



## The Private Sector Organisation of Jamaica

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# PSOJ CONFIDENTIAL ECONOMIC BULLETIN

## A Monthly Analysis of the Jamaican Economy

### Overview

April brought a mixed bag for the economy characterized by favourable movements in most economic variables and negative developments in some others. A steady currency, strong NIR and vibrant stock market were all juxtaposed against high inflation, reduced agricultural activity, and a decline in output from the country's major export sector alumina. In addition, the GOJ Budget unveiled on April 14 created some uncertainty surrounding the impact of the new tax measures on prices, business growth and general economic activity in May and beyond. Fiscal responsibility was also a point of concern, with much discussion surrounding Letters of Undertaking, Letters of Comfort and other off-budget financing arrangements used by the GOJ. Concerns have been raised regarding the extent to which these arrangements could amount to government liabilities if the Administration were called upon to honour them.

There was a 1.9% hike in the Consumer Price Index in April reflecting increases in all main categories of the CPI basket. A strong contributor to this was the Food & Drink sub-index, which rose by 2.8% as prices continued to show the effects of the recent drought and bush fires.

The dollar continued to enjoy stable conditions on the currency market in April, conceding a mere ten cents to its US counterpart during foreign exchange trading. The dollar has lost almost none of its value since the start of the year, as April's adjustments resulted in a year-to-date movement of only two cents.

The NIR made a strong start to the new fiscal year as the balance was US\$2,010.42 million at the end of April. This was roughly US\$109 million higher than the previous month's value of 1,901.61 million and speaks to the improved external liquidity that the country has experienced in recent months.

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For the month of March, the tourism sector achieved double-digit growth in both Stopover and Cruise arrivals which increased by 13.5% and 16.7%, respectively relative to March of last year. The combined effect was an impressive 15% growth in total arrivals.

Total bauxite production fell by 14% in April as crude output was heavily affected by industrial unrest at St. Ann Bauxite. Exports also declined by some 7.4% for the period.

There were no reductions to BOJ open market instruments in April as the Bank remained watchful of inflation following the 1% spike in March. This turned out to be a prudent stance given the high outturn for the month of April. Interest rates stayed at their March levels ranging from 12.95% on the 30-day, to 14.50% on the 360-day instrument.

During January the nation's trade deficit widened by US\$36.4 million or more than 12% relative to that of the corresponding period last year (see External Trade – page 5).

## Net International Reserves

The NIR made a strong start to the new fiscal year, amounting to some US\$2,010.42 million at the end of April. This outturn was nearly US\$109 million better than the previous month's value of US\$1,901.61 million, as buoyant currency inflows continued to facilitate a buildup in the reserve stock. The April balance amounted to roughly 26.2 weeks of Goods imports (see Table 1). The NIR and the currency market are now involved in a virtuous circle: a stable market allows reserves to remain high, while a solid reserve stock helps generate the confidence needed to ensure orderly market movements.

**Table 1: Changes in the NIR**

|          | NIR      | Change |        |        | Imports<br>(Weeks) |
|----------|----------|--------|--------|--------|--------------------|
|          |          | Mthly  | 12 Mth | YTD    |                    |
| Apr-2005 | 2,010.42 | 108.81 | 268.80 | 151.90 | 26.24              |
| Apr-2004 | 1,741.62 | 172.96 | 379.52 | 576.64 | 25.48              |

Source: Compiled from the BOJ (Preliminary)

## Net International Reserves

For the month of February total foreign currency deposits amounted to US\$1,918.71 million, some US\$14.2 million higher than the previous month's figure (see Table 2). This resulted from increased holdings at commercial banks and building societies, which outweighed an US\$8.8-million reduction in balances held at merchant banks.

**Table 2: Foreign Currency Deposits**

|                | Feb-05   | Change (US\$M) |        | %     |
|----------------|----------|----------------|--------|-------|
|                |          | Mthly          | 12 Mth |       |
| Total Deposits | 1,918.71 | 14.25          | 149.59 | 8.46  |
| <b>May-04</b>  |          |                |        |       |
| 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

April was another stable month for the currency market, with the dollar conceding a minimal 0.17% or \$0.10 to its US counterpart in foreign exchange trading. The dollar ended the month at an average of \$61.65 (daily J\$/US\$ weighted average selling rate, see Table 3). Monthly depreciation has not exceeded the 1% mark for some 18

months now, and the dollar has lost only two cents so far this year.

The dollar had mixed fortunes against its other two major counterparts, gaining \$1.09 against the Canadian dollar and losing \$2.19 against the sterling during April.

