



NEW CONFIDENTIAL ECONOMIC BULLETIN

A Monthly Analysis of the Jamaican Economy

Vol. 8 No. 01, January 2002

Overview

Economic growth, reduction of the incidence of crime and the tabling of the 2002-2003 budget seem to be the current issues of major concern to the society. The problem of crime and violence still plagues the society, and with this year being an election year, there is the fear that the situation could get out of control. While the Government, the Opposition and other stakeholders try to develop strategic solutions to the problem, it seems as if the problem will not disappear until society begin to address the issue from an individual viewpoint.

The Government has predicted growth of between 1.5% and 3% for this calendar year, based on the Planning Institute of Jamaica's rough 3.4% growth estimates to September 2001. While the final growth figures will not be released by the Statistical Institute of Jamaica in March or April, there were 'signs of growth' in economy during the year. There was a rebound in Agriculture, following a severe drought the previous year. There was a rebound in crude bauxite, which ended the year up 76.3% in exports and 70.7% up in production. There was also an expansion in the telecommunications sector, as two additional cellular providers joined the market. However, these 'positive signs' were offset somewhat by negative developments including a weak global economy which resulted in a soft tourist industry before September 11th. September 11th, July 7th and the flood rains of October would also have made a significant impact on the 'growth' of the previous three quarters.

There was also a significant number of job losses during 2001, as the labour market tightened due to the restructuring, retooling and relocation of firms, and later, the events of September 11th. This may be a significant factor why the 'rough estimates' of growth to September may not have been 'seen' by Jamaicans. Further, for economies that have undergone an extended period of recession, like Jamaica has done from 1996 to 1999, it would take approximately 2 years of strong growth (4% to 6%), or three to four years of moderate growth (2% to 3%) before citizens would actually 'see' and 'feel' any growth. Nevertheless, any 'growth' is still 'growth' and better than none at all. In all likelihood, the final growth figures may fall between 1.0% and 1.5%, given the 4.01% decline in gross tourism earnings and the impact tourism has on GDP.

The Government's contemplation to increase its borrowing requiring from US\$400 million to US\$600 million from the capital markets to fund the budget, will only serve to increase the stock of debt, which currently stands at approximately \$494 billion. However, the alternatives of financing the budget by expenditure cuts or tax increases are equally difficult and might defeat the real objective, which is sustainable long term growth. Cheaper external borrowing seems the most likely way, even with the huge associated costs.

On the international scene, the peso traded free against the US currency for the first time in a decade, and performed better than expected on its first trading day. There had been fears that there would be a massive run on the dollar, but it never materialized. Parity between the peso and the US dollar has been scrapped as well as the restrictions on withdrawals from checking accounts. However, there is still a cap on savings accounts withdrawals. The Argentine crisis has not significantly affected developing countries as the market had already built in the expectations of its debt default.



In This Issue

Overview.....	1
Net International Reserves.....	2
Foreign Currency Deposits.....	2
Foreign Exchange Rates.....	2
Interest Rates.....	3
Base Money & Money Supply.....	4
Inflation.....	4
Production.....	4
Tourism.....	4
External Trade.....	5
Balance of Payments.....	6
Fiscal Accounts.....	7
Outlook & Developments.....	8
Statistical Index.....	9

Net International Reserves

The Net International Reserves (NIR) of the central bank began the new year by continuing its record breaking performance, increasing by US\$7.94 million to a record US\$1,848.68 million, at the end of January 2002 (*Table 1*). This follows the record breaking performance of December 2001, when the NIR registered its highest ever monthly increase of US\$363.71M. The current level of reserves represents a record 33.82 weeks of goods imports, when compared with 17.64 weeks of goods imports over the similar period in 2001. The slight increase in the NIR was primarily driven by inflows of US\$29.70 million in loans and

NIR up
US\$7.94M
n to record
US\$1.85bn

	NIR	Change			Imports (Weeks)
		Mthly	12 Mth	YTD	
Jan-02	1,848.68	7.94	917.44	7.94	33.82
Jan-01	931.24	-38.28	478.15	-38.28	17.64

Source: Compiled from the BOJ (Preliminary)

million)

US\$56.29 million in purchases at the central bank. The major contributor to the buoyancy of the NIR over the past two months was the success of a US\$250 million 20 year non-taxable (semi-annual coupon payments of 11.625%) bond issued on the international market.

Foreign Currency Deposits

Total foreign currency deposits registered its second consecutive monthly decline, going down by US\$32.42 million in December 2001 to US\$1,181.61 million (*Table 2*). This is the highest monthly decline since the US\$67 million recorded in November 1997. Foreign currency deposits had previously reached a record high of US\$1,222.86 million to October 2001. The outturn was mainly influenced by a US\$29.74 million decline in the balances of Commercial Banks. Total deposits were 9.64% above those recorded at the end of December 2000.

FX
Deposits
decline by
US\$32.42
m to
US\$1.18b

Table 2: FX Deposits (US\$ million)

Foreign Exchange Rates

The foreign exchange market (daily JS/ US\$ weighted average selling rate) began 2002 by declining by \$0.13 (*Table 3*) to \$47.53 at the end of January 2002. Some amount of relative stability has returned to the market, as the Bank of Jamaica has intervened heavily in the market to provide liquidity to stem demand for the US currency.

