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PSOJ CONFIDENTIAL ECONOMIC BULLETIN

A Monthly Analysis of the Jamaican Economy

Overview

The economy continued to normalize in December with agricultural production rising closer to pre-Ivan levels, contributing to a dramatic improvement in the inflation rate. This has corrected the temporary falloff in real interest rates, allowing for the possibility of continued rate reductions by the Central Bank through the end of the fiscal year. The present scenario augurs well for the GOJ's interest costs on its new debt issues over the next few months. However, there is now some concern surrounding the Government's recent takeover of Air Jamaica and the likely impact this will have on the expenditure budget, and by extension the fiscal targets (more on Air Jamaica in Developments & Outlook section).

Inflation slowed considerably to 0.6% in December due to a significant cooling of price pressures in Food & Drink, housing and domestic expenses, all of which had undergone surges in the aftermath of Ivan. Price stability was also supported by calm conditions in oil prices.

The Jamaican dollar enjoyed favourable conditions on the foreign exchange market in December as strong inflows kept the currency well anchored below the \$62.00 mark for most of the month. In fact, the dollar appreciated on 16 of the 22 trading days in the period to end the month at an average of \$61.63. December's adjustments brought the full-year movement to just over \$1.00, the smallest annual depreciation in six years.

The buoyant foreign exchange inflows contributed to the continued strength of the Net International Reserve (NIR). The reserve grew by US\$42.96M to end the month at US\$1,858.52M, modestly higher than November's value of US\$1,816.06M. With the winter tourist season extending through February/March, it is unlikely that the BOJ will be required to make any major interventions in the currency market that would compromise the NIR target of US\$1,670M for the fiscal year-end.

In This Issue

Overview.....	1
Net International Reserves.....	2
Foreign Currency Deposits.....	2
Foreign Exchange Rates.....	2
Interest Rates.....	3
Base Money & Money Supply.....	3
Inflation.....	4
Production.....	4
Tourism.....	4
External Trade.....	5
Balance of Payments.....	7
Fiscal Accounts.....	9
Stock Market.....	11

Tourism figures for November show a marginal 1% reduction in stopovers relative to November 2003. This slippage was less severe than the 2.1% recorded for October and 15% for September, a sign that the industry is steadily recovering from the effects of Ivan. The current trend indicates that total arrivals for 2004 may well exceed those of 2003.

Total bauxite production fell by 11.7% in December as crude output was impacted by retooling activities at Kaiser. However, consistent growth in alumina has helped to bring the full-year performance almost on par with that of 2003.

The BOJ ended the year with another bold round of cuts in interest rates against the background of a stable currency and improved prospects for inflation. Rate cuts ranged from 15 basis points on the 60 and 90-day instruments to as much as 50 basis points on the 180 and 360-day instruments.

For the first nine months of the year the nation's trade deficit improved by over US\$173 million or 9.5% relative to that of the same period last year (see External Trade – page 5).

Net International Reserves

The NIR again remained sturdy during December, growing by US\$42.46 million to end the month at US\$1,858.52 million. This represented a modest 2.3% increase over November's reserve of US\$1,816.06 million. The change mainly reflected a US\$41.6-million growth in foreign assets as there was no material change in foreign liabilities over the period. The gross reserve amounted to 27.49 weeks or roughly six months of goods imports (see Table 1). The authorities had initially set an NIR target of US\$1,300 million for the end of the fiscal year. However, this target has now been revised in the context of a healthy foreign exchange market and continued improvements in the balance of payments.

Table 1: Changes in the NIR

	NIR	Change			Imports (Weeks)
		Mthly	12 Mth	YTD	
Dec-2004	1,858.52	42.46	693.54	693.54	27.49
Dec-2003	1,164.98	61.73	-432.00	-432.00	18.31

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	
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 dollar made strong gains against its US counterpart in December, appreciating by a total of \$0.35 to end the month at \$61.63 (daily JS/US\$ weighted average selling rate, see Table 3). December marked the culmination of a highly stable year for currency, with monthly

depreciations averaging a minimal 0.14%. This can be credited to steady foreign exchange inflows from tourism, alumina, remittances and external debt proceeds, all of which helped to bolster market confidence in the supply outlook for the medium-term. December's movements brought the full-year depreciation to 1.7%, a much more favourable outturn than the 19% recorded for 2003. The Canadian dollar and pound sterling also showed dramatic 12-month improvements over their double-digit depreciations of the previous year.

