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PSOJ CONFIDENTIAL ECONOMIC BULLETIN

A Monthly Analysis of the Jamaican Economy

Overview

August was another challenging month for the local currency due to strong US-dollar demand by both brokers and end-users in the foreign exchange market. Broker demand was driven by a thirst for higher yields as investors opted for more US dollar-denominated assets in the wake of high inflation which has eroded real returns on locally-denominated instruments. The consequent buying of US dollars led to a climb in the J\$/US\$ exchange rate for the better part of the month, which forced the Central Bank to intervene on the supply side of the market on a number of occasions. Despite the Bank's interventions, the Jamaican dollar lost \$0.36 in the first 17 trading days of the month. Toward the end of the month, however, the BOJ's efforts finally began to bear fruit and the dollar regained in three days nearly all the value it had lost in the previous 17 days. As a result the dollar ended the month at \$62.24, only one cent higher than at the end of July.

Inflation slowed considerably in August as the Consumer Price Index was only 0.1% higher than that of July. While there were increases in a number of categories such as household supplies and furniture, these were offset by a reduction in the food & drink index as well as the fuel component of the electricity rate.

The BOJ's activities in the currency market contributed to a marginal reduction in the NIR during August. At the end of the month the reserve balance stood at US\$2,117.51 million, US\$31.7 million less than the previous month's figure of US\$2,149.25 million. Although the BOJ may continue to intervene as a net seller in the currency market in the near term, this should not have a major impact on the NIR as last month's sustained interventions resulted in only a 1.5% decrease in the reserve.

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The tourism sector has now recorded its fourth consecutive decline in stopovers, which fell by some 5.6% for the month of July relative to the similar period last year. Preliminary data also points to a 10% reduction in airport arrivals for August reflecting a slippage in bookings after the July hurricanes. The fall-off in tourism has been a point of concern, as that sector represents some 20% of inflows to the current account.

Total bauxite production grew by over 7% in August, reflecting a 13% increase in Crude bauxite and 9% growth in Alumina. Global alumina prices are expected to strengthen in the coming months as China, the world's largest alumina buyer, has now re-entered the market after that country's seasonal summer hiatus.

The Central Bank again maintained a cautious monetary policy in August given the recent pressures in the foreign exchange market. Consequently, the BOJ's open market yields remained unchanged from their July 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 again fell marginally in August in a context of frequent BOJ interventions in the foreign exchange market. At the end of the month the reserve balance stood at US\$2,117.51 million, roughly US\$31.7 million lower than the previous month's value of US\$2,149.25 million. The gross reserve amounted to 27.4 weeks of Goods imports (see Table 1). Despite the recent reductions, the NIR remains US\$259 million stronger than it was at the start of the year.

Table 1: Changes in the NIR

	NIR	Change			Imports (Weeks)
		Mthly	12 Mth	YTD	
Aug-2005	2,117.51	-31.74	474.05	258.99	27.43
Aug-2004	1,643.46	48.77	563.36	478.48	23.88

Source: Compiled from the BOJ (Preliminary)

Foreign Currency Deposits

For the month of July total foreign currency deposits amounted to US\$1,983.67 million, an increase of US\$43.1 million over the previous month's figure (see Table 2). This reflected increased balances in commercial as well as merchant banks, which outweighed a US\$3.7-million decline in deposits held at building societies.

Table 2: Foreign Currency Deposits

	Jul-05	Change (US\$M)		%
		Mthly	12 Mth	
Total Deposits	1,983.67	43.11	262.17	15.23

Source: Compiled from the BOJ (Preliminary)

Foreign Exchange Rates

There was sustained pressure on the Jamaican dollar in August due to persistently high demand prevailing in the market since July. As a result, the dollar lost \$0.36 to its US counterpart in the first 17 trading days of the month despite strong interventions by the BOJ. However, the Bank's market presence eventually bore fruit as the local currency rallied in the latter part of the month to regain nearly all of the value lost in the previous trading days. The dollar ended the month at an average of \$62.24, only one cent higher than at the end of July (daily J\$/US\$ weighted average selling rate, see Table 3).