The foreign exchange market has begun the year on a better footing than the previous two years - 0.53% and 1.76% declines in '01 and '00 respectively, compared with 0.28% currently - despite a 15.3% decline in tourist arrivals and a 24.7% decline in alumina exports for December 2001. This has been facilitated by the Government's record high level of reserves, which is more than twice the required international standard of 15 weeks of imports. Further, the exchange rate has depreciated by 3.85% over the past twelve months, which is less than the inflation differential between the US and Jamaica. The inflation differential currently stands at approximately 5%.

The weighted average monthly JS/US\$ for January 2002 was \$47.46, \$0.10 above the previous month, and \$1.79 above January 2001. The point-to-point movement was the lowest since the \$1.74 recorded in April 1999, reflecting the resiliency of the foreign exchange rate during 2001.

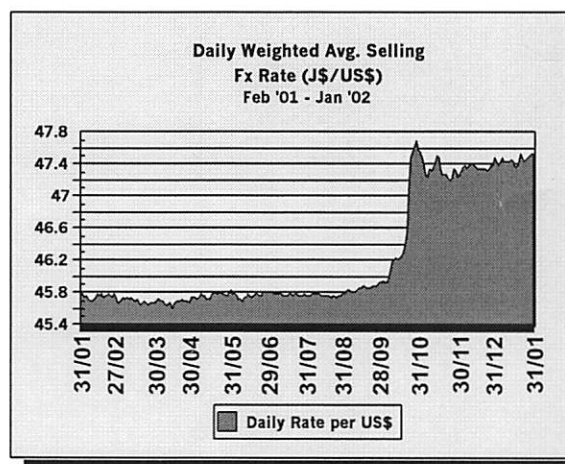


Figure 1: Daily JS/US\$ Movements

Table 3: Foreign Exchange Trends

	Year-to-Date Jan '02					
	us\$	%	can\$	%	uk£	%
2002	0.13	0.28	0.14	0.48	-0.85	-1.25
2001	0.24	0.53	0.69	2.35	-0.61	-0.92
2000	0.73	1.76	0.80	2.87	-0.61	-0.92
Jan-02	Pt-to-Pt					
	1.761	3.85	-0.62	-2.04	0.92	1.39

Source: BOJ, PSOJ Economic Research

Short Term Forecasts

While continued heavy central bank intervention has facilitated relative stability in the foreign exchange market, there may be some slight upward adjustment in the near term, as the balance of payments continue to worsen. The twelve month movement in the rate appears to be 100 percentage points below the inflation differential, which could mean that there may be further upward adjustments in the rate. This could mean the rate may end up between \$47.50 to \$47.60 to the end of the fiscal year, which would approximate the fiscal year depreciation to the inflation differential, give or take a few percentage points. The revised forecasts are presented in table 4.

	Forecast	Actual	Diff.
Jan '01	45.71 - 45.88	45.77	0.00
Feb	45.82 - 45.89	45.78	-0.04
Mar	45.78 - 45.82	45.68	-0.10
Apr	45.68 - 45.70	45.67	-0.01
May	45.72 - 45.74	45.83	0.09
Jun	45.73 - 45.75	45.82	0.07
Jul	45.81 - 45.83	45.77	-0.04
Aug	45.79 - 45.81	45.80	0.00
Sep	45.82 - 45.84	45.94	0.10
Oct	46.01 - 46.05	47.57	1.52
Nov	47.41 - 47.45	47.25	-0.16
Dec	47.32 - 47.36	47.40	0.04
Jan '02	47.41 - 47.45	47.53	0.08
Feb	47.46 - 47.51		
Mar	47.53 - 47.57		
Apr	47.58 - 47.62		

Source: PSOJ Economic Research

Table 4:
Short Term
FX Forecasts
(J\$/US\$)

6-month
t-bill up 5
basis
points to
17.08%

All govt.
repo rates
reduced in
February

Interest Rates

The Bank of Jamaica reduced all its reverse repurchase (repo) rates during the first week of February 2002, reflecting the return of relative stability to the foreign exchange market. The benchmark 30 day repo rate made its first downward move since June 2001, declining by 25 basis points, after 'holding steady' during the second half of the year. The market determined 6-month Treasury Bill yield however, trended slightly upwards by 5 basis points to 17.08% during January 2001 (Table 5).

