



# CONFIDENTIAL ECONOMIC BULLETIN



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## OVERVIEW

**Memorandum of Understanding 3 (Between GOJ & Public Sector Workers):** Following the expiration of the second Memorandum of Understanding (MOU2) on March 31<sup>st</sup>, 2008, the Government of Jamaica (GOJ) once more sought to utilise a similar strategy to keep public sector wage changes within reasonable ranges. On April 18<sup>th</sup>, 2008, the third Memorandum of Understanding (MOU3) for the period 2008-2010 was signed between the GOJ and public sector workers that led to an agreed 15% wage increase in the first year and a 7% increase in the ensuing year. The estimates of expenditure had budgeted approximately \$14 billion dollar for contingencies related to the outcome of these wage settlements.

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★ No change since previous issue

**Air Jamaica Divestment:** The loss making entity has been characterised time and again as a strain on the pockets of Jamaican taxpayers. Air Jamaica has accumulated losses of around US\$1 billion and debt in excess of US\$550 million. The government is actively engaged in the privatization process and expects to complete the process by May 2009 (Jamaica Information Service—JIS).

Funding of approximately J\$59M has been recently granted to the government that will be used for contracting specialist consultants in the aviation industry to give sound advice on the divestment process. The government expects to be provided a detailed strategy report by May 15, 2008. Meanwhile, work continues at the Norman Manley Airport in efforts to expand the infrastructure capacity. The project begun in 2004 and is expected to be completed in 2022. Work is scheduled to take place in three stages and is expected to amass a total expenditure cost of US\$100 million over the term. This work is being administered by the Airport Authority Of Jamaica (AAJ).

**In this report:** In the month of April 2008 the local currency depreciated by 26 cents Jamaican (or 0.37%) against the US dollar.

Inflation for April 2008 was 1.15%. This was largely attributed to the higher prices of 'fish and seafood's', vegetables and meat segments within the 'Food & Non-Alcoholic Beverages' division of the consumer basket. Miscellaneous goods and services was the second largest contributor to higher prices during the month while Transportation costs was the third largest contributor.

In February 2008, total tourist arrivals

increased by 13.3% when compared to February 2007. This reflected a 18.0% increase in stopover arrivals alongside an 8.3% increase in cruise arrivals in February.

During the fiscal year 2007/08 the deficit amounted to J\$42.2B and was \$7.1 million (20.4%) higher than the period's budgeted deficit. The deficit resulted largely from the additional \$15.6 billion spent on programmes expenditure during the period. Capital expenditure also exceeded planned spending. There were also strong surpluses among revenue items but some areas underperformed to offset most of the savings (see Fiscal Account Section, pg.7)

Average lending rates declined by 8 basis points (bps) during April 2008. Average savings rate was also adjusted down to 4.5% representing a 38 bps reduction. The six month Treasury Bill yield declined by 2 bps over April to close at 14.20%.

## Net International Reserves (NIR)

During the month of April 2008, Net International Reserves increased by US\$79.5M to improve the position of the account following the substantial drawdown in late 2007. The deterioration stemmed from Central bank policy initiatives to maintain stability in FX market by selling currencies in reserve to a market, already liquid in local currency.

In March 2008 the NIR stood at US\$2,162.9 representing 18 weeks of goods import down from 27 weeks in the corresponding month of 2007 (see Table 1).



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## Foreign Currency

Over the month of February 2008 total foreign currency deposits amounted to US\$2,436.13 million, approximately US\$18 million less than the previous month's figure (see Table 2). This was attributed to substantially less foreign currency holdings by Commercial Banks (US\$14.9M). Commercial banks account for just above 72% of total foreign currency holdings as at the end of February.

Merchant banks also experienced a decline in foreign currency holdings of the amount US\$4.7M or 11.1%. Building Societies were the only group to reflect a net increase in foreign currency holdings during the month. This growth, however, accounts for approximately 7.3% of the total currency reduction among the other institutions (see Table 2).

## Foreign Exchange Rate

**US DOLLAR:** The local currency depreciated by 25 cents Jamaican (0.37%) against the US dollar counterpart during the month of April 2008. On the last trading day of the month the Jamaican dollar sold for an average rate of J\$71.35 per US\$1 (see table 3). Since the start of 2008 the local currency depreciated by 73 cents Jamaican (or 1.0%) against the US-dollar. This compares favourably to the 1.4% depreciation over the corresponding four months of 2007.

**POUND:** The domestic currency appreciated by a mere 21 cent Jamaican against the pound sterling in April (see table 3). Since the start of 2008, however, the local tender lost approximately 63 cents Jamaican (or 0.4%) to the British pound sterling.

**CANADIAN:** In April 2008 the Jamaican dollar depreciated by 77 cents Jamaican (1.1%) against the Canadian dollar (see Table 3). During the first four months, however, the local tender appreciated by 88 cents Jamaican (or 1.2%) against the Canadian dollar.

## Interest Rates

The Bank of Jamaica made no adjustments to Open Market Operations (OMO) interest rates since February

Table 1: Changes in the NIR

	US\$M	Change US\$M			Imports
	NIR	Mthly	12 Mth	YTD	(Weeks)
Apr-08	2,162.9	79.5	-129.5	285.1	15.9
Apr-07	2,292.4	-37.0	140.5	-25.2	26.1

Source: Compiled from the BOJ (Preliminary)

Table 2: Foreign Currency Deposits

	US\$000	Change (US\$000)		%
	Feb '08	mtly	12 mth	12 mth
Commercial Banks	1,761,455	(14,943)	210,782	13.59%
Building Societies	479,167	1,439	59,256	14.11%
Merchant Banks	195,510	(4,740)	19,538	11.10%
Total Deposits	2,436,132	(18,244)	289,576	13.49%

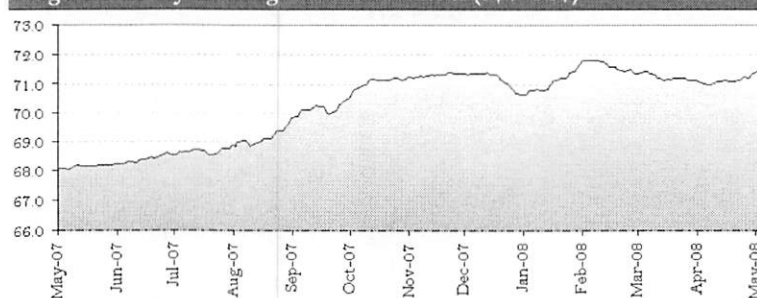
Source: Compiled from the BOJ (Preliminary)

Table 3: Foreign Exchange Trends (Apr-2008)

	YTD Currency Rate Change (Jan—Apr 2008) *					
	J\$ / US\$	%	J\$ / UK£	%	J\$ / Can\$	%
2008	0.73	1.0	0.63	0.4	-0.88	-1.2
2007	0.94	1.4	3.93	3.0	4.80	8.3
2006	1.05	1.6	7.05	6.4	3.25	5.9
April 2008						
Actual Rate	71.35	0.37	140.95	-0.15	70.52	1.10
Mth Change	0.26	0.37	-0.21	-0.15	0.77	1.10

\*minus = appreciation; Source: BOJ database & PSOJ Economic Research

Figure 1: Daily Exchange Rate Movements (J\$ / US\$)



Source: Bank of Jamaica Database (BOJ)

Table 4: Interest Rate Movements

	Apr-08	Change (%age pts)		
		Monthly	12-Mth	YTD
Avg Savings Deposit	4.50%	-0.38%	-0.65%	-0.38%
Avg Loan Rate	22.39%	-0.08%	-0.68%	1.57%
6 Month T-Bill (Apr-08)	14.20%	-0.02%	2.39%	0.86%
12 Month T-Bill	n/a	n/a	n/a	n/a

Source: Bank of Jamaica (BOJ Preliminary)

2008.

