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<i>Jamaican Economic Review</i>	1984
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OVERVIEW OF THE ECONOMY

INTRODUCTION

Real Gross Domestic Product (GDP) grew by an estimated 1.0 per cent, following two consecutive years of growth. In 2001, the economy grew by 1.7 per cent and 0.7 per cent in 2000. Other achievements during 2002 included:

1. The sixth consecutive year of single digit inflation;
2. Further lowering of the cash reserve ratio thereby facilitating continued reduction in interest rates;
3. Relatively high levels of Net International Reserves (NIR).

These achievements were attained in the face of a number of challenges during the year. The two most challenging areas of macroeconomic stability continued to be the fiscal and the external accounts. Other challenges were:

- The lingering effects of November 2001 flood rains;
- Two major flood rain events in May/June and September 2002;
- Persistent effects of the September 11th 2001 attacks on the United States of America (USA);

During 2002, the government continued to be guided by the International Monetary Fund's (IMF) Staff Monitored Programme (SMP). The authorities managed to achieve calendar year inflation and year end NIR targets. Inflation was 7.3% for the year while NIR fell marginally below the US\$1,600 million target to US\$1,596.98 million at the end of December 2002. Other growth initiatives included the lowering of the cash reserve requirement to 9.0 per cent. However, maintaining a relatively stable exchange rate, lowering reverse repurchase (repo) rates to 12.44 per cent to increase financing to the productive sectors and

reducing the fiscal deficit to 4.4 per cent of GDP remained elusive. In addition, the economic growth target of 2.0 per cent to 4.0 per cent was not achieved.

The deterioration in the Current account balance in the country's Balance of Payments account stemmed from negative outcomes on the Goods, Services and Income Accounts while the lower Official Capital inflows reflected the difficulties experienced by government in implementing its programme of external borrowing. The services balance, the significant factor, declined by US\$120.00 million to US\$230.10 million. The Transfer Account was the only account recording improvement.

The deficit in the last fiscal year was estimated at 7.7% of GDP, marginally lower than the 8.4% revised target, due to higher than expected revenue receipts in March 2003 (up 32.91%). The fiscal year end outturn to March generated a deficit of \$30,500.10 million, as a result of lower than budgeted revenues and grants (\$118,528.90 million) coupled with greater than budgeted expenditure (\$149,029.00 million). Revenue receipts were 5.30% (\$6,593.40 million) below budget, while expenditures were 10.30% (\$13,968.40 million) above budget. The Provisional figures from the Ministry also indicated that at the end of March 2003, the stock of public sector debt increased by 21% over March 2002 to \$601.24 billion or 151.80% of GDP. The domestic portion increased by 22% to \$366.16 billion or 92.4% of GDP.

Much of the inflation for 2002 occurred as a result of cost-push factors emerging from international and domestic shocks. The effects of these were manifested in the Food and Drink category of the Consumer Price Index. In the case of international shocks, the increase in the price of grains on the world market affected the cost of animal feeds and, by extension, the cost of meat, poultry and fish. Domestic shocks were in the form of shortage of domestic food

products following the flood rains in May/June and September 2002.

The marginally lower NIR resulted from central bank intervention through selling US dollars to stabilize the foreign exchange market. The foreign exchange market experienced various instances of instability during the year which was to some extent curtailed by the central bank. Calendar year depreciation was 7.0 per cent with significant depreciation (3.3% per cent) occurring in the December quarter. This was primarily due to the money market becoming extremely liquid when the Government used the proceeds of a World Bank loan of US\$74.5 million to redeem domestic debt held by commercial banks. In order to stem the rapid depreciation of the Jamaican dollar, the central bank hiked the 90-day and 120-day repo rates in early September. The rates settled at 18.25% and 18.40% respectively in December. Additionally, Standard and Poor's (S&P) downgraded the outlook on Jamaica's sovereign debt from "stable" to "negative" a few days after the announcement of a supplementary budget in early December. This announcement of a supplementary budget in December effectively moved the projected fiscal deficit from 4.4 per cent to 8.4 per cent.

GDP grew by 1.0 per cent during 2002 to reach \$20,146.0 million. The growth outcome – the third consecutive year of positive real growth following three years of consecutive decline between 1997 and 1999 – mainly reflected the continued growth in several sectors (Electricity & Water, Transport, Storage & Communication, Construction & Installation and Financial Institutions) and a recovery in several others that had been adversely affected by production shocks (Mining & Quarrying and Miscellaneous services). The production of agricultural commodities was negatively affected by flood damage to agricultural assets while the manufacturing continued to be plagued by slow growth of both domestic and external demand, partly reflecting relatively low levels of competitiveness influenced by cost factors.

Real GDP in Miscellaneous services declined by 0.2 per cent, reflecting a 0.4 per cent decline in the real GDP of Hotels, Restaurants & Clubs. The latter, in turn, was influenced by the performance of the Tourism industry, which was still recovering from the negative effects of the events of September 11, 2002 on the worldwide travel industry.

The Financial Services industry recorded its fourth successive year of real growth in 2002, showing further recovery from the 1996 financial distress. For 2002, real Gross Domestic Product for the industry was estimated to have increased by 1.2 per cent relative to 2001. This was reflected in increased lending activities, deposit flows as well as in the expansion of assets of commercial banks, credit unions, building societies and licensees under the Financial Institutions Act (FIA-Institutions). The stock market has also been buoyant primarily due to the reports of significant earnings and dividend payments by listed companies.

INTERNATIONAL ECONOMY

The global economy grew by an estimated 2.8 per cent during 2002. Among the factors influencing this growth rate were the recovery of the information technology sector, an upturn in the inventory cycle and an easing of monetary policies in industrialized countries. Growth in the global economy was moderated by falling equity prices and lower investor confidence in industrialized countries as well as declining capital flows and rising debt levels in emerging markets.

Within the World Trade Organization (WTO) the ruling by its Dispute Settlement Body (DSB) on the European Union (EU)/ African Caribbean and Pacific (ACP) banana protocol was implemented in 2002. This ruling, through the Tariff Rate Quota (TRQ) System resulted in an extension of preferences offered by the EU to ACP States until 2005. Trade negotiations by



Overview of the Economy

the Caribbean Community (CARICOM), focused on further liberalization of trade in Services with respect to the World Trade

Organization (WTO) and the Free Trade Area of the Americas (FTAA).

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CHAPTER 1: INTERNATIONAL ECONOMY

The world economy continued the recovery which began in the fourth quarter of 2001, growing by 3.0 per cent, compared with 2.3 per cent in 2001. The increased world output was mainly attributed to increased growth in the United States of America (USA), the world's largest economy. In the USA, Gross Domestic Product (GDP) growth increased from 0.3 per cent in 2001 to 2.4 per cent in 2002. The economic downturn in Japan continued as the economy grew by 0.3 per cent, compared with 0.4 per cent in 2001. With Japan's fiscal deficit of 7.7 per cent of GDP and short-term interest rates at 0.0 per cent, monetary and fiscal stimuli are severely limited. Generally, the growth rates of countries in the Euro Area were less than the previous year. Table 1.1

Average output in developing countries was stronger, increasing from 3.9 per cent in 2001 to 4.6 per cent in 2002. The higher growth rate was concentrated in Developing Asia, Middle East and Turkey. Output in the Western Hemisphere, of which Latin America and Caribbean are a part, fell by 0.1%. Growth in Latin America has been lowered by 1.6 percentage points. The decrease is attributed to the crisis in Argentina, major contractions of GDP in Uruguay and Venezuela coupled with slow growth in Brazil, Chile and Mexico. In the Caribbean, Jamaica and Trinidad and Tobago recorded growth of 1.2 per cent and 5.2 per cent, respectively. The Barbados economy contracted by -1.8 per cent, the second consecutive year of decline. In general, developing countries were affected by lackluster growth of international trade and weak international prices.

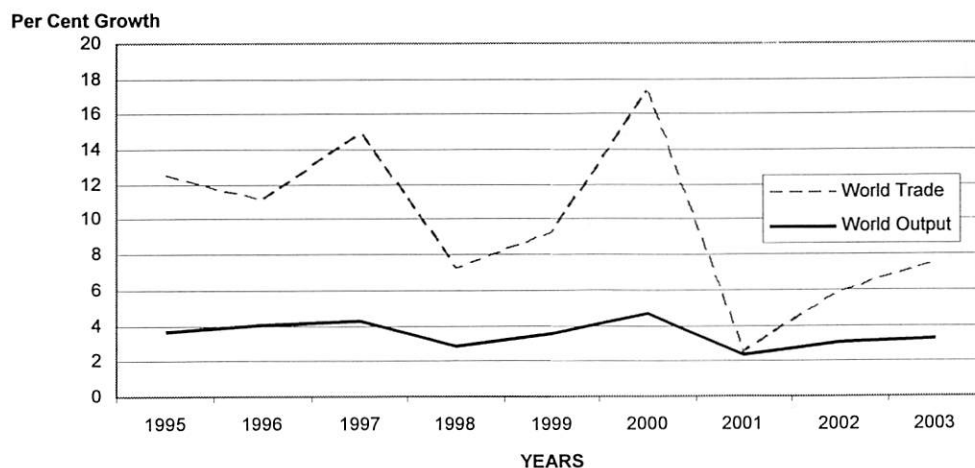
Low inflation which is a normal characteristic of high income countries, was also evident in the majority of developing countries. The

average inflation rate in developing countries, 5.6 per cent, was almost one-half of the average inflation rate recorded in 2000. Deflation persisted in Japan to be - 0.9 per cent as domestic demand in that country declined by 0.3 per cent. Table 1.1 (See next page)

INTERNATIONAL TRADE AND TRADE POLICY

Concomitant with the increased growth in world output, world trade grew by 2.9 per cent compared with 0.1 per cent in 2001 (Figure 1.1). This was reflected in an increase in the export and import volumes of both developing and developed countries. During 2001, both export and import volumes for developed countries declined by 1.8 per cent. Notably, from a historical perspective, the rebound in trade is modest: average growth in world trade between 1996 and 2000 was 8.0 per cent. Services continued to be the fastest growing component of world trade, increasing by 4.9 per cent to US\$1,568 billion, while merchandise trade grew by 3.1 per cent to US\$6,152 billion.

Table 1.1 Trends in World Trade and Output



Trade Policy

FTAA – The Free Trade Area of the Americas moved further towards reality after the seventh meeting of the ministers responsible for trade in Ecuador. One recommendation was that the Trade Negotiating Council schedule three meetings for 2003. The Free Trade Area of the Americas (FTAA), is scheduled for implementation by December 31, 2005. The FTAA will be the largest free trade area in history with an expected combined GDP of over US\$9 trillion and a market of 765 million people. The FTAA is being negotiated among 34 countries of the western hemisphere excluding Cuba. The negotiations are currently at the stage of submission and exchange of product offers by the countries. The Caricom offer contains a list of items in three baskets, those for immediate elimination of tariff on entry into force of the FTAA, those with a phase out of tariffs over a period of 10 years and those which are categorized as exclusions from tariff eliminations or sensitive products. Presentation of requests for improvement of these offers will be facilitated between February 16, 2003 and June 15, 2003. The Negotiating Group on Market Access has recommended that “the highest priority should be given to an evaluation and assessment of the tariff offers received by

Caricom”. An analysis of the offers by the Regional Negotiating Machinery (RNM) revealed that more generous offers were made to Caricom from Chile and the USA than to other countries within the FTAA grouping. Consultations on revised offers was convened with the private sector on March 19, 2003 and facilitated by the Ministry of Foreign Affairs and Foreign Trade.

Farm Bill 2000 – The Farm Security and Rural Investment Act of 2002 (Farm Bill 2000) was signed in May 2002, and spans the period 2002 to 2007. Farm bill 2000 provided supplemental assistance to USA farmers affected by the low price for primary commodities on the international market. Based on commitments to the World Trade Organization (WTO), domestic agricultural support programmes should not exceed US\$19.1 billion.

FINANCIAL MARKETS

Despite lower interest rates and a gradual improvement in financial conditions in mature markets, most equity markets across the globe finished lower. However, losses for emerging equity markets were lower than their mature

market counterparts. Latin America equities were the worst performing, because of sizeable decline in currencies. Asian Equities remained significantly tied to developments in the USA given strong dependence of the regions electronic exports on demand in the USA. The return on emerging market bonds as measured by the Emerging Market Bond Index (EMBI) was 14.2 per cent. Non-Latin American bonds posted a 26.0 per cent return for the year. The return on emerging market bonds compare favourably with the USA high yield corporate bonds down 1.1 per cent and USA high grade corporate bonds up 10.0 per cent.

CAPITAL FLOWS

Uncertainty is keeping investors cautious, throughout the world, consequently they are limiting their exposure to developing countries, particularly Latin America, and concentrating their assets in the countries with high credit ratings. Net capital flows to developing countries in Asia increased by 89.2 per cent to US\$31.6 billion. Contrastingly, the western hemisphere, and this was mainly due to reduced flows to Latin America, depicted a decline of 54.8 per cent to US\$10.3 billion. Countries affected by the reduced flows must offer higher yields on bonds. They may also face the prospects of worsening balance of payments deficit and currency depreciation.

COMMODITY PRICES

On average commodity prices are expected to have increased by 5.0% in 2002, compared with a 9.1% decline in 2001. However, commodity prices, according to the World Bank, are still one-third below their peak levels which occurred in 1997. Caribbean exporters who specialize in sugar, oranges and bananas did not benefit from the rebound in prices as coffee (Robusta), was the only major export crop to have reflected an increase. Oil prices in 2002,

increased by 3.0 per cent to US\$24.93 per barrel. The slight increase was due mainly to two factors; fears of military action against Iraq and supply disruptions in Venezuela ensuing from a general strike.

OUTLOOK

With interest rates and inflation low, particularly in developed countries, the international environment is expected to improve. However given financial uncertainty and relatively low business confidence in industrial countries, strong advances in investment and a robust rebound in developed countries growth is less likely. In addition, low interest rates and growing fiscal deficits in the USA and Japan will constrain efforts to stimulate economic activity. Since the inflation in the Euro Area during 2002 was 2.3 per cent, further interest rate cuts are also unlikely in the Euro Area based on the commitment of the European Central Bank to meet the targeted inflation rate of 2.0 per cent. GDP Growth in the USA, Japan and Euro Area are expected to grow by 2.2 per cent, 1.1 per cent and 0.8 per cent, respectively in 2003.

Although growth in developing countries is projected to be 5.0 per cent this year; this is dependent on the extent of the recovery in advanced countries. In line with these expectations, interest rates, inflation and non-oil commodity prices should edge higher towards the end of the year. Oil prices are also expected to fall, with the war in Iraq over. As a result, growth in oil exporting countries is not expected to be as high as it was in 2002.

CHAPTER 2: GROSS DOMESTIC PRODUCTS

Aggregate production, measured by the level of real Gross Domestic Product (GDP) amounted to \$20,146.0 million during 2002, an increase of 1.0 per cent over the 2001 level (Table 2.1). The growth outcome – the third consecutive year of positive real growth following three years of consecutive decline between 1997 and 1999 – mainly reflecting the continued growth in several sectors (Electricity & Water, Transport, Storage & Communication, Construction & Installation and Financial Institutions) and a recovery in several others that had been adversely affected by production shocks (Mining & Quarrying and Miscellaneous services). The production of agricultural commodities was negatively affected by flood damage to agricultural assets while the manufacturing continued to be plagued by slow growth of both domestic and external demand, partly reflecting relatively low levels of competitiveness influenced by cost factors.

The dominant role of sector-specific influences on output performance reflected the existence of a fairly stable macroeconomic climate. In particular:

- Nominal and real interest rates trended down for most of the year, although real interest rates remained relatively high compared to major trading partners;¹
- The nominal exchange rate depreciated gradually, with very modest gains in the real exchange rate;
- Credit conditions had eased, with evidence of new lending by restructured banks accompanying the downward trend in interest rates noted above; and
- Consumer price increases had been maintained within levels consistent with

¹ In response to increased foreign exchange market pressures during the last quarter of the year, the Central Bank increased the interest rates on its open market instruments, prompting a reversal of the decline in the interest rate structure which had been evident since the start of the year.

single digit annual inflation rates, despite significant food price shocks.

