Private Sector Organization of Jamaica

CONFIDENTIAL ECONOMIC BULLETIN

A Monthly Analysis of the Jamaican Economy

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Overview

The Jamaican economy is estimated to have grown by 2.4% during the calendar year 2001 albeit declining by 1.7% over the last quarter, according estimates from the Planning Institute of Jamaica (PIOJ). The Net International Reserves (NIR) of the central bank remained buoyant at 33.3 weeks of goods imports, despite a US$27.8 million reduction during February. Total foreign exchange deposits declined for the third consecutive month to US$1.17 billion, while relative stability was maintained in the foreign exchange market. Government continued to pursue a reduction of interest rates, lowering all its reverse repurchase rates during early March. The 30-day repo rate is now 13.25%. The fiscal inflation rate is now at 7.6%, with a monthly outturn of 0.6% for January 2002. Tourism arrivals continued to remain weak, declining by 11.6% for January 2002. On the fiscal side, slower revenue growth and higher than budgeted expenditure resulted in a $21.16 billion fiscal deficit to January 2002, while the deficit on the current account continued to widen due to a deteriorating trade balance.

The PIOJ's preliminary growth estimates (*Table A*) , show that the economy grew for the first three quarters of the year, but declined during the last quarter. Overall growth was estimated to have been driven by a resurgence in Mining and Quarrying, up 11%, due to strong growth in bauxite, despite a downturn in alumina. Agriculture, Manufacturing, and Construction also contributed to the growth process, posting returns of 6.7%, 1.5% and 3.1% respectively. Transport, storage and communication, which would capture the telecommunications sector, grew by 2.4%, while the miscellaneous services, which captures tourism, remained flat at 0.2%. The flat outturn in tourism would have resulted from the fallout in arrivals following September 11th, a weak global economy and events of July 7th. While these preliminary estimates may be revised downwards (or upwards), they still serve as a general guideline to the business community, helping to shape effective management decisions.

Constant 1986 Prices
Estimated 12 Month % Change

	Q1	Q2	Q3	Q4	Total
Goods Producing					
Agri, Forestry & Fishing	12.3	17.2	1.0	-2.6	6.7
Mining and Quarrying	4.4	12.0	34.0	-5.2	11.0
Manufacturing	2.5	4.0	1.0	-1.5	1.5
Const. & Instal.	3.0	3.0	4.8	1.4	3.1
Service Sectors					
Electricity and Water	0.8	-1.2	-2.1	0.1	-0.6
Trans., Storage and Comm.	2.8	8.4	3.6	-5.0	2.4
Distribution	0.4	0.3	0.4	0.6	0.4
Financial Services	2.0	1.8	-2.5	0.8	0.5
Real Estate and Business Serv	0.5	1.8	1.2	1.2	1.2
Miscellaneous services	4.8	3.0	-4.4	-2.6	0.2
Household Services	-3.7	2.3	0.7	-0.7	-0.4
Less: Imputed Service Charge	3.2	2.9	-1.8	0.6	0.3
Total GDP	**2.6**	**4.7**	**3.9**	**-1.7**	**2.4**

Source: Planning Institute of Jamaica Estimates

Table A: 2001 Estimates of GDP at Producers Values

Preliminary results from the US Department of Commerce indicates that the US economy recorded a 0.2% GDP outturn, which technically means the US was never really in recession, since only the third quarter registered a decline in GDP (-1.3%). The fourth quarter was held afloat mainly by

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consumer spending, driven by 0.0% financing on motor vehicles. This augurs well for a faster than expected recovery in tourism and the world economy in general.

The Government's recent decision to retract the cess on electricity to fund streetlights is the correct one. The cess would have increased production costs for Jamaican firms, reducing their competitiveness. Furthermore, allowing a private enterprise to collect taxes on behalf of the Government would have undoubtedly set a bad precedent. The most equitable way to finance the streetlight initiative is through increased compliance in property taxation, which establishes a direct relationship between the beneficiary and the cost of service being provided. After all, more streetlights is a desirable outcome.

Net International Reserves

The Net International Reserves (NIR) of the central bank maintained its buoyancy albeit decreasing by US$27.80 million to US$1,820.88 million, at the end of February 2002 (***Table 1***). This follows the record breaking performance of January 2002, when the NIR recorded US$1,848.68M. The current level of reserves represents 33.32 weeks of goods imports, when compared with 21.15 weeks of goods imports over the similar period in 2001. In terms of weeks of goods and services imports gross reserves are 22.48 weeks. Loan inflows of US$25.55 million and purchases of US$70.45M were insufficient to offset heavy central bank intervention.