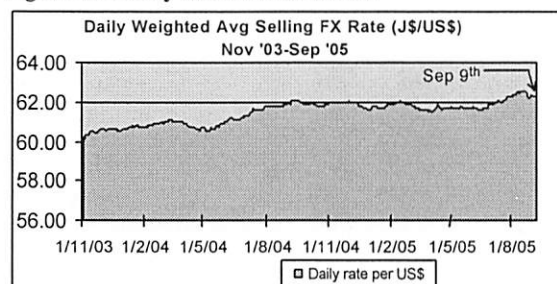
The local currency lost \$1.45 against the Canadian dollar and \$2.65 against the sterling. The outturn against the pound reflected gains made by that currency against major international currencies during the month.

Table 3: Foreign Exchange Trends*

	Year-to-Date: Aug 31, '05 (report date: Sep 15)					
	us\$	%?	can\$	%?	Uk£	%?
2005	0.61	0.99	1.54	3.03	-6.61	-5.60
2004	1.28	2.12	0.27	0.58	3.11	2.89
2003	8.42	16.53	10.23	31.86	12.28	15.17
Monthly						
Aug-05	0.01	0.02	1.45	2.85	2.65	2.44

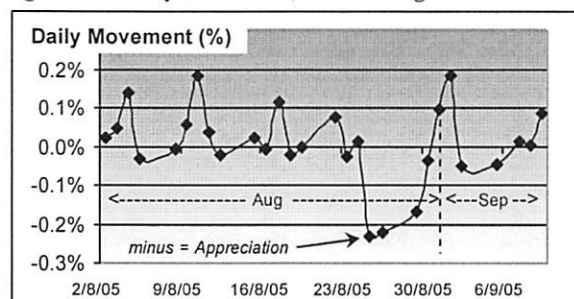
* minus = appreciation.
Source: BOJ, PSOJ Economic Research

Figure 1A: Daily JS/US\$ Movements



Although the dollar weakened against its US counterpart for most of August, there was a general slowdown in the rate of depreciation toward the end of the month (see Figure 1B). This reflected the strong supply-side interventions by the BOJ, combined with an abatement in broker demand during that period.

Figure 1B: Daily Movement, US\$ Selling Rate



Short Term Forecast

Tourism has still not rebounded from its downturn, as evidenced by a 10% reduction in airport arrivals for the month of August. There has, however, been an improvement in bookings for October. Alumina revenues are expected to remain strong as both prices and volume have been buoyant in recent weeks. In addition, the Central Bank remains well-equipped to enter the market if needed as the August interventions resulted in only a 1.5% reduction in the reserves. Given these factors, we can expect continued orderly movement in the currency in the near term.

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

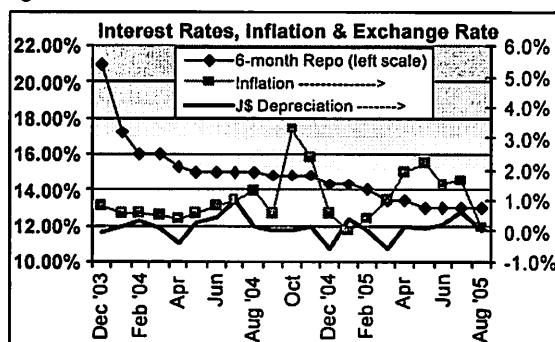
	Forecast	Actual	Diff.
Mar '04	60.65-60.70	61.01	0.31
Apr	60.75-60.80	60.65	-0.10
May	60.65-60.74	60.93	0.19
June	60.90-60.96	61.22	0.26
July	61.56-61.62	61.80	0.18
Aug	62.08-62.14	61.90	-0.18
Sept	62.10-62.15	61.89	-0.21
Oct	61.90-61.94	61.88	-0.02
Nov	61.87-61.92	61.98	0.06
Dec	61.90-61.94	61.63	-0.27
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	62.24	-0.16
Sept	62.40-62.44		

Source: PSQJ Economic Research

Interest Rates

The Central Bank maintained a conservative policy stance in August given the recent pressures in the foreign exchange market. There was also a need for supportive monetary conditions to facilitate a normalization of inflation. Consequently, the yields on the Bank's open market instruments remained at their June levels ranging from 12.60% on the 30-day, to 13.60% on the 365-day instrument. Benchmark yields have remained subdued for the past 18 months, despite bouts of inflation since last October (see Figure 2A). Market confidence has been underpinned by a generally stable exchange rate, as July's depreciation was only the second significant movement in the currency in the last year.

