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## PSOJ CONFIDENTIAL ECONOMIC BULLETIN

### A Monthly Analysis of the Jamaican Economy

#### Overview

Tax reform was a major area of focus in February, with much discussion surrounding the report submitted to the Government by the Tax Review Committee. Some key proposals of the report were an increase in the income tax threshold, a removal of most payroll taxes and a broadening of the GCT base through the removal of exemptions. The proposals are intended to shift the focus of the present system from direct to indirect taxes, thus improving tax administration, equity and compliance with no net change in revenues. However, there needs to be further analysis and discussion of the implications of the proposals and whether they can in fact achieve the desired fiscal objectives in a manner conducive to economic growth. The Finance Minister has already stated his disapproval of one of the recommendations, that of imposing a capital gains tax on equities (see more in Developments & Outlook).

There was some price movement in February due to a number of wage increases which placed upward pressure on housing expenses. However, a reduction in the Food & Drink index helped to moderate the overall inflation rate, which weighed in at a subdued 0.4% for the month.

There was sustained calm in the currency market during February with the dollar adjusting by a minimal 0.06% against its US counterpart. Year-to-date depreciation now stands at just under half a percentage point, slightly better than that of the corresponding period last year.

The Net International Reserve ended the month at US\$1,831.07 million, marginally lower than the previous month's level of US\$1,847.58 million. The end-of-month reserve has not slipped below the US\$1.8B mark for some four months now, thanks to favourable trends in the current account.

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After three consecutive months of decline as a result of Hurricane Ivan, Stopover arrivals grew by nearly 7% in January relative to the same period last year. Cruise arrivals, however, fell by over 10%, resulting in a 2.3% slippage in the overall visitor count.

Total bauxite production rose by almost 6% in February reflecting the full normalization of activities at Kaiser. However, exports declined by some 9.3% in the context of a double-digit falloff in Alumina exports.

The BOJ reduced its interest rates on February 7 against a backdrop of stable prices and orderly currency movements. Rate cuts ranged from 30 basis points on the shorter instruments to 50 basis points at the longer end. In addition, the six-month T-bill cleared the market at an average yield of 13.95%, a reduction of 45 basis points from the previous month and almost 100 basis points since the start of the year.

For the first eleven months of 2004 the nation's trade deficit improved by US\$49.3 million or roughly 2.2% relative to that of the same period in 2003 (see External Trade – page 5).

## Net International Reserves

The NIR has now remained above the US\$1.8B mark for the fourth consecutive month, due to robust inflows to the foreign exchange market. The present conditions continue to minimize the need for supply-side interventions by the BOJ. In fact, the Bank may have to increase its activities on the demand side in order to moderate appreciations and preserve exchange rate competitiveness. The NIR stood at US\$1,831.07 million at the end of February, less than a percentage point shy of the previous month's value of 1,847.58 million (see Table 1). February's outturn amounted to roughly 27 weeks of Goods imports. At this point it is now a certainty that the revised fiscal year-end target of US\$1,670 million will be comfortably exceeded.

**Table 1: Changes in the NIR**

	NIR	Change			Imports (Weeks)
		Mthly	12 Mth	YTD	
Feb-2005	1,831.07	-16.51	357.11	-27.45	27.06
Feb-2004	1,473.96	254.31	221.02	308.98	23.55

*Source: Compiled from the BOJ (Preliminary)*

## Foreign Currency Deposits

In December of 2004 total foreign currency deposits amounted to US\$1,925.98 million, US\$70.2 million lower than the previous month's figure (Table 2). This reflected increased balances in all the main categories of institutions, particularly commercial banks and merchant banks whose deposits grew by US\$40.5 million and US\$27 million, respectively. In the Spot market, US dollar purchases amounted to US\$555 million in February 2005, slightly lower than the spot sales for that period.

**Table 2: Foreign Currency Deposits**

	Dec-04	Change (US\$M)		%
		Mthly	12 Mth	
Total Deposits	1,925.98	70.19	272.79	16.50
	Feb-05			
Spot Purchases*	554.99	-74.72	67.52	13.85
Spot Sales*	596.39	-79.15	65.35	12.31

\*US dollar market only

*Source: Compiled from the BOJ (Preliminary)*

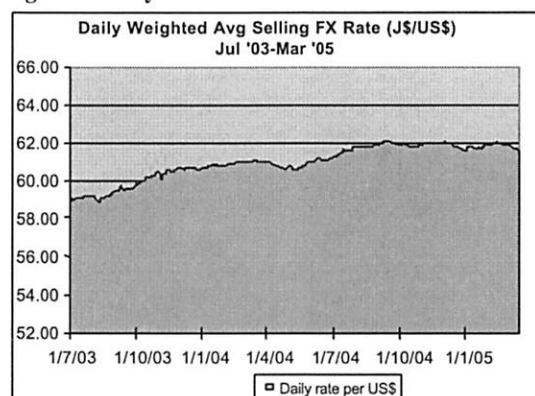
## Foreign Exchange Rates

Stability continued to permeate the foreign exchange market in February, with the dollar losing a marginal \$0.04 or 0.06% against its US counterpart to end the month at \$61.91 (daily J\$/US\$ weighted average selling

rate, see Table 3). The average selling rate stayed below the \$62.00 mark for sixteen of the 19 trading days in the month, underpinned by a high level of market confidence concerning the medium-term supply outlook.

