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PSOJ CONFIDENTIAL ECONOMIC BULLETIN

A Monthly Analysis of the Jamaican Economy

Overview

In September the country's resources were largely focused on the immediate task of recovering from the effects of Hurricane Ivan. The Government has estimated total direct damage to be in the region of $22.4 billion, with a sizeable 26% or $6 billion of this amount representing losses to the agricultural sector. The loss of income from farming activities will have significant implications for economic activity in a number of rural communities in the coming months. As an initial step in rehabilitating the sector, the Government has facilitated the provision of $220 million in hurricane relief to 3,000 small farmers through the Office of National Reconstruction. In addition to agriculture, it is expected that the other two major affected areas would be infrastructure and the housing stock. However, until details are provided on the breakdown between public versus private losses, insured versus uninsured damages, and losses to be financed by the public purse versus savings and private sector loans, the overall impact on the macroeconomic variables cannot be fully determined. It appears, however, that the fiscal impact will be somewhat contained as the GOJ has reiterated its commitment to its deficit and debt targets (see more in Fiscal Accounts section).

September's inflation rate was 0.6% in the context of upward movements in most sub-indices of the CPI. The Food & Drink sub-index rose 0.6% with notable movements in Starchy Foods and Vegetables/Fruit.

The dollar held sway against it US counterpart during foreign exchange trading in September, gaining a marginal $0.01 to close the month at an average of $61.89. BOJ interventions, coupled with strong remittance inflows of more than US$128 million, helped to maintain market stability after Hurricane Ivan.

The Net International Reserve (NIR) declined by a moderate 1.6% during September to end the month at US$1,616.52 million. This figure was US$26.9 million lower than the previous month's figure of US$1,643.46 million. The reserves have nonetheless grown by some US$451 million since the start of the year and should be further strengthened by receipts from the GOJ's successful Eurobond issue in October.

In This Issue

Tourism figures for September were not available at the time of publication. However, data for August reveals a modest 1% increase in Stopover visitors relative to the same period last year. This growth rate was much lower than the 11% recorded in July and was influenced by a decline in visitors from the island's major market, the United States.
Total bauxite production fell by 28% relative to last September in the context of significant disruptions in plant activity resulting from Hurricane Ivan. Exports were also affected by damage to port facilities at Rocky Point and Port Kaiser.

The Central Bank trimmed the yields on all its repo instruments in September in a strong display of confidence in the stability of the dollar over the coming months. Total cuts ranged from 20 basis points on the shorter-dated repos to as much as 40 basis points on longer instruments.

For the six-month period January to June 2004 the nation's trade deficit improved by a remarkable US$263.6 million relative to that of the same period last year (see External Trade – page 5).

Net International Reserves

At the end of September the Net International Reserve (NIR) stood at US$1,616.52 million, US$26.94 million lower than the previous month's value of US$1,643.46 million. This reflected a US$28.9-million decrease in foreign assets which outweighed a US$2-million reduction in foreign liabilities for the period. The gross reserve amounted to roughly 23.5 weeks of goods imports *(see Table 1)*.

Table 1: Changes in the NIR

		Change			Imports
	NIR	*Mthly*	*12 Mth*	*YTD*	(Weeks)
Sep-2004	1,616.52	-26.94	433.89	451.54	23.47
Sep-2003	1,182.63	102.53	-504.65	-414.35	18.62

Source: Compiled from the BOJ (Preliminary)

Foreign Currency Deposits

For the month of July total foreign currency deposits amounted to US$1,721.50 million, US$36.3 million lower than June's figure ***(Table 2)***. This reflected a US$62.8-million decrease in commercial bank deposits, which outweighed increases in deposits at building societies and merchant banks. In May, Spot Sales exceeded Purchases for the fifth consecutive month.

Table 2: Foreign Currency Deposits

		Change (US$M)		%
	Jul-04	*Mthly*	*12 Mth*	12 Mth
Total Deposits	1,721.50	-36.34	197.97	12.99
	May-04			
Spot Purchases	661.31	33.43	-20.60	-3.02
Spot Sales	674.51	-13.39	-17.52	-2.53

Source: Compiled from the BOJ (Preliminary)

Foreign Exchange Rates

The Jamaican dollar gained $0.01 against its US counterpart during September to close the month at an average of $61.89 (daily J$/US$ weighted average selling rate, see ***Table 3***). This modest appreciation was the result of sustained investor confidence in the stability of the dollar as well as buoyant remittance inflows and BOJ interventions in the wake of Hurricane Ivan. Year-to-date movements for September amounted to 2.09%, a considerable improvement on the 17.1% recorded for the corresponding period last year. This was also the case in the pound sterling and Canadian dollar markets whose year-to-date percentage movements were greatly reduced from their high double-digit figures of last year.

Figure 1: Daily J$/US$ Movements

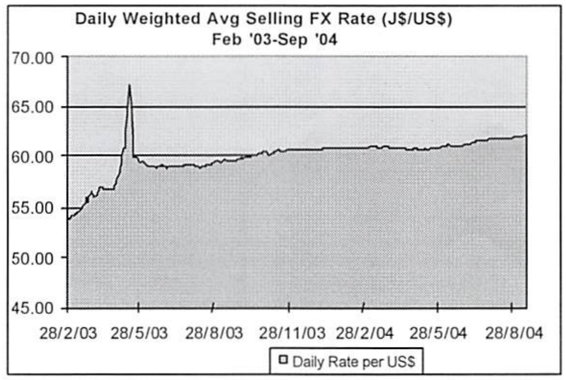


Table 3: Foreign Exchange Trends*

	Year-to-Date: Sep 30, '04 (report date: Oct. 19)					
	us$	%?	can$	%?	uk£	%?
2004	1.27	2.09	2.46	5.28	4.16	3.88
2003	8.74	17.14	11.83	36.86	17.57	21.70
2002	1.87	3.95	1.67	5.65	8.66	12.75
	Monthly					
Sep -04	-0.02	-0.03	2.19	4.67	1.05	0.95

* *minus = appreciation.*
Source: BOJ, PSOJ Economic Research

Short Term Forecast

Some upward adjustments are still possible in the next few weeks as the country's major export sectors take time to recover from the effects of Hurricane Ivan. However, foreign exchange supplies are expected to be buttressed by continued inflows from remittances as well as reinsurance proceeds. Further inflows are also expected from tourism, particularly with the approach of the lucrative Thanksgiving holiday. On the demand side, increased imports of construction materials and other rebuilding supplies in the wake of Ivan may place upward pressure on US-dollar demand. However, this is not expected to be a permanent imbalance and the BOJ will intervene to correct it if the need arises. Given the vigilance of the Bank as well as the projected strength of the above inflows, we can expect a fairly smooth market through November with minimal if any upward movements.