NIR down US$27Mn to US$1.82bn

	NIR	Change Mthly	Change 12 Mth	Change YTD	Imports (Weeks)
Feb-02	1,820.88	-27.80	714.27	-19.86	33.32
Feb-01	1,106.61	175.37	516.00	137.09	21.15

Source: Compiled from the BOJ (Preliminary)

Table 1: NIR (US$ million)

Foreign Currency Deposits

Total foreign currency deposits registered its third consecutive monthly decline, going down by US$6.74 million in January 2002 to US$1,174.87 million (***Table 2***). This is the lowest level of deposits since US$1,158 in August 2001. Foreign currency deposits had previously reached a record high of US$1,222.86 million to October 2001. The current outturn was mainly influenced by a US$8.14 million decline in the balances of Commercial Banks. Total deposits were 5.34% above those recorded at the end of January 2001.

FX Deposits decline 3rd straight month to US$1.17b

	Jan-02	Change (US$M) Mthly	Change (US$M) 12 Mth	% 12 Mth
Total Deposits	1,174.87	-6.74	59.15	5.34
	Feb-02			
Spot Purchases	668.86	-12.06	255.26	61.72
Spot Sales	679.12	2.9	280.2	70.24

Source: Compiled from the Bank of Jamaica

Table 2: FX Deposits (US$ million)

The foreign exchange market has continued the year on a better footing than the previous two years - 0.56% and 1.61% declines in '01 and '00 respectively, compared with 0.27% decline currently. This has occurred despite an 11.6% decline in tourist stopover arrivals and a 9.72% decline in alumina production for January 2002. This performance continued to be facilitated by the Government's buoyant level of reserves, which was estimated at 22.48 weeks of goods imports and services at the end of February 2002.

The weighted average monthly J$/US$ for February 2002 was $47.51, $0.05 above the previous month, and $1.75 above February 2001. The point-to-point movement in the weighted average rate continued to be the lowest since the $1.74 recorded in April 1999, reflecting the resiliency of the foreign exchange rate throughout 2001 and into 2002.

FX appreciate by 0.01% to $47.53

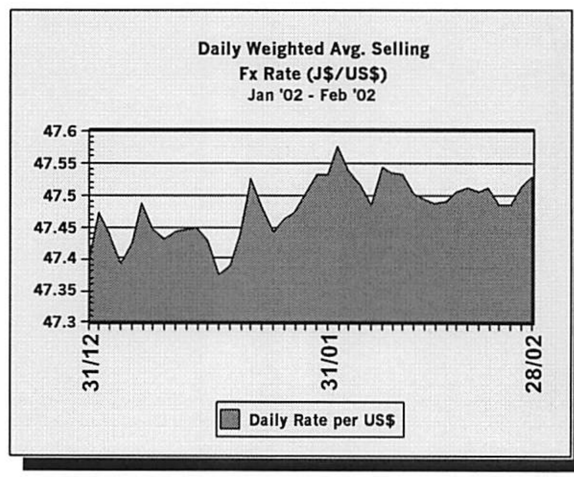

Figure 1: Daily J$/US$ Movements

Table 3: Foreign Exchange Trends

	Year-to-Date: Feb '02 us$	%	can$	%	uk£	%
2002	0.13	0.27	0.25	0.84	-0.51	-0.76
2001	0.25	0.56	0.44	1.49	-0.93	-1.40
2000	0.67	1.61	0.56	2.01	-0.21	-0.31
	Monthly					
Feb-02	-0.01	-0.01	0.11	0.36	0.337	0.5

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 continued slight upward adjustment in the near term, as the balance of payments continue to worsen. The twelve month movement in the rate (3.81%) is approximately t220 basis points below the inflation differential between Jamaica and the US, which points to the possibility of further upward adjustments in the rate. However, any upward adjustment may be expected to be in an orderly manner, given the necessity to consistently reduce interest rates. The revised forecasts are presented in table 4.

