



## The Private Sector Organisation of Jamaica

39 Hope Road, Kingston 6

Tel: 927-6238/6958 Fax: 927-5137 Email: [psojinfo@psoj.org](mailto:psojinfo@psoj.org) Web site: <http://www.psoj.org>

# PSOJ CONFIDENTIAL ECONOMIC BULLETIN

## A Monthly Analysis of the Jamaican Economy

### Overview

Inflation continued to impact the economy in July, hitting 1.6% in a context of marked increases in a wide range of goods and services. Food prices again showed after-effects of the recent disruptions in agricultural supplies, while other price pressures came from adjustments in electricity rates. The inflation trend poses a threat to a number of our fiscal and macroeconomic targets through its impact on real interest rates, costs of production, and the general stability of the business environment. Inflation has caused an appreciation in Jamaica's real exchange rate since the start of the year, and if this is sustained it could have implications for competitiveness in some of our export sectors. The sharp price movements of the last four months have also derailed the thrust towards single-digit inflation as targeted in the fiscal programme for 2005-06. This target was a key underpinning of the GOJ/trade union MoU, and the surprisingly high outturn to July is now a major point of concern (see more on inflation in Developments & Outlook).

The Jamaican dollar withstood moderate pressure during July as strong US-dollar demand led to a 0.6% slippage in the exchange rate vis-à-vis the greenback. Order was nonetheless maintained in the market through BOJ interventions as well as the reassuring presence of the NIR.

The NIR remained solid in July, despite a minor decrease relative to the previous month. The reserve balance ended the month at US\$2,149.25 million, only US\$7.6 million shy of the previous month's figure of US\$2,156.80 million. Although the BOJ may tap into the reserves to support currency stability in the next few weeks, favourable FDI prospects augur well for a build-up of the NIR in the medium term.

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Stopovers have now declined for the third consecutive month, slipping by 0.5% for the month of June relative to the similar period last year. The reduced numbers for the June quarter reflect a number of factors. One of these has been the absence of easter-related travel, as this year's Easter holiday fell in the March rather than the June quarter.

Total bauxite production fell by 7.5% in July as mining activities were impacted by the passage of Hurricanes Dennis and Emily. Exports also declined by nearly 4%, with a double-digit plunge in Crude bauxite.

Monetary policy remained conservative during the month as market conditions did not justify a reduction in interest rates. Consequently, the BOJ's open market yields remained unchanged from their June levels ranging from 12.60% at the short end, to 13.60% at the longer end of the curve.

For the first five months of the year the nation's trade deficit widened by some 31% or US\$279.4 million relative to that of the corresponding period last year (see External Trade – page 5).

## Net International Reserves

The Net International Reserve slipped marginally during July but still remained above the \$2B mark. At the end of the month, the reserve balance stood at US\$2,149.25 million, roughly US\$7.6 million lower than the previous month's value of US\$2,156.80 million. The gross reserve amounted to 30.5 weeks or over seven months of Goods imports (see Table 1). July's outturn was influenced by a US\$250-million increase in foreign liabilities which outweighed a US\$243-million growth in foreign assets.

Table 1: Changes in the NIR

		Change			Imports
	NIR	Mthly	12 Mth	YTD	(Weeks)
July-2005	2,149.25	-7.55	554.56	290.73	30.48
July-2004	1,594.69	-9.41	469.77	429.71	26.62

*Source: Compiled from the BOJ (Preliminary)*

## Foreign Currency Deposits

For the month of June total foreign currency deposits amounted to US\$1,940.56 million, an increase of US\$23.6 million over the previous month's figure (see Table 2). This reflected increased balances in all the main categories of institutions, particularly commercial banks which increased by US\$16.7 million. Balances held at merchant banks and building societies grew by US\$5.7 million and US\$1.2 million, respectively.

Table 2: Foreign Currency Deposits

	Jun-05	Change (US\$M)		%
		Mthly	12 Mth	
Total Deposits	1,940.56	23.63	182.72	10.39

Source: Compiled from the BOJ (Preliminary)

## Foreign Exchange Rates

The Jamaican dollar lost \$0.38 to its US counterpart in foreign exchange trading during July. This was in an environment of heightened demand by both brokers and end-users. Consequently, the dollar ended the month at an average of \$62.23 (daily J\$/US\$ weighted average selling rate, see Table 3). July's outturn marks the first time since the start of the year that the month-end selling rate has broken the \$62.00 mark. Nevertheless, speculation remained well subdued as the strength of the NIR continued to discourage any major movements in the currency.