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

	Forecast	Actual	Diff.
May '03	N/a	59.42	
June	N/a	59.01	
July	59.42 – 59.46	59.16	0.30
August	60.23 – 60.27	59.40	-0.87
September	59.60-59.65	59.71	0.06
October	60.25 -60.50	60.44	-0.06
November	60.55-60.60	60.65	0.05
December	60.64-60.68	60.62	-0.02
Jan. '04	60.59-60.64	60.73	0.09
Feb.	60.68-60.75	60.95	0.20
Mar.	60.65-60.70	61.01	0.31
Apr	60.75-60.80	60.65	-0.10
May	60.65–60.74	60.93	0.19
June	60.90–60.96	61.22	0.26
July	61.56-61.62	61.80	0.18
August	62.08-62.14	61.90	-0.18
September	62.10-62.15	61.89	-0.21
October	61.90-61.94		

Source: PSOJ Economic Research

Interest Rates

The BOJ lowered the yields on all its repos in September against a background of continued calm in the currency market. September's adjustments amounted to a flattening of the Bank's yield curve as the reductions were greater on the longer-dated instruments – 40 basis points off the 360-day instrument, versus 20 basis points off the 30, 60, 90 and 120-day instruments. With inflation expected to trend slightly upward, real interest rates will now be even lower than programmed. GOJ six-month T-bills cleared the market at an average of 14.80%, some 16 basis points below that of the last such instrument.

The average bank savings rate remained unchanged at 8.06%, while the average lending rate trended down to 24.95% from August's value of 25.10%.

Figure 2: Interest Rate Movements

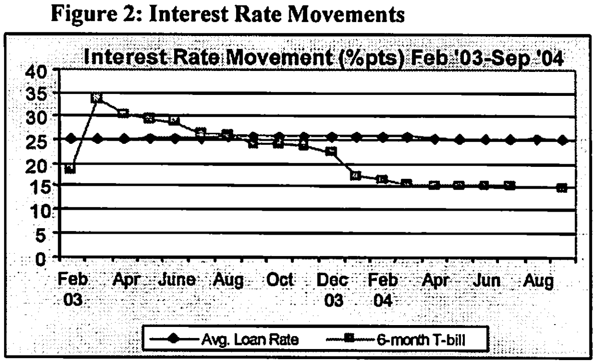


Table 5: Interest Rate Movements

		Change (%age pts)		
	Sep-04	*Mthly*	*12 Mth*	*YTD*
30 Day Repo	14.00	-0.20	-1.00	-1.00
365 Day Repo	16.00	-0.40	-8.00	-7.00
Avg Savings Deposit	8.06	0.00	-0.37	-0.37
Avg Loan Rate	24.95	-0.15	-0.65	-0.65
6 Month T-Bill	14.80	n/a*	-8.62	-7.25
12 Month T-Bill	none	n/a	n/a	n/a

Source: Compiled from the BOJ (Preliminary)
*not applicable

Base Money and Money Supply

The monetary base grew by a minimal 1% in September 2004 compared to the previous month. For the month of July, M2 showed a 1% increase over the June figure reflecting increases in both M1 and the Quasi-money stock.

Table 6: Base Money and Money Supply

	J$M	Change (%)	
	Jul-04	*Mthly*	*12 Mth*
M1	58,098.4	1.64	22.59
Quasi Money	137,475.8	0.72	15.10
M2	195,574.2	0.99	17.23
	Sep-04	*Mthly %*	
Base Money	38,390.93	0.97	

Source: Compiled from the BOJ (Preliminary)

Inflation

Inflation for September registered 0.6% as the Consumer Price Index inched upwards from 1,897.3 to 1909.2. This resulted in a year-to-date inflation rate of 6.8% (***Table 7 overleaf***). The heavily-weighted *Food & Drink* index rose by 0.6% due to higher prices in all food categories, particularly Starchy Foods (up 2.0%), Vegetables & Fruit (1.2%), and Baked Products (0.6%). *Housing & Other Housing Expenses* increased by 0.9% in an environment where rental costs remained flat but Other Housing Expenses went up 1.1%. *Household Furnishings & Furniture* registered a 0.5% movement largely due to a 1% rise in Furniture prices. In interpreting September's inflation figures it must be borne in mind that the bulk of the data collection took place before Hurricane Ivan and so some effects of the hurricane may not be captured.

Table 7: Inflation Trends

	Percent Changes			
	September	*12 Mth*	*YTD*	Fiscal
2004	0.6	10.5	6.8	4.9
2003	1.6	13.1	10.4	10.8

Source: STATIN

Production of Selected Commodities

Mining: Total bauxite production for the month of September was 756,385 metric tonnes. This represented a significant 28% reduction when compared to last September and was a direct result of Hurricane Ivan (see Table 8). Alumina output fell by some 39.4% to 188,317 metric tonnes in a context of major disruptions to plant activity and some amount of damage to refineries. Crude Bauxite production also fell slightly by 2.6%. Total exports fell by more than 43% to 703,095 metric tonnes as a result of damage to port facilities at Rocky Point and Port Kaiser. Year-to-date exports, however, were less than a percentage point shy of last year's figure while year-to-date production was some 2.6% higher.