As at March 28 2008 the six-month T-bill cleared the market at an average yield of 14.20%. This is 2 basis point below the March end 14.22% (see table 4 & Figure 2).

In April 2008, the Average Lending Rate declined by 8-bps to close the month at 22.39%. The Average Savings Rate adjusted downward by 38 bps to close the month at 4.50%. This is the first monthly adjustment since

July 2007.

## Base Money & Money Supply

The monetary base declined by 2.17% during the month of April 2008. For the month of February 2008, all monetary aggregates grew. Approximately 91% of this change was attributed to increased holding of both the M1 and M2 aggregates. Quasi Money grew only marginally by (0.49%) during the period (see table 5).

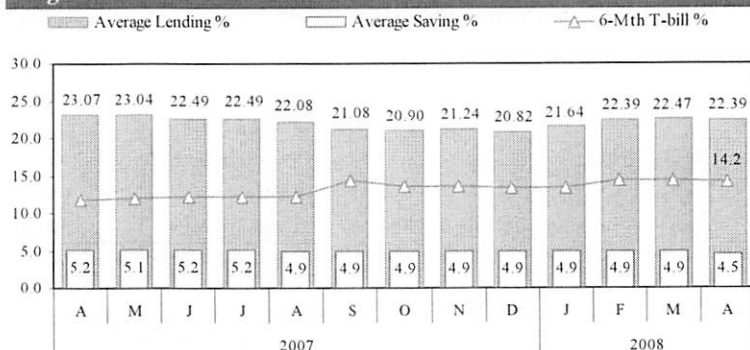
## Inflation

Inflation continues to reflect the deteriorating conditions in international commodity markets. Heightened levels of speculations within the various futures markets has placed significant pressure on both oil, wheat and rice commodities to appreciate in price (see Developments & Outlook)

Inflation for the month of March 2008 was 1.15%. This was exactly the same as the inflation experienced in March of 2007 (see Table 7 and figure 3). Since the start of the year, inflation has climbed to a significant 5.22% coming just in range of the 5.65% annual inflation rate for 2006. March marks the end of the fiscal period 2007/08 for which inflation was a significant 19.9%. This is approximately 2.5 times the inflation for the corresponding period before.

Approximately 70% of the month's increase in the CPI was attributed to the "Food & Non-Alcoholic Bever-

Figure 2: Interest Rate Movements



Source: Bank of Jamaica Database (BOJ preliminary)

Table 5: Base Money and Money Supply

	J\$M	Percentage Change (%)	
		Mthly	12 Mth
M1	Feb-08	3.92	22.35
Quasi Money	195,754.42	0.49	14.15
M2	294,143.78	1.61	16.77
	Apr-08	Mthly	12 Mth
Base Money	57,562.78	-2.17	11.27

Source: BOJ Economic Statistics

Table 6: Inflation Trends

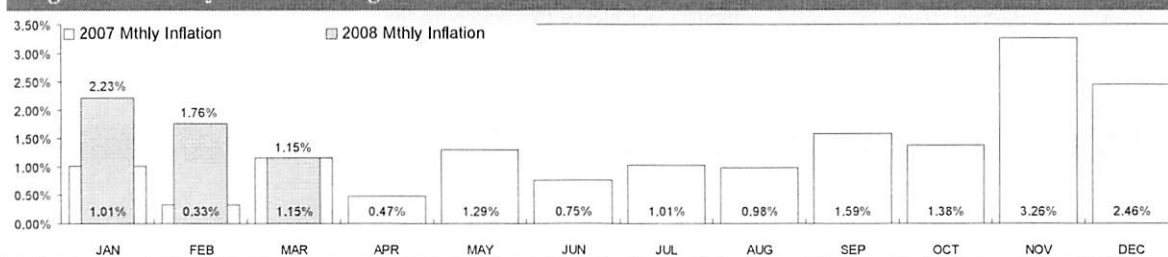
	% Percent Changes			
	March	12-Mth	YTD	Fiscal
2008	1.15	19.90	5.22	19.90
2007	1.15	8.04	2.50	8.04

Source: STATIN & BOJ Statistical Digest - Fiscal: represents fiscal year to date

ages" division. The main impetus to this change was the resulting increase in prices for Fish and Seafood items (3.5%), Vegetables (3.72%) and Meat Products (1.58%) (see INFLATION chart in Appendix, p.10).

The second largest price inflator for the month was the miscellaneous goods and services section reflecting an average 3.6% increase. Prices in relation to water and related services declined by 6.44% during the period. This was complemented by a 1% re-

Figure 3: Monthly Inflation Changes



Source: STANTIN and PSQJ compilation



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duction in the price of "electricity, gas and fuels etc". The net effect was a reduction in the prices related to the division "Housing, water, electricity gas and other fuels".

## Tourism

**Stopovers:** Stopover arrivals for February 2008, when compared to the same period last year, increased by 18.0% (see Table 7 & Figure 5A). This was attributed to both a 19,808 (15.5%) increase in 'Foreign Nationals' and a 4,076 (75%) increase in Non-Resident Jamaicans visiting the country.

In the first two months of 2008 approximately 60% of all stopover arrivals emanated from the North American region. This was slightly below the 62% share reported for the corresponding period of 2007. Canada's share grew from 17.5% in the first two months of 2007 to 19.5% in the corresponding period of 2008. Jamaica depended on the UK for 9.3% of stopover arrivals for the two month period. This is down from the 10.4% recorded for the corresponding period last year.

In the review period, the remainder of tourists visiting the island originated from Europe 5.3%, Caribbean 2.8% and Other territories (1.4%).

**Cruise Passengers:** Cruise arrivals for February 2008 increased by 10,273 visitors (8.3%) when compared to the corresponding month of 2007 (see Table 7 & Figure 5B).

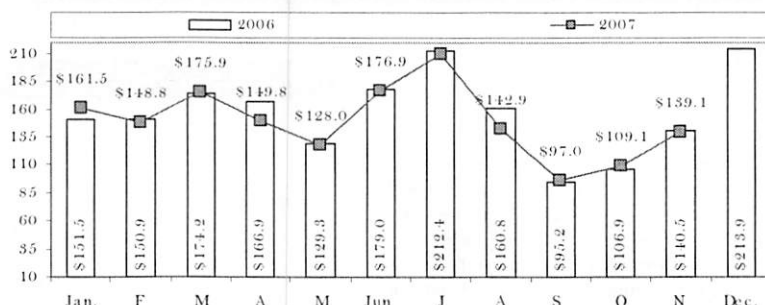
Total Visitors to the island for February 2008 was 34,155 (or 13.3%) more than that of the corresponding month in 2007. Refer to table 8 for year to date (YTD) trends in tourist arrivals.

