



# NEW CONFIDENTIAL ECONOMIC BULLETIN

*A Monthly Analysis of the Jamaican Economy*

Vol. 7 No. 8, August 2001

## Overview

The horrible loss of innocent lives and trauma, caused by the terrorist attacks on the World Trade Centre and the Pentagon, has implications for the global economy, which was already caught in the grip of a synchronized economic slowdown. An immediate threat from the attacks is the effect it will have on production, which directly affects output, given the temporary grounding of air travel. The economic impact could be even more severe if oil prices, which soared past US\$30.00 per barrel on the day of the attack, remain high. Oil prices now depend on what will transpire in the oil mecca of the Middle East, not least of which is any possible retaliation by the US. This despite the fact that OPEC has given the assurance that it will increase oil supply, and even use its reserve supply to keep oil prices down.

Probably the most important threat is the impact on consumer confidence and consumer spending, which had been keeping the American economy afloat. If consumer spending falls, the short term effect is that the American economy is likely to go into recession, or at least register negative third quarter output. If this occurs, the rest of the world may be dragged down with the US, courtesy of the new connectivity of globalization. America would be forced to reduce its imports from the rest of the world, which in turn would have to reduce their output and hence their imports. In fact, American imports fell by an annual rate of 13% over the first half of 2001, and world trade was expected to fall to 3%, the sharpest slowdown since 1975. But that was before the attacks.

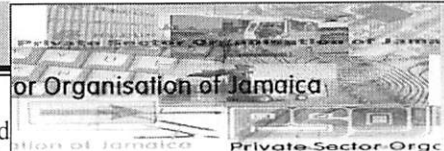
A sobering thought is the fact that the current world economic slowdown is the most synchronized since the 1930's. Second quarter GDP figures show that the US economy only expanded by 0.2%, Japan declined by 3.2%, the Euro area was estimated to be close to 0.0%, Emerging Europe was down 3.8% and Emerging East Asia had declined by 1% (Table 1). These numbers suggest that output in the rich world as a whole, fell in the second quarter for the first time since 1990. In short there is hardly any booming economy, with the exception of China and to a lesser extent India, as had been the case in previous economic downturns.

**Table 1:**

| GDP<br>% change on previous quarter at an annual rate | q1   | q2   |
|---|------|------|
|   | 2001 | 2001 |
|   |      |      |
| United States   | 1.3  | 0.2  |
| Euro Area   | 2.0  | 0.0  |
| Japan   | 0.5  | -3.2 |
| Emerging East Asia                                    | -0.1 | -1.0 |
| China   | 11.0 | 5.0  |
| Latin America   | 0.6  | -1.5 |
| Emerging Europe                                       | -3.8 | -2.1 |
| World   | 1.4  | -0.3 |
| Source: J.P. Morgan Chase and OECD                    |      |      |

The implications for the Jamaican economy are lower export earnings, from reduced world demand and hence commodity prices, and a possibly higher import fuel bill if oil prices remain high. There may also be an impact on an already soft tourism sector.

What can be done? It is now quite likely that there will be appropriate monetary and fiscal policy stimulus by the US Federal Reserve and European economies, in the form of more interest rate cuts, heavier public spending and possibly more tax cuts for the US. Of course, these measures operate with a lagged effect, and may be unable to have much of an impact on third quarter output, especially if consumer confidence falls. The downturn may thus last longer than previously anticipated, but the upside is that when the actual recovery starts - likely in early 2002 - it will most likely be at an accelerated pace, owing to the extra stimulus.



## In This Issue

|                                 |   |
|---------------------------------|---|
| Overview.....                   | 1 |
| Net International Reserves..... | 2 |
| Foreign Currency Deposits.....  | 2 |
| Foreign Exchange Rates.....     | 2 |
| Interest Rates.....             | 3 |
| Base Money & Money Supply.....  | 4 |
| Production.....                 | 4 |
| External Trade.....             | 5 |
| Tourism.....                    | 5 |
| Balance of Payments.....        | 6 |
| Fiscal Accounts.....            | 6 |
| Inflation.....                  | 6 |
| Outlook & Developments.....     | 7 |
| Statistical Index.....          | 9 |

## Net International Reserves

The Net International Reserves (NIR) of the central bank increased to a record US\$1,598.97 million (*Table 2*) at the end of August 2001, and represented an estimated 28.19 weeks of goods imports.

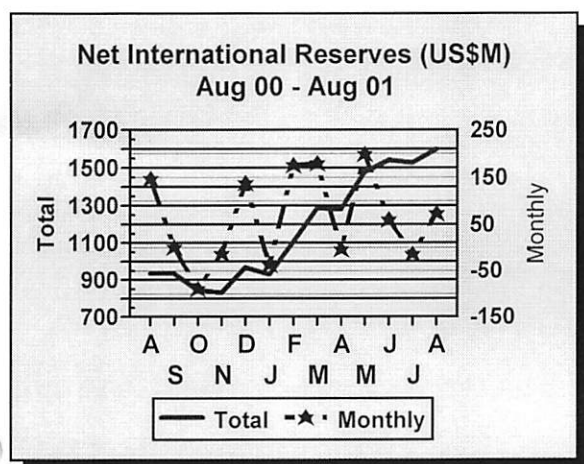
**NIR  
attain  
another  
record -  
\$1.598bn**

**Table 2: NIR (US\$ million)**

|        | NIR      | Change |        |        | Imports |
|--------|----------|--------|--------|--------|---------|
|        |          | Mthly  | 12 Mth | YTD    | (Weeks) |
| Aug-01 | 1,598.97 | 72.81  | 663.62 | 629.45 | 28.19   |
| Aug-00 | 935.35   | 146.67 | 444.59 | 485.18 | 18.01   |

**FX  
deposits  
down to  
US\$1.15b**

The increase was primarily driven by loan inflows of US\$84.44 million - US\$75 million of which was due to a local US\$ bond issued on the domestic market - and purchases of US\$77.23 million. Loan inflows have thus far totalled US\$655.31 million in 2001, which is 4.32% greater than over the similar period in 2000.