All govt. repo rates reduced in March, 30 day repo at 13.25%

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

	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	47.53	0.02
Mar	47.54 - 47.59		
Apr	47.59 - 47.63		
May	47.64 - 47.67		

Source: PSOJ Economic Research

Interest Rates

Avg loan rate down 16 basis to 26.63%

The Bank of Jamaica continued its drive to lower interest rates by reducing all its reverse repurchase (repo) rates during the second week of March 2002. The reductions mostly reflected the return of relative stability of the foreign exchange market. The benchmark 30 day repo rate was reduced by thirty basis points to 13.25%, its lowest level in 13 years. The longer term 365-day repo also experienced a significant reduction, down 80 basis points to 15.0%.

The market has expressed confidence in the lower Government repo rates, as the market determined 6-month Treasury Bill yield has returned to its downward trend, falling by 97 basis points to break the 15% barrier for the first time at 14.96% *(Table 5)*.

6-month t-bill at lowest level in 13 years, down to14.96%

Increased competition within the banking sector and lower Government repo rates, have 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 470 basis points reduction in the spread between the average loan and average savings deposit rates. These declines continue to be the fastest decline in rates in three and a half years.

Table 5: Interest Rate Movements

		Change		
	Feb-02	*Mthly*	*12 Mth*	*YTD*
30 Day Repo*	13.25	-0.50	-2.25	-1.00
365 Day Repo*	15.00	-0.80	-3.50	-3.90
Avg Savings Deposit	9.02	-0.06	-0.84	-0.06
Avg Loan Rate	26.63	-0.16	-5.55	-0.16
6 Month T-bill*	14.96	-0.97	-1.92	-2.07
12 Month T-bill	16.28	0.00	-1.58	0.00

Source: Compiled from the Bank of Jamaica, PSOJ Econ
* Rates as at March 14, 2002

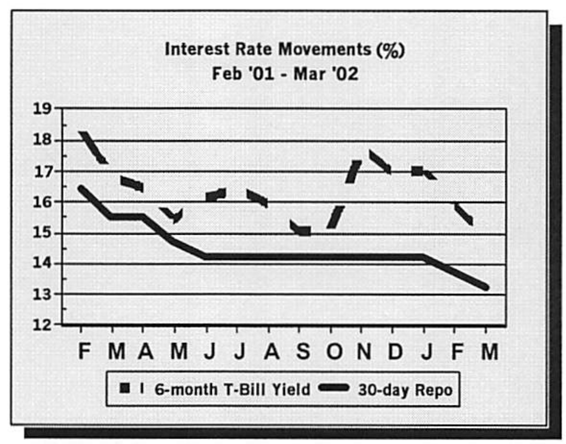

Figure 2: Interest Rate Movements

Base Money and Money Supply

The central bank continued in its fight to contain inflation, as the monetary base increased by 3.50% in February 2002 (***Table 6***) while the money supply (M2) increased by 3.46% in December 2001. The relatively higher outturn in money supply for December was a seasonal effect reflecting Yuletide spending. This was reflected by a 13% increase in currency with the public during the month. More importantly, the twelve month movement in money supply has ended the year

Table 6: Base Money and Money Supply

	J$M	Change (%)	
	Dec-01	Mthly	12 Mth
M1	45,730.70	11.24	18.89
Quasi Money	100,751.60	0.30	6.18
M2	146,061.60	3.46	9.82
	Feb-02		
Base Money	32,483.50	3.50	0.80

Source: Bank of Jamaica

Base money up 3.5% in February

Money supply up 3.46% in December

Table 8: Mining Production

	Production		Change
	Jan-01	Jan-02	%
Alumina	319.93	288.82	-9.7
C. Bauxite	298.01	363.45	22.0
Sugar	21.77	17.22	-20.9
Banana	3.69	3.75	1.6

Source: Compiled from BOJ

Inflation

The January 2002 Consumer Price Index (CPI) increased by 0.6% over the previous month, which has led to a 9.4% inflation outturn for January 2002 (*Table 7*). The fiscal rate of 7.6% is 90 basis points above revised 8.5% target. January's inflation rate mainly reflected increases in housing expenses, and miscellaneous expenses. The increase in housing expenses reflected increases in the minimum wage rate, while increases in school fees and legal services contributed to the outturn in miscellaneous expenses.