Table 7: Tourist Arrivals

	2007 YTD (Jan-Feb)	2008 YTD (Jan-Feb)	% Change	
			YOY	Feb (08/06)
<b>Stopover</b>	<b>262705</b>	<b>299692</b>	<b>14.1%</b>	<b>18.0%</b>
Foreign Natls	251740	281595	11.9%	15.5%
Non-Resident Natls	10965	18097	65.0%	75.1%
<b>Cruise</b>	<b>266858</b>	<b>278074</b>	<b>4.2%</b>	<b>8.3%</b>
<b>Total Arrivals</b>	<b>529563</b>	<b>577766</b>	<b>9.1%</b>	<b>13.3%</b>

Source: Jamaica Tourist Board (preliminary) & BOJ BOP Statistical Update

Figure 4: Estimated Tourism Expenditure



Source: Jamaica Tourist Board (preliminary data) & BOJ Statistical Update (Revised values)

## External Trade

The trade deficit worsened by approximately 31% in January 2008 when compared with January of 2007. In just the first month of the year, import value exceeds export value by a factor of 3.6 (Jan'07 factor = 3.1).

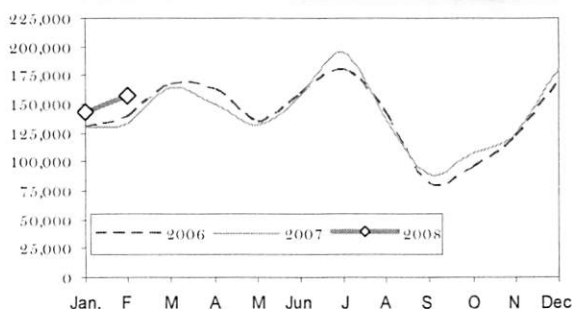
It therefore means that for every US\$1 earned in exports during January 2008, approximately US\$3.60 was spent on goods imported into the country. The graph in figure-6 depicts the relationship between total Exports and the accumulated trade balance. A representation of total imports is achieved by combining the two bars (export and trade balance).

Both export and import levels exceeded the levels attained in the corresponding period before. Import growth, however, exceeded export growth by a factor of 14.6 resulting in a 30.7% worsening of the trade deficit in the review month (see table 8 and figure 6).

In January 2008 mineral fuels captured a substantial 32% of import value to the country. When compared to the corresponding period last year, oil prices grew by 58% becoming a major contributor to the upward trends in import value being observed (see Oil prices in figure 7).

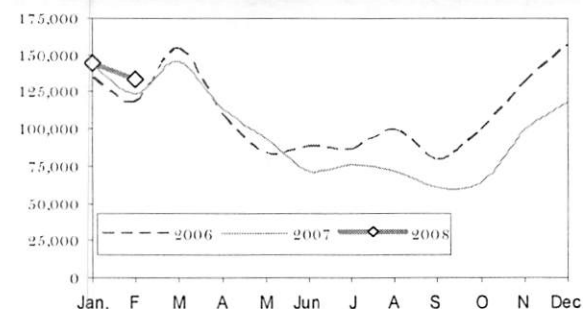
At the end of April 2008, the West Texas Intermediary Crude Oil price

Figure 5A: Stopover Arrivals to Jamaica



Source: Jamaica Tourist Board (preliminary data)

Figure 5B: Cruise Arrivals to Jamaica



Source: Jamaica Tourist Board (preliminary data)



reached US\$113.4 per 42 gallon barrel. The highest price attained during the month was US\$121.57 per barrel attained during the last week. The price grew by 11.7% since the end of March 2008. This compares less than favourably to the 0.3% price reduction in the preceding month (see fig 7).

During January 2008, the major import segments were: Mineral Fuels (31.9% of total imports), Machinery & Transport Equipment (19.0%), Chemicals (12.2%), Manufactured Goods (11.8%), Food (11.2%) and Misc. Manufactured Articles (1.3%).

All import segments grew except for Food that declined by 6.3% when compared to the corresponding period of 2007.

**Exports:** Both Traditional and Non-Traditional exports grew during January 2008. Traditional Exports increased by mere 0.6% (US\$0.74M), while Non-traditionals expanded by a noticeable 11.7% (US\$5.9M). "Mining & Quarrying" was the largest contributor to this category capturing in excess of 95% of total traditional exports. The segment grew by 1.3% to account for approximately 93% of traditional export growth. Alumina exports contributes approximately 90% of the Mining and Quarrying sector exports while Bauxite exports accounts for the remainder.

Though growth in coffee exports reached levels in excess of growth in the overall mining and quarrying sector, the poor performance in banana and cocoa (zero in January) led to an overall marginal performance in total "Agriculture" exports (see table 8).

The "Manufacturing" sector experienced a decline in performance in January when compared to the corresponding period of 2007. The sector contracted by 19.5% in January when compared to the corresponding period before reflect the 89% reduction in coffee products exported (see Table 8).

In the Non-Traditional sector, exports increased by a significant 11.7%. This was influenced largely by a US\$14.4 billion (52.5%) rise in Mineral Fuels export. Mineral Fu-



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Table 8: External Trade (US\$M)

	Jan 2007	Jan 2008	Change	% Change
<b>TOTAL EXPORTS (fob)</b>	<b>169.03</b>	<b>177.17</b>	<b>8.13</b>	<b>4.8%</b>
Major Traditional Exports	114.91	115.65	0.74	0.6%
by Sector:-				
Agriculture	2.05	2.15	0.10	4.7%
Mining & Quarrying	108.94	110.35	1.41	1.3%
Manufacturing	3.92	3.16	-0.76	-19.5%
by Industry:-				
Bauxite	9.83	11.49	1.66	16.9%
Alumina	99.11	98.86	-0.25	-0.2%
Sugar	-	-	0.00	
Rum	2.85	2.94	0.09	3.2%
Bananas	0.80	0.00	-0.80	-100.0%
Coffee	0.35	1.92	1.56	445.4%
Other	1.97	0.44	-1.53	-77.6%
Non-Traditional Exports	50.67	56.61	5.94	11.7%
Re-exports	3.46	4.90	1.44	41.7%
<b>TOTAL IMPORTS</b>	<b>528.27</b>	<b>646.66</b>	<b>118.39</b>	<b>22.4%</b>
Food	77.34	72.43	-4.91	-6.3%
Beverages & Tobacco	7.42	9.43	2.01	27.1%
Crude Materials (excl. Fuels)	5.20	7.19	1.99	38.2%
Mineral Fuels, etcetera	136.54	206.41	69.87	51.2%
Animal & Vegetable Oils & Fats	3.52	3.87	0.35	10.0%
Chemicals	65.19	79.08	13.89	21.3%
Manufactured Goods	62.82	76.50	13.69	21.8%
Machinery and Transport Equip.	107.05	122.64	15.58	14.6%
Misc. Manufactured Articles	55.89	60.55	4.66	8.3%
Other	7.29	8.55	1.27	17.4%
<b>TRADE BALANCE</b>	<b>(359.23)</b>	<b>(469.49)</b>	<b>-110.26</b>	<b>30.7%</b>

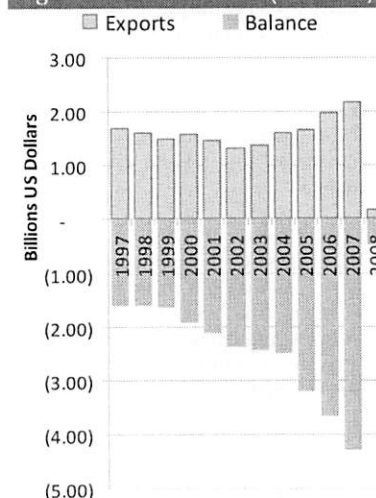
Source: STATIN Jamaica and Bank of Jamaica (BOJ Monthly Statistical Update)

els accounts for 74% of total Non-traditional exports. Counteracting this movement, however, was the observed US\$10.06 billion (84.9%) cutback in exports of waste and scrap metals when compared to the corresponding period before.