**Figure 1: Net International Reserves**

## Foreign Currency Deposits

Total foreign currency deposits remained buoyant at the end of July, declining by only US\$0.82 million to US\$1,153.34 million (*Table 3*). The slight downturn resulted from a US\$14.6 million decline in the balances of commercial banks. Deposits on commercial banks "A" accounts have declined steadily throughout 2001, in comparison to the steady increase in deposits on the "A" accounts of building societies

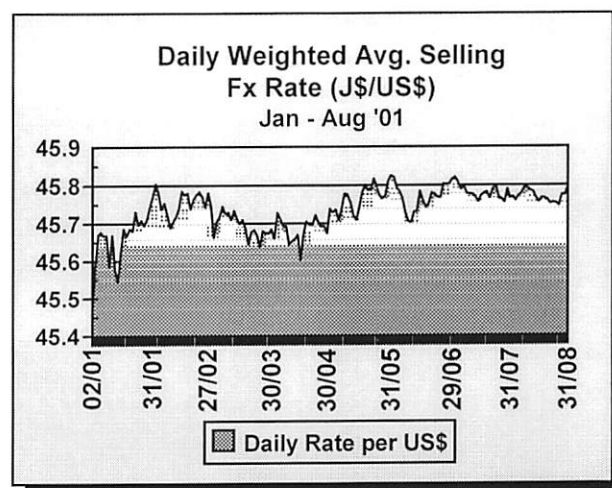
and merchant banks. Despite the slight downturn, total foreign currency deposits are 9.81% above those recorded at the end of July 2000. However, the pace of increase seems to be slowing, as current year-to-date increases are 3.79%, compared with 9.80% and 14.10% in 2000 and 1999 respectively.

**Table 3: FX Deposits (US\$ million)**

|                    | Jul-01   | Change (US\$ M) |          | %     |
|--------------------|----------|-----------------|----------|-------|
|                    |          | Mthly           | Pt-to-Pt |       |
| Comm Banks         | 914.89   | -14.60          | 55.56    | 6.47  |
| FIA's              | 102.29   | 12.09           | 38.43    | 60.18 |
| Building Societies | 136.16   | 1.69            | 9.08     | 7.15  |
| Total Deposits     | 1,153.34 | -0.82           | 103.07   | 9.81  |

## Foreign Exchange Rates

The foreign exchange market (J\$/US\$ weighted average rate) remained relatively stable throughout August 2001. The Jamaican dollar actually appreciated for the latter third of the month, to \$45.75 before depreciating slightly at month end to J\$45.80, \$0.03 less than at the beginning of the month. Heavy central bank intervention continued to be the major force behind market stability, and may well be expected to continue at an even greater pace in upcoming months. This would be due to the expected seasonal increased demand for hard currency over the September to November period, combined with the possibility of higher oil prices resulting from the attacks on the US.



**Figure 3: Daily J\$/US\$ Movements**

The domestic currency declined against the currencies of Jamaica's major trading partners during the month. However, the year-to-date performance continued to be much better than previous years (*Table 4*), particularly where it concerns the US\$. The J\$ has only depreciated by 0.59% against the US\$, over the first eight months of 2001, compared to 4.33% and 6.89% the previous two years. Further, the monthly weighted average J\$/US\$ has depreciated on average by \$0.04 from January to August 2001, compared to \$0.20 and \$0.30 for 2000 and 1999 respectively. This has resulted in the lowest point-to-point monthly movement of \$2.88 since June (\$2.50) of 1999.

**FX rate has depreciated by only \$0.27 thus far in 2001**

**Table 4: Year-to-Date FX Trends**

|      | Year-to-Date |      |       |       |       |       |
|------|--------------|------|-------|-------|-------|-------|
|      | us\$         | %    | can\$ | %     | uk£   | %     |
| 2001 | 0.27         | 0.59 | 0.20  | 0.67  | -0.73 | -1.09 |
| 2000 | 1.79         | 4.33 | 1.03  | 3.70  | -3.24 | -4.91 |
| 1999 | 2.56         | 6.89 | 2.60  | 10.87 | 0.62  | 1.02  |

#### Short-term Forecasts (J\$/US\$)

The exchange rate at the end of August 2001 fell squarely within our "forecast" range of \$45.79 to \$45.81 (*Table 5*). The dollar has experienced some amount of volatility during the first week of September, but heavy central bank intervention may be expected to restore relative stability albeit with some amount of adjustment in rates. Intermittent periods of volatility may be expected to continue during the September to November period, from seasonal demand fluctuations, especially on the upside. Increased oil prices, if sustained, could also place the exchange rate under some amount of pressure. However the resilience exhibited by the dollar thus far may be expected to continue, given the strength of the central bank's NIR, albeit with some adjustment in rates.