Table 8: Mining Production

				Y-T-D	
	Sep-03	**Sep-04**	**%**	**Sep-04**	**04/03%**
Production					
Alumina	310,759	188,317	-39.40	2,960,109	4.56
C. Bauxite	272,425	265,385	-2.58	2,935,712	0.10
Tot. Bauxite	1,050,920	756,385	-28.03	10,283,546	2.64
Export					
Alumina	375,030	154,475	-58.81	2,879,000	-0.92
C. Bauxite	301,763	303,576	0.60	2,976,859	2.01
Tot. Bauxite	1,242,867	703,095	-43.43	10,133,183	-0.52

Units=tonnes

Source: Compiled from Jamaica Bauxite Institute

Sugar & Bananas: There was no new sugar production in September due to the ending of the sugar season. According to recent figures from the Sugar Industry Authority (SIA), total production for the crop year amounted to 183,672 metric tonnes, more than 20% higher than last year's output of 152,536 metric tonnes. The industry operated more efficiently this year as it used roughly 7% less cane to produce each tonne of sugar.

Tourism

Total Stopovers for the month of August were 129,526, just a percentage point above that of the corresponding period last year. Foreign Nationals increased by 1.1% but there was a marginal 0.3% reduction in Non-resident Jamaicans (Table 9). The island experienced double-digit growth in European and Canadian visitors which increased by 22.5% and 20.3%, respectively. However, there was a 5.3% decline in the US clientele, reflecting a falloff in visitors from the Midwest, South and Western regions of that country. The US provided only 69% of the island's total stopover visitors for the period, compared to nearly 74% for the same period last year.

Cruise Passengers grew by a creditable 9.7% reflecting increased arrivals at both the Montego Bay and Ocho Rios ports. Montego Bay in particular received 18% more passengers from an unchanged number of calls.

Table 9: Tourist Arrivals

	2003	***2004***	***% Change***	
	Jan - Aug		Jan-Aug	Aug
Stopover	**950,573**	**1,032,095**	**8.6**	**1.0**
Foreign	893,875	974,667	9.0	1.1
National	56,698	57,428	1.3	-0.3
Cruise	**748,489**	**757,294**	**1.2**	**9.7**
Total	**1,699,062**	**1,789,389**	**5.3**	
*US$m**				

Source: Jamaica Tourist Board (Preliminary)

External Trade

For the six-month period January to June 2004 the trade deficit improved by a remarkable US$263.65 million or 21% relative to the corresponding period in 2003. This resulted from an impressive 26.5% growth in export revenues which occurred in tandem with a 5.7% reduction in the import bill.

Exports amounted to US$753.6 million, some US$157.75 million higher than for the same period in 2003 due to higher earnings in Traditional Exports, specifically Mining & Quarrying which grew by US$68.4 million and Manufacturing which grew by US$36.13 million. Agriculture fell by US$1.8 million relative to last period. The growth in Manufacturing was mainly attributable to a huge 65% jump in Sugar exports which grew by US$35.7 million. Rum exports grew by a less pronounced US$0.6 million. In Mining & Quarrying, buoyant international demand allowed for a 19% growth in Alumina and almost 10% growth in Bauxite, which rose by US$63.7 million and US$4.5 million, respectively. The falloff in Agriculture reflected a US$0.8 million drop in Bananas as well as slippages in Citrus (down US$0.6 million) and Cocoa (down (US$0.5 million). In the Non-Traditionals sector, exports grew by US$40.04 million or a whopping 36.6% reflecting higher earnings in Crude Materials (up US$17.3 million), Beverages & Tobacco (up US$1.9 million), Foods (up US$1.1 million), and Other Non-Traditionals (up US$19.7 million).

Imports fell by US$105.9 million in the context of a US$63.1-million reduction in Mineral Fuels and a US$52.3-million fall in Chemicals. However, the majority of categories showed increases, particularly Misc. Manufactured Articles (up US$23.4 million) and Food (up US$US11.7 million).

Table 10: External Trade (US$M)

	Jan-Jun '04	Jan-Jun '03	Change	% Change
TOTAL EXPORTS (fob)	**753.63**	**595.89**	**157.75**	**26.5**
Major Traditional Exports	578.24	475.43	102.81	21.6
Bauxite	50.45	45.93	4.52	9.8
Alumina	392.24	328.58	63.66	19.4
Sugar	90.43	54.76	35.67	65.2
Rum	13.04	12.46	0.58	4.6
Bananas	8.94	9.76	-0.82	-8.4
Coffee	18.55	18.48	0.07	0.4
Other Traditional Exports	4.60	5.48	-0.88	-16.0
Non-Traditional Exports	149.35	109.30	40.04	36.6
Re-exports	26.04	11.15	14.89	133.6
TOTAL IMPORTS	**1,746.68**	**1,852.58**	**-105.90**	**-5.7**
Food	253.55	241.89	11.66	4.8
Beverages & Tobacco	21.26	17.21	4.06	23.6
Crude Materials (excl. Fuels)	32.14	25.49	6.64	26.0
Mineral Fuels, etcetera	351.36	414.48	-63.13	-15.2
Animal & Vegetable Oils & Fats	16.87	12.23	4.64	37.9
Chemicals	197.02	249.34	-52.33	-21.0
Manufactured Goods	247.06	247.00	0.05	0.0
Machinery and Transport Equip.	405.07	448.19	-43.11	-9.6
Misc. Manufactured Articles	191.73	168.30	23.43	13.9
Other	30.64	28.45	2.19	7.7
TRADE BALANCE	**-993.05**	**-1,256.69**	**263.65**	**-21.0**

Source: STATIN

Balance of Payments – January to June 2004

For the six-month period January to June 2004 the balance of payments recorded a deficit of US$92.6 million (see Table 11). This outturn represents a significant US$331-million improvement over that of the corresponding period in 2003 when a deficit of US$423.4 million was recorded. The change resulted from a whopping US$260.8-million improvement in the Goods balance as well as creditable growth in both Services and Current Transfers, whose net inflows grew by US$42.9 million and US$77.2 million, respectively. However, these positive changes were partially countered by a US$50-million widening of the deficit on the Income account.

