



**THE PRIVATE SECTOR ORGANISATION
OF JAMAICA**

**ANNUAL REPORT
ON THE
JAMAICAN ECONOMY
2001**

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Overview of Annual Economic Report 2001

Macro-economic policy in 2001 continued to follow the policy framework outlined in the Staff Monitored Program (SMP) adopted in July 2000. This consists of four main pillars: fiscal consolidation, inflation targeting, financial sector divestment and the strengthening of the prospects for growth. According to data published by the Statistical Institute of Jamaica, the economy once again experienced growth of 1.7% for the fiscal year 2001/02. The overall rate of growth was however reduced by the negative effects of the September 11th terrorist attack on the United States of America, which led to growth turning negative in the last quarter of the calendar year. Growth continued to be led by the service sector, with particularly impressive new investments in the telecommunications sector.

For the first time since 1996, the goods producing sector experienced growth of 2.4% for the period, contributing approximately 54% to the overall growth. This was mainly due to strong performances in fishing, domestic agriculture and sugar. All other major sectors showed some improvement with the exception of miscellaneous services. There was a 1.8% downturn in miscellaneous services reversing the upward trend for the past five years. The downturn in miscellaneous services was a direct result of the negative impact on the tourism industry of the September 11 terrorist attacks in the USA.

A key element of the SMP is the time path for the reduction of interest rates, which reduction is deemed critical to achieving the twin goals of economic expansion and fiscal consolidation. During 2001, interest rates continued the pattern of the previous four years of trending down during the first three quarters, and then retracing some of their fall in the last quarter. A key difference however between 2001 and previous years was the fall in short term

interest rates, which at 14.25% on the 30 day repo were the lowest in 13 years.

More importantly from a growth perspective, the average loan rates of the commercial banks declined almost 5% to thirteen year lows of 27.69% in 2001. The key factor in this fall was probably the privatization and recapitalization of the banking sector through the welcome replacement of the off balance sheet financing method of issuing FINSAC bonds with interest bearing government securities. A recapitalized banking sector will encourage increased competition, which should further improve with the recent sale of National Commercial Bank Ltd. (NCB). This continuing recovery of the banking sector should lead to additional falls in average lending rates as competition increases.

This fall in average loan rates was undoubtedly extremely important in increasing the flow of credit to the private sector in 2001, which was positive for the second consecutive year (the highest increase since 1996). It is no coincidence that this significant increase in private sector lending was accompanied by the second consecutive year of economic growth that we have seen since the onset of the financial crisis in 1997, which at 1.7% almost doubled from the very marginal positive growth of 0.8% recorded in the previous year according to the data published by Statistical Institute of Jamaica.

The outlook for 2002 is expected to be very similar to that of 2001 with overall growth rate projected at 2-3%. This is possible if there is continued growth in telecommunications and transportation. However, it should be noted that growth in

transportation is going to be dependent on the rebound of the tourism sector and air transport. Other favorable growth conditions expected are the continued decline in lending rates which will predominantly be driven by the increased competition within the banking sector.

One area which requires more attention and constant review is the high level of government debt. From all indications net borrowings will increase for 2002. This will increase the total debt outstanding in excess of J\$500 billion and if revenue targets do not materialize this figure could rise further. It is therefore important that the Government encourages faster growth to avoid a debt trap, and as such taxation and capital market policies need to be re-orientated to encourage

private sector led growth, particularly through equity investment. Jamaica may be near reaching the limits of its taxation capacity, with a tax burden that is already high compared with most comparable countries in the region. Access to capital needs to be studied in its widest sense, as its availability is clearly a key factor in Jamaica's economic performance. In particular, access to equity capital needs to be broadened so that smaller companies and even individuals can develop a stake in the success of Jamaica. This is important not only for growth of the economy, but in order to increase self employment and thus help reduce the social ill of unemployment and the associated crime and other negative effects on the society that it generates.

Chapter 1: The World Economy

Key Developments

The year 2001 marked a slowing down of the American economy after several years of strong growth. The situation in the U.S contributed to the general downturn in global economic activity. Overall, total world output grew by 2.4% in 2001 compared to 4.7% in 2000. This was the lowest growth rate recorded in ten years.

While developing countries grew by an estimated 4%, growth was less robust in the developed world. In the U.S.A growth was down to 1%, significantly below the 4% achieved in 2000. Output from Japan fell by 0.4% while the U.K experienced growth of 2.3%.

The result on inflation is mixed. Developed countries saw prices rising by 2.3% on average. In Europe, problems created by animal disease and bad weather caused an increase in prices. Germany was the worst affected, the inflation rate jumped from 2.2% to 2.4%. The U.K saw prices rising by 0.2% to 2.3%, while prices remain stable in Italy. In the U.S, prices remained at their 2000 level; Canada saw prices rising by 0.1% to 2.8%. For the fourth year running, the Japanese economy saw prices falling.

During the year the U.S currency continued to strengthen against its major counterparts. For the period under review, the US\$ appreciated by 5.2% against the Euro and 2.7% against the Japanese Yen. For developing countries the story was different. Due to weakening commodity prices and reduction in net capital inflows, currency for most developing countries depreciated.

CARICOM leaders met in July 2001 to finalize arrangements on the Caribbean Single Market

and Economy. The nine protocols which will form the basis of the single market were agreed on. Four of these protocols were implemented by member countries with the others still to be fully implemented. The protocols adopted are:

- i. Protocol 1- Amending the Treaty of Chaguaramas
- ii. Protocol 11 – The right of establishment, provision of services and movement of capital
- iii. Protocol IV – Trade policy
- iv. Protocol VII – Disadvantaged countries, regions and sector

The banana dispute between the EU and the U.S.A. was settled during the year. The resolution involves a continuation of existing agreements until 2006 when a new tariff structure will be implemented.

Perhaps the major economic development in 2001 was the Argentinian financial collapse. Fiscal imprudence, an economy that has been in recession for three consecutive years and a huge mountain of external debt all contributed to the demise of Latin America's third largest economy. The currency board that was in operation exacerbated the country's insolvency. The policy to trade the local currency at par with the US\$ eroded Argentina's export competitiveness. It is widely believed that the exchange rate was kept overvalued by the massive build up of external debt. With the economy being in recession, the country's ability to service these debts was being questioned by the market. As a result, the level of default risk associated with the country increased. Investors, seeing this, demanded a higher rate of return on their investments. The country, already in a fiscal bind, defaulted on its obligations. Austerity measures that were implemented subsequently threw the country into social upheaval. It is uncertain how long Argentina's problem will last. The country is relying on IMF loans to achieve stability,

however IMF funds come with conditionalities that may render the country ungovernable.

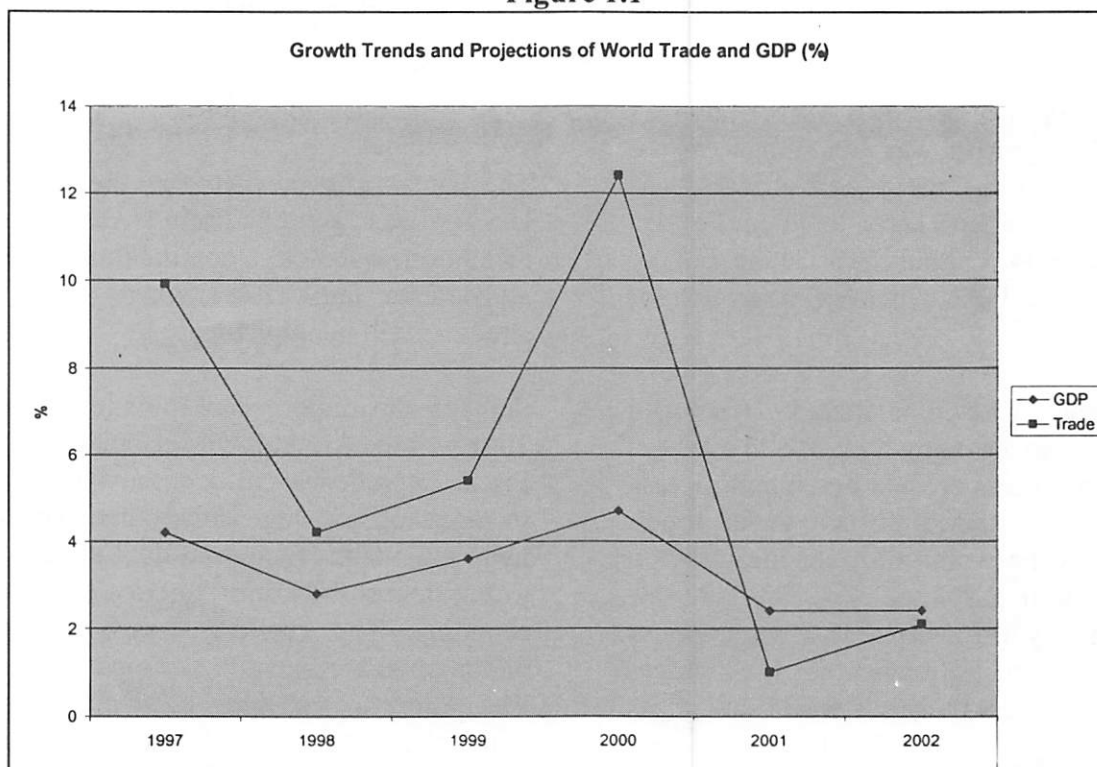
World Trade

For the year 2001 world trade grew by approximately 1% (Table 1.1), down significantly from the 12.4% recorded in 2000. This was primarily due to a reduction in trade by the U.S.A. Trade by the U.S. grew by 1%,

3.1 percentage points below the previous period. Overall, developed countries saw a 0.3% reduction in the volume of exports and imports.

Export from developing countries was up 3.4%, significantly below the 15% achieved in 2000. Imports were up by 5%, also below the 16.1% growth achieved in 2000. There was an overall 2.6% reduction in the terms of trade for developing countries.

Figure 1.1



Source: PSOJ Research

Commodity Prices

The slow growth of world output affected commodity prices in 2001. Recession in the U.S.A. coupled with the September 11 attacks meant that overall demand for primary products was weak.

There was an overall reduction in crude oil prices compared to 2000. Prices fell from US\$28.23 per barrel in 2000 to US\$24.35 at the end of 2001. There was pressure within OPEC

to reduce production to curb the slippage in prices. However, supply did not fall significantly to disturb the trend. Slow growth in developed countries meant that the demand for aluminum products was weak. This contributed to a 7% reduction in aluminum prices. Banana price in the EU was up 9% to US\$777.20 per metric tonne, partly reflecting the resolution of the banana dispute. However the price was still 9% below the 1999 level of US\$850.40 per metric tonne. Coffee prices fell from US\$91.30 per kilo in 2000 to US\$60.70 per kilo in 2001. This represents a 33%

reduction in prices for the period. Over supply and weak demand led to the downturn. Sugar prices fell from US\$55.52 per kilo in 2000 to US\$52.86 in 2001, a decline of 5%.

Outlook

The growth of world output will critically depend on the American economy to rebound. The big question therefore is the likelihood of the U.S economy to emerge from the recession. The situation in the U.S.A is quite complex and requires further explanation.

The current recession in the U.S is quite abnormal in terms of economic indicators. Traditionally, when an economy is in recession there is a correction on the balance of payments or a reduction of the deficit on current account. However, what we have seen is a widening of the current account deficit to approximately 4% of GDP in 2001. In other words, consumption has remained strong irrespective of the economic downturn. Therefore, what caused

the recession was a reduction in investment spending not consumer spending. This fact is significant for the choice of expansionary policy to tackle the recession. Normally, economic upturn is preceded by strong consumption spending. But in this case consumption spending has remained high throughout the period. Therefore, one is not certain from where the impetus for the recovery will come. As a result, while we might see some recovery it may be transitory. Consequently, we could be preparing for another round of recession or the so called "double dip recession". In addition, the contagious effect of *Enron* could affect the confidence of investors.

In summary, growth in the U.S is expected but likely to be moderate. This will not give significant boost to world economic recovery, certainly not the 2000 level. In this context we expect total world output to be up around 3%.

Source: PSOJ Research

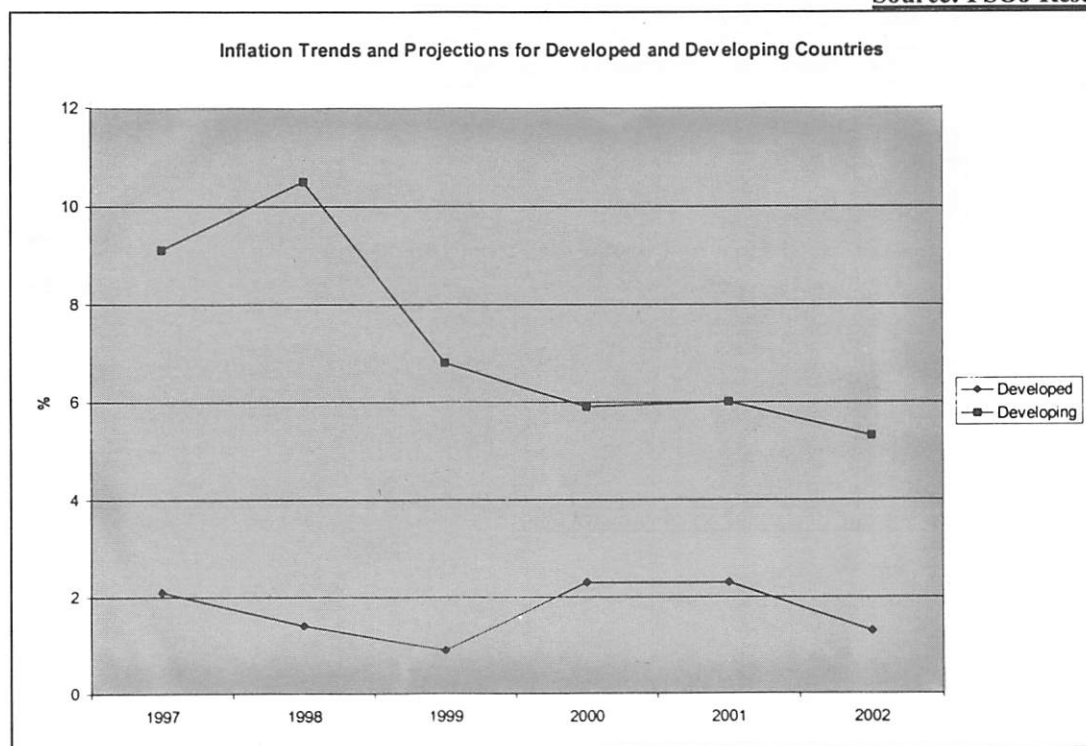


Figure 1.2

Table 1.1
World Economic Trends and Projections
 (Annual percentage changes unless otherwise stated)

	1998	1999	<i>Projections</i>		
			2000	2001	2002
World Output	2.8	3.6	4.7	2.4	2.4
Advanced Economies	2.7	3.3	3.9	1.1	0.8
Major Industrial Countries	2.8	3.0	3.5	1.0	0.6
United States	4.3	4.1	4.1	1.0	0.7
Japan	-1.0	0.7	2.2	-0.4	-1.0
Germany	2.0	1.8	3.0	0.5	0.7
France	3.5	3.0	3.5	2.1	1.3
Italy	1.8	1.6	2.9	1.8	1.2
United Kingdom	3.0	2.1	2.9	2.3	1.8
Canada	3.9	5.1	4.4	1.4	0.8
Other Advanced Economies	2.2	4.7	5.2	1.5	1.9
Euro Area	2.9	2.6	3.4	1.7	1.3
Developing Countries	4.4	3.6	3.9	4.0	4.4
Africa	3.5	2.5	2.8	3.5	3.5
Asia	4.0	5.9	6.8	5.6	5.6
Middle East, Malta and Turkey	4.1	1.1	5.9	1.8	3.9
India	6.3	6.4	6.7	6.5	
Western Hemisphere	2.3	0.1	4.1	1.0	1.7
Countries in Transition	-0.8	3.6	6.3	4.9	3.6
Trade in Goods & Services					
World Trade (Volume)	4.2	5.4	12.4	1.0	2.1
Imports					
Advanced Economies	5.9	7.7	11.5	-0.3	1.4
Developing Countries	-1.4	1.7	16.1	5.0	6.5
Exports					
Advanced Economies	3.9	5.2	11.6	-0.3	0.5
Developing Countries	4.9	4.7	15	3.4	4.5
Consumer Prices					
Industrial Countries	1.4	0.9	2.3	2.3	1.3
Developing Countries	10.5	6.8	5.9	6.0	5.3
Countries in Transition	21.8	43.9	20.1	16	11

Source: Economy and Social Survey of Jamaica 2001.

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Chapter 2: Gross Domestic Product

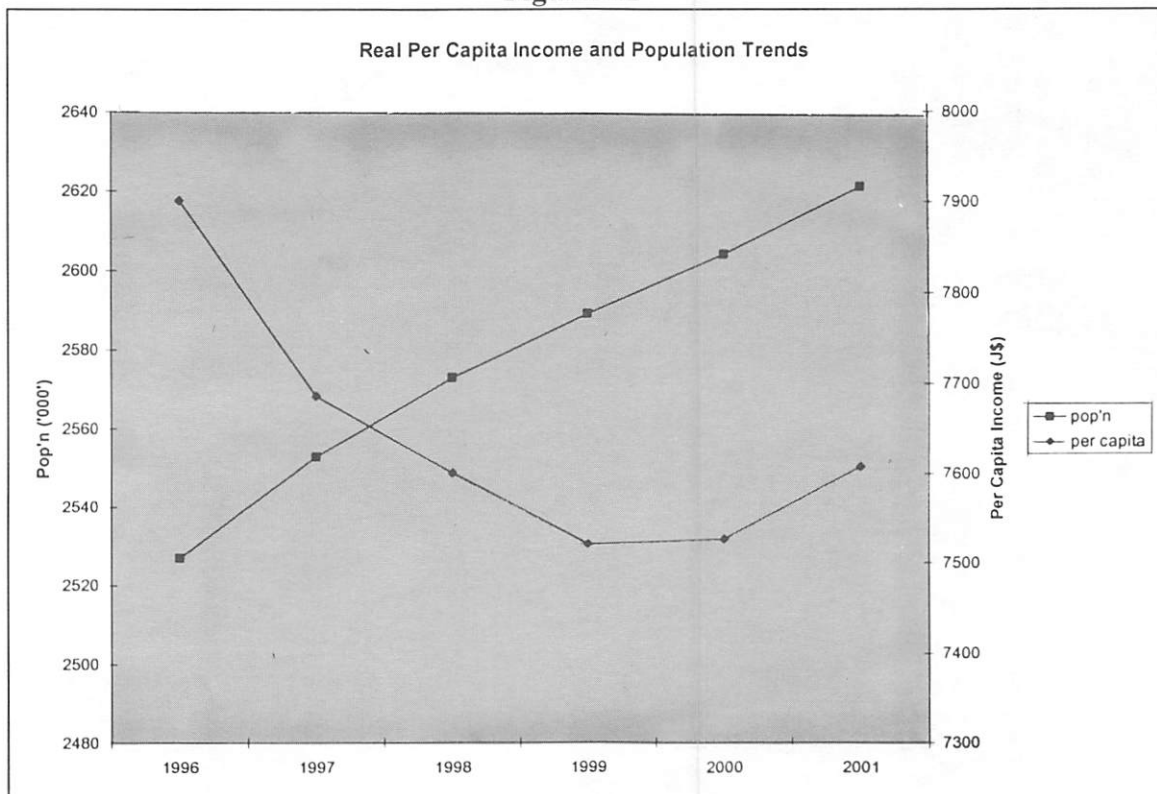
Despite significant negative shocks to the economy, Jamaica was able to record marginal growth for the period. Real gross domestic product for the period grew by 1.7% (Table 2.1) to J\$19,940.2 million. This is an improvement over 2000 where the growth rate was 0.8%. Importantly, real GDP for 2001 was below 1996, 1997, 1998 and 1999. In other words, we are still below levels of production achieved in the mid 1990's.

There was growth in all major sectors of the economy except Miscellaneous Services. For the first time since 1996 there was growth in the goods producing sector of the economy. The sector grew by 2.4% to US\$7,849.3 million for the period, contributing approximately 54% to overall growth. This turn around was largely due to strong performances in Fishing up 4.7%, Domestic Agriculture up 7.9% and Sugar up 10.2%. The Services sector experienced growth of 1.4%, down 3

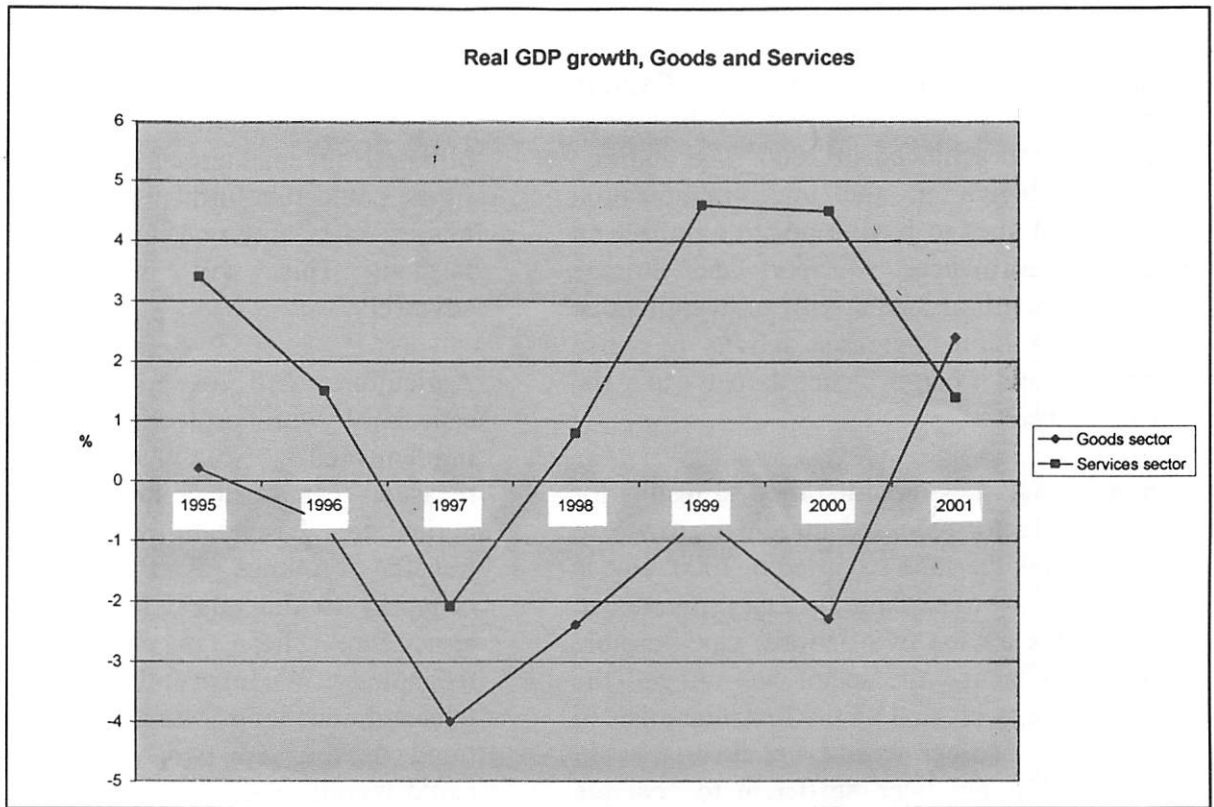
percentage points from 2000. The Agricultural sector performed creditably in 2001, total real output was up 5.2% to \$1,451 million. This is a welcomed improvement given the flood problems in the last quarter of the year. However, total output from the Agricultural sector is 19% below the 1996 level. In other words, the sector is in overall decline.

