



**BALANCE OF PAYMENTS  
OF JAMAICA**

**2002**

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## PREFACE

The Bank of Jamaica is pleased to present its annual Balance of Payments (BOP) report for 2002. This report summarises the economic transactions between Jamaican residents and the rest of the world. It first highlights the major macroeconomic developments in the global and domestic economy, which sets the broad context for performance of the BOP during the review period. The presentation of the BOP accounts for 2002 conforms to the guidelines of the Fifth Manual published by the International Monetary Fund.

We are grateful to the members of the private sector who have continued to support us in the compilation of the accounts. Without their cooperation in supplying data, responding to the questionnaires and granting interviews, this publication would not be possible. The Bank of Jamaica remains committed to its mandate of serving the Jamaican economy by, inter alia, the timely provision of economic information. We trust that this publication will continue to inform and educate.

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## OVERVIEW

The performance of the Jamaican economy in 2002, and the external accounts in particular, was set against the background of the recovery in the world economy. World output expanded by 3.0 per cent in 2002, compared with a growth of 2.3 per cent in 2001. This growth, however, was driven mainly by a 4.6 per cent expansion in developing countries, as the advanced economies<sup>1</sup> grew by only 1.8 per cent.

Relatively weak demand in selected sectors and reductions in fuel prices moderated inflationary pressures in the more advanced economies. In this context, monetary policy was loosened among these economies in an effort to stimulate growth.

Monetary policy in Jamaica during 2002 continued to engender low inflation and stimulate economic growth through the preservation of stability in the money and foreign exchange markets. Against the backdrop of the developments in the external environment, domestic inflation fell to 7.3 per cent in 2002 from 8.8 per cent in 2001. Economic growth, however, slowed marginally to 1.1 per cent from 1.5 per cent in 2001.

A current account deficit of US\$1 119.0 million (or 14.0 per cent of GDP) was recorded for 2002. This represented a widening of US\$361.5 million, relative to the deficit recorded in 2001. With the exception of current transfers, the performance of the current account reflected deterioration in all the sub-accounts. The trade deficit expanded by US\$252.3 million to US\$1 870.5 million in 2002, reflecting a contraction of US\$145.3 million in export earnings and an increase of US\$107.0 million in the value of imports.

The capital account recorded a deficit of US\$16.9 million in 2002, US\$6.7 million lower than the deficit in 2001. In contrast, the financial account recorded a surplus of US\$1 135.9 million, which was US\$354.8 million above the surplus recorded in 2001. Within the financial account, net inflows of US\$77.1 million and US\$820.1 million were recorded for official investments and other private investments, respectively. The surplus on the financial account was insufficient to finance the deficits on the current and capital accounts. Consequently, the NIR of Jamaica contracted by US\$238.7 million to US\$1 600.7 million at end-December 2002.

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<sup>1</sup> The advanced economies constitute the Group of Seven countries, otherwise referred to as the major advanced economies, the current members of the European Union and the Euro area and the newly industrialised Asian economies.



## PART I **INTERNATIONAL ECONOMIC DEVELOPMENTS**

### **1.0 OVERVIEW**

World gross domestic product (GDP) expanded by 2.8 per cent in 2002, compared with a growth rate of 2.2 per cent in 2001. This modest acceleration was particularly evident among the industrialized countries, and was partly attributable to growth in consumer and government spending. Expansions in consumer spending were stimulated by significant tax and interest rate adjustments during the year. Subdued inflation among the industrialized countries created an environment more conducive to policymakers' efforts at boosting growth. Notwithstanding the upturn in economic activity, investment in the US economy was negatively affected by increasing concerns about the strength of the economic recovery, and geopolitical tensions in the Middle East.

For the developing countries, expansion in real output was most significant among the developing economies of Asia. The weakest performance was recorded in the Western Hemispheric region, where increased political tensions and a decline in investor confidence negatively affected investment spending in Argentina, Brazil and Venezuela.

Consistent with the economic recovery, commodity prices recovered in 2002, after experiencing significant declines in 2001. While non-oil commodity prices reflected modest improvements, oil prices experienced significant volatility during the year, with prices increasing towards the end of the year.

During the year, the African, Caribbean, Pacific/European Union (ACP/EU) negotiations began, while steps were taken towards the establishment of a CARICOM Single Market and Economy (CSME).

### **2.0 OUTPUT, INFLATION AND EMPLOYMENT**

#### **2.1 Advanced Economies**

##### **2.1.1 *Output***

The world economy grew by 2.8 per cent in 2002, compared with an expansion of 2.2 per cent in 2001. The advanced economies grew by 1.8 per cent in 2002, compared with an increase of 0.9 per cent in 2001 (Table 1). This acceleration in real economic activity reflected growth of 2.4 per cent and 3.4 per cent in the United States of America (USA) and Canada, respectively, compared with respective expansions of 0.3 per cent and 1.5 per cent in 2001. A deceleration in growth was, however, evident for the economies of the Euro area,

Japan and the United Kingdom (UK). These economies recorded growth of 0.8 per cent, 0.3 per cent and 1.6 per cent, respectively, compared with 1.4 per cent, 0.4 per cent and 2.0 per cent in 2001.

TABLE 1

<b>ADVANCED ECONOMIES</b>									
<b>Real GDP, Consumer Prices, Unemployment Rates</b>									
<b>(Annual per cent change and per cent of labour force)</b>									
	<b>REAL GDP</b>			<b>CONSUMER PRICES</b>			<b>UNEMPLOYMENT RATES</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>ADVANCED ECONOMIES</b>	3.8	0.9	1.8	2.3	2.2	1.5	5.9	5.9	6.4
<b>MAJOR INDUSTRIAL</b>	3.5	0.7	1.6	2.2	2.1	1.3	5.7	5.9	6.5
United States	3.8	0.3	2.4	3.4	2.8	1.6	4.0	4.8	5.8
Japan	2.8	0.4	0.3	-0.9	-0.7	-0.9	4.7	5.0	5.4
Euro area	3.5	1.4	0.8	2.3	2.6	2.3	8.4	8.0	8.3
Germany	2.9	0.6	0.2	2.1	2.4	1.3	7.8	7.8	8.2
France	4.2	1.8	1.2	1.8	1.8	1.9	9.6	8.6	8.8
Italy	3.1	1.8	0.4	2.6	2.7	2.6	10.6	9.5	9.0
UK	3.1	2.0	1.6	2.1	2.1	2.2	5.5	5.1	5.2
Canada	4.5	1.5	3.4	2.7	2.5	2.0	6.8	7.2	7.6

Source: *World Economic Outlook - April 2003*

The overall expansion in real GDP in the USA was largely attributable to growth in consumer and government spending. Expansionary monetary and fiscal policies during 2002, in response to the economic downturn the previous year, supported the buoyancy in consumer spending. Government spending increased significantly in the context of the war in Afghanistan and heightened concerns regarding a military confrontation with Iraq towards the end of 2002. There was strong growth in residential investment, but widespread apprehension about accounting and auditing practices, security concerns and relatively low returns on US-Dollar instruments, discouraged corporate investment. Expenditure on exports declined in 2002 as external demand slowed towards the second half of the year. Notwithstanding the overall acceleration in growth, the Federal Reserve had expected stronger growth for the US economy in the range 2.5 to 3.0 per cent for 2002.

In Canada, the significant rebound in real output in 2002 was the result of robust consumer spending and a recovery in investment expenditure, especially on new homes. Growth in these two categories was supported by relatively low interest rates and an accommodative fiscal policy. An increase in exports of automotive products, machinery and equipment contributed to a significant expansion in economic activity during the first half of the year. However, by the second half of 2002, growth in real output moderated in tandem with the slowdown in the rate of expansion of the US economy.



The 1.6 per cent expansion in real GDP in the UK was underpinned by an increase in consumer spending and expenditure in the export of services. In particular, the distribution, hotels and catering industries experienced the most significant increases during the year. The growth in 2002 was, however, slower than that recorded in 2001 due to a slower expansion in investment spending. In addition, the slow pace of growth among the UK's main trading partners precipitated a decline in exports in goods in 2002, relative to 2001.

Marginal economic growth in the Euro area in 2002 emanated from a modest recovery in exports during the first half of the year. Consumption spending also grew moderately, supported by increases in real wages. However, the slower rate of expansion in output in 2002, relative to 2001, primarily reflected declines in investment expenditure. Reduced growth was evident among most of the major economies in the region. In particular, the growth rates for Germany, France and Italy fell by 0.4 percentage points, 0.6 percentage points and 1.4 percentage points, respectively, to 0.2 per cent, 1.2 per cent and 0.4 per cent, relative to the growth rates recorded in 2001. Weak demand from the USA contributed to the downturn in economic growth for the region.

The Japanese economy registered moderate growth in real output in 2002, underpinned by an expansion in net exports, particularly during the first half of the year. However, domestic demand slowed markedly by the second half of 2002, reflecting declines in consumption and investment spending. The incentive to delay spending was supported by continued declines in the prices of consumer items, while investment expenditure was negatively influenced by the unwillingness of Japanese banks to lend for future investment in economic activity, given their large stock of non-performing loans.

### ***2.1.2 Inflation***

Inflation<sup>2</sup> among the advanced economies declined to 1.5 per cent in 2002, relative to 2.2 per cent recorded in 2001 (Table 1). With the exception of the UK, consumer prices in these economies either rose moderately or declined during the year. The US economy registered an inflation rate of 1.6 per cent in 2002, compared to 2.8 per cent in 2001. Lower inflation was also evident in Canada, where the rate fell to 2.0 per cent in 2002 from 2.5 per cent in 2001. The Euro area recorded an inflation rate of 2.3 per cent in 2002, relative to the 2.6 per cent recorded in 2001, while Japan continued to experience deflationary pressures with consumer prices declining by 0.9 per cent. The inflation rate for the UK, however, increased marginally to 2.2 per cent in 2002, from 2.1 per cent in 2001.

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<sup>2</sup> *The annual average increase in consumer price indices.*



The lower rates of inflation among the industrialized economies in 2002 were consistent with protracted discounts on durable goods such as automobiles and household furnishings. In addition, the lagged impact of lower oil prices in the aftermath of 11 September, contributed to the reduction in energy costs, particularly in the first half of the year. Low inflation in 2002 was also the result of productivity gains and technological innovations. In addition, asset prices declined during the year, influenced by the slowdown in economic activity towards the latter half of the year.

### 2.1.3 Unemployment

The average rate of unemployment among the advanced economies increased to 6.4 per cent in 2002, from 5.9 per cent in 2001 (Table 1). The higher rates of unemployment reflected job losses in the manufacturing and retail sectors. Among the selected advanced economies, the USA and Germany were most adversely affected during the year, as businesses were generally unwilling to hire due to the uncertainties associated with the pace of economic recovery.

## 2.2 Developing Countries

### 2.2.1 Output

The developing economies as a whole recorded an acceleration in real output growth of 0.7 percentage points (Table 2). The most significant acceleration was evident among the economies of the Middle East & Turkey. Real output within that region increased by 4.5 per cent in 2002, compared with a growth rate of 1.4 per cent in 2001. Developing Asia recorded an expansion in output of 6.5 per cent in 2002, relative to 5.7 per cent in 2001. The economies of Africa also experienced positive growth of 3.4 per cent in 2002, albeit at a slower pace when compared with an expansion of 3.6 per cent in 2001. In contrast, the

TABLE 2

<b>DEVELOPING COUNTRIES: REGIONAL GROUPS</b>						
<b>Real GDP, Consumer Prices</b>						
<b>(Annual per cent change)</b>						
	<b>REAL GDP</b>			<b>CONSUMER PRICES</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>DEVELOPING COUNTRIES</b>	5.7	3.9	4.6	5.8	5.8	5.4
<b>Africa</b>	2.8	3.6	3.4	14.2	13.0	9.3
<b>Developing Asia</b>	6.8	5.7	6.5	1.8	2.7	1.9
<b>Middle East and Turkey</b>	5.8	1.4	4.5	19.5	17.1	16.4
<b>Western Hemisphere</b>	4.0	0.6	-0.1	6.8	6.4	8.7

Source: World Economic Outlook - April 2003



economies of the Western Hemisphere deteriorated marginally in 2002 by 0.1 per cent, relative to an increase of 0.6 per cent in 2001. In particular, the economies of the Caribbean experienced an average decline of 0.1 per cent in 2002, compared with an average growth rate of 1.0 per cent in 2001.

Among the developing countries, developments in the Western Hemisphere were of particular importance to Jamaica. Economic performance varied across the countries in the region, ranging from significant declines in Argentina to strong growth in Trinidad and Tobago. The decline in output in some countries was primarily the result of a fall-off in consumer demand in the USA, the economic crisis in Argentina and its spill-over effects on neighbouring economies, namely, Uruguay and Paraguay, the deterioration in investor sentiment toward Brazil and the negative impact of the oil crisis in Venezuela.

TABLE 3

<b>SELECTED COUNTRIES IN LATIN AMERICA AND THE CARIBBEAN</b>				
<b>Real GDP, Consumer Prices</b>				
<b>(Annual per cent change)</b>				
	<b>REAL GDP</b>		<b>CONSUMER PRICES</b>	
	<b>2001</b>	<b>2002</b>	<b>2001</b>	<b>2002</b>
<b>LATIN AMERICA</b>				
Argentina	-4.4	-11.0	-1.1	25.9
Belize	5.3	3.5	0.7	1.2
Bolivia	1.2	2.5	1.6	0.9
Brazil	1.4	1.5	6.8	8.4
Ecuador	5.1	3.0	37.7	12.6
El Salvador	1.8	2.3	3.7	1.9
Paraguay	2.7	-3.9	7.3	10.5
Peru	0.6	5.2	2.0	0.2
Suriname	4.9	2.7	4.9	28.3
Uruguay	-3.1	-10.8	4.4	14.0
Venezuela	2.8	-8.9	12.5	22.4
<b>CARIBBEAN</b>				
Antigua and Barbuda	-0.6	-3.7	1.0	1.0
Barbados	-2.7	-1.8	2.6	1.5
Dominica	-4.6	-3.6	1.8	-0.3
Dominican Republic	2.8	3.8	8.9	5.2
Grenada	3.5	-1.8	2.5	1.5
Guyana	1.4	1.8	2.7	4.3
Jamaica	1.5	1.1	8.8	7.3
St. Kitts & Nevis	2.2	-3.0	2.1	1.9
St. Lucia	0.5	-4.0	2.5	2.3
St. Vincent & the Grenadines	0.9	1.1	0.8	1.0
Trinidad & Tobago	4.5	5.2	2.5	3.8

Source: *World Economic Outlook - April 2003*, Statistical Institute of Jamaica (STATIN)

The most significant deterioration in real output among the economies of the Western Hemisphere in 2002 was experienced by Argentina. After an average decline in real output of approximately 2.9 per cent between 1999 and 2001, the contraction in economic activity accelerated to 11.0 per cent in 2002. The decline in 2002 was largely the result of falling investment in the economy's financial sector, after a series of debt defaults, starting in January 2002. Increased uncertainty surrounding the health of the financial sector and heightened political instability in the country precipitated an erosion in investor and consumer confidence.

During the year, attempts to restructure the Argentine economy and the country's debt portfolio failed to stimulate economic recovery. In January 2002, the Government allowed the peso to float freely achieving a market rate of US\$1.00 = 1.40 Pesos, while converting all US Dollar debt obligations in banks to pesos at a 1-to-1 exchange rate. This policy resulted in a significant contraction in the net worth of financial institutions, the impact of which was attenuated by the issue of collateralised bonds, denominated in both local and foreign currency. Argentina's economic downturn also had significant negative implications for several economies of Mercado Común del Sur (Mercosur). Declining investor confidence in the region's economies resulted in reductions of 10.8 per cent and 3.9 per cent in real GDP for Uruguay and Paraguay, respectively, during the year. This compared with a decline of 3.1 per cent, and growth of 2.7 per cent, for the two countries respectively, the previous year.

Venezuela and Brazil were also adversely affected by negative investor sentiment in the context of the Argentine crisis, and this was exacerbated by political crises in both countries. In Venezuela, efforts to oust President Hugo Chavez adversely affected the oil sector, resulting in the cessation of oil production and exports from that country on two separate occasions during the year. Reduced investor confidence in the economy precipitated capital outflows and a 60.0 per cent depreciation in the Venezuelan Bolivar.

Growth in the Brazilian economy of 1.5 per cent in 2002 was primarily the result of expansion in private investment spending and a significant fall-off in imports. Notwithstanding the upturn, growth in the economy was adversely affected by the economic fallout in Argentina. Investors became increasingly concerned about the high level of the country's public debt and the possibility of a default on debt service payments by Brazil. They were also concerned about the prospective policy stance of the administration that was elected in the October 2002 Presidential elections. Investor risk aversion was exacerbated by comments made by a US official that international aid funds for Brazil were being mismanaged. These developments combined to negatively affect private investment spending towards the latter half of the year, and led to significant portfolio outflows. By the end of 2002, however, confidence in the economy was restored, partly attributable to a commitment from the IMF of a US\$30.0 billion stand-by loan.



In other countries in the region, acceleration in real output growth was achieved despite the negative effects of external shocks. In particular, the economies of Trinidad & Tobago and the Dominican Republic expanded by 5.2 per cent and 3.8 per cent in 2002, compared with respective growth rates of 4.5 per cent and 2.8 per cent in 2001. For Trinidad & Tobago, the energy sector provided the main impetus to growth, with significant increases in the production of oil and natural gas. There was also expansion in the manufacturing and agricultural sectors, in particular sugar, coffee and cocoa. The expansion in economic activity experienced by the Dominican Republic in 2002, was largely attributed to growth in communications, electricity & water, manufacturing and construction.

