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PSOJ CONFIDENTIAL ECONOMIC BULLETIN

A Monthly Analysis of the Jamaican Economy

Overview

The issue of crime came into sharp focus in May with the murder of some 147 persons, including three members of our security forces. The upsurge in murders forced a heightened sense of urgency concerning the impact of crime on all areas of national life including personal safety, business growth, productivity and general economic and social well-being. On May 25th, the PSOJ launched an initiative to bring crime to the forefront of policy-makers' agenda through a number of recommendations relating to political leadership and the operations of the Police. Meanwhile on the fiscal scene, the GOJ's rationalization efforts continued to yield visible benefits for the country in the form of reduced debt servicing costs. On May 25th the Government successfully floated a US$300 million bond at 9% on the external market with a double-digit tenor of 10 years. In addition, the Administration closed its variable-rate investment bond early due to excess demand, another sign of improving confidence in the GOJ's fiscal prospects.

Inflation broke the two-percent mark in May, hitting 2.2% in a context of continued movement in food prices as well as the recent adjustments in GCT. May's inflation brought the year-to-date outturn to 5.7%, which means that the 9% target for 2005 will now be more challenging to achieve.

The dollar consistently traded below the $62.00 mark during May as favourable supply conditions continued to have a calming effect on US-dollar demand. As a result, the Jamaican dollar conceded only six cents to its US counterpart in foreign exchange trading to end the month at $61.71.

The Net International Reserve remained robust in May, supported by the strong levels of liquidity on the currency market. The reserve ended the month at US$2,074.49 million, some US$64 million higher than the previous month's value of US$2,010.42 million.

In This Issue

Tourism data for April reveals a 7.7% fall in visitor arrivals for that month relative to the corresponding period in 2004. This reflected declines in both Stopover and Cruise arrivals, which fell by 5.7% and 10%, respectively. It is not clear when stopover numbers will rebound, as preliminary data for May shows a marginal decline in airport arrivals for that month.

Total bauxite production fell by 6% in May as crude output continued to be affected by industrial unrest at St. Ann Bauxite. Against this background, export growth was held to a mild 0.8% for the period.

The BOJ made marked rate cuts to all its repo instruments in May, with reductions ranging from 35 basis points on the 30-day, to 90 basis points on the 365-day instrument. Although domestic price movements did not favour a reduction, the highly stable currency market allowed some leeway for this move.

For the first two months of the year the nation's trade deficit widened by US$54.6 million or nearly 16% relative to that of the corresponding period last year (see External Trade – page 5).

Net International Reserves

The NIR remained sturdy in May, supported by favourable dynamics on the foreign exchange market. The reserve ended the month at US$2,074.49M, roughly US$64.1M higher than the previous month's value of US$2,010.42M. The May outturn amounted to 27.5 weeks of Goods imports *(see Table 1)*.

Table 1: Changes in the NIR

		Change			Imports
	NIR	*Mthly*	*12 Mth*	*YTD*	(Weeks)
May-2005	2,074.49	64.07	358.83	215.97	27.50
May-2004	1,715.66	-25.96	482.33	550.68	24.05

Source: Compiled from the BOJ (Preliminary)

Foreign Currency Deposits

For the month of April total foreign currency deposits amounted to US$1,944.1 million, some US$9 million higher than the previous month's figure (see Table 2). This resulted from increased holdings at building societies and merchant banks, which outweighed a US$28-million reduction in balances held at commercial banks.