The dollar lost \$0.67 against the Canadian dollar and \$2.59 against the pound during February. However, the exchange rate pass-through from those markets is somewhat contained as only a small percentage of the country's imports is denominated in those currencies vis-à-vis the US dollar.

**Figure 1: Daily JS/US\$ Movements**



**Table 3: Foreign Exchange Trends\***

	Year-to-Date: Feb 28, '05 (report date: Mar. 20)					
	us\$	%?	can\$	%?	Uk£	%?
2005	0.28	0.46	-0.62	-1.21	0.19	0.16
2004	0.34	0.55	-1.24	-2.66	4.94	4.60
2003	2.77	5.44	4.05	12.63	3.83	4.73
	Monthly					
Feb-05	0.04	0.06	0.67	1.35	2.59	2.24

\* minus = appreciation.

*Source: BOJ, PSJO Economic Research*

## Short Term Forecast

The major foreign exchange earners remain strong. Global alumina demand shows no signs of abating, driven by strong levels of industrial activity and fixed capital formation in China. In addition, with the present stock of reserves the Central Bank is well-equipped to meet market needs and smooth out daily adjustments over the next few weeks if required. The near-term supply prospects therefore remain favourable, while the upcoming FDI inflows help to reduce uncertainty regarding the outlook for the longer term. Consequently, the dollar can be expected to show orderly upward adjustments, with possible appreciation around the peak of the winter tourist season.

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

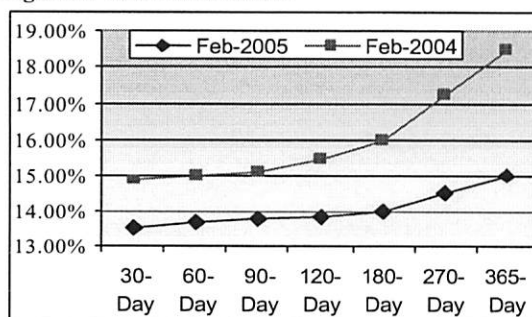
	Forecast	Actual	Diff.
Nov '03	60.55-60.60	60.65	0.05
Dec	60.64-60.68	60.62	-0.02
Jan. '04	60.59-60.64	60.73	0.09
Feb.	60.68-60.75	60.95	0.20
Mar.	60.65-60.70	61.01	0.31
Apr	60.75-60.80	60.65	-0.10
May	60.65-60.74	60.93	0.19
June	60.90-60.96	61.22	0.26
July	61.56-61.62	61.80	0.18
Aug	62.08-62.14	61.90	-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	61.87	0.39
Feb	62.06-62.12	61.91	-0.15
Mar	61.95-62.00		

Source: PSJO Economic Research

## Interest Rates

The BOJ reduced the yields on all its repos in February in a context of orderly price and currency movements as well as a generally favourable macroeconomic climate. The positive T-bill result in the previous month also helped reassure the Bank that the market was ready to absorb another rate cut. The reductions ranged from 30 basis points on the shorter term repos (30 to 180 days), to 50 basis points on the longer instruments (270 and 360 days). The BOJ has been reaping considerable success in its efforts to bring down interest rates, with the 365-day rate in particular falling by some 350 basis points over the past year (see Figure 2). In fact, the yield at the long end of this February's curve is almost equal to what obtained a year ago at the short end, showing the extent to which interest rates have fallen over the period.

Figure 2: BOJ Yield Curves



The six-month Treasury bill cleared the market at an average yield of 13.95%, some 45 basis points lower than its January predecessor. This is the first time in over two years that the instrument has dipped below the 14% mark, and current indicators bode well for further reductions.

There was no change in the average bank savings and lending rates, which remained at their January levels of 6.48% and 24.89%, respectively.

Figure 2A: Interest Rate Movements

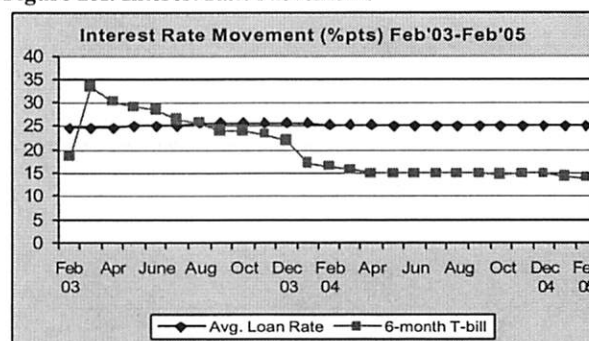


Table 5: Interest Rate Movements

	Feb-05	Change (%age pts)		
		Mthly	12 Mth	YTD
30 Day Repo	13.50	-0.30	-1.35	-0.30
365 Day Repo	15.00	-0.50	-3.50	-0.50
Avg Savings Deposit	6.48	0.00	-0.30	0.00
Avg Loan Rate	24.89	0.00	-0.67	0.00
6 Month T-Bill	13.95	-0.45	-2.36	-0.99
12 Month T-Bill	none	n/a*	n/a	n/a

