THE PRIVATE SECTOR ORGANISATION OF JAMAICA

ANNUAL REPORT ON THE JAMAICAN ECONOMY 2000

Published June 2001

Publication Design and Typsetting:
The Private Sector Organisation of Jamaica
39 Hope Road, Kingston 10
Tel: 927-6238 Fax: 927-5137 Email:psoj@cwjamaica.com Website: www.psoj.org

PSOJ PUBLICATIONS

	Published
Jamaica Economic Review	1984 - 1988
A Policy Framework for Economic Development in Jamaica	1985
Economic Analysis and Public Policy I *Foreign Trade Policy*	1986
PSOJ's 10th Anniversary Membership Directory and Business Handbook	1986
Economic Analysis and Public Policy II *The Role of Government in the Jamaican Economy*	1987
Economic Analysis and Public Policy III *Exchange Rate Policy for Economic Growth & Development*	1987
Economic Analysis and Public Policy IV *Why the JCTC should be Dismantled*	1989
Economic Analysis and Public Policy V *Social Policy*	1990
Annual Report on the Jamaican Economy	1990 - 1999
Exchange Control Liberalisation in Jamaica	1991
A Policy Framework for Economic Development in Jamaica *A Progress Report*	1992
PSOJ/USAID *Business Behaviour Survey 1993*	1993
PSOJ/USAID *Business Behaviour Survey 1994*	1994
Good Governance and Electoral Reform *A Case of Jamaica: A PSOJ Perspective*	1994
Alternative Monetary Regimes for Jamaica	1995
PSOJ's 20th Anniversary Commemorative Journal & Membership Handbook	1996
PSOJ Fiscal Policy Paper *The Role of Government in Budgetary Reform and Debt Management*	1996
PSOJ's Investment Policy Paper	1997
PSOJ's Technical Response to the BOJ's Paper on Foreign Exchange Market Policy	1997

TABLE OF CONTENTS

LIST OF TABLES

Data Sources: Statistical Institute of Jamaica, Planning Institute of Jamaica, Bank of Jamaica, Jamaica Tourist Board, Jamaica Bauxite Institute , International Monetary Fund, Ministry of Mining and Energy, Ministry of Finance and Planning

LIST OF BOXES

Overview of Annual Economic Report 2000

In 2000, macro-economic policy followed the pattern that had been established over the previous 3 years, with similar results. The major difference was that in the year 2000, the economy moved from marginal declines in output to marginal growth, the first such positive result since 1995. According to data published by the Statistical Institute of Jamaica, the economy grew by 0.8% in 2000. As has been the trend in recent years, the service sector was the main engine of growth, with expansion in basic services, telecommunications and tourism, compensating for overall contraction in the goods producing sectors of the economy. The growth in tourism probably had the most profound effect on the overall growth of the economy, and this in turn was probably influenced by the opening of two large new hotels, the Ritz-Carlton in Montego Bay and the RIU Tropical in Negril.

Growth was again restrained by the government's continued reliance on a policy of high real interest rates to restrain the rate of depreciation of the Jamaican dollar. After declining slowly for the first half of the year interest rates hovered at around 17% for a few months before being raised abruptly to 22% when the local currency came under pressure in the final quarter of the year. The reliance on high interest rates has continued even as the reserves of the Bank of Jamaica have risen to record levels, due to successful bond issues on the international capital market. Unlike 1999, the government was able to raise over US$600 million in bonds and together with loans from the IDB and the World Bank, was able to borrow just under US$800m during the course of the year 2000. This, along with the proceeds of the sale of cellular licences and FINSAC divestments, pushed the Net International Reserves (NIR) to over US$900m by the end of the year. The increase in the reserves did not stop the currency from depreciating by about 10% and it did not prevent the Bank of Jamaica from raising interest rates again, in defence of the local dollar.

The social cost of the high interest rate policy continues to take its toll with expenditure cutbacks taking place in most areas of government. These pressures will intensify as the FINSAC debt comes onto the budget in the 2001/02 fiscal year. The murder rate remains at an unacceptably high level and the resource constraints affecting the police force do not suggest that this very serious problem is getting closer to a resolution. Firms are still restructuring and even the public sector is retrenching staff, so that there is little prospect of a significant reduction in unemployment in the near future.

The outlook for the near term is for 2001 to be very similar in outturn to 2000. If the relatively strong growth in tourism, which occurred in the first quarter, continues throughout the year, it is likely that marginal growth of between 0 and 2% may occur in 2001. The BOJ is likely to raise interest rates again in the latter half of the year, dampening any prospect of stronger growth in the economy. In any event, lending rates remain at about 30% or more for most borrowers, a level which is hardly likely to encourage high rates of growth. Inflation is likely to again fall in the 6-8% range but inflationary pressures are likely to be building up towards the end of 2001 and into early 2002.

The government is likely to have another good year in the international capital markets and has already raised US$575m in the first half of 2001. The budget calls for about US$700m in foreign borrowing and this target should be reached without much difficulty. The government's success in this regard has reversed the downward trend in the foreign debt and this increased last year by about 17% and could reach close to US$4 billion by the end of 2001, up from US$3 billion at the end of 1999. The domestic debt has continued its strong growth, increasing by just under 25% in 2000, before the FINSAC debt is taken into account. With both the foreign and the local debt growing at significant rates, it seems as if a fairly serious debt crunch may not be very far away.

Finally, a rather worrying development emerged in the last quarter of 2000, which was the use by the BOJ of FINSAC bonds in the conduct of its open market operations. These instruments pay no interest in cash and about half of the BOJ's holdings of them were due to be redeemed or written off by the government as part of the FINSAC restructuring. Unless the government redeems the interest due on these bonds in cash, the BOJ will end up printing money to pay the interest on its repos, which are backed by these FINSAC bonds. This would have a highly inflationary effect and would make the maintenance of moderate inflation a rather difficult task.

Chapter 1: The World Economy

Key Developments

Preliminary indications are that the first year of the new millennium enjoyed the strongest growth in more than a decade, growing by an estimated 4.7 per cent (*Table 1.1*). Global economic and financial conditions have improved dramatically, with strong growth being recorded in virtually all of the world's major regions. The remarkable strength in the U.S. economy and robust growth apparent in Western Europe had provided key support for faster than expected recoveries in Asia, Latin America, and other Emerging market regions. Among most crisis countries, the determined adjustment efforts pursued by policymakers contributed to an early restoration of macroeconomic stability and a steady improvement in external confidence.

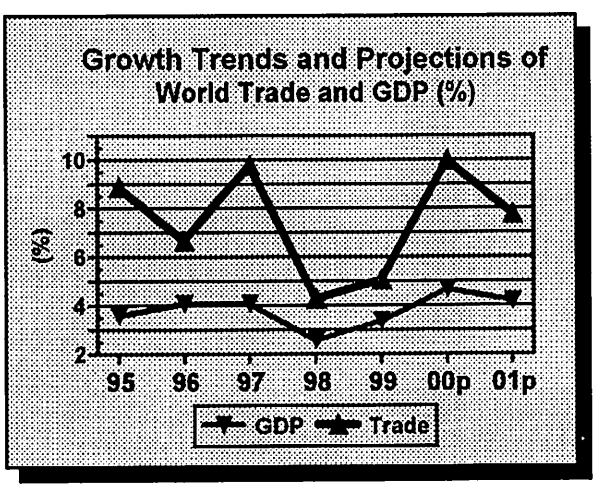


Figure 1.1

Despite rising oil prices and strong output gain, inflation was relatively subdued in developing and industrial countries, recording 6.2 per cent and 2.3 per cent respectively. Core inflation was broadly stable or fell in most regions, but fiscal and external imbalances remained problematic in some countries. Private sector financing to emerging markets has recovered from its late 1998 lows, reflecting a combination of improving macroeconomic fundamentals in these economies and favourable liquidity conditions in advanced economies. However the situation was fragile and impeded recovery in many countries. At the same time, buoyant demand in North America and growing demand in Europe and parts of Asia provided needed export markets for countries emerging from recession.

Other key developments in 2000 included the rise in world oil prices to their highest levels since 1991 – which fuelled protests across Europe - with a bottoming out of many other commodity prices, a firming of interest rates in advanced economies, except Japan; and gains in most equity markets, driven by large share prices of technology-related firms. Prices have since been revised downwards, due to inflationary fears and subsequent interest rate increases by the U.S. Federal Reserve and the European Central Bank. The economic / financial problems related to the year 2000 (Y2K) computer bug failed to materialise, due to the planning and remedial efforts undertaken by the private sector, governments and international institutions.

The period also witnessed a highly undervalued volatile euro, hitting record lows against the U.S. dollar (down 8%) and most other currencies in mid-May and again in September of 2000. This impacted on the Jamaican economy with a fall-out in the value of export earnings for bananas and sugar.

During 2000, the launch of the World Trade Organisation (WTO) Millennium Round negotiations focused on Agriculture and Services, and sought to further liberalise trade within these areas. The Cotonou Agreement, which replaced the Lome IV, also came into effect in June 2000, which was aimed at establishing a new partnership agreement for future relations including trade regulations, development and financial cooperation strategies. Perhaps of even greater

Table 1.1
World Economic Trends and Projections
(annual percentage change unless otherwise noted)

			Projections	
	1998	**1999**	**2000**	**2001**
World Output	2.6	3.4	4.7	4.2
Advanced Economies	2.4	3.2	4.2	3.2
Major Industrial Countries	2.5	2.9	3.9	2.9
United States	4.4	4.2	5.2	3.2
Japan	-2.5	0.2	1.4	1.8
Germany	2.1	1.6	2.9	3.3
France	3.2	2.9	3.5	3.5
Italy	1.5	1.4	3.1	3.0
United Kingdom	2.6	2.1	3.1	2.8
Canada	3.3	4.5	4.7	2.8
Other Advanced Economies	2.0	4.7	5.1	4.2
Euro Area	2.7	2.4	3.5	3.4
Developing Countries	3.5	3.8	5.6	5.7
Africa	3.1	2.2	3.4	4.4
Asia	4.1	5.9	6.7	6.6
China	7.8	7.1	7.5	7.3
India	6.3	6.4	6.7	6.5
ASEAN-4	-9.3	2.6	4.5	5.0
Middle East and Europe	3.1	0.8	4.7	4.1
Western Hemisphere	2.2	0.3	4.3	4.5
Countries in Transition	-0.8	2.4	4.9	4.1
Trade in Goods & Services				
World Trade (Volume)	4.3	5.1	10.0	7.8
Imports				
Advanced Economies	5.7	7.6	10.3	7.9
Developing Countires	0.3	1.1	10.0	9.0
Countries in Transition	2.5	-2.9	12.4	8.4
Exports				
Advanced Economies	3.9	4.8	9.9	7.6
Developing Countires	3.7	3.5	8.8	7.1
Countries in Transition	6.5	5.0	10.1	6.0
Commodity Prices (US$)				
Oil	-32.1	37.5	47.5	-13.3
Non-fuel	-14.8	-7.2	3.4	4.5
Consumer Prices				
Advanced Economies	1.5	1.4	2.3	2.1
Developing Countries	10.1	6.6	6.2	5.2
Countries in Transition	21.8	43.8	18.3	12.5
Six month London Interbank offered rate (LIBOR), %)				
On U.S. dollar deposits	5.6	5.5	6.8	7.4
On euro deposits	3.7	3.0	4.6	5.1

importance was the Everything But Arms (EBA) proposal by the European Commission, which plans to provide full access by Least Developed Countries (LDC's) to the European Union Markets. The 48 LDC's would be granted unrestricted duty free access to the European Union in the trade of everything but arms, and goes beyond all previous EU commitments on trade liberalization, with serious implications for the Caribbean.

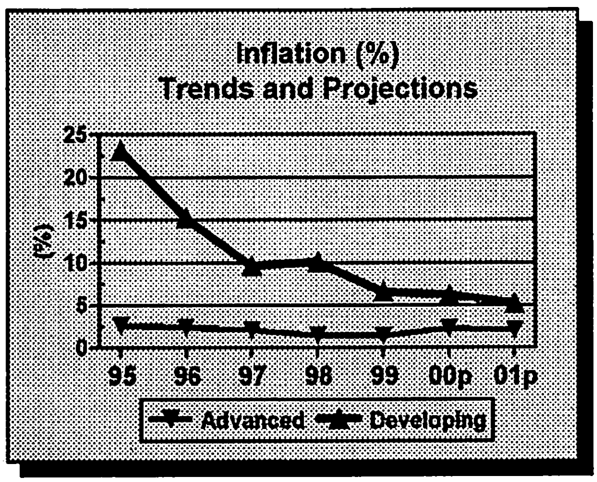


Figure 1.2

After fourteen years of negotiations, China finally reached bilateral agreements on the terms of its entry to the World Trade Organisation (WTO) with most of the trade partners participating in accession negotiations, including the United States and the European Union. WTO accession could prove to be a watershed for reform in China, and given the size of China's economy, this should have a significant impact beyond the mainland. This is especially true for Hong Kong SAR, which could face increased competition from Shanghai as a financial centre within the next five to ten years.

Within CARICOM, the Caribbean Basin Trade Partnership Act (CBTPA), was launched. It was implemented between the USA and the 24 beneficiary countries of the Caribbean Basin Initiative (CBI) and has a duration of eight years. The CBTPA grants preferential treatment for apparel made in the Caribbean Basin Region and is an attempt to correct some of the imbalances created by the North American Free Trade Agreement (NAFTA).

World Trade

World trade volumes picked up in 2000 and helped improve the external environment for many countries. World trade growth almost doubled in 2000, moving from 5.1 per cent in 1999 to an estimated 10.0 per cent in 2000. Imports into advanced economies grew robustly, which largely reflected the continued strength of domestic demand growth in the United States and the recovery in Europe that began in the second half of 1999. Imports of the advanced economies in Asia and the Pacific region were also strong, except for Japan, where domestic demand was largely stagnant. Demand in China for foreign goods and services also increased robustly, although the reported increase in imports in part reflected a vigorous anti-smuggling campaign. In contrast, in the Western Hemisphere, needed macroeconomic adjustment, led to a fall in imports in all the larger developing countries except for Mexico.

Commodity Prices

Over the past three years, large swings in commodity prices have greatly affected many countries. After peaking in 1996, commodity prices fell by 30 per cent in 1997-1998, due to fall-out from the Asian crisis as well as favourable harvests of some crops, causing a substantial terms-of-trade shock for commodity exporting developing countries. The oil price rebound in 2000 has reversed these losses for oil exporters, but has substantially worsened the position of most other commodity exporters - many of which are among the poorest countries - especially given the relatively weak outlook for commodity prices. Exports from oil producing countries increased by 7.0 percentage points to 8.1 per cent, while exports from non-fuel oil producers increased by 4.7 percentage points to 10.8 per cent.

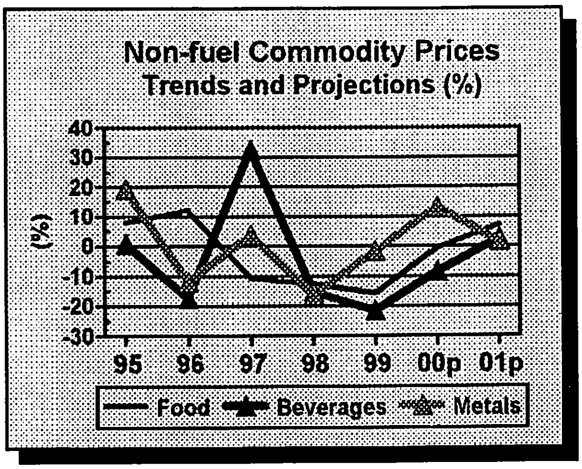


Figure 1.3

The prices of many key commodities have moved relatively independently over the past 12 months. While fuel prices have increased sharply, prices of non-fuel commodities have staged modest recoveries at best, with agricultural prices being particularly weak, despite rising global demand. The nominal prices of agricultural products fell by 4.7 per cent in 2000, although falling global inventory levels and strong increased demand in the future is expected to realize 4.2 per cent and 6.3 per cent increases, in 2001 and 2002 respectively. Coffee prices fell by 36.3 per cent in 2000, while sugar and banana prices grew 27.4 per cent and 15.1 per cent respectively. Prices of coffee, sugar and bananas are expected to rise by 2.3 per cent, 2.8 per cent and 8.0 per cent respectively.

Oil prices hit almost $38.00 a barrel during the 3rd week of September, more than three times its level at the end of 1998, the highest since the Gulf War. Crude oil prices averaged US$28.00 per barrel compared to US$18.07 per barrel in 1999. This rise in price from historically low levels was attributed in part to voluntary supply restraints by some of the major oil producers, strong growth in the U.S. economy and the unexpectedly robust economic recovery in Asia.

There had been increasing pressure on OPEC producers to increase output, which they did by 800,000 barrels, after which oil prices still increased. However, developed nations such as the U.S. maintained that OPEC had not done enough to ease high prices. OPEC responded by saying it would not release more oil than the market needed, in fear that prices might collapse in 2001, as they did in 1998, when they registered record lows of US$10.00 per barrel. OPEC posited that the consuming nations high taxes on gasoline, diesel, heating oil and other products as well as refining and shipping bottlenecks, were the real culprits behind high prices. During the week of September 25, the U.S. responded by releasing millions of barrels of oil usually kept for emergency purposes, which saw oil prices trending downwards by December 2000. OPEC has since agreed to cut supplies by 1.5 million barrels per day to allow prices to float near US$25 a barrel.

Outlook

The global economy may have reached its peak during 2000 and 2001 may see a fall-off in output compared to 2000. This is evidenced by the fall in consumer and business confidence as well as stock prices, during the last quarter of 2000 through the first quarter of 2001, in the United States. Further, the Federal Reserve has slashed interest rates by 50 basis points four times over the first four months of 2001, in an attempt to reverse the apparent economic slowdown and prevent a recession within the United States. The apparent slowing in growth of the U.S. economy through the first quarter of 2001 - the major engine of growth during 2000 – presents a risk to global economic growth during 2001. This would also affect growth and capital flows to emerging markets with strong trade links to the U.S. including Jamaica. Further, the record levels attained by oil prices may tilt up world headline inflation, and reduce real output growth for the world economy by approximately 0.5%, according to the IMF, relative to projected forecasts. However, the US economy could rebound in the latter half of 2001, reducing some of the impact of the slower growth during the first half of the year.

The developments in world trade vis-à-vis the EU's EBA proposal, present significant risks to Jamaica and the Caribbean region, whose economies are dependent to a large extent, on exports to the EU. This highlights the need for the region to restructure and improve the efficiency of their productive sectors within the time frame presented, in anticipation of a global economy.

Chapter 2: Gross Domestic Product

Jamaica's real gross domestic product (GDP) registered a positive performance for the first time in five years, growing by 0.8 per cent (preliminary) for Calendar year 2000 (*Table 2.1*). The last positive GDP performance was the 1.0 per cent growth recorded in 1995. Real GDP has declined by an annual average rate of negative 0.4 per cent since the last positive out-turn in 1995. Real GDP for Calendar year 2000 (1986 constant prices) was J$19,154.3 million, compared to the J$19,003.9 million recorded in 1999. However this level was 3.12 percentage points below 1995's level of J$19,773 million.

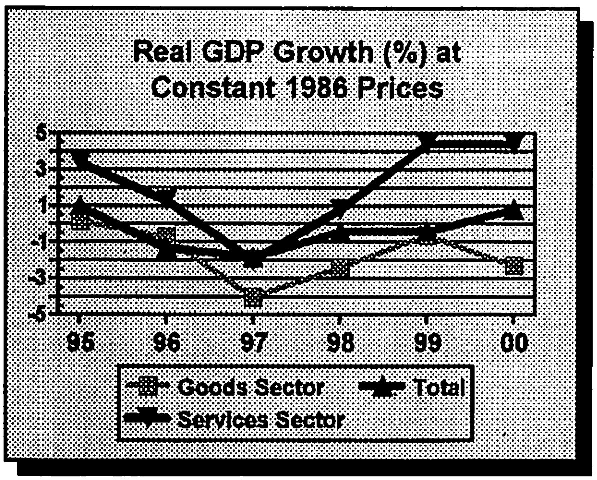


Figure 2.1

Continued strong overall performance from the services sector was sufficient to outweigh the continued decline of the goods producing sector, resulting in positive growth. The services sector grew by 4.4 per cent in 2000, the same as recorded for 1999. Growth in the sector was led by strong performances from basic services (6.7%), transport, storage and communications (7.8%), financial institutions (10.6%) and miscellaneous services (5.3%), which includes tourism. The major contributor to the decline of the goods producing sector was the 11.2 per cent decline from the agriculture, forestry and fishing sector, despite a 0.7 per cent positive out-turn in the heavily weighted manufacturing sector.

Real GDP per capita increased for the first time since 1993, recording J$7,351.6 a 0.2 per cent increase above 1999's figure. Preliminary figures from the Planning Institute of Jamaica indicates GDP per worker, a crude measure of productivity, improved in 2000 compared to the previous year. The manufacturing sector showed the highest increase (24.4%) with real GDP per worker moving to J$188,214.0, from J$159,406 in 1999. However, while the sector registered an increase in output, there was a 19.0% decline in the employed labor force in this sector, due to the retooling and modernizing of the sector. Financing, Insurance, Communications and Business Services were other sectors that showed some improved productivity.

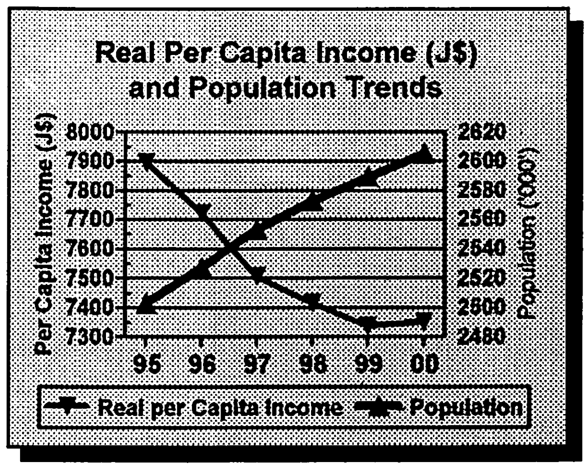


Figure 2.2

Goods Producing Sector

The overall negative 2.3 per cent growth recorded for the Goods producing group in 2000, was mainly characterized by mixed performances within its sub-sectors.