**Avg loan rate falls below 30% barrier for first time**

**Table 5: Short Term FX Forecasts (J\$/US\$)**

|     | Forecast      | Actual | Diff. |
|-----|---------------|--------|-------|
| Jan | 45.71 - 45.88 | 45.77  | 0.00  |
| Feb | 45.82 - 45.89 | 45.78  | -0.04 |
| Mar | 45.78 - 45.82 | 45.68  | -0.10 |
| Apr | 45.68 - 45.70 | 45.67  | -0.01 |
| May | 45.72 - 45.74 | 45.83  | 0.09  |
| Jun | 45.73 - 45.75 | 45.82  | 0.07  |
| Jul | 45.81 - 45.83 | 45.77  | -0.04 |
| Aug | 45.79 - 45.81 | 45.80  | 0.00  |
| Sep | 45.82 - 45.84 |        |       |
| Oct | 45.84 - 45.87 |        |       |
| Nov | 45.87 - 45.90 |        |       |

## Interest Rates

Indicative interest rates resumed their downward movement during August, led en masse by declining treasury bill (t-bill) yields (*Table 6*). 6-month and 12-month T-bill yields fell by 61 and 65 basis points respectively, and are down 412 and 470 basis points during 2001.

**Table 6: Interest Rate Movements**

|                  | Aug-01 | Change |        |       |
|------------------|--------|--------|--------|-------|
|                  |        | Mthly  | 12 Mth | YTD   |
| 30 Day Repo      | 14.25  | 0.00   | -2.20  | -2.20 |
| 365 Day Repo     | 15.90  | 0.00   | -      | -5.10 |
| Avg Savings Dep. | 9.08   | -0.10  | -0.93  | -0.78 |
| Avg Loan Rate    | 28.21  | -2.12  | -2.67  | -3.46 |
| 6 Month T-bill   | 16.04  | -0.61  | -1.00  | -4.12 |
| 12 Month T-bill  | 16.28  | -0.65  | -1.16  | -4.70 |

Bank rates have continued their downward trend at an even faster pace, as the earlier reduction in repo rates and liquidity requirements have begun to take effect. The average loan rate has finally fallen below the 30% barrier, and the 2.12 percentage drop in August represented the largest single decline since a 3.64 percentage drop in March 1997. Consequently, the average loan rate has declined almost thrice as fast as in 2001 - down 346 basis points compared to 117 basis points in 2000 - and the spread between the average savings deposit and average loan rates, has finally fallen below 20% at 19.13%.

The continued 1% reduction in the cash reserve ratio, which now stands at 10% effective September 1st, should improve liquidity conditions and allow for further lowering of interest rates. Further, the foreign exchange market has remained relatively stable compared to 2000, and US interest rates may well be expected to be slashed even further, given the continued slow pace of the US economy. However, there are risks, which relate to the possibility of inflation - albeit remaining in single digits - being higher than projected (*Outlook*). Further, the recent uncertainty surrounding the terrorist attacks on the US could result in temporary upward pressure on the J\$ / US\$ - through the aforementioned higher oil prices - which would not be conducive to declining interest rates.



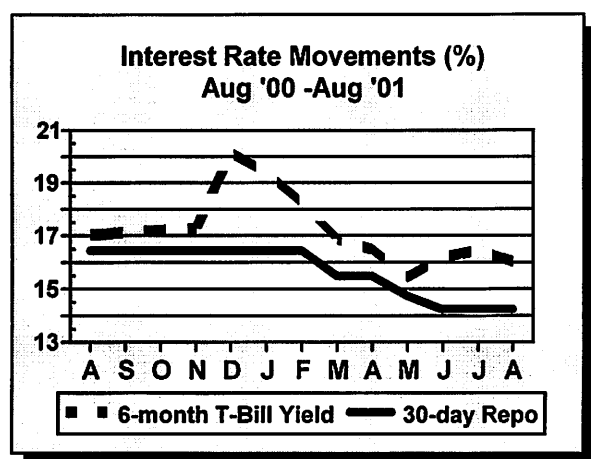


Figure 4: Interest Rate Movements

### Base Money and Money Supply

The monetary base declined by 1.1% in August, following the 3.2% jump in July (*Table 7*). Money supply (M2) declined by 0.7% in June and the point-to-point outturn remained under 10%. The asset composition of the banking system to June, indicated an increase in government borrowing, with net credit to the public sector increasing by 16.71%, contributing the most to the expansion in domestic credit. Domestic credit to the private sector has remained weak (-0.05%) during the first half of 2001, as government borrowing continues the 'crowding out' of the private sector. Private sector credit has actually increased only once - up 9.54% in 2000 - since 1996, although the degree of government borrowing has declined dramatically. The level of government domestic credit will play a significant role in government's ability to continue reducing interest rates.

**Domestic credit to public sector up 16% to June, while credit to private sector down 0.05%**

Table 7: Base Money and Money Supply

|             | Jun-01  |        |       |
|-------------|---------|--------|-------|
|             | Mthly   | 12 Mth |       |
| M1          | 38,015  | -0.64  | 0.74  |
| Quasi Money | 97,694  | -0.66  | 11.32 |
| M2          | 135,709 | -0.7   | 8.14  |
|             | Aug-01  |        |       |
|             | Mthly   | 12 Mth |       |
| Base Money  | 31,891  | -1.1   | 1.54  |

### Production of Selected Commodities

**Mining:** Total alumina production for July was up 7.57% over the corresponding 2000 period (*Table 8*). The export of alumina - the major contributor to external trade - returned to negative territory. Despite this, year-to-date export figures have increased by 3.16%, following the 54% increase registered in June.

