



# BALANCE OF PAYMENTS OF JAMAICA 2003



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## ***Preface***

*This report summarises the economic transactions between Jamaican residents and the rest of the world during 2003. 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 2003 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. Comments are welcome at [www.boj.org.jm](http://www.boj.org.jm).*

## OVERVIEW

Developments within the Jamaican economy in 2003, and the external accounts in particular, occurred against the background of the recovery in the world economy. World output expanded by 3.9 per cent in 2003, compared with a growth of 3.0 per cent in 2002. This growth was mainly driven by a 6.1 per cent expansion in developing countries, as the advanced economies<sup>1</sup> grew by only 2.1 per cent. The international economic environment was, however, overshadowed by a war in Iraq and a renascent increase in oil prices. Relatively weak demand among the advanced economies in the first half of 2003 also raised the possibility of deflation.

In the context of potential economic stagnation, monetary policy was loosened within the major developed economies in an effort to stimulate growth. For the United States of America (USA) in particular, this accommodative stance, which led to an acceleration in consumer spending, fostered a depreciation of the US dollar vis-à-vis the currencies of its major trading partners. Inflation among both the developed and developing economies therefore accelerated during the year, relative to 2002.

Consistent with the expansion in the world economy, economic growth in Jamaica accelerated to 2.1 per cent for the year, relative to the 1.1 per cent recorded in 2002. This acceleration reflected developments in the tradable sector of the economy as there was continued buoyancy in mining operations and appreciable growth in tourism. The performance of the economy also reflected a strong recovery in agriculture from the effects of adverse weather conditions in the previous year. The major challenge for the year was the maintenance of domestic price stability in the context of increases in international commodity prices, Government revenue measures, administered price adjustments, as well as significant exchange rate movements in the first part of the year.

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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.

Inflation, consequently, rose to 14.1 per cent for the year, relative to the 7.3 per cent recorded in 2002.

Against the background of the developments in the world economy and the growth and inflation backdrop in Jamaica, the current account deficit for the year narrowed by US\$313.0 million (3.8 per cent of GDP) to US\$761.4 million (9.4 per cent of GDP) during 2003. This was in contrast to the deterioration recorded over the previous three years. The performance in 2003 was influenced by increased surpluses on the *services* account (given the performance of tourism) and *current transfers* accounts, as well as a reduction in the deficit on the *income* account. These improvements were partly countered by an expansion in the deficit on the *goods* account.

Contributing to the increase in the surplus on the *services* account was an expansion in net inflows on the travel sub-account, supported by reductions in the deficits on the transportation and other services sub-accounts. The contraction in the deficit on the income account was influenced by a reduction in net investment income payments. The increase in net current transfers was related to an expansion in net inflows to the private sector, as net official inflows declined. The expansion in private sector inflows occurred in a context of faster growth in the USA and UK.

While the trade deficit increased by US\$73.3 million in 2003, this was the smallest expansion since 1999. The higher deficit in 2003 emanated from an increase in imports, which was twice the level of expansion in exports. The overall growth in imports reflected higher spending on raw materials, the result of increased international commodity prices, especially crude oil. Increased earnings from exports were primarily driven by an expansion in demand for alumina, principally due to robust growth in China, as well as depreciation in the US Dollar against the Euro.

The capital account recorded a surplus of US\$0.1 million for 2003, representing an improvement of US\$17.0 million, relative to 2002. The financial account registered a surplus of US\$761.3 million in 2003, a deterioration of US\$330.0 million in comparison

to 2002. Within the financial account, net private inflows of US\$692.5 million, comprised of mainly net foreign direct investment inflows, were insufficient to finance the deficit of US\$363.8 million in net official investment flows as well as the deficit on the current account. Consequently, there was a draw down of US\$432.6 million in the net international reserves of the country for the review year.

**PART I**  
**DOMESTIC MACROECONOMIC DEVELOPMENTS**

**1.0 OVERVIEW**

The Jamaican economy grew by 2.1 per cent in 2003, despite uncertainties in the domestic financial markets and unfavourable conditions in the international markets. Demand pressures in the foreign exchange market, higher international commodity prices, and administered price increases, pushed inflation to 14.1 per cent for the year, compared to 7.3 per cent in 2002. Notwithstanding these shocks, the Bank of Jamaica was able to stabilize inflation during the latter half of the year.

**1.1 REAL SECTOR**

**1.1.1 Production**

Jamaica's GDP grew by 2.1 per cent during 2003 (see **Table 1**). While there were strong expansions in *agriculture* and *mining*, the most significant impetus to growth emanated from services. Within **services**, *financing & insurance*, *miscellaneous services*, *electricity & water* and *transport, storage & communication* were the main areas of growth.

The real value added of *agriculture, forestry & fishing* increased by 5.7 per cent in 2003, relative to a decline of 7.0 per cent recorded in 2002. Growth in agriculture during the year represented a recovery from the impact of the May and September 2002 flood rains. In 2002, domestic agriculture declined by 12.0 per cent, resulting from the effect of the flood rains. Favourable weather conditions experienced throughout 2003, contributed to increases in the yields of most crops, in particular vegetables. Despite the overall growth in agriculture, the performance of the sector was moderated by badly damaged farm roads, low germination of selected vegetable seeds, higher input costs and scarcity of planting materials, particularly for legumes.

**TABLE 1**

<b>GROSS DOMESTIC PRODUCT</b>		
<b>(Constant Price, Base = 1996)</b>		
<b>Growth Rate By Sectors (%)</b>		
	<b>2002</b>	<b>2003</b>
<b>GOODS</b>	-0.5	1.6
Agriculture, Forestry & Fishing	-7.0	5.7
Mining & Quarrying	3.3	4.8
Manufacturing	-0.8	-1.0
Construction & Installation	2.3	1.1
<b>SERVICES</b>	2.3	2.4
<b>BASIC SERVICES</b>	5.9	3.4
Electricity & Water	4.6	4.7
Transport Storage & Communication	6.3	3.0
<b>OTHER SERVICES</b>	1.2	2.1
Distributive Trade	0.3	1.3
Financing & Insurance Services	6.1	4.9
Real Estate & Business Services	0.6	1.3
Producers of Government Services	0.5	0.0
Miscellaneous Services	0.2	5.2
Household & Private Non-Profit	0.2	0.3
<b>IMPUTED SERVICE CHARGES</b>	5.4	2.8
<b>TOTAL GDP</b>	1.1	2.1

Source: STATIN

*Mining & quarrying* expanded in 2003 by 4.8 per cent, contributing an estimated 6.0 per cent of the growth in GDP. This growth reflected a general increase in capacity utilisation in the sector to approximately 100.0 per cent, from about 94.0 per cent in 2002. Alumina production in 2003 grew by 5.7 per cent, relative to 2002, while crude bauxite production declined by 5.3 per cent in the year. The increase in alumina production partly reflected normalisation in output in 2003, following the adverse effect of the May 2002 flood rains. The decline in the production of crude bauxite partly stemmed from inclement weather conditions in the December 2003 quarter.

*Manufacturing* recorded another year of decline in 2003. The contraction in this sector was primarily the result of reductions in the textile & wearing apparel, leather and paper industries, which occurred in a context of declining competitiveness in these industries. There was also a reduction in petroleum refining, given the closure of the refinery for maintenance work in the June 2003 quarter. Of note however were the growth in *food processing* (particularly poultry meat production) and the production of non-alcoholic beverages.

Real value added for *construction & installation* expanded in 2003, influenced by higher levels of activity in non-residential construction, resulting primarily from the impact of public sector supported projects. In the residential segment of the market housing starts, and completions by the National Housing Trust (NHT) declined by 23.7 per cent and 46.3 per cent in 2003, respectively, relative to 2002.

For **services**, *electricity and water*, *miscellaneous services* and *financing & insurance services* were the main contributors to growth. The buoyancy in *electricity and water* was attributed to the on-going renovation and expansion exercises that have been implemented by the dominant power company. Growth in *miscellaneous services* was primarily the result of strong performance in *hotels, restaurants and clubs* (see **Part III, Section 3.4.2**).

### **1.1.2 Labour Market**

The unemployment rate, which had remained relatively stable in the past five years, fell in October 2003 to 12.8 percent, relative to the 15.4 per cent at October 2002. This occurred in the context of a 1.6 per cent increase in the employed labour force, as well as a reduction of 1.4 per cent in the labour force. The unemployment rates for males and females were lower as at October 2003, compared to October 2002 (see **Table 2**). The job-seeking rate, which is the percentage of the labour force actively seeking work, was unchanged at 6.3 per cent relative to the previous year.

**TABLE 2**

<b>LABOUR MARKET Selected Indicators</b>		
	<b>October 2002</b>	<b>October 2003</b>
Unemployment rate	15.4%	12.8%
Unemployment rate - Males	10.7%	9.5%
Unemployment rate- Females	21.1%	17.1%
Total Labour Force	1,114,100	1,098,300
Employed Labour Force	942,300	957,300

*Source: STATIN*

An examination of the labour force by industry revealed that three industry groups increased between October 2002 and October 2003. The largest increase of 9.3 per cent was in *financing, insurance, real estate and business services*, while *manufacturing and agriculture, forestry and fishing* grew by 5.3 per cent and 3.5 per cent, respectively. The growth in the labour force, in conjunction with retooling and renovations in the beverages industry, contributed to the growth experienced in some segments of the *manufacturing* sector.

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

### **1.2.1 Monetary Developments**

The Central Bank's implementation of monetary policy was in response to the developments in the financial markets, which threatened price stability. Significant demand pressures in the foreign exchange market in the first half of the year prompted the Bank to introduce a 150-day open market instrument at an interest rate of 30.0 per cent, and subsequently increase the interest rates on the entire spectrum of open market instruments, with the 365-day rate being increased to 35.95 per cent during March. Given the restoration of confidence in the domestic economy in the second half of the year, the Bank reduced rates on its open market instruments. At the end of the year the interest rate on the 365-day instrument was 23.0 per cent, relative to 30.0 per cent at the end of June 2003.

Given the policy actions of the Bank, the monetary base increased by 13.3 per cent in 2003, relative to an increase of 4.2 per cent in 2002. However, broad money (M3J) increased at a slower rate for the year, compared the rate of increase in 2002. The main sources of the expansion in M3J were an increase in banking system credit and a decline in the Bank of Jamaica's open market liabilities. The notable decline in the NIR was the most significant counterpart of the dampening of the growth in M3J. The narrow money aggregates, M1J and M2J, however, increased at a much slower pace in 2003 compared to 2002. Contributing to the increase in M1J for the review period was an expansion in currency, which was partially offset by a decline in demand deposits.

### **1.2.2 Foreign Exchange Market Developments**

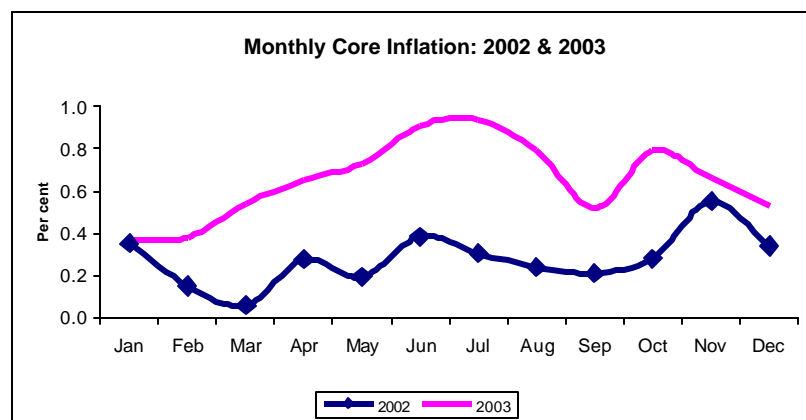
The Bank of Jamaica was challenged during the year to maintain stable conditions in the foreign exchange market. The instability in the market was manifested in the Jamaica Dollar depreciating against its three major counterpart currencies – the United States dollar, Canadian dollar and the Great Britain Pound. With respect to the Jamaica Dollar/US Dollar exchange rate, the weighted average selling rate depreciated by 15.9 per cent to US\$1.00=J\$60.62 at end December 2003, from US\$1.00=J\$50.97 at end December 2002. This compares with the depreciation of 7.0 per cent recorded in 2002. The depreciation that occurred in 2003 largely occurred in the first two quarters of the year, as evidenced by exchange rate depreciation of 9.4 per cent and 4.7 per cent in the March and June 2003 quarters, respectively. However, with appropriate policy action by the Bank, the rate of depreciation moderated to 1.2 per cent in each of the third and fourth quarters.

The pressures in the market in the first quarter emanated primarily from waning investor confidence, triggered by enhanced awareness of a deterioration in the fiscal accounts, relative to the December position. Additionally, there were uncertainties regarding the Government's ability to refinance a maturing Eurobond, which was scheduled for payment in February 2003. The settlement of the obligations from the Bank's reserves adversely affected the market's psychology as the Central Bank was viewed as being less able assure stability in the foreign exchange market.

### 1.3 INFLATION

The country experienced inflation of 14.1 per cent in 2003, disrupting a six-year trend in single digit inflation. The annual average inflation for the year accelerated to 10.3 per cent, compared with the 7.1 per cent recorded for 2002. Core or underlying inflation, which measures the movements in prices directly associated with monetary policy, increased to 8.1 per cent in 2003, from 3.4 per cent in 2002. On a monthly basis, core inflation in 2003 was consistently above the rate that obtained in the previous year (see **Figure 1**). This measure was particularly high between April and September, in the context of rapid exchange rate movements.

**Figure 1**

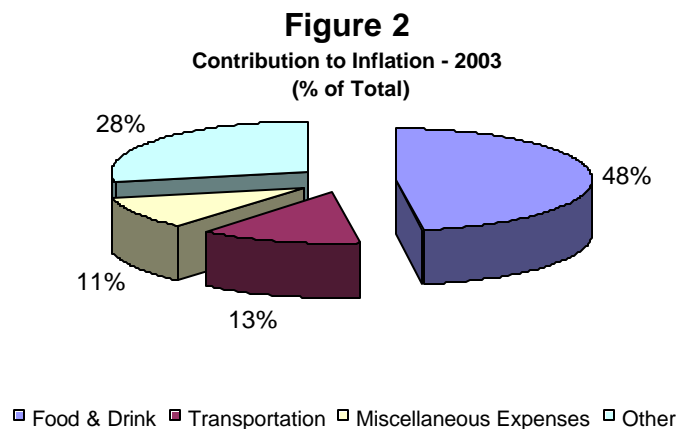


Inflation in 2003 was influenced by a number of factors, including accelerated exchange rate movements, shocks to international commodity prices, Government revenue measures and administered price adjustments. These impulses mainly occurred in the June and September quarters. Inflation of 6.0 per cent in the June quarter was fuelled by the widening of the General Consumption Tax (GCT) base, increases in oil and other international commodity prices and sharp exchange rate depreciation. For the September 2003 quarter, the main factors affecting inflation were lagged and second round effects of the factors that prevailed in the June quarter, increases in transportation costs, as well as seasonal increases in school related expenses. Inflation moderated to 3.4 per cent in the

December quarter, and was driven by the effect of price increases in crude oil and grains in the international market, as well as administered price adjustments.

Inflation in 2003 was strongest in *Food & Drink*, accounting for 47.8 per cent (see **Figure 2**), relative to its weight in the basket of 55.6 per cent. Within *Food & Drink*, *Meat, Poultry & Fish* increased by 11.9 per cent, providing the main impetus for the expansion of the sub-index. In addition, there were significant increases of 19.0 per cent and 19.1 per cent in *Baked Products, Cereals & Breakfast Drinks* and *Dairy Products Oils & Fats*, respectively. The increased prices of vegetable oils and grains in the international market were the main stimuli to these sub-groups.

Other important contributors to inflation for the year were *Transportation* and *Miscellaneous Expenses*, whose respective increases of 28.6 per cent and 18.5 per cent accounted for 13.3 per cent and 10.5 per cent of the overall inflation out-turn (see **Figure 2**). The increase in the *Transportation* sub-index was due mainly to significant increases in bus and taxi fares, as well as the upward movement in international oil prices. The contribution of the *Miscellaneous Expenses* sub-category to inflation reflected the impact of the Government's revenue enhancement measures. In particular, the widening of the GCT base as well as the introduction of a 2.0 per cent customs user fee all contributed to the increase in prices of many items within this group. In addition, the depreciation in the exchange rate exacerbated the price movements for products within this group.



#### **1.4 FISCAL DEVELOPMENTS**

Central Government's performance during the year generated a higher than targeted deficit in FY2003/04, primarily as a result of higher than programmed expenditure. Given the increased deficit, as well as amortization for the year, the Government's financing needs increased, both relative to target and to the previous year. For calendar year 2003, these financing needs were met from domestic and foreign sources, with a greater emphasis on the former. In respect of external financing, the Government only issued a US\$50.0 million bond to a regional financial institution during the December 2003 quarter as compared to the US\$300.0 raised on the external markets in 2002. Project-related financing for the year amounted to US\$63.4 million, which was not significantly different from the amount of financing accessed from this source in 2002. The decline in external commercial financing for the calendar year emanated from Government's decision not to access the international capital markets for most of the year, largely due to the unfavourable conditions that prevailed for emerging market bonds.

#### **1.5 OUTLOOK**

The Jamaican economy is expected to realize growth in the range 1.0 - 2.0 per cent in 2004. This is predicated on continued improvements in *tourism* and *mining* as well as accelerated growth in *finance* and *construction*. The main challenges for the year will be the restoration of single digit inflation in the context of uncertainties surrounding international oil prices and the facilitation of further lowering of interest rates while preserving stability in the foreign exchange market and containing core inflation. Stability in the financial markets in 2004 will depend on conditions in the international market and continued prudence in macroeconomic management.

## **PART II**

### **INTERNATIONAL ECONOMIC DEVELOPMENTS**

#### **2.0 OVERVIEW**

World output rose by 3.9 per cent in 2003, compared with 3.0 per cent in 2002. The higher growth rate in 2003 was more evident among the developing economies. In particular, growth in China accelerated noticeably, which helped to support and induce growth in other economies. The oil-exporting countries of Africa and the Middle East benefited from the surge in oil prices and expanded production commensurately. Strong recovery was also evident in some Latin American economies, in particular Argentina.

