Private Sector Organisation of Jamaica

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A Monthly Analysis of the Jamaican Economy

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In This Issue

Overview

The Net International Reserves (NIR) of the central bank remained buoyant despite declining by US$41.92 million in April, while total foreign exchange deposits reached a record high US$1.3 billion. The foreign exchange market has shown the most volatility since the terrorist attacks on the United States in September, declining by $0.30 in April. The six-month Treasury Bill yield continued its downward trend to a record low 13.84%. The inflation outturn over the first four months of the calendar year (1.1%) was 90 basis points below that of the similar period in 2001. Tourism arrivals continued to remain weak, declining by 12.96% for the first quarter of 2002. The balance of payments and external trade accounts have shown some improvement in the first month of 2002, predicated on a 16.0% decline in imports. On the fiscal side, revenues end the year 1% above budget while higher than budgeted expenditure resulted in a $14.06 billion fiscal deficit for 2001/02, while the deficit on the current account continued to widen due to a deteriorating trade balance. Increased profitability and lower interest rates drive the stock market to record highs, as the index surpassed 40,000 in early May.

The Stock Market has shown tremendous gains in recent months, as corporate profits came in above expectations and interest rates continued to trend down. The increased profitability of some listed companies have come by way of restructuring and retooling, which has increased their productivity and capacity utilization. While most of the restructuring has been on the physical operations of businesses, some firms have redefined their management structures as well, which may be seen as a critical ingredient to future profitability. Lower interest rates have meant that for the majority of institutional and individual investors, there is a tradeoff between tax free yields on government paper versus higher returns on the stock market, with some amount of commensurate risk. While yields on Government paper has not been maintained above 20% for any significant period within the last 12 months, returns on stocks have ranged between 132.3% and -60.0% (*Table A*), since the start of the year.

However the market still requires significant development for it to be a standard bearer of development. Significantly, there have been no Initial Public Offerings (IPO's) on the exchange since 1993. However, as the 2005 deadline for 'free trade' looms, more companies will come to realize the need for significant capital to retool and restructure, if they are to survive in a global market place. This will also require a heightened public education of the pros and cons of investing in equities, as well as the development of sound analysis techniques and a code of ethics and professional conduct (*see Outlook for Discussion*).

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Table A: Top Performers on the JSE from December 31 to May 16, 2002.

Top 5 Performers	31-Dec	16-May	%	Bottom 5 Performers	31-Dec	16-May	%
Courts	$1.55	$3.60	132.3	Ciboney Group	$0.10	$0.04	-60.0
Jamaica Broilers	$1.65	$3.61	118.9	Goodyear	$9.20	$6.20	-32.6
Seprod	$3.80	$7.60	100.0	Carreras	$29.99	$27.60	-8.0
Jamaica Producers	$4.50	$8.45	87.8	Trinidad Cement	$35.00	$35.00	0.0
Radio Jamaica	$1.45	$2.70	86.2	Life of Jamaica	$2.97	$3.08	3.7

Source: First Global Stockbrokers Limited

Net International Reserves

The Net International Reserves (NIR) of the central bank remained buoyant albeit declining by US$41.92 million to US$1,899.75 million, (*Table 1*) following its record high of US$1,941.67 the previous month. The current level of reserves represented 33.27 weeks of goods imports, when compared with 23.04 weeks of goods imports over the similar period in 2001. In terms of weeks of goods and services imports, gross reserves represented 22.66 weeks. A US$41.32 million decline in gross foreign assets offset by a US$0.6 million increase in gross foreign liabilities, were reflected in the lower NIR levels.

NIR down by US$41M to US$1.9B

Table 1: NIR (US$ million)

	NIR	Change Mthly	Change 12 Mth	Change YTD	Imports (Weeks)
Apr-02	1,899.75	-41.92	617.96	59.01	33.27
Apr-01	1,281.79	-4.50	537.81	312.27	23.04

Source: Compiled from the BOJ (Preliminary)

Foreign Currency Deposits

Total foreign currency deposits increased by US$41.49 million in March 2002, to a record US$1,239.38 million (***Table 2***). This was the highest monthly increase since an increase of US$67.5 million in February 2000. The current outturn was mainly influenced by a US$38.72 million increase in the balances of Commercial Banks. Total deposits were 10.92% above those recorded at the end of March 2001.