With the exception of Guyana and St. Vincent & the Grenadines, all the economies of the English-speaking Caribbean either experienced reduced growth rates or reduction in output for 2002. For Dominica, St. Lucia, St. Kitts & Nevis and Antigua & Barbuda, the decline in real GDP ranged between 3.0 per cent and 4.0 per cent, the result of reductions in manufactured output, lower banana exports and a decline in tourism revenue. Real output grew by 1.8 per cent in 2002 in Guyana, compared with growth of 1.4 per cent in 2001, primarily due to increases in sugar output and livestock production. Significant growth was also experienced by the telecommunications and electricity sectors. In St. Vincent & the Grenadines, real GDP expanded by 1.1 per cent, compared with 0.9 per cent in 2001. Growth in economic activity primarily reflected substantial gains in banana production and growth in the construction sector.

### **2.2.2 Inflation**

There was a decline in the rate of inflation among the developing countries in 2002, relative to 2001. The annual change in the average price index for these countries in 2002 was 5.4 per cent, compared with 5.8 per cent in 2001 (Table 2). With the exception of the Western Hemisphere, where inflation increased to 8.7 per cent in 2002, from 6.4 per cent in 2001, a lower rate of inflation was evident among all the regional groups.

The most significant decline in inflation was evident among the economies of Africa. In 2002, inflation fell to 9.3 per cent from a high of 13.0 per cent in 2001 (Table 2). This fall was attributed to the effects of tighter monetary policy. Some amount of compression was also related to significant reductions in the fiscal deficits of several countries in the region. These policies served to offset the impact of rising food prices in 2002 and the lagged effects of a significant depreciation in the South African Rand in late 2001.

For the Middle East and Turkey, the overall inflation rate fell to 16.4 per cent in 2002 from 17.1 per cent in 2001. The deceleration in the rate of inflation for the region was primarily the result of a significant reduction in inflation pressures in Turkey. Inflation in that country declined to 45.0 per cent in 2002, from 54.4 per cent in 2001, the result of

contractionary monetary policy. The reduction in inflation for the developing countries of Asia to 1.9 per cent in 2002 from 2.7 per cent in 2001 was largely attributed to continued deflation pressures in China.

The increase in inflation in the Western Hemispheric region emanated mainly from a significant rise in consumer prices in Argentina, Uruguay, Suriname and Venezuela. For 2002, the inflation rates of these countries ranged between 14.0 per cent and 28.3 per cent, compared with -1.1 per cent and 12.5 per cent in 2001 (Table 3). Rising inflation in this region was partly associated with the significant depreciation in the exchange rates of some of the economies.

### 3.0 INTEREST RATE AND EXCHANGE RATE DEVELOPMENTS

Monetary policy was loosened in the major advanced economies during the year, in an effort to stimulate economic growth. Interest rates were lowered significantly in the USA, Canada and the UK. While some reduction was evident in the Euro area, Japan maintained stable interest rates during the year. The US Federal Reserve reduced the target federal funds rate once in 2002, after reducing the rate eleven times during 2001. The reduction in the rate in 2002 was in an effort to secure a more robust rate of growth in consumption and investment spending. Short-term market rates declined significantly in the USA during the year to an average of 1.6 per cent, from an average of 3.5 per cent in 2001. The easing of monetary conditions also fostered a decline in long-term market rates among the advanced economies to an average of 4.2 per cent in 2002, from 4.4 per cent in 2001 (Table 4).

TABLE 4

ADVANCED ECONOMIES: INTEREST RATES (In per cent a year)						
	SHORT-TERM RATES <sup>1</sup>			LONG-TERM RATES <sup>2</sup>		
	2000	2001	2002	2000	2001	2002
<b>ADVANCED ECONOMIES</b>	<b>4.4</b>	<b>3.2</b>	<b>2.1</b>	<b>5.0</b>	<b>4.4</b>	<b>4.2</b>
United States	6.0	3.5	1.6	6.0	5.0	4.6
Japan	0.2	0	0	1.7	1.3	1.3
Euro area <sup>3</sup>	4.5	4.2	3.3	5.4	5.0	5.0
UK	6.1	5.0	4.0	5.0	5.0	4.8
Canada	5.5	3.9	2.6	5.9	5.5	5.2

Source: World Economic Outlook - April 2003

<sup>1/</sup> Period averages. For the USA, three month Treasury Bill yield; for Japan, three-month bond yield on repurchase agreement; for the Euro area, a weighted average of the national three-month money market interest rates and three-month EURIBOR; for the UK, three-month London inter-bank offered rate; for Canada, three-month Treasury Bill yield.

<sup>2/</sup> Period averages. For the USA, ten-year Treasury Bond yield; for Japan, ten-year government bond yield; for Euro area, a weighted average of national ten-year government bond yields and ten-year euro bond yield thereafter; for the UK, ten-year government bond yield; and for Canada, government bond yields of ten years and over.

<sup>3/</sup> Excludes Greece prior to 2001.



TABLE 5

<b>ADVANCED ECONOMIES: EXCHANGE RATES</b>				
	<b>US Dollar Nominal Exchange Rates</b>		<b>Real Effective Exchange Rates<sup>1/</sup></b>	
	<b>National Currency per unit of US\$</b>		<b>Annual per cent change</b>	
	<b>2001</b>	<b>2002</b>	<b>2001</b>	<b>2002</b>
Canadian Dollar	1.55	1.57	-4.02	-0.37
Japanese Yen	121.50	125.40	-	-8.94
Pound Sterling <sup>2/</sup>	1.44	1.50	11.50	2.00
Euro <sup>2/</sup>	0.90	0.94	-0.23	2.40

Source: World Economic Outlook - April 2003

<sup>1/</sup> Defined as the ratio, in common currency, of the normalized unit labour costs in the manufacturing sector to the weighted average of those of its industrial country trading partners, using 1989-91 trade weights.

<sup>2/</sup> Expressed in US Dollars per unit of national currency.

For 2002, the Canadian Dollar and the Japanese yen depreciated against the US Dollar by approximately 1.3 per cent and 3.2 per cent, respectively, to an average of US\$1.00 = CAD\$1.57 and US\$1.00 = ¥125.4 (Table 5). The British Pound, which averaged £1.00 = US\$1.50 in 2002, appreciated by approximately 4.2 per cent during the year, while the Euro appreciated by 5.4 per cent against the US Dollar to an average of €1.00 = US\$0.94. The depreciation in the Japanese yen against its US counterpart largely reflected the Japanese government's attempts at fostering economic recovery through the export sector.

#### 4.0 COMMODITY PRICES

The IMF's Index of Primary Commodities indicated a marginal increase of 0.1 per cent in the average price for 2002, relative to 2001 (Table 6). While non-fuel commodity prices grew by an average of 0.5 per cent during the year, energy prices declined marginally by 0.2 per cent in 2002. This compares with respective reductions of 4.0 per cent and 11.6 per cent in 2001. The growth in non-fuel commodity prices was largely attributed to higher beverage and agricultural raw material prices. The prices for these commodities increased by 16.5 per cent and 1.6 per cent, respectively, in 2002, compared with declines of 16.0 per cent and 4.0 per cent, in 2001. Food prices also climbed by 0.9 per cent in 2002. However, the price of base metals declined by 2.7 per cent during the year. The fall in energy prices was primarily the result of decreases in the price of coal and natural gas. Oil prices, however, went up by 2.8 per cent during the year.

The price of crude oil, as measured by the average of the UK Brent, Dubai and West Texas Intermediate indices (WTI), increased to US\$24.90 per barrel in 2002 from US\$24.30 per barrel in 2001. The increase in oil prices was primarily related to the market's perception of supply shortages during the year. In January 2002, ten OPEC and five non-OPEC states took the decision to reduce oil production in an effort to boost prices. During the year, there were also increased tensions in the Middle East between the USA and Iraq raised fears of a

potential US-led military confrontation in the Middle East. Additionally, a self-imposed 30-day suspension of oil exports by Iraq in April, politically motivated strikes in Venezuela and civil unrest in Nigeria, all contributed to a temporary reduction in oil output from these sources during the year. Consequently, oil prices (as measured by the WTI) rose sharply to a high of US\$32.48 per barrel in December 2002, from a low of US\$17.98 in January 2002. According to the International Energy Agency (IEA), total demand for the commodity for the year exceeded supply only marginally, as the higher prices had led to increased production during the course of the year.

The average price of base metals continued its downward trend in 2002, albeit at a more moderate pace, relative to 2001. Aluminium prices fell by 6.6 per cent due to low demand for the commodity and relatively high inventory levels. The prices of zinc and tin, however, experienced the most significant declines during the year, falling by 12.2 per cent and 9.5 per cent, respectively, relative to 2001.

The price of agricultural commodities was mainly influenced by weather conditions in 2002. In particular, an El Niño weather pattern, which developed in the Pacific Ocean, resulted in the destruction of crops by persistent rains in some areas and extended drought in others. In May 2002, President Bush signed into law the US Farm Security and Rural Investment Act or the US Farm Bill. The passage of the Bill effectively increased

TABLE 6

<b>SUMMARY OF WORLD COMMODITY PRICES</b> (Annual per cent change)		
	<b>2001</b>	<b>2002</b>
Terms of Trade <sup>1</sup>	0.6	0.7
Advanced economies	-3.1	1.2
Developing countries	-10.5	0.2
Fuel exporters	-0.9	1.3
Non-fuel exporters	-9.0	0.1
All Primary Commodities	-4.0	0.5
Non-fuel primary commodities <sup>2</sup>	2.3	0.9
Food	-16.0	16.5
Beverages	-4.9	1.6
Agricultural raw materials	-9.8	-2.7
Metals	-11.6	-0.2
Energy	-14.1	2.8
Petroleum <sup>3</sup>	-1.2	-17.8
Natural Gas	24.1	-17.9
Coal		
Memorandum		
Average oil spot price (in US\$/barrel) <sup>3</sup>	24.3	24.9

Source: World Economic Outlook - April 2003, IMF Primary Commodity Prices

<sup>1/</sup> Data refers to trade in goods and services.

<sup>2/</sup> Weights are based on 1995-97 average world export earnings.

<sup>3/</sup> Average of UK Brent, Dubai and West Texas Intermediate crude oil spot prices.



agricultural subsidies in the USA and served to dampen increases in the price of agricultural products on the world market. However, severe drought conditions in the USA, Canada and Australia negated this impact and resulted in an upturn in the price in grains between May and October 2002.

Beverage prices increased in 2002 mainly due to a rise in the price of cocoa beans. During the year, political developments in Côte d'Ivoire, the world's largest producer of cocoa beans, led to a reduction in supplies from that country. Coffee prices also increased during 2002, contributing to the rise in the price of beverages, as weather-related damage to the Brazilian crop reduced supplies to the market.

## 5.0 INTERNATIONAL TOURISM

### 5.1 *Stopover Arrivals*

International tourism increased by 3.1 per cent in 2002, in contrast to the 0.6 per cent decline recorded in 2001 (Table 7). With the exception of the Americas, which posted a marginal decline of 0.7 per cent, all the major regions registered increase in arrivals. Of note, the Middle East and East Asia & the Pacific recorded appreciable increases of 10.6 per cent and 8.2 per cent, respectively. The World Tourism Organization reported that the number of international tourist arrivals exceeded the 700 million mark for the first time in 2002. This performance was achieved despite the loss of consumer confidence associated with the lagged impact of the events of 11 September 2001, the threat of war between the USA and Iraq, increases in the price of crude oil and heightened fears of terrorism. In particular, the growth in Europe, which reflected significant expansion in arrivals to Turkey (13.6 per cent), Bulgaria (7.8 per cent), Croatia (6.1 per cent) and the UK (3.1 per cent), more than compensated for the declines experienced in 2001. The improvement in East Asia may have been related to the staging of the 2002 World Cup football championship in Japan and South Korea.

TABLE 7

WORLD TOURIST ARRIVALS (Millions)				
	2001	2002	Change	% Change
<b>World</b>	<b>692.9</b>	<b>714.6</b>	<b>21.7</b>	<b>3.1</b>
Europe	401.4	411.0	9.6	2.4
Americas	121.0	120.2	-0.8	-0.7
East Asia & Pacific	115.2	124.7	9.5	8.2
Africa	27.7	28.7	1	3.6
Middle East	21.8	24.1	2.3	10.6
South Asia	5.8	5.9	0.1	1.7

Source: World Tourism Organization (WTO)



The contraction of 0.7 per cent in arrivals to the Americas was reflected in selected Caribbean and Latin American countries. Table 8 shows that, with the exception of Puerto Rico and the Dominican Republic that recorded growth of 5.0 per cent and 0.6 per cent, respectively, arrivals for all the other Caribbean and Latin American destinations declined, relative to 2001. In particular, arrivals to Mexico and Aruba fell by 9.8 per cent and 7.1 per cent, respectively.

Generally, the year was one of gradual recovery from the impact of the events of 11 September. According to the Caribbean Tourism Organization, 2002 started with an unusually weak winter season with tourist arrivals being 10.0 per cent below the comparable period of 2001. This was followed by steadily improving performances in the summer months during which, overall arrivals to the Caribbean grew by 3.0 per cent relative to the previous year.

TABLE 8

<b>STOP-OVER ARRIVALS TO SELECTED CARIBBEAN COUNTRIES AND MEXICO</b>				
<b>(000)</b>				
<b>Country</b>	<b>2001</b>	<b>2002</b>	<b>% Change</b>	<b>% Share</b>
Aruba	691.4	642.6	-7.1	5.6
Bahamas	1 428.2	1 402.9	-1.8	12.2
Barbados	507.1	497.9	-1.8	4.3
Cuba	1 774.5	1 685.2	-5.0	14.6
Dominican Republic	2 777.8	2 793.6	0.6	24.2
Jamaica	1 276.5	1 266.4	-0.8	11.0
Mexico (Cancun)	2 178.7	1 965.4	-9.8	17.0
Puerto Rico	1 218.9	1 279.8	5.0	11.1
<b>Total</b>	<b>11 861.7</b>	<b>11 534.8</b>	<b>-2.8</b>	<b>100.0</b>
<b>Total (Excluding Jamaica)</b>	<b>10 585.2</b>	<b>10 268.4</b>	<b>-2.0</b>	<b>n.a.</b>

Source: Caribbean Tourism Organization (CTO)

TABLE 9

<b>CRUISE SHIP PASSENGER ARRIVALS (SELECTED CARIBBEAN DESTINATIONS)</b>				
<b>(000)</b>				
<b>Port of Call</b>	<b>2001</b>	<b>2002</b>	<b>Change</b>	<b>% Change</b>
Aruba	487.3	582.2	94.9	19.5
Bahamas	2 551.7	2 802.1	250.4	9.8
Barbados	527.6	529.3	1.7	0.3
Cayman Islands	1 214.8	1 574.8	360.0	29.6
Cozumel (Mexico)*	1 595.4	2 057.6	462.3	29.0
Curacao	300.1	318.4	18.2	6.1
Jamaica	840.3	865.4	25.1	3.0
St Maarten	867.8	1 055.0	187.3	21.6
St. Lucia	490.2	387.2	-103.0	-21.0
US Virgin Islands	1 891.4	1 738.7	-152.7	-8.1
<b>Total</b>	<b>10 766.5</b>	<b>11 144.3</b>	<b>1 144.3</b>	<b>10.6</b>

Source: Caribbean Tourism Organization

\* Non Hotel Registrations



## 5.2 *Cruise Arrivals*

In contrast to stopover arrivals, cruise ship arrivals to selected Caribbean destinations grew significantly in 2002. Of note, arrivals to the Cayman Islands, Cozumel (Mexico) and St. Maarten registered significant increases of 29.6 per cent, 29.0 per cent and 21.6 per cent, respectively (Table 9). This improvement was attributed to the deployment of new and larger vessels to the Caribbean, as well as an adjustment to the itinerary of some ships in response to the desire of passengers to vacation closer to home.

## 6.0 **TRADE RELATIONS**

The liberalization of foreign trade continued to be the focus for world economies in 2002. Jamaica was faced with increased involvement in negotiations at the regional and international levels, which will lead to the country's enhanced integration into the world trading system. These negotiations were geared towards the establishment of the CSME, the Economic Partnership Agreement (EPA) between the countries of the African, Pacific and Caribbean regions with the European Union and the Free Trade Area of the Americas (FTAA). Negotiations also continued within the World Trade Organisation for the establishment of a more liberalised global trading arrangement.

### 6.1 *CARICOM Single Market and Economy (CSME)*

In 2002, the members of the Caribbean Community (CARICOM) attempted to "fast-track" the establishment of the CSME by 2005. It was agreed, at a CARICOM Heads of Government meeting in Belize in February 2002, that future restrictions on the movement of skilled labour and capital within the region would be prohibited and that existing restrictions would be removed by as early as 2004, but no later than 2005. As of 1 March 2002, CARICOM Member States started implementing a programme for the removal of restrictions on the right of establishment, the provision of services and the movement of capital within CARICOM. The Agreement establishing the Caribbean Court of Justice (CCJ) also went into force on 23 July 2002, when Guyana joined St. Lucia and Barbados in depositing its instrument of ratification<sup>3</sup>. With the signing of four instruments relating to the establishment and operation of the court in July 2003, the planned inauguration of the Caribbean Court for late 2003 may materialize.

### 6.2 *ACP-EU Trade Relations*

On 27 September 2002, the European Union (EU) and African, Caribbean and Pacific countries (ACPs) opened negotiations on a new trading arrangement called the Economic

<sup>3</sup> The Agreement establishing the CCJ required ratification of at least three CARICOM Member States for it to come into force.

Partnership Agreement. The EPA was spearheaded by the EU in an effort to alleviate poverty and further integrate developing countries of the ACP region into the world economy. The EPA will replace the preferential arrangements under the Lomé Convention<sup>4</sup> between the ACP states and the EU.

The negotiations will be conducted in two phases and will end in 2007. During the first phase, the focus will be on the objectives and principles of the EPA and issues of common interest to all ACP States, such as principles, objectives, scope and content, special and differential treatment, among others. This first phase should have extended from September 2002 to September 2003.

The second phase was expected to start in October 2003. In phase two, the ACP countries with similar positions will have the opportunity to negotiate with the EU as a bloc. The issues will cover, inter alia, tariff negotiations and any other specific sectoral commitments at national or regional levels and issues of specific interest to ACP countries or regions.