For the advanced economies, the war in Iraq served to reduce confidence and, consequently, spending, which served to moderate growth in the first half of the year. There was a recovery in the second half of the year but this was not enough to generate a significant acceleration in output growth. The recovery in the second half of the year was led by the USA, due to an expansionary monetary policy stance for most of the year. This recovery also helped to buoy growth in the UK and Europe.

Inflation in both the advanced and developing economies increased in 2003, largely because of the shock to oil prices, and adverse exchange rate movements in some of the developing economies. The terms of trade for developing economies were adversely affected by significant increases in food prices, particularly grains. However, for those economies that export primary metals, the negative impact on their terms of trade emanating from higher oil and food prices was countered by an increase in metals prices, including aluminium.

International trade negotiations were set back in 2003 because of the failure of countries to reach consensus. In particular, the negotiations under the World Trade Organization (WTO), the Free Trade Area of the Americas (FTAA) and the Africa Caribbean and Pacific-European Union (ACP-EU) Economic Partnership Agreement (EPA) were stalled due to fundamental differences between negotiating counterparties.

## **2.1 OUTPUT, INFLATION & EMPLOYMENT**

### **2.1.1 Advanced Economies**

#### **2.1.1.1 *Output***

After relatively slow growth during the first half of 2003 because of the war in Iraq, the advanced economies rebounded in the second half of the year. Overall real GDP growth among these economies accelerated to 2.1 per cent in 2003, relative to 1.7 per cent in 2002 (see **Table 3**). Among the advanced economies, output growth was led by the USA, Japan and the United Kingdom (UK). There was, however, a notable deceleration in output growth for the Euro area and Canada.

The US economy advanced strongly during the second half of 2003, recording an average annual growth rate for the period of approximately 5.8 per cent, compared with 3.0 per cent during the first half. Growth in real output during 2003 was led by consumer spending and a rebound in investment expenditure, both of which benefited from highly stimulative fiscal and monetary policies. The growth in consumption was primarily attributed to a strong expansion in spending on durable goods. Rising equity values and corporate profits, along with the need of businesses to replace depreciating equipment, stimulated expansions in expenditure on equipment and software.

The recovery in the Japanese economy in 2003 was underpinned by strong growth in exports to Asia, particularly China. A rapidly expanding Chinese economy fuelled increased demand for high quality iron and steel, chemical products and construction machinery. Japan's economy also experienced a rebound in investment spending in 2003, the result of increased domestic demand for digital home electronic products, which stimulated capital spending by producers. Importantly, this recovery took place despite an

appreciation in the value of the yen vis-à-vis the US dollar and the impact of Severe Acute Respiratory Syndrome (SARS) in Asia.

**TABLE 3**

	<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>2001</b>	<b>2002</b>	<b>2003</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>ADVANCED ECONOMIES</b>	1.1	1.7	2.1	2.1	1.5	1.8	5.9	6.4	6.6
<b>MAJOR INDUSTRIAL COUNTRIES</b>	0.9	1.4	2.2	1.9	1.3	1.7	5.9	6.5	6.8
United States	0.5	2.2	3.1	2.8	1.6	2.3	4.8	5.8	6.0
Japan	0.4	-0.3	2.7	-0.8	-0.9	-0.2	5.0	5.4	5.3
Euro area	1.6	0.9	0.4	2.4	2.3	2.1	8.0	8.4	8.8
Germany	0.8	0.2	-0.1	1.9	1.3	1.1	7.9	8.6	9.9
France	2.1	1.2	0.2	1.8	1.9	2.2	8.5	8.8	9.3
Italy	1.8	0.4	0.3	2.3	2.6	2.8	9.5	9.0	8.7
UK	2.1	1.7	2.3	1.2	1.3	1.4	5.1	5.2	5.0
Canada	1.9	3.3	1.7	2.5	2.3	2.7	7.2	7.7	7.6

*Source: World Economic Outlook - April 2004*

For the UK, the acceleration in economic activity was evident in the latter half of the year and was propelled by growth in the construction and services sectors. In particular, the distribution, hotel, and catering industries experienced significant increases during the year. The UK recorded some expansion in exports to the USA, in contrast to the moderation of export growth to the Euro area in the context of relatively anaemic growth in that region for 2003.

For the Euro area, growth picked up in the second half of the year, despite the relatively subdued performance for the full year. The rebound in economic activity in the second half of the year reflected growth in exports, as the recovery in the world economy helped to boost demand, despite the strengthening of the Euro against the currencies of the

European Union's major trading partners. In addition, investment spending recorded a modest recovery toward the latter half of 2003. The overall deceleration in growth was partly attributed to continued weakness in consumer spending, which was particularly evident in Germany.

The significant deceleration in economic growth in Canada in 2003 was primarily the result of a contraction in exports, reflecting the slowdown in the US economy during the first half of the year, a sharp appreciation in the Canadian dollar, the emergence of the SARS epidemic, large forest fires in British Columbia and the discovery of Bovine Spongiform Encephalopathy (BSE or "Mad Cow Disease"). Growth in Canada during 2003 was therefore largely attributed to an expansion in investment spending on machinery & equipment and residential housing. Moderate growth was also evident in consumer spending on services and non-durable goods.

#### **2.1.1.2 Inflation**

Inflation among the advanced economies increased to 1.8 per cent in 2003, from 1.5 per cent in 2002 (see **Table 3**). All the advanced economies, with the exception of the Euro area, registered an increase in inflation during the year. During the first quarter of the year, inflation among the advanced economies was relatively subdued, prompting concerns among policy-makers about the possible impact of falling prices on macroeconomic performance. These concerns emerged from significant declines in global equity markets, considerable excess capacity and widening output gaps, weakness in global economic activity and disquiet regarding the geopolitical situation. However, inflation picked up towards the latter half of the year, reflecting an increase in demand, unanticipated increases in crude oil prices and recovery in the prices of other commodities.

In this context, the USA recorded inflation of 2.3 per cent in 2003, compared to 1.6 per cent in 2002. The higher inflation rate in the USA was primarily due to a 12.3 per cent increase in energy costs during the year. Canada's inflation of 2.7 per cent in 2003 was

0.5 percentage points above the inflation rate in 2002, the result of significant increases in administered prices, particularly those related to alcoholic beverages and tobacco.

Inflation in the Euro area declined to 2.1 per cent in 2003, from 2.3 per cent in 2002. However, this was higher than the central bank's target of 2.0 per cent and was due to higher crude oil and food prices, as well as increases in indirect taxes and administered prices. Japan continued to experience deflation in 2003, albeit at a moderated pace. This moderation was attributed to increases in the cost of medical care, education and transportation in that country.

### **2.1.1.3 *Unemployment***

Despite the improvement in economic conditions towards the latter half of 2003, the unemployment rate among the advanced economies increased to 6.6 per cent in 2003, from 6.4 per cent in 2002. The deterioration in the labour market was partly attributable to the increase in geopolitical tensions, which prompted firms to delay hiring in the context of the uncertainties. The weak economic activity during the first half of the year also encouraged firms to improve productivity and lower costs through the use of less labour. In particular, the manufacturing sectors in the USA and the economies of the Euro Area saw the most significant declines in employment during the year.

### **2.1.1.4 *Interest Rate And Exchange Rate Developments***

During 2003, the central banks in the major advanced economies maintained a relatively accommodative monetary policy stance. The reduction in short-term interest rates in the USA to an average of 1.0 per cent in 2003, from 1.6 per cent in 2002, primarily reflected ongoing efforts by the US Federal Reserve to support economic activity in the wake of the slowdown in the world economy. The easing of monetary conditions also fostered a decline in long-term market rates among the advanced economies (see **Table 4**).

**TABLE 4**

	<b>ADVANCED ECONOMIES</b>					
	<b>Interest Rates (%)</b>					
	<b>Short-Term 1/</b>			<b>Long-Term 2/</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>ADVANCED ECONOMIES</b>	<b>3.2</b>	<b>2.0</b>	<b>1.6</b>	<b>4.4</b>	<b>4.2</b>	<b>3.7</b>
United States	3.5	1.6	1.0	5.0	4.6	4.0
Japan	0.1	0.0	0.0	1.3	1.3	1.0
Euro area	4.2	3.3	2.4	5.0	4.9	4.2
U.K.	5.0	4.0	3.7	5.0	4.8	4.5
Canada	3.9	2.6	2.9	5.5	5.3	4.8

Source: World Economic Outlook - April 2004

*1. 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.*

*2. Period averages. For the USA, ten-year Bond yield; for Japan, ten-year bond yield; for Euro Area, a weighted average of the national ten-year euro bond yield; for the UK, ten-year government bond yield; and for Canada, Government bond yields of ten years and above*

Developments in the foreign exchange markets during 2003 were dominated by declines in the US dollar against the other major currencies. The largest declines were observed against the Canadian dollar and the Euro, with the US dollar depreciating by 12.1 per cent and 9.4 per cent, respectively (see **Table 5**). The depreciation of the US dollar against the major currencies was driven mainly by concerns regarding the sustainability of the US current account and fiscal deficits. The decline was also associated with the increased uncertainty related to the war in Iraq and continued security concerns during the year.

**TABLE 5**

<b>ADVANCED ECONOMIES</b>				
<b>Exchange Rates</b>				
	<b>US Dollar Nominal Exchange Rate</b>		<b>Real Effective Exchange Rate<sup>1/</sup></b>	
	<b>National Currency per unit of US\$</b>		<b>Annual per cent Change</b>	
	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>
Canadian Dollar	1.57	1.40	-0.37	12.13
Japanese Yen	125.4	115.9	-8.94	-2.36
Pound Sterling <sup>2/</sup>	1.50	1.63	2.00	-3.99
Euro <sup>2/</sup>	0.94	1.13	2.40	9.39

Source: World Economic Outlook - April 2004

1. Defined as a 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.

2 Expressed in US Dollars per unit of national currency

## 2.1.2 Developing Countries

### 2.1.2.1 Output

Economic growth among the developing economies accelerated by 1.5 percentage points to 6.1 per cent in 2003, relative to 2002 (see **Table 6**). All the regional groups experienced a surge in economic activity, primarily during the second half of the year, due to increased demand from the USA and China.

**TABLE 6**

<b>DEVELOPING COUNTRIES: REGIONAL GROUPS</b>						
<b>Real GDP, Consumer Prices (Annual per cent change)</b>						
	<b>REAL GDP</b>			<b>CONSUMER PRICES</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
DEVELOPING COUNTRIES	4.1	4.6	6.1	6.8	6.0	6.1
Africa	3.8	3.5	4.1	11.8	9.6	10.3
Asia	5.6	6.4	7.8	2.7	2.0	2.7
Middle East	4.3	4.2	5.4	7.1	7.5	8.6
Western Hemisphere	0.4	-0.1	1.7	6.0	8.9	10.6

Source: World Economic Outlook - April 2004

Asia recorded the fastest rate of growth among the developing economies. China, in particular, experienced significant growth of 9.1 per cent in 2003, relative to 8.0 per cent in the preceding year. Much of this expansion was underpinned by rapid increases in investment and exports, as there was a rebound in demand for electronic goods. Robust growth in China provided support to economic activity within and outside the Asian region. Consumption and service-oriented exports (in particular tourism) rebounded in the region during the second half of the year, especially in the economies that had been affected by SARS during the first half of the year.

The expansion in real output in the Middle East and Africa during 2003 primarily reflected higher oil production, particularly in the second half of the year. The oil-exporting countries in the region that benefited from higher world oil prices increased export volumes in response to these increases.

Significant acceleration was also evident in output growth among the economies of the Western Hemisphere<sup>2</sup>. Growth in real output within that region increased to 1.7 per cent in 2003, after a marginal contraction of 0.1 per cent in 2002. The rebound largely reflected the economic recovery in Argentina and an expansion in economic activity in the economies that were adversely affected by the slow-down in global demand since 2001. Paraguay and Uruguay, the two Latin American countries that were the most severely affected by the Argentine crisis in 2002, recovered somewhat in 2003. Venezuela, on the other hand, recorded a significant decline of 9.2 per cent in real value added in 2003, following an 8.9 per cent decline in 2002. The decline in economic activity in 2003 was primarily related to a fall-off in business and consumer confidence.

With an increase in demand, particularly towards the second half of the year, the economies of the Caribbean Community (CARICOM) recorded an improvement in economic activity. Real output grew by an average of approximately 1.8 per cent in 2003, compared with 0.8 per cent in 2002. Robust growth of 5.8 per cent and 3.8 per cent were

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<sup>2</sup> The countries of the Western Hemisphere are of particular importance to Jamaica in light of efforts to establish the Free Trade Area of the Americas in 2006.

recorded for Suriname and Trinidad and Tobago, respectively. For Suriname, growth in real output was in part attributed to expansion in the mining and agricultural sectors during the year. In Trinidad and Tobago, the major impetus to growth was the performance of the energy sector, in particular the petroleum and natural gas sub-sectors. The economies of the Organisation of Eastern Caribbean States (OECS) also realised modest economic growth during the year. This expansion was, in part, the result of a rebound in tourism and goods exports.

**TABLE 7**

<b>SELECTED COUNTRIES IN LATIN AMERICA AND THE CARIBBEAN</b>				
<b>Real GDP, Consumer Prices (Annual per cent change)</b>				
	<b>REAL GDP</b>		<b>CONSUMER PRICES</b>	
	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>
Antigua and Barbuda	2.1	2.5	2.2	2.5
Argentina	-10.9	8.7	25.9	13.4
Barbados	-1.8	1.6	1.5	1.5
Belize	9.0	2.1	2.3	2.5
Bolivia	2.8	2.6	0.9	3.3
Brazil	1.9	-0.2	8.4	14.8
Dominica	-4.7	-1.0	0.1	1.6
Dominican Republic	4.7	-1.3	5.2	27.4
Ecuador	3.3	2.6	12.6	7.9
El Salvador	2.1	2.2	1.9	2.9
Grenada	-0.5	2.5	3.0	2.5
Guyana	1.1	-0.2	5.3	5.8
Jamaica	1.1	2.3	7.1	10.3
Paraguay	-2.3	2.3	10.5	14.2
Peru	4.9	4.0	1.5	2.5
St. Kitts & Nevis	2.1	2.1	2.1	1.4
St. Lucia	0.4	2.3	-0.2	1.0
St. Vincent & the Grenadines	1.1	2.2	1.0	0.3
Suriname	3.0	5.8	15.5	23.8
Trinidad & Tobago	2.7	3.8	4.2	3.5
Uruguay	-11.0	2.5	14.0	19.4
Venezuela	-8.9	-9.2	22.4	31.1

*Source: World Economic Outlook - April 2004*

Dominica, Guyana and the Dominican Republic experienced negative growth rates in 2003. Much of the contraction in Dominica was manifested in declines in the agriculture, communication and electricity and water sectors. In Guyana, the contraction in the economy reflected declines in the agriculture, forestry and fishing and mining and

quarrying sectors, which were affected by adverse weather conditions during the year. For the Dominican Republic, the banking crisis during the year had a negative impact on consumer and investor confidence.

#### **2.1.2.2 Inflation**

A marginally higher rate of inflation was evident among the developing countries in 2003, relative to 2002 (see **Table 6**). All the regional groups experienced a modest acceleration in inflation during the year, reflecting rising global commodity prices, particularly that for crude oil.

The most significant increase was evident among the economies of the Western Hemisphere, where inflation rose by 1.7 percentage points to 10.6 per cent in 2003. This acceleration in inflation was largely reflected higher inflation in Brazil, the Dominican Republic, Suriname and Venezuela. Rising inflation in this region was partly associated with the significant depreciation in the exchange rates of some of these economies.

## **2.2 COMMODITY PRICES**

The overall index of primary commodity prices, which is calculated and disseminated by the IMF, increased by approximately 13.1 per cent in 2003, relative to 2002. The rise in commodity prices was broad-based, with the principal shock emanating from the energy sub-group (see **Table 8**).

The rise in the prices of energy-related products reflected increases of 38.1 per cent and 15.8 per cent in the prices of natural gas and petroleum<sup>3</sup>, respectively. With respect to petroleum, in the context of the impending war in Iraq, prices rose quickly to a high of US\$37.78 per barrel in early March, from lows of US\$30.08 in January 2003. In the aftermath of the war, spot prices fell to a low of US\$25.88 per barrel by early May 2003. For the remainder of the year, however, prices rose steadily to peak at US\$33.73 in December 2003.

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<sup>3</sup> Measured by the average of U.K., Brent, Dubai and West Texas Intermediate crude oil spot prices.

**TABLE 8**

<b>WORLD COMMODITY PRICES</b>		
<b>(Annual per cent change)</b>		
	<b>2002</b>	<b>2003</b>
Terms of Trade		
Advanced economies	1.1	1.3
Developing countries	1.1	0.2
Fuel exporters	2.6	2.2
Non-fuel exporters	0.8	-0.2
All Primary Commodities	-0.1	13.1
Non-fuel primary commodities <sup>1/</sup>	0.7	7.0
Food	0.7	5.9
Beverages	16.5	4.9
Agricultural raw materials	1.8	3.7
Metals	-2.7	11.8
Energy	-0.6	16.7
Petroleum <sup>2/</sup>	2.5	15.8
Natural Gas	-18.4	38.1
Coal	-17.9	5.3
<i>Memorandum</i>		
Avg. oil spot price (in US\$/barrel) <sup>2/</sup>	24.9	28.9

1. Weights based on 1995-97 average world export earnings

2. Average of U.K., Brent, Dubai and West Texas Intermediate crude oil spot prices

According to the International Energy Agency (IEA), the main factor that accounted for the increase in crude oil prices towards the latter half of the year was an unanticipated increase of 2.1 per cent in global demand for crude oil, reflecting the robust rebound in economic activity in the USA and China. In addition, supply constraints exacerbated the demand pressures on crude oil prices. The shortfall in supply was partly due to lengthy delays in restoring Iraq's oil production and exports subsequent to the war and a decline in oil production in Venezuela. In addition to the supply and demand shocks, a build-up of speculative positions in the futures markets contributed to the increase in spot prices for fuel. The speculative buying was largely driven by concerns that commercial stocks of crude oil in the USA had fallen to levels last seen in the mid-1970s. This falloff in commercial inventories was particularly worrying to traders as it coincided with increased demand associated with the summer driving season in the USA.