Food and beverages (excluding rum) grew to complement the expanded growth in mineral fuels. There were substantial increases in food exports such as yam, some dairy products, breads, biscuits, buns and other food items. This, however, was significantly offset by the US\$1.29 billion (80.3%) set back in Ackee exports when compared to the corresponding month of 2007.

Non-alcoholic beverages export in-

Figure 6: Trade Balance (Jan 2008)



Source: BOJ (Import = Export + Balance)

creased by an approximate 56% while alcoholic beverages (not taking account of rum) also increased by a substantial 30.9% when January 2008 was compared to January 2007.

## Balance of Payments

During the year 2007, the current account deficit deteriorated by 55% of the level it was in the preceding year (see Table 9). Trends in the import bill was the main contributor to the turnout having outpaced exports growth by a ratio of (3.6 : 1).

The deficit on the **Goods Account** expanded by 16% over the periods being compared. This growth emanated from the increased levels of imports of mineral fuels, chemicals, machinery and transport equipment, and food segments. The growth observed in exports, however, was attributed to the higher levels of alumina exports that was also complemented by the growth shown in sugar exports during the period. (see table 9—sub “Goods Balance”).

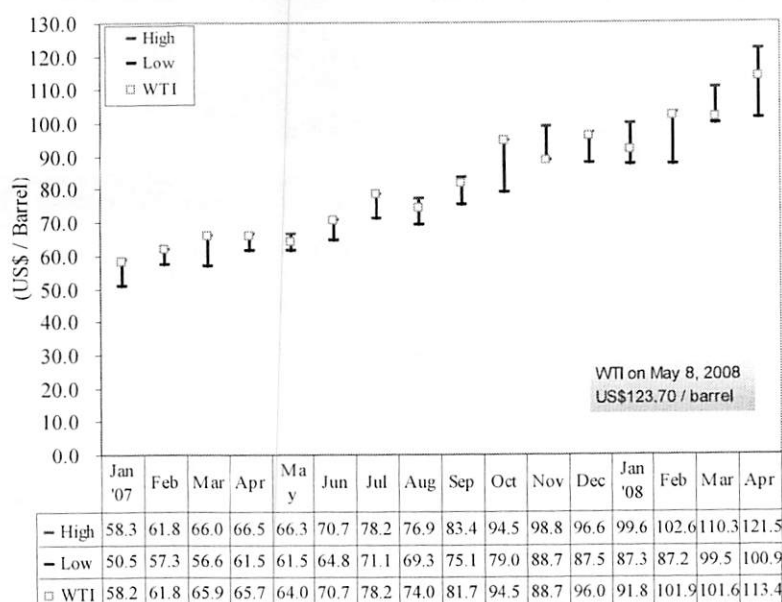
Despite a surplus on the **Services account**, there was a net reduction in flows over the year. The Transportation account deficit worsened due to an increase in freight charges. The position of the Services account was further exacerbated by a contraction in the inflows to the travel account. This was attributed to the observed reduction in cruise arrivals during the term (see table 11).

The **Income Account** deficit worsened by 31% during 2007 and was largely attributed to higher levels of outflows for ‘Investment Income’. This reflects the increase in profits reattributed to foreign direct investors coupled with higher interest payments on government external debt.

The ‘**Current Transfers**’ segment of the Current Account grew by 13% for the period and was wholly attributed to the increased non-official flows of remittances to the territory. Private remittances accounts for approximately 93% of this segment total net inflows.

Currency flows to the **Financial account** during the year was US\$139.8 Million less than the

Figure 7: West Texas Intermediate Crude Oil Prices (WTI) US\$ / Barrel



Source: PSOI Compilation from Union Pacific (<http://www.uprr.com/customers/surcharge/wti.shtml>)

Table 9: Balance Of Payments (US\$M)

	Jan-Dec'06	Jan-Dec'07	Change	% Change
<b>Current Account</b>	<b>-1182.9</b>	<b>-1830.4</b>	<b>-647.5</b>	<b>-55%</b>
<b>Goods Balance</b>	<b>-2943.4</b>	<b>-3453.0</b>	<b>-509.7</b>	<b>-17%</b>
Exports	2133.6	2330.9	197.3	9%
Imports	5077.0	5784.0	707.0	14%
<b>Services Balance</b>	<b>627.6</b>	<b>459.5</b>	<b>-168.1</b>	<b>-27%</b>
Transportation	-426.5	-530.6	-104.1	-24%
Travel	1596.6	1537.1	-59.5	-4%
Other Services	-542.6	-547.0	-4.5	-1%
<b>Income</b>	<b>-615.7</b>	<b>-805.9</b>	<b>-190.3</b>	<b>-31%</b>
Compensation of emplys	96.0	87.8	-8.2	-9%
Investment Income	-711.7	-893.8	-182.1	-26%
<b>Current Transfers</b>	<b>1748.6</b>	<b>1969.1</b>	<b>220.5</b>	<b>13%</b>
Official	145.4	143.6	-1.8	-1%
Private	1603.2	1825.5	222.3	14%
<b>Capital &amp; Financial Account</b>	<b>1182.9</b>	<b>1830.4</b>	<b>647.5</b>	<b>55%</b>
<b>Capital Account</b>	<b>-0.1</b>	<b>-4.7</b>	<b>-4.6</b>	<b>-4600%</b>
Capital Transfers	-0.1	-4.7	-4.6	-4600%
Official	4.1	0.7	-3.4	-83%
Private	-4.2	-5.4	-1.2	-29%
Acq/dis.	0.0	0.0	0.0	-
<b>Financial Account</b>	<b>1183.0</b>	<b>1835.1</b>	<b>652.1</b>	<b>55%</b>
Other Official Invst	633.0	645.8	12.8	2%
Other Private Invst	780.1	749.5	-30.6	-4%
Reserves	-230.1	439.8		

Source: BOJ & Statistical Update:

amount needed to fund the Current and Capital account deficits. This balance was funded from the NIR during the period.