Figure 1: Daily JS/US\$ Movements

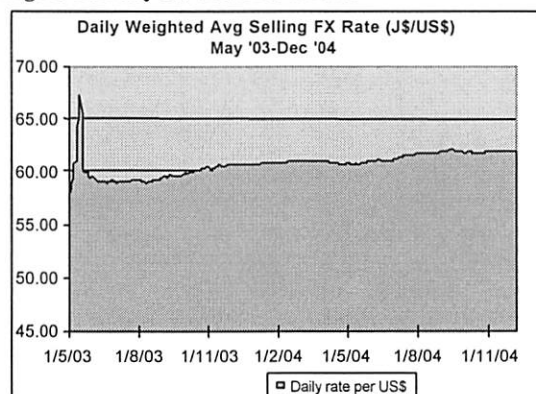


Table 3: Foreign Exchange Trends*

	Year-to-Date: Dec 31, '04 (report date: Jan. 18)					
	us\$	%?	can\$	%?	Uk£	%?
2004	1.01	1.66	4.07	8.75	10.47	9.74
2003	9.65	18.93	14.50	45.18	26.48	32.70
2002	3.57	7.54	2.65	8.98	13.03	19.18
Monthly						
Dec-04	-0.35	-0.57	-1.09	-2.10	0.31	0.26

* minus = appreciation.

Source: BOJ, PSOJ Economic Research

Short Term Forecast

The country's major foreign exchange earners will continue to perform strongly, and the currency market is expected to benefit from a lucrative winter tourist season as well the ongoing buoyancy of the world alumina market. Although remittances have passed their seasonal high, these inflows also continue to play a significant role. In addition, the NIR will likely remain solid for the next few months and its presence will serve to reduce any market uncertainty regarding US dollar availability for the short to medium term. Further appreciations can be expected over the next two months, especially if the winter tourist season lives up to its reputation.

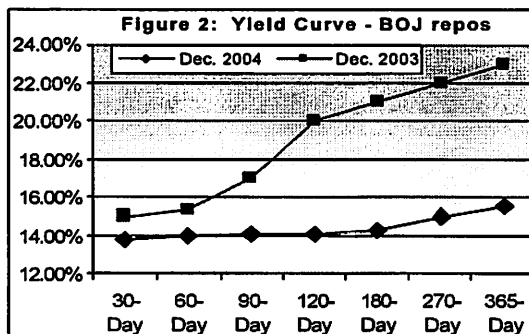
Table 4: Short Term FX Forecasts (J\$/US\$)

	Forecast	Actual	Diff.
Sept '03	59.60-59.65	59.71	0.06
Oct	60.25-60.50	60.44	-0.06
Nov	60.55-60.60	60.65	0.05
Dec	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
Aug	62.08-62.14	61.90	-0.18
Sept	62.10-62.15	61.89	-0.21
Oct	61.90-61.94	61.88	-0.02
Nov	61.87-61.92	61.98	0.06
Dec	61.90-61.94	61.63	-0.27
Jan '05	61.43-61.48		

Source: PSJO Economic Research

Interest Rates

The BOJ made another round of interest rate cuts in December against a backdrop of stable prices and a series of appreciations in the currency. Rate cuts ranged from 15 basis points on the 60-day and 90-day repos to 50 basis points on the 180-day and 360-day instruments. The 30-day and 120-day repos were trimmed by 20 basis points each. Sustained improvements in the macroeconomic indicators have led to heightened investor confidence in the 12-month economic outlook. This has allowed for a considerable flattening of the BOJ's yield curve over the past year (see Figure 2).



