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PSOJ CONFIDENTIAL ECONOMIC BULLETIN

A Monthly Analysis of the Jamaican Economy

Overview

The money market continues to be affected by a reduction in real interest rates due to heightened inflation. In fact, November's inflation rate exceeded market yields on an annualized basis. However, investors have shown considerable confidence in the medium-term outlook, as evidenced by the fact that Government was able to issue a number of debt instruments at close to pre-Ivan yields. The inflation outturn, although high, represents a reduction of almost one percentage point from the previous month. This may be an indication that output in the goods-producing sector is gradually recovering from the impact of the hurricane.

Inflation weighed in at 2.4% in November driven by strong increases in food & drink, domestic fuels, household supplies and housing costs. However, all these areas showed smaller increases than in October with the exception of housing, which continued to show the effects of post-Ivan dislocation. The normalization of output in agriculture is likely to result in some deflation in the coming quarter and this should significantly moderate the fiscal-year outturn.

The dollar depreciated by $0.10 against its US counterpart during November, losing strength on twelve of the 22 trading days in the month. However, the movements represented a depreciation of only 0.15% for the month, and the year-to-date outturn remains favourable when compared to last year. In addition, the healthy state of the NIR continues to have a calming effect on market demand.

The Net International Reserve declined marginally in November but remained sturdy at US$1,816.06 million, only US$10.6 million lower than the previous month's value of US$1,826.66 million. A key contributor to the present strength of the reserve was the GOJ's recent Eurobond issue, which represented an inflow of roughly US$190 million in foreign assets.

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November's tourism figures were not available at the time of publication. However, October's numbers show a 2.1% decline in stopovers relative to the same period last year; this reflected a reduction in rooms due to the temporary closure of two major hotels which had been damaged by Ivan.

Total bauxite production slipped by 3.1% in October as output was again affected by equipment problems at Kaiser. This had an impact on year-to-date production and exports, both of which were marginally down from last year's numbers.

For the second consecutive month the Central Bank has held strain on its rate cuts as it continues to monitor post-Ivan inflation. This has turned out to be a prudent stance given November's inflation result. The Bank's repo yields remained at their October levels which ranged from 14.00 to 16.00%.

For the first eight months of the year the nation's trade deficit improved by nearly US$170 million or 10.3% relative to that of the same period last year (see External Trade – page 5).

Net International Reserves

The Net International Reserve remained strong during November to end the month at US$1,816.06 million. This outturn was a marginal US$10.6 million lower than the previous month's figure of US$1,826.66 million. The change mainly reflected a US$10.56-million decrease in foreign assets as there was no material change in foreign liabilities over the period. The gross reserve amounted to 26.15 weeks or roughly six months of goods imports *(see Table 1)*.

Table 1: Changes in the NIR

		Change			Imports
	NIR	*Mthly*	*12 Mth*	*YTD*	(Weeks)
Nov-2004	1,816.06	-10.60	712.81	651.08	26.15
Nov-2003	1,103.25	-27.88	-511.15	-493.73	17.39

Source: Compiled from the BOJ (Preliminary)

Foreign Currency Deposits

For the month of October total foreign currency deposits amounted to US$1,833.56 million, US$33.7 million lower than the previous month's figure ***(Table 2)***. This resulted from a US$52.8-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)		%
	Oct-04	*Mthly*	*12 Mth*	**12 Mth**
Total Deposits	1,833.56	-33.67	196.32	11.99
	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 lost $0.10 against its US counterpart during November to close the month at an average of $61.98 (daily J$/US$ weighted average selling rate, see ***Table 3***). November's adjustments represented a depreciation of only 0.15% as the dollar was held steady by buoyant supplies as well as reasonably calm conditions on the demand side. As at November 30 year-to-date depreciation was 2.24%, a much more favourable outturn than the 19% recorded for the same period last year. The Canadian dollar and pound sterling also showed dramatic year-to-date improvements over their double-digit depreciations of last year.