The Services sector recorded modest growth for the period. Total output was \$16,796.5 million or 1.3% above 2000. This is below the 4.5% recorded in 2000. The growth was contributed to by improvement in Basic Services up 5%, Transport up 6.2% and Electric Light & Power up 2%. The major disappointment was in Miscellaneous Services. Overall, the sub sector was down 1.8% reversing the upward trend for the last five years. The negative performance resulted from a downturn in the hospitality industry.

Figure 2.1



Source: PSOJ Research



Source: PSOJ Research

Figure 2.2

Goods Producing Sector

The Goods producing sector staged a mild recovery for the period. The sector grew by 2.4% (Table 2.1) erasing the 2.1% downturn for the previous period. *Agriculture, Forestry and Fishing* was up 5.2%. Strong performance in Domestic agriculture (7.5%) contributed to the performance.

Mining and Quarry was up 3.84% due largely to a 3.7% increase in Bauxite and Alumina. Industrial problems at JAMALCO negatively affected the overall performance of the sub sector.

Manufacturing recorded marginal growth of 0.6% in the year. Overall, total output was \$3,100.5 million compared to \$3,083.3 million for 2000. Metal Products was up 2.14%, Petroleum Refinery was down 2.01% due to reduced activities at PetroJam. Food production was up 3.25% to \$697 million and Textiles &

Apparel down 3.5%. The other major manufacturing sub sectors recorded modest results. While the improvement in the manufacturing sector stopped years of negative growth, the 2001 level is 6% below 1996.

Construction and Installation grew by 2% to \$1,486.9 million for the period under review. Public Sector housing projects and road improvement contributed to the improvement.

Services

The Services sector continued the improvement it started in 1998. For the period, services grew by 1.3% to \$16,796 million, below the 4.52% growth recorded in 2000. *Basic Services* inclusive of light and water grew by 5% to \$4,510.4 million.

Transport Storage and Communications. The sub sector grew by 6.25% to \$3,444 million in 2001. Strong performance in Communications

contributed to the performance. Overall, Communications improved by 9.5%, below the 11.3% growth achieved in 2000. The addition of new players in the telecommunication market continues to have a positive impact on overall performance. Transport and Storage recorded growth of 3.28% with an overall value of \$1,761 million. Increased activity in cruise shipping and cargo contributed to the performance.

Financial Services recorded modest results for 2001. The sector recorded marginal growth of 0.65%, below the 11% recorded in 2000. One is not certain how to explain the vast difference in growth rates for the two periods. One possible explanation is that the sector has utilized the excess capacity created by the financial crisis in the 1990's. In other words, *net investment* in the sector has not been sufficient to generate significant growth.

Miscellaneous Services recorded a disappointing performance for the period. Overall decline in the tourism industry affected Miscellaneous Services adversely. The sub sector declined by 1.85% for the period, compared to a 5% increase in 2000. Reduced activity by hotels and restaurants was largely responsible for the adverse showing.

Government Services grew by 0.7% due mainly to the growth in Central government.

Outlook

The country has recorded two consecutive years of marginal growth. The predictions for 2002/03 cannot be made without some careful analysis. From all indications, net borrowings

will increase for the year. This will push the total debt outstanding in excess of J\$500 billion. If revenue targets do not materialize the figure could rise further. As a result, domestic interest rates may not come down in a timely fashion. This will affect manufacturing adversely.

Agriculture will experience some growth especially with protectionist policies being implemented. Notwithstanding, protective measures cannot be a long term solution for agriculture. Essentially, protectionist policies transfer resources from one section of the economy to the other. Long term growth in agriculture lies in utilizing improved technology. We expect to see growth in the telecommunications sector, continuing the trend of the last two years. Transportation could record modest growth with air transport rebounding. Mining and Quarry should continue to see modest improvements over the next year. The real problem areas are Manufacturing and Tourism. Already we are experiencing problems in Tourism due to insufficient advertising. In addition, strong growth in Tourism will depend on the U.S and Europe staging economic recoveries. While this is likely, the magnitude of the recoveries is not likely to be very large. Manufacturing is once again threatened by the Public Sector Borrowing Requirement (PSBR). To the extent that PSBR can be limited, we should continue to see a gradual reduction in interest rates that will benefit the sector.

In summary, one expects to see growth in most sectors of the economy. Overall growth is targeted at 2%.

Gross Domestic Product

Table 2.1 Real GDP Growth per Sector (1986 Prices) Source: Economy and Social survey of Jamaica 2001

	1996	1997	1998	1999	2000	2001
I. Goods	-0.7	-4	-2.4	-0.6	-2.3	2.4
Agri, Forestry & Fishing	3.6	-13.7	-1.5	1.3	-10.9	5.2
Export Agri	6.8	-9.8	-5.2	-1.5	-7.9	0.1
Sugar Cane	13.1	-7.6	-7.2	2.6	-12.4	10.2
Other Main Exports	4.8	-10.6	-4.5	-2.9	-6.2	-3.6
Domestic Agri	2.7	-20.1	-1	1.5	-17	7.9
Root Crops	3.8	-18.4	-7.3	-1.2	-24.3	7.5
Other Primary Products	2	-21.3	4	3.4	-12.2	8.1
Livestock & Hunting	0.3	8.6	3.3	4.4	0.5	4.1
Forestry & Logging	-5.4	0.9	0.8	0.7	0.6	0.4
Fishing	7.7	-5	-1.1	3.1	3.6	4.7
Mining & Quarrying	7.5	3.3	3.3	-1.2	-1.6	3.8
Bauxite and Alumina	7.6	3.4	3.5	-1.4	-1.7	3.7
Quarrying	3.2	-0.6	-11.2	11.7	6.8	15.2
Manufacturing	-4.2	-2.6	-4.4	-0.9	0.7	0.6
Food	3.4	-0.4	-1.8	3.3	3.1	3.3
Sugar, Molasses & Rum	9.2	0.6	-18.6	9.4	-5.7	2.7
Alcoholic	1.9	2.3	-2.9	2.9	9.8	8.9
Tobacco & Tobacco Products	-3.5	-1.4	-2.8	-8.4	-8.5	1.2
Textiles, Apparel & Footwear	-24.9	-21.9	-8.8	-17.8	-4.3	-34.9
Furniture & Fixtures, Wood & Cork	-9.5	-5.3	-10.7	0.1	-9.3	0.1
Paper, Printing & Publishing	-4.7	-11.8	-5.6	-5.8	1.2	-20.3
Petroleum Refining	-3.6	9.3	-5.3	-3.6	3	-1.9
Chemicals & Other Non-Metal Products	-3.2	-3.4	-6.6	1.4	-2.1	2.9
Metal Products, Machinery & Equipment	-8.2	-4.3	-0.3	-1.4	0.9	2.3
Other Manufacturing Industries	0.8	-4.6	-4.2	2.7	-3.3	-1.9
Construction & Installation	-4	-5.8	-1.5	0.2	0.2	2
II. Services	1.3	-2	0.8	4.4	4.4	1.4
Basic Services	8	5.7	5.8	7.6	6.7	5
Electricity & Water	4.9	5.5	6.4	4.8	3.3	1.1
Electric Light & Power	5.7	8.1	6.5	5	6	2
Water & Sanitation Services	1.9	-5	5.5	3.8	-9.8	-3.8
Transport, Storage & Communications	8.8	5.7	5.6	8.6	7.8	6.3
Transportation & Storage	5.8	4.4	2.5	6	4.8	3.3
Communications	13.8	7.4	9.7	11.7	11.4	9.5
Other Services	-0.5	-4.2	-0.8	3.4	3.6	0.1
Distribution	1.2	1	-1.6	-0.9	1	0.2
Financial Institutions	-5.4	-17.9	-2.3	18	10.6	0.6
Financial Services	-5.3	-19.2	-0.6	20.6	11.4	12.7
Insurance	-5.7	-8	-13.8	-3	2.7	3.5
Real Estate & Business Services	1.7	-4.6	-1.1	-0.8	0.3	1.1
Government Services	-0.3	0.5	2.1	0.3	-1.3	0.7
Central Government	-0.2	0.5	2.1	0.3	-1.3	0.7
Local Government	-7.2	3.8	1.1	0.9	-0.4	-0.2
Miscellaneous Services	2	2.1	2	1.4	5.3	-1.8
Hotels, Restaurants & Clubs	2.9	3.2	2.6	1.7	6.1	-2.2
Other Services	-2	-3.1	-0.8	-0.2	0.9	0.3
Household & Private Non-Profit	-4.5	-10.3	-6.3	-2.1	-1.6	0.3
III. Imputed Bank Services Charges	11.4	-7.5	0	19.7	8.2	1.5
IV. Total GDP	-1.3	-1.8	-0.4	-0.4	0.8	1.7

Box 2.1

Factors Affecting Overall GDP Growth

- i. Lower real interest rates that allowed manufacturers to continue retooling. Modest wage increases also affected producers positively.
- ii. Tight fiscal and monetary conditions kept inflation under control.
- iii. Severe flood problems in the last quarter of the fiscal year affected agriculture negatively.
- iv. Relatively lower oil prices positively affected the productive sector. Overall, oil prices fell by 13.4%.
- v. The financial sector continued its consolidation throughout the period. Increased liquidity in the system created loanable funds for the productive sector.
- vi. Mining was positively affected with the return of Kaiser Jamaica to full operation. Industrial action at JAMALCO affected the sector negatively.
- vii. Increased competition in the Telecommunication sector also contributed to overall growth.

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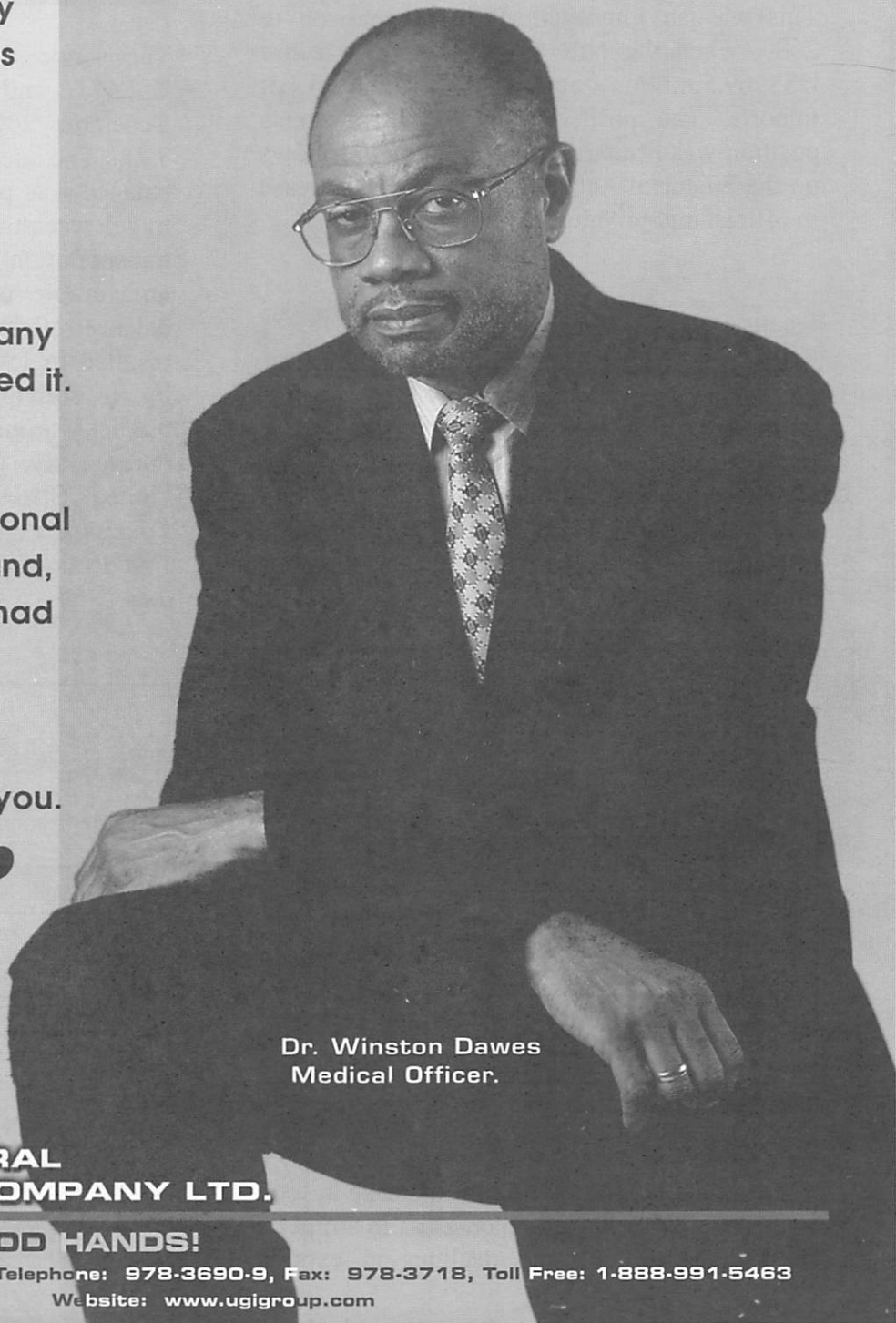
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Chapter 3: Balance of Payments

Jamaica's balance of payments accounts continued to record an overall positive out-turn for the calendar year 2001, with the Net International Reserves (NIR) increasing by a record US\$871.3 million (*See Money and Banking*). At the end of December 2001, the stock of NIR stood at a record US\$1,840.7 million, equivalent to 33.7 weeks of imports. This was an improvement in comparison to 2000, when the NIR stood at a then record US\$969.5 million – equivalent to 17.9 weeks of imports. The positive balance of payments position was primarily due to the large inflows on the Financial Account reflecting an increase in official and private investment inflows.

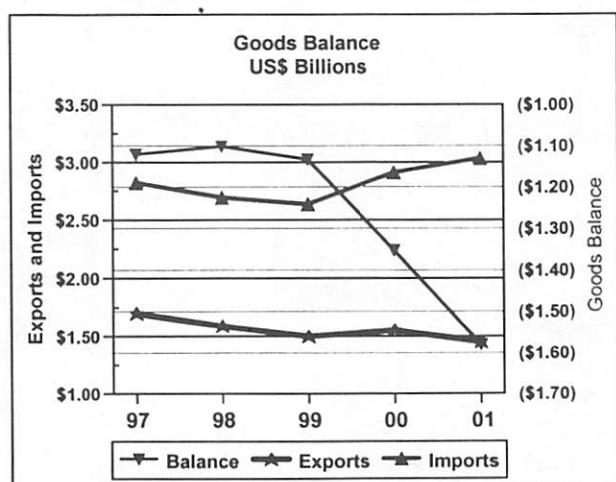
Goods Balance

At the end of December 2001, Jamaica's trade transactions (f.o.b.) total US\$4,483.2 million, which comprised US\$1,451.6 million in total exports and US\$3,031.6 million in total imports (including free zone imports and goods procured in ports).

(US\$103.0 million) respectively. However the increase in imports, combined with the decline in exports, widened the deficit on the goods balance to US\$1,580.0 million (*see External Trade*).

Services Account

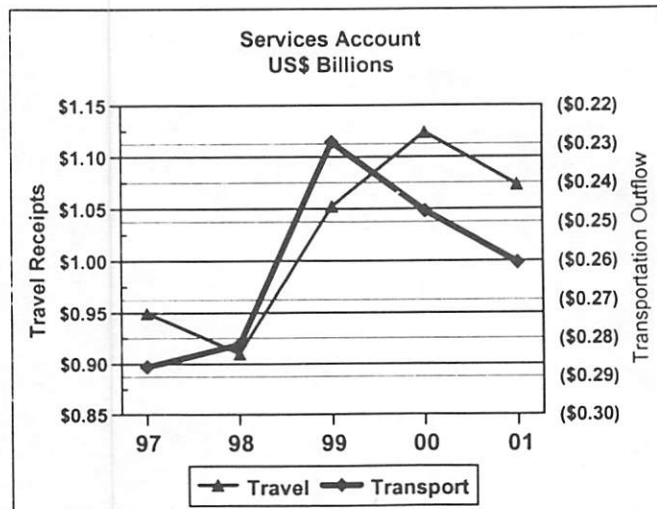
The services account balance decreased by US\$47.6 million (8.0%) at the end of December 2001 to US\$546.4 million (*Table 3.1*). The decline in the services account balance was primarily due to a decline in net travel receipts of US\$50.7 million and higher transportation costs of US\$13.3 million. The unfavorable outturn in the services account balance reflected shocks to the economy which resulted in lower tourist arrivals, underpinned by a softening global economy, negative publicity from civil disturbances in Kingston during July, and the terrorist attacks on the United States in September (*see chapter Tourism*). Figure 3.2 shows that this was the first decline in net travel receipts since 1998.



Source: PSOJ Research

Figure 3.1

There was a US\$20.50 million increase in total trade, which reflected increases in imports (US\$123.5 million) and declines in exports



Source: PSOJ Research

Figure 3.2

The Current Account

The current account registered a deficit of US\$650.0 million, US\$361.4 million (125.2%) worse than the corresponding 2000 period. This out-turn was mainly influenced by the negative outturn on the services account balance, the continued adverse goods balance which declined by US\$226.5 million, and the US\$138.8 million decline on the Income account. These negative performances were enough to offset improvement of US\$51.5 million on the Current Transfers Account. The worsening of the deficit on the Income Account was attributed to a US\$150.2 million net increase in investment outflows, reflecting higher profit remittances by bauxite companies, and higher interest payments by central government.

The advance in the Current Transfers Account, which was the only category showing positive results on the Current Account, reflected larger inflows from private sources, which offset a decline in official transfers. Inflows from private sources reflected the continued buoyancy in remittances (despite the downturn in the US economy), which increased by US\$112.5 million (24.8%) to US\$566.2 million in 2001. While inflows from building societies (up US\$47.9 million) complemented remittances, inflows from commercial banks served to temper the increased inflows, declining by US\$10.0 million.

The Capital And Financial Account

The Capital and Financial Account grew by US\$361.4 million over the corresponding 2000

period, mainly reflecting activity on the Financial Account. The major source of growth to this account was the large inflow of other official and private investment. Other official investment increased by US\$269.7 million to US\$653.4 million (70.3%), while other private investment increased by US\$458.3 million (108.6%) to US\$880.3 million. The increase reflected in official investment was primarily due to inflows of US\$808.0 million from three Euro Bond issues in February, May and December.

The increase in private investment mainly reflected the US\$198 million proceeds from the sale of the Jamaica Public Service Company in two tranches, as well as investment within the cellular market. The continued increase in loan inflows partially reflected government's increased external borrowing, with a view to reduce its actions in the domestic market, which may continue to improve credit to the private sector – and consequently investment. Credit to the private sector actually increased (up J\$5.84 billion or 20.07%) for the second time in five years, indicating a lessening of government's crowding out effect (*see Chapter 5, Money and Banking*).

In contrast, the Capital Account declined by US\$14.6 million, reflecting a fall-off in grants for capital projects and institutional strengthening.

The net surplus of the Other Official Investment, Other Private Investment accounts were enough to offset the deficit on the Current and Capital Accounts, resulting in a net buildup of US\$871.3 million in the NIR, compared with the US\$519.3 increase the previous year.

Table 3.1

	Balance of Payments (US\$M) '1997 - '2001					Change	
	1997	1998	1999	2000	2001	US\$m	%
Current A/C	-401.0	-323.0	-252.1	-288.6	-650.0	-361.4	125.2
Goods Balance	-1,121.0	-1,102.0	-1,133.7	-1,353.5	-1,580.0	-226.5	16.7
Exports (fob)	1,699.1	1,590.4	1,500.7	1,554.6	1,451.6	-103.0	-6.6
Imports (fob)	2,819.9	2,692.3	2,634.4	2,908.1	3,031.6	123.5	4.2
Service Balance	308.0	261.0	564.8	594.0	546.4	-47.6	-8.0
Transportation	-287.4	-281.6	-229.5	-247.1	-260.4	-13.3	5.4
Travel	949.5	909.8	1,052.4	1,123.9	1,073.2	-50.7	-4.5
Other Services	-354.5	-367.2	-258.1	-282.8	-266.4	16.4	-5.8
Income	-201.0	-94.0	-332.5	-349.9	-488.7	-138.8	39.7
Compensation	53.7	71.9	70.3	67.4	78.8	11.4	16.9
Investment	-254.9	-165.5	-402.8	-417.3	-567.5	-150.2	36.0
Current Transfers	614.0	612.0	649.3	820.8	872.3	51.5	6.3
Official	23.0	20.4	49.4	147.9	62.9	-85.0	-57.5
Private	590.8	589.3	599.9	672.9	809.4	136.5	20.3
Capital & Fin. A/C	401.0	323.0	252.1	288.6	650.0	361.4	125.2
Net Capital Movement	9.4	6.6	13.1	2.2	-12.4	-14.6	-663.6
Official	7.0	4.2	4.1	15.6	3.5	-12.1	-77.6
Private	2.4	2.4	9.0	-13.4	-15.9	-2.5	18.7
Financial A/C	391.0	316.0	239.0	286.4	662.4	376.0	131.3
Other Official Investment	48.1	-57.7	-331.4	383.7	653.4	269.7	70.3
Other Private Investment	116.0	415.0	438.6	422.0	880.3	458.3	108.6
Reserves	162.0	-42.0	131.8	-519.3	-871.3		

Source: Bank of Jamaica (Preliminary)

Outlook

Prospects for the balance of payments seem positive within the near term. The NIR may continue to remain buoyant during 2002, due to proceeds from the divestment of FINSAC assets such as the National Commercial Bank - which was sold during the first quarter of 2002 - and draw down of loans from the Multilateral Lending Agencies. Further, given the Government's success on the international capital markets in 2001, evidenced by the expression of confidence in the over subscription of its long term bonds, and a positive rating by the international rating agencies, most of the government's financing may be raised via external financing. This bodes well for the financial account.