### **6.3 *The Free Trade Area of the Americas***

On 1 November 2002, trade ministers of the 34 countries participating in the Free Trade Area of the Americas (FTAA) met in Quito, Ecuador, to review the progress of the FTAA negotiations. The objective of the meeting also included the establishment of guidelines for the next phase of these negotiations, which are to conclude no later than January 2005.

The USA won endorsement for the Hemispheric Cooperation Program (HCP), a trade-capacity building initiative aimed at helping small and developing countries in the region in the training of a range of public sector officials to serve in areas directly related to trade and investment. These would include customs officers, bank regulators, patent and copyright officials, trade policy analysts, food safety inspectors, as well as environmental analysts.

It was also decided at the meeting that each country should submit their initial market access offers between 15 December 2002 and 15 February 2003. The submission of requests for improvements to the offers were to be made between 16 February 2003 and 15 June 2003, with revised offers due by 15 July 2003.

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<sup>4</sup> *The Lomé Convention is a cooperation agreement defining the relations between the 15 Member States of the European Union (EU) and 71 countries of Africa, the Caribbean and the Pacific (ACP). The first Agreement was signed in 1975 and was renewed several times since then. It combines a trade regime of preferential access to the European market for ACP products, together with a financial and technical aid package.*



#### **6.4 World Trade Organisation (WTO)**

During the year, there was continued deadlock in the WTO on issues of importance to developing countries, such as the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) and Public Health and special and differential treatment (S&D). The Agreement on TRIPs and Public Health sought to facilitate access to inexpensive pharmaceuticals to treat pandemics and epidemics, in particular HIV/AIDS, in developing countries. In this regard, the Agreement gave developing countries the right to grant licences for the production of pharmaceuticals to treat these pandemics and epidemics through a process known as compulsory licensing. However, the TRIPs Agreement requires that domestic production of the pharmaceuticals be primarily for the domestic market. This was of concern in the WTO during 2002 because some countries had insufficient or no pharmaceutical manufacturing capacity.

Another issue of concern in 2002 was the failure of WTO member governments to meet the year-end deadlines for agreement in negotiations on special and differential treatment for developing countries. The WTO Agreements contain provisions that allow developed countries to treat developing countries more favourably than other WTO Members.

#### **7.0 SUMMARY**

During 2002, developments in the external sector continued to have significant implications for the Jamaican economy. The strengthening in global output during the year and the relative improvement in demand for primary commodities augured well for the domestic economy. In addition, the depreciation in the US dollar against the Euro implied increased earnings on Jamaica's exports of bananas and sugar. The moderation in inflation in the major developed countries also implied a lowering in imported inflation to Jamaica in 2002. However, the general lowering of interest rates in the developed economies signalled a reduction in earnings on the country's foreign assets.

Notwithstanding the growth in economic activity in Jamaica during the year, the uncertainties surrounding developments in the Middle East adversely affected the economy through higher oil prices. Rising tensions between the USA and Iraq, combined with an increase in unemployment in some developed countries during the year were also of concern to Jamaica, as they signalled downside risks to visitor arrivals. Within the Latin American and Caribbean region, economic developments in the financial markets of several countries during 2002, implied that emerging economies like Jamaica would be increasingly exposed to the scrutiny of rating agents and risk-averse investors. In the area of international trade, there was much activity on the regional and international fronts regarding the CSME, the FTAA, ACP/EU negotiations and the WTO. Jamaica's increased involvement in these negotiations will result in the general lowering of restrictions to trade with the country and the increased integration of the economy in the global trading system.

PART II  
**MACROECONOMIC DEVELOPMENTS**

**1.0 REAL SECTOR****1.1 Production**

Real Gross Domestic Product (GDP) for Jamaica grew by 1.1 per cent during 2002. The expansion in the economy was due primarily to growth of 2.7 per cent in the services sectors, which was partially offset by a fall of 0.6 per cent in the goods producing sectors (Table 10). Growth in 2002 was, to a large extent, influenced by a normalization of production levels in several sectors, as well as continued robust expansion in others. The overall expansion in the Jamaican economy was driven mainly by domestic demand, as the increase in demand for imports during the year contributed to a deterioration in net external demand. The strongest growth occurred in the non-tradable sectors of the economy.

**TABLE 10**

<b>GROSS DOMESTIC PRODUCT (CONSTANT PRICE, BASE = 1996) Growth Rate by Sectors (%)</b>		
	<b>2001</b>	<b>2002</b>
<b>GOODS</b>	<b>2.5</b>	<b>-0.6</b>
Agriculture, Forestry & Fishing	5.7	-7.0
Mining & Quarrying	2.7	3.3
Manufacturing	0.7	-0.7
Construction & Installation	2.2	2.3
<b>SERVICES</b>	<b>-0.1</b>	<b>2.7</b>
<b>BASIC SERVICES</b>	<b>4.0</b>	<b>5.9</b>
Electricity & Water	0.7	4.6
Transport, Storage & Communication	5.1	6.3
<b>OTHER SERVICES</b>	<b>-1.6</b>	<b>1.4</b>
Distributive Trade	0.2	0.3
Financing & Insurance Services	-8.2	6.0
Real Estate & Business Services	1.4	0.6
Producers of Government Services	0.7	0.5
Miscellaneous Services	-1.4	0.1
Household & Private Non-Profit	0.3	0.2
<b>IMPUTED SERVICE CHARGES</b>	<b>-3.4</b>	<b>4.0</b>
<b>TOTAL GDP</b>	<b>1.5</b>	<b>1.1</b>

Source: Statistical Institute of Jamaica



Output in the Agriculture, Forestry & Fishing sector declined by 7.0 per cent in 2002, relative to the expansion of 5.7 per cent recorded in 2001. The most significant reduction in 2002 occurred in the March quarter, reflecting the residual effects of flood damage on agricultural production in November 2001. Similarly, flooding associated with heavy rains in the June and September quarters of 2002, caused further damage to land, plant stock and agricultural infrastructure. In this context, domestic agriculture production declined by 10.7 per cent in 2002.

The mining sector grew by 3.3 per cent in 2002, despite sluggish international demand. Total bauxite production increased by 8.0 per cent, while alumina production grew by 2.7 per cent. Similarly, export volumes of crude bauxite and alumina increased by 12.6 per cent and 2.4 per cent, respectively, relative to 2001. The overall expansion for the year was due to strong growth in the fourth quarter, as the value added from the sector declined throughout the first three quarters of the calendar year. Responding to international market conditions, production was curtailed during the March 2002 quarter as the management of one alumina plant elected to utilize existing inventories rather than to produce during the quarter. Operations in the June and September quarters were adversely affected by domestic factors such as flood rains in May 2002, which damaged transportation infrastructure and hampered the movement of raw materials to the alumina processing plants. In addition, operations at one alumina plant were constrained by industrial relations problems during the September 2002 quarter. Growth of 25.0 per cent in the mining sector for the December 2002 quarter reflected the normalisation of production against the background of the temporary closure of an alumina plant in the December 2001 quarter. Accordingly, overall alumina and crude bauxite production both increased by 28.1 per cent, relative to the December 2001 quarter.

Manufacturing activity weakened in 2002, with real GDP in that sector declining by 0.7 per cent, compared with an expansion of 0.7 per cent in 2001. The performance of the manufacturing sector was due mainly to the continued contraction in the garment sector. In addition, some food processing activity suffered as a result of the spill over effects from the flood damage to domestic agriculture production.

Real GDP of the *Construction & Installation* sector expanded by 2.2 per cent in 2002, relative to a 2.0 per cent increase in 2001. This performance was influenced by higher levels of activity in both residential and non-residential construction, as well as in installation. Public sector supported construction projects were also an important influence on the sector. Much of the growth experienced in the *Construction & Installation* sector partly accounts for the expansion in imports during the review period.

Within the services sector, basic services, which comprise the major utilities, expanded by 5.4 per cent, while other services recorded an increase in value added of 0.4 per cent. The

*Transportation, Storage and Communication* sub-sector was mainly responsible for the robust growth in basic services, while *Financing & Insurance services* (1.2 per cent) and *Producers of Government Services* (0.6 per cent) were the main contributors to the expansion in the *Other Services* category. *Miscellaneous* services was the only sub-sector to record a decline in value added, due primarily to the slower than expected recovery of the travel industry, which would have been influenced by the threat of war in the Middle East, as well as the residual effects of 11 September 2001.

## 1.2 Labour Market

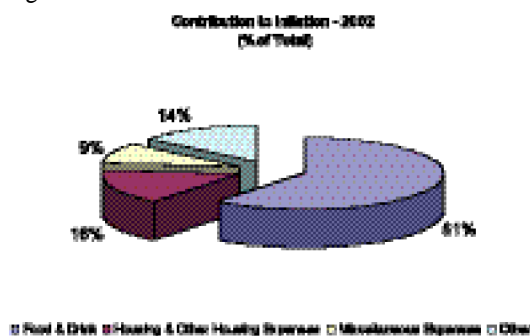
The unemployment rate remained stable at 14.8 per cent in April 2002<sup>5</sup>, relative to April 2001. The unemployment rate for males was 10.5 per cent in April 2002, a marginal increase from the 10.3 per cent recorded in April 2001. For females, the unemployment rate was 20.2 per cent in April 2002, a decrease of 0.3 percentage points when compared with April 2001. The job-seeking rate, which is the percentage of the labour force actively seeking work, was 6.3 per cent in April 2002, a marginal decrease from 6.4 per cent in April 2002.

An examination of the employed labour force by industry reveals that 29 000 more people were employed in April 2002 than in April 2001. Given the sluggish external demand, the largest increases occurred in the non-tradable sectors, namely, 'Financing, Insurance, Real Estate & Business Services' and the 'Community Social & Personal Services sectors' where, 6 500 and 11 200 jobs were created, respectively. For the 'Transport Storage & Communications' sector, 8 200 more people were employed in April 2002, compared with those employed in April 2001, due mainly to significant foreign direct investment in communication services. These increases were consistent with the positive performance of the sectors in 2002 and by extension, the recovery experienced in the world economy.

## 2.0 INFLATION

The all Jamaica Consumer Price Index (CPI) increased on an annual point to point basis by 7.3 per cent in 2002, marking the sixth consecutive calendar year of single digit inflation. The impulses to inflation occurred mainly in the *Food & Drink*, *Housing & Other Housing Expenses*, and *Miscellaneous Expenses* sub-indices. These categories expanded by 7.8 per cent, 15.2 per cent and 8.2 per cent and contributed 61.0 per cent, 16.0 per cent and 9.0 per cent, respectively, of the total inflation outturn (Figure 1).

Figure 1



<sup>5</sup> Statistics for October 2001 was unavailable. For consistency of comparison, the April 2002 and April 2001 labour force data were therefore used.



Within the Food & Drink sub-index, the main impetus to price increases arose in the Starchy Foods, and Vegetables & Fruits sub-groups. The shocks to the Housing & Other Housing Expenses sub-index resulted mainly from expansions in the Other Housing Expenses sub-group. This sub-group was primarily affected by increases in the minimum wage, carpenters' and masons' wages, as well as electricity rates. Higher cinema fares and increased costs for magazines and legal services were the main contributors to inflation in the Miscellaneous Expenses sub-group.

The inflation out-turn for Jamaica occurred in the context of significant internal and external shocks. Externally, oil prices increased by approximately 52.0 per cent, resulting from the political tensions in the Middle East. Additionally, the expansion in the prices of grains on the world market had an unfavourable effect on domestic prices. The annual average increase in the prices of corn and wheat in 2002 was 10.8 per cent and 16.0 per cent, respectively. On a point-to-point basis, the prices for these commodities went up by 21.6 per cent and 32.8 per cent, respectively. This was in contrast to 2001 when the prices for corn and wheat fell by 2.6 per cent and 6.0 per cent, respectively. The increases in the prices of oil and grains on the world market influenced the overall cost of imports, which was passed on to consumers in the domestic economy.

Within the domestic economy, the CPI was affected by increases in agricultural prices and exchange rate depreciation. In addition, heavy rains in November 2001, as well as extensive flooding in May and June 2002, resulted in considerable losses of acreage of tubers, vegetables and fruits, as well as livestock. These developments led to significant increases in the prices of agricultural commodities. In the context of these shocks, continued appropriate monetary policy responses served to moderate the underlying inflationary pressures.

### **3.0 MONETARY & FOREIGN EXCHANGE MARKET DEVELOPMENTS**

#### **3.1 Foreign Exchange Market Developments**

The Bank of Jamaica's commitment to maintaining stable conditions in the foreign exchange market was severely challenged during the year as the Jamaica Dollar depreciated against its three major counterpart currencies - the United States Dollar, Canadian Dollar and the Great Britain Pound. The weighted average selling exchange rate for the US Dollar depreciated by 7.0 per cent to US\$1.00=J\$50.97 at end December 2002, from US\$1.00=J\$47.40 at end December 2001. This compares with the depreciation of 4.0 per cent recorded in 2001. The exchange rate was fairly stable over the first three quarters of the year, evidenced by a quarterly average rate of depreciation of 1.3 per cent. However, during the last quarter, the rate depreciated sharply by 3.5 per cent. The pressures in the market in the last quarter emanated primarily from deterioration of the balance of payments



accounts and strong Jamaica Dollar liquidity in the money market. Additionally, the foreign exchange market was affected by waning economic confidence against the background of the revelation of the deteriorated state of the fiscal accounts and an associated revision of the international rating on the outlook on Jamaica's sovereign debt from stable to negative by Standard and Poor's. To maintain order and augment supply, the Bank sold foreign exchange to the market in the December 2002 quarter.

The REER depreciated by 4.8 per cent over the review period, indicating an increase in Jamaica's competitiveness. This depreciation was influenced primarily by movements in the domestic exchange rate, as there was marginal movement in the price indices of Jamaica's major trading partner. If these gains are sustained, this depreciation should facilitate some corrections in the trade account in 2003.

### 3.2 Monetary Developments

The widening current account deficit was partly financed from the NIR. Consequently, the Net Foreign Assets of the Bank of Jamaica (BOJ) contracted by US\$255.3 million or J\$9.5 billion. The absorptive effect of this decline on Jamaica Dollar liquidity was offset by an expansion of J\$11.0 billion in the Net Domestic Asset (NDA) of the BOJ. This resulted in an expansion of 4.2 per cent in the monetary base in 2002, broadly in line with the target. The expansion in the NDA reflected an increase in net claims on the public sector of \$6.9 billion during the year.

Broad money supply, which includes foreign currency deposits, M3\*, increased at a faster rate of 13.3 per cent in 2002, relative to an expansion of 9.9 per cent in 2001. M1\*<sup>6</sup> increased by 14.6 per cent, a slower rate of growth when compared with the 19.0 per cent recorded in 2001, but quasi money (time and savings deposits) grew by 12.7 per cent during 2002, relative to the growth of 6.2 per cent in 2001.

The major source of expansion in M2\* during 2002 came from an increase in credit extended by the banking system to both the public and the private sectors<sup>7</sup>. Net claims on the public sector expanded by 16.4 per cent in 2002, compared with an increase of 13.0 per cent in 2001. Similarly, credit to the private sector increased by 27.5 per cent in 2002, relative to an expansion of 16.1 per cent in 2001. The growth in private sector credit reflected a strong demand for foreign currency denominated loans, which increased by 53.5 per cent in the year. Respective increases of 23.0 per cent and 69.0 per cent in the net claims on financial institutions and commercial banks' net foreign assets also contributed to the growth in the money supply. The liquidity impact from these sources was partially countered by a reduction of 13.8 per cent in the Net Foreign Assets (NFA) of the Bank of Jamaica (BOJ) and an increase of 5.1 per cent in BOJs open market operations.

<sup>6</sup> M1\* excludes the time and savings deposits component of M2\*.

<sup>7</sup> M2\* represents M1\* plus savings and time deposits.



In conjunction with a faster rate of increase in the money supply, generally favourable macroeconomic developments facilitated a steady decline in interest rates during the first half of the year. The Central Bank's 30-day reverse repurchase rate was adjusted down to 12.95 per cent at the end of July 2002, from 13.25 per cent at end December 2001. Rates on the 180-day, 270-day and 365-day instruments were also reduced by 35 basis points, 20 basis points and 10 basis points, respectively, over the same period. In keeping with the stance of monetary policy, commercial banks' weighted average deposit and loan rates fell to an average of 7.17 per cent and 18.14 per cent in 2002, from 7.59 per cent and 19.46 per cent, respectively, in 2001.

The reduction in interest rates observed in the first half of the year was not sustained over the latter part of the year. Significant demand pressures in the foreign exchange market, which coincided with the floating of a Government of Jamaica investment debenture<sup>8</sup>, necessitated an upward adjustment in rates on Bank of Jamaica's longer-term reverse repurchase instruments. In this context, the 180-day, 270-day and 365-day instruments closed the year at 13.45 per cent, 13.85 per cent and 14.50 per cent, respectively. The Jamaican dollar investment debenture was toward meeting Government's financing needs.

#### 4.0 FISCAL DEVELOPMENTS

Central Government operations resulted in a deficit of \$34.9 billion for fiscal year 2002/03<sup>9</sup>, representing approximately 8.8<sup>10</sup> per cent of GDP. This out-turn compares with a targeted deficit of \$17.7 billion (4.4 per cent of GDP) under the revised Staff Monitored Programme (SMP). The higher than anticipated fiscal deficit during the year reflected above target recurrent expenditure of \$15.9 billion and revenue flows being lower than targeted by \$3.2 billion. The primary surplus, representing 6.9 per cent of GDP, was below the targeted 10.3 per cent, consequent on the shortfall in total revenues and the higher-than-targeted non-interest expenditure.

The Government relied less on external official borrowing than in previous years, opting instead to access domestic sources. Consequently, with amortization of foreign debt higher than the previous year, net official capital flows were lower, relative to 2001. For fiscal year 2002/03, the debt service ratio<sup>11</sup> increased to 31.7 per cent, from 16.2 per cent in fiscal year 2001/02. This increase was primarily due to the heavier repayment of loans, as there was a relatively small change in exports. Additionally, proceeds from the divestment of

<sup>8</sup> The investment debenture was a local currency offer, and was designed to assist in satisfying Government's financial needs.