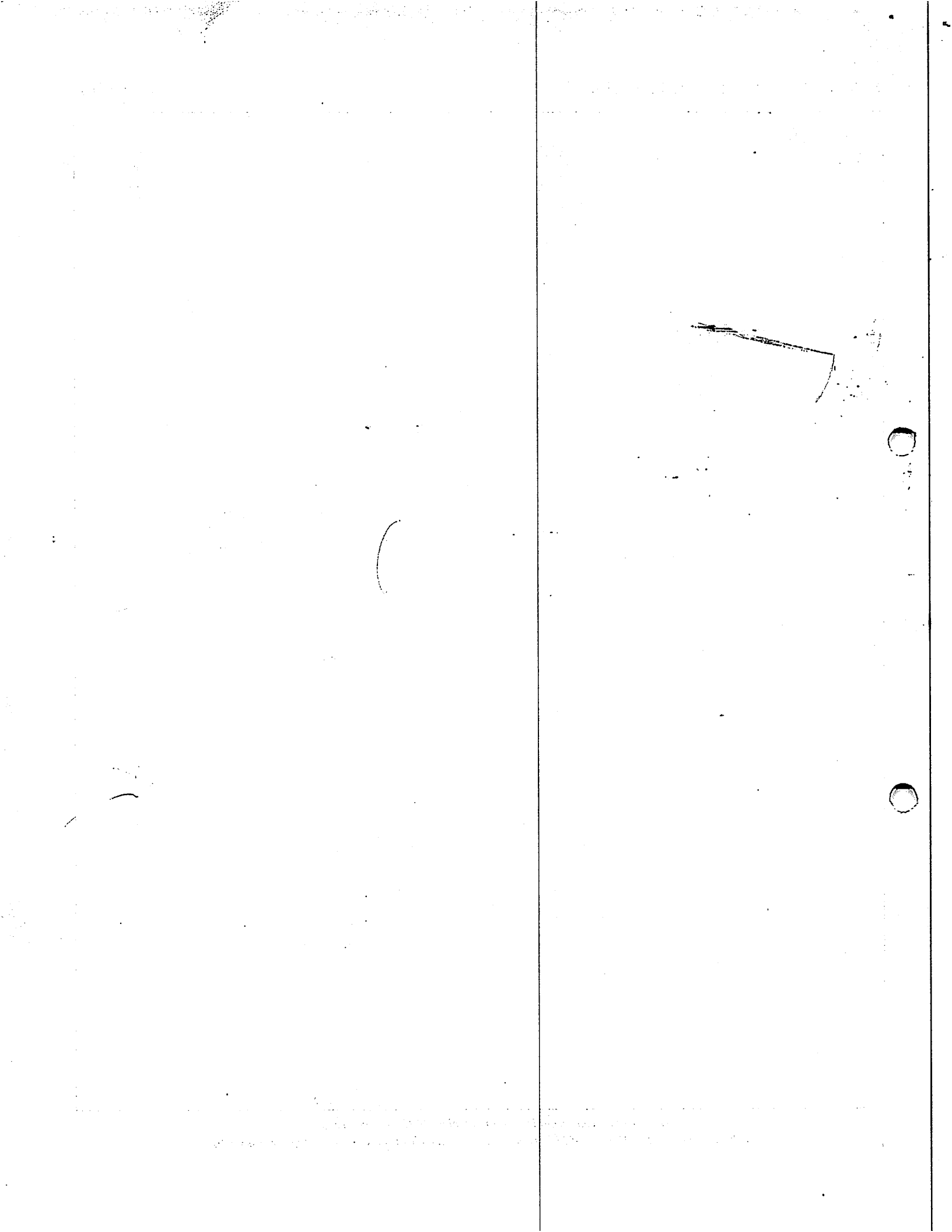
The Government's longer term repo rates have trended down, but are still slightly above their levels before being hiked to contain the depreciation of the exchange rate in October 2001. Increased competition within the banking sector forced the average loan rate to decline by 16 basis points to 26.63% - its lowest level in thirteen years. The average loan rate has now declined by 555 basis points over the past twelve months, with an accompanying 477 basis points reduction in the spread between average loan and savings deposit rates. These are the fastest decline in rates in three and a half years.

	Change			
	Jan-02	Mthly	12 Mth	YTD
30 Day Repo*	14.00	-0.25	-2.45	-2.45
365 Day Repo*	16.70	-1.20	-2.80	-2.20
Avg Savings Deposit	9.08	0.00	-0.78	0.00
Avg Loan Rate	26.63	-0.16	-5.55	-0.16
6 Month T-bill	17.08	0.05	-2.33	0.05
12 Month T-bill	16.28	0.00	-4.70	0.00

Source: Compiled from the Bank of Jamaica, PSOJ Econ
* Rates for February 06, 2001

Movements

Avg loan
ratedown
16 basis



Base Money and Money Supply

The central bank continued in its fight to contain inflation, as the monetary base declined by 10.30% in January 2002 (*Table 6*) while the money supply (M2) declined by 1.12% in November 2001. The high decline in base money is a seasonal effect reflecting an adjustment after the Yuletide season, during which there was an easing of monetary policy to facilitate spending. The authorities have continued to maintain a tighter grip on monetary policy, as the 12-month outturn of base money down by 0.8% while the similar outturn for the money supply registered single digits at 8.72% respectively. Declines in the 'demand deposits', 'time' and 'savings' components of money supply were responsible for the decline.

Base money down 10.3% in Jan.

Money supply decline 1.12% in Nov.