Table 2: Foreign Currency Deposits

		Change (US$M)		%
	Apr-05	*Mthly*	*12 Mth*	12 Mth
Total Deposits	1,944.10	8.99	174.98	9.89

Source: Compiled from the BOJ (Preliminary)

Foreign Exchange Rates

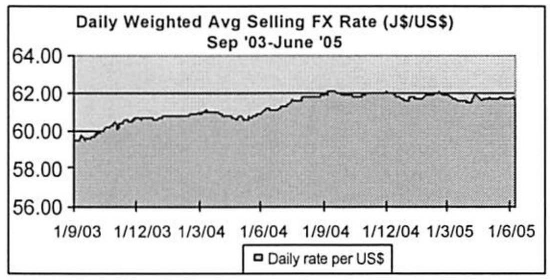
The market continued to show orderly movement in May, with the dollar conceding a minimal 0.1% or $0.06 against its US counterpart in foreign exchange trading. The dollar ended the month at an average of $61.71 (daily J$/US$ weighted average selling rate, see ***Table 3***). May's adjustments brought the year-to-date depreciation to $0.08, which compares favourably with the $0.31 outturn for the corresponding period last year and $8.45 the year before.

Table 3: Foreign Exchange Trends*

	Year-to-Date: May 31, '05 (report date: June 13)					
	us$	%?	can$	%?	Uk£	%?
2005	0.08	0.14	-1.64	-3.23	-5.93	-5.02
2004	0.31	0.52	-2.80	-6.01	2.74	2.55
2003	8.45	16.59	10.96	34.15	17.28	21.34
			Monthly			
May-05	0.06	0.10	-0.50	-1.01	-5.54	-4.72

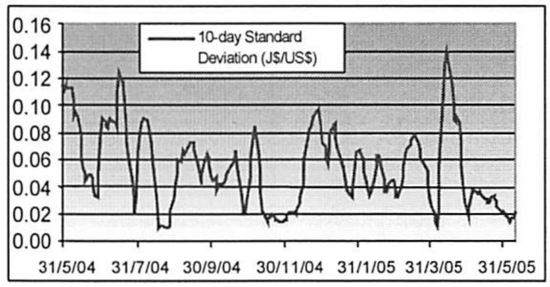
** minus = appreciation.*
Source: BOJ, PSOJ Economic Research

Figure 1A: Daily J$/US$ Movements



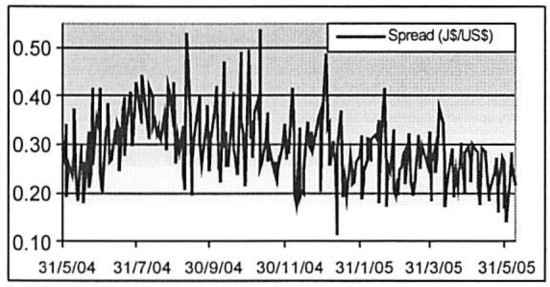
Market stability has increased over the past twelve months, as seen in the standard deviation of the selling rate which has trended downwards since last May (see Figure 1B). Improved liquidity has also led to a downward trend in the spread between the buying and selling rates (see Figure 1C).

Figure 1B: Standard Deviation*, J$/US$ Selling Rate



*Standard Deviation, last 10 trading days

Figure 1C: Average Exchange Rate Spread, J$/US$



Short Term Forecast

The main indicators point to continued stability of the exchange rate over the near term. Demand should continue to show orderly movement, while supply-side risk will remain minimal given the strength of the NIR as well as buoyant tourism and remittance flows. In addition, projected investment inflows and a favourable climate for GOJ eurobonds should lend stability to the medium-term outlook. The dollar can therefore be expected to remain below $62.00 for the next four to six weeks, approaching the $62.00 mark in periods of lower market liquidity.

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	61.71	0.00
June	61.75-61.80		

Source: PSOJ Economic Research

Interest Rates

The BOJ cut the yields on all its open market instruments in May against a backdrop of sustained calm in the currency market. The latest adjustments amounted to a flattening of the yield curve as the more pronounced rate cuts were at the longer end. Reductions ranged from 35 basis points on the 30-day, to as much as 90 basis points on the 365-day instrument. The flattening of the yield curve is consistent with improvements in the near-term fiscal and macroeconomic outlook.

The six-month T-bill cleared the market at an average yield of 13.43%, on par with that of the previous month.

The average bank savings and lending rates remained unchanged from their April values of 6.36% and 24.89%, respectively.

