THE CHAIRMAN REPORT

For MARCH 2014

Executive Summary

The Global economic recovery continues in line with the moderated growth forecast. For 2014 and 2015, the global economy is expected to grow at 3.6% and 3.9%, respectively. However, there are growing concerns for Latin America and the Caribbean countries which had the largest downward revision for growth and are expected to grow at 2.5% and 3.0% for 2014 and 2015. A significant factor that must be considered by Latin America and the Caribbean is the movements of global commodity prices. In March, global food prices rose, while fuel prices fell. The IMF's Food and Beverage Index increased by 7.2% while its Fuel Energy Index declined by 1.7%. These price changes will impact both global and local inflation in the near future. In addition, these changes are likely to impact the volume of domestic exports and the cost of imports in Jamaica and the rest of the Caribbean.

While global commodity prices continue to impact Jamaica, The Government of Jamaica (GOJ) has designed a budget in which lower expenditure is projected for the fiscal year 2014/15. Concerns deepen as to the degree to which this may reduce economic growth and compromise future revenue targets. New revenue measure will cost the public an additional J$6.7 billion in nominal terms. There has been significant push back on the original proposed tax package, which has caused the government to make some revisions. The GOJ proposed tax measures which it hopes will rid the economy of some of the deleterious effects of some earlier tax measures. In general, taxes have several effects on the economy including: an increase in inflation, interest rates and the exchange rate. In light of this, in the coming month, we can expect to see some of these tax measures being passed off to consumers.

Most of the domestic price indices increased in March. In particular, there was an increase in interest rates and inflation and significant exchange rate movements relative to February. The inflation for March was 1.1%, which brought point to point inflation at end March to 8.3% and inflation for the calendar year to date to 1.7%. This inflation outturn for March was due mainly to increases in food and beverages of 0.4% and Housing, Electricity, Water and Gas and other ~~f~~Fuels of 4.3%. The Jamaica Dollar lost 1.1% of its value to the US Dollar and closed at J$109.57 to US$1. It also lost 0.9% of its value to the CAD and closed March at J$98.93 to CAD1. The Dollar gained relative to the GBP by 0.4% and closed the month at J$181.77 to 1 GBP. Finally, benchmark interest rates rose on GOJ 30-day, 90-day and 180-day T-bills by 25 bps, 27 bps and 33 bps, respectively for the month of March. Rates on domestic currency loans increased in

March by 1.12% while data as at February indicates that foreign currency loan rates fell by 0.03%.

Jamaica's Current Account deficit (CAD) improved by US$17.5 million (4%) for December 2013 relative to December 2012. The improvement was due mainly to a US$90 million (17.32%) increase in the country's Current Transfers account. In spite of this positive development in the Current Transfers account, the overall current account had a deficit of US$420.3 million in comparison to the deficit of US$437.9 million for December 2012. A significant contributor to the reduction in the CAD was a reduction in the deficit on the goods account of US$64.9 million. This was due mainly to fluctuations in oil related imports.

The stock of Net International Reserves (NIR) increased to US$ 1,303.62 million, an expansion of US$234.67 million in March 2014. The reserves for the month were sufficient to finance 19.45 weeks of goods imports, a significant improvement relative to the international standard of 12 weeks.

Net remittance flows for the month amounted to US$137.9 million. This represents an increase of US$8.0 million or 6.2% when compared to the corresponding period last year.

CEO's Remarks

Having come to the end of the main budget presentations for fiscal year 2014/15, it is appropriate for us to now take a look at what is to be expected in the coming year. No doubt the sectoral presentations will take on even more meaning this year because this time much of the future prospects for the economy depends on the plans to be implemented at the sectoral levels. This is because in the past growth came primarily from government spending and loans. In this new dispensation, growth now depends on what happens in the private sector, and this depends significantly on the sectoral developments. It is clear from the budget that government expenditure will no longer drive growth, and there is a great reliance on private sector led growth.