Table 6: Base Money and Money Supply

	Nov-01	Change (%)	
		Mthly	12 Mth
M1	40,730.71	-0.53	14.95
Quasi Money	100,448.55	-1.36	6.38
M2	141,179.28	-1.12	8.72
Jan-02			
Base Money	31,394.06	-10.30	-0.80

Source: Bank of Jamaica

Inflation

The December Consumer Price Index (CPI) increased by 0.3% over the previous month, which led to an 8.7% inflation outturn for 2001, 260 basis points above the 6.1% recorded at the end of 2000 (*Table 7*). The fiscal rate of 7.0% is 2.2 percentage points above its value in 2000. December's inflation rate mainly reflected increases in the price of starchy foods, vegetables and foods, which affected the heavily weighted "Food and Drink" index.

Inflation rate 8.7% for year 0.3% in Dec.

Table 7: Inflation Trends

	Percent Changes			
	Dec	12 Mth	YTD	Fiscal
2001	0.3	8.7	8.7	7.0
2000	-0.7	6.1	6.1	4.8

Source: STATIN

Production of Selected Commodities

Mining: Total alumina production for December declined for the third consecutive month, declining by 19.4% (*Table 8*) over the corresponding 2000 period. This resulted from heavy flood rains which affected capacity utilization, and industrial actions. The export of alumina - the major contributor to external trade - declined by 24.7%. In fact, alumina export declined by 27.1% in the last quarter of 2001. Crude bauxite on the other hand, continued its recovery by posting increases of 37.6% and 46% for production and export respectively. Crude bauxite exports was up 76.3% for 2001, while Alumina exports declined by 2.5% for the same period.

Table 8: Mining Production

	Metric Tonnes				
	Mthly Change			Y-T-D	
	Dec-00	Dec-01	%	Jan-Dec 01	%
Production					
Alumina	309,128	249,244	-19.4	3,542,385	-1.60
C. Bauxite	219,281	301,719	37.6	3,634,989	76.3
Export					
Alumina	321,527	242,053	-24.7	3,551,954	-2.50
C. Bauxite	209,610	306,026	46.0	3,617,767	70.7

Source: Compiled from Jamaica Bauxite Institute

24.7% fallout in alumina exports for Dec.

Tourism

Total stopover tourist arrivals declined by 8.84% in December 2001 (year-on-year), as all categories registered declines (*Table 9*). However, the rate of decline is significantly less than the 14.9% and 20.7% in the previous two months, indicating some semblance of recovery. Stopover arrivals from Jamaica's major tourism market, the United States, posted its seventh consecutive monthly decline, down by 7.6% in December and 2.7% for the year. Cruise arrivals were more heavily affected, declining by 23.3% during the month. Total arrivals were down 15.33% for the month.

The outturn for the calendar year saw a 3.5% decline in stopovers and a 7.4% decline in cruise arrivals, resulting in a 5.09% decline in total arrivals for the calendar year.

Cumulative expenditure from tourism continued its downward trend, losing 4.01% to register US\$1,279.20 million, for the calendar year.

Table 9: Tourist Arrivals

	2000	2001	Change	
	Jan-Dec	Jan-Dec	Jan-Dec	Dec
Stopover	1,322,690	1,276,516	-3.49%	-8.84%
Foreign	1,219,311	1,186,996	-2.65%	-9.37%
National	103,379	89,520	-13.41%	-4.94%
Cruise	907,611	840,337	-7.41%	-23.30%
Total	2,230,301	2,116,853	-5.09%	-15.33%
US\$	1,332.60	1,279.20	-4.01%	-

Source: Jamaica Tourist Board

External Trade

The deficit on the external trade account continued to widen, increasing by US\$228.83M over the first ten months of calendar year 2001 (Table 10), led by a continued decline in the value of exports.

Exports:

The decline in the value of total goods exports (f.o.b.) was abated somewhat, given recoveries in the major traditional export groups. The continued strong performance from bauxite (124.3%) and a modest 1.0% turnaround in alumina

Arrivals
down
15.3% in
December

the major contributor to external trade (44%) - were responsible for a 4.8% (US\$33.68 million) increase for the major traditional group over the January to October period. The value of bauxite exports continued to benefit from higher world prices (up 26.8%), while the value of alumina, despite a 4.1% decline in price, benefited from an 5.3% increase in volume. However, a 17% decline in volume during October - heavy flood rains, and industrial action - which resulted in a 23.6% loss in value for the month.

Other traditional exports posted a negative performance, albeit only a slight decline of 0.5%. Earnings from rum continued to be the mainstay of the group, increasing by 9.9% as the usually buoyant coffee earnings had suffered from weaker prices during previous periods, and heavy rains during October. Earnings from garment exports continued its rapid decline, going down by 44.6% to October 2001. Earnings suffered heavily in October, declining by 91.3% to register a meager US\$1 million. Earnings from the industry now stand at a mere US\$68.3 million to October 2001, compared with US\$123.3 million over the similar period in 2000.