Figure 2A: BOJ Yields and Market Indicators



The average saving and lending rates were unchanged from their July levels of 5.52% and 22.00%, respectively.

Figure 2B: Interest Rate Movements

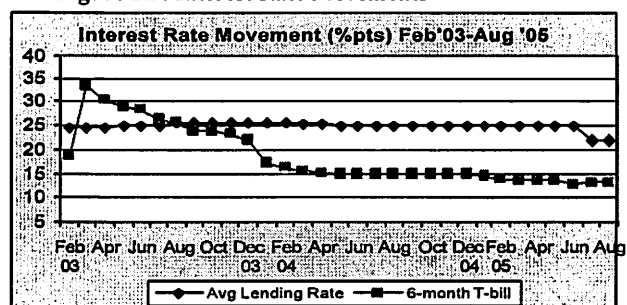


Table 5: Interest Rate Movements

		Change (%age pts)		
	Aug-05	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	0.00	-3.10	-2.89
6 Month T-Bill	13.03	0.00	-1.92	-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

The monetary base grew by 1% in August 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
	Aug-05	Mthly %	
Base Money	41,485.55	0.98	9.11

Source: Compiled from the BOJ (Preliminary)

Inflation

There was continued upward movement in the Consumer Price Index for August due to increases in most expenditure categories. However, inflation was held to a minimal 0.1% partially due to a reduction in the heavily weighted Food & Drink category. The Food & Drink index declined by 0.1%, reflecting a 6.4% reduction in Starchy Foods. However, other

food types showed notable increases, particularly Vegetables & Fruit (up 4.1%), Meals Away from Home (1.2%), and Meats, Poultry & Fish (1.1%). *Fuels & Other Household Supplies* showed a 1.9% increase driven by a 2.6% upshot in the cost of domestic fuels. The index also showed increases in *Household Furnishings & Furniture* (up 1.2%), *Healthcare & Personal Expenses* (0.5%), and *Transportation* (0.5%). However, there was a 1.9% reduction in *Housing & Other Housing Expenses* as a 0.9% rise in rental rates was offset by a decrease in electricity costs.

Table 7: Inflation Trends

	Percent Changes			
	Aug	12 Mth	YTD	Fiscal
2005	0.1	16.7	9.0	7.4
2004	1.3	11.5	6.2	4.2

Source: STATIN

Bauxite & Alumina Production

Total bauxite production for August amounted to 1.26 million metric tonnes, 7.3% higher than that of the comparable period last year (see Table 8). Output of Crude bauxite grew by 13% to 379,013 metric tonnes, facilitated by an improved industrial relations climate at St. Ann Bauxite. Alumina production also grew by 9.6% to 359,982 metric tonnes. There were also improvements in export volumes which rose by 7.5%, reflecting a 4.6% increase in Alumina and a near 29% jump in Crude bauxite.

Table 8: Mining Production

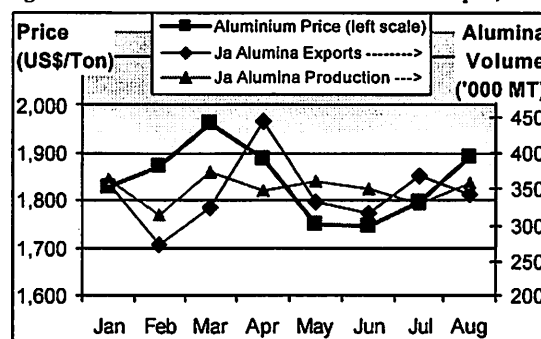
	Y-T-D				
	Aug-04	Aug-05	%	Aug-05	05/04%
Production					
Alumina	328,403	359,982	9.62	2,804,956	1.20
C. Bauxite	334,077	379,013	13.45	2,648,289	-0.83
Tot. Bauxite	1,178,824	1,265,152	7.32	8,617,249	-9.88
Export					
Alumina	327,531	342,562	4.59	2,766,530	1.54
C. Bauxite	314,337	404,689	28.74	2,651,844	-0.80
Tot. Bauxite	1,159,153	1,245,883	7.48	9,406,264	-0.31