Figure 1: Daily J$/US$ Movements

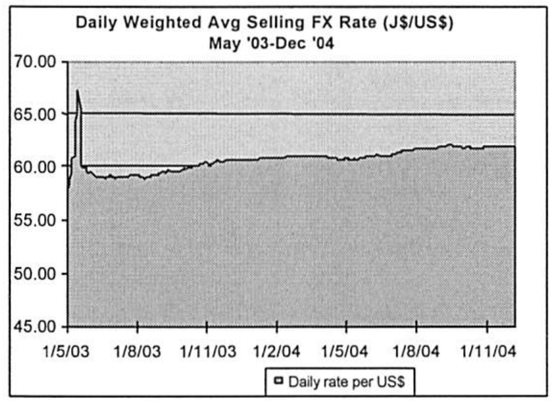

Table 3: Foreign Exchange Trends*

	Year-to-Date: Nov 30, '04 (report date: Dec. 14)					
	us$	**%?**	**can$**	**%?**	**uk£**	**%?**
2004	1.36	2.24	5.16	11.08	10.16	9.46
2003	9.68	18.99	14.01	43.67	22.13	27.33
2002	2.51	5.30	2.44	8.29	9.52	14.01
	Monthly					
Nov-04	0.10	0.15	1.28	2.53	4.98	4.42

* *minus = appreciation.*

Source: BOJ, PSOJ Economic Research

<u>Short Term Forecast</u>

The healthy level of the NIR continues to generate positive signals to the marketplace concerning foreign exchange supplies over the short to medium term. In addition, remittance inflows remain buoyant as does global demand for the country's major exports. The lucrative winter tourist season should provide a boost for tourism revenues over the next three months. In terms of November's inflation and its effect on US dollar demand, no sustained effect is anticipated as inflation is expected to subside in the coming months. Given these factors the dollar should continue to exhibit stability through January with possible appreciation.

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

	Forecast	Actual	Diff.
August '03	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	61.88	-0.02
November	61.87-61.92	61.98	0.06
December	61.90-61.94		

Source: PSOJ Economic Research

Interest Rates

There were no reductions in BOJ money market rates in November as the Bank continued to monitor post-Ivan trends in prices and the currency. The repos therefore remained at their October levels ranging from 14.00% on the 30-day, to 16.00% on the 360-day instrument. The six-month T-bill cleared the market at an average yield of 14.90%, some 12 basis points higher than in the previous month possibly reflecting the effect of October's inflation news on investors' required return. However, the increase was smaller than might have been expected and shows some degree of investor confidence that the decline in real interest rates is transitory rather than permanent.

The average bank savings rate remained unchanged at 7.84% while the average lending rate slipped marginally to 24.89%, from 25% in October.

Figure 2: Interest Rate Movements

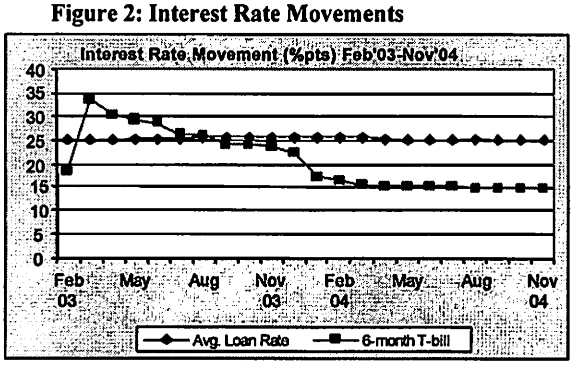

Table 5: Interest Rate Movements

		Change (%age pts)		
	Nov-04	*Mthly*	*12 Mth*	*YTD*
30 Day Repo	14.00	0.00	-1.00	-1.00
365 Day Repo	16.00	0.00	-8.00	-7.00
Avg Savings Deposit	7.84	0.00	-0.59	-0.59
Avg Loan Rate	24.89	-0.11	-0.71	-0.71
6 Month T-Bill	14.90	0.12	-8.56	-7.15
12 Month T-Bill	16.05	n/a	-7.88	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