The improvement in the Goods balance resulted from a US$147.1-million growth in export revenues which was complemented by a US$113.7-million reduction in the country's import bill. Major areas of export growth included alumina, sugar and a number of non-traditional products, while imports were significantly reduced in the areas of mineral fuels, chemicals, machinery and transport equipment.

On the Services account, the US$43-million growth in net inflows was partially due to a US$40-million increase in net receipts from Travel services as the tourism sector experienced an 8% growth in visitor expenditures. The Services balance was further bolstered by a US$20.9-million reduction in the deficit on the Transportation sub-account.

Within the Income account, an US$11-million net growth in Compensation of employees was insufficient to offset the US$61-million worsening of the shortfall in Investment Income. This resulted in a US$50-million increase in net outflows on the Income account.

Current Transfers netted US$77.2 million more thanks to an US$85.4-million increase in Private Transfers or remittances. This was more than sufficient to compensate for the US$8-million fall in Official Transfers for the period.

The Capital and Financial account mainly reflected changes in the Financial account, where Other Official Investments improved from a net outflow of US$302.3 million to a net inflow of US$328.6 million. This represented a turnaround of nearly US$631 million and was largely influenced by the Government's successful forays into the European bond markets in January and June of 2004. In Other Private Investments, net inflows decreased by some US$54.5 million. Overall, inflows to the Capital & Financial account were more than sufficient to finance the shortfall on the Current account, allowing for a US$439-million buildup of the reserves.

Emerging Trends

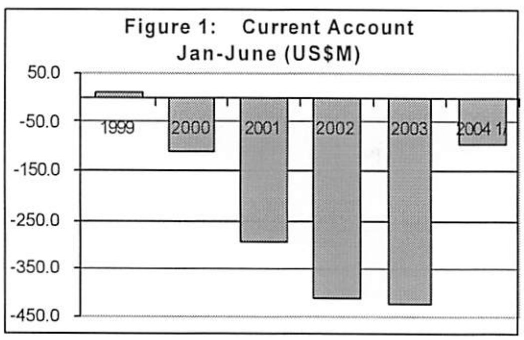
The recent six-month outturn represents the best current account performance of any January-to-June period over the past five years (*see Figure 1*). After posting a modest surplus of US$12.9 million in January to June of 1999, the balance of payments deteriorated to a sizeable deficit of US$107.9 million in the corresponding period in 2000. This was followed by further slippages to -US$294.6 million in the 2001 period, -US$412 million in 2002, and -US$423.4 million in 2003. The 2004 result therefore represents a notable upturn and was underpinned by strong inflows from tourism, alumina, remittances and improved merchandise exports.

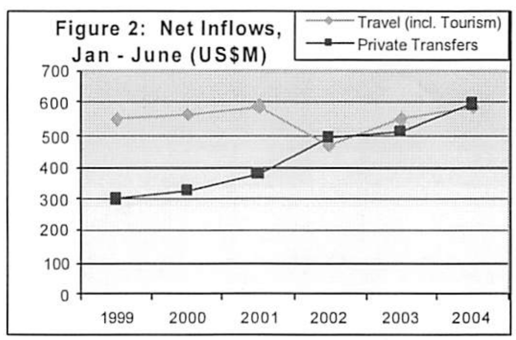
For the second time in three years, Private transfers or remittances have marginally outstripped tourism in terms of net inflows for the January-to-June period (*see Figure 2*). Strong remittance flows are expected to continue as overseas nationals continue to send funds to Jamaica to finance the post-Ivan recovery effort.

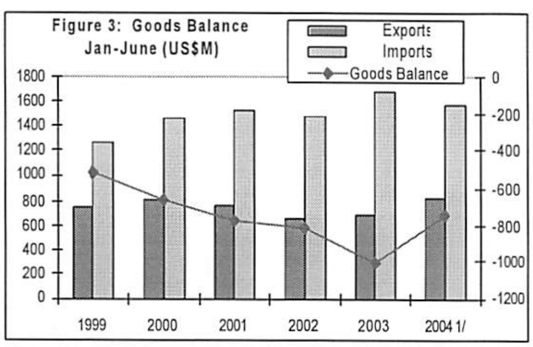
One negative trend which has arisen is the continued deterioration in the Income account, where shortfalls in Investment Income have outweighed improvements in net Compensation of Employees (*see Figure 4*). The Investment Income account will continue to experience outflows as Government continues to service its external debt and multinational companies repatriate their earnings.

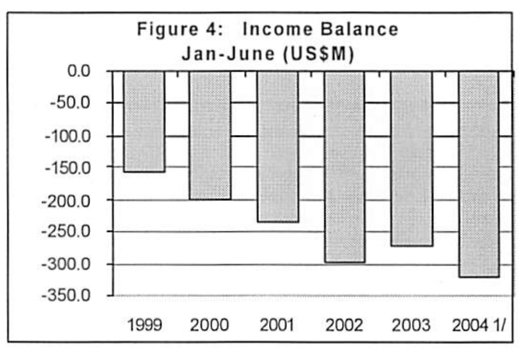
Table 11: Balance Of Payments (US$M)	Jan-Jun '03	Jan-Jun '04	Change	% Change
CURRENT ACCOUNT	**-423.4**	**-92.6**	**330.8**	**-78.1**
Goods Balance	**-1,002.3**	**-741.5**	**260.8**	**-26.0**
Exports (fob)	680.2	827.3	147.1	21.6
Imports (fob)	1,682.5	1,568.8	-113.7	-6.8
Services Balance	**286.6**	**329.4**	**42.9**	**15.0**
Transportation	-70.3	-49.4	20.9	-29.7
Travel	548.6	589.2	40.6	7.4
Other Services	-191.8	-210.4	-18.6	9.7
Income	**-271.2**	**-321.2**	**-50.0**	**18.4**
Compensation of Employees	10.7	21.9	11.2	104.7
Investment Income	-281.9	-343.1	-61.2	21.7
Current Transfers	**563.5**	**640.7**	**77.2**	**13.7**
Official	52.4	44.2	-8.2	-15.6
Private	511.1	596.5	85.4	16.7
CAPITAL & FINANCIAL A/C	**423.4**	**92.6**	**-330.8**	**-78.1**
Net Capital Movement	**-0.9**	**0.6**	**1.5**	**-166.7**
Official	0.1	0.1	0.0	0.0
Private	-1.4	0.5	1.9	-135.7
Financial Account	**424.3**	**92.0**	**-332.3**	**-78.3**
Other Official Investment	-302.3	328.6	630.9	-208.7
Other Private Investment (incl. errors & omiss)	257.0	202.6	-54.5	-21.2
Reserves (minus=increase)	469.6	-439.1		