Source: BOJ (Preliminary)

\*n/a = 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

The Consumer Price Index for February was 2,041.7, moderately higher than January's value of 2,032.8. This represented an inflation of 0.4% for the month, higher than January's 0% but still generally favourable when compared to the October-November period. The stable outturn for February was underpinned by a 0.3% deflation in the *Food & Drink* index in a context of reductions in Starchy Foods (-2.2%), and Vegetables & Fruit (-5.3%). *Housing & Other Housing Expenses* jumped by 6.1% due to a number of wage increases which took effect during the month. *Healthcare & Personal Expenses* rose by 0.9% due to a 20% hike in medical fees.

Table 7: Inflation Trends

	Percent Changes			
	February	12 Mth	YTD	Fiscal
2005	0.4	12.7	0.5	12.1
2004	0.6	16.7	1.4	16.2

Source: STATIN

## Bauxite & Alumina Production

Total bauxite production for February was 1.11 million metric tonnes, some 5.8% higher than the 1.05 million metric tonnes produced in February of last year (see Table 8). Although Alumina production fell by roughly 2% to 315,374 metric tonnes, Crude bauxite posted a dramatic recovery from its recent downturn, rising by a whopping 41.3% to 347,494 metric tonnes. However, the sector did not fare as well in exports as it did in production, as total bauxite exports fell by 9.3% to 982,878 metric tonnes. There was a pronounced falloff in Alumina exports, which dropped by nearly 20% to 273,943 metric tonnes. Crude exports, however, improved by just under 36% reflecting the full recovery of activities at Kaiser.

Table 8: Mining Production

	Y-T-D				
	Feb-04	Feb-05	%	Feb-05	05/04%
<b>Production</b>					
Alumina	321,535	315,374	-1.92	679,427	0.11
C. Bauxite	245,836	347,494	41.35	707,230	16.22
Tot. Bauxite	1,050,415	1,110,821	5.75	2,351,889	2.25
<b>Export</b>					
Alumina	341,197	273,943	-19.71	632,744	-8.87
C. Bauxite	230,889	313,182	35.64	706,201	16.54
Tot. Bauxite	1,083,835	982,878	-9.31	2,243,258	-3.97

Units=tonnes

Source: Compiled from Jamaica Bauxite Institute

## Tourism

**Stopovers:** The declining trend in Stopovers was broken in January as this category showed a 6.9% increase over that of the corresponding period last year. This resulted from a 7.3% growth in visits from Foreign Nationals which was more than sufficient to outweigh a 2.3% reduction in Non-resident Jamaicans for the period. The United States continues to be Jamaica's major source of Stopovers, comprising 63.5% of that number for January. However, this represents a reduction from the 67.1% recorded in January of last year and marks the continuation of a downward trend observed since 2002. The reduced US contribution comes in spite of growth in stopover numbers from that country (see Chart 9A). This paradox is explained by the relatively sluggish growth rate of the American customer base when compared to the other markets. The number of American tourists grew by a mild 1.1% in January, compared to 31.5% for Canada, 2.9% for the UK and 21.4% for the rest of Europe.

**Cruise Passengers:** The number of cruise visitors fell by 10.3% reflecting lower numbers at both Montego Bay and Ocho Rios. Not only were there fewer passengers, there was also a reduction in the number of calls at both major ports.

**Total Arrivals:** The total number of visitors fell by 2.3% relative to January of the previous year.

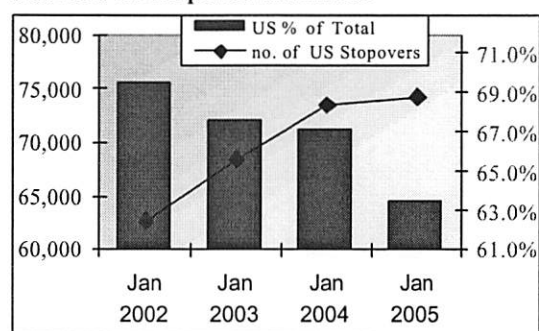
Table 9: Tourist Arrivals

	2004	2005	% Change	
	Jan	Jan	Jan	YTD
<b>Stopover</b>	109,350	116,844	6.9	6.9
Foreign	104,425	112,033	7.3	7.3
National	4,925	4,811	-2.3	-2.3
<b>Cruise</b>	124,650	111,841	-10.3	-10.3
<b>Total</b>	234,000	228,685	-2.3	-2.3

US\$m\*

Source: Jamaica Tourist Board (Preliminary)

Chart 9A: US Stopovers to Jamaica





**External Trade**

For the period January to November 2004 the trade deficit narrowed by US\$49.25M relative to that of the corresponding period in 2003. This resulted from an impressive 16% growth in export revenues which outweighed the growth in imports for the period.