After registering a modest decline during the first half of 2003 due to weak demand, the price of non-fuel commodities rallied in the second half of the year to record an overall

increase of 7.0 per cent in 2003. All the sub-components of the non-fuel commodities price index registered increases during the year. The most significant increase was evident in the price of metals. In particular, nickel and tin prices experienced significant increases of 42.0 per cent and 20.4 per cent, respectively, during the year. The price of aluminium also increased by 6.1 per cent in 2003. The rise in the price of some of these primary commodities was attributed to an increase in demand from China and the USA, as well as the depreciation of the US dollar against the other major currencies. In addition, there was heightened speculative buying by some investors during the year.

The price of food rose significantly in 2003, reflecting an average increase of 15.1 per cent in soybean and soybean products, maize and rice prices during the year. The higher prices for the commodities were the result of shortfalls in supply in the USA, Brazil and Europe and increases in demand, particularly from China. The prices of agricultural raw materials doubled in 2003 reflecting an increase in demand for commodities such as cotton and rubber, coupled with a decline supply. On the other hand, the increase in the price of beverages moderated during the year, reflecting a decline in cocoa prices.

### **2.3 INTERNATIONAL TOURISM**

World tourist travel declined by 1.2 per cent in 2003, compared to an increase of 2.7 per cent recorded in 2002 (see **Table 9**). This reflected declines in tourist arrivals in Asia, the Pacific and the Americas, as well as a deceleration in the growth in arrivals in Europe. According to the World Tourism Organisation (WTO), the fall-off in visitor arrivals to these regions primarily reflected concerns regarding the SARS outbreak, security concerns relating to the US-led war in Iraq, as well as weak economic growth among the source countries since 2001. The decline in tourist arrivals in the Americas, in particular, largely reflected a continued fall off in visitors to the North American sub-region due mainly to lingering security concerns. The Latin America and Caribbean sub-regions, however, recorded strong growth during the year. The performance of the Caribbean tourist industry in particular was not adversely affected by the aforementioned shocks, and may in fact have benefited in some respect.

**TABLE 9**

<b>WORLD TOURIST ARRIVALS</b>				
<b>(Millions)</b>				
	<b>2002</b>	<b>2003</b>	<b>Change</b>	<b>% Change</b>
<b>World</b>	702.6	694.0	-8.6	-1.2
Europe	399.8	401.5	1.7	0.4
Americas	114.9	112.4	-2.5	-2.2
Asia & Pacific	131.3	119.1	-12.2	-9.3
Africa	29.1	30.5	1.4	4.8
Middle East	27.6	30.4	2.8	10.1

Source: World Tourism Organization (WTO)

The Caribbean Tourist Organisation (CTO) estimates that visitor arrivals to the Caribbean region increased by 8.5 per cent in 2003, relative to a decline of 7.1 per cent in 2002 (see **Table 10**). Significant growth in arrivals of 17.0 per cent and 12.4 per cent was evident in the Dominican Republic and Cuba, respectively<sup>4</sup>. The recovery in tourist arrivals to the Caribbean during 2003, which began in the latter half of 2002, was attributed to a perception of the region as a relatively safe destination for vacation travel and Americans wanting to travel closer to home.

**TABLE 10**

<b>STOP-OVER ARRIVALS TO SELECTED CARIBBEAN COUNTRIES AND MEXICO</b>				
<b>(000)</b>				
<b>Country</b>	<b>2002</b>	<b>2003</b>	<b>% Change</b>	<b>% Share</b>
Aruba	642.6	641.9	-0.1	5.1
Bahamas	1402.9	1428.6	1.8	11.4
Barbados	497.9	531.2	6.7	4.2
Cuba	1685.2	1894.7	12.4	15.1
Dominican Republic	2793.6	3268.2	17.0	26.1
<b>Jamaica</b>	<b>1266.4</b>	<b>1350.3</b>	<b>6.6</b>	<b>10.8</b>
Mexico (Cancun)	1965.4	2076.5	5.7	16.6
Puerto Rico	1279.8	1325.0	3.5	10.6
<b>Total</b>	<b>11533.8</b>	<b>12516.4</b>	<b>8.5</b>	<b>100.0</b>
<b>Total (Excluding Jamaica)</b>	<b>10267.4</b>	<b>11166.1</b>	<b>8.8</b>	<b>89.2</b>

Source: Caribbean Tourism Organization (CTO)

<sup>4</sup> As the Dominican Republic and Cuba account for nearly a quarter of all tourists to the Caribbean, their robust performances contributed to the growth in arrivals for the region.

For selected Caribbean destinations, cruise ship passenger arrivals increased significantly by 12.1 per cent in 2003, relative to 2002 (see **Table 11**). Of note, arrivals to Mexico, Jamaica and the Cayman Islands registered increases of 31.7 per cent, 30.8 per cent and 15.5 per cent, respectively. This improvement was primarily attributed to the redeployment of ships to the Caribbean, which was perceived as a safe location for vacation travel. In addition, strong performance was reported by destinations that were closer to the USA, as these benefited from the increasing number of ships “home porting” in the Florida and Gulf of Mexico ports.

**TABLE 11**

<b>CRUISE SHIP PASSENGER ARRIVALS</b>				
<b>Selected Caribbean Destinations</b>				
<b>(000)</b>				
<b>Port of Call</b>	<b>2002</b>	<b>2003</b>	<b>Change</b>	<b>% Change</b>
Aruba	582.2	542.3	-39.9	-6.9
Bahamas	2802.1	2970.2	168.1	6.0
Barbados	529.3	559.1	29.8	5.6
Cayman Islands	1574.8	1819.0	244.2	15.5
Curacao	318.4	279.4	-39.0	-12.2
<b>Jamaica</b>	<b>866.2</b>	<b>1133.4</b>	<b>267.2</b>	<b>30.8</b>
Mexico (Cozumel)	2057.6	2708.9	651.3	31.7
St. Lucia	387.2	393.2	6.0	1.5
St. Maarten	1055.0	1171.7	116.7	11.1
US Virgin Islands	1738.7	1773.9	35.2	2.0
<b>Total</b>	<b><u>11910.7</u></b>	<b><u>13350.3</u></b>	<b><u>1439.6</u></b>	<b><u>12.1</u></b>

Source: Caribbean Tourism Organization (CTO)

## **2.4 TRADE RELATIONS**

A number of international trade negotiations in which Jamaica/ CARICOM was involved were not settled at the end of the year. In particular, the negotiations under the World Trade Organization (WTO), the Free Trade Area of the Americas (FTAA) and the Africa Caribbean and Pacific-European Union (ACP-EU) Economic Partnership Agreement (EPA) were stalled due to fundamental differences between developed and developing

countries. However, the negotiations related to the establishment of the CARICOM Single Market and Economy forged ahead during the year.

#### **2.4.1 World Trade Organisation**

The Fifth WTO Ministerial Conference held in Cancun, Mexico, from 10 to 14 September 2003 was aimed at assessing the progress of the negotiations under the Doha Development Agenda and providing negotiators with the necessary guidance to conclude such negotiations by 1 January 2005. The Conference also sought to develop framework agreements for negotiations on agricultural trade, non-agricultural market access, and to decide on the possible launch of negotiations on the ‘Singapore issues’<sup>5</sup>. The Ministerial Conference failed to achieve the objectives it had set out, as member states were unable to arrive at a consensus on these substantive issues and on the adoption of the draft Ministerial Declaration.

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

The negotiations towards the establishment of the FTAA by 2006 encountered difficulties during the year. On 20 November 2003, thirty-four Western Hemisphere Trade Ministers convened the eighth FTAA Ministerial Meeting in Miami, USA. The aim of the one-day Ministerial summit was the endorsement of a Ministerial Declaration, termed ‘the vision of the FTAA’. The document, which represents a compromise between American and Brazilian objectives, introduced a two-tiered structure into the negotiations. On one level, countries would negotiate a common and balanced set of rights and obligations, which would be applicable to all countries. The second tier of the agreement allowed countries to agree to additional obligations and benefits, on a ‘plurilateral basis’ if they so choose<sup>6</sup>. The meeting was unable, however, to reach a consensus on the set of common rules that would form the basis of the negotiations. Due to the deadlock, further discussions on the framework for the FTAA were postponed to early 2004.

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<sup>5</sup> The Singapore issues first emerged in 1996 at the WTO Ministerial Conference in Singapore. Member states agreed to explore the relationship between trade and investment, trade and competition policy and examine transparency in government procurement and trade facilitation. The broad objectives behind this initiative were to ensure greater access of foreign nationals to investment opportunities in host countries, foster the interplay of market forces through the standardisation of competition rules, allow greater transparency in the channelling of government investments, and ensuring the establishment of institutions that facilitates enhanced free trade.

<sup>6</sup> Plurilateral agreements are signed only by member countries that choose to do so.

CARICOM member states, while reiterating their commitment to negotiating a comprehensive and balanced multilateral agreement, highlighted the need for a flexible and accommodative agreement that was mindful of the differences in the levels of development and size of economies in the hemisphere. Trade negotiators within the region, therefore, underscored the need for greater attention to be placed on special and differential treatment for smaller economies.

### **2.4.3 Africa Caribbean and Pacific-European Union (ACP/EU) Trade Relations**

During the year, negotiations for the establishment of the Economic Partnership Agreement (EPA) between the ACP and the EU stalled, as countries were unable to reconcile fundamental differences in approach to the negotiations. In October 2003, a joint declaration and a detailed joint report setting out the convergences and divergences during Phase 1 of the negotiations (that is the all-ACP level EPA discussions) were prepared. Some of the convergence issues related to the modalities of negotiations, market access and development. The issues of divergence related to trade in services, sanitary and phytosanitary measures and rules of origin. Where divergence remained on issues of interest to all ACP countries, the joint documents also set out the modalities and mechanisms for further discussions. The ACP countries sought to have a legally binding agreement on the issues agreed to in Phase I to provide guidelines for regional negotiations in Phase II. The EU maintained that the objective of the Phase 1 discussions was the clarification of issues and that the Cotonou Agreement served as a sufficient legal basis for negotiations. It was agreed that the joint report would serve as a point of reference and provide guidance for the negotiations to be conducted at the regional level. It was also decided that discussions on remaining divergences on all-ACP issues would continue in parallel with regional level negotiations.

The CARICOM Heads of Government agreed to launch Phase II of the EPA negotiations with the EU in early 2004. The Dominican Republic would participate in these regional negotiations as a part of CARIFORUM. The initial EPA deliberations began at the *all-ACP* level in September 2002. These negotiations are set to end 31 December 2007.

#### **2.4.4 CARICOM Single Market and Economy**

During 2003, CARICOM members considered matters related to the key requirements for the implementation of the CSME, as well as issues regarding the establishment of the Caribbean Court of Justice (CCJ), among others. CARICOM members agreed to implement the necessary legislative and administrative arrangements that would facilitate the functioning of the CSME by 2005 for Trinidad & Tobago, Jamaica and Barbados and by 2006 for the remaining countries. In this context, the Agreement establishing the Caribbean Accreditation Authority for Education in Medicine and other Health Professions was signed and enforced during the year. This Authority will be responsible for securing international recognition for programmes, establishing an efficient system of regulation and maintaining quality in the training offered by CARICOM member states in medicine and other health professions.

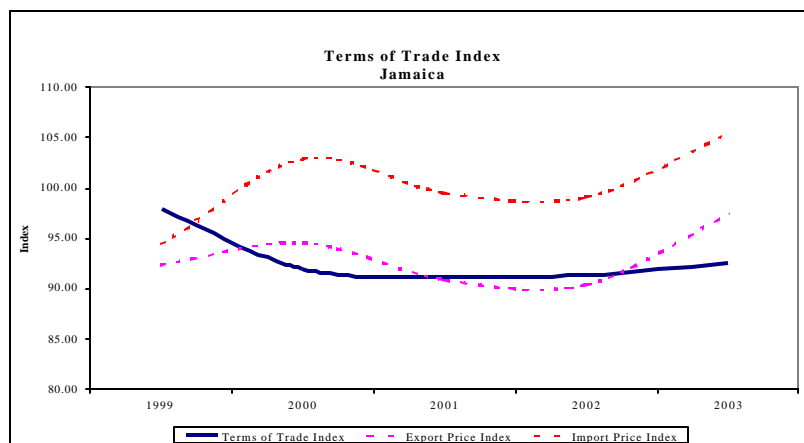
Member states also worked towards meeting the deadlines for the removal of legal and administrative restrictions on the Right of Establishment, the Provision of Services and the Movement of Capital. In this regard, member states also put in place the necessary arrangements to allow CARICOM nationals who are graduates, media workers, artistes, musicians and sports persons to seek work or to work without the need for work permits.

With respect to the Caribbean Court of Justice, the members of the Regional Judicial and Legal Services Commission (RJLSC) and the Board of Trustees for the CCJ Trust Fund were appointed in August 2003. The RJLSC is the body responsible for the appointment of the staff of the Court, including the president and the judges. The Board of Trustees has oversight responsibility for the financial management of the Court.

## 2.5 CONCLUSION

The developments in the global economy had mixed implications for Jamaica. The balance of payments accounts benefited from the enhanced growth among Jamaica's trading partners, which supported an expansion in tourist arrivals and hence earnings from this sector. In addition, improvements in metal prices assisted in increasing the earnings from Jamaica's primary exports. The increase in oil prices, however, served to partly offset the above noted improvements in the balance of payments, and contributed to a rise in inflation in the country.

In the context of the movements in international prices, terms of trade developments were favourable for Jamaica in 2003 with the index<sup>7</sup> increasing by 1.2 per cent to 92.48. The improvement in the index largely reflected a 7.8 per cent increase in the export price index (EPI), which outweighed a 6.3 per cent increase in the import price index (IPI). The growth in the EPI followed 2 consecutive years of decline and reflected an increase in the prices of sugar, alumina and banana, as well as an increase in rates in Jamaica's tourism product. The increases in fuel prices largely accounted for the upward movement in the IPI. There were also noted increases in the prices of selected grains such as corn, wheat, rice and soybean, as well as an increase in price of steel during the year.



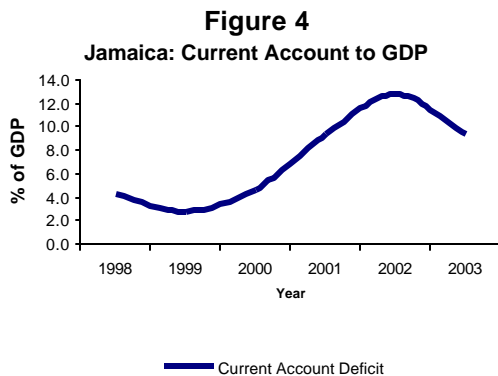
<sup>7</sup> The Bank of Jamaica computes and monitors a measure of Jamaica's terms of trade.

## PART III

### THE BALANCE OF PAYMENTS

#### 3.0 SUMMARY

In the context of the developments in the domestic and international economy, the Jamaican current account deficit narrowed by US\$313.0 million (3.8 per cent of GDP) to US\$761.4 million (9.4 per cent of GDP) during 2003 (see **Table 12 & Figure 4**). This was in contrast to the deterioration recorded over the previous three years. The performance in 2003 was influenced by increased surpluses on the *services* and *current transfers accounts*, as well as a reduction in the deficit on the *income account*. These



improvements were partly countered by an expansion in the deficit on the *goods account* in the context of improved global economic growth. Jamaica's improved BOP position was primarily facilitated by an upturn in the tourism sector, supported by buoyant remittance inflows and higher demand for alumina.

#### 3.1 MERCHANDISE TRADE

Jamaica's total merchandise trade (i.e. exports plus imports (f.o.b.)) increased by US\$226.3 million in 2003, in contrast to respective declines of US\$38.3 million and US\$40.1 million in 2002 and 2001. Total merchandise trade amounted to US\$4 715.0 million in 2003, 57.9 per cent of GDP (see **Table IV, Appendix**), the highest level since 1997. In the context of these developments, the *goods account* recorded a deficit of US\$1 943.8 million (or 23.9 per cent of GDP), representing an increase of US\$73.3 million in 2003, the smallest expansion since 1999 (see **Figure 5**). The deficit in 2003 emanated from an increase of US\$149.8 million in imports (f.o.b.), which was twice the level of expansion in exports.

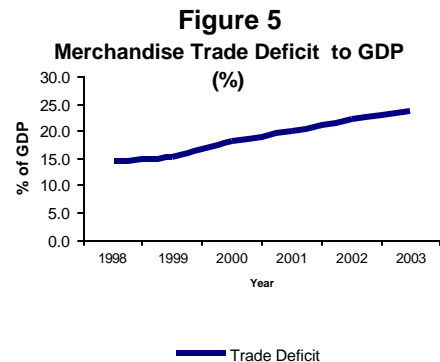


TABLE 12

<b>BALANCE OF PAYMENTS SUMMARY</b>			
(In Millions of US Dollars)			
	2002 <sup>1/</sup>	2003 <sup>2/</sup>	Change
<b>1. CURRENT ACCOUNT</b>	<b>-1074.4</b>	<b>-761.4</b>	<b>313.0</b>
<b>A. GOODS and SERVICES</b>	<b>-1555.8</b>	<b>-1379.1</b>	<b>176.7</b>
<b>a. GOODS BALANCE</b>	<b>-1870.5</b>	<b>-1943.8</b>	<b>-73.3</b>
Exports (f.o.b.)	1309.1	1385.6	76.5
Imports (f.o.b.)	3179.6	3329.4	149.8
<b>b. SERVICES BALANCE</b>	<b>314.7</b>	<b>564.7</b>	<b>250.0</b>
Transportation	-245.6	-209.5	36.1
Travel	950.3	1102.7	152.4
Other Services	-390.0	-328.5	61.5
<b>B. INCOME</b>	<b>-605.5</b>	<b>-571.4</b>	<b>34.1</b>
Compensation to employee	82.1	70.7	-11.4
Investment income	-687.6	-642.1	45.5
<b>C. CURRENT TRANSFERS</b>	<b>1086.9</b>	<b>1189.1</b>	<b>102.2</b>
Official	107.6	105.2	-2.4
Private	979.3	1083.9	104.6
<b>2. CAPITAL &amp; FINANCIAL</b>	<b>1074.4</b>	<b>761.4</b>	<b>-313.0</b>
<b>A. CAPITAL ACCOUNT</b>	<b>-16.9</b>	<b>0.1</b>	<b>17.0</b>
<b>a. Capital transfers</b>	<b>-16.9</b>	<b>-0.3</b>	<b>16.6</b>
Official	0.2	0.1	-0.1
Private	-17.1	-0.4	16.7
<b>b. Acq./disposal of non-prod. non-fin'l</b>	<b>0.0</b>	<b>0.4</b>	<b>0.4</b>
<b>B. FINANCIAL ACCOUNT</b>	<b>1091.3</b>	<b>761.3</b>	<b>-330.0</b>
Other official investments	77.1	-363.8	-440.9
Other private investments 3/	775.5	692.5	-83.0
Reserves	238.7	432.6	193.9

1/ Revised

2/ Provisional

3/ Includes errors & omissions

Source: Bank of Jamaica

The overall growth in imports reflected higher spending on raw materials, the result of increased international commodity prices, especially crude oil. Increased earnings from exports was primarily driven by an expansion in demand for alumina, chiefly due to robust growth in China, as well as depreciation in the US Dollar against the Euro.