The six-month T-bill cleared the market at an average yield of 14.94%, only 4 basis points above that of the previous month as the Central Bank's actions

continue to positively influence Government's fortunes on the money market.

The BOJ has revised its official figures for the average commercial bank saving rates from December 2003 to date. According to the new numbers, December's average saving and lending rates were 6.48% and 24.89% respectively, the same as in November. The saving rates were adjusted downwards, which means that the average interest rate spread enjoyed by banks in 2004 may have been higher than previously believed.

Figure 2A: Interest Rate Movements

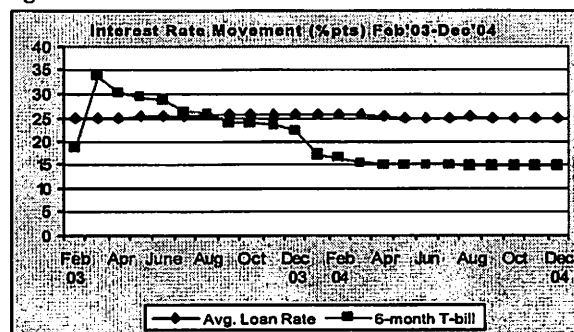


Table 5: Interest Rate Movements

	Dec-04	Change (%age pts)		
		Mthly	12 Mth	YTD
30 Day Repo	13.80	-0.20	-1.20	-1.20
365 Day Repo	15.50	-0.50	-7.50	-7.50
Avg Savings Deposit	6.48	0.00	-0.76	-0.76
Avg Loan Rate	24.89	0.00	-0.71	-0.71
6 Month T-Bill	14.94	0.04	-7.11	-7.11
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

	JSM	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

December's inflation registered 0.6% as the Consumer Price Index rose from 2,020.0 to 2,032.1. This was a significant improvement from November's inflation rate of 2.4%. The *Food & Drink* category rose by 0.7% due to increases in nearly all food classes, notably Starchy Foods (up 2.6%), Meals Away from Home (1.5%), and Meat, Poultry & Fish (1.1%) (see Table 7). However, Vegetables & Fruit actually showed a 3.5% deflation due to a resurgence of supplies in St. Elizabeth and other regions. Elsewhere in the CPI, *Fuels & Other Household Supplies* went up 1.5% due to higher prices for domestic fuels (up 2.1%), and other everyday home supplies (0.8%). *Housing & Other Housing Expenses* crept up by 0.5% in the context of a 1.4% increase in rental rates. *Household Furnishings & Furniture* inched up 0.3% as lower prices in the furniture market were counterbalanced by increases in other furnishings. There was no significant rise in the fuel-sensitive *Transportation* index. Overall, the recent improvement in inflation reflects a moderation in agriculture prices as well as an easing of post-Ivan replacement spending in furniture and some other areas.

Table 7: Inflation Trends

	Percent Changes			
	December	12 Mth	YTD	Fiscal
2004	0.6	13.7	13.7	11.6
2003	0.8	14.1	14.1	14.6

Source: STATIN

Production of Selected Commodities

Mining: Total bauxite production for December was 999,988 metric tonnes, a fall of 11.73% from the 1.132 million metric tonnes produced in December of the previous year (see Table 8). The decline reflected a huge 62% drop in Crude bauxite production due to retooling activities at Kaiser. Crude output was 113,488 metric tonnes, down from 298,017 metric tonnes in December 2003. Alumina production fared much better, growing by 7.7% to 365,469 metric tonnes. Despite the fall in total production, total bauxite exports grew by 10.2% to 1.215 million metric tonnes. Growth was buoyed by a strong 44% improvement in Alumina exports.

December's export performance brought the full-year outturn almost into line with that of 2003. Total

bauxite exports for 2004 were 13.324 million metric tonnes, nearly equal to the 13.386 million metric tonnes exported in 2003. Continued buoyancy in world demand and prices should augur well for the sector's performance in 2005, together with the upcoming JAMALCO investment and a return to normality in crude production.