<sup>9</sup> The fiscal year ran from April 2002 to March 2003.

<sup>10</sup> This outturn does not include divestment proceeds totalling \$4.3 billion received during the year. Under the SMP divestment is treated as financing. Treated as revenues, these flows would yield a deficit of 7.7 per cent of GDP for fiscal year 2002/03.

<sup>11</sup> Total external payment of principal and interest for a particular period, divided by the total export earnings from goods and services for a particular year.

Government assets also contributed to financing the fiscal deficit. During the fiscal year, Central Government received divestment flows amounting to \$4.3 billion (or approximately US\$86.0 million). These proceeds related to the sale of Union Bank (now RBTT Jamaica Ltd) and National Commercial Bank negotiated in fiscal year 2000/01 and fiscal year 2001/02, respectively, and the sale of Government's remaining holdings of Cable & Wireless shares. These divestments influenced the increase in foreign direct investment in the balance of payments.

## **5.0 SUMMARY & OUTLOOK**

Despite the significant impact of domestic and external shocks, Jamaica experienced another year of single-digit inflation and moderate economic growth. Monetary policy was, however, challenged by relative instability in the foreign exchange market late in the year. However, with the application of corrective measures, orderly conditions are expected to resume in the financial and foreign exchange markets, which should facilitate further reductions in interest rates in 2003.

Economic growth is expected to continue into calendar year 2003. The achievement of single digit inflation rate for 2003 may be challenged by the marked instability that re-emerged in the foreign exchange market in the first half of the year. Sustaining economic growth with stable inflation, however, depends critically on correcting the imbalances in the fiscal and external accounts.



### PART III

## **REVIEW OF THE BALANCE OF PAYMENTS**

### **1.0 SUMMARY OF THE BALANCE OF PAYMENTS**

A current account deficit of US\$1 119.0 million (14.0 per cent of GDP) was recorded for 2002, representing a widening of US\$361.5 million, relative to the deficit recorded in 2001. This was influenced by deterioration in all the sub-accounts, with the exception of current transfers (Table 11). The most significant deterioration occurred in the *goods balance* where the deficit expanded by US\$252.3 million to US\$1 870.5 million in 2002, reflecting a contraction of US\$145.3 million in export earnings and an increase of US\$107.0 million in the value of imports.

The *services account* recorded a surplus of US\$271.1 million, as net inflows of US\$951.0 million on the travel sub-account exceeded the respective deficits of US\$245.6 million and US\$434.3 million on the transportation and other services sub-accounts. The balance on the services account was, however, US\$112.0 million below the surplus recorded for 2001, largely reflecting a decline of US\$75.2 million in net earnings from travel and an expansion of US\$47.4 million in net payments for other services. A reduction of US\$10.6 million in net payments for transportation services partially offset the deterioration in the other services and travel sub-accounts.

A deficit of US\$605.5 million was recorded on the *income account* in 2002, which was US\$167.7 million more than the deficit recorded in 2001. An expansion of US\$175.2 million in net investment income payments accounted for this performance, marginally offset by an increase of US\$7.5 million in net inflows for compensation to employees.

The surplus of US\$1 085.9 million on the *current transfers* account reflected an improvement of US\$170.5 million in 2002, relative to 2001. This increase stemmed from an expansion of US\$182.6 million in net inflows to the private sector, as net official inflows declined by US\$12.1 million.

A deficit of US\$16.9 million on the capital account in 2002 was US\$6.7 million lower than the deficit recorded in 2001. This improvement ensued from a reduction in net outflows associated with private capital transfers. The financial account recorded a surplus of US\$1,135.9 million, which was US\$354.8 million above the surplus recorded in 2001. Within the financial account, net official and private inflows of US\$77.1 million and US\$820.1 million, respectively, were insufficient to finance the deficits on the current and capital accounts. Consequently, there was a draw down of US\$238.7 million in the reserves of the country.

TABLE 11

<b>BALANCE OF PAYMENTS SUMMARY</b>			
<b>(US\$M)</b>			
	<b>2001<sup>1/</sup></b>	<b>2002<sup>2/</sup></b>	<b>Change</b>
<b>1. CURRENT ACCOUNT</b>	<b>-757.5</b>	<b>-1 119.0</b>	<b>-361.5</b>
<b>A. GOODS and SERVICES</b>	<b>-1 235.1</b>	<b>-1 599.4</b>	<b>-364.3</b>
<b>a. GOODS BALANCE</b>	<b>-1 618.2</b>	<b>-1 870.5</b>	<b>-252.3</b>
Exports (f.o.b.)	1 454.4	1 309.1	-145.3
Imports (f.o.b.)	3 072.6	3 179.6	107.0
<b>b. SERVICES BALANCE</b>	<b>383.1</b>	<b>271.1</b>	<b>-112.0</b>
Transportation	-256.2	-245.6	10.6
Travel	1 026.2	951.0	-75.2
Other Services	-386.9	-434.3	-47.4
<b>B. INCOME</b>	<b>-437.8</b>	<b>-605.5</b>	<b>-167.7</b>
Compensation to employee	74.6	82.1	7.5
Investment income	-512.4	-687.6	-175.2
<b>C. CURRENT TRANSFERS</b>	<b>915.4</b>	<b>1 085.9</b>	<b>170.5</b>
Official	119.7	107.6	-12.1
Private	795.7	978.3	182.6
<b>2. CAPITAL &amp; FINANCIAL ACCOUNT</b>	<b>757.5</b>	<b>1 119.0</b>	<b>361.5</b>
<b>A. CAPITAL ACCOUNT</b>	<b>-23.6</b>	<b>-16.9</b>	<b>6.7</b>
<b>a. Capital transfers</b>	<b>-23.6</b>	<b>-16.9</b>	<b>6.7</b>
Official	2.2	0.2	-2.0
Private	-25.8	-17.1	8.7
<b>b. Acq./disposal of non-prod. non-fin'l assets</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>B. FINANCIAL ACCOUNT</b>	<b>781.1</b>	<b>1 135.9</b>	<b>354.8</b>
Other official investments	653.4	77.1	-576.3
Other private investments <sup>3/</sup>	993.1	820.1	-173.0
Change in Reserves (minus =increase)	-865.4	238.7	N/A

<sup>1/</sup> Revised<sup>2/</sup> Provisional<sup>3/</sup> Includes errors & omissions

## 2.0 MERCHANDISE TRADE

Jamaica's total merchandise trade (i.e. exports plus imports (f.o.b.)) amounted to US\$4 488.7 million in 2002 (56.0 per cent of GDP), representing a contraction of US\$38.3 million, relative to 2001. The merchandise trade deficit, however, widened by US\$252.3 million to US\$1,870.5 million, reflecting the combination of a decline of US\$145.3 million (10.0 per cent) in exports and a US\$107.0 million (3.5 per cent) expansion in imports.

### 2.1 Exports

The three categories of exports, general merchandise, free zone and goods procured in ports recorded contractions in 2002. Relative to 2001, the value of general merchandise exports declined by US\$105.8 million, or 8.7 per cent. This category of exports amounted to US\$1 117.3 million in 2002, and accounted for approximately 85.3 per cent of total exports (Table 12). The decline in the value of general merchandise exports largely reflected reductions of US\$67.6 million, US\$26.6 million and US\$18.6 million in earnings from miscellaneous manufactured goods, crude materials and food, respectively. Partly offsetting the effect of



these declines were respective expansions of US\$14.3 million and US\$7.8 million in the earnings from the export of mineral fuels and beverages & tobacco.

Free zone exports and goods procured in Jamaican ports by foreign carriers amounted to US\$162.7 million and US\$29.1 million, respectively, representing 12.5 per cent and 2.2 per cent of total exports. Compared to 2001, free zone exports and goods procured in Jamaican ports by foreign carriers declined by US\$33.2 million (or 16.9 per cent) and US\$6.3 million (or 17.8 per cent), respectively.

TABLE 12

VALUE OF EXPORTS (US\$M)				
	2001 <sup>1/</sup>	2002 <sup>2/</sup>	Change	% Change
<b>SITC SECTIONS</b>				
<b>0. Food</b>	<b>224.9</b>	<b>206.3</b>	<b>-18.6</b>	<b>-8.3</b>
Bananas	18.3	17.6	-0.7	-3.8
Citrus & citrus products	4.2	2.1	-2.1	-50.0
Sugar & sugar preparations	70.5	66.2	-4.3	-6.1
Other	131.9	120.4	-11.5	-8.7
<b>1. Beverages &amp; tobacco</b>	<b>48.4</b>	<b>56.2</b>	<b>7.8</b>	<b>16.1</b>
Rum	28.8	34.1	5.3	18.4
Tobacco & tobacco products	12.9	12.7	-0.2	-1.6
Other	6.7	9.4	2.7	40.3
<b>2. Crude materials</b>	<b>742.7</b>	<b>716.1</b>	<b>-26.6</b>	<b>-3.6</b>
Bauxite	93.8	106.3	12.5	13.3
Alumina	642.6	603.8	-38.8	-6.0
Other	6.3	6.0	-0.3	-4.8
<b>3. Mineral fuels</b>	<b>14.8</b>	<b>29.1</b>	<b>14.3</b>	<b>96.6</b>
<b>4. Animal &amp; vegetable oils &amp; fats</b>	<b>0.1</b>	<b>0.0</b>	<b>-0.1</b>	<b>-100.0</b>
<b>5. Chemicals</b>	<b>68.5</b>	<b>59.3</b>	<b>-9.2</b>	<b>-13.4</b>
<b>6. Manufactured goods</b>	<b>10.0</b>	<b>9.3</b>	<b>-0.7</b>	<b>-7.0</b>
<b>7. Machinery &amp; transport equip.</b>	<b>15.7</b>	<b>10.6</b>	<b>-5.1</b>	<b>-32.5</b>
<b>8. Misc. manufactured goods</b>	<b>98.0</b>	<b>30.4</b>	<b>-67.6</b>	<b>-69.0</b>
<b>9. Misc. commodities</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>A. TOTAL GENERAL EXPORTS</b>	<b>1 223.1</b>	<b>1 117.3</b>	<b>-105.8</b>	<b>-8.7</b>
<b>B. FREE ZONE EXPORTS</b>	<b>195.9</b>	<b>162.7</b>	<b>-33.2</b>	<b>-16.9</b>
<b>C. GOODS PROCURED IN PORTS</b>	<b>35.4</b>	<b>29.1</b>	<b>-6.3</b>	<b>-17.8</b>
<b>TOTAL EXPORTS (F.O.B.)</b>	<b>1 454.4</b>	<b>1 309.1</b>	<b>-145.3</b>	<b>-9.9</b>

### 2.1.1 Major Traditional Exports

The value of major traditional exports in 2002 contracted by US\$31.3 million to US\$793.8 million, relative to 2001 (Table 13). Despite the contraction in earnings from major traditional exports, its share of general merchandise exports increased by 3.6 percentage points to 71.0 per cent, relative to the previous year. The performance of the major traditional group in 2002 was influenced by contractions of US\$38.8 million (6.0 per cent), US\$4.3 million (6.1 per cent) and US\$0.7 million (3.8 per cent) in earnings from alumina, sugar and bananas, respectively. In contrast, earnings from bauxite exports increased by US\$12.5 million to US\$106.3 million.

TABLE 13

PERFORMANCE OF THE MAJOR EXPORT COMMODITIES (US\$M)				
	2001	2002	Change	% Change
<b>BAUXITE</b>				
Volume (000 tonnes)	3 617.8	4 074.1	456.3	12.6
Value (US\$mn)	93.8	106.3	12.5	13.3
Unit price (US\$/tonne)	25.9	26.1	0.2	0.6
<b>ALUMINA</b>				
Volume (000 tonnes)	3 530.1	3 619.4	89.3	2.5
Value (US\$mn)	642.6	603.8	-38.8	-6.0
Unit price (US\$/tonne)	182.0	166.82	-15.2	-8.4
<b>SUGAR</b>				
Volume (000 tonnes)	157.1	138.4	-18.7	-11.9
Value (US\$mn)	70.5	66.2	-4.3	-6.1
Unit price (US\$/tonne)	448.7	478.1	29.5	6.6
<b>BANANAS</b>				
Volume (000 tonnes)	43.5	39.8	-3.7	-8.5
Value (US\$mn)	18.3	17.6	-0.7	-3.8
Unit price (US\$/tonne)	419.8	441.2	21.4	5.1
<b>TOTAL</b>	<b>825.1</b>	<b>793.8</b>	<b>-31.3</b>	<b>-3.8</b>

Source: Statistical Institute of Jamaica

## Mining

The export volume of alumina increased by 89.3 thousand tonnes, or 2.5 per cent, to approximately 3.6 million tonnes in 2002. However, the average price of the ore fell by 8.4 per cent to US\$166.82 per tonne. The expansion in export volumes reflected the resumption of operations at the Jamaica Alumina Company (JAMALCO) alumina plant, following suspension of production to facilitate maintenance work in December 2001.

Partly constraining output growth in the sector was adverse weather in the June and September 2002 quarters (see **Real Sector**). In addition, industrial unrest at one plant also served to moderate growth in overall exports. Of note, alumina production in 2002 surpassed the level attained in 1999.

Alumina prices in 2002 were adversely affected by the decrease in demand for air travel and its effects on related industries. Prices were also affected by an over-supply of the commodity on the world market, influenced principally by enhanced supply from China, Latin America and Canada.

Increased earnings from bauxite exports in 2002, relative to 2001, largely reflected a 12.6 per cent increase in export volumes. Bauxite export volumes amounted to approximately 4.1 million tonnes for the year, 0.5 million tonnes above the level recorded for 2001. The



growth in export volumes reflected the return to normal production and export levels, in the context of the full re-opening of the Gramercy alumina refinery in early 2001.

The prospects for the mining industry for 2003 are favourable. Incremental growth in capacity and output are likely in the context of an ongoing expansion and upgrading programme at Alpart and JAMALCO. The expansion programme at Alpart is intended to increase output from 1.6 million tonnes of alumina per year to 1.7 million tonnes by end-2003, as well as improving productivity and product quality, and facilitating the capability to process all grades of bauxite in Jamaica. The expansion at JAMALCO occurs against the background of the introduction of a new fiscal regime for the industry, the objective of which is to enhance the profitability of the companies and stimulate further expansion of productive capacity and production. In addition, the positive economic growth prospects for the USA and other major industrialized economies augur well for alumina prices.

## Sugar

Earnings from sugar exports in 2002 amounted to US\$66.2 million, US\$4.3 million or 6.1 per cent below the earnings recorded in 2001. While sugar export volumes contracted by 11.9 per cent to 138.4 thousand tonnes in the year, the average price per tonne of sugar increased by 6.6 per cent in 2002. The export quota of 126.0 thousand tonnes under the regular protocol agreement was met, but there was a contraction in export volume under the Special Preferential Sugar (SPS)<sup>12</sup> arrangement. The decrease in sugar exported under the SPS arrangement for 2002 reflected advance shipment in 2001 of approximately 15.0 thousand tonnes to attenuate shortages on the European market. In addition, no sugar was shipped to the United States in 2002, the consequence of continued oversupply of the product on that market. This necessitated the purchase of Jamaica's certificate of eligibility<sup>13</sup> by a brokerage house (Commodity Specialists Company) under a programme approved by the US Department of Agriculture. The sale of the quota yielded approximately US\$1.1 million as compensation to the local industry, relative to the US\$1.3 million obtained in 2001 from a similar arrangement.

Sugar exports in 2002 were also constrained by a reduction of 29.9 thousand tonnes, or 14.6 per cent, in sugar production. The contraction in sugar production was associated with declines in both the quantity and quality of sugar cane milled. The fall in the volume of sugar cane reflected a reduction in the number of hectares cultivated as some farmers either scaled down operation or withdrew from the industry. The fall-off in the quality of the sugar cane was related to adverse weather conditions, in particular heavy rainfall prior to and during the crop year<sup>14</sup>, which affected the sucrose content of the cane. This was

<sup>12</sup> The SPS is a quota arrangement that is linked to demand conditions in the European market. In this regard, it is not a fixed quota arrangement.

<sup>13</sup> The certificate of eligibility guarantees Jamaica an export quota of approximately 11.6 thousand tonnes to the United States market on an annual basis.

<sup>14</sup> The crop year ran from December 2001 to August 2002.



reflected in an increase in the tonnes cane to tonnes sugar (TC/TS) ratio to 11.3 in 2002 from 10.9 in 2001.

The average realised US dollar price of sugar on the European market increased to US\$478.1 per tonne, US\$29.5 above the price in 2001. This increase occurred in the context of a 13.8 per cent appreciation in the Euro vis-à-vis the US dollar during 2002.

The prospects for the local sugar industry will be influenced by ongoing negotiation at the WTO, redefined trade agreements in the context of the gradual removal of preferences for Jamaican sugar, as well as the ability of the domestic industry to improve its efficiency over the medium term. Significant investments in new equipment towards the latter part of 2001 and early 2002, as well as radical restructuring within the industry signal improved competitiveness in the future. Competitiveness is likely to be further enhanced with the proposed implementation of new technology. Additionally, with plans for producing refined sugar and other value added products, the sugar industry is poised to increase profitability over the medium term.

## **Banana**

Earnings from banana exports amounted to US\$17.6 million in 2002, US\$0.7 million or 3.8 per cent below the 2001 level. The lower earnings from banana was attributed to a 8.5 per cent contraction in export volumes to 39.8 thousand tonnes, the effect of which was partly offset by a 5.1 per cent increase in the US dollar price of bananas. Export volumes of banana were affected by the heavy rains toward the end of 2001 that destroyed approximately 110 hectares of banana cultivation. The average US dollar price per tonne of bananas in 2002 was US\$441.20, US\$21.40 above the average price in 2001. This increase largely reflected the appreciation of the Euro vis-à-vis the US Dollar over the review period.

