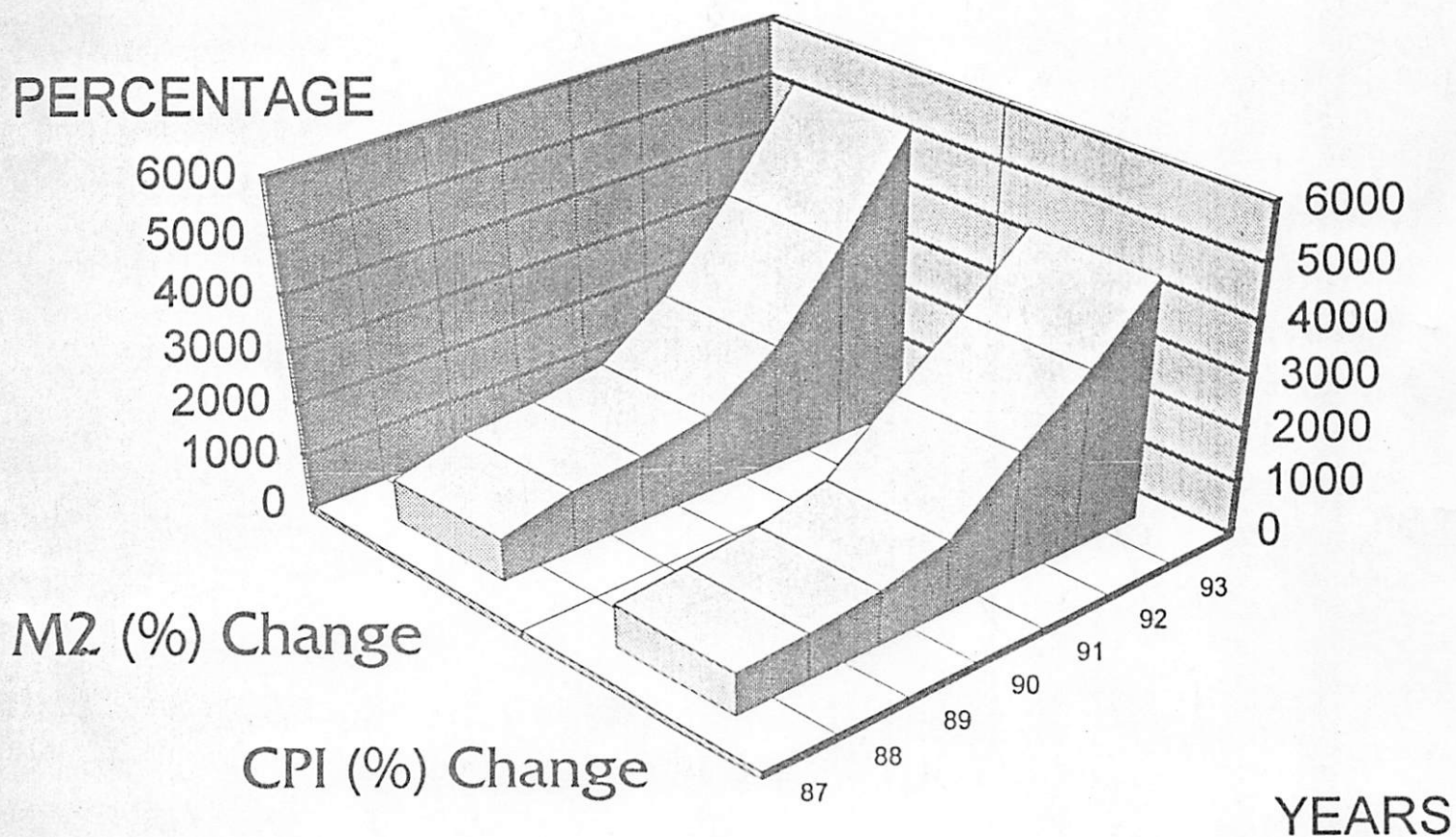




THE PRIVATE SECTOR
ORGANISATION OF JAMAICA

Broad Money (M2) & CPI vs Time

Cumulative Growth 1987 - 1993



**1993 Annual Report
on the Jamaican
Economy**

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THE PRIVATE SECTOR
ORGANISATION OF JAMAICA

ANNUAL
REPORT
ON THE
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Overview of Annual Economic Report 1993