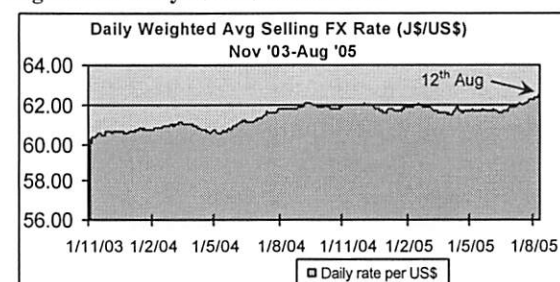
The local currency lost \$0.23 against its Canadian counterpart during the month, but gained \$1.86 against the sterling. This gain resulted from a weakening of the pound against the US dollar due to expectations of lower interest rates in the UK in the near future.

Table 3: Foreign Exchange Trends\*

	Year-to-Date: July 29, '05 (report date: Aug 15)					
	us\$	%?	can\$	%?	Uk£	%?
2005	0.60	0.98	0.09	0.17	-9.26	-7.85
2004	1.18	1.95	-0.09	-0.19	4.95	4.61
2003	8.19	16.08	10.32	32.17	13.93	17.21
Monthly						
July-05	0.38	0.62	0.23	0.46	-1.86	-1.68

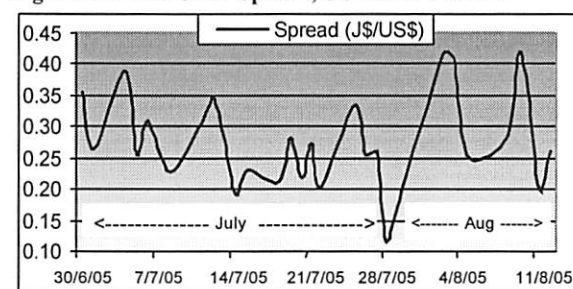
\* minus = appreciation.  
Source: BOJ, PSOJ Economic Research

Figure 1A: Daily JS/US\$ Movements



While market rates for the US dollar went up in July, the bid-offer spread trended downwards during the month (see Figure 1B). This was in a context of supply-side interventions by the BOJ to contain the movement of the selling rate. However, the spread jumped in the first week of August due to a buildup of broker demand in that period.

Figure 1B: Bid-Offer Spread, US Dollar Market



## Short Term Forecast

The present decline in tourist arrivals may impact current account inflows for the next few weeks, especially as the sector enters its off-season in September/October. However, buoyant inflows can be expected from the alumina sector, barring any adverse weather conditions. In addition, the high NIR should put the Central Bank in a good position to maintain order in the currency market. We can therefore expect continued upward adjustments in the monthly rate, but perhaps not as severe as the 0.6% recorded in July.

Table 4: Short Term FX Forecasts (JS/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	61.84	0.04
July	61.96-62.02	62.23	0.21
Aug	62.40-62.44		

Source: PSJO Economic Research

## Interest Rates

The BOJ's policy stance remained cautious in July in an environment of sustained instability in the Consumer Price Index. The Bank's open market yields therefore remained at their June levels ranging from 12.60% on the 30-day, to 13.60% on the 365-day instrument. There were also no rate reductions on the fiscal side as the six-month T-bill cleared the market at an average yield of 13.03%, some 15 basis points higher than that of the previous month.

The average lending rate declined for the first time since the start of the year, falling by a whopping 291 basis points to 22.00%. The average saving rate remained unchanged from its June level of 5.52%.

Figure 2: Interest Rate Movements

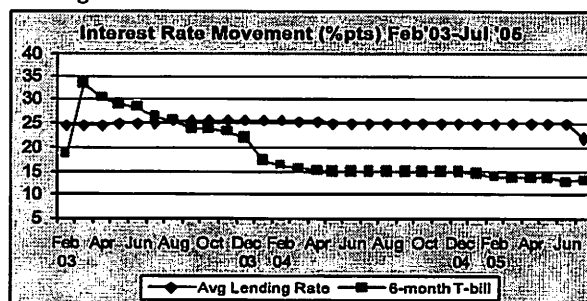


Table 5: Interest Rate Movements

	July-05	Change (%age pts)		
		Mthly	12 Mth	YTD
30 Day Repo	12.60	0.00	-1.60	-1.20
365 Day Repo	13.60	0.00	-2.80	-1.90
Avg Savings Deposit	5.52	0.00	-1.09	-0.96
Avg Loan Rate	22.00	-2.91	-3.02	-2.89
6 Month T-Bill	13.03	0.15	-1.93	-1.91
12 Month T-Bill	none	n/a*	n/a	n/a

Source: BOJ (Preliminary)

\*n/a = not applicable

## Base Money and Money Supply

There was a 2.5% growth in the monetary base in July relative to the previous month. For the month of June, M2 showed a 0.5% reduction from the previous month's figure reflecting decreases in both M1 and the Quasi-money stock.