Figure 2: Interest Rate Movements

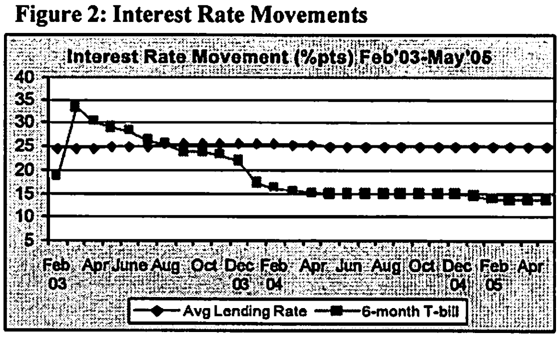


Table 5: Interest Rate Movements

		Change (%age pts)		
	May-05	*Mthly*	*12 Mth*	*YTD*
30 Day Repo	12.60	-0.35	-1.60	-1.20
365 Day Repo	13.60	-0.90	-2.80	-1.90
Avg Savings Deposit	6.36	0.00	-0.25	-0.12
Avg Loan Rate	24.89	0.00	-0.13	0.00
6 Month T-Bill	13.43	0.00	-1.53	-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

The Consumer Price Index jumped by 2.2% in May relative to the previous month. While the *Food & Drink* index still showed some after-effects of the recent drought, all indices showed upward adjustments following the tax measures which came into force on May 1. The *Food & Drink* index rose by 2.4% driven by increases in all food types, notably Vegetables & Fruit (up 11.8%), and Starchy Foods (up 3.3%). *Housing & Other Housing Expenses* rose 2.8% reflecting increases in rent as well as daily living expenses. Other areas of increase were *Household Furnishings & Furniture* (up 1.4%), *Healthcare & Personal Expenses* (1.1%), and *Miscellaneous Expenses* (3.7%).

Table 7: Inflation Trends

	Percent Changes			
	May	*12 Mth*	*YTD*	Fiscal
2005	2.2	16.7	5.7	4.2
2004	0.6	14.0	3.0	1.1

Source: STATIN

Bauxite & Alumina Production

Total bauxite production for May was 1.18 million metric tonnes, 6.3% lower than last May's output of 1.26 million metric tonnes *(see Table 8)*. Crude bauxite fell by a sizeable 17% to 297,264 metric tonnes as output continued to be affected by industrial unrest at St. Ann Bauxite. Alumina production was 362,699 metric tonnes, a slippage of 0.7% relative to May of last year. Total bauxite exports grew by a minimal 0.8% as growth was constrained by a near 20% fall-off in Crude bauxite. Alumina exports, however, showed healthy double-digit growth of 11.7%.

Table 8: Mining Production

				Y-T-D	
	May-04	May-05	%	May-05	05/04%
Production					
Alumina	365,157	362,699	-0.67	1,763,172	0.53
C. Bauxite	359,001	297,264	-17.20	1,608,855	-6.88
Tot. Bauxite	1,263,339	1,183,976	-6.28	5,889,026	-3.15
Export					
Alumina	297,709	332,556	11.71	1,735,467	0.05
C. Bauxite	337,950	271,106	-19.78	1,606,820	-8.22
Tot. Bauxite	1,077,050	1,085,629	0.80	5,815,040	-3.95

Units=tonnes

Source: Compiled from Jamaica Bauxite Institute

Sugar & Bananas

The sugar industry underperformed in May relative to the corresponding period last year. Total sugar production for the month amounted to 12,503 tonnes, some 33% lower than last May's output of 18,678 tonnes. There also appeared to be some efficiency losses as the industry used roughly 28% more cane to produce each tonne of sugar relative to the corresponding period last year.