The year 1993 was an election year, with general elections being held on March 30 and this was probably the single most significant event of the year. The relaxation in monetary policy which started in the fourth quarter of 1992 was continued into the first half of 1993. At the beginning of 1993 fiscal policy was also further relaxed by the lowering of individual income tax rates from 33 1/3% to 25% and a raising of the threshold to just over \$18,000.00. The general level of import duties were lowered with the introduction of the CARICOM Common External Tariff and the duties on motor vehicles were also lowered significantly. This latter initiative was also accompanied by a further liberalization of the import licensing regime with regard to the importation of motor vehicles. Fiscal policy was further complicated by a number of huge wage increases which were granted to a number of large groups of public sector workers.

As a consequence of all this, consumption increased dramatically. Imports grew by over 25%, the trade gap widened to about US\$1 billion with imports equalling approximately twice the value of merchandise exports, which grew by only 2%. The current account once again turned negative and the rate of improvement of the net international reserves of the Bank of Jamaica slowed considerably from the pace established in 1992.

Early 1993 saw the boom in the local stock market continuing with the market peaking in late January/early February. However, for the remainder of the year, the market fell almost continually and by

year-end had lost over 50% of its peak value.

Despite our many years in IMF structural adjustment programmes, the central problem of the economy, namely the monetization of the government's fiscal deficit by borrowing from the Bank of Jamaica, has not yet been resolved. 1993 provided the most dramatic example of this when in January the Bank of Jamaica advanced approximately J\$7 billion to the government. Between January and July the bank advanced another J\$2 billion which took the total advances to the government from about J\$20 billion in December 1992 to just under J\$29 billion in July 1993.

The 1993/94 fiscal budget which was presented in June sought to reverse the policy position which had been in place since late 1992. A large tax package was introduced to tighten fiscal policy, interest rates were raised and monetary policy tightened considerably and the exchange rate was floated again as the fixed rate of J\$22.00 to US\$1.00 was abandoned and the inter-bank market was allowed to set the exchange rate. Another important initiative which was incorporated into the budget was the provision for the central government to begin the repayment of the Bank of Jamaica's accumulated losses with marketable interest-bearing financial instruments. This is important because it means that the government has at last accepted that the losses which the bank incurs in purchasing foreign exchange to service external debt on behalf of the government and its agencies and in carrying out open market operations by issuing certificates of deposits, are indeed for the government's account. While it is preferable that

Overview of Annual Economic Report 1993 cont'd.

repayment should be in cash, at least the bank now has marketable instruments which are a direct liability on the central government, which it can sell and re-purchase, as part of its open market operations.

Despite all this, in 1993, the rate of growth of money supply remained substantially out of control, with the out-turn being 41% for narrow money and 42% for broad money. In the first half of the year, credit to the private sector was the major factor behind the growth of money supply while in the second half of the year, credit to the public sector was the leading factor.

The second half of the year saw a dramatic increase in both deposit and lending rates, a decline in the value of the Jamaican dollar, increased inflows of hard currency into the inter-bank trading system and a somewhat slower rate of growth of the money supply. The inflation rate also picked up during this period and has remained high into early 1994, with monthly inflation for January and February 1994 being 2.4% and 3% respectively.

OUTLOOK

The outlook for the economy remains as it has been in the recent past, closely tied to government's macro economic policy. A sudden shift in the short-term is unlikely and one can therefore expect the present policy framework to continue in place for most of 1994, with at best a gradual softening of the stifling reliance on monetary policy as a tool of stabilisation.

Consequently, we can expect consumption to fall as the combination of exchange rate depreciation and

interest rate increases take effect. Unfortunately, investment is also likely to be weak as high lending rates and a depressed stock market raise the cost of capital. Gross Domestic Product in 1994 is therefore likely to grow only marginally if at all and may well register an overall decline. Inflation on the other hand is likely to remain high (20-25% for 1994) as there are no signs that the growth of money supply has been effectively checked.

There are therefore two major macro-economic policy issues which the government must deal with effectively, the reduction of inflation and the creation of an economic environment which will foster sustainable economic growth.