Table 6: Base Money and Money Supply

	JSM	Change (%)	
	Jun-05	Mthly	12 Mth
M1	62,427.2	-0.44	9.21
Quasi Money	149,721.8	-0.59	9.98
M2	212,149.0	-0.55	9.75
	Jul-05	Mthly %	
Base Money	41,081.3	2.50	9.12

Source: Compiled from the BOJ (Preliminary)

## Inflation

There was a sharp 1.6% rise in the Consumer Price Index for July, which resulted from increases in nearly all categories of the CPI basket. The *Food & Drink* index jumped 2.2% as prices continued to show some lagged effects of the downturn in agricultural output. This was reflected in all food types, notably Starchy Foods (up 8.1%), and Other Food & Beverages (up 1.5%). There was a 3.5% rise in *Housing & Other Housing Expenses* due to a 10.8% upshot in electricity costs. The index also showed increases in *Fuels & Other Household Supplies* (up 0.6%), *Personal Accessories* (up 0.6%), and *Healthcare & Personal Expenses* (0.4%).

Table 7: Inflation Trends

	Percent Changes			
	July	12 Mth	YTD	Fiscal
2005	1.6	18.2	8.9	7.4
2004	1.0	11.6	4.8	2.9

Source: STATIN

## Bauxite & Alumina Production

There was a 7.5% decline in total bauxite production for the month of July when compared to the corresponding period last year. Total output amounted to 1.10 million metric tonnes, down from last July's figure of 1.19 million metric tonnes (see Table 8). Crude bauxite fell by some 9.4% to 278,648 metric tonnes as output was affected by a loss of production time due to Hurricanes Dennis and Emily. Alumina production also declined by 5.6% to 330,434 metric tonnes. Total bauxite exports also fell by 4%, largely influenced by a near-15% plunge in Crude bauxite.

Table 8: Mining Production

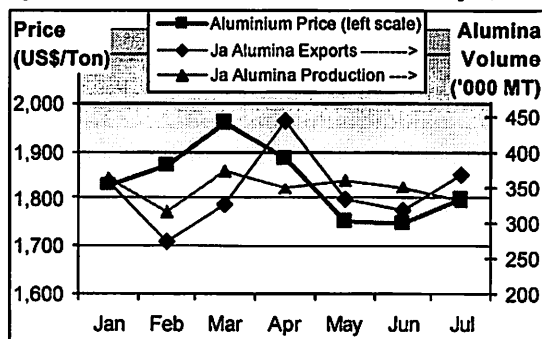
	Y-T-D				
	July-04	July-05	%	July-05	05/04%
<b>Production</b>					
Alumina	349,941	330,434	-5.57	2,444,974	0.06
C. Bauxite	307,621	278,648	-9.42	2,269,276	-2.87
Tot. Bauxite	1,190,109	1,100,869	-7.50	8,229,865	-1.83
<b>Export</b>					
Alumina	371,873	370,539	-0.36	2,423,968	1.13
C. Bauxite	303,894	259,555	-14.59	2,247,155	-4.74
Tot. Bauxite	1,237,903	1,189,032	-3.95	8,158,915	-1.47

Units=tonnes

Source: Compiled from Jamaica Bauxite Institute (JBI)

World aluminium prices trended upwards in July, after softening considerably in the April-to-June period (see Figure 8A). Jamaica's alumina output has moved more or less in tandem with global aluminium prices since the start of the year. It is expected that the country's output will remain strong in order to capitalize on the continued buoyancy in world prices over the coming months.

Figure 8A: Aluminium Prices & Jamaican Output, 2005



Sources: London Metal Exchange and JBI

## Sugar & Bananas

There was no significant sugar production in July due to the ending of the season in June.

## Tourism

**Stopovers:** Stopovers have now fallen for the third consecutive month, slipping by 0.5% in June relative to the corresponding period last year. Though there was no significant decrease in Foreign Nationals, the number of Non-resident Jamaicans fell by 4.7%. Growth momentum has slowed in most of the key markets since the start of the year. In fact Canada, the UK and Europe all posted lower monthly growth rates in June than in the earlier months (see Figure 9A below). The UK in particular has actually shown negative growth since February.

Over the past three months, arrivals have been impacted by a number of factors such as the closure of Jamaica Grande through June, as well as the temporary closure of Half Moon and the Ritz Carlton in May. Operational changes at Air Jamaica also affected airlift for the industry. Despite the challenges, however, the sector was able to post a year-to-date growth of 2.7% thanks to gains made in the winter tourist season.

**Cruise Passengers:** Cruise arrivals declined by 4.2% in June, as an increase in arrivals at Montego Bay was eclipsed by a reduction at Ocho Rios.