Table 2: FX Deposits (US$ million)

	Mar-02	Change (US$M) Mthly	Change (US$M) 12 Mth	% 12 Mth
Total Deposits	1,239.38	41.49	122.04	10.92
	Mar-02			
Spot Purchases	696.86	-38.06	249.26	55.69
Spot Sales	707.12	-23	274.2	63.34

Source: Compiled from the Bank of Jamaica

FX Deposits at record US$1.24B

Foreign Exchange Rates

The foreign exchange market (daily J$/ US$ weighted average selling rate) continued to show some amount of volatility during April 2002. The J$ lost $0.30 (***Table 3***) to $47.91 at the end of the month, This was the largest monthly decline since the $1.63 recorded between September and October 2001, after the terrorist attacks on the United States.

The year-to-date performance of the foreign exchange market has continued to be slightly worse than that of the corresponding 2001 period (1.08% vs. 0.32% decline), albeit better than that of 2000 (1.82%). However, the year-to-date performance has continued to reflect the resiliency of the J$, given an 15.09% decline in total tourist arrivals and a 1.61% decline in alumina production - the two major foreign exchange earners - for March 2002. The relative stability of the exchange rate continued to be facilitated by the Government's buoyant level of reserves, which was estimated at 22.66 weeks of goods imports and services at the end of April 2002.

FX rate depreciate by $0.30 to $47.91

The weighted average monthly J$/US$ for April 2002 was $47.76, $0.12 above the previous month, and $2.08 above April 2001. The point-to-point movement in the weighted average rate continued to maintain its low rate, averaging $1.95 over the past six months, compared with $2.76 over the previous six months.

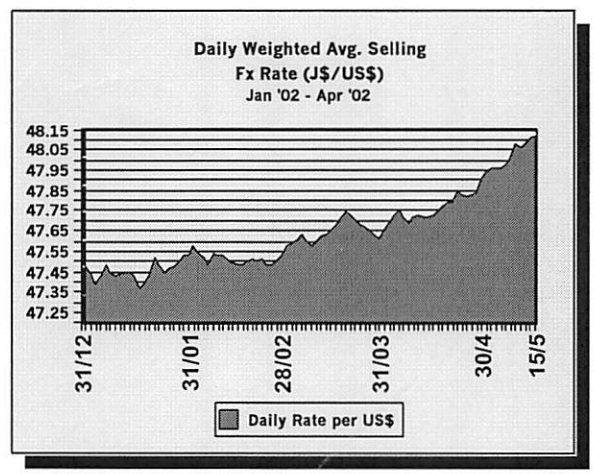

Figure 1: Daily J$/US$ Movements

Table 3: Foreign Exchange Trends

	Year-to-Date: Apr '02 us$	%	can$	%	uk£	%
2002	0.51	1.08	1.00	3.40	1.14	1.68
2001	0.15	0.32	-0.36	-1.22	-1.73	-2.59
2000	0.75	1.82	0.55	1.96	-1.24	-1.88
	Monthly					
Apr-02	0.30	0.63	0.57	1.91	1.94	2.88

Source: BOJ, PSOJ Economic Research

Short Term Forecasts

A weaker balance of payments position, compounded by a fallout in tourism receipts may continue to see a continued slight upward adjustment in the exchange rate in the near term However any upward adjustment may be expected to be in an orderly fashion, given the buoyant Net International Reserves, which is in excess of 33 weeks of goods imports and the need to reduce interest rates. The resiliency of the J$ may thus be expected to continue, having depreciated by 4.9% over the past twelve months, compared with 8.3% the previous twelve months. The revised forecasts are presented in table 4.

6 month T-Bill rate down 46 basis points to record low 13.84%

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	47.50 - 47.54	47.61	0.07
Apr	47.68 - 47.72	47.91	0.29
May	48.06 - 48.09		
Jun	48.07 - 48.10		
Jul	48.09 - 48.14		

Source: PSOJ Economic Research

Interest Rates

The market has continued to express confidence in the lower Government repo rates (reduced across the board in March 2002), as the market determined 6-month Treasury Bill (T-Bill) yield continued to decline. The 6-month T-Bill fell 46 basis points to break the 14% barrier for the first time at 13.84% *(Table 5)*. The six month T-Bill yield has declined by 319 basis points since the start of 2002.

All other interest rates remained mostly flat during the month, as liquidity conditions fluctuated during the month. Average commercial bank lending rates remained at their thirteen year

The average loan rate has now declined by 494 basis points over the past twelve months, with an accompanying 442 basis points reduction in the spread between the average loan and average savings deposit rates.