Both of these issues are inextricably linked to the fiscal policy and the financing of government's inter-quarter deficits by borrowing from the Bank of Jamaica. As long as money continues to be created in this way, the growth of the money supply cannot be checked effectively. Inflation will therefore continue to be high. Additionally, there will continue to be heavy reliance on monetary policy to compensate for the looseness in fiscal policy. Interest rates will continue to be high, the capital market will continue to be depressed and investment will continue to be weak. Without adequate investment economic growth will be weak or non-existent and living standards will continue to decline.

This issue is at the centre of the current debate regarding the independence of the Bank of Jamaica. Unless it is adequately addressed in the proposals which are eventually adopted, the medium term prognosis for the Jamaican economy will remain rather bleak.

The World Economic Environment

INTERNATIONAL ECONOMIC PERFORMANCE

In 1993, the world economy was projected to grow by 3.1 percent with growth in the industrial countries estimated at 1.3 percent after modest performance in 1992. Stronger growth of 6.1 percent was forecast for the developing countries in Asia, the Western Hemisphere, the Middle East and Europe. Forecasts that there will be a resumption of stronger growth in 1994 are still tentative.

The IMF reported that Economic recovery in some of the Central European countries in transition to market economies provides encouraging evidence of the progress that can be achieved with sustained stabilization and reform efforts. However, high inflation levels and excessive budget deficits, excess demand pressures, and worsening poverty in others threaten to prolong economic crisis.

The commodity price for oil in U.S. dollars a barrel (that is the simple average of the U.S. dollar spot prices of U.K. Brent, Dubai, and Alaska North Slope crude oil) which was US\$18.22/barrel in 1992, fell to US\$16.68/barrel in 1993, but is projected to rise to US\$17.23/barrel in 1994.

Figure 2.1

GROWTH OF WORLD REAL GDP 1981-1993

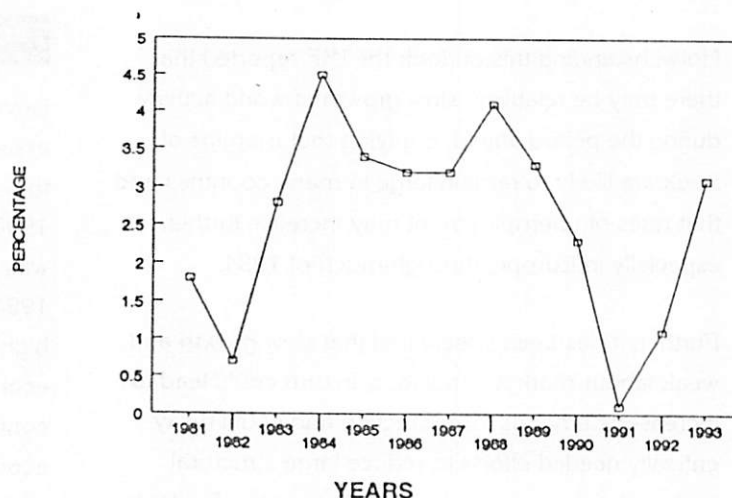
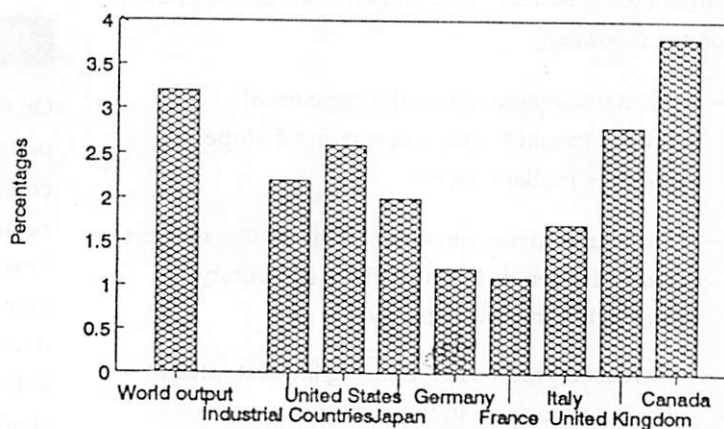


Figure 2.2

OUTPUT FOR THE WORLD AND SELECTED COUNTRIES FOR 1994



In industrial countries, inflation reached 3.0 percent in 1993, and is expected to slow to 2.7 percent in 1994, while the comparative figures in developing countries were 43.8 percent and 34.7 percent respectively.