Tourism

Stopovers: Stopovers declined by 5.7% in April when compared to the corresponding period last year. This reflected a 5.4% reduction in Foreign Nationals as well as an 11% decline in Non-resident Jamaicans. April's outturn broke the trend of positive growth seen since the start of the year as stopovers grew by some 7% in January, 2.4% in February and a healthy 13.5% in March. These impressive outturns were more than adequate to compensate for April's decline, resulting in a year-to-date growth of some 4.3%. US visitors grew by 3.7% for the year to date, while Canada and Europe showed double-digit increases of 18.5% and 11.2%, respectively (see Figure 9A). Canada in particular has shown the most consistent improvement over the past three years. Arrivals from the UK, however, fell 7.2% relative to the similar period last year. The Tourist Board attributes this to a reduction in Air Jamaica flights from the UK to Jamaica as well as a general softening of British travel to the island since the start of the year.

Cruise Passengers: Cruise arrivals fell by 10% for the month of April, reflecting smaller numbers at both Montego Bay and Ocho Rios. This marks the third decline in four months as March has so far been the only month this year in which growth was recorded.

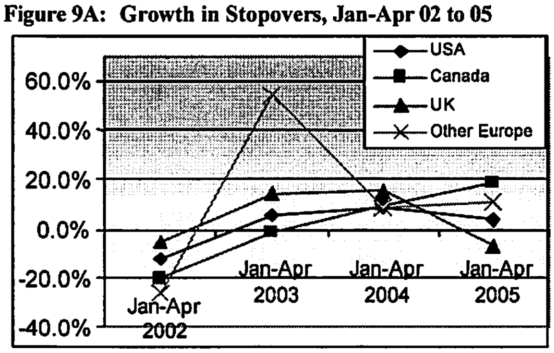
Total Arrivals: Given the reductions in both stopover and cruise passengers, total arrivals fell by 7.7% relative to last April.

Table 9: Tourist Arrivals

	2004	*2005*	*% Change*	
	Jan - Apr		YTD	Apr
Stopover	497,186	518,547	4.3	-5.7
Foreign	474,085	494,141	4.2	-5.4
National	23,101	24,406	5.6	-10.8
Cruise	479,011	473,627	-1.1	-10.1
Total	976,197	992,174	1.6	-7.7

Source: Jamaica Tourist Board (Preliminary)

Figure 9A: Growth in Stopovers, Jan-Apr 02 to 05



External Trade

For the first two months of 2005 the trade deficit widened by US$54.6M relative to the comparable period in 2004. This reflected negative developments on both sides of the Goods account as imports grew by US$37.6M while exports fell by US$17M for the period.

Exports amounted to US$222.6M, down from US$239.6M for the corresponding period in 2004. Traditional exports fell by US$9.8M due to slippages in both Agriculture and Mining & Quarrying. The US$9.2M reduction in Mining & Quarrying resulted from a sharp US$11.5M fall in earnings from Alumina, which outweighed a US$2.2M improvement in Bauxite. Agriculture earnings fell by US$6.2M influenced by the continued absence of Bananas as well as reduced Coffee output due to the severe drought. Not all the Traditional sectors declined, however, as Manufacturing earned US$5.6M more buoyed by improvements in both sugar and rum. In the Non-traditional sector, exports fell by nearly US$1.2M as improvements in Beverages & Tobacco and Crude Materials were outweighed by declines in Foods and Other Non-traditionals. The US$2.9M decline in Foods reflected lower revenues in most categories, notably yams, papayas and dasheen. The US$1.8M fall-off Non-Traditionals mainly resulted from reductions in Mineral Fuels, Machinery & Transport Equipment.

Imports grew by some US$37.6M or 6.4% for the review period, reflecting increases in several of the main categories. Manufactured Goods in particular grew by US$29.9M, while there was a US$10M increase in Machinery & Transport Equipment. The country also spent US$9.6M more on Food imports, while Crude Materials went up US$4.6M. There was, however, a reduction in the nation's oil bill as evidenced by an US$8.8M fall in Mineral Fuels. Chemicals also fell by some US$8.6M relative to the comparable period last year.