Table 10: Fiscal Accounts (J\$ Million)

	April-March (Fiscal—2007/08)				Apr-Mar (YOY)	
	J\$ million		Deviation		06/07 - 07/08	
	Provisional	Budget	J\$M	(%)	J\$M	(%)
<b>Revenue &amp; Grants</b>	<b>252,035.8</b>	<b>243,091.7</b>	<b>8,944.1</b>	<b>3.68</b>	<b>40,109.8</b>	<b>19.0</b>
Tax Revenue	219,517.6	217,630.2	1,887.3	0.87	30,840.6	16.4
Non-Tax Revenue	18,235.0	14,340.6	3,894.4	27.16	4,199.7	29.9
Bauxite Levy	4,998.3	4,268.2	730.1	17.11	828.4	19.9
Capital Revenue	4,745.5	3,562.4	1,183.1	33.21	1,100.1	33.4
Grants	4,539.4	3,290.2	1,249.2	37.97	3,141.2	173.2
<b>Expenditure</b>	<b>294,279.6</b>	<b>278,181.0</b>	<b>16,098.6</b>	<b>5.79</b>	<b>45,635.1</b>	<b>18.3</b>
Recurrent Expenditure	252,877.9	239,300.0	13,577.9	5.67	27,735.3	12.3
Programmes	64,918.7	49,320.0	15,598.6	31.63	15,112.5	30.8
Wages & Salaries	86,235.8	88,510.2	-2,274.4	-2.57	8,060.7	10.2
Interest	101,723.4	101,469.8	253.6	0.25	4,562.1	4.7
Domestic	70,022.8	70,487.5	-464.7	-0.66	-946.5	-1.3
External	31,700.7	30,982.3	718.4	2.32	5,508.5	20.8
Capital Expenditure	41,401.7	38,881.0	2,520.7	6.48	17,899.7	76.2
Capital Programmes	41,401.7	38,881.0	2,520.7	6.48	17,899.7	76.2
IMF #1 Account	0.0	0.0	0.0		0.0	
<b>Fiscal Balance (Surplus [+]/ve)</b>	<b>-42,243.8</b>	<b>-35,089.3</b>	<b>-7,154.5</b>	<b>-20.39</b>	<b>-5,525.3</b>	<b>-14.7</b>
Loan Receipts	135,240.3	113,847.4	21,392.9	18.79	-25,151.5	-15.6
Domestic	118,404.8	96,614.4	21,790.4	22.55	-8,787.0	-6.8
External	16,835.5	17,233.1	-397.5	-2.31	-16,364.5	-50.4
Divestment Proceeds	4,541.8	0.0	4,541.8		4,541.8	
Amortization	106,115.4	102,183.7	3,931.7	3.85	-16,356.8	-13.4
Domestic	68,822.1	68,737.5	84.6	0.12	-36,586.9	-34.8
External	37,293.4	33,446.2	3,847.1	11.50	20,230.3	119.5
<b>Overall Balance (Surplus [+]/ve)</b>	<b>-8,577.1</b>	<b>-23,425.6</b>	<b>14,848.5</b>	<b>63.39</b>	<b>-9,778.3</b>	<b>-508.5</b>
<b>Primary Balance (Surplus [+]/ve)</b>	<b>59,479.6</b>	<b>66,380.5</b>	<b>-6,900.8</b>	<b>-10.40</b>	<b>-963.2</b>	<b>-1.6</b>

Source: Ministry of Finance and Planning

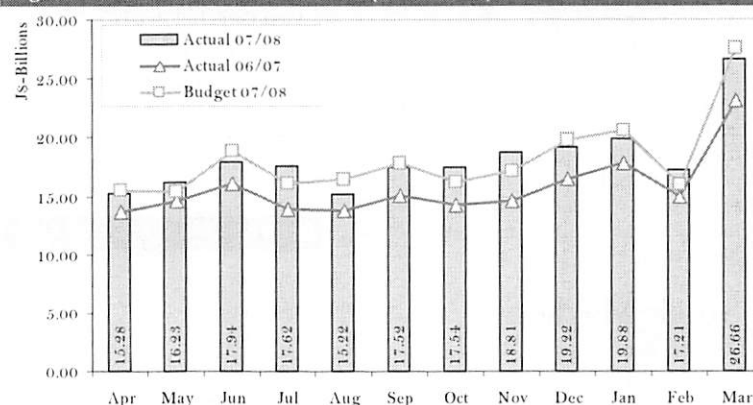
## Fiscal Accounts

For the fiscal period 2007/08 the Government Of Jamaica (GOJ) accumulated a fiscal deficit \$42.24 billion which was \$7.15B (20.4%) above the period's budgeted deficit.

**REVENUE:** All categories within the Revenue and Grants segment reflected a budget surplus. Tax Revenue exceeded budget by \$1.89-B (or 0.87%). This was mainly attributed to the higher than planned collections from PAYE, Companies, Tax on Dividends and GCT on Imports (see table 11). Other positively contributing categories includes a substantial increase of \$3.89B (or 27%) in Non-Tax revenue and both Capital Revenue and Bauxite Levy (up by 33.2% and 17.11% respectively (see Table 11).

*Tax Revenue* — Within the Tax reve-

Figure 8: Tax Revenue Collections (J\$-Billions)



Source: Ministry Of Finance and Planning (Jamaica)

nue category the five (5) largest tax income generating components for the eleven (11) month period were PAYE, Local GCT, GCT on Imports, Other Companies, Custom Duty and Tax on Interest (see Fiscal Account

chart in Appendix). When combined, these items represented approximately 79% of all tax income revenue. Revenue items that were less than budgeted for the period includes Tax on Interest Special Consumption Tax

(SCT) on Imports, Special Consumption Tax, Tax on Bauxite/Alumina and Local GCT (see table 11).

**EXPENDITURE:** Expenditure for the fiscal year exceeded budget by 5.8%. Programmes Expenditure exceeded budget by 31% contributing an additional \$15.60 billion to the period's Recurrent Expenditure. Interest payment also exceeded budget by the value of \$253.6 Million (or 0.25%). The added interest payments in excess of budget was attributed wholly to external interest obligations. Domestic interest payments were contained within targeted levels. This, however, was not sufficient to fully offset the higher levels of external interest payments reported. Additionally, capital expenditure exceeded budget by \$2.5 billion (6.5%) in FY 2007/08.

During the fiscal period Loan Receipts exceeded budget by 18.8%. This reflected an increase in domestic borrowing of \$21.8 billion (22%) above the budgeted level. External borrowing was, however, cut short of budget by 2.3% but provided little offsetting power on the substantial increase in domestic market borrowing (see table 10).

Debt Amortization was 3.85% more than planned for the period. This was due almost wholly to external debt amortization. The Primary Balance (overall balance excluding interest payments) was approximately \$59 billion falling short of budget by \$6.9 billion or 10.4%.

**PUBLIC DEBT:** Total public debt at the end of December 2007 stood at \$990.80 billion, some \$68 billion over the first nine (9) months of the fiscal year. Between April 2007 and December 2007 the Domestic Debt stock increased by \$44.5 billion (9%) to end the month at \$558.43 billion. For the same period External Debt increased by approximately US\$87 million to close December 2007 at US\$6,122.8 M.

## Stock Market

The Main Jamaica Stock Market Index increased by 1,914.53 points or 1.78% during April 2008 to close at 109,353.87 points on its last trading day (see figure 9). In the first four months of 2008, the main JSE index grew by 1,385.81 points (or 1.28%).