Notwithstanding this outlook the IMF reported that there may be relatively slow growth of world activity during the period ahead, implying that margins of slack are likely to remain large in many countries and that rates of unemployment may increase further, especially in Europe, through much of 1994.

Further, it has been speculated that slow growth and weak labour market conditions, in turn could lead to increased demands for protection and could delay critically needed efforts to reduce large structural budget deficits in many industrial countries. Evidently, these risks could create additional uncertainty in 1994.

Given this backdrop of near-term uncertainties, it is being advised that we approach 1994 with cautious optimism that global economic performance will strengthen gradually. This outcome will be dependent on the following:

- substantial reduction in the large fiscal imbalances in North America and Europe over the medium term;
- continued success in containing inflation in most industrial countries through the temporary support of monetary policy;
- increased progress in reducing interest rates to levels appropriate to the weak economic conditions of some of the countries participating in the European exchange rate mechanism;
- the implementation of a global cooperative effort to bolster confidence and strengthen prospects

for a durable, non-inflationary world expansion, based on the IMF's "Declaration on Cooperation for Sustained Global Expansion" in April 1993.

DEVELOPING COUNTRIES

Developing countries experienced rapid economic expansion in 1993, with aggregate output increasing to 6 percent and projected to reach 5 1/2 percent in 1994. The level of imports by developing countries was projected to rise by 9 percent in both 1993 and 1994, 1 percent below the 1992 level. These statistics highlight the significance of these countries to global economic prosperity especially in view of the continuing recessionary conditions in some industrial economies. However, this is not representative of the performance of many developing countries, instead there is a growing number of developing countries which contrast sharply with the more successful countries. Data has shown that per capita real incomes have continued to fall and are now lower than they were one or even two decades ago.

THE NEWLY INDUSTRIALIZING ECONOMIES - ASIA

On the other hand the impressive economic performance of the most successful developing countries - namely the newly industrializing economies in Asia, South Korea, Hong Kong, Taiwan Province of China, and Singapore - stand out as particularly successful examples of outward-oriented developing strategies. While, more recently, Indonesia, Malaysia and Thailand have undertaken significant structural reforms that have boosted economic growth, the improved flexibility of markets has also enabled them to better withstand external shocks, such as the recent slowdown in global activity.

The World Economic Environment cont'd.

LATIN AMERICA

In Latin America, many countries including Chile and Mexico, and more recently Argentina, have achieved a reduction in inflation and more rapid growth in recent years following significant changes in their economic policies that have increased the role of market forces, opened their economies to foreign competition, and led to the privatization of state-owned enterprises.

In general, the overall success of these countries, illustrates both the longer-term benefits of sustained stabilization and reform efforts and the scope for growth to recover when the necessary reforms and a stable macroeconomic environment are in place. In all cases, market forces have increasingly been allowed to allocate resources efficiently, through the following:

- price liberalization
- financial market reforms
- outward-oriented trade policies
- exchange market unification and convertibility.

The IMF noted that the benefits of improved incentive structures have in turn been reinforced by the maintenance or restoration of a stable macro-economic environment characterized by low fiscal deficits, moderate rates of inflation, positive but low real interest rates, viable external positions, and competitive and stable exchange rates.