Inflation rate 9.4% over 12 months to January, 0.6% in January

Table 7: Inflation Trends

	Percent Changes			
	Jan '02	12 Mth	YTD	Fiscal
2001	0.6	9.4	0.6	7.6
2000	0.0	5.9	0.0	4.8

Source: STATIN

Tourism

Total stopover tourist arrivals declined by 11.6% in January 2002 (year-on-year), as all categories registered declines (*Table 9*). This rate of decline is slightly higher than the 8.84% recorded the previous month, but less than 14.86% decline in November 2001. The current month's outturn is significantly lower than the initial 20.04% decline experienced after the September 2001 attacks on the US, indicating some semblance of recovery. In fact the magnitude of the decline has been steadily lower except for the January outturn. Stopover arrivals from Jamaica's major tourism market, the United States, posted its eighth consecutive monthly decline, down by 8.3% in January.

Stopover arrivals down 11.6%

Table 9: Tourist Arrivals

	Jan' 01	*Jan '02*	*% Change*
Stopover	101,876	90,097	-11.60%
Foreign	96,714	85,114	-12.00%
National	5,162	4,983	-3.50%

Source: Jamaica Tourist Board

Production of Selected Commodities

Mining: Total alumina production for January 2002 declined for the fourth consecutive month, down by 9.7% ***(Table 8)*** over the corresponding 2001 period. This continued to result from heavy flood rains which affected capacity utilization, and industrial action during the last quarter of 2001. Crude bauxite on the other hand increased by 22.0%, albeit at a slower rate than in 2001, as its growth rate become normalized following a 76.3% recovery during 2001.

Alumina down 9.7%, crude bauxite up 22%

Sugar and Banana: Sugar production has continued to decline, going down by 20.9%, while banana production has shown a slight level of buoyancy, increasing by 1.6%.

External Trade

The deficit on the external trade account continued to widen, increasing by US$218.31M over the first eleven 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.) continued to be abated somewhat, given a slight increase in the major traditionals export groups. The continued strong performance from bauxite (111.9%) barely offset declines in the value of alumina (-3.4%) sugar (-15.4%) and banana

Mainly from a 42.6% decline in the value of alumina (US$26.91M).

The year-to-date value of bauxite exports continued to benefit from higher world prices (up 24.4%), while the value of alumina - which accounts for 44% of total exports - was affected by a 4.2% decline in price, although being up 0.9% n volume. However, aluminum has suffered from a 37.6% decline in volume during November - due to heavy flood rains, and industrial action - which resulted in a 42.6% loss in value for the month.

Other traditional exports posted a negative performance, albeit only a slight decline of 1.9%. Earnings from rum continued to be the mainstay of the group, increasing by 8.3% as the usually buoyant coffee earnings has continued to suffer from weaker prices and heavy rains during October. Coffee, which accounts for 56% of this group, declined by 48.4% (US$1.46M). Non traditional exports continued to post a negative outturn down 10.9%.

Earnings from garment exports stemmed its rapid decline increasing by 159.3% to November 2001. Earnings increased in October by US$9.4 million to register a meager US$15.3 million. Earnings from the industry now stand at a mere US$83.6 million to November 2001, compared with US$129.2 million over the similar period in 2000.

External trade deficit continues to widen - increased by S$218.3m for Jan-Nov

Imports:

The value of total goods imports (c.i.f.) increased by 4.6% for the review period, which mirrored a US$147.99 million (5.0%) increase in the value of merchandise imports. The performance of merchandise imports mainly reflected increases in the value of raw materials (5.5%) and capital goods (11.9%) respectively, while growth in consumer goods remained sluggish (0.5%). However, there were declines in the above three categories of 23.0%, 5.4% and 4.2% respectively for the month of November.

The outturn within the raw materials category was influenced by a US$79.64 million (7.6%) increase in the value of "other raw materials", and a US$7.47 million (1.4%) increase in the fuel import bill. However the fuel import bill declined by 57.6% during November (US$31.73M). The slight increase in consumer goods imports continued to be concentrated in durables (2.2%) and food (2.5%). This continued to reflect 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, as the 'transport and equipment', 'construction materials', and 'other capital' categories continued to register declines.