The **Agriculture, Forestry and Fishing** (-11.2%) and the **Mining and Quarrying** (-1.6 %) sub-

Box 2.1
Factors Influencing Overall GDP Growth

Growth in overall GDP was influenced by international and domestic factors, chief among which were:

- Improved productivity of some firms within the Manufacturing and Processing sector, leading to its first positive performance in over five years, following restructuring and retooling. Some firms were able to retool despite the high real interest rates of over 12% per cent, due to special lines of credit made available at lower interest rates.
- Continued consolidation and restructuring of the financial sector, with the programmed 1 per cent lowering of the cash reserve ratio for commercial banks and financial institutions, and reduction of the tax on dividends for listed companies (*See Money and Banking*).
- The on-lending of loans at special interest rates to the Small Business sector, which helped to improve productivity somewhat.
- The increase in demand and hence prices for some international products leading to increased export receipts, following the strong 4.7 per cent out-turn in world output for 2000. Exports of Goods and Services grew by 16.9% in 2000, the highest since the 1995 positive economic out-turn (23.1%). The strong output of the world economy and particularly the United States, also influenced growth in local Tourism (10.6%) and increased the inflow of remittances (26.6%) from abroad, both major sources of foreign exchange earnings.
- Continued constraint of inflation growth through the targeting of base money, has helped to preserve the relatively stable macro-economic environment. Further, the real exchange rate depreciated by 4%, improving the competitiveness of domestic exporters.
- Increased world oil prices to record levels during 2000 resulted in a higher oil bill, offsetting some of the positive gains from higher world commodity export prices.
- Continued adverse weather conditions severely affected production of agricultural produce, especially major export crops of Sugar and Bananas, resulting in loss of earnings. Sugar and Bananas were also affected by lower prices on the international market, due mostly to depreciation of the euro to record lows during 2000.
- The Bauxite industry, a major foreign exchange earner, was impeded by the closure of the major export refinery in Louisiana, for the first three quarters of 2000. This resulted in lower earnings than expected.

sectors posted negative performances, while the Manufacturing (0.7%) and Construction and Installation (0.1%) sub-sectors recorded slight growth. The Agriculture, Forestry and Fishing sub-sector was adversely affected by severe drought conditions during most of 2000 and depreciation of the euro, which had a negative impact on both Export and Domestic agriculture. Mining and Quarrying, with a 9.1% contribution to GDP, was adversely affected by the closure of the Gramercy refinery in the United States, the major purchaser of crude bauxite from Jamaica.

Manufacturing, which contributes the most to the sector, registered its first positive performance since 1995. Improvement in the out-turn of Processed Food (3.1%), Petroleum Refining (3.0%) and the Alcoholic and Non-Alcoholic Beverages (9.8%) groups were sufficient to offset declines in most of the other sectors. These sectors benefited significantly from the retooling and restructuring of some firms, and the return to full production of the Petroleum Refinery, following closure during most of 1999.

Construction and Installation eked out a 0.1 per cent growth performance, following four consecutive years of negative performances.

Table 2.1
Real GDP Growth Per Sector (1986 Constant Prices)

	1996	1997	1998	1999	2000
I. Goods	-0.7	-4.0	-2.4	-0.6	-2.3
Agri, Forestry & Fishing	3.5	-13.8	-1.4	1.3	-11.2
Export Agriculture	6.8	-9.8	-5.2	-1.5	-7.9
Domestic Agriculture	2.7	-20.1	-1.0	1.5	-17.0
Fishing	7.7	-5.0	-1.1	3.1	3.6
Mining & Quarrying	7.5	3.3	3.3	-1.2	-1.6
Bauxite and Alumina	7.6	3.4	3.5	-1.4	-1.7
Quarrying	3.2	-0.6	-11.2	11.7	6.8
Manufacturing	-4.2	-2.6	-4.4	-0.9	0.7
Food	3.4	-0.4	-1.8	3.3	3.1
Sugar, Molasses & Rum	9.2	0.6	-18.6	9.4	-5.7
Alcoholic & Non-Alcoholic Beverages	1.9	2.3	-2.9	2.9	9.8
Tobacco & Tobacco Products	-3.5	-1.4	-2.8	-8.4	-8.5
Textiles, Apparel & Footwear	-23.7	-22.5	-10.3	-16.2	-4.3
Furniture & Fixtures, Wood & Cork	-9.5	-5.3	-10.7	0.1	-9.3
Paper, Printing & Publishing	-4.7	-11.8	-5.6	-5.8	1.2
Petroleum Refining	-3.6	9.3	-5.3	-3.6	3.0
Chemicals & Other Non-Metal Products	-3.2	-3.4	-6.6	1.4	-2.1
Metal Products, Machinery & Equipment	-8.2	-4.3	-0.3	-1.4	0.9
Other Manufacturing Industries	0.8	-4.6	-4.2	2.7	-3.3
Construction & Installation	-5.4	-4.0	-5.8	-1.5	0.1
II. Services	1.3	-2.0	0.8	4.4	4.4
Basic Services	8.0	5.7	5.8	7.6	6.7
Electricity & Water	4.9	5.5	6.4	4.8	3.3
Transport, Storage & Communications	8.8	5.7	5.6	8.6	7.8
Transportation & Storage	5.8	4.4	2.5	6.0	4.8
Communications	13.8	7.4	9.7	11.7	11.4
Other Services	-0.5	-4.2	-0.8	3.4	3.6
Distribution	1.2	1.0	-1.6	-0.9	1.0
Financial Institutions	-5.4	-17.9	-2.3	18.0	10.6
Financial Services	-5.3	-19.2	-0.6	20.6	11.4
Insurance	-5.7	-8.0	-13.8	-3.0	2.7
Real Estate & Business Services	1.7	-4.6	-1.1	-0.8	0.3
Government Services	-0.3	0.5	2.1	0.3	-1.3
Miscellaneous Services	2.0	2.1	2.0	1.4	5.3
Hotels, Restaurants & Clubs	2.9	3.2	2.6	1.7	6.1
Other Services	-2.0	-3.1	-0.8	-0.2	0.9
Household & Private Non-Profit	-4.5	-10.3	-6.3	-2.1	-1.6
III. Imputed Bank Services Charges	11.4	-7.5	0.0	19.7	8.2
IV. Total GDP	-1.3	-1.8	-0.4	-0.4	0.8
GDP Per Capita	-2.2	-2.8	-1.2	-1.1	0.2

The positive out-turn reflects the expansion of telecommunications services and retooling activities of the Manufacturing sector.

Services

The services sector continues to be the mainstay of the Jamaican economy, as both **Basic Services** (6.7%) and **Other Services** (3.6%) improved in 2000. Basic Services was driven by increases in the Electricity and Water (3.3%) and the Transport, Storage and Communications (7.8%) sub-sectors. According to the Economic and Social Survey 2000 (ESSJ) activity levels in the Electricity sub-sector increased in response to increased demand from some Manufacturing sub-sectors as well as residential consumers. The positive developments in the Telecommunications industry reflected the increased demand for telephone services, notably cellular services.

Financial Institutions (10.6%) led the way in Other Services, buoyed by Financial Services (11.4%) and a 2.7 per cent recovery in Insurance, following four years of decline. Financial institutions continued to benefit from the on-going rehabilitation and restructuring of the Financial Sector, following the 1996 collapse of a large part of the industry. In 1999, Financial Institutions recorded its first growth (18.0%) in four years following an average decline of 6.8 per cent over the previous four years.

Miscellaneous Services registered an increase of 5.3 per cent in 2000, compared with 1.4 per cent in 1999. This out-turn was buoyed by a 6.1 per cent increase in the Hotels, Clubs and Restaurants sub-sector, which captures Tourism GDP. This out-turn for Hotels, Clubs and Restaurants is more than twice the average rate of growth of 2.92 per cent, for the sector over the previous five years. The 2000 out-turn mainly reflects strong world economic activity, especially in the United States, the major tourism market, as well as unanticipated cruise ship calls.

Government Services declined by 1.3 per cent, following a similar decline in local government services.

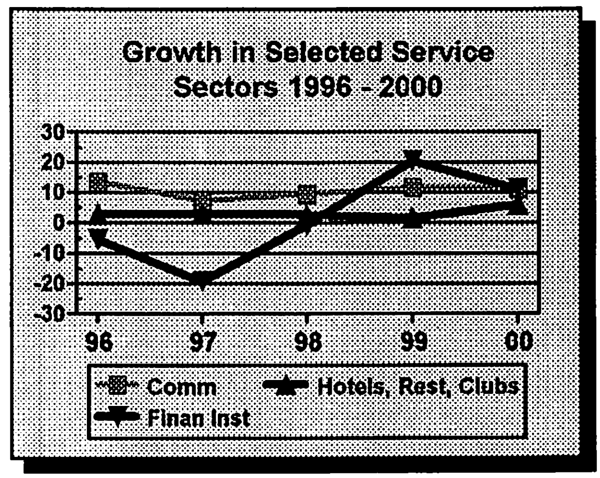


Figure 2.3

Outlook

The return to a positive GDP performance by the economy has been a welcome relief, albeit much lower than the 2.5 per cent originally projected, and the medium term prospects for growth remain positive. A number of factors in the economy underpin this positive outlook. To a larger extent, inflation has remained in single digits and provides a more stable environment for positive long-term investment planning. Continued reduction in the reserve requirement of commercial banks and financial institutions should also improve liquidity resources to the financial sector. The real effective exchange rate may also be expected to decline, following two consecutive years of decline. This will continue to improve the productivity of domestic exporters, and make up ground for the spiraling appreciation during the early part of the 1990's.

In addition, the Mining and Quarrying industry should recover in 2001, following the return to production of the Gramercy refinery. The Manufacturing and Processing sector is also expected to consolidate on the gains made in 2000, following the restructuring and retooling done during the year. Given their combined weighting of sixty per cent to the output of the Goods producing sector, a relatively strong performance by these two sectors could see the Goods sector registering growth for the first time in six years.

Services should continue to be the major impetus to growth with its continued strong showing in 2001, led by the financial services and buoyant tourism sectors. The continued restructuring of the financial sector including an improved regulatory and supervisory regime, should improve the sectors' efficiency and productivity in the near term. Another driving force behind the services sector could be the return to growth of the heavily weighted Distribution sector, which showed marginal growth of 1 per cent in 2000, following two years of decline.

However, the growth process is not without its obstacles, the most critical of which is the sustained reduction of interest rates. The Government slashed interest rates in March 2001, in an attempt to indicate its continued commitment to reducing interest rates as outlined in the SMP. However it appears as if the Government has been following the same interest-rate-exchange-rate trade-off for the past three years (*Money and Banking – Interest Rates*), and another run on the exchange rate during the latter part of the year could see the interest rate targets not being achieved again. Nevertheless, if the net international reserves maintain its current growth path, there may be no need for the interest-rate-exchange-rate tradeoff, which could result in interest targets being achieved. Interest rates are critical to the government's fiscal program, vis-à-vis reducing the burden of debt, and promoting the engine of growth – investment. Time will be a significant factor where the Government's credibility on this issue is concerned.

The economy is also prone to both international and domestic shocks, which could derail the growth process. These include,

- Continued adverse domestic weather conditions, which affect both external and domestic agriculture.
- International trading relations that affect Jamaica's preferential markets, specifically Banana and Sugar.
- The apparent slowdown in the US economy, although it may be expected to rebound during the latter half of 2001.
- Another hike in World Oil prices, which would increase the nation's fuel import bill.

Chapter 3: Balance of Payments

Jamaica's balance of payments accounts recorded an overall positive out-turn for the calendar year 2000, with Net International Reserves (NIR) increasing by a record US$519.3 million (*Table 3.1*). At the end of December 2000, the stock of NIR more than doubled and stood at a record US$969.25 million, equivalent to 17.93 weeks of imports. This was an improvement in comparison to 1999, when the NIR stood at US$450.2 million – equivalent to 10.5 weeks of imports. The positive balance of payments position was primarily due to the large inflows on the Financial Account reflecting a huge increase in official investment inflows.

Goods Balance

At the end of December 2000, Jamaica's trade transactions (f.o.b.) totaled US$4,440.6 million, which comprised US$1,547.1 million in total exports and US$2,893.5 in total imports (includes freezone imports and goods procured in ports).

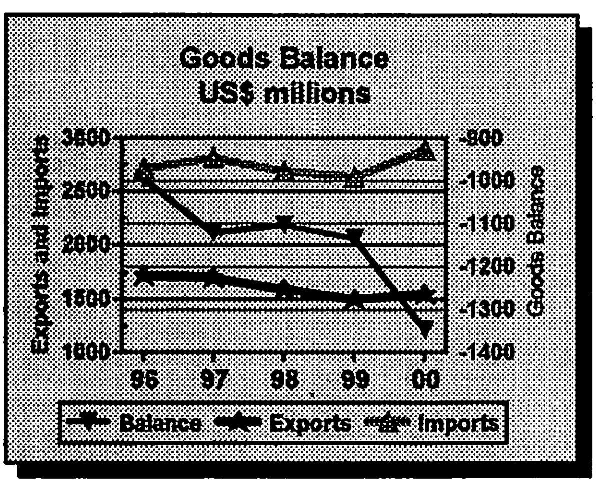


Figure 3.1

There was a US$305.50 million increase in total trade, which reflected increases in both imports and exports of US$259.10 million and exports of US$259.10 million and US$46.40 million respectively. However the increase in imports, which was affected by a huge fuel import bill, offset the marginal increase in exports, and widened the deficit on the goods balance to US$1,346.4 million (*see External Trade*).

Services

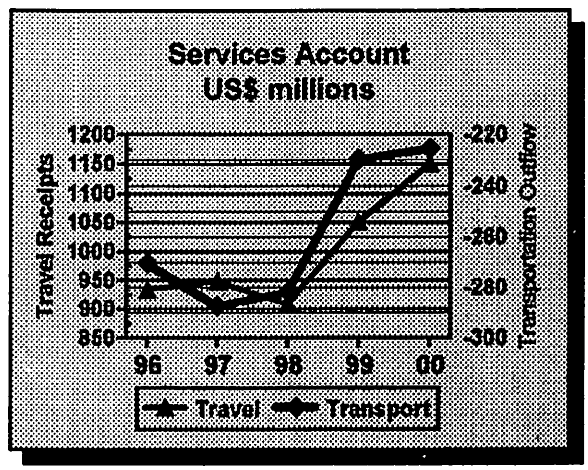


Figure 3.2

The services account balance increased by US$77.2 million (13.67%) at the end of December 2000 to US$642.0 million. The increase in the services account balance was primarily due to the growth in net travel receipts of US$99 million, reflecting a 10.67% increase in tourist visitor arrivals. However it should be noted that the size of this increase is distorted due to a fall-off from travel receipts in the last quarter of 1999, due to Y2K related fears. The services account balance has shown strong growth within the last two years, increasing by 145.98 per cent. This has been largely due to reductions in transport and other cost outflows (*Figure 3.2*).

The PSOJ

Annual Report on the Jamaican Economy 2000

Table 3.1
Balance of Payments 1996 - 2000

	1996	1997	1998	1999	2000	00/99 (US$M)	(%)
1. Current Acount	-238.00	-401.00	-323.00	-252.10	-285.50	-33.40	13.25
Goods Balance	-994.00	-1,121.00	-1,102.00	-1,133.70	-1,346.40	-212.70	18.76
Exports	1,721.00	1,699.10	1,590.40	1,500.70	1,547.10	46.40	3.09
Imports	2,715.20	2,819.90	2,692.30	2,634.40	2,893.50	259.10	9.84
Services Balance	326.00	308.00	261.00	564.80	642.00	77.20	13.67
Transportation	-270.30	-287.40	-281.60	-229.50	-225.30	4.20	-1.83
Travel	935.10	949.50	909.80	1,052.40	1,151.40	99.00	9.41
Other Services	-338.90	-354.50	-367.20	-258.10	-284.10	-26.00	10.07
Bal on Gds & Services	-668.00	-813.00	-841.00	-568.90	-704.40	-135.50	23.82
Income	-177.00	-201.00	-94.00	-332.50	-393.20	-60.70	18.26
Employees Compensation	47.30	53.70	71.90	70.30	65.60	-4.70	-6.69
Investment Income	-204.70	-254.90	-165.50	-402.80	-458.80	-56.00	13.90
Current Transfers	608.00	614.00	612.00	649.30	812.10	162.80	25.07
Official	33.90	23.00	20.40	49.40	146.00	96.60	195.55
Private	573.90	590.80	589.30	599.90	666.10	66.20	11.04
2. Capital & Fin A/c	238.00	401.00	323.00	252.10	285.50	33.40	13.25
Capital A/C	21.10	9.40	6.60	13.10	23.60	10.50	80.15
Capital Transfers	21.10	9.40	6.60	13.10	23.60	10.50	80.15
Official	18.70	7.00	4.20	4.10	15.60	11.50	280.49
Private	2.40	2.40	2.40	9.00	8.00	-1.00	-11.11
Financial A/C	217.00	391.00	316.00	239.00	261.90	22.90	9.58
Other Official Investment	-87.20	48.10	-57.70	-331.40	377.80	709.20	-214.00
Other Private Investment	575.00	116.00	415.00	438.60	403.40	-35.20	-8.03
Reserves	-271.00	162.00	-42.00	131.80	-519.30		

The Current Account

The current account registered a deficit of US$285.5 million, US$33.4 million (13.25%) worse than the corresponding 1999 period. This out-turn was mainly due to the continued adverse trade balance as well as the US$60.7 million decline on the Income account. These negative performances were enough to offset improvements of US$162.8 million and US$77.2 million on the Current Transfers and Services accounts respectively, for an overall decline of US$33.4 million. The worsening of the deficit on the Investment Income Account reflected an increase of US$74 million in outflows, from US$474.6 million in 1999 to US$548.6 million in 2000. Direct investment (up US$86.8 million) was the primary cause of the increased outflows.

The advance in Current Transfers reflected larger inflows from both official and private sources. Inflows from official sources reflected the sale of two cellular licenses, while inflows from private sources reflected the continued buoyancy in remittances, which increased by US$94.0 million (26.7%) from US$352.0 million in 1999 to US$446.0 million in 2000. While inflows from building societies (up US$31.0 million) complemented remittances, inflows from commercial banks served to temper the increased inflows, declining by US$22.7 million.

The Capital And Financial Account

The Capital and Financial Account grew by US$33.4 million over the corresponding 1999 period. The major source of growth to this account was the large inflow of other official investment on the Financial Account. Other official investment increased by US$709.2 million, from negative US$331.4 million to US$377.8 million. This reflected a US$613.7 million increase in inflows through loan receipts to the Government, from US$48.1 million to US$661.8 million, and a US$95.5 million decline in outflows. This huge increase partially reflects government's increased external borrowing, with a view to reduce its actions in the domestic market, which may improve credit to the private sector – and consequently investment. While the flows of credit to the public sector (J$4.30 billion) made up the majority of domestic credit in 2000, it was significantly less than the J$17.77 billion and J$47.61 billion in 1999 and 1998 respectively. In addition, credit to the private sector actually increased (up J$2.26 billion) for the first time in four years, indicating a possible lessening of government's crowding out effect (*Figure 3.3*).

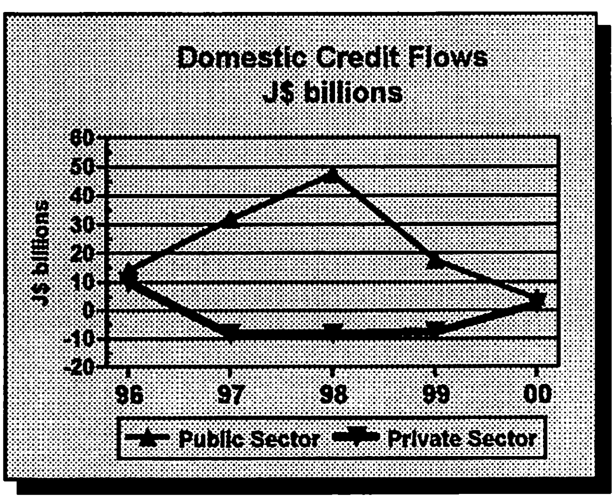


Figure 3.3

In contrast the private investment account recorded a deficit of US$35.2 million. The net surplus of the Other Official Investment, Other Private Investment and Capital accounts were enough to offset the deficit on the Current Account, resulting in a net buildup of US$519.3 million in the NIR, compared to the US$131.8 decline the previous year.

Outlook

Prospects for the balance of payments seem positive within the near term. The NIR may continue to increase during the first half of 2001 (notwithstanding scheduled debt payments) as the Government should receive the divestment proceeds from the sale of JPSCo, and divestment of FINSAC assets. Further, the authorities may be expected to foray into the international capital markets to raise additional financing, as evidenced by their February 2001 175 million Euro issue. However, the current account position could worsen if oil prices remain high and the agriculture sector does not recover sufficiently, leading to a deteriorating goods balance.

Chapter 4: External Trade

The PSOJ

Annual Report on the Jamaican Economy 2000

Jamaica's merchandise trade balance worsened in 2000 to reach a record US$1,891.63 million deficit, in comparison to deficits of US$1,713.86 million and US$1,709.13 million in 1999 and 1998 respectively. Both export earnings and merchandise imports reversed the declining trend that had been observed in 1999 and 1998 to register increases. During 2000, merchandise export earnings registered a 4.38 per cent increase to reach US$1,300.17 million, which was offset by a 7.85 per cent increase in merchandise imports, to reach a record US$3,191.81 million. This compares with declines of 5.65 per cent and 2.31 per cent in 1999, and 4.83 per and 3.14 per cent in 1998 for merchandise exports and imports respectively (*Table 4.1*).

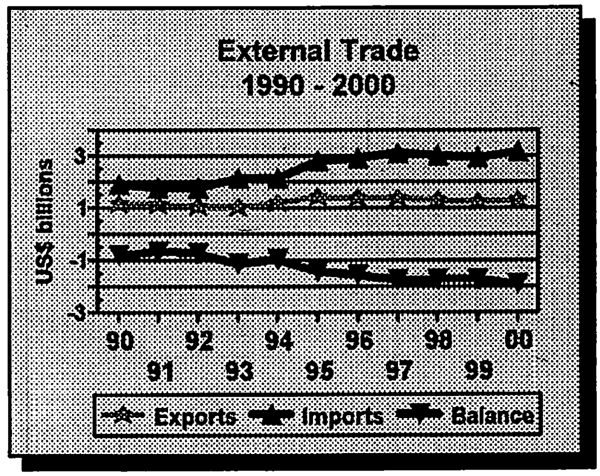


Figure 4.1

The merchandise trade deficit has continued to outpace the total value of export earnings, since 1996. 1995 was the last time that export earnings (US$1,436.70 million) were greater than the trade deficit (US$1,395.10 million) and was also the last time Jamaica recorded a positive GDP performance. In fact, export earnings have declined by 9.50 per cent while imports have increased by 12.71 per cent - which contributed to a 35.39 per cent increase in the merchandise trade balance - over the five years since the last positive GDP out-turn. Export earnings have increased by only 12.32 per cent over the US$1,157.50 recorded in 1990, while the trade balance has widened by 141.10 per cent compared to the 1990 trade deficit of US$784.60.