Table 8: Mining Production

	Y-T-D				
	Dec-03	Dec-04	%	Dec-04	04/03%
Production					
Alumina	339,300	365,469	7.71	4,022,722	4.66
C. Bauxite	298,017	113,488	-61.92	3,334,251	-13.38
Tot. Bauxite	1,132,813	999,988	-11.73	13,296,481	-1.10
Export					
Alumina	324,155	469,189	44.74	4,024,461	4.81
C. Bauxite	301,000	81,067	-73.07	3,338,119	-12.29
Tot. Bauxite	1,103,174	1,215,706	10.20	13,324,003	-0.47

Units=tonnes

Source: Compiled from Jamaica Bauxite Institute

Tourism

Stopovers: Total stopovers for November showed a marginal 1% reduction when compared to the corresponding period in 2003. However, this slippage was less severe than the 2.1% recorded for October and 15% for September and shows a steady recovery of the sector from the impact of Hurricane Ivan. November's outturn reflected a 0.8% reduction in Foreign Nationals and a 4.9% fall in Non-resident Jamaicans. Despite the slowdown in recent months, total year-to-date stopovers were still 5.5% higher than for the corresponding period in 2003, reflecting significant gains made prior to Ivan.

Cruise passengers: Cruise passenger arrivals fell by 1.8% in November due to lower numbers at both the Montego Bay and Ocho Rios ports. The year-to-date outturn also fell behind that of the 2003 period by approximately 4.6%.

Total: With a total of 2,244,943 visitors, the sector's overall year-to-date performance is ahead of the 2003 period by almost 1%. Assuming a favourable performance in December, it is expected that the full-year outturn for 2004 will match or surpass that of 2003. The figures indicate that even if December's arrivals were to decline relative to December 2003, any decline of less than 7% would still result in a full-year outturn on par with that of 2003.

Table 9: Tourist Arrivals

	2003		2004		% Change	
	Jan - Nov		Jan-Nov		Nov	
<i>Stopover</i>	1,211,795	1,278,921	5.5		-1.0	
Foreign	1,139,129	1,205,838	5.9		-0.8	
National	72,666	73,083	0.6		-4.9	
<i>Cruise</i>	1,012,979	966,022	-4.6		-1.8	
<i>Total</i>	2,224,774	2,244,943	0.9		-1.4	
<i>US\$m*</i>						

Source: Jamaica Tourist Board (Preliminary)

External Trade

For the period January to September 2004 the trade deficit improved by nearly US\$173.3M relative to the corresponding period in 2003, despite the ravages of hurricane Ivan. This resulted from an impressive 17.3% growth in export revenues combined with a relatively unchanged import bill for the period.

Exports amounted to US\$1,066.76M, almost US\$158M 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\$77.6M due to a strong pre-Ivan growth momentum in Alumina and Bauxite. Manufacturing increased by roughly US\$32M thanks to a 50% jump in Sugar exports which grew by US\$32.9M. Rum exports fell by US\$0.77M or 3.5%. Despite Ivan, Agriculture managed to grow by a marginal 1.3% or

US\$0.59M as the storm did not hit the island until late in the review period. Growth was driven by a 15.1% improvement in Coffee earnings which rose by US\$3.8M. In the Non-Traditional sector, exports grew by a notable 19% or US\$33.7M reflecting higher earnings in Crude Materials (up US\$19.9M), Beverages & Tobacco (up US\$3.4M), and Other Non-Traditionals (up US\$12M). Non-traditional Foods fell by US\$1.5M due to lower revenues in products such as ackees, sweet potatoes, papayas and seafood.

Imports showed no growth for the review period. There were marked increases in Food (up US\$19.9M), Manufactured Goods (up US\$19.3M), and Misc. Manufactured Articles (up US\$34.4M), but these were negated by reductions in Mineral Fuels (down US\$21.2M), Chemicals (down US\$39.7M), and Machinery & Transport Equipment (down almost US\$57M).