Table 8: Mining Production

|                   | Tonnes  |         |        | Y-T-D      |       |
|-------------------|---------|---------|--------|------------|-------|
|                   | Jul-00  | Jul-01  | %      | Jan-Jul 01 | %     |
| <b>Production</b> |         |         |        |            |       |
| Alumina           | 306,585 | 329,805 | 7.57   | 2,187,921  | 4.32  |
| C. Bauxite        | 122,755 | 336,841 | 174.40 | 2,158,499  | 76.15 |
| <b>Export</b>     |         |         |        |            |       |
| Alumina           | 283,598 | 281,399 | -0.78  | 2,142,615  | 4.42  |
| C. Bauxite        | 142,695 | 335,005 | 134.8  | 2,168,694  | 0.97  |

Production of export crude bauxite has continued its recovery, increasing by 134.77% in July, and 69.29% year-to-date. Growth in bauxite output may be expected to slow during the last quarter, as production levels approach normalcy. Alumina exports are expected to continue along their positive trend, though there is a risk of lower than expected growth, if demand decreases, given a weakened US economy.

**Sugar, Banana and Cement:** All three commodities returned lower output levels in July (*Table 9*), with Sugar and Banana being affected by lower demand on the European market.

Table 9: Production of Selected Items (tonnes)

|        | Jul '00 | Jul '01 | %      |
|--------|---------|---------|--------|
| Sugar  | 5,400   | 5,150   | -4.63  |
| Banana | 3,240   | 2,900   | -10.9  |
| Cement | 54,836  | 47,844  | -12.75 |

*Tourism*

Total stopover arrivals have increased by 2.1% over the January to July period (*Table 10*). However, there was a 4.8% decline in stopovers during July, following a weak 0.02% outturn in June. The usually resilient stopover figures of foreign nationals declined for the first time this year in July, following weak performances of 1.0% and 2.5% the previous two months. There has been no change in the negative arrivals of non-resident Jamaicans, which declined by 20.3% in July.

Stopovers from our major tourism market, the United States of America, declined for the second time this year, down 2.2% in July, following the 0.6% decline in June. Stopovers from the UK declined by 3.2% while stopovers from Canada increased by 14.9%. Cumulative expenditure from tourism increased by 2.49% to US\$683.7 million to June 2001.

**Stopover arrivals down 4.80% for July, up 2.1% for year**

**Negative outturn in exports continues in double digits**

*Table 10: Stopover Tourist Arrivals*

|                 | 2000<br>Jan - Jul | 2001<br>Jan - Jul | Change<br>Jan-Jul | Change<br>Jul |
|-----------------|-------------------|-------------------|-------------------|---------------|
| <b>Stopover</b> | 822,778           | 840,183           | 2.10%             | -4.80%        |
| Foreign         | 762,444           | 788,615           | 3.40%             | -3.30%        |
| National        | 60,334            | 51,568            | -14.50%           | -20.30%       |

*External Trade*

The deficit on the external trade account continued to widen, increasing by US\$119.64M over the first five months of calendar year 2001 (*Table 11*), led by a continued decline in the value of exports. The value of imports while increasing, has done so at a much reduced rate due mainly to a lower fuel import bill.

*Exports:*

The value of total goods exports (f.o.b.) continued to decline in double digits, as output from general merchandise exports remained weak, declining by 9.4%. The continued weakness in the major traditional and non-traditional exports have been the major source of this weakness. Weaker prices continued to negatively affect earnings from Alumina, - which accounted for 45% of export earnings year-to-date - sugar and bananas, which continued to offset increased earnings from bauxite. Earnings from bauxite (85.4%), coffee (19%) and rum (23.3%) continued to be the mainstay of the export sector over the January to May period. However, coffee prices have begun to fall, and earnings for May actually declined by 4.9%. The performance of the non-traditional sector was bolstered by increased earnings from ackees, which increased by US\$2.4 million (176.3%) and yams (8%). Earnings from garment exports, for the January to May period continued its rapid decline, going down by 39.2% to US\$35.5 million. In fact, earnings were down 53.7% for the month of May.

*Table 11: External Trade (US\$ million)*

|                            | Jan-May 00      | Jan-May 01      | Change         | % Change      |
|----------------------------|-----------------|-----------------|----------------|---------------|
| <b>Total Exports (fob)</b> | <b>670.55</b>   | <b>601.09</b>   | <b>-69.46</b>  | <b>-10.36</b> |
| Major Traditional          | 393.00          | 370.49          | -22.51         | -5.73         |
| Other Traditional          | 29.44           | 31.67           | 2.23           | 7.57          |
| Non-Traditional            | 136.80          | 108.36          | -28.44         | -20.79        |
| Re-Exports                 | 17.89           | 12.47           | -5.42          | -30.30        |
| Freezone Exports           | 77.92           | 65.10           | -12.82         | -16.45        |
| Goods Procured in Ports    | 15.50           | 13.00           | -2.50          | -16.13        |
| <b>Total Imports (cif)</b> | <b>1,380.17</b> | <b>1,430.34</b> | <b>50.17</b>   | <b>3.64</b>   |
| Consumer Goods             | 366.39          | 389.38          | 22.99          | 6.27          |
| Raw Materials              | 713.75          | 726.14          | 12.39          | 1.74          |
| Capital Goods              | 230.99          | 248.05          | 17.06          | 7.39          |
| Free-zone Imports          | 53.15           | 53.28           | 0.13           | 0.24          |
| Goods Procured in Ports    | 15.90           | 13.50           | -2.40          | -15.09        |
| <b>Trade Balance</b>       | <b>-709.62</b>  | <b>-829.26</b>  | <b>-119.64</b> | <b>16.86</b>  |

**Imports:**

Earnings from total imports (c.i.f.) increased by 3.6% for the review period, fuelled by a US\$52.4 million (4.0%) increase in merchandise imports. The performance of merchandise imports was due to the increased value of consumer goods (6.3%), raw materials (1.7%) and capital goods (7.4%) respectively.