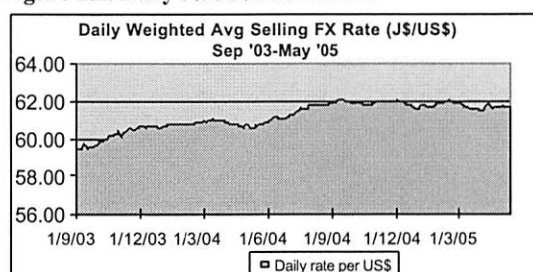
**Table 3: Foreign Exchange Trends\***

|         | Year-to-Date: Apr 29, '05 (report date: May. 17) |       |       |       |       |       |
|---------|--|-------|-------|-------|-------|-------|
|         | us\$   | %?    | can\$ | %?    | Uk£   | %?    |
| 2005    | 0.02   | 0.04  | -1.14 | -2.25 | -0.38 | -0.32 |
| 2004    | 0.14   | 0.23  | -2.41 | -5.17 | 0.32  | 0.30  |
| 2003    | 6.33   | 12.43 | 7.51  | 23.39 | 10.12 | 12.50 |
| Monthly |  |       |       |       |       |       |
| Apr-05  | 0.10   | 0.17  | -1.09 | -2.15 | 2.19  | 1.90  |

\* minus = appreciation.

Source: BOJ, PSJO Economic Research

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



## Short Term Forecast

The market should remain reasonably calm over the next four to six weeks. However, some upward adjustment is possible given the end of the winter tourist season as well as the recent softening of aluminium prices on the world market, which could affect the local alumina industry. In addition, recent data from STATIN suggests an interruption of the trend of improvement in export agriculture. Nonetheless, remittances should remain a strong source of inflows and should compensate for some of the fluctuations in the other areas. Consequently, the dollar should remain at or below the \$62.00 mark for the better part of the next month. Developments in the US remain a concern, however, as the interest rate differential between that economy and ours will have implications for foreign currency flows. However, if there is a sustained abatement in US inflation, this might allow for an easing of monetary policy in that country, which would support the continued stability of the local foreign exchange market.

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

|          | Forecast    | Actual | Diff. |
|----------|-------------|--------|-------|
| Feb. '04 | 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 | 61.54  | -0.41 |
| Apr      | 61.72-61.76 | 61.65  | -0.07 |
| May      | 61.70-61.77 |        |       |

Source: PSJO Economic Research

## Interest Rates

There were no reductions in BOJ repo rates in April as the Bank continued to monitor price movements following the high inflation outturn in March. Yields therefore remained at their March levels ranging from 12.95% on the 30-day, to 14.50% on the 365-day instrument. However, the overall downward trend remains intact and the Bank will carry out further reductions in the coming months as market conditions allow.

The six-month T-bill cleared the market at an average yield of 13.43%, marginally lower than the previous month's value of 13.46%.

The average bank savings and lending rates remained unchanged from their March values of 6.36% and 24.89%, respectively (see Figure 2).

Figure 2: Interest Rate Movements

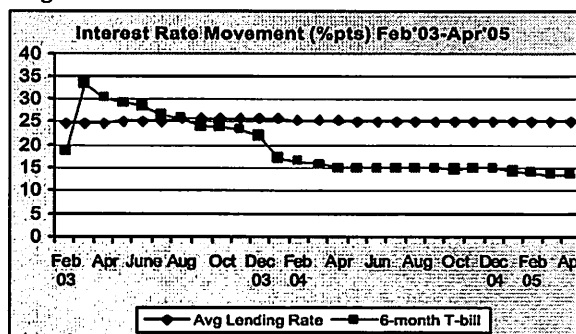


Table 5: Interest Rate Movements

|                     | Apr-05 | Change (%age pts) |        |       |
|---------------------|--------|-------------------|--------|-------|
|                     |        | Mthly             | 12 Mth | YTD   |
| 30 Day Repo         | 12.95  | 0.00              | -1.45  | -0.85 |
| 365 Day Repo        | 14.50  | 0.00              | -2.40  | -1.00 |
| Avg Savings Deposit | 6.36   | 0.00              | -0.31  | -0.12 |
| Avg Loan Rate       | 24.89  | 0.00              | -0.34  | 0.00  |
| 6 Month T-Bill      | 13.43  | -0.03             | -1.66  | -1.51 |
| 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 contracted by 3.52% in April relative to the previous month as the Central Bank responded to inflationary pressures observed in March. For the month of January, M2 showed a 0.5% reduction from the previous month's figure reflecting a decrease in M1 which outweighed the growth in the Quasi-money stock for the period.

Table 6: Base Money and Money Supply

|             | J\$M      | Change (%) |        |
|-------------|-----------|------------|--------|
|             | Jan-05    | Mthly      | 12 Mth |
| M1          | 64,160.7  | -5.27      | 18.73  |
| Quasi Money | 145,912.1 | 1.67       | 12.56  |
| M2          | 210,072.8 | -0.55      | 14.38  |
|             | Apr-05    | Mthly %    |        |
| Base Money  | 40,180.8  | -3.52      | 11.44  |

Source: Compiled from the BOJ (Preliminary)

## Inflation

There was a 1.9% jump in the Consumer Price Index in April driven by increases in all main categories of the Index. Food prices in particular showed the continued after-effects of the recent drought and bush fires. There was a 2.8% surge in the *Food & Drink* index driven by increases in all food types, particularly Starchy Foods (up 8%), Vegetables & Fruit (5%), and Meat, Poultry & Fish (2%). *Fuels & Other Household Supplies* rose 1.9% partially due to a 2.6% upshot in the cost of domestic fuels. Other areas of increase were *Household Furnishings & Furniture* (up 1.4%), *Transportation* (1.2%), and *Housing & Other Housing Expenses* (0.7%).