Table 2.1
WORLD ECONOMIC OUTLOOK

	1991	1992	1993	PROJEC- TION 1994
World output	0.6	1.7	2.2	3.2
Industrial Countries	0.5	1.7	1.1	2.2
United States	-0.7	2.6	2.7	2.6
Japan	4.0	1.3	-0.1	2.0
Germany	1.7	1.9	-1.6	1.2
France	0.7	1.4	-1.0	1.1
Italy	1.3	0.9	0.3	1.7
United Kingdom	-2.2	-0.5	1.8	2.8
Canada	-1.7	0.7	2.6	3.8
European Community	0.8	1.1	-0.2	1.6
West Germany	4.5	1.6	-2.2	0.8
Developing Countries	4.5	5.8	6.1	5.5
Jamaica	0.3	1.2	-1 to +1	2.0
Former U.S.S.R.	-11.8	-17.8	-13.7	-2.4
World Trade Volume	2.4	4.6	3.0	5.0
Industrial country import volume	2.5	3.7	1.2	3.4
Developing country import volume	9.7	10.5	9.3	9.1
Commodity Price (in U.S. dollars)				
Oil	-17.0	-0.5	-8.4	3.3
In U.S. dollars a barrel	18.30	18.22	16.68	17.23
Non-fuel	-4.5	-0.2	-2.5	3.9
Inflation				
Consumer Prices				
Industrial countries	4.6	3.3	3.0	2.7
Developing countries	35.7	38.8	43.8	34.7
Countries in Transition	103.2	786.0	581.5	138.1
Central Europe	119.3	162.2	142.1	79.6
Former U.S.S.R.	98.1	1284.6	940.6	170.0
Six-month LIBOR (in percent)				
On U.S. Dollar Deposits	6.1	3.9	3.5	4.1
On Japanese Yen Deposits	7.2	4.3	3.2	3.3
On Deutsche Mark Deposits	9.4	9.4	7.0	5.4

Gross Domestic Product

The Jamaican economy, during 1993, experienced mixed outcomes in sectoral performances and as a result, it is estimated that real Gross Domestic Product should experience growth of between -1.0 to 1.5% in 1993. For 1994, real Gross Domestic Product is expected to show no growth over 1993 at the optimistic end, and a 2 percent decline at the pessimistic end. If the high interest rate policy persists for most of 1994 a significant contraction in investment will occur, particularly in manufacturing and construction sectors, which in recent years have accounted for approximately one-third of Gross Domestic Product. The full effects of the

retrenchment in investments would be felt after 1994 due to the lag effect of investment on Gross Domestic Product.

Indicators of mining, manufacturing and related industrial activities point to generally weak to declining performances from those sectors, while indicators of both local and export agricultural production as well as of tourism activity suggest improved performances. Although the financial and commercial sectors operated under generally tight conditions during the year - they exhibited some level of resilience which indicates a positive out-turn for the year.

Table 3.1
DATA USED TO SUPPORT TRADE DATA FORECASTS

Variable	PROJECTIONS		1993 Volume (mil)	1993 Value (mil)
	1994 Volume (mil)	1994 Value (mil)		
Bauxite Production	10.97 tons	-	11.22 tons	-
Alumina Exports	3.00 tons	-	2.98 tons	-
TOTAL:	13.97 tons	US\$555.4	14.20 tons	US\$560
Sugar Exports	13,520 tons	US\$80	149,519 tons	US\$98
Banana Exports*	85,000 tons	-	36,917 tons	J\$440
Coffee Exports	809,139 kg.	-	809,139 kg.	J\$247
Total Imports	-	US\$1,500	-	US\$2,000
Total Exports	-	US\$1,000	-	US\$1,000
TRANSFERS:				
Private	-	US\$150	-	US\$124.8
Official	-	US\$50	-	US\$51.5
TOTAL	-	US\$200	-	US\$176.3

* This data is for one company: Banana Export Company

Gross Domestic Product cont'd.

On the demand side, indicators point to significant increases in private consumption throughout the year, which contributed to the adverse trade balance on the merchandise account. The significant rise in consumer imports contributed to the persistent depreciation of the local currency. Nonetheless, it is expected that increase in investment, private capital flows and export production could propel the economy to achieve between -1% to 1.5% growth for 1993.

Factors which significantly influenced economic activity during 1993 were:

1. A high rate of inflation in the latter part of 1993.
2. High interest rates.
3. Continued growth in Money supply.
4. The continuous depreciation of the value of the Jamaican dollar.
5. Excessive Government regulations and customs procedures.
6. Open market operations of the Central Bank.
7. Government's fiscal operation - deficit financing, wage related expenditures and increased taxation.
8. The overall negative reaction of the business sector to prevailing domestic environment.

For the period January-September 1993, the Agricultural Index was 6.8% higher than the corresponding period of 1992. This overall increase in production was due to increases in domestic and traditional crop production. For January to September 1993, total foreign exchange earnings amounted to US\$142.60 million compared with US\$134.12 million in the same period of 1992. Prices for local agricultural products showed significant increases of about 38.0% in 1993. In the CPI for 1993, agricultural products showed the largest percentage increase (67%).