In contrast, the current account position may continue to worsen due to a continued adverse goods balance, and increased foreign interest payments. However, an expected turnaround in tourism (albeit tempered), and agriculture, may offset some of the losses on the current account via the services and goods balance respectively, albeit the threat of rising oil prices may persist, due to the impasse in the Middle East.

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Chapter 4: External Trade

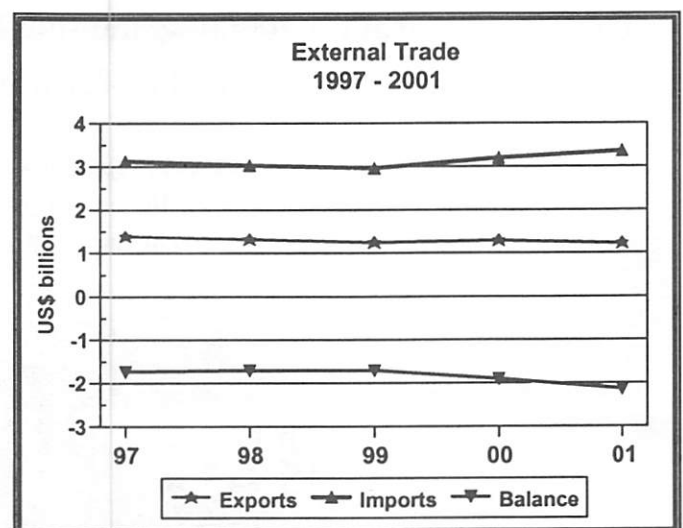
Jamaica's merchandise trade balance continued to worsen in 2000 reaching a record US\$2,140.2 million deficit, in comparison to deficits of US\$1,906.8 million the previous year (*Table 4.1*). During 2001, merchandise export earnings registered a 5.31 per cent decline to reach US\$1,224.5 million, which was combined with a 5.15 per cent increase in merchandise imports, to reach a record US\$3,364.7 million. The decline in exports was a reversal of the 4.38% increase registered in 2000, while the increase in imports a continuation of the 2000 out turn, albeit at a slower pace.

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). Export earnings have declined by 11.73 per cent while imports have increased by 14.69 per cent - which contributed to a 38.40 per cent increase in the merchandise trade balance - over the past five years. This has been a reflection of sluggish economic conditions over the five-year period. However, the economy has bottomed out and having shown positive growth of 0.7% and 1.7% over the last two years, may see some improvement in the trade balance over the next two to three years, if the pace of growth accelerates.

The out-turn of Jamaica's merchandise trade was significantly influenced by local climatic, social and economic conditions as well as international developments (*Box 4.1*). The continued technological revolution, trade liberalization and globalization of the world economy have also impacted on the local economy.

Imports

For the year 2001, the value of Merchandise Imports increased by 5.2% percent (*Table 4.2*). The performance of merchandise imports mainly reflected increases in the value of raw materials (6.2%) and capital goods (10.8 %) respectively, while growth in consumer goods remained sluggish (1.2%). The growth in raw materials, which accounted for 53% of total imports, reflected higher imports of basic food commodities such as wheat, powdered milk and refined sugar by the manufacturing sector. There was also growth in parts and accessories of capital goods, reflecting the importation of telecommunications equipment to support the growing mobile telephone market. The increase in fuels and lubricants reflected the closure of the Petrojam refinery during November 2001, due to inconsistent power supply, which resulted in an increase in the importation of these products to fill the shortfall.



Source: PSOJ Research

Figure 4.1

Exports

Merchandise exports declined by 5.2 per cent in 2001 (*Table 4.3*), reflecting a negative out turn in both traditional (-1.3%) and non-traditional (-12.4%) exports. This was a reversal of the increase in exports reported for 2000, which had been buoyed by an increase in the major traditional group, due to record

earnings from alumina. However, the major traditional group posted a negative out turn in 2001 (*see Internal and External Factors Affecting Trade, Box 4.1 and 4.2*). In the major traditional exports group, the resurgence of bauxite earnings (105.9%) was insufficient to offset losses from alumina (-6.1%), sugar (-15.4%) and bananas (-20.2%). The only positive performances within other traditional exports were cocoa (27.7%) and rum (9.5%).

Table 4.1

	Jamaica's External Trade Balance							Change '02/'01	
	1990	1996	1997	1998	1999	2000r	2001p	US\$M	%
Merchandise Exports	1,157.5	1,387.3	1,387.3	1,290.3	1,247.3	1,293.2	1,224.5	-68.7	-5.31
Merchandise Imports	1,942.1	2,933.7	3,127.9	2,961.0	2,904.0	3,200.0	3,364.7	164.7	5.15
Merchandise Trade Balance	-784.6	-1,546.4	-1,740.6	-1,670.7	-1,656.7	-1,906.8	-2,140.2	-233.4	12.24
Total Trade	3,099.6	4,320.9	4,515.2	4,251.3	4,151.3	4,493.2	4,589.2	96.0	2.14
<i>Source: Compiled from the Statistical Institute of Jamaica</i>									

Box 4.1

Internal Factors Affecting Trade

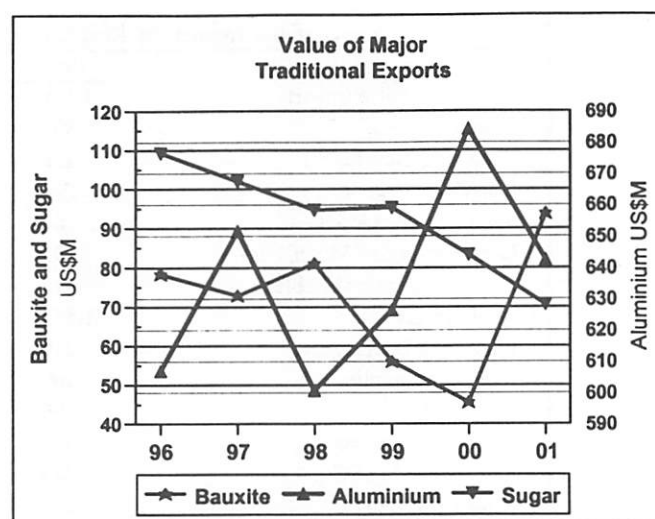
1. The macro-economic stabilization policies continued through 2001. These included lowering of interest rates, control of inflation through the targeting of base money, buildup of the Net International Reserves and maintaining a relatively stable exchange rate. As policies were implemented, they had mixed results on economic activities and trade outcomes:
 - a. During the year average loan rates declined by 488 basis points, the fastest decline in three years, to their lowest levels in thirteen years at 26.79%. This was predicated on the lowering of Government repo rates to their lowest levels of 14.25%. The lower cost of capital enabled some firms to retool, restructure, and undertake capacity expansion. This was in conjunction with the provision of special credit lines at lower interest rates, which were available to some sectors, through developments banks. Credit to the private sector actually increased by 20% during 2001, the highest in five years.
 - b. For the year 2001 the inflation rate increased from 6.1 to 8.7 per cent, which may have tempered output performance.
 - c. The real effective exchange rate recorded a decline for the third consecutive year, following the 4% and 2% declines registered in 2000 and 1999 respectively, which slightly improved the competitiveness of Jamaican exports.
2. During mid October, industrial action by workers at the JAMALCO Alumina refinery resulted in a temporary closure of the plant, which affected alumina production. The industrial unrest was estimated to have cost the refinery approximately 180,000 tonnes of alumina. Further, heavy rains affected capacity utilization at the plant during the last quarter. The above two factors resulted in a negative outturn of 13.3% for the last quarter of 2001, and an overall decline of 1.6%, after registering a 4.3% growth over the first three quarters.
3. Civil disturbances during July resulted in some loss of productivity in the Manufacturing sector.
4. During the last quarter, excessive rainfall destroyed domestic production islandwide, resulting in the first quarterly decline in agricultural output (-7.1%) for the year. Overall agricultural output rebounded by 5.0%.
5. High production costs and cheaper imports on demand for the tobacco industry continued to erode its competitiveness during 2000, resulting in an 88.1% (US\$11.6 million) decline in earnings from the tobacco industry, formerly one of Jamaica's largest non-traditional sectors.
6. There was continued haemorrhaging of the apparel sector in 2001, with the closure of 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, earnings were US\$289.0 million, an 18.9% decline over the corresponding US\$360.5 million in 2000.
7. During the last quarter, technical difficulties at the Petrojam refinery due to an irregular electricity supply resulted in its temporary closure, and consequently an increase in imports of refined petroleum to fill the shortfall.
8. An expansion in production capacity in the beverages sub-sector contributed to strong growth within the sector during the second and third quarters, but was tempered during the last quarter.
9. The inability of the Jamaica Public Service Company to meet peak demands during the second and last quarters of 2001 resulted in reduced production time in the manufacturing sector, and affecting output.
10. The importation of cheap substitutes continued to affect some sectors of the economy, eroding the competitiveness of domestic firms.
11. Sugar production was negatively affected by a reduced tonnage per acre.

The 12.4% decline in earnings from non-traditional exports mainly reflected a US\$13.6 million (40.7%) decline in beverages and tobacco (excluding rum), in addition to a US\$14.0 million (35.2%) reduction in re-exports. This represented a reversal from 2000, when both sectors had increased by US\$4.6 million (16.1%) and US\$5.2 million (15.3%) respectively. Most of the current downturn from the beverages and tobacco sub-category resulted from a US\$11.58 million (88.1%) decline in tobacco earnings to US\$1.57 million (see Chapter on Manufacturing).

A 23.8% (US\$18.3 million) resurgence in the export of food, driven by a 79.2% (US\$4.0 million) increase in ackee was unable to offset the above declines, resulting in a net loss to the non-traditional group.

CARICOM Trade

At the end of 2001, Jamaica's trade with CARICOM included US\$429.3 million in imports and US\$50.6 million in exports. This resulted in a trade deficit of US\$378.7million. Compared with trade in 2000, import levels rose by 6.92 per cent while exports rose by 3.9 per cent, leading to the widening of the trade deficit by 7.34 per cent (*Table 4.4*).



Source: PSOJ Research

Figure 4.2

External Trade

Table 4.2

	Value of Merchandise Imports by Economic End Use, 1997 - 2001 (US\$M)					Change '01/'00	
	1997	1998	1999	2000r	2001p	US\$ M	%
Total Merchandise Imports	3,128	2,961	2,904	3,200	3,365	165.0	5.2
<i>Consumer Goods</i>	895	922	964	976	988	12.0	1.2
Food (incl Beverages)	258	280	274	265	269	4.0	1.5
Non Durable goods	276	292	313	325	316	-9.0	-2.8
Semi Durable Goods	68	81	91	93	96	3.0	3.2
Durable Goods - Motor Cars	175	143	134	139	137	-2.0	-1.4
Other Consumer Durables	118	127	151	156	170	14.0	9.0
<i>Raw Materials</i>	1,573	1,488	1,471	1,705	1,810	105.0	6.2
Food (incl Beverages)	219	225	202	202	224	22.0	10.9
Industrial Supplies	700	709	671	673	708	35.0	5.2
Crude Oil	96	63	59	212	168	-44.0	-20.8
Fuels and Lubricants	315	294	321	373	416	43.0	11.5
Parts & Acces of Cap Goods	243	260	218	243	294	51.0	21.0
<i>Capital Goods</i>	660	551	469	511	566	55.0	10.8
Transport Equipment - Motor Cars	9	6	4	8	2	-6.0	-75.0
Industrial Transport Equipment	221	120	83	111	108	-3.0	-2.7
Construction Materials	161	164	156	144	140	-4.0	-2.8
Machinery and Equipment	262	260	220	246	311	65.0	26.4
Other Capital Goods	7	9	6	10	7	-3.0	-30.0

Source: Compiled from the Statistical Institute of Jamaica

Box 4.2*External Factors Affecting Trade*

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

1. The terrorist attacks on the United States in September resulted in a huge fallout on the tourism and related sectors during the last quarter. These events contributed to the overall 1.5% decline in the Manufacturing sector during the last quarter, and had various negative spinoff effects on the economy. Further, a softening of the world economy resulted in depressed trade between Jamaica and its major trading partners.
2. 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. In addition, the depreciation in the value of the Euro, vis-a-vis the US\$, and more rigid export standards also contributed to decreased earnings from these major traditional exports.
2. The bauxite industry rebounded sharply in 2001, as the Gramercy alumina refinery in Louisiana returned to full production.
3. Commodity prices on the international market continued to have mixed effects on the outcome of Jamaica's trade.
 - a. Earnings from alumina suffered from a US\$9.0 (4.7%) decline in world price, as export volume remained sluggish, down by 1.4% for 2001.
 - b. The preferential prices for bananas and sugar continued to be eroded, with sugar prices decreasing by US\$44.1.0 per tonne (9.0%), while bananas decreased by US\$129.9 per tonne (23.6%). These price reductions have affected the earnings from these exports.
 - c. Prices of crude oil declined during the last two quarters of 2001, reaching a quarterly low of US\$19.31 compared with the quarterly high of US\$30.00 in 2000. This was reflected in the value of the import bill for crude oil, which declined by 20% in 2001.
 - d. The depreciation of the Japanese yen vis-a-vis the US\$ and a declining Japanese economy - Jamaica's primary coffee market - resulted in a price fallout for coffee and coffee products. Earnings from coffee fell by 6.6% to US\$30.9 million, after registering a 34% increase in 2000.
4. The level of inflation in most of Jamaica's major trading partners continued to be 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.

Jamaica's import of oil from Trinidad and Tobago continued to be the most significant item in its CARICOM trade, which contributed to the US\$12.5 million (5.5%) 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, albeit the rate of growth of exports (33.5%) was faster than the rate of growth of imports (0.7%) in 2001. Jamaica currently has a trade deficit with 7 of the 12 CARICOM countries with which it trades.

Outlook

For 2001, 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. There was a reversal of the marginal increase in exports reported in 2000, due to severe shocks from the international and local arena. These included damage from heavy rains during the latter part of the year, the terrorist attacks on the United States in September, industrial action at JAMALCO and civil disturbances in July.

External Trade

The real effective exchange rate depreciated for the third consecutive year in 2001, which contributed to the improved competitiveness of domestic exporters to some extent. The reduction of fuel prices during 2001 may not be attained in 2002, as the US and World

Economies may be expected to rebound, driving the demand and hence price for crude upward. Furthermore, the impasse in the Middle East may impose a 'war premium' on crude prices keeping them relatively high.

Table 4.3

Value of Merchandise Exports, 1997 - 2001 (US\$ '000)						Change '02 / '01	
	1997	1998	1999	2000r	2001p	US\$ '000	%
Major Traditional Exports	872,170	784,253	809,132	836,000	825,116	-10,884	-1.3
Bauxite	72,823	81,041	56,015	45,543	93,772	48,229	105.9
Alumina	651,712	575,341	627,982	684,258	642,578	-41,680	-6.1
Sugar	101,905	94,620	95,319	83,303	70,505	-12,798	-15.4
Bananas	45,730	33,251	29,816	22,896	18,261	-4,635	-20.2
Other Traditional Exports	73,211	56,188	65,512	73,185	72,090	-1,095	-1.5
Citrus & Citrus Products	4,268	3,959	4,419	4,877	4,090	-787	-16.1
Coffee and Coffee Products	34,740	17,462	24,692	33,084	30,915	-2,169	-6.6
Cocoa & Cocoa Products	3,186	3,568	2,722	2,332	2,977	645	27.7
Pimento	2,834	4,104	4,924	4,381	3,271	-1,110	-25.3
Rum	26,633	25,454	27,598	26,341	28,835	2,494	9.5
Gypsum	1,550	1,641	1,157	2,170	2,002	-168	-7.7
Total Traditional Exports	945,381	840,441	874,644	909,189	897,206	-11,983	-1.3
Non-Traditional Exports	409,265	399,898	338,196	344,159	301,543	-42,616	-12.4
Total Domestic Exports	1,354,646	1,240,282	1,212,840	1,253,349	1,198,760	-54,589	-4.4
Re-Exports	32,677	50,059	34,503	39,783	25,765	-14,018	-35.2
Total Merchandise Exports	1,387,323	1,290,341	1,247,343	1,293,132	1,224,525	-68,607	-5.2

Source: Compiled from the Statistical Institute of Jamaica

Table 4.4

Caricom Trade (US\$Mn)	2000r			2001p		
	Imports	Exports	Balance	Imports	Exports	Balance
Total	401.5	48.7	-352.0	429.3	50.6	-378.7
Food	83.4	16.4	-67.0	84.0	21.9	-62.1
Beverages & Tobacco	13.2	3.9	-9.3	19.1	3.8	-15.3
Crude Materials	0.9	1.0	0.1	0.4	0.7	0.3
Mineral Fuels	222.2	0.1	-222.1	234.7	0.7	-234.0
Animal and Vegetable Oils	1.7	0.0	-1.7	2.6	0.0	-2.6
Chemicals	31.7	12.4	-19.3	30.6	11.9	-18.7
Manufactured Goods	34.2	5.6	-28.6	40.8	5.0	-35.8
Machinery & Transport Equipment	4.1	3.8	-0.3	4.5	1.4	-3.1
Misc Manufactured Articles	10.1	5.5	-4.6	12.6	5.2	-7.4
Other	0.0	0.0	0.0	0.0	0.0	0.0

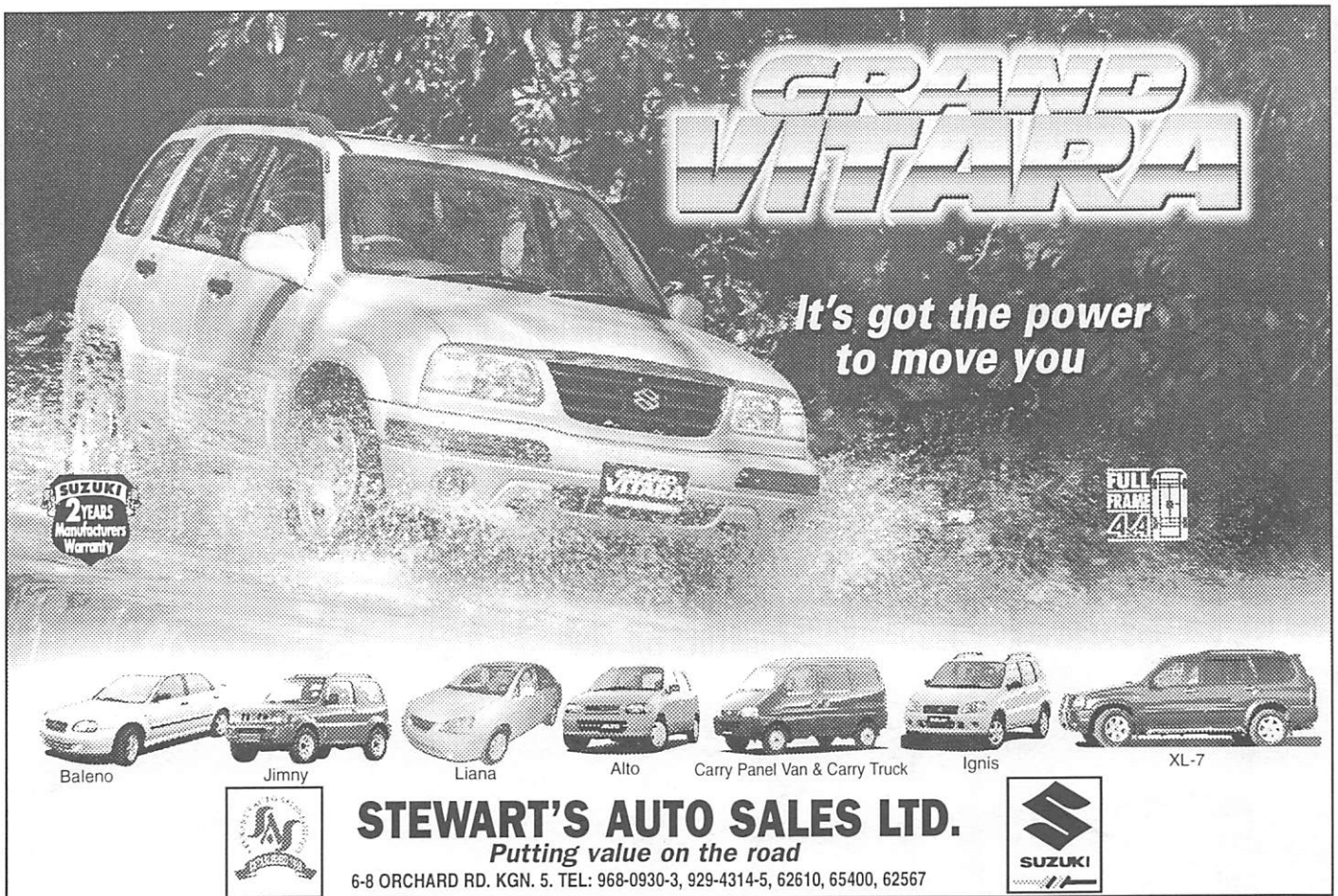
Source: Compiled from the Statistical Institute of Jamaica

A rebound in the US and Japanese economies may also see more buoyant alumina and coffee prices respectively, which could improve the outturn of the traditional export group. However, earnings from bananas and sugar are not expected to increase, due to loss of preferential treatment. Overall, given more

favorable weather conditions, and the continued resurgence in bauxite exports, stable aluminum prices, and a continued sustained reduction in interest rates to improve viability of businesses, exports could improve towards the end of 2002.