SECTORAL PERFORMANCE

Goods Production

Total Real GDP of Goods-Producing sectors fell by 0.4 per cent relative to 2001, primarily reflecting the weight of the decline in agriculture production. Real GDP of Agriculture, Forestry & Fishing declined by 8.3 per cent, with agriculture output declining in each quarter of 2002 relative to 2001. This performance reflected the impact of flood-induced supply shocks that occurred in late October and early November 2001, late May and early June 2002 and September 2002.² Table 2.2 presents estimates of the value of direct flood damage to agricultural assets during the twelve months to September 2002. Domestic crop production (including Livestock, Forestry & Fishing) was most severely affected, with aggregate domestic crop production declining by 9.5 per cent compared with 2001 levels. In addition, Export crop production also suffered with real GDP for export crops declining by 4.2 per cent.

Real GDP in Mining & Quarrying was 3.4 per cent higher than in 2001, mainly influenced by a surge in Bauxite/Alumina production during the last quarter of the year. Mining & Quarrying sector output had declined by 3.3 per cent during the first nine months of the year relative to the similar period in 2001, reflecting the negative impact on Bauxite mining operations of (a) industrial unrest during the first quarter of 2002 (b) technical problems at one of the mines in the second quarter and (c) flood rains in the

² The October/November 2001 rains destroyed food crops that, for the most part, were at an advanced stage of maturity and would have been reaped in the first quarter of 2002.

Gross Domestic Products

second and third quarters. However, during the October – December quarter, Mining & Quarrying output recovered strongly, to record

growth of 29.2 per cent. The fourth quarter performance is partly attributable to capacity expansion at the JAMALCO refinery.

TABLE 2.1

REAL GDP BY SECTOR, 1997-2001 (in percent)

					Percentage point contribution to growth		
	1997	1998	1999	2000	2001	2002	2002
I. GOODS	-4.0	-2.4	-0.6	-2.1	2.4	-0.4	-0.2
AGRICULTURE, FORESTRY & FISHING	-13.7	-1.5	1.3	-10.9	5.2	-8.3	-0.6
o/w: Export Agriculture	-9.7	-5.5	-1.1	-7.0	0.3	-4.2	-0.1
Domestic Agriculture, Livestock, Forestry & Fishing	-14.9	-0.3	2.1	-9.5	3.7	-9.5	-0.5
MINING AND QUARRYING	3.3	3.3	-1.2	-1.7	3.8	3.4	0.3
MANUFACTURING	-2.5	-4.4	-0.7	0.9	0.6	-0.2	0.0
o/w: Food, Beverages & Tobacco	0.3	-3.5	1.5	2.7	4.0	-0.3	0.0
Other Manufacturing	-4.5	-5.0	-2.4	-0.5	-2.2	0.1	0.0
CONSTRUCTION AND INSTALLATION	-4.0	-5.8	-1.5	0.2	2.0	2.2	0.2
II. SERVICES	-2.1	0.8	4.6	4.5	1.4	1.8	1.5
ELECTRICITY & WATER	5.5	6.4	4.8	3.3	1.1	4.8	0.3
TRANSPORT, STORAGE & COMMUNICATIONS	5.7	5.6	8.6	8.0	6.3	5.6	1.0
DISTRIBUTION	0.9	-1.6	-0.5	1.3	0.2	0.2	0.1
FINANCIAL INSTITUTIONS	-18.7	-1.7	18.1	11.0	0.6	1.2	0.2
REAL ESTATE SERVICES	-4.3	-1.2	-0.8	0.2	1.1	0.4	0.0
GOVERNMENT SERVICES	0.5	1.1	0.2	-0.2	0.7	0.6	0.0
MISCELLANEOUS SERVICES /a	2.5	1.9	2.2	4.8	-1.8	-0.2	0.0
o/w: Hotels, Restaurants & Clubs	3.5	2.5	2.6	5.5	-2.2	-0.4	0.0
III. IMPUTED BANK SERVICES CHARGES	-8.2	-0.3	21.3	10.0	1.5	1.3	-0.3
IV. TOTAL GDP	-1.7	-0.3	-0.4	0.7	1.7	1.0	1.0
/a: This includes Household & Non-Profit Institutions.							
Discrepancies due to rounding							

Source: Planning Institute of Jamaica (PIJ) "Economic & Social Survey, 2002"

Gross Domestic Products

Manufacturing sector output continued to decline, with real GDP declining by 0.2 per cent in 2002 compared with 2001. The Food, Beverages & Tobacco component declined by 0.3 per cent while real output levels in Other Manufacturing remained fairly flat. Real GDP in **Construction & Installation** grew by 2.2 in 2002, representing the third consecutive year of positive output growth, in the aftermath of the financial crisis of the late 1990's. Public sector housing projects and infrastructure development continued to be the main influences on the sector.

Services

During 2002, total real GDP of the Services sectors was 1.8 per cent higher than in 2001 reflecting growth in all service sectors except Miscellaneous services. Real GDP in **Miscellaneous services** declined by 0.2 per cent, reflecting a 0.4 per cent decline in the real GDP of Hotels, Restaurants & Clubs. The latter, in turn, was influenced by the performance of the Tourism industry, which was still recovering from the negative effects of the events of September 11, 2002 on the worldwide travel industry.

The main contributors to Services sector growth during 2002 were Transport, Storage & Communications, Electricity & Water and Financial Institutions. Real GDP in Transport, Storage & Communication grew by 5.6 per cent reflecting, among other things, (a) growth in cargo movements (b) the gradual recovery of tourist arrivals and (c) continued expansion in the penetration of mobile telephone services. The real GDP of the Electricity & Water sector grew by 4.8 per cent over 2001 levels, mainly reflecting the normalization of electricity production following the periodic removal of generating capacity during 2001.

Real GDP generated by **Financial Institutions** grew by 1.2 per cent, with positive contributions from Banking, Insurance and other financial services. The growth in Banking and Insurance

sectors have continued to benefit from the restructuring efforts of the late 1990's. Bank income, in particular, has been positively affected by the restructuring of balance sheets and the removal of substantial elements of non-performing loans. In addition, there were stronger signs of renewed lending during 2002. Off-balance sheet activities, notably, fund management operations were also an important factor in the expansion of the revenue base of financial institutions.

Table 2.2: Estimates of Direct Flood Damage To Agriculture

	Direct Damage, J\$ Million /a	Damage as % of sector GDP /b
October/November 2001	622.1	2.9
May/June 2002	708.2	3.1
September 2002 /c	317.3	1.4
<i>Notes:</i>		
<i>/a: Includes crops, livestock and farm roads</i>		
<i>/b: Expressed as a share of nominal GDP, lagged one year</i>		
<i>/c: Crops and Livestock only</i>		

Source: United Nations Economic Commission for Latin America and the Caribbean (ECLAC) and PIOJ.

OUTLOOK

Real output growth during 2003 is again likely to be modest, falling in the range of 1.0 per cent to 2.0 per cent. This reflects several considerations. On the positive side, we may expect:

(a) continued growth for the Transport, Storage & Communication sector, albeit at a slower rate than in 2002, following further liberalization of telecommunication in March 2003

Gross Domestic Products

(b) continued modest recovery in Miscellaneous Services, influenced by the gradual revival in the fortunes of the Tourism industry

(c) a rebound in Agriculture production from the flood-ravaged levels of 2002 and

(d) continued increase in Mining sector output given capacity expansion currently underway and expected to be completed before the last quarter of the year. In addition, exchange rate movements in the first quarter of 2003, which have translated into real exchange rate depreciation, augur well for the export of tradable, provided that an inflationary spiral can be avoided.

On the negative side, we should not expect robust growth in world demand (see chapter on

the Global Economy). In addition, domestic demand growth is likely to be curtailed by the implementation of new tax measures which were designed to raise just over \$14.0 billion in new taxes. The main component of the new tax package, announced in April 2003, was the broadening of the value-added tax base by removing the exempt status of numerous items. The growth of domestic demand may also be curtailed if volatility in the foreign exchange market is increased, prompting the central bank to induce an increase in interest rates in order to prevent too rapid a depreciation of the exchange rate. Higher real interest rates will increase the cost of doing business.

CHAPTER 3: BALANCE OF PAYMENT

Based on data available for the nine months to September 2002, Jamaica's balance of payments condition worsened relative to 2001 as evidenced by a widening of the deficit on the Current Account and a fall in Official inflows in the Financial Account. The deterioration in the Current account balance stemmed from negative outcomes on the Goods, Services and Income Accounts while the lower Official Capital inflows reflected the difficulties experienced by government in implementing its programme of external borrowing. The Transfer Account was the only account recording improvement. During the nine-month period, the stock of NIR fell by US\$153.4 million compared with 2001 to reach US\$1,687.3 million at September 2002. The NIR ended the year at US\$1,597.0 million or the equivalent of 27.0 weeks of imports.

GOODS ACCOUNT

For the nine months to September 2002, Jamaica's total trade in merchandise goods with the rest of the world amounted to US\$3 311.9 million (f.o.b.) representing a decrease of 3.1 relative to the similar period in 2001. The fall in total trade was due to a 12.6 per cent decline in exports compounded by a 1.7 per cent increase in imports (see chapter four on External Trade). Of the total goods traded in 2002, US\$991.2 million represented exports (f.o.b.) and US\$2 320.7 imports (f.o.b.). As a result of the fall in exports coupled with the increase in imports, the deficit on the Goods account increased by 15.8 per cent relative to the similar period in 2001 to reach US\$ 1,329.5 million³.

³ The deficit for the nine months ended September 2002, translated to an average monthly deficit of US\$147.72 million, which is higher than the average monthly deficit of US\$131.67 recorded for the full year in 2001. If this trend continued for the remaining three months in 2002, then the trade deficit for 2002 will be approximately US\$192.60 million higher than that in 2001.

SERVICE ACCOUNT

For January – September 2002, the Services Account registered a surplus amounting to US\$230.1 million. This represented a fall off of US\$120.0 million relative to the similar period in 2001. The reduction in the surplus on the Services account resulted from lower net inflows from Travel of US\$133.3 million, and higher net outflows from Transportation of US\$22.6 million (Table 3.1). The fall in net receipts from Travel continued to reflect the impact of the events of September 11, 2001 in the United States on the international travel industry. The increase in net outflows from Transportation reflected, in part, increased freight payments associated with higher level of imports and lower earnings from passenger fares, due to reduced tourist arrivals.

CURRENT ACCOUNT

The deficit on the Current Account increased by US\$216.8 million for the nine months ending September 2002 to reach US\$716.6 million when compared with the similar period for 2001. This reflected the negative outturn on the Services Account and on the Goods Account, which outweighed the improvement registered in the Current Transfer Account. The improvement in the Current Transfer Account mainly resulted from the continued buoyant inflows in Private Transfer, up US\$104.2 million reflecting continued growth in remittances.

CAPITAL AND FINANCIAL ACCOUNT

For the January – September 2002, the balance on the Capital and the Financial Account (excluding reserves) stood at US\$563.2 million comprising a deficit of US\$18.1 million on the Capital account and surplus of US\$581.4 on the Financial Account. The balance on Capital and Financial Account (excluding reserves) at the end of September 2002 was lower than the

Balance of Payments

balance of US\$ 1 067.0 million for the similar period in 2001. The balances reflected a decline in inflows of US\$139.1 million in Private Investment and less net Official Investments inflows of US\$364.5 million in the Financial Account. Private investment inflows which totalled US\$561.2 million comprised mainly of divestment proceeds from the sale of the Financial Sector Adjustment Company Limited

(FINSAC) 75 per cent share holdings in the National Commercial Bank and the sale of the non-performing loans portfolio acquired by FINSAC following the 1996 financial sector distress. Net Official inflows, which fell by US\$364.5 to US\$20.2 million, resulted from a 30.0 per cent fall in loan receipts exacerbated by 80.0 per cent increase in debt repayments.

Table 3.1

	BALANCE OF PAYMENTS(US\$), 1998 - 2002							
					January - September		January - September	
	1998	1999	2000r	2001r	2001	2002p	Abs. Change 2002/2001	% Change 2002/2001
CURRENT ACCOUNT	-333.7	-216.3	-387	-652.9	-499.8	-716.6	-216.8	43.4
Goods Balance	-1130.5	-1186.5	-1441.5	-1580	-1148.4	-1329.5	-181.1	15.8
Exports (f.o.b)	1613.4	1499.1	1562.8	1451.6	1133.9	991.2	-142.7	-12.6
Imports (f.o.b.)	2743.9	2685.6	3 004.3	3 031.6	2282.3	2320.7	38.4	1.7
Services Balance	476.9	655.4	583.6	543.5	350.1	230.1	-120	-34.3
Transportation	-278.3	-233.6	-256.6	-263.9	-177.5	-200.1	-22.6	12.7
Travel	998.9	1 052.4	1 123.9	1 073.2	828.8	695.5	-133.3	-16.1
Other Services	-243.7	-163.4	-283.7	-265.8	-301.2	-265.3	35.9	-11.9
Bal. on Gds & Servs	-653.6	-531.1	-759.5	-1 036.5	-798.3	-1 099.4	-301.1	37.7
Income	-308.1	-332.5	-349.9	-488.7	-336.5	-343.7	-7.2	2.1
Compensation of Employees	66.1	70.3	67.4	78.8	41.9	47.8	5.9	14.1
Investment income	-374.2	-402.8	-417.3	-567.5	-378.4	-391.5	-13.1	3.5
Current Transfers	628	647.3	820.8	872.3	635	726.5	91.5	14.4
Official	43.2	45.8	147.9	62.9	52.6	39.9	-12.7	-24.1
Private	584.8	601.5	672.9	809.4	582.4	686.6	104.2	17.9
CAPITAL & FINANCIAL ACCOUNT	333.7	216.3	387	652.9	499.6	716.6	216.8	43.4
Net Capital Account	-8.7	-10.9	2.2	-12.4	-17.9	-18.2	-0.3	1.2
Official	4.2	4.1	15.6	3.5	2.1	0.2	-1.9	-90.2
Private	-12.9	-15	-13.4	-15.9	-20	-18.4	1.6	-8.2
Financial Account	342.4	227.2	384.8	665.3	517.8	734.8	217	41.9
Official Investment	381.7	93.6	383.7	653.4	384.7	20.2	-364.5	-94.7
Other Private Investmnt	135.9	-3.8	520.4	883.2	700.3	561.2	-139.1	-19.9
Other Official Investment	-41.3	-331.4	0	0			0	
Reserves a	-39.3	133.6	-519.3	-871.3	-567.2	153.4	720.6	-127

Source: Bank of Jamaica (Preliminary)

OUTLOOK

The Current Account position is expected to improve in the short to medium term in 2003. With the war in Iraq having come to an end, it is expected that some of the fears in the travel industry will dissipate resulting in a positive impact on the tourism industry. The current account will also be positively affected by the imposition of a cess on imports and the devaluation of the \$J dollar and the stabilization of oil prices in the aftermath of the war in Iraq.

Prospects for an increase in external financial in flows are not very encouraging. Given the precarious position of Jamaica's debt situation, it will be increasingly difficult to access loans overseas. Jamaica's total debt is approximately 150% of its Gross Domestic Product with a fiscal deficit of 7.7 per cent of GDP. In early January the government withdrew its offer of EURO bonds following adverse developments relating to fiscal imprudence in 2002. This resulted in a reduction in the NIR as the government was forced to source approximately US\$240 million from the Bank of Jamaica to

Balance of Payments

honour its debt obligation, which fell due in February 2003. The outlook associated with the Minister of Finance's budget presentation in April 2002 is mixed.

The budget presentation, while it attempted to close the gap with significant new taxes, neglected to signal any serious attempt by the government to cut expenditures.