Table *10:*
External Trade (US$ million)

	Jan-Nov 00	Jan-Nov 01	Change	% Change
Total Exports (fob)	**1,423.06**	**1,349.08**	**-73.97**	**-5.20**
Major Traditional	769.84	776.50	6.66	0.86
Bauxite	*40.44*	*85.71*	*45.26*	*111.92*
Alumina	*624.46*	*603.30*	*-21.16*	*-3.39*
Sugar	*83.30*	*70.51*	*-12.80*	*-15.36*
Other Traditional	69.11	67.81	-1.30	-1.88
Non-Traditional	307.37	273.82	-33.54	-10.91
Re-Exports	33.88	23.82	-10.06	-29.69
Freezone Exports	208.17	178.54	-29.63	-14.23
Goods Procured in Ports	34.70	28.60	-6.10	-17.58
Total Imports (cif)	**3,125.28**	**3,269.62**	144.34	**11.23**
Consumer Goods	891.73	895.80	4.07	0.46
Durables	*349.55*	*357.17*	*7.62*	*2.18*
Raw Materials	1,594.36	1,681.48	87.12	5.46
Fuels	*547.83*	*555.30*	*7.47*	*1.36*
Capital Goods	476.90	533.69	56.80	11.91
Free-zone Imports	127.20	128.85	1.65	1.30
Goods Procured in Ports	35.10	29.80	-5.30	-15.10
Trade Balance	**-1,702.23**	**-1,920.54**	**-218.31**	**12.82**

Source: Compiled from STATIN and BOJ

Balance of Payments

Current account deficit continues to widen - by US$283.3 m Jan-Nov

The deficit on the current account widened by US$283.3 million, to US$594.8 million over the first eleven months of 2001 (***Table 11***), year-on-year. This was primarily driven by a continued worsening of the goods balance, which declined by US$192.5 million to record a deficit of US$1,458.4 million. This out-turn resulted from a US$118.9 million increase in imports (f.o.b.) and a US$73.6 million decline in exports (f.o.b.) for the review period.

The services account balance registered its second negative outturn, declining by US$22.8 million for the review period. This was mainly driven by an US$33.3 million reduction in net travel receipts and US$9.2 million increase in transportation costs, following the events of September 11th. These more than offset US$19.7 million improvement in costs for 'Other 'Services'. The income account worsened by US$105.4 million, primarily due a US$117.4 million outflow of investment income.

The current transfers account was reflective of a contraction in official transfer flows of US$84.7 million, which was offset by the US$122.1 million expansion in private transfers. Private transfer flows continued to reflect st

Table 11: Balance of Payments (US$ million)

	January - November		Change	
	2000	*2001*	*US$m*	*%*
Current A/C	**-311.5**	**-594.8**	**-283.3**	**90.9**
Goods Balance	***-1,265.9***	***-1,458.4***	***-192.5***	15.2
Exports (fob)	1,422.6	1,349.0	-73.6	-5.2
Imports (fob)	2,688.5	2,807.4	118.9	4.4
Service Balance	***519.1***	***496.3***	***-22.8***	-4.4
Transportation	-232.1	-241.3	-9.2	4.0
Travel	1,004.3	971.0	-33.3	-3.3
Other Services	-253.1	-233.4	19.7	-7.8
Income	***-314.8***	***-420.2***	***-105.4***	33.5
Compensation	58.9	70.9	12.0	20.4
Investment	-373.7	-491.1	-117.4	31.4
Current Transfers	***750.1***	***787.5***	***37.4***	5.0
Official	143.0	58.3	-84.7	-59.2
Private	607.1	729.2	122.1	20.1
Capital & Fin. A/C	**311.5**	**594.8**	**283.3**	**90.9**
Net Capital Movement	***1.7***	***-12.6***	***-14.3***	-841.2
Official	14.2	2.1	-12.1	-85.2
Private	-12.5	-14.7	-2.2	17.6
Financial A/C	***309.8***	***607.4***	***297.6***	96.1
Other Official Investment	309.3	351.5	42.2	13.6
Other Private Investment	382.0	763.5	381.5	99.9
Reserves	-381.5	-507.6		

Source: Bank of Jamaica

inflows which increased by US$97.9 million (24.1%), while the contraction in official transfers continued to reflect the absence of exceptional payments for cellular licenses in 2000.

The continued improvement in the capital and financial accounts mainly reflected activity in the financial account, which increased by US$283.3 million. The surplus on the "other official" and "private investment" accounts, together with the capital account were more than sufficient to offset the deficit on the current account. This resulted in a US$507.6 million increase in reserves.