During January-September 1993, the volume and value of non-traditional export crops (cucumbers, pumpkins, vegetables, dasheens, sweet potatoes, yams, fruits and cut flowers, foliage and live plants) declined by 9.9 percent and 10.6 percent respectively, compared with the same period of 1992. Foreign exchange earnings amounted to US\$4.5 million, 10.6 percent below the earnings for the corresponding 1992 quarter.

Traditional export crops showed that production rose by 65.1 percent compared with the corresponding quarter of 1992. This development was influenced by an increase in the total acreage of sugar-cane reaped as well as improved weather conditions.

SECTORAL PERFORMANCE

AGRICULTURE, FORESTRY AND FISHING

Agriculture, Forestry and Fishing is estimated to have grown by over 10% during 1993. The adverse weather conditions experienced over the earlier part of the year affected local and export crop production, but this was reversed as the year progressed.

MINING AND QUARRYING

The performance of the local bauxite/alumina industry, during 1993, continued to be adversely affected by relatively low international prices for aluminium, alumina and bauxite on the world commodity market. During the year the cash price for

Gross Domestic Product cont'd.

aluminium on the international market - London Metal Exchange - declined by 9.2 percent to reach US\$1,139 per tonne, compared to US\$1,254 in 1992.

For 1993, total bauxite production was 11,172,246 tonnes, or 1.64% less than in 1992. Crude bauxite and alumina exports showed mixed results, with bauxite declining by almost 7.0 percent to reach 3,845,379, while alumina shipments increased marginally by 0.6 percent in 1993, compared to 1992. The sector earned US\$527.94 in 1993 registering a 10.11% decline over 1992. However, net earnings increased marginally by 6.29% to US\$200.78 million.

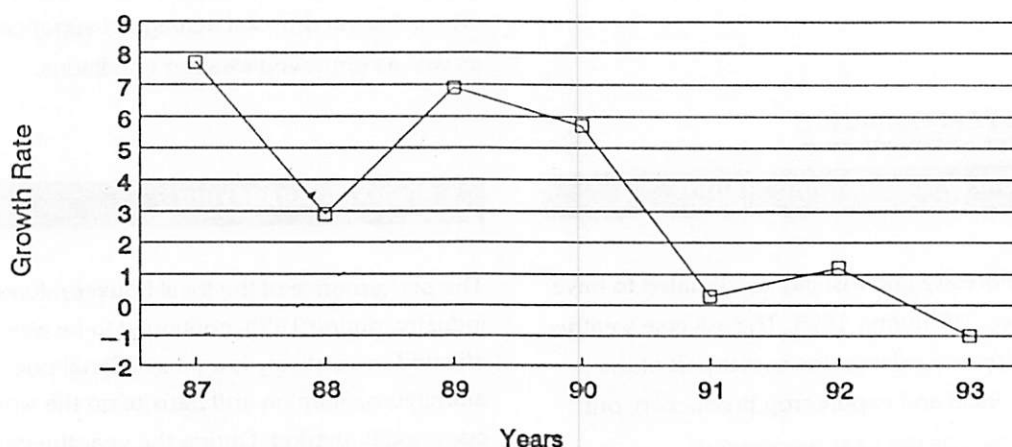
The other sub-sector - Quarrying - showed between 15% and 20% growth during the year, but is yet to significantly impact on the overall output of the sector.

CONSTRUCTION

The construction sector showed significant increase in activity during 1993. Two of the major indicators, housing starts and completion, showed growth in the year. Up to June 1993, Housing starts (3,064) and completions (5,062) grew by 77.7%, and 183.21% respectively, compared with the same period for 1992. This includes both public and private sector participation. Financial resources to the sector increased as indicated by commercial bank loans advances to the sector which rose by 17.6% at September 1993 over 1992. Loans to the sector from other financial institutions amounted to 21.1% of their total loan and advances portfolio.

During the year domestic production of some construction materials e.g. cement, steel and lumber, showed marginal increases in output over 1992 levels. However, the value of imported construction material rose during 1993, thereby filling the demand/supply gap.

Figure 3.1
JAMAICA: GROWTH IN REAL GDP (1987-92)



Gross Domestic Product cont'd.