Table 10: External Trade (US\$M)

	Jan-Sep '04	Jan-Sep '03	Change	% Change
TOTAL EXPORTS (fob)	1,066.76	909.07	157.69	17.3
Major Traditional Exports	825.40	715.12	110.27	15.4
by Sector:-				
Agriculture	45.61	45.01	0.59	1.3
Mining & Quarrying	659.22	581.61	77.61	13.3
Manufacturing	120.57	88.50	32.07	36.2
by Industry:-				
Bauxite	70.56	69.07	1.49	2.2
Alumina	587.41	511.77	75.64	14.8
Sugar	98.14	65.20	32.94	50.5
Rum	21.05	21.81	-0.77	-3.5
Bananas	12.81	14.20	-1.38	-9.7
Coffee	29.06	25.26	3.80	15.1
Other	6.37	7.81	-1.44	-18.5
Non-Traditional Exports	209.06	175.31	33.75	19.3
Re-exports	32.30	18.63	13.67	73.4
TOTAL IMPORTS	2,724.55	2,740.14	-15.59	-0.6
Food	379.99	360.08	19.92	5.5
Beverages & Tobacco	31.77	24.79	6.98	28.1
Crude Materials (excl. Fuels)	47.66	38.62	9.05	23.4
Mineral Fuels, etcetera	589.53	610.72	-21.20	-3.5
Animal & Vegetable Oils & Fats	24.06	16.37	7.69	47.0
Chemicals	300.24	339.99	-39.75	-11.7
Manufactured Goods	387.30	368.01	19.29	5.2
Machinery and Transport Equip.	617.95	674.90	-56.96	-8.4
Misc. Manufactured Articles	296.81	262.36	34.45	13.1
Other	49.24	44.31	4.94	11.1
TRADE BALANCE	-1,657.79	-1,831.07	173.29	-9.5

Source: STATIN

Balance of Payments – January to September 2004

For the nine-month period January to September 2004 the balance of payments recorded a deficit of US\$274.2 million (see Table 11 overleaf). This outturn represents a considerable US\$289-million improvement over that of the corresponding period in 2003 when a deficit of US\$563.5 million was recorded. The change resulted from an improvement of US\$235.6 million in the Goods balance as well as creditable growth in both Services and Current Transfers, whose net inflows grew by US\$24.8 million and US\$109.2 million, respectively. However, these positive changes were partially countered by an US\$80-million widening of the deficit on the Income account.

The improvement in the Goods balance resulted from a growth of US\$152.2 million in export revenues complemented by an US\$83.4-million reduction in the value of imports. Strong export gains in the months leading up to Ivan were enough to compensate for a 34% drop in earnings for September. Alumina and sugar in particular posted solid year-to-date performances. On the import side, the bill was significantly reduced in the areas of mineral fuels, chemicals and machinery, and was impacted by a 42% plunge in September's imports.

On the Services account, the almost US\$25-million growth in net inflows was partially due to a US\$26-million increase in net receipts from Travel services as the tourism sector experienced a 3.7% growth in

visitor spending. The Services balance was further bolstered by a US\$19.2-million reduction in the deficit on the Transportation sub-account. However, these improvements were partially countered by a US\$21-million slippage in Other Services. Growth in the Services balance was somewhat dampened by a 12% decline in September due to the effect of the hurricane on the hotel sector.

Within the Income account, a US\$22.6-million net growth in Compensation of employees was insufficient to offset the US\$103-million worsening of the shortfall in Investment Income. This resulted in an US\$80.3-million increase in net outflows on the Income account.

Current Transfers netted an impressive US\$109.2 million more thanks to a US\$107-million increase in Private Transfers or remittances. This was modestly complemented by a US\$2.3-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\$339.1 million to a net inflow of US\$369.7 million. This represented a turnaround of nearly US\$709 million and was largely influenced by the Government's successful forays into the European bond markets in January and July of 2004. In Other Private Investments, net inflows fell by some US\$134.4 million. Overall, inflows to the Capital & Financial account were more than sufficient to finance the shortfall on the Current account, allowing for a buildup of US\$451.6 million in the reserves.

