	Salada Foods Jamaica	(5.88%)	8.51	8.01
Scotia Investments Jamaic	15.75%	22.03	25.50	Berger Paints (Jamaica)	(5.56%)	1.80	1.70
Jamaica Money Market Br	13.55%	6.20	7.04	Mayberry Investments Limited	(5.00%)	2.00	1.90
Trinidad Cement Limited	12.88%	15.60	17.61	Radio Jamaica	(2.27%)	1.32	1.29

Adapted from the Jamaica Stock Exchange monthly analysis

Previous Highlights: February 2014 Summary

With the global economy and Jamaica's main trading partners, the United States, Canada and the United Kingdom projected to grow by 3.7%, 2.8%, 2.2% and 2.4%, respectively, in 2014; The PSOJ is projecting that Jamaica should experience annual growth in output within the range of 0.65% and 1.2% for 2014. The IMF forecast for Jamaica's output growth for 2014 is 1.4%. Latin America and the Caribbean are expected to grow on average by 3%, which shows that Jamaica is lagging in the region.

The 2014 forecast for oil internationally are for prices to hover around the US$100 per barrel marker, in the near term but could spike as high as US$120. Prices are expected to fall in the latter part of the year. If the major price determinants hold, commodity prices should only see marginal increases in 2014. This forecast implies that food prices for Jamaica should remain generally stable with marginal increases in 2014. This should have similar pass through effects on interest rates and exchange rates as the pass through experienced in 2013.

Continued excess demand for foreign currency in February 2014 resulted in significant depreciation of the Jamaica dollar relative to the USD (0.3%), the CAD(0.9%) and GBP (3.0%). This continued depreciation of the domestic currency could continue throughout most of 2014. However, we expect a faster pace of depreciation in periods of increased demand for foreign currency such as August and September when inflows are at their lowest.

Relative to 2013, there was annual depreciation of the local currency relative to the USD, CAD and GBP of 11.6%, 0.2% and 24%, respectively. Additionally, there was a marginal but indicative increase in Treasury bills. Considering these and the projections for higher oil and commodity prices; local inflation rate could increase marginally over last year. Increase demand and output growth may make these prices increases more evident, albeit marginally. The low inflation rate of 0.1% for February is not expected to obtain throughout 2014. The Net International Reserve may pose some problems during some months in 2014 even in the presence of increased net remittance inflows and tourist arrivals. The Central Bank is expected to continue to boost the NIR stock using open market operations , in particular, USD-Certificates of Deposits. The impact of this on the general macro economy is to be determined.

Increases in net remittance inflows and tourist arrivals for 2014 are expected to be on par with 2013 or better. Remittance inflows for January and February are expected to decline over November and December (US$173.9 million) of 2013 due to seasonal effects. Tourist Arrival for February increased over January by 0.5%, this improvement is expected to continue throughout most of the 2014 season.

The Central Bank continued its strategic injection of liquidity in the domestic economy for most of 2013 and is expected to continue with this operation into much of 2014. The monetary base expanded in February by J$846 million (1%). For the period February 2013 to February 2014 the monetary based expanded by 7.1%. For the period January 2013 to January 2014, money supply, measured by the M2 monetary aggregate increased by J$11.79 billion (4.7%).

The JSE lost J$96.087 billion (19.1%) of its value between February 2013 and February 2014. The Jamaica Stock Markets closed February 2014 on a negative note. All major Stock indices and market capitalization fell on the last trading day of the month. The indices with the greatest decline were the JSE Cross Listed Index which fell by 74.68 points (11.63%), the main JSE Market Index which fell by 2,887.04 points (3.63%) and the JSE Combined Index which fell by 2,760.63 (3.37%). The decline in the level of market capitalization may impact business and consumer confidence in the economy in the short term. It may also impact the level of wealth and hence consumer spending and aggregate demand in the economy.

March 2014 Issue

Statistical Index: Major Macro-Economic Indicators

	Inflation	Saving Rate	Lending Rate	Exchange Rate	Money supply M2	JSE Mkt. Cap.	Remittance	Tourist Arrival	Oil Price Brent	Oil Price WTI
Month	% Change	%	%	J$/US$	J$M	J$B	US$M	0	US$ Per b	US$ Per barrel
Mar-13	1.4	1.80	17.97	97.76	252,128.7	490.941603	178.4	361,131	109.24	93.12
Apr-13	0.4	1.67	17.92	99.55	248,041.9	499.864326	180.1	272,891	102.88	92.02
May-13	0.5	1.74	17.77	99.12	255,760.4	524.424837	181.5	230,392	103.03	94.72
Jun-13	0.2	1.61	17.66	100.82	250,702.5	520.089391	166.0	258,535	103.11	95.79
Jul-13	0.5	1.71	17.58	101.76	255,831.4	515.756778	170.5	285,601	107.72	104.55
Aug-13	0.4	1.81	17.53	101.94	262,854.4	509.61984	177.8	231,205	110.96	106.55
Sep-13	2.8	1.97	17.45	102.64	259,771.4	506.385467	163.4	168,650	111.62	106.31
Oct-13	0.8	1.97	17.48	104.65	256,085.3	490.396705	170.7	214,430	109.48	100.50
Nov-13	0.5	2.03	17.44	105.6	252,857.6	471.741164	167.8	247,512	108.08	93.81
Dec-13	0.6	2.04	17.49	106.15	262,520.2	490.895292	194.5	247,512	110.63	97.90
Jan-14	0.5	1.77	17.33	106.9		437.521802	158.2	361,424	107.57	95.00
Feb-14	0.1	1.85	16.45	107.93		410.81871		330,201	108.81	100.70
Mar-14	1.1	1.98	17.57	109.21		297.804405			107.41	100.57