### 3.1.1 Exports

Total goods exports, which is comprised of general merchandise exports, goods procured in local ports by non-residents and free zone exports, amounted to US\$1 385.6 million (or 17.0 per cent of GDP) in 2003 (see **Table 13**). The value of general merchandise exports in 2003 rose by US\$78.5 million (or 7.0 per cent) in 2003, largely attributable increases

in earnings from crude materials and food. The effect of these increases was partially countered by reductions in the values of miscellaneous manufactured goods, beverages & tobacco and chemicals exports.

**TABLE 13**

<b>VALUE OF EXPORTS</b>				
<b>In Millions of US Dollars</b>				
<b>SITC SECTIONS</b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>Change</u></b>	<b><u>% Change</u></b>
<b>0. Food</b>	<b>206.3</b>	<b>219.6</b>	<b>13.3</b>	<b>6.4</b>
Bananas	17.6	18.9	1.3	7.6
Citrus & citrus products	2.1	3.3	1.2	57.3
Sugar & sugar preparations	66.2	66.3	0.1	0.4
Other	120.4	131.1	10.7	9.1
<b>1. Beverages &amp; tobacco</b>	<b>56.2</b>	<b>53.9</b>	<b>-2.3</b>	<b>-4.1</b>
Rum	34.1	27.4	-6.7	-19.6
Tobacco & tobacco products	12.7	12.3	-0.4	-3.1
Other	9.4	14.2	4.8	51.1
<b>2. Crude materials</b>	<b>716.1</b>	<b>785.6</b>	<b>69.5</b>	<b>9.7</b>
Bauxite	106.3	90.1	-16.2	-15.2
Alumina	603.8	688.5	84.7	14.0
Other	6.0	7.0	1.0	16.7
<b>3. Mineral fuels</b>	<b>29.1</b>	<b>29.0</b>	<b>-0.1</b>	<b>-0.3</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>59.4</b>	<b>57.7</b>	<b>-1.7</b>	<b>-2.9</b>
<b>6. Manufactured goods</b>	<b>9.3</b>	<b>9.9</b>	<b>0.6</b>	<b>6.5</b>
<b>7. Machinery &amp; transport equipment</b>	<b>10.6</b>	<b>18.0</b>	<b>7.4</b>	<b>69.8</b>
<b>8. Misc. manufactured goods</b>	<b>30.4</b>	<b>22.3</b>	<b>-8.1</b>	<b>-26.6</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><u>1117.5</u></b>	<b><u>1196.0</u></b>	<b><u>78.5</u></b>	<b><u>7.0</u></b>
<b>B. FREE ZONE EXPORTS</b>	<b>162.7</b>	<b>141.7</b>	<b>-21.0</b>	<b>-12.9</b>
<b>C. GOODS PROCURED IN PORTS</b>	<b>29.1</b>	<b>48.0</b>	<b>18.9</b>	<b>64.9</b>
<b>TOTAL EXPORTS (F.O.B.)</b>	<b>1309.3</b>	<b>1385.7</b>	<b>76.4</b>	<b>5.8</b>

The growth in the export of crude materials stemmed from increased alumina exports during the year, while the expansion in the export of food reversed the trend decline observed since 1999. The significant expansion in earnings from food exports largely reflected growth in the *other food* subcategory, which captures the export of non-traditional items such as fish, ackee and yams, among others. The available data on this sub-category suggest that fish exports normalised in 2003, after falling significantly in

2002. In addition, earnings from ackee and yam exports recovered, following declines over the period 2001 – 2002 due to the impact of adverse weather conditions.

The decrease in miscellaneous manufactured goods exports reflected continued contractions in garment exports since 1997. The fall in the overall beverages and tobacco category largely reflected a decline in earnings from rum exports. However, buoyancy in the sub-category *other beverages and tobacco* reflected the enhanced export activity of the local producer of non-alcoholic beverages in the context of the recapitalisation and retooling of their operations.

Earnings from goods procured in Jamaican ports by foreign carriers increased by 64.9 percent in 2003, compared with an annual average decline of 0.8 per cent between 1997 and 2002. This category accounted for 3.5 per cent of total exports during 2003. Free zone exports continued its trend decline and accounted for 10.4 per cent of all exports. The contraction in free zone exports partially reflected the continued fall-out in the local garment industry.

#### **3.1.1.1 Major Traditional Exports**

Earnings from major traditional exports increased by US\$69.9 million in 2003, influenced primarily by an increase of US\$84.6 million in the value of alumina exports (see **Table 14**). In this context, major traditional exports' share of general merchandise exports increased by 1.2 percentage points to 72.2 per cent in 2003, relative to 2002. This was partially offset by a decrease of US\$16.2 million in earnings from bauxite exports.

#### **Alumina & Bauxite**

The increase in the value of alumina exports reflected respective increases of 6.0 per cent and 7.6 per cent in export volumes and the average realized price (ARP) for alumina during the year (see **Table 14**). The increase in export volumes was due to an improvement in the industry's capacity utilization rate to 99.8 per cent in 2003, compared with 94.3 per cent and 92.0 per cent in 2002 and 2001, respectively.

**TABLE 14**

<b>PERFORMANCE OF THE MAJOR EXPORT COMMODITIES (2002-2003)</b>				
	<b>2002</b>	<b>2003</b>	<b>Change</b>	<b>% Change</b>
<b>BAUXITE</b>				
Value (US\$MN)	106.3	90.1	-16.2	-15.2
Volume (000 tonnes)	4074.1	3805.8	-268.3	-6.6
Unit price (US\$/tonne)	26.1	23.7	-2.4	-9.3
<b>ALUMINA</b>				
Value (US\$MN)	603.8	688.4	84.6	14.0
Volume (000 tonnes)	3619.4	3834.9	215.5	6.0
Unit price (US\$/tonne)	166.8	179.5	12.7	7.6
<b>SUGAR</b>				
Value (US\$MN)	66.2	66.3	0.1	0.2
Volume (000 tonnes)	138.4	109.7	-28.7	-20.7
Unit price (US\$/tonne)	478.1	604.5	126.4	26.4
<b>BANANAS</b>				
Value (US\$MN)	17.6	18.9	1.3	7.3
Volume (000 tonnes)	39.8	39.9	0.1	0.3
Unit price (US\$/tonne)	441.2	472.3	31.1	7.0
<b>TOTAL</b>	<b>793.8</b>	<b>863.7</b>	<b>69.9</b>	<b>8.8</b>

*Source: Statistical Institute of Jamaica*

Higher alumina prices reflected an increase in demand for aluminium on the international markets, which arose from the relatively strong growth experienced in the major industrialized economies such as the USA, and China. Increased demand from China was associated with the rise in the use of aluminium in the construction and car industries in that country, while the greater demand for aluminium in the US mainly arose from growth in residential construction, transport and durable goods markets. The increase in alumina prices during 2003 was in contrast to the respective declines of 15.2 per cent and 9.0 per cent in 2002 and 2001.

The fall in bauxite exports earnings in 2003 was due to declines in both the volume and price of the ore. The decrease in volumes reflected the decision by the parent company of Kaiser Jamaica Bauxite to purchase crude bauxite from the US government's stockpile during the first quarter. Additionally, unusually high levels of rainfall impaired mining operations throughout the fourth quarter.

## **Sugar**

The value of sugar exports was almost unchanged relative to the previous year. An increase of 26.4 per cent in the ARP/tonne of sugar, due to movements in the US dollar vis-à-vis the Euro, was almost fully offset by a contraction of 20.7 per cent in export volumes.

A reduction of 21.5 thousand tonnes or 12.3 per cent in sugar production adversely affected sugar exports and earnings in 2003. This decline in sugar production stemmed from a contraction of 7.8 per cent in the quantity of sugar cane milled and an increase in the tonnes cane to tonnes sugar (tc/ts) ratio to 11.6 in 2003 from 11.0 in 2002. The deterioration in the tc/ts ratio reflected production problems at some of the sugar estates, particularly at Hampden, which adversely affected production efficiency during the year. Additionally, adverse weather conditions in the latter part of 2002 constrained sugar cane replanting efforts in some areas, which limited the amount of cane grown during 2003.

Due to the contraction in production volumes, Jamaica's export quota of 126.0 thousand tonnes for 2003, under the ACP/EU sugar protocol, was not met. However, 4,295 tonnes of sugar were exported to the EU in July under the Special Preferential Sugar (SPS) agreement at a value of €2.1 million.

## **Banana**

Banana exports earnings increased by 7.3 per cent in 2003, relative to 2002, which was in contrast to declines recorded since 1998. The increased earnings from banana exports were mainly due to a 7.0 per cent increase in the ARP of the fruit, relative to 2002, and also reflected the impact of the appreciation in the Euro vis-à-vis the US dollar. Export volumes increased only marginally in 2003 due to flood rains and the continued shift to the local market.

### 3.1.1.2 Other Domestic Exports

Earnings from *other domestic* exports decreased by 1.3 per cent in 2003 (see **Table 15**), a marked slowing from the average yearly decline of 9.0 per cent between 1996 and 2002. The major contributing factors to the fall were decreased earnings from miscellaneous manufactured goods, beverages & tobacco and manufactured goods and mineral fuels. These reductions were partially offset by increased earnings from food and crude material exports.

**TABLE 15**

<b>OTHER DOMESTIC EXPORTS BY S.I.T.C.</b>				
<b>In Millions of US Dollars</b>				
	<b>2002</b>	<b>2003</b>	<b>Change</b>	<b>% Change</b>
0. Food	122.3	130.1	7.8	6.4
Citrus & citrus products	2.1	3.3	1.2	57.1
Other	120.2	126.8	6.6	5.5
1. Beverages & Tobacco	56.0	53.8	-2.2	-3.9
Rum	34.1	27.4	-6.7	-19.6
Tobacco & tobacco products	12.7	12.3	-0.4	-3.1
Other	9.2	14.1	4.9	53.3
2. Crude Materials	6.0	7.0	1.0	16.7
3. Mineral Fuels	28.6	27.4	-1.2	-4.2
4. Animal & Veg. Oils & Fats	0.1	0.0	-0.1	-100.0
5. Chemicals	57.1	56.0	-1.1	-1.9
6. Manufactured Goods	5.5	4.3	-1.2	-21.8
7. Machinery & Transp. Equip.	2.2	1.5	-0.7	-31.8
8. Misc. Manuf. Goods	25.9	19.8	-6.1	-23.6
9. Misc. Commodities	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>303.7</b>	<b>299.9</b>	<b>-3.8</b>	<b>-1.3</b>

The decline in miscellaneous manufactured goods exports partly reflected a reduction of US\$7.6 million in garment exports, while the contraction in the beverage and tobacco category mainly emanated from a fall of US\$6.7 million in earnings from rum exports. To the extent that the real exchange rate improved by an average of 2.0 per cent between 2000 and 2003, the trend decline in miscellaneous manufactured goods was more related to structural factors than to the macroeconomic fundamentals within the economy. For instance, in addition to garment exporters shifting operations to Mexico in earlier years because of the benefits that prevail under the NAFTA, crime and transportation inadequacies continued to have an adverse impact on the competitiveness of the industry.

### 3.1.1.3 Free Zone Exports and Goods Procured in Ports

Free zone exports declined by 12.9 per cent to US\$141.7 million in 2003, which was faster than the average decline of 10.3 per cent over the period 1998 to 2002. This was due to the shift from the production of goods to services within free zones.

Fuel supplies and other items sold in Jamaican ports to foreign carriers were valued at US\$48.0 million, representing a 64.9 per cent increase, relative to the previous year. This partly reflected the rise in fuel price and an increase in the number of transport vessels using Jamaican ports for the transshipment of goods during the year.

### 3.1.2 Imports

Total imports (c.i.f.) in 2003 were valued at US\$3 849.4 million (or 47.3 per cent of GDP). General merchandise accounted for 95.6 per cent of total imports in 2003, while free zone imports and goods procured in foreign ports by Jamaican carriers accounted for 2.4 per cent and 2.0 per cent of total imports, respectively (see **Table 16**).

**TABLE 16**

<b>VALUE OF IMPORTS BY SITC</b>				
<b>In Millions of US Dollars</b>				
<b>SITC SECTIONS</b>	<b>2002</b>	<b>2003</b>	<b>Change</b>	<b>% Change</b>
0. Food	480.0	487.4	7.4	1.5
1. Beverages & tobacco	38.7	33.5	-5.2	-13.4
2. Crude materials	58.0	52.0	-6.0	-10.3
3. Mineral fuels	636.8	830.1	193.3	30.4
4. Animal & vegetable oils & fats	22.6	24.0	1.4	6.2
5. Chemicals	375.4	444.1	68.7	18.3
6. Manufactured goods	459.5	486.4	26.9	5.9
7. Machinery & transport equip.	1036.9	878.9	-158.0	-15.2
8. Misc. manufactured goods	399.4	384.0	-15.4	-3.9
9. Misc. commodities	63.2	58.5	-4.7	-7.4
<b>A. TOTAL GENERAL IMPORTS</b>	<b>3570.5</b>	<b>3678.9</b>	<b>108.4</b>	<b>3.0</b>
<b>B. FREE ZONE IMPORTS</b>	<b>93.6</b>	<b>94.3</b>	<b>0.7</b>	<b>0.7</b>
<b>C. GOODS PROCURED IN PORTS</b>	<b>38.2</b>	<b>76.2</b>	<b>38.0</b>	<b>99.5</b>
<b>TOTAL IMPORTS (C.I.F.)</b>	<b>3702.3</b>	<b>3849.4</b>	<b>147.1</b>	<b>4.0</b>

Source: Statistical Institute of Jamaica

The value of total imports expanded by 4.0 per cent in 2003, primarily reflecting increased expenditure of US\$108.4 million on general merchandise imports, relative to 2002. The general merchandise category was, in turn, largely influenced by increased spending of US\$288.9 million on mineral fuels, chemicals, and manufactured goods. The impact of these increases was partially offset by a significant decline of US\$158.0 million in the value of machinery & transport equipment.

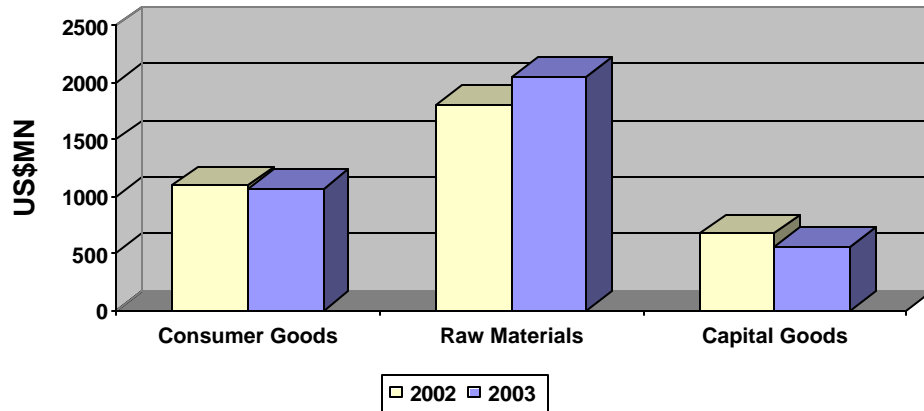
As shown in Table 17, the expansion in the general merchandise imports category in 2003 was directly attributable to raw material imports, which grew by US\$247.3 million. This was partially offset by contractions in expenditure on consumer and capital goods imports. The share of general merchandise imports classified as raw materials consequently increased to 55.8 per cent in 2003 from 50.6 per cent in 2002, while consumer goods and capital goods declined to 29.0 per cent and 15.2 per cent, from 30.7 per cent and 18.8 per cent, respectively, in 2002.

**TABLE 17**

<b>IMPORTS BY ECONOMIC FUNCTION</b>				
<b>In Millions of US Dollars</b>				
	<b>2002</b>	<b>2003</b>	<b>Change</b>	<b>% Change</b>
<b>CONSUMER GOODS</b>	<b>1094.5</b>	<b>1068.3</b>	<b>-26.2</b>	<b>-2.4</b>
Food	291.0	281.8	-9.2	-3.2
Other non-durables	304.6	308.7	4.1	1.3
Durables	498.9	477.8	-21.1	-4.2
<b>RAW MATERIALS</b>	<b>1805.0</b>	<b>2052.3</b>	<b>247.3</b>	<b>13.7</b>
Fuels	635.7	828.8	193.1	30.4
Food	211.4	227.5	16.1	7.6
Other raw materials	957.9	996.0	38.1	4.0
<b>CAPITAL GOODS</b>	<b>671.0</b>	<b>558.3</b>	<b>-112.7</b>	<b>-16.8</b>
Transport equipment	119.9	76.4	-43.5	-36.3
Construction materials	142.6	164.8	22.2	15.6
Other machinery & equip.	408.5	317.1	-91.4	-22.4
<b>TOTAL</b>	<b>3570.5</b>	<b>3678.9</b>	<b>108.4</b>	<b>3.0</b>

*Source: Statistical Institute of Jamaica*

**Figure 6: Imports by Economic Function**



The increase in the value of imported raw materials was largely influenced by a 30.4 per cent expansion in the value of fuel imports. This growth was in the context of a 21.8 per cent increase in the price of oil on the international market, as well as a 7.9 per cent growth in fuel volume. Increased demand associated with non-bauxite related activities accounted for the expansion in fuel imports. In addition, there was also higher expenditure on refined products following the closure of the refinery plant for three months in 2003. This was exacerbated by the political crisis in Venezuela, which forced the island to source products from other markets at higher prices.