However, the deficit on the trade balance may widen even further over the medium term,

given the expected faster growth of imports.



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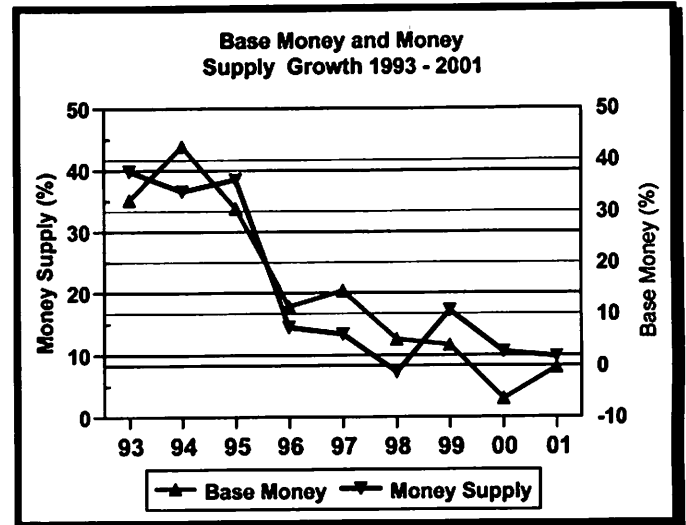


Chapter 5: Money and Banking

Government's macro-economic policy remained broadly stable during 2001, with the achievement of a second consecutive positive GDP outturn (1.7%). In realizing growth, interest rates were reduced to their lowest levels in thirteen years (14.25% 30-day repo) while credit to the private sector increased to their highest levels since 1996 up (20.0%). Inflation continued to remain in single digits (8.7%), through the continued tighter control of base money, albeit being higher than targeted and at least five times the rate of our major trading partners (*see Chapter on Inflation*). The foreign exchange market showed its strongest resilience in four years (4.1% J\$/US\$ decline), predicated on a record buildup in the Net International Reserves (US\$1.84 billion). The lowering of interest rates and increased profitability of listed companies continued the resurgence of the stock market to record levels during 2001.

Base Money

The monetary base contracted for the second consecutive year, down by 0.3% (\$102.7 million), indicating that the government continued to achieve significant restraint in the growth of base money, when compared with the high rates obtained during the prior third of the 1990's. In fact the growth rate was 42.7% in 1994 before reaching single digits in 1998. Figure 5.1 shows the declining trend in base money. Currency issue, the major component of base money, increased by 8.35% from J\$20,619 million in December 2000, to J\$22,340 million at the end of December 2001. At the end of the similar period in 2000, currency issue had declined by 1.15%.



Source: PSOJ Research

Figure 5.1

The continued gradual reduction in the cash reserve ratio of deposit taking institutions continued to be one of the prime factors behind the fall in base money. The contraction in base money was primarily due to a J\$43,909.5 million reduction in the Net Domestic Asset (NDA) of the central bank, which offset a US\$871.3 million (J\$43.8 billion) increase in the Net International Reserves (NIR). The NIR ended the year at a record US\$1,840.7 million. The reduction in the NDA was achieved through a record \$33,827.4 million (65.30%) increase in open market operations. This was primarily effected through the issuance of Certificates of Deposits (CD's), which were reintroduced during May. The issuance of CD's resulted in a decreased utilization of other open market instruments such as the build up of commercial bank deposits with the Central Bank, and 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 12%, 11% and 10% in March, April and September respectively.

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 in single digits. This is in tandem with the objectives outlined in the Staff Monitored Program (SMP) document for the fiscal year 2000/01, which stated that monetary policy would 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\$146,041 million at December 2001, indicating a J\$13,043 million (9.81%) increase over December 2000. The highest monthly increase recorded for 2001 was 2.0% in May and July (excluding the seasonal 3.5% during the December), in comparison to a monthly high of 1.8% in September the previous year.

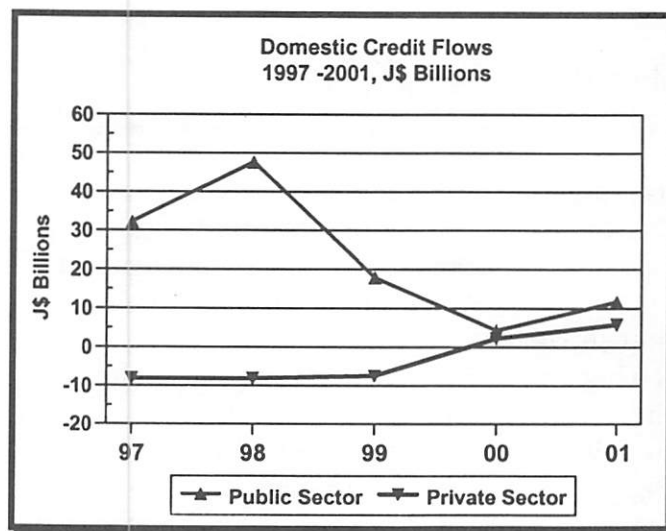
The narrow money (M1) and quasi money components of money supply showed contrasting trends during 2001. Quasi money grew by 6.2 per cent as a result of a 10.0 per cent increase in saving deposits, partially offset by a 2.3 per cent decline in time deposits. Narrow money increased by 18.9 per cent due to increases of 29.4 per cent and 6.6 per cent in demand deposits and currency deposits respectively (Table 5.1).

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 \$46,790 million (67.03%) over the period, largely reflecting strong foreign currency inflows. The asset composition of the banking system indicated an increase in Government borrowing, with net credit to the public sector increasing by \$11,613 million (10.46%), contributing the most to the

expansion in domestic credit. Of greater significance is the fact that the flow of credit to the private sector was positive for the second consecutive year, increasing by 20.07% (\$5,843 million), the highest increase since 1996 (Figure 5.2). This increase is a positive development given the need to reduce government's crowding out of private sector borrowing.

Interest Rates

The Government's adoption of a Staff Monitored Program (SMP) in July 2000 had represented an attempt to reverse the policy of high nominal and real interest rates, which had plagued the economy during the latter part of the 1990's. The SMP document had outlined that the sustained lowering of rates was deemed critical to achieving economic expansion by boosting investment and to the Government's fiscal program.



Source: PSOJ Research

Figure 5.2

During 2001, interest rates continued the process of trending down during the first three quarters before giving up some of the gains during the last quarter. While this trend - declining interest rates over the first three

quarters, followed by a hike in the last quarter - has been observed over the past four years, there was a marked difference between 2001 and the previous years. Significantly, commercial banks average loan rates declined to thirteen year lows of 26.79%, down 488 basis points, which was the fastest rate of decline in three years. This resulted in the spread between average loan and average

savings deposit rates falling below the 20-percentage point barrier for the first time, down 410 basis points to 17.71 percentage points. The rapid depreciation of commercial banks' average loan rates, was reflected in the offering of more favorable credit arrangements by the major commercial banks, (including the entrant of a new market player), as there was increased competition for market share.

Table 5.1

Summary of Monetary Authorities' Accounts, 1998 - 2001								
	Stock, J\$ million				Flows, J\$ million		%	
	Dec-98	Dec-99	Dec-00r	Dec-01p	2000	2001	01/00	00/01
Assets								
<i>NFA</i>	36,760	40,607	69,802	116,592	29,195	46,790	67.03	71.90
<i>Domestic Credit</i>	109,374	128,130	132,934	149,077	4,804	16,143	12.14	3.75
To Public Sector	88,930	107,715	111,007	122,621	3,292	11,613	10.46	3.06
To Private Sector	34,127	26,572	29,107	34,949	2,535	5,843	20.07	9.54
To Other Financial Institutions (net)	-13,683	-6,157	-7,180	-8,493	-1,023	-1,313	18.28	16.62
<i>Total</i>	146,134	168,737	202,736	265,669	33,999	62,933	31.04	20.15
Liabilities								
<i>Narrow Money (M1)</i>	30,177	39,069	38,111	45,310	-958	7,199	18.89	-2.45
Currency	13,495	17,810	17,584	18,745	-226	1,161	6.60	-1.27
Demand Deposits	16,682	21,259	20,528	26,565	-731	6,037	29.41	-3.44
<i>Quasi Money</i>	72,354	81,191	94,886	100,731	13,696	5,844	6.16	16.87
Time Deposits	19,600	23,131	29,345	28,658	6,214	-687	-2.34	26.86
Savings Deposits	52,754	58,060	65,541	72,093	7,482	6,552	10.00	12.89
<i>Broad Money (M2)</i>	102,531	120,260	132,998	146,041	12,738	13,043	9.81	10.59
Other Items (net)	43,602	48,477	69,738	119,607	21,261	49,869	71.51	43.86
<i>Total</i>	146,134	168,737	202,736	265,669	33,999	62,933	31.04	20.15

Source: Compiled from the Bank of Jamaica

The reduction of government's signal rate (30-day reverse repurchase rate) by 220 basis points to their lowest levels was the major contributor to declining interest rates during 2001. A resilient foreign exchange market (underpinned by a record high Net International Reserves), improved liquidity conditions (afforded by the programmed 1% reduction in the reserve requirement to 10%), as well as government's reduced domestic borrowing (supplanted by external borrowing), facilitated the general reduction in interest rates. During the first three quarters, the six-month treasury bill (T-Bill)

rate declined by 506 basis points to 15.10% (lowest level), before returning some of the gains over the last quarter to end the year at 17.03%. This reflected a temporary hike in government's longer-term repos to quell depreciation pressures during the last quarter (see *Foreign Exchange Developments*).

Loans and Advances

At the end of December 2001, total assets and liabilities of commercial banks were J\$239.08 billion. Of this, J\$49.04 billion or 20.5% of its assets were extended in credit (*Table 5.3*). This represented a real increase of 13.0 per cent over the J\$40.57 billion (18.28% of its assets) reported at the end of December 2000, indicating the continued recovery of the banking system, following the financial fallout in the mid 1990's. Expansion in commercial banks' lending was facilitated by the programmed 1% reduction in the cash reserve ratio, which stood at 10% at year-end, the 488 basis point drop in average lending rates,

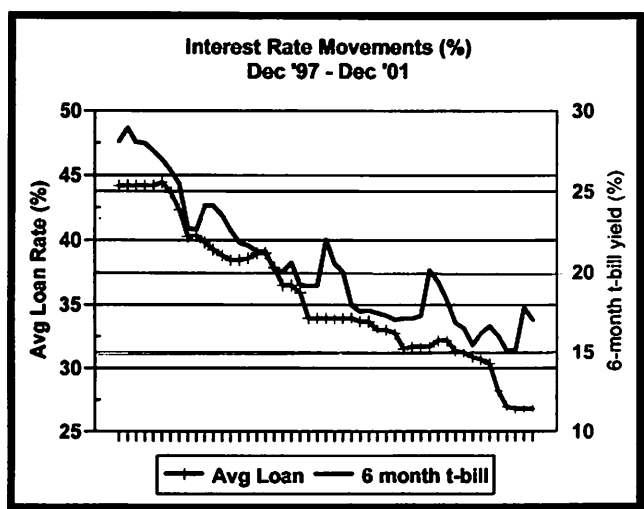
increased liquidity due to the conversion of FINSAC bonds held by some banks (NCB and RBTT), to Local Registered Stock (LRS) and re-capitalization of Union Bank of Jamaica (sold to RBTT). Total deposits in the banking sector were J\$158.9 billion, reflecting an increase of 6.2% over 2000.

A review of the sectoral allocation of credit extended by commercial banks indicated that in 2001, services oriented loans (26.5% real increase), driven by transport, storage and communication (170.1%), government services (43.6%), and tourism (1.7%), made up the majority of commercial banks' credit portfolios, accounting for 50.2% of loans (*Table 5.3*).

Table 5.2

	Indicative Interest Rates and Treasury Bill Yields (%), 1997 - 2001					Change
	Dec-97	Dec-98	Dec-99	Dec-00	Dec-01	2001/2000
30 Day Repo	29	22	18.35	16.45	14.25	-2.20
365 Day Repo	-	-	-	21	18.90	-2.10
Avg Savings Deposit	13.02	12.13	11.38	9.86	9.08	-0.78
Avg Loan Rate	44.17	38.89	33.92	31.67	26.79	-4.88
6 Month T-bill	28.08	23.52	22.03	20.16	17.03	-3.13
12 Month T-bill	23.53	23.95	22	20.98	16.28	-4.70

Source: Compiled from the Bank of Jamaica, Ministry of Finance and Planning



Source: PSOJ Research

Figure 5.3

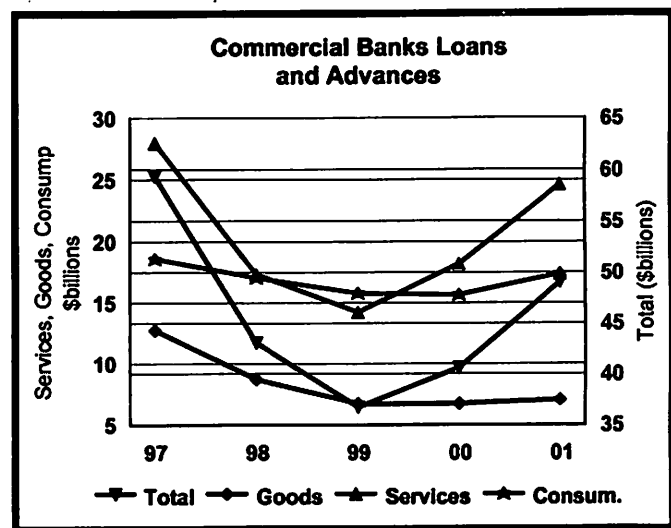
This was a continuation of the outcome from 2000, previous to which consumer-oriented loans led the way, accounting for 38.6% of loans in 1999. Loans to the goods producing sector continued to fade, accounting for only 14.3% of loans in 2001. Loans for personal use (28.2%) continued to account for the highest share of credit to a sub-sector, and also showed a sharp increase in credit extended (18.3%) following four years of a decline. This may be reflective of increased competition for market share within the sector, as well as the rehabilitation of banks following the financial crisis. This was followed by government services (21.0%), tourism (10.5%) and transport, storage and communication (9.0%) sectors. The buoyancy in this latter sector may

be reflective of the expanding telecommunications industry.

This order of ranking shows that government continued to play a predominant role in the economy, being the second highest recipient of commercial loans. In fact, loans advanced to government services in 2001, finally surpassed loans advanced to the entire goods producing sector (46.2% more). Except for transport, storage and communication, government services recorded the highest growth (43.6%) due mainly to an increase of \$1.77 billion to central government.

The current performance of loans being advanced by the banking sector is a clear indication that the downturn experienced during 1998 and 1999 may be behind us. 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.



Source: PSQJ Research

Figure 5.4

Table 5.3

Commercial Banks Loan and Advances by Sector, JS'000				Real Change (%)		% of Total	
	1999	2000	2001	2001	2000	2000	2001
Goods Producing	6,709,172	6,717,341	7,036,419	-2.1	-5	16.6	14.3
Agriculture	1,589,090	1,557,229	1,479,622	-11.2	-5.1	3.8	3.0
Mining	98,706	87,190	98,177	5.3	-16.7	0.2	0.2
Manufacturing	2,992,362	3,046,790	3,119,261	-4.3	-4	7.5	6.4
Construction & Land Development	2,029,014	2,026,132	2,339,359	7.9	-5.8	5.0	4.8
Services	14,212,378	18,192,790	24,613,585	26.5	20.7	44.8	50.2
Transport, Storage & Communication	1,445,874	1,525,731	4,409,793	170.2	-0.5	3.8	9.0
Financial Institutions	1,260,903	747,295	178,201	-77.7	-44.1	1.8	0.4
Electricity, Gas and Water	66,539	773,945	1,256,921	51.8	996.7	1.9	2.6
Government Services	4,894,041	6,696,791	10,288,241	43.6	29	16.5	21.0
Distribution	2,833,062	3,563,853	3,224,744	-15.4	18.6	8.8	6.6
Entertainment	151,309	137,499	89,390	-39.2	-14.3	0.3	0.2
Tourism	3,560,650	4,747,676	5,166,295	1.7	25.7	11.7	10.5
Consumption	15,797,517	15,657,316	17,385,094	3.8	-5.3	38.6	35.5
Personal	11,290,174	10,933,620	13,832,394	18.3	-7.7	27.0	28.2
Professional and Other Services	4,507,343	4,723,696	3,552,700	-29.8	0.6	11.6	7.2
Total	36,719,067	40,567,447	49,035,098	13.0	4.2		

Source: Compiled from the Bank of Jamaica

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, outlined in its SMP document for the 2000/2001 and 2001/2002 financial year. The document outlined that these ratios were relatively high and called for a programmed reduction of 3 percentage points each in both financial years.

Commercial banks began the year with the statutory reserve requirement of 44%, made up of 13% cash reserves and 31% liquid assets reserves. The liquid asset ratio was reduced to 28% at the end of 2001, while the cash reserve ratio was reduced to 10%. These reductions were facilitated by a programmed 1% reduction in March, June and September of 2001. These reductions meant the programmed 3% reductions outlined in the SMP was achieved.

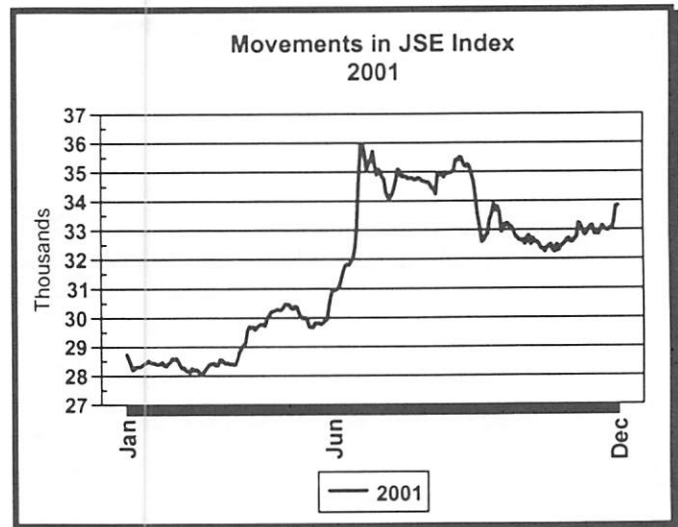
With the governments' continued tight monetary policy stance to control inflation, the reduction in the statutory reserve requirement provided liquidity relief, as well as reducing the spread between deposit rates and lending rates. The liquidity ratio of commercial banks continued to decline in 2001, recording 43.5%, compared to 45.6% and 48.3% in 2000 and 1999 respectively. Excess liquidity has continued to increase, recording 15.69% in December 2001, compared to 14.60% and 14.38% in 2000 and 1999 respectively

Stock Market Developments

The stock market rallied during the first half of 2001 to record higher levels, before tapering off during the latter half of the year.

(Figure 5.5). At the end of June, the Jamaica Stock Exchange (JSE) index was 35,723 points,

23.63% above the 28,893.25 recorded at the end of December 2000. The index actually reached a record high of 35,986.01 points on June 21st, compared to the previous high of 33,483.73 points in January of 1993. This was the second consecutive year of record-breaking performance by the index, which had not previously crossed the 30,000-point barrier since the bullish months of early 1993. Market capitalization increased by 8.5% from J\$160.1 billion at the end of 2000 to J\$173.2 billion at the end of June 2001. However the index plunged 2,678.45 points to 32,582.02 between September 11th and September 19th, following the terrorist attacks on the United States, before recovering slightly to end the year at 17.1%. Despite this, market capitalization increased by 38.7% over the previous year, valued at a record J\$ 222.0 billion.



Source: PSOJ Research

Figure 5.5

Table 5.4

Indicators of Stock Exchange Performance, 1997 - 2001					
	1997	1998	1999	2000	2001
Market Capitalization (J\$Bn)	79.6	79.0	104.0	160.1	222.0
Change (%)	20.4	-0.8	31.6	53.9	38.7
Traded Volume ('000)	905,419	604,545	520,531	694,897	714,717
Value (J\$ Bn)	4.6	2.1	2.2	3.2	3.4
Change (%)	0.0	-54.3	4.8	45.5	6.2
Index (end of period)	19,846.7	20,593.3	21,892.6	28,893.2	33,835.6
Change (%)	19.4	3.8	6.3	32.0	17.1
Listed Companies	49	48	45	45	43
Number of Brokers	8	8	6	6	10
<i>Source. Compiled from the Jamaica Stock Exchange</i>					

The overall strong performance of the market during 2001 (albeit less than 2000) reflected the increased profitability of listed companies, the continued downward trend in interest rates, and the further phased reduction of the withholding tax on dividends to 10%. Dividends yields on some stocks have been competing with returns on fixed income instruments. These developments may have seen an increase in the number of institutional investors to the market. Further, there was a return to five day trading, which served to improve liquidity conditions, as well as the issuance of license to four new brokers, who began trading in early 2002. The performance of the two new indices (JSE All Jamaica Composite Index, and Jamaica Select Index) introduced during mid 2000 mirrored the performance of the JSE index. During the year, average share prices were estimated to have increased by 52.4%, led by Palace Amusement, which increased by a record 476.92% (Table 5.5).

Major Stock Performers, 2001	
<i>Top Five Winners</i>	
Palace Amusement	476.9%
Life of Jamaica	324.3%
Salada Foods	216.7%
Dehring, Bunting & Golding	166.7%
Trafalgar Development Bank	160.0%
<i>Top Five Losers</i>	
Ciboney Group	-61.5%
Kingston Wharves	-29.9%
Caribbean Cement	-29.8%
Pegasus Hotels	-24.1%
Seprod	-21.4%
<i>Source: PSOJ Research</i>	

Table 5.5

Foreign Exchange Developments

The foreign exchange market showed remarkable resiliency in 2001 compared with previous years. The exchange rate only depreciated by 4.10% for the year, compared with 9.91% (2000) and 11.46% (1999) over the previous two years (Table 5.6). Significantly, 3.81 percentage points (\$1.74) of the depreciation occurred after the events of September 11th, which resulted in fallout in tourism and related sectors (see Chapter on Tourism). In fact, prior to September 11th, the J\$ had only lost \$0.27 (0.61%) to the US\$. The relative stability in the market was predicated

on a record high Net International Reserves of US\$1,840.74 million, which facilitated heavy central bank intervention to maintain stability. The record NIR reflected divestment proceeds from the sale of Life of Jamaica, Jamaica Public Service Company, and the government's huge success on the international capital markets, most significant of which were US\$375.0 million from a Eurobond issue in May, and a US\$250 million 20 year bond issue in December, a historical first for a bond of such maturity.