Table 7: Inflation Trends

|      | Percent Changes |        |     |        |
|------|-----------------|--------|-----|--------|
|      | April           | 12 Mth | YTD | Fiscal |
| 2005 | 1.9             | 14.9   | 3.4 | 1.9    |
| 2004 | 0.4             | 15.4   | 2.3 | 0.4    |

Source: STATIN

## Bauxite & Alumina Production

Total bauxite production for April was 1.08 million metric tonnes, a reduction of 14% when compared to last April's figure of 1.26 million metric tonnes (see Table 8). This partially reflected a 42% plunge in Crude bauxite, which fell to 236,994 metric tonnes due to industrial unrest at St. Ann Bauxite. Alumina production fared much better, growing by 1.7% to 347,710 metric tonnes. Total bauxite exports fell 7.4% below that of last April in the context of a 35% drop in Crude exports. Alumina exports, however, showed a healthy 6% growth.

Table 8: Mining Production

|                   | Y-T-D     |           |        |           |        |
|-------------------|-----------|-----------|--------|-----------|--------|
|                   | Apr-04    | Apr-05    | %      | Apr-05    | 05/04% |
| <b>Production</b> |           |           |        |           |        |
| Alumina           | 341,776   | 347,710   | 1.74   | 1,400,473 | 0.84   |
| C. Bauxite        | 411,201   | 236,994   | -42.37 | 1,311,591 | -4.17  |
| Tot. Bauxite      | 1,261,207 | 1,084,195 | -14.04 | 4,704,926 | -2.35  |
| <b>Export</b>     |           |           |        |           |        |
| Alumina           | 419,672   | 444,854   | 6.00   | 1,402,911 | -2.36  |
| C. Bauxite        | 425,749   | 277,541   | -34.81 | 1,335,714 | -5.45  |
| Tot. Bauxite      | 1,469,003 | 1,360,510 | -7.39  | 4,729,353 | -5.03  |
| Units=tonnes      |           |           |        |           |        |

Source: Compiled from Jamaica Bauxite Institute

## Sugar & Bananas

Total sugar production in April amounted to 28,930 tonnes, roughly 22% less than last April's output of 37,045 tonnes. Despite the reduced output, there appeared to be some efficiency gains as the industry used 3.5% less cane to produce each tonne of sugar relative to the corresponding period last year.

## Tourism

**Stopovers:** Stopovers have now posted double-digit growth for the first time since the start of the year, as the March outturn was 13.5% higher than in March of 2004. This reflected higher numbers of Foreign Nationals as well as Non-resident Jamaicans, which grew by 12.7% and 32.7%, respectively. US visitors represented 75.1% of stopovers, up from 72.2% last March and breaking the trend of decline in American tourists as a percentage of the total (see Figure 9A).

**Cruise Passengers:** The island received nearly 17% more cruise visitors than in last March as a result of double-digit growth at both Montego Bay and Ocho Rios. Continued growth can be realized if capacity can be enhanced to receive more ships.

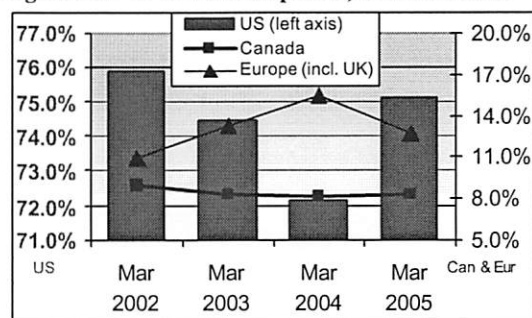
**Total Arrivals:** Given the strong growth in both stopover and cruise passengers, total arrivals grew by a solid 15.1% relative to last March.

Table 9: Tourist Arrivals

|                 | 2004           | 2005           | % Change   |             |
|-----------------|----------------|----------------|------------|-------------|
|                 | Jan - Mar      | YTD            | YTD        | Mar         |
| <b>Stopover</b> | <b>366,085</b> | <b>394,969</b> | <b>7.9</b> | <b>13.5</b> |
| Foreign         | 350,244        | 377,041        | 7.7        | 12.7        |
| National        | 15,841         | 17,928         | 13.2       | 32.7        |
| <b>Cruise</b>   | <b>369,267</b> | <b>374,973</b> | <b>1.5</b> | <b>16.7</b> |
| <b>Total</b>    | <b>735,352</b> | <b>769,942</b> | <b>4.7</b> | <b>15.1</b> |

Source: Jamaica Tourist Board (Preliminary)

Figure 9A: % of Total Stopovers, March 02 to 05



### External Trade

For the month of January 2005 the trade deficit widened by US\$36.4M relative to that of 2004. This reflected deteriorations on both sides of the Goods account as a US\$22M growth in imports was exacerbated by a US\$14.3M decline in exports for the period.