The growth in other raw materials was influenced primarily by increased spending on industrial supplies, in particular, plates, films & sheets of foil and steel & iron bars & rods. This was consistent with the growth in the construction industry during the review period. Higher expenditure for food raw materials was influenced by increases in the value of imported wheat, corn and hatching eggs. The latter was associated with the significant growth in the poultry industry.

Reduced spending on consumer goods imported in 2003 reflected respective declines of US\$21.1 million and US\$9.2 million in durables and food items, partly countered by a rise of US\$4.1 million in other non-durable imports. Lower expenditure on cellular telephones, motorcars, watches and calculators was mainly responsible for the

contraction in spending on consumer durables. The decline in food imports was primarily related to reduced spending on carbonated beverages and infant formula. An expansion in the value of imported medicaments largely accounted for the performance of other non-durable imports. The lower demand for consumer goods imports may have resulted from the depreciation of the real exchange rate during the year, the removal of some items from the list of non-taxable commodities, as well as the introduction of a 2.0 per cent tax on imports.

The significant decline in the value of capital goods imports in 2003 was due primarily to respective contractions of US\$91.4 million and US\$43.5 million in other machinery and equipment and transport equipment. This was, however, partly countered by higher spending of US\$22.2 million on construction materials. Following the expansion and retooling in the telecommunication sector, there was a normalisation of spending on telephones, other telephone apparatus and transmission and generator equipment in 2003. In addition, the non-repetition of expenditure on baking/brewing equipment, which had been purchased in 2002, contributed to the contraction in imports of other machinery & equipment.

The decline in the value of transport equipment imports was primarily attributed to reduced spending on coaches and buses, motor vehicles to transport goods and the non-repetition of the purchase of an aeroplane refueler that had been imported in 2002. The increase in the value of construction materials was mainly related to higher expenditure on imports of ceramic tiles and cement in 2003.

### **3.2 DIRECTION OF TRADE (GENERAL MERCHANDISE)**

The USA, Canada and the UK maintained their positions as Jamaica's main trading partners in 2003. Jamaica's merchandise trade with these countries was valued at US\$2 569.6 million, or 52.7 per cent of total merchandise trade. Their markets absorbed US\$690.1 million or 57.7 per cent of Jamaica's total exports, while providing US\$1 879.5 million or 51.1 per cent of its imports.

The USA continued to be Jamaica's dominant trading partner during 2003, accounting for 40.5 per cent of Jamaica's total merchandise trade, which was marginally higher than the 39.8 per cent recorded in 2002. This growth was in contrast to the continuous declines in the share of Jamaica's merchandise trade with the USA since 1998. Jamaica's general merchandise exports to the USA accounted for 28.8 per cent of total general merchandise exports, while imports from that country accounted for 44.4 per cent of general merchandise imports into the Island in 2003 (see **Tables 18 – 20**). Exports to that market comprised of bauxite, alumina and miscellaneous manufactured goods. Imports from the USA mainly consist of wheat, beverages and tobacco, mineral fuels and chemicals, manufactured goods, machinery and transport equipment.

**TABLE 18**

<b>VALUE OF EXPORTS BY PRINCIPAL TRADING PARTNERS</b>						
<b>In Millions of US Dollars</b>						
<b>COUNTRY</b>	<b>2002</b>	<b>% of total</b>	<b>2003</b>	<b>% of total</b>	<b>Change</b>	<b>% Change</b>
United States	313.4	28.0	344.4	28.8	31.0	9.9
Canada	157.1	14.1	192.6	16.1	35.5	22.6
United Kingdom	134.3	12.0	153.1	12.8	18.8	14.0
Other EU countries	213.9	19.1	205.2	17.2	-8.7	-4.1
Caricom	48.7	4.4	50.9	4.3	2.2	4.5
Latin America	14.7	1.3	6.7	0.6	-8.0	-54.4
All other countries	235.2	21.1	243.1	20.3	7.9	3.4
<b>TOTAL</b>	<b>1117.3</b>	<b>100.0</b>	<b>1196.0</b>	<b>100.0</b>	<b>78.7</b>	<b>7.0</b>

**TABLE 19**

<b>VALUE OF IMPORTS BY PRINCIPAL TRADING PARTNERS</b>						
<b>In Millions of US Dollars</b>						
<b>COUNTRY</b>	<b>2002</b>	<b>% of total</b>	<b>2003</b>	<b>% of total</b>	<b>Change</b>	<b>% Change</b>
United States	1554.0	43.5	1632.0	44.4	78.0	5.0
Canada	112.1	3.1	97.9	2.7	-14.2	-12.7
United Kingdom	93.6	2.6	149.6	4.1	56.0	59.8
Other EU countries	282.2	7.9	235.2	6.4	-47.0	-16.7
Caricom	398.6	11.2	469.3	12.8	70.7	17.7
Latin America	447.8	12.5	388.8	10.6	-59.0	-13.2
All other countries	682.2	19.1	706.2	19.2	23.9	3.5
<b>TOTAL</b>	<b>3570.5</b>	<b>100.0</b>	<b>3678.9</b>	<b>100.0</b>	<b>108.4</b>	<b>3.0</b>

**TABLE 20**

<b>TRADE BALANCE BY PRINCIPAL TRADING PARTNERS</b>				
<b>In Millions of US Dollars</b>				
<b>COUNTRY</b>	<b>2002</b>	<b>2003</b>	<b>Change</b>	<b>% Change</b>
United States	-1240.6	-1287.6	-47.0	3.8
Canada	45.0	94.7	49.7	110.4
United Kingdom	40.7	3.5	-37.2	-91.4
Other EU countries	-68.3	-30.0	38.3	-56.1
Caricom	-349.9	-418.4	-68.5	19.6
Latin America	-433.1	-382.1	51.0	-11.8
All other countries	-447.0	-463.0	-16.0	3.6
<b>TOTAL</b>	<b>-2453.2</b>	<b>-2482.9</b>	<b>-29.7</b>	<b>1.2</b>

*Source: Statistical Institute of Jamaica*

The value of general merchandise imports from the USA increased by 5.0 per cent to US\$1 632.0 million, while exports grew by 9.9 per cent to US\$344.4 million during 2003, relative to 2002. As a result of the growth in imports and the partially offsetting expansion in exports, Jamaica's general merchandise trade deficit with the USA deteriorated by US\$47.0 million to US\$1287.6 million. The higher imports from the USA in 2003 occurred in the context of a 2.1 per cent expansion in the Jamaican economy. Accelerated growth in the US economy was partly responsible for its increased absorption of Jamaican exports during the year.

There was a sharp expansion of US\$49.7 million in Jamaica's trade surplus with Canada in 2003. This improvement, however, represented a return of the trade surplus to the level observed in 2001, as there had been a deterioration in 2002. The expansion in Jamaica's trade surplus with Canada reflected an increase in exports, as well as a contraction in imports. Exports to Canada expanded by 22.6 per cent to US\$192.6 million in 2003, while imports contracted by 12.7 per cent to US\$97.9 million. As a result, Canada's share of total merchandise trade increased marginally to 6.0 per cent, in comparison to 5.7 per cent during 2002, and was slightly above the average share of 5.6 per cent over the period 1998 to 2002. Canada provides a market for Jamaica's alumina, rum and food exports, while imports from that country are similar to those from the USA, dominated by machinery and transport equipment.

The UK's share of total merchandise trade was 6.2 per cent in 2003, up from 4.9 per cent in 2002. There was strong growth of 59.8 per cent in imports from the UK, which was in contrast to the average decline of 4.0 per cent during 1998 to 2002. Imports from the UK consist mainly of machinery and transport equipment. Export receipts from the UK increased by 14.0 per cent in 2003, partially compensating for the decline registered during 2002. Sugar, banana, rum and seasonings are the main exports to that country. The UK's importance as an export market increased in 2003, moving to 12.8 per cent of Jamaica's total export. Against the background of the relatively strong growth in imports, the trade surplus with the UK was reduced by US\$37.2 million to a value of US\$3.5 million, the lowest level in more than two decades.

Merchandise trade between Jamaica and the European Union (excluding the UK) declined by US\$55.7 million to US\$440.4 million in 2003, relative to 2002. This decline emanated from respective contractions of 16.7 per cent and 4.1 per cent in imports and exports, relative to 2002. As a result, Jamaica's trade deficit with the EU contracted by US\$38.3 million to US\$30.0 million. The share of total merchandise trade accounted for by the EU fell to 9.0 per cent in 2003 from 10.6 per cent in the previous year.

Jamaica's trade deficit with the Latin American region contracted by US\$51.1 million to US\$382.0 million in 2003, relative to the previous year. Imports from Latin American countries declined by US\$59.0 million to US\$388.8 million, while exports to these countries fell dramatically by US\$8.0 million to US\$6.8 million. Jamaica imports mainly fuel, vegetable oils, corned beef and electrical equipment from Latin America, while it exports beverages, rum and other miscellaneous manufactured goods to countries in that region.

### **3.3 CARICOM TRADE**

CARICOM's share of Jamaica's total merchandise trade increased during 2003 to 10.7 per cent, from 9.5 per cent in 2002. This was attributable to an increase of US\$70.7 million in imports, augmented by a US\$2.2 million expansion in exports to the region.

Consequently, Jamaica's trade deficit with the CARICOM region expanded by US\$68.5 million to US\$418.4 million (5.1 per cent of GDP) during 2003, representing the highest deficit on record with the Region. This outcome is mainly attributable to the changing structure of the Jamaican economy, in particular, increased specialization in tourism, as well as growth in distribution. This position also reflects the general downturn in Jamaica's manufacturing sector since 1999. The widening of the deficit with CARICOM was influenced primarily by trade with Trinidad and Tobago (see **Table 21**).

**TABLE 21**

<b>CARICOM TRADE</b>						
<b>In Millions of US Dollars</b>						
	<b>2002</b>			<b>2003</b>		
	<b>Exports</b>	<b>Imports</b>	<b>Trade Bal.</b>	<b>Exports</b>	<b>Imports</b>	<b>Trade Bal.</b>
Antigua	5.2	0.0	5.2	3.1	0.2	2.9
Barbados	9.5	14.1	-4.6	8.5	15.6	-7.1
Belize	3.8	5.8	-2.0	3.5	10.6	-7.1
Dominica	1.3	9.7	-8.4	5.1	9.1	-4.0
Grenada	1.4	0.7	0.7	1.7	0.5	1.2
Guyana	2.9	28.1	-25.2	3.4	28.7	-25.3
Montserrat	0.1	0.0	0.1	0.1	0.0	0.1
St. Kitts	1.5	0.1	1.4	1.7	0.0	1.7
St. Lucia	3.6	0.3	3.3	3.6	0.1	3.5
St. Vincent	1.4	1.7	-0.3	1.4	0.8	0.6
Suriname	0.7	7.9	-7.2	1.0	8.0	-7.0
Trinidad & Tobago	17.3	330.2	-312.9	17.8	395.7	-377.9
<b>TOTAL</b>	<b>48.7</b>	<b>398.6</b>	<b>-349.9</b>	<b>50.9</b>	<b>469.3</b>	<b>-418.4</b>

*Source: Statistical Institute of Jamaica*

Trinidad and Tobago continued to be Jamaica's main regional trading partner during 2003, accounting for 84.3 per cent of Jamaica's imports, relative to an 82.8 per cent share recorded in 2002. Approximately 35.0 per cent of all Jamaican exports to the region were sold to that market, representing a marginal decline, relative to 2002. There was an expansion in the trade deficit with the Twin Island Republic because of a growth of US\$65.5 million in imports due to higher fuel prices.

### **3.4 SERVICES**

Net earnings from services increased by 79.4 per cent to US\$564.7 million in 2003, relative to 2002 (see **Table 22**). The improvement in the services balance emanated from

an expansion of US\$152.4 million in earnings from *travel*, supported by respective contractions of US\$61.5 million and US\$36.1 million in net payments for *other services* and *transportation*.

TABLE 22

<b>SERVICES</b>				
In Millions of US Dollars				
	<u>2002</u>	<u>2003</u>	<u>Change</u>	<u>% Change</u>
<b>Services (Net)</b>	<b>314.7</b>	<b>564.7</b>	<b>250.0</b>	<b>79.4</b>
<b>Inflows</b>	<b>1912.2</b>	<b>2131.6</b>	<b>219.4</b>	<b>11.5</b>
<b>Outflows</b>	<b>1597.5</b>	<b>1566.9</b>	<b>-30.6</b>	<b>-1.9</b>
<b>1. Transportation</b>	<b>-245.6</b>	<b>-209.5</b>	<b>36.1</b>	<b>14.7</b>
Inflows	368.7	470.8	102.1	27.7
Outflows	614.3	680.3	66.0	10.7
<b>2. Travel</b>	<b>950.3</b>	<b>1102.7</b>	<b>152.4</b>	<b>16.0</b>
Inflows	1208.7	1355.1	146.4	12.1
Outflows	258.4	252.4	-6.0	-2.3
<b>3. Other Services</b>	<b>-390.0</b>	<b>-328.5</b>	<b>61.5</b>	<b>15.8</b>
Inflows	334.8	305.8	-29.0	-8.7
Outflows	724.8	634.3	-90.5	-12.5

### 3.4.1 Transportation

The transportation sub-account improved by approximately 14.7 per cent in 2003 (see **Table 23**). This reflected a significant increase in gross receipts, which more than offset an expansion in gross payments.

The 27.7 per cent increase in gross transportation receipts was influenced by a 16.5 per cent growth in total visitor arrivals to Jamaica and their corresponding local transportation expenditure, along with an expansion in the number of routes serviced by the Jamaican airline. The higher outflows reflected the growth in imports for the year. Payments for freight and other charges on goods increased by 0.5 per cent and 46.4 per cent, respectively. The deficit on the transportation account has contracted consistently since 2000, as inflows have grown at a faster rate than outflows, due in part to the

continued efforts of the national carrier to improve the quality of its service and increase the number of routes offered to passengers.

**TABLE 23**

<b>TRANSPORTATION</b>				
<b>In Millions of US Dollars</b>				
	<b>2002</b>	<b>2003</b>	<b>Change</b>	<b>% Change</b>
<b>TRANSPORTATION (NET)</b>	<b>-245.6</b>	<b>-209.5</b>	<b>36.1</b>	<b>-14.7</b>
<b>TOTAL RECEIPTS</b>	<b>368.7</b>	<b>470.8</b>	<b>102.1</b>	<b>27.7</b>
Passenger fares	272.8	266.2	-6.6	-2.4
Freight	6.9	0.2	-6.7	-97.1
Other	89.0	204.4	115.4	129.7
<b>TOTAL PAYMENTS</b>	<b>614.3</b>	<b>680.3</b>	<b>66.0</b>	<b>10.7</b>
Passenger fares	15.8	17.4	1.6	10.1
Freight	464.8	467.1	2.3	0.5
Other	133.7	195.8	62.1	46.4

*Source: Bank of Jamaica*

### **3.4.2 Travel**

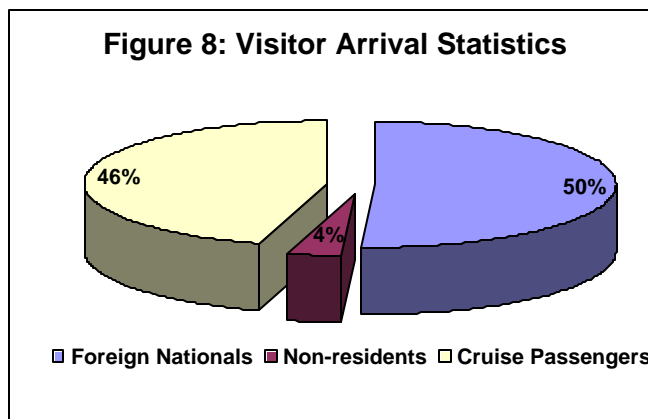
Estimated net foreign exchange earnings from the tourism industry amounted to US\$1102.7 million or 13.5 per cent of GDP in 2003, relative to US\$950.3 million in 2002 or 15.1 per cent of GDP. Travel inflows for 2003 surpassed the previous record achieved in 2000. Gross travel earnings for the year totalled US\$1 355.1 million, representing an increase of 12.1 per cent, relative to 2002. At the same time, gross payments declined by 2.3 per cent to US\$252.4 million in 2003, associated with a reduction in expenditure by Jamaicans while travelling overseas (see **Table 22**).

The expansion in gross earnings resulted from an increase of 16.5 per cent in visitor arrivals (see **Table 24**). Stopover visitor arrivals increased by 6.6 per cent in 2003 and accounted for 54.0 per cent of total arrivals (see **Figure 8**). Within this category, the number of foreign national visitors grew by 7.0 per cent, while non-resident Jamaican visitor arrivals went up by 1.0 per cent. Cruise passengers and armed force visitors registered the highest increase of 30.8 per cent to reach a record 1.13 million in 2003.

**TABLE 24**

<b>VISITOR ARRIVAL STATISTICS</b>				
	<b>(‘000)</b>			
	<b>2002</b>	<b>2003</b>	<b>Change</b>	<b>%Change</b>
Total Stop-Overs	1266.4	1350.3	83.9	6.6
Foreign Nationals	1179.1	1262.1	83.0	7.0
Long-Stay	1110.3	1186.8	76.5	6.9
Short-Stay	68.8	75.3	6.6	9.6
Non-resident Jamaicans	87.3	88.2	0.9	1.0
Cruise Passengers & Armed Forces	866.2	1133.4	267.2	30.8
<b>TOTAL</b>	<b>2132.6</b>	<b>2483.7</b>	<b>351.1</b>	<b>16.5</b>

Source: Jamaica Tourist Board (JTB)



The significant growth in the industry during the year occurred in a context of the aggressive marketing efforts of the Jamaica Tourist Board (JTB), the redeployment of cruise vessels from the Mediterranean due to security concerns, and the outbreak of SARS in other competing destinations. In addition, accelerated economic growth in the major source countries, in particular the USA, concurrent with improved consumer confidence, contributed to the growth in visitor arrivals during the year. The cruise sector also benefited from major improvements to the main docking facilities, which resulted in increases in both ship calls and the number of cruise passengers for the year.