The outturn within the raw materials category was influenced by a US\$16.68 million (-6.6%) reduction in the fuel import bill, which offset some of the US\$29.07 million (6.3%) increase in the value of other raw materials. In fact, lower oil prices in May resulted in a 30% reduction in the fuel import bill for the month. A weakening of commodity prices also resulted in an 11.9% reduction of other raw materials for the month. Most of the increase in consumer goods imports was concentrated in durables (5.1%) and other non-durables (10.5%). This may be reflecting improved credit conditions within the domestic market, leading to increased demand for these products. Import of telecommunications equipment continued to be the major factor behind the outturn in capital goods.

**Import  
fuel bill  
declined  
30% in  
May**

**Increased  
revenues  
slightly  
offset  
increased  
expend.  
for FY to  
July**

### Balance of Payments

The deficit on the current account widened by US\$129.4 million, to US\$172.7 million over the first five months of 2001 (*Table 12*), in comparison with the corresponding period in 2000. This was primarily driven by a worsening of the goods balance, which declined by US\$107.7 million to record a deficit of US\$626.1M. This out-turn resulted from a US\$42.2M increase in imports (f.o.b.) and a US\$48.0M decline in exports (f.o.b.) for the review period.

The services account balance improved by US\$24.6M for the review period, as increased net travel receipts (US\$26.2M) were sufficient to offset the increased costs for other services (US\$4.2M). The income account worsened by US\$32.6M, which was primarily due a US\$120.3M outflow of profit remittances from direct investment companies.

**Inflation  
rate 1%  
in July**

The current transfers account was reflective of a contraction in official transfer flows of US\$60.0M, which offset the US\$46.3M expansion in private transfers. Private transfer flows continued to reflect strong remittance inflows which increased by US\$42.4M (24.9%), while the contraction in official transfers reflects the absence of exceptional payments for cellular licenses in 2000.

The improvement in the capital and financial accounts continued to mainly reflect activity in the financial account, which increased by US\$139.2M. The surplus on the other official and private investment accounts, together with the capital account were more than sufficient to offset the deficit on the current account, resulting in a US\$511.1M increase in reserves.

### Fiscal Accounts

During the April to July period of financial year 2001/02, central government's fiscal operations generated a deficit of \$10.47 billion, which is 3.3% lower than the budgeted deficit (*Table 13*). This improvement was a result of higher than budgeted revenue receipts (3.7%), which offset higher than budgeted expenditure (1.9%).

The major source of the improved revenue performance was increased tax revenues, which were \$2.41 billion (9.1%) above budget, offsetting declines in non-tax revenue, capital revenue, bauxite levy and grants. Increased recurrent expenditure of \$530.4 million (1.4%) above budget, was the main contributor to the increased expenditure. A \$1.39 billion (18.8%) increase above budget in programmes was responsible for this outcome, as interest payments were \$1.76 billion (9.6%) below budget. This may be expected to increase even further, given the provision of funds for promotion of tourism, social rehabilitation, and the possible effects on some local industries - notably tourism - from the terrorist attacks on the US.

Loan receipts were \$2.49 billion less than budgeted, although being \$10.71 billion greater than in 2000. Domestic loan receipts were \$7.87 billion less than budgeted, while external loan receipts were \$5.38 billion more than budgeted. This indicates the government is trying to reduce its domestic borrowing and supplanting it with external borrowing, to facilitate continued lowering of interest rates.

### Inflation

*Table 14: Inflation Trends*

|      | Percent changes |        |     |        |
|------|-----------------|--------|-----|--------|
|      | July            | 12 Mth | YTD | Fiscal |
| 2001 | 1.0             | 7.1    | 5.7 | 4.0    |
| 2000 | 1.0             | 8.5    | 4.6 | 3.3    |

Table 12: Balance of Payments (US\$ million)

|                               | Jan-May 00 | Jan - May 01 | Change | % Change |
|-------------------------------|------------|--------------|--------|----------|
| <b>Current A/C</b>            | -43.3      | -172.7       | -129.4 | 298.8    |
| <b>Goods Balance</b>          | -518.4     | -626.1       | -107.7 | 20.8     |
| Exports (fob)                 | 670.4      | 601.1        | -69.3  | -10.3    |
| Imports (fob)                 | 1188.8     | 1227.2       | 38.4   | 3.2      |
| <b>Service Balance</b>        | 263.6      | 288.2        | 24.6   | 9.3      |
| Transportation                | -93.2      | -90.6        | 2.6    | -2.8     |
| Travel                        | 465.6      | 491.8        | 26.2   | 5.6      |
| Other Services                | -108.8     | -113         | -4.2   | 3.9      |
| <b>Income</b>                 | -151.7     | -184.3       | -32.6  | 21.5     |
| Compensation                  | 7.2        | 9.6          | 2.4    | 33.3     |
| Investment                    | -158.9     | -193.9       | -35    | 22.0     |
| <b>Current Transfers</b>      | 363.2      | 349.5        | -13.7  | -3.8     |
| Official                      | 88.3       | 28.3         | -60    | -68.0    |
| Private                       | 274.9      | 321.2        | 46.3   | 16.8     |
| <b>Capital &amp; Fin. A/C</b> | 43.3       | 172.7        | 129.4  | 298.8    |
| <b>Net Capital Movement</b>   | 4.7        | -5.1         | -9.8   | -208.5   |
| Official                      | 10.4       | 2.7          | -7.7   | -74.0    |
| Private                       | -5.7       | -7.8         | -2.1   | 36.8     |
| <b>Financial A/C</b>          | 38.6       | 177.8        | 139.2  | 360.6    |
| Other Official Investment     | 110.3      | 479.4        | 369.1  | 334.6    |
| Other Private Investment      | 254.4      | 334.5        | 80.1   | 31.5     |
| Reserves                      | -326.1     | -511.1       |        |          |
| Govt. Reserves                | 0          | -125         |        |          |