Box 4.1
% Movements in Merchandise Trade over the periods 1990 to 2000 and 1996 to 2000.

	'90-'00 (%)	'96-'00 (%)
Exports	12.32	-9.5
Imports	64.35	12.71
Balance	141.1	35.59
Avg Exports	1.51	-1.91
Avg Imports	7.17	2.52

Table 4.1 Jamaica's External Trade Balance

	1990	1996	1997	1998	1999	2000	00/99 %	99/98 %
Merchandise Exports	1,157.5	1,387.25	1,387.32	1,320.31	1,245.67	1,300.17	4.38	-5.65
Merchandise Imports	1,942.1	2,933.66	3,127.9	3,029.43	2,959.53	3,191.81	7.85	-2.31
Merchandise Trade Balance	-784.6	-1,546.4	-1,740.5	-1,709.1	-1,713.9	-1,891.6	10.37	0.28
Total Trade	3,099.60	4,320.91	4,515.12	4,349.74	4,205.20	4,491.98	6.82	-3.32

The out-turn of Jamaica's merchandise trade was significantly influenced by local climatic and economic conditions and trade related developments. The continued technological revolution, trade liberalization and globalization of the world economy have also impacted on the local economy.

Imports

For the year 2000, the value of Merchandise Imports increased by 7.85 percent (*Table 4.2*). Imports of Raw Materials were mainly responsible for this increase (11.86%).

Box 4.2
Internal Factors Affecting Trade

1. The tight macro-economic, stabilization policies continued through 2000. These included high real interest rates, control of inflation through the targeting of base money and restraining the depreciation of the exchange rate. As policies were implemented, they had mixed results on economic activities and trade outcomes:
    a. During the year interest rates moved from a low of 17 per cent in October to over 20 per cent at year end, as the authorities sought to curb the pressure on the exchange rate in the latter part of the year. The high real interest rates of over 12 per cent made credit expensive to some investors and businesses, which needed funds to undertake restructuring, re-tooling, capacity expansion or to purchase raw materials. This tempered overall activity in new investments. However, special credit lines at lower interest rates were available to some sectors, which were mostly accessible through developments banks during the latter part of 2000.
    b. For the year 2000 the inflation rate declined to 6.1 per cent, which may have encouraged a better output performance than 1999. However, the extent of this performance may have been tempered, as the cost of credit and capital may have been too expensive for profitable project implementation.
    c. The real effective exchange rate recorded a decline (4%) for the second consecutive year, following the 2 per cent decline registered in 1999, which slightly improved the competitiveness of Jamaican exports. This follows years of an appreciating real exchange rate, which had eroded the competitive level of domestic exports. This outcome was in tandem with the objectives of a non-appreciating rate outlined in the Government's SMP document in July of 2000.
2. For the first nine months of 2000, prolonged drought conditions seriously affected the production of local and export agricultural commodities. Both traditional crops - sugar cane and bananas, and non-traditional exports as well as locally consumed starches and vegetables were affected. This led to some declines in output for both local and export markets, facilitating the need for increased importation of food to fill the shortfall on the local market.
3. High production costs and cheaper imports on demand for the tobacco industry continued to erode its competitiveness during 2000. This led to the relocation of Jamaica's largest cigar manufacturer to another Caribbean destination, and the continued decline in production of cigarettes and cigars. Despite the lower production, export earnings from

The PSOJ

Annual Report on the Jamaican Economy 2000

Box 4.2 continued...

tobacco, one of Jamaica's largest non-traditional exports, recorded US$13.15 million in comparison to the US$11.99 million in 1999. However, this figure is well below the US$31.25 million earned in 1998.

4. There was continued haemorrhaging of the apparel sector in 2000, with the closure of four factories and consequent job losses. High production costs and loss of market share in the USA were major contributing factors to the sector's continued demise. As a result, the sector earnings for wearing apparel were US$148.91 million, a 6.39% decline over the corresponding US$159.07 million in 1999.
5. Significant restructuring, retooling and investment in the beverages sub-sector led to the fastest rate of growth over the past four years (20.43%), with earnings topping US$20.33 million in 2000, compared to US$16.88 million in 1999.
6. The return to near capacity operation of the Petrojam refinery, following a fire at the refinery in October 1998 and consequent closures in 1999, contributed to an increase in the import of crude oil imports, and consequently import of raw materials. Crude oil imports were US$211.60 million (261.11%) in 2000, compared to a mere US$58.60 million in 1999.
7. The importation of passenger buses, water trucks and telecommunications equipment also contributed to a higher import bill.

Within this category, increases in crude oil (261.11%), fuels and lubricants (18.93) and parts and accessories of capital goods (10.69) were the main contributors to the US$1,705.12 million out-turn. These increases resulted from resumption of local petroleum production and higher world oil prices. Of particular importance is the continued flat out-turn in Food, which reflects the high cost of credit and the resulting depressed growth in the local goods producing sector.

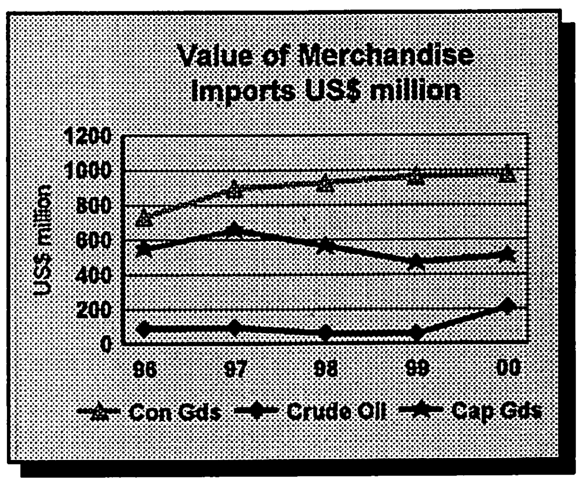


Figure 4.2

Growth in the import of Consumer Goods was mostly flat, with the largest contributor being durable goods (4.32%), of which motor-car imports increased by 6.32 per cent. Imports of food and beverages declined for the second consecutive year. Within the Capital Goods category, most activity centred around the government's purchase of buses, tractors and water trucks, under the Transport Equipment sub-category. In addition, there were imports of machinery and equipment relating to expansion in the telecommunications sector.

Table 4.2
Value of Merchandise Imports by Economic End Use
1996 to 2000 - US$ '000

	1996	1997	1998	1999	2000	00/99 %	99/98 %
Total Imports	**2,933,657**	**3,127,801**	**3,029,433**	**2,959,531**	**3,191,807**	**7.85**	**-2.31**
Consumer Goods	**734,843**	**895,074**	**928,743**	**964,831**	**978,064**	**1.37**	**3.89**
Food (incl Beverages)	211,678	258,438	273,657	274,219	262,654	-4.22	0.21
Non Durable goods	232,923	275,689	288,342	313,532	324,884	3.62	8.74
Semi Durable Goods	51,055	68,115	80,005	91,448	92,558	1.21	14.30
Durable Goods - Motor Cars	131,113	175,324	158,147	133,941	142,406	6.32	-15.31
Other Consumer Durables	198,074	117,508	128,592	151,691	155,562	2.55	17.96
Raw Materials	**1,650,585**	**1,573,225**	**1,533,239**	**1,524,277**	**1,705,119**	**11.86**	**-0.58**
Food (incl Beverages)	179,455	218,682	237,676	207,693	204,628	-1.48	-12.62
Industrial Supplies	762,695	700,417	723,102	681,452	673,243	-1.20	-5.76
Crude Oil	89,650	95,709	62,715	58,596	211,596	261.11	-6.57
Fuels and Lubricants	362,110	315,034	242,841	357,351	373,035	4.39	47.15
Parts & Acces of Cap Goods	256,675	243,383	266,905	219,185	242,617	10.69	-17.88
Capital Goods	**548,229**	**659,502**	**567,451**	**470,423**	**508,624**	**8.12**	**-17.10**
Transport Equipment - Motor Cars	5,893	8,600	6,182	3,593	4,030	12.16	-41.88
Industrial Transport Equipment	122,183	220,539	120,748	83,127	103,349	24.33	-31.16
Construction Materials	133,932	161,172	166,954	156,893	144,304	-8.02	-6.03
Machinery and Equipment	278,607	261,887	264,269	220,513	247,957	12.45	-16.56
Other Capital Goods	7,614	7,304	9,298	6,297	8,984	42.67	-32.28

Exports

Merchandise exports increased by 4.38 per cent in 2000 (*Table 4.3*). The major contributor to this out-turn was the improved but tempered performance of total traditional exports (4.15%). Of the major traditional exports group, only alumina (9.21%) returned a positive performance, following favourable price increases, as production remained flat. The increase in alumina was sufficient to offset the decline of earnings from bananas (down 23.13%), sugar (down 12.54%) and bauxite (down 18.53%). The major performer within the other traditional exports was coffee (34.02%), which benefited from increased demand especially from Japan, the major export market.

The non-traditional exports sector remained mostly flat, increasing by a mere 3.84 per cent. This is a relatively good performance however, considering the negative out-turn by this sector since 1996, which declined by 15.45 per cent in 1999. The major contributors to this positive out-turn were the beverages and tobacco sector, and chemicals. Significant investment and restructuring in the beverages sub-category resulted in a record growth of US$3.45 million (20.43%) to US$20.33 million. Despite continued closures of major manufacturers within the tobacco sub-sector, resulting in reduced production, tobacco earnings increased by 9.71 percent to US$13.15 million. The Chemicals sub-sector benefited from expanded market opportunities within the Caribbean, which led to an out-turn of US$67.49 million, in comparison to US45.99 million in 1999.

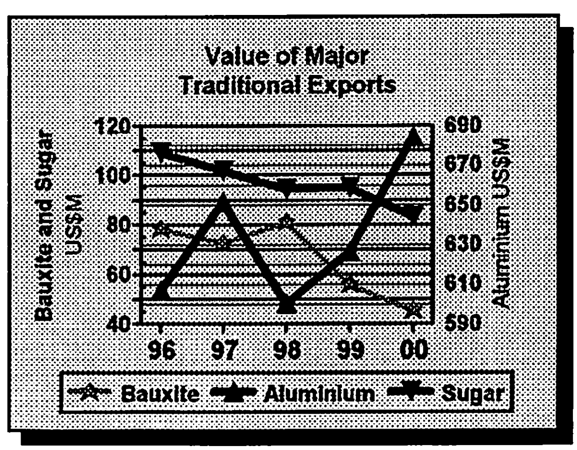


Figure 4.3

The PSOJ

Annual Report on the Jamaican Economy 2000

Box 4.3
External Factors Affecting Trade

As the trade liberalization process deepens worldwide, the local economy in adjusting to and integrating into the system continues to experience mixed results from the process.

1. The preferential markets for traditional products such as sugar and banana continued to be dismantled, creating a level of nervousness and uncertainty within these industries. The announcement by the European Union of an Everything But Arms (EBA) agreement for the 48 least developed countries, is the latest development that has contributed to the perceived demise of these critical industries. In addition, the depreciation in the value of the Euro to record lows, and more rigid export standards also contributed to decreased earnings from these major traditional exports.
2. The bauxite industry was seriously hindered by the explosion at the Gramercy alumina refinery in the United States in 1999. This led to the subsequent closure of the refinery throughout most of 2000, one of the major consumers of crude bauxite exports from Jamaica. Consequently, production of crude bauxite exports declined by 24.20 per cent, which contributed to an 18.53 per cent reduction in export earnings.
3. Commodity prices on the international market continued to have mixed effects on the outcome of Jamaica's trade.
   a. Earnings from alumina benefited from a 15.6% increase in world price, as export volume remained sluggish, increasing by only 0.98% for 2000.
   b. The preferential prices for bananas and sugar continued to be eroded, with sugar prices decreasing by US$43.60 per tonne, while bananas decreased byUS$29.40 per tonne. These price reductions have affected the earnings from these exports. The decline in prices coupled with severe drought conditions significantly reduced earnings from these sectors by 23.13 per cent and 12.54 per cent respectively.
   c. Prices of crude oil increased over the year, reaching their highest levels since the Gulf War of 1992 (*see Energy*). This was reflected in the value of the huge import bill for crude oil, fuels and lubricants. These increases were also reflected in increased prices at fuel pumps and electricity bills.
   d. Improvement in coffee exports reflected higher prices as demand increased, consequent on the economic improvement of Japan, Jamaica's primary market. Earnings from coffee and coffee products increased from US$24.70 million in 1999 to US$33.10 million in 2000. However, earnings are still below 1997 earnings of US$34.74 million.
4. The level of inflation in most of Jamaica's major trading partners was relatively lower than the home country in 2000 (*see Inflation*). This had a moderating effect on the prices of imports from those countries as well as on the overall import bill.

CARICOM Trade

At the end of 2000, Jamaica's trade with CARICOM included US$401.61 million in imports and US$48.64 million in exports. This resulted in a trade deficit of US$352.97 million. Compared with trade in 1999, import levels rose by 9.62 per cent while exports rose by 15.84 per cent, leading to the widening of the trade deficit by 8.82 per cent (*Table 4.4*).

Table 4.3
Value of Merchandise Exports
1996 to 2000 - US$ '000

	1996	1997	1998	1999	2000	00/99 %	99/98 %
Major Traditional Exports	**839,799**	**872,170**	**809,620**	**807,467**	**836,002**	**3.53**	**-0.27**
Bauxite	78,350	72,823	81,042	55,905	45,544	-18.53	-31.02
Alumina	607,013	651,712	600,708	626,533	684,258	9.21	4.30
Sugar	109,229	101,905	94,621	95,243	83,304	-12.54	0.66
Bananas	45,207	45,730	33,249	29,786	22,896	-23.13	-10.42
Other Traditional Exports	**71,219**	**73,211**	**55,660**	**65,546**	**73,283**	**11.80**	**17.76**
Citrus & Citrus Products	5,170	4,268	3,899	4,454	4,880	9.56	14.23
Coffee and Coffee Products	32,264	34,740	17,463	24,695	33,096	34.02	41.41
Cocoa & Cocoa Products	3,481	3,186	3,567	2,721	2,325	-14.55	-23.72
Pimento	3,665	2,834	4,104	4,924	4,474	-9.14	19.98
Rum	25,344	26,633	25,319	27,597	26,338	-4.56	9.00
Gypsum	1,295	1,550	1,308	1,155	2,170	87.88	-11.70
Total Traditional Exports	**911,018**	**945,381**	**865,280**	**873,013**	**909,285**	**4.15**	**0.89**
Non-Traditional Exports	**435,955**	**409,265**	**400,631**	**338,154**	**351,130**	**3.84**	**-15.59**
Total Domestic Exports	**1,346,973**	**1,354,646**	**1,265,911**	**1,211,167**	**1,260,415**	**4.07**	**-4.32**
Re-Exports	**40,275**	**32,677**	**50,394**	**34,506**	**39,759**	**15.22**	**-31.53**
Total Merchandise Exports	**1,387,248**	**1,387,323**	**1,316,305**	**1,245,673**	**1,300,174**	**4.38**	**-5.37**

Table 4.4
CARICOM Imports and Exports by S.I.T.C.
1999 to 2000 - US$ million

	Imports	Exports	**Balance**	Imports	Exports	**Balance**
Total	**366.4**	**42**	**324.4**	**401.6**	**48.6**	**353**
Food	77.3	14.3	**63**	83.4	16.4	**67**
Beverages & Tobacco	13.1	3.6	**9.5**	13.2	3.9	**9.3**
Crude Materials	0.9	1	**-0.1**	0.9	1	**-0.1**
Mineral Fuels	188.3	0.2	**188.1**	222.2	0.1	**222.1**
Animal and Vegetable Oils	3.1	0	**3.1**	1.7	0	**1.7**
Chemicals	32.9	11.7	**21.2**	31.7	12.4	**19.3**
Manufactured Goods	36.7	4.2	**32.5**	34.2	5.6	**28.6**
Machinery & Transport Equipment	4.1	1.9	**2.2**	4.1	3.8	**0.3**
Misc Manufactured Articles	9.8	5	**4.8**	10.1	5.5	**4.6**
Other	0	0	**0**	0	0	**0**

Jamaica's imports of oil from Trinidad and Tobago continue to be the most significant item in its CARICOM trade, which contributed to the US$33.86 million (17.98%) increase in the Mineral Fuels import section. The country's dependence on oil importation will continue to account for this heavily lop-sided trade balance with the region. The value of food imports continued to heavily outweigh the value of food exports, with the 2000 balance being a deficit of US$66.95 million compared to US$11.91 million 1995, the most recent year of real GDP growth. Jamaica currently has a trade deficit with seven of the 12 CARICOM countries with which it trades.

Outlook

For 2000, the out-turn of merchandise trade transactions showed the continuing trend of a widening trade deficit, which serves to highlight the country's dependence on imports. However there was a reversal of the decline in both imports and exports. The apparent increase in exports is a positive signal for the economy, given the adverse conditions under which it took place – drought affecting agricultural exports and reduced bauxite production due to the Gramercy accident. However the real effective exchange rate depreciated in 2000, which contributed to the improved competitiveness of domestic exporters to some extent.

A significant contributor to the increase in imports was the huge fuel bill, which was affected by the return to production of the Petrojam refinery, and higher crude oil prices. However the higher world oil prices had the most impact, given the severity of the increases, from an average of US$19.10 in 1999 to US$28.28 per barrel in 2000 – a 48.30 per cent increase. This significant cost may not be present in 2001 if oil prices remain stable, which may reduce the fuel and hence total import bill.

Overall, given less severe weather conditions, a significant increase in bauxite exports (projected 20%), stable aluminium prices, and a sustained reduction in interest rates to improve viability of businesses, exports could improve towards the end of 2001. However, the deficit on the trade balance may widen even further over the medium term, given the expected faster growth of imports.

Chapter 5: Money and Banking

Base Money

The monetary base contracted by 6.4% ($2,405.9 million) during the calendar year of 2000, showing that significant restraint was achieved in the growth of base money, when compared with a growth rate of 4.0% ($1,436.2 million) for 1999. The 4.0% increase at the end of 1999 mainly reflected a year-end stocking up of currency by commercial banks due to fears of the "Y-2K" effect. In fact, the point-to-point growth in base money to November 1999 was actually a decline of 4.4%, which gives a more accurate picture of the monthly negative point-to-point movements for all of 1999. There has been a declining trend in base money, since the high growth rates of the early 1990's (*Figure 5.1*).

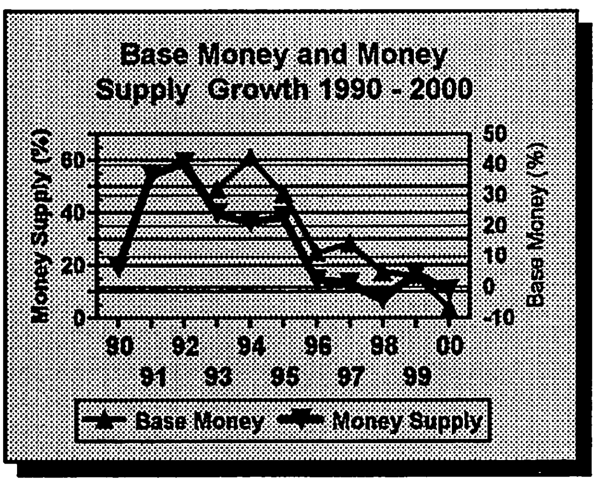


Figure 5.1

Currency issue, the major component of base money, contracted by 1.08% from J$20,879.00 million in December 1999, to J$20,644.00 million at the end of December 2000. At the end of the similar period in 1999, currency issue had increased by 37.00% (due once again to the Y-2K effect). Commercial Banks' Accounts registered its fourth consecutive year of decline from J$15,527 million to J$13,793 million, down 11.7% over the review period.

One of the prime factors behind the fall in base money has been the gradual reduction in the cash reserve ratio of deposit taking institutions. The contraction in base money was primarily due to a J$26,694.2 million reduction in the Net Domestic Asset (NDA) of the central bank, which offset a US$519.20 million (J$22 billion) increase in the Net International Reserves (NIR). The NIR ended the year at a record US$969.5 million. The reduction in the NDA was achieved through a record $22,514 million (76.9%) increase in open market operations. This was primarily effected through a $14,784.9 million build up of commercial bank deposits with the Central Bank, supported by a $7,611.1 million increase in reverse repos issued. The increased open market operations served to absorb the excess liquidity in the economy, resulting from both the growth in the NIR and the programmed lowering of the cash reserve ratio to 15%, 14% and 13% in March, June and September respectively.

Most of the reduction of the NDA was through the first three quarters. There was a reversal of the reduction in the NDA over the last quarter, reflecting the customary easing of monetary policy to accommodate the seasonal increases in money demand. The apparent tight and continuous management of base money has been the primary means by which the central bank has controlled money supply growth and consequently kept inflation down to 6.1 per cent to December 2000. This is in tandem with the objectives outlined in the SMP document for the fiscal year 2000/01, which states that monetary policy will continue to be geared towards ensuring a reduction in inflation through the targeting of base money.

Money Supply

The nominal stock of broad money (M2) stood at J$132,998.61 million at December 2000, indicating a J$10,657.10 million (10.5%) increase over December 1999. The highest monthly increase recorded for 2000 was 1.8% in September, in comparison to a monthly high of 4.7% in August the previous year.

The narrow money (M1) and quasi money components of money supply showed contrasting trends during 2000. Quasi money grew by 16.3 per cent as a result of a 24.0 per cent increase in time deposits and a 13.2 per cent rise in savings deposits. Narrow money fell by 6.2 per cent due to contractions of 3.2 per cent and 8.5 per cent in currency deposits and demand deposits respectively (*Table 5.1*).