Since the budget presentation, interest rates have remained high and the Jamaican dollar has depreciated by a further 6.96%.

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CHAPTER 4: EXTERNAL TRADE

MERCHANDISE TRADE

Data available for the period January – September 2002 showed that the Merchandise Trade account recorded deficit of US\$1,760.9 million (Table 4.1). This represented an increase of 13.3 per cent when compared with the similar period in 2001 and resulted from a decline in total exports earnings combined with an increase in total imports (see Table 4.1). The

deficit recorded for the nine months to September 2002, was much higher than full year deficits recorded for each year over the period 1990 – 1999 (see Table 4.1). In addition, the trade deficit for the nine months in 2002, translated into a monthly average deficits of US\$195.7 million, which is US\$17.3 million higher than the one-year monthly average deficit for 2001.

Table 4.1

Jamaica's External Trade Balance										
	1996	1997	1998	1999p	2000r	2001r	January to September		Change 02/01	
							2001r	2002p	US\$M	%
Imports	2,933.7	3,127.9	2,961.0	2,903.8	3,307.1	3,402.6	2,513.5	2,597.9	84.4	3.4
Exports	1,387.3	1,387.3	1,290.3	1,247.3	1,301.0	1,223.1	959.2	836.9	- 122.3	- 12.8
Balance	- 1,546.4	- 1,740.6	- 1,670.7	- 1,656.5	- 2,006.1	- 2,179.5	- 1,554.3	- 1,761.0	- 206.7	13.3

Source: Statistical Institute of Jamaica

EXPORT OF GOODS

Total earnings from exports declined by US\$122.7 million reflecting reductions of US\$82.0 million and US\$37.1 million in Traditional and Non-Traditional exports, respectively⁴(Table 4.2). The fall in Traditional Exports was due largely to a decline in earnings from Alumina exports amounting to US\$84.6 million, which reflected disruptions in the production process of alumina, caused by:

- the flood rains in May/June and in September 2002; and
- mechanical problems at the Alpart Aluminum plant in the parish of Manchester.

In addition, the lower earnings from alumina exports was partly due to a fall in the price of alumina which averaged US\$167.4 per tonne for January – September 2002 compared with an

average price of US\$184.5 for the similar period in 2001. In contrast to the fall in earnings from alumina export, the earnings from bauxite exports inched up by US\$2.9 million.

There were marginal increases in earnings from the export of Traditional Agricultural and Manufactured goods of approximately US\$0.3 million each (see Table 4.2). The increase in Agricultural exports earnings mainly reflected increase in the export of coffee beans and the increase in Manufactured exports earnings was due largely to higher earnings from the export of rum.

Total earnings from Non-Traditional Exports declined by US\$37.1 million reflecting declines in earnings from the Food category and the Wearing Apparel sub-category of US\$4.1 million and US\$51.4 million, respectively. With the exception of Papaya and Yam exports, earnings from all items under the Food category

⁴ The fall in total exports includes a decline of US\$ 3.3 million in re-exports.

fell. The main item in the Food category contributing to the fall in export earnings was Fish, Crustaceans & Molluscs, which fell by US\$3.8 million to US\$3.4 million (see Table 4.2). This largely reflected the downturn in the export of Lobster. The fall in export earnings for the Wearing Apparel industry reflects the continued disadvantage that Jamaica has in the garment sector. Due to the high cost of production in Jamaica most companies have moved their operations to other Caribbean counterparts such as Dominican Republic, where production costs are lower.

There were increases registered in export earnings for categories Crude Material and Beverages & Tobacco (excluding rum) (Table 4.2). The increase in the latter category represented a rise in earning from Beverages of US\$2.5 million as earnings from tobacco exports declined by US\$0.9 million. The fall in tobacco exports continued to reflect the decline in tobacco output, which stemmed from the closure of, Cifuentes, a cigar company, since October 2001.

Table 4.2

Value of Merchandise Imports by Economic End Use, 1998 -2002 (US\$M)								
	1998	1999	2000r	2001r	January to September		Change '02/01	
					2001r	2002p	US\$M	%
Total Merchandise Imports	2 961.0	2 904.0	3 307.2	3 402.6	2 513.5	2 597.8	84.3	3.4
Consumer Goods	922	964	971	984.9	705	777.9	72.9	10.3
Food (including Beverages)	280	274	258.9	266.3	196.1	216.2	20.1	10.3
Non-Durable Goods	292	313	320.2	319	235.9	222.1	-13.8	-5.8
Semi-Durable Goods	81	91	93.1	95.8	63.2	75.5	12.4	19.6
Durable Goods - Motor Cars	143	134	142.4	137.6	100.9	111.3	10.5	10.4
Other Consumer Durables	127	151	156.4	166.2	109	152.7	43.7	40.1
Raw Materials	1 488.0	1 471.0	1 821.0	1 837.7	1 362.5	1 329.5	-33	-2.4
Food (incl. Beverages)	225	202	208.4	226.8	163.6	161.3	-2.3	-1.4
Industrial Supplies	709	671.3	715.9	701.7	513.8	486.4	-27.4	-5.3
Crude Oil		58.6	211.6	168.2	142.6	150.6	8	5.6
Fuels and Lubricants	294	321.2	436.5	446.6	342.5	289	-53.6	-15.6
Parts & Accessories of Capital Goods	260	217.9	248.6	294.4	200	242.2	42.2	21.1
Capital Goods	551	469	515.2	580	446.1	490.5	44.4	10
Transport Equipment - Motor Cars	5	4	3.8	1.9	1	2.6	1.6	156.7
Industrial Transport Equipment	113	83	103.9	106	85.6	79.8	-5.8	-6.7
Construction Materials	164	156	150.4	150	119.1	99.6	-19.5	-16.4
Machinery and Equipment	260	220	247.2	315.1	235.5	300.4	64.9	27.6
Other Capital Goods	9	6	9.8	7	4.9	8.1	3.2	64.4

Source: Statistical Institute of Jamaica

IMPORT OF GOODS

The value of total imports increased by US\$84.3 million reflecting higher values for imports of Consumer and Capital Goods, which outweighed the decline recorded in the value of Raw Material imports. Consumer Goods imports rose by US\$72.9 million due to increases in all sub-categories with the exception of Non-Durables Goods, which fell by US\$13.8 million (Table 4.3). The sub-

category, Other Consumer Durables registered the largest increase amounting to US\$43.7 million. This was due largely to the importation of cellular telephones which totalled US\$61.0 compared with US\$25.0 million for the similar period of 2001. In addition, the sub-category, Food (including beverages) registered an increase of US\$20.1 million due to higher imports of meats, cereals and animal feeds.

External Trade



Table 4.3

Value of Merchandise Exports, 1998 - 2002 (US\$'000)								
	1998	1999	2000r	2001r	January to September			
					2001r	2002p	Change '02/01	
							US\$M	%
TRADITIONAL EXPORTS	840,384	874,644	909,768	897,300	734,015	651,975	-82,040	-11.2
Agriculture:	60,025	64,050	64,535	57,233	44,702	45,031	329	0.7
Banana	33,251	29,816	22,895	18,271	13,826	13,419	-407	-2.9
Citrus	3,831	4,294	3,781	4,032	2,975	1,653	-1,322	-44.4
Coffee	16,709	23,895	32,309	29,895	25,147	27,228	2,081	8.3
Cocoa	2,187	1,121	639	1,550	1,147	895	-252	-22
Pimento	4,047	4,924	4,911	3,485	1,607	1,836	229	14.3
Mining:	658,023	685,154	731,972	738,354	594,911	512,279	-82,632	-13.9
Bauxite	81,041	56,015	45,543	93,772	73,072	75,990	2,918	4
Alumina	575,341	627,982	684,258	642,578	520,170	435,564	-84,606	-16.3
Gypsum	1,641	1,157	2,171	2,004	1,669	725	-944	-56.6
Manufacture:	122,336	125,440	113,261	101,713	94,402	94,665	263	0.3
Sugar	94,620	95,319	83,304	70,502	70,502	66,153	-4,349	-6.2
Rum	25,454	27,598	26,353	28,794	22,081	26,631	4,550	20.6
Citrus Products	128	125	1,105	169	157	106	-51	-32.5
Coffee Products	753	797	782	810	570	762	192	33.7
Cocoa Products	1,381	1,601	1,717	1,438	1,092	1,013	-79	-7.2
NON-TRADITIONAL EXPORTS	399,898	338,196	349,376	299,892	206,483	169,368	-37,115	-18
FOOD	79,641	81,641	75,769	94,302	67,740	63,658	-4,082	-6
Cucumbers	45	78	71	73	55	6	-49	-89.1
Pumpkins	1,037	1,095	822	726	603	531	-72	-11.9
Dasheens	1,476	1,502	804	1,201	869	763	-106	-12.2
Sweet Potatoes	1,755	2,069	1,487	1,674	1,258	1,160	-98	-7.8
Yams	12,910	12,878	11,851	14,081	9,714	10,277	563	5.8
Mangoes	496	894	802	1,043	910	547	-363	-39.9
Papayas	6,387	4,870	3,404	3,841	2,908	3,495	587	20.2
Ackee		5,751	5,095	9,091	6,035	5,629	-406	-6.7
Fish, Crustaceans & Molluscs	14,411	14,723	9,985	11,816	7,225	3,440	-3,785	-52.4
Other Food Exports	41,124	37,781	41,448	50,756	38,163	37,810	-353	-0.9
BEVERAGES & TOBACCO (excl. Rum)	48,102	28,871	33,399	19,569	14,873	16,482	1,609	10.8
Beverages	16,901	16,881	20,333	17,998	13,623	16,109	2,486	18.2
Tobacco	31,201	11,990	13,066	1,571	1,250	373	-877	-70.2
CRUDE MATERIALS	6,395	4,549	5,360	4,325	3,510	4,435	925	26.4
Cut Flowers	445	336	205	165	135	72	-63	-46.7
Foliage & Other Live Plants	259	352	138	91	75	32	-43	-57.3
Limestone	1,188	623	1,559	1,172	1,172	1,221	49	4.2
Other	4,503	3,238	3,458	2,897	2,128	3,110	982	46.1
OTHER	265,760	223,135	234,848	181,696	120,360	84,793	-35,567	-29.6
Mineral Fuels, etc.	2,022	3,567	3,709	14,421	6,496	23,706	17,210	264.9
Animal & Vegetable Oils & Fats	21	34	55	53	38	36	-2	-5.3
Chemicals	44,291	45,995	67,434	65,303	36,876	35,261	-1,615	-4.4
Manufactured Goods	7,114	6,370	6,788	5,945	4,505	3,613	-892	-19.8
Machinery and Transport Equipment	3,861	1,658	992	1,132	863	1,297	434	50.3
Wearing Apparel	200,533	159,066	149,146	88,533	67,317	15,874	-51,443	-76.4
Furniture	1,400	724	360	845	549	524	-25	-4.6
Other Domestic Exports	19,536	5,721	6,364	5,464	3,716	4,482	766	20.6
TOTAL DOMESTIC EXPORTS	1,240,282	1,212,840	1,259,144	1,197,192	940,498	821,343	-119,155	-12.7
RE-EXPORTS	50,059	34,503	41,871	25,936	18,841	15,523	-3,318	-17.6
TOTAL EXPORTS	1,290,341	1,247,343	1,301,015	1,223,128	959,339	836,866	-122,473	-12.8

Source: Statistical Institute of Jamaica

The importation of Capital Goods increased by US\$44.4 million and was largely due to an increase of US\$64.9 million in the sub-category Machinery & Equipment. The expansion in the latter reflected increases in the importation of the following:

1. telephone apparatus
2. gas generator and turbines; and
3. brewing machinery.

The importation of item one (1) above is associated with the continued growth in the provision of cellular telephone services, the second item relates to expansion in production/generation capacity of electricity providers, and the third item is linked to the replacement of capital equipment by local beer producers.

Two Capital Goods sub-categories, Industrial Transport Equipment and Construction Materials registered declines (see Table 4.2). Industrial Transport Equipment, which fell by US\$5.8 million, resulted from the importation of fewer buses by the Jamaican Urban Transit Corporation. The Construction Materials sub-category declined by US\$19.5 million reflecting mainly lower imports of building steel and coniferous wood.

Raw Material imports fell by US\$33.0 million reflecting declines in the sub-categories Industrial Supplies, down US\$27.4 million, and Fuels & Lubricants, down US\$53.6 million, (see Table 4.3). The fall in Fuels & Lubricant was most significant in January – March 2002 compared with the similar period of 2001 when larger amounts of refined oil had to be imported due to technical difficulties at the Petrojam Refinery.

The fall in the importation of Industrial Supplies reflected the downturn in the Bauxite Industry during the first nine months and the continued decline in the Apparel industry. The impact of the May/June and September floods rains as well as the mechanical problems at the Alpart bauxite plant in Manchester resulted in the importation of less caustic soda - a material used

in the processing of Bauxite. With the Apparel industry becoming more and more non-competitive, less garment parts and hosiery were imported (see Chapter 9: Manufacturing).

Despite the overall fall in the importation of Raw Material, the sub-category, Parts & Accessories of Capital Goods, increased by US\$42.2 million reflecting the purchase of aircraft engines valuing US\$22.8 million.

CARICOM TRADE

For the nine months ended September 2002, Jamaica's trade with the CARICOM totalled US\$319.1 million. Of this amount, exports amounted to US\$36.0 million, 4.3 per cent less than the similar period in 2001, and imports amounted to US\$283.1 million 14.3 percent less than the similar period in 2001. With the fall in imports being greater than the fall in exports, the trade deficit improved, registering a 16.1 per cent reduction relative to the similar period in 2001. (Table 4.4)

Table 4.4

Jamaica's trade with CARICOM Counterparts for January - September (US\$M)						
	2001r				2002p	
	Imports	Exports	Balance		Imports	Exports
Total	332.2	37.6	-294.6		283.1	36
Food	62.6	16.4	-46.2		62	13.4
Beverages & Tobacco	12.8	2.6	-10.2		16.9	2.4
Crude Materials	0.4	0.5	0.1		0	0.3
Mineral Fuels	189	0.5	-188.5		139.1	3
Animal and vegetable Oils	4.8	0.7	-4.1		2	0
Chemicals	24.1	8.7	-15.4		21.3	9.3
Manufactured Goods	26.6	3.6	-23		29.9	2.7
Machinery & Transport Equipment	4.8	1.2	-3.6		3.2	0.7
Misc. Manufactured Articles	7.2	3.4	-3.8		8.6	4.2

Source Compiled from data provided by the Statistical Institute of Jamaica

Box 4.1

Internal Factors Affecting Trade

1. For 2002, the government macro-economic focus continued to be one of price stability with emphasis placed on: (a) the lowering of indicative interest rates and inflation and (b) maintaining price stability in the exchange rate market.

Accordingly the following outcome materialized:

- The 90 day repo rate fell by 1.30 percentage point between January and August to 13.15 per cent. However in an attempt to allay the pressures in the foreign exchange market, the monetary authorities increased interest rates on the 90-day repo to 17.25 per cent in September, then by a further 2.0 percentage points in October 2002. This action did not affect the downward trend in commercial banks weighted average loans rate which fell by 1.2 percentage below 2001 to 18.26 at the end of 2002. In addition the cash reserve ratio was reduced by 1.0 percentage point in March 2002 to 9.0 per cent. This helped to increase the availability of credit to businesses. Credit to the private sector grew by 34.8 in 2002 when compared to 2001.
- For 2002 the rate of the overall price increases fell by 1.5 percentage points relative to 2001 to reach 7.3 percent.
- For 2002 the real exchange recorded its fourth consecutive year of decline registering a decline of 2.5 per cent in 2002. This has served to increase the competitiveness of Jamaica's exports.

2. During 2002, floods rains in the months of May/June and September, negatively affected the output of the Agriculture and the Mining sectors. Bauxite production was further reduced as a result of mechanical problems at the Alpart bauxite plant in the parish of Manchester.