Units=tonnes

Source: Compiled from Jamaica Bauxite Institute (JBI)

World aluminium prices rose again in August in an environment of buoyant industrial production (see Figure 8A). A strong aluminium market often translates to favourable prices for countries which supply the intermediate good alumina. Jamaica's alumina exports have generally followed the trend in aluminium prices in the last few months, and the country is fairly well poised to take advantage of continued global growth.

Figure 8A: Aluminium Prices & Jamaican Output, 2005



Sources: London Metal Exchange and JBI

Tourism

Stopovers: July marked the fourth consecutive decline in Stopovers, which fell by some 5.6% in that month when compared to the corresponding period last year. This outturn reflected declines in both Foreign Nationals and Non-resident Jamaicans, which fell by 5.6% and 5.5%, respectively. Despite the poor results since April, the strong gains made in the January-to-March period have not been completely erased and so the sector was able to post a year-to-date growth of 1.2%.

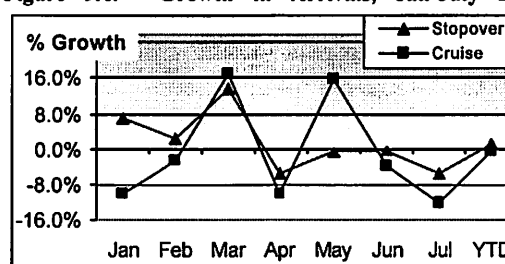
Cruise Passengers: Cruise arrivals declined by 12.2% in July, reflecting smaller numbers at both Montego Bay and Ocho Rios. The cruise industry has experienced only two months of growth since the start of the year, contributing to a lackluster year-to-date outturn which has been generally weaker than that of stopovers (see Figure 9A).

Table 9: Tourist Arrivals

	2004	2005	% Change	
	Jan - Jul		YTD	Jul
Stopover	902,569	913,367	1.2	-5.6
Foreign	853,984	864,909	1.3	-5.6
National	48,585	48,458	-0.3	-5.5
Cruise	688,065	681,259	-1.0	-12.2
Total	1,590,634	1,594,626	0.3	-7.6

Source: Jamaica Tourist Board (Preliminary)

Figure 9A: Growth in Arrivals, Jan-July 2005



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 significant 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
TOTAL EXPORTS (fob)	623.41	644.41	-21.00	-3.3
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
TOTAL IMPORTS	1,798.91	1,540.52	258.39	16.8
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
TRADE BALANCE	-1,175.50	-896.10	-279.40	31.2

Source: STATIN

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

The latest balance of payments data shows a US\$93M widening of the current account deficit for the first five months of 2005 when compared to the corresponding period last year (see Table 11 overleaf). This was mainly due to a steep decline in the Goods balance which outweighed improvements in Current Transfers and Services.

The deficit on the Goods account worsened by US\$243.6M as exports declined by US\$34.7M while the import bill grew by US\$209M. Traditional exports fell by US\$5.7M reflecting lower revenues from bananas, coffee, sugar & bauxite. Non-traditional exports also fell by roughly US\$17.8M. On the import side, the bill was higher in a number of categories, notably manufactured goods, mineral fuels, chemicals and foods.

On the Services account, net inflows grew by some US\$65.5M as a slippage in the Transportation account was offset by improvements in Travel and Other Services. The Travel account showed an US\$83M growth in net inflows, reflecting a 10.6% increase in tourism receipts for the period. This growth, coupled with the US\$10M improvement in Other Services, was more than adequate to

compensate for the US\$27.6M worsening of the Transportation balance.