Table 5: Interest Rate Movements

		Change		
	Apr-02	*Mthly*	*12 Mth*	*YTD*
30 Day Repo	13.25	0.00	-2.25	-1.00
365 Day Repo	15.00	0.00	-2.75	-3.90
Avg Savings Deposit	9.34	-0.02	-0.50	0.26
Avg Loan Rate	26.29	0.00	-4.92	-0.50
6 Month T-bill	13.84	-0.46	-2.66	-3.19
12 Month T-bill	14.96	0.00	-1.97	-1.32

Source: Compiled from the Bank of Jamaica, PSOJ Econ

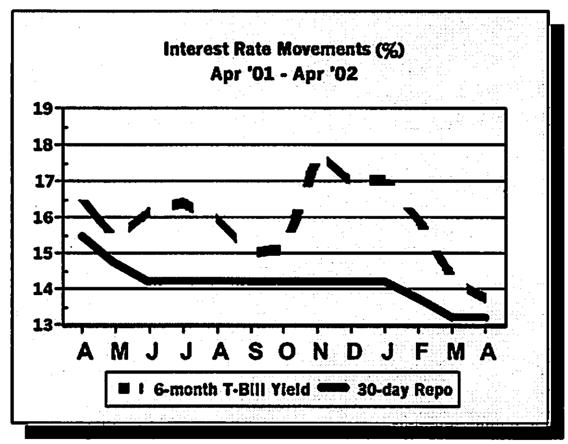

Figure 2: Interest Rate Movements

Base Money and Money Supply

Base money down 2.30% for April

The central bank continued in its fight to contain inflation, as the monetary base declined by 2.30$% in April 2002, while broad money (M2) increased by 1.21% in March 2002 (*Table 6*). The increase in M2 was attributed to an increase in all its components (currency with the public, demand deposits, time and savings components). The twelve month movement of base money, now at -4.20%, reflected Government's tighter control on this variable in order to contain inflation. This more stringent monetary policy is also reflected in the 12 month movement of M2, which has averaged 9.6% over the past 12 months, compared with 12.7% for the previous period.

Table 6: Base Money and Money Supply

	J$M	Change (%)	
	Feb-02	Mthly	12 Mth
M1	42,941.89	2.71	18.95
Quasi Money	102,915.93	0.60	28.47
M2	145,857.82	1.21	10.52
	Apr-02		
Base Money	30,184.31	-2.30	-4.20

Source: Bank of Jamaica

Table 8: Mining Production

	Production		Change
	Mar-01	Mar-02	%
Alumina	309.91	304.01	-1.9
C. Bauxite	323.47	343.82	6.3
Sugar	48.65	39.49	-18.8
Banana	3.2	3.69	15.3

Source: Compiled from BOJ, JBI

Inflation

The April 2002 Consumer Price Index (CPI) increased by 0.5% over the previous month, resulting in a monthly and fiscal inflation rate of 0.5% (*Table 7*). The year-to-date outturn of 1.1% was 90 basis points below the 2001 outturn, which was attributable to a first quarter outturn of 0.6% (lowest since -0.25% in 1999). However, the 12 month outturn was significantly greater (190 basis points) than the previous period.

YTD nflation rate 1.1%, 90 basis points below 2001

Table 7: Inflation Trends

	Percent Changes			
	Apr	12 Mth	YTD	Fiscal
2002	0.5	7.7	1.1	0.5
2001	0.4	5.8	2.0	0.4

Source: STATIN

Tourism

Total stopover tourist arrivals declined by 9.13% in March 2002 (year-on-year), as all categories continued to register declines (*Table 9*). Total arrivals were down 12.96% over the first quarter of 2002 as revenues have declined year-to-date by 8.84% to US$320.80 million.

Total tourist arrivals down 15.1% in March, 13.0% in 1st quarter

Table 9: Tourist Arrivals

	2001	*2002*	*Change*	
	Jan-Mar	*Jan-Mar*	*Jan-Mar*	*Mar*
Stopover	358,503	320,307	-10.65%	-9.13%
Foreign	340,538	304,068	-10.71%	-9.28%
National	17,965	16,239	-9.61%	-6.16%
Cruise	294,156	247,745	-15.78%	-23.32%
Total	652,659	568,052	-12.96%	-15.09%
US$	351.90	320.80	-8.84%	-

Source: Jamaica Tourist Board

Production of Selected Commodities

Mining: Total alumina production for March 2002 declined for the sixth consecutive month, albeit at the much reduced pace of 1.61% ***(Table 8)*** over the corresponding 2001 period. This performance has continued to reflect the effects of heavy flood rains which affected capacity utilization, and industrial action during the last quarter of 2001. However, crude bauxite has continued its good performance, increasing by 6.29%, albeit at a slower rate than in 2001- as its growth rate becomes normalized - when it registered a 76.3% recovery for the year.