Table 5.6

Foreign Exchange Movements, 1999 - 2001						
	us\$	%	can\$	%	uk£	%
2001	1.87	4.10	-0.06	-0.22	1.16	1.73
2000	4.11	9.91	1.63	5.86	0.80	1.21
1999	4.26	11.46	3.96	16.57	4.92	8.05

Source: BOJ, PSOJ Research

Throughout 2001, the country experienced continued high levels of inflows of foreign exchange into the inter-bank market. Purchases declined while sales on the spot market (authorized dealers excluding cambios) increased by 1.07% and 9.47%, respectively. Purchases moved from US\$2.81 billion to US\$2.78 billion, while sales increased from US\$2.85 billion to US\$3.12 billion, over the period December 2000 to December 2001.

The Financial Sector

The process of restructuring the financial sector and the progress which had been made during 1999 and 2000, continued throughout 2001. Progress continued with the sale of some of the Financial Sector Adjustment Company Limited's (FINSAC) remaining assets and the strengthening of legislation governing the financial sector. FINSAC completed the sale of

Union Bank of Jamaica to Royal Bank of Trinidad and Tobago, while Life of Jamaica was also sold. FINSAC collected \$1.6 billion in bad debt and sold assets totaling \$1.2 billion. This brought the total debt collected and assets sold to approximately \$6.0 billion since its inception. Further, the valuation and subsequent sale of FINSAC's non-performing loan portfolio was being conducted.

The conversion of \$86.6 billion FINSAC bonds to Local Registered Stock (LRS) was also a significant occurrence, improving liquidity within the banking system. On July 1, 2001 there was an increase in the insurance coverage from \$200,000 to \$300,000 for depositors, by all banks registered with the Jamaica Deposit Insurance Corporation (JDIC). The fund managed by the JDIC increased by 59.5% to \$498.0 million at the end of the year. The Financial Services Commission (FSC) also launched its operations during 2001.

Table 5.7 shows the process of consolidation within the sector continued to improve, as total assets were estimated to have increased by \$32,894 million (10.9%), while the total capital base increased by \$17,385.0 million (25.0%). Significantly, past due loans declined by 18.7%, while loan arrears as a percentage of total loans were down 41.2%. However, the sector's rate of growth has slowed, up only 0.6% compared to 11% and 18% in 2000 and 1999 respectively (see Chapter on GDP).

Table 5.7

Selected Key Indicators of Financial Sector, 1997 - 2001						Change	
	1997	1998	1999	2000	2001p	unit	%
Real GDP (J\$m) *	2,243.8	2,206.7	2,605.7	2,891.5	2,910.1	18.6	0.6
Contribution to Real GDP (%)	11.4	11.3	13.4	14.8	14.6	-0.2	-1.4
Av. Employment	59.6	56.8	52.5	50.8	47.3	-3.5	-7.4
Total Assets (J\$m)	196,031.0	221,178.0	238,919.0	267,905.0	300,799.0	32,894.0	10.9
Total Deposits (J\$m)	147,118.0	154,396.0	164,601.0	188,829.0	204,908.0	16,079.0	7.8
Total Loans	73,534.0	52,412.0	48,809.0	52,202.0	69,587.0	17,385.0	25.0
Capital Base (J\$m)	4,971.0	9,096.0	21,662.0	24,333.0	27,100.0	2,767.0	10.2
Past Due Loans (J\$m)	22,004.0	14,163.0	6,940.0	5,619.0	4,732.0	-887.0	-18.7
Loan Arrears to Total Loans (%)	27.2	22.9	12.8	9.6	6.8	-2.8	-41.2
Capital Base to Total Assets (%)	2.5	4.1	9.1	9.1	9.0	-0.1	-1.1
Pretax Profit Margin	-16.1	-1.7	9.7	16.0	16.9	0.9	5.3

Source: Compiled from the Planning Institute of Jamaica, Bank of Jamaica

Outlook

Tight monetary policy to constrain growth of base money and money supply, will again be required in 2002/2003 to keep inflation in check. The reduction in interest rates to their lowest levels during 2001 facilitated a lower cost of capital, which if sustained, should result in an improved investment environment. Lending rates may be expected to fall further in 2002, given increased competition within the banking industry. The 20% increase in credit to the private sector during 2001 (highest since 1996) is a clear signal that government's crowding out of private sector borrowing is being reduced, and this process may continue in 2002.

However, the pace of declining interest rates will depend upon inflation, and maintenance of relative stability within the foreign exchange market. The resilience shown by the currency in 2001, despite severe external shocks, is an indication that the current record level of NIR may be sufficient to maintain relative stability over the medium term.

However, the lower foreign exchange receipts from tourism may affect the foreign exchange market somewhat in the near term, resulting in

a slower than programmed decline in interest rates. Lower interest rates continue to be critical to the government's fiscal program, given the high level of domestic debt (*see Chapter on Fiscal Policy*).

The continued rebound in commercial banks loans and advances may be expected to continue, as the sector consolidates, and there is increased competition. The sale of National Commercial Bank to Advance Investment Council (AIC) during the first quarter of 2002, and FINSAC's non-performing loan portfolio to Redevelopment Foundation of Jamaica should further enhance the performance of the sector. The above sales should contribute significantly to improved liquidity conditions, especially given the conversion of FINSAC bonds to LRS. With the sale of NCB and its non-performing loan portfolio, FINSAC is expected to windup its operations in 2002.

The equities market should achieve another record performance in 2002, given higher profitability of listed companies, historical low interest rates, the introduction of four new brokers, and the complete removal of withholding tax on dividends. The increased number of brokers should improve liquidity conditions and the offering of new services. Lower yields on money market instruments

Money and Banking

may also result in more institutional investors turning to the equities market.

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Chapter 6: Fiscal Performance.

The fiscal year 2001/02 can be classified as a year of missed targets. The government was faced by severe shocks that negatively affected fiscal performance. The government budgeted \$119,049mn (Table 6.2) for total expenditure. Actual expenditure was \$123,699mn, 4% above budget and 9% above the actual outturn for 2000/01. The inability of the government to curb expenditure is largely due to three factors:

- a. September 11
- b. July riots
- c. November flood

The expenditure figure represents 37% of GDP for 2001/02 compared to 34% for 2000/01.

Expenditure

With the government taking on approximately \$79.3bn of Finsac debt and the continued obligations under the Staff Monitored Programme, achieving the 2001/02 targets was critical. The events of September 11, July riots and the November floods dealt the government's austerity measures a serious blow. Actual expenditure was 4% above target. Recurrent expenditure was \$113,572mn, 6% above budget and 13% above 2000/01. This significant increase can be attributed to interest payments on Finsac bonds and currency losses on international debt instruments. In addition, Programmes and Wages were 4% above budget and 8% above 2000/01. These factors combined to cause an adverse variance in the recurrent budget.

The government budgeted \$11,830mn for capital expenditure. Actual expenditure was \$10,126mn, 14% below budget and 8% above 2000/01. The 14% reduction in capital expenditure compared to budget is indicative of the tight fiscal situation. The reduction occurred despite unbudgeted expenditure on national security due to the July riots.

Interest payments on the national debt continue to hemorrhage the fiscal accounts. Total interest payment was approx. \$52,046mn. This represents 42% of total expenditure and 46% of recurrent expenditure. Total interest payment was 8% above budget, 20% above 2000/01 and 22% above 1999/00. Domestic interest payments were \$40,131mn or 79% of total interest payments. External interest payment was approx. \$11,915mn, 4% above budget and 36% above 2000/01. The increase in local interest payments is due mainly to "unprogrammed" payments on Finsac bonds. Exchange rate adjustments and early repayment accounted for the increased external payments.

For the period under review, amortization costs amounted to \$93,331mn or 39% above the amount budgeted. The increase relates to retirement of some Finsac bonds.

Revenue

Achieving the revenue targets set for fiscal year 2001/02 was always going to be difficult. Total revenue generated was \$109,734mn, 2.5% above budget and 12.25% above 2000/01. The increase in revenue is related to capital revenue. The government received the last portion from the JPSCo divestment plus other receipts from sale of Finsac assets.

The economy grew by approximately 1.7% in 2001/02, not enough to generate the budgeted tax revenues. Taxation revenue amounted to \$90,985mn, a 5% reduction compared to budget. This was mainly due to a 10% reduction in GCT and a 5% reduction in income tax. Most of the other categories of tax revenues also showed reductions.

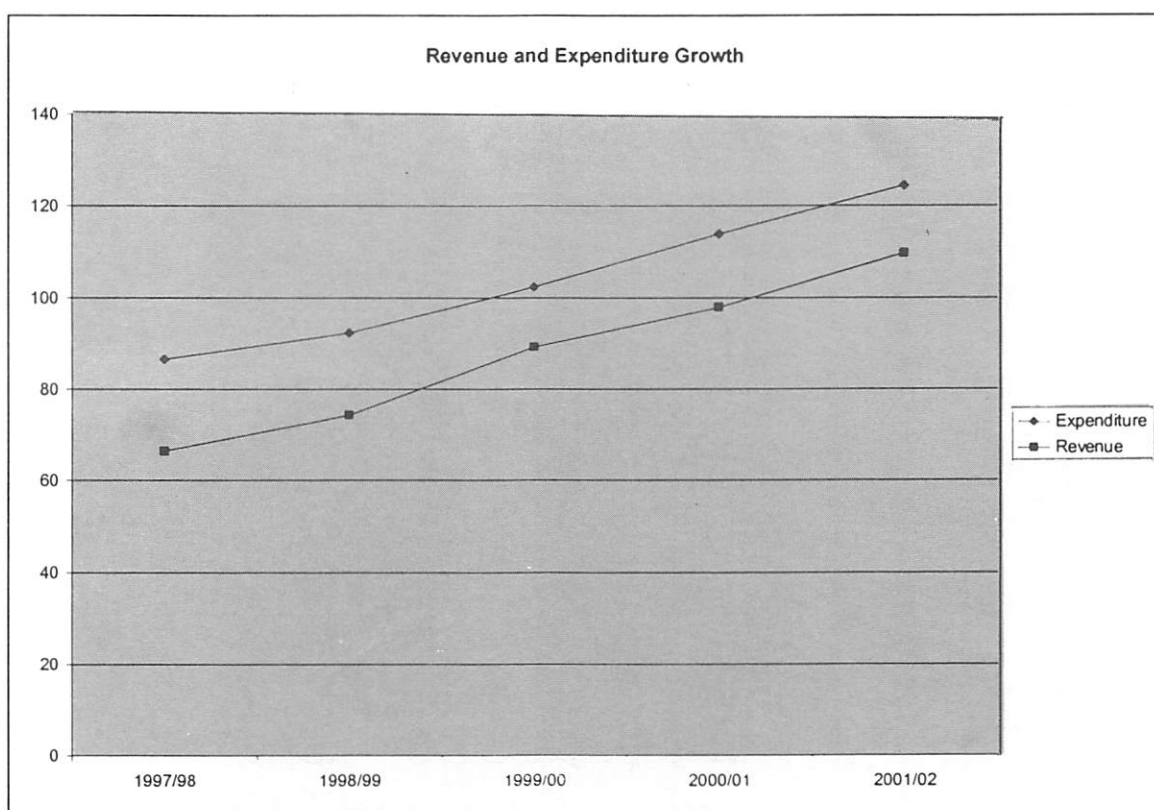
The bauxite levy accounted for \$2,252mn of total revenue, approximately the same as

budgeted and 20% below what was received in 2000/01.

The continued failure of the economy to generate substantial revenue to substantially cover government's expenditure is worrying. Tax reform has been taking place for some time now. This includes improved efficiency in the

collection of taxes and broadening of the tax net. Notwithstanding these efforts, tax revenue has remained flat. Ultimately, improved tax returns can only occur in a thriving economy. With moderate growth targets set for the next financial year, one does not expect an immediate improvement in tax revenues.

Figure 6.1



Source: PSOJ Research

Fiscal Accounts and the Budget

Following the IMF methodology the fiscal summary for 2001/02 shows a deficit of approximately \$23,942mn or 7% of GDP. This represents a deterioration of 54% compared to 2000/01.

Ministerial Allocations

For the fiscal year 2001/02 the Ministry of Finance was allocated \$57,221mn or 50.3% of the recurrent budget. It is projected that the Ministry received \$60,080mn, 5% above budget and 18% above 2000/01. The Ministry of Education Youth and Culture spent approximately \$21,088mn, 10% above budget and 23% above the 2000/01 figure. The

¹ Not including divestments proceeds

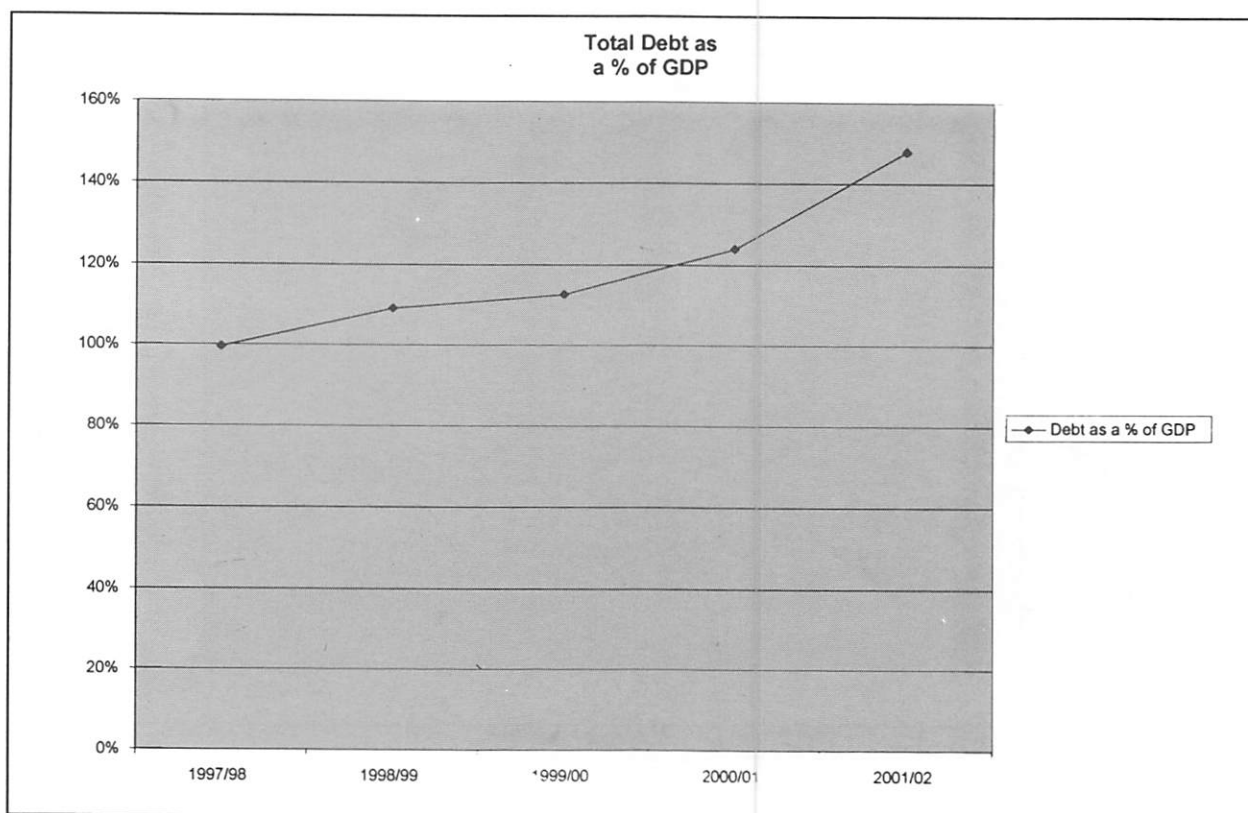
Ministry of Health saw an 8% increase in expenditure over budget to \$8,212mn.

Loan Receipts and Balances

For the fiscal year 2001/02 total loan receipt was expected to yield \$76,810mn, actual receipt was \$101,584mn. Domestic loans totaled \$63,298mn, 42% above budget and

55% more than 2000/01. External loans amounted to \$38,286mn (Table 6.1), 19% above budget and 53% above 2000/01. The significant increase in domestic debt is largely due to unbudgeted expenses. External loans increased significantly because of an additional \$200mn bond that the government floated. The government attributed this increase to favorable international borrowing conditions.

Figure 6.2



Source: PSOJ Research

Debt Management

The government recognizes the importance of a credible debt management strategy. The goal is to keep the debt within manageable proportions that are sustainable. The Finance Minister in a Ministry Paper (#15) outlines the government debt management strategy primarily in terms of

lengthening the maturity profile of the debt stock. However, any dynamically consistent strategy must include sustained growth in GDP. This is the only way to reduce the debt burden.

As at March 31, 2002 the total domestic debt was \$494.9bn or 30% above 2000/01 and 148% of GDP. This is an astounding figure and represents a clear and present danger for economic viability. Total domestic debt stood

at \$300bn or 90% of GDP. Total domestic debt grew by 39% for the fiscal year. This increase is partly attributable to absorption of Finsac debt.

For the fiscal year 2001/02 total external debt stood at \$195bn or 18% above 2000/01. The total external debt is approximately 58% of GDP. The increase in the external debt came from increased borrowing in the bond market and multi lateral loans.

Total debt servicing for the period was \$144bn, 23% above 2000/01 and 49% above 1999/00.

Projections and Outlook

Total tax revenues are expected to total \$106,786mn (Table 6.2), some 18% above the actual intake for 2001/02. This increase is expected to come mainly from GCT of \$27,949mn, income tax \$43,655mn, SCT \$10,808mn and Customs \$10,678mn. The GCT target represents a 16% increase on inflows for 2001/02. The income tax figure is an increase of 26% above the amount received in 2001/02. The government will be hard pressed to achieve these targets. Continued tax reforms should assist in achieving the targets. However without economic growth of 5% - 6% we do not expect the tax targets to be met.

Non-tax revenues are expected to yield \$5,921mn, 20% above 2001/02. Capital revenue is slated at \$9,810mn, 2% below the 2001/02 level. This is expected to come from sale of shares in C&W and Jamaica Grande plus the sale of a cellular license.

Loan Receipts: Loan receipts are expected to total \$84,942mn, 16% below what was received in 2001/02. External loans are expected to yield \$26,135mn, 32% below 2001/02. Domestic loans are budgeted at \$58,806mn or 7% below the actual receipt for 2001/02.

Expenditure: The government expects to spend \$210,064mn for the fiscal year 2002/03, some 3% below the 2001/02 actual outturn and 13% above the 2001/02 budget. The recurrent expenditure is \$125,149mn or 60% of total expenditure, 10% above the amount spent for 2001/02. Total debt servicing amounts to \$134,621mn or 64% of total expenditure. Of this amount, interest payments amount to \$59,617mn, 16% above the amount spent in 2001/02. Domestic interest payments account for 72% of total interest payments or \$42,733mn. External interest payments are expected to reach \$16,884mn for 2002/03. This is 48% above the amount spent in 2001/02. This is an indication of increased activity in the international capital market.

Education and Culture: The Ministry of Education has been allocated 10% of the budget or \$21,109mn. This represents an improvement of 6% on the 2001/02 budget. In real terms the allocation to the Ministry has remained the same.

Ministry of Health: The Ministry of Health has been granted \$8,141mn, 1% below what was allocated for 2001/02. In real terms the allocation to the Ministry has declined. This is yet another representation of the tight fiscal situation we are faced with.

Ministry of Tourism: The Tourism Ministry has been awarded \$2,254mn or 1% of the national budget. This represents an 18% increase over the 2001/02 budget and an 11% decline compared to the actual amount spent for 2001/02.

The government plans to spend \$210,064mn for the fiscal year 2002/03. Of this amount 51% is expected to come from tax revenue with the remaining 49% in loans and divestment proceeds. 82% or \$84,941mn of the 49% will come from borrowing, the remaining \$18bn will come from sale of assets and improved tax collections.

The above calculations reveal a problem with the 2002/03 budget. While we expect the government to achieve the amount specified for loans, we are skeptical about the realization of the \$18bn. Of the \$18 billion the government anticipates it will receive \$9 billion from the sale of assets. These assets include shares in C&W, Jamaica Grande and another cellular license. The cellular license will not achieve the amounts received for the previous licenses. Also the significance of the C&W shares cannot be relied upon totally because of stock market volatility. In effect, the \$18bn is based on factors that are variable and therefore its realization is doubtful. The government could solve the problem by going to the capital market or raising taxes. The latter measure is quite debilitating and will be counter productive. Raising the money on the capital market is more probable but not in line with policy. This will accelerate the growth of the debt and may impact interest rates adversely. Therefore, if the \$18bn does not materialize the government will find itself with very little options.

The government anticipates it will achieve growth somewhere in the region of 2% – 3% for 2002/03. Tourism is experiencing problems and may suffer a decline for the fiscal year. Mining is expected to see some growth especially with the removal of the bauxite levy. However, the growth in bauxite will be long term and should not impact significantly in

fiscal year 2002/03. Financial services should continue its resurgence in the fiscal year, though we do not expect it to be significant.

Therefore while growth is expected, we certainly cannot predict 3% especially if the fiscal situation does not improve. If the government is able to limit its incursions into the local capital market, then the growth targets may materialize. We are however mindful of the slow start to Tourism in the fiscal year. If the trend continues then the revenue targets will be adversely affected. This will certainly affect growth projections given the significance of the industry to economic activity.

Finally, the country has to move away from the “traditional” sectors of the economy in order to improve the fiscal situation. The real problem with the economy is that we have not created enough new sectors to complement the older ones. Certainly, what drives growth in a sustainable way is innovation. Without this diversification, revenue projections and ultimately the fiscal balance will forever be susceptible to external factors.