With the exception of March 2003, when a 0.5 per cent decline was recorded, stopover arrivals registered growth in all months of the year. The reduction in March was attributed to the impact of the war in Iraq on travel confidence, which also influenced the arrival of “spring breakers” during that month. A total of 144 039 tourists visited the Island in July, the highest number in any month in Jamaica’s history.

Stopover visitor arrivals from the USA, which accounted for 71.8 per cent of total arrivals, grew by 4.8 per cent in 2003 (see **Table 25**). Arrivals from the northeast region grew the fastest at a rate of 9.0 per cent. In addition, there was increased airlift from Atlanta, New Jersey and Detroit.

**TABLE 25**

STOPOVER ARRIVALS BY COUNTRY OF ORIGIN												
	Foreign Nationals				Non-Resident Jamaicans				Total Stop-overs			
	2002	2003	Change	%	2002	2003	Change	%	2002	2003	Change	%
<b>USA</b>	859347	904666	45319	5.3	66282	65033	-1249	-1.9	925629	969699	44070	4.8
<b>Canada</b>	89570	87908	-1662	-1.9	7843	7357	-486	-6.2	97413	95265	-2148	-2.2
<b>UK</b>	120439	142506	22067	18.3	5420	7208	1788	33.0	125859	149714	23855	19.0
<b>Germany</b>	14488	16198	1710	11.8	66	92	26	39.4	14554	16290	1736	11.9
<b>Other Europe</b>	38485	52307	13822	35.9	191	189	-2	-1.0	38676	52496	13820	35.7
<b>Caribbean</b>	33943	35780	1837	5.4	7195	8049	854	11.9	41138	43829	2691	6.5
<b>Latin America</b>	11686	10744	-942	-8.1	178	141	-37	-20.8	11864	10885	-979	-8.3
<b>Japan</b>	4642	4155	-487	-10.5	22	27	5	22.7	4664	4182	-482	-10.3
<b>Other Countries</b>	6483	7844	1361	21.0	86	80	-6	-7.0	6569	7924	1355	20.6
<b>TOTAL</b>	<b>1179083</b>	<b>1262108</b>	<b>83025</b>	<b>7.0</b>	<b>87283</b>	<b>88176</b>	<b>893</b>	<b>1.0</b>	<b>1266366</b>	<b>1350284</b>	<b>83918</b>	<b>6.6</b>

Source: Jamaica Tourist Board

The depreciation of the US dollar, relative to the Pound Sterling and the Euro, made travel to the Caribbean more attractive for Europeans. There was also more aggressive marketing by the JTB within the European market as well as increased airlift, beginning in the latter part of 2002. With the resumption of charter flights from the Gatwick International Airport, arrivals out of the UK, Jamaica’s second largest tourism market, were boosted by 19.0 per cent in 2003, relative to the 9.9 per cent growth recorded in 2002. Arrivals from Germany increased by 12.0 per cent. There was also a significant improvement of 35.7 per cent in arrivals from the European countries, excluding the U.K.

and Germany. Stopovers from Italy showed an increase of 71.0 per cent, and were directly related to increased airlift by out of Milan. The other European countries recording appreciable rates of growth were the Netherlands (54 per cent), Switzerland (40 per cent), Poland (39 per cent), and Finland (23 per cent).

The growth in visitors from the Caribbean continued its upward trend with an increase of 6.5 per cent. The Cayman Islands provided the largest number of visitors with arrivals from that source registering an increase of 8.0 per cent, while Antigua, Barbados and Bermuda, all registered appreciable increases.

For the fifth consecutive year, arrivals from Japan and Latin America fell, recording declines of 10.5 per cent and 8.1 per cent, respectively, relative to 2002. The Japanese market continued to be affected by growing unemployment and low levels of economic growth. For Latin America, arrivals from all the countries declined, with the exception of Belize and Argentina, reflecting the political unrest and economic downturn in those countries.

Stopover arrivals in 2003 showed improvements in both the winter and summer periods. Total arrivals during the winter season (mid-December 2002 to mid-April 2003) rose by 7.9 per cent, while, for the summer months (Mid-April to mid-December 2003), there was an increase of 6.0 per cent (see **Table 26**). Arrivals from the USA grew by 5.7 per cent for the winter period and by 4.0 per cent for the summer.

**TABLE 26**

<b>Seasonal Distribution of Stop-over Visitor Arrivals</b>						
	No. of visitors		Change		% of total	
	2002	2003	Change	% Change	2002	2003
Winter	420996	454223	33227	7.9	33.2	33.6
Summer	845370	896061	50691	6.0	66.8	66.4
<b>Total</b>	<b>1266366</b>	<b>1350284</b>	<b>83918</b>	<b>6.6</b>	<b>100.0</b>	<b>100.0</b>

Concurrent with the expansion in stopover arrivals, the number of available rooms in 2003 went up by 386 to 24 625, representing an increase of 1.6 per cent, while the number of beds rose by 1.3 per cent to 47 191 (see **Table 27**). With the exception of Ocho Rios, all the resort areas recorded growth in the number of available rooms and beds. The largest expansions in rooms and beds were recorded in Negril and Kingston.

**TABLE 27**

<b>VISITOR ACCOMMODATION STATISTICS</b>				
<b>(By resort area)</b>				
	<b>2002</b>	<b>2003</b>	<b>Change</b>	<b>%Change</b>
<b>No. of Rooms</b>	<b>24239</b>	<b>24625</b>	<b>386</b>	<b>1.6</b>
Kingston	2074	2141	67	3.2
Montego Bay	7965	8019	54	0.7
Ocho Rios	6787	6777	-10	-0.1
Negril	5647	5851	204	3.6
Port Antonio	947	991	44	4.6
South Coast	819	846	27	3.3
<b>No. of Beds</b>	<b>46571</b>	<b>47191</b>	<b>620</b>	<b>1.3</b>
Kingston	4171	4303	132	3.2
Montego Bay	16838	16949	111	0.7
Ocho Rios	14725	14705	-20	-0.1
Negril	11474	11863	389	3.4
Port Antonio	1898	1984	86	4.5
South Coast	1636	1690	54	3.3

*Source: Jamaica Tourist Board*

On average, the length of stay of stopover visitors in 2003 was 10.2 days, the same as in 2002 (see **Table 28**). With the exception of visitors from Canada and the UK the average length of stay of visitors from all the major markets declined.

**TABLE 28**

<b>Average Length Of Stay (Days)</b>		
<b>By Country of Residence</b>		
	<b>2002</b>	<b>2003</b>
ITSA	8.5	8.4
Canada	13.2	14.1
UK	18.5	18.7
Europe	12.4	11.5
Latin America	9.9	9.4
Caribbean	12.9	10.9
Other Countries	13.5	11.5
<b>TOTAL</b>	<b>10.2</b>	<b>10.2</b>

*Source: Jamaica Tourist Board*

#### **3.4.2.1 Cruise Passengers**

Cruise passenger arrivals to Jamaica expanded by 30.8 per cent in 2003, the first year that more than one million passengers visited the Island (see **Table 24**). This improvement compared favourably with the average increase of 9.8 per cent for other top Caribbean destinations in 2003. Jamaica's share of passengers among the top ten cruise destinations in the Caribbean increased to 8.5 per cent from 7.3 per cent in 2002 (see **Table 11**). Expansion in cruise passenger arrivals was recorded in all four quarters of the year. However, the performance during the March quarter was exceptional in terms of the number of visitors and ship calls. During this period, there were 364,000 passengers and 189 ships visiting the Island, a historical quarterly high.

The significant improvement in the cruise shipping industry in Jamaica was associated with the arrival of nine new and larger vessels. Other contributory factors were the increased level of discounting in the sector, as well as the repositioning of ships to fill the demand of Americans wishing to vacation closer to home.

#### **3.4.2.2 Tourist Expenditure**

Net earnings from foreign travel increased by 16.0 per cent reflecting a 12.1 per cent increase in gross earnings and a 2.3 percent decline in gross payments. The expansion in gross earnings was attributed to higher spending of 10.9 per cent, 9.4 per cent and 32.9 per cent by foreign nationals, non-resident Jamaicans and cruise passengers, respectively (see **Table 29**). For the payments, the expenditure of Jamaicans while overseas fell by US\$8.0 million (or 3.6 per cent), which was partly offset by an increase of US\$2.0 million (or 5.5 per cent) in the spending by Jamaican seasonal workers overseas.

On average, foreign nationals spent US\$95.00 per person per day, which represented an increase of 3.9 per cent. The average spending by cruise passengers amounted to US\$80.00 per person per day during the review period, a marginal growth of 0.2 percent.

**TABLE 29**

<b>Tourist Expenditure</b>				
<b>In Millions of US Dollars</b>				
	<b>2002</b>	<b>2003</b>	<b>Change</b>	<b>%</b>
<b>Total Foreign Nat Stop-over</b>	<b>1102.3</b>	<b>1222.4</b>	<b>120.1</b>	<b>10.9</b>
Winter Expenditure	360.5	395.0	34.5	9.6
Summer Expenditure	741.8	827.4	85.6	11.5
Expenditure per day (avg)	91.7	95.3	3.6	3.9
Non-res. Jamaican Expenditure	37.1	40.6	3.5	9.4
Cruise Passengers & Armed Forces	69.3	92.1	22.8	32.9
Expenditure per day (avg)	80.7	80.9	0.2	0.2
<b>Total Expenditure</b>	<b>1208.7</b>	<b>1355.1</b>	<b>146.4</b>	<b>12.1</b>
Less Jamaican Exp. Overseas	221.9	213.9	-8	-3.6
Less Exp. of resident workers Overseas	36.5	38.5	2	5.5
<b>Net Expenditure</b>	<b>950.3</b>	<b>1102.7</b>	<b>152.4</b>	<b>16.0</b>

*Source: Jamaica Tourist Board*

### **3.4.3 Other Services**

The deficit on the *other services* account contracted by 15.8 per cent to US\$328.5 million in 2003. This reflected a decrease of 12.5 per cent in gross payments to US\$634.3 million, which was only partially offset by a fall of 8.7 per cent in gross inflows to US\$305.8 million (see **Table 30**).

Declines of US\$28.3 million and US\$18.8 million in communication and other business services inflows were primarily responsible for the contraction in overall receipts, which was partly offset by increases of US\$11.2 million, US\$3.5 million and US\$1.9 million in receipts relating to personal, cultural and recreational services, government, and the computer and information categories.

**TABLE 30**

<b>OTHER SERVICES</b>					
<b>In Millions of US Dollars</b>					
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>Change</b>	<b>%</b>
<b>OTHER SERVICES (NET)</b>	<b>-386.9</b>	<b>-390.0</b>	<b>-328.5</b>	<b>61.5</b>	<b>-15.8</b>
<b>RECEIPTS</b>	<b>314.3</b>	<b>334.8</b>	<b>305.8</b>	<b>-29.0</b>	<b>-8.7</b>
Construction	0.0	0.0	0.0	0.0	0.0
Communication	164.7	171.1	142.8	-28.3	-16.5
Insurance	11.9	15.4	7.1	-8.3	-53.9
Financial	15.8	22.4	26.3	3.9	17.4
Computer & Information	36.6	34.1	36.0	1.9	5.6
Royalties & license fees	5.9	6.1	12.0	5.9	96.7
Other Business	40.7	45.2	26.4	-18.8	-41.6
Personal, cultural & Government	9.0	9.2	20.4	11.2	121.7
	29.7	31.3	34.8	3.5	11.2
<b>PAYMENTS</b>	<b>701.2</b>	<b>724.8</b>	<b>634.3</b>	<b>-90.5</b>	<b>-12.5</b>
Construction	10.0	5.9	4.8	-1.1	-18.6
Communication	50.1	52.9	44.4	-8.5	-16.1
Insurance	94.1	118.4	97.1	-21.3	-18.0
Financial	29.7	17.7	6.8	-10.9	-61.6
Computer & Information	13.8	11.6	20.4	8.8	75.9
Royalties & license fees	38.3	32.1	10.8	-21.3	-66.4
Other Business	427.2	436.4	408.0	-28.4	-6.5
Personal, cultural & Government	4.0	4.0	2.4	-1.6	-40.0
	34.0	45.8	39.6	-6.2	-13.5

*Source: Bank of Jamaica*

In relation to payments, a contraction of US\$28.4 million in the other business category was the main factor accounting for the decline, supported by respective decreases of US\$21.3 million, US\$21.3 million and US\$6.2 million in payments for insurance, royalties & license fees and government service. There were also declines in payments for communication and financial services. The decrease in financial service payments reflected lower commissions paid to foreign investment banks for underwriting Government debt issues, as a result of Government's limited external borrowing during the year.

### **3.5 INCOME**

The deficit on the income account declined by 5.6 per cent to US\$571.4 million during 2003, reflecting a contraction of 6.6 per cent in net investment income outflows, partly

offset by a 13.9 per cent reduction in net inflows from compensation to employees (see **Table 31**).

The reduced net inflows from compensation to employees resulted primarily from an increase of US\$10.5 million in payments to non-residents for work done in Jamaica. The expansion in payments to foreign workers was associated with new investment projects being undertaken in the island and was reflected in a 23.1 per cent increase in the number of work permits granted to non-residents. Lower inflows from compensation of Jamaicans working abroad occurred despite an increase in the number of Jamaicans working on official overseas employment programs.

**TABLE 31**

<b>INCOME</b>					
In Millions of US Dollars					
	2001	2002	2003	Change	%
<b>INCOME ACCOUNT (NET)</b>	<b>-437.8</b>	<b>-605.5</b>	<b>-571.4</b>	<b>34.1</b>	<b>-5.6</b>
<b>INFLOWS</b>	<b>218.2</b>	<b>220.8</b>	<b>217.6</b>	<b>-3.2</b>	<b>-1.4</b>
<b>OUTFLOWS</b>	<b>656.0</b>	<b>826.3</b>	<b>789.0</b>	<b>-37.3</b>	<b>-4.5</b>
<b>1. Compensation to employees</b>	<b>74.6</b>	<b>82.1</b>	<b>70.7</b>	<b>-11.4</b>	<b>-13.9</b>
Inflows	106.7	111.0	110.1	-0.9	-0.8
Outflows	32.1	28.9	39.4	10.5	36.3
<b>2. Investment income (net)</b>	<b>-512.4</b>	<b>-687.6</b>	<b>-642.1</b>	<b>45.5</b>	<b>-6.6</b>
<b>Inflows</b>	<b>111.5</b>	<b>109.8</b>	<b>107.5</b>	<b>-2.3</b>	<b>-2.1</b>
Direct Investment	5.7	17.2	8.4	-8.8	-51.2
Portfolio investment	5.3	12.4	14.8	2.4	19.4
Other investment	100.5	80.2	84.3	4.1	5.1
Central government	0.0	0.0	1.2	1.2	-
Bank of Jamaica	63.0	58.6	37.5	-21.1	-36.0
Commercial Banks	37.5	21.6	45.6	24.0	111.1
<b>Outflows</b>	<b>623.9</b>	<b>797.4</b>	<b>749.6</b>	<b>-47.8</b>	<b>-6.0</b>
Direct Investment	300.8	434.3	326.3	-108.0	-24.9
Portfolio investment	6.7	9.0	25.2	16.2	180.0
Other investment	316.4	354.1	398.1	44.0	12.4
Central government	266.3	286.3	308.5	22.2	7.8
Bank of Jamaica	5.2	2.7	1.1	-1.6	-59.3
Government guaranteed	4.0	2.2	2.1	-0.1	-4.5
Commercial Banks	9.6	31.3	67.2	35.9	114.7
Private	31.3	31.6	19.2	-12.4	-39.2

Source: Bank of Jamaica

Lower net investment income outflows mainly reflected a reduction in gross investment income outflows. The marginal reduction in inflows emanated primarily from respective

declines of US\$21.1million and US\$8.8 million in interest income on Bank of Jamaica's foreign assets, as well as profit remittances from local investments abroad. The decline in inflows of interest income to the Bank of Jamaica was due to a reduction in interest rates in the USA, as well as a contraction in the level of net international reserves held by the BOJ during 2003. These were partly offset by an increase of US\$24.0 million in the *other* subcategory, which arose from increased income receipts by commercial banks.

The reduction in interest outflows largely reflected a 24.9 per cent decrease in imputed profit remittances to direct investors. This decline was associated with lower dividend payments by direct investment enterprises and reduced activities of free zone companies. This was partly countered by an increase in government interest payments on external debt and an expansion in income payments relating to portfolio investment.

### 3.6 CURRENT TRANSFERS

Net inflows from current transfers rose by 9.4 per cent in 2003, to US\$1189.1million (see **Table 32**). This growth reflected an increase of US\$104.6 million in net remittances to the private sector, as there was marginal decrease of US\$2.4 million in net inflows to the public sector.

**TABLE 32**

	<b>CURRENT TRANSFERS</b>				
	<b>In Millions of US Dollars</b>				
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>Change</b>	<b>% Change</b>
<b>NET CURRENT TRANSFERS</b>	<b>915.6</b>	<b>1086.9</b>	<b>1189.1</b>	<b>102.2</b>	<b>9.4</b>
<b>TOTAL RECEIPTS</b>	<b>1092.2</b>	<b>1337.9</b>	<b>1523.5</b>	<b>185.6</b>	<b>13.9</b>
<b>GENERAL GOVERNMENT</b>	<b>126.3</b>	<b>115.1</b>	<b>110.0</b>	<b>-5.1</b>	<b>-4.4</b>
<b>OTHER SECTOR</b>	<b>965.9</b>	<b>1222.8</b>	<b>1413.5</b>	<b>190.7</b>	<b>15.6</b>
Remittances thru' the postal system	1.2	0.7	1.2	0.5	71.4
Remittances thru' the financial system	372.5	508.6	591.3	82.7	16.3
Remittance companies	566.4	621.3	677.0	55.7	9.0
Other	25.8	92.2	144.0	51.8	56.2
<b>TOTAL PAYMENTS</b>	<b>176.6</b>	<b>251.0</b>	<b>334.4</b>	<b>83.4</b>	<b>33.2</b>
<b>GENERAL GOVERNMENT</b>	<b>6.6</b>	<b>7.5</b>	<b>4.8</b>	<b>-2.7</b>	<b>-36.0</b>
<b>OTHER SECTOR</b>	<b>170.0</b>	<b>243.5</b>	<b>329.6</b>	<b>86.1</b>	<b>35.4</b>
Remittances thru' the financial system	147.3	215.7	282.8	67.1	31.1
Other	22.7	27.8	46.8	19.0	68.3

The growth in net inflows to the private sector was influenced by an increase of US\$190.7 million in gross private inflows, which was partially countered by an expansion of US\$86.1 million in gross private outflows. Given the growth in inflows, private remittance amounted to 17.4 per cent of GDP in 2003, relative to 14.5 per cent in 2002 (see **Table IV, Appendix**). Remittance companies accounted for 29.2 per cent of the increase in gross inflows, followed by commercial banks and building societies, which contributed 24.0 per cent and 19.4 per cent to the increase, respectively.