Exports amounted to roughly US\$1,283M, some US\$177.4M 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\$93.9M due to a strong 16% growth in Alumina, which increased by US\$99M. Bauxite earnings fell by US\$5.7M or roughly 7%, reflecting a huge 89% plunge in October. Manufacturing increased by US\$33.3M thanks to a 50% jump in Sugar exports which grew by US\$32.9M. Rum exports grew by a much smaller US\$0.51M or 2%. Despite Ivan, Agriculture grew by a modest 1.4% or US\$0.7M as a 31% improvement in Coffee earnings was enough

to outweigh declines in other commodities. In the Non-Traditional sector, exports grew by 17% or US\$37.65M reflecting higher earnings in Crude Materials (up US\$20.9M), Beverages & Tobacco (up US\$4.8M), and Other Non-Traditionals (up US\$15.4M). Non-traditional Foods fell by US\$3.4M due to lower earnings from products such as ackees (down US\$2.1M), seafood (down US\$0.9M), and papayas (down US\$0.5M).

Imports grew by some US\$128M or roughly 4% for the review period, reflecting increases in most of the main categories. Manufactured Goods increased by US\$65.8M, while Misc. Manufactured Articles grew by some US\$39.2M. There were also increases in Food (up US\$31.8M), Mineral Fuels (up US\$12.6M), and Crude Materials (up US\$11.8M). However, the country spent US\$33M less on Chemicals relative to the previous period, while the bill was also US\$24.6M lower in the area of Machinery & Transport Equipment.

Table 10: External Trade (US\$M)

	Jan-Nov '04	Jan-Nov '03	Change	% Change
<b>TOTAL EXPORTS (fob)</b>	<b>1,283.00</b>	<b>1,105.64</b>	<b>177.36</b>	<b>16.0</b>
Major Traditional Exports	984.57	856.64	127.92	14.9
by Sector:-				
Agriculture	53.42	52.70	0.72	1.4
Mining & Quarrying	804.89	711.03	93.86	13.2
Manufacturing	126.26	92.91	33.35	35.9
by Industry:-				
Bauxite	77.27	82.96	-5.69	-6.9
Alumina	726.15	627.14	99.01	15.8
Sugar	98.14	65.20	32.94	50.5
Rum	26.29	25.77	0.52	2.0
Bananas	12.81	17.66	-4.84	-27.4
Coffee	35.93	27.52	8.41	30.6
Other	7.98	10.40	-2.42	-23.3
Non-Traditional Exports	260.70	223.05	37.65	16.9
Re-exports	37.73	25.94	11.79	45.4
<b>TOTAL IMPORTS</b>	<b>3,501.93</b>	<b>3,373.82</b>	<b>128.11</b>	<b>3.8</b>
Food	475.07	443.26	31.81	7.2
Beverages & Tobacco	41.65	30.08	11.57	38.5
Crude Materials (excl. Fuels)	58.39	46.62	11.77	25.2
Mineral Fuels, etcetera	789.99	777.43	12.56	1.6
Animal & Vegetable Oils & Fats	29.61	22.89	6.72	29.3
Chemicals	373.59	407.26	-33.67	-8.3
Manufactured Goods	514.38	448.55	65.83	14.7
Machinery and Transport Equip.	780.02	804.64	-24.63	-3.1
Misc. Manufactured Articles	379.23	340.05	39.18	11.5
Other	60.02	53.04	6.98	13.2
<b>TRADE BALANCE</b>	<b>-2,218.93</b>	<b>-2,268.19</b>	<b>49.26</b>	<b>-2.2</b>

Source: STATIN

**Balance of Payments – January to  
November 2004 (preliminary)**

For the first eleven months of 2004 the current account showed a deficit of US\$648.3 million. This represented a 12% improvement over the corresponding period in 2003 when a deficit of US\$735.8 million was recorded (see Table 11 overleaf). The change resulted from a US\$112-million growth in net inflows of Current Transfers as well as a US\$75-million contraction in the deficit on the Goods account. However, these positive changes were partially countered by a US\$77-million widening of the deficit on the Income account as well as a slippage of US\$22.4 million in the Services balance.

The improvement in the Goods balance resulted from a US\$166.5-million growth in exports complemented by a reduction of US\$91.6 million in the value of imports. Exports began a strong recovery from Hurricane Ivan as earnings rebounded from their 28% drop in September to grow by some 6.3% monthly for both October and November. For the full eleven-month period, alumina and sugar posted solid performances growing by 15.8% and 50%, respectively. On the import side, the bill was significantly reduced in the areas of chemicals, machinery, transport equipment, and freezone imports and was impacted by a 42% plunge in imports for September.

The Services account showed a US\$22.4-million reduction in net inflows, as a modest gain in the Travel balance was outweighed by higher net outflows in Transportation and Other Services.

Within the Income account, a US\$28.3-million net growth in Compensation of employees was insufficient to offset the US\$106-million worsening of the shortfall in Investment Income. This resulted in a US\$77.4-million increase in net outflows on the Income account.

Current Transfers played a key role in bolstering the current account, growing by an impressive US\$112.4 million thanks to increased net inflows of Private Transfers or remittances. Interestingly, the majority of the growth was recorded in the pre-Ivan period.