Table 10: External Trade (US$M)

	Jan-Feb '05	Jan-Feb '04	Change	% Change
TOTAL EXPORTS (fob)	**222.66**	**239.65**	**-16.99**	**-7.1**
Major Traditional Exports	176.76	186.51	-9.76	-5.2
by Sector:-				
Agriculture	3.44	9.65	-6.21	-64.3
Mining & Quarrying	150.00	159.16	-9.16	-5.8
Manufacturing	23.32	17.70	5.61	31.7
by Industry:-				
Bauxite	16.79	14.54	2.25	15.5
Alumina	132.91	144.38	-11.48	-7.9
Sugar	17.15	13.99	3.16	22.6
Rum	5.79	3.48	2.30	66.2
Bananas	0.00	3.31	-3.31	-100.0
Coffee	2.42	4.94	-2.52	-51.0
Other	1.71	1.87	-0.16	-8.8
Non-Traditional Exports	42.17	43.35	-1.18	-2.7
Re-exports	3.73	9.79	-6.05	-61.9
TOTAL IMPORTS	**625.78**	**588.21**	**37.57**	**6.4**
Food	93.02	83.43	9.59	11.5
Beverages & Tobacco	9.00	6.52	2.48	38.1
Crude Materials (excl. Fuels)	13.23	8.61	4.61	53.6
Mineral Fuels, etcetera	126.00	134.82	-8.82	-6.5
Animal & Vegetable Oils & Fats	4.77	4.36	0.40	9.3
Chemicals	67.26	75.89	-8.63	-11.4
Manufactured Goods	101.99	72.11	29.87	41.4
Machinery and Transport Equip.	137.62	127.64	9.98	7.8
Misc. Manufactured Articles	63.64	64.63	-1.00	-1.5
Other	9.26	10.19	-0.93	-9.1
TRADE BALANCE	**-403.12**	**-348.56**	**-54.56**	**15.7**

Source: STATIN

Balance of Payments – Jan to Feb 2005 (preliminary)

For the first two months of this year the current account deficit was US$80.9 million, almost double that of the corresponding period last year when a deficit of US$40.9 million was posted (see Table 11 overleaf). This resulted from slippages in the Goods and Income accounts, whose deficits worsened by US$54.8 million and US$15 million, respectively. These negative movements outweighed improvements in Services and Current Transfers, whose surpluses grew by roughly US$15 million each for the period.

The deterioration in the Goods balance was caused by a US$27-million slippage in exports, which was compounded by an equally large growth in the import bill. Traditional exports fell by US$9.8 million reflecting lower revenues from alumina as well as the continued absence of bananas. Non-traditional exports fell by US$1.2 million, influenced by a fall-off in the Food category. On the import side, the bill was higher in a number of product categories, notably manufactured goods, machinery, and food items.

In the Services account, net receipts were US$14.9 million higher than for the corresponding period last year. This resulted from a US$21-million improvement in the Travel balance which was more than adequate to compensate for a US$7-million worsening of the Transportation balance. Improvements in Other Services also contributed modestly to the outturn on the Services account.

In the Income account, the deficit worsened by some US$15 million, largely due to a widening of the shortfall in Investment Income. There was no major change in net Compensation of Employees for the period.

Current Transfers continued to perform strongly as net inflows to that account were nearly US$15 million higher than in the comparable period last year. The improvement was solely due to income from Private Transfers or remittances as there was a marginal decline in Official Transfers.

The Capital and Financial account mainly reflected changes in the Financial account, where Other Official Investments fell from a net inflow of US$220.6 million to a net outflow of US$21 million.. This represented a deterioration of nearly US$242 million. There was also a US$55-million fall in the surplus on the Other Private Investments sub-account. 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$27-million drawdown on the reserves.