Market capitalization increased by \$15.45 billion or 1.77% over the month

**Table 11: Major Deviations in Fiscal Revenue and Expenditure**

J\$-Millions		Apr-Feb 07/08
<b>Revenue (Revenue Surpluses)</b>		
Non-Tax Revenue		3,894.40
PAYE		2,499.10
Other Companies		2,371.70
Tax on Dividend		1,693.40
Capital Revenue		1,183.10
GCT (Imports)		1,024.40
<b>Revenue (Revenue Shortfalls)</b>		
Tax on Interest		-3,001.20
SCT (imports)		-1,929.60
SCT		-1,295.00
Bauxite / Alumina		-767.60
Local GCT		-419.50
<b>Expenditure (Changes)</b>		
Programmes	(Over-run)	15,598.60
Capital Programmes	(Over-run)	2,520.70
External - Interest	(Over-run)	718.40
Domestic - Interest	(Savings)	-464.7
Wages & Salaries	(Savings)	-2,274.40

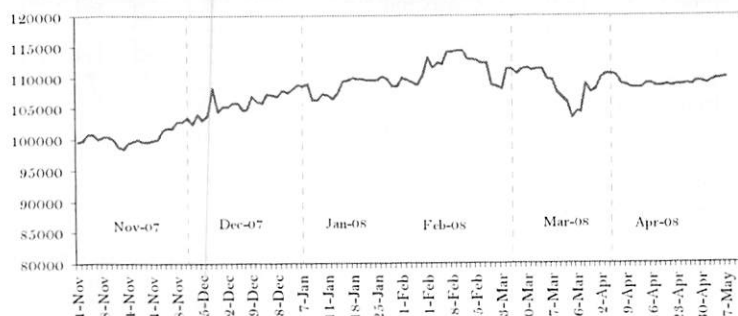
Source: Ministry Of Finance and Planning (Jamaica)

**Table 12: Returns for Listed Companies on the JSE**

<b>Year-to-Date Performers on the Jamaica Stock Exchange</b>				
	31-Dec-07	30-Apr-08	\$ change	% change
Pulse Investments	2.60	8.00	5.40	207.69%
Ciboney Group	0.01	0.03	0.02	200.00%
Salada Foods	44.00	80.00	36.00	81.82%
Pegasus Hotel	10.65	15.70	5.05	47.42%
Montego Freeport	1.60	2.30	0.70	43.75%
<b>Bottom Five (unadjusted for dividends or transact. Costs)</b>				
Gleaner Company	4.30	2.84	(1.46)	-34.0%
First Carib Intl Bnk Ja.	27.00	22.50	(4.50)	-16.7%
Lascelles, de Mercado	565.00	490.00	(75.00)	-13.3%
First Carib. Intl. Bank	152.00	140.00	(12.00)	-7.9%
Hardware & Lumber	16.00	15.08	(0.92)	-5.8%

Source: Compiled from the JSE.

**Figure 9: Main JSE Index, Nov-07 - Apr-08**



Source: Jamaica Stock Exchange (Online Database) and PSQJ



of April 2008. At the end of the month Market Capitalization value was approximately \$888.96 billion.

For the first four months of 2008, Pulse Investments recorded the largest price appreciation. This represents a \$5.10 (or 207%) increase per share to end April at a price of \$8.00.

Ciboney Group boasted the second largest price appreciation for the review period. The stock price increased by 200% over the four months to close at 3 cents per share up from a price of 1 cent at December end 2007. The other major price appreciators were Salada Foods climbing by \$36.00 (or 81.8%), Pegasus Hotel up by \$5.05 (or 47.4%), and Montego Freeport up 70 cents (or 43.8%).

The Gleaner Company recorded the largest price decline over the first four months of 2008. The Company ended April with a price per share of \$2.84 representing a \$1.46 (or 34%) decline.

First Caribbean International Bank Jamaica was next inline with a closing price of \$22.5 representing a \$4.50 (or 16.7%) capital loss over the four months. Other companies reflecting a significant price decline were Lascelles, de Mercado (-13.3%), First Caribbean International Bank (-7.9%), and Hardware & Lumber (down 5.8%) (see Table 12).

## Developments & Outlook

### Review of Local Tax Incentive System:

The government has undertaken to conduct a comprehensive review of the local tax incentive system. It has been suggested that a number of incentives provided to economic agents are too generous. The review, to be conducted by international professionals, cited Senator Don Webby, will seek to determine the economic costs and impact on revenue, national debt, investment levels and economic growth (JIS) levels. The initiative is planned for the current fiscal period in keeping with plans to reform the Jamaican tax system.

### BOJ Quarterly Monetary Policy Review:

On Wednesday May 7, 2008 the Bank

Of Jamaica (BOJ) held its first quarterly review for the year 2008.

**Inflation:** The Jamaican economic environment continues to be affected by the unfavorable international economic conditions experienced within the commodities market. The main factors include the increasing prices of agriculture raw materials and to a lesser extent, since the year begun, fluctuations in international oil prices. These trends are indicative of the combined effects of both growing demand on the world market together with declining supplies. These circumstances are further exacerbated by heightened speculation in the commodity futures markets inflating the prices being borne by the average consumer internationally.

On the domestic scene there has been heightened demand for agriculture products in retail outlets placing strong pressure on prices to rise. These pressures emanated from greater levels of exports and increased demand by agro-processors during the period. This was the case despite increased levels of production when compared to the December 2007 quarter.

The portion of inflation that was imported (external price factors) is significantly explained by the 20.1% increase in the West Texas Intermediate (WTI) oil price when compared to the quarter before. Additionally, both the lagged and continuous adjustments of prices to reflect the scarcity of wheat, rice and other raw food materials have placed pressure on domestic prices to rise.

In excess of 50% of the first quarter inflation was attributed to food and non-alcoholic beverages due to unfavorable conditions within the agriculture sector. The Bank also reported that bread, cereals and milk prices were also among the segments contributing substantially to the term's overall inflation. The 2008 March quarter inflation of 5.2% exceeded the 1.2% average experienced over the past five march quarters (BOJ report).

**Monetary:** The local currency market was described as having heightened liquidity during the quarter resulting in instability within the foreign exchange market. The in-

creased liquidity resulted largely from the maturing and redemption of GOJ and OMO instruments. The BOJ sought to address these liquidity issues alongside the concerns of heightened inflationary pressures by intervening with a variety of policy tools. Among the strategies taken were the sale of foreign currency; the issue of Variable Rate Certificate of Deposit (VR-CD) open market instruments; the upward adjustment of interest rates and; the re-introduction of the 365 day tenor.

The BOJ purchased an additional US\$289.7 million during the quarter resulting in a growth in Net International Reserves (NIR) to US\$2,083.4 at the periods' end. The excess Jamaican dollar liquidity that resulted from that purchase was absorbed by the banks' Open Market Operation (OMO) sales.

Despite the efforts made in stabilizing the foreign exchange market, the OMO translated into an upward adjustment in the average weighted lending rates offered by Central Banks during the quarter by 22 bps. The BOJ reports that the demand pressures within the exchange market abated somewhat as foreign exchange earnings were strengthened by increased flows from the tourism sector and the sale of Lascelles to a foreign owned company Angostura.