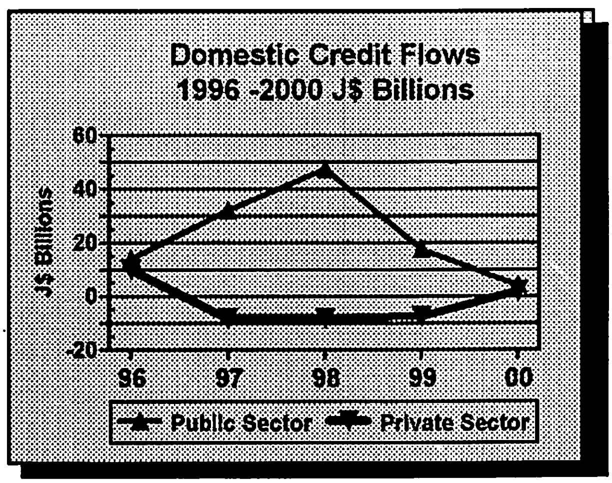


Figure 5.2

On the asset side, M2 was influenced by movements in net foreign assets (NFA), public sector credit and credit to the private sector. NFA grew by $29,773.4 million (74.38%) over the period, largely influenced by a J$8.4 billion accumulation in the January to February and July to August periods. The asset composition of the banking system indicated an increase in Government borrowing, with net credit to the public sector increasing by $4,304 million (4.03%), contributing the most to the expansion in domestic credit. This is in comparison to a $17,773 million increase the previous year and may indicate a reduction of public sector borrowing on the domestic market. The flow of credit to the private sector was positive for the first time since 1996, increasing by $2,258 million, compared to a $7,430 decline the previous year *(Figure 5.2).* This increase is a positive development given the need to reduce government's crowding out of private sector borrowing.

Figure 5.3 indicates the impact of these factors on the growth of money supply.

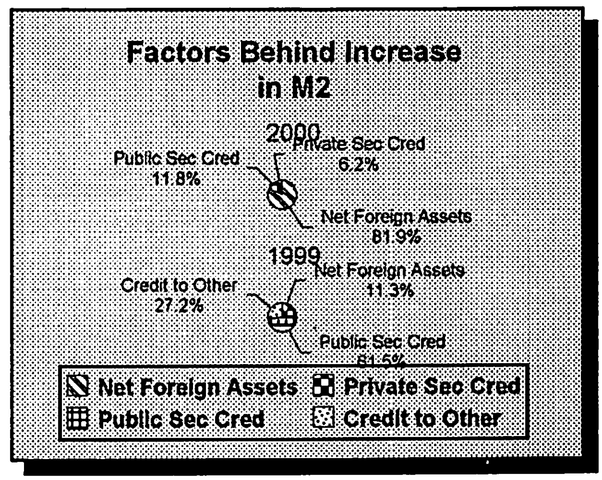


Figure 5.3

Interest Rates

The Government's adoption of the SMP in July 2000 represented an attempt to reverse the policy of high nominal and real interest rates, which has plagued the economy since the latter part of the 1990's, resulting in negative growth for the past four years. The high interest rate regime has discouraged significant investment from the private sector, and added a significant cost to the budget each year, via interest payments on public sector debt. The SMP document outlined that the sustained lowering of rates was deemed critical to achieving economic expansion by boosting investment and also to the Government's fiscal program. Lower rates would help reduce the interest payments on the huge domestic debt, as well as temper the cost of adding FINSAC debt to the 2001/2002 budget.

Table 5.1
Quarterly Money Supply Components

End of Period	M1	Time Deposits	Savings Deposits	Quasi Money	M2
Mar-96	21,248.9	15,773.4	34,462.2	50,235.6	71,484.5
Jun	21,445.7	15,267.0	35,215.3	50,482.3	71,928.0
Sep	23,603.7	16,051.7	35,754.6	51,806.3	75,410.0
Dec	29,166.5	17,204.3	38,576.7	55,781.0	84,947.5
Mar-97	25,647.8	17,220.8	43,756.4	60,977.2	86,625.0
Jun	25,424.4	16,033.1	47,161.2	63,194.3	88,618.7
Sep	25,148.2	16,495.9	48,841.1	65,337.0	90,485.2
Dec	28,623.8	16,453.7	50,527.1	66,980.8	95,604.6
Mar-98	25,790.6	16,912.0	50,254.6	67,166.6	92,957.2
Jun	27,799.7	17,482.0	51,221.6	68,703.6	96,503.3
Sep	30,092.0	18,996.9	51,037.6	70,034.5	100,126.5
Dec	30,177.0	19,599.9	52,754.4	72,354.3	102,531.3
Mar-99	30,306.5	19,939.9	53,365.9	73,305.8	103,612.3
Jun	32,037.2	20,385.1	55,511.8	75,896.9	107,934.1
Sep	35,690.7	24,815.7	56,811.0	81,626.7	117,317.4
Dec	39,078.2	23,131.3	58,059.5	81,190.8	120,269.0
Mar-00	37,311.4	25,240.4	60,353.6	85,594.0	122,905.4
Jun	37,737.7	25,426.3	62,334.3	87,760.6	125,498.3
Sep	35,897.9	28,244.5	63,924.7	92,169.2	128,067.1
Dec	38,112.2	29,345.1	65,541.3	94,886.4	132,998.6

Rates on government securities trended downwards for the first three quarters, albeit slowly, before being reversed during the last quarter. Nominal interest rates fell by 4.9 percentage points from the beginning of the year, to reach a low of 17.1% on 6 month T-Bills in October, but rose to 20.16% in December, while the yield on the longer term 1 year maturity fell from 22.0% to 16.9% in September, but ended the year at 20.98%. The less volatile 30-day BOJ Reverse Repurchase Rate (Repo) was reduced by 1.9 percentage points to 16.45% at the end of September, without any further declines for the remainder of the year. The lessening of pressures on the foreign exchange market combined with the reduced need to borrow on the domestic market precipitated gradual lowering of rates during the early part of the year, despite increased open market operations. The gradual lowering of rates was further enhanced by a programmed 1% reduction in the cash reserve ratio of commercial banks and financial institutions during the year.

The halt in the slow decline of interest rates was primarily due to a policy response by the Government to quell depreciation pressures induced by increased demand for the US$. The authorities opted to protect the declining exchange rate, by hiking its 270-day and 365-day repo rates. The central bank increased both these rates on two occasions in rapid succession during the last quarter. In the first instance, the BOJ hiked its 270-day rate to 20% from 17.05% and its 365-day rate to 22% from 18%. These rates were reverted to their previous values after three weeks, but were hiked by 4 percentage points again to 20% and 22% again at the end of November, as the run on the dollar continued.

Commercial banks' lending rates followed the path of the baseline rates, increasing by 0.17 percentage points over the last quarter, after being down 2.42 percentage points the first three quarters. This led to a slight increase in interest rate spreads for the quarter. The trend of slowly declining base interest rates during the first part of the year, which are then halted or reversed, is not unique to the year 2000 (*see Perspective*).

The PSOJ

Annual Report on the Jamaican Economy 2000

Table 5.2
Commercial Banks' Interest Rates

End of Period	Install. Credit	Mort. Credit	Personal Credit	Comm. Credit	Loc Govt Pub Ent.	Central Govt.	A/W Loan Rate	A/W Dep Rate	Avg Lend Rate	Avg Sav Rate
Mar-96	35.07	25.47	49.53	40.97	14.77	28.73	39.69	26.14	58.27	17.82
Jun	36.75	26.75	50.75	40.05	15.06	30.76	39.46	26.04	59.95	17.96
Sep	34.09	25.51	50.62	39.76	15.00	38.58	38.67	23.73	58.50	18.12
Dec	37.73	21.45	47.86	37.11	14.21	38.78	37.81	20.79	55.22	17.96
Mar-97	33.79	10.48	43.35	31.94	14.65	35.86	33.00	15.47	47.92	15.52
Jun	33.58	14.74	39.58	35.01	15.89	20.65	33.85	12.46	44.95	14.08
Sep	33.26	14.74	38.08	33.01	15.85	19.53	31.70	11.80	44.22	13.02
Dec	33.25	10.46	38.20	33.63	21.75	18.30	31.93	14.06	44.17	13.02
Mar-98	32.93	10.43	36.62	33.72	22.65	15.46	32.09	17.04	44.17	13.02
Jun	32.69	10.42	35.49	34.35	22.64	28.92	33.03	17.70	43.67	13.02
Sep	32.75	10.43	34.64	31.42	19.82	22.33	30.68	14.80	40.33	13.02
Dec	32.18	10.40	33.87	30.39	19.09	26.52	30.08	15.54	38.80	12.13
Mar-99	29.94	10.39	33.51	30.75	18.80	22.62	29.65	14.63	38.60	12.09
Jun	29.70	24.60	32.70	26.93	18.27	21.48	27.12	14.08	37.89	11.96
Sep	29.76	24.63	31.37	25.24	18.00	22.38	26.16	13.47	35.92	11.50
Dec	29.65	10.00	30.72	25.34	15.52	22.02	24.64	13.27	33.92	11.38
Mar-00	29.83	28.69	31.58	22.23	14.89	22.63	24.32	12.99	33.92	11.38
Jun	30.06	27.35	32.05	20.93	15.30	21.66	23.48	12.74	33.00	10.11
Sep	29.62	30.15	30.40	19.94	13.08	19.96	22.23	12.59	31.50	9.96
Dec	29.35	27.89	30.33	19.57	15.86	19.07	22.12	12.21	31.67	9.86

Loans and Advances

At the end of December 2000, total assets and liabilities of commercial banks were J$221.88 billion. Of this, J$40.57 billion or 18.28% of its assets were extended in credit. This represented a real increase of 4.2 per cent over the J$36.72 billion (19.04% of its assets) reported at the end of December 1999, but well below those of previous years (*Figure 5.4*). Expansion in commercial banks' lending was facilitated by the programmed 1% reduction in the cash reserve ratio, which stood at 13% at year-end. Total deposits in the banking sector were J$149.67 billion, reflecting an increase of 18% over 1999.

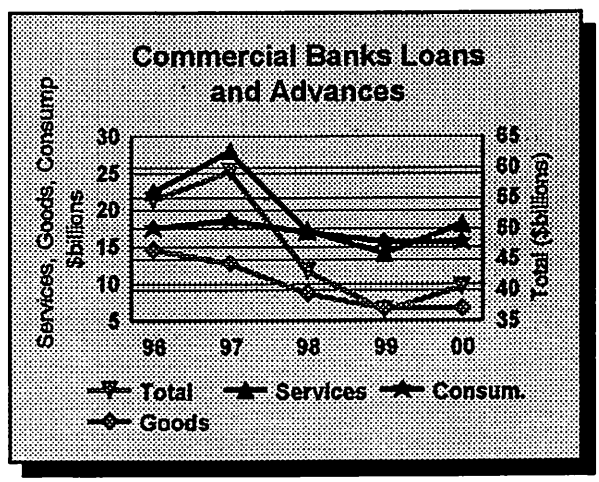


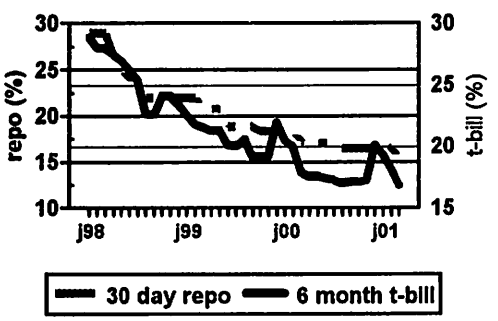
Figure 5.4

A review of the sectoral allocation of credit extended by commercial banks indicated that in 2000, services oriented loans

Box 5.1
Perspective: Are the March 2001 Reductions in Interest Rates Credible?

The Government reduced its repo rates during March 2000, in an attempt to continue its mandate of jump-starting economic growth as outlined in its Staff Monitored Program (SMP). Interest rates had been declining albeit at a slow pace, during the first three quarters for the past three years, before being derailed each time during the last quarter - repo rates were reduced from (January to September period) 29.0% to 22.0%, 22.0% to 18.35%, and 18.35% to 16.45%, for the years 1998, 1999 and 2000 respectively. This represents a decline of 7%, 3.65%, and 1.9% respectively. An even more interesting trend is the stagnant nature of these rates from the last quarter to the month in which the budget is read, March. August 1998 to February 1999, September 1999 to February 2000 and August 2000 to February 2001 saw no decline in the benchmark 30 day repo (*Figure A1*). However, this rate was reduced by relatively substantial amounts each March - by 1.25%, 1.05% and 0.95% for 1999, 2000 and 2001 respectively.

Figure A1: 30-day Repo and 6-month T-Bill Rates Jan 98 - Mar '01



Similarly the yield on the 6 month T-Bill rate shows a peculiar trend. 1998 - from 28.93% in January to 22.64% in September, increased in October by 3.5 percentage points and ending the year at 23.52%; 1999 - from 22.62% in January to 20.04% in July, increased by 0.59 percentage points in August and ending the year at 22.03%; 2000 - from 20.54% in January to 17.04% in August, initially increasing by 0.09 percentage points in September, then by 2.88 percentage points in December to end the year at 20.16%. This rough analysis shows us that in 1998 interest rates had declined by 6.29% before the hike, but ended 5.41% down, 1999 - 2.58% before but ended 0.59% down, and the well documented 2000 case - 3.5% before but ended only 0.38% down. During these periods, the domestic currency also experienced substantial pressure.

The above "barebones" analysis seems to suggest that for the past three years, the exchange rate has come under some pressure during the latter part of the year and Government interest rates were hiked to protect the dollar. Consequently, the decline in 30-day repo rates was halted, and the yield on T-Bills increased. This may indicate the central bank's exchange rate-interest rate trade off position. What is of greater interest is the slashing of rates right around budget time - the recent March decreases are nothing new. Of course all these occurrences may simply be mere coincidences.

The real question here is the credibility of the recent rate cuts. Will interest rates continue to fall substantially during 2001, and provide the impetus needed to drive investment, solidify the gains made in 2000 and ultimately fuel substantial economic growth? Or will the rates continue on the trend observed during the past three years? If we assume that the authorities believe that reducing interest rates depend on a stable foreign exchange market at least to some extent, then the level of NIR may be critical to this process. As long as the authorities believe that the level of reserves is sufficient to back the dollar while reducing rates, we may continue to see rates decline (lower US interest rates also helps). Hence the authorities' continued efforts at maintaining healthy reserves.....

The PSOJ

Annual Report on the Jamaican Economy 2000

Box 5.1 continued...

whether via divestment proceeds or foreign loans. However, if the foreign exchange market should be pressured for whatever reason - unexpected increased demand, bond issues, hustlers - to the extent that central bank intervention alone cannot reduce the volatility, then we may see a return to previous trends. If investors believe the reductions are for real, but the government sticks to the previous pattern, will investment increase sufficiently to ensure 'growth'?

(20.7% real increase), driven by government, distribution, energy and tourism, made up the majority of commercial banks' credit portfolios, accounting for 44.85% of loans (*Table 5.3*). This is a reversal of the outcome from the previous year, where consumer oriented loans led the way, accounting for 38.6% of loans. Loans to the goods producing sector continued to fade, accounting for only 16.56% in 2000. Loans for personal use (26.95%) continued to account for the highest share of credit to a sector. This was followed by government services (16.51%), tourism (11.7%) and professional and other services (11.64%) sectors.

This order of ranking shows that government continues to play a predominant role in the economy, being the second highest recipient of commercial loans. In fact, loans advanced to government services in 2000, are almost equal to loans advanced to the entire goods producing class *(Figure 5.5)*.

There seems to be a halt in the downturn of loans and advances by commercial banks, which was experienced during 1998 and 1999. A major contributing factor to this downturn had been the transfer of non-performing loans from commercial banks to FINSAC, increasing competition from financial and other non-financial institutions particularly for consumer-oriented loans, combined with low consumer demand due to relatively high real interest rates. However, as at September 2000, the non-performing loans of commercial banks have continued to fall and this has brought the ratio of non-performing loans to total loans to 12.2 per cent, down from the 15.0 per cent in September 1999.

Except for energy, government services recorded the highest growth, followed by tourism. Growth in credit to the goods producing sector may be indicating increased activity within the sector. In spite of the availability of special credit lines and the slight reduction in real interest rates for 2000, the cost of capital has remained high, which may be impacting negatively on the goods producing sector. The perception of a high-risk investment environment, which is also indicated by the persistence of a wide interest rate spread, may also be having a negative impact.

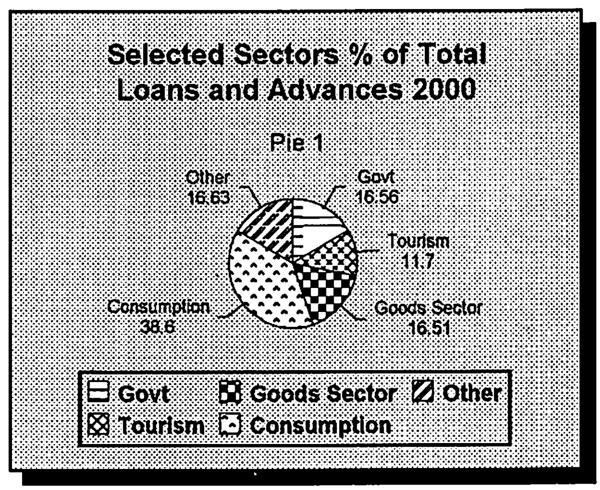


Figure 5.5

Commercial Banks Liquidity

The government gave its continued commitment to further reduce the cash reserve and liquid asset ratios of commercial banks and financial institutions in its SMP document, over the 2000/01 and 2001/2002 financial year. The document outlined that these ratios were relatively high and

Table 5.3
Commercial Banks Loans and Advances by Sector

	Value J$ '000		*Nominal % change*		*Real % Change*	
	1999	**2000**	**1999**	**2000**	**1999**	**2000**
Goods Producing	**6,709,172.0**	**6,717,341.0**	**-22.97**	**0.12**	**-28.3**	**-5**
Agriculture	1,589,090.0	1,557,229.0	-19.62	-2.00	-26.7	-5.1
Mining	98,706.0	87,190.0	-48.33	-11.67	-51.6	-16.7
Manufacturing	2,992,362.0	3,046,790.0	-25.23	1.82	-30	-4
Construction	2,029,014.0	2,026,132.0	-20.12	-0.14	-25.2	-5.8
Services	**14,212,378.0**	**18,192,790.0**	**-17.94**	**28.01**	**-23.2**	**20.7**
Transport, Storage & Communication	1,445,874.0	1,525,731.0	-23.95	5.52	-28.8	-0.5
Financial Institutions	1,260,903.0	747,295.0	-52.21	-40.73	-55.2	-44.1
Electricity, Gas and Water	66,539.0	773,945.0	-2.49	1,063.14	-8.7	996.7
Government Services	4,894,041.0	6,696,791.0	3.77	36.84	-2.8	29
Distribution	2,833,062.0	3,563,853.0	-21.53	25.80	-26.5	18.6
Entertainment	151,309.0	137,499.0	21.11	-9.13	13.4	-14.3
Tourism	3,560,650.0	4,747,676.0	-16.42	33.34	-21.7	25.7
Consumption	**15,797,517.0**	**15,657,316.0**	**-7.36**	**-0.89**	**-14.3**	**-5.3**
Personal	11,290,174.0	10,933,620.0	6.25	-3.16	-1.6	-7.7
Professional and Other Services	4,507,343.0	4,723,696.0	-29.88	4.80	-35.5	0.6
Total	**36,719,067.0**	**40,567,447.0**	**-14.77**	**10.48**	**-20.7**	**4.2**

called for a programmed reduction of 3 percentage points each in 2000/01 and 2001/02.

Commercial banks began the year with the statutory reserve requirement of 50%, made up of 16% cash reserves and 34% liquid assets reserves. The liquid asset ratio was reduced to 31% at the end of 2000, while the cash reserve ratio was reduced to 13%. These reductions were facilitated by a programmed 1% reduction in March, June and September of 2000. They were further reduced in March of 2001 to 12% and 30% respectively. These reductions meant the programmed 3% reductions outlined in the SMP had been achieved.

With the governments' continued tight monetary policy stance to control inflation, the reduction in the statutory reserve requirement provided some liquidity relief, as well as reducing the spread between deposit rates and lending rates. However, the liquidity ratio of commercial banks continued to decline in 2000, recording 45.6%, compared to 48.3% and 55.8% in 1999 and 1998 respectively. Nevertheless, excess liquidity has continued to increase, recording 14.6% in December 2000, compared to 14.3% and 11.8% in 1999 and 1998 respectively. The phased reduction of the statutory reserve requirement is expected to continue throughout 2001 (reduced 1% in March 2001), in accordance with the objectives outlined in the SMP.

Stock Market Developments

During the first half of 2000, the Stock Market rallied from its sluggish performance in 1999, to record higher levels, before tapering off during the latter half of the year (*Figure 5.6*). At the end of June, the Jamaica Stock Exchange (JSE) index was 31,338.3 points, 43.15% above the 21,892.58 recorded at the end of December 1999. The index actually reached a record high of 33,483.73 points in May, compared to the previous high of 32,421.71 points in January of 1993. This is the first time the index has crossed the 30,000-point barrier since the bullish months of early 1993. Market capitalisation increased by 121.4% from J$104.04 billion at the end of 1999 to J$230.37 billion at the end of June 2000. This strong performance, though tempered, continued into the

The PSOJ

Annual Report on the Jamaican Economy 2000

third quarter, before declining somewhat to end the year at J$160.10 billion *(Table 5.4)*.

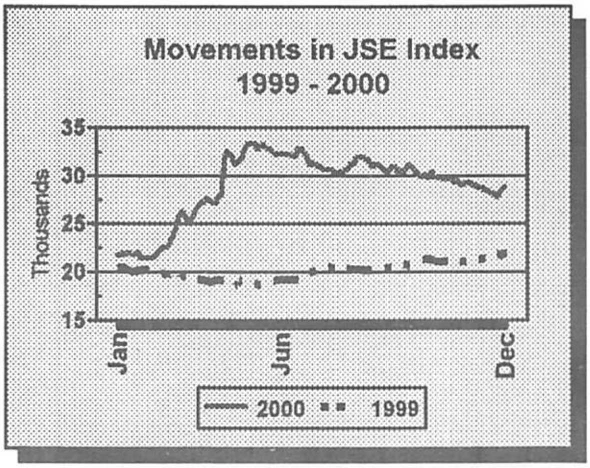


Figure 5.6

The apparent rejuvenation in the stock market especially during the first half of the year was due to a number of significant developments. The attractiveness of the market was enhanced by the full implementation of electronic trading in February of 2000. This served to encourage faster and more transparent trading, and reflected the general trend of major exchanges around the world. The downward trend in T-Bill rates over the first three quarters, the announcement of the reduction of the withholding tax on dividends for listed companies from 25.0 per cent to 20.0 per cent, and an improved profit performance of listed companies, played a major role in this revival. There was also a slight increase in liquidity over the first half of the year, which probably led to an increase in the number of institutional investors.