THE MANUFACTURING SECTOR

During 1993, the manufacturing sector continued to exhibit an overall declining trend. Some sub-sectors remained buoyant and experienced impressive growth rates e.g. the garment sector, while the output of others showed marginal increases or declines.

Data for the period January to September 1993 indicated that manufacturing output declined by 1.4%, however, the total value of manufactured exports increased by 8.0% to reach US\$315.8 million, relative to the corresponding period in 1992. This performance was greatly influenced by growth in non-traditional goods, especially "miscellaneous manufactures" – apparel. The manufacturing sector continues to be traumatized by the tight demand management policies implemented over the past three years, substantial deterioration in the exchange rate and facets of fiscal policies which are repulsive to the sector. The cumulative effects of these is evidenced in the present level of output from the sector.

TOURISM

During the year, the Jamaica Tourist Board and other related agencies worked to improve the Tourism product via, among other things, Public Education Programmes, introduction of resort patrols, upgrading of plant and infrastructure and strengthening of international marketing. These served to enhance the good performance of the sector during 1993. Earnings amounted to about US\$950 million, an 11.8% increase over 1992. Visitor arrivals showed a 3.4% increase for 1992.

AGGREGATE DEMAND AND CONSUMPTION

There was a significant increase in both private and public consumption during 1993. Imports of consumer goods formed 18.5% of total imports up to September 1993, and showed a 45.7% increase over 1992 levels. Credit extended for consumption oriented purposes supported this trend as commercial bank credit to the consumer oriented group up to October 1993, showed a 117% increase over the same period for 1992. Aspects of fiscal and monetary policies implemented during the year, relating to imports in general and motor vehicle specifically, income tax laws, and wages and salary related payments as well as the continuous increases in money supply – all served to foster increased consumerism in the economy.

Balance of Payments

During 1993, Jamaica continued its economic stabilization programme under the IMF Extended Fund Facility within the context of a liberalized economy. The policies implemented were not directly focused on Balance of Payments management, but to a greater extent were centered around the stability of the exchange rate and the improvement of the country's Net International Reserve position. However, these policies directly affected the outcome on the balance of payments.

The balance of payments for 1993, has to be viewed as having been influenced by two sets of policies.

In the first half of 1993, there was the contesting of a general election which gave rise to a deviation in the level of adherence to stabilization policies. Among others, interest rates were lowered, taxation measures were relaxed and generous wage increases granted. These measures served to increase demand and in the context of declining national output, imports increased, aggravating the balance of payments. By July, the trade gap had risen to US\$547.7 million while inflation rose by 4.1% in that month.

This situation prompted a return in the second half of the year to the implementation of policies for re-

Table 4.1

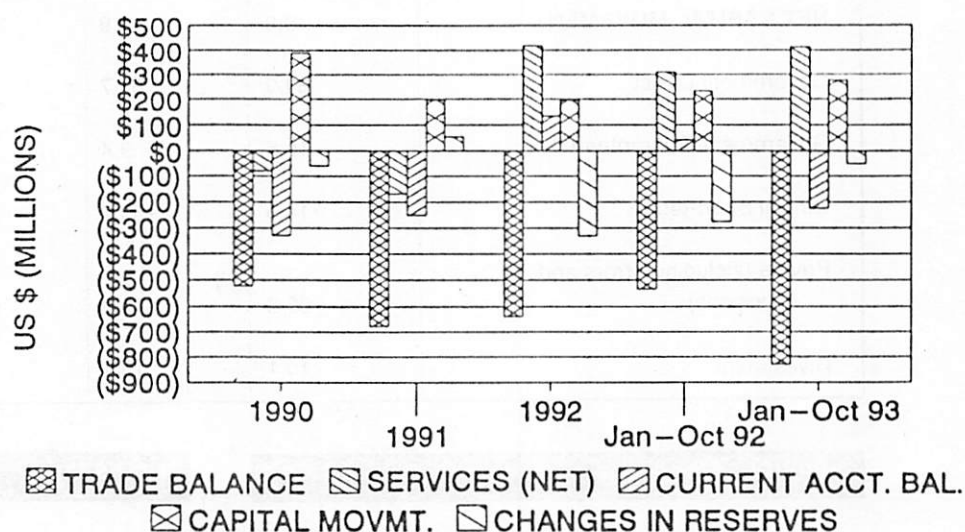
BALANCE OF PAYMENTS 1990-1993 (US\$M)