Remittance companies continued to dominate the market for private sector inflows, despite a reduction in the share of gross inflows to 47.9 per cent in 2003, relative to 50.8 per cent in 2002. Conversely, commercial banks improved their share of remittance inflows to 22.2 per cent, relative to 21.9 per cent in 2002, while the share attributable to building societies remained relatively unchanged at 19.7 per cent. The *other* subcategory, which is mainly comprised of gifts and non-life insurance payments, accounted for 6.9 per cent of total inflows.

The expansion in private sector inflows partly reflected stronger growth in the US and UK economies, the two main sources of remittance inflows. The service sectors of these economies, in which Jamaicans tend to be employed, experienced strong growth during 2003.

Gross transfer inflows to the Government declined by US\$5.1 million to US\$110.0 million in 2003, primarily due to lower receipts of grants, while gross outflows decreased by US\$2.7 million to US\$4.8 million. The decline in gross transfer inflows to the government was primarily due to lower receipt of grants.

### **3.7 CAPITAL AND FINANCIAL ACCOUNTS**

A surplus of US\$0.1 million was recorded on the capital account for 2003, which represented an improvement of US\$17.0 million relative to 2002 (see **Table 33**). The financial account also registered a surplus of US\$761.3 million in 2003, albeit representing a deterioration of US\$330.0 million in comparison to 2002. Within the

financial account, net private inflows of US\$692.5 million, comprised of mainly net foreign direct investment inflows, were insufficient to finance the shortfall of US\$363.8 million in net official investment flows as well as the deficit on the current account. Consequently, there was a draw down of US\$432.6 million in the net international reserves of the country for the review period, relative to the draw down of US\$238.7 million in 2002.

**TABLE 33**

<b>CAPITAL AND FINANCIAL ACCOUNT</b>					
<b>In Millions of US Dollars</b>					
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>Change</b>	<b>% Change</b>
<b>CAPITAL &amp; FINANCIAL ACCOUNT (NET)</b>	<b>757.3</b>	<b>1074.4</b>	<b>761.4</b>	<b>-313.0</b>	<b>-29.1</b>
<b>A. CAPITAL ACCOUNT</b>	<b>-23.6</b>	<b>-16.9</b>	<b>0.1</b>	<b>17.0</b>	<b>-100.6</b>
Capital transfers	-23.6	-16.9	-0.3	16.6	-98.2
General government	2.2	0.2	0.1	-0.1	-50.0
Other capital transfers	-25.8	-17.1	-0.4	16.7	-97.7
Acq./disposal of non-prod. non-fin'l assets	.....	.....	0.4	.....	.....
<b>B. FINANCIAL ACCOUNT</b>	<b>780.9</b>	<b>1091.3</b>	<b>761.3</b>	<b>-330.0</b>	<b>-42.3</b>
Other official investment	653.4	77.1	-363.8	-440.9	-571.8
Other private investments 1/	992.9	775.5	692.5	-83.0	-10.7
Direct investment	524.9	404.9	604.4	199.5	49.3
Portfolio investment	30.4	-195.5	-285.6	-90.1	46.1
Private investments 1/	437.6	566.1	373.7	-192.4	-34.0
Change in reserves (increase = minus)	-865.4	238.7	432.6	193.9	81.2

1/ Includes errors & omissions

Source: Bank of Jamaica

The level of net private investment inflows decreased by US\$83.0 million, due primarily to a contraction in other private investments inflows of US\$192.4 million and an increase of US\$90.1 million in net portfolio outflows. These changes were partially offset by an increase of US\$199.5 million in net foreign direct investment (FDI) inflows.

The increase in net FDI inflows emanated mainly from an expansion of US\$241.9 million in gross FDI inflows to US\$720.7 million, or 8.9 per cent of GDP, the highest level in three decades (see **Table 34 & Table IV, Appendix**). This performance contributed to Jamaica attaining a ranking of 20<sup>th</sup> in the world, in relation to FDI inflows, in the United

Nations Conference on Trade and Development (UNCTAD) 2003 report<sup>8</sup>, compared with a ranking of 26<sup>th</sup> in the 2002 report. The mining sector received US\$149.7 million, the largest share of FDI inflows, followed by the tourism sector with FDI of US\$114.3 million, reflecting significant new capital injection by two Spanish hotel chains. The information technology and communication services sector attracted FDI of US\$105.7 million in 2003, an increase of 102.2 percent. Together, the agricultural, mining and distribution sectors together received FDI inflows of US\$88.2 million, a substantial increase of 568.3 per cent, reflecting investments in the non-metallic minerals and the non-alcoholic beverages sub-sector. There was no significant change in the level of profits retained by FDI enterprises for reinvestment.

**TABLE 34**

<b>FOREIGN DIRECT INVESTMENTS INFLOWS BY SECTOR</b>					
<b>In Millions of US Dollars</b>					
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>% Share</b>	<b>Change</b>
Mining	83.7	108.1	149.7	20.8	41.6
Tourism	24.3	48.8	114.3	15.9	65.5
Information Technology/Communication	112.5	52.3	105.7	14.7	53.4
Agriculture/Manufacturing/Distribution	22.5	13.2	88.2	12.2	75.0
Other	5.3	10.5	63.0	8.7	52.5
Minerals & Chemicals	15.7	0.3	30.9	4.3	30.6
Insurance	0.0	0.0	10.7	1.5	10.7
<b>Sub-total</b>	<b>264.0</b>	<b>233.2</b>	<b>562.6</b>	<b>78.1</b>	<b>329.4</b>
Retained Earnings	115.9	162.0	158.1	21.9	-3.9
Divestment	234.0	83.6	0.0	0.0	-83.6
<b>TOTAL</b>	<b>613.9</b>	<b>478.8</b>	<b>720.7</b>	<b>100.0</b>	<b>241.9</b>

*Source: Bank of Jamaica*

Government external borrowing in 2003 amounted to only US\$113.4 million. However, amortization was US\$477.1 million (see **Table 35**). The decline in gross inflows emanated from Government's decision not to access the international capital markets for most of the year, largely due to the unfavourable conditions that prevailed for emerging market bonds. In addition, US\$194.3 million in multilateral financing in 2002, related to the financial sector restructuring programme, was not repeated in the year, while project related loan inflows fell by US\$2.4 million. Gross official investment outflows primarily

<sup>8</sup> See World Investment Report (2003).

reflected principal payments of US\$476.1 million on Government's external debt throughout 2003, which included a Eurobond repayment of US\$250.0 million.

**TABLE 35**

<b>OTHER OFFICIAL INVESTMENT FLOWS</b>					
<b>In Millions of US Dollars</b>					
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>Change</b>	<b>% Change</b>
<b>NET OFFICIAL INVESTMENTS</b>	<b>653.4</b>	<b>77.1</b>	<b>-363.8</b>	<b>-440.9</b>	<b>-571.8</b>
<b>GROSS OFFICIAL INFLOWS</b>	<b>950.1</b>	<b>559.1</b>	<b>113.4</b>	<b>-445.8</b>	<b>-79.7</b>
Donor countries	0.0	0.0	0.0	0.0	0.0
Multilateral institutions	75.0	193.4	0.0	-193.4	-100.0
Other assistance	811.8	300.0	50.0	-250.0	-83.3
Refinancing	0.0	0.0	0.0	0.0	0.0
Project loans	63.3	65.7	63.4	-2.4	-3.6
<b>GROSS OFFICIAL OUTFLOWS</b>	<b>296.7</b>	<b>482.0</b>	<b>477.1</b>	<b>-4.9</b>	<b>-1.0</b>
Government direct	295.7	481.1	476.1	-5.0	-1.0
Bank of Jamaica	1.0	0.9	1.0	0.1	11.1

*Source: Bank of Jamaica*

The private sector investment surplus was inadequate to finance the deficits on the official investment, capital and current accounts. As a result, the net international reserves (NIR) of the Bank of Jamaica decreased by US\$432.6 million to US\$1 168.1 million (see **Table 36**).

The decline in the NIR largely reflected a contraction of US\$447.3 million in the Bank of Jamaica's official foreign assets, which was marginally offset by a reduction of US\$14.7 million in its foreign liabilities. The level of gross assets at end December 2003 was US\$1,199.5 million, representing 13.1 weeks of imported goods and services.

**TABLE 36**

<b>JAMAICA: GROSS AND NET FOREIGN EXCHANGE RESERVES</b>			
<b>(As At December 31)</b>			
<b>In Millions of US Dollars</b>			
	<b>2002</b>	<b>2003</b>	<b>Change</b>
<b>NET FOREIGN RESERVES</b>	<b>1600.7</b>	<b>1168.1</b>	<b>-432.6</b>
<b>GROSS FOREIGN EXCHANGE RESERVES</b>	<b>1646.8</b>	<b>1199.5</b>	<b>-447.3</b>
Holdings of SDR's	0.7	0.1	-0.6
Supplementary Fund	40.3	86.7	46.4
Other Bank of Jamaica	1602.1	1107.5	-494.6
Central government	1.5	0.6	-0.9
Other official institutions	2.2	4.6	2.4
(of which CDF)	1.7	1.5	-0.2
(of which EDF)	0.5	3.1	2.6
<b>GROSS FOREIGN LIABILITIES</b>	<b>46.1</b>	<b>31.4</b>	<b>-14.7</b>
IMF liabilities	23.6	8.9	-14.7
Iraq	22.5	22.5	0.0

*Source: Bank of Jamaica*

### **3.8 BALANCE OF PAYMENTS OUTLOOK**

The path of Jamaica's current account in 2004 will be affected by the expansion in some sectors of the economy, as well as prospects for favourable external growth, despite an anticipated tightening of monetary policy among the more advanced economies. In this context, favourable export conditions for alumina and bauxite are expected to persist while trend improvements in the current transfers and services, in particular tourism, should continue. Imports and investment income outflows are, however, expected to be countervailing influences.

The outlook for the mining industry for 2004 is favourable. In the context of the Government's fiscal incentive scheme for the industry (see **Box 1**), growth in capacity of between 11.0 per cent and 14.0 per cent is planned. Most of the expansion is expected to occur at the Alpart and Jamalco plants, while broad based initiatives to improve productive efficiency are expected to continue. There are plans to significantly increase the production capacity of the alumina industry over the medium term and to enhance the industry's competitiveness. Despite an anticipated slow down in China's growth rate,

### **Box 1: The New Fiscal Regime for the Mining Sector**

#### **Introduction**

*In late 2001, the Government of Jamaica initiated discussions to revise the fiscal regime relating to the bauxite/alumina sector as part of its efforts to improve the competitiveness of the industry, attract investments and expand export earnings. This box presents a brief review of the standard fiscal regime, followed by an overview of the proposed regime.*

#### **The Standard Regime**

*Foreign exchange inflows from the mining sector emanate from a levy, a tax on profits, royalty payments, as well as flows to meet local cost. The first three are subject to amendments under the new regime.*

#### **Levy**

*The levy is a cess on total bauxite production, including bauxite converted into alumina. This cess is directly related to the movement in the average realised price (ARP) for alumina and has a minimum rate of US\$5.00 per tonne of bauxite, if the ARP for alumina goes below US\$0.60 per pound. The ARP is the negotiated price when the companies in Jamaica sell bauxite to third parties. The levy is therefore calculated by the following formula:*

$$\text{Levy (US\$ / mt)} = \begin{cases} \frac{\text{ARP}}{0.60} \cdot 5, & \text{if ARP} > 0.60 \\ 5, & \text{Otherwise} \end{cases}$$

#### **Taxes**

*Taxes on profits, net of the levy and any losses carried forward, are charged at the usual corporate rate of 33 1/3 per cent. In determining profits, reference prices are used to calculate revenues on a company-by-company basis. Reference prices are used to assure transparency.*

#### **Royalty**

*The companies pay a royalty of US\$0.50 for each tonne of bauxite produced.*

#### **The New Regime**

*The proposed revisions to the fiscal regime involve a withdrawal of the bauxite production levy under certain specified conditions. These include capacity expansion above an agreed minimum, guaranteed minimum tax payment over a 5-year transitional period, increased royalty per tonne of bauxite, provision for additional royalty in certain circumstances and certain financing structures.*

*Alcoa is the first company with which an agreement has been concluded. The agreement was signed on 27 April 2002 and provides for a 25 per cent expansion of the Jamalco plant, as well as **guaranteed tax payments based on the average annual payments of tax and levy over the previous 5-year period, for a 5-year period, starting January 2003.** The terms of the revised regime will be generally applicable to the other companies operating in Jamaica, once they meet the specified criteria. The long run incentives under the new regime include increased profit opportunities for the mining companies and increased revenue for government.*

improved world growth is expected to maintain demand levels for aluminium and, by extension, alumina. This demand will also serve to buoy prices within the industry.

A continuation of the significant investments and restructuring within the sugar industry that began in the latter part of 2001 is expected to improve competitiveness of the industry over the next few years. Further, plans to diversify the industry and to increase value added bode well for improvements in the profitability of the industry. However, the long-term prospects for the industry have been impaired due to a proposed reform to the EU sugar price regime. Representations are currently being made by the ACP group of countries to modify the implementation of this proposal. The industry is also susceptible to weather-related shocks.

The long-term prospects for the banana industry are also expected to be affected by proposed modifications to the Cotonou agreement, which guarantees preferential prices for the export of some commodities to the EU. The proposed modification is an attempt to settle existing WTO disputes over the current regime. The changes would result in the current system being replaced with the application of a tariff-only system no later than 2006. Beyond this, exports continue to be affected by increased domestic demand for the fruit.

Expenditure on imports is expected to continue to increase during 2004, driven primarily by rising oil prices and capital and consumer goods imports. Recent events in the world oil market have created an environment of uncertainty. Inventory levels in the USA, expected world expansion and the lingering effects of post war tension in Iraq will exert upward pressure on prices over the near term. Tensions in Saudi Arabia may also result in less fuel being supplied to the market. For Jamaica, the medium term prospects for spending on fuel should improve given expected expansions at Petrojam's refinery. Increased expenditure on capital goods imports envisaged for 2004 are associated with planned expansions in the communication and construction sectors. In particular, there have been announcements of additions to the tourism and mining infrastructure in addition to further work on Highway 2000 and the North Coast Highway project.

Earnings from services should continue to record strong growth in 2004, influenced by increased visitor arrivals due to additional airline seats from Europe, Canada and the USA. The tourism industry should also benefit in both the short and medium term from the ongoing capacity expansions, supported by strong advertising campaigns by the JTB. It is envisaged that the industry should benefit from new investment from European hotel chains.

Strong growth is expected in net current transfers in 2004, influenced primarily by the projected growth in the USA. The improvement recorded on the income account in 2003 might be reversed in 2004 due primarily to higher profit remittances by the direct investment companies and higher interest payments by Central Government on its foreign debt. Increased income outflows from the direct investment companies should arise from improved profitability of the mining and communication companies. Interest payments by Government are expected to increase over the medium term.

The improvement in the deficit on the current account experienced in 2003 augurs well for confidence and continued macroeconomic stability in the economy. In addition, Government's commitment to fiscal discipline, as well as further development of the financial markets should result in significant foreign direct investment in the near term.