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

	<u>Jan-Sep '03</u>	<u>Jan-Sep '04</u>	<u>Change</u>	<u>% Change</u>
CURRENT ACCOUNT	-563.6	-274.2	289.4	-51.3
Goods Balance	-1,440.1	-1,204.5	235.6	-16.4
Exports (fob)	1,046.0	1,198.2	152.2	14.6
Imports (fob)	2,486.1	2,402.7	-83.4	-3.4
Services Balance	425.1	450.0	24.9	5.9
Transportation	-110.2	-91.0	19.2	-17.4
Travel	828.1	854.5	26.4	3.2
Other Services	-292.8	-313.5	-20.7	7.1
Income	-404.2	-484.5	-80.3	19.9
Compensation of Employees	37.2	59.8	22.6	60.8
Investment Income	-441.4	-544.3	-102.9	23.3
Current Transfers	855.6	964.8	109.2	12.8
Official	79.4	81.7	2.3	2.9
Private	776.2	883.1	106.9	13.8
CAPITAL & FINANCIAL A/C	563.6	274.2	-289.4	-51.3
Net Capital Movement	-1.1	1.2	2.3	-209.1
Official	0.1	0.1	0.0	0.0
Private	-1.6	1.1	2.7	-168.8
Financial Account	564.7	273.0	-291.7	-51.7
Other Official Investment	-339.1	369.7	708.8	-209.0
Other Private Investment (incl. errors & omiss)	489.3	354.9	-134.4	-27.5
Reserves (minus=increase)	414.5	-451.6		

Source: Bank of Jamaica (Preliminary)

Fiscal Accounts

For the April to November period the fiscal deficit was \$27.22 billion, some \$613.7 million more than budgeted as significant savings on the expenditure side were outweighed by a shortfall in Revenues & Grants. Tax receipts in particular fell some 3.2% below expectations while shortfalls were also recorded in Non-tax Revenues as well as Grants. On the expenditure side, large savings in interest costs were more than enough to compensate for a cost overrun in the Programs budget, leading to the favourable spending outturn relative to projections.

Revenue and Grants collected for the period amounted to \$103,113.1 million, some \$3.06 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 a year-to-date outturn in PAYE, the Government's biggest tax earner; PAYE surpassed its budget by an impressive \$2.22 billion. The second biggest earner GCT came very close to achieving its budgeted intake of \$16.23 billion. Corporate tax continues to under-perform as evidenced by a \$2.22-billion shortfall in the Other Companies category. The Special Consumption Tax (SCT) fell some \$1.87 billion below projections due to a slippage in petrol tax receipts in the July-August period when the Petrojam refinery was out of operation. The other revenue categories met with mixed fortunes: Capital Revenues and the Bauxite Levy outperformed their budget estimates by \$294.1 million and \$124.2 million, respectively, but Grants and Non-tax Revenues both fell below expectations.

The Government cut its costs by a sizeable \$2.44 billion relative to projections, resulting in an Expenditure outturn of \$130,332.6 million for the period. External interest payments were \$2.14 billion

less than planned, due to lower-than-projected interest rates as well as a slower-than-expected depreciation of the dollar. This improvement, coupled with a \$1.33-billion saving in Domestic interest payments, resulted in an overall interest burden which was \$3.48 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 \$1.97 billion.

Capital Expenditures fell \$390 million shy of projections as the demands of the recurrent budget continue to limit the resources available for infrastructural improvements.

Loan receipts were approximately \$12.48 billion below budget as Government borrowed \$27.3 billion less than planned on the domestic market. External receipts jumped some 67% or \$14.9 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 November stood at \$761.47 billion, roughly \$7.8 billion higher than that of the previous month. Domestic Debt grew by \$4,599.57 million to \$444,214.54 million. External Debt also increased by US\$43.75 million to US\$5,118.92 million.