The future of the local banana industry hinges on a continuation of the restructuring process, which includes the introduction of better farm practices and other measures to promote greater efficiency and productivity. These measures were complemented by the continuation of the EU supported rationalization of the industry, geared toward increasing the yields, fruit quality and improving the handling and marketing of Jamaican bananas. The adjustments will be necessary against the background of the WTO's ruling in favour of the USA and against the EU in relation to the existing banana regime, which gives preferences to former British and French colonies. The existing banana arrangement with the EU will expire in 2006.

### **2.1.2 Other Domestic Exports**

Total earnings from other domestic exports contracted by US\$68.3 million, or 18.4 per cent, to US\$303.7 million in 2002, relative to 2001 (Table 14). A decline of



US\$68.9 million or 72.7 per cent in earnings from miscellaneous manufactured goods was the major factor influencing the decline in this category. This performance was influenced mainly by a contraction of US\$69.5 million, or 78.4 per cent, in the value of garment exports, which continued to be affected by the scaling down or withdrawing from the sector of local operators. Receipts from garment exports declined at an annual average rate of 23.0 per cent between 1998 and 2001.

Partly offsetting the decline in miscellaneous manufactured goods was a noteworthy increase of US\$14.2 million in the value of mineral fuels exports. Growth in this category largely reflected Petrojam's exports of partially refined petroleum to the USA.

TABLE 14

<b>OTHER DOMESTIC EXPORTS BY S.I.T.C.</b>				
<b>(US\$M)</b>				
	<b>2001</b>	<b>2002</b>	<b>Change</b>	<b>% Change</b>
0. Food	135.7	122.3	-13.4	-9.9
Citrus & citrus products	4.2	2.1	-2.1	-50.0
Other	131.5	120.2	-11.3	-8.6
1. Beverages & Tobacco	48.4	56.0	7.6	15.7
Rum	28.8	34.1	5.3	18.4
Tobacco & tobacco products	12.9	12.7	-0.2	-1.6
Other	6.7	9.2	2.5	37.3
2. Crude Materials	6.3	6.0	-0.3	-4.8
3. Mineral Fuels	14.4	28.6	14.2	98.6
4. Animal & Veg. Oils & Fats	0.1	0.1	0.0	0.0
5. Chemicals	65.3	57.1	-8.2	-12.6
6. Manufactured Goods	5.9	5.5	-0.4	-6.8
7. Machinery & Transp. Equip.	1.1	2.2	1.1	100.0
8. Misc. Manuf. Goods	94.8	25.9	-68.9	-72.7
9. Misc. Commodities	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>372.0</b>	<b>303.7</b>	<b>-68.3</b>	<b>-18.4</b>

Source: Statistical Institute of Jamaica

### 2.1.3 Exports of Free Zones and Goods Procured in Ports

Operations within the free zones in 2002 contracted relative to the previous year. Export earnings for the year totalled US\$162.7 million, US\$33.2 million below the earnings of the industry in 2001 (Table 12), due to the closure of a major factory. Additionally, this sector continues to be affected by the relocation of companies to lower cost countries.

Bunker supplies and other items procured in Jamaican ports by foreign carriers were valued at US\$29.1 million in 2002, US\$6.3 million lower than in 2001. The decrease in 2002 was in the context of falling demand for air travel in the early part of the year associated with the residual effects of the events of 11 September 2001.

## 2.2 IMPORTS

Total imports (c.i.f.) were valued at US\$3 718.2 million in 2002, of which general merchandise imports amounted to US\$3 570.5 million, and accounted for 96.0 per cent of total imports. Free zone imports and goods procured in foreign ports by domestic carriers amounted to US\$109.5 million and US\$38.2 million, respectively. During 2002, the value of total imports expanded by US\$141.7 million, or 4.0 per cent, relative to 2001, reflecting an increase of US\$167.9 million (or 4.9 per cent) in expenditure on general merchandise imports. This expansion was partly offset by respective declines of US\$25.7 million (or 19.0 per cent) and US\$0.5 million (or 1.3 per cent) in free zone imports and goods procured in foreign ports by Jamaican companies (Table 15).

TABLE 15

VALUE OF IMPORTS (US\$M)				
	2001	2002	Change	% Change
<b>SITC SECTIONS</b>				
0. Food	476.7	480.0	3.3	0.7
1. Beverages & tobacco	29.7	38.7	9.0	30.3
2. Crude materials	47.0	58.0	11.0	23.4
3. Mineral fuels	615.5	636.8	21.3	3.5
4. Animal & vegetable oils & fats	17.2	22.6	5.4	31.4
5. Chemicals	383.5	375.4	-8.1	-2.1
6. Manufactured goods	466.9	459.5	-7.4	-1.6
7. Machinery & transport equip.	883.3	1 036.9	153.6	17.4
8. Misc. manufactured goods	394.5	399.4	4.9	1.2
9. Misc. commodities	88.3	63.2	-25.1	-28.4
<b>A. TOTAL GENERAL IMPORTS</b>	<b>3 402.6</b>	<b>3 570.5</b>	<b>167.9</b>	<b>4.9</b>
<b>B. FREE ZONE IMPORTS</b>	<b>135.2</b>	<b>109.5</b>	<b>-25.7</b>	<b>-19.0</b>
<b>C. GOODS PROCURED IN PORTS</b>	<b>38.7</b>	<b>38.2</b>	<b>-0.5</b>	<b>-1.3</b>
<b>TOTAL IMPORTS (C.I.F.)</b>	<b>3 576.5</b>	<b>3 718.2</b>	<b>141.7</b>	<b>4.0</b>

Source: Statistical Institute of Jamaica

The expansion in the general merchandise category of imports in 2002 reflected increases in all the SITC sub-groups, with the exception of miscellaneous manufactured goods, chemicals and miscellaneous commodities. Lower expenditure on imports by the free zones largely reflected the decline in demand for raw materials, resulting from the closure of one company and contractions in the operations of a number of others during the year. Reduced activity by the domestic air carrier in foreign ports resulted in a marginally lower level of expenditure on fuel in 2002.

Details of general merchandise imports for 2001 and 2002, categorised by economic function, are provided in Table 16. The expansion in the general merchandise imports category in 2002 was attributable to consumer and capital goods imports, which grew by US\$109.6 million and US\$91.0 million, respectively. Partly offsetting these expansions was a US\$32.7 million contraction in expenditure on raw material imports. These changes resulted in the shares of general merchandise imports in 2002 attributed to consumer good



and capital goods increasing to 30.7 per cent and 18.8 per cent, respectively, from 29.0 per cent and 17.0 in 2001. The share accounted for by raw material imports declined to 50.5 per cent, from 54.1 per cent in 2001.

TABLE 16

<b>IMPORTS BY ECONOMIC FUNCTION</b>				
<b>(US\$M)</b>				
	<b>2001</b>	<b>2002</b>	<b>Change</b>	<b>% Change</b>
<b>CONSUMER GOODS</b>	<b>984.9</b>	<b>1 094.5</b>	<b>109.6</b>	<b>11.1</b>
Food	266.3	291.0	24.7	9.3
Other non-durables	319.0	304.6	-14.4	-4.5
Durables	399.6	498.9	99.3	24.8
<b>RAW MATERIALS</b>	<b>1 837.7</b>	<b>1 805.0</b>	<b>-32.7</b>	<b>-1.8</b>
Fuels	614.8	635.7	20.9	3.4
Food	226.8	211.4	-15.4	-6.8
Other raw materials	996.1	957.9	-38.2	-3.8
<b>CAPITAL GOODS</b>	<b>580.0</b>	<b>671.0</b>	<b>91.0</b>	<b>15.7</b>
Transport equipment	107.8	119.9	12.1	11.2
Construction materials	150.0	142.6	-7.4	-4.9
Other machinery & equipment	322.2	408.5	86.3	26.8
<b>TOTAL</b>	<b>3 402.6</b>	<b>3 570.5</b>	<b>167.9</b>	<b>4.9</b>

Source: Statistical Institute of Jamaica

Consumer imports in 2002 were valued at US\$1 094.5 million, representing an increase of US\$109.6 million, relative to the level of imports in 2001. This expansion reflected respective increases of US\$99.3 million and US\$24.7 million in the durable and food subgroups, partly countered by a contraction of US\$14.4 million in other non-durable imports. The growth in spending on consumer durables mainly stemmed from increased expenditure on cellular telephones and motorcars, while the growth in food imports was largely associated with increased spending on codfish and sugar. The performance of non-durable imports was largely influenced by a contraction in the value of imports by informal commercial importers (ICI's).

The growth in the value of capital goods imports in 2002 was due primarily to respective expansions of US\$86.3 million and US\$12.1 million in other machinery and transport equipment. There was a marginal contraction of US\$7.4 million in imports of construction materials. Investment in the telecommunication, baking and brewing sectors were largely responsible for the expansion of the other machinery & equipment category. There was also a notable increase in investment in data-processing machines. The growth in imports of transportation equipment reflected increased spending on motor vehicles to transport goods, while the decline in imports of construction materials was associated with the non-repetition of expenditure on imports of bridges and other construction related structures in 2002.

The contraction in the value of raw material imports in 2002 was mainly reflected in respective declines of US\$38.2 million and US\$15.4 million in other raw materials and food imports. Partly offsetting these declines was a US\$20.9 million expansion in fuel imports. The contraction in the other raw material imports sub-category was principally influenced by reduced spending on industrial supplies, in particular hosiery, garments, steel and iron, which was partially offset by higher expenditure on computer and motor vehicle parts.

The reduction in expenditure on raw material food imports during the review period was largely concentrated in milk powder, wheat and refined sugar, which was partially offset by increases in the values of corn and other food preparations. The fallout in refined sugar imports principally reflects the non-repetition of exceptional imports from 2001.

The value of fuel imports in 2002 amounted to US\$635.7 million, 3.4 per cent higher than the fuel bill in 2001. Increased expenditure on fuel during the review period was attributable to an increase in international fuel prices relative to the previous year, as well as higher volumes. The volume of fuel imported is estimated to have expanded by approximately 934.1 barrels (or 3.5 per cent) to 28.0 thousand barrels in 2002, relative to 2001. This performance was attributable to increased demand for fuel in the bauxite sector to facilitate growth in output, as demand fell-off in the other sectors of the economy.

### 3.0 DIRECTION OF TRADE (GENERAL MERCHANDISE)

The USA, Canada and the UK, remained Jamaica's principal trading partners in 2002, accounting for a combined share of general merchandise trade of 50.4 per cent, relative to 53.1 per cent in 2001. These three countries provided markets for US\$604.8 million or 54.1 per cent of Jamaica's total exports, and supplied US\$1759.7 million or 49.3 per cent of its imports in 2002 (Tables 17 to 19).

During 2002, the USA retained its position as Jamaica's main trading partner, accounting for 43.5 per cent of the country's general merchandise imports, relative to 44.8 per cent in

TABLE 17

VALUE OF EXPORTS BY PRINCIPAL TRADING PARTNERS (US\$M)						
COUNTRY	2001	% of total	2002	% of total	Change	% Change
United Kingdom	157.1	12.8	134.3	12.0	-22.8	-14.5
United States	380.2	31.1	313.4	28.0	-66.8	-17.6
Canada	191.1	15.6	157.1	14.1	-34.0	-17.8
Other EU countries (EEC)	202.7	16.6	213.9	19.1	11.2	5.5
Caricom	50.6	4.1	48.7	4.4	-1.9	-3.8
All other countries	241.4	19.7	249.9	22.4	8.5	3.5
<b>TOTAL</b>	<b>1 223.1</b>	<b>100.0</b>	<b>1 117.3</b>	<b>100.0</b>	<b>-105.8</b>	<b>-8.7</b>



TABLE 18

VALUE OF IMPORTS BY PRINCIPAL TRADING PARTNERS (US\$M)						
	2001	% of total	2002	% of total	Change	% Change
<b>COUNTRY</b>						
United Kingdom	102.5	3.0	93.6	2.6	-8.9	-8.7
United States	1 525.8	44.8	1 554.0	43.5	28.2	1.8
Canada	97.6	2.9	112.1	3.1	14.5	14.9
Other EU countries (EEC)	214.3	6.3	282.2	7.9	67.9	31.7
Caricom	433.0	12.7	398.6	11.2	-34.4	-7.9
All other countries	1 029.4	30.3	1 130.0	31.6	100.6	9.8
<b>TOTAL</b>	<b>3 402.6</b>	<b>100.0</b>	<b>3 570.5</b>	<b>100.0</b>	<b>167.9</b>	<b>4.9</b>

TABLE 19

TRADE BALANCE BY PRINCIPAL TRADING PARTNERS (US\$M)				
	2001	2002	Change	% Change
<b>COUNTRY</b>				
United Kingdom	54.6	40.7	-13.9	-25.5
United States	-1 145.6	-1 240.6	-95.0	8.3
Canada	93.5	45.0	-48.5	-51.9
Other EU countries (EEC)	-11.6	-68.3	-56.7	488.8
Caricom	-382.4	-349.9	32.5	-8.5
All other countries	-788.0	-880.1	-92.1	11.7
<b>TOTAL</b>	<b>-2 179.5</b>	<b>-2 453.2</b>	<b>-273.7</b>	<b>12.6</b>

Source: Statistical Institute of Jamaica

2001. Total imports from the USA were valued at US\$1 554.0 million, US\$28.2 million above the outturn for 2001. Jamaica mainly imports food, beverage & tobacco, mineral fuels & chemicals, manufactured goods, machinery and transport equipment from the USA. With regard to exports to the USA, a contraction of US\$66.8 million to US\$313.4 million was recorded in 2002. In this context, the USA absorbed 28.0 per cent of the Island's general merchandise exports in 2002, relative to 31.1 per cent the previous year. Bauxite, alumina and miscellaneous manufactured goods were the principal exports. As a consequence of the movements in both exports and imports for 2002, Jamaica's general merchandise trade deficit with the USA widened by US\$95.0 million to US\$1 240.6 million.

Jamaica's trade surplus with Canada contracted sharply by US\$48.5 million to US\$45.0 million in 2002, reflecting a contraction in exports and an increase in imports. In 2002, Jamaica exported goods valued at US\$157.1 million to Canada, US\$34.0 million less than the previous year. As a result, the share of Jamaica's total merchandise exports attributed to that market declined to 14.1 per cent from the 15.6 per cent recorded for 2001. Canada provides a market for Jamaica's bauxite, alumina and food exports. The value of imports from Canada increased to US\$112.1 million in 2002, relative to the US\$97.6 million that was recorded in 2001. Against this background, there was a marginal increase in the share

of imports from Canada to 3.1 per cent in 2002 from 2.9 per cent in 2001. The components of goods imported from Canada were similar to those from the USA.

During 2002, general merchandise exports to the UK, which comprised mainly sugar, banana and rum, declined by US\$22.8 million to US\$134.3 million in 2002. Consistent with this decline, the UK's share of Jamaica's export market declined to 12.0 per cent in 2002, relative to 12.8 per cent in the previous year. Imports from the UK, consisting mainly of manufactured goods, machinery and transport equipment, declined by US\$8.9 million to US\$93.6 million. As result of these developments, Jamaica's trade surplus with the UK narrowed by 25.5 per cent to US\$40.7 million.

Jamaica recorded a merchandise trade deficit of US\$68.3 million with selected countries in the European Union (excluding the UK) in 2002, representing an increase of US\$56.7 million over 2001. This performance reflected a US\$67.9 million expansion in imports, partly offset by an increase of US\$11.2 million in the value of exports from Jamaica, relative to the previous year. The significant increase in imports from the European Union was principally influenced by growth in spending on machinery and transport equipment, in particular buses for the public transportation sector. Export growth was associated with a number of miscellaneous items.

Jamaica's trade deficit with Latin American countries increased to US\$423.6 million in 2002 from US\$345.2 million in the preceding year. During the review period, imports from Latin America, comprising mainly fuel, animal and vegetable oils, expanded by US\$81.9 million to US\$438.3 million, while exports expanded by a marginal US\$3.5 million. The performance of exports was associated with increased exports of beverage and tobacco, and other miscellaneous manufactured goods.

With regard to other trading partners, excluding CARICOM states, Jamaica recorded an overall trade deficit of US\$456.6 million, a US\$13.9 million deterioration relative to the deficit recorded in the previous year. This performance reflected a US\$18.8 million expansion in imports, which was partly offset by a US\$4.9 million increase in exports.

The share of Jamaica's merchandise trade attributable to the CARICOM region in 2002 contracted to 9.5 per cent from 10.5 per cent in 2001. This performance reflected a decline of US\$36.3 million to US\$447.3 million in merchandise trade with the region. The value of total exports to the region declined by US\$1.9 million to US\$48.7 million, complemented by a US\$34.4 million decline in the value of imports to US\$398.6 million. In this context, Jamaica's trade deficit with the region narrowed in 2002 by US\$32.5 million to US\$349.9 million.

### **3.1 CARICOM Trade**

During 2002, Trinidad and Tobago continued to be Jamaica's leading regional trading partner (Tables 20 - 22). That market consumed 35.5 per cent of Jamaica's total exports to



the region, 7.2 percentage points less than in 2001, and supplied 82.8 per cent of total imports from the region, up from the 82.7 per cent recorded in 2001. Jamaica's trade deficit with Trinidad and Tobago narrowed by US\$23.5 million to US\$312.9 million. This resulted from a contraction of US\$27.8 million in imports to US\$330.2 million, partly offset by a decline of US\$4.3 million in exports to US\$17.3 million. The contraction in imports was principally influenced by reduced expenditure on food, mineral fuels and chemicals, while the fall in exports reflected the downturn in food and chemical exports to that country.