External
trade
deficit
continues
to widen -
increased
by
US\$228m
for
Jan-Oct

Imports:

The value of total goods imports (c.i.f.) increased by 6.5% for the review period, which mirrored a US\$180.81 million (6.8%) increase in the value of merchandise imports. The performance of merchandise imports mainly reflected

Table 10:
External Trade (US\$ million)

	Jan-Oct 00	Jan-Oct 01	Change	% Change
Total Exports (fob)	1,285.83	1,238.46	181.46	6.51
Major Traditional	699.23	732.90	33.68	4.82
Bauxite	35.61	79.89	44.28	124.34
Alumina	561.34	567.09	5.75	1.03
Sugar	83.30	70.51	-12.80	-15.36
Other Traditional	62.43	62.10	-0.33	-0.53
Non-Traditional	280.85	234.23	-46.62	-16.60
Re-Exports	28.44	21.61	-6.83	-24.01
Freezone Exports	183.39	161.62	-21.77	-11.87
Goods Procured in Ports	31.50	26.00	-5.50	-17.46
Total Imports (cif)	2,787.41	2,968.86	181.46	14.11
Consumer Goods	788.41	796.84	8.43	1.07
Durables	301.04	311.43	10.39	3.45
Raw Materials	1,427.99	1,541.02	113.03	7.92
Fuels	492.70	523.97	31.27	6.35
Capital Goods	429.62	488.96	59.34	13.81
Free-zone Imports	109.50	115.04	5.55	5.07
Goods Procured in Ports	31.90	27.00	-4.90	-15.36
Trade Balance	1,501.58	1,730.41	228.83	15.24

Source: Compiled from STATIN and BOJ

increases in the value of raw materials (7.9%) and capital goods (13.8%) respectively, while growth in consumer goods remained sluggish (1.1%).

The outturn within the raw materials category was influenced by a US\$81.76 million (8.7%) increase in the value of "other raw materials", and a US\$31.27 million (6.3%) increase in the fuel import bill. The slight increase in consumer goods imports continued to be concentrated in durables (3.5%). This may have been reflecting improved credit conditions within the domestic market, leading to increased demand for these products. Importation of telecommunications equipment continued to be the major factor behind the ever increasing outturn in capital goods.

Current account deficit continues to widen - by US\$297 m Jan-Oct

The services account balance registered its first negative outturn, declining by US\$6.4 million for the review period. This was mainly driven by an US\$8.4 million reduction in net travel receipts and US\$12.3 million increase in transportation costs, following the events of September 11th. These more than offset US\$14.3 million improvement in costs for 'other Services'. The income account worsened by US\$102.8 million, primarily due a US\$113.7 million outflow of investment income.

The current transfers account was reflective of a contraction in official transfer flows of US\$84.6 million, which was offset by the US\$113.2 million expansion in private transfers. Private transfer flows continued to reflect strong remittance inflows which increased by US\$86.8 million (23.6%), while the contraction in official transfers continued to reflect the absence of exceptional payments for cellular licenses in 2000.

Balance of Payments

The deficit on the current account widened by US\$279.7 million, to US\$505.2 million over the first ten months of 2001 (Table 11), year-on-year. This was primarily driven by a continued worsening of the goods balance, which declined by US\$199.1 million to record a deficit of US\$152.2 million (f.o.b.) and a US\$46.9 million decline in the review period.

The continued improvement in the capital and financial accounts mainly reflected activity in the financial account, which increased by US\$293.9 million. The surplus on the "other official" and "private investment" accounts, together with the surplus on the "other private" account, were more than sufficient to offset the deficit on the current account. This resulted in a US\$508.0 million surplus on the balance of payments.

Table 11: Balance of Payments (US\$ million)

	January - October		Change	
	2000	2001	US\$m	%
Current A/C	-225.5	-505.2	-279.7	132.0
Goods Balance	-114.0	-1,313.1	-199.1	174.6
Exports (fob)	1,285.3	1,238.4	-46.9	-3.6
Imports (fob)	2,399.3	2,551.5	152.2	6.3
Service Balance	486.8	480.4	-6.4	-1.3
Transportation	-203.9	-216.2	-12.4	6.1
Travel	919.0	910.6	-8.4	-0.9
Other Services	-228.3	-214.0	14.3	-6.3
Income	-286.2	-389.0	-102.8	35.9
Compensation	46.2	57.1	10.9	23.6
Investment	-332.4	-446.1	-113.2	34.1
Current Transfers	687.9	716.5	28.6	4.2
Official	139.8	55.2	-84.6	-60.5
Private	548.1	661.3	113.2	20.7
Capital & Fin. A/C	225.5	505.2	279.7	124.0
Net Capital Movement	2.5	-11.7	-14.2	-568.0
Official	14.1	2.1	-12.0	-85.1
Private	-11.6	-13.8	-2.2	19.0
Financial A/C	223.0	516.9	293.9	131.8
Other Official Investment	253.8	379.1	125.3	49.4
Other Private Investment	364.7	645.8	281.1	77.1
Reserves	-395.5	-508.0		

Source: Bank of Jamaica

Fiscal Accounts

During the April to December period of financial year 2001/02, central government's fiscal operations generated a fiscal deficit of \$20,671.5 million, \$6,396.6 million worse than budgeted (*Table 12*). This outturn was a result of higher than budgeted expenditure (\$4,836.1 million), combined with lower than budgeted revenue receipts (\$1,560.5 million). Revenue receipts are now 2.0% below budget, after having consistently remained above budget for the entire fiscal year prior to the review period. However, revenues are still 2.2% above last year's outturn.