	1990	1991	1992	Jan-Oct 1992	Jan-Oct 1993
Merchandise					
Exports (fob)	1157.5	1150.7	1052.8	889.6	912.6
Imports (cif)	1679.6	1828.6	1692.8	1422.9	1742.9
Balance of Trade	-522.1	-677.9	-640.0	-533.3	-830.3
Services (Net)	-79.3	-169.3	417.2	309.1	411.6
Foreign Travel	686.3	710.4	818.5	640.5	735.6
Investment Income	-517.1	-478.9	-348.2	-287.0	-284.0
Others	-246.5	-62.2	-53.1	-44.4	40.4
Goods and Services (Net)	-599.4	-508.6	-222.8	-224.2	-418.7
Transfers (Net)	271.4	256.4	356.8	266.9	194.7
Private	155.4	153.3	248.2	199.4	135.2
Official	116.0	103.1	108.6	67.5	59.5
Current Account Balance	-328.0	-252.2	134.0	42.7	-224.0
Capital Movement (Net)	387.6	198.2	196.3	233.9	275.2
Private	291.7	99.0	205.3	275.0	279.2
Official	95.9	99.2	-9.0	-21.3	-7.9
Gov't Direct				0.3	4.3
Gov't Guaranteed				-29.9	-0.4
Divestment				9.8	0.0
Change in Reserves (minus = increase)	-59.6	54.0	-330.2	-276.6	-51.2

Source: Bank of Jamaica

Balance of Payments cont'd.

Figure 4.1

BALANCE OF PAYMENTS 1990-1993
US \$ (Millions)

aligning and stabilizing the economy. The focus was then on demand management, on inflation control and foreign exchange stability through increased interest rates and the aggressive enforcement of liquidity requirements. These policies were not conducive to expanding the productive base or supply side of the economy, so, coupled with the continuous increases in the money supply and the pursuance of fiscal policies which fueled increased demand, the outcomes for the year were, high levels of importation and a deteriorating trade balance.

MERCHANDISE TRADE

The data up to October 1993, shows Jamaica's merchandise exports at US\$912.6 million, a 2.6% increase over exports for the same period in 1992. Merchandise imports however, which were at US\$1422.9 million in October 1992, showed a 22.5% increase to reach US\$1742.9 million in October 1993. This significant rise in imports was mainly responsible for the widening of the trade gap to US\$830.3 million, which is US\$297.0 million more than in October 1992, and is the largest since 1989. The estimated trade deficit for 1993 is US\$1.0 billion - implying import levels of approximately twice that of exports.

Balance of Payments cont'd.

Table 4.2 CAPITAL ACCOUNT					
	1991		1992		1993
	Jan-Sept	Jan-Dec	Jan-Sept	Jan-Dec	Jan-Oct
NET CAPITAL MOVEMENT	-9.8	-1.9	153.8	290.6	275.2
Government Direct	33.9	66.7	11.9	-9.0	4.3
Government Guaranteed	16.5	9.4	-26.2	0.0	-0.4
Official Short-term	-14.5	-38.7	-29.0	0.0	-7.9
Private (including errors and omissions)	-60.8	-54.4	187.3	299.6	279.2
Divestment	15.1	15.1	9.8	0.0	0.0

SERVICES

The services account maintained a favourable balance amounting to US\$411.6 million in October 1993, an increase of US\$102.5 million over October 1992. The increase embodies a 14.8% increase in foreign travel – mainly tourism receipts, a 1% decrease in investment income payments and a 9% decrease in "Other Services".

The decrease in investment income payments resulted mainly from lower levels of interest payments on debts, and the increase in net foreign travel receipts reflected the continued buoyancy of the tourism sector as it maintains its position as the country's major foreign exchange earner.

TRANSFERS

Net transfers at October 1993, showed a US\$72.2 million or 27.1% decline over the October 1992 figure of US\$266.9 million. Contributing to this decline was a US\$64.2 million fall in net private inflows and a US\$8.0 million decline in official inflows in the form of loans, grants, etc.

THE CURRENT ACCOUNT AND FOREIGN RESERVES