Source: Bank of Jamaica (Preliminary)









Balance of Payments Update – April to June 2004

For the period April to June 2004 the nation's current account deficit improved by a remarkable US$115.8 million over that of the corresponding period in the previous year (see Table 11B). The improvement reflected a US$105.8-million narrowing of the deficit on the Goods balance as well as higher net inflows in Services and Current Transfers, whose surpluses grew by US$22.7 million and US$38.2 million, respectively relative to the previous period.

The improvement in the Goods account resulted from a US$75.3-million increase in exports which was accompanied by a US$30.5-million reduction in the import bill. Export growth was largely attributed to higher earnings from sugar and alumina as well as non-traditional products, mainly diesel and kerosene. Meanwhile, the value of imports was reduced in the areas of mineral fuels, chemicals, machinery and transport equipment.

The growth in the Services balance was due to a US$22.4-million growth in net receipts from Travel services as the tourism sector experienced a 9% growth in visitor arrivals. In addition there was a US$7.8-million reduction in the deficit on the Transportation sub-account. However, this was counterbalanced by a US$7.5-million widening of the shortfall in Other Services.

Current Transfers benefited from a US$38.2-million growth as remittance inflows exceeded outflows by some US$296 million. The Income account deficit was nearly US$51 million worse than in the former period as a modest improvement in net Compensation of employees was negated by a US$57.8-million deterioration in Investment Income.

The Capital & Financial Account mainly reflected changes in the Financial account, where Other Official Investments improved from a net outflow of nearly US$51 million to a net inflow of US$73 million. The surplus in Other Private Investments also grew by US$6.7 million. Total net receipts in Other Official and Private Investments were more than enough to finance the deficit on the Current Account, allowing for a US$35.4-million build-up of the Net International Reserve.

Table 11B: Balance Of Payments (US$M)

	Apr - Jun '03	Apr - Jun '04	Change	% Change
CURRENT ACCOUNT	**-179.3**	**-63.5**	**115.9**	**-64.6**
Goods Balance	**-469.7**	**-363.9**	**105.8**	**-22.5**
Exports (fob)	346.0	421.3	75.3	21.8
Imports (fob)	815.7	785.2	-30.5	-3.7
Services Balance	**127.5**	**150.2**	**22.7**	**17.8**
Transportation	-40.5	-32.7	7.8	-19.3
Travel	265.2	287.6	22.4	8.4
Other Services	-97.2	-104.7	-7.5	7.7
Income	**-117.4**	**-168.2**	**-50.8**	**43.3**
Compensation of Employees	7.0	14.0	7.0	100.0
Investment Income	-124.4	-182.2	-57.8	46.5
Current Transfers	**280.2**	**318.4**	**38.2**	**13.6**
Official	26.1	21.9	-4.2	-16.1
Private	254.1	296.5	42.4	16.7
CAPITAL & FINANCIAL A/C	**179.3**	**63.5**	**-115.9**	**-64.6**
Net Capital Movement	**-0.1**	**1.1**	**1.2**	**-1200.0**
Official	0.0	0.0	0.0	
Private	-0.5	0.7	1.2	-240.0
Financial Account	**179.5**	**62.4**	**-117.1**	**-65.2**
Other Official Investment	-50.8	73.1	123.9	-243.9
Other Private Investment *	17.9	24.7	6.8	38.0
Reserves (minus=increase)	212.4	-35.4		

* (incl. errors & omissions) Source: Bank of Jamaica (Preliminary)

Fiscal Accounts

For the five-month period April to August 2004 the fiscal deficit was 2.2% lower than projected as the Government continued to reap success in its cost containment efforts. Nearly all expenditure items were below budget for the period, particularly External interest payments which were some 9.7% better than anticipated. In addition, revenues were almost in line with projections as nearly all line items met or exceeded their budgeted estimates.

Revenue and Grants collected for the period amounted to $64,430.9 million, a marginal 0.1% less than projected. The shortfall reflected an $820-million falloff in Grants due to a temporary delay in funding from the European Union (EU). All other revenue items netted more than projected, particularly Tax Revenues and Capital Revenue which exceeded their estimates by $374.3 million and $222.6 million, respectively. The tax outturn was influenced by strong performances in PAYE and taxes on interest, which bettered expectations by $2,163.1 million and $1,035.9 million, respectively.

The Expenditure outturn of $86,837.5 million represents a cost saving of some $593.5 million or 0.7% relative to projections. External interest payments in particular were $959.7 million less than planned, due to lower-than-projected interest rates on multilateral debt as well as a slower-than-expected depreciation of the dollar. The improvement in External interest costs outweighed the $578-million overrun in Domestic interest costs for the period, leading to a net saving in total interest expenses relative to expectations.

Capital spending received a boost as Government invested $47.1 million more in this area than originally budgeted.

Loan receipts were approximately $11.86 billion below budget as Government borrowed $28 billion less than planned on the domestic market. External receipts jumped some 184% or $16.26 billion above projections as favourable external market conditions allowed the Government to enter those markets much earlier in the year than was originally planned. In general, rising investor confidence on the external markets has enabled the Administration to reduce its reliance on high-yielding domestic debt.