The Consumer Price Index rose by a strong 2.4% in November driven by increases in all the main expenditure categories. The *Food & Drink* category increased by 3.5% reflecting higher prices in all food types, particularly Vegetables & Fruit (up 9.4%), and Starchy Foods (up 8.5%). *Housing & Other Housing Expenses* rose by 2.7% in a context of post-hurricane dislocation and significant damage to the housing stock. The 2.5% increase recorded in *Fuels & Other Household Supplies* was strongly driven by a 3% hike in the cost of domestic fuels. *Household Furniture & Furnishings* rose by 1.5% overall, while *Transportation* expenses went up 0.9% (see Table 7).

Table 7: Inflation Trends

	Percent Changes			
	November	*12 Mth*	*YTD*	Fiscal
2004	2.4	13.9	13.1	10.9
2003	0.9	13.8	13.2	13.7

Source: STATIN

Production of Selected Commodities

Mining: Total bauxite production slipped by 3.1% in November as output continued to be affected by equipment problems and the challenges of the post-Ivan recovery process. Crude bauxite production fell by more than 20% relative to last November. This resulted from an accident at Kaiser which damaged some of that company's equipment leading to a fall in crude output to 220,481 metric tonnes, down from 276,700 metric tonnes in November 2003. Alumina production fared somewhat better, growing by 3.8% to 347,114 metric tonnes (see Table 8). Despite the falloff in production, total bauxite exports grew by some 5.9% to 1.130 million metric tonnes, with an 11.5% increase in exports of alumina. However, the recent production problems have taken a toll on year-to-date performance in both output and exports, which have both slipped modestly relative to last year.

Table 8: Mining Production

				Y-T-D	
	Nov-03	Nov-04	%	Nov-04	04/03%
Production					
Alumina	334,484	347,114	3.78	3,657,253	4.36
C. Bauxite	276,700	220,481	-20.32	3,220,764	-9.31
Tot. Bauxite	1,108,121	1,073,769	-3.10	12,293,521	-0.13
Export					
Alumina	328,916	366,641	11.47	3,555,272	1.12
C. Bauxite	248,511	244,197	-1.74	3,257,052	-7.07
Tot. Bauxite	1,067,478	1,130,049	5.86	12,096,008	-1.58

Units=tonnes

Source: Compiled from Jamaica Bauxite Institute

Sugar & Bananas: There was no new sugar production in November due to the ending of the sugar season.

Tourism

Stopovers: During October total stopovers amounted to 84,802, a 2.1% reduction when compared to the same period last year. This reflected the continued closure of two large hotels – Holiday Inn and Jamaica Grande – which had to undergo repairs in the wake of Hurricane Ivan. There was a 2.1% decline in visits from Foreign Nationals, while the number of Non-resident Jamaicans slipped by 1.8%. However, year-to-date growth remains positive as total stopovers since January showed a 6% increase over that of the same period last year.

The US continues to be the largest provider of stopover visitors, comprising 65.2% of that number in October. However, the US share has been steadily declining in recent months (see Chart 9A). At the same time, the strengthening of the euro has facilitated an increase in purchasing power by travelers from that region, contributing to an upward trend in European stopovers (see Chart 9B).

Cruise passengers: The cruise ship season came off to a late start this year; this resulted in a sizeable 35% drop in October's cruise passengers relative to the same period last year.

Table 9: Tourist Arrivals

	2003	*2004*	*% Change*	
	Jan - Oct		Jan-Oct	Oct
Stopover	1,113,747	1,181,837	6.1	-2.1
Foreign	1,046,316	1,113,733	6.4	-2.1
National	67,431	68,104	1.0	-1.8
Cruise	912,457	867,318	-4.9	-35.6
Total	2,026,204	2,049,155	1.1	
US$m*				

Source: Jamaica Tourist Board (Preliminary)