Table 12: Fiscal Accounts (JS million)

	April – November 2004				Change from 03/04	
	Provisional	Budget	Deviation		JSm	(%)
			JSm	(%)		
Revenue & Grants	103,113.1	106,174.3	-3,061.2	-2.9%	17,348.0	20.2%
Tax Revenue	93,290.5	96,538.3	-3,247.8	-3.4%	15,792.3	20.4%
Non-Tax Revenue	6,027.3	6,204.6	-177.3	-2.9%	370.2	6.5%
Bauxite Levy	1,683.8	1,559.6	124.2	8.0%	326.2	24.0%
Capital Revenue	680.1	386.0	294.1	76.2%	-221.6	-24.6%
Grants	1,431.4	1,485.8	-54.4	-3.7%	1,080.9	308.4%
Expenditure	130,332.6	132,780.1	-2,447.5	-1.8%	13,795.0	11.8%
Recurrent	124,920.5	126,978.0	-2,057.5	-1.6%	11,718.5	10.4%
Programmes	21,956.3	19,985.6	1,970.7	9.9%	5,017.1	29.6%
Wages & Salaries	41,367.2	41,914.6	-547.4	-1.3%	694.8	1.7%
Interest	61,597.0	65,077.8	-3,480.8	-5.3%	6,006.6	10.8%
Domestic	49,734.1	51,070.3	-1,336.2	-2.6%	5,576.5	12.6%
External	11,862.9	14,007.5	-2,144.6	-15.3%	430.1	3.8%
Capital Expenditure	5,412.1	5,802.1	-390.0	-6.7%	2,076.5	62.3%
Fiscal Balance	-27,219.5	-26,605.8	-613.7	2.3%	3,553.0	-11.5%
Loan Receipts	120,801.4	133,280.1	-12,478.7	-9.4%	34,591.8	40.1%
Domestic	83,797.8	111,164.9	-27,367.1	-24.6%	2,724.2	3.4%
External	37,003.6	22,115.2	14,888.4	67.3%	31,867.6	620.5%
Divestments	702.0	1,673.9	-971.9	-58.1%	172.7	32.6%
Amortization	100,630.8	105,781.1	-5,150.3	-4.9%	38,404.5	61.7%
Domestic	76,252.5	81,238.4	-4,985.9	-6.1%	25,297.0	49.6%
External	24,378.3	24,542.7	-164.4	-0.7%	13,107.5	116.3%
Overall Balance	-6,346.9	2,567.1	-8,914.0	-347.2%	-87.0	1.4%
Primary Balance	34,377.5	38,472.0	-4,094.5	-10.6%	9,559.6	38.5%

Source: Ministry of Finance & Planning

Notes to the Accounts:-

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 November accounts, if presented in this format, would show a deficit of \$27,921.5 million rather than the \$27,219.5 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

In the month of December the main JSE Index advanced by 5,326.12 points or 4.96% to close at 112,655.52 points on December 31. Market capitalization grew by \$40.92 billion or 4.9% to end the month at approximately \$879.3 billion.

The Index grew by an impressive 66.68% for the year 2004, compared to 48.88% the previous year. Growth was driven by strong corporate earnings which translated to increased shareholder value and significant appreciations in share prices. Meanwhile, the sustained decline in interest rates may have allowed some investor capital to be diverted away from the money market and into equities, thus fuelling further growth.

The top performing stock for 2004 was Capital & Credit Merchant Bank, which appreciated by more than 434% to end the year at \$32.00 (see Table 13). The worst performer in price terms was the Ciboney Group, which lost more than 33% of its value to end the year at \$0.08 on December 31.

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	31/12/04	\$	%
Capital & Credit Merchant Bank	5.99	32.00	26.01	434.22
Pan Caribbean Financial Services	6.60	34.10	27.50	416.67
Kingston Wharves	1.30	4.90	3.60	276.92
Caribbean Cement	3.50	12.90	9.40	268.57
First Life Insurance	13.81	45.50	31.69	229.47

Bottom Four (unadjusted for dividends or transact. costs)

Ciboney Group	0.12	0.08	-0.04	-33.33
CMP Industries	2.99	2.50	-0.49	-16.39
Montego Freeport	2.43	2.20	-0.23	-9.47
Carreras Group	35.00	32.00	-3.00	-8.57

Source: Compiled from the JSE

Developments and Outlook

Air Jamaica issue: The Government has now assumed full control of the national airline Air Jamaica, effective December 23, 2004. In a statement concerning Government's intervention in the airline and plans going forward, the Minister of Finance announced that his administration would be taking full responsibility for the operations of the cash-strapped carrier for an initial period of six months, during which time the company will undergo fundamental restructuring to return it to a path of viability. The Government will then divest its majority holding in the airline once its operations are rationalized to the point where the company can attract equity investors.