The Capital and Financial account mainly reflected changes in the Financial account, where Other Official Investments improved from a net outflow of US\$340.2 million to a net inflow of US\$511.1 million. This represented a turnaround of some US\$851 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 grew by some US\$203 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\$661.7 million in the reserves.

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

	Jan-Nov '03	Jan-Nov '04	Change	% Change
<b>CURRENT ACCOUNT</b>	-735.8	-648.3	87.5	-11.9
<b>Goods Balance</b>	-1,779.4	-1,704.5	74.9	-4.2
Exports (fob)	1,277.2	1,443.7	166.5	13.0
Imports (fob)	3,056.6	3,148.2	91.6	3.0
<b>Services Balance</b>	476.4	454.0	-22.4	-4.7
Transportation	-137.0	-145.3	-8.3	6.1
Travel	967.7	973.9	6.2	0.6
Other Services	-354.3	-374.6	-20.3	5.7
<b>Income</b>	-498.5	-575.9	-77.4	15.5
Compensation of Employees	60.0	88.3	28.3	47.2
Investment Income	-558.5	-664.2	-105.7	18.9
<b>Current Transfers</b>	1,065.7	1,178.1	112.4	10.5
Official	95.9	95.7	-0.2	-0.2
Private	969.8	1,082.4	112.6	11.6
<b>CAPITAL &amp; FINANCIAL A/C</b>	735.8	648.3	-87.5	-11.9
<b>Net Capital Movement</b>	-0.6	2.3	2.9	-483.3
Official	0.1	0.1	0.0	0.0
Private	-1.1	2.2	3.3	-300.0
<b>Financial Account</b>	736.4	646.0	-90.4	-12.3
Other Official Investment	-340.2	511.1	851.3	-250.2
Other Private Investment (incl. errors & omiss)	582.8	786.0	203.2	34.9
<b>Reserves (minus=increase)</b>	493.8	-651.1		

Source: Bank of Jamaica (Preliminary)

**Fiscal Accounts**

For the April to January period the fiscal deficit was \$32.7 billion, nearly \$5 billion more than budgeted due to a shortfall in Revenues & Grants. Tax receipts in particular fell some 5.5% below expectations while there was also a 2.6% shortfall in Non-tax Revenues. 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 a favourable spending outturn relative to projections.

Revenue and Grants collected for the period amounted to \$133,503.7 million or \$133.5 billion, some \$5.7 billion less than projected. The shortfall largely reflected a \$6.9-billion falloff in Tax revenues which were heavily affected by the passage of Hurricane Ivan. However, PAYE netted some \$2.15 billion more than expected thanks to steady gains made prior to September as well as a strong rebound in October. GCT earned some \$20.79 billion and therefore fell \$0.4 billion shy of its target of \$21.18 billion. The accounts continued to show slippages in Company tax and the Special Consumption Tax which missed their targets by \$2.8 billion and \$2.6 billion, respectively. Most of the other revenue categories showed favourable variances, particularly Grants which were some \$1.2 billion more than projected thanks to a large inflow in December. Capital Revenues earned \$140 million more than expected, while the Bauxite Levy exceeded projections by almost \$90 million.

The accounts recorded an expenditure of \$166,217.1 million, roughly \$893 million lower than was budgeted for the period. External interest payments were \$2.19 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 \$1.85-billion saving in Domestic interest payments, resulted in an overall interest burden which was \$4 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 \$3.4 billion.

Capital Expenditures fell \$317 million shy of projections as the demands of the recurrent budget continue to limit the resources available for infrastructural improvements.

Loan receipts were approximately \$15 billion below budget as Government borrowed \$21.9 billion less than planned on the domestic market. External receipts jumped some 22.5% or \$6.86 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 January stood at \$762.87 billion, roughly \$0.33 billion higher than that of the previous month. Domestic Debt grew by \$2,297.46 million to \$449,259.38 million. External Debt dipped by a marginal 1% or US\$51.65 million to end the month at US\$5,068.79 million.

We need to keep track of arrears due to suppliers in the public sector, as reducing the budgetary allocation to a ministry does not necessarily mean that costs have actually been cut. In addition, there are significant complaints that arrears of withholding tax refunds are growing. More information is needed concerning the amount of arrears and the likely impact on the accounts going forward.



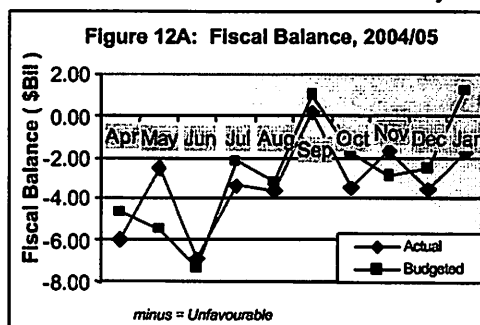
Table 12: Fiscal Accounts (J\$ million)