Exports amounted to US\$102.4M, down from US\$116.8M in January of the prior year. The decline was mainly due to a US\$12.3M fall-off in Non-Traditional exports as gains in the areas of Food, Beverages and Crude Materials were outweighed by declines in Chemicals and Mineral Fuels. In the Traditional sector, earnings fell by nearly US\$1.6M due largely to a US\$3.5M decline in Agriculture which reflected lower earnings in all crop categories. Coffee in particular fell by US\$1.5M due to drought conditions, while the US\$1.6M drop in bananas reflected the continued absence of that commodity as

a result of Hurricane Ivan. Mining & Quarrying fell by US\$0.67M, as a US\$0.3M improvement in Bauxite revenues was negated by a US\$1.2M slippage in Alumina. Manufacturing jumped by a whopping 180% or US\$2.56M, thanks to a doubling of Rum earnings as well as an early start to the Sugar season. Both industries grew by US\$1.2M each, thus contributing equally to the improvement in Manufacturing.

Imports grew by some US\$22M or 7.1% for the review period, reflecting increases in most of the main categories. Manufactured Goods increased by US\$18.7M, while Food imports grew by some US\$7.3M. There were also increases in Machinery & Transport Equipment (up US\$3.4M), Mineral Fuels (up US\$2.7M), and Beverages & Tobacco (US\$2M). However, expenditure on Chemicals was nearly US\$14M lower than in January of last year.

Table 10: External Trade (US\$M)

|                                | Jan '05        | Jan '04        | Change        | % Change     |
|--------------------------------|----------------|----------------|---------------|--------------|
| <b>TOTAL EXPORTS (fob)</b>     | <b>102.45</b>  | <b>116.76</b>  | <b>-14.32</b> | <b>-12.3</b> |
| Major Traditional Exports      | 86.82          | 88.40          | -1.57         | -1.8         |
| by Sector:-                    |                |                |               |              |
| Agriculture                    | 0.99           | 4.45           | -3.46         | -77.8        |
| Mining & Quarrying             | 81.86          | 82.53          | -0.67         | -0.8         |
| Manufacturing                  | 3.98           | 1.42           | 2.56          | 180.1        |
| by Industry:-                  |                |                |               |              |
| Bauxite                        | 9.35           | 9.00           | 0.35          | 3.8          |
| Alumina                        | 72.21          | 73.46          | -1.25         | -1.7         |
| Sugar                          | 1.25           | 0.00           | 1.25          | 8            |
| Rum                            | 2.54           | 1.28           | 1.27          | 99.0         |
| Bananas                        | 0.00           | 1.65           | -1.65         | -100.0       |
| Coffee                         | 0.54           | 2.07           | -1.53         | -74.0        |
| Other                          | 0.94           | 0.94           | 0.00          | -0.4         |
| Non-Traditional Exports        | 13.54          | 25.90          | -12.36        | -47.7        |
| Re-exports                     | 2.08           | 2.46           | -0.39         | -15.7        |
| <b>TOTAL IMPORTS</b>           | <b>334.18</b>  | <b>312.09</b>  | <b>22.08</b>  | <b>7.1</b>   |
| Food                           | 48.55          | 41.21          | 7.34          | 17.8         |
| Beverages & Tobacco            | 5.39           | 3.42           | 1.96          | 57.3         |
| Crude Materials (excl. Fuels)  | 6.11           | 4.30           | 1.81          | 42.1         |
| Mineral Fuels, etcetera        | 71.60          | 68.86          | 2.74          | 4.0          |
| Animal & Vegetable Oils & Fats | 3.85           | 2.07           | 1.78          | 85.9         |
| Chemicals                      | 35.24          | 49.12          | -13.88        | -28.3        |
| Manufactured Goods             | 51.70          | 33.02          | 18.68         | 56.6         |
| Machinery and Transport Equip. | 73.70          | 70.33          | 3.37          | 4.8          |
| Misc. Manufactured Articles    | 33.45          | 34.26          | -0.81         | -2.4         |
| Other                          | 4.59           | 5.50           | -0.91         | -16.5        |
| <b>TRADE BALANCE</b>           | <b>-231.73</b> | <b>-195.33</b> | <b>-36.40</b> | <b>18.6</b>  |

Source: STATIN

## Balance of Payments – January 2005 (preliminary)

**Net Movements:** The balance of payments deteriorated in January relative to the corresponding period last year. The current account deficit amounted to US\$57.6 million, 29.4% larger than the figure of US\$44.5 million recorded for January 2004 (see Table 11 overleaf). This was caused by a US\$38-million worsening of the deficit on the Goods account, which outweighed improvements in Current Transfers, Services and the Income account for the period.