The first thing we can say is that the recent business confidence numbers (for first quarter 2014) reveal that confidence is returning to the private sector, with most persons interviewed expecting profits to increase by around 15 percent. Businesses are feeling slightly better about the prospects of the country, and this was reflected in a 20 percent increase in the confidence index. This confidence is supported by the fact that the most recent unemployment numbers show that unemployment has decreased from 14.5% to 13.5%, which is not a huge fall but shows that confidence is returning and is trending in the right direction.

It is a fact that these positive trends are supported by slight improvements in the balance of payments, the fiscal deficit position, the debt / GDP ratio, and from where we sit at the PSOJ we are seeing many young persons getting into entrepreneurship using local produce to create innovative products. It is against this background that we must also emphasize how important it is to continue the support for legislative and fiscal reforms, and to also ensure that the bureaucratic inhibitors are removed so that both public and private businesses can operate more efficiently. Improving the current system requires the development of the approval process, the TCC process; the business formation process and the application of technological solutions will reduce the bureaucracy in the public services. Improvements in the public transportation system and the creation of a crime free society are fundamental building blocks that are required to promote business confidence that will pull the economy out of this recession.

The important thing to do now is to create an environment in which businesses and individuals will become more productive, and globally competitive. The information in this bulletin points to many improvements in some macroeconomic indicators, but the local currency continues to slide, interest rates are trending upwards and the IMF tells us we need to become competitive. Embedded in these problems are productivity issues and a crippling bureaucracy that remains a big inhibitor to businesses. The PSOJ's Economic Policy Committee recognizes this and hence the elimination of bureaucracy and SME development remains two of the fundamental pillars of our agenda.

The Global Economy

The projected global economic and financial recovery has far reaching implications not just for Emerging Market Economies, but more so for highly indebted and low growth economies such as Jamaica. Global growth is critical because it pulls local growth in Jamaica and raises the fiscal dividend for the government. For Jamaica, global growth, and in particularly growth for the major trading partners is desirable because the fundamental engineering of the current IMF programme requires higher growth and a sustainable revenue flow. In this light the current world economic outlook from the IMF is positive news even in the presence of the revised lower targets for Emerging Market Economies and Latin America and the Caribbean and more so for Jamaica.

The International Monetary Fund, in its April 2014 World Economic Outlook, revised the projected growth rates for the world economy for 2014 and 2015 from 3.7% and 4.0% to 3.6% and 3.9%, respectively. The IMF is of the view that the growth in the world economies is likely to be uneven and that there are still downside risks to growth in some economies. The projected growth rate for the advanced economies including the United States, Canada and the United Kingdom is unchanged at 2.2% for 2014 and 2.3% for 2015. Inflation for these advanced economies has been revised downwards to 1.5% and 1.6% for 2014 and 2015, in light of projected lower commodity prices.

Output growth in Emerging Market Economies (EME) has also been revised downwards, but is still expected to be much higher than those of the more developed economies for 2014 and 2015. The revised average growth rate of output for EMEs is projected to be 4.9% and 5.3% for 2014 and 2015, respectively. China is still projected to the lead economic growth with rates of 7.5% and 7.3% for 2014 and 2015, respectively. Inflation rates for the EMEs have also been revised downwards. The projection is for inflation of 5.5% and 5.2% for 2014 and 2015, respectively.

The projection for growth for Latin America and the Caribbean has been revised downwards for 2014 and 2015 by 0.4% and 0.3%, respectively. These countries are however, expected to grow faster than the developed economies but slower than the EMEs. Latin America and the Caribbean are expected to grow at 2.5% and 3% for 2014 and 2015, respectively. This revision of the projected growth rates is a worrying sign for many countries within the region. This is especially so for Jamaica that has lagged the region for many years in many of the important ingredients necessary for growth.

The IMF asserts that there continues to be a significant output gap in many of the world economies and therefore recommends continued accommodative policy for many of these countries. That is, continued liquidity support to lower interest rates and stimulate investment. The IMF sees a troubling trend for the EMEs; this is the slowing down or reversal of foreign direct investment, which is usually a critical component of economic growth for these countries.

Meanwhile, financial conditions in EMEs remain tight and as such an increase in capital cost is expected. In this context the risks for inflation and exchange rates remains high. As a result, the IMF is concerned about the lower than forecasted inflation rates which implies lower than expected local demand for goods and services, a precursor that the recessionary conditions may be far from abating in these countries.