Alumina productio n down for sixth straight month

Sugar and Banana: Sugar production has continued to decline, going down by 18.83%, while banana production has shown a 15.31% increase, following its by 8.38% decline the previous month. Sugar production has continued to be affected by a reduced tonnage per acre due to inclement weather.

Bauxite productio n remains

External Trade

The deficit on the external trade account improved in January 2002, declining by US$34.65M over January 2001 (***Table 10***), led by a decline in the value of imports, which offset declining exports.

Exports:

The value of total goods exports (f.o.b.) was down 14.3% given declines in the major traditional (14.0%), and non-tradtitonal (29.6%) export groups, which offset an improvement in the 'other traditional' (23.7%) export group. The strong performance from bauxite (20.4%) was not enough to offset declines in the value of alumina (-3.9%), sugar (-100.0%) and banana (-3.7%) exports.

Bauxite exports benefited from higher volume (up 21.1%) in January, albeit suffering from a 0.2% decline in price. The value of alumina - which accounted for 53% of total exports -

was adversely affected by a 12.0% decline in price, albeit a 9.3% increase in volume.

Other traditional exports posted a positive performance, up 23.7%. Earnings from rum was the mainstay of the group, increasing by US$1.05 million (69.3%) while coffee rebounded by 5.5%. Coffee, which accounted for 55% of the earnings from this group, had declined by 26.6% in 2001, due to a depreciation of the Euro vis-a-vis the US$. Non traditional exports continued to decline (down 29.6%) following its negative outturn of 12.4% (US$42.7 million) for 2001.

Earnings from garment exports declined by 70.7% (US$5.3 million) in January to US$2.2 million, compared with US$7.5 million in January 2001.

Imports:
The value of total goods imports (c.i.f.) declined by 16.0% for the review period, which mirrored a US$55.98 million (17.6%) decline in the value of merchandise imports. The performance of merchandise imports mainly reflected declines in the value of raw materials (30.9%) and capital goods (7.5%) respectively, while growth in consumer goods increased (5.9).

External trade deficit improves 17.0% in January

The outturn within the raw materials category was influenced by a US$36.96 million (56.7%) decline in the fuel import bill and a US$19.23 million (16.5%) decline in other raw materials. The decline in the fuel import bill reflected lower world fuel prices. The increase in consumer goods imports continued to be concentrated in durables (9.9%) and food (15.5%). This continued to reflect improved credit conditions within the domestic market, leading to increased demand for these products. "Other capital' was insufficient to offset declines in the 'transport and equipment', 'construction materials', and 'other machinery' categories , resulting in a net decline.

Balance of Payments

Current account deficit improves

The deficit on the current account improved by US$38.7 million, to US$38.9 million in January 2002 (***Table 11***). This was primarily driven by an improvement on the goods balance, which increased by US$30.5 million to record a deficit of US$128.3 million. This out-turn resulted from a US$48.1 million decline in imports (f.o.b.), which offset a US$17.6 million decline in exports (f.o.b.) for the review period.

US$38.9 M in January

The services account balance registered a negative outturn, for January, declining by US$4.0 million to US$44.4 million.

Tab*le 10:*
External Trade (US$ million)