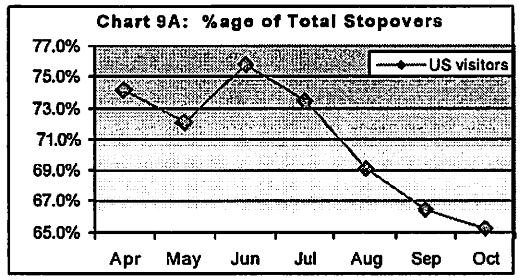

Chart 9A: %age of Total Stopovers

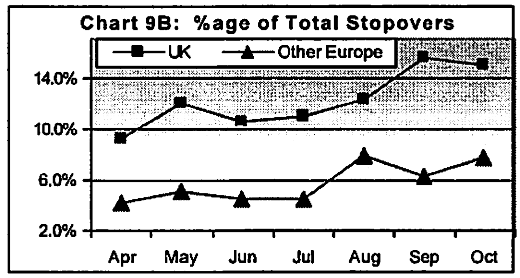

Chart 9B: %age of Total Stopovers

External Trade

For the first eight months of the year the trade deficit improved by nearly US$170M or 10.3% relative to the corresponding period in 2003. This resulted from an impressive 24.3% growth in export revenues which was more than sufficient to offset the increase in the import bill for the period.

Exports amounted to US$995.4M, almost US$195M higher than for the same period in 2003 due to higher earnings in both the Traditional and Non-traditional sectors. In the Traditional category, Mining & Quarrying was the leading growth sector increasing by US$112.5M in an environment of buoyant global demand which allowed for a US$110M growth in Alumina and US$1.43M growth in Bauxite. Manufacturing increased by roughly US$32.2M thanks to a 50% jump in Sugar exports which grew by US$32.9M. Rum exports fell by US$0.69M or 3.6%. Agriculture grew by a creditable 5.5% or US$2.28M despite the passage of Hurricane Charlie in August. Growth was driven by a 16.6% improvement in Coffee earnings which rose by US$3.9M. In the Non-Traditional sector, exports grew by a strong 22% or US$33.3M reflecting higher earnings in Crude Materials (up US$18.7M), Beverages & Tobacco (up US$2.6M), and Other Non-Traditionals (up US$11.9M). Non-traditional Foods experienced flat growth due to revenue reductions in products such as sweet potatoes, papayas and seafood.

Imports grew by roughly US$25M reflecting increases in most product categories. Miscellaneous Manufactured Articles increased by US$41.1M, while Food and Manufactured Goods went up by US$22.45M and US$24.5M, respectively. However, the import bill was US$44.5M cheaper in the area of Machinery & Transport Equipment, while reductions were also recorded in Chemicals (down US$33.4M) and Mineral Fuels (down US$8.8M).

Table 10: External Trade (US$M)

	Jan-Aug '04	Jan-Aug '03	Change	% Change
TOTAL EXPORTS (fob)	995.44	800.52	194.91	24.3
Major Traditional Exports	781.33	634.36	146.97	23.2
by Sector:-				
Agriculture	43.33	41.05	2.28	5.5
Mining & Quarrying	620.28	507.75	112.53	22.2
Manufacturing	117.73	85.56	32.17	37.6
by Industry:-				
Bauxite	63.36	61.93	1.43	2.3
Alumina	555.68	445.14	110.54	24.8
Sugar	98.14	65.20	32.94	50.5
Rum	18.27	18.96	-0.69	-3.6
Bananas	12.65	12.81	-0.16	-1.2
Coffee	27.36	23.46	3.90	16.6
Other	5.87	6.85	-0.98	-14.3
Non-Traditional Exports	183.27	149.94	33.32	22.2
Re-exports	30.84	16.22	14.62	90.1
TOTAL IMPORTS	2,471.95	2,446.98	24.97	1.0
Food	341.65	319.20	22.45	7.0
Beverages & Tobacco	28.19	21.77	6.42	29.5
Crude Materials (excl. Fuels)	40.28	33.76	6.52	19.3
Mineral Fuels, etcetera	541.06	549.83	-8.76	-1.6
Animal & Vegetable Oils & Fats	20.38	15.60	4.78	30.6
Chemicals	274.31	307.73	-33.43	-10.9
Manufactured Goods	352.46	327.91	24.55	7.5
Machinery and Transport Equip.	555.56	600.09	-44.54	-7.4
Misc. Manufactured Articles	272.70	231.56	41.14	17.8
Other	45.37	39.53	5.84	14.8
TRADE BALANCE	-1,476.52	-1,646.46	169.94	-10.3