For Jamaica, the post-recession output gap remains a problem for serious consideration. The inability to close this gap will compromise the structural integrity of the current IMF programme which requires real growth in output in the range of 1.28% to 2.7% for the next four years. Prior to the recession of 2008, Jamaica grew at an average of 1.62% (2000-2007). The value of real output in 2007 was J$766.97 billion which declined to J$734.63 billion (4.2%) in 2013 The IMF projects that the country will close this gap somewhere in 2018 with an expected average growth rate of 2.03%.

The lingering questions are: will this gap be closed? Will Jamaica meet the required growth rate? Are these projections by the IMF overly optimistic? A good place to start the analysis is to examine the projected growth rates of the United States, Canada and Europe. Historically, Jamaica grew on average by 41.3% of the real growth of the US economy. Therefore, a more realistic annual growth rate for Jamaica over the next four years is just about 1.13% on average. However, Jamaica has grown faster than the US in the past, so a more overly optimistic growth figure for Jamaica lies with the range of 1.3% to 3.5% over the next four years. This last scenario, though probable, is the least likely since the level of productivity in the in the economy is generally low. For growth of 1.5% to 3.5% to occur, Jamaica would need significant boost in investment, remittance flows, tourist arrivals and greater levels of bauxite and alumina production. While the boost in these factors is a possible way of closing the gap, other possible sustainable alternatives may exist.

Closing this current output gap and growing on a sustainable long term basis really requires a strategy to significantly improve Jamaica's level of productivity and international competitiveness. Contrary to popular belief that such a strategy requires massive amounts of government expenditure. To grow and develop Jamaica must begin by using its current resources in the most efficient manner possible (increase productivity), and what this requires is more productive expenditure on education, tourism security and justice. Jamaica must now have a measure of [illegible] of the [illegible] and [illegible] [illegible] [illegible].

International Commodity Prices

There were significant prices increases in eighty per cent of the commodities analysed for the month of March. Of the fifteen commodities analysed, prices of twelve commodities increased while prices of three declined. Notably, the prices of oil, gas and rice fell for the month. A quarterly analysis of two international price indices developed by the IMF indicated that the Fuel Energy Index fell by 1.7% while the Food and Beverage Index increased by 7.4%. This coincides with a domestic depreciation of 3.01% and 3.5% against the USD and the GBP for the March quarter.

Understanding these movements in international commodity prices and the domestic exchange rate is very important in understanding inflation for Jamaica. Increases in commodity prices have at minimum five fundamental ways of impacting inflation in the domestic economy. Increases in commodity prices increase production cost, motivate movements in the exchange rate, drive inflation and interest rates and induce a multiplier inflationary effect through the production process. Rising domestic production cost drives inflation and exchange rate which in turn drives interest rates. Both inflation and interest rates movements may become self- supporting and hence may lead to price and financial instability.

The multiplier effect of commodity prices is an important transmission mechanism channel. For example, higher oil price creates a chain reaction on all good and services. Other commodity prices impact the domestic economy in the same manner. Grains are common inputs to production within the Agricultural Sector. Therefore, increases in this these commodities will have a pass-through effect on agricultural products such as meat and some processed foods. These price increases then creates a further chain reaction and the process continues.

A cursory examination of commodity price and inflation data indicates that domestic inflation lags international price movements by approximately two months. This would imply that the movements in the international price indices in March should be observed in Jamaica around end-May 2014. Also the inflation rate (1.1%) observed in Jamaica for March would have been influenced by increased international commodity prices between January and February 2014. Experts at the Intelligence Unit forecast suggest that commodities prices will fall later this year, which should have a positive impact on domestic inflation.

The National Budget 2014/15

Recurrent expenditure for the fiscal year is projected at J$404.7 billion, an increase of J$46.3 billion relative to the revised estimates of FY 2013/2014. A total of J$22.7 billion (49%) of the increase in recurrent expenditure is budgeted to be spent on interest payments (mainly domestic interest payments). Increased recurrent expenditure was budgeted for allocation to the ministries of Tourism, Agriculture, Justice and Science, Technology, Energy and Mining. All other sectors experienced a reduction in expenditure. In particular, there were respective cuts in expenditure for Ministry of Education ($5.7 billion) and Ministry of Justice ($1.3 billion).