	April 2004 – January 2005				Change from 03/04	
	Provisional	Budget	Deviation		J\$m	(%)
<b>Revenue &amp; Grants</b>	<b>133,503.7</b>	<b>139,226.5</b>	<b>-5,722.8</b>	<b>-4.1%</b>	<b>20,388.9</b>	<b>18.0</b>
Tax Revenue	118,951.2	125,895.5	-6,944.3	-5.5%	15,360.4	14.8
Non-Tax Revenue	7,788.4	7,997.5	-209.1	-2.6%	387.2	5.2
Bauxite Levy	2,045.8	1,956.1	89.7	4.6%	322.5	18.7
Capital Revenue	728.4	587.7	140.7	23.9%	728.4	
Grants	3,989.7	2,789.7	1,200.1	43.0%	3,590.4	899.2
<b>Expenditure</b>	<b>166,217.1</b>	<b>167,110.1</b>	<b>-893.0</b>	<b>-0.5%</b>	<b>14,229.8</b>	<b>9.4</b>
Recurrent	159,402.3	159,978.2	-575.9	-0.4%	11,800.5	8.0
Programmes	27,531.9	24,107.8	3,424.1	14.2%	6,718.5	32.3
Wages & Salaries	52,504.6	52,467.6	37.0	0.1%	1,255.8	2.5
Interest	79,365.8	83,402.8	-4,037.0	-4.8%	3,826.2	5.1
Domestic	63,042.9	64,891.6	-1,848.7	-2.8%	2,404.6	4.0
External	16,322.9	18,511.2	-2,188.3	-11.8%	1,421.7	9.5
Capital Expenditure	6,814.8	7,131.9	-317.1	-4.4%	2,429.2	55.4
<b>Fiscal Balance</b>	<b>-32,713.4</b>	<b>-27,883.6</b>	<b>-4,829.8</b>	<b>17.3%</b>	<b>6,159.2</b>	<b>-15.8</b>
Loan Receipts	136,109.9	151,127.1	-15,017.2	-9.9%	24,794.9	22.3
Domestic	98,795.4	120,676.9	-21,881.5	-18.1%	-6,525.8	-6.2
External	37,314.5	30,450.2	6,864.3	22.5%	31,320.7	522.6
Divestments	1,259.4	1,715.5	-456.1	-26.6%	730.1	137.9
Amortization	115,497.7	118,152.2	-2,654.5	-2.2%	38,383.0	49.8
Domestic	87,722.3	89,805.5	-2,083.2	-2.3%	25,364.9	40.7
External	27,775.4	28,346.7	-571.3	-2.0%	13,018.1	88.2
<b>Overall Balance</b>	<b>-10,841.8</b>	<b>6,806.8</b>	<b>-17,648.6</b>	<b>-259.3%</b>	<b>-6,698.8</b>	<b>161.7</b>
<b>Primary Balance</b>	<b>46,652.4</b>	<b>55,519.2</b>	<b>-8,866.8</b>	<b>-16.0%</b>	<b>9,985.4</b>	<b>27.2</b>

Source: Ministry of Finance &amp; Planning

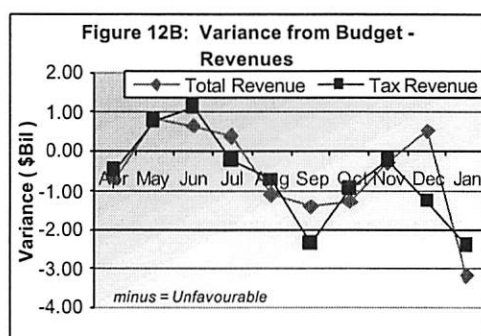
**Fiscal Accounts – Monthly Breakdown:**

The above figures show the year-to-date outturn relative to projections. But how effectively has the Government been meeting its month-to-month targets in its drive to achieve the full-year goal? Figure 12A illustrates the path of the fiscal balance on a monthly basis vis-à-vis what was planned for the year.

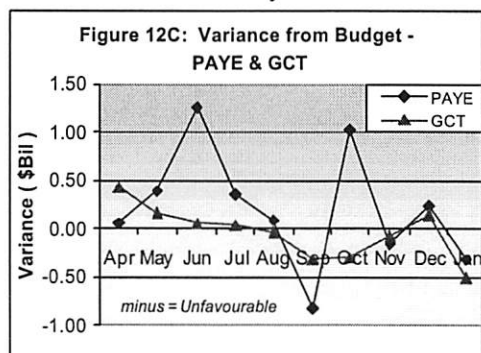


As the figure shows, Hurricane Ivan reduced the fiscal surplus in September to \$0.15 billion, down from the projected level of \$0.96 billion for that month. The fiscal balance also fell some \$3 billion short of projections in January from a planned surplus of \$1.22 billion to a deficit of -\$1.8 billion. However, the chart also reveals that even before Ivan, the fiscal balance was not consistently on target. Although the Government outperformed its deficit targets for the months of May and June, the other pre-Ivan months showed slippages from the budgeted levels. Only one monthly target has been met since the hurricane. This was in November when the deficit amounted to -\$1.72 billion, some \$1.1 billion better than the expected amount of -\$2.85 billion.