**Private Sector Credit:** Private sector credit increased over the March 2008 quarter by 2.7%. However, this was at a slower rate of growth when compared to the 5.1% and 6.7% increases of the December 2007 and March 2007 quarters respectively. The fiscal year ending March 2008 recorded a private sector credit growth of 23.8% that clearly outperformed the 13.5% financial programme target.

The BOJ revealed that the slower rate of growth in private sector credit was attributed to net repayments of loans within the Tourism and Distribution sectors. Tourism credit slowed from a 5.2% in December 2007 to 2.8% in March 2008 quarter due to increased loans during the Christmas period for refurbishing rooms for winter season tourists. The Distribution sector having accumulated higher levels of inventories during the December quarter, required less financing during the period. Personal loans also declined reflecting reduced levels of spending after the Christmas period.

# APPENDIX

## INFLATION (MARCH 2008 CPI)

INFLATION - MARCH 2008	% Change	Weighted Δ	Rank	Infl. Contribution
<b>All GROUPS</b>	<b>1.15%</b>	<b>1.152</b>		
<b>FOOD AND NON-ALCOHOLIC BEVERAGES</b>	<b>2.14%</b>	<b>0.802</b>	<b>1</b>	
Food	2.21%			
Bread and Cereals	0.94%			
Meat	1.58%			
Fish and Seafood	3.52%			
Milk, Cheese and eggs	1.94%			
Oils and Fats	3.82%			
Fruit	1.20%			
Vegetables and Starchy Foods	3.06%			
Vegetables	3.72%			
Starchy Foods	1.79%			
Sugar, Jam, Honey, Chocolate and Confectionery	1.64%			
Food Products n.e.c.	1.96%			
Non-Alcoholic Beverages	0.82%			
Coffee, tea and Cocoa	0.34%			
Mineral waters, Soft Drinks, Fruit and Veg Juices	1.05%			
<b>ALCOHOLIC BEVERAGES AND TOBACCO</b>	<b>0.75%</b>	<b>0.010</b>	<b>8</b>	
<b>CLOTHING AND FOOTWEAR</b>	<b>0.90%</b>	<b>0.030</b>	<b>6</b>	
Clothing	0.86%			
Footwear	0.91%			
<b>HOUSING, WATER, ELECT., GAS AND OTHER FUELS</b>	<b>-0.87%</b>	<b>-0.111</b>	<b>12</b>	
Rentals for Housing	0.96%			
Maint and Repair of Dwelling	0.74%			
Water Supply and Misc. Serv Related to the Dwelling	-6.44%			
Electricity, Gas and Other Fuels and Routine	-0.99%			
<b>FURNISH. HSHOLD EQUIP &amp; HSHOLD MAINT.</b>	<b>0.73%</b>	<b>0.036</b>	<b>4</b>	
Furniture and Furnishings (including Floor Coverings)	1.11%			
Household Textiles	0.85%			
Household Appliances	2.27%			
Glassware, Tableware and Household Utensils	1.78%			
Tools and Equipment for House and Garden	0.08%			
Goods and Serv. for Routine Household Maint	0.40%			
<b>HEALTH</b>	<b>0.25%</b>	<b>0.009</b>	<b>9</b>	
Medical Products, Appliances and Equipment	0.45%			
Health Services	0.29%			
<b>TRANSPORT</b>	<b>0.46%</b>	<b>0.059</b>	<b>3</b>	
<b>COMMUNICATION</b>	<b>0.00%</b>	<b>0.000</b>	<b>10</b>	
<b>RECREATION AND CULTURE</b>	<b>0.89%</b>	<b>0.030</b>	<b>5</b>	
<b>EDUCATION</b>	<b>0.00%</b>	<b>0.000</b>	<b>10</b>	
<b>RESTAURANTS AND ACCOMMODATION SERVICES</b>	<b>0.42%</b>	<b>0.026</b>	<b>7</b>	
<b>MISCELLANEOUS GOODS AND SERVICES</b>	<b>3.62%</b>	<b>0.303</b>	<b>2</b>	

## FISCAL ACCOUNT (Apr-Mar — 2007/08)

REV & EXPN (APR'07 - MAR'08)	J\$m	PROVISIONAL Results	J\$m	BUDGET DEVIATION	J\$m	YOY - CHANGE
<b>Revenue &amp; Grants</b>	252,035.8		8,944.1		40,109.80	
Tax Revenue	219,517.6		1,887.3		30,840.60	
Non-Tax Revenue	18,235.0		3,894.4		4,199.70	
Bauxite Levy	4,998.3		730.1		828.40	
Capital Revenue	4,745.5		1,183.1		1,100.10	
Grants	4,539.4		1,249.2		3,141.20	
<b>Expenditure</b>	294,279.6		16,098.6		45,635.10	
Recurrent Expenditure	252,877.9		13,577.9		27,735.30	
Programmes	64,918.7		15,598.6		15,112.50	
Wages & Salaries	86,235.8		-2,274.4		8,060.70	
Interest	101,723.4		253.6		4,562.10	
Domestic	70,022.8		-464.7		-946.50	
External	31,700.7		718.4		5,508.50	
Capital Expenditure	41,401.7		2,520.7		17,899.70	
Capital Programmes	41,401.7		2,520.7		17,899.70	
IMF #1 Account	0.0		0.0		0.00	
<b>Fiscal Balance (Surplus [+ve])</b>	-42,243.8		-7,154.5		-5,525.30	
Loan Receipts	135,240.3		21,392.9		-25,151.50	
Domestic	118,404.8		21,790.4		-8,787.00	
External	16,835.5		-397.5		-16,364.50	
Divestment Proceeds	4,541.8		4,541.8		4,541.80	
Amortization	106,115.4		3,931.7		-16,356.80	
Domestic	68,822.1		84.6		-36,586.90	
External	37,293.4		3,847.1		20,230.30	
<b>Overall Balance (Surplus [+ve])</b>	-8,577.1		14,848.5		-9,778.30	
<b>Primary Balance (Surplus [+ve])</b>	59,479.6		-6,900.8		-963.20	

REV. Only (APR'07 - MAR'08)	J\$m	PROVISIONAL Results	J\$m	BUDGET DEVIATION	J\$m	YOY - CHANGE
<b>Revenue &amp; Grants</b>	252,035.8		8,944.3		40,663.6	
Tax Revenue	219,517.6		1,887.5		30,840.6	
Income and profits	92,625.7		3,684.0		16,304.7	
Bauxite/alumina	731.5		-767.6		-681.7	
Other companies	20,463.3		2,371.7		3,590.5	
PAYE	48,160.1		2,499.1		7,194.4	
Tax on dividend	1,926.8		1,693.4		1,713.3	
Other individuals	3,305.3		888.5		918.9	
Tax on interest	18,038.6		-3,001.2		3,569.3	
Environmental Levy	1,698.0		498.0		1,697.8	
Production and consumption	64,268.9		-1,301.9		5,866.2	
SCT	3,523.7		-1,295.0		-519.4	
Motor vehicle licenses	1,020.3		-35.2		55.7	
Other licenses	313.4		10.8		36.9	
Betting, gaming and lottery	1,243.8		29.6		98.5	
Education Tax	10,261.0		284.0		1,051.9	
Contractors levy	814.3		-84.1		-20.9	
GCT (Local)	37,446.9		-419.5		414.1	
Stamp Duty (Local)	9,645.6		207.6		1,021.6	
International Trade	60,925.0		-992.6		6,972.5	
Custom Duty	19,207.5		41.2		1,948.9	
Stamp Duty	1,190.8		-90.4		62.2	
Travel Tax	2,247.6		-38.2		227.8	
GCT (Imports)	29,250.1		1,024.4		4,916.9	
SCT (Imports)	9,029.0		-1,929.6		-1,822.9	
Non-Tax Revenue	18,235.0		3,894.4		4,199.7	
Bauxite Levy	4,998.3		730.1		828.4	
Capital Revenue	4,745.5		1,183.1		1,100.1	
Grants	4,539.4		1,249.2		3,141.2	