The stock market declined by 7.8% over the last half of 2000. This weak performance, especially over the last quarter, may have been due to the reversal of the downward trend in T-Bill rates. This may have led to investors' moving their funds out of equities to other securities that provided higher rates of return.

Another significant development on the stock exchange was the introduction of two new indices during the first half of the year. The JSE All Jamaica Composite Index, effective May 1st 2000, includes only Jamaican companies, while the Jamaica Select Index (JSI), comprises the 15 most liquid stocks.

Foreign Exchange Developments

Throughout 2000, the country experienced continued high levels of inflows of foreign exchange into the inter-bank market. Both purchases and sales on the spot market (authorized dealers excluding cambios) increased by 29.4% and 29%, respectively. Purchases moved from US$2.17 billion to US$2.81 billion, while sales increased from US$2.21 billion to US$2.85 billion, over the period December 1999 to December 2000. At the end of October of 2000, foreign currency accounts had showed a decreased level of activity, with

Table 5.4
Indicators of Stock Exchange Performance

	1996	1997	1998	1999	2000
Market Capitalization (J$Bn)	66.10	79.60	79.00	104.00	160.10
Change (%)	30.12	20.42	-0.75	31.65	53.94
Traded Volume ('000)	561,508	905,419	604,545	520,531	694,897
Value (J$ Bn)	4.6	4.6	2.1	2.2	3.4
Change (%)	-60.34	0.00	-54.35	4.76	54.55
Index (end of perid)	16,615.99	19,846.66	20,593.33	21,892.58	28,893.24
Change (%)	16.46	19.44	3.76	6.31	31.98
Listed Companies	50	49	48	45	45

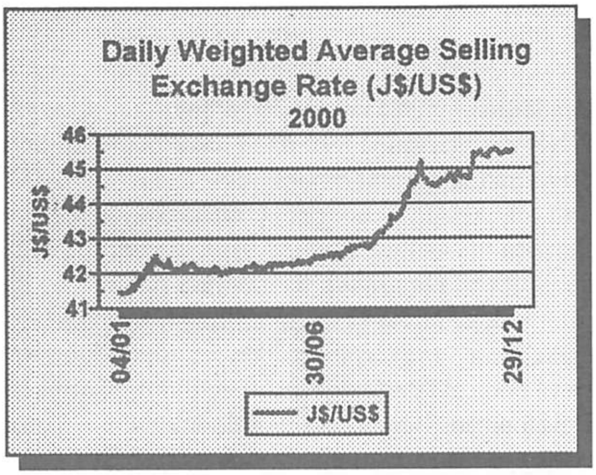


Figure 5.7

total deposits decreasing by 4.9% from US$6.46 billion to US$6.14 billion over the twelve-month period. Similarly, total withdrawals decreased by 7.28%, from US$6.34 billion to US$5.88 billion over the twelve months to October 2000. End of year figures are unavailable, as authorized dealers were no longer required to report deposits and withdrawals, effective November 27, 2000.

The exchange rate depreciated in both nominal and real terms for the second successive year. The nominal exchange rate depreciated by 7%, while the real effective rate depreciated by 4%, following a depreciation of 2% in 1999. The depreciation of the real rate is in tandem with the "no real appreciation" SMP commitment made in July, and enhances the country's competitiveness. However, this only partially offsets the real appreciation that has occurred since 1990.

The nominal exchange rate remained broadly stable for the first six months of the calendar year, losing $1.02 to its US counterpart. However, the second half of 2000 saw the domestic currency losing $3.08 to the US$, which resulted in a nominal depreciation of 9.6% for the calendar year (*Figure 5.7*). The early part of this latter trend may have resulted from the government's SMP commitment to allow the exchange rate to reflect current market trends for the most part, intervening only when the dollar was under severe pressure.

However, most of the decline occurred within the last four months of the calendar year, following severe demand pressures. The demand pressures partly emanated from purchases of US$ by domestic investors to buy the government's new international (tax exempt) US$ bond issue, and higher demand for foreign exchange to fund the import bill. The government used a combination of strategies to return relative market stability by year-end, namely heavy central bank intervention – backed by the draw-down of loans from the international lending agencies, a temporary rise in official long term reverse repo rates (twice), and the issue of US$ indexed linked bonds. The draw-down of loans from the international lending agencies boosted the Net International Reserves to a record US$969.50 million at the end of 2000.

The Financial Sector

The process of restructuring the financial sector and the progress which had been made during 1999, continued throughout 2000. Progress continued with the sale of Finsac's remaining assets and the strengthening of legislation governing the financial sector. A "share sale" agreement between Finsac and the Royal Bank of Trinidad and Tobago (RBTT) on the sale of Union Bank was finalized during the last quarter of 2000. The final sale was effected in the early part of 2001. Progress has also been made with the privatisation of Finsac's other major asset, National Commercial Bank (NCB), with the adjustment company obtaining effective control (76%) of the bank's equity and the installation of a new management team. Boscobel Beach Hotel (US$14.0 million), Terra Nova Hotel (US$4.5 million), Grand Lido Hotel (US$9.0 million), Hedonism II and Trelawny Beach Hotel (US$12.3 million), were all divested in 2000, while agreement was reached for the sale of the Crowne Plaza Hotel (US$8.0 million). Total assets divested by Finsac amounted to J$1.24 billion.

In addition, as of January 2001, four out of the five FINSAC-intervened insurance companies had been privatised and preparations were underway for the sale of Finsac's 80 per cent stake in Life of Jamaica (LOJ). During the period, Finsac's liabilities to the private sector were reduced by the first tranche of the US$325 million loan from three multilateral organisations – the Inter-American Development Bank (US$150 million), Caribbean Development Bank (US$25 million) and the World Bank (US$150 million). A US-based asset management firm has been engaged to conduct the valuation and sale of Finsac's non-performing loan portfolio, which has an estimated book value of about J$30 billion.

At December 2000, Finsac's total asset sales amounted to $11.3 billion, compared with $6.6 billion in 1999. Loans collected since the establishment of the Non- performing loan unit in October 1998 amounted to $4.4 billion, $1.4 billion of which was collected during 2000. Finsac debt written off by the government amounted to $21.4 billion.

Consolidation continued to take place in the financial sector with mergers of some institutions. The introduction of new services such as Tele-Banking was also among the other positive developments within the sector. The process of continued reform and rehabilitation has contributed to the improved out-turn within the sector, with the level of non-performing loans, total capital base and total deposits for the deposit taking institutions improving during 2000. At September 2000, non-performing loans were reduced to $6.6 billion from the $7.3 billion the previous year. Total capital base and total deposits increased from $19.8 billion to $21.9 billion, and from 167.2 billion to $189.2 billion respectively. Further at September 2000, the aggregated current year profits of commercial banks were J$1.16 billion more than in September 1999. The sector's overall performance was evidenced by the 10.6 per cent growth in sectoral output for 2000 *(see GDP)*.

The regulatory and supervisory framework of the financial sector was further strengthened, with amendments to the Unit Trust and Securities Act during the latter part of the year. In addition, key legislative amendments including amendments to the Bank of Jamaica Act, tabling of the new Insurance Act, drafting of legislation to regulate pension schemes and the tabling of the bill to establish the important Financial Securities Commission (FSC) were carried out. The BOJ also completed a self-assessment of its compliance with the Basle Core Principles for Effective Banking Supervision, and submitted a number of regulations on strengthening prudential supervision for the approval of the Minister of Finance.

Outlook

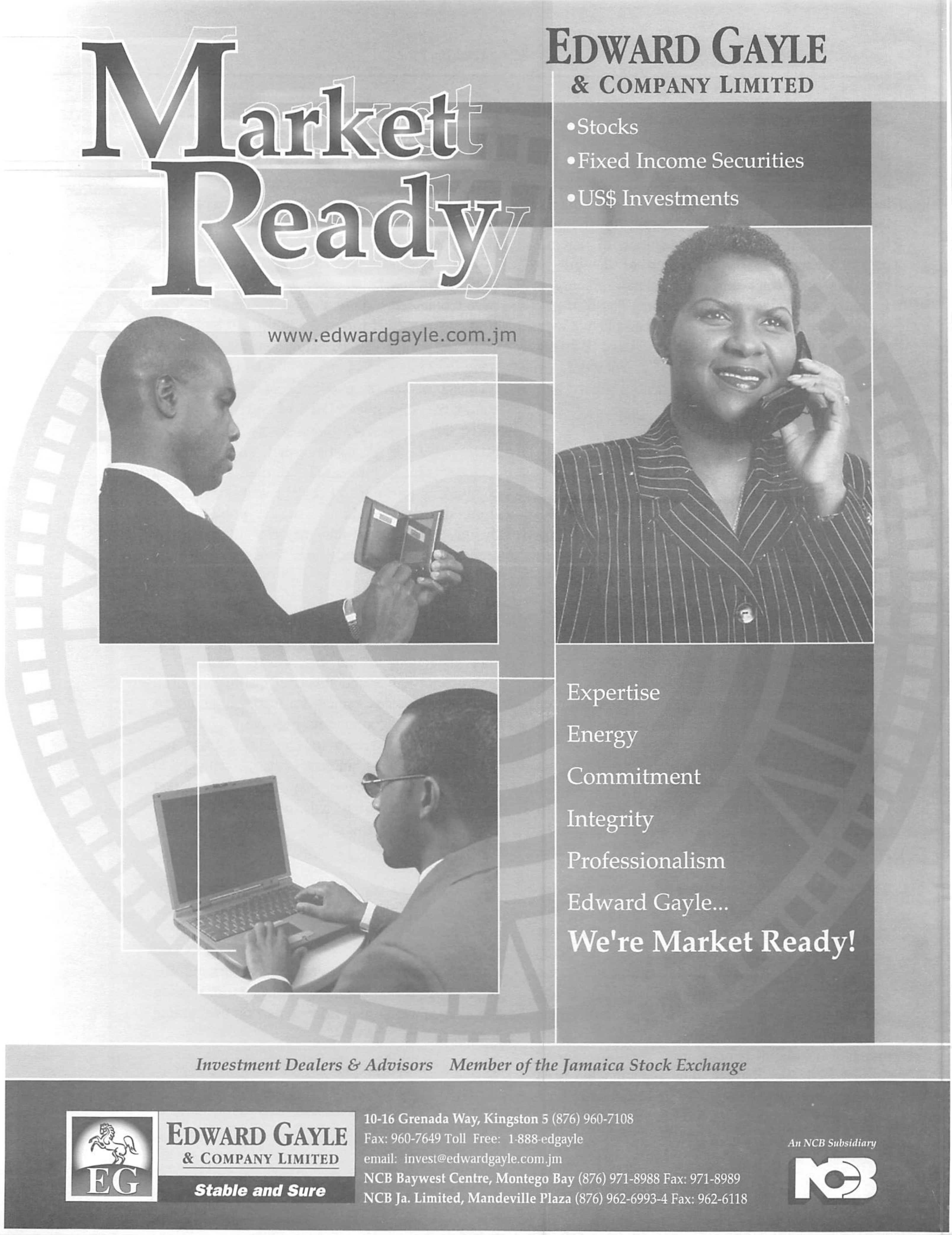
Tight monetary policy to constrain growth of base money and money supply, despite a further planned reserve build up will be required again in 2001/2002 to keep inflation in check. The government appears to have returned to its SMP commitment of reducing interest rates, in an effort to promote private investment and drive growth. However as outlined under *Interest Rates*, the possibility exists that the process could be derailed during the latter part of the year, as has been the case during the previous three years. The lowering of interest rates continues to be the most important facet of achieving substantial long-term growth (above 4%) and the authorities have begun 2001 by reducing its repo rates, with the 30-day repo at 15.5 percent.

The possible attainment of the 2000/2001 inflation target of 6.0 to 7.0 per cent and the apparent increased liquidity within the system, given the programmed reduction in the cash reserve ratio at March 2001, all point to lower rates. Further reductions of the cash reserve ratio during the year should improve liquidity even further, but maybe more important is the level of the NIR, which if maintained, could temper any volatility in the foreign exchange market, thus reducing the need for the government to increase its longer-term repo rates, given its stance to defend the dollar at all costs. The exchange rate had remained mostly stable over the first quarter of 2001, and may continue this trend at least through the third quarter of 2001. However it remains to be seen if either domestic or external shocks will impact the rate over the last quarter as in the previous three years.

Commercial banks' loans and advances seem to have rebounded slightly during 2000 and this may continue into 2001, given the positive 0.8 per cent GDP out-turn in 2000. However the disturbing trend of Government being the second highest recipient of commercial bank loans indicates a continued crowding out of private sector borrowing. However, there seems to be some improvement in domestic credit to the private sector, which increased during 2000, in comparison to three consecutive years of decline. Also, domestic credit to the public sector though constituting the majority of domestic credit, was significantly less than in 1999, and previous years.

Commercial banks' liquidity is expected to improve during 2000 given the programmed 1 per cent reduction in the reserve requirement of commercial banks and financial institutions. The stock market index achieved a record high during 2000, and may continue its positive performance during 2001. A return to five day trading and further declining interest rates (critical to institutional investors) may see the market rebound in the latter half of 2001, from the lacklustre performance over the first quarter of 2001.

The continued financial sector consolidation, reform and decrease in non-performing loans may see the continued good performance of 2000 mirrored in 2001. The windup of FINSAC operations is scheduled to take place during 2001, with the most important of its operations being the sale of NCB and sale of its non-performing loan portfolio.


Market Ready
EDWARD GAYLE
& COMPANY LIMITED
•Stocks
•Fixed Income Securities
•US$ Investments
www.edwardgayle.com.jm
Expertise
Energy
Commitment
Integrity
Professionalism
Edward Gayle...
We're Market Ready!
Investment Dealers & Advisors Member of the Jamaica Stock Exchange
EG
EDWARD GAYLE
& COMPANY LIMITED
Stable and Sure
10-16 Grenada Way, Kingston 5 (876) 960-7108
Fax: 960-7649 Toll Free: 1-888-edgayle
email: invest@edwardgayle.com.jm
NCB Baywest Centre, Montego Bay (876) 971-8988 Fax: 971-8989
NCB Ja. Limited, Mandeville Plaza (876) 962-6993-4 Fax: 962-6118
An NCB Subsidiary
NCB

Chapter 6: Fiscal Policy

The PSOJ

Annual Report on the Jamaican Economy 2000

The fiscal year 2000/01 was an important one in terms of continued fiscal restraints and management. The budget anticipated total expenditure of $111,285.6mn, actual expenditure amounted to $113,280.0mn. This amount represents a 10.86% increase over 99/00. The slight increase in overall expenditure can be explained by a 5.03% increase in recurrent expenditure compared to budget. The expenditure figure represents 40.35% of GDP for 2000/01 compared to 39.8% for 99/00.

Expenditure

The 2000/01 fiscal year was characterized by an attempt at fiscal prudence by the government. The Staff Monitored Programme with the IMF concentrated the government's attention at achieving a primary surplus and an overall reduction in the fiscal deficit. The actual expenditure (excluding amortization) of $113,280.0mn represents a 2.12% increase on budget and a 10.86% increase over 99/00, 22.4% above 98/99. The expenditure figure is not in line with government's plans as it represents a real increase from the previous year. Recurrent expenditure amounted to $100,348.0mn, 5.03% above budget. It also represents an 8% increase over 99/00 and approximately 18.33% above 98/99. The government's attempt at fiscal restraint saw a 15.94% reduction in capital expenditure compared to budget. The figure of $12.9 billion represents an increase of 39.66% over 99/00. The reduction in capital expenditure is significant in light of the poor state of some of the island's infrastructure. The government attributed the reduction partly to none commencement of information technology projects.

The country's high level of debt continues to be a serious hindrance to economic growth and development. Other policy objectives (e.g. maintaining the exchange rate) continue to prolong the problem. Total interest payments were $43,333.97mn, 4.66% above budget and 3.42% above 99/00. Domestic obligations continue to monopolize interest payments. Domestic payments accounted for 80% of interest expenditure. The variance from budget can be explained by the reluctance of the government to reduce interest rates and increase local borrowing. Total external interest payments amounted to $8.7 billion, 5.27% above budget and 29.25% above 99/00. The increased cost is due partly to increased competition by developing countries in the international capital markets and the depreciation in the Jamaican dollar.

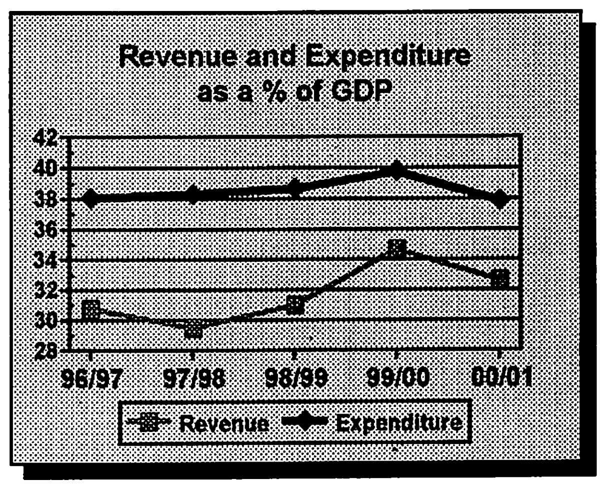


Figure 6.1

During the period under review, amortization costs increased by 10.50% over budget. Actual amortization costs were $61,997.67mn 11.83% above 99/00. The government rescheduled approximately $2 billion during the period, however this was accompanied by a $7.3 billion "non budgeted" amortization of FINSAC paper.

Table 6.1
Annual Fiscal Accounts (J$ billion)

	96/97	% GDP	97/98	% GDP	98/99	% GDP	99/00	%GDP	00/01	%GDP
Revenue	63.1	30.8	66.4	29.5	73.7	31	89.1	34.7%	97.8	32.7%
Expenditure	78.1	38.1	86.4	38.3	91.99	38.7	102.2	39.8%	113.3	37.9%
(Deficit)/Surplus	-15	-7.3	-20	-8.9	-18.3	-7.7	-13.1	-5.1%	-15.5	-5.2%
GDP	204.8		225		238		256.8		298.6	

Revenue

The 2000/01 budget was conceptualized with divestment proceeds and increased tax compliance as central to revenue collection. However, the lagging pace of tax reforms and the continued sluggishness of the economy resulted in a 9.7% reduction in tax revenue compared to budget. Total intake was $97,752mn, of this figure tax revenue was $84,659mn, 1.2% below budget.

Total intake was $97,752 million. Of this figure tax revenue was $84,659 million, 1.2% below budget. Despite the reduction in revenue compared to budget, the 2000/01 figure represents a 7% increase over 99/00 in real terms. While commendable, this performance is due to increased vigilance by the tax authorities and points to the potential tax revenue that goes untapped.

The bauxite levy fell far short of expectation in the period. The levy was approximately $2,832.0mn, 20.26% below budget but 49% above 99/00. The problems at Gramercy and low prices impacted the results. Capital revenue net of divestment proceeds amounted to $1,264.0mn Dividend income from public sector companies fell short of projection and contributed to the adverse variance from budget.

Fiscal Accounts and the Budget

Figures provided by the Ministry of Finance revealed a $4,368.5mn fiscal surplus. This greatly exaggerates the true position of the government.

The government continues to erroneously include divestment proceeds in its calculation of the fiscal position. When adjustments are made, there is a deficit of $15,528.0mn.

Ministerial Allocations: For the period under review, the recurrent allocation to the Ministry of Finance was $50,888.3mn, 0.13% below budget and 3.8% above 99/00. There were other marginal increases in recurrent expenditure to other ministries. The Ministry of Education saw a 6% increase in its expenditure over budget to $18,122.5mn. The most significant increase in recurrent expenditure was in the Ministry of Health. The ministry saw its allocation increase by 36.6% over budget to $9,509.5mn.

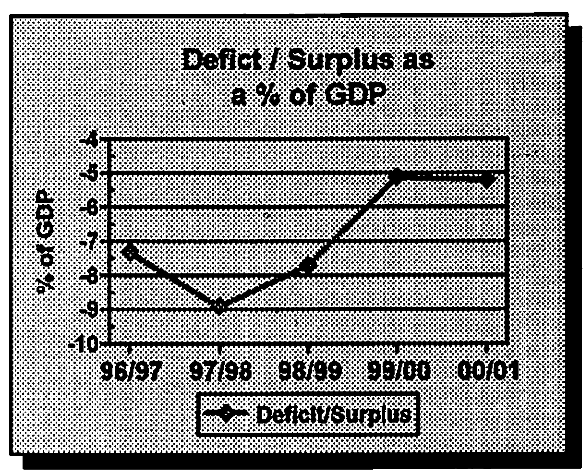


Figure 6.2

In terms of capital projects funded by local sources, the Ministry of Finance spent $78,791.6mn, a 31% increase over budget. The Ministry of Industry and Commerce spent $1,225.0mn, a 41% reduction against budget. The Ministry of Transport and Works spent $1,000.0mn, 12.5% below budget. The Office of the Prime Minister spent $1,198.5mn, 22.6% below budget. In terms of projects funded internationally, most ministries saw a cut in their allocation. The Ministry of Finance was hit the hardest with a 49.6% reduction, actual expenditure was $500.0mn.

Loan Receipts and Balances: For the period under review loan receipts were projected at $56.3 billion, actual receipts amounted to $69.3 billion. This represents a 1.4% reduction on 99/00 and a 13.7% increase on 98/99. This marginal reduction in borrowing over 99/00 is a result of fiscal constraint. Domestic loans accounted for 61% of the total loans. Domestic loans were 31.9% below those of 99/00. External loan receipts ($27,284.7mn) were ahead of projection due to unscheduled inflows from multi-lateral institutions and partly amortized FINSAC liabilities. External loans were approximately 50.4% above budget, reflecting in part the government's successful return to the international capital markets.

Debt Management: The SMP with the IMF holds debt management as key to maintaining fiscal solvency. The ongoing strategy of the government is to lengthen the maturity profile of its debt instruments and to reduce the public sector borrowing requirements. Throughout the fiscal year, the domestic debt stock grew by 23.25% compared to 25.9% for 99/00. Provisional estimates see the total debt for 2000/01 at $380,463.9mn. This figure is not inclusive of the $26,901.9mn of FINSAC debt taken on at the end of the fiscal year, but does not include over $100,000mm of other FINSAC debt which is still outstanding.

Total debt servicing has been increasing steadily, for fiscal year 2000/01 debt servicing was $105,325.64mn, 8.21% above 99/00, 54.76% above 98/99, 87.79% above 97/98 and 106.4% above 96/97. These statistics should not be interpreted as an overall attempt to pay down the debt. The total debt has increased by over 90% since 96/97. Total debt represents 127.5% (provisional) of G.D.P for the review period. For 2000/01 amortization was $61,991.67mn, 10.50% above budget and 11.83% above 99/00.