Total public debt at the end of August stood at $739.92 billion, a decrease of $11.44 billion relative to the July figure. This marks the first reduction in the monthly debt stock since the start of the year. Domestic Debt fell by $106.06 million to $440,433.32 million. External Debt also fell by US$191.47 million to US$4,838.02 million.

Although the fiscal accounts appear to be on track, further information is needed concerning the amount of arrears on withholding tax and other refunds as well as other arrears to Government ministries.

Fiscal Outlook – Impact of 'Ivan'

In light of the damage caused by Hurricane Ivan which amounts to an estimated 4.8 percent of GDP, the Government has revised its GDP growth projection from 3.0 percent to a range of 2.3 to 2.5 percent. This projected deceleration, coupled with the increased pressure on the fiscal resources brought on by the reconstruction efforts, means that the deficit target of 3.4 percent of GDP now faces considerable challenge. Despite the challenges, however, the Government will strive towards a deficit target of no more than 4 percent of GDP. The Administration has also stated its resolve to finance the rebuilding process mainly with its own resources rather than increasing the level of debt. This will be achieved through a reallocation of existing budgeted expenditures supplemented by grant funding and private sector support. In addition, the Administration remains firmly committed to its target of a balanced budget by fiscal year 2005/06. It is critical that the GOJ remain within its programmed deficit and debt targets if it is to continue to access financing at favourable rates and maturities on the external capital markets.

Table 12: Fiscal Accounts (J$ million)

	April – August 2004				Change from 03/04	
			Deviation			
	Provisional	Budget	J$m	(%)	J$m	(%)
Revenue & Grants	**64,430.9**	**64,514.9**	**-84.0**	**-0.1**	**13,119.8**	**25.6**
Tax Revenue	58,820.4	58,446.0	374.3	0.6	11,873.2	25.3
Non-Tax Revenue	3,718.6	3,702.6	16.0	0.4	773.3	26.3
Bauxite Levy	1,074.0	951.0	122.9	12.9	225.7	26.6
Capital Revenue	425.4	202.8	222.6	109.8	128.6	43.3
Grants	392.6	1,212.4	-819.9	-67.6	119.1	43.5
Expenditure	**86,837.5**	**87,431.0**	**-593.5**	**-0.7**	**14,390.7**	**19.9**
Recurrent	83,021.3	83,661.9	-640.6	-0.8	12,885.7	18.4
Programmes	13,637.3	13,802.3	-165.0	-1.2	1,623.4	13.5
Wages & Salaries	26,359.9	26,454.3	-94.4	-0.4	2,604.3	11.0
Interest	43,024.1	43,405.3	-381.2	-0.9	8,658.0	25.2
Domestic	34,116.7	33,538.2	578.5	1.7	8,007.8	30.7
External	8,907.4	9,867.1	-959.7	-9.7	650.3	7.9
Capital Expenditure	3,816.2	3,769.1	47.1	1.2	1,505.0	65.1
Fiscal Balance	**-22,406.6**	**-22,916.1**	**509.5**	**-2.2**	**-1,270.9**	**6.0**
Loan Receipts	82,881.8	94,739.4	-11,857.6	-12.5	35,239.1	74.0
Domestic	57,805.3	85,918.9	-28,113.6	-32.7	11,630.8	25.2
External	25,076.5	8,820.5	16,256.0	184.3	23,608.3	1607.9
Divestments	652.6	1,586.5	-933.9	-58.9	297.6	83.8
Amortization	74,643.1	81,760.9	-7,117.8	-8.7	42,093.9	129.3
Domestic	54,603.1	61,344.9	-6,741.8	-11.0	28,985.9	113.2
External	20,040.0	20,416.0	-376.0	-1.8	13,108.0	189.1
Overall Balance	**-13,515.3**	**-8,351.1**	**-5,164.2**	**61.8**	**-7,828.1**	**137.6**
Primary Balance	**20,617.5**	**20,489.2**	**128.3**	**0.6**	**7,387.2**	**55.8**

Source: Ministry of Finance & Planning

Stock Market

During September the main JSE Index advanced by a healthy 2.62% or 2,552.25 points to close at 99,819.82 points on September 30. Market capitalization increased by $20.58 billion or 2.71% to end the month at approximately $780.66 billion.

The main JSE Index has now advanced by almost 48% since the start of the year. The top performing stock for year- to-date to September 30 was Capital & Credit Merchant Bank, which appreciated by over 317% from $5.99 to $25.00 (see Table 13). The worst loser in price terms was the Ciboney Group, which lost more than 33% of its value over the period closing at $0.08 on September 30.

Table 13: Returns for Listed Companies on the JSE

Year-to-Date Performers on the Jamaica Stock Exchange

Top Five (unadjusted for dividends or transaction costs)

	31/12/03	30/09/04	$	%
Capital & Credit Merchant Bank	5.99	25.00	19.01	317.36
Pan Caribbean Financial Services	6.60	22.80	16.20	245.45
Dehring, Bunting & Golding	7.50	24.65	17.15	228.67
Hardware & Lumber	9.50	30.00	20.50	215.79
Pegasus Hotel	3.40	10.50	7.10	208.82

Bottom Four (unadjusted for dividends or transact. costs)

Ciboney Group	0.12	0.08	-0.04	-33.33
Montego Freeport	2.43	2.09	-0.34	-13.99
Carreras Group	35.00	32.50	-2.50	-7.14
CMP Industries	2.99	2.85	-0.14	-4.68

Source: Compiled from the JSE

Developments and Outlook

The national airline Air Jamaica continues to face major financial difficulties as unconfirmed newspaper reports are that the company has incurred losses of some US$530 million in its ten years of operation under private ownership. The airline's management attributes the losses to a number of causes. One major factor was the Category Two rating received by Jamaica's airports from the US Federal Aviation Administration (FAA), which temporarily prevented the airline from accessing some US ports. According to management, this resulted in significant revenue losses amounting to some US$150 million over a two-year period. The terrorist attacks of September 11, 2001 also precipitated a major downturn in world travel. This led to further revenue losses for the company. The airline was also affected by higher insurance and security costs in the wake of the 9/11 tragedy. One of the largest cost contributors however, has been the huge fuel expenses resulting from high oil prices on the world market in recent months. Fuel prices amounted to US$73 million or 15 percent of the company's expenses last year, and the bill is expected to be a whopping 40 percent higher this year at US$102 million. The airline's pilots, who have been asked to take a pay cut, have alleged that many expenditure areas are significantly higher than industry benchmarks.