The takeover raises a number of concerns regarding the impact of Air Jamaica's losses on the fiscal accounts. The GOJ will be facilitating credit to the tune of some US\$25M in order to meet some of the operational losses being faced by the airline. However, the Minister did not elaborate on the source of the loan or the exact details of the credit facilitation. In addition, the takeover will more than likely mean a write-off of some US\$236M which was owed to the Government by Air Jamaica. Although this may not visibly show in the fiscal accounts which are prepared on a cash basis, the amount still represents lost income for the Administration at a time when fiscal rationalization is crucial to achieving the economic targets.

Beyond the present scenario, there are also concerns as to the impact on the fiscal resources going forward. The Government will operate the company for at least the next six months, three months into a new and very crucial fiscal year in which the administration will be trying to balance the budget. There is no guarantee as to how soon in the year an equity investor will be identified and what the exact working capital needs will be until that time. Additionally, as long as Air Jamaica remains under state control the GOJ will have to decide what key areas of programme spending will have to be cut in order to meet the airline's costs without compromising the balanced-budget target. Furthermore, the question remains as to what will become of the airline's non-government debt and other payables if the Administration cannot find a buyer for the entity within a reasonable time frame. Many other questions remain which will need to be answered if the taxpaying public is to fully understand what demands the Air Jamaica situation will place on the public purse going forward.

Global Interest Rates: The US Federal Reserve has announced its intention to accelerate the pace of increases on its benchmark Federal funds rate, in an effort to arrest the country's gaping current account deficit and strengthen the US dollar. The dollar has now fallen against the euro and other major currencies for the third consecutive year, raising concerns about the impact of sustained depreciations on the future of the US economy. The Fed anticipates that its rate hikes will help curb US consumer demand for imports, thus narrowing the shortfall between imports and exports and reducing the trade-related pressure on the dollar. At the same time, the Bush administration is expected to undertake a number of initiatives to help stimulate economic growth in foreign countries in order to foster buoyant markets for America's exports. In addition to its impact on trade, the Fed's rate hikes are also intended to widen the interest rate differential between US and European interest rates, thus lending further support to the dollar.

US rate adjustments will significantly influence the movement of global interest rates in 2005. European rates in particular will be a key concern for the Jamaican government, which has greatly increased its reliance on the European bond market over the past year. This was in an environment of relatively low yields influenced by a fairly relaxed monetary policy in the United States. This year, however, European yields may experience an upward pull from monetary tightening in the States, and this could have implications for Jamaica's borrowing costs on the European market. By reducing its reliance on domestic debt in favour of the external markets, the GOJ may have increased its level of direct exposure to world interest rate movements going forward. Fortunately, however, there has been a marked reduction in the Government's external borrowing needs as most of the outstanding foreign debt will not have to be repaid for at least another five years or more. Presently, only 6% of the foreign debt will be due for repayment within the next year and 24% within the next five years, with the majority not maturing until 2009 and beyond. This will allow the GOJ to substantially limit its presence in the external markets over the next couple of years, thus reducing its exposure to global yield movements in the near term. In addition, the recent fiscal and macroeconomic improvements could result in a rating upgrade on Jamaica's debt, countering the rise in interest rates should this occur.

Statistical Index
Major Macro-Economic Indicators

	BM		M2		NIR	Fx Dep	CPI		Tourism	JS/US\$	Tbill	Loan	Sav	Dom Debt	Fx Debt
	M	P	M	P	US\$M	US\$M	M	P	P		%	%	%	JSM	US\$M
Jun-01	-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	444,214.54	5,118.92
Dec	n/a	n/a	n/a	n/a	1,858.52	n/a	0.6	13.7	n/a	61.63	14.94	24.89	6.48	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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