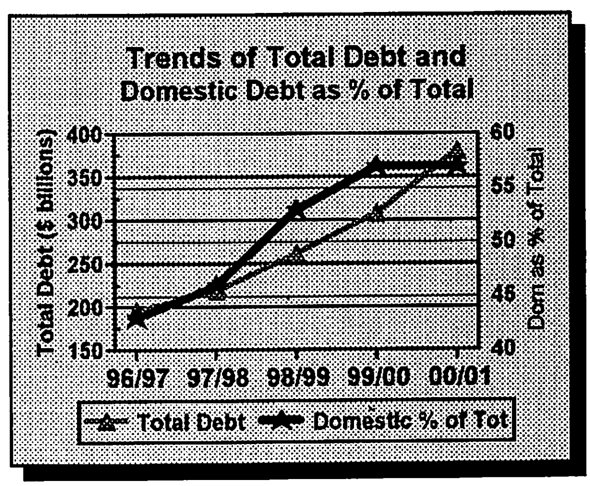


Figure 6.3

Table 6.2
Debt Profile (J$ million)

	96/97	97/98	98/99	99/00	00/01
Domestic	85,181.2	101,540.2	139,203.7	175,322.7	215,084.1
Foreign	111,183.2	117,674.7	123,097.1	133,365.1	165,379.9
Total	196,364.40	219,214.90	262,300.80	308,687.80	380,464.00
		% of Total Debt			
Domestic	0.43	0.46	0.53	0.57	0.57
Foreign	0.57	0.54	0.47	0.43	0.43

The PSOJ

Annual Report on the Jamaican Economy 2000

Projections and Outlook

The government anticipates it will collect $96.3bn in tax revenues in fiscal year 2001/02. This is expected to come mainly from GCT, SCT and income taxes. In total, tax revenue is expected to increase by 13.7% above 2000/01. There is a projected 32.1% increase in GCT collections and a 5.4% increase in income tax intake over 2000/01. The GCT targets are predicated on implementation of a widening of the GCT net during this fiscal year. However, with the economy not expected to grow significantly and inflation remaining moderate, we do not expect the target to be met. The expected improvement in the banking and insurance sectors will positively influence income tax earnings. This of course is highly dependent on the ability of the government to improve fiscal discipline and lower interest rates.

Other sources of tax inflows include an 8.6% increase in stamp duty over 2000/01 to $3,904.0mn and a 31.3% increase in customs duties to $9,854.mn. It is not clear what will cause the expected increase in tax collections at customs, but it may be based on stronger compliance and a reduction in the evasion of custom duties. The government is anticipating $3.4bn for capital revenue, 47.05% of which represents the balance from the JPSCo divestment. The figure is also inclusive of a $1.8bn grant from the European Union.

Loan Receipts: Total loan receipts are projected at $76.8bn, 16.3% above the amount received for 2000/01. External loans are projected at $32.3bn, a 28.7% increase on the amount borrowed last year and an indication of the government's increasing dependence on external financing to meet its budgeted expenditure. Domestic loans are projected at $44.5bn, 8.7% above the amount for 2000/2001.

Expenditure: Total expenditure is expected to be $185.5bn, of this amount $115.7bn is expected to go towards debt servicing. Capital expenditure is expected to be $11.8bn, 8.5% below 2000/01. the government expected to be under a fiscal squeeze again this year, there is the possibility that the capital budget will not be met.

Recurrent expenditure is expected to reach $107.4bn, 7% above 2000/01. Of this amount $48.5bn is expected to go towards interest payments, or 11.8% above the actual out turn for 2000/01. Of the total interest payments, 76.08% is accounted for by domestic interest payments. The government is anticipating increased activity in the international capital markets, as a result external interest payments are expected to be $11.6b, 32.4% above the actual out turn for 2000/01. Capital expenditure is budgeted at $79.0bn, 85.06% of which will go towards amortization.

Education and Culture: The Ministry of Education and Culture has been awarded $19.1bn, 29.1% of the non – debt budget. This represents an 11.04% increase over the amount spent last fiscal year.

Ministry of Health: The Ministry of Health has been granted 4% of the overall budget. The actual figure is $7.7bn, 23.15% below the actual figure for 2000/01. The reduction represents the fiscal restraints on the government in light of the increased debt payments for 2001/02.

Ministry of Tourism: Tourism has been granted $1.9bn, $1.6bn represents recurrent expenditure and $279.5mn to capital projects. The allocation to Tourism is 18.75% over the actual figure for 2000/01.

The government achieved a 0.8% growth in GDP for 2000/01, is this expected to be sustained? The banking sector is expected to grow modestly for 2001/02. This is said in the context of the improved showing of N.C.B in 2000/01 and the expected reorganization of Union Bank. The insurance sector is also expected to maintain its resurgence in 2001/02.

Bauxite production is also expected to increase with the problems of Gramercy solved. The

Information Technology sector could be another important contributor to growth. However this contribution is not expected to be significant until another 4 to 5 years. Tourism arrivals have been increasing steadily and are expected to continue in 2001/02. However we should point out that the continued deterioration in the social fabric and the concomitant "bad press" could have an adverse effect. Notwithstanding the above, the possibility for growth lies in getting funds from the nominal sector into the real sector. This will depend on government's ability to reduce interest rates.

The above analysis gives the real caveat to growth projections for 2001/02. That is, the government is expected to increase local borrowing to finance the budget. This will have serious consequences for interest rates. Further, with policy objective set on maintaining the nominal exchange rate, we are not expecting interest rates to fall significantly. In sum, the government will be hard pressed to achieve growth in excess of 2% for 2001/02.

Table 6.3
Summary of Fiscal Operations (J$ millions)

	Budget 01/02	Actual 00/01	Year on Year	Orig Budget 00/01	Actual 1999/00
Revenue & Grants	107,086	97,752	9.5%	99,431	89,102
Tax revenue	96,280	84,659	13.7%	85,682	74,634
Non-tax revenue	4,589	7,497	-38.8%	7,819	4,326
CDF Trans/Baux levy	2,255	2,832	-20.4%	3,552	1,900
Capital revenue	1,824	1,264	44.3%	879	8,242
Grants	2,139	1,500	42.6%	1,500	-
Expenditure	119,204	113,280	5.2%	111,357	102,179
Recur Expenditure	107,374	100,348	7.0%	95,972	92,919
Programmes & wages	58,918	57,014	4.0%	54,568	51,017
Interest	48,456	43,334	11.8%	41,404	41,902
Domestic	36,882	34,594	6.6%	33,102	35,139
Foreign	11,574	8,740	32.4%	8,302	6,762
Capital Expenditure	11,830	12,932	0.0%	15,385	9,260
IMF #1 Acct	-	1,202	-100.0%		
Fiscal Balance (def)	(12,117)	(15,528)	-22.0%	(11,926)	(13,077)
Recurrent Balance	(288)	(1,399)	-79.4%	3,459	(3,817)
Primary balance	36,339	32,425	12.1%	28,276	28,277
Amortization	67,243	74,992	-10.3%	57,757	55,434
Loan receipts	76,810	66,031	16.3%	56,255	70,275
Foreign	32,304	25,094	28.7%	18,135	14,561
Domestic	44,506	40,937	8.7%	38,120	55,714
Total expenditure	186,446	188,271	-1.0%	170,315	157,612

Chapter 7: Inflation

The latter part of the decade of the 1990's has seen Jamaica's inflation rate maintained in the single digits, in comparison to the earlier part of the decade, which experienced inflation rates as high as 80.2% in 1991 (*Figure 7.1*). The authorities have achieved this favourable out-turn through tighter monetary policy, underpinned by a moderation in the rate of growth of base money. This policy stance has continued into the year 2000, with the signing of the Government's Staff Monitored Program (SMP) with the International Monetary Fund (IMF) in June of 2000.

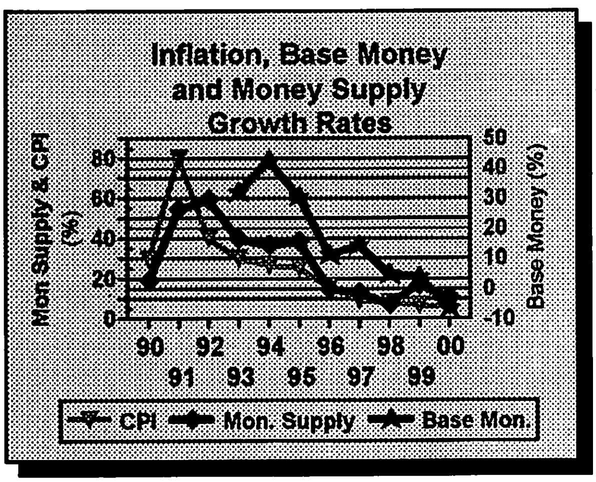


Figure 7.1

For the year 2000, tight monetary policy succeeded in reducing the 12 month calendar year inflation rate to 6.1%, despite higher world oil prices, higher food prices due to drought and a nominal devaluation of 9½% against the US$. Since 1998, with tighter monetary policy, weaker domestic demand and a more competitive domestic market, the pass-through of devaluation to domestic inflation appears to have been lower than in the early 1990's. More moderate wage settlements, reflecting similar pressures, have also contributed to lower inflation with wage increases in 2000 averaging around 7%, compared to 10% in 1999 (IMF 2001 Article IV Consultations: Concluding Statement).

While the 2000 outcome is commendable, Jamaica's inflation rate is still significantly higher than its major trading partners (*Table 7.1*). Thus there is the need for continued reduction in the inflation rate in order to enhance the competitiveness of Jamaica's productive base. Compensating adjustments in the exchange rate would accomplish the compensation for higher bred inflation.

Table 7.1
% CPI of Major Trading Partners

	1996	1997	1998	1999	2000
US	3.3	1.7	1.6	2.7	3.4
UK	2.5	3.6	2.8	1.8	2.9
Canada	2.2	0.7	1	2.6	3.2
Japan	0.6	1.8	0.6	-1.1	-0.2
T.T.	3.6	3.7	-1.3	1.5	3.6
B'dos	2.4	7.7	5.6	2.6	2.6
Jamaica	15.8	9.2	7.9	6.8	6.1

Inflation Trends

The monthly inflation rates for the year 2000 were mostly below the targeted 1% per month, with the exception of April, July and September, which recorded 1% growth (*Figure 7.2*). December recorded the lowest monthly rate of inflation, a decline of 0.7%, the lowest monthly rate since February 1999, when a decline of 1.1% was recorded.

A decline in the Consumer Price Index (CPI) of this magnitude was not expected during December, albeit the customary trend of lower inflation during this month since the single digit inflation era of 1997. In fact this phenomenon has only occurred once since the use of January 1988 as the base year – negative 0.1% in 1997. The decline in December came about as a result of a recovery in the Agricultural Sector from a lengthy drought, which saw prices of Starchy Foods, Fruits and Vegetables tumble. Starchy foods declined by 6.7% in December, while fruits and vegetables declined by 8.7%. The decline during December took the annual rate for 2000 to 6.1%, compared to 6.8% and 7.9% for the two previous years respectively (*Table 7.2*).

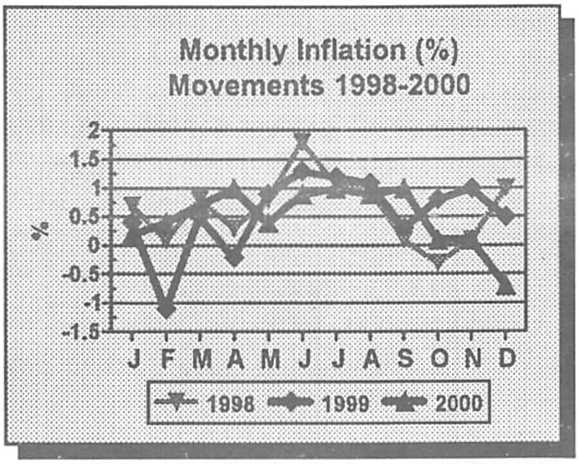


Figure 7.2

The tighter monetary policy being pursued by the authorities to control inflation, is evident in the declining rate of growth of base money and money supply. In fact, base money declined for the first time since the 1990's, declining by 6.4% in 2000. This is in comparison to the high rates obtained in the earlier part of the 1990's, with the monetary base recording growth of 42.7% in 1994. The point-to-point movement in the monetary base was negative for the entire year of 2000, the first such occurrence since the 1990's. Money supply growth has also been restricted, with the highest monthly rate being 1.8%, compared to 4.7% for the previous year.

The Rural Areas benefited the most from the decline during December, declining by 1.2%, in comparison to a mere 0.2% decline for the Kingston Metropolitan Area (KMA). Inflation in the KMA fluctuated between a high of 1.3% in September and the negative 0.2% registered in December. Inflation in the Rural Areas fluctuated between highs of 1.1% in April and September and the 1.2% decline in December.

The extended drought, a sliding exchange rate and higher world oil prices, as alluded to above, were the main contributors to higher quarterly out-turns for 2000, with the exception of the last quarter, compared to 1999 (*Figure 7.3*). Since single digit inflation in 1997, the June and September quarters have customarily recorded higher inflation rates, than the March and December quarters. This may be due to low rainfall conditions that the country has experienced over the past couple summers, leading to increases in the prices of starchy foods, vegetables and fruits, major contributors to the CPI. The September quarter may have been influenced by hikes in school fees and the general back-to-school expenses.

Generally, the monthly, year-to-date and annual inflation rates are the most frequently used measures of price movements. However, the point-to-point measure of inflation proves to be more practical, as it expresses the current annualised rate of inflation and forms a continuing connection between the gaps in the annual rates.

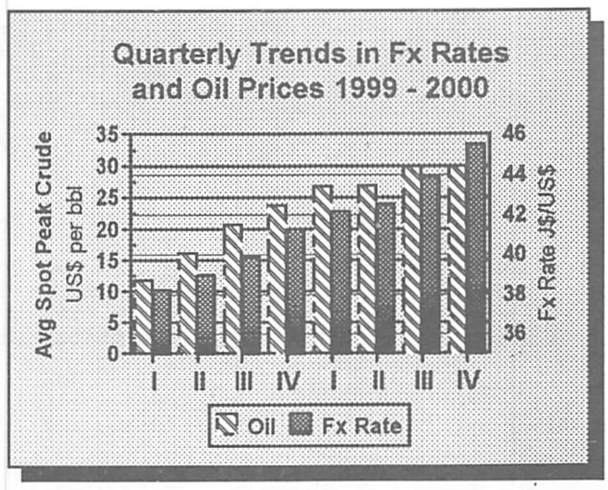


Figure 7.3

The monthly point-to-point rates during 2000 fluctuated between 6.6% and 9.7%, culminating with the annual rate of 6.1% at year-end. This is in comparison to 1999, where rates fluctuated between 4.9% and 7.5%, with a year-end value of 6.8%.

Regional

Although the 'All Jamaica' CPI gives an indication of the overall level and rate of price increases

Box 7.1
Internal Factors Affecting Inflation

1. Throughout the year, the authorities continued to maintain a tight monetary stance:
   a. There was relatively restrained growth in broad money (M2) as well as in base money during the year. M2 grew by 10.5% compared to 17.2% in 1999. The constraint in the growth of base money was even more significant, contracting by 6.4% during the year, compared to a 4.0% increase the previous year. This is in keeping with the SMP agreement between the IMF and Jamaica, during June 2000. By keeping this tight grip on base money growth a major restraint was effected on money supply growth and inflation.
   b. In addition to the overall tight monetary climate, high interest rates and significant open market operations by the BOJ kept liquidity tight. There was higher lending to the public sector, which in turn led to a crowding out of the private sector. This served to keep a lid on the growth of money supply as well as to depress overall demand, so that there was very little excess liquidity to push up prices and fuel inflation.
2. For most of 2000, the island experienced severe drought conditions, which impacted negatively on the volumes of domestic and export food crops produced. The decrease in local food supplies was offset by increased food imports. However, the decline in the supply of local foods had singly the greatest impact on inflation, mainly due to the fact that 'food and drink' is the most heavily weighted factor in computing the CPI, and therefore quite sensitive to price changes. During the months of April to September, increased prices in starchy foods brought on by shortages, increased the quarterly inflation rates for the second and third quarters, to well above 2%. However, prices in starchy foods declined in the last quarter, following a recovery in the agriculture sector. This led to a 0.5% decline for the last quarter.
3. Interest rates remained high during the year, albeit with a slow decline through the first three quarters, but were halted in the latter quarter by a rapid decline in the exchange rate. The high rates translated into high costs to investors, consumers, producers and exporters. As a result, several businesses were closed, while some shifted focus from production to distribution. This may have led to an increased demand for imports, which at times proved cheaper than the local products they replaced, and this had a tempering effect on inflation.
4. In addition to the above, there was an increasing level of job losses or the threat thereof, resulting from closures and downsizing. This meant the labour market remained tight, which created a low level of consumer confidence as well as a lower capacity to spend, thereby weakening overall demand, which was non-inflationary.
5. There was a nominal devaluation of 9 ½ % against the US$, which might have increased inflation. However, most of the depreciation came over the last quarter, and the foreign exchange market was broadly stable for most of the year. Over the past three years, with tighter monetary policy, weaker domestic demand and a more competitive domestic market, the pass through of devaluation to domestic inflation appears to have been lower than in the early 1990's.
6. More moderate wage settlements, reflecting similar pressures, have also contributed to temper inflation. Wage increases in 2000 averaged around 7 per cent compared to 10 per cent in 1999.

....continue

Box 7.1 continued...

7. Moderate increases in rates for water, telephone, electricity, school fees and school supplies effected at different times throughout the year, were reflected in upward movements in the inflation rate.

experienced island-wide, this is not representative of isolated sections of the island and, at the end of 2000, inflation was higher in the KMA, than the All Jamaica Index. As a result, the 2000 point-to-point rate for the KMA was 7.5%, compared to the 6.1% annual rate. The rate for "Other Towns" was 5.4% while 'Rural Areas' registered a low 4.6%, due mostly to a 1.5% decline in the last quarter *(Figure 7.4).*

During the year, inflation was driven in the KMA to a great extent by movements in the prices of 'food and drink', 'fuel and other household supplies' and 'housing and other expenses'. In the other towns, and rural areas, the categories in order of significant impact were 'fuels and other household supplies', followed by the 'food and drink' category.

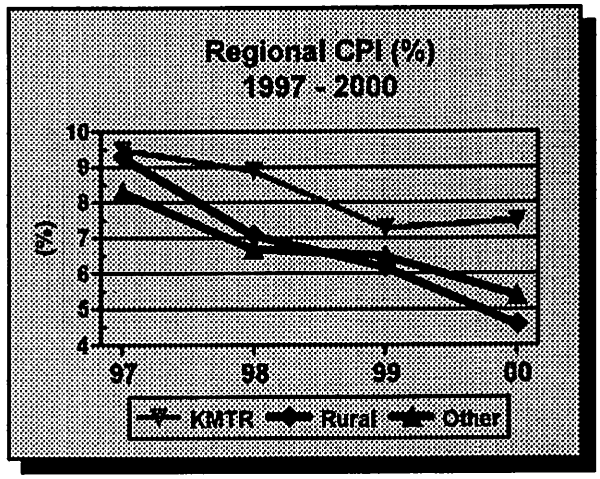


Figure 7.4

Box 7.2
External Factors Affecting Inflation

1. Given the continued downturn in the output of the Jamaican economy, higher levels of imports dominated merchandise trade during the year. These imports originated from countries such as the United States, United Kingdom and Canada, with lower inflation rates, had prices which tended to be lower than average local prices which, combined with the softening of local demand, had the overall effect in some cases of keeping prices low, with a similar effect on inflation.
2. The positive gains from lower prices of merchandise imports were partially offset by large increases in imported fuel prices over the first three quarters. International oil prices soared to their highest levels during the third quarter, since the Gulf War in 1990, reaching US$38.00, three times its value in 1998. The average import price for petroleum products and the spot peak price for crude oil, both averaged highs of US$30.00 during the third quarter, compared to US$18.60 and US$20.70 for the corresponding quarter in 1999. The increase in the first quarter was even more severe, going from U$12.80 and US$11.79 to US$27.00 and US$26.70 respectively.

.....continued

Box 7.2 continued...

Imported crude oil, refined oil, liquid petroleum gas (LPG) and other by-products are essential commodities – whether consumed directly as motor fuel, cooking gas or indirectly as electricity or bus fares. In this regard, the movements in fuel prices affect all consumers and are influential in affecting inflation.

Outlook

Government is expected to continue its tight monetary stance by targeting base money to control inflation over the 2001 period. This is evidenced by the 0.1 per cent contraction in base money over the twelve months to March 2001. The inflation out-turn for the current fiscal year is 5.6 per cent to February 2001, and is well within the Government's seven per cent fiscal target. The inflation out-turn for 2001 may be affected by adverse weather conditions on the heavily weighted food and drink group, and the risk of higher world oil prices due to a possible OPEC supply cut (*see Energy*). Other factors include effects such as seasonal increases in tuition fees, and a possible increase in property taxes, which could influence the 'Housing and Other Housing Expenses' group. However the out-turn should continue to be moderate and the inflation rate for 2001 is expected to remain in single digits.