	Jan '01	Jan '02	Change	% Change
Total Exports (fob)	**122.25**	**104.73**	**-17.51**	**-14.33**
Major Traditional	77.18	66.36	-10.82	-14.02
Bauxite	*7.36*	*8.86*	*1.50*	*20.38*
Alumina	*58.08*	*55.82*	*-2.26*	*-3.88*
Sugar	*10.00*	*0.00*	*-10.00*	*-100.00*
Other Traditional	5.50	6.80	1.30	23.71
Non-Traditional	20.52	14.45	-6.07	-29.58
Re-Exports	2.29	1.09	-1.20	-52.35
Freezone Exports	14.15	13.63	-0.53	-3.72
Goods Procured in Ports	2.60	2.40	-0.20	-7.69
Total Imports (cif)	**325.97**	**273.80**	**-52.17**	**-16.00**
Consumer Goods	78.33	82.92	4.60	5.87
Durables	*32.25*	*35.45*	*3.20*	*9.91*
Raw Materials	181.72	125.54	-56.18	-30.92
Fuels	*65.13*	*28.18*	*-36.95*	*-56.74*
Capital Goods	58.14	53.75	-4.39	-7.55
Free-zone Imports	5.08	8.99	3.91	77.01
Goods Procured in Ports	2.70	2.60	-0.10	-3.70
Trade Balance	**-203.72**	**-169.07**	**34.65**	**-17.01**

Source: Compiled from STATIN and BOJ

This was mainly driven by an US$5.7 million reduction in net travel receipts and a US$0.7 million increase in transportation costs, following the events of September 11th. These more than offset US$1.0 million improvement in costs for 'Other 'Services'. The income account improved by US$14.6 million, primarily due to a US$14.7 million reduction in the outflow of investment income.

The current transfers account was reflective of a contraction in official transfer flows of US$9.7 million, which offset the US$7.3 million expansion in private transfers. Private transfer flows continued to reflect strong remittance inflows which increased by US$9.3 million (24.4%).

The outturn in the capital and financial accounts mainly reflected activity in the financial account, which declined by US$39.1 million. The surplus on the "other official investment" (US$41.6 million) account, which offset the deficit on the "private investment" (US$34.5 million) account, together with the capital account (US$0.4 million) were sufficient to offset the deficit on the current account. This resulted in a US$7.9 million increase in reserves.

Fiscal Accounts

Fiscal deficit now $14.06B

During the April to March period of financial year 2001/02, central government's fiscal operations generated a deficit of $14,057.7 million, $4,559.7 million worse than budgeted (***Table 12***). This outturn resulted from higher than budgeted expenditure ($5,597.3 million), which offset higher than budgeted revenue receipts ($1,037.7 million). Revenue receipts were 1.0% above budget, after having fallen below budget from November to January of the fiscal year.

As expected following the fallout from tourism and related sectors, tax revenue was the major source of declining revenue performance, down $5,711.8 million (5.9%) below budget. However, a J$6,556.0 increase in capital revenue above budget more than offset the decline fallout from tax revenues.

Increased receipts from PAYE of $2,653.0 million (16.3%) above budget continued to be the largest single revenue source. However, these receipts were offset by declines in receipt from tax on interest ($1,772.3 million) and other [illegible]lion), resulting in a $1,851.3 million [illegible]eceipts from income and profits.

Table 11: Balance of Payments (US$ million)

	January		Change	
	2001	*2002*	*US$m*	*%*
Current A/C	**-77.6**	**-38.9**	**38.7**	**-49.9**
Goods Balance	***-158.8***	***-128.3***	***30.5***	-19.2
Exports (fob)	122.3	104.7	-17.6	-14.4
Imports (fob)	281.1	233.0	-48.1	-17.1
Service Balance	***48.4***	***44.4***	***-4.0***	-8.3
Transportation	-22.5	-21.8	0.7	-3.1
Travel	90.8	85.1	-5.7	-6.3
Other Services	-19.9	-18.9	1.0	-5.0
Income	***-47.4***	***-32.8***	***14.6***	-30.8
Compensation	2.3	2.2	-0.1	-4.3
Investment	-49.7	-35.0	14.7	-29.6
Current Transfers	***80.2***	***77.8***	***-2.4***	-3.0
Official	13.3	3.6	-9.7	-72.9
Private	66.9	74.2	7.3	10.9
Capital & Fin. A/C	**77.6**	**38.9**	**-38.7**	**-49.9**
Net Capital Movement	***-1.5***	***-1.1***	***0.4***	-26.7
Official	0.0	0.1	0.1	-
Private	-1.5	-1.2	0.3	-20.0
Financial A/C	***79.1***	***40.0***	***-39.1***	-49.4
Other Official Investment	-21.4	20.2	41.6	-194.4
Other Private Investment	62.2	27.7	-34.5	-55.5
Reserves	38.3	-7.9		

Source: Bank of Jamaica (Preliminary)

Within the production and consumption category, special consumption tax (SCT) and general consumption tax (GCT) both registered outturns of $561.7 (9.8%) and $2,556.3 (15.7%) below budget.