Source: STATIN

Balance of Payments – January to August 2004

For the eight-month period January to August 2004 the balance of payments recorded a deficit of US$219.3 million (see Table 11 overleaf). This outturn represents a considerable US$290 million improvement over that of the corresponding period in 2003 when a deficit of US$509.8 million was recorded. The change resulted from a US$234-million improvement in the Goods balance as well as creditable growth in both Services and Current Transfers, whose net inflows grew by US$30.7 million and US$109.7 million, respectively. However, these positive changes were partially countered by an US$84-million widening of the deficit on the Income account.

The improvement in the Goods balance resulted from a growth of US$186.4 million in export revenues which was complemented by a US$47.5-million reduction in the value of imports. Buoyant global demand contributed to significant revenue gains in a number of major traditional exports, namely bauxite, alumina and sugar. On the import side, the bill was significantly reduced in the areas of mineral fuels, chemicals, machinery and transport equipment.

On the Services account, the US$30-million growth in net inflows was partially due to a US$37.8-million increase in net receipts from Travel services as the tourism sector experienced a 6% growth in stopover visitors. The Services balance was further bolstered by an US$18.4-million reduction in the deficit on the Transportation sub-account. However, these improvements were partially countered by a US$25-million slippage in Other Services.

Within the Income account, a US$21-million net growth in Compensation of employees was insufficient to offset the US$105-million worsening of the shortfall in Investment Income. This resulted in an US$83.8-million increase in net outflows on the Income account.

Current Transfers netted an impressive US$109.7 million more thanks to a US$108-million increase in Private Transfers or remittances. This was modestly complemented by a US$1.7-million net increase 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$333.5 million to a net inflow of US$340.4 million. This represented a turnaround of nearly US$674 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 grew by some US$28.5 million. Overall, inflows to the Capital & Financial account were more than sufficient to finance the shortfall on the Current account, allowing for a US$478-million buildup of the reserves.

Table 11: Balance Of Payments (US$M)

	Jan-Aug '03	Jan-Aug '04	Change	% Change
CURRENT ACCOUNT	**-509.8**	**-219.3**	**290.5**	**-57.0**
Goods Balance	**-1,298.6**	**-1,064.7**	**233.9**	**-18.0**
Exports (fob)	924.4	1,110.8	186.4	20.2
Imports (fob)	2,223.0	2,175.5	-47.5	-2.1
Services Balance	**413.8**	**444.5**	**30.7**	**7.4**
Transportation	-91.4	-73.0	18.4	-20.1
Travel	772.8	810.6	37.8	4.9
Other Services	-267.6	-293.1	-25.5	9.5
Income	**-378.4**	**-462.2**	**-83.8**	**22.1**
Compensation of Employees	27.5	48.7	21.2	77.1
Investment Income	-405.9	-510.9	-105.0	25.9
Current Transfers	**753.4**	**863.1**	**109.7**	**14.6**
Official	71.0	72.7	1.7	2.4
Private	682.4	790.4	108.0	15.8
CAPITAL & FINANCIAL A/C	**509.8**	**219.3**	**-290.5**	**-57.0**
Net Capital Movement	**-1.1**	**1.4**	**2.5**	**-227.3**
Official	0.1	0.1	0.0	0.0
Private	-1.6	1.3	2.9	-181.3
Financial Account	**510.9**	**217.9**	**-293.0**	**-57.3**
Other Official Investment	-333.5	340.4	673.9	-202.1
Other Private Investment (incl. errors & omiss)	327.5	356.0	28.5	8.7
Reserves (minus=increase)	516.9	-478.5		

Source: Bank of Jamaica (Preliminary)

Fiscal Accounts

For the April to October period the fiscal deficit was $25.76 billion, some $2 billion worse than budgeted due to a $3-billion shortfall in Revenues and Grants. Tax receipts in particular fell some 3.5% below expectations while shortfalls were also recorded in Non-tax Revenues as well as Grants. On the expenditure side, Programmes overshot their budget by some 7.4% in a context of significant post-hurricane recovery spending. However, all the other cost items were kept within budget for the period, particularly External interest payments which were some 12.6% better than anticipated. The overall effect was a net saving in total expenditures which helped to soften the impact of the revenue slippage.