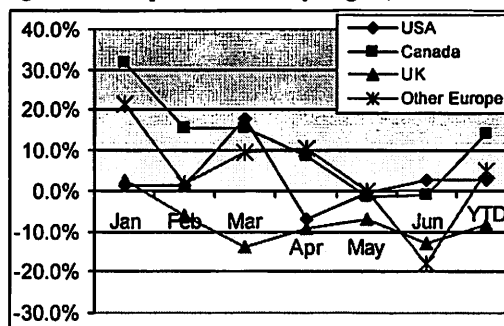
**Total Arrivals:** The total visitor count fell by nearly 2% for the month of June. However, the year-to-date figure still showed an improvement of 1.6%.

Table 9: Tourist Arrivals

	2004	2005	% Change	
	Jan - Jun		YTD	Jun
Stopover	742,338	762,078	2.7	-0.5
Foreign	705,080	724,320	2.7	-0.2
National	37,258	37,758	1.3	-4.7
Cruise	619,862	621,378	0.2	-4.2
Total	1,362,200	1,383,456	1.6	-1.8

Source: Jamaica Tourist Board (Preliminary)

Figure 9A: Stopover Growth by Region, Jan-June '05



**External Trade**

For the first five months of 2005 the nation's trade deficit amounted to US\$1,175.5M, some US\$279.4M larger than that of the corresponding period last year. The slippage was caused by negative developments on both sides of the account as a US\$258M growth in imports was accompanied by a US\$21M fall-off in export revenues for the period.

Exports amounted to US\$623.4M, down from US\$644.4M for the corresponding period in 2004. Traditional exports fell by US\$5.7M due a 50% plunge in Agriculture which outweighed gains in the Mining and Manufacturing sectors. Agriculture fell by US\$11.7M reflecting the impact of drought conditions on the Coffee industry as well as the absence of bananas for most of the period. However, Mining & Quarrying grew by US\$16.7M thanks to a US\$19.6M growth in Alumina which more than compensated for a US\$3M slippage in Bauxite. In the Manufacturing sector, growth was held to a modest US\$0.6M as a US\$3M improvement in rum earnings was partially

offset by a decline in sugar. In the Non-traditional sector, exports plunged by some 14% or US\$17.8M as improvements in Beverages & Tobacco were outweighed by declines in Foods, Crude Materials and Other Non-traditionals. The US\$4.2M decline in Foods partially reflected lower revenues in processed foods such as juices and condiments. Crude Materials fell by US\$8.5M. The US\$9.8M reduction in Other Non-traditionals was largely due to slippages in Chemicals, Mineral Fuels, and Machinery.

Imports grew by US\$258.4M or 16.8% for the review period, reflecting increases in nearly all of the main categories. In particular, Manufactured Goods grew by US\$77.7M, while there was a US\$36.6M growth in Chemicals. The country also spent more on Food (up US\$35.7M), Miscellaneous Manufactured Articles (up US\$30M), and Crude Materials (up US\$13.1M). Mineral Fuels increased by a whopping US\$58.5M for the period. This resulted from the extended closure of Petrojam, which necessitated imports of refined petroleum rather than the less expensive crude oil.

Table 10: External Trade (US\$M)

	Jan-May '05	Jan-May '04	Change	% Change
<b>TOTAL EXPORTS (fob)</b>	<b>623.41</b>	<b>644.41</b>	<b>-21.00</b>	<b>-3.3</b>
Major Traditional Exports	503.69	498.03	5.66	1.1
by Sector:-				
Agriculture	11.76	23.46	-11.70	-49.9
Mining & Quarrying	404.13	387.40	16.73	4.3
Manufacturing	87.81	87.18	0.63	0.7
by Industry:-				
Bauxite	39.11	42.28	-3.17	-7.5
Alumina	364.09	344.48	19.60	5.7
Sugar	72.98	75.65	-2.68	-3.5
Rum	13.87	10.77	3.10	28.8
Bananas	0.81	7.48	-6.68	-89.2
Coffee	8.79	13.23	-4.45	-33.6
Other	4.06	4.13	-0.07	-1.7
Non-Traditional Exports	108.28	126.07	-17.79	-14.1
Re-exports	11.44	20.31	-8.87	-43.7
<b>TOTAL IMPORTS</b>	<b>1,798.91</b>	<b>1,540.52</b>	<b>258.39</b>	<b>16.8</b>
Food	242.90	207.21	35.69	17.2
Beverages & Tobacco	22.65	18.03	4.62	25.6
Crude Materials (excl. Fuels)	39.54	26.42	13.12	49.6
Mineral Fuels, etcetera	453.56	395.03	58.53	14.8
Animal & Vegetable Oils & Fats	12.40	15.29	-2.89	-18.9
Chemicals	202.66	166.10	36.57	22.0
Manufactured Goods	270.33	192.67	77.66	40.3
Machinery and Transport Equip.	343.67	337.63	6.04	1.8
Misc. Manufactured Articles	186.24	156.30	29.95	19.2
Other	24.96	25.84	-0.88	-3.4
<b>TRADE BALANCE</b>	<b>-1,175.50</b>	<b>-896.10</b>	<b>-279.40</b>	<b>31.2</b>