The variance in Tax revenues for the review period actually began in August and was exacerbated by the storm in September (see Figure 12B). Since then, Tax revenues have continued to under-perform on a monthly basis, falling some \$2.4 billion below budget for the month of January.

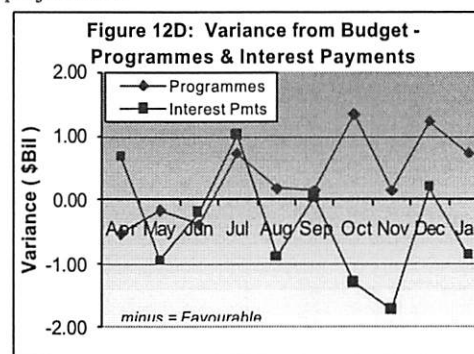


The Government's two biggest tax earners, PAYE and GCT were both negatively impacted by September's events, but PAYE made a strong rebound in October to better its budget by over \$1 billion for that month (see Figure 12C below). GCT did not recover as strongly as discretionary consumer spending was dampened in the wake of the storm. Some other tax items remain a concern such as Company taxes and the Special Consumption Tax (SCT), both of which have consistently slipped below budget every month since the start of the fiscal year.



On the expenditure side, the post-September overrun in Programmes has been partially offset by savings in the area of Interest payments, particularly in October and November (see Figure 12D). In October, for instance, Interest charges were a whopping \$1.3 billion lower than planned, and this helped to compensate for a \$1.36 billion

hike in Programme spending relative to projections.



### Full-Year Outlook

The Government has now tabled its second Supplementary budget, which projects a total expenditure of \$200.8 billion for the year excluding debt repayment or amortization (see Table 12A). This figure comprises recurrent expenditures of \$189.78 billion and Capital spending of \$11.03 billion and represents an increase of some \$4.8 billion over the original budget tabled at the start of the fiscal year. The revision largely reflects a projected \$4.38 billion overrun in Programmes relative to initial expectations. Although the Government expects to save some \$2.7 billion in Interest payments, this will be counterbalanced by an estimated \$2.6 billion hike in Capital spending compared to what was projected a year ago. Wages & Salaries, however, should fall roughly in line with initial estimates.

On the revenue side, the outturn is not expected to deviate significantly from previous projections. Strong year-to-date gains made in areas such as PAYE, Grant funding and the local Stamp Duty should help to cushion the full-year performance.

In terms of debt repayment, the Government will amortize roughly \$4.5 billion less than planned as it has rolled over a sizeable amount of debt related to the operations of Air Jamaica.

The latest fiscal estimates anticipate a deficit of roughly \$24.9 billion, some \$4.6 billion worse than the \$20.3 billion projected last April. In order to meet the new target, the Government will strive to rein in its expenditures to a maximum of \$34.6 billion for the February-March period, including

Programme spending of no more than \$5 billion. The Administration will also target a wage bill of \$11 billion for the two-month period, while Interest payments should be kept within the range of \$14.3 billion.

If the new projections are on point, the deficit will be in the region of 4.5% of GDP for this fiscal year. Of course, this assumes a reasonably accurate estimate of GDP growth for the year. Growth in the last quarter was lower than anticipated. However, based on the current indicators which point to increased activity in sectors such as construction and alumina, we can surmise that GDP growth for the March quarter will be supportive of the fiscal targets.

Table 12A: GOJ Budget, Fiscal Year 2004-05 (\$M)					
	Original Budget	Revised Supplementary	Variance	Actual Outturn, Apr-Jan	Implied Target, Feb-Mar
<b>Expenditures</b>	<b>196,012.6</b>	<b>200,818.2</b>	<b>4,805.6</b>	<b>166,217.1</b>	<b>34,601.1</b>
Recurrent	187,551.3	189,784.7	2,233.4	159,402.3	30,382.4
Programmes	28,229.7	32,606.7	4,377.0	27,531.9	5,074.8
Wages & Salaries	63,020.7	63,541.7	521.0	52,504.6	11,037.1
Interest	96,300.9	93,636.3	(2,664.6)	79,365.8	14,270.5
Capital Expenditures	8,461.3	11,033.5	2,572.2	6,814.8	4,218.7
<b>Amortization</b>	<b>132,100.0</b>	<b>127,210.3</b>	<b>(4,889.7)</b>	<b>115,497.7</b>	<b>11,712.6</b>
<b>Total Expenditures (Incl. Amortization)</b>	<b>328,112.6</b>	<b>328,028.5</b>	<b>(84.1)</b>	<b>281,714.8</b>	<b>46,313.7</b>

## Stock Market

The stock market was in a bearish mode during February, with protracted bouts of profit-taking in the wake of January's healthy gains. The main JSE Index declined by some 4,157.78 points or 3.51% during the month to close at 114,221.65 points on February 28. Market capitalization fell by \$32 billion or 3.46% to end the month at approximately \$892.7 billion. Market activity was also affected by the pending Mayberry IPO as some investors began to liquidate some of their other holdings in anticipation of the new offering.