As expected following the fallout in tourism and related sectors, decreased tax revenue was the major source of declining revenue performance, decreasing by \$2,541.4 million (3.8%) below budget. Prior to this point, tax revenue had consistently performed above budget. This decline was sufficient to offset increases in capital revenue and grants.

Increased receipts from P. above budget continued to source second. However, income by declines in receipt from other companies (\$1,521 million) outturn below budget for recurrent

Expenditure above budget \$4.8b

Revenue below budget J\$1.6b

Loan receipts now 20.9% above budget - domestic receipts 10.1% above budget and 36.0%

Within the production and consumption category, special consumption tax (SCT) and general consumption tax (GCT) both registered outturns of \$214.9 (4.8%) and \$723.7 (6.7%) below budget.

Recurrent expenditure of \$5,849.9 million (7.1%) above budget, was the main contributor to the increased expenditure. Increases above budget in programmes (6.7%), and wages and salaries (11.7%) were mainly responsible for this outcome. Interest payments have now risen above budget for the second time at 4.0%.

Loan receipts are now above budget, with domestic receipts 10.1% above budget and 45.6% above the similar period in 2000. External loan receipts have now risen 36.0% above budget and 81.1% above last year. The amortization of domestic and external debt continues to take place at faster than budgeted pace, with domestic amortization now 23.3% above budget.

Table 12:
Fiscal Accounts (J\$ million)

	April - December 2001				2000	
	Provisional	Budget	J\$m	(%)	J\$m	(%)
Revenue & Grants	75,440.3	77,000.9	-1,560.5	-2.0	1,601.8	2.2
Tax Revenue	64,856.2	67,397.6	-2,541.4	-3.8	2,351.7	3.8
Non-Tax Revenue	3,231.3	3,259.4	-28.1	-0.9	-3,276.4	-50.3
Capital Revenue	3,516.7	2,876.3	640.4	22.3	2,011.5	133.6
Expenditure	96,111.8	91,275.7	4,836.1	5.3	17,669.0	22.5
Recurrent	87,669.3	81,819.5	5,849.9	7.1	15,461.0	21.4
Programmes	16,559.6	15,512.7	1,046.9	6.7	3,064.4	22.7
Wages and Salaries	31,056.8	27,804.5	3,252.3	11.7	4,383.9	16.4
Interest	40,052.9	38,502.3	1,550.6	4.0	8,012.8	25.0
Capital Expenditure	7,772.5	8,214.8	-1,074.7	-12.1	1,318.9	20.4
IMF #1 A/c	670.0	609.0	61.0	10.0	29.0	4.5
Fiscal Balance	-20,671.5	-14,274.8	-6,396.6	44.8	-16,067.2	349.0
Loan Receipts	74,981.5	62,025.9	12,955.6	20.9	23,469.6	45.6
Divestment	1,871.8	-	1,871.8	-	1,871.8	-
Amortization	58,603.3	49,292.9	9,310.4	18.9	14,912.9	34.1
Overall Balance	-2,421.5	-1,541.8	-879.7	57.1	-5,638.7	-175.3
Primary Balance	19,381.5	24,227.5	-4,846.0	-20.0	8,054.4	-29.4

Source: Ministry of Finance and Planning

of domestic debt to lion, 64.97% above nal debt amounted to f December 2000. The tion of FINSAC debt icts the government's e international capital of US\$343 million in

Developments and Outlook

The NIR began 2002 in much the same way it had ended 2001 - in record fashion. While the monthly increase was a mere US\$7.9 million, the value of the reserves (US\$1.84 billion) is only US\$14 million shy of being double what it was in January 2001 and is more than four times its level in January 2000. The ability of the Government to raise this amount of money, especially on the international capital markets in a difficult emerging market environment has no doubt improved its credibility.

This has enabled the Government to temper exchange rate movements, returning relative stability to the foreign exchange market, despite a 15.33% decline in visitor arrivals for December and a 24.7% decline in alumina for export - the major contributor to exports.

The government's lowering of all its repo rates in early February was expected, given its level of reserves and relatively stable domestic market conditions. Given the stock of domestic debt and its associated interest costs, further interest rate reductions may be forthcoming within the next two months. The average loan rate, which has declined by 555 basis points over the past twelve months, should either remain firm or decline slightly, given the level of competition for market share within the local banking industry. National Commercial Bank has changed ownership and may do some restructuring as it repositions itself to become a major force within the local banking industry. This should drive local loan rates even lower, thus reducing the cost of financing.

The inflation outturn for calendar year 2001 makes the fifth consecutive year of single digit inflation, albeit missing the 6% to 7% target. The fiscal outturn, currently at 7.0% should also be in single digits. However, Jamaica's inflation rate is still 2 to 3 percentage points higher than its Caribbean neighbors and 4 to 5 percentage points above its major trading partners, which means Government still has significant ways to go. Upcoming increased electricity rates will impact negatively on the inflation rate for the new calendar year. However oil prices, a significant factor in headline inflation, is not expected to increase significantly over the first quarter of 2002, as world demand is expected to remain low.