Fiscal Performance

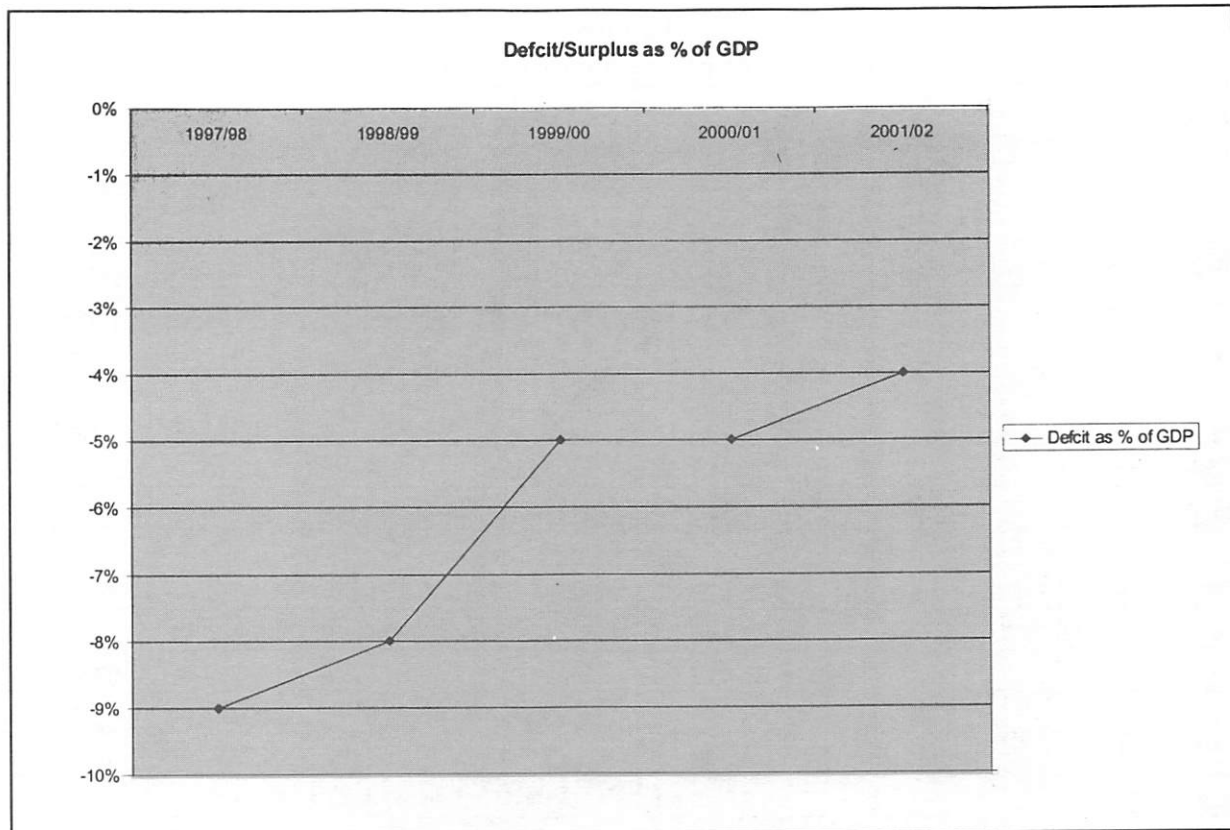


Figure 6.3

Source: PSOJ Research

Table 6.1

Debt Profile (J\$ million)

	96/97	97/98	98/99	99/00	00/01	01/02
Domestic	85181.2	101,540.2	139203.7	175,322.7	215084.1	300,000
Foreign	111,183.2	117,674.7	123,097.1	133,365.1	165,379.9	195,000
Total	196,364.4	219214.9	262,300.8	308,687.8	380,464	495,000
% of Total Debt						
Domestic	43	46	53	57	57	60
Foreign	57	54	47	43	43	40

Source: Economy and Social Survey of Jamaica 2001

Table 6.2
Summary of Fiscal Operation (J\$million)

		Actual 2000/01	Actual 2001/02	Budget 2001/02	Budget 2002/03	Actual 1999/00
Revenue & Grants		97,751.81	109,734.00	107,086.00	125,121.00	89,102.00
Tax revenue		84,658.64	90,568.20	96,280.00	106,786.00	74,634.00
Non-tax revenue		7,497.35	4,949.30	4,589.00	5,921.00	4,326.00
CDF Trans/Baux levy		2,832.14	2,252.30	2,255.00	2,604.00	1,900.00
Capital revenue		1,263.68	9,989.50	1,824.00	9,810.00	8,242.00
Grants		1,500.00	1,974.70	2,139.00	0.00	0.00
Total Expenditure		113,279.73	124,331.54	119,204.00	135,061.00	102,179.00
Recur Expenditure		100,347.53	114,205.14	107,374.00	125,149.00	92,919.00
Wages		57,013.64	62,654.70	58,918.00	65,532.00	51,017.00
Interest		43,333.88	51,550.44	48,456.00	59,617.00	41,902.00
Domestic		34,593.87	40,131.40	36,882.00	42,733.00	35,139.00
Foreign		8,740.01	11,419.04	11,574.00	16,884.00	6,762.00
Capital Expenditure		12,932.20	10,126.40	11,830.00	9,912.00	9,260.00
IMF #1 Acct		1,202.40	835.50	0.00	0.00	0.00
Fiscal Balance (def)		-15,527.92	-14,597.54	-12,118.00	-9,940.00	13,077.00
Recurrent Balance		-2595.72	-4471.14	-288.00	-28.00	-3,817.00
Primary balance		27,805.96	36,952.90	36,338.00	49,677.00	28,277.00
Amortization		74,991.67	93,331.20	67,243.00	75,003.00	55,434.00
Loan Receipts		66,031.00	101,584.00	76,810.00	84,941.00	70,275.00
Foreign		25,094.00	38,286.00	32,304.00	26,135.00	14,561.00
Domestic		40,937.00	63,298.00	44,506.00	58,806.00	55,714.00
Total expenditure		188,271.40	217,662.74	186,447.00	210,064.00	157,613.00

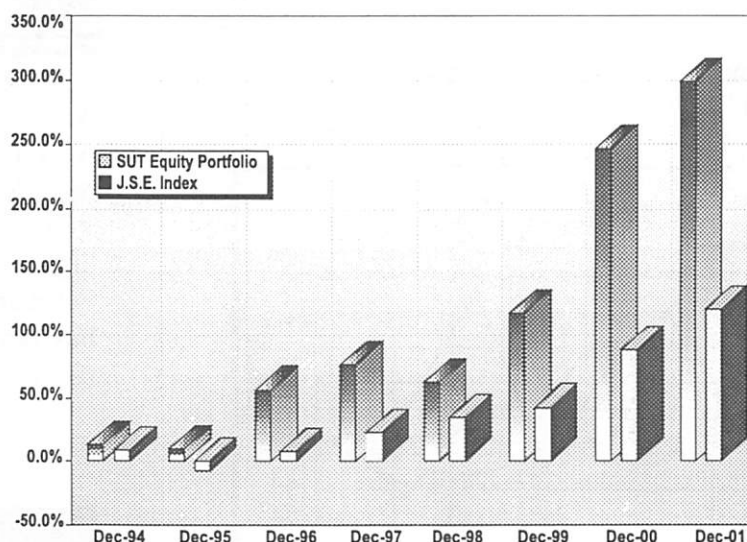
Source: Economy and Social Survey of Jamaica 2001



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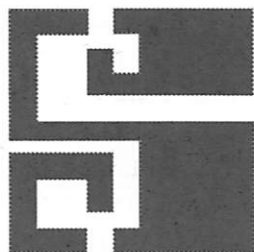


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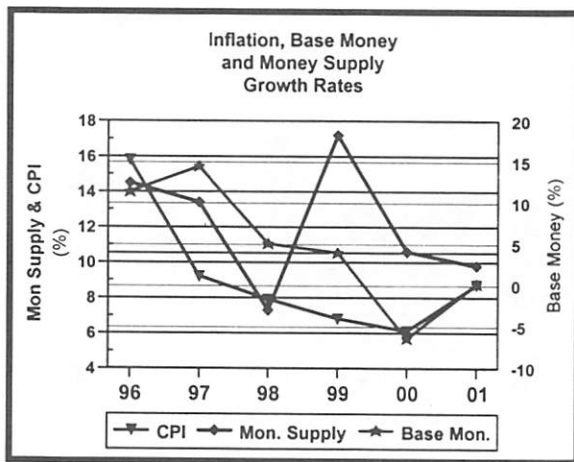
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Chapter 7: Inflation

The trend of single digit inflation observed during the latter part of the decade of the 1990's continued during 2001 (*Figure 7.1*). The authorities have achieved this favorable out-turn through tighter monetary policy, underpinned by a moderation in the rate of growth of base money. This policy stance continued into the year 2001, following with the signing of the Government's Staff Monitored Program (SMP) with the International Monetary Fund (IMF) in June of 2000.



Source: PSOJ Research

Figure 7.1

The inflation out turn for calendar year 2001 increased by 260 basis points to 8.7%. This occurred despite the pursuit of tighter monetary policy and a relatively stable exchange rate, plus lower world crude prices. In fact the nominal J\$/US (daily weighted average selling rate) showed the most resiliency in four years, depreciating by 4.1%, despite severe external pressures (see *Chapter on Money and Banking*).

The higher 2001 inflation outturn was influenced by several internal and external factors (*Box 7.1 and 7.2*). Despite being in single digits for the past five years, Jamaica's inflation rate has remained 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 may accomplish the compensation for the higher bred inflation.

Inflation Trends

The monthly inflation rates for the year 2001 were mostly below the targeted 1% per month, with the exception of February and June, which recorded 1.1% and 1.7% respectively (*Figure 7.2*). The 1.7% inflation rate in June was the highest rate recorded since the 3.3% of February 1996, and represented an increase in bus fares. January recorded the lowest monthly rate of inflation, a flat outturn of 0.0%.

Table 7.1

	CPI of Major Trading Partners (%)					
	1996	1997	1998	1999	2000	2001
US	3.3	1.7	1.6	2.7	3.4	1.6
UK	2.5	3.6	2.8	1.8	2.9	0.7
Canada	2.2	0.7	1	2.6	3.2	0.7
Japan	0.6	1.8	0.6	-1.1	-0.4	-1.2
Jamaica	15.8	9.2	7.9	6.8	6.1	8.7

Source: The Economist

The tighter monetary policy being pursued by the government to control inflation, was evident in the restrained rate of growth of base money and money supply. Base money followed the previous years' performance of a negative out turn for the first time in eleven years by increasing by 0.2% in 2001. This was 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 remained below 2.0% for 2001, except for the months of July and August. Money supply

growth has also been restricted, with the highest monthly rate being 2.0%, excluding the seasonal 3.5% outturn in December.

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. Hikes in school fees and the general back-to-school expenses may have influenced the September quarters. The monthly point-to-point rates during 2001 fluctuated between 5.8% and 7.7%, culminating with the annual rate of 8.7% at year-end. This was in comparison to 2000, where rates fluctuated between 6.6% and 9.7%, ending the year at 6.1%.

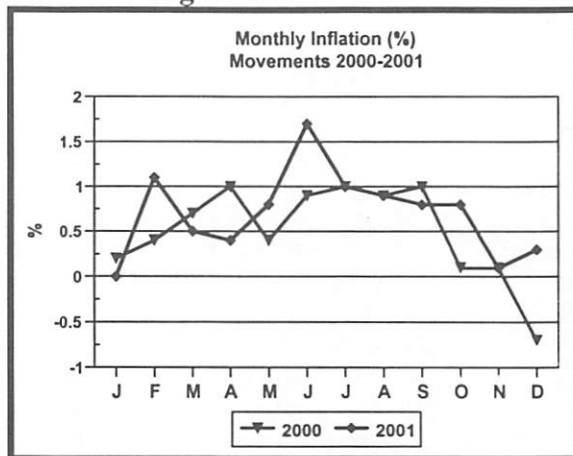
Box 7.1

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 9.8% compared to 10.5% in 2000. base money increased by 0.2% during the year, compared to a 6.4% decline the previous year. This was 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, significant open market operations by the BOJ kept liquidity tight. This served to keep a lid on the growth of money supply as well as to depress overall demand, so that there was little excess liquidity to push up prices and fuel inflation.
2. During the second quarter, strong cost-push and seasonal inflationary impulses led to the highest monthly inflation outturn (1.7%) since 1996. An increase in bus fares and adjustment in rental rates were the primary contributory factors to this higher outturn. The increase in bus fares (26%) was the first major adjustment since 1998. Increased rental rates resulted in the largest increase in the Rental sub-index (18.3%) in ten years.
3. Moderate increases in rates for water, telephone, electricity, postage fees, school fees and school supplies effected at different times throughout the year, were reflected in upward movements in the inflation rate.
4. 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 4.10 % against the US\$, which might have impacted inflation somewhat. 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, which have resulted from lower inflation expectations, have also contributed to temper inflation in comparison with the higher wage demands during the decade of the 1990's.
7. Periodic bouts of inclement weather resulted in scarcity of food items, and affected the heavily weighted 'food and drink' group.

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, and had prices which tended to be lower than average local prices. This, 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 above positive gains from lower prices of merchandise imports were complemented by lower oil prices during the latter half of 2001.

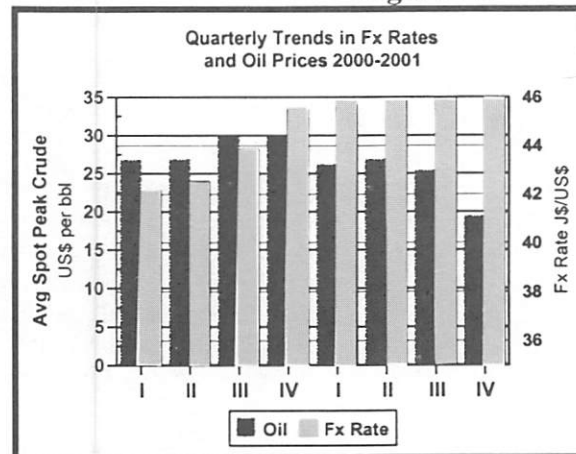
Figure 7.2

Source: PSOJ Research

Regional

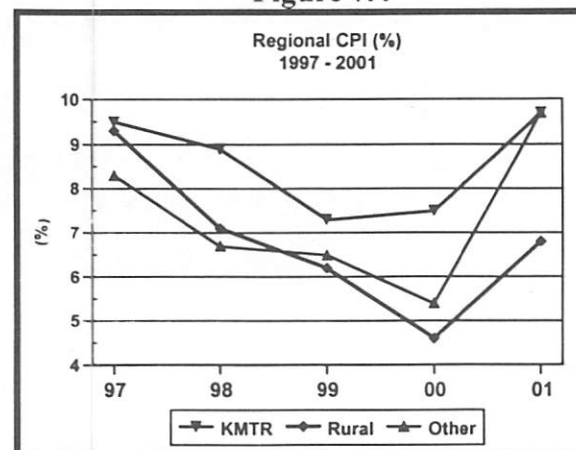
The Rural Areas had the lowest quarterly rates during 2001, with quarterly lows of 0.6% and 0.7% during the first and last quarter. In comparison the Kingston Metropolitan Area (KMA) recorded the highest quarterly outturns of 2.5% and 3.4% during the first and second quarters.

At the end of 2001, inflation was higher in the KMA, than the All Jamaica Index. As a result, the 2001 point-to-point rate for the KMA and 'Other Towns' was 9.7%, compared to the 8.7% annual rate. The rate for 'Rural Areas' registered a low 6.8%, due mostly to the lower outturns in the first and last quarters. (Figure 7.4).

Figure 7.3

Source: PSOJ Research

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

Figure 7.4

Source: PSOJ Research

Table 7.2

The Consumer Price Index (%)					
	1997	1998	1999	2000	2001
All Groups	9.2	7.9	6.8	6.1	8.7
<i>Food and Drink</i>	<i>8.9</i>	<i>4.0</i>	<i>3.9</i>	<i>4.4</i>	<i>6.8</i>
Meals Away from Home	10.7	8.0	3.4	5.6	3.1
Meat Poultry & Fish	5.6	4.4	1.8	2.7	4.9
Dairy Products, Oils and Fats	3.3	1.6	2.0	4.2	5.3
Baked Products, Cereal & Breakfast Drink	1.1	3.9	1.2	5.9	2.0
Starchy Foods	28.6	0.7	7.3	8.9	17.6
Vegetables & Fruits	19.1	2.6	8.6	-0.1	14.1
Other Food & Beverages	6.4	5.7	9.6	4.6	6.3
<i>Fuels & Other Household Supplies</i>	<i>7.3</i>	<i>9.7</i>	<i>2.9</i>	<i>7.6</i>	<i>10.7</i>
Household Supplies	6.4	3.7	2.0	2.6	2.7
Fuels	8.3	16.8	3.9	12.8	18.1
<i>Housing & Other Housing Expenses</i>	<i>10.2</i>	<i>9.6</i>	<i>24.4</i>	<i>17.5</i>	<i>4.0</i>
Rental	25.7	24.6	9.1	18.5	29.4
Other Housing Expenses	7.2	6.2	28.5	17.3	-1.7
<i>Household Furnishings & Furniture</i>	<i>8.1</i>	<i>3.9</i>	<i>3.5</i>	<i>8.9</i>	<i>4.8</i>
Furniture	4.0	8.1	6.8	6.0	10.0
Furnishings	9.6	2.4	2.2	10.1	2.8
<i>Healthcare & Personal Expenses</i>	<i>8.8</i>	<i>7.4</i>	<i>7.6</i>	<i>6.7</i>	<i>5.5</i>
<i>Personal Clothing, Footwear & Accessories</i>	<i>10.6</i>	<i>3.7</i>	<i>5.6</i>	<i>4.5</i>	<i>3.4</i>
Clothing Materials	6.7	8.4	5.8	0.6	1.4
Readymade Clothing & Accessories	9.3	2.9	3.6	3.2	2.8
Footwear	10.5	2.4	5.7	7.1	4.1
Making & Repairs	23.0	9.2	15.5	5.5	5.4
<i>Transportation</i>	<i>2.1</i>	<i>25.8</i>	<i>4.3</i>	<i>3.9</i>	<i>26.6</i>
<i>Miscellaneous Expenses</i>	<i>15.9</i>	<i>23.3</i>	<i>16.2</i>	<i>6.3</i>	<i>15.7</i>

Source: Statistical Institute of Jamaica

Outlook

The government may be expected to continue its tight monetary stance by targeting base money to control inflation over the 2002 period. The inflation out-turn for 2002 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 the impasse in the Middle East (see *Chapter on Energy*). Other factors include effects such as seasonal increases in tuition fees, and an increase in property taxes, which could influence the 'Housing and Other Housing Expenses' group. A 50% increase in the minimum wage may also pass through to a higher inflation rate. However the out-turn should continue to be moderate and the

inflation rate for 2002 is expected to remain in single digits.

The inflation out turn for the first quarter was 0.6%, which bodes well for the inflation outturn for the 2002 calendar year. However, 2002 is an election year, and there is the possibility that political expediency could take precedence over economic objectives, resulting in a looser fiscal policy, which could foster inflation. It should be noted however, that there has been no evidence of such policies over the first four months of 2002, which bodes well for growth prospects of the economy.

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Chapter 8: Energy

International Oil Market

The general downturn in economic activity worldwide meant that the global demand for oil was weak. For 2001 approximately 75.99 million barrels per day were demanded. This represents a 0.4% increase over 2000 where average daily demand totaled 75.71 million barrels per day.

For the year 2001 total oil supply increased by 0.1% to 76.99 million barrels per day. As a single entity, OPEC contributed the lion share of total world supply. OPEC contributed 30.18 million barrels per day, down 2% from 2000. The OECD contributed 21.85 million barrels per day or 28% of total world supply. This represents a 0.4% reduction on the 2000 level. Non OECD made up the remainder with 32% or 24.96 million barrels per day, an increase of 3.4% over 2000. The marginal increase reflects an attempt to remove upward pressure on oil prices.

For 2001, average international oil price was US\$24.35 per barrel, a 13.4% reduction compared to 2000. However the 2001 price is 35% above the 1999 level when average price was US\$18.07 per barrel.

Local Consumption

For 2001 total petroleum imports amounted to 26.2 million barrels or an increase of 7% above the 2000 figure. The total amount paid for these imports was US\$629.51 million; 8% below the value for the 2000 imports. The reduction in prices is due to the lower world prices for petroleum during the year.

Throughout the year Petrojam imported 13.03 million barrels of crude and refined products at a cost of US\$316.40 million (Table 8.1). This represents a 2% increase in quantity imported and a 16.2% reduction in costs. Import of crude was down 6.8% due to a downturn in production at Petrojam. Consequently Petrojam had to increase its importation of refined products by 14.9%. The total amount of refined products imported was 5.8 million barrels.

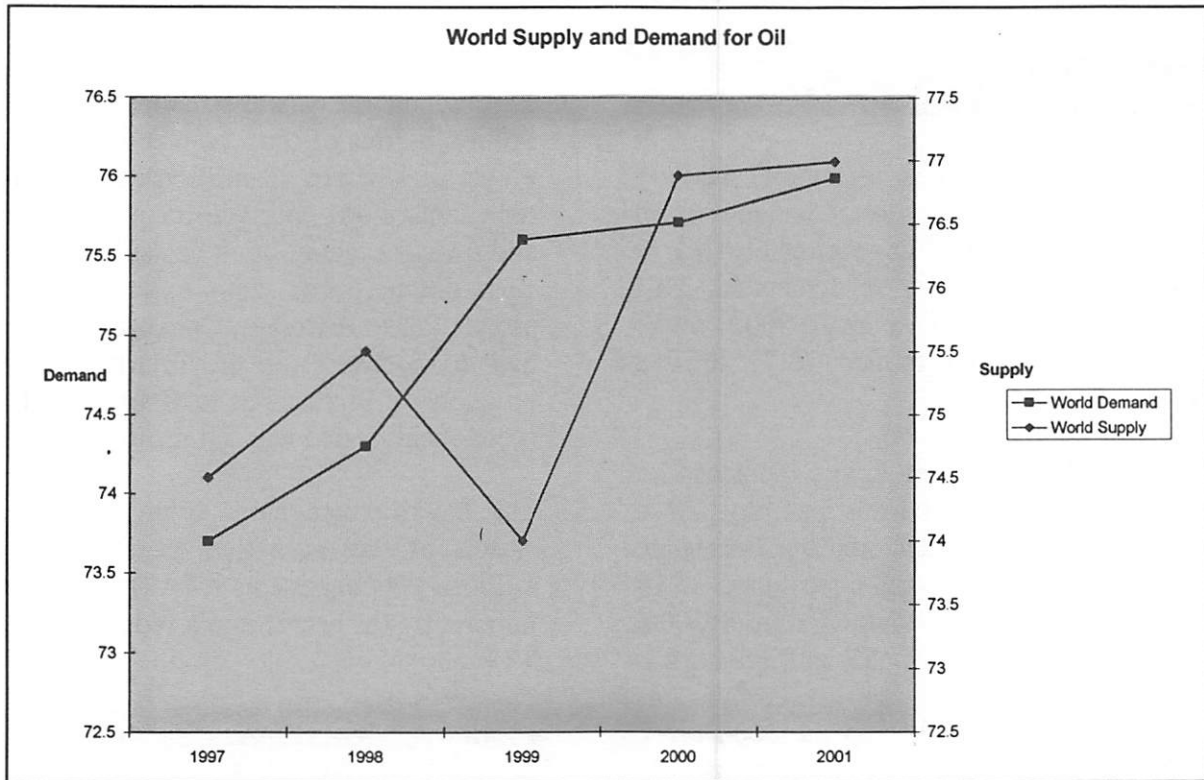
The bauxite companies imported 8.9 million barrels of fuel at a total cost of US\$163.61 million. This represents a 4.1% increase in fuel imports by the sector and a reduction in cost of 9.1%.