In order to finance the increased budgetary expenditure without adding to the stock of already burdensome debt, the Government has introduced a tax package of approximately $6.7 billion in new taxes that will be financed by both businesses and individuals alike. A significant, yet controversial levy on withdrawals from deposit-taking institutions (DTIs) and encashment by securities dealers was earlier proposed and later removed by the Minister of Finance. The Finance Minister has now proposed the introduction of a General Consumption tax (GCT) on all imported services. This measure represents a 15% tax on all insurance premiums paid by Jamaican residents to non-residents. This measure is projected to yield approximately 2.3 billion Jamaica dollars. Included in these new measures are the application of a temporary 1% asset tax for life insurance companies, this is expected to yield J$900 million for the government. In addition, a new tax is to be placed on services imported into Jamaica. The government expects this measure to level the playing field as currently local service providers are paying this tax. Two other proposed taxes has also been withdrawn, these include the premium tax for regionalized and non-regionalized life assurance companies and also the removal of the investment tax for assurance companies of 20%.

Having considered the impact of the current 2014/15 budget on the economy's ability to grow, attention must now be placed on the government's ability to meet its revenue targets. It is important to assess whether too much attention was placed on passing the IMF quarterly tests rather than on a more balanced approach that leans much more towards creating real growth in the economy. The truth is that the IMF programme does not address the issues that are at the core of Jamaica's growth and development problems, they were never meant for growth and development. The onus is therefore on the government of Jamaica to craft the correct growth and development framework. The growth and development of the economy requires strategic direction, and therefore requires deliberate action to ensure the right environment is created to facilitate this.

To address this PSOJ has drafted a policy document that promotes debt reduction through an integrated public sector reform programme that promotes economic growth, increases general productivity and facilitates economic development. The government need to move towards such a programme before further economic inertia sets in.

Monthly Inflation

The inflation rate for March 2014 was 1.1%, a decline of 0.3% relative to March 2013. The 12-month point to point rate as of the end of March 2014 was 8.3%, which was also represents the inflation for the fiscal year. The calendar year to date inflation rate is 1.7%.

Inflation in all the three regional areas remained relatively low when compared to the similar period in 2013. In the Greater Kingston Metropolitan area (GKMA) inflation for the month was 1.0%. Inflation for Other Urban Centers (OUC) was 1.1% while the rate for the Rural Areas was 1.1%.

For the twelve major divisions reported by the Statistical Institute the heaviest weighted division Food and Non-Alcoholic Beverages increased by 0.4%, while Housing, Electricity, Water Gas and other Fuels increased by 4.3%. Miscellaneous Goods and Services and Restaurants and accommodation Services increases by 1.2% and 1.3% respectively. Three other divisions with significant changes are Transportation (0.8%), Furnishing, Household Equipment and routine household Maintenance increased by 0.5% while the Division Recreation and Culture increased by 0.4%.

GOJ Treasury Bill Interest Rates

For March 2014, yields on GOJ 30-Day, 90-day and 180-day Treasury Bills increased by 25 bps, 27 bps and 33 bps respectively, relative to February 2014. This movement contributed to the increase in yields on GOJ Treasury Bills for the FY2013/14 of 139 bps, 253 bps and 289 bps for the 30-day, 90-day and 180-day tranches. For the previous fiscal year, yields on the three tranches of GOJ securities declined by 87 bps, 45 bps and 25 bps respectively. The uptick in rates for the fiscal year is reflective of persistent tight Jamaica Dollar liquidity conditions. Additionally, increased rates on longer term tenors reflects a generally uncertainty in the outlook for economic performance over the medium to long term.