3. The carbonated beverage industry continued to reap the benefits of expanded capacity undertaken in 2001. The sector recorded positive growth in 2002, albeit, at a slower rate when compared with 2001.

4. Following the imposition of a 260 per cent duty on chicken meat, domestic production of poultry meat increased by 3.7 per cent relative to 2001. In addition there was expansion in the production capacity of chicken meat to meet the increased anticipated demand resulting from the duties.

5. The Jamaica Public Service Company has increased its production capacity to meet peak demand and has aborted the scheduled cuts in electricity supply. This has resulted in the manufacturing sector reverting to normal production time.

6. The importation of cheap substitutes continued to impact negatively on some sectors of the economy.

7. The apparel sector continued to be plagued by high production costs and loss of market share. The high cost of production has resulted in key manufacturers shifting their operation to other countries with lower production costs.

Box 4.2

External Factors Affecting Trade

1. The lingering effect of the events of September 11 in the United States coupled with the general sluggishness of the world economy continued to impact negatively on the travel industry with negative spillover effects for the tourism industry. Tourism has strong links with domestic Agriculture and Manufacturing sectors.
2. The preferential market access which Jamaica and other countries benefited from is coming to an end.
3. The Mining sector should continue to benefit from strong demand for bauxite and alumina in China.
4. Stability in the Middle East is required for oil prices to fall.

OUTLOOK

It is expected that the merchandise account may improve for 2003 due to the expected rebound in Agriculture and Mining production from shocks in 2002. In addition, Mining production and exports should be positively affected by planned capacity expansion (see chapter on Mining). With the cessation of military action in

Iraq, the price of oil is expected to stabilize and possibly fall with favourable implications for Jamaica's oil import bill. The significant real exchange rate depreciation will serve to contain import demand while encouraging exports. In addition, the recovery of the United States of America and the United Kingdom economies, Jamaica's major export partners, will impact positively on the merchandise trade account.



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CHAPTER 5: MONEY AND BANKING

BASE MONEY

The Bank of Jamaica (BOJ) continued to pursue tight monetary policy for 2002. The monetary base for December was \$36,408.81 million, representing a 3.99% increase for the year. Currency issue, the major component of base money, increased by 8.97% from \$22,379 million in December 2001 to \$24,387 million in December 2002. At the end of the similar period in 2001, currency issue had increased by 8.40%.

MONEY SUPPLY

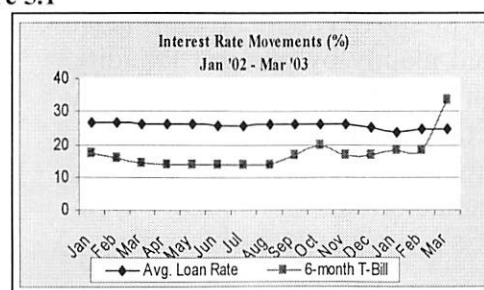
The nominal stock of broad money (M2) stood at \$165,026.08 million in December 2002. This represented a 12.98% increase over 2001. Both narrow money (M1) and quasi money components of money supply grew by 13.63% and 12.69% respectively. An 8.65% increase in currency held by the public and a 17.15% increase in demand deposits contributed to the overall increase in narrow money. Time and saving deposits, which increased by 12.53% and 12.76% respectively, contributed to the quasi money increase.

INTEREST RATES

For the first two (2) quarters, the economy experienced declines in interest rates. However, the central bank increased interest rates on its 90-day and 120-day open market instruments in early September. This was done in an effort to absorb the liquidity that was contributing to instability in the foreign exchange market. The announcement of a supplementary budget in December also led to a 12 basis point increase of the six month Treasury Bill to 17.01%. Unfortunately, protracted instability in the foreign exchange market forced the Bank to tighten monetary policy via the temporary

introduction of a 5% special deposit⁵ requirement for commercial banks and institutions licensed under the Financial Institutions Act in January 2003 and a 30% 150-day open market instrument in February. For 2002, average lending rates registered an overall decline of 159 basis points to 25.04%. The graph below shows the interest rate movements from January 2002 to March 2003.

Figure 5.1



STOCK MARKET DEVELOPMENT

Despite the decline in trading activity for the December 2002 quarter, the stock market rallied to post significant price gains, relative to the previous quarter. High levels of J\$ liquidity helped to offset the fall-off in stock prices which would have normally occurred amidst foreign exchange market volatility and a general increase in interest rates. Significant earnings and dividend announcements served to buoy the demand for equities towards the end of 2002. Thus, the calendar year outturn demonstrated improved performance over 2001. At the end of December, the Jamaica Stock Exchange (JSE) stood at 45,396.22 points (up 34.17%) from 33,835.59 points. The graph below shows the stock market developments from January to December 2002.

⁵ This requirement stipulated that each institution should place with the Central Bank, cash deposits equivalent to 5 % of its Jamaica dollar liabilities. These deposits would attract interest of 6 per cent per annum.

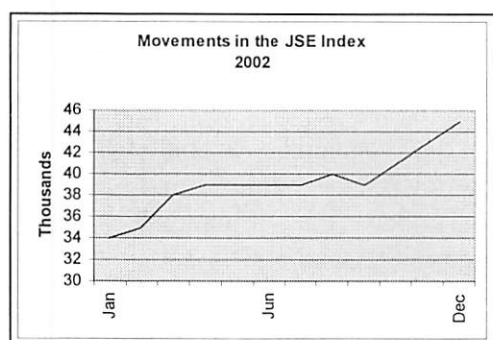


Figure 5.2

The index continued its record breaking performance reaching as high as 44,451.77 points on December 30, compared to a previous high of 35,986.01 in 2001. The market has been negatively affected mainly by reduced liquidity as a result of high interest rates being offered in the money market. The top performers for 2002 was a diverse mix of the distributive trade, shipping and manufacturing.

Table 5.1

Major Stock Performers	
Top Five Winners	
Jamaica Producers Group	366.67%
Courts (Jamaica)	313.79%
Radio Jamaica	296.55%
Kingston Wharves	202.33%
Seprod	199.34%
Top Five Losers	
Goodyear (Jamaica)	(53.80%)
Cable & Wireless (Jamaica)	(19.42%)
Island Life Insurance	(15.71%)
Life of Jamaica	(9.09%)
Salada Foods	(7.89%)
Source: PSOJ Research	

FOREIGN EXCHANGE DEVELOPMENTS

During the year, the foreign exchange market experienced various instances of instability which was to some extent curtailed by the central bank. Of note, is the fact that for the December quarter, the weighted average selling rate depreciated by 3.3 per cent, while for the

calendar year 2002 the depreciation was 7.0 per cent. In November the money market again became extremely liquid after the Government used the proceeds of a World Bank loan of US\$74.5 million to redeem domestic debt held by commercial banks. A few days after the announcement of a supplementary budget in early December, Standard and Poor's (S&P) downgraded the outlook on Jamaica's sovereign debt from "stable" to "negative". This further intensified the demand for foreign exchange. The central bank used a combination of selling foreign exchange and hiking interest rates to stem the rapid depreciation of the J\$.

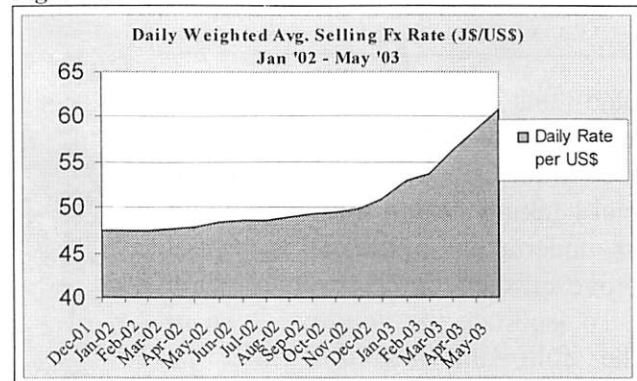
The sale of foreign exchange in the market resulted in the decline of the Net International Reserves (NIR) of the Central Bank from \$1,848.68 million to US\$1,596.98 million at the end of December 2002. Notwithstanding the Central Bank's activity in the market, the NIR target of US\$1.6 billion was basically achieved⁶ as was agreed under the IMF Staff Monitored Programme.⁶

Marked revaluations were achieved by the 5% special deposit requirement and a special 150 day open market instrument in January and February 2003. In particular, the market responded favourably to the 150 day instrument and approximately J\$7 billion was absorbed in four days. Although the weighted average selling rate on the foreign exchange market appreciated sharply, by approximately 4%, this was short-lived. Further, effective Wednesday March 26, 2003, the rates on all central bank repos were increased to a low of 15% (up 1.75 percentage points) for the 30 day repos, to a high of 35.95% (up 13.50 percentage points) for 365 day repos. Despite BOJ attempts to halt the rapid movements in the foreign exchange market, the year-to-date daily weighted average rate of the US\$ continued to show significant depreciation. As at May 9, 2003, the depreciation was 19.15% when compared to the

⁶ The IMF has ceased conducting staff monitored programmes for its member countries.

similar periods in 2002 (1.44%) and 2001 (0.55%).

Figure 5.3



THE FINANCIAL SECTOR

The Financial Services industry recorded its fourth successive year of real growth in 2002, showing further recovery from the 1996 financial distress. For 2002, real Gross Domestic Product for the industry was estimated to have increased by 2.1 per cent relative to 2001. This was reflected in increased lending activities and deposit flows as well as in the expansion of assets of commercial banks, credit unions, building societies and licensees under the Financial Institutions Act (FIA-Institutions). In addition, there were increases in premiums collected by life and general insurance companies. The industry continued to benefit from a stronger Regulatory and Supervisory framework, new private investment as well as from the internal restructuring in major banking and insurance companies. The industry also benefited from a one percentage point reduction in the cash reserve ratio and continued decline in commercial banks lending rates.

During the year, there were further developments relating to the legislative framework of the industry which had implications for not only the Bank of Jamaica but also for the Financial Services Commission (FSC) and the Jamaica Deposit Insurance Corporation (JDIC). The Financial Sector Adjustment Company (FINSAC) took further steps to wind down its operation.

LEGISLATIVE DEVELOPMENTS IN 2002

In March 2002, amendments were made to the Jamaican banking laws to grant the Bank of Jamaica (BOJ) expanded powers in its supervision of deposit-taking financial institutions. These amendments included:

1. the transfer of power to assume temporary management of deposit-taking institutions in the event that such institutions show signs that they are unlikely to meet their obligations from the Minister of Finance to the BOJ;
2. granting of power to the BOJ to assess fines for specific offences under the relevant financial Acts administered by the BOJ;
3. granting of power to the BOJ to effectively carry out consolidated supervision of deposit-taking licensee and other companies within the group of which the licensee is a member;
4. broadening of the types of cases in which deposit taking licensee may disclose information concerning specific customer accounts; and
5. the granting of power to the BOJ to require financial institutions to legally separate their deposit-taking operation from their investment activities on behalf of investor clients.

Financial Sector Adjustment Company Limited (FINSAC)

FINSAC took further steps in 2002 to wind down its operation and end its three-phased programme⁷ which started in 1997. Accordingly, the remaining non-performing loan portfolio held by FINSAC, valued at US\$393.0 million, was sold to the Jamaica Redevelopment Foundation (JRF) in February

⁷ These include (1) an Intervention Phase; (2) a Rehabilitation Phase and (3) a Divestment Phase. For more information on the strategies see the 1998 – 2000 editions of the ESSJ.

2002. Also, in keeping with efforts to wind down its operation, FINSAC sold its 75.0 per cent shareholding in the National Commercial Bank (NCB) to the Advance Investment Council Limited, a Canadian company, for US\$217.0 million. In addition, FINSAC disposed of assets valued at \$2.2 billion bringing the value of total assets sold (excluding holding in financial institutions) since its inception to \$14.7 billion.

Financial Services Commission (FSC)

Item five under the heading **Legislative Developments in 2002 (above)** allowed for the FSC to effectively regulate the managed funds along with the activities on all non-deposit-taking institutions while the Bank of Jamaica concentrates on regulating all deposit-taking activities. During the year, the main focus of the FSC was on public awareness and education about its operations.

Jamaica Deposit Insurance Corporation (JDIC)

During 2002, the number of institutions registered with the JDIC was reduced by one to twenty. This emanated from a new requirement introduced in March 2002, which mandated financial institutions to separate their securities trading from their banking activities (see above). In October 2002, the deposit liabilities of Scotia Jamaica Trust and Merchant Bank were transferred to Scotia Jamaica Building Society and the former licence was surrendered in November 2002.

At the end of 2002, the balance in the Insurance Deposit Fund managed by the JDIC stood at \$702.1 million, representing an increase of 41.0 per cent relative to 2001. This outcome stemmed from a 59.9 per cent increase in Premium Income to \$192.2 million and a 67.8 per cent increase in Investment Income to \$94.8 million. The expansion in premium collected was due to an increase in deposits at commercial banks as well as to an increase in the Premium Assessment Rate to 15.0 basis points (0.15 per cent) in 2002 from 10.0 basis points in 2001.

The premium assessment refers to the percentage of total deposits that each registered institutions is required to pay over to the JDIC.

OUTLOOK

It is expected that the Financial Services industry will continue to grow in 2003. This will hinge on the continued positive performance of the commercial banking system following major developments undertaken in the latter part of 2002 to improve efficiency and profitability in these banks. To facilitate the winding down of FINSAC, the following activities will be handled through the Financial Institutions Services. These activities include:

1. The monitoring of debt collection and reconciliation;
2. The coordination of outstanding litigation
3. Processing and finalizing of claims arising from various sale agreements entered into by FINSAC
4. Monitoring liquidation issues pertaining to Mutual Life Group, Crown Eagle Group, NCB Group & Corporate Group; and
5. Managing and maintaining accounting process for transactions relating to entities in which FINSAC has interest.

In the stock market, despite good earnings reports coupled with the listing of Jamaica Money Market Brokers Limited and Capital Credit & Merchant Bank in January and April 2003 respectively, high interest rates offered in the money market continues to weaken the market performance. The high interest rate environment is expected to continue as the central bank attempts to stabilize the rapid slippage in the foreign exchange market. Also, if interest rates remain high over a protracted period, loan rates may trend up. This will impact negatively on highly leveraged companies and ultimately diminish the prospects for economic growth. The tight monetary policy being pursued to achieve the inflation target of 7% and

the elimination of tax credits derived from bonus share issues which effectively reduces

earnings, may further exacerbate the situation.



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CHAPTER 6: FISCAL PERFORMANCE

The deficit in the last fiscal year was estimated at 7.7% of GDP, marginally lower than the 8.4% revised target, due to higher than expected revenue receipts in March 2003 (up 32.91%). The fiscal year end outturn to March generated a deficit of \$30,500.10 million, predicated on lower than budgeted revenues and grants (\$118,528.90 million) coupled with greater than budgeted expenditure (\$149,029.00 million). The Provisional figures from the Ministry also indicated that at the end of March 2003, the stock of public sector debt increased by 21% over March 2002 to \$601.24 billion or 151.80% of GDP. The domestic portion increased by 22% to \$366.16 billion or 92.4% of GDP.

EXPENDITURE

Recurrent expenditure was \$15,930.80 million above budget. This was due to expenditure on Programmes and Wages and Salaries of \$7,005.90 million (up 34.20%) and \$6,422.10 million (up 14.20%) respectively above budget. Interest payments, which increased by \$2,502.80 (4.20%), reflected the above budget outturn of domestic interest payments, which increased by \$4,201.90 million (9.80%). External interest payments declined by \$1,699.10 million (10.1%) when compared to budget.

The government expects to spend \$261.41 billion for the fiscal year 03/04, approximately 17% more than the previous fiscal year. Both recurrent and capital expenditure increased by 15.41% and 19.57% respectively. The allocation for salaries and operating expenses increased by 7.64% to \$82.98 billion. Of note, is significant increases to the budget for recurrent expenditure in the Ministry of Finance and Planning with a 22.50% increase to \$97.29 billion. Interest payments which account for 48.84% of the total recurrent budget, increased by 24.84% over the

previous fiscal year. Domestic interest payments are expected to reach \$60.46 billion for 2003/04. This is 20.05% above the amount spent in the last fiscal year. External interest payments also increased by 24.01% which indicates increased activity in the international capital market.