Expenditure above budget revenue below budget

Recurrent expenditure of $7,300.5 million (6.9%) above budget, was the main contributor to the increased expenditure. Increases above budget in domestic interest payments of J$3,471.4 million (9.4%) and wages and salaries of $4,795.7 million (11.4%) were mainly responsible for this outcome. There was actually a decline in expenditure on programs of j$49.2 million (0.2%).

Loan receipts continued to be above budget, with domestic receipts 47.1% above budget and 55.7% above the similar period in 2000. External loan receipts have now risen 21.3% above budget and 44.8% above last year. The amortization of domestic and external debt continued to take place at faster than budgeted pace, with domestic amortization now 45.7% above budget.

Preliminary figures from the Ministry of Finance and Planning indicated that the total debt stock stood at J$495 billion or 133% of GDP. Of this, the stock of domestic debt was
approximately J$300 billion
billion (81% GDP) of wl
FINSAC to the books. 67%
to service debt.

Dom debt J$309.36b External Debt US$4.15 b

The government's success of raising US$400 million on the international capital markets in May 2001 and loan inflows of US$343 million in December were significant factors to the increased total debt stock.

Stock Market

During April 2002, the Stock Market continued its bullish run, as the index increased by 25.51% over the previous month, to a record 38,236.10 points. Market capitalization stood at $249.9 billion at the end of April 2002, 12.5% above the $222.0 billion at December 2001. Traded volume over the first four months of 2002 has amounted to 513 million shares valued at J$1.57 billion.

The top performing stock year-to-date to May 16th, 2002 was Courts Jamaica Limited, which increased by 132.3% from $1.55 to $3.60, while the worst performer was Ciboney Group, which declined from $0.10 to S0.04. While the market may be experiencing a 'bull run', there is expected to be some amount of correction, as investors take profit on the huge returns gained over the past six weeks.

Table 12: Fiscal Accounts (J$ million)

	April '01- March '02				00/'01	
			Change			
	Provisional	Budget	J$m	(%)	J$m	(%)
Revenue & Grants	**109,733.9**	**108,696.3**	**1,037.7**	**1.0**	**1,293.7**	**1.2**
Tax Revenue	90,568.2	96,280.0	-5,711.8	-5.9	3,493.8	4.0
Non-Tax Revenue	4,949.3	4,588.8	360.5	7.9	-2,834.6	-36.4
Capital Revenue	9,989.5	3,433.5	6,556.0	190.9	897.4	9.9
Expenditure	**123,791.6**	**118,194.3**	**5,597.3**	**4.7**	**19,598.5**	**18.8**
Recurrent	113,665.2	106,364.7	7,300.5	6.9	17,884.5	18.7
Programmes	20,066.5	20,115.7	-49.2	-0.2	2,370.0	13.4
Wages and Salaries	42,588.2	37,792.6	4,795.7	12.7	7,424.5	21.1
Interest	51,010.4	48,456.4	2,554.0	5.3	8,090.1	18.8
Capital Expenditure	10,126.4	11,829.6	-1,703.2	-14.4	781.8	8.4
IMF #1 A/c	835.5	767.3	68.2	8.9	36.2	4.5
Fiscal Balance	**-14,057.7**	**-9,498.0**	**-4,559.7**	**48.0**	**-18,304.8**	**-431.0**
Loan Receipts	104,647.3	76,810.0	27,837.3	36.2	35,535.7	51.4
Divestment	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	90,974.2	67,242.6	23,731.6	35.3	29,216.0	47.3
Overall Balance	**-384.6**	**69.4**	**-454.0**	**-654.2**	**-11,985.0**	**-103.0**
Primary Balance	**36,952.7**	**38,958.4**	**-2,005.7**	**-5.1**	**-10,214.7**	**-21.7**

Source: Ministry of Finance and Planning

Developments and Outlook

The Net International Reserves declined by US$41 million to US$1,899 million during April, reflecting some amount of volatility within the foreign exchange market. The foreign exchange market has shown the most volatility since the September attacks on the United States, and is now trading above $48.00. However, the adjustment in the rate seemed to be an orderly one, and may have been expected given the lower inflows of net receipts from tourism (receipts down 8.8% over the first quarter) and lower aluminium exports. Despite this, the foreign exchange market has remained resilient, with the exchange rate depreciating by only 4.9% over the past twelve months, compared with 8.3% over the prior twelve month period. The exchange rate may be expected to show orderly adjustments in the near term, given the worsening balance of payments position.