Electricity Generation

In 2001 the Jamaica Public Service company increased its capacity by 1.8% to 3,360.8 megawatt hours. This represents a reduction in growth in generation capacity compared to 2000. Power failures at the company accounts for the slow growth in generating capacity. The company generated 688.2 megawatts in 2001, 2.9% up from the 2000 output of 668.7 megawatts. Throughout the year the company reduced its purchase of power from private producers by 9.6%. Total amount purchased was 910 megawatt hours compared to 1006 megawatt hours purchased in 2000. The JPSCo reported that 6.7% of production was lost to "technical and non technical" problems. Approximately 83.1% of total production or 2793.4 megawatt hours were sold to the public.

Figure 8.1

Source: PSOJ Research



In terms of productive efficiency measured by the heat rate (conversion of fuel to electricity), JPSCo saw an improvement over 2000 by 0.3%. This represents a decline in productive efficiency compared to 2000 where the conversion rate was up 1.7%. Fuel consumption increased by 9.1% to 4905.7 million barrels, fuel cost was \$ 6 688 million or 16.2% above 2000. The increased fuel cost reflects the usage of high costs turbine generation during periods of power failure.

Significant development

The government in its energy conservation drive launched an Energy Services Unit. The goal of the Unit is as follows:

- Implement retrofits on an easy payment plan
- Provide compact fluorescent lamps at more attractive prices
- Allow for the provision of solar water heater for public buildings, hotels and households on a revolving loan basis

- Meet the expenses of the desirable energy efficiency and alternative energy undertakings.

It is hoped that these measures will give consumers an incentive to utilize alternative domestic energy sources. Also the utilization of solar, hydropower and wind power as alternative energy sources is being promoted.

Outlook

The world continues to watch developments in the Middle East with great anticipation. From all indications, world oil supply is not expected to increase significantly in 2003. Therefore we expect some movement upwards in oil prices especially as inventory levels in developed countries continue to be depleted. This will undoubtedly affect the cost of energy to the island. Worldwide economic recovery will also be affected if oil prices rise significantly in the year.

The JPSCo is expected to increase its generating capacity by the activation of the Bogue generating plants. The power plants in Montego Bay are expected to add 80 megawatt to existing capacity. The improved capacity is expected to satisfy additional consumers in 2003.

Once again we are concerned about the ability of the power company to supply consistent and reliable electricity to its customer. We hope the improvement efforts that are taking place will go a long way in increasing reliability

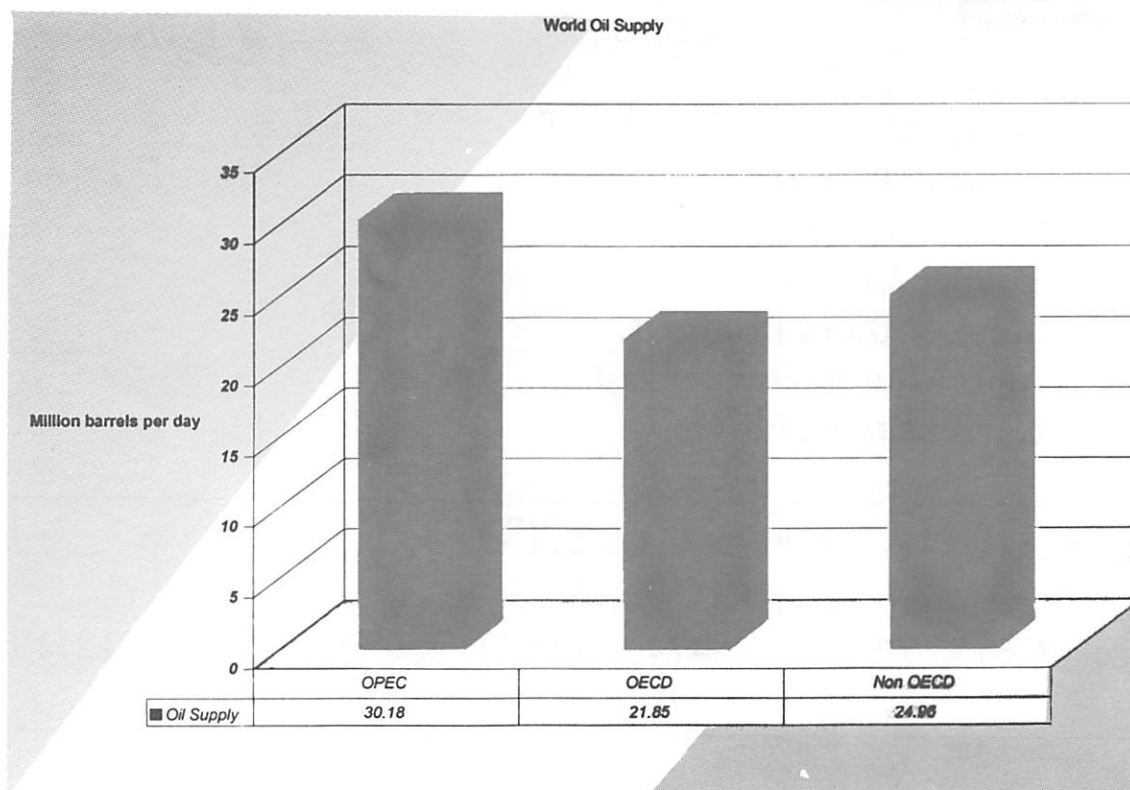
Table 8.1
Volume and Value of Petroleum Products

	2000	2000	2001	2001	% Change	% Change
	'000'bbls	'000'US\$	'000'bbls	'000'US\$	Volume	Value
Refinery						
Total Crude Oil	7,731.70	218,674.70	7,202.60	159,381.50	-7%	-27%
Refined Products	5,074.20	159,274.00	5,830.40	157,013.50	15%	-1%
Subtotal	12,805.90	377,948.70	13,033.00	316,395.00	2%	-16%
Avg. Crude Peak Spot Price		28.3		22.1		-22%
Bauxite Companies						
Fuel Oil	8,543.00	179,906.20	8,895.20	163,609.80	4%	-9%
Marketing Companies	3,123.00	130,239.10	4,271.80	149,507.20	37%	15%
Total	11,666.00	310,145.30	13,167.00	313,117.00	13%	1%

Source Economy and Social Survey of Jamaica 2001

Figure 8.2

Source: PSOJ Research





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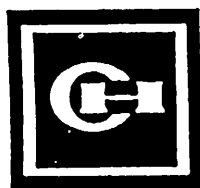
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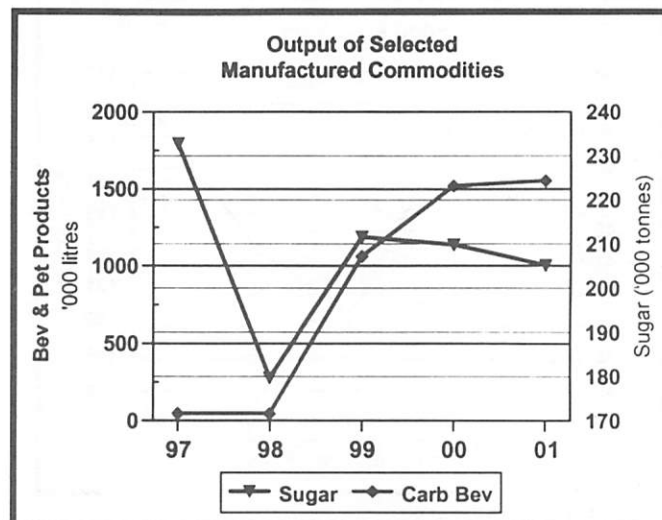
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Chapter 9: Manufacturing

For the calendar year 2001, overall manufacturing output as captured by the Planning Institute of Jamaica's Survey of Selected Manufactured Commodities, recorded its second consecutive year of growth, following four consecutive years of negative out turn. The sector followed its 0.7% growth in 2000 with a 0.6% growth in 2001 (see *Chapter on GDP*), which was underpinned by growth in selected food processing groups, a resurgence in cement production and a sustained increase in the production of beverages.

However, some of the gains advanced by the sector were eroded by various factors. This was especially true during the last quarter, following the terrorist attacks on the United States in September and heavy flood rains during November. Reduced output from the heavily weighted petroleum products sub-sector - due to the temporary closure of the Petrojam refinery - and a continued decline in the tobacco industry, also contributed to the negative performance of the fourth quarter. Up to September, the manufacturing sector was estimated to have grown by 2.0%, despite the loss of production time due to a shortfall in electricity supply and civil disturbances in July. Continued competition from lower priced consumer imports in some industries and high operating costs in others, also dampened the overall outturn within the sector during the year.



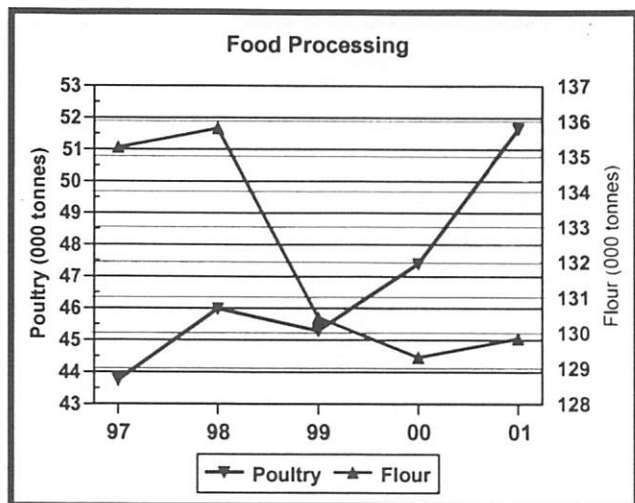
Source: PSJO Research

Figure 9.1

Food Processing

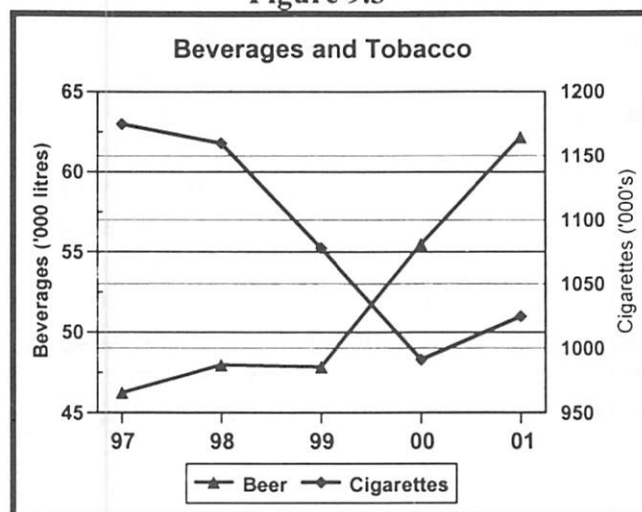
The food processing sub-sector, the largest sub-sector within the manufacturing sector, was estimated to have recorded an overall increase in production during 2001 (*Table 9.1*). This was evidenced by increases in all areas except sugar (-2.2%) and dairy products (-15.4%). The continued negative performance of sugar (*Figure 9.1*) was affected by reduced tonnage per acre due to inclement weather during harvesting. Dairy production was affected by the late start of the production cycle during the last quarter (-57.1%), due to late arrival of raw materials from New Zealand. In contrast, poultry meat continued to benefit from improved productivity gains due to retooling, while the turn around in the fortunes of condensed milk reflected the shifting of production activities from Trinidad to Jamaica.

Figure 9.3



Source: PSOJ Research

Figure 9.2



Source: PSOJ Research

Beverages and Tobacco

The out-turn in the beverages and tobacco sector continued to be mixed, with strong performances by rum & alcohol (25.2%) and beer (14.1%), while carbonated beverages (2.3%) and the production of tobacco (3.4%) returned modest gains. The performance of carbonated beverages continued to reflect a continued increase in plant capacity, as a result of retooling and new investments within the sector. The performance of beer reflected increased demand, a redefined marketing strategy by the industry leader and the introduction of a new market entrant. Cigarette production recorded its first increase in five years, despite the closure and relocation of major market players over the past two years, citing higher production costs and uncompetitive prices. The cigar industry continued to decline in 2001, with production of cigars declining by 97.7% to a mere 100,000 sticks, due to there remaining only one cigar producer.

Manufacturing

Table 9.1

Output of Selected Manufactured Commodities, 1997 - 2001							Change ('01 / '00)	
	Unit	1997	1998	1999	2000r	2001p	Unit	%
Food Processing								
Poultry Meat	tonnes	43,737	45,976	45,285	47,398	51,652	4,254	8.98
Animal Feeds	"	296,104	331,932	337,084	350,140	384,569	34,429	9.83
Condensed Milk	"	15,357	17,102	15,404	15,235	17,447	2,212	14.52
Edible Oils	"	11,718	12,273	13,794	12,304	13,966	1,662	13.51
Edible Fats	"	6,615	6,532	5,991	6,239	6,763	524	8.40
Flour	"	135,259	135,801	130,436	129,313	129,836	523	0.40
Commmeal	"	10,518	9,843	8,808	9,162	10,374	1,212	13.23
Sugar	"	232,797	179,688	211,540	209,825	205,128	-4,697	-2.24
Molasses	"	92,926	99,537	92,146	73,377	86,983	13,606	18.54
Dairy Products	"	n/a	1,672	6,293	6,789	5,746	-1,043	-15.36
Beverages and Tobacco								
Rum and Alcohol	000 ltrs	n/a	21,332	19,603	17,804	22,291	4,487	25.20
Beer	"	46,243	47,956	47,836	55,491	62,174	6,683	12.04
Stout	"	21,190	17,576	17,921	14,365	16,392	2,027	14.11
Carbonated Beverages	"	47,382	44,471	1,061,640	1,519,460	1,552,636	33,176	2.18
Cigarettes	000	1,174,995	1,159,983	1,078,220	991,215	1,024,933	33,718	3.40
Cigars	"	21,872	15,997	7,281	4,465	100	-4,365	-97.76
Chemicals & Chemical Products								
Sulphuric Acid	tonnes	16,143	13,711	21,261	14,595	16,682	2,087	14.30
Alumium Sulphate	"	11,005	11,772	18,681	15,378	13,568	-1,810	-11.77
Sulphonic Acid	"	2,861	4,765	5,420	2,861	4,244	1,383	48.34
Salt	"	16,498	15,606	19,090	19,068	15,927	-3,141	-16.47
Fertilizer	"	54,021	50,414	49,153	50,725	40,163	-10,562	-20.82
Detergent	"	n/a	n/a	1,674	1,513	1,515	2	0.13
Paint	"	10,097	9,876	10,337	9,624	9,363	-261	-2.71
Adhesives	000 ltrs	n/a	221	712	712	646	-66	-9.27
Petroleum Products								
Gasolene	000 ltrs	142,407	139,070	84,282	182,048	166,169	-15,879	-8.72
LPG	"	13,212	12,643	5,496	18,235	16,711	-1,524	-8.36
Fuel Oil	"	382,142	400,460	285,287	511,846	531,478	19,632	3.84
Turbo Fuel	"	71,677	56,298	43,473	100,798	84,732	-16,066	-15.94
Automotive Diesel Oil	"	156,307	160,857	115,335	221,344	214,024	-7,320	-3.31
Other Petroleum Products	"	69,873	48,206	39,639	73,292	83,550	10,258	14.00
Total Petroleum Products	"	835,619	817,534	573,512	1,107,562	1,096,664	-10,898	-0.98
Non-Metallic Minerals								
Cement	tonnes	588,287	557,991	503,713	521,343	595,064	73,721	14.14

Source: Compiled from the Planning Institute of Jamaica

Petroleum Products

The heavily weighted petroleum sub-sector registered flat growth (-1.0%) after its 93.12% growth the previous year, mainly as a result of the closure of the Petrojam refinery during November 2001. This was due to irregular electricity supply. Over the first three quarters, the sector had shown some amount of growth, as the refinery continued its return to normalcy following long periods of closure during 1999 and 1998.

Non-Metallic Minerals

This sub-sector showed positive growth for the period, with cement production increasing by 14.1 per cent compared to an increase of 3.5 per cent in 2000 and a 9.7 per cent decline in 1999. This was the highest level of production since 1996, and reflected the recovery from equipment failure at the local processing plant during mid 2000. The gains from cement could have been higher, as it fell 6.2% during the last quarter, due to reduced demand caused by heavy flooding during November 2001.

Manufacturing

Source: PSOJ Research

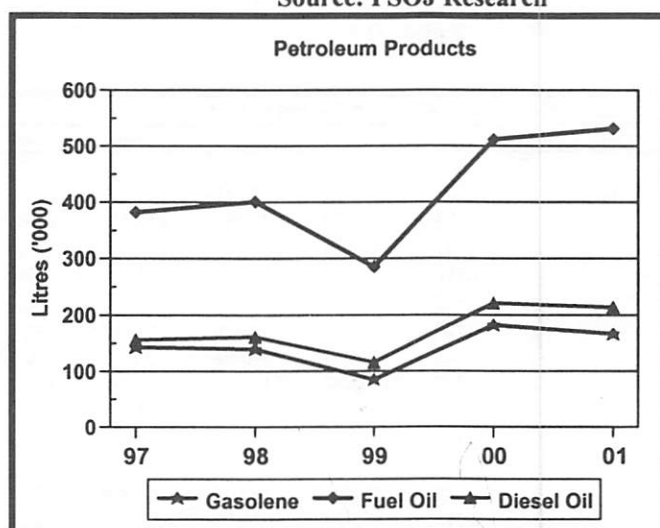


Figure 9.4

Table 9.2

Total Exports of Manufactured Commodities - US\$ millions								Change ('01 / 00)	
	1995	1996	1997	1998	1999	2000r	2001p	US\$M	%
Traditional									
Sugar	98.20	109.20	101.90	94.60	95.20	83.30	70.50	-12.8	-15.4
Other Products	4.50	2.60	2.40	2.30	2.60	3.60	2.60	-1.0	-27.8
Rum	23.60	25.30	26.60	25.30	27.60	20.70	28.80	8.1	39.1
Total Traditional	126.30	137.10	130.90	122.20	125.40	113.20	101.90	-11.3	-10.0
Non-Traditional									
Processed Foods	28.80	29.80	31.40	3.20	21.10	39.80	48.20	8.4	21.1
Beverages & Tobacco	21.00	21.80	26.80	47.30	28.90	33.50	19.60	-13.9	-41.5
Crude Materials	6.20	5.30	11.30	6.50	3.20	5.00	4.00	-1.0	-20.0
Mineral Fuels	8.40	4.80	3.20	2.80	3.60	3.60	14.40	10.8	300.0
Animal & Veg Oils	0.90	0.03	0.02	0.03	0.03	0.09	0.05	0.0	-44.4
Chemicals	44.90	46.30	49.90	44.30	46.00	65.40	65.20	-0.2	-0.3
Manufactured goods	15.20	13.50	8.70	7.10	6.40	7.30	6.00	-1.3	-17.8
Machinery Equip	3.40	3.30	4.10	3.60	1.70	1.10	1.20	0.1	9.1
Misc Manufacturers	299.30	260.70	235.90	208.50	165.50	151.60	94.90	-56.7	-37.4
Total Non-Traditional	428.00	385.50	371.30	353.50	276.30	307.50	253.60	-53.9	-17.5
Grand Total	554.30	522.60	502.20	475.60	401.70	420.70	357.00	-63.7	-15.1

Source: Compiled from the Planning Institute of Jamaica

Manufacturing Exports

Preliminary data from the Planning Institute of Jamaica indicated that total exports of Manufactured Goods registered an overall decline of 15.1 per cent for Calendar year 2001 (Table 9.2), following its first positive out-turn since 1995 the previous year. The value of

exports totaled US\$357.0 million compared to the US\$420.7 million recorded for 2000. The major contributing factor to this negative out-turn were overall declines of 17.5% and 11.3% for non-traditional and traditional exports respectively. The decline in non-traditional exports, which had recorded an increase of US\$11.3 million the previous year, mainly resulted from declines in the value of

Beverages and Tobacco (US\$13.9 million) and 'Miscellaneous Manufactures' (US\$56.7 million), which mainly captures apparel exports.

A US\$12.8 million (15.4%) decline in the value of sugar was more than sufficient to offset an US\$8.1 million (39.1%) increase in the value of rum.