The repayment of loans constitute a significant portion of the capital budget. Approximately 91.02% or \$90.31 billion was allocated. Domestic debt amortization accounts for 84.96% increased by 80.88% to \$76.73 billion. On the other hand, external debt repayment is expected to decline to \$13.58 billion (down 58.32%). Overall, total debt servicing is expected to increase by 22.43% to \$169.52 billion.

REVENUE

The major sources of revenue fallout were the lower than budgeted tax revenue, down \$3,856.90 million, and non-tax revenue, down \$1,038.50 million. The shortfall in tax revenue mainly resulted from a \$3,008.70 million outturn below budget from Income and Profits, and a \$2,234.60 million outturn below budget from International Trade.

Within the production and consumption category, GCT and SCT generated revenues 3.70% (\$611.60 million) and 9.10% (\$506.50 million) respectively above budget.

Loan receipts were above budget, with domestic receipts of 43.10% offsetting external receipts that were 11.10% below budget. The amortization of domestic debt was 27.20% greater than budgeted, while that of external debt was 10.40% above budget.

On April 17, 2003, the government proposed to finance planned expenditure of \$261.41 billion

Fiscal Performance

for the 2003/04 fiscal year by passive tax revenue and grant projections of \$132 billion coupled with loan receipts of \$116 billion and additional revenue enhancing measures of \$13.8 billion. The government expects to achieve a

fiscal deficit of 5%-6% of gross domestic product (GDP). This target represents a 2%-3% reduction when compared to the 2002/2003 fiscal year.

Table 6.1

FISCAL ACCOUNT (J\$ million)

	April - March 2003			01/'02			
				Change			
		Provisional	Budget	J\$m	(%)	J\$m	(%)
Revenue & Grants		118,528.90	125,122.30	-6,593.40	-5.30	8,807.40	8.00
Tax Revenue		102,929.20	106,786.00	-3,856.90	-3.60	12,361.00	13.60
Non-Tax Revenue		4,882.90	5,921.50	-1,038.50	-17.50	-66.40	-1.30
Bauxite Levy		1,762.70	2,604.50	-841.80	-32.30	-489.60	-21.70
Capital Revenue		8,039.90	9,036.80	-996.90	-11.00	-1,949.70	-19.50
Grants		914.30	773.50	140.70	18.20	-1,048.00	-53.40
Expenditure		149,029.00	135,060.50	13,968.40	10.30	25,040.10	20.20
Recurrent		141,080.40	125,149.60	15,930.80	12.70	27,415.20	24.10
Programmes		27,463.10	20,457.20	7,005.90	34.20	7,396.60	36.90
Wages & Salaries		51,496.70	45,074.60	6,422.10	14.20	8,908.50	20.90
Interest		62,120.60	59,617.80	2,502.80	4.20	11,110.20	21.80
Domestic		46,934.80	42,733.00	4,201.90	9.80	6,581.40	16.30
External		15,185.70	16,884.80	-1,699.10	-10.10	4,528.80	42.50
Capital Expenditure		7,948.60	9,911.00	-1,962.40	-19.80	-2,177.80	-0.20
Fiscal Balance		-30,500.10	-9,938.20	-20,561.90	206.90	-16,232.70	113.80
Loan Receipts		107,232.30	84,769.50	22,462.90	26.50	5,890.80	5.80
Domestic		84,158.60	58,806.20	25,352.40	43.10	21,681.80	34.70
External		23,073.80	25,963.30	-2,889.50	-11.10	-15,790.90	-40.60
Amortization		89,917.30	75,003.90	14,913.40	19.90	1,056.20	-1.20
Domestic		53,957.40	42,423.40	11,534.00	27.20	23,442.40	-30.30
External		35,959.90	32,580.50	3,379.40	10.40	22,386.20	164.90
Overall Balance		-13,185.00	-172.60	-13,012.40	7,536.90	-9,285.70	238.10
Primary Balance		31,620.50	49,679.50	-18,059.10	-36.40	-5,122.50	-13.90

Source: Ministry of Finance and Planning

Debt Management

The Provisional figures from the Ministry also indicated that at the end of March 2003, the stock of public sector debt increased by 21% over March 2002 to \$601.24 billion or 151.80% of GDP. The domestic portion increased by 22% to \$366.16 billion or 92.4% of GDP. The Ministry of Finance cited the following as the main factors that contributed to the increase:

- The issuance of debt instruments to correct the imbalance on the BOJ balance sheet.
- A higher than programmed fiscal deficit.
- The assumption of contingent liabilities.
- Disbursements under the Social Safety Net programme.
- The sharp depreciation of the exchange rate.

PROJECTION AND OUTLOOK

The FY 2003/04 budget outlined by the authorities is one of the most important in recent times. Both local and international creditors are closely scrutinizing the numbers to ascertain credibility. The issue of credibility is predicated on the following passive revenue projections:

- Tax revenue- \$121.65 billion (up 18.20%).
- Non-tax revenue- \$5 billion (up 2.5%).
- Bauxite Levy- \$1.77 billion (up 0.27%).
- Capital revenue- \$2.88 billion (down 64.22%).
- Grants- \$0.92 billion (up 0.80%).
- Loan receipts- \$116.44 (up 8.58%).

According to the Ministry of Finance and Planning, expected buoyancy in the economy, as well as, revenue enhancing measures (including promulgating amendments to various pieces of legislation) should contribute to the expected increased revenue outturn. The government also plans to continue borrowing mainly from the domestic market and sourcing sufficient funds to the extent of expected amortization as part of its debt management strategy.

The above-mentioned revenue projections fall short of expenditure estimates by \$13.80 billion. Therefore, the following additional measures have been proposed:

1. An income tax prepayment of 4% by all importers. Expected to raise \$3.40 billion.
2. An environmental levy of \$2 per kg on plastic containers imported, manufactured and distributed in Jamaica. Expected to raise \$0.19 billion.
3. Special Consumption Tax (SCT) on alcoholic beverages. Expected to raise \$0.45 billion.
4. Adjustment of age limit on motor vehicles. Expected to raise \$0.18 billion.
5. Reduction of the limit for concessionary vehicle importation. Expected to raise \$0.25 billion.
6. Adjustment of duties on cars and luxury pick-ups. Expected to raise \$0.60 billion.

7. Increase in stamp duty levied on goods imported by in-bond merchants from 6%-15%. Expected to raise \$0.085 billion
8. Increase in Asset tax. Expected to raise \$0.085 billion.
9. Removal of credit on bonus shares issued. Expected to raise \$0.55 billion
10. Broadening of base for general consumption tax (GCT). Expected to raise \$8.17 billion.

Table 6.2

<i>Fiscal Numbers 03/04</i>		
<i>(in millions of dollars)</i>	02/03	03/04
Revenue & Grants	118,529.0	146,062.9
Tax Revenue	103,126.4	121,648.1
Non-Tax Revenue	4,882.9	5,004.7
Bauxite Levy (CDF Transfers)	1,762.7	1,767.5
Capital Revenue	8,954.2	3,798.6
Tax Package		13,844.0
Expenditure	148,152.5	171,396.0
Recurrent Expenditure	141,080.4	162,350.0
Non-debt related	78,951.2	83,138.4
Interest	62,129.2	79,211.6
Domestic	46,941.5	60,460.6
External	15,187.7	18,751.0
Capital Expenditure	7,072.1	9,046.0
Fiscal Balance (Surplus + / Deficit -)	-29,623.5	-25,333.1
Fiscal deficit as (% of GDP)	-7.7%	-6.0%
Loan Receipts	107,232.4	116,436.3
Domestic	84,158.6	100,539.2
External	23,073.8	15,897.1
Amortization	79,099.8	90,308.8
Domestic	43,154.7	76,728.3
External	35,945.1	13,580.5
Primary Balance (Surplus +/Deficit -)	32,505.7	53,878.5
Primary Surplus (% of GDP)	8.0%	12.2%
Total expenditure	227,252.3	261,704.8

Fiscal Performance

Although the proposed 4% cess on importers is stated as government's attempt at bringing the informal economy into the tax net, it will have significant negative cash flow implications for legitimate businesses. It appears that no significant effort has been made to reduce the size of government.

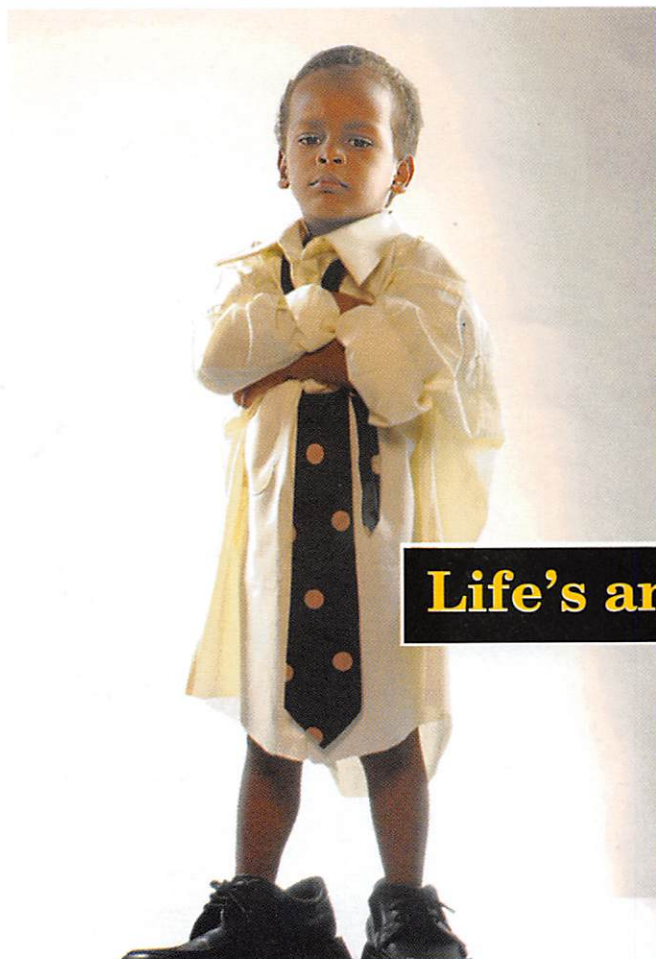
In order to achieve economic performance targets, it is critical at this juncture that the government gain consensus from all sectors including civil society to underpin macroeconomic stability and economic growth. Some of these targets were outlined as follows:

Any derailment will jeopardize the country's ability to access credit at reasonable rates from the domestic and external capital markets, which may lead to higher debt servicing costs. The increase in interest rates, while above budgeted levels, will increase budget costs.

Table 6.3

Jamaica's Economic Performance Targets Fiscal year 2002/2003

	FY03/04 Target	FY 04/05	FY 05/06
Inflation	7%	6-7%	5-6%
Fiscal Deficit to GDP	5-6%	3-4%%	0%
Primary Surplus to GDP	10-13%	13-14%	15-16%



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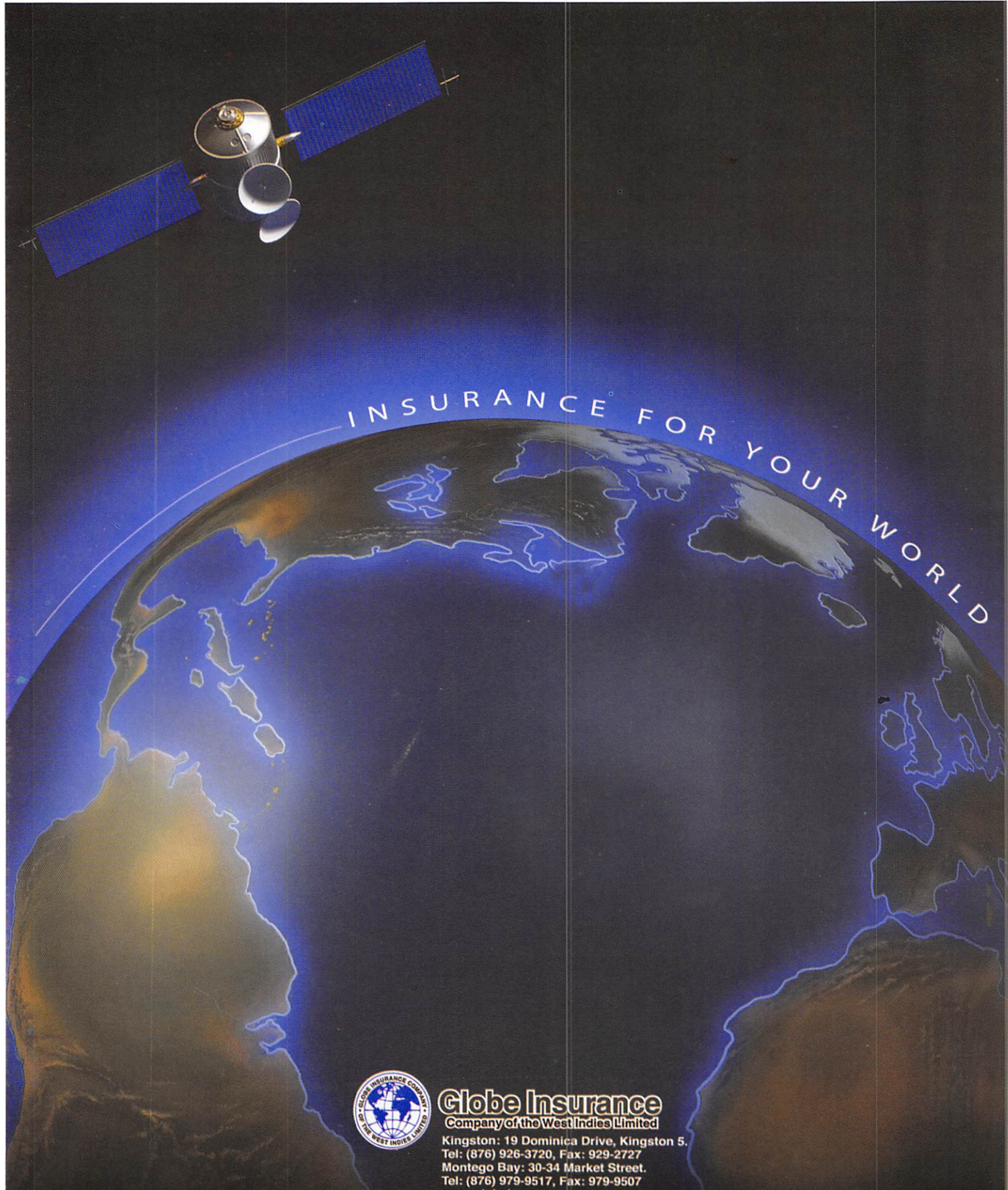
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A WORLD OF DIFFERENCE

CHAPTER 7: INFLATION

For calendar year 2002, inflation was 7.3 per cent⁸ compared with 8.8 per cent in 2001. This performance marked the sixth consecutive year of single digit inflation rates and the first time in three decades that six successive years of single digit inflation has been recorded. The lower inflation out-turn compared with 2001 reflects the weaker effect of administrative price changes in 2002.

Cost-push factors had a significant impact on inflation during 2002, evidenced by the fact that core inflation was estimated at 3.4 per cent, which accounted for 46.7 per cent of total inflation for the year.⁹ The main factors influencing inflation during 2002 were: (i) higher world grain prices and, (ii) higher domestic food crop prices. Other less important factors included an increase in the minimum wage, tuition fees, cinema fares and exchange rate movements which occurred during the last quarter of the year. Imported inflationary impulses were relatively minor, although consumer price inflation in Jamaica's main trading partners increased slightly (Table 7.1).