Lending rates, currently at their all time low may be expected to be reduced further - lowering the cost of capital - given an increased level of competitiveness among the banking sector, and reduced domestic government borrowing. In fact, credit to the private sector increased by 20.07% in 2001, its highest level of increase since 1996, indicating a reduction in the governments' crowding out of private sector borrowing. However, the extent to which rates may be lowered will be predicated on foreign exchange stability and containment of inflation.

Government's tight monetary stance on monetary policy has continued through to April, as the monetary base declined by 2.3% for the month and is down 4.2% over the past twelve months. This has contributed to a year-to-date inflation rate of 1.1%, 90 basis points below that of 2001. This tight monetary stance may be expected to continue through 2002, albeit the risk of looser policy given 200 being an election year. However, this has not occurred thus far. The tight monetary stance bodes well for achieving a 5% to 6% inflation target for the calendar year, and reducing investors' inflation expectations.

The external trade balance, and the current account balance showed improvements during January 2002. However, these gains should be eroded as they begin to reflect a worsening services account, given the continued decline in tourism receipts. However, the negative outturn on the services balance account may be expected to reverse toward the end of the latter half of the year, if the first quarter rebound in the US economy is maintained, and the various marketing and advertising initiatives by the tourism sector bears fruit. Remittances should continue to be a major foreign exchange earner on the balance of payments, and may be expected to maintain its approximate 24% to 26% buoyancy. However, the fuel import bill, albeit declining by 56.7% in January, still faces the risk of volatile oil prices.

Stock Market

The stock market continued to surge to new heights, as the index surpassed the magical 40,000 point barrier in early May, with market capitalization of J$250 billion. The continued profitability of listed companies, combined with lower interest rates were the two major forces driving the record performance of equities. The stock market has become a viable alternative for investors who once depended mainly on government paper for investing. The fact that the top five performing stocks on the exchange had returns in excess of 70% (transaction fees not included) over the first four and a half months speaks for itself.

While the market is currently enjoying high returns on investment with the commensurate risk, there are issues not currently in the spotlight that may be of concern in the near future. The major concern will be the establishment of a set of ethical codes and standards. Disclosure of conflicts of interests to clients and prospects, fair dealing, priority of transactions, accounting practices and performance presentations are the hallmarks of developed markets, but not practiced by and large in our developing market. These issues will become more of a concern when the market becomes a standard bearer for economic development, that is, startup business will have as part of their business plans the desire to be listed on the exchange (given of course, an enabling environment).

Another feature missing from our market that will become critical with the passage of time, is sound research techniques (fundamental and technical analysis) by brokerage houses. However, it appears these features are being developed by some brokerage houses, which should be good for disseminating investment advice.

Fiscal

On the fiscal side, there was a recovery in revenue over the last two months of the fiscal year, ending the year 1.0% above budget. Revenue, which had been running above budget prior to September 11th, had consequently fallen below budget after the terrorist attacks on the US. An increased revenue performance may be expected for 2002, driven mainly by tax revenue, as government looks to improve its mechanism for tax compliance. As already discussed in the overview, the 2002/2003 budget will pose significant challenges for the government, which will have to exercise fiscal prudence if the targets are to be achieved.

The economy is heading in the right direction, given the estimated 1.7% real GDP growth experienced in 2001, after experiencing negative growth for the latter half of the 1990's. A sustained level of significant real GDP growth is probably the only viable way to erase the deficit on the balance of payments and effectively manage our debt problem.

Statistical Index

Major Macro-Economic Indicators

April 1999 - April 2002

	BM M	BM P	M2 M	M2 P	NIR US$M	Fx Dep US$M	CPI M	CPI P	Tourism P	J$/US$	Tbill %	Loan %	Sav %	Dom Debt J$M	Fx Debt US$M
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	1.0	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	-1.34	8.63	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	1.21	10.52	1,820.9	1,197.9	-0.1	7.6	-11.76	47.51	15.93	26.63	9.02	n/a	n/a
Mar	-4.9	-0.4	n/a	n/a	1,941.7	1,239.4	0.0	7.6	-12.96	47.64	14.3	26.29	9.36	n/a	n/a
Apr	-2.3	-4.2	n/a	n/a	1,899.6	n/a	0.5	7.7	n/a	47.76	13.84	26.29	9.34	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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