The deficit on the Income account was US\$6.7M wider than for the comparable period in 2004. This was due to an US\$8M worsening of the shortfall in Investment Income which outstripped a US\$1.6M improvement in Compensation of Employees.

Current Transfers improved by some US\$91.8M, partially due to a US\$78M increase in Private Transfers or remittances. Official Transfers also contributed to the improved outturn as net inflows to that account grew by US\$13.5M.

The Capital and Financial account mainly reflected changes in the Financial account, where Other Official Investments fell from a net inflow of US\$348.4M to a net outflow of US\$75M. This represented a decline of US\$423.4M and was partially due to reduced external borrowing by the GOJ. There was, however, a US\$187M 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\$216M buildup of the reserves.

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

	<u>Jan-May '04</u>	<u>Jan-May '05</u>	<u>Change</u>	<u>% Change</u>
CURRENT ACCOUNT	-74.6	-167.6	-93.0	124.7
Goods Balance	-686.5	-930.1	-243.6	35.5
Exports (fob)	710.4	675.7	-34.7	-4.9
Imports (fob)	1,396.9	1,605.8	208.9	15.0
Services Balance	300.4	365.9	65.5	21.8
Transportation	-31.4	-59.0	-27.6	87.9
Travel	510.2	593.4	83.2	16.3
Other Services	-178.4	-168.5	9.9	-5.5
Income	-240.1	-246.8	-6.7	2.8
Compensation of Employees	9.9	11.5	1.6	16.2
Investment Income	-250.0	-258.3	-8.3	3.3
Current Transfers	551.6	643.4	91.8	16.6
Official	45.4	58.9	13.5	29.7
Private	506.2	584.5	78.3	15.5
CAPITAL & FINANCIAL A/C	74.6	167.6	93.0	124.7
Net Capital Movement	0.3	-4.8	-5.1	-1700.0
Official	5.7	0.2	-5.5	-96.5
Private	-5.4	-5.0	0.4	-7.4
Financial Account	74.3	172.4	98.1	132.0
Other Official Investment	348.4	-75.0	-423.4	-121.5
Other Private Investment (incl. errors & omiss)	276.6	463.4	186.8	67.5
Reserves (minus=increase)	-550.7	-216.0		

Source: Bank of Jamaica (Preliminary)

Note to the Balance of Payments:-

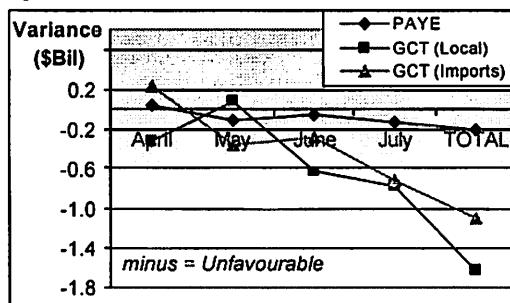
The external trade data in the Balance of Payments may not necessarily correspond with that of STATIN. This is due to the fact that STATIN reports the f.o.b. cost of imports while the Bank Of Jamaica reports imports at c.i.f.

Fiscal Accounts

For the four-month period April to July, the Government missed its deficit target by some \$1.33 billion due to a significant shortfall in revenue relative to projections. However, strong savings on the expenditure side helped to temper the impact of the revenue slippage.

Revenues: Revenue and Grants totaled \$54,259.8 million or roughly \$54.2 billion, some \$3.6 billion less than projected for the period. This reflected a \$4.4-billion shortfall in Tax revenue which was partially countered by favourable variances in the other categories, notably Non-tax Revenue (up \$0.6B) and Capital revenue (up \$0.1B). Within the Tax revenue category, two of the Government's biggest earners fell below projections as GCT fell by \$1.6 billion while GCT on imports fell by \$1.1 billion. These categories posted their worst monthly performances in July, and have mostly underperformed since May (see Figure 11A).