Source: STATIN

**Balance of Payments – Jan to Apr  
2005** (preliminary)

There was an US\$85M deterioration in the current account balance for the first four months of 2005 when compared to the corresponding period last year (see Table 11 overleaf). This reflected a significant decline in the Goods balance which outweighed improvements in Current Transfers, Services and Income.

The Goods balance worsened by US\$209.5M due to a US\$45.8M slippage in exports which was compounded by a US\$163.7M growth in the import bill. Traditional exports fell by US\$6.7M reflecting lower revenues from coffee and bauxite as well as the continued absence of bananas. Non-traditional exports also fell by roughly US\$17.5M. On the import side, the bill was higher in a number of categories, notably manufactured goods, chemicals and foods.

The Services account showed a US\$36.1M growth in net receipts relative to the corresponding period last year. This mainly resulted from a US\$50M improvement in the Travel balance as the tourism sector benefited from a 7% jump in visitor spending. The growth in the Travel balance, together with the US\$11.5M improvement in Other Services, was more

than adequate to compensate for a US\$26M worsening of the Transportation balance.

There was a US\$5M narrowing of the deficit in the Income account due to a smaller net outflow in Investment Income as well as a larger surplus in Compensation of Employees.

Current Transfers showed a strong increase as that account posted an US\$83M growth in net inflows. Most of the improvement was in the area of Private Transfers or remittances, which grew by US\$72M.

The Capital and Financial account mainly reflected changes in the Financial account, where Other Official Investments fell from a net inflow of US\$368.1M to a net outflow of US\$60.5M. This represented a decline of nearly US\$429M and was partially due to reduced external borrowing by the GOJ. There was, however, a US\$92M increase in the surplus on the Other Private Investments sub-account. Overall, inflows to the Capital & Financial account were more than sufficient to finance the shortfall in Other Official Investments and the deficit on the Current account. This allowed for a US\$151M buildup of the reserves.

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

	<u>Jan-Apr '04</u>	<u>Jan-Apr '05</u>	<u>Change</u>	<u>% Change</u>
<b>CURRENT ACCOUNT</b>	3.7	-81.9	-85.6	-2313.5
<b>Goods Balance</b>	-520.6	-730.1	-209.5	40.2
Exports (fob)	581.4	535.6	-45.8	-7.9
Imports (fob)	1,102.0	1,265.7	163.7	14.9
<b>Services Balance</b>	270.1	306.2	36.1	13.4
Transportation	-17.4	-43.0	-25.6	147.1
Travel	433.1	483.3	50.2	11.6
Other Services	-145.6	-134.1	11.5	-7.9
<b>Income</b>	-189.2	-184.2	5.0	-2.6
Compensation of Employees	7.0	9.2	2.2	31.4
Investment Income	-196.2	-193.4	2.8	-1.4
<b>Current Transfers</b>	443.4	526.2	82.8	18.7
Official	36.4	47.2	10.8	29.7
Private	407.0	479.0	72.0	17.7
<b>CAPITAL &amp; FINANCIAL A/C</b>	-3.7	81.9	85.6	-2313.5
<b>Net Capital Movement</b>	-0.2	-4.1	-3.9	1950.0
Official	4.5	0.1	-4.4	-97.8
Private	-4.7	-4.2	0.5	-10.6
<b>Financial Account</b>	-3.5	86.0	89.5	-2557.1
Other Official Investment	368.1	-60.5	-428.6	-116.4
Other Private Investment (incl. errors & omiss)	205.1	297.4	92.3	45.0
Reserves (minus=increase)	-576.7	-150.9		

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.

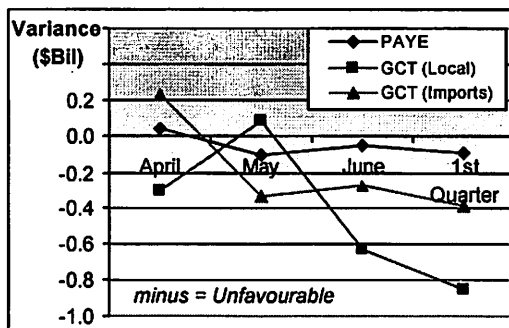


## Fiscal Accounts

For the first quarter of the fiscal year, central Government's operations showed a deficit of \$11.3 billion, some \$0.8 billion smaller than projected for the period. This reflected significant savings on the expenditure side which were more than adequate to compensate for a shortfall in revenues for the quarter.