Table 13: Fiscal accounts (J\$ million)

|                             | Prov             | Apr - Jul 01/02<br>Budget | Diff            | (%)          |
|-----------------------------|------------------|---------------------------|-----------------|--------------|
| <b>Revenue &amp; Grants</b> | <b>32,569.1</b>  | <b>31,401.9</b>           | <b>1,167.2</b>  | <b>3.7</b>   |
| Tax Revenue                 | 29,015.5         | 26,607.5                  | 2,408.0         | 9.1          |
| <b>Expenditure</b>          | <b>43,039.8</b>  | <b>42,234.8</b>           | <b>805.0</b>    | <b>1.9</b>   |
| Recurrent                   | 38,178.8         | 37,648.5                  | 530.4           | 1.4          |
| Programmes                  | 8,785.3          | 7,396.1                   | 1,389.2         | 18.8         |
| Wages and Salaries          | 12,794.1         | 11,891.0                  | 903.0           | 7.6          |
| Interest                    | 16,599.5         | 18,361.3                  | -1,761.8        | -9.6         |
| Capital Expenditure         | 4,608.8          | 4,344.9                   | 263.8           | 6.1          |
| IMF #1 A/c                  | 252.2            | 241.4                     | 10.8            | 4.5          |
| Unallocated                 | 0.0              |                           |                 |              |
| <b>Fiscal Balance</b>       | <b>-10,470.7</b> | <b>-10,832.9</b>          | <b>362.2</b>    | <b>-3.3</b>  |
| <b>Loan Receipts</b>        | <b>33,084.9</b>  | <b>35,578.4</b>           | <b>-2,493.5</b> | <b>-7.0</b>  |
| <b>Amortization</b>         | <b>31,923.1</b>  | <b>25,865.9</b>           | <b>6,057.2</b>  | <b>23.4</b>  |
| <b>Overall Balance</b>      | <b>-9,308.9</b>  | <b>1,120.4</b>            | <b>-8,188.5</b> | <b>730.9</b> |
| <b>Primary Balance</b>      | <b>6,128.8</b>   | <b>7,528.4</b>            | <b>-1,399.7</b> | <b>-18.6</b> |



## Outlook

Further divestment proceeds from the sale of FINSAC assets, and draw down of multilateral loans are expected to bolster the level of reserves even further, but there are significant risks. The most significant risk lies in an unanticipated increased demand for foreign currency, mainly resulting from higher oil prices. Following the terrorist attacks on the US on September 11th, oil prices surged past US\$30.00 per barrel, as the market became uncertain about Middle East stability and the reaction of the US to the attacks. Further, possible weaker foreign exchange inflows from tourism may be expected within the upcoming months, given the customary 'dry season' and the possible impact of the terrorist attacks on the US.

**Sustained  
higher oil  
prices  
pose  
significant  
risk to  
economy**

The resulting unanticipated pressure that could be placed on the exchange rate would most likely have to be stemmed by deeper central bank intervention, if the government is to continue reducing interest rates, thus offsetting reserves somewhat. The remarkable resilience of the exchange rate over the first eight months of 2001, in comparison to previous years, (see Foreign Exchange) may be expected to continue given the current level of reserves. However, periods of intermittent volatility may be expected, with the possibility of some orderly adjustment in rates.

The effect of earlier reductions in government repo rates and reserve requirements appears to have finally passed through to the market, as bank rates continued their downward trend at an accelerated rate. The accelerated reduction in the average loan rate in particular (*Interest Rates*), suggests that the market expects interest rates to continue their downward trend, or at least to remain firm, over the medium to short term. In fact, the fiscal accounts has shown that for the fiscal year to July 2001, domestic loan receipts are 36% less than budgeted and 33% less than in 2000, while external loan receipts are 39% more than budgeted. This seems to indicate that external borrowing is being used to supplant domestic borrowing, which will facilitate lowering of interest rates, and off lending of lower cost funds. However, it should be noted that domestic credit to the private sector to June, was down 0.05%, while domestic credit to the public sector was up 16%. This indicates there is a continued 'crowding out' of the private sector in accessing domestic credit.

Further lowering of repo rates will depend on inflation trends and foreign exchange stability. The inflation rate should remain in single digits, although there are significant risks posed from the possibility of surging oil prices, given the recent incidents in the US, and thus uncertainty over stability in the Middle East. Some of this risk may be abated, however, as OPEC has pledged to increase supply to keep prices down, in light of the recent events. However, given that we are in a

globalized economic downturn, oil prices are likely remain higher than where they were before the recent surge in price, as oil producing countries look to bolster their economies. In fact just before the attacks, OPEC had actually planned to slash production, in order to boost prices. The attainment of the 5.0% to 6.0% fiscal inflation target may prove difficult to achieve.