Tourist arrivals continue to show a weak outturn, following the tragic events of September 11th, and a weak global economy. However, the pace of decline has consistently diminished, from the initial 21.7% fallout in September to 15.3% in December. The "solidarity", "blessings" and "new beginnings" marketing campaigns carried out by the industry may have helped in attracting visitors, as well as people's diminished fear of flying. The upcoming carnival and Spring break in March should contribute significantly to the industry's return to positive territory.

The continued weakening of commodity prices will adversely affect the external trade balance over the upcoming months. Further, the loss of production due to heavy rains and industrial action at JAMALCO during November and December will reduce the earnings from the bauxite / alumina sector, leading to a deterioration of earnings from the major traditional group. The current account balance should continue to worsen throughout the remainder of the year, given a continued worsening of the external trade accounts. The effects of the events of September 11th were reflected in the negative outturn (down \$6.4 million) on the services balance account, as net travel receipts declined while transportation costs increased. This should continue through to the end of 2001.

Remittances should continue to be a major foreign exchange earner on the balance of payments, and have shown no signs of a slowing growth rate despite the September 11th effect. In fact they may have increased slightly. The fuel import bill may be expected to show some savings during later months, owing to the substantial decline in world oil prices. However a large portion of these savings could be offset by the depreciation that occurred in the exchange rate.

On the fiscal side, increased expenditure above budget has finally been joined by revenue falling below budget. The decline in revenue is mainly being driven by lower tax receipts currently running 3.8% below budget. The higher expenditure outturn which is being driven by higher wages and salaries, interest costs and programmes above budget, may be expected to continue through the end of the fiscal year. The increased financing gap being created by these expenditures and revenue shortfalls may not be met with attempts to increase tax compliance, given the current economic conditions.

The additional financial help from the multilateral lending agencies should temper some of the fallout expected in the deficit. The Government's supplementary budget, prescribes borrowing US\$600 million on the external market to fund the upcoming budget, which will increase the stock of debt even further. However the alternatives are no less difficult, as the nation cannot afford increased taxes at this time, and cutting expenditures from critical sectors would stifle the very objectives that they were meant to meet in the first place. Maybe a mixture of all three would be the best prescribed medicine for a tough disease.