Current Transfers continued to perform strongly as net inflows to that account were US\$14.3 million higher than in January of last year. The improvement was solely due to income from Private Transfers or remittances, as Official Transfers showed no change for the period.

The deterioration in the Goods balance was the result of a US\$22.3-million drop in exports as well as a US\$16-million growth in the value of imports. Non-traditional exports in particular fell by US\$12.4 million mainly due to lower exports of ethanol. In the Traditional category, alumina was affected by a reduction in prices while bananas remained at zero following the damage caused by Hurricane Ivan. On the import side, the bill was higher for most categories of items, particularly manufactured goods, food items and machinery.

In the Services account, net receipts grew by roughly US\$7 million as an improvement in the Travel balance was more than adequate to compensate for slippages in Transportation and Other Services. The Travel balance was bolstered by an 8.7% increase in expenditures in the tourism sector.

In the Income account, the deficit narrowed by some US\$3.9 million as a US\$1.4 million net growth in Compensation of Employees was accompanied by a US\$2.5-million improvement in the Investment income deficit.

The Capital and Financial account mainly reflected changes in the Financial account, where net inflows fell by US\$56.1 million in the category of Other Private Investments. There was a US\$3.7-million

improvement in the category of Other Official Investments, although that account still posted a net outflow of US\$14.8 million. Overall, inflows to the Capital & Financial account were insufficient to finance the shortfall in Other Official Investments and the deficit on the Current account. This necessitated a US\$10.9-million drawdown on the reserves.

**Inflows & Outflows:** During January, Current Transfers represented over 31% of total inflows to the current account but only 7% of outflows, resulting in that category's strong contribution to the current account balance (see Figures 11A and 11B). Similarly, Services represented over 43% of inflows but just under 30% of outflows. The Goods account, however, contributed 23% to inflows but comprised over 62% of outflows, underscoring the need to close the country's sizeable trade gap.

Figure 11A: % of Inflows – Current Account

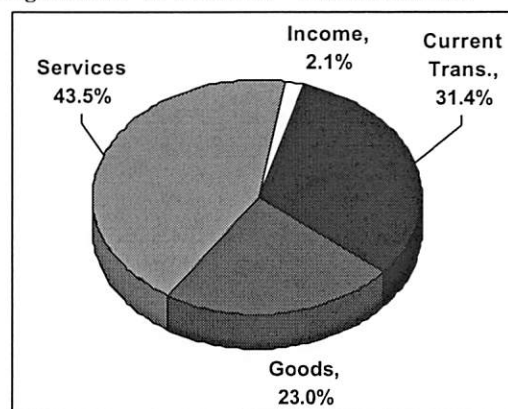


Figure 11B: % of Outflows – Current Account

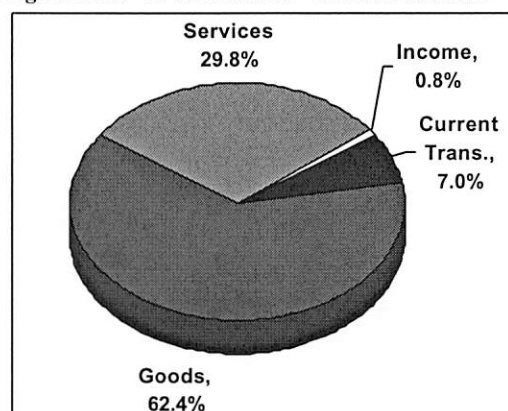


Table 11: Balance Of Payments (US\$M)