The Government is now a 45 percent shareholder in Air Jamaica. The management indicates that the company will shortly be unveiling a new business model which is expected to slash operating costs by approximately US$50 million next year. This move is expected to bring the airline's expenses into line with its revenues. In addition, the company plans to refinance its US$100 million debt in order to reduce its interest expenses, which now cost the company between US$10 million and US$15 million per year. Many argue that the financial survival of Air Jamaica is critical to the tourism industry given the major role that the airline plays in the sector, not only as a conduit between the island and its North American market but also as a major promotional vehicle for the Jamaican tourism product. However, no financial statements for the company have been made public since the privatisation of the airline, despite the fact that the Government has invested billions of dollars of taxpayers' funds in the company. Given the strong level of Government support for the airline, this lack of transparency is disturbing and needs to be urgently resolved. There must be strong justification given for the level of historical support and discussion of the GOJ's priorities going forward as it cannot continue to be business as usual, especially in the context of the admirable restraint exhibited by public sector employees in the recent Memorandum of Understanding and the need to balance the budget next fiscal year.

On October 12, 2004 the Government successfully launched and priced a €150-million bond issue on the European market with a coupon of 10.5 percent and a maturity of ten years, the longest ever maturity for a Jamaican Eurobond issue. The initial offer was for €100 million but this was hugely oversubscribed by some 270 percent. In addition, the instrument was issued very close to par at a price of 99.5, subsequently trading as high as 101 on the secondary market. Such a positive response to a ten-year instrument just a month after Hurricane Ivan is a strong indication of investor confidence in Jamaica's ability to rebound from the disaster and also meet its medium-term fiscal and macroeconomic targets. This latest European issue completes the Government's external borrowing for this fiscal year as the Administration has now exceeded its foreign borrowing target by some $US80 million.

The state-owned oil refinery Petrojam is now in the process of securing financing to the tune of US$160 million to carry out an upgrade of its facilities with a specific focus on increasing its refining capacity. Petrojam intends to increase capacity by almost 43 percent from 35,000 barrels a day to 50,000 barrels a day in order to significantly bolster its operating efficiency. It is expected that these efficiency gains will then be passed on to consumers in the form of cheaper prices. The refinery is being upgraded as part of the recent Petro Caribe initiative, a regional partnership which seeks to provide its member countries with relatively low-cost oil products from Venezuela and Trinidad & Tobago, the two major oil-producing partners in the agreement. Under the initiative, improvements will be made to refineries in Jamaica, Trinidad & Tobago, Venezuela and Cuba. Other smaller islands will then benefit from the increased efficiency at these refineries which will hopefully be able to sell to these islands at prices lower than those on the world market.