Fiscal Accounts

Fiscal deficit now $21.16b

During the April to January period of financial year 2001/02, central government's fiscal operations generated a deficit of $21,158.1 million, $8,140.4 million worse than budgeted (***Table 12***). This outturn continued to be as a result of higher than budgeted expenditure ($6,706.1 million), combined with lower than budgeted revenue receipts ($1,434.3 million). Revenue receipts are now 1.6% below budget, after having consistently ... entire fiscal year prior to ... ver are still 3.7% above last

As expected following the fallout in tourism and related sectors, tax revenue continued to be the major source of declining revenue performance, down $2,727.3 million (3.6%) below budget. Prior to December 2001, tax revenue had consistently performed above budget. This current decline was sufficient to offset increases in capital revenue and grants.

Expenditure above budget $6.7b revenue below budget J$1.43b

Increased receipts from PAYE of $2,582.5 million (20.1%) above budget continued to be the largest single revenue source. However, these receipts were offset by declines in receipt from tax on interest ($2,116.1 million) and other companies ($1,523.3 million), resulting in a $1,679.4 million outturn below budget for receipts from income and profits.

Loan receipts now 24.7% above budget - domestic receipts 15% above budget and 25.2 %

Within the production and consumption category, special consumption tax (SCT) and general consumption tax (GCT) both registered outturns of $303.3 (6.1%) and $1,282.6 (10.1%) below budget.

Recurrent expenditure of
was the main contribu
Increases above budget
salaries (11.4%) were n
Interest payments have r
month at 7.3%.

Loan receipts continued to be above budget, with domestic receipts 15.0% above budget and 45.1% above the similar period in 2000. External loan receipts have now risen 41.2% above budget and 86.5% above last year. The amortization of domestic and external debt continues to take place at faster than budgeted pace, with domestic amortization now 24.3% above budget.

Preliminary figures indicated that the stock of domestic debt to December 2001 was $309,358.11 million, 64.97% above December 2000, while the stock of external debt amounted to US$4,146.10 million - 22.84% above that of December 2000. The increased domestic debt reflected the addition of FINSAC debt to the books, while the external debt reflects the government's success of raising US$400 million on the international capital markets in May and recent loan inflows of US$343 million in December 2001.

d Outlook

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or internal shock to the
ed success in the

			Change			
	Provisional	Budget	J$m	(%)	J$m	(%)
Revenue & Grants	**85,532.5**	**86,966.9**	**-1,434.3**	**-1.6**	**3,064.2**	**3.7**
Tax Revenue	73,915.0	76,642.4	-2,727.3	-3.6	3,828.0	5.5
Non-Tax Revenue	3,992.3	3,574.2	418.1	11.7	-2,740.0	-40.7
Capital Revenue	3,788.4	3,076.1	712.3	23.2	2,212.8	140.4
Expenditure	**106,609.7**	**99,984.6**	**6,706.1**	**6.7**	**15,102.7**	**16.5**
Recurrent	97,662.8	89,790.0	7,872.8	8.8	17,074.7	21.2
Programmes	18,316.9	17,025.7	1,291.2	7.6	3,389.8	22.7
Wages and Salaries	34,343.5	30,842.4	3,501.1	11.4	4,633.7	15.6
Interest	45,002.5	41,921.9	3,080.5	7.3	9,051.2	25.2
Capital Expenditure	8,357.9	9,585.6	-1,227.7	-12.8	1,195.7	16.7
IMF #1 A/c	670.0	609.0	61.0	10.0	29.0	4.5
Fiscal Balance	**-21,158.1**	**-13,017.7**	**-8,140.4**	**62.5**	**-12,038.5**	**132.0**
Loan Receipts	87,855.7	70,464.6	17,391.1	24.7	27,295.2	45.1
Divestment	1,871.8	-	1,871.8	-	1,871.8	-
Amortization	68,863.5	57,726.0	11,137.6	19.3	14,415.7	26.5
Overall Balance	**-294.2**	**-279.1**	**-15.0**	**5.4**	**2,712.9**	**-90.2**
Primary Balance	**23,844.3**	**28,904.2**	**-5,059.9**	**0.7**	**-2,987.2**	**1.6**

Source: Ministry of Finance and Planning

Table 12: Fiscal Accounts (J$ million)

International capital market has demonstrated its credibility with international lenders, and the country's perceived ability to repay its debt. The target for the accumulation of reserves for this fiscal year has been revised to US$189 million, and with just one month remaining, this should be easily achieved. The Government will be seeking to use overseas borrowing to finance most of the US$700 million that will be required for the upcoming financial year, which should maintain NIR buoyancy. The recent visit of Government officials to New York, the IADB and Inter American Corporation annual meetings, was the first step in trying to access loans.