Statistical Index

Major Macro-Economic Indicators

January 1999 - January 2002

	BM		M2		NIR	Fx Dep	CPI		Tourism	JS/US\$	Tbill	Loan	Sav	Dom Debt	Fx Debt
	M	P	M	P	US\$M	US\$M	M	P	P		%	%	%	J\$M	US\$M
Jan-99	-3.7	0.0	-0.6	8.3	578.0	977.3	0.4	7.5	9.65	37.45	22.62	38.46	12.25	132,782.90	3,289.40
Feb	0.6	-0.5	0.8	9.9	578.5	921.1	-1.1	6.3	7.95	37.75	21.85	38.47	12.19	136,282.96	3,264.90
Mar	-3.7	-2.8	1.2	12.0	581.5	960.3	0.5	5.4	17.98	38.23	21.67	38.60	12.09	139,203.68	3,215.70
Apr	0.8	-3.0	20.8	11.0	587.4	979.3	-0.1	5.5	-0.09	38.27	21.32	39.00	12.33	146,554.27	3,184.30
May	-4.2	-7.8	3.9	14.2	590.5	965.8	0.9	5.6	-0.09	38.61	21.32	39.00	12.33	147,911.39	3,167.00
Jun	-0.1	-8.5	2.1	11.8	590.6	956.8	1.3	5.0	3.43	38.96	20.16	37.89	11.96	148,688.52	3,161.80
Jul	1.7	8.2	3.6	15.5	487.0	1,032.6	1.2	5.1	-0.67	39.47	20.04	36.50	11.50	153,193.82	3,036.00
Aug	-0.7	-7.1	4.7	18.5	490.8	1,033.3	1.1	5.1	2.70	39.71	20.63	36.50	11.50	158,948.56	3,030.10
Sep	-1.6	-8.7	-0.7	15.6	526.2	1,014.7	0.3	5.3	9.28	39.88	19.21	35.92	11.50	161,571.93	3,035.00
Oct	0.4	-9.2	2.6	18.5	492.8	1,016.2	0.8	6.4	14.64	40.05	19.19	33.92	11.38	163,443.11	3,076.00
Nov	0.6	-4.5	-0.5	19.5	506.7	949.3	1.0	7.4	15.45	40.57	19.19	33.92	11.38	168,730.78	3,049.30
Dec	16.5	4.0	3.0	19.1	450.2	956.5	0.5	6.8	-2.66	41.27	22.03	33.92	11.38	176,717.47	3,024.10
Jan-00	-12.5	-5.5	-0.5	19.2	453.1	990.1	0.2	7.8	-1.47	41.75	20.54	33.92	11.38	178,340.93	2,971.00
Feb	-2.3	-8.2	0.2	18.5	590.6	1,057.6	0.4	8.2	12.10	42.25	20.05	33.92	11.38	175,492.98	3,133.10
Mar	-2.8	-7.4	0.9	18.1	703.5	1,047.1	0.7	8.4	12.05	42.15	17.96	33.92	11.38	175,322.74	3,164.80
Apr	2.9	-5.5	1.2	17.2	744.0	1,052.9	1.0	9.6	12.76	42.07	17.58	33.67	11.38	176,599.44	3,098.20
May	0.6	0.8	-0.7	11.9	776.3	1,047.3	0.4	9.2	16.93	42.29	17.64	33.67	10.90	177,180.13	3,054.70
Jun	3.6	3.7	1.6	16.2	756.5	1,042.1	0.9	8.8	10.89	42.51	17.47	33.00	10.11	181,578.09	3,053.70
Jul	0.8	4.6	-0.3	11.8	788.7	1,050.3	1.0	8.5	9.20	42.70	17.32	33.00	10.11	189,222.03	3,018.60
Aug	0.6	-3.3	0.9	7.7	935.5	1,082.5	0.9	8.2	23.29	42.89	17.04	32.75	10.11	189,666.78	3,003.80
Sep	-3.4	-5.1	1.8	9.1	935.5	1,072.4	1.0	9.0	7.58	43.85	17.13	31.50	9.96	184,337.90	3,208.60
Oct	1.4	-3.4	0.3	6.6	845.7	1,065.0	0.1	8.3	7.60	44.71	17.13	31.67	9.86	181,507.81	3,208.81
Nov	0.9	-3.2	1.1	9.6	831.7	1,077.1	0.1	7.3	9.88	45.08	17.28	31.67	9.86	184,795.00	3,265.20
Dec	12.7	-6.4	2.4	10.6	969.3	1,111.3	-0.7	6.1	8.20	45.48	20.16	31.67	9.86	187,520.03	3,375.30
Jan-01	-9.5	-3.2	-0.3	8.7	931.2	1,115.7	0.0	5.9	10.07	45.67	19.41	32.18	9.86	193,616.74	3,492.06
Feb	1.9	1.0	-0.5	8.0	1,106.6	1,128.5	1.1r	6.7r	2.82	45.76	18.27	32.18	9.86	190,384.80	3,636.78
Mar	-3.8	-0.1	1.4	8.9	1,286.3	1,117.3	0.5r	6.4	-0.08	45.70	16.88	31.33	9.84	215,084.05	3,624.30
Apr	1.6	-1.4	0.1	7.7	1,281.8	1,130.5	0.4	5.8	4.24	45.68	16.50	31.21	9.84	n/a	3,625.70
May	-0.5	-2.4	2	10.6	1,480.6	1,152.6	0.8	6.2	3.36	45.77	15.46	30.88	9.50	n/a	3,971.40
Jun	-0.9	-1.8	-0.7	8.2	1,540.5	1,154.2	1.7	7.1	-2.22	45.77	16.2	30.67	9.45	285,660.00	3,944.15
Jul	3.7	3.3	2.0	10.7	1,526.3	1,153.3	1	7.1	-2.62	45.78	16.45	30.33	9.18	n/a	n/a
Aug	-1.1	1.5	1.0	11.2	1,599.0	1,158.7	0.9	7.1	-8.08	45.77	16.04	28.21	9.08	n/a	n/a
Sep	-4.6	0.3	1.3	10.6	1,537.7	1,192.1	0.8	6.9	-21.73	45.94	15.10	26.96	9.08	292,262.82	3,882.21
Oct	-2.1	-1.0	0.84	11.2	1,477.5	1,222.9	0.8	7.7	-18.39	46.57	15.11	26.79	9.08	n/a	n/a
Nov	3.5	0.4	-1.12	8.72	1,477.0	1,214.0	0.1	7.7	-17.86	47.35	17.82	26.79	9.08	n/a	n/a
Dec	12.4	0.2	n/a	n/a	1,840.7	1,181.6	0.3	8.7	-15.33	47.36	17.03	26.79	9.08	309,358.11	4,146.10
Jan-02	-10.3	-0.78	n/a	n/a	1,848.7	n/a	n/a	n/a	n/a	47.46	17.08	26.63	9.08	n/a	n/a

Key:

BM - Base Money

NIR - Net International Reserves

CPI - Consumer Price Index

Tbill - 6-month Treasury Bill Yield

Save - Average Savings Deposit Rate

P - Point-to-Point Percentage Change

n/a - Not Available

M2 - Money Supply

FX Dep - Foreign Exchange Deposit

Tourism - Total Tourist Arrivals

Loan - Average Loan Rate

M - Monthly percentage Change

r - Revised

Note: Table compiled from the Bank of Jamaica, Statistical Institute of Jamaica, Ministry of Finance and Planning, Jamaica Tourist Board

The contents of this bulletin are only for use by the addressee. The information is provided on a strictly confidential basis to subscribers.

Copyright Reserved (c) 2001.

All opinions and estimates constitute the PSOJ's judgment as of the date of the bulletin and are subject to change without notice.