**Revenues:** Revenue and Grants totaled \$41,492.8 million or roughly \$41.5 billion, some \$0.76 billion less than projected for the period. This reflected a \$1.4-billion shortfall in Tax revenue which was partially countered by favourable variances in the other categories, notably Non-tax Revenue (up \$0.5B) and Capital revenue (up \$0.1B). Within the Tax revenue category, the Government's three biggest earners all fell below projections as PAYE and GCT slipped by \$0.1 billion and 0.8 billion, respectively, while GCT on imports fell by \$0.4 billion. Local GCT fell considerably in June, while PAYE and GCT on imports have both underperformed since May (see Figure 11A).

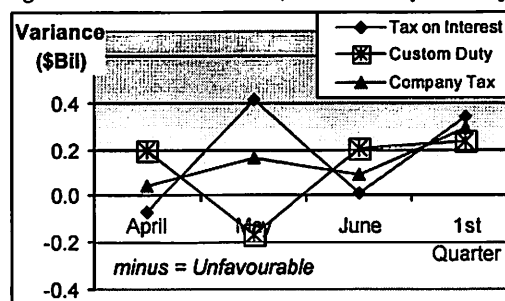
Figure 11A: Revenue Variances – PAYE and GCT



The PAYE outcome was influenced by a slowdown in wage growth in the public sector, while the Government is still investigating the factors affecting the slippage in GCT.

Company taxes exceeded projections by \$0.3 billion for the period, having performed consistently well since April. Tax on Interest and Custom Duty also surpassed their targets by \$0.3 billion and \$0.2 billion, respectively for the quarter (see Figure 11B).

Figure 11B: Tax on Interest, Custom Duty & Company Tax



**Expenditures:** Total Expenditures amounted to \$52,794.7 million or roughly \$52.8 billion, nearly \$1.6 billion below budget. A \$0.3-billion overrun in Programmes was outweighed by favourable outcomes in Interest payments and Wages, particularly for the month of May (see Figure 11C below). The reduced interest costs reflected savings in both Domestic and External payments which were down \$0.6 billion and \$0.25 billion, respectively. Wages fell by \$0.6 billion due to the continued impact of the MoU.

Loan receipts were approximately \$4.5 billion above budget as the GOJ borrowed considerably more than planned on both the domestic and external markets. External receipts in particular were \$2.7 billion higher, reflecting proceeds from the Government's successful US\$300M Eurobond in May.

Total public debt at the end of June stood at \$773.5 billion, virtually unchanged from the previous month's level of \$773.4 billion. Domestic Debt grew by a marginal 0.1% or \$393.06 million to end the month at \$467,233.58 million. However, External Debt declined by US\$15.9 million to a level of US\$4,952.24 million.

Figure 11C: Expenditure Variances

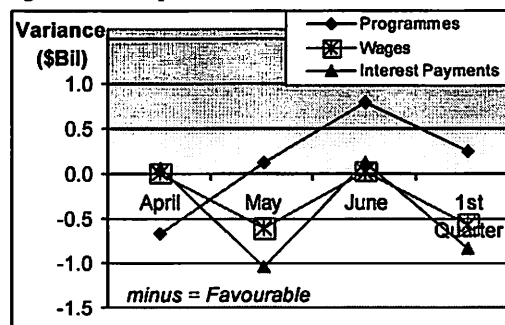




Table 12: Fiscal Accounts (J\$ million)