Table 11: Balance Of Payments (US$M)

	Jan-Feb '04	Jan-Feb '05	Change	% Change
CURRENT ACCOUNT	**-40.9**	**-80.9**	**-40.0**	**97.8**
Goods Balance	**-261.6**	**-316.4**	**-54.8**	**20.9**
Exports (fob)	265.6	238.5	-27.1	-10.2
Imports (fob)	527.2	554.9	27.7	5.3
Services Balance	**126.9**	**141.8**	**14.9**	**11.7**
Transportation	-12.2	-19.2	-7.0	57.4
Travel	208.1	229.1	21.0	10.1
Other Services	-69.0	-68.1	0.9	-1.3
Income	**-118.9**	**-133.9**	**-15.0**	**12.6**
Compensation of Employees	5.5	5.1	-0.4	-7.3
Investment Income	-124.4	-139.0	-14.6	11.7
Current Transfers	**212.7**	**227.6**	**14.9**	**7.0**
Official	17.5	16.9	-0.6	-3.4
Private	195.2	210.7	15.5	7.9
CAPITAL & FINANCIAL A/C	**40.9**	**80.9**	**40.0**	**97.8**
Net Capital Movement	**-0.3**	**-0.4**	**-0.1**	**33.3**
Official	0.1	0.0	-0.1	-100.0
Private	-0.4	-0.4	0.0	0.0
Financial Account	**41.2**	**81.3**	**40.1**	**97.3**
Other Official Investment	220.6	-21.0	-241.6	-109.5
Other Private Investment (incl. errors & omiss)	129.6	74.9	-54.7	-42.2
Reserves (minus=increase)	-309.0	27.4		

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

The Government made a creditable start to the new fiscal year, bettering its deficit target by some $0.7 billion for the month of April. The deficit for the month amounted to $3.17 billion, well within the targeted figure of $3.87 billion. This resulted from a favourable outturn in Revenues & Grants which was supported by modest savings on the Expenditure side of the accounts.

The Government collected $12,564.8 million or $12.56 billion in Revenue and Grants, some $0.54 billion more than projected for the month. Tax revenue outperformed its target by $211 million or $0.21 billion, reflecting favourable variances in a number of tax categories. There were strong performances in the areas of Customs Duties and GCT on Imports, which exceeded projections by $0.2 billion and $0.24 billion, respectively. The GOJ's two biggest breadwinners showed mixed results as PAYE was modestly higher than budgeted while local GCT fell below budget by some $0.3 billion. Company taxes exceeded budget by $0.04 billion as the Government began its drive to improve compliance in this area. The overall improvement in Tax revenues was accompanied by positive outturns in Non-tax Revenue and Capital Revenue, which surpassed their targets by $0.28 billion and $0.1 billion, respectively.

Total expenditures amounted to $15,737.9 million or $15.7 billion, roughly $0.15 billion below budget. Programme spending was reduced by some $0.7 billion relative to projections, while Capital expenditures also fell slightly below budget. However, these reductions were partially offset by overruns in Domestic and External interest payments, which exceeded projections by $0.5 billion and $0.1 billion, respectively. The Wage bill met its target as the accounts continued to be positively impacted by the public sector MoU.

Loan receipts were approximately $3.9 billion below budget due to reduced borrowing activity on the domestic market. External receipts were exactly in line with projections.