Statistical Index
Major Macro-Economic Indicators

	BM		M2		NIR	Fx Dep	CPI		Tourism	J$/US$	Tbill	Loan	Sav	Dom Debt	Fx Debt
	M	P	M	P	US$M	US$M	M	P	P		%	%	%	J$M	US$M
Mar-01	-3.8	-0.1	1.4	8.9	1,286.3	1,117.3	0.5r	6.4	-0.08	45.70	16.88	31.33	9.84	215,084.05	3,624.30
Apr	1.6	-1.4	0.1	7.7	1,281.8	1,130.5	0.4	5.8	4.24	45.68	16.50	31.21r	9.84	n/a	3,625.70
May	-0.5	-2.4	2	10.6	1,480.6	1,152.6	0.8	6.2	3.36	45.77	15.46	30.88	9.50	n/a	3,971.40
Jun	-0.9	-1.8	-0.7	8.2	1,540.5	1,154.2	1.7	7.1	-2.22	45.77	16.2	30.67	9.45	285,660.00	3,944.15
Jul	3.7	3.3	2.0	10.7	1,526.3	1,153.3	1	7.1	-2.62	45.78	16.45	30.33	9.18	n/a	n/a
Aug	-1.1	1.5	1.0	11.2	1,599.0	1,158.7	0.9	7.1	-8.08	45.77	16.04	28.21	9.08	n/a	n/a
Sep	-4.6	0.3	1.3	10.6	1,537.7	1,192.1r	0.8	6.9	-21.73	45.94	15.10	26.96	9.08	292,262.82	3,882.21
Oct	-2.1	-1.0	0.84	11.2	1,477.5	1,222.9	0.8	7.7	-18.39	46.57	15.11	26.79	9.08	n/a	n/a
Nov	3.5	0.4	n/a	n/a	1,477.0	1,214.0	0.1	7.7	-14.86	47.35	17.82	26.79	9.08	n/a	n/a
Dec	12.4	0.2	n/a	n/a	1,840.7	n/a	n/a	n/a	n/a	47.36	17.03	26.79	9.08	309,358.11	4,146.10
Jan-02	-10.3	-0.78	-1.34	8.63	1,848.7	1,174.9	0.6	9.4	-11.6s	47.46	17.08	26.79r	9.08	297,181.62	4,107.50
Feb	3.5	0.8	1.21	10.52	1,820.9	1,197.9	-0.1	8.1	-11.76	47.51	15.93	26.63	9.02	298,316.27	4,098.6
Mar	-4.9	-0.4	1.1	2.2	1,941.47	1,293.4	0.0	7.6	-12.96	47.64	14.3	26.29	9.36	300,201.53	4,135.30
Apr	-2.3	-4.2	2.04	12.24	1,899.6	1,280.9	0.5	7.7	-14.56	47.76	13.84	26.29	9.34	302,293.04	4,144.93
May	1.6	-2.2	-0.8	9.3	1,810.6	1,273.3r	0.3	7.2	-12.28	48.14	13.79	26.25	9.34	305,116.45	4,156.13
Jun	0.7	-0.6	0.82	10.92	1,782.3	1,270.6	0.9	6.3	-2.33	48.43	13.81	25.92	9.00	310,741.77	4,463.94
Jul	3.0	-1.3	0.34	9.15	1,743.9	1,288.17	1.5	6.8	14.80	48.5	13.79	25.92	8.97	313,667.59	4,253.01
Aug	-1.27	-1.45	0.41	8.48	1,685.6	1,316.1	0.4	6.3	-2.04	49.01	13.78	26.25	8.97	329,216.58	4,221.19
Sep	-0.28	2.97	5.89	13.42	1,687.3	1,335.23	0.4	5.9	21.51	49.27	16.69	26.25	8.86	331,618.89	4,230.84
Oct	2.02	6.19	-5.10	7.4	1,655.16	1,328.78	0.7	5.8	15.56	49.44	19.54	26.13	8.96	342,248.95	4,224.40
Nov	2.18	4.86	3.36	11.58	1,614.40	1,397.17	1.2	7.1	16.85	49.91	16.89	26.13	8.96	340,245.86	4,292.91
Dec	11.44	3.99	4.76	12.98	1,596.98	1,423.21	0.5	7.3	34.77	50.97	17.01	25.04	8.96	351,106.70	4,347.46
Jan-03	-10.91	3.72	-3.04	11.03	1,510.25	1,428.27	-0.3	7.0	21.29	52.98	18.45	23.9	8.88	357,519.32	4,389.10
Feb	2.01	0.04	-1.82	6.32	1,252.94	1,421.05	-0.6	5.7	28.90	53.74	18.45	24.73	8.59	363,846.41	4,152.56
Mar	-0.14	7.54	2.35	7.47	1,339.67	1,499.96	0.5	6.2	23.12	56.24	33.47	24.73	8.22	366,158.13	4,180.00
April	-0.48	9.61	5.90	11.68	1,362.10	1,501.76	1.6	7.3	24.90	57.31	30.34	24.73	8.22	376,664.71	4,178.82
May	1.22	9.20	-0.019	12.55	1,233.33	1,530.56	1.9	9.0	21.68	59.42	29.29	25.18	8.22	384,739.26	4,198.03
June	-1.02	7.36	-0.73	10.83	1,127.39	1,514.18	2.5	10.7	20.05	59.01	28.46	25.18	8.22	388,125.86	4165.30
July	1.20	5.31	0.0	10.46	1,124.92	1,468.85	1.5	10.7	18.90	59.16	26.31	25.18	8.22	393,970.29	4,133
August	0.84	7.63	n/a	n/a	1,080.10	1,586.08	1.4	11.9	17.61	59.39	25.74	25.60	8.22	396,498.28	4,096.65
Sept	-1.32	4.09	n/a	n/a	1,182.63	1,627.60	1.6	13.1	17.20	59.71	23.42	25.60	8.94	402,317.57	4,129.12
Oct	2.90	n/a	n/a	n/a	1,131.13	1,655.11	1.6	14.1	7.7	60.44	none	25.60	8.43	404,949.94	4,164.23
Nov	3.17	n/a	n/a	n/a	1,103.25	1,637.24	0.9	13.8	6.1	60.65	23.46	25.60	8.43	410,984.43	4,185.10
Dec	n/a	n/a	n/a	n/a	1,164.98	1,670.59	0.8	14.1	n/a	60.62	22.05	25.60	8.43	417,834.25	4,192.06
Jan '04	n/a	n/a	n/a	n/a	1,251.01	1,691.67	0.6	15.2	6.3	60.73	17.15	25.60	8.43	427,363.66	4,169.33
Feb	n/a	n/a	n/a	n/a	1,473.96	1,727.51	0.6	16.5	n/a	60.95	16.31	25.56	8.30	419,763.43	4,459.14
Mar	n/a	n/a	n/a	n/a	1,568.66	1,770.19	0.5	16.8	n/a	61.01	15.57	25.40	8.30	417,571.30	4,529.00
Apr	n/a	n/a	n/a	n/a	1,741.62	1,769.12	0.4	15.4	n/a	60.65	15.09	25.23	8.12	417,358.68	4,665.57
May	n/a	n/a	n/a	n/a	1,715.66	1,799.65	0.6	14.0	n/a	60.93	14.96	25.02	8.06	420,503.45	4,745.42
June	n/a	n/a	n/a	n/a	1,604.10	1,757.84	0.8	12.2	n/a	61.22	14.98	25.02	8.06	429,251.39	4,773.46
July	n/a	n/a	0.99	17.23	1,594.69	1,721.50	1.0	11.6	n/a	61.80	14.96	25.02	8.06	440,539.38	5,029.49
Aug	n/a	n/a	n/a	n/a	1,643.46	n/a	1.3	11.5	n/a	61.90	none	25.10	8.06	440,433.32	4,838.02
Sep	0.97	17.68	n/a	n/a	1,616.52	n/a	0.6	10.5	n/a	61.89	14.80	24.95	8.06	n/a	n/a

Source: Bank of Jamaica, Statistical Institute of Jamaica, Ministry of Finance and Planning, Jamaica Tourist Board and the Planning Institute of Jamaica.

Revised periodically when necessary.

Key:

BM – Base Money
NIR – Net International Reserves
CPI – Consumer Price Index
Tbill – 6-month Treasury Bill Yield
Save – Average Savings Deposit Rate
P – Point-to-Point Percentage Change
N/a – Not Available
WATBY- weighted average Treasury bill yield
M2 – Money Supply
FX Dep – Foreign Exchange Deposit
Tourism – Total Tourist Arrivals
Loan – Average Loan Rate
M – Monthly Percentage Change
R – Revised
S – Stopover

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