TABLE 20

EXPORTS TO CARICOM BY COUNTRY (US\$M)						
	2001	% of total	2002	% of total	Change 02/01	% Change 02/01
Trinidad & Tobago	21.6	42.7	17.3	35.5	-4.3	-19.9
Barbados	8.7	17.2	9.5	19.5	0.8	9.2
Antigua	3.1	6.1	5.2	10.7	2.1	67.7
Belize	3.2	6.3	3.8	7.8	0.6	18.8
St. Lucia	2.4	4.7	3.6	7.4	1.2	50.0
Guyana	4.0	7.9	2.9	6.0	-1.1	-27.5
St. Kitts	1.5	3.0	1.5	3.1	0.0	0.0
St. Vincent	1.8	3.6	1.4	2.9	-0.4	-22.2
Grenada	1.5	3.0	1.4	2.9	-0.1	-6.7
Dominica	1.7	3.4	1.3	2.7	-0.4	-23.5
Suriname	0.9	1.8	0.7	1.4	-0.2	-22.2
Montserrat	0.2	0.4	0.1	0.2	-0.1	-50.0
<b>TOTAL</b>	<b>50.6</b>	<b>100.0</b>	<b>48.7</b>	<b>100.0</b>	<b>-1.9</b>	<b>-3.8</b>

Source: Statistical Institute of Jamaica

Barbados remained Jamaica's second largest CARICOM trading partner in 2002. Jamaican exports to Barbados during 2002 were valued at US\$9.5 million, representing a small increase of \$0.8 million, relative to 2001. Exports to Barbados for 2002 accounted for 19.5 per cent of total exports to CARICOM. Imports from that country declined by US\$2.2 million to US\$14.1 million, and represented 3.5 per cent of Jamaica's total imports from the region. In the context of these changes, Jamaica's trade deficit with Barbados narrowed by US\$3.6 million to US\$18.6 million in 2002.

TABLE 21

IMPORTS FROM CARICOM BY COUNTRY (US\$M)						
	2001	% of total	2002	% of total	Change 02/01	% Change 02/01
Trinidad & Tobago	358.0	82.7	330.2	82.8	-27.8	-7.8
Barbados	16.3	3.8	14.1	3.5	-2.2	-13.5
Antigua	0.1	0.0	0.0	0.0	-0.1	-100.0
Belize	4.3	1.0	5.8	1.5	1.5	34.9
St. Lucia	0.1	0.0	0.3	0.1	0.2	200.0
Guyana	30.9	7.1	28.1	7.0	-2.8	-9.1
St. Kitts	0.0	0.0	0.1	0.0	0.1	
St. Vincent	2.2	0.5	1.7	0.4	-0.5	-22.7
Grenada	0.6	0.1	0.7	0.2	0.1	16.7
Dominica	13.4	3.1	9.7	2.4	-3.7	-27.6
Suriname	7.1	1.6	7.9	2.0	0.8	11.3
Montserrat	0.0	0.0	0.0	0.0	0	
<b>TOTAL</b>	<b>433.0</b>	<b>100.0</b>	<b>398.6</b>	<b>100.0</b>	<b>-34.4</b>	<b>-7.9</b>



Guyana accounted for US\$2.9 million or 6.0 per cent of Jamaica's regional exports, while supplying US\$28.1 million or 7.0 per cent of import demand from the region. Imports from Guyana contracted by US\$2.8 million, while exports to that country declined by US\$1.1 million. Consequently, Jamaica's trade deficit with Guyana narrowed by US\$1.7 million to US\$25.2 million. The decline in imports was principally influenced by reduced spending on food imports, while the performance of exports reflected contractions in food, beverages and tobacco.

The deficit on Jamaica's visible trade with Dominica and St. Vincent narrowed in 2002, while there was an increase in the trade deficits with Belize and Suriname. Relative to 2001, Antigua and St. Lucia recorded higher trade surpluses with Jamaica in 2002, while Grenada, St. Kitts and Montserrat all recorded lower surpluses. The major imports from these countries consisted of manufactured household products such as soaps and edible oils, as well as fish and shrimp, while the main export commodities to these markets included manufactured foods, drinks and household items.

TABLE 22

TRADE BALANCE WITH CARICOM BY COUNTRY (US\$M)					
	2001	% of total	2002	% of total	Change
Trinidad & Tobago	-336.4	88.0	-312.9	89.4	23.5
Barbados	-7.6	2.0	-4.6	1.3	3.0
Antigua	3.0	-0.8	5.2	-1.5	2.2
Belize	-1.1	0.3	-2.0	0.6	-0.9
St. Lucia	2.3	-0.6	3.3	-0.9	1.0
Guyana	-26.9	7.0	-25.2	7.2	1.7
St. Kitts	1.5	-0.4	1.4	-0.4	-0.1
St. Vincent	-0.4	0.1	-0.3	0.1	0.1
Grenada	0.9	-0.2	0.7	-0.2	-0.2
Dominica	-11.7	3.1	-8.4	2.4	3.3
Suriname	-6.2	1.6	-7.2	2.1	-1.0
Montserrat	0.2	-0.1	0.1	0.0	-0.1
<b>TOTAL</b>	<b>-382.4</b>	<b>100.0</b>	<b>-349.9</b>	<b>100.0</b>	<b>32.5</b>

#### 4.0 SERVICES

For 2002, net earnings from *services* amounted to US\$271.1 million, which was US\$112.0 million less than in the previous year. The outturn for the services account was influenced by a decline of US\$75.2 million in net earnings from *travel* and an expansion of US\$47.4 million in net payments for *other services*. A reduction of US\$10.6 million in net payments for *transportation services* partially offset the deterioration in the *other services* and *travel* sub-accounts.



## 4.1 TRANSPORTATION

The *transportation* sub-account recorded a net outflow of US\$245.6 million in 2002, relative to US\$256.2 million in 2001 (Table 23). Gross transportation payments of US\$614.3 million were partially offset by an expansion of US\$18.2 million to US\$368.7 million in gross earnings from transportation services. The improvement in inflows stemmed from an increase of US\$11.2 million in receipts from airfares, relative to 2001, due to additional seats together with special offers, which increased passenger loads. In addition, there was an increase of US\$7.0 million in the 'other' category associated with fees received from maintenance, storage, cargo handling and port duty. The increase in outflows was associated with higher freight charges on imports.

TABLE 23

TRANSPORTATION (US\$M)				
	2001	2002	Change	% Change
<b>TRANSPORTATION (NET)</b>	<b>-256.2</b>	<b>-245.6</b>	<b>10.6</b>	<b>-4.1</b>
<b>TOTAL RECEIPTS</b>	<b>350.5</b>	<b>368.7</b>	<b>18.2</b>	<b>5.2</b>
Passenger fares	261.6	272.8	11.2	4.3
Freight	6.9	6.9	0.0	0.0
Other	82.0	89.0	7.0	8.5
<b>TOTAL PAYMENTS</b>	<b>606.7</b>	<b>614.3</b>	<b>7.6</b>	<b>1.3</b>
Passenger fares	20.9	15.8	-5.1	-24.4
Freight	448.2	464.8	16.6	3.7
Other	137.6	133.7	-3.9	-2.8

Source: Bank of Jamaica

## 4.2 TRAVEL

Estimated net foreign exchange earnings from the tourism industry amounted to US\$951.0 million (or 15.1 per cent of GDP) in 2002, relative to US\$ 1 026.2 million in 2001 (17.0 per cent of GDP). Gross travel earnings totalled US\$1 209.4 million representing a decline of US\$22.8 million or 1.9 per cent, relative to 2001. Concurrently, there was a significant increase of US\$55.4 million to US\$221.9 million in gross payments in 2002, associated with Jamaicans travelling overseas.

Visitor arrivals to Jamaica totalled 2 131.8 thousand relative to 2 116.9 thousand in 2001 (Table 24). Stopover visitor arrivals, accounting for 59.4 per cent of total arrivals in 2002, declined by 0.8 per cent to 1 266.4 thousand during the year. Of this category, the number of foreign nationals fell by 0.7 per cent to 1 179.1 thousand, while non-resident Jamaican visitors declined by 2.5 per cent to 87.3 thousand, relative to 2001. In contrast, the cruise passenger and armed force personnel category registered a 3.0 per cent increase in 2002 to 865.4 thousand.

TABLE 24

VISITOR ARRIVAL STATISTICS (000)				
	2001	2002	Change	% Change
Total Stopovers	1 276.5	1 266.4	-10.1	-0.8
Foreign Nationals	1 187.0	1 179.1	-7.9	-0.7
Long-Stay	1 123.0	1 110.3	-12.7	-1.1
Short-Stay	64.0	68.8	4.8	7.5
Non-resident Jamaicans	89.5	87.3	-2.2	-2.5
Cruise Passengers & Armed Forces	840.3	865.4	25.1	3.0
<b>TOTAL</b>	<b>2 116.9</b>	<b>2 131.8</b>	<b>14.7</b>	<b>0.7</b>

Source: Jamaica Tourist Board (JTB)

During the year, the performance of the tourist industry was affected by the global economic downturn, the threat of war in the Middle East, as well as the residual effects of the events of 11 September 2001. For the first two quarters of the year, stopover arrivals recorded respective declines of 10.7 per cent and 10.5 per cent, while the number of cruise visitors contracted by 15.8 per cent and 4.3 per cent, respectively, relative to 2001. However, there was an increase in visitor arrivals in the September 2002 quarter in the context of discounted prices in the industry. This recovery continued into the December quarter.

Visitor arrivals expanded by 24.0 per cent during the December quarter, reflecting growth of 16.4 per cent in foreign national stopovers and 34.1 per cent for cruise arrivals, relative to the corresponding period in 2001. Growth in the last quarter was attributable, in part, to an intensive marketing campaign carried out by the Jamaica Tourist Board in an attempt to boost visitor arrivals, particularly from Europe and the USA. In this context, significant new airlift capacity was added to the industry as Delta and Martinair recommenced service to the Island. In addition, Air Jamaica increased its carrying capacity and extended discounted fares for travel up to the end of November. The expansion in cruise arrivals was attributed mainly to the deployment of new ships to Jamaica, including the *Carnival Conquest*, one of the world's largest vessels.

The USA, UK and Canada continued to be the main sources of visitors to Jamaica (Table 25). Stopover visitors from the USA, which accounted for 72.9 per cent of total visitors, grew by 1.0 per cent to 925 629, relative to 2001. Of this, foreign nationals accounted for 859 347, representing an increase of 1.2 per cent, while the arrival of Jamaicans living in the USA declined by 1.4 per cent to 66 282. Stopover arrivals from the UK, Jamaica's second largest tourist market, declined by 1.1 per cent in 2002, while stopover arrivals from Canada declined by 12.4 per cent, relative to 2001. The significant decline in visitors from Canada was associated with the lingering effects of September 11, 2001, as well as concerns regarding rising tensions between the US and Iraq. Visitor arrivals in the "Other



Europe" category (particularly Portugal and Spain), registered a 13.4 per cent increase, relative to 2001, due mainly to new airlift capacity in the latter part of the year. Of note, stopovers from Spain showed a significant increase of 54.0 per cent, relative to 2001, and were directly related to the opening of a hotel by the Spanish group, RIU. In contrast, arrivals from Germany recorded a 24.3 per cent decline in 2002, partly related to the economic performance of that country.

With respect to arrivals from other markets, visitors from the Caribbean, particularly Antigua, Barbados and Bermuda, registered a marginal increase in 2002. The Cayman Islands, however, provided the largest number of visitors, despite reflecting a decline of 4.0 per cent relative to 2001. Arrivals from Latin America and Japan continued their downward trend for the fourth consecutive year recording declines of 19.9 per cent and 14.4 per cent, respectively. Latin American countries were affected by the currency crisis in Argentina and the protracted oil strike in Venezuela, while the Japanese market continued to be affected by growing unemployment and low levels of economic growth.

TABLE 25

STOPOVER ARRIVALS BY COUNTRY OF ORIGIN												
	Foreign Nationals				Non-Res. Jamaicans				Total Stopovers			
	2001	2002	Change	% Change	2001	2002	Change	% Change	2001	2002	Change	% Change
USA	849 454	859 347	9 893	1.2	67 227	66 282	-945	-1.4	916 681	925 629	8 948	1.0
UK	121 831	120 439	-1392	-1.1	5 489	5 420	-69	-1.3	127 320	125 859	-1 461	-1.1
Canada	101 984	89 570	-12 414	-12.2	9 174	7 843	-1 331	-14.5	111 158	97 413	-13 745	-12.4
Other Europe	33 940	38 485	4545	13.4	158	191	33	20.9	34 098	38 676	4 578	13.4
Caribbean	33 726	33 943	217	0.6	7 119	7 195	76	1.1	40 845	41 138	293	0.7
Germany	19 131	14 488	-4643	-24.3	83	66	-17	-20.5	19 214	14 554	-4 660	-24.3
Latin America	14 641	11 686	-2955	-20.2	174	178	4	2.3	14 815	11 864	-2 951	-19.9
Other Countries	6 863	6 483	-380	-5.5	76	86	10	13.2	6 939	6 569	-370	-5.3
Japan	5 426	4 642	-784	-14.4	20	22	2	10.0	5 446	4 664	-782	-14.4
<b>TOTAL</b>	<b>1 186 996</b>	<b>1 179 083</b>	<b>-7 913</b>	<b>0.7</b>	<b>89 520</b>	<b>87 283</b>	<b>-2 237</b>	<b>-2.5</b>	<b>1 276 516</b>	<b>1 266 366</b>	<b>-10 150</b>	<b>-0.8</b>

Source: Jamaica Tourist Board

The seasonal performance of stopover arrivals in 2002 was mixed. Arrivals during the winter season (mid-December 2001 to mid-April 2002) declined by 13.0 per cent, relative to the same period in 2001 (Table 26). This performance was directly attributed to the residual effects of the events of 11 September 2001 and lower consumer confidence in the USA. In contrast, stopover arrivals improved by 6.7 per cent for the summer months (Mid-April to December 2002), in particular the December quarter.

TABLE 26

	No. of visitors				% of total	
	2001	2002	Change	% Change	2001	2002
Winter	484 164	420 996	-63 168	-13.0	37.9	33.2
Summer	792 352	845 370	53 018	6.7	62.1	66.8
<b>Total</b>	<b>1 276 516</b>	<b>1 266 366</b>	<b>-10 150</b>	<b>-0.8</b>	<b>100.0</b>	<b>100.0</b>

Source: Jamaica Tourist Board (JTB)

The number of available rooms in 2002 totalled 24 239, representing an increase of 1.0 per cent, while the number of beds expanded by 0.9 per cent to 50 742 (Table 27). With the exception of Port Antonio, all the resort areas recorded growth in the number of available rooms and beds relative to 2001. The largest expansion in rooms and beds was recorded in Negril, Ocho Rios and the South Coast. The increase for Negril was mainly attributed to the opening of the first property of the RIU Resort group, while Ocho Rios benefited from the reopening of two hotels. Growth for the South Coast resulted from the refurbishing of several properties.

TABLE 27

<b>VISITOR ACCOMMODATION STATISTICS</b>					
<b>(By resort area)</b>					
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>Change</b>	<b>% Change</b>
<b>No. of Rooms</b>	<b>23 640</b>	<b>24 007</b>	<b>24 239</b>	<b>232</b>	<b>1.0</b>
Montego Bay	7 973	7961	7 965	4	0.1
Ocho Rios	6 818	6719	6 787	68	1.0
Negril	5 102	5568	5 647	79	1.4
Kingston	2 095	2050	2 074	24	1.2
Port Antonio	910	950	947	-3	-0.3
South Coast	742	759	819	60	7.9
<b>No. of Beds</b>	<b>48 907</b>	<b>50 265</b>	<b>50 742</b>	<b>477</b>	<b>0.9</b>
Montego Bay	16 313	16 792	16 838	46	0.3
Ocho Rios	14 741	14 605	14 725	120	0.8
Negril	10 379	11 316	11 474	158	1.4
Kingston	4 158	4 122	4 171	49	1.2
Port Antonio	1 824	1 904	1 898	-6	-0.3
South Coast	1 492	1 526	1 636	110	7.2

Source: Jamaica Tourist Board

On average, the length of stay of stopover visitors was 10.2 days, the same as in 2001 (Table 28). With the exception of Europe and the USA, all the major markets recorded increases in average length of stay, with the "Other Countries" group, including Spain, registering a notable increase to 13.5 days from 11.7 days in 2001.

TABLE 28

<b>AVERAGE LENGTH OF STAY (DAYS)</b>		
<b>By Country of residence</b>		
	<b>2001</b>	<b>2002</b>
USA	8.5	8.5
Canada	12.3	13.2
UK	18.2	18.5
Europe	12.8	12.4
Latin America	9.5	9.9
Caribbean	12.3	12.9
Other Countries	11.7	13.5
<b>TOTAL</b>	<b>10.2</b>	<b>10.2</b>

Source: Jamaica Tourist Board



### 4.2.2 Cruise Passengers

Cruise passenger arrivals to Jamaica grew by 3.0 per cent in 2002, relative to an average increase of 9.0 per cent for other top Caribbean destinations. The growth in cruise arrivals to the other Caribbean destinations was dominated principally by the Cayman Islands, Mexico and the Bahamas. The US Virgin Islands and St. Lucia were the only Islands that recorded declines in arrivals in 2002. As a result of increased cruise arrivals, Jamaica's share of passengers among the top 10 cruise destinations increased marginally to 8.3 per cent from 7.7 per cent in 2001 (see **International Section**). The growth in Jamaica's cruise sector for the year was attributed to respective expansions of 8.6 per cent and 34.1 per cent in the September and December quarters, relative to comparable quarters of 2001. This significant improvement was associated with the arrival of new and larger vessels as Jamaican ports were added to the itinerary of several large cruise liners. In this context, the *Carnival Conquest*, as well as the *Brilliance of the Seas*, *Navigator of the Seas* and *Explorer of the Seas* visited Jamaican ports for the first time in 2002. In addition, Montego Bay became the homeport for The A'Rosa Blu and The Sun Bird. There was also some discounting in the sector, as well as the repositioning of ships, to cater to the desire of Americans to vacation closer to home. Consistent with the changes in the industry, there was an increase of 28.4 per cent in ship calls, relative to 2001, among which were two European cruise vessels that contributed to the higher number of European visitors to the island in 2002.