Total public debt at the end of April stood at $768.1 billion, $8.4 billion higher than that of the previous month. Domestic Debt grew by $7,146 million to $456,393.6 million. External Debt was also higher, growing by US$10.85 million to end the month at US$5,055.2 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 2005				Change from 04/05	
			Deviation			
	Provisional	Budget	J$m	(%)	J$m	(%)
Revenue & Grants	**12,564.8**	**12,024.6**	**540.2**	**4.5%**	**1,846.8**	**17.2**
Tax Revenue	11,328.6	11,117.2	211.4	1.9%	1,398.4	14.1
Non-Tax Revenue	849.4	569.4	280.0	49.2%	366.7	76.0
Bauxite Levy	207.6	251.4	-43.8	-17.4%	6.8	3.4
Capital Revenue	113.1	20.6	92.6	449.7%	26.8	31.1
Grants	66.0	66.0	0.0	0.0%	48.1	268.6
Expenditure	**15,737.9**	**15,892.8**	**-154.9**	**-1.0%**	**-948.0**	**-5.7**
Recurrent	14,641.9	14,707.3	-65.4	-0.4%	-786.4	-5.1
Programmes	2,693.4	3,360.3	-666.9	-19.8%	-12.4	-0.5
Wages & Salaries	5,333.8	5,333.1	0.8	0.0%	454.4	9.3
Interest	6,614.6	6,013.9	600.7	10.0%	-1,228.4	-15.7
Domestic	6,116.1	5,598.0	518.1	9.3%	-1,257.7	-17.1
External	498.5	415.9	82.6	19.9%	29.2	6.2
Capital Expenditure	1,096.0	1,185.5	-89.5	-7.5%	-161.6	-12.8
Fiscal Balance	**-3,173.2**	**-3,868.2**	**695.1**	**-18.0%**	**2,794.8**	**-46.8**
Loan Receipts	8,234.3	12,187.4	-3,953.1	-32.4%	-11,296.0	-57.8
Domestic	8,046.9	12,000.0	-3,953.1	-32.9%	-3,393.6	-29.7
External	187.4	187.4	0.0	0.0%	-7,902.4	-97.7
Divestments	0.0	0.0	0.0	8	0.0	8
Amortization	7,147.9	10,316.4	-3,168.5	-30.7%	-10,120.1	-58.6
Domestic	6,111.1	9,203.5	-3,092.4	-33.6%	-10,252.6	-62.7
External	1,036.8	1,112.8	-76.0	-6.8%	132.5	14.7
Overall Balance	**-2,086.8**	**-1,997.2**	**-89.6**	**4.5%**	**1,618.9**	**-43.7**
Primary Balance	**3,441.4**	**2,145.7**	**1,295.8**	**60.4%**	**1,566.4**	**83.5**
Source: Ministry of Finance & Planning						

Note to the Accounts:-

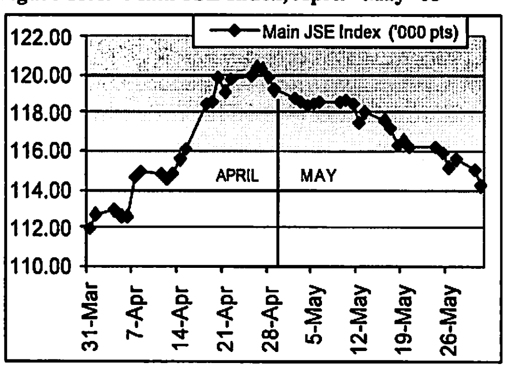
The above accounts are subject to revision by the Ministry of Finance. For example, figures relating to Loan Receipts, Amortization or Interest Payments may from time to time be revised by the Ministry's Debt Management Unit. Where this happens, the changes often tend to be in the area of External rather than Domestic debt.

Stock Market

The market was bearish during May, with the main JSE Index losing 5,030.57 points or 4.2% to close at 114,148.9 points on May 31. Market capitalization fell by some $38.5 billion or 4.1% to end the month at approximately $898.16 billion. The decline was partially due to seasonal factors as investors normally take funds off the market at this time of year to meet travel-related expenses. In addition, a number of investors began to liquidate some of their other holdings in anticipation of the upcoming IPO from Supreme Ventures.

May's lackluster performance was a poor follow-up to the impressive growth of the previous month, when the JSE Index grew by some 7,248 points (see Figure 13A). Ironically, the growth posted in April may have contributed to the decline in May as it might have sparked some profit-taking.

Figure 13A: Main JSE Index, April - May '05



As at May 31, the top performing stock for the year to date was Lascelles de Mercado, which advanced by more than 57% to end the month at $318.00 (see Table 13). The worst performer in price terms was First Caribbean International Bank Jamaica, which lost more than 27% of its value to end the month at $16.01.