Statistical Index: International Monetary Fund (adapted)

Table 2. Jamaica: Structural Program Conditionality

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Institutional fiscal reforms		
1.a. Government to present to Fund staff a conceptual proposal for the design of a fiscal rule.	August 31, 2013	Met
1.b. Revise the relevant legislation for the adoption of a fiscal rule to ensure a sustainable budgetary balance, to be incorporated in the annual budgets starting with the 2014/15 budget.	March 31, 2014	
2. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform.	March 31, 2014	
3. Cabinet to approve a detailed budget calendar consistent with top-down expenditure ceilings, for the 2014/15 budget	November 30, 2013	Met
4. Government to ensure there is: (i) no financing of Clarendon Alimina Production (CAP) by the government or any public body, including Petro Caribe; and (ii) no new government guarantee for CAP or use of public assets (other than shares in CAP and assets owned by CAP) as collateral for third-party financing of CAP	Continuous	Met
5. Government to table in parliament a budget for 2014/15 consistent with the program	April 30, 2014	
6. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17)	April 30, 2014	
Tax Reform		
7. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as stipulated in the TMU.	Continuous	Met
8. Parliament to adopt amendments to the relevant tax acts to harmonize the tax treatment for charities across tax types and remove ministerial discretion to grant waivers for charities and charitable purposes as described in paragraph 34 of the April 17, 2013 MEFP.	May 31, 2013	Met
9.a. Government to table a Charities Bill in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff.	September 30, 2013	Met
9.b. Government to cease the granting of waivers to charities other than under the Charities Bill.	November 30, 2013	Met
10.a. Government to table Omnibus Tax Incentive Act in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff, to eliminate ministerial discretionary powers to grant or validate any tax relief, and put in place a transparent regime for limited tax incentives.	September 30, 2013	Met with delay
10.b. Government to cease the granting of tax incentives under the regime prior to the Fiscal Incentives Legislation.	December 31, 2013	Met
11. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (paragraphs 6, 7, 8, and 9 of the December 2013 MEFP) and as stipulated in the current MEFP.	March 31, 2014	
12. Government to table in parliament amendments to the GCT as stipulated in paragraph 11 of the the MEFP	June 30, 2014	Proposed new structural benchmark
13. Government to conduct an entity by entity review of all grandfathered entities and of their specific tax incentives in the context of the new tax incentives legislation by end-2014/15	January 31, 2015	
Tax Administration		
14. Government to make e-filing mandatory for LTO clients with respect to General Consumption Tax (GCT) and Corporate Income Tax (CIT)	March 31, 2014	
Financial sector		
15. Government to Establish and Operate a Central Collateral Registry.	December 31, 2013	Met
16. Government to implement a legal and regulatory framework conducive to Collective Investment Schemes (Paragraph 45 of the MEFP of April 17, 2013) in consultation with Fund staff.	December 31, 2013	Met
17. Government to table legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	Revised structural benchmark
18. Government to submit proposals for a distinct treatment for retail repo client interests in the legal and regulatory framework to the relevant financial industry for consultation (MEFP Paragraph 25) in consultation with Fund staff.	March 31, 2014	Proposed new structural benchmark
19. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (MEFP Paragraph 25) in consultation with Fund staff.	June 30, 2014	Reset from March 31, 2014
20. Government to table the Omnibus Banking Law consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	Revised structural benchmark
Growth enhancing structural reforms		
21. Government to implement a new (AMANDA) tracking system to track approval of contruction permits across all parish councils.	December 30, 2014	Proposed new structural benchmark
21. Government to table in parliament the electricity Act	September 30, 2014	Proposed new structural benchmark

Statistical Index: IMF (adapted) & The Budget

Table 1. Jamaica: Quantitative Performance Criteria 1/2/
(In billions of Jamaican dollars)