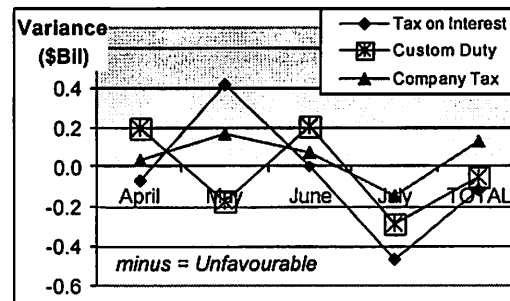
Figure 11A: Revenue Variances – PAYE and GCT



Some Government analysts theorize that the GCT slippages may be due to a decline in consumption of some items. However, investigations are still ongoing in this area. There were also shortfalls in the special consumption tax (SCT) as well as SCT on Imports, which missed their targets by \$0.7 billion and \$0.2 billion, respectively.

Company taxes exceeded projections by \$0.1 billion for the period, having performed consistently well in every month except July (see Figure 11B). Tax on Interest fell \$0.1 billion below budget due to tax refunds which were paid out in July. Customs Duty was affected by four days of downtime at customs due to hurricanes.

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



Expenditures: Total Expenditures amounted to \$71,022.2 million or roughly \$71 billion, some \$2.2 billion below budget. The Government made savings in every area of the recurrent budget, notably Wages and Interest payments which bettered their targets by \$0.6 billion and \$0.4 billion, respectively (see Figure 11C below). The reduced interest costs reflected savings in both Domestic and External payments which were down \$0.16 billion and \$0.24 billion, respectively. External payments in particular have been influenced by improved currency stability relative to projections. Capital expenditures fell \$1 billion below projections due to the delayed implementation of some projects.

Loan receipts were roughly \$1.6 billion above budget as the GOJ borrowed considerably more than planned on the external market. External receipts were \$2.7 billion higher, reflecting proceeds from the Government's US\$300M Eurobond in May. Domestic loans, however, were \$1B below budget.

Total public debt at the end of July stood at \$800.38 billion, some \$26.9 billion higher than the previous month's level of \$773.5 billion. Domestic Debt grew by \$4,435.24 million to end the month at \$471,668.82 million. External Debt increased by US\$330.11 million to US\$5,282.35 million.

Figure 11C: Expenditure Variances

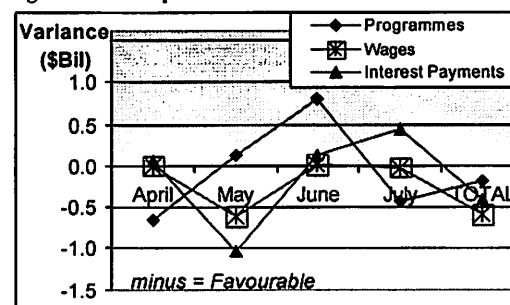


Table 12: Fiscal Accounts (J\$ million)

	April - July 2005				Change from 04/05	
			Deviation			
	Provisional	Budget	J\$m	(%)	J\$m	(%)
Revenue & Grants	54,259.8	57,846.4	-3,586.5	-6.2	315.1	0.6
Tax Revenue	49,094.9	53,511.2	-4,416.3	-8.3	694.1	1.4
Non-Tax Revenue	3,184.4	2,591.2	593.3	22.9	75.4	2.4
Bauxite Levy	990.5	953.3	37.2	3.9	162.1	19.6
Capital Revenue	419.7	246.3	173.4	70.4	-620.9	-59.7
Grants	570.3	544.5	25.8	4.7	4.3	0.8
Expenditure	71,022.2	73,275.5	-2,253.3	-3.1	789.8	1.1
Recurrent	65,736.1	66,918.0	-1,181.9	-1.8	-1,322.9	-2.0
Programmes	13,483.8	13,671.1	-187.3	-1.4	3,475.2	34.7
Wages & Salaries	20,819.3	21,409.9	-590.6	-2.8	-857.5	-4.0
Interest	31,433.0	31,837.1	-404.1	-1.3	-3,940.6	-11.1
Domestic	23,151.3	23,310.8	-159.5	-0.7	-6,009.4	-20.6
External	8,281.7	8,526.2	-244.5	-2.9	2,068.8	33.3
Capital Expenditure	5,286.1	6,357.5	-1,071.4	-16.9	2,112.7	66.6
Fiscal Balance	-16,762.4	-15,429.1	-1,333.3	8.6	-474.7	2.9
Loan Receipts	61,732.4	60,123.7	1,608.7	2.7	-10,517.5	-14.6
Domestic	42,753.5	43,850.0	-1,096.5	-2.5	-6,391.1	-13.0
External	18,978.9	16,273.7	2,705.2	16.6	-4,126.4	-17.9
Divestments	0.0	0.0	0.0	8	-652.5	-100.0
Amortization	50,893.6	54,375.7	-3,482.1	-6.4	-444.1	-0.9
Domestic	29,457.8	33,511.5	-4,053.7	-12.1	-15,858.2	-35.0
External	21,435.8	20,864.2	571.6	2.7	15,414.1	256.0
Overall Balance	-5,923.6	-9,681.1	3,757.5	-38.8	-11,200.7	-212.3
Primary Balance	14,670.6	16,407.9	-1,737.3	-10.6	-4,415.3	-23.1