Source: PSOJ Research

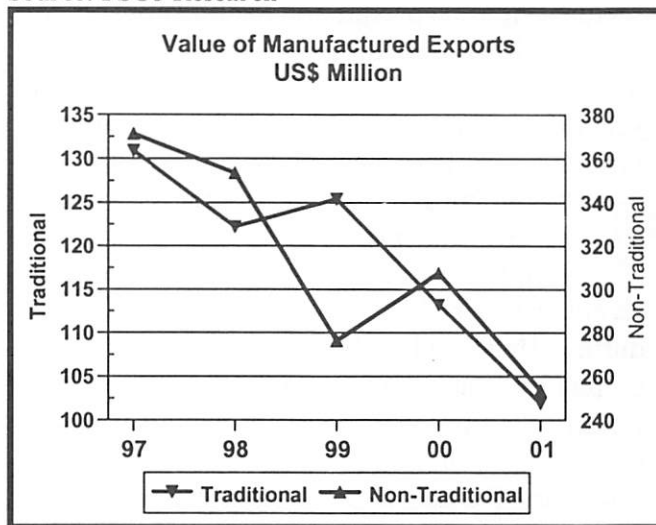
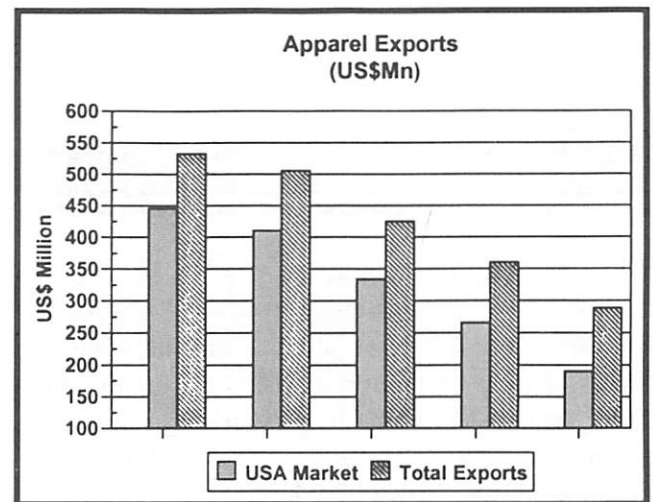


Figure 9.5

Apparel Industry

The apparel industry continued to contract for the sixth consecutive year (*Figure 9.6*). Total export earnings of the industry was US\$289.0 million, which represented a decline of 19.8 per cent. The closure of factories during the year, higher domestic production costs and loss of market share in the USA, were contributing factors to this continued decline.



Source: PSOJ Research

Figure 9.6

Outlook

The growth prospects for the Manufacturing sector remain positive during 2002, 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 2002. Further, a continued depreciation of the real effective exchange rate, and the lower cost of capital effected through special credit lines and lower interest rates, may continue to improve the competitiveness of local firms within the sector. The government's plan to reorganize the apparel and sugar industries may bear some fruit in the medium term. This includes the provision of funding to effect the modernization and retooling of the sectors. For apparel, the creation of a modernization action plan will help in the restructuring process. Further the focus will now be on the high end of the apparel market.

Chapter 10: Mining

International Primary Aluminum Industry

The international alumina market declined during 2001, underpinned by a weaker global economy, the terrorist attacks on the United States during September. According to the CRU Metal Monitor, total world production during calendar year 2001 remained flat at 0.2 per cent, down from the 3.1 per cent registered the previous year. Production was 24,476 thousand tonnes in 2001, compared to the 24,422 thousand tonnes produced the previous year. Contributing to the rise in production were outputs from China, the Middle East and Asia Pacific, which offset a 28.1% decline from the USA.

World consumption of Aluminum declined by 0.38 per cent in 2001, compared to an increase of 5.3 per cent in 2000, and 6 per cent in 1999. Total world consumption was 23,962 thousand tonnes in 2001, compared to 24,906 and 23,452 thousand tonnes recorded in 2000 and 1999 respectively. The decline in consumption was underpinned by a softening of the United States and Japanese economies, despite the buoyant construction and transport sectors in China, which posted the highest increase in consumption (11%). US consumption declined by 12.1%, amid fears of an economic downturn in the latter part of the year, while the Japanese economy went into recession during 2001.

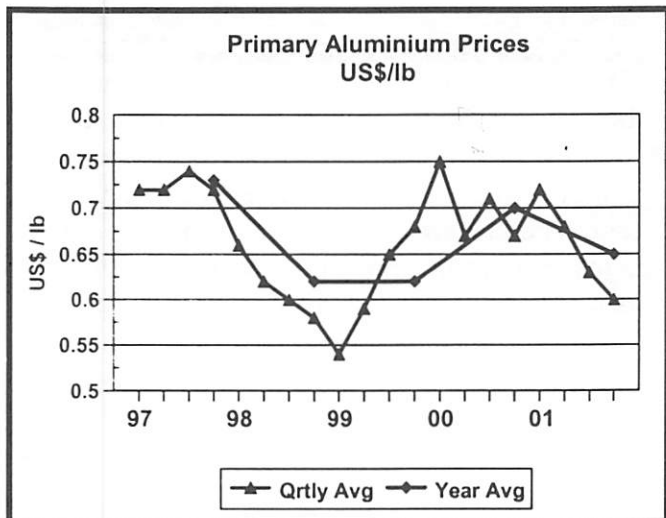
Following decreased world consumption, primary aluminum prices slumped after having attained their highest levels since 1997 the previous year (*Figure 10.1*).

Data from the London Metal Exchange (LME) indicated that at the end of 2001, primary aluminum average cash prices posted US\$0.65 cents per pound or US\$1,438 per tonne. This represented a decline of 6.8 per cent compared to the US\$0.70 cents per LB (US\$1,549 per

tonne) recorded in 2000. Prices declined to 60 cents per pound for the last quarter of 2001, the lowest quarterly outturn since June 1999.

Domestic Production

During 2001 there continued to be a mixed performance from the bauxite and alumina sector. Alumina production declined by 1.6 per cent, while crude bauxite production increased by 76.3 per cent, following two consecutive years of decline. These two factors combined to effect an 11.2 per cent increase in total bauxite for 2001, compared to the decline of 4.8 per cent the previous year (*Table 10.1*). This trend represented a rebound from the recent rate of decline of bauxite production during 1999 and 2000. The rebound in the output of crude bauxite was a result of the return to normalcy of production at the Gramercy Alumina Refinery, the major importer of crude bauxite from Jamaica. This was reflected in the increase in capacity utilization of Jamaican bauxite plants as illustrated in figure 10.2.



Source: PSJO Research

Figure 10.1

The production of Alumina on the other hand, was significantly affected by the occurrence of two local events during the last quarter, namely industrial action at the JAMALCO alumina refinery (which had an expanded capacity of 1 million tonne during the year) and heavy flood rains. The industrial action taken by workers was in breach of the 1999 tripartite Memorandum of Understanding (Manley Accord) and was estimated to have cost the country the loss of 180,000 tonnes of alumina production.

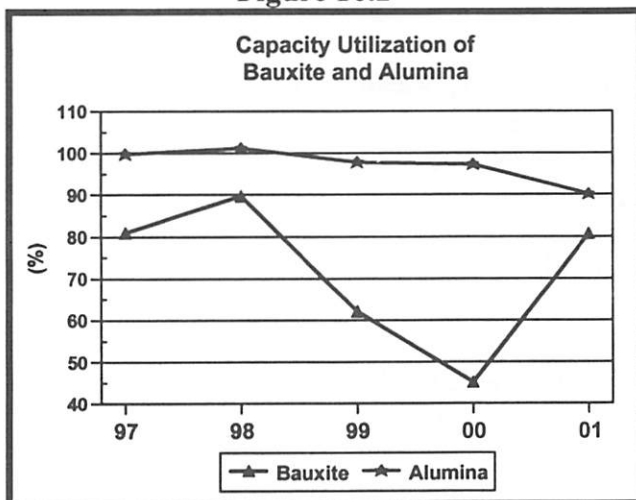
Heavy rains during October and November also impacted negatively on the capacity utilization of alumina plants, resulting in loss of production. In fact, the production of alumina declined by 14.1% in October and 23.3% in November to register a decline of 13.3% for the last quarter. In contrast, production had been up 4.3% over the previous three quarters of 2001.

Export of crude bauxite and alumina reflected production trends, with alumina exports declining by 2.5 per cent, while crude bauxite increased by 70.7 per cent. This compares with a 1.0 per cent increase and a 24.2 per cent decline during the previous year, respectively.

Export Earnings

Gross foreign exchange earnings for the bauxite and alumina sector totaled US\$740.1 million for calendar year 2001, 0.1 per cent less than the record US\$740.6 in 2000 (*Table 10.2*). This out-turn was achieved despite the lower world prices and production for alumina, which accounted for 87.4% of gross earnings. However, resurgence in the production of bauxite combined with higher prices (US\$ per tonnes for bauxite increased by 22.5% in 2001) offset most of the declines from alumina. Net earnings increased by US\$22.5 million to US\$347.9 million for 2001

Figure 10.2



Source: PSOJ Research

Table 10.1

Bauxite / Alumina Production and Exports (000 tonnes)	Change							
					000			
	1997	1998	1999	2000	2001	01	01	00
Production:								
Crude Bauxite	3,645.2	4,034.6	2,794.6	2,062.0	3,635.0	1,573.0	76.3	-26.2
Alumina	3,394.2	3,440.2	3,569.6	3,600.1	3,542.4	-57.7	-1.6	0.9
Total Bauxite	11,987.3	12,646.4	11,688.5	11,126.5	12,369.7	1,243.2	11.2	-4.8
Exports:								
Crude Bauxite	3,641.1	4,020.2	2,795.4	2,118.9	3,617.8	1,498.9	70.7	-24.2
% of Total Shipment	30.3	31.6	23.7	18.8	29.2	10.4	55.3	-20.7
Alumina	3,414.0	3,476.6	3,607.2	3,642.5	3,552.0	-90.5	-2.5	1.0
Total Bauxite	12,034.7	12,719.4	11,789.5	11,283.1	12,384.8	1,101.7	9.8	-4.3

Source: Compiled from the Jamaica Bauxite Institute

Table 10.2

Value of Exports, Foreign Exchange Earnings and Inflows (US\$Million)	Change							
					US\$M			
	1997	1998	1999	2000	2001	01	01	00
Crude Bauxite	72.8	81	55.9	44.7	93.6	48.9	109.4	-20.0
Alumina	651.7	600.7	631.7	696	646.5	-49.5	-7.1	10.2
Total Bauxite	724.5	681.7	687.6	740.6	740.1	-0.5	-0.1	7.7
Levy/Tax	69.3	82.4	59.1	74.6	70.5	-4.1	-5.5	26.2
Royalty	5.7	5.8	5.9	5.3	5.7	0.4	7.5	-10.2
Local Cash Inflows	260.6	248.9	251.4	245.4	271.7	26.3	10.7	-2.4
Total	335.6	337.1	316.4	325.4	347.9	22.5	6.9	2.8

Source: Compiled from the Jamaica Bauxite Institute

Outlook

The return to normalcy of bauxite production was a key factor in the performance of the sector during 2001 and is critical for the outlook of the sector during 2002. Production of crude bauxite is expected to remain strong during the year, albeit at lower levels than achieved in 2001, as production becomes normalized. The increased capacity of the JAMALCO alumina refinery by 1 million tonnes may see alumina production returning to positive territory if the world economy, and especially the US, rebounds during 2002.

During 2001, Alcan sold their local refineries to Glencore, a Swiss based-company, which now owns 93 per cent of Alcan's assets, while the government owns the remaining 7%. This may result in further capacity expansion, and retooling within the sector.

This expansion and retooling effort will be further enhanced by the government's deliberations to phase out the levy system. It is to be replaced by an income tax based system, which will be tied to expansion, and cost performance, which could see production attain record levels in the medium term.

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Chapter 11: Tourism

The year 2001 was characterized by factors that affected tourism negatively. The events of September 11 now famous, wreaked havoc on world tourism. This is the first time since 1982 that there has been a decline in world tourism. The September 11 problems were exacerbated by recession in major world economies. Many regions faced decline in their arrivals. South Asia, Europe, and Americas all recorded reductions in 2001. The Americas recorded the greatest decline of 7%, with South Asia coming next with 6%. East Asia, Africa and the Middle East were the major exceptions, all recorded growth in 2001.

Internationally, arrivals slipped by 1.3% compared to 2000. For the months January to August, arrivals were up 3%. For the last four months arrivals were down worldwide by 11%. The Caribbean saw arrivals falling by 3.5%, South America suffered the greatest decline of 7%. Interestingly, Central America recorded an increase of 3% over the same period.

Sectoral Developments.

Work on the *Master Plan for Sustainable Tourism Development in Jamaica* was completed in November 2001. It is hoped that this document will shape the wholesome development of tourism in Jamaica. That is, a development that encompasses all sectoral interest.

The South Coast Sustainable Development Project was launched in October 2001. This project aims to increase the attractiveness of the South Coast by promoting "nature and heritage tourism". This goal will be furthered by the implementation of the *Black River Cultural District Plan*.

The JTB continued its goal of increasing awareness in local communities about tourism

importance. This was achieved by the introduction of two additional food festivals, the *Curry and Bussu* festivals. Also, introduction of tourism concepts into the school curriculum was continued.

Human resource development was high again on the agenda for 2001/02. An internet seminar was hosted by the JTB in February. The aim was to sensitize hoteliers about the effectiveness of the internet in improving performance. TPDCo also produced graduates in indigenous craft development. Students graduated from the University of the West Indies and the University of Technology with degrees in Tourism and Hospitality Management.

Jamaica's Performance

The socio-economic conditions and the unstable political climate continue to have a negative impact on the Tourism sector. Tremendous backlash from violent confrontations between citizens and the security forces affected Jamaica's image in the international marketplace in 2001. The government, as a result, engaged in serious damage control by increased advertising abroad. For the period under review, Jamaica suffered a 5% overall reduction in tourist arrivals. There were significant reductions in all categories. Non resident Jamaicans fell by 13% (Table 11.1) to 89,520, Foreign Nationals by 3% to 1,186,996 and Cruise ship arrivals falling by 7% to 840,337.

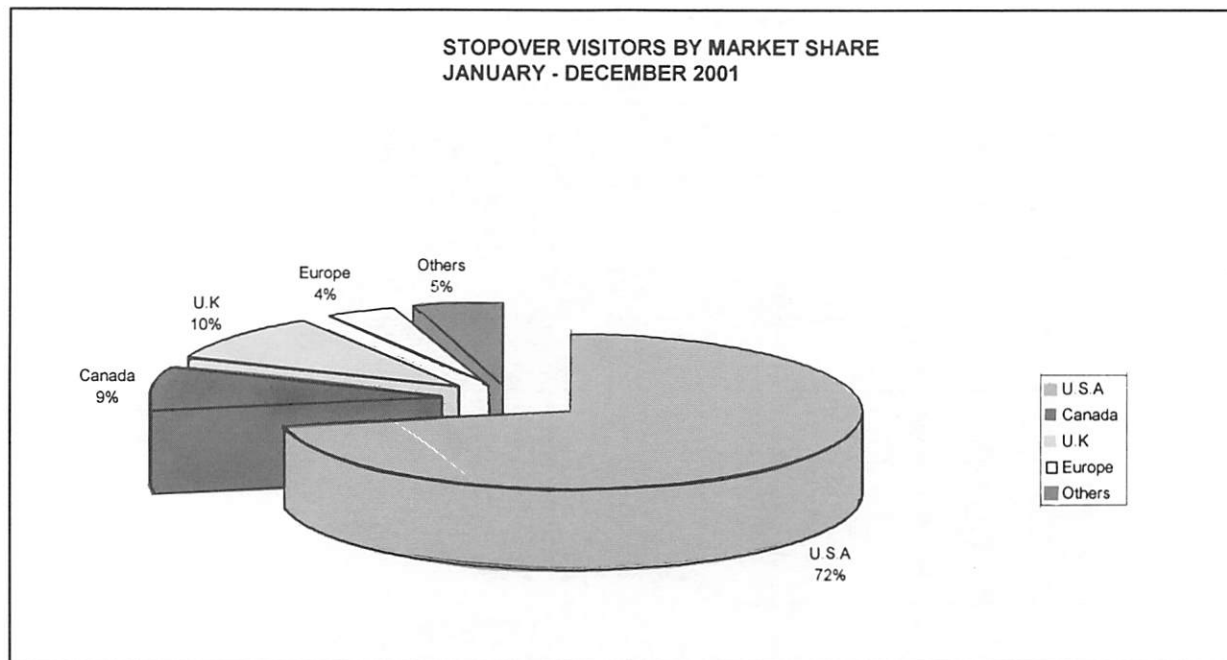
Total arrival for the calendar year 2001 was 2,116,853 compared to 2,230,301 for calendar year 2000. Of this figure, stop over visitors accounted for 60% with Cruise shipping making up 40%. January to May saw increased arrivals each month with March showing a slight reduction of 0.08%. From June onwards, arrivals were significantly reduced with

September being the worst. Arrivals fell by 22% in September; October to December saw an average reduction of 17% each month.

Of the total stopover visitors 71.8% (Table 11.2) came from U.S.A, 8.7% from Canada, 10% from the U.K and 4.2% from Europe. These proportions are very similar to the 2000 break down. The Jamaican government allocated \$1,748,500 to the Tourism Ministry in 2001 but was forced to revise this target due to bad publicity abroad. For fiscal year 2002/03

the government has allocated \$2,010,000 to tourism, a 15% increase over the budgeted amount for 2001/02 and a 12% reduction over the revised estimates for 2001/02. It is widely believed that the 2002/03 allocation is inadequate to establish a strong presence in the international market place. With a general election slated to be held within the fiscal year, one suspects that the government will have to revise its estimates upwards to counter possible negative incidents.

Figure 11.1



Source: PSOJ Research

Outlook

The World Tourism Organization is anticipating a mild recovery for the industry in 2002. The organization expects that by the third or fourth quarter of the year, the industry will attain pre crisis levels. Despite the positive international outlook, Jamaica has made a very

bad start to the year. From January to March, total stopover arrival was 320,307. This represents a 10.7% reduction compared to 2001 Cruise Arrivals for January to March were 247,145, 15.8% below 2001.

This bad performance is troubling especially when the rest of the world is experiencing mild recoveries. Criticisms have been leveled at the Jamaica Tourist Board for inadequate

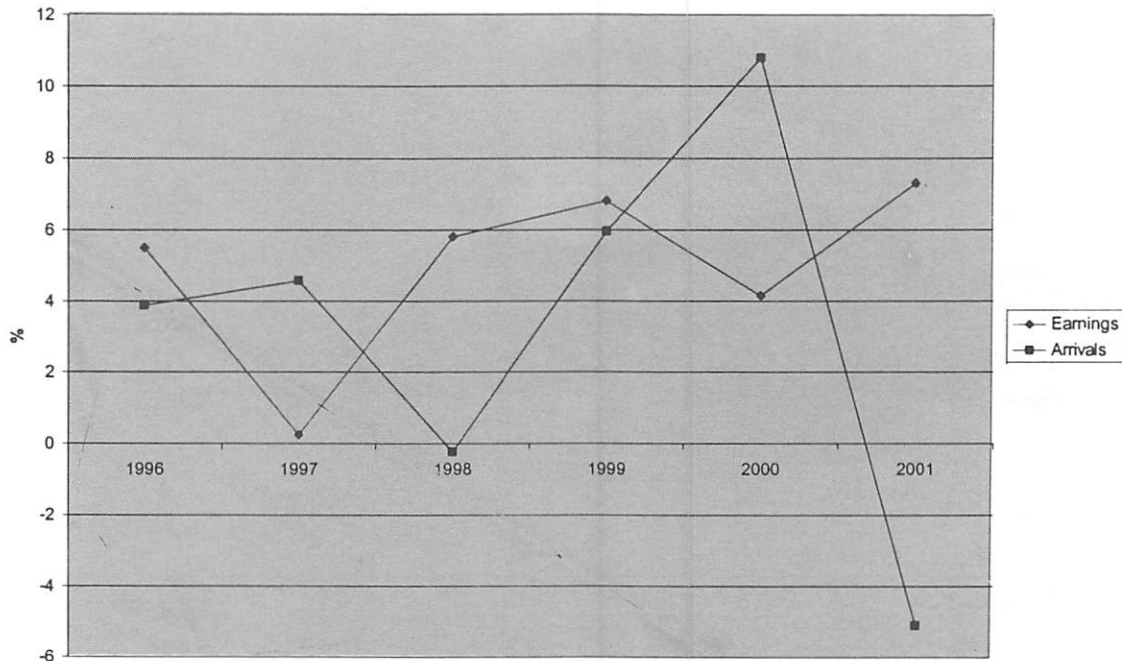
marketing of the destination. The Jamaica Tourist Board has attributed the problem to inadequate financing. With the government already in a tight fiscal situation, the problem has the potential to get worse.

The Jamaica Tourist Board expects that with the required funding it will be able to turn around the industry for the remainder of the year. Growth is projected at 1%.

It is worrying that the country's major foreign exchange earner is experiencing problems because of inadequate advertising. Certainly, what is needed at this stage is a synchronization of resources to properly market the destination. If this does not occur quickly, then any hope of growth will not materialize.

Figure 11.2

**Tourism Performance 1996 - 2001
Growth in Arrivals and Earnings**



Source: PSOJ Research

Table 11.1

Tourism Indicators

	1996	1997	1998	1999	2000	2001
Total Stopovers	1,162,449	1,192,194	1,225,287	1,248,397	1,322,690	1,276,516
Foreign Nationals	1,053,097	1,085,399	1,128,283	1,147,135	1,219,311	1,186,996
Non resident Jamaicans	109,352	106,795	97,004	101,262	103,379	89,520
Cruise Arrivals	658,178	711,699	673,690	764,344	907,611	840,337
Total Arrivals	1,820,627	1,903,893	1,898,977	2,012,738	2,230,301	1,276,516
Avg. Length of Stay (nights)	11.1	10.8	10.9	10.3	10.1	10.2
Earnings (US\$ millions)	1,092.2	1,131.4	1,197.1	1,279.5	1,332.6	1,234.5

Source: Economy and Social Survey of Jamaica 2001

Table 11.2

Stop Over Visitors to Jamaica by Country of Origin, 1998 - 2001

	1998 No.	%	1999 No.	%	2000 No.	%	2001 No.	%
Country of Origin								
U.S.A	829 330	67.7	870 019	69.7	942 561	71.3	916 681	71.8
Canada	109 802	9.0	100 338	8.0	107 492	8.1	111 158	8.7
U.K	116 252	9.5	124 930	10.0	135 338	10.2	127 320	10
Other European	96 437	7.9	83 759	6.7	63 641	4.8	53 315	4.2
Caribbean	36 818	3.0	38 023	3.0	43 971	3.3	40 845	3.2
Latin America	19 187	1.6	15 635	1.3	14 703	1.1	14 815	1.2
Japan	10 781	0.9	8 411	0.7	7 779	0.6	7 859	0.6
Other	6 680	0.5	7 283	0.6	7 205	0.5	4 526	0.4
Total	1,225,287	100	1,248,398	100.0	1,322,690	100	1,276,516	100.0

Source: Economic and Social Survey of Jamaica 2001.

Notes