No significant change is expected in the terms of the looser control of base money and money supply. In fact, given the possibility of the above shock to the inflation rate, there may be even tighter control of these monetary variables, in order to try to achieve the inflation target.

Previous expectations that the external trade accounts may have shown some improvement towards the end of the third quarter may now remote. The current global economic downturn implies that commodity prices will likely remain weak throughout the rest of the year, based on lower demand levels. Alumina prices are not expected to improve in the near term, and combined with lower receipts from banana and sugar, the negative outturn from exports is not expected to improve significantly. The lower cost of imports expected from lower commodity prices may be offset by possibly higher import fuel prices. The net effect is a continued deterioration of the trade balance, and thus the current account. Possible lower tourism demand may result in softer revenues, which may impact on the services account.

On the fiscal side, increased expenditure is expected to be reflected in upcoming fiscal reports. Most of the increase may be driven by higher expenditure on programmes, resulting from increased funding for tourism, national security, social rehabilitation and the effect of the expected fallout resulting from the attacks on the US. Revenues may be expected to be higher than budgeted, resulting from higher PAYE receipts, but some or all of this could be offset from lower than expected tourism receipts, and lower output from manufacturing, resulting from months of power outages. There could also be a reallocation of funds from some sectors, in light of the fact that the budget is already on a tight rope.