Revenue and Grants collected for the period amounted to $89,971.3 million, some $2.89 billion less than projected. The shortfall largely reflected a $3-billion falloff in Tax revenues which were heavily affected by the passage of Hurricane Ivan. However, gains made in the previous months allowed for favourable year-to-date outturns in PAYE and GCT, the two biggest tax earners; PAYE surpassed its budget by an impressive $2.37 billion while GCT brought in a modest $26 million more than budgeted. Corporate tax continues to be affected by slow compliance as evidenced by a $2.1-billion shortfall in the Other Companies category. The Special Consumption Tax (SCT) fell some $1.4 billion below projections due to a slippage in petrol tax receipts as the Petrojam refinery was out of operation during the July-August period. Outside of taxes the other revenue categories met with mixed fortunes: Capital Revenues and the Bauxite Levy outperformed their budget estimates by $393.2 million and $79.2 million, respectively, but Grants and Non-tax Revenues both fell below expectations.

The Government cut its costs by some $880.5 million relative to projections, resulting in an Expenditure outturn of $115,728.8 million for the period. External interest payments were $1.49 billion less than planned, due to lower-than-projected interest rates on multilateral debt as well as a slower-than-expected depreciation of the dollar. This improvement, coupled with a $148-million saving in Domestic interest payments, resulted in an overall interest burden which was $1.63 billion less than projected.

Programme spending represented a major deviation from budget as the passage of Ivan necessitated large outlays for recovery and rebuilding efforts. Programmes exceeded the budgeted amount by some $1.33 billion.

Capital Expenditures fell $171 million shy of projections as the demands of the recurrent budget continue to limit the resources available for infrastructural improvements.

Loan receipts were approximately $13.35 billion below budget as Government borrowed $28 billion less than planned on the domestic market. External receipts jumped some 67% or $14.7 billion above projections as favourable external market conditions have allowed the Government to reduce its reliance on high-yielding domestic debt. The external debt stock was significantly increased by the €150 million Eurobond issued in October.

Total public debt at the end of October stood at $753.68 billion, roughly $14.91 billion higher than that of the previous month. Domestic Debt grew by $1,491.22 million to $439,614.97 million. External Debt also increased by US$218.31 million to US$5,075.17 million.

Table 12: Fiscal Accounts (J$ million)