	April - June 2005				Change from 04/05	
	Provisional	Budget	Deviation		J\$	(%)
<b>Revenue &amp; Grants</b>	<b>41,492.8</b>	<b>42,257.1</b>	<b>-764.3</b>	<b>-1.8</b>	<b>1,142.6</b>	<b>2.8</b>
Tax Revenue	37,700.2	39,117.8	-1,417.7	-3.6	860.8	2.3
Non-Tax Revenue	2,352.4	1,864.5	487.9	26.2	483.1	25.8
Bauxite Levy	777.2	722.0	55.2	7.6	124.8	19.1
Capital Revenue	281.7	141.0	140.7	99.8	-628.6	-69.1
Grants	381.4	411.8	-30.4	-7.4	302.5	383.6
<b>Expenditure</b>	<b>52,794.7</b>	<b>54,359.6</b>	<b>-1,564.9</b>	<b>-2.9</b>	<b>-2,418.2</b>	<b>-4.4</b>
Recurrent	48,297.2	49,457.0	-1,159.8	-2.3	-4,592.6	-8.7
Programmes	10,563.3	10,305.2	258.1	2.5	2,821.2	36.4
Wages & Salaries	15,736.8	16,312.6	-575.8	-3.5	-1,192.5	-7.0
Interest	21,997.1	22,839.2	-842.1	-3.7	-6,221.3	-22.0
Domestic	16,899.0	17,487.8	-588.8	-3.4	-6,334.1	-27.3
External	5,098.1	5,351.4	-253.3	-4.7	112.8	2.3
Capital Expenditure	4,497.5	4,902.6	-405.1	-8.3	2,174.4	93.6
<b>Fiscal Balance</b>	<b>-11,301.9</b>	<b>-12,102.5</b>	<b>800.7</b>	<b>-6.6</b>	<b>3,560.8</b>	<b>-24.0</b>
Loan Receipts	47,176.2	42,654.7	4,521.4	10.6	5,929.1	14.4
Domestic	28,333.8	26,550.0	1,783.8	6.7	-4,360.1	-13.3
External	18,842.4	16,104.7	2,737.6	17.0	10,289.2	120.3
Divestments	0.0	0.0	0.0	8	0.0	8
Amortization	36,637.5	40,588.5	-3,951.1	-9.7	-744.5	-2.0
Domestic	16,670.8	20,895.4	-4,224.6	-20.2	-16,515.1	-49.8
External	19,966.7	19,693.1	273.6	1.4	15,770.6	375.8
<b>Overall Balance</b>	<b>-763.2</b>	<b>-10,036.3</b>	<b>9,273.1</b>	<b>-92.4</b>	<b>10,234.4</b>	<b>-93.1</b>
<b>Primary Balance</b>	<b>10,695.2</b>	<b>10,736.7</b>	<b>-41.5</b>	<b>-0.4</b>	<b>-2,660.5</b>	<b>-19.9</b>

Source: Ministry of Finance &amp; Planning

**Note to the Accounts:-**

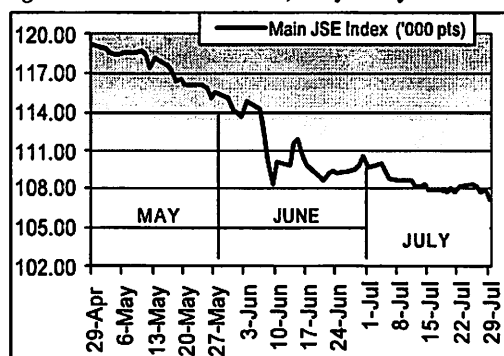
The above accounts are subject to revision by the Ministry of Finance. For example, figures relating to Loan Receipts, Amortization or Interest Payments may from time to time be revised by the Ministry's Debt Management Unit. Where this happens, the changes often tend to be in the area of External rather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

## Stock Market

The stock market declined for the third straight month in July, as the main JSE Index lost 3,389.94 points or nearly 3.1% to close at 107,231.94 points on July 29. Market capitalization fell by a sizable \$52.8 billion or 6% to end the month at approximately \$830.34 billion. The market is still in its off-season due to the reduced trading activity normally associated with summertime travel.

July's performance mirrors that of June when a similar 3% decline was recorded in the Index. However, the market showed less volatility in July. The main JSE Index has now lost nearly 12,000 points over the past three months (see Figure 13A).

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



As at July 29, the top performing stock for the year to date was Montego Bay Ice Company, which advanced by more than 59% to end the month at \$17.50 (see Table 13). The worst performer in price terms was Jamaica Producers, which lost more than 29% of its value to end the month at \$29.80.

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	29/07/05	\$	%
MoBay Ice Company	11.00	17.50	6.50	59.09
Trinidad Cement Limited	80.00	115.05	35.05	43.81
Lascelles, de Mercado	202.05	290.00	87.95	43.53
Gleaner Company	2.61	3.30	0.69	26.44
Radio Jamaica	5.30	6.36	1.06	20.00

Bottom Five (unadjusted for dividends or transact. costs)

Jamaica Producers Group	42.00	29.80	-12.20	-29.05
Capital & Credit Merchant Bank	32.00	23.01	-8.99	-28.09
Berger Paints (Jamaica)	5.67	4.40	-1.27	-22.40
First Caribbean Int'l Bank Jamaica	22.00	17.10	-4.90	-22.27
Bank of Nova Scotia (Jamaica)	27.15	21.55	-5.60	-20.63

Source: Compiled from the JSE

## **Developments and Outlook**

**Inflation:** Inflation remains one of the key threats to Jamaica's medium-term fiscal and macroeconomic targets. At the BOJ's quarterly briefing on the economy on August 10<sup>th</sup>, the Governor mentioned that a revised fiscal-year target of 10 to 15 percent may have to be further revised in light of new price pressures that the Bank was observing. Having missed the single-digit targets for both the fiscal and calendar years, we now assess our current situation and look to the future to see how inflation can be expected to impact the economy in the near term.