NCB  
mdwilly51@hotmail.com



## Statistical Index

Major Macro-Economic Indicators  
January 1999 - August 2001

|        | BM    |      | M2   |      | NIR     | Fx Dep  | CPI  |      | Tourism | JS/US\$ | Tbill | Loan   | Sav   | Dom Debt   | Fx Debt  |
|--------|-------|------|------|------|---------|---------|------|------|---------|---------|-------|--------|-------|------------|----------|
|        | M     | P    | M    | P    | US\$M   | US\$M   | M    | P    | P       |         | %     | %      | %     | J\$M       | US\$M    |
| Jan-99 | -3.7  | 0.0  | -0.6 | 8.3  | 578.0   | 977.3   | 0.4  | 7.5  | 9.65    | 37.45   | 22.62 | 38.46  | 12.25 | 132,782.90 | 3,289.40 |
| Feb    | 0.6   | -0.5 | 0.8  | 9.9  | 578.5   | 921.1   | -1.1 | 6.3  | 7.95    | 37.75   | 21.85 | 38.47  | 12.19 | 136,282.96 | 3,264.90 |
| Mar    | -3.7  | -2.8 | 1.2  | 12.0 | 581.5   | 960.3   | 0.5  | 5.4  | 17.98   | 38.23   | 21.67 | 38.60  | 12.09 | 139,203.68 | 3,215.70 |
| Apr    | 0.8   | -3.0 | 20.8 | 11.0 | 587.4   | 979.3   | -0.1 | 5.5  | -0.09   | 38.27   | 21.32 | 39.00  | 12.33 | 146,554.27 | 3,184.30 |
| May    | -4.2  | -7.8 | 3.9  | 14.2 | 590.5   | 965.8   | 0.9  | 5.6  | -0.09   | 38.61   | 21.32 | 39.00  | 12.33 | 147,911.39 | 3,167.00 |
| Jun    | -0.1  | -8.5 | 2.1  | 11.8 | 590.6   | 956.8   | 1.3  | 5.0  | 3.43    | 38.96   | 20.16 | 37.89  | 11.96 | 148,688.52 | 3,161.80 |
| Jul    | 1.7   | 8.2  | 3.6  | 15.5 | 487.0   | 1,032.6 | 1.2  | 5.1  | -0.67   | 39.47   | 20.04 | 36.50  | 11.50 | 153,193.82 | 3,036.00 |
| Aug    | -0.7  | -7.1 | 4.7  | 18.5 | 490.8   | 1,033.3 | 1.1  | 5.1  | 2.70    | 39.71   | 20.63 | 36.50  | 11.50 | 158,948.56 | 3,030.10 |
| Sep    | -1.6  | -8.7 | -0.7 | 15.6 | 526.2   | 1,014.7 | 0.3  | 5.3  | 9.28    | 39.88   | 19.21 | 35.92  | 11.50 | 161,571.93 | 3,035.00 |
| Oct    | 0.4   | -9.2 | 2.6  | 18.5 | 492.8   | 1,016.2 | 0.8  | 6.4  | 14.64   | 40.05   | 19.19 | 33.92  | 11.38 | 163,443.11 | 3,076.00 |
| Nov    | 0.6   | -4.5 | -0.5 | 19.5 | 506.7   | 949.3   | 1.0  | 7.4  | 15.45   | 40.57   | 19.19 | 33.92  | 11.38 | 168,730.78 | 3,049.30 |
| Dec    | 16.5  | 4.0  | 3.0  | 19.1 | 450.2   | 956.5   | 0.5  | 6.8  | -2.66   | 41.27   | 22.03 | 33.92  | 11.38 | 176,717.47 | 3,024.10 |
| Jan-00 | -12.5 | -5.5 | -0.5 | 19.2 | 453.1   | 990.1   | 0.2  | 7.8  | -1.47   | 41.75   | 20.54 | 33.92  | 11.38 | 178,340.93 | 2,971.00 |
| Feb    | -2.3  | -8.2 | 0.2  | 18.5 | 590.6   | 1,057.6 | 0.4  | 8.2  | 12.10   | 42.25   | 20.05 | 33.92  | 11.38 | 175,492.98 | 3,133.10 |
| Mar    | -2.8  | -7.4 | 0.9  | 18.1 | 703.5   | 1,047.1 | 0.7  | 8.4  | 12.05   | 42.15   | 17.96 | 33.92  | 11.38 | 175,322.74 | 3,164.80 |
| Apr    | 2.9   | -5.5 | 1.2  | 17.2 | 744.0   | 1,052.9 | 1.0  | 9.6  | 12.76   | 42.07   | 17.58 | 33.67  | 11.38 | 176,599.44 | 3,098.20 |
| May    | 0.6   | 0.8  | -0.7 | 11.9 | 776.3   | 1,047.3 | 0.4  | 9.2  | 16.93   | 42.29   | 17.64 | 33.67  | 10.90 | 177,180.13 | 3,054.70 |
| Jun    | 3.6   | 3.7  | 1.6  | 16.2 | 756.5   | 1,042.1 | 0.9  | 8.8  | 10.89   | 42.51   | 17.47 | 33.00  | 10.11 | 181,578.09 | 3,053.70 |
| Jul    | 0.8   | 4.6  | -0.3 | 11.8 | 788.7   | 1,050.3 | 1.0  | 8.5  | 9.20    | 42.70   | 17.32 | 33.00  | 10.11 | 189,222.03 | 3,018.60 |
| Aug    | 0.6   | -3.3 | 0.9  | 7.7  | 935.5   | 1,082.5 | 0.9  | 8.2  | 23.29   | 42.89   | 17.04 | 32.75  | 10.11 | 189,666.78 | 3,003.80 |
| Sep    | -3.4  | -5.1 | 1.8  | 9.1  | 935.5   | 1,072.4 | 1.0  | 9.0  | 7.58    | 43.85   | 17.13 | 31.50  | 9.96  | 184,337.90 | 3,208.60 |
| Oct    | 1.4   | -3.4 | 0.3  | 6.6  | 845.7   | 1,065.0 | 0.1  | 8.3  | 7.60    | 44.71   | 17.13 | 31.67  | 9.86  | 181,507.81 | 3,208.81 |
| Nov    | 0.9   | -3.2 | 1.1  | 9.6  | 831.7   | 1,077.1 | 0.1  | 7.3  | 9.88    | 45.08   | 17.28 | 31.67  | 9.86  | 184,795.00 | 3,265.20 |
| Dec    | 12.7  | -6.4 | 2.4  | 10.6 | 969.3   | 1,111.3 | -0.7 | 6.1  | 8.20    | 45.48   | 20.16 | 31.67  | 9.86  | 187,520.03 | 3,375.30 |
| Jan-01 | -9.5  | -3.2 | -0.3 | 8.7  | 931.2   | 1,115.7 | 0.0  | 5.9  | 10.07   | 45.67   | 19.41 | 32.18  | 9.86  | 193,616.74 | 3,492.06 |
| Feb    | 1.9   | 1.0  | -0.5 | 8.0  | 1,106.6 | 1,128.5 | 1.1r | 6.7r | 2.82    | 45.76   | 18.27 | 32.18  | 9.86  | 190,384.80 | 3,636.78 |
| Mar    | -3.8  | -0.1 | 1.4  | 8.9  | 1,286.3 | 1,117.3 | 0.5r | 6.4  | -0.08   | 45.70   | 16.88 | 31.33  | 9.84  | 215,084.05 | 3,620.40 |
| Apr    | 1.6   | -1.4 | 0.1  | 7.7  | 1,281.8 | 1,130.5 | 0.4  | 5.8  | 4.24    | 45.68   | 16.50 | 31.21r | 9.84  | n/a        | n/a      |
| May    | -0.5  | -2.4 | 2    | 10.6 | 1,480.6 | 1,152.6 | 0.8  | 6.2  | 3.36    | 45.77   | 15.46 | 30.88  | 9.50  | n/a        | n/a      |
| Jun    | -0.9  | -1.8 | -0.7 | 8.2  | 1,540.5 | 1,154.2 | 1.7  | 7.1  | -2.22   | 45.77   | 16.2  | 30.67  | 9.45  | n/a        | n/a      |
| Jul    | 3.7   | 3.3  | n/a  | n/a  | 1,526.3 | 1,153.3 | 1    | 7.1  | s-4.8   | 45.78   | 16.45 | 30.33  | 9.18  | n/a        | n/a      |
| Aug    | -1.1  | 1.5  | n/a  | n/a  | 1,599.0 | n/a     | n/a  | n/a  | n/a     | 45.77   | 16.04 | 28.21  | 9.08  | n/a        | n/a      |

## Key:

BM - Base Money

NIR - Net International Reserves

CPI - Consumer Price Index

Tbill - 6-month Treasury Bill Yield

Save - Average Savings Deposit Rate

P - Point-to-Point Percentage Change

n/a - Not Available

M2 - Money Supply

FX Dep - Foreign Exchange Deposit

Tourism - Total Tourist Arrivals

Loan - Average Loan Rate

M - Monthly percentage Change

r - Revised

s - Stopover Arrivals Only

## Note:

The contents of this bulletin are only for use by the addressee. The information is provided on a strictly confidential basis to subscribers.  
Copyright Reserved (c) 2001.