	April – October 2004				Change from 03/04	
			Deviation			
	Provisional	Budget	J$m	(%)	J$m	(%)
Revenue & Grants	**89,971.3**	**92,857.3**	**-2,886.0**	**-3.1**	**15,238.2**	**20.4**
Tax Revenue	81,408.0	84,398.4	-2,990.4	-3.5	13,396.2	19.7
Non-Tax Revenue	5,189.8	5,395.8	-205.9	-3.8	599.7	13.1
Bauxite Levy	1,428.2	1,348.9	79.2	5.9	227.4	18.9
Capital Revenue	674.1	281.0	393.1	139.9	72.4	12.0
Grants	1,271.2	1,433.2	-162.1	-11.3	942.5	286.7
Expenditure	**115,728.8**	**116,609.4**	**-880.6**	**-0.8**	**15,617.3**	**15.6**
Recurrent	110,739.7	111,449.2	-709.5	-0.6	13,738.1	14.2
Programmes	19,240.4	17,909.1	1,331.3	7.4	3,071.5	19.0
Wages & Salaries	36,537.4	36,943.6	-406.2	-1.1	3,639.6	11.1
Interest	54,961.9	56,596.5	-1,634.6	-2.9	7,027.0	14.7
Domestic	44,673.8	44,822.2	-148.4	-0.3	6,012.9	15.6
External	10,288.1	11,774.3	-1,486.2	-12.6	1,014.1	10.9
Capital Expenditure	4,989.1	5,160.2	-171.1	-3.3	1,879.2	60.4
Fiscal Balance	**-25,757.5**	**-23,752.1**	**-2,005.4**	**8.4**	**-379.1**	**1.5**
Loan Receipts	108,606.8	121,958.8	-13,352.0	-10.9	32,970.9	43.6
Domestic	72,067.7	100,081.9	-28,014.2	-28.0	1,386.1	2.0
External	36,539.1	21,876.9	14,662.2	67.0	31,584.8	637.5
Divestments	652.6	1,663.1	-1,010.5	-60.8	123.3	23.3
Amortization	91,254.9	96,874.8	-5,619.9	-5.8	36,770.9	67.5
Domestic	68,435.7	73,708.3	-5,272.6	-7.2	23,237.5	51.4
External	22,819.2	23,166.5	-347.3	-1.5	13,533.4	145.7
Overall Balance	**-7,753.0**	**2,995.0**	**-10,748.0**	**-358.9**	**-4,055.7**	**109.7**
Primary Balance	**29,204.4**	**32,844.4**	**-3,640.0**	**-11.1**	**6,647.9**	**29.5**
Source: Ministry of Finance & Planning						

<u>Notes to the Accounts</u>:-

The above accounts are presented in accordance with the Global Data Dissemination Standard (GDSS), as required by the IMF. The GDSS format requires that any proceeds earned from the divestment of Government assets should be recorded as an extraordinary item and therefore should not appear in the Revenues & Grants category of the accounts. The resulting fiscal deficit is therefore larger than would have been the case if the divestment proceeds had been included. However, from time to time the Ministry of Finance may present the accounts in an alternative format which treats this revenue source as a recurrent item included under Capital Revenues, thus reflecting a smaller deficit. The April to October accounts, if presented in this format, would show a deficit of $25,104.8 million rather than the $25,757.5 million reflected above. Both methods may be used by analysts, depending on the purpose of the analysis and the budgetary areas being focused on.

Stock Market

During November the main JSE Index advanced by 3.20% or 3,328.53 points to close at 107,329.39 points on November 30. Market capitalization increased by $23.52 billion or 2.89% to end the month at approximately $838.37 billion.

The main JSE Index has now advanced by some 58.8% since the start of the year. Capital & Credit Merchant Bank continues to lead the market in year-to-date performance, appreciating by some 400.83% over the past 11 months (see Table 13). The stock has jumped from $5.99 on December 31, 2003 to $30.00 as at November 30 this year. In contrast to Capital & Credit, the Ciboney Group has posted consistent year-to-date losses on the index. Ciboney lost 25% of its stock price over the period closing at $0.09 on November 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	30/11/04	$	%
Capital & Credit Merchant Bank	5.99	30.00	24.01	400.83
Pan Caribbean Financial Services	6.60	33.00	26.40	400.00
Kingston Wharves	1.30	4.10	2.80	215.38
Caribbean Cement	3.50	10.15	6.65	190.00
Hardware & Lumber	9.50	27.00	17.50	184.21
Bottom Four (unadjusted for dividends or transact. costs)				
Ciboney Group	0.12	0.09	-0.03	-25.00
Montego Freeport	2.43	2.00	-0.43	-17.70
CMP Industries	2.99	2.50	-0.49	-16.39
Carreras Group	35.00	32.00	-3.00	-8.57

Source: Compiled from the JSE

Developments and Outlook

Standard & Poor's – Jamaica Outlook: International investors have once again received a positive signal concerning Jamaica's sovereign debt. The US rating agency Standard & Poor's (S&P) has revised its outlook on its 'B' long-term sovereign credit rating on Jamaica to stable from negative. The agency has also affirmed its 'B' long- and short-term sovereign credit ratings on Jamaica. S&P bases its assessment on the country's improving fiscal and external liquidity situation, ongoing commitment to fiscal austerity and stronger growth prospects for the macroeconomy. The agency cited the Partnership for Progress and the GOJ/trade union Memorandum of Understanding as two key areas in which the Government is receiving critical support from the private sector and labour unions in its efforts to achieve the fiscal and economic targets. The agency also believes that this support lowers the risk of social tension during times of stringent reform.