**[1] Interest Rates** – Real returns are now negative on the money market, as point-to-point inflation has been trending upwards since January while benchmark interest rates have maintained their downward trend. This has occurred in a context of improving macroeconomic and fiscal prospects as well as a stable dollar, all of which have helped underpin investor confidence even in the face of rising prices. However, investors cannot be expected to absorb negative real returns indefinitely, and the prospects for a sustained moderation in inflation will have to improve if interest rates are to remain subdued in the medium term.

**[2] Fiscal Performance** – The impact of inflation on interest rates will have a direct bearing on the fiscal accounts, as the Government's medium-term deficit targets presume a stable interest rate climate. The wage bill will also be a key factor as the recent price trend has led to expectations of increased public sector wages after the end of the MoU in 2006. The size of this increase will depend on the stakeholders' ability to reach a consensus which supports the fiscal targets while limiting any reduction in real wages.

**[3] Production & Exports** – Inflation drives up production costs and also impacts the competitiveness of the country's exports. Jamaica's real exchange rate has appreciated in the last seven months due to inflation, and the Tourist Board cites this as one of the factors behind the increase in visitor expenditures as tourists have to spend more on goods and services. While we welcome the higher tourism revenues, sustained high inflation would ultimately be harmful to the industry if Jamaica's rivals are maintaining a stable price environment.

It is encouraging however, that core inflation remains fairly stable thanks to the BOJ's prudent management of the monetary base. Core inflation is a better indicator of the long-term trend in prices as it excludes volatile items such as food and oil. Core inflation was 1.7 percent for the June quarter, much lower than headline inflation which was 5.7 percent. The effective management of core inflation bodes well for price stability going forward if the country can lessen the impact of exogenous shocks on the more volatile items in the CPI basket.

**GDP Outturn – June Quarter:** According to recent data from the Planning Institute Of Jamaica (PIOJ), real GDP declined by 0.1 percent for the June quarter when compared to the corresponding period last year. This was in a context of reduced output in the Goods producing sector which eclipsed a modest improvement in Services.

Goods production fell by 1.8 percent in real terms, heavily influenced by a 19 percent downturn in Agriculture as a result of adverse weather conditions since last September. In the Mining & Quarrying sector, real GDP inched up 0.1 percent driven by increased alumina production which made up for a decline in bauxite. The Manufacturing sector experienced a 1.7 percent reduction in real output. This reflected a decline in Beverage & Tobacco production as well as the closure of the Petrojam refinery for most of the period. It was not all bad news for the Goods-producing sector, however, as Construction & Installation showed an 8.5 percent growth, buoyed by increased activity in non-residential construction.

The modest improvement in the Services sector reflected positive growth in most sub-sectors. In Electricity & Water, real output grew by 2.4 percent as a result of increased electricity generation and water production. Finance & Insurance Services grew by 1.1 percent as institutions were able to grow their non-interest income to compensate for the decline in interest rates. However, a decline in tourist arrivals contributed to a 1.4 percent fall in Miscellaneous Services as well as a 0.2 percent dip in Transport, Storage & Communications.

Going forward, the PIOJ expects the economy to grow by some 1.9 percent in real terms for the September quarter, underpinned by a 2.4 percent growth in the Goods producing sector and a 1.6 percent increase in Services.

**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						J\$M	US\$M
Nov-01	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	4,133.00
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	2.89	7.46	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	8.21	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	17.03	13.33	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	-11.28	12.86	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	-0.45	10.15	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	1.10	11.34	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	-0.36	11.48	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	1.66	11.96	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	-0.11	12.98	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	2.83	14.84	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	1.00	15.01	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	0.84	15.34	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	1.79	13.80	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	14.33	11.18	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	-11.80	10.53	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	-1.60	9.25	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	6.50	15.09	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	-3.52	11.44	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	0.92	10.64	n/a	n/a	2,074.49	1,916.93	2.2	16.7	-7.7	61.71	13.43	24.89	6.36		466,840.52	4,968.13
June	-1.16	9.47	n/a	n/a	2,152.80	1,940.56	1.5	17.5	5.2	61.84	12.88	24.91	5.52		467,233.58	4,952.24
July	2.50	9.12			2,149.25	n/a	1.6	18.2	-1.8	62.23	13.03	22.00	5.52		n/a	n/a

Sources: Bank of Jamaica, Statistical Institute of Jamaica, Ministry of Finance and Planning, Jamaica Tourist Board and the PIOJ.

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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The Private Sector Organisation of Jamaica, 39 Hope Road, Kingston 6  
Tel: 927-6238/6958 Fax: 927-5137 Email: Web site: <http://www.psoj.org>