Commercial Bank Rates

During the period April 2013 to March 2014 the average weighted interest rates on domestic currency loans moved from 17.92% to 17.57%, a decline of 0.35%. Of the six loan types in this category, five had increases while Installment Credit fell by 1.07%. Of the remaining five: Mortgages, Personal Credit, Commercial Credit, Local Government & other Local Entities and Central Government increased by 0.05%, 0.6% ,0.43%, 1.64%,and 2.29%, respectively.

The average weighted rates for domestic currency loans increased by 1.12% in March 2014. During the month, three loan categories declined while three increased. Installment Credit, Mortgages and Commercial Credit fell by 0.05%, 0.02% and 0.13%. Meanwhile Personal Credit, Local Government and other Local Entities and Central Government interest rates increased by 0.17%, 0.81% and 0.61%, respectively.

Foreign Currency Weighted Loan Rates fell both during the month of February and during 2013 by 0.03% and 0.23% respectively. During the month Installment Credit and Personal Credit increased by 0.03% and 0.27% respectively while Mortgages, Commercial Credit and Local Government and Other Public entities had declines of 0.02%,0.03% and 0.08% respectively. At the end of the month, the average rate stood at 7.30%.

Interest rates on savings and loans increased during March 2014. At the end of March 2014, the average rate on commercial bank saving and lending accounts were 1.98% and 17.57%, respectively. Between April 2013 and March 2014, the rates on savings increased by 0.31% while lending rates fell by 0.35%

Exchange Rates

The Jamaica Dollar continues to depreciate relative to the US dollar. During March the Dollar lost J$1.23 (1.1%) of its value and ended trading at J$109.57 to USD$1.00. Between March 2013 and March 2014, the Jamaica Dollar depreciated by 10.82% moving from J$108.89 to US$1.00 to J$109.57 to US$1.00. This continued depreciation is due to excess demand for US dollars in the Forex Market. Similarly, the Jamaica Dollar depreciated relative to the Canadian Dollar by J$0.87 (0.9%) and ended March at J$98.93 to 1 CAD. During February the Dollar lost 0.9% of its value. Between the period March 2013 and March 2014, the Jamaica Dollar depreciated by J$1.95 (2%), moving from J$96.98 to CAD1.00 to J$98.93 to US$1.00.

In contrast, the Jamaica Dollar appreciated by J$0.79 (0.4%) relative to the Great Britain Pound during March, trading at J$181.77 to each Pound. Between March 2013 and March 2014, the Jamaica Dollar depreciated by J$32.72 (22%) moving from J$149.06 to GBP1.00 to J$181.77 to GBP1.00.

The general expectation is that depreciation in the major trading currencies may continue in the short term. However, with the improvements in the NIR and the BOP, the pace of depreciation of the exchange rate may be slower in the medium term.

Net International Reserves

During March 2014 the Net International Reserves (NIR) was US$1,303.62 million, an increase of US$234.67 million over February 2014. In comparison to the corresponding period last year, the NIR increased by US$419.37 million or 47.4%. This increase in NIR is a positive sign for the economy. At the end of March, the reserves were sufficient to finance 19.45 weeks of goods imports which represents 7.45 weeks over the international benchmark of 12 weeks of goods imports.

Monetary Base

The Bank of Jamaica has been strategically injecting liquidity in the banking system during 2013 and continues to do so in 2014. The monetary base contracted in March by J$239 million or by 0.3%. The contraction is due to a decline of J$26.5 billion in the Net Domestic Assets (NDA) which was partially offset by an increase in the NIR of J$24.9 billion. For the period March 2013 to March 2014 the monetary based expanded by 3.0%. This reflects a 6% increase in currency issue and a decrease of 13% in commercial banks' current account balances. Similarly, cash reserves declined by 0.5%. For March 2014 over February 2014, cash reserve and currency issue reduced by 2.1% and 0.4%, respectively while the current account balance increased by 182.9%. While these point to point statistics are showing relatively large changes, the average increase in the monetary base for the period March 2013 to March 2014 is just 0.61%.

This implies that the Central Bank has been very strategic in influencing the amount of liquidity in the system. Growth in the monetary base is normally in line with growth in the real economy. The JIS reported that real growth for the January to March quarter is expected to be approximately 1.7% and 1% for the fiscal year. This corresponds with the average growth base money growth over this period, 0.61%.