TABLE 7.1 CONSUMER PRICE MOVEMENTS IN JAMAICA'S MAIN TRADING, PARTNERS, 1998 - 2002					
	(PERCENT)				
	1998	1999	2000	2001	2002
USA	1.6	2.7	3.4	1.6	2.4
UK	2.8	1.8	2.9	0.7	2.9
CANADA	1	2.6	3.2	0.7	3.9
JAPAN	0.6	-1.1	-0.4	-1.2	-0.3
Source: <i>The Economist</i>					

MAIN FACTORS AFFECTING INFLATION

The major inflationary impulses during 2002 stemmed from unfavourable weather conditions, locally and internationally, which resulted in higher prices for domestically produced agricultural products and imported basic consumer food items.

Higher Domestic Food Price: During the first quarter of 2002, domestic crop production was negatively affected by the impact of heavy rains in November 2001, which caused extensive damage to agricultural land (via flooding and land slippage), plant stock and feeder roads. Agricultural production was further buffeted by two more episodes of island wide flooding (see chapter on Gross Domestic Product). Starchy foods, Fruits and Vegetables were the crop groups most affected, based on the regional distribution of the rainfall pattern and given that these items are, perhaps, more susceptible to damage from flooding. As a result, the prices of domestically produced foodstuff, especially vegetables and fruits, rose sharply.

Higher world Grain Prices: Jamaica imports certain basic food items, such as rice, flour and cornmeal, which are produced from grains.

⁸The headline inflation rate is measured as a point-to-point change in the Consumer Price Index (CPI)

⁹ Core inflation is a measure used by the Central Bank to isolate the inflation impact of monetary impulses, from price movements, which are the result of supply-side shocks or administrative price adjustments.

Inflation

During the year, droughts in major grain production regions such as the United States Midwest, Australia and Canada, reduced yields and produced a shortage on the world grain

market that influenced an increase in prices for grains and oilseeds.

TABLE 7.2					
ANNUAL INFLATION, 1998-2002					
(Percent)					
	1998	1999	2000	2001	2002
ALL GROUP ¹	7.9	6.8	6.1	8.8	7.3
FOOD & DRINK	4	3.9	4.4	6.8	7.8
Meals Away From Home	8	3.4	5.6	3.1	4.6
Meat Poultry & Fish	4.4	1.8	2.7	4.9	3.3
Dairy Products, Oils & Fats	1.6	2	4.2	5.3	8.7
Baked Prd., Cerls & Breakfast Drink	3.9	1.2	5.9	2	10.3
Starchy Foods	0.7	7.3	8.9	17.6	25.7
Vegetables & Fruits	2.6	8.6	-0.1	14.1	2.8
Other Food, Beverages	5.7	9.6	4.6	6.3	
FUEL	9.7	2.9	7.6	10.7	2.2
Household Supplies	3.7	2	2.6	2.7	3.5
Fuels	16.8	3.9	12.8	18.1	1.3
HOUSING	9.6	24.4	17.5	4	15.5
Rent	24.6	9.1	18.5	29.4	6.8
Other Housing Expenses	6.2	28.5	17.3	-1.78	18.1
H/H FURNITURE & FURNISHINGS	3.9	3.5	8.9	4.8	5.4
Furniture	8.1	6.8	6	10	10.8
Furnishings	2.4	2.2	10.1	2.8	3.2
HEALTHCARE & PERSONAL	7.5	7.6	6.7	5.5	5.0
PERSONAL CLOTHING	3.7	5.6	4.5	3.4	3.9
Clothing Materials	8.4	5.8	0.6	1.4	5.6
Readymade Clothing & Accessories	2.9	3.6	3.2	2.8	1.8
Footwear	2.4	5.7	6.8	4.4	4.7
Making & Repairs	9.2	15.5	5.3	5.7	10.2
TRANSPORTATION	25.8	4.3	3.9	26.6	2.2
MISCELLANEOUS EXPENSES	23.3	16.2	6.1	16	8.2
Source: Statistical Institute of Jamaica					

COMMODITY COMPOSITION OF INFLATION

The index for Food & Drink category, which rose by 7.8 per cent was the major contributor to inflation during 2002, accounting for 58.1 per cent of overall inflation (Tables 7.3 and 7.4). The movement in the Food & Drink index mainly reflected price increases for Baked Products, Cereals & Breakfast Drink, Starchy Foods, Vegetables & Fruits and Meats, Poultry & Fish.

TABLE 7.3					
PERCENTAGE CONTRIBUTION TO INFLATION (1998-2002)					
	1998	1999	2000	2001	2002
ALL GROUPS	100.0	100.0	100.0	100.0	100.0
FOOD & DRINK	30.2	33.0	41.1	43.1	58.1
FUELS	8.8	3.1	8.7	8.6	2.2
HOUSING	7.0	20.9	19.5	3.5	15.2
HOUSEHOLD FURNISHINGS & FURNITURE	1.0	1.0	2.7	1.0	1.4
HEALTHCARE & PERSONAL EXPENSES	6.0	7.0	6.9	4.0	4.3
PERSONAL CLOTHING	2.5	4.2	3.7	2.9	2.5
TRANSPORTATION	16.8	3.8	3.8	17.4	2.0
MISCELLANEOUS EXPENSES	27.4	25.1	11.5	21.0	13.8

Source: PIOJ "Economic and Social Survey, 2002"

The Housing and Other Expenses category was the next largest contributor to inflation. The index for this group increased by 15.5 per cent and accounted for 15.2 per cent of overall inflation. Inflation in this category stemmed mainly from a 50.0 per cent increase in the minimum wage, which increased the cost of domestic services and general household help, and induced a 18.1 per cent increase in the index for the Other Housing Expenses sub-category.

The next notable commodity component of inflation during 2002 was the Miscellaneous Expenses category, the index for which rose by 8.2 per cent accounting for 13.8 per cent of total inflation. Inflation in this group resulted

primarily from adjustment to prices for various educational and recreational services, reflected in higher tuition fees and cinema fares.

REGIONAL INFLATION PATTERNS

Of the three regions into which price indices are disaggregated, the rural areas experienced the highest inflation, reflecting the relatively greater weight of food items in rural consumption baskets (Table 7.4). The Rural Areas index increased by 8.3 per cent and the indices for the Kingston Metropolitan Area and Other Towns increased by 6.8 per cent and 6.5 per cent, respectively.

TABLE 7.4						
PERCENTAGE CHANGE IN THE CONSUMER PRICE INDEX BY REGION, 1997 - 2002						
	1997	1998	1999	2000	2001	2002
All Jamaica	9.2	7.9	6.8	6.1	8.8	7.3
Kingston Metropolitan Area	9.5	8.9	7.3	7.5	9.7	6.8
Other Towns	8.3	6.7	6.5	5.4	9.7	6.5
Rural Areas	9.3	7.2	6.2	4.6	6.8	8.3

Source: Statistical Institute of Jamaica

OUTLOOK

The rate of inflation for the first quarter of 2003, was negative 0.4 per cent, reflecting the impact of food price declines during January and February 2003, which more than offset price increases in Housing & Other Housing Expenses, Fuels and Other Housing Supplies and Transportation. The decline in food prices resulted from a recovery of domestic agriculture from the effects of flood damage during 2002. However, notwithstanding the favourable first quarter performance, inflation during the year may be above single digits, mainly reflecting the cumulative impact of tax-induced price adjustments and the effect of significantly greater exchange rate volatility. Anticipated stabilization and possible reduction of international oil prices as well as favourable weather conditions are moderating factors.

A package of new tax measures was announced in April 2003 and was targeted to yield \$13.8 billion during FY 2003/04 (or 12.5 per cent of total revenues and grants in FY 2002/03). Just over one-half of the new taxes are expected to flow from amendments to the base of the value-added tax, with the exempt status of numerous commodities removed. The other major tax measure being a 4% cess on the imports which can be off set against income tax due will also impact the CPI as the irrecoverable portion of this cess will likely be passed on to the consumer. The extent of the final impact on the CPI is uncertain, given that not all of the

additional consumption tax or cess will be shifted to consumers. But within the context of an economic programme that will likely target annual inflation close to the 2002 out-turn, the tax induced inflationary pressures will be significant.

During the first quarter of 2003, the nominal exchange rate depreciated by close to 10 per cent, with the average nominal exchange rate rising to J\$54.78 per US\$1.00 during March 2003 compared with J\$50.18 per US\$1.00 in December 2002. By April 2003, the average exchange rate stood at J\$56.69 per US\$1.00. Exchange rate pressures have been evident since the last quarter of 2002 and prompted the central bank to intervene – via both foreign exchange sales and higher interest rates on its open market instruments. Apart from the direct pass through effects of exchange rate depreciation on domestic consumer prices, inflationary impulses may also arise if the nominal exchange rate depreciation is accompanied by increased exchange rate uncertainty, which may induce “pre-emptive” pricing by producers, wholesalers and retailers who are reluctant to change their prices frequently. The exchange rate adjustments are likely to have the strongest direct effects on the price indices for food, fuel and transportation – the highest weighted CPI categories.

Given the above developments, the target for single digit inflation is unlikely to be met.

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CHAPTER 8: ENERGY

INTERNATIONAL OIL MARKET

For 2002, the demand for oil increased by 0.4 million barrels per day relative to 2001 levels, to reach 77.0 million barrels per day (Table 8.1). This reflected an increase in the demand for oil in non-member countries of the Organization of Economic Cooperation and Development (OECD), given that the overall demand for oil in the members states of the OECD fell by 0.2 million barrels per day.

The increase in demand for oil among the non-OECD countries resulted from higher demand from China, the countries that were formerly the

Soviet Union, and the regions of Europe, Middle East and Africa. Higher oil demands from the aforementioned regions were associated with increased economic activity, particularly in China, and speculation about the United States of America going to war with Iraq. The increased oil demand in China of 0.3 million barrels per day was equivalent to the increased demand for those regions in the Other category (see Table 8.1). Among the Non-OECD countries, the Latin America region was the only region that recorded a decline in oil demand reflecting the slow down in economic activity in some of the major countries in the region namely Brazil and Argentina.

Table 8.1

WORLD OIL DEMAND 1998 - 2002 (Million Barrels per day)						
	1998	1999	2000r	2001r	2002p	Change03/02
						Absolute
OECD	46.9	47.7	47.74	47.8	47.6	-0.2
North America	23.2	23.8	24.0	23.9	23.9	0.0
Europe	15.3	15.2	15.1	15.3	15.2	-0.1
Pacific	8.4	8.7	8.6	8.57	8.5	-0.1
TOTAL NON-OECD	26.8	27.8	28.39	28.79	29.4	0.6
Former Soviet Union	3.7	3.6	3.59	3.69	3.8	0.1
Latin America	4.8	4.9	4.9	4.8	4.7	-0.1
China	4.2	4.5	4.8	4.9	5.2	0.3
Others a	14.1	14.8	15.1	15.4	15.7	0.3
TOTAL DEMAND	73.7	75.5	76.13	76.56	77.0	0.4
Notes:						
a. - Europe, Middle East, Africa						
Source: International Energy Agency						

Within the OECD block, the overall fall in demand for oil stemmed from lower oil demands in the regions of Europe and the Pacific: each recorded a decline of 0.1 million barrels per day relative to 2001. The North

American region's demand for oil remained unchanged at 23.9 million barrels per day.

For 2002, the supply of oil fell by 0.3 million barrels per day creating the conditions for increases in oil prices. The fall in overall supply

of oil was due primarily to a cut in supply by the Organization of Petroleum Exporting Countries (OPEC) amounting to 1.6 million barrels per day. This mainly reflected a reduction in output from Venezuela, which was triggered by widespread civil unrest. The overall fall in OPEC output was partly offset by an increase in supply of 1.3 million barrels per day by NON-OPEC members.

The combination of increases in demand and a fall in the supply of oil resulted in the annual average spot peak price of crude oil on the international market increasing by 2.4 per cent to US\$24.93 per barrel.

LOCAL CONSUMPTION OF OIL

For 2002, Jamaica oil import bill amounted to US\$640.7 million representing an increase of 9.2 per cent relative to 2001. The amount of oil imported for 2002 comprised of US\$342.8 million (up 8.3 per cent) for the Petrojam Refinery, US\$176.4 million (up 15.1 per cent) for the bauxite industry and US\$121.6 million (up 3.7 per cent) for oil distributors. The increase in the value of oil imports by the above entities reflects the higher oil price on the international market and an increase in import volume by Petrojam and the bauxite companies.

For 2002, the volume of oil imported by Petrojam amounted to 13.5million barrels consisting of 8.5 million barrels of crude oil valued at US\$204.5 million and 5.1 million barrels of refined oil valued at US\$138.3 million. An additional 1.3 million barrels of crude oil were imported while 0.8 million less barrels of refined products were imported when compared to the similar period in 2001.

ELECTRICITY

Total Electricity Generating Capacity increased by 8.0 per cent, primarily as a result of an

increase in Gas Turbine generating capacity from the Jamaica Public Service Company (JPSCo). However, much of this additional capacity apparently went unused, as net generation from the JPSCo increased by only 0.3 per cent, influenced mainly by increased generation from steam and hydro units, given that generation from slow speed diesel and gas turbines both declined. Generation by non-JPSCo sources increased by 17.2 per cent, reflecting the return of generating capacity, which, for technical reasons, had been inoperative for much of 2001.

Total generation - the sum of net JPSCo generation and non-JPSCo generation - increased by 4.9 per cent. Productive efficiency continued to improve with the system fuel heat rate - which measures the efficiency of conversion of fuel to electricity - increasing by 0.5 per cent. The higher fuel conversion rate was also accompanied by a 0.8 per cent fall in total fuel consumption.

Growth in electricity use, at 3.7 per cent, was somewhat less than the growth in generation, with line losses and unaccounted for net generation increasing by 10.8 per cent. Total electricity sales during 2002 accounted for 82.2 per cent of total electricity generation. Higher sales of electricity was distributed across all user categories, with Residential and Large Power usage, up 3.5 per cent and 7.7 per cent, respectively, accounting for 71.2 per cent of the total increase in electricity sales.

OUTLOOK

Prior to the onset of the war in Iraq, the main area of uncertainty in the Energy sector related the extent of likely international oil price increases. However, following the short duration of the Iraq war, the expectation is for oil prices to stabilize and even decline, although the level of decline remains uncertain. Predictions of oil price declines depend on the following assumptions:

Energy

- (a) full availability of Iraqi oil, at the latest by the last quarter of 2003
- (b) continued availability of Nigerian and Venezuelan production capacity and
- (c) Oil stocks are replenished back to normal levels.

With respect to the domestic production of petroleum products, it should be noted that Petrojam had diversified its supply base prior to the onset of hostilities in Iraq and was therefore

less vulnerable to production fluctuations with suppliers. However, any fluctuation in international prices is expected to be reflected in domestic price movements.

Electricity generating capacity is expected to be boosted by the commissioning of additional capacity in the JPSCo's Bogue plant in Montego Bay. Expected growth in real GDP, albeit at modest rates, should be accompanied by an increase in electricity sales.



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CHAPTER 9: MANUFACTURING

INTRODUCTION

Following two consecutive years of growth, Gross Domestic Product for the Manufacturing sector registered a decline of 0.2 per cent in 2002 relative to 2001. This reflected declines in output for most of the sub-sectors with the exception of Petroleum refining with most petroleum products registering higher production levels. The Manufacturing sector continued to be plagued by high production costs which has impaired its ability to compete with cheaper imports. In some cases, for example, in the tobacco and apparel industries, producers have had to shift production to other locations where the production cost is lower. The sector also suffered a set back from the flood-induced shock in the months of May/June and September 2002 to the extent that some food processors may not have been able to fully compensate for their lower domestic agricultural production with imported commodities.

OUTPUT PERFORMANCE IN SELECTED ACTIVITIES

Food Processing

For 2002, output of most commodities in the Food Processing industry declined when compared with 2001 (Table 9.1). Among the products that registered fall in output levels were:

1. Sugar (down 14.3 per cent);
2. Condensed milk (down 16.7 per cent);
3. Molasses (down 8.2 per cent);
4. Animal feed (down 6.1 per cent);
5. Flour (down 2.3 per cent);
6. Dairy Products (down 2.5 per cent); and
7. Edible fats (down 1.6 per cent);

Sugar, one of Jamaica's major traditional exports, suffered a fall in production as a result of reduction in cane milling activity following severe flooding of cane fields in May/June and September 2002. The fall in the output of

condensed milk may be explained by the cessation of a one-year agreement in December 2001, which had involved Jamaica supplying milk to Trinidad and Tobago. As a result, the output level in 2002 was below that in 2001.