The top performing stock for February was Lascelles de Mercado, which appreciated by more than 56% to end the month at \$315.50 (see Table 13). The worst performer in price terms was the Dyoll Group, which lost almost 8% of its value to end the month at \$14.50.

**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)

	31/12/04	28/02/05	\$	%
Lascelles de Mercado	202.05	315.50	113.45	56.15
Jamaica Broilers	4.20	5.50	1.30	30.95
Seprod	12.15	15.89	3.74	30.78
Pan Jam Investments	53.00	67.50	14.50	27.36
Pegasus Hotel	10.00	12.50	2.50	25.00

### Bottom Five (unadjusted for dividends or transact. costs)

Dyoll Group Limited	16.60	14.50	-2.10	-12.65
RBTT Financial Holdings Limited	434.50	381.00	-53.50	-12.31
First Caribbean Int'l Bank Jamaica	22.00	20.00	-2.00	-9.09
National Commercial Bank	22.00	20.52	-1.48	-6.73
First Caribbean International Bank	130.00	124.00	-6.00	-4.62

*Source: Compiled from the JSE*

## **Developments and Outlook**

**Tax Reform:** The Government is now considering the proposals contained in the report of the Tax Review Committee. Chief among the proposals under review are an increase in the threshold for personal income tax and a widening of the tax base for GCT through the removal of exemptions. The report also recommends an increase in the rate of GCT from 15% to 16%. The proposals are based on the rationale that by shifting the emphasis from direct to indirect taxes, collection and compliance will be improved. This is because GCT is applicable to most economic activity while income tax is only paid by those individuals whom the formal system manages to detect. The Committee also theorizes that by mainly taxing consumption rather than employment and other productive activity, the taxation framework will be more supportive of economic growth. This is a plausible argument since a higher threshold would increase the returns to productive activity at both the individual and corporate levels, encouraging higher levels of firm output and general business activity. In addition, the consumption taxes might encourage a culture of saving rather than spending, thereby increasing the pool of loanable funds for business investment.

The Committee's proposals are intended to be revenue-neutral, as the revenue loss from the income tax adjustment should be offset by higher receipts from the GCT. However, the proposals assume that the consumer response to the GCT measures can be modeled with some degree of reliability. In fact, the tax net includes a wide range of goods and services, which may vary considerably in terms of their price elasticities and by extension their response to a GCT adjustment. This would imply a myriad of possible outcomes for the overall revenue result, some of which may not be captured in a given model.

There is also a recommendation to treat capital gains realized on the stock market as income, thus making this activity subject to income taxes. The general response to this proposal has been negative, as a number of analysts and investors believe it would seriously impair the growth of

the stock market and ultimately harm investment and business growth. A capital gains tax would have the same general effect on the market as an increase in interest rates, that is, it would reduce the after-tax risk premium which exists between equities and risk-free investments. We can therefore surmise that the slowdown in market growth during times of high interest rates might also be what would obtain with the imposition of a capital gains tax.

The report also contains a number of other proposals including a Special Consumption Tax on fuels as well as the elimination of HEART and education taxes. The full report can be viewed on the Ministry of Finance's website.

**Inflation:** The Consumer Price Index continues to show stability, thanks to a sustained moderation in food & drink prices. February's inflation, although higher than that of January, was still broadly in line with the favourable trend observed since November. However, some inflationary impulses could ensue from the drought now affecting the island, which may create upward pressure on agriculture prices. Though this does not seem to have had an impact so far, we will have to watch for any lag effects as market conditions begin to fully reflect the reduction in crop yields. It must also be borne in mind that inflation figures are based on data collected in the first week of the month, and so February's figure may not have fully captured the effects of the drought.

The drought is the major factor which could affect the inflation target of 11.5% for this fiscal year. Oil prices also remain a concern, although the San Jose Accord provides somewhat of a buffer against the full impact of world market movements. Low and stable inflation will be a critical component in the BOJ's efforts to continue pulling down interest rates, especially with the recent upward movements in US benchmark rates. The Federal Reserve raised its federal funds rate another 25 basis points in the week of March 21. US monetary policy shows no signs of relaxing in the near term, especially after that country's unexpectedly high inflation for February which is likely to make the Fed even more cautious in its stance.

**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		%	%	%	J\$M	US\$M
Jul-01	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	8.43	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	7.24	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	7.24	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	6.78	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	6.78	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	6.67	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	6.61	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	6.61	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	6.61	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	6.61	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	6.61	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	6.48	439,614.97	5,075.17
Nov	n/a	n/a	n/a	n/a	1,816.06	1,855.79	2.4	13.9	n/a	61.98	14.90	24.89	6.48	444,214.54	5,118.92
Dec	n/a	n/a	n/a	n/a	1,858.52	1,925.98	0.6	13.7	n/a	61.63	14.94	24.89	6.48	446,961.92	5,120.44
Jan '05	n/a	n/a	n/a	n/a	1,847.58	n/a	0.0	11.6	n/a	61.87	14.40	24.89	6.48	449,259.38	5,068.79
Feb	n/a	n/a	n/a	n/a	1,831.07	n/a	0.4	12.7	n/a	61.91	13.95	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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