Remittance

Remittance outflows continue to fall while gross and net remittance increased in January 2014. The BOJ reported an increase in net remittance flow for January 2014 of US$137.9 million, an increase of US$8.0 million or 6.2% when compared to the corresponding period of 2013. Total remittance inflows for the month amounted to US$158.2 million. Outflows for the month amounted to US$20.3 million which represents a 16.12% reduction when compared to the corresponding period last year in which outflows were US$24.2 million.

For the fiscal year to January 2014, gross remittance flows amounted to US$1,730.6 million, an increase of US$39.0 million (2.3%). Since 2011, total inflows have surpassed the two billion dollar mark. In January 2013, gross remittances grew by 1.1% when compared to January of 2012. As the world economy, and in particular, US and UK and Canada continues to rebound, remittance inflows to Jamaica should continue on this positive growth trajectory. It may even surpass expectations in 2014.

Balance of Payments

Jamaica's Current Account deficit improved by approximately US$17.5 million or 4% in the last quarter of 2013, when compared to the same period in 2012. This improvement in the Current Account was due mainly to a US$90 million (17.32%) improvement in the country's Current Transfer account in 2013 relative to the same period in 2012.

The improvement in the Current Transfers Account was due mainly to a US$52.6 million (115.6%) increase in the Official Transfer account, a gift from the European Union and also to a US$37.7 million increase (7.93%) in the Private Transfers account. The Bank of Jamaica reported that a 3% increase in private inflows (remittances) and a 16% reduction in private transfer outflows are responsible for this positive development.

In spite of this positive development, the overall current account showed a deficit of US$420.3 million. The most significant factor contributing to this deficit is the large imbalance of US$1061.8 million between Jamaica's exports and imports, or the trade deficit. Despite the large imbalance, the trade deficit reflected an improvement of US$64.9 million relative to the deficit of US$996.9 million at end December 2012.

The improvement in the trade balance is due to a fall in imports, the impact of which was partially offset by a decline in exports. In the last quarter of 2012 Jamaica exported US$90.8 million more than it did in 2013. The fall in exports for December 2013 was due mainly to reductions in foods (sugar), mineral fuels, chemicals (ethanol) and beverages and tobacco. This was offset by an increase in Crude Material and Re-exports. There was also a fall in imports, which was due to reductions in capital goods such as machinery and equipment and construction materials .The December quarter was sufficiently financed by both Private and Official Investment that amounted to US$563.2 million. Consequently, the NIR increased to US$1, 047.83 at end December 2013.

The Jamaica Stock Exchange

The Jamaica Stock markets had mixed results for March 2014. Of the four stock indices, the main JSE market index declined by 1,451.53 points (1.93%) during March. In addition, the year to date and one year declines were 6.7% and 8.4%, respectively. The JSE Cross Listed Index opened and closed the month at 585.9 points, the JSE Combined Index declined by 1,232.27 points (1.59%) while the JSE US Equities Index advanced by 0.14 (0.11%). On the last trading day for March 2014, the overall market activity resulted from trading in thirty three (33) stocks of which 15 declined, 12 advanced and 6 traded firms. Market volume amounted to 541,275,683 units which were valued at $1,206,468,574.41.

Total market capitalization for March 2014 stood at J$297,804,404.584, a reduction of J$113,013,305,716.4 (27.5%). This reduction is due mainly to the delisting of First Caribbean from trading on the Jamaica stock exchange due to the inability of the company to meet the Jamaica Stock exchanges 20% minimum ordinary share ratio. The bank will continue to trade on the Barbados Stock Exchange.

Conclusion
At the end
The close of the first quarter of 2014, comes with many positive developments for example the improvement in the NIR, bauxite growth remittance growth the slight reduction in the BOP deficit etc. BCI and ~~tourist~~ figures should be good. There were negatives too such as worrying interest rate trends on T. Bills and cutback rates, decline in the stock mkts. Required from gov. is a credible growth plan. This is urgently required not just for meeting IMF prog goals but for social reason job creation and long term stability in this fragile economy.