The commodities recording higher output levels were Poultry Meat, Edible Oils and Cornmeal (Table 9.1). The increase in the production of Poultry meat reflects an expansion in production capacity by major producers, which preceded a shortfall in chicken meat resulting from the imposition of a 260.0 per cent duty on imported chicken meat in June 2002.

Beverages and Tobacco Product

With the exception of the production of Cigars, Beer and Stouts, production of all items in the category, Beverage and Tobacco Product registered growth in 2002 relative to 2001. The production of Beer remained virtually unchanged in 2002 when compared with 2002. In 2002, the production of cigar fell by 64.8 percent relative to 2001 reflecting in part the closure of the last domestic producer of cigars in June 2002. Following on retooling exercises undertaken in the Carbonated Beverage industry in 2001, the production of this product group recorded further growth of 0.4 per cent in 2002.

Chemical and Chemical Products

The production figures for Chemicals and Chemical Products showed that of the ten products surveyed by the Planning Institute of Jamaica, six registered declines in output while four registered increases when compared to 2001 (Table 9.1). The overall fall in the production of chemical products can be explained by increased competition from lower priced import substitutes and technical problems experienced by some production plants. As a result of the lower price of chemical product imports, some producers found it cheaper to import the product rather than producing them.

Manufacturing

The production of acetylene declined by 11.6 per cent relative to 2001 reflecting a fall in welding operations. The reductions in the production of salt (down 12.4 percent) and sulphonic acid (down 17.5 per cent) were due to technical difficulties experienced at the main production plant, located in the Parish of St. Catherine. The fall in production of Detergent (down 0.2 per cent) may be linked to the fall in the production of sulphonic acid, which is used as a base in Detergent manufacture. For 2002, the production of adhesives fell by 11.0 per cent reflecting the winding down of the operations of the sole manufacturer, which eventually ceased operations at the end of December 2002.

The production of all the items registering increases relative to 2001, may be explained by increased demand for these products. In particular, Aluminium sulphate which registered an increase in production of 47.5 per cent, benefitted from increased demand in Central American and Eastern Caribbean regions following the heavy rains associated with Tropical Storms Isidore and Lili. Aluminium Sulphate is used primarily in the treatment of water.

Petroleum Products

Excluding the Other Petroleum Products sub-category, output levels of all Petroleum Products surveyed by the Planning Institute of Jamaica increased relative to 2001. The production of Fuel Oil registered the largest growth increasing by 17.8 per cent. The production of LPG, Gasoline, Turbo Fuel and automotive Diesel Oil, all recorded a turnaround from the decline in production recorded in 2001. This reflected the absence of disruption in production at the Petrojam refinery, with the refinery operating at 95.0 per capacity level during 2002. In contrast, in 2001, production

was hampered by irregularities in electricity supply.

Non-Metallic Minerals

The production of cement grew for the third consecutive year recording growth of 3.2 per cent in 2002 relative to 2001. This was consistent with the increased activity in the Construction and Installation sector driven mainly by growth in residential construction and the implementation of major infrastructure projects.

Manufacturing

Table 9.1

OUTPUT OF SELECTED MANUFACTURED COMMODITIES, 1998 - 2002								
	UNIT	1998	1999	2000	2001r	2002	Change ('02/'01)	
							Unit	%
FOOD PROCESSING								
Poultry Meat a	tonnes	45,976	45,285	47,398	51,652	53,539	1,887	3.7
Animal Feeds	"	331,932	337,084	350,140	384,569	361,220	-23,349	-6.1
Condensed Milk	"	17,102	15,404	15,235	17,447	14,540	-2,907	-16.7
Edible Oils	"	12,273	13,794	12,304	13,966	14,715	749	5.4
Edible Fats	"	6,532	5,991	6,239	6,763	6,656	-107	-1.6
Flour	"	135,801	130,436	129,313	129,836	126,894	-2,942	-2.3
Cornmeal	"	9,843	8,808	9,162	10,374	11,118	744	7.2
Sugar	"	179,688	211,540	209,825	205,128	175,214	-29,914	-14.6
Molasses	"	99,537	92,146	73,377	86,983	79,876	-7,107	-8.2
Dairy Products	"	6,672	6,293	6,789	5,746	5,601	-145	-2.5
BEVERAGES AND TOBACCO								
Alcohol (including rum)	'000 ltrs	21,332	19,603	17,804	22,291	22,808	517	2.3
Beer	"	47,956	47,835	55,491	62,174	62,120	-54	0.0
Stout	"	17,576	17,921	14,365	16,392	16,042	-350	-2.1
Carbonated Beverages	"	44,471	1061,640	1,519,460	1,552,636	1,559,622	6,986	0.4
Cigarettes	"	1,159,983	1,078,220	991,215	1,024,933	1,050,340	25,407	2.5
Cigars	"	15,997	7,281	4,465	100	36	-64	-64.0
CHEMICALS & CHEMICAL PRODUCTS								
Oxygen	cu.mtrs	1,187,030	1,138,741	1,088,593	1,188,278	1,244,984	56,706	4.8
Acetylene	cu.mtrs	177,217	166,543	153,198	145,513	137,742	-7,771	-5.3
Sulphuric Acid	tonnes	13,711	21,261	14,595	16,682	18,176	1,494	9.0
Aluminium Sulphate	tonnes	11,772	18,681	15,378	13,568	20,012	6,444	47.5
Sulphonic Acid	tonnes	4,765	5,420	2,861	4,244	3,500	-744	-17.5
Salt (NaCl)	tonnes	15,606	19,090	19,068	15,927	13,946	-1,981	-12.4
Fertilizer	tonnes	50,414	49,154	50,725	40,163	40,013	-150	-0.4
Detergent	tonnes	1,670	1,674	1,513	1,515	1,152	-363	-23.9
Paint	'000 ltrs	9,876	10,337	9,624	9,363	10,337	974	10.4
Adhesives	tonnes	221	712	712	646	575	-71	-11.0
PETROLEUM PRODUCTS								
Gasoline	'000 ltrs	139,070	84,282	182,048	166,169	203,293	37,124	22.3
LPG	"	12,643	5,496	18,235	16,711	25,293	8,582	51.4
Fuel Oil	"	400,460	285,287	511,846	531,478	626,230	94,752	17.8
Turbo Fuel	"	56,298	43,473	100,798	84,732	115,679	30,947	36.5
Automotive Diesel Oil	"	160,857	115,335	221,344	214,024	286,908	72,884	34.1
Other Petroleum Products	"	48,206	39,639	73,292	83,550	80,918	-2,632	-3.2
NON METALLIC MINERALS								
Cement	tonnes	557,991	503,713	521,343	595,064	614,108	19,044	3.2
MISCELLANEOUS MANUFACTURES (except apparel)								
Leather	'000 sq.mtrs	126	75	51	44	58	14	31.8
Plastic Products								
Boots	tonnes	221	211	299	239	234	-5	-2.1
Other Plastic Products b	tonnes	3,399	4,084	4,701	5,004	5,337	333	6.7

a - data from the two major companies
b - includes PET bottles
r - revised
p - preliminary
n.a. - not available

Source: Survey conducted by the PIOJ

MANUFACTURING EXPORTS

For the nine months to September 2002, export earnings from manufactured goods totalled US\$230.2 million, comprising traditional export revenue of US\$ 91.0 million and non-traditional export receipts of US\$139.1million (Table 9.2). When compared with 2001, total manufactured export earnings registered a decline of 18.1 per cent. This was due to

reductions of 6.1 per cent and 24.4 per cent in traditional and non-traditional exports, respectively. The decline in traditional export earnings was due largely to a reduction in export earnings for Sugar and the Other Products categories (Table 9.2). The fall in non-traditional export earnings resulted primarily from a decline in apparel exports, which is classified in the Miscellaneous exports category (down 71.0 per cent).

Table 9.2

Total Exports of Manufactured Goods -US\$ million								
	1998	1999	2000	2001	January - September		Change '02/01	
					2001	2002		
							US\$	%
TOTAL TRADITIONAL	122.20	125.40	113.20	101.90	96.96	91.02	-5.95	-6.1
Sugar	94.60	95.20	83.30	70.50	70.50	62.63	-7.88	-11
Other Products	2.30	2.60	3.60	2.60	4.37	2.33	-2.04	-47
Rum	25.30	27.60	20.70	28.80	22.09	26.06	3.97	18
NON-TRADITIONAL	353.50	276.30	307.50	253.60	184.20	139.14	-45.06	24.5
Processed Foods	3.20	21.10	39.80	48.20	37.18	34.39	-2.79	-7.5
Beverages & Tobacco	47.30	28.90	33.50	19.60	22.32	16.48	-5.84	-26.2
Crude Materials	6.50	3.20	5.00	4.00	2.00	3.32	1.32	65.9
Mineral Fuels	2.80	3.60	3.60	14.40	6.53	23.71	17.17	262.9
Animal & Veg. Oils	0.03	0.03	0.09	0.50	0.07	0.04	-0.03	-48.4
Chemicals	44.30	46.00	65.40	65.20	36.95	35.41	-1.54	-4.2
Manufactured Goods	7.10	6.40	7.30	6.00	4.95	3.61	-1.34	-27.0
Machinery Equipmt.	3.60	1.70	1.10	1.20	2.06	1.30	-0.76	-37.1
Misc. Manufactures	208.50	165.50	151.60	94.90	72.12	20.88	-51.24	-71.0
GRAND TOTAL	475.70	401.70	420.70	355.50	281.16	230.16	-51.01	-18.1

Source: Planning Institute of Jamaica

OUTLOOK

The Manufacturing sector is likely to register increased output over the course of 2003. This is predicated on a combination of factors, some of which are industry specific which includes:

a) Recovery of the food processing industry which suffered a set back due to flood-related damage to agricultural production in 2002. The Agro-processing industry should also benefit from a system that seeks to expedite export procedures. This emanated from a Memorandum of understanding signed by the government of Jamaica and the Private Sector Organisation of Jamaica in October 2002.

b) With the cessation of the war in Iraq, the price of crude oil should stabilize. This will have a positive impact on the oil processing

industry and other manufacturers who use oil in their production process.

c) The availability of additional credit through development banks. In 2002 a number of new credit facilities were introduced by development banks.

d) The Manufacturing sector is expected to continue to benefit from the retooling and modernization exercises undertaken since 2000 by some industry players.

However, output growth in the sector may be dampened by sluggish growth in domestic demand, as the effects of a new tax package (announced in April 2003) begins to take effect. In addition, growth in external demand will be constrained by the pace of economic recovery in the major developed country-markets. The closure of the Hampden Sugar Factory in January 2003 will further restrict sugar production.

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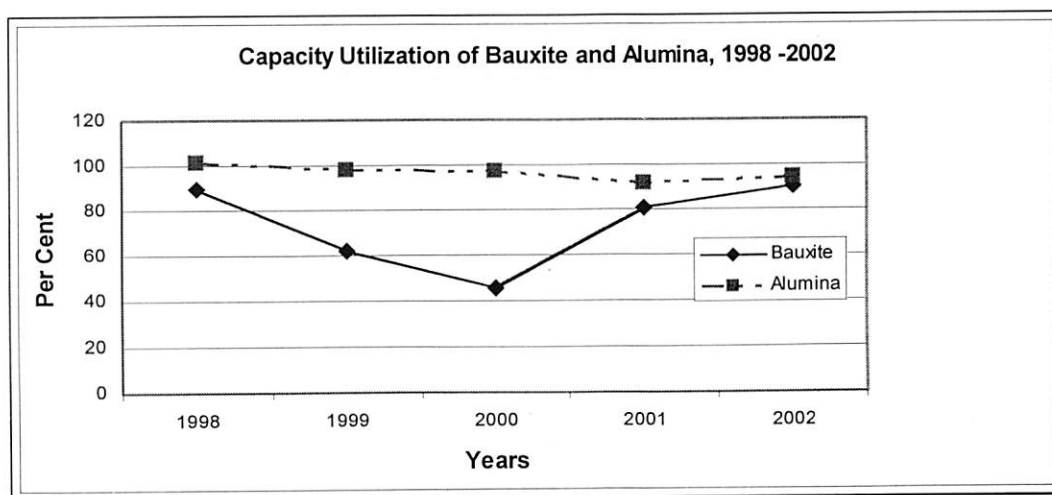
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CHAPTER 10: MINING

Output in the Mining sector increased during 2002, mainly due to an expansion in the production of bauxite and alumina, which accounts for 98.5 per cent of output in the sector. Total Bauxite Production increased by 6.1 per cent to 13.1 million tonnes; the highest

production levels since 1974. In 1974, total bauxite production stood at 15,070.9 metric kilo tonnes. Growth in the sector was realized despite disruptions to production caused by the flood rains in May, June and September, industrial unrest and technical problems.

Figure 10.1



Production of crude bauxite increased by 11.9 per cent as capacity utilization rose by 9.6 percentage points to 90.4 per cent. Alumina production increased by 2.9 per cent compared with a 2.1 per cent decline in 2001. The increased processing of alumina was mainly due to capacity expansion work at Alpart, a rise in capacity utilization and the return of normal operations at the JAMALCO refinery, which was closed in mid-October 2001. Table 10.1

TABLE 10.1
Bauxite/Aluminum Production and Exports (000 tonnes)

	1998	1999	2000	2001	2002p	% Change	
						2001-2002	2000-2001
Production							
Crude Bauxite	4 034.6	2 794.6	2 062.0	3 635.	4 066.6	11.9	76.3
Alumina	3 440.2	3 569.6	3 600.1	3 542.4	3 630.6	12.9	-1.6
Total Bauxite	12 646.4	11 688.5	11 126.5	12 369.6	13 119.5	6.1	11.2
Exports							
Crude Bauxite	4 020.21	2 795.4	2 118.9	3 617.8	4 074.1	12.6	70.7
% of Total Shipment	31.6	23.7	18.8	29.2	31	6.1	55.6
Alumina	3 476.6	3 607.2	3 642.5	3 552.0	3 635.9	2.4	-2.5
Total Bauxite	12 719.4	11 789.5	11 283.1	12 384.8	13 141.8	6.1	9.8

p – preliminary

SOURCE: JAMAICA BAUXITE INSTITUTE

The London Metal Exchange (LME) yearly average aluminum cash prices fell by 6.1 per

cent to US\$0.62 cents per pound which resulted in a decline in bauxite and alumina prices.

Mining

Consequently, although Jamaica's export volumes for alumina and crude bauxite increased by 2.4 per cent and 12.6 per cent respectively, export earnings declined. Preliminary estimates showed total export value

and foreign exchange inflows decreasing by 3.3 per cent and 4.1 per cent respectively. Total export value and foreign exchange inflows were US\$712.6 million and US\$382.5 million. Table 10.2

TABLE 10.2 TOTAL VALUE OF EXPORTS & FOREIGN EXCHANGE EARNINGS, 1998-2002 (US\$ million)							
						% change	
	1998	1999	2000	2001	2002p	2001 - 2002	2000 -2001
Crude Bauxite	81	55.9	44.7	94.4	106.3	12.6	111.3
Alumina	600.7	631.7	696	642.7	606.3	-5.7	-7.7
Total Export Value	681.7	687.6	740.6	737.1	712.6	-3.3	-0.5
Levy/Tax	82.4	59.1	74.6	70.5	62.6	-11.2	-5.5
Royalty	5.8	5.9	5.3	5.6	6.3	12.2	6
Local Cost & Net Forex	248.9	251.4	245.4	322.7	313.6	-2.8	31.5
Foreign Exchange Inflows	337.1	316.4	325.4	398.9	382.5	-4.1	22.6
p - preliminary Source: Jamaica Bauxite Institute							

Total world production of aluminum increased by 6.9 per cent to 26.1 million tonnes in 2002. Except for Africa, all aluminum producing countries registered an increase. Production in China, the world's largest producer, increased by 29.4 per cent in 2002 to 4.4 million tonnes. After a 28.1 per cent decline in 2001, production in the United States of America (USA) rebounded slightly, increasing by 2.7 per cent. World metal inventories increased and international prices for aluminum fell as the increased world production was accompanied by a less than proportionate increase in global consumption.