|   | Jan '04       | Jan '05       | Change       | % Change      |
|---|---------------|---------------|--------------|---------------|
| <b>CURRENT ACCOUNT</b>                          | <b>-44.5</b>  | <b>-57.6</b>  | <b>-13.1</b> | <b>29.4</b>   |
| <b>Goods Balance</b>                            | <b>-147.8</b> | <b>-186.0</b> | <b>-38.2</b> | <b>25.8</b>   |
| Exports (fob)                                   | 132.2         | 109.9         | -22.3        | -16.9         |
| Imports (fob)                                   | 280.0         | 295.9         | 15.9         | 5.7           |
| <b>Services Balance</b>                         | <b>59.7</b>   | <b>66.6</b>   | <b>6.9</b>   | <b>11.6</b>   |
| Transportation                                  | -8.9          | -12.1         | -3.2         | 36.0          |
| Travel  | 101.0         | 113.6         | 12.6         | 12.5          |
| Other Services                                  | -32.4         | -34.9         | -2.5         | 7.7           |
| <b>Income</b>                                   | <b>-58.9</b>  | <b>-55.0</b>  | <b>3.9</b>   | <b>-6.6</b>   |
| Compensation of Employees                       | 4.4           | 5.8           | 1.4          | 31.8          |
| Investment Income                               | -63.3         | -60.8         | 2.5          | -3.9          |
| <b>Current Transfers</b>                        | <b>102.5</b>  | <b>116.8</b>  | <b>14.3</b>  | <b>14.0</b>   |
| Official  | 8.6           | 8.5           | -0.1         | -1.2          |
| Private   | 93.9          | 108.3         | 14.4         | 15.3          |
| <b>CAPITAL &amp; FINANCIAL A/C</b>              | <b>44.5</b>   | <b>57.6</b>   | <b>13.1</b>  | <b>29.4</b>   |
| <b>Net Capital Movement</b>                     | <b>0.1</b>    | <b>0.0</b>    | <b>-0.1</b>  | <b>-100.0</b> |
| Official  | 0.1           | 0.0           | -0.1         | -100.0        |
| Private   | 0.0           | 0.0           | 0.0          | 8             |
| <b>Financial Account</b>                        | <b>44.4</b>   | <b>57.6</b>   | <b>13.2</b>  | <b>29.7</b>   |
| Other Official Investment                       | -18.5         | -14.8         | 3.7          | -20.0         |
| Other Private Investment (incl. errors & omiss) | 117.6         | 61.5          | -56.1        | -47.7         |
| Reserves (minus=increase)                       | -54.7         | 10.9          |              |               |

Source: Bank of Jamaica (Preliminary)

Note to the Balance of Payments:-

The external trade data in the Balance of Payments may not necessarily correspond with that of STATIN. This is due to the fact that STATIN reports the f.o.b. cost of imports while the Bank Of Jamaica reports imports at c.i.f.

**Fiscal Accounts**

For the 2004-05 fiscal year the deficit was \$28.1 billion, some \$6 billion larger than budgeted due to a shortfall in Revenues & Grants. Tax receipts in particular fell some 3.3% below expectations. On the expenditure side, overruns in non-debt spending led to an unfavourable outturn relative to budget.

Revenue and Grants collected for the period amounted to \$171,340.5 million or \$171.3 billion, some \$2.6 billion less than projected. The shortfall largely reflected a \$5-billion falloff in Tax revenues which were heavily affected by the passage of Hurricane Ivan. However, PAYE netted some \$2.3 billion more than expected thanks to steady gains made prior to September as well as a strong rebound in October. GCT fell some \$0.6 billion below budget, although this amounted to a slippage of only 2.6%. Company Taxes were way off the mark, falling some \$2 billion below projections. Most of the other revenue categories showed favourable variances, particularly Capital Revenues which were some \$2.7 billion more than projected. The Bauxite Levy earned \$124 million more than expected, while Non-tax Revenues were basically on par with budget.

The accounts recorded an expenditure of \$199,487.8 million, nearly \$3.5 billion more than was budgeted for the period. There was a \$3.8-billion hike in the Programmes budget, while Capital Spending increased by \$2.64 billion. However, the Government achieved

savings in its interest costs as Domestic and External interest payments were down \$1.05 billion and \$2.47 billion, respectively relative to budget.