### Statistical Index Major Macro-Economic Indicators

	BM		M2		NIR	Fgn Cur-Dep	Inflation		Tourism	J\$/US\$	T-bill	Loan	Sav	Dom Debt	Fgn Debt
	M	P	M	P	US\$M	US\$M	M	P	P		%	%	%	J\$M	US\$M
Jan '06	-10.28	11.57	-1.70	8.01	2,093.50	2,028.59	0.1	13	15.87	64.99	13.3	21.84	5.30	489,671.66	5,398.74
Feb	-12.84	11.71	0.71	9.10	2,024.24	2,045.44	-0.03	12.4	9.01	65.36	13.2	21.84	5.30	486,690.28	5,621.88
Mar	-0.18	4.71	-0.27	8.80	2,078.10	2,027.75	0.09	11.7	5.05	65.50	13.18	21.84	5.30	482,712.53	5,567.42
Apr	3.12	11.91	0.54	7.87	2,151.80	2,033.37	1.14	12.3	22.55	65.63	13.07	21.84	5.30	489,664.97	5,622.32
May	-0.44	10.41	0.34	7.84	2,162.80	2,044.98	0.40	8.6	17.2	65.73	12.84	21.84	5.30	490,098.32	5,639.65
Jun	0.40	12.15	0.96	9.46	2,110.10	2,056.72	1.27	8.4	19.7	66.03	12.82	22.50	5.39	502,404.45	5,611.53
Jul	3.24	12.96	1.18	9.78	2,087.90	2,049.93	1.36	8.2	25.9	65.99	12.81	22.50	5.39	510,481.97	5,617.45
Aug	2.20	12.33	-0.46	8.31	2,215.60	2,178.41	0.31	8.5	24.3	65.93	12.79	22.5	5.39	513,805.41	5,618.38
Sep	-0.23	17.20	-0.04	8.00	2,342.00	2,119.49	0.75	6.5	11.7	66.06	12.49	21.80	5.36	520,394.81	5,619.32
Oct	-0.53	15.37	1.12	5.99	2,306.40	2,104.08	-0.08	5.8	24.1	66.50	12.30	21.80	5.36	530,109.25	5,622.95
Nov	2.67	16.30	2.44	9.55	2,352.99	2,241.85	-0.18	5.3	9.5	66.92	12.31	21.80	5.36	539,864.26	5,827.13
Dec	19.97	17.32	5.69	12.30	2,317.55	2,185.37	0.51	5.8	9.4	67.15	12.31	21.90	5.20	536,673.14	5,795.64
Jan '07	-12.04	15.01	n/a	n/a	2,288.40	2,183.07	0.29	6.0	3.2	67.55	11.99	21.90	5.20	527,998.13	5,760.19
Feb	1.91	18.96	-0.78	10.18	2,185.56	2,146.56	0.18	6.2	-0.2	67.55	11.94	21.90	5.20	521,305.93	5,746.97
Mar	-0.28	18.84	0.45	10.98	2,329.40	2,120.34	0.50	6.6	-3.8	67.80	11.65	22.49	5.15	513,930.86	6,035.34
Apr	-0.17	15.05	1.69	11.77	2,292.36	2,205.28	0.68	6.1	-3.0	68.08	11.81	23.07	5.15	536,441.87	6,065.20
May	1.13	16.86	2.04	13.65	2,252.22	2,215.39	0.67	6.4	3.7	68.22	11.96	23.04	5.13	535,788.09	6,031.10
Jun	1.28	17.88	1.46	14.73	2,238.87	2,244.91	0.51	5.6	-7.5	68.58	12.16	22.49	5.17	500,100.28	6,130.82
Jul	2.58	17.12	2.13	15.81	2,146.18	2,246.79	1.01	7.3	2.14	68.81	12.21	22.49	5.17	544,839.92	6,163.47
Aug	1.24	16.02	1.92	23.37	2,067.29	2,320.14	0.98	8.1	-13.4	69.83	14.29	22.08	4.88	546,490.38	6,178.10
Sep	-1.01	15.11	1.21	20.06	1,916.19	2,359.20	1.59	9.0	-5.5	70.41	13.61	21.08	4.88	552,027.91	5,980.52
Oct	1.20	17.11	2.92	21.98	1,924.53	2,408.12	1.38	10.59	-11.3	71.18	13.61	20.90	4.88	561,489.06	6,140.70
Nov	1.70	16.00	0.24	19.36	1,808.45	2,419.64	3.26	14.43	-11.5	71.36	13.57	21.24	4.88	560,400.21	6,134.51
Dec	16.41	12.56	3.57	16.97	1,877.73	2,424.20	2.46	16.80	-8.0	70.62	13.34	20.82	4.88	558,426.33	6,122.76
Jan '08	-11.73	12.95	n/a	14.01	1,819.08	2,454.38	2.23	18.21	5.1	71.74	13.33	21.64	4.88	n/a	n/a
Feb	0.34	11.22	1.61	16.77	1,956.20	2,436.13	1.76	19.90	13.3	71.37	14.22	22.39	4.88	n/a	n/a
Mar	1.81	13.54	n/a	n/a	2,083.40	n/a	1.15	19.90	n/a	71.09	14.23	22.47	4.88	n/a	n/a
Apr	-2.17	11.27	n/a	n/a	2,162.86	n/a	n/a	n/a	n/a	71.35	14.20	22.39	4.50	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.



<u>Key:</u>	
ACP— Africa Caribbean Pacific States	Loan – Average Loan Rate
BM – Base Money	M – Monthly Percentage Change
BP – Basis Points	M2 – Money Supply
CaPRI— Caribbean Policy and Research Institute	MT – Million tonnes
CARICOM— Caribbean Community & Common Market	N/A – Not Available
CARIFORUM— CARICOM and Dominican Republic	NIR – Net International Reserves
CPI – Consumer Price Index	OMO – Open Market Operation
CSME— Caribbean Single Market & Economy	P – Point-to-Point Percentage Change
EC— European Commission	R – Revised
EPA—Economic Partnership Agreement	S – Stopover
EU—European Union	Save – Average Savings Deposit Rate
FX Dep – Foreign Exchange Deposit	Tbill – 6-month Treasury Bill Yield
JCB – Jamaica Conference Board	Tourism – Total Tourist Arrivals
JCC – Jamaica Chamber of Commerce	WATBY- weighted average Treasury bill yield
KMA – Kingston and Metropolitan Area	WTO—World Trade Organization
WTI – West Texas Intermediate (Spot Oil Price)	

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