	2013 End-Dec Prog.	2013 End-Dec. Actual 3/	2013 End-Dec. Stock 4/	2014 End-Mar. PC	2014 End-Jun. PC	2014 End-Sep. PC	2014 End-Dec. Proposed PC
Fiscal targets							
1. Primary balance of the central government (floor) 5/	61.6	61.7	...	111.5	15.5	38.4	66.0
2. Tax Revenues (floor) 5/10/	232.7	242.7	...	357.5	80.0	166.0	253.4
3. Overall balance of the public sector (floor) 5/	-37.3	-27.3	...	-7.4	-19.3	-30.2	-37.0
4. Central government direct debt (ceiling) 5/6/	92.9	53.7	1672.0	70.3	15.7	23.2	26.5
5. Central government guaranteed debt (ceiling) 5/	-13.0	-13.0	...	-14.0	4.0	2.7	0.1
6. Central government accumulation of domestic arrears (ceiling) 7/13/14/	0.0	-0.3	21.6	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 8/13/14/	0.0	-2.7	24.6	0.0	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 7/13/	0.0	0.0	...	0.0	0.0	0.0	0.0
9. Social spending (floor) 10/11/	14.4	16.6	...	20.1	4.2	8.9	14.8
Monetary targets							
10. Cumulative change in net international reserves (floor) 9/12/15/	-220.5	-81.8	1045.2	194.4	194.8	187.8	210.32
11. Cummulative change in net domestic assets (ceiling) 12/15/	26.4	13.7	-7.6	-21.4	-21.6	-17.2	-11.9

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Including modified performance criteria.
4/ Based on the original program exchange rates.
3/ Based on the revised program exchange rates (see the TMU).
5/ Cumulative flows from April 1 through March 31.
6/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
7/ Includes debt payments, supplies and other committed spending as per contractual obligations.
8/ Includes tax refund arrears as stipulated by law.
9/ In millions of U.S. dollars.
10/ Indicative target.
11/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
12/ Cumulative change from end-December 2013 except the end December 2013 PC , which is cummulative change from end-December 2012.
13/ Continuous performance criterion.
14/ The data for the stock are as of end-March 2013 rather than end-December 2013.
15/ The end-December 2012 NIR and NDA were US$1138.5 million and J$-9.5 billion respectively.

Extracts from the Estimates of Expenditure

	2014/15	2013/14 Final	Variance
Recurrent Expenditure			
Debt Service (Interest)	$132.7 Billion	$109.4 Billion	$23.3 Billion
Min of National security	$47.1 Billion	$48.4 Billion	($1.3 Billion)
Min of Justice	$4.6 Billion	$4.3 Billion	$300 Million
Min of education	$78.3 Billion	$84.0 Billion	($5.7 Billion)
Min of Health	$36 Billion	$37.6 Billion	($1.6 Billion)
Min of Agriculture	$3.5 Billion	$3.4 Billion	$100 Million
Min of STEM	$4.5 Billion	$3.6 Billion	$900 Million
Min of Transport	$3.4 Billion	$2.7 Billion	$700 Million
Total Reccurement	**$404.7 Billion**	**$358.4 Billion**	**$46.3 Billion**
CAPITAL A Expenditure			
Finance (Debt Service primarily)	$100.7 Billion	$109.8 Billion	($9.1 Billion)
National security	$2.2 Billion	$1.6 Billion	$600 Million
Education	$615 million	$216 Million	$400 Million
Transport and Works	$3.1 Billion	$3.9 Billion	($800 Million)
CAPITAL B Expenditure:			
National security	$1 Billion	$1.3 Billion	($300 Million)
Education	$1.5 Billion	$1.5 Billion	-
Transport and Works	$10.6 Billion	$8.3 Billion	$2.3 Billion
TOTAL CAPITAL (A+B)	**$134.7 Billion**	**$142.3 Billion**	**($7.6 Billion)**

KEY

ACP— Africa Caribbean Pacific States

BM – Base Money

BP — Basis Points

CaPRI— Caribbean Policy and Research Institute

CARICOM— Caribbean Community & Common Market

CARIFORUM— CARICOM and Dominican Republic

CPI – Consumer Price Index

CSME— Caribbean Single Market & Economy

EC— European Commission

EPA—Economic Partnership Agreement

EU—European Union

FX Dep – Foreign Exchange Deposit

JCB – Jamaica Conference Board

JCC – Jamaica Chamber of Commerce

KMA — Kingston and Metropolitan Area

KSA—Kingston and St. Andrew

WTI — West Texas Intermediate (Spot Oil Price)

Loan – Average Loan Rate

M – Monthly Percentage Change

M2 – Money Supply

MT – Million tonnes

N/A – Not Available

NIR – Net International Reserves

OMO – Open Market Operation

P – Point-to-Point Percentage Change

R – Revised

S – Stopover

Save – Average Savings Deposit Rate

T-bill – 6-month Treasury Bill Yield

Tourism – Total Tourist Arrivals

WATBY- weighted average Treasury bill yield

WTO—World Trade Organization

OECD—Organisation for Economic Co-operating and Development (membership of 30 major countries)

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