NIR buoyancy has allowed the Government to temper foreign exchange movements, allowing the rate to adjust in an orderly manner. The orderly adjustment in rates may be expected to continue in the near term, given a continued worsening of the balance of payments position. However, tourism is expected to show some amount of recovery given the extensive advertising and marketing campaigns that were launched. Furthermore the US economy is expected to continue its rebound during 2002, which should see a return of visitor arrivals to their normal levels.

The lowering of all Government repos was based on the return of relative stability to the foreign exchange market, where the exchange rate has continued to show the resiliency exhibited during 2001. However the lowering of interest rates during the first quarter has been a consistent trend since the 1998 calendar year, as macro-economic conditions are usually more favorable during this period.

The revised target of 13.5% for repo rates was achieved with the most recent lowering of rates. The sustained lowering of interest rates are critical to the success of Government's fiscal program, and the handling of the estimated $309 billion domestic debt. Aggressive competition within the banking sector should see a further reduction in lending rates being offered to the business community, and hence lower financing costs, given the cash reserve ratio is currently at 10%. In fact, BOJ statistics indicate that baking system credit to the private sector increased by 9.1% during the last quarter of 2001.

The current inflation rate of 9.4% is the highest point-to-point rate since 9.7% in April 2000. The inflation rate has risen consistently since April 2001, except for September when it declined slightly. Although the period January to March has historically been a period of relatively lower inflation rates, the Government may still be hard pressed to contain the current fiscal rate of 7.4% to achieve the revised 8.5% fiscal target. Higher utility rates may impact on the inflation rate for 2002, as well as the risk of higher oil prices as the US economy rebounds, resulting in increased demand for crude oil.

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 was reflected in the negative outturn (down $22.8 million) on the services balance account, as net travel receipts declined while transportation costs increased. This should be reflected through to the end of the fiscal year. However, tourism is expected to rebound based on a rebound in the US economy. Remittances should also continue to be a major foreign exchange earner on the balance of payments. The fuel import bill declined by 57.6% during November 2001, and these savings may continue through early 2002.

On the fiscal side, increased expenditure above budget has continued combined with revenue falling below budget. The decline in revenue continued to be driven by lower tax receipts currently running 3.6% 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 continue to challenge the Government's efforts to contain them. The revised fiscal deficit target of $14.8 billion will most likely be missed, given the current deficit is already an estimated $6 billion above the target. The programmed reduction of interest rates, greater external financing combined with lower domestic borrowing are some of the measures Government will continue to take in an effort to contain the fiscal risks.

Stock Market: Commentary

As an aside, the stock market may achieve another record year in 2002, as bwer interest rates will require the use of the equities market to finance investments. As the current margins that can be obtained on yields from risk free Government paper in the money market are eroded, institutional investors and individuals alike, should seek to use the equities market to raise maintain their margins. Of course the returns will will depend on the amount of risk investors are willing to take. The four additional brokers that were added to the exchange, should result in a greater level of competition, encouraging more frequent trading, and improved liquidity conditions. The extensive education program being carried out by the exchange, the proposed enlisting of more companies, and the possible introduction of features such as margin buying, should see even greater activity on the stock market in 2002.

Perhaps most importantly, tax on dividends will come to zero on April 1st, which will entice instituional investors. Listed companies have also retooled and restructured which has resulted in greater profitability. After all the profitability of companies should be the fundamental driving force behind stock market performance, as profitable companies will be able to issue higher dividends and bonuses, thus increasing share value and investors net worth.

Statistical Index

Major Macro-Economic Indicators

February 1999 - February 2002

	BM		M2		NIR	Fx Dep	CPI		Tourism	J$/US$	Tbill	Loan	Sav	Dom Debt	Fx Debt
	M	P	M	P	US$M	US$M	M	P	P		%	%	%	J$M	US$M
Feb-99	**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	3.46	9.82	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	1,174.9	0.6	9.4	-11.6s	47.46	17.08	26.79r	9.08	n/a	n/a
Feb	**3.5**	**0.8**	**n/a**	**n/a**	**1,820.9**	**n/a**	**n/a**	**n/a**	**n/a**	**47.51**	**14.96***	**26.63**	**9.02**	**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
* - March 2002

s - Stopover Arrivals

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

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

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