Total world consumption increased by 5.7 per cent to 25.2 million tonnes; 0.96 million tonnes below total world production. Increased demand in the construction and transportation markets contributed to the increased consumption. With domestic demand in Japan falling by 0.3 per cent, consumption of aluminum in that country fell by 3.0 per cent. Consumption in China and the USA increased by 17.5 per cent and 9.2 per cent, respectively. China's consumption which is now at 4.2 million tonnes is unprecedented and coincides with the rapid expansion in the economy.

OUTLOOK

The Mining and Quarrying industry is expected to expand further in 2003. Both JAMALCO and Alpart will be engaging in capacity enhancing work. The JAMALCO plant is expected to increase capacity by 250 kilo tonnes to 1.25 million tonnes by the end of the year. Alpart will undertake a capital investment programme intended to reconfigure the plant to use different types of Jamaican Bauxite and to increase capacity to 1.7 million tonnes by 2006.

In addition, companies within the Mining sector are expected to face more stringent regulations. A policy document governing Mining and Quarrying operations in Jamaica was drafted and submitted in February 2003. The policy is expected to address a range of issues including the granting of licences, penalties for non-compliance and requirements and arrangements for restoration of mined out areas.

With major construction works needed in Iraq, and the need of the USA to restock its arsenal of weapons, consumption of aluminum should rise. This should be reflected in higher aluminum

Mining

prices, provided that there is no significant increase in production. Consequently, export

earnings from bauxite and alumina should increase.

TABLE 10.3
PRIMARY ALUMINIUM SUPPLY/DEMAND BALANCE, 1998 - 2002 ('000 TONNES)

COUNTRY	1998	1999	2000r	2001	2002p	% change	
						2001-2002	2000-2001
PRODUCTION							
USA	3 713	3 779	3 668	2 637	2 709	2.7	-28.1
Canada	2 373	2 390	2 373	2 585	2 710	4.8	8.9
Western Europe	3 730	3 945	4 066	4 164	4 230	1.6	2.4
China	-	2 618	2 794	3 431	4 441	29.4	22.8
Others (1)	12 891	10 950	11 521	11 649	12 059	3.5	1.1
TOTAL WORLD PRODUCTION	22 707	23 682	24 422	24 466	26 149	6.9	0.2
CONSUMPTION							
USA	5 980	6 406	6 348	5 293	5 780	9.2	-16.6
Japan	2 233	2 285	2 417	2 199	2 132	-3	-9
China	2 519	2 846	3 284	3 581	4 208	17.5	9
Germany	1 520	1 482	1 531	1 544	1 643	6.4	0.9
CIS	411	524	613	637	667	4.7	3.9
Western Europe	4 070	5 788	6 013	5 985	6,108	2.1	-0.5
Other Economies	5 456	4 198	4 768	4 581	4 647	1.4	-3.9
TOTAL WORLD CONSUMPTION	22 189	23 529	24 974	23 820	25 185	5.7	-4.6

Source: Compiled from data supplied from the CRU Metal Monitor

Note 1. Commonwealth of Independent States (CIS) represents countries of the former Soviet Union

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CHAPTER 11: TOURISM

Introduction

Tourism activity in Jamaica continued to show recovery from the events of September 11 in 2002. The recovery was reflected in a rise in tourist arrivals in the latter half of 2002 when compared with 2001. Real Gross Domestic Product (GDP), of the Hotels, Restaurants and Clubs (a major component of Tourism activity) declined by 0.4 per cent, a deceleration from the 2.2 per cent decline in 2001.

OVERVIEW OF INTERNATIONAL TOURISM TRENDS

International Tourist arrivals in 2002 rose to 715.0 million, up by 4.3 percent compared with 2001. For 2002, Europe received most of the total tourist arrivals followed by Asia and the Pacific. Arrivals to the United States of America, a major destination, showed a decline compared with 2001. Similarly, Stopover arrivals visiting the Caribbean decreased by 2.5 per cent compared with 2001 reflecting a fall in Arrivals to most of the major Caribbean destinations with the exception of the Dominican Republic and Puerto Rico. Total Cruise Ship Passenger Arrivals to the region, however, increased by 5.0 per cent compared with 2001. Among the countries which experienced an increase in Cruise Ship Passenger arrivals were St. Maarten, Jamaica, Aruba and Belize.

OVERVIEW OF DOMESTIC DEVELOPMENTS

During 2002, five new Cruise Ships docked in Jamaica. This was, in part, reflective of the efforts of the Jamaica Tourist Board (JTB) to increase the attractiveness of the island. In addition, the Stay and Sail programme was introduced to encourage Cruise Passengers to increase the amount of time they spent in the island's hotels. Harassment complaints during

2002 were reduced reflecting longer operational hours of motorcycle patrols in Ocho Rios and in St. Ann and bicycle patrols in Montego Bay and St. James. The marina was completed to facilitate accommodating fishing and sailing yachts.

In an effort to further mitigate the effects of September 11 events on Tourism activity, the government of Jamaica granted additional assistance to the sectors in the form of an Emergency Incentives Schemes. This was a short-term scheme, which provided an exemption from various taxes, except General Consumption Tax (GCT).

Loans and Advances disbursed to the sector during 2002 by Commercial Banks reached \$7.0 billion, an increase of 34.6 per cent when compared with 2001. Total Loans disbursed by Licensees under the Financial Act (FIA) increased to \$2.9 million compared with \$2.1 in 2001. In addition, the Development Bank of Jamaica distributed Loans amounting to \$342.2 million to the sector¹⁰.

During 2002, the Tourist Product Development Company (TPDCo) continued its effort to assist the sector. Under the auspices of the TPDCo 3,238 persons were trained in housekeeping, professional dining and bar services. The HEART Trust, which is also a major institution catering for providing vocational training for hospitality workers, graduated 4,900 persons in this area in 2002.

The Master Plan for sustainable Tourism, which was completed in November 2001, will be submitted to the Development Council in April 2003. An outcome of this plan is to create better linkages among communities and other sectors

¹⁰ Data from the major local universities was not available at the time of writing.

of the Jamaican economy. This is expected to impact positively on the Tourist industry.

INDICATORS OF JAMAICA'S PERFORMANCE, 2002

Total tourist arrivals in Jamaica increased by 0.7 per cent relative to 2001 to reach 2,131,785. This was mainly due to a 3.0 per cent increase in cruise ship passenger arrivals; stopover arrivals decreased by 0.7 per cent. The increase in cruise ship passengers reflected the impact of the five new cruise ships which visited the island's ports in 2002. The fall in stopover arrivals resulted from a 0.7 per cent decline in the Foreign Nationals visitors sub-category to 1,179,083 and a 2.5 per cent decline in Non-resident Jamaicans sub-category to 87,283 (see Table 11.1).

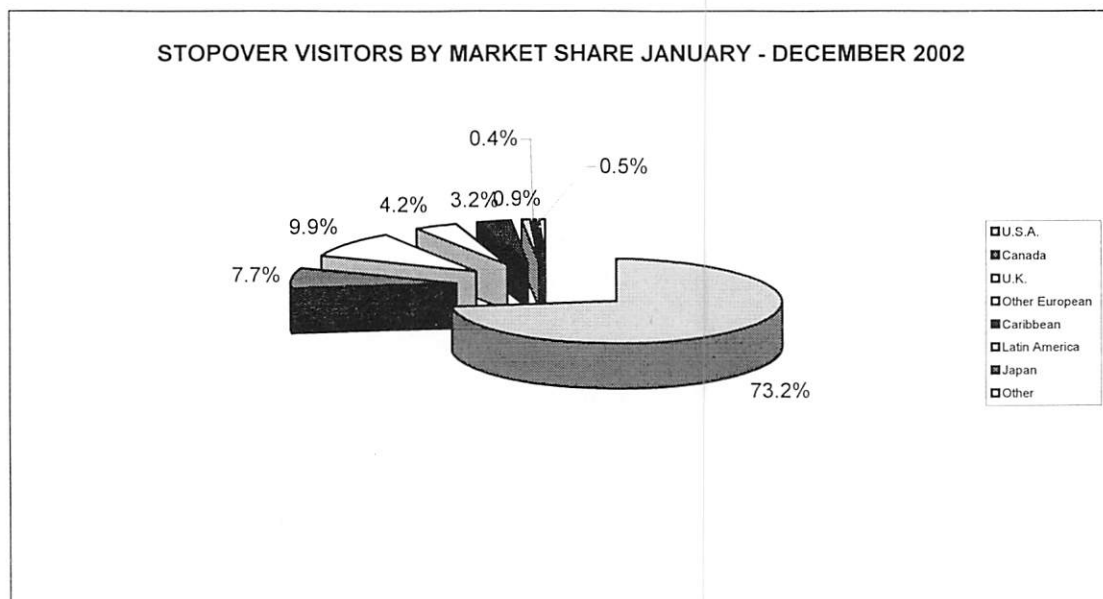
The increase in total tourist arrivals was due to increases in arrivals in the last two quarters of 2002. For the first and second quarters of the calendar year, January – March and April – June total visitor arrivals declined by 13.0 percent (to 567,945) and by 8.3 percent (to 497,728), respectively. However, for July- September and October – December, arrivals registered

Figure 11.1

increases of 8.0 per cent (up to 506,855) and 23.6 percent (up to 559,074), respectively, when compared with 2001.

Estimated visitors expenditure declined to \$1182.6 million, a decrease of 4.1 percent. This represented an improvement when compared with the 7.5 per cent decline recorded in 2001. The reduction in earnings, notwithstanding the increase in total visitor arrivals reflected (a) the higher level of price discounting and (b) the fall off in stopover arrivals – on average stopover visitors spend more than the cruise passengers.

The United States of America (USA) was the largest contributor of Stopover visitors to Jamaica during 2002 controlling a share of 73.1 per cent (or 925, 629 visitors). This represented an increase of 1.0 per cent compared with 2001. The next largest contributors were the United Kingdom and Canada with, a share of 9.9 per cent (or 125,859) and 7.7 per cent, (or 97,413), respectively. Stopover arrivals from both sources saw a decline when compared with 2001 (see Table 11.2). Stopover arrivals from the Caribbean remained the same as in 2001, with a share of 3.2 per cent when compared with 2001.



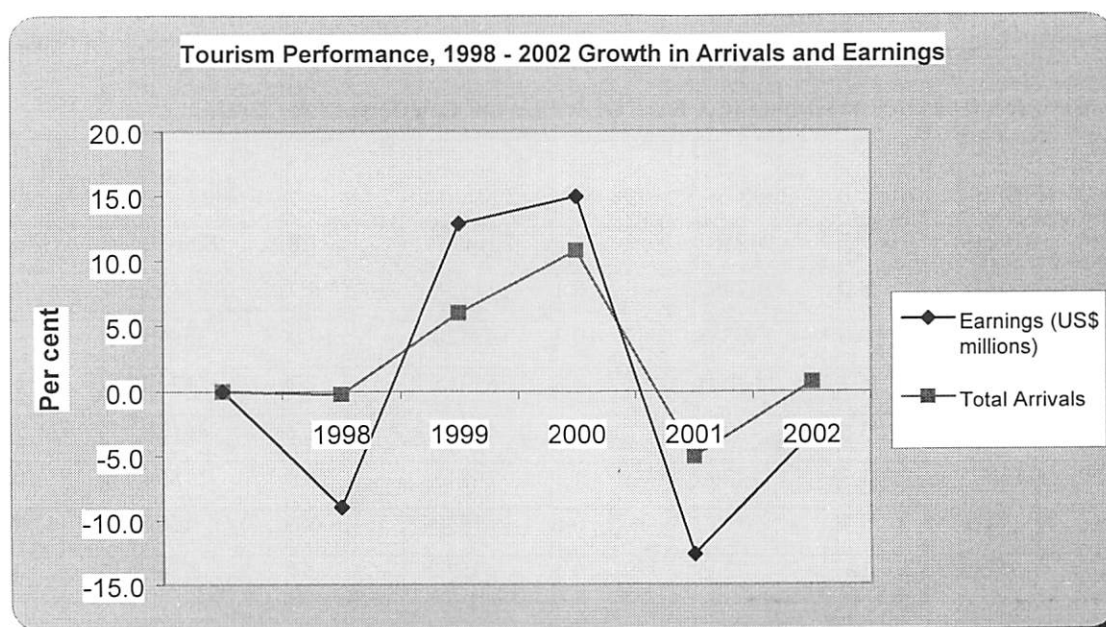
Source: PSOJ Research

OUTLOOK

The war in Iraq has maintained the level of apprehension surrounding international travel and this was expected to negatively affect the Tourism sector. However, with the huge promotions and advertising campaign by the JTB, the sector was able to see an increase in total arrivals during the first quarter of the calendar year January – March 2003 when compared with 2002. Total visitors arrivals increased to 701,335 when compared with 568,052 for the similar period in 2002. Total stopover arrivals increased to 337,292 compared with 320,307 in the similar period of 2002. The total Cruise Passengers increased to 364,043 compared with 247,745 in the similar period of 2002. Also, the total earnings increased to \$345.4 million, up by 11.8 percent when compared with the similar period of 2002.

With the effects of post war developments in Iraq, compounded with the onset of the Severe Acute Respiratory Syndrome (SARS) virus, tourism in Europe and the Middle East is likely to be affected negatively. This may result in a diversion of tourists to the Caribbean and other regions. However, security concerns remain the most important obstacle to a vibrant recovery to international Tourism. In addition, economic recovery in the USA and other major developed countries is expected to be fairly modest (see chapter on International Economy). In particular, consumer confidence has been slow to recover and there is expected to be significant slack in the labour market over the short-term. As such further recovery in Jamaica's Tourism is expected to be modest. The depreciation of the currency will also have a beneficial effect on the profitability of the sector.

Figure 11.2



Source: PSOJ Research

Tourism

TABLE 11.1
Tourism Indicators, 1998 - 2002

	1998	1999	2000	2001	2002
Total Stopovers	1128283	1147135	1219311	1186996	1179083
Foreign Nationals	97004	101262	103379	89520	87283
Non Resident Jamaicans	1225287	1248397	1322690	1276516	1266366
Cruise Arrivals	673690	764341	907611	840337	865419
Total Arrivals	1898977	2012738	2230301	2116853	2131785
Avg. Length of Stay (nights)	10.9	10.3	10.1	10.2	10.2
Earnings (US\$ millions)	1197.1	1279.5	1332.6	1232.2	1182.6

Source: Economy and Social Survey of Jamaica 2002

TABLE 11.2
STOPOVER VISITORS TO JAMAICA BY COUNTRY OF ORIGIN, 1999 - 2002.

<i>Country of Origin</i>	1999	%	2000	%	2001	%	2002	%
U.S.A.	870019	69.7	942561	71.3	916681	71.8	925629	73.1
Canada	100338	8.0	107492	8.1	111158	8.7	97413	7.7
U.K.	124930	10.0	135338	10.2	127320	10.0	125859	9.9
Other European	83759	6.7	63641	4.8	53315	4.2	53230	4.2
Caribbean	38023	3.0	43971	3.3	40845	3.2	41138	3.2
Latin America	15635	1.3	14703	1.1	14815	1.2	11864	0.9
Japan	8411	0.7	7779	0.6	7859	0.6	4664	0.4
Other	7283	1.6	7205	0.5	4526	0.4	6569	0.5
Total	1248398	100	1322690	100	1276516	100	1266366	100

Source: Economic and Social Survey of Jamaica 2002