### 4.2.3 Tourist Expenditure

Net earnings from foreign travel declined by US\$75.2 million to US\$951.0 million in 2002. This reflected a decline of US\$17.3 million in gross earnings and a US\$55.4 million increase in the expenditure of Jamaicans while overseas. However, spending by Jamaican seasonal workers overseas declined by US\$3.0 million to US\$36.5 million in 2002 from US\$39.5 million in 2001. The contraction in gross earnings was attributed to reductions in all categories of arrivals. Expenditure by foreign nationals declined by 1.5 per cent while that of non-resident Jamaicans and cruise passengers fell by 6.0 per cent and 4.3 per cent

TABLE 29

TOURIST EXPENDITURE (US\$M)				
	2001	2002	Change	% Change
<b>Total Foreign Nat. Stop-over Expenditure</b>	<b>1 119.6</b>	<b>1 102.3</b>	<b>-17.3</b>	<b>-1.5</b>
Winter Expenditure	446.6	360.6	-86.0	-19.3
Summer Expenditure	673.0	741.7	68.7	10.2
Non-resident Jamaicans Expenditure	40.2	37.8	-2.4	-6.0
Cruise Passengers & Armed Forces	72.4	69.3	-3.1	-4.3
<b>Total Expenditure</b>	<b>1 232.2</b>	<b>1 209.4</b>	<b>-22.8</b>	<b>-1.9</b>
Less Jamaican Exp. Overseas	166.5	221.9	55.4	33.3
Less Exp. of Resident Workers Overseas	39.5	36.5	-3.0	-7.6
<b>Net Expenditure</b>	<b>1 026.2</b>	<b>951.0</b>	<b>-75.2</b>	<b>-7.3</b>

Source: Jamaica Tourist Board

respectively, relative to 2001 (Table 29). The reduction in earnings reflected the decline in stopover arrivals, as well as discounts in the sector. Heavy discounting contributed to a 6.5 per cent decline in the average expenditure per person per day in the stopover category and, consequently, lower earnings in the sector, despite the growth in overall cruise arrivals.

### 4.3 OTHER SERVICES

The *other services* sub-account recorded a deficit of US\$434.3 million in 2002, relative to a deficit of US\$386.9 million in 2001. This outturn resulted from an increase of US\$74.6 million in gross payments to US\$775.8 million, which was partially offset by an expansion of US\$27.2 million in gross inflows to US\$341.5 million (Table 30).

The communication services sector recorded the largest increase of US\$13.1 million in inflows. This was associated with a higher volume of international calls terminated in Jamaica in the context of a rebalancing of external and domestic call rates. Growth of US\$7.0 million in the 'other' component reflected fees from financial services, including those received by banks and remittance companies.

TABLE 30

OTHER SERVICES (US\$M)				
	2001	2002	Change	% Change
<b>OTHER SERVICES (NET)</b>	<b>-386.9</b>	<b>-434.3</b>	<b>-47.4</b>	<b>12.3</b>
<b>RECEIPTS</b>	<b>314.3</b>	<b>341.5</b>	<b>27.2</b>	<b>8.7</b>
Insurance	11.9	15.4	3.5	29.4
Computer & information	36.6	34.1	-2.5	-6.8
Communication Services	164.7	177.8	13.1	8.0
Other Business Services	40.7	45.2	4.5	11.1
Government	29.7	31.3	1.6	5.4
Other	30.7	37.7	7.0	22.8
<b>PAYMENTS</b>	<b>701.2</b>	<b>775.8</b>	<b>74.6</b>	<b>10.6</b>
Insurance	94.1	118.4	24.3	25.8
Computer & information	13.8	11.6	-2.2	-15.9
Communication Services	50.1	103.9	53.8	107.4
Other Business Services	427.2	436.9	9.7	2.3
Government	34.0	45.8	11.8	34.7
Other	82.0	59.2	-22.8	-27.8

Source: Bank of Jamaica

With respect to payments, expansions of US\$53.8 million, US\$24.3 million, US\$11.8 million and US\$9.7 million were recorded for communication, insurance, Government and other business services, respectively. This was partially offset by a contraction of US\$22.8 million in payments for the 'other' category, largely representing a decline in outflows for financial services. The growth in payment for communication services was primarily associated with higher settlement charges on outgoing calls. Importantly, the rate rebalancing exercise resulted in a reduction of US\$50.5 million in net earnings from



communication services. The increased payments for insurance services stemmed from the growth in imports, as well as, an upturn in reinsurance rates resulting from the events of 11 September 2001. Government service payments were related to additional expenditure on Jamaican embassies and statutory bodies overseas. For other business services, the increase in payments was partly attributed to commissions paid for advertisements by travel agencies abroad.

## 5.0 INCOME

During 2002, the income account recorded a deficit of US\$605.5 million, compared with a deficit of US\$437.8 million in 2001. This outturn reflected an increase of US\$175.2 million in net investment income outflows to US\$687.6 million, which was partly offset by growth of US\$7.5 million in net inflows for compensation to employees (Table 31).

The improvement in net inflows for compensation to employees reflected an increase in the earnings of Jamaicans for work done abroad, primarily associated with higher receipts from the US hotel worker programme. Complementing this was a marginal contraction in payments to non-residents for work performed in Jamaica.

TABLE 31

<b>INCOME</b>				
<b>(US\$M)</b>				
	<b>2001</b>	<b>2002</b>	<b>Change</b>	<b>% Change</b>
<b>INCOME ACCOUNT (NET)</b>	<b>-437.8</b>	<b>-605.5</b>	<b>-167.7</b>	<b>38.3</b>
<b>INFLOWS</b>	<b>218.2</b>	<b>220.8</b>	<b>2.6</b>	<b>1.2</b>
<b>OUTFLOWS</b>	<b>656.0</b>	<b>826.3</b>	<b>170.3</b>	<b>26.0</b>
<b>1. Compensation to employees</b>	<b>74.6</b>	<b>82.1</b>	<b>7.5</b>	<b>10.1</b>
Inflows	106.7	111.0	4.3	4.0
Outflows	32.1	28.9	-3.2	-10.0
<b>2. Investment income (net)</b>	<b>-512.4</b>	<b>-687.6</b>	<b>-175.2</b>	<b>34.2</b>
<b>Inflows</b>	<b>111.5</b>	<b>109.8</b>	<b>-1.7</b>	<b>-1.5</b>
Direct Investment	5.7	17.2	11.5	201.8
Portfolio investment	5.3	12.4	7.1	134.0
Other investment	100.5	80.2	-20.3	-20.2
Central government	1.0	1.0	0.0	0.0
Bank of Jamaica	63.0	58.6	-4.4	-7.0
Other	36.5	20.6	-15.9	-43.6
<b>Outflows</b>	<b>623.9</b>	<b>797.4</b>	<b>173.5</b>	<b>27.8</b>
Direct Investment	300.8	434.3	133.5	44.4
Portfolio investment	6.7	9.0	2.3	34.3
Other investment	316.4	354.1	37.7	11.9
Central government	266.3	286.3	20.0	7.5
Bank of Jamaica	5.2	2.7	-2.5	-48.1
Government Guaranteed	4.0	2.2	-1.8	-45.0
Other	40.9	62.9	22.0	53.8

Source: Bank of Jamaica



A widening in the deficit on the investment income sub-account was largely attributable to an expansion of US\$173.5 million to US\$797.4 million in gross payments. The higher level of spending was primarily due to an increase of US\$133.5 million in profit remittances by the direct investment companies. There was also growth of US\$37.7 million in other investment outflows, which included an increase of US\$20.0 million in interest payments on Central Government's foreign debt and an expansion of US\$22.0 million in interest payments on investments in commercial banks by overseas residents.

## 6.0 CURRENT TRANSFERS

Net inflows from *current transfers* amounted to US\$1085.9 million in 2002, representing an increase of US\$170.5 million, or 18.6 per cent, relative to the previous year. This performance was attributed to an expansion of US\$182.6 million in net inflows to the private sector, which was partially offset by a US\$12.1 million reduction in net inflows to the public sector (Table 32).

TABLE 32

<b>CURRENT TRANSFERS</b>				
<b>(US\$M)</b>				
	<b>2001</b>	<b>2002</b>	<b>Change</b>	<b>% Change</b>
<b>NET CURRENT TRANSFERS</b>	<b>915.4</b>	<b>1085.9</b>	<b>170.5</b>	<b>18.6</b>
<b>TOTAL RECEIPTS</b>	<b>1092.0</b>	<b>1336.9</b>	<b>244.9</b>	<b>22.4</b>
<b>GENERAL GOVERNMENT</b>	<b>126.3</b>	<b>115.1</b>	<b>-11.2</b>	<b>-8.9</b>
<b>OTHER SECTOR</b>	<b>965.7</b>	<b>1221.8</b>	<b>256.1</b>	<b>26.5</b>
Remittances thru' the Postal System	1.2	0.7	-0.5	-41.7
Remittances thru' the Financial System	372.5	509.3	136.8	36.7
Remittance Companies	566.2	619.6	53.4	9.4
Other	25.8	92.2	66.4	257.4
<b>TOTAL PAYMENTS</b>	<b>176.6</b>	<b>251.0</b>	<b>74.4</b>	<b>42.1</b>
<b>GENERAL GOVERNMENT</b>	<b>6.6</b>	<b>7.5</b>	<b>0.9</b>	<b>13.6</b>
<b>OTHER SECTOR</b>	<b>170.0</b>	<b>243.5</b>	<b>73.5</b>	<b>43.2</b>
Remittances thru' the Financial System	147.3	213.4	66.1	44.9
Other	22.7	29.6	6.9	30.4

Source: Bank of Jamaica

Relative to 2001, gross private inflows increased by US\$256.1 million to US\$1221.8 million, partly offset by an expansion of US\$73.5 million in gross private outflows. The improvement in gross private inflows reflected respective increases of US\$136.8 million, US\$66.4 million and US\$53.4 million in flows through the financial system, the 'other' category and remittance companies. An aggressive marketing campaign accounted for the expansion in flows through the financial system, while receipt of gifts by selected private, non-profit institutions contributed to growth in the 'other' category.



Despite a reduced share of 50.7 per cent of inflows, relative to 58.6 per cent in 2001, remittance companies remained dominant in 2002. The share of remittance inflows accounted for by financial institutions, however, increased to 41.7 per cent, compared with a share of 38.6 per cent in 2001. As in 2001, the expansion in inflows occurred despite a slower than anticipated rate of growth in the US economy, the major source of private inflows.

The level of gross inflows to the Government sector declined by US\$11.2 million to US\$115.1 million in 2002, while outflows of US\$7.5 million represented an increase of US\$0.9 million over 2001. The fall-off in Government inflows reflected respective reductions of US\$20.6 million and US\$1.8 million in grants and travel tax, relative to 2001.

## 7.0 CAPITAL AND FINANCIAL ACCOUNTS

The *capital* account recorded a deficit of US\$16.9 million in 2002, relative to a deficit of US\$23.6 million in 2001. In contrast, the *financial* account recorded a surplus of US\$1,135.9 million, which was US\$354.8 million above the surplus recorded in 2001. The performance of the financial account was largely influenced by net inflows from both official and private investment (Table 33).

Within the financial account, the official investments sub-account recorded net inflows of US\$77.1 million in 2002, relative to net inflows of US\$653.4 million in the previous year (Table 34). Gross investment inflows to the Government sector declined by US\$391.0 million to US\$559.1 million in 2002, while gross official payments of US\$482.0 million was US\$185.3 million higher, relative to 2001. The contraction in gross inflows in 2002 was influenced principally by a fall of US\$511.8 million in Government's borrowing, relative to 2001, due to a retreat from the international financial markets in light of less

TABLE 33

CAPITAL AND FINANCIAL ACCOUNT (US\$M)				
	2001	2002	Change	% Change
<b>CAPITAL &amp; FINANCIAL ACCOUNT (NET)</b>	<b>757.5</b>	<b>1 119.0</b>	<b>361.5</b>	<b>47.7</b>
<b>A. CAPITAL ACCOUNT</b>	<b>-23.6</b>	<b>-16.9</b>	<b>6.7</b>	<b>-28.4</b>
Capital Transfers	-23.6	-16.9	6.7	-28.4
General Government	2.2	0.2	-2.0	-90.9
Other Capital Transfers	-25.8	-17.1	8.7	-33.7
Acq. /disposal of Non-prod. Non-fin'l Assets				
<b>B. FINANCIAL ACCOUNT</b>	<b>781.1</b>	<b>1 135.9</b>	<b>354.8</b>	<b>45.4</b>
Other Official Investment	653.4	77.1	-576.3	-88.2
Other Private Investments <sup>1/</sup>	993.1	820.1	-173.0	-17.4
Change in Reserves (increase = minus)	-865.4	238.7		

<sup>1/</sup> Include errors & omissions

Source: Bank of Jamaica

TABLE 34

<b>OTHER OFFICIAL INVESTMENT FLOWS</b>				
<b>(US\$M)</b>				
	<b>2001</b>	<b>2002</b>	<b>Change</b>	<b>% Change</b>
<b>NET OFFICIAL INVESTMENTS</b>	<b>653.4</b>	<b>77.1</b>	<b>-576.3</b>	<b>-88.2</b>
<b>GROSS OFFICIAL INFLOWS</b>	<b>950.1</b>	<b>559.1</b>	<b>-391.0</b>	<b>-41.2</b>
Donor countries	0.0	0.0	0.0	0.0
Multilateral institutions	75.0	193.4	118.4	157.9
Other assistance	811.8	300.0	-511.8	-63.0
Refinancing	0.0	0.0	0.0	0.0
Project loans	63.3	65.7	2.4	3.8
<b>GROSS OFFICIAL OUTFLOWS</b>	<b>296.7</b>	<b>482.0</b>	<b>185.3</b>	<b>62.5</b>
Government direct	295.7	481.1	185.4	62.7
Bank of Jamaica	1.0	0.9	-0.1	-10.0

Source: Bank of Jamaica

than favourable conditions. Partly offsetting the contraction in commercial loan inflows were expansions in receipts from multilateral and bilateral sources. Multilateral loans inflows of US\$193.4 million in 2002 largely reflected the receipt of US\$162.5 million, representing the second tranche of a loan package aimed at restructuring the domestic financial sector. Of this, US\$75.0 million was disbursed by the World Bank, US\$75.0 million by the Inter-American Development Bank (IDB), and US\$12.5 million by the Caribbean Development Bank (CDB). Gross official outflows in 2002 principally reflected the payment of US\$200.0 million on a Eurobond that matured in the second quarter of the calendar year.

The level of net private financial investments fell by US\$173.0 million to US\$820.1 million in 2002. Contributing to this fall was a contraction of US\$128.1 million in gross foreign direct investment inflows, principally influenced by a lower level of divestment in 2002, relative to 2001. In particular, the divestment of the light and power company in

TABLE 35

<b>JAMAICA: GROSS AND NET FOREIGN EXCHANGE RESERVES (US\$M)</b>			
<b>(As at 31 December)</b>			
	<b>2001</b>	<b>2002</b>	<b>Change</b>
<b>NET FOREIGN RESERVES</b>	<b>1 839.4</b>	<b>1 600.7</b>	<b>-238.7</b>
<b>GROSS FOREIGN EXCHANGE RESERVES</b>	<b>1 902.0</b>	<b>1 646.8</b>	<b>-255.2</b>
Holdings of SDR's	1.5	0.7	-0.8
Supplementary Fund	39.3	40.3	1.0
Other Bank of Jamaica	1 857.4	1 602.1	-255.3
Central government	1.3	1.5	0.2
Other official institutions	2.5	2.2	-0.3
(of which CDF)	1.9	1.7	-0.2
(of which EDF)	0.6	0.5	-0.1
<b>GROSS FOREIGN LIABILITIES</b>	<b>62.6</b>	<b>46.1</b>	<b>-16.5</b>
IMF liabilities	40.1	23.6	-16.5
Iraq	22.5	22.5	0.0

Source: Bank of Jamaica



2001 significantly inflated the level of FDI inflows for that year. The private sector surplus, in conjunction with the surplus on the official investment account was insufficient to finance the deficits on the capital and current accounts. Consequently, the net international reserves (NIR) of the country declined by US\$238.7 million to US\$1 600.7 million at the end of 2002.

The decline in the NIR largely reflected a contraction of US\$255.2 million in official foreign assets, which was partially offset by a reduction of US\$16.5 million to US\$46.1 million in the official foreign liabilities (Table 35). The level of gross reserves at the end of December 2002 stood at US\$1 646.8 million, representing 18.4 weeks of imports of goods and services.