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	31/05/05	$	%
Lascelles de Mercado	202.05	318.00	115.95	57.39
Trinidad Cement	80.00	115.05	35.05	43.81
Gleaner Company	2.61	3.50	0.89	34.10
Jamaica Broilers Group	4.20	5.46	1.26	30.00
Pan Jam Investments	53.00	67.50	14.50	27.36

Bottom Five (unadjusted for dividends or transact. costs)

First Caribbean Int'l Bank Jamaica	22.00	16.01	-5.99	-27.23
Capital & Credit Merchant Bank	32.00	26.75	-5.25	-16.41
Berger Paints (Jamaica)	5.67	4.90	-0.77	-13.58
Dyoll Group	16.60	14.50	-2.10	-12.65
First Caribbean International Bank	130.00	114.00	-16.00	-12.31

Source: Compiled from the JSE

Developments and Outlook

Debt Management: On May 25th, 2005 the Government successfully floated a 10-year US$300 million bond issue at a coupon rate of 9.00 percent. This issue marked a significant achievement in the GOJ's drive toward lower debt servicing costs as the bond carried a single-digit coupon and double-digit tenor, an important transition from previous issues carrying higher coupons and shorter maturities. The US$300 million bond issue was considerably larger than planned, as overwhelming demand prompted the Government to increase the initial offer size from US$200 million to US$300 million. The 9 percent yield marked the lowest ever coupon on a GOJ long-term international bond issue. The low rate, combined with the stable trend in the currency in recent months, should redound to the benefit of the fiscal accounts through lower external debt charges. Rates on the domestic market should also be favourably impacted not only by the lower external yield but also by the reduced reliance on domestic debt. These positive fiscal developments will support continued interest rate deductions by the Central Bank, which will then facilitate further reductions in GOJ debt servicing charges.

Inflation: Inflation hit a six-month high of 2.2 percent in May as the Food & Drink index continued to show instability following the recent adverse weather conditions. This was particularly pronounced in the category of Vegetables & Fruit, which jumped by almost 12 percent for the month. In addition to food prices, the entire consumption basket was impacted by the GCT adjustments which came into force on May 1. These adjustments comprised a broadening of the tax base as well as a 1.5 percent increase in the rate of GCT.

May's inflation brought the year-to-date outturn to 5.7 percent, significantly higher than the 3.0 percent recorded for the similar period last year. This recent outturn means that the full-year target of 9 percent for 2004 will now be considerably more challenging to achieve. In fact, the achievement of a 9 percent target would require a total inflation of no more than 3.1 percent for the June-to-December period. Such a low outturn for that period has only been achieved once in the last fourteen years. This was in 2000 when the June-to-December outturn was 3.3 percent. Inflation management will be critical to maintaining Jamaica's macroeconomic and fiscal profile in the eyes of international creditors and investors.

However, the attainment of single-digit inflation does not require us to stick rigidly to a 9 percent figure as any outturn lower than 10 percent will likely be viewed favourably by the international markets, especially after the double-digit outcomes of the last two years. The authorities may decide to revise their target slightly upwards but still below 10 percent, depending on developments in the next couple of months. Below are some possible inflation targets that the authorities could set for 2005, as well as the June-to-December outturns that would be required to achieve them given developments so far (see Table D1). Table D2 shows actual inflation results for the last six years, along with the June-to December outturns which contributed to them.

Table D1: Inflation Targets (%)

Full-Year (Jan-Dec)	9.0	9.4	9.5	9.8
June-Dec	3.1	3.5	3.6	3.9

Table D2: Inflation (Actual), 1999 – 2004

	'99	'00	'01	'02	'03	'04
Full-Year (Jan-Dec)	6.8	6.1	8.8	7.3	14.1	13.7
June-Dec	6.3	3.3	5.8	5.9	10.7	10.5

Statistical Index
Major Macro-Economic Indicators

	BM		M2		NIR	Fx Dep	CPI		Tourism	J$/US$	Tbill	Loan	Sav	Dom Debt	Fx Debt
	M	P	M	P	US$M	US$M	M	P	P		%	%	%	J$M	US$M
Oct-01	-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	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	4,133.00
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	1,935.11	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	1,944.10	1.9	14.9	15.1	61.65	13.43	24.89	6.36	456,393.60	5,055.20
May	n/a	n/a	n/a	n/a	2,074.49	n/a	2.2	16.7	-7.7	61.71	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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