The PSOJ

Annual Report on the Jamaican Economy 2000

Table 7.2
The Consumer Price Index
1996 - 2000

	1996	1997	1998	1999	2000
All Groups	**15.8**	**9.2**	**7.9**	**6.8**	**6.1**
Food and Drink	**12.1**	**8.9**	**4.0**	**3.9**	**4.4**
Meals Away from Home	17.1	10.7	8.0	3.4	5.6
Meat Poultry & Fish	9.0	5.6	4.4	1.8	2.7
Dairy Products, Oils and Fats	13.1	3.3	1.6	2.0	4.2
Baked Products, Cereal & Breakfast Drink	13.4	1.1	3.9	1.2	5.9
Starchy Foods	9.3	28.6	0.7	7.3	8.9
Vegetables & Fruits	7.2	19.1	2.6	8.6	-0.1
Other food & Beverages	17.9	6.4	5.7	9.6	4.6
Fuels & Other Household Supplies	**20.6**	**7.3**	**9.7**	**2.9**	**7.6**
Household Supplies	20.9	6.4	3.7	2.0	2.6
Fuels	20.3	8.3	16.8	3.9	12.8
Housing & Other Housing Expenses	**13.8**	**10.2**	**9.6**	**24.4**	**17.5**
Rental	31.8	25.7	24.6	9.1	18.5
Other Housing Expenses	10.9	7.2	6.2	28.5	17.3
Household Furnishings & Furniture	**12.9**	**8.1**	**3.9**	**3.5**	**8.9**
Furniture	8.3	4.0	8.1	6.8	6.0
Furnishings	14.7	9.6	2.4	2.2	10.1
Healthcare & Personal Expenses	**21.8**	**8.8**	**7.4**	**7.6**	**6.7**
Personal Clothing, Footwear & Accessories	22.8	10.6	3.7	5.6	4.5
Clothing Materials	21.9	6.7	8.4	5.8	0.6
Readymade Clothing & Accessories	27.6	9.3	2.9	3.6	3.2
Footwear	15.0	10.5	2.4	5.7	7.1
Making & Repairs	26.7	23.0	9.2	15.5	5.5
Transportation	**28.5**	**2.1**	**25.8**	**4.3**	**3.9**
Miscellaneous Expenses	**25.7**	**15.9**	**23.3**	**16.2**	**6.3**

Chapter 8: Energy

The PSOJ

Annual Report on the Jamaican Economy 2000

International Oil Market

Global demand for oil is estimated to have averaged 75.7 million barrels per day for 2000, indicating growth of just 0.1 per cent over the corresponding 75.6 million barrels per day for 1999. This was the lowest growth, in absolute terms, recorded during the five year period 1996 – 2000. One of the major factors responsible for the relatively slow growth in demand was the apparent draw-down of stockpiles built up during earlier years when prices were cheaper.

Total oil supply increased by 3.5 per cent to 76.5 million barrels per day, compared to the 74 million barrels per day in 1999. The Organization of Petroleum Exporting Countries (OPEC) continued to be a major supplier, increasing its supply by 4.8 per cent to 30.8 million barrels per day. However most of the World's oil supply continues to be met by Non-OPEC producing countries, which grew by 2.7 per cent in 2000 to 45.8 million barrels per day. The increase in supply mainly reflected the producing countries' response to the higher prices that prevailed in 2000 as well as the decline to 74 million barrels per day in 1999.

During 2000 the price of oil escalated to its highest levels since the Gulf War, averaging US$28.23 per barrel, compared with US$19.07 per barrel in 1999 (*Figure 8.1*).This represents an increase of 48.3 per cent. A number of factors impacted on the phenomenal rise in prices, namely:

- the strong economic performance of the major industrial economies such as the United States.
- speculative pressures regarding the levels of agreed output by OPEC.
- increased winter demand due to adverse weather conditions in the United States.
- the aforementioned draw-down of the stockpiles built up during earlier years when prices were relatively cheaper.
- perceived threat to supplies of crude oil due to tension in the Middle East.

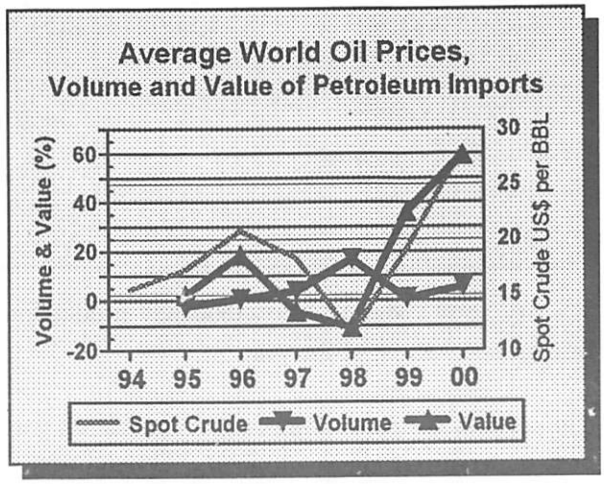


Figure 8.1

Local Consumption

Total petroleum imports for 2000 amounted to 24.47 million barrels compared to 24 million barrels in 1999, while the value of petroleum imports was US$688.09 million compared to US$431.14 million in 1999 (*Table 8.1*). These represented an increase of 6.0 per cent and 59.6 per cent in volume and value respectively, for 2000, compared to the previous period's increase of 1.1 per cent and 36.2 per cent respectively.

Imports of crude and refined products by Petrojam amounted to 12.77 million barrels in volume and US$377.93 million in value. This represented increases of 8.8 per cent and 69.5 per cent respectively. However the components of this total showed contrasting trends. Total crude oil imports increased in volume and value, while imports of refined products declined in volume and value. The rise in the imports of crude oil reflected the return to normalcy (up 93.1 %) of the Petrojam refinery in 2000, compared with 1999 when there was no production between

Table 8.1
Volume and Value of Petroleum Products

	1999 Vol ('000bbls)	1999 Val ('000 US$)	2000 Vol ('000 bbls)	2000 Val ('000 US$)	% Chng Vol	% Chng Val
Refinery						
Total Crude Oil	3,217.7	58,537	7,731.6	218,674.7	140.3	273.6
Refined Products	8,517.1	164,443	5,041	159,254	-40.8	-3.2
Sub-Total	11,734.8	222,980	12,772.6	377,928.7	8.8	69.5
Avg Crude Peak Spot Price (per bbl)		19.07		28.28		48.3
Bauxite Companies						
Fuel Oil	8,179	119,627.1	8,543	179,906.2	4.5	50.4
Marketing Companies	3,284.2	88,517.5	3,123.4	130,239.1	-4.9	47.1
Total	23,096.4	431,136.7	24,472.3	688,094	6	59.6

January and March and reduced production throughout the rest of the year.

The refinery's closure from January to March was due to a fire in October 1998. The refinery's return to operation also spelled a decline in the import of refined products, which had been filling the lack of supply. The huge increase in the value of imports was due to the 48.3 per cent increase in the average cost per barrel for crude oil. Average billing prices reflected the surge in world oil prices, ranging from 36.7 per cent for Unleaded 87 to 64.8 per cent for Liquid Petroleum Gas (LPG).

Electricity Generation

The Jamaica Public Service Company's (JPSCo) generation capacity increased by 0.9 percent in 2000, compared to a 1% increase in 1999. The company reported that 668.7 megawatts were generated during 2000 compared to 656.2 in 1999. JPSCo generated approximately 2,295.4 (up 1.7%) gigawatt hours (GWH) of electricity during 2000, while 1,006.5 GWH (up 19.5%) was purchased from private producers. The amount of power purchased increased due to growth in demand and unavailability of one of JPSCo's unit for maintenance purposes. These trends resulted in an overall generation of 3,301.8 GWH, representing an increase of 6.5 per cent over 1999's figure.

Approximately 83.0 per cent of electricity generated in 2000 was sold while the remaining 17 per cent was lost. Total sales (2,739.0 MWH) for the period increased by 6.3 per cent during 2000 compared to 5.3 per cent in 1999. This out-turn in sales was mostly buoyed by sales to the large power category, reflecting increased bottling activities in the Manufacturing Sector (*see Manufacturing and Processing*).

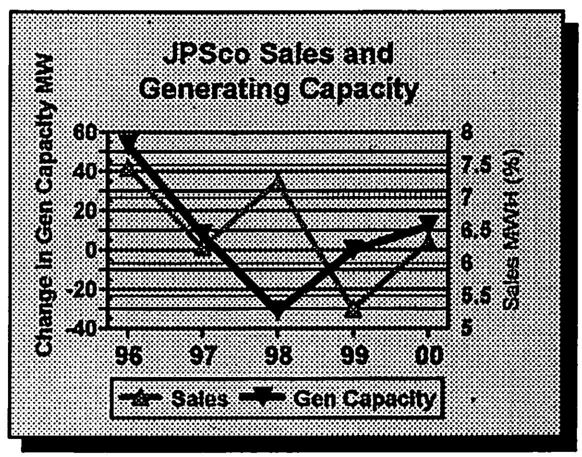


Figure 8.2

The JPSCO's generation efficiency deteriorated in 2000, with the company's heat rate (efficiency of converting fuel to electricity) increasing by 1.7 per cent, compared to 2.0 per cent in 1999. Fuel consumption increased by 5.0 per cent, while the cost of fuel increased by 68.8 per cent to J$5,753.63 million, due to higher crude oil prices. The increase in fuel consumption was caused by the high use of gas turbines for replacement generation.

Significant Developments

The major development during 2000 was the undertaking for the divestment of JPSCo. Final negotiations began in November 2000 and it was expected that agreement for the sale of 80.0 per cent of the company's shares would be signed by the beginning of February 2001. Consequently an agreement was reached with Mirant Corporation in February 2001 and a Memorandum of Understanding (MOU) signed for the sale of 80.0 per cent share in the company. The sale was effected in March 2001.

The PSOJ

Annual Report on the Jamaican Economy 2000

Outlook

The recent hikes in world crude oil prices from an average of US$19.07 to US$28.23 per barrel have since abated and are expected to remain within the US$22.00 to US$28.00 per barrel target range of OPEC. This may reduce the cost of Jamaica's fuel bill with a positive impact on the trade balance. Nevertheless, a cut in production by OPEC could signal another increase in prices during 2001. The impact of such an increase on world inflation and energy costs may be less severe given inventory levels are currently higher than when the previous hike was initiated.

However, the current slowdown of the US economy, the major engine of world growth, could magnify the impact of another hike in prices on developing countries.

The privatization of the JPSCo should see an improved efficiency in electricity generation. This may translate into little or no change in electricity prices over the medium term, which is complemented by the fact that the JPSCo was granted a rate increase in March 2001. The improved efficiency may also result in a consistent power supply which is critical to the activities of the Manufacturing and Processing sector.

Chapter 9: Manufacturing

For the calendar year 2000, overall manufacturing output as captured by the Planning Institute of Jamaica's Survey of Selected Manufactured Commodities, is estimated to have registered an improvement compared with 1999. The return to normalcy of the Petrojam Refinery has contributed significantly to this out-turn, boosting the heavily weighted Petroleum Products sub-sector by 93.12 per cent, compared to the 29.85 per cent decline in 1999. Also contributing were improved performances in the Carbonated Beverages and Beer category. The improved performance also reflects a marginal revival in commercial banks loans and advances to the sector, which increased by 1.82 per cent ($3,046.8 M) compared to three consecutive years of decline, the most recent being 25.23 per cent ($2,992.4 M) in 1999. There have also been increases in disbursements of special credit lines primarily from development banks.

However, some of the gains advanced by the Petroleum Products sub-sector, were offset by an apparent overall decline in Food Processing, the most heavily weighted sub-sector, and a continued decline in the tobacco industry. Continued competition from lower priced consumer imports which are easily accessible, continued high real interest rates (*see Money and Banking*) and high operating costs also continue to restrain growth within the sector.

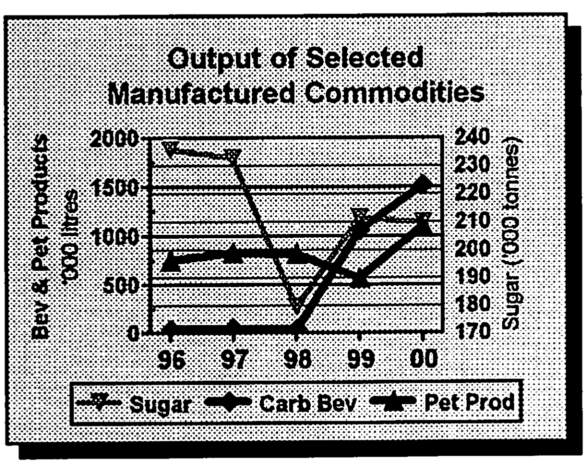


Figure 9.1

Food Processing

The food processing sub-sector, the largest sub-sector in the manufacturing sector, was estimated to have recorded an overall decline in production during 2000. This was evidenced by declines in some key products, namely sugar (-0.8%) and consequently molasses (-20.4%), edible oils (-10.8%), condensed milk (-1.1%) and flour (-0.9%) (*Table 9.1*). The reduction in the heavily weighted sugar industry was due to readjustment of the production cycle (due to drought) where most of the crop was reaped during January to March and the late start of the reaping period during the last quarter, which was affected by heavy rains. Condensed milk was mainly affected by reduced demand stemming from increasing use of substitutes, while edible oils and flour fell as a result of consumer preference for cheaper imported substitutes. In contrast, there was growth in animal feeds, dairy products and poultry meats. However, growth in these areas may not have been sufficient to offset the poor performance of the previous sectors, leading to an overall decline.

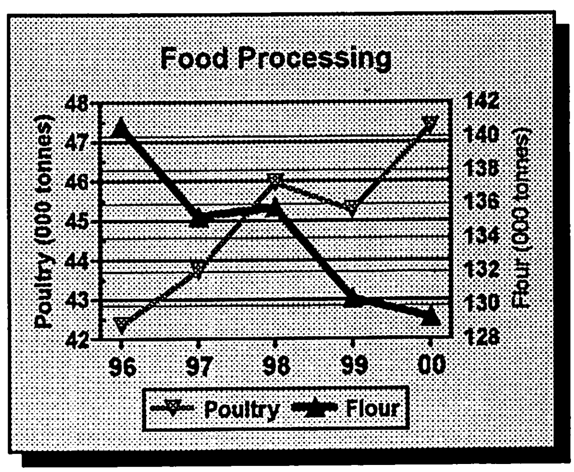


Figure 9.2

The PSOJ

Annual Report on the Jamaican Economy 2000

The PSOJ

Annual Report on the Jamaican Economy 2000

Table 9.1
Output of Selected Commodities, 1997 - 2000

	Unit	1997	1998	1999	2000	00/99 (%)	99/98 (%)
Food Processing							
Poultry Meat	tonnes	43,737	45,976	45,285	47,398	4.67	-1.50
Animal Feeds	"	298,104	331,932	337,084	350,140	3.87	1.55
Condensed Milk	"	15,357	17,102	15,404	15,235	-1.10	-9.93
Edible Oils	"	11,718	12,273	13,794	12,304	-10.80	12.39
Edible Fats	"	6,615	6,532	5,991	6,239	4.14	-8.28
Flour	"	135,259	135,801	130,436	129,313	-0.86	-3.95
Cornmeal	"	10,518	9,843	8,808	9,162	4.02	-10.52
Sugar	"	232,797	179,688	211,540	209,825	-0.81	17.73
Molasses	"	92,926	99,537	92,146	73,377	-20.37	-7.43
Dairy Products	"	n/a	1,672	6,293	6,789	7.88	276.38
Beverages and Tobacco							
Rum and Alcohol	000 ltrs	n/a	21,332	19,603	17,804	-9.18	-8.11
Beer	"	46,243	47,956	47,836	55,491	16.00	-0.25
Stout	"	21,190	17,576	17,921	14,365	-19.84	1.96
Carbonated Beverages	"	47,382	44,471	**1,061,640**	**1,519,460**	43.12	2,287.26
Cigarettes	000	1,174,995	1,159,983	1,078,220	991,215	-8.07	-7.05
Cigars	"	21,872	15,997	7,281	4,465	-38.68	-54.49
Chemicals & Chemical Products							
Sulphuric Acid	tonnes	16,143	13,711	21,261	14,595	-31.35	55.07
Aluminium Sulphate	"	11,005	11,772	18,681	15,378	-17.68	58.69
Sulphonic Acid	"	2,861	4,765	5,420	2,861	-47.21	13.75
Salt	"	16,498	15,606	19,090	19,068	-0.12	22.32
Fertilizer	"	54,021	50,414	49,153	50,725	3.20	-2.50
Detergent	"	n/a	n/a	1,674	1,513	-9.62	n/a
Paint	"	10,097	9,876	10,337	9,624	-6.90	4.67
Adhesives	000 ltrs	n/a	n/a	712	712	0.00	n/a
Petroleum Products							
Gasolene	000 ltrs	142,407	139,070	84,282	182,048	116.00	-39.40
LPG	"	13,212	12,643	5,496	18,235	231.79	-56.53
Fuel Oil	"	382,142	400,460	285,287	511,846	79.41	-28.76
Turbo Fuel	"	71,677	56,298	43,473	100,798	131.86	-22.78
Automotive Diesel Oil	"	156,307	160,857	115,335	221,344	91.91	-28.30
Other Petroleum Products	"	69,873	48,206	39,639	73,292	84.90	-17.77
Total Petroleum Products	"	***835,619***	***817,534***	***573,512***	***1,107,562***	93.12	-29.85
Non-Metallic Minerals							
Cement	tonnes	588,287	557,991	503,713	521,343	3.50	-9.73

Beverages and Tobacco

Out-turn in the beverages and tobacco sector continued to be mixed, with strong performances by carbonated beverages and beer, while production of tobacco products continued to decline. Carbonated beverages continued to exhibit the strongest growth in this sub-sector, recording an increase of 43.12 per cent in comparison to the record 2,287.3 per cent increase in 1999. This strong growth was buoyed by the increased plant capacity for carbonated beverages, as a result of restructuring, retooling and new investments within the sector. There was a shift from franchising to direct production by the two main producers in the local market. There was also increased demand for beer (16%) in comparison to the marginal decline recorded in 1999 (-0.25%), following the launch of Red Stripe Light brand during the third quarter. Rum and alcohol production was affected by lack of disposal facilities for the dunder by-product, which resulted in its continued decline.

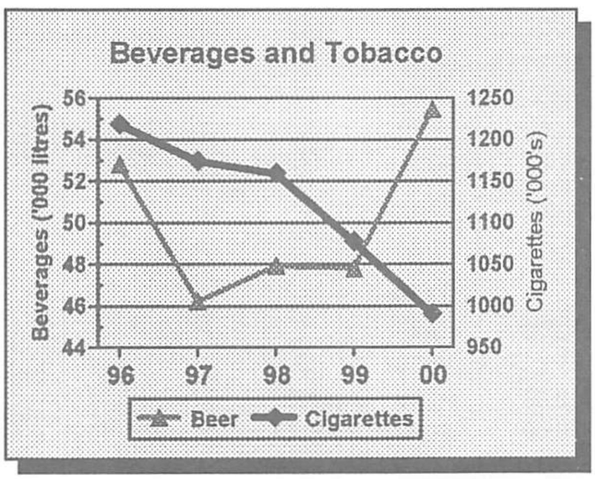


Figure 9.3

The tobacco industry continued to decline in 2000, with the production of cigarettes and cigars declining by 8.07 and 36.68 per cent respectively. The major contributing factors to this out-turn continued to be erosion of the competitiveness of the local industry due to higher production costs, and lower demand especially for cigars, which are produced solely for export. During the last quarter of 2000, the industry received a major setback, as the major cigar producer Cifuentes Y Cia, closed its operations in Jamaica, citing high production costs.

Chemicals and Chemical Products

There was an overall decline in this sector for 2000, as all sub-sectors failed to register growth, with the exception of fertilizers, which improved by 3.2 per cent. The reduction in the production of sulphuric acid (used in battery production) and sulphonic acid (base for production of detergent) was affected by the shutdown of the major plant for repairs during most of the last quarter of 2000. In addition, high production costs for sulphonic acid, have resulted in a loss of market share to Central American competitors.

Petroleum Products

The heavily weighted petroleum sub-sector registered strong growth, following the return to approximately 95% capacity of refinery operations. The sub-sector had previously recorded two consecutive years of decline – moving down 24.6 and 2.2 per cent in 1999 and 1998 respectively - due to closure of the refinery,

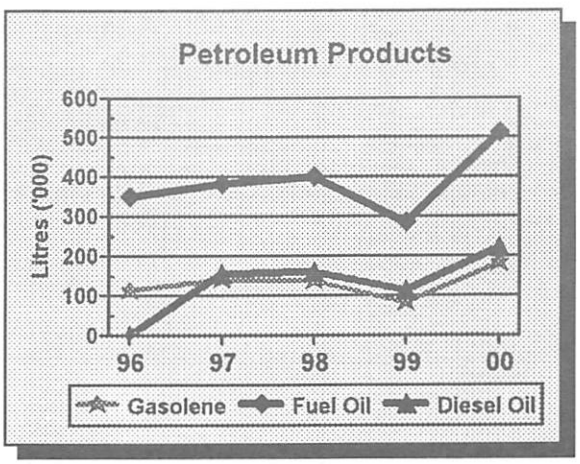


Figure 9.4

The PSOJ

Annual Report on the Jamaican Economy 2000

The PSOJ

Annual Report on the Jamaican Economy 2000

which had been affected by fire, general repairs and maintenance, at various stages during 1999 and 1998. Overall the sector grew by 93.12 per cent, with LPG, turbo fuel and gasoline showing the largest increases.

Non-Metallic Minerals

This sub-sector showed positive growth for the period, with cement production increasing by 3.5 per cent compared to a 9.7 per cent decline in 1999. However the current level of production (521,000 tonnes) is far below the 588,000 tonnes and 558,000 tonnes recorded in 1997 and 1998 respectively. The positive out-turn reflects a recovery from technical problems which had resulted from equipment failure at the local processing plant.

Manufacturing Exports

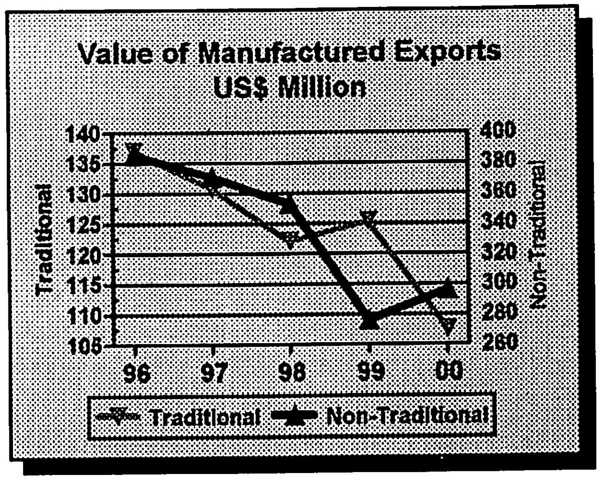


Figure 9.5

Table 9.2
Total Exports of Manufactured Commodities (US$Mn)

	1997	1998	1999	2000	00/99 (%)	99/98 (%)
Traditional						
Sugar	101.90	94.60	95.20	83.30	-12.50	0.63
Other Products	2.40	2.30	2.60	3.60	38.46	13.04
Rum	26.60	25.30	27.60	20.70	-25.00	9.09
Total Traditional	*130.90*	*122.20*	*125.40*	*107.60*	*-14.19*	*2.62*
Non-Traditional						
Processed Foods	31.40	3.20	21.10	23.70	12.32	559.38
Beverages & Tobacco	26.80	47.30	28.90	33.50	15.92	-38.90
Crude Materials	11.30	6.50	3.20	3.40	6.25	-50.77
Mineral Fuels	3.20	2.80	3.60	3.70	2.78	28.57
Animal & Veg Oils	0.02	0.03	0.03	0.08	149.20	2.70
Chemicals	49.90	44.30	46.00	67.10	45.87	3.84
Manufactured goods	8.70	7.10	6.40	7.20	12.50	-9.86
Machinery Equip	4.10	3.60	1.70	1.00	-41.18	-52.78
Misc Manufacturers	235.90	208.50	165.50	157.00	-5.14	-20.62
Total Non-Traditional	371.30	353.50	276.30	296.70	7.38	-21.84
Grand Total	502.20	475.60	401.70	404.40	0.67	-15.54

Preliminary data from the Planning Institute of Jamaica indicates that total exports of Manufactured Goods registered an overall increase of 0.7 per cent for Calendar year 2000 (*Table 9.2*). This is the first such positive out-turn since 1995, and totalled US$404.4 million compared to the US401.7 million recorded for 1999. The major contributing factor to this positive out-turn was an overall increase of 7.4 per cent of non-traditional exports in 2000, compared to a 21.8 per cent decline in 1999. This increase was buoyed by increases in Chemicals and Chemical Products (46%), Beverages and Tobacco (16%) and the heavily weighted Processed Foods (12.4%) sub-sectors.