Source: Ministry of Finance & Planning

Note to the Accounts:-

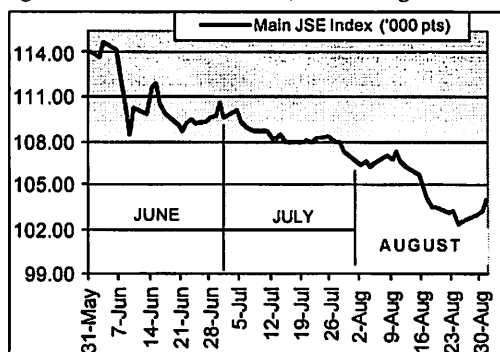
The above accounts are subject to revision by the Ministry of Finance. For example, figures relating to Loan Receipts, Amortization or Interest Payments may from time to time be revised by the Ministry's Debt Management Unit. Where this happens, the changes often tend to be in the area of External rather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

Stock Market

The stock market continued its downward slide in August, despite favourable earnings reports for the June quarter from a number of listed companies. The main JSE Index lost 3,234.40 points or roughly 3% to close at 103,997.54 points on August 31. Market capitalization decreased by \$22.6 billion or 2.6% to end the month at approximately \$833.56 billion. Although some companies are showing strong fundamentals, investors have been concerned about inflation as well as the recent pressures in the foreign exchange market and the likely impact these factors will have on interest rates.

The Main JSE Index has now lost an average of 3% per month for the last three months. However, the August outturn was not a consistent decline as the market rallied in the last week of the month on the news of improved stability in the currency market (see Figure 13A).

Figure 13A: Main JSE Index, June - Aug '05



As at August 31, 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 Capital & Credit Merchant Bank, which lost more than 32% of its value to end the month at \$21.70.

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	31/08/05	\$	%
MoBay Ice Company	11.00	17.50	6.50	59.09
Trinidad Cement Limited	80.00	114.00	34.00	42.50
Seprod Limited	12.15	15.50	3.35	27.57
Gleaner Company	2.61	3.30	0.69	26.44
Lascelles, de Mercado	202.05	250.00	47.95	23.73

Bottom Five (unadjusted for dividends or transact. costs)

Capital & Credit Merchant Bank	32.00	21.70	-10.30	-32.19
First Caribbean Int'l Bank Jamaica	22.00	15.00	-7.00	-31.82
Hardware & Lumber	29.85	20.50	-9.35	-31.32
Berger Paints (Jamaica)	5.67	3.90	-1.77	-31.22
Jamaica Producers Group	42.00	29.50	-12.50	-29.76

Source: Compiled from the JSE

Developments and Outlook

Hurricane Katrina: On August 29, Hurricane Katrina battered the US Gulf Coast, taking hundreds of lives and causing massive property damage in New Orleans as well as sections of Mississippi, Alabama and Florida. Oil prices leapt in the wake of the disaster, as the markets were startled by news of substantial damage to key refineries in the Gulf Coast region. However, prices stabilised following President Bush's announcement that America's oil reserves would be opened up to alleviate the temporary shortage. Jamaica felt some temporary effects of Katrina as petrol prices jumped \$4 per litre on September 1. The Overseas Employment Programme was also affected as a number of hotel workers had to return home. However, the country's bauxite sector was spared as there was no major damage to the Gramercy alumina plant in Louisiana.