Loan receipts were approximately \$2.9 billion below budget as Government borrowed \$10.7 billion less than planned on the domestic market. External receipts jumped some 25% or \$7.8 billion above projections as favourable external market conditions 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 March stood at \$759.7 billion, \$31.7 billion higher than that of the previous month. Domestic Debt fell by \$2,647.78 million to \$449,247.6 million. However, external Debt grew by 13% or US\$585.26 million to end the month at US\$5,044.4 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 – March 2005 |                  |                 |                  | Change from 03/04 |               |
|-----------------------------|-------------------------|------------------|-----------------|------------------|-------------------|---------------|
|                             | Provisional             | Budget           | Deviation       |                  | J\$m              | (%)           |
|                             |                         |                  | J\$m            | (%)              |                   |               |
| <b>Revenue &amp; Grants</b> | <b>171,340.5</b>        | <b>173,966.7</b> | <b>-2,626.2</b> | <b>-1.5</b>      | <b>21,438.9</b>   | <b>14.3</b>   |
| Tax Revenue                 | 150,481.6               | 155,634.7        | -5,153.1        | -3.3             | 19,412.0          | 14.8          |
| Non-Tax Revenue             | 9,824.5                 | 9,788.6          | 35.9            | 0.4              | 780.5             | 8.6           |
| Bauxite Levy                | 2,479.1                 | 2,354.7          | 124.4           | 5.3              | 341.2             | 16.0          |
| Capital Revenue             | 4,534.2                 | 1,862.6          | 2,671.6         | 143.4            | -2,529.7          | -35.8         |
| Grants                      | 4,021.2                 | 4,326.1          | -304.9          | -7.0             | 3,435.0           | 586.0         |
| <b>Expenditure</b>          | <b>199,487.8</b>        | <b>196,012.6</b> | <b>3,475.2</b>  | <b>1.8</b>       | <b>20,755.7</b>   | <b>11.6</b>   |
| Recurrent                   | 188,382.0               | 187,551.3        | 830.7           | 0.4              | 15,134.2          | 8.7           |
| Programmes                  | 32,081.0                | 28,229.7         | 3,851.3         | 13.6             | 7,465.8           | 30.3          |
| Wages & Salaries            | 63,516.8                | 63,020.7         | 496.1           | 0.8              | 3,053.7           | 5.1           |
| Interest                    | 92,784.2                | 96,300.9         | -3,516.7        | -3.7             | 4,614.7           | 5.2           |
| Domestic                    | 72,642.9                | 73,691.7         | -1,048.8        | -1.4             | 1,182.2           | 1.7           |
| External                    | 20,141.3                | 22,609.2         | -2,467.9        | -10.9            | 3,432.5           | 20.5          |
| Capital Expenditure         | 11,105.9                | 8,461.3          | 2,644.6         | 31.3             | 5,621.6           | 102.5         |
| <b>Fiscal Balance</b>       | <b>-28,147.3</b>        | <b>-22,045.9</b> | <b>-6,101.4</b> | <b>27.7</b>      | <b>683.2</b>      | <b>-2.4</b>   |
| Loan Receipts               | 149,551.5               | 152,429.9        | -2,878.4        | -1.9             | 16,685.6          | 12.6          |
| Domestic                    | 111,011.6               | 121,699.4        | -10,687.8       | -8.8             | 2,862.7           | 2.6           |
| External                    | 38,539.9                | 30,730.5         | 7,809.4         | 25.4             | 13,822.9          | 55.9          |
| Divestments                 | 1,259.0                 | 1,757.0          | -498.0          | -28.3            | -273.8            | -17.9         |
| Amortization                | 129,753.7               | 132,141.1        | -2,387.4        | -1.8             | 32,132.0          | 32.9          |
| Domestic                    | 99,575.0                | 102,135.4        | -2,560.4        | -2.5             | 18,957.3          | 23.5          |
| External                    | 30,178.7                | 30,005.7         | 173.0           | 0.6              | 13,174.7          | 77.5          |
| <b>Overall Balance</b>      | <b>-7,090.5</b>         | <b>-0.1</b>      | <b>-7,090.4</b> | <b>7090431.9</b> | <b>-15,037.0</b>  | <b>-189.2</b> |
| <b>Primary Balance</b>      | <b>64,636.8</b>         | <b>74,255.0</b>  | <b>-9,618.2</b> | <b>-13.0%</b>    | <b>5,297.8</b>    | <b>8.9</b>    |

Source: Ministry of Finance &amp; Planning

**Note 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 from the divestment of Government assets should be recorded as an extraordinary item and should therefore not appear in the Revenues & Grants category of the accounts. The resulting fiscal deficit is therefore larger than would have been the case if 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 2004-05 accounts, if presented in this format, would show a deficit of \$26,888.3 million (or 4.8% of GDP) rather than the \$28,147.3 million shown above.

**Stock Market**

April was generally a good month for equities as the market overcame its pre-Budget jitters to post strong growth during the month. The main JSE Index advanced by some 7,248.29 points or 6.5% during the month to close at 119,179.47 points on April 29. Market capitalization grew by a whopping \$61.97 billion or 7.08% to end the month at approximately \$936.65 billion.

As at April, the top performing stock for the year to date was Lascelles de Mercado, which advanced by more than 73% to end the month at \$350.01 (see Table 13). The worst performer in price terms was First Caribbean International Bank Jamaica, which lost almost 28% of its value to end the month at \$15.90.

**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 | 29/04/05 | \$     | %     |
|------------------------|----------|----------|--------|-------|
| Lascelles de Mercado   | 202.05   | 350.01   | 147.96 | 73.23 |
| Gleaner Company        | 2.61     | 3.80     | 1.19   | 45.59 |
| Trinidad Cement        | 80.00    | 115.05   | 35.05  | 43.81 |
| Jamaica Broilers Group | 4.20     | 5.90     | 1.70   | 40.48 |
| Pan Jam Investments    | 53.00    | 73.00    | 20.00  | 37.74 |

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

|                         |       |       |       |        |
|-------------------------|-------|-------|-------|--------|
| First Caribbean Int'l   | 22.00 | 15.90 | -6.10 | -27.73 |
| Bank Jamaica            |       |       |       |        |
| Dyoll Group             | 16.60 | 14.50 | -2.10 | -12.65 |
| Palace Amusement        | 60.00 | 52.70 | -7.30 | -12.17 |
| Berger Paints (Jamaica) | 5.67  | 5.10  | -0.57 | -10.05 |
| Capital & Credit        | 32.00 | 28.97 | -3.03 | -9.47  |
| Merchant Bank           |       |       |       |        |