APPENDIX

**STATISTICAL TABLES**

**FIVE-YEAR BOP SERIES BASED ON THE FIFTH EDITION**

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53	VIII.	Capital Account: 1998 - 2002



TABLE I

<b>BALANCE OF PAYMENTS SUMMARY 1998 - 2002<sup>1/</sup></b>					
<b>(US\$M)</b>					
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>CURRENT ACCOUNT</b>	<b>-333.8</b>	<b>-216.3</b>	<b>-367.4</b>	<b>-757.5</b>	<b>-1 119.0</b>
<b>GOODS BALANCE</b>	<b>-1 130.5</b>	<b>-1 186.5</b>	<b>-1 441.5</b>	<b>-1 618.2</b>	<b>-1 870.5</b>
EXPORTS (f.o.b.)	1 613.4	1 499.1	1 562.8	1 454.4	1 309.1
IMPORTS (f.o.b.)	2 743.9	2 685.6	3 004.3	3 072.6	3 179.6
<b>SERVICES BALANCE</b>	<b>476.8</b>	<b>655.4</b>	<b>603.2</b>	<b>383.1</b>	<b>271.1</b>
TRANSPORTATION	-278.4	-233.6	-256.6	-256.2	-245.6
TRAVEL	998.9	1 052.4	1 123.9	1 026.2	951.0
OTHER SERVICES	-243.7	-163.4	-264.1	-386.9	-434.3
<b>INCOME</b>	<b>-308.1</b>	<b>-332.5</b>	<b>-349.9</b>	<b>-437.8</b>	<b>-605.5</b>
COMPENSATION OF EMPLOYEE	66.1	70.3	67.4	74.6	82.1
INVESTMENT INCOME	-374.2	-402.8	-417.3	-512.4	-687.6
<b>CURRENT TRANSFERS</b>	<b>628.0</b>	<b>647.3</b>	<b>820.8</b>	<b>915.4</b>	<b>1 085.9</b>
OFFICIAL	43.2	45.8	147.9	119.7	107.6
PRIVATE	584.8	601.5	672.9	795.7	978.3
<b>CAPITAL &amp; FINANCIAL A/C</b>	<b>333.8</b>	<b>216.3</b>	<b>367.4</b>	<b>757.5</b>	<b>1 119.0</b>
<b>CAPITAL ACCOUNT</b>	<b>-8.7</b>	<b>-10.9</b>	<b>2.2</b>	<b>-23.6</b>	<b>-16.9</b>
<b>CAPITAL TRANSFERS</b>					
OFFICIAL	4.2	4.1	15.6	2.2	0.2
PRIVATE	-12.9	-15.0	-13.4	-25.8	-17.1
ACQ/DISP OF NON-PRO NON FIN ASSETS	0.0	0.0	0.0	0.0	0.0
<b>FINANCIAL ACCOUNT <sup>2/</sup></b>	<b>342.5</b>	<b>227.2</b>	<b>365.2</b>	<b>781.1</b>	<b>1 135.9</b>
OTHER OFFICIAL INVESTMENT	-41.3	-331.4	383.6	653.4	77.1
OTHER PRIVATE INVESTMENTS <sup>1/</sup>	423.1	425.0	504.6	993.1	820.1
RESERVES	-39.3	133.6	-523.0	-865.4	238.7

<sup>1/</sup> Provisional<sup>2/</sup> Includes errors & omissions

Source: Bank of Jamaica

TABLE II

**BALANCE OF PAYMENTS STANDARD PRESENTATION**  
(US\$M)

	1998		1999		2000		2001		2002	
	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr
<b>1. CURRENT ACCOUNT</b>	<b>4 267.7</b>	<b>4 601.5</b>	<b>4 401.2</b>	<b>4 617.5</b>	<b>4 751.0</b>	<b>5 118.4</b>	<b>4 661.6</b>	<b>5 419.1</b>	<b>4 786.4</b>	<b>5 905.4</b>
<b>A. Goods &amp; Services</b>	<b>3 383.8</b>	<b>4 037.5</b>	<b>3 477.5</b>	<b>4 008.6</b>	<b>3 588.5</b>	<b>4 426.8</b>	<b>3 351.4</b>	<b>4 586.5</b>	<b>3 228.7</b>	<b>4 828.1</b>
1. Goods	1 613.4	2 743.9	1 499.1	2 685.6	1 562.8	3 004.3	1 454.4	3 072.6	1 309.1	3 179.6
1.1 General Merchandise	1 316.3	2 576.8	1 245.7	2 529.7	1 301.0	2 848.6	1 223.1	2 922.9	1 117.3	3 065.4
1.2 Goods procured in ports by carriers	27.0	17.2	29.5	20.7	37.9	36.0	35.4	36.2	29.1	35.6
1.3 Freezone Trade	270.1	149.9	223.9	135.2	229.9	119.7	195.9	113.5	162.7	78.6
2. Transportation	276.0	554.4	300.3	533.9	328.6	585.2	350.5	606.7	368.7	614.3
2.1 Passenger	182.7	25.0	206.3	28.6	243.7	28.5	261.6	20.9	272.8	15.8
2.2 Freight	7.2	437.7	7.7	408.4	6.5	431.4	6.9	448.2	6.9	464.8
2.3 other	86.1	91.7	86.3	96.9	78.4	125.3	82.0	137.6	89.0	133.7
3. Travel	1 196.9	198.0	1 279.6	227.2	1 332.6	208.7	1 232.2	206.0	1 209.4	258.4
4. Insurance Services	5.9	71.7	6.4	56.2	12.1	87.2	11.9	94.1	15.4	118.4
5. Communication Services	184.5	40.0	275.0	42.4	209.4	31.8	164.7	50.1	177.8	103.9
6. Financial services	9.2	3.2	11.3	3.5	12.6	18.4	15.8	29.7	22.4	17.7
7. Computer & Information services	37.0	5.0	40.0	7.1	40.4	38.3	36.6	13.8	34.1	11.6
8. Royalties & license fees	6.6	30.0	6.2	40.5	6.4	41.0	5.9	38.3	6.1	32.1
9. Other business services	16.2	346.3	20.7	365.6	36.4	396.8	40.7	427.2	45.2	436.4
10. Personal, cultural, & recreational services	9.6	3.6	9.7	4.1	9.6	4.1	9.0	4.0	9.2	4.0
11. Government services	27.5	35.4	29.2	36.6	37.6	32.0	29.7	34.0	31.3	45.8
12. Construction services	1.0	6.0	0.0	7.5	0.0	10.2	0.0	10.0	0.0	5.9
<b>B Income</b>	<b>1 563.3</b>	<b>464.4</b>	<b>1 658.8</b>	<b>498.3</b>	<b>1 931.1</b>	<b>543.0</b>	<b>2 182.2</b>	<b>656.0</b>	<b>2 208.8</b>	<b>826.3</b>
13. Compensation of employees	86.8	20.7	94.0	23.7	88.2	20.8	106.7	32.1	111.0	28.9
14. Investment Income	69.5	443.7	71.8	474.6	104.9	522.2	111.5	623.9	109.8	797.4
<b>C. Current Transfers</b>	<b>727.6</b>	<b>99.6</b>	<b>757.9</b>	<b>110.6</b>	<b>969.4</b>	<b>148.6</b>	<b>1 092.0</b>	<b>176.6</b>	<b>1 336.9</b>	<b>251.0</b>
15. Official	50.5	7.3	53.5	7.7	155.1	7.2	126.3	6.6	115.1	7.5
16. Private	677.1	92.3	704.4	102.9	814.3	141.4	965.7	170.0	1 221.8	243.5
<b>D. CAPITAL &amp; FINANCIAL ACCOUNT</b>	<b>1 665.2</b>	<b>1 375.9</b>	<b>1 663.3</b>	<b>1 445.8</b>	<b>2 475.1</b>	<b>2 141.9</b>	<b>3 694.6</b>	<b>2 923.1</b>	<b>3 390.7</b>	<b>2 284.4</b>
<b>D. Capital Account</b>	<b>20.3</b>	<b>29.0</b>	<b>19.1</b>	<b>30.0</b>	<b>29.6</b>	<b>27.4</b>	<b>13.9</b>	<b>37.5</b>	<b>18.9</b>	<b>35.8</b>
17. Government capital transfers	4.2	0.0	4.1	0.0	15.6	0.0	2.2	0.0	0.2	0.0
18. Other sectors transfers	16.1	29.0	15.0	30.0	14.0	27.4	11.7	37.5	18.7	35.8
<b>E. Financial Account</b>	<b>1 644.9</b>	<b>1 346.9</b>	<b>1 644.2</b>	<b>1 415.8</b>	<b>2 445.5</b>	<b>2 114.5</b>	<b>3 680.7</b>	<b>2 885.6</b>	<b>3 371.8</b>	<b>2 248.6</b>
19. Direct Investment	369.1	82.0	523.7	94.9	468.4	74.3	613.9	89.0	478.8	73.9
20. Other Investment	1 275.7	1 225.5	965.1	1 299.1	1 976.4	1 516.5	3 066.6	1 931.0	2 637.8	2 158.2
20.1 Trade credits	112.8	119.9	271.2	241.9	415.6	405.5	379.8	422.7	392.5	384.4
20.2 Loans	540.4	746.5	238.8	617.3	873.1	407.9	1 436.9	688.4	953.5	853.9
20.2.1 Government	443.4	484.7	48.1	379.5	667.6	284.0	950.1	296.7	559.1	482.0
20.2.2 Other sectors	97.0	261.8	190.7	237.8	205.5	123.9	486.8	391.7	394.4	371.9
20.3 Currency & Deposits	525.0	354.5	351.8	435.3	593.1	631.5	1 090.6	759.5	1 071.2	547.9
20.4 Other Assets	97.5	4.6	103.3	4.6	94.6	71.6	159.3	60.4	220.6	372.0
21. Reserves	0.1	39.4	155.4	21.8	0.7	523.7	0.2	865.6	255.2	16.5
21.1 Liabilities	0.0	12.3	0.0	21.8	0.0	23.1	0.0	20.2	0.0	0.0
21.2 Assets	0.1	27.1	155.4	0.0	0.7	500.6	0.2	845.4	255.2	16.5
21.2.2 Special drawing rights	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
21.2.4 Bank of Jamaica	0.0	26.6	154.9	0.0	0.0	500.6	0.0	845.4	254.3	0.0
21.2.5 Government Assets	0.1	0.0	0.5	0.0	0.7	0.0	0.2	0.1	0.1	0.0
<b>F Net errors &amp; omissions</b>	<b>44.5</b>	<b>0.0</b>	<b>0.0</b>	<b>1.2</b>	<b>34.2</b>	<b>0.0</b>	<b>0.0</b>	<b>14.0</b>	<b>12.7</b>	<b>0.0</b>

Source: Bank of Jamaica



TABLE III

<b>BALANCE OF PAYMENTS ANALYTIC SUMMARY</b>					
<b>(US\$M)</b>					
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Balance of Trade	-1 130.5	-1 186.5	-1 441.5	-1 618.2	-1 870.5
Services	476.8	655.4	603.2	383.1	271.0
Net Goods & Services	-653.7	-531.1	-838.3	-1 235.1	-1 599.5
Income	-308.1	-332.5	-349.9	-437.8	-605.5
Private Current transfers (net)	584.8	601.5	672.9	795.7	978.3
Official current transfers (net)	43.2	45.8	147.9	119.7	107.6
Capital Transfers	-8.7	-10.9	2.2	-23.6	-16.9
Financial Account	298.0	228.4	331.0	795.1	1 123.2
Net errors & omissions	44.5	-1.2	34.2	-14.0	12.9

Source: Bank of Jamaica

TABLE IV

<b>SERVICES ACCOUNT</b>					
<b>(US\$M)</b>					
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Services (Net)</b>	<b>476.8</b>	<b>655.4</b>	<b>603.2</b>	<b>383.1</b>	<b>271.1</b>
<b>Inflows</b>	<b>1 770.4</b>	<b>1 978.4</b>	<b>2 025.7</b>	<b>1 897.0</b>	<b>1 919.6</b>
<b>Outflows</b>	<b>1 293.6</b>	<b>1 323.0</b>	<b>1 422.5</b>	<b>1 513.9</b>	<b>1 648.5</b>
<b>1. Transportation</b>	<b>-278.4</b>	<b>-233.6</b>	<b>-256.6</b>	<b>-256.2</b>	<b>-245.6</b>
Inflows	276.0	300.3	328.6	350.5	368.7
Outflows	554.4	533.9	585.2	606.7	614.3
<b>2. Travel</b>	<b>998.9</b>	<b>1 052.4</b>	<b>1 123.9</b>	<b>1 026.2</b>	<b>951.0</b>
Inflows	1 196.9	1 279.6	1 332.6	1 232.2	1 209.4
Outflows	198.0	227.2	208.7	206.0	258.4
<b>3. Other Services</b>	<b>-243.7</b>	<b>-163.4</b>	<b>-264.1</b>	<b>-386.9</b>	<b>-434.3</b>
Inflows	297.5	398.5	364.5	314.3	341.5
Outflows	541.2	561.9	628.6	701.2	775.8

Source: Bank of Jamaica



TABLE V

<b>OTHER SERVICES</b>					
<b>(US\$M)</b>					
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Inflows</b>	<b>297.5</b>	<b>398.5</b>	<b>364.5</b>	<b>314.3</b>	<b>341.5</b>
Construction services	1.0	0.0	0.0	0.0	0.0
Communication services	184.5	275.0	209.4	164.7	177.8
Insurance Services	5.9	6.4	12.1	11.9	15.4
Financial Services	9.2	11.3	12.6	15.8	22.4
Computer & Information Services	37.0	40.0	40.4	36.6	34.1
Royalties & license fees	6.6	6.2	6.4	5.9	6.1
Other Business Services	16.2	20.7	36.4	40.7	45.2
Personal, cultural & recreational services	9.6	9.7	9.6	9.0	9.2
Government services	27.5	29.2	37.6	29.7	31.3
<b>Outflows</b>	<b>541.2</b>	<b>561.9</b>	<b>628.6</b>	<b>701.2</b>	<b>775.8</b>
Construction services	6.0	7.5	10.2	10.0	5.9
Communication services	40.0	42.4	31.8	50.1	103.9
Insurance Services	71.7	56.2	87.2	94.1	118.4
Financial Services	3.2	3.5	18.4	29.7	17.7
Computer & Information Services	5.0	5.9	7.1	13.8	11.6
Royalties & license fees	30.0	40.5	41.0	38.3	32.1
Other Business Services	346.3	365.6	396.8	427.2	436.4
Personal, cultural & recreational services	3.6	3.7	4.1	4.0	4.0
Government services	35.4	36.6	32.0	34.0	45.8
<b>Net services</b>	<b>-243.7</b>	<b>-163.4</b>	<b>-264.1</b>	<b>-386.9</b>	<b>-434.3</b>

Source: Bank of Jamaica

TABLE VI

<b>INCOME ACCOUNT</b>					
<b>(US\$M)</b>					
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>A. Compensation of Employees</b>	<b>66.1</b>	<b>70.3</b>	<b>67.4</b>	<b>74.6</b>	<b>82.1</b>
Inflows	86.8	94.0	88.2	106.7	111.0
Outflows	20.7	23.7	20.8	32.1	28.9
<b>B. Investment Income</b>	<b>-374.2</b>	<b>-402.8</b>	<b>-417.3</b>	<b>-512.4</b>	<b>-687.6</b>
Inflows	69.5	71.8	104.9	111.5	109.8
Direct Investment	7.0	8.1	8.5	5.7	17.2
Portfolio Investment	3.2	2.6	2.7	5.3	12.4
Other Investment	59.3	61.1	93.7	100.5	80.2
- Central Government	1.0	1.0	1.0	1.0	1.0
- Bank of Jamaica	42.4	33.1	47.8	63.0	58.6
- Other	15.9	27.0	44.9	36.5	20.6
Outflows	443.7	474.6	522.2	623.9	797.4
Direct Investment	184.2	228.0	289.9	300.8	434.3
Portfolio Investment	8.9	8.4	7.6	6.7	9.0
Other Investment	250.6	238.2	224.7	316.4	354.1
- Central Government	161.4	169.6	153.0	266.3	286.3
- Bank of Jamaica	11.6	7.3	6.5	5.2	2.7
- Government Guaranteed	24.2	8.5	9.5	4.0	2.2
- Other	53.4	52.8	55.7	40.9	62.9

Source: Bank of Jamaica



TABLE VII

<b>CURRENT TRANSFERS</b>					
<b>(US\$M)</b>					
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Total Receipts</b>	<b>727.6</b>	<b>757.9</b>	<b>969.4</b>	<b>1 092.0</b>	<b>1 336.9</b>
<b>A. General government</b>	<b>50.5</b>	<b>53.5</b>	<b>155.1</b>	<b>126.3</b>	<b>115.1</b>
<b>B. Other Sectors</b>	<b>677.1</b>	<b>704.4</b>	<b>814.3</b>	<b>965.7</b>	<b>1 221.8</b>
Remittance thru' postal system	1.2	1.2	1.2	1.2	0.7
Remittance thru' Financial system	367.8	322.8	334.6	372.5	509.3
Remittance companies	285.7	357.0	453.7	566.2	619.6
Other	22.4	23.4	24.8	25.8	92.2
<b>Total Payments</b>	<b>99.6</b>	<b>110.6</b>	<b>148.6</b>	<b>176.6</b>	<b>251.0</b>
<b>A. General Government</b>	<b>7.3</b>	<b>7.7</b>	<b>7.2</b>	<b>6.6</b>	<b>7.5</b>
<b>B. Other Sectors</b>	<b>92.3</b>	<b>102.9</b>	<b>141.4</b>	<b>170.0</b>	<b>243.5</b>
Remittance thru' Financial system	84.4	95.8	131.2	147.3	213.4
Other	7.9	7.1	10.2	22.7	30.1
<b>Net Current Transfers</b>	<b>628.0</b>	<b>647.3</b>	<b>820.8</b>	<b>915.4</b>	<b>1 085.9</b>

Source: Bank of Jamaica

TABLE VIII

<b>CAPITAL AND FINANCIAL ACCOUNT</b>					
<b>(US\$M)</b>					
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>CAPITAL ACCOUNT</b>	<b>-8.7</b>	<b>-10.9</b>	<b>2.2</b>	<b>-23.6</b>	<b>-16.9</b>
<b>CAPITAL TRANSFERS</b>	<b>-8.7</b>	<b>-10.9</b>	<b>2.2</b>	<b>-23.6</b>	<b>-16.9</b>
GENERAL GOVERNMENT	4.2	4.1	15.6	2.2	0.2
INFLOWS	4.2	4.1	15.6	2.2	0.2
OUTFLOWS	0.0	0.0	0.0	0.0	0.0
OTHER SECTORS	-12.9	-15	-13.4	-25.8	-17.1
INFLOWS	16.1	15.0	14.0	11.7	18.7
OUTFLOWS	29	30.0	27.4	37.5	35.8
ACQ./DISP. OF NON-PROD. NON-FIN. ASSETS	0.0	0.0	0.0	0.0	0.0
INFLOWS	0.0	0.0	0.0	0.0	0.0
OUTFLOWS					
<b>FINANCIAL ACCOUNT</b>	<b>342.5</b>	<b>227.2</b>	<b>365.2</b>	<b>781.1</b>	<b>1 135.9</b>
OTHER OFFICIAL INVESTMENT	-41.3	-331.4	383.6	653.4	77.1
OTHER PRIVATE INVESTMENTS <sup>1/</sup>	423.1	425.0	504.6	993.1	820.1
RESERVES	-39.3	133.6	-523.0	-865.4	238.7

<sup>1/</sup> Includes errors & omissions

Source: Bank of Jamaica