PetroCaribe Initiative: On June 29, the Government signed the historic PetroCaribe oil agreement with the Government of Venezuela. The Agreement will allow Jamaica to import some 21,000 barrels of crude oil per day from Venezuela under favourable financing terms, whereby 40 percent of the value of the imports will be financed via a long-term loan from the Venezuelan Government. The loan will be repayable over a maximum of 25 years at an interest rate of one percent per annum, and repayment will begin after a two-year moratorium period. As part of the agreement, the Petrojam refinery will be upgraded over the medium term to increase the refinery's capacity from 36,000 barrels per day to 50,000 barrels per day. The refinery will also be reconfigured to allow it to process heavier grades of crude.

The GOJ expects PetroCaribe to yield significant benefits for Jamaica. For instance, it should lessen the cost that the country pays up-front for its oil imports, thus reducing US-dollar demand in the foreign exchange market. In addition, the borrowed funds under the arrangement can be used for social development projects in areas such as education, housing and health. The low interest rate and long repayment period also compare favourably to prevailing credit terms on the global market. The Agreement also allows for some of the debt to be repaid in the form of exported commodities rather than raw cash. In addition, the processing of heavier crude at Petrojam is expected to result in improved

margins on the sale of refined petroleum, and some of this benefit could be passed on to consumers in the form of lower prices.

However, there are some questions and concerns surrounding PetroCaribe, as discussed below:

[1] National Debt – It is likely that the loan agreement will be Government-guaranteed, in which case it would form part of the debt stock as reported by the Ministry of Finance. This in itself would not be a major problem given the very long repayment period and generously low interest rate. However, when exchange rate movements and volatile oil prices are taken into account, what we have is a debt stock which will become increasingly vulnerable to currency and oil price shocks. The external debt stock is already sensitive to interest rate and currency movements. PetroCaribe will increase the currency exposure and also bring the added dimension of rapidly rising oil prices, which may be higher with every new loan. There is, however, a possibility that some of the loan funds could be used to pay down existing debt, but no such arrangement has been finalized.

[2] Dilution of State Ownership – The upgrading of Petrojam will be financed by the GOJ in partnership with the Government of Venezuela. As a condition of its involvement, the Venezuelan Government will assume an equity stake in the refinery. The exact size of this equity holding has not yet been finalized. However, if it is significant, this would dilute the Government's ownership of the nation's refining capacity, which is one of the most pivotal components of the energy sector. Divestment of state assets is always a sensitive issue as the Government must carefully weigh the costs and benefits of the move, especially where essential sectors such as energy are concerned.

[3] Allocation of Loan Funds – The loan funds will be managed by the Ministry of Finance, while Cabinet will approve the various projects to be undertaken. However, it is not clear at this point whether Parliament will have a say in this allocation process, or whether it will be left completely up to the discretion of Central Government. Given the national importance of the initiative and its bearing on the public debt, the interests of the taxpaying public should be represented through Parliamentary review and approval of the use of these borrowed funds.

Statistical Index
Major Macro-Economic Indicators

	BM		M2		NIR	Fx Dep	CPI		Tourism	JS/US\$	Tbill	Loan	Sav	Dom Debt	Fx Debt
	M	P	M	P	US\$M	US\$M	M	P	P		%	%	%	JSM	US\$M
Dec-01	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	n/a	n/a	2,149.25	1,983.67	1.6	18.2	-1.8	62.23	13.03	22.00	5.52	471,668.82	5,282.35
Aug	0.98	9.11	n/a	n/a	2,117.51	n/a	0.1	16.7	-7.6	62.24	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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