Total Traditional Exports on the other hand, declined by 14.2 per cent in 2000, compared to the 2.6 per cent increase recorded in 1999. Declines in the value of Sugar (down 12.5%) and Rum (down 24.9%) were responsible for the negative out-turn.

Apparel Industry

The apparel industry continued to contract for the fifth consecutive year (*Figure 9.6*). Total export earnings of the industry was US$360.5 million, which represents a decline of 15.2 per cent. The closure of four factories during the year, higher domestic production costs and loss of market share in the USA, were contributing factors to this continued decline.

Outlook

The growth prospects for the Manufacturing sector remain positive during 2001, given the continued strong market demand within the beverage industry and the return to operating efficiency of the Petrojam Refinery. The ongoing retooling, restructuring and modernization efforts should improve efficiency and productivity which may result in an even stronger performance during 2001. Further, a continued depreciation of the real effective exchange rate as has been the case during

The PSOJ

Annual Report on the Jamaican Economy 2000

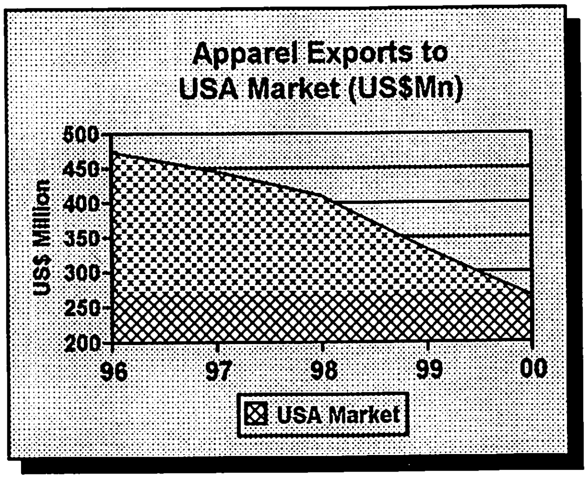


Figure 9.6

1999 and 2000, should improve the competitiveness of some exporters within the sector.

However, some sectors are still experiencing difficulties such as relatively higher production costs, resulting in loss of competitiveness and cheaper imports. Even more important is the effect of the downward trend in preferential prices and adverse weather conditions on the sugar industry, the major player within the food processing industry. The Everything But Arms trade agreement voiced by the European Union poses a significant long-term threat to the sugar industry as well. These drawbacks on sugar may restrict output from the food processing sub-sector, which is heavily weighted in the overall contribution to the Manufacturing Sector.

Chapter 10: Mining

The PSOJ

Annual Report on the Jamaican Economy 2000

International Primary Aluminium Industry

The international bauxite/alumina market remained buoyant during 2000, hinged on a record year in world GDP growth of 4.7 per cent. According to the CRU Metal Monitor, total world production during calendar year 2000 increased by 3.2 per cent, down from the 4.3 per cent registered the previous year. Production was 20,396 thousand tones in 2000, compared to the 19,768 thousand tonnes produced in 1999. Contributing to the rise in production were outputs from China, the Middle East and Asia Pacific, which offset declines from the USA and Canada.

World consumption of Aluminium grew by 5.3 per cent in 2000, compared to 6 per cent in 1999. Total world consumption was 24,777 thousand tonnes in 2000, compared to the 23,539 thousand tonnes recorded in 1999. The growth in consumption was underpinned by the continued recovery of the East Asian economies and buoyant construction and transport sectors in China, which posted the highest increase in consumption (14.1%). However, US consumption declined by 0.7%, amid fears of a "hard landing" in the latter part of the year, which led to weakness in the truck trailer market, and has now spread to the building and construction sectors.

Following increased world consumption, primary aluminum prices attained their highest levels since 1997 (*Figure 10.1*).

Data from the London Metal Exchange (LME) indicates that at the end of 2000, primary aluminium average cash prices posted US 70 cents per pound or US$1,549 per tonne. This represents an increase of 13.3 per cent compared to the US 62 cents per lb recorded in 1999. Prices rose to 75 cents per pound at the end of March 2000, their highest level since the end of December 1995.

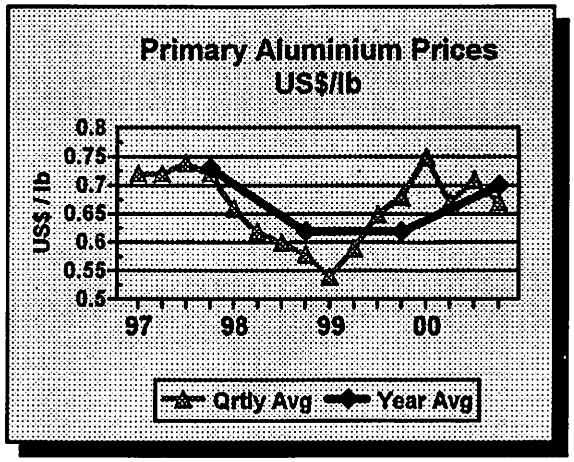


Figure 10.1

The cuts in supply by some producers in the Pacific Northwest Region of the US due to high energy prices were major contributors to these price increases.

Domestic Production

During 2000 there was a mixed performance from the bauxite and alumina sector. Alumina production increased by a mere 0.9 per cent, despite reaching a record high 3.6 million tonnes, while crude bauxite production declined for the second consecutive year, going down by 26.2 per cent. These two factors combined to effect a 4.8 per cent decline for 2000, compared to the 7.6 per cent for 1999 (*Table 10.1*). This trend represents a slowing in the recent rate of decline of bauxite production. The downturn in the output of crude bauxite was a result of the production cutbacks brought about by the closure of the Gramercy Alumina Refinery, the major importer of crude bauxite from Jamaica.

During the 16 month closure before reopening in November 2000, Jamaica lost an outlet for approximately 2.6 million tonnes of crude bauxite

(JBI projections). Although additional markets were found for some 300,000 tonnes of crude bauxite, they were insufficient to compensate for the reduction in output, resulting in overall decline. The effect of the Gramercy explosion continued to have a negative effect on the capacity utilization of bauxite producing plants, dropping from 62.1 per cent in 1999 to 45.2 per cent in 2000 (*Figure 10.2*).

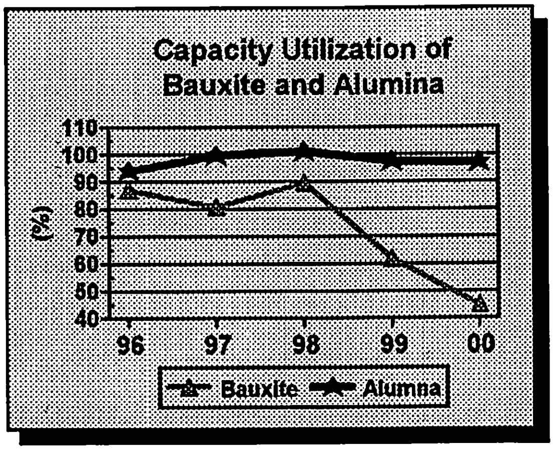


Figure 10.2

Export of crude bauxite and alumina reflected production trends, with alumina exports increasing by a mere 1.0 per cent, while crude bauxite declined by 24.2 per cent. This compares with a 3.8 per cent increase and a 30.5 per cent decline during the previous period, respectively.

Export Earnings

Gross foreign exchange earnings for the bauxite and alumina sector totaled a record US$740.6 million for calendar year 2000, 7.7 per cent above earnings for 1999 (*Table 10.2*). This out-turn was achieved despite the lower output of total bauxite recorded due to the Gramercy accident. However, increased demand for aluminium on the world market resulted in higher prices (*see International Primary Aluminium Industry above*) and thus increased gross earnings.

Outlook

The return to production of the Gramercy plant in November 2000 is a key factor in the outlook for the sector during 2001. The first two months of calendar year 2000 have already seen improved performance in crude bauxite production, increasing by over a hundred per cent over 2000 figures. The Jamaica Bauxite Institute has projected a doubling of crude bauxite exports to 4.2 million tonnes in 2001. This translates into a 20.0 per cent increase in total bauxite production for 2001. Increased efforts to increase the capacity of the alumina refineries and the recent three year deal to supply nearly 450,000 tonnes of aluminium to China should also enhance the outlook for the sector.

World growth in GDP is expected to be less than the 4.7 per cent recorded in 2000, and the US economy is currently experiencing an economic slowdown, which may affect world demand and hence alumina prices in 2001. However an overall strong growth is projected for this sector.

Table 10.1
Bauxite / Alumina Production and Export Statistics

	1997	1998	1999	2000	00/99(%)	99/98 (%)
Crude Bauxite	72.8	81	55.9	44.7	-20.1	-31
Alumina	651.7	600.7	631.7	696	10.2	5.2
Total Bauxite	724.5	681.7	687.6	740.6	7.7	0.9
Levy / Tax	69.3	82.4	59.1	68.7	16.3	-28.3
Royalty	5.7	5.8	5.9	5.4	-8	1.7
Cash Inflows	260.6	248.9	251.4	242.7	-3.5	1
Total	335.6	337.1	316.4	316.9	0.1	-6.1

Table 10.2
Value of Exports and Foreign Exchange Earnings

Production	1997	1998	1999	2000	00/99 (%)	99/98 (%)
Alumina	3,645.2	4,034.6	2,794.6	2,062	-26.2	-30.7
Crude Bauxite	3,394.2	3,440.2	3,569.6	3,600.1	0.9	3.8
Total Bauxite	11,987.3	12,646.4	11,688.5	11,126.5	4.8	-7.6
Exports						
Alumina	3,641.1	4,020.2	2,795.4	2,118.9	-24.2	-30.5
Crude Bauxite	3,414	3,476.6	3,607.2	3,642.5	1	3.8
Total Bauxite	12,034	12,719.4	11,789.5	11,283.1	-4.3	-7.3

Chapter 11: Tourism

The slowdown in USA economic growth during the latter quarter of 2000 did not seem to have affected the level of tourism arrivals in Jamaica in a negative way; there was an increase of stop-over arrivals from the USA of 8.4% over 1999. The decline in the value of the euro against the US dollar over recent years continues to affect the European Union economies in general and the travel business in particular. Germany, Europe's largest economy is no exception. Evidence of the effect on Jamaica is reflected in a 4.7% decline in tourist arrivals from European countries during 2000. The Latin American market has had little effect on Caribbean tourism in general and this might be due to the economic slowdown experienced by these countries over the previous years. However Brazil, which is the largest Latin American nation, experienced commendable economic growth of 4.2% over last year and growth for 2001 was forecast to be 4.5%.

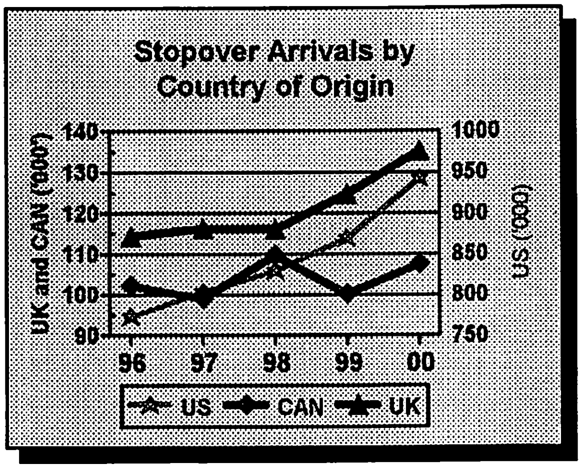


Figure 11.1

Caribbean Tourism

Tourism activity was mixed for most destinations in 2000 (*Table 11.1*). Caribbean tourism has generally been centered on sun, sand and sea. Due to increased international competition, the Caribbean must be more creative in improving its tourism product. Barbados, with the construction of a new large golf course has, in doing so, admitted the need for the Caribbean to be more ingenious and to invest in this industry on which Caribbean countries depend so much. The Bahamas continued to be the regions' most popular destination with a growth in stop-over arrivals of 15.2% during 2000, the Dominican Republic and Cuba were the other Caribbean countries experiencing impressive growth of 14.1% from Jan-Sep 2000 and 10.6% Jan-Dec 2000, respectively. Total stop-over arrivals were 2,395,502 in the Dominican Republic and 1,772,488 in Cuba.

Sectoral Developments

The major focus of the Tourism authorities continued to be promoting tourism abroad, growth in the sector and increasing funding to the sector. Over the year 2000, there was some concern that the sector did not have adequate funds to engage in the level of promotion needed to counter the bad publicity the island received during the year. The Master Plan for Sustainable Tourism Development was inaugurated in August 2000 and is intended to monitor tourism development over the period 2001-2011. The Master Plan's main objectives are:

i. To provide a comprehensive planning framework for the development of an industry that has the potential to become the vehicle for the social and economic upliftment of the Jamaican people;

ii. To elaborate a vision of the future direction, shape and composition of the industry that can serve to guide the actions of the huge number of stakeholders in the industry to a common goal and purpose; and

Table 11.1
Tourist Arrivals by Main Market

Country	Period	Total Tourists	% ch	USA Tourists	%ch	Canada Tourists	%ch	Europe Tourists	%ch	Other Tourists
Anguilla	J-Dec	43 789	-6.4	24 799	-4.5	1 512	1.7	9 422	-19.6	8 051
Antigua & Barbuda	J-Dec	206 871	-0.5	59 018	-9.1	14 007	19.1	90 049	3.7	43 790
Aruba	J-Dec	721 224	5.5	452 746	8.6	20 594	-0.3	47 254	-4.2	200 630
Bahamas	J-Dec	4 203 831	15.2	n.a.	n.a	n.a.	n.a	na	n.a	na
Barbados	J-Dec	543 676	5	113 158	5	59 662	2.5	260 942	6.8	109 915
Bermuda	J-Nov	315 462	-7	245 517	-9.1	28 568	0.6	33 158	-1.1	8 217
Bonaire	J-Dec	51 269	-16.6	25 429	-13.1	1 099	47.3	17 950	-12	6 794
Cayman Islands	J-Jun	217 795	-1.7	162 095	2.5	11 548	11.3	16 405	-7.8	27 740
Cuba	J-Dec	1 772 488	10.6	n.a	n.a	na	n.a	na	na	na
Curacao	J-Dec	191 247	-3.5	29 336	-2.6	2 682	-1.7	61 094	-10.2	98 133
Dominica	J-Mar	17 521	-0.4	4 486	-2.9	667	21.5	3 438	-3.2	8 924
Dominican Republic	J-Sep	2 395 502	14.1	535 621	21.5	193 853	32.6	101 370	11.5	652 224
Grenada	J-Dec	128 864	2.9	32 541	-6.2	4 849	-21	47 426	17.2	44 045
Jamaica	J-Dec	1 322 690	6	941 629	8.4	107 492	7.1	198 979	-4.7	74 595
Monsterrat	J-Dec	10 337	4.6	1 561	15.1	346	12.7	2 652	15.2	5 775
Puerto Rico	J-Oct	965 432	4.9	797 590	8.1	9 702	18.3	23 166	-19.2	134 975
St.Kitts & Nevis	J-May	27 404	-28.4	9 955	-44.1	2 754	-3.8	4 836	-26.3	9 854
St. Lucia	J-Dec	259 008	-1.4	94 365	10.8	14 583	6.5	96 419	-2.2	53 640
St. Maarten	J-Nov	387 657	-6.1	168 482	-9.3	28 633	-13.4	111 011	-4.5	83 539
Trinidad & Tobago	J only	24 511	-4.1	6 489	-16.4	3 193	-14	6 645	-2.3	8 180
Turks & Caicos Is.	J-Sep	115 985	33.5	83 680	36.9	13 148	84.7	9 977	30	9 185

ii. To detail the timing and sequencing of the major programmes, roles and responsibilities of key players, institutional arrangements and resource requirements for bringing the vision to fruition.

The Jamaica Tourist Board's (JTB) Public Education Programme for 2000 focused on tourism education in schools and tertiary institutions. The programme was implemented as a joint venture of the Ministry of Education and the JTB, with the intention to increase the awareness of tourism, especially community tourism, among the children. The programme intends to add tourism awareness to the existing school curricula for students up to the grade 9 level.

There was also a clear move to support human resource development during 2000. Courses in Tourism Management and other tourism related areas were implemented at the tertiary level by University of the West Indies and the University of Technology, at both the Bachelors degree and diploma level.

Jamaica's Performance

During the period Jan-Dec 2000 Jamaica tourist arrivals increased by 10.7% to 2,230,301 by the end of December 2000, representing an improvement over last year's 5.8% growth (*Table 11.2*). Of this figure total stop-over arrivals accounted for 1,322,690, or 59% of total visitors, with growth in arrivals from main markets: United States, Canada, Europe and other less significant markets of 6%, 8.4%, 7.1% and a decline of 4.7% respectively. There was an overall increase in stop-over arrivals of 6% compared with a growth of just 2% in the previous year. Cruise ship passengers totaled 907,611 an increase of 18.7% over last year's figure of 764,341. The cruise ship passengers totaled 907,611 representing an increase of

The PSOJ

Annual Report on the Jamaican Economy 2000

18.7% over last year's figure of 764,341. Cruise ship arrivals were 41% of the total visitors. Foreign nationals who represented the largest portion of total stop-over arrivals, increased by 6.3% over the year from 1,147,135 to 1,219,311. The United States was the country of origin of 71.3% of total stop-over visitors, followed by the UK with 10.2% and Canada with 8.1%. These percentages all increased marginally over 1999's figures (*Figure 11.2*).

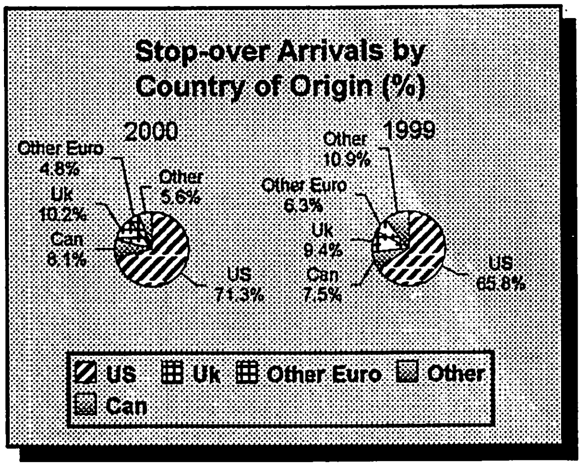


Figure 11.2

The tourism sector is Jamaica's largest foreign exchange earner and hence the economy is heavily dependent on tourism expenditure. The sector saw growth over the year 2000 due mainly to the increase in visitor arrivals and expenditure.

Total tourist expenditure for the year 2000 was US$1,332.6mn, an increase of 4.2% over 1999's figure of US$1,279.6mn. This is roughly in line with the 6.0% increase in stopover arrivals.

The funds allocated to the industry, in the Budget of 2000/2001, were $1,828.340mn. However an additional $150mn was allocated later in the year. This was intended specifically for advertising and promotional campaigns, which were needed to counteract negative international publicity, due to a number of incidents of crime involving tourists.

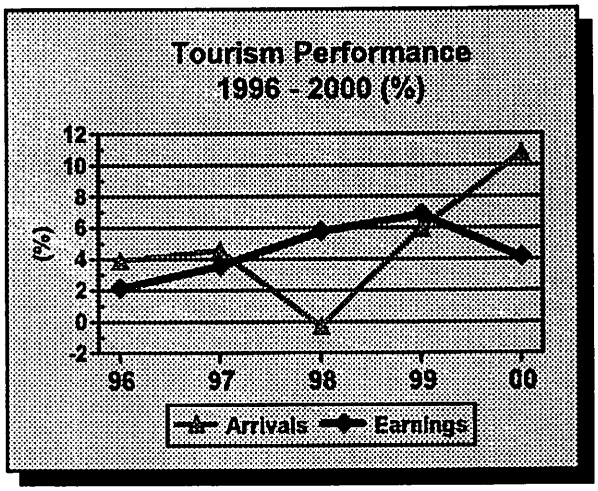


Figure 11.3

Table 11.2
Tourism Indicators

	1996	1997	1998	1999	2000	99/98%	00/99%
Total Stopovers	1,162,449	1,192,194	1,225,287	1,248,397	1,322,690	1.9	6
Foreign Nationals	1,053,097	1,085,399	1,128,283	1,147,135	1,219,311	1.7	6.3
Non-resident Jamaicans	109,352	106,795	97,004	101,262	103,379	4.4	2.1
Cruise Arrivals	658,178	711,699	673,690	764,341	907,611	13.5	18.7
Total Arrivals	1,820,627	1,903,893	1,898,977	2,012,738	2,230,301	6	10.8
Avg Length of Stay (nights)	11.1	10.8	10.9	10.3	10.1	-5.5	-1.9
Earnings (US$ millions)	1,092.2	1,131.4	1,197.1	1,279.5	1,332.6	6.9	4.2

Outlook

The positive performance of the tourism sector is expected to continue throughout 2000, despite the apparent down-turn in the US economy, Jamaica's major tourism market. Stopover arrivals from the US increased by 7.0% at the end of the first quarter of 2001 in comparison to the similar period in 2000. A recovery of the US economy during the latter stages of 2001 could see improved arrivals from that destination.

The increased investment expected to take place during the year may also impact positively on the sector. These investments come in the form of the opening of a number of new hotels, the planned completion of the Port Antonio development project and a new thrust towards community tourism.

The expected improved growth performance within the sector could be partially offset by continued negative international publicity. A continued aggressive international marketing and advertising campaign may be needed to temper this unwanted publicity. Adequate funding will be a neccessary ingredient in this venture.