Although the Government met its fiscal target for last year (outturn of 5.8% of GDP was within the 5-6% target), the deficit using Standard & Poor's methodology was actually higher. The S&P method, which excludes one-off capital revenues and includes off-budget expenditures such as central bank losses, shows a deficit of 9% of GDP – down from 10.5% in the previous year. The GOJ has revised its 2004/05 deficit target upwards from 4% of GDP to 4.4% due to the impact of Hurricane Ivan. Using S&P's method, the deficit is expected at 6.9% of GDP which includes 2.5% off-budget expenditures. S&P is of the view that continued expenditure controls and higher-than-budgeted grant receipts could assist the GOJ in achieving its revised target.

The agency also cites an improvement in the nation's external liquidity situation, as evidenced by an increase in the NIR and reduction in the current account deficit. Sustained buoyancy in alumina and tourism earnings should contribute to continued improvements in the current account balance. S&P believes that these external liquidity developments, together with the improved macroeconomic prospects, should lend support to the fiscal efforts as the GOJ works towards its deficit and debt targets. However, the size of the debt remains a major concern. In addition, a larger-than-expected deviation from the deficit target could jeopardize public support for reform, as well as economic stability and investors' outlook on Jamaica, all of which could harm the country's creditworthiness.

Inflation Developments: The S&P assessment came at an opportune time for the economy as it sent an encouraging message to the capital markets and the business sector ahead of November's inflation news. The latest inflation outturn represents the second consecutive month in which real interest rates were negative on an annualized basis. A downturn in real interest rates can be beneficial to the Government as it makes deficit financing cheaper in real terms. However, this is only a short-term benefit; if the situation persists, investors will begin to require higher yields in anticipation of continued high inflation, thus pushing up the Government's borrowing costs in the medium to long term. It is therefore imperative that the inflation rate continue to normalize as it has begun to do in November in order to forestall the need for any upward adjustments in interest rates.

There are some factors which augur well for a continued downward trend in inflation. For instance, November was marked by a significant slowdown in the rate of price increases in Food & Drink, a major component of the Consumer Price Index (CPI). The rate of increase in this category slowed to 3.5 percent, down from 4.8 percent in the previous month. Other key CPI components have also begun to moderate, such as Fuels & other Household Supplies whose rate of increase has cooled considerably to 2.5 percent, down from a whopping 6.5 percent in October. In addition, a heightened focus on the issue of price gouging in recent weeks may help to discourage businesses from taking unfair advantage of supply disruptions in the marketplace. There has been some concern surrounding the recent backlog at the ports and its possible impact on supply conditions in the retail sector. However, the problem is being addressed and there are indications that a number of retailers are adequately stocked for the holidays.

The Christmas season is normally characterized by an increase in consumer spending. The BOJ will have a pivotal role to play in containing inflation during this period through the Bank's influence on the monetary base.

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
May-01	-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	1,922.93	1.3	11.5	n/a	61.90	14.95	25.10	8.06	440,433.32	4,838.02
Sep	0.97	17.68	n/a	n/a	1,616.52	1,867.23	0.6	10.5	n/a	61.89	14.80	24.95	8.06	438,123.75	4,856.86
Oct	n/a	n/a	n/a	n/a	1,826.66	1,833.56	3.3	12.3	n/a	61.88	14.78	25.00	7.84	439,614.97	5,075.17
Nov	n/a	n/a	n/a	n/a	1,816.06	n/a	2.4	13.9	n/a	61.98	14.90	24.89	7.84	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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