## APPENDIX

### STATISTICAL TABLES

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

<b>Page</b>	<b>Table</b>	<b>Title</b>
	<b>I.</b>	<b>Balance of Payments Summary (1999 – 2003)</b>
	<b>II.</b>	<b>Balance of Payments Standard Presentation (1999 – 2003)</b>
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<b>Table i</b>					
<b>BALANCE OF PAYMENTS SUMMARY 1999-2003</b>					
<b>In Millions of US Dollars</b>					
	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
				<i>1/</i>	<i>2/</i>
<b>CURRENT ACCOUNT</b>	<b>-216.3</b>	<b>-367.4</b>	<b>-757.3</b>	<b>-1074.4</b>	<b>-761.4</b>
<b>GOODS BALANCE</b>	<b>-1186.5</b>	<b>-1441.5</b>	<b>-1618.2</b>	<b>-1870.5</b>	<b>-1943.8</b>
EXPORTS (f.o.b.)	1499.1	1562.8	1454.4	1309.1	1385.6
IMPORTS (f.o.b.)	2685.6	3004.3	3072.6	3179.6	3329.4
<b>SERVICES BALANCE</b>	<b>655.4</b>	<b>603.2</b>	<b>383.1</b>	<b>314.7</b>	<b>564.7</b>
TRANSPORTATION	-233.6	-256.6	-256.2	-245.6	-209.5
TRAVEL	1052.4	1123.9	1026.2	950.3	1102.7
OTHER SERVICES	-163.4	-264.1	-386.9	-390.0	-328.5
<b>INCOME</b>	<b>-332.5</b>	<b>-349.9</b>	<b>-437.8</b>	<b>-605.5</b>	<b>-571.4</b>
COMPENSATION OF EMPLOYEE	70.3	67.4	74.6	82.1	70.7
INVESTMENT INCOME	-402.8	-417.3	-512.4	-687.6	-642.1
<b>CURRENT TRANSFERS</b>	<b>647.3</b>	<b>820.8</b>	<b>915.6</b>	<b>1086.9</b>	<b>1189.1</b>
OFFICIAL	45.8	147.9	119.7	107.6	105.2
PRIVATE	601.5	672.9	795.9	979.3	1083.9
<b>CAPITAL &amp; FINANCIAL A/C</b>	<b>216.3</b>	<b>367.4</b>	<b>757.3</b>	<b>1074.4</b>	<b>761.4</b>
<b>CAPITAL ACCOUNT</b>	<b>13.1</b>	<b>2.2</b>	<b>-23.6</b>	<b>-16.9</b>	<b>0.1</b>
<b>CAPITAL TRANSFERS</b>					
OFFICIAL	4.1	15.6	2.2	0.2	0.1
PRIVATE	9.0	-13.4	-25.8	-17.1	-0.4
ACQ/DISP OF NON-PRO NON FIN ASSETS	0.0	0.0	0.0	0.0	0.4
<b>FINANCIAL ACCOUNT</b>	<b>203.2</b>	<b>365.2</b>	<b>780.9</b>	<b>1091.3</b>	<b>761.3</b>
OTHER OFFICIAL INVESTMENT	-331.4	383.7	653.4	77.1	-363.8
OTHER PRIVATE INVESTMENTS <sup>3/</sup>	401.0	503.9	992.9	775.5	692.5
RESERVES	133.6	-522.4	-865.4	238.7	432.6

<sup>1/</sup> Revised

<sup>2/</sup> Provisional

<sup>3/</sup> Includes net errors & omissions

Source: Bank of Jamaica

Table II

BALANCE OF PAYMENTS STANDARD PRESENTATION											
In Millions of US Dollars											
	1999		2000		2001		2002		2003		
	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	
<b>1. CURRENT ACCOUNT</b>	<b>4401.2</b>	<b>4617.5</b>	<b>4751.1</b>	<b>5118.5</b>	<b>4661.8</b>	<b>5419.1</b>	<b>4780.0</b>	<b>5854.4</b>	<b>5258.4</b>	<b>6019.8</b>	
<b>A. Goods &amp; Services</b>	<b>3477.5</b>	<b>4008.6</b>	<b>3588.6</b>	<b>4426.9</b>	<b>3351.4</b>	<b>4586.5</b>	<b>3221.3</b>	<b>4777.1</b>	<b>3517.3</b>	<b>4896.4</b>	
1. Goods	1499.1	2685.6	1562.9	3004.4	1454.4	3072.6	1309.1	3179.6	1385.6	3329.4	
1.1 General Merchandise	1245.7	2529.7	1301.0	2849.0	1223.1	2922.9	1117.3	3065.3	1195.9	3177.9	
1.2 Goods procured in ports by carriers	29.5	20.7	37.9	35.9	35.4	36.2	29.1	35.7	48.0	72.3	
1.3 Freezone Trade	223.9	135.2	224.0	119.5	195.9	113.6	162.7	78.6	141.7	79.2	
2. Transportation	300.3	533.9	328.6	585.2	350.5	606.7	368.7	614.3	470.8	680.3	
2.1 Passenger	206.3	28.6	243.7	28.5	261.6	20.9	272.8	15.8	266.2	17.4	
2.2 Freight	7.7	408.4	6.5	431.4	6.9	457.3	6.9	464.8	0.2	467.1	
2.3 other	86.3	96.9	78.4	125.3	82.0	128.5	89.0	133.7	204.4	195.8	
3. Travel	1279.6	227.2	1332.6	208.7	1232.2	206.0	1208.7	258.4	1355.1	252.4	
4. Insurance Services	6.4	56.2	12.1	87.2	11.9	94.1	15.4	118.4	7.1	97.1	
5. Communication Services	275.0	42.4	209.4	31.8	164.7	50.1	171.1	52.9	142.8	44.4	
6. Financial services	11.3	3.5	12.6	18.4	15.8	29.7	22.4	17.7	26.3	6.8	
7. Computer & Information services	40.0	5.9	40.4	7.1	36.6	13.8	34.1	11.6	36.0	20.4	
8. Royalties & license fees	6.2	40.5	6.4	41.0	5.9	38.3	6.1	32.1	12.0	10.8	
9. Other business services	20.7	365.6	36.4	396.8	40.7	427.2	45.2	436.4	26.4	408.0	
10. Personal, cultural, & recreational services	9.7	3.7	9.6	4.1	9.0	4.0	9.2	4.0	20.4	2.4	
11. Government services	29.2	36.6	37.6	32.0	29.7	34.0	31.3	45.8	34.8	39.6	
12. Construction services	0.0	7.5	0.0	10.2	0.0	10.0	0.0	5.9	0.0	4.8	
<b>B Income</b>	<b>165.8</b>	<b>498.3</b>	<b>193.1</b>	<b>543.0</b>	<b>218.2</b>	<b>656.0</b>	<b>220.8</b>	<b>826.3</b>	<b>217.6</b>	<b>789.0</b>	
13. Compensation of employees	94.0	23.7	88.2	20.8	106.7	32.1	111.0	28.9	110.1	39.4	
14. Investment Income	71.8	474.6	104.9	522.2	111.5	623.9	109.8	797.4	107.5	749.6	
<b>C. Current Transfers</b>	<b>757.9</b>	<b>110.6</b>	<b>969.4</b>	<b>148.6</b>	<b>1092.2</b>	<b>176.6</b>	<b>1337.9</b>	<b>251.0</b>	<b>1523.5</b>	<b>334.4</b>	
15. Official	53.5	7.7	155.1	7.2	126.3	6.6	115.1	7.5	110.0	4.8	
16. Private	704.4	102.9	814.3	141.4	965.9	170.0	1222.8	243.5	1413.5	329.6	
<b>2. CAPITAL &amp; FINANCIAL ACCOUNT</b>	<b>1663.3</b>	<b>1445.8</b>	<b>2462.4</b>	<b>2141.0</b>	<b>3693.8</b>	<b>2922.3</b>	<b>3394.0</b>	<b>2268.1</b>	<b>3560.0</b>	<b>2815.2</b>	
<b>D. Capital Account</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>	<b>19.3</b>	<b>19.2</b>	
17. Government capital transfers	4.1	0.0	15.6	0.0	2.2	0.0	0.2	0.0	0.5	0.0	
18. Other sectors transfers	15.0	30.0	14.0	27.4	11.7	37.5	18.7	35.8	18.8	19.2	
<b>E. Financial Account</b>	<b>1644.2</b>	<b>1415.8</b>	<b>2432.8</b>	<b>2113.6</b>	<b>3679.9</b>	<b>2884.8</b>	<b>3375.1</b>	<b>2232.3</b>	<b>3540.7</b>	<b>2796.0</b>	
19. Direct Investment	523.7	94.9	455.8	74.0	613.9	89.0	478.8	73.9	720.7	116.3	
20. Other Investment	965.1	1299.1	1975.7	1515.9	3065.8	1930.2	2637.8	2138.6	2371.2	2663.5	
20.1 Trade credits	271.2	241.9	415.6	405.5	379.8	422.7	392.5	384.4	108.0	97.5	
20.2 Loans	238.8	617.3	873.2	407.9	1436.9	688.4	953.5	853.9	650.2	711.5	
20.2.1 Government	48.1	379.5	667.7	284.0	950.1	296.7	559.1	482.0	113.4	477.1	
20.2.2 Other sectors	190.7	237.8	205.5	123.9	486.8	391.7	394.4	371.9	536.8	234.4	
20.3 Currency & Deposits	351.8	435.3	593.1	631.5	1089.8	778.4	1071.2	547.9	735.8	748.1	
20.4 Other Assets	103.3	4.6	93.8	71.0	159.3	40.7	220.6	352.4	877.2	1106.4	
21. Reserves	155.4	21.8	1.3	523.7	0.2	865.6	258.5	19.8	448.8	16.2	
21.1 Liabilities	0.0	21.8	0.0	23.1	0.0	20.2	0.0	19.8	0.0	14.7	
21.2 Assets	155.4	0.0	1.3	500.6	0.2	845.4	258.5	0.0	448.8	1.5	
21.2.2 Special drawing rights	0.0	0.0	0.6	0.0	0.0	1.4	0.8	0.0	0.6	0.0	
21.2.4 Bank of Jamaica	154.9	0.0	0.0	500.6	0.0	844.0	257.6	0.0	448.2	0.0	
21.2.5 Government Assets	0.5	0.0	0.7	0.0	0.2	0.0	0.1	0.0	0.0	1.5	
<b>F Net errors &amp; omissions</b>	<b>0.0</b>	<b>1.2</b>	<b>46.0</b>	<b>0.0</b>	<b>0.0</b>	<b>14.2</b>	<b>0.0</b>	<b>51.5</b>	<b>16.7</b>	<b>0.0</b>	

Source: Bank of Jamaica

**Table iii**

<b>BALANCE OF PAYMENTS ANALYTIC SUMMARY</b>					
<b>In Millions of US Dollars</b>					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Balance of Trade	-1186.5	-1441.5	-1618.2	-1870.5	-1943.8
Services	655.4	603.2	383.1	314.7	564.7
Net Goods & Services	-531.1	-838.3	-1235.1	-1555.8	-1379.1
Income	-332.5	-349.9	-437.8	-605.5	-571.4
Private Current transfers (net)	601.5	672.9	795.9	979.3	1083.9
Official current transfers (net)	45.8	147.9	119.7	107.6	105.2
Capital Transfers	13.1	2.2	-23.6	-16.9	0.1
Financial Account	203.2	365.2	780.9	1091.3	761.3
Net errors & omissions	-41.3	46.0	-14.2	-51.5	16.7

Source: Bank of Jamaica

**Table iv**

<b>Selected Balance of Payments Indicators</b>			
	2001	2002	2003
Current Account/GDP	-9.3	-12.7	-9.4
NIR	1840.7	1597.0	1165.0
Gross Reserves	1903.3	1643.1	1196.3
Gross Foreign Liabilities	62.6	46.1	31.3
Gross Reserves in Wks of Imports of Goods and Services	21.6	17.9	12.7
Goods Import /GDP	37.9	37.7	40.9
Goods & Services Import /GDP	56.6	56.6	60.1
Goods Export/GDP	17.9	15.5	17.0
Goods & Services Export/GDP	41.3	38.2	43.2
Merchandise Trade /GDP	55.8	53.2	57.9
FDI/GDP	7.6	5.7	8.9
Debt Service /Exports	43.6	62.7	59.0
Private Remittances/GDP	11.9	14.5	17.4

Table V

<b>SERVICES ACCOUNT</b>					
In Millions of US Dollars					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>Services (Net)</b>	<b>655.4</b>	<b>603.2</b>	<b>383.1</b>	<b>314.7</b>	<b>564.7</b>
<b>Inflows</b>	<b>1978.4</b>	<b>2025.7</b>	<b>1897.0</b>	<b>1912.2</b>	<b>2131.6</b>
<b>Outflows</b>	<b>1323.0</b>	<b>1422.5</b>	<b>1513.9</b>	<b>1597.5</b>	<b>1566.9</b>
<b>1. Transportation</b>	<b>-233.6</b>	<b>-256.6</b>	<b>-256.2</b>	<b>-245.6</b>	<b>-209.5</b>
Inflows	300.3	328.6	350.5	368.7	470.7
Outflows	533.9	585.2	606.7	614.3	680.2
<b>2. Travel</b>	<b>1052.4</b>	<b>1123.9</b>	<b>1026.2</b>	<b>950.3</b>	<b>1102.7</b>
Inflows	1279.6	1332.6	1232.2	1208.7	1355.1
Outflows	227.2	208.7	206.0	258.4	252.4
<b>3. Other Services</b>	<b>-163.4</b>	<b>-264.1</b>	<b>-386.9</b>	<b>-390.0</b>	<b>-328.5</b>
Inflows	398.5	364.5	314.3	334.8	305.8
Outflows	561.9	628.6	701.2	724.8	634.3

Source: Bank of Jamaica

Table vi

<b>OTHER SERVICES</b>					
In Millions of US Dollars					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>Inflows</b>	<b>398.5</b>	<b>364.5</b>	<b>314.3</b>	<b>334.8</b>	<b>305.8</b>
Construction services	0.0	0.0	0.0	0.0	0.0
Communication services	275.0	209.4	164.7	171.1	142.8
Insurance Services	6.4	12.1	11.9	15.4	7.1
Financial Services	11.3	12.6	15.8	22.4	26.3
Computer & Information Services	40.0	40.4	36.6	34.1	36.0
Royalties & license fees	6.2	6.4	5.9	6.1	12.0
Other Business Services	20.7	36.4	40.7	45.2	26.4
Personal, cultural & recreational services	9.7	9.6	9.0	9.2	20.4
Government services	29.2	37.6	29.7	31.3	34.8
<b>Outflows</b>	<b>561.9</b>	<b>628.6</b>	<b>701.2</b>	<b>724.8</b>	<b>634.3</b>
Construction services	7.5	10.2	10.0	5.9	4.8
Communication services	42.4	31.8	50.1	52.9	44.4
Insurance Services	56.2	87.2	94.1	118.4	97.1
Financial Services	3.5	18.4	29.7	17.7	6.8
Computer & Information Services	5.9	7.1	13.8	11.6	20.4
Royalties & license fees	40.5	41.0	38.3	32.1	10.8
Other Business Services	365.6	396.8	427.2	436.4	408.0
Personal, cultural & recreational services	3.7	4.1	4.0	4.0	2.4
Government services	36.6	32.0	34.0	45.8	39.6
<b>Net services</b>	<b>-163.4</b>	<b>-264.1</b>	<b>-386.9</b>	<b>-390.0</b>	<b>-328.5</b>

Source: Bank of Jamaica

Table vii

<b>INCOME ACCOUNT</b>					
<b>In Millions of US Dollars</b>					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>A. Compensation of Employees</b>	<b>70.3</b>	<b>67.4</b>	<b>74.6</b>	<b>82.1</b>	<b>70.7</b>
Inflows	94.0	88.2	106.7	111.0	110.1
Outflows	23.7	20.8	32.1	28.9	39.4
<b>B. Investment Income</b>	<b>-402.8</b>	<b>-417.3</b>	<b>-512.4</b>	<b>-687.6</b>	<b>-642.1</b>
Inflows	71.8	104.9	111.5	109.8	107.5
Direct Investment	8.1	8.5	5.7	17.2	8.4
Portfolio Investment	2.6	2.7	5.3	12.4	14.8
Other Investment	61.1	93.7	100.5	80.2	84.3
- Central Government	0.0	0.0	0.0	0.0	1.2
- Bank of Jamaica	33.1	47.8	63.0	58.6	37.5
- Other	28.0	45.9	37.5	21.6	45.6
Outflows	<b>474.6</b>	<b>522.2</b>	<b>623.9</b>	<b>797.4</b>	<b>749.6</b>
Direct Investment	228.0	289.9	300.8	434.3	326.3
Portfolio Investment	8.4	7.6	6.7	9.0	25.2
Other Investment	238.2	224.7	316.4	354.1	398.1
- Central Government	169.6	153.0	266.3	286.3	308.5
- Bank of Jamaica	7.3	6.5	5.2	2.7	1.1
- Government Guaranteed	8.5	9.5	4.0	2.2	2.1
- Other	52.8	55.7	40.9	62.9	86.4

Source: Bank of Jamaica

Table viii

<b>CURRENT TRANSFERS</b>					
<b>In Millions of US Dollars</b>					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>Total Receipts</b>	<b>757.9</b>	<b>969.4</b>	<b>1092.2</b>	<b>1337.9</b>	<b>1523.5</b>
<b>A. General Government</b>	<b>53.5</b>	<b>155.1</b>	<b>126.3</b>	<b>115.1</b>	<b>110.0</b>
<b>B. Other Sectors</b>	<b>704.4</b>	<b>814.3</b>	<b>965.9</b>	<b>1222.8</b>	<b>1413.5</b>
Remittance thru' Postal System	1.2	1.2	1.2	0.7	1.2
Remittance thru' Financial system	322.8	334.6	372.5	508.6	591.3
Remittance companies	357.0	453.7	566.4	621.3	677
Other	23.4	24.8	25.8	92.2	144
<b>Total Payments</b>	<b>110.6</b>	<b>148.6</b>	<b>176.6</b>	<b>251.0</b>	<b>334.4</b>
<b>A. General Government</b>	<b>7.7</b>	<b>7.2</b>	<b>6.6</b>	<b>7.5</b>	<b>4.8</b>
<b>B. Other Sectors</b>	<b>102.9</b>	<b>141.4</b>	<b>170.0</b>	<b>243.5</b>	<b>329.6</b>
Remittance thru' Financial System	95.8	131.2	147.3	215.7	282.8
Other	7.1	10.2	22.7	27.8	46.8
<b>Net Current Transfers</b>	<b>647.3</b>	<b>820.8</b>	<b>915.6</b>	<b>1086.9</b>	<b>1189.1</b>

Source: Bank of Jamaica

Table ix

<b>CAPITAL &amp; FINANCIAL ACCOUNT</b>					
<b>In Millions of US Dollars</b>					
	1999	2000	2001 <sup>1/</sup>	2002 <sup>1/</sup>	2003 <sup>2/</sup>
CAPITAL ACCOUNT	13.1	2.2	-23.6	-16.9	0.1
CAPITAL TRANSFERS	13.1	2.2	-23.6	-16.9	-0.3
GENERAL GOVERNMENT	4.1	15.6	2.2	0.2	0.1
INFLOWS	4.1	15.6	2.2	0.2	0.1
OUTFLOWS	0	0	0	0	0
OTHER SECTORS	9	-13.4	-25.8	-17.1	-0.4
INFLOWS	15	14	11.7	18.7	18.8
OUTFLOWS	6	27.4	37.5	35.8	19.2
ACQ./DISP. OF NON-PROD. NON-FIN. ASSETS	0	0	0	0	0.4
INFLOWS	0	0	0	0	0.4
OUTFLOWS	0	0	0	0	0
B. FINANCIAL ACCOUNT	203.2	365.2	780.9	1091.3	761.3
OTHER OFFICIAL INVESTMENTS	-331.4	383.7	653.4	77.1	-363.8
OTHER PRIVATE INVESTMENTS <sup>3/</sup>	401	503.9	992.9	775.5	692.5
RESERVES	133.6	-522.4	-865.4	238.7	432.6

1/ Revised

2/ Provisional

3/ Includes net errors &amp; omissions

Source: Bank of Jamaica