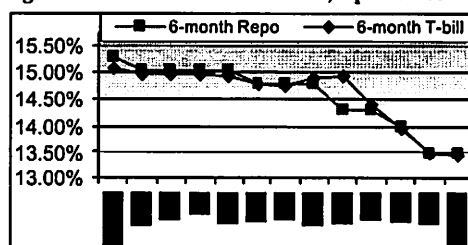
*Source: Compiled from the JSE*

## Developments and Outlook

**Monetary Policy:** The Central Bank continues to fulfill its role in supporting the country's macroeconomic targets through its management of the money supply, core inflation and exchange rate movements. In addition, the Bank has earned increasing confidence from investors and the public at large through its generally credible assessments of the performance of the economy. This confidence has manifested itself in the sustained reduction in interest rates as the Bank has successfully reduced the yields on its open market instruments on seven occasions over the past year, even through the inflationary shocks of October and November. In October the willingness of investors to absorb the reduction in real interest rates was largely influenced by the BOJ's positive medium-term outlook, which anticipated a normalization of inflation with the recovery of the agricultural sector. Not only have interest rates declined but the yield curve has also flattened over the past year as a result of improved prospects for the near-term stability of the economy.

The level of credibility now enjoyed by the BOJ has also been impacting the fiscal accounts. The yield on Government treasury bills has closely followed that of BOJ instruments over the past year. In particular, the correlation between the six-month T-bill and the six-month repo has tightened considerably in recent months, to the point where the two now move almost as one (see Figure D1). This represents an opportunity for the Central Bank to make a huge dent in the GOJ's debt servicing costs and play a role in the achievement of the balanced-budget target this fiscal year.

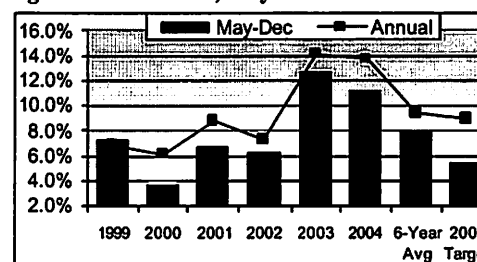
Figure D1: GOJ and BOJ Yields, April 04-05



**Inflation:** April's 1.9 percent inflation brought the year-to-date outturn to 3.4 percent, which means that the single-digit target for 2005 will now be more challenging to achieve. The high levels of inflation for March and April were

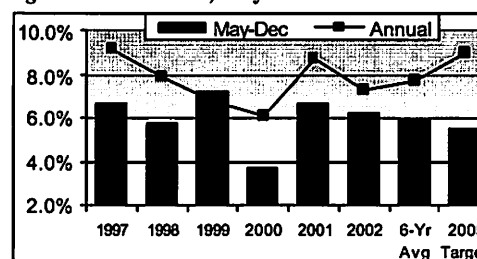
largely the result of disruptions in agricultural output as a consequence of the severe drought conditions affecting the island recently. Volatility in fuel prices during the March quarter was also a factor in that period. The authorities have programmed an inflation target of 9 percent for this calendar year. Given the recent developments, the achievement of this target would mean that total inflation would have to fall within the range of 5.8 percent or lower for the eight-month period May to December. This 5.8 percent mark is much more optimistic than the 11.1 percent which obtained for the same period last year and 12.8 percent the year before (see Figure D2).

Figure D2: Inflation, May-December



We must bear in mind, however, that 2003 and 2004 were extraordinary years characterized by inflationary shocks to the economy – Ivan in 2004 and the exchange rate slide in 2003. If we exclude these two years and examine the six years of single-digit inflation from 1997 to 2002, we see where the May-to-December inflation rate averaged 6 percent for the period, just above the 5.8 percent needed this year (Figure D3). In fact, inflation for the eight-month period was as low as 3.7 percent in 2000. These numbers are, of course, purely historical, but they do give an indication of what may be possible based on what has already occurred. The normalization of inflation going forward will depend on a number of factors such as the recovery of domestic agriculture, as well as the impact of natural disasters and oil prices.

Figure D3: Inflation, May-December



**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    |
| Sep-01  | -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 | 4,098.60 |
| 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 | 4,165.30 |
| 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 | 1,904.47 | 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 | 1,918.71 | 0.4  | 12.7 | n/a     | 61.91   | 13.95 | 24.89  | 6.48 | 451,895.38 | 4,459.14 |
| Mar     | n/a    | n/a   | n/a    | n/a   | 1,901.60 | n/a      | 1.0  | 13.2 | n/a     | 61.54   | 13.46 | 24.89  | 6.36 | 449,247.60 | 5,044.40 |
| Apr     | n/a    | n/a   | n/a    | n/a   | 2,010.42 | n/a      | 1.9  | 14.9 | 15.1    | 61.65   | 13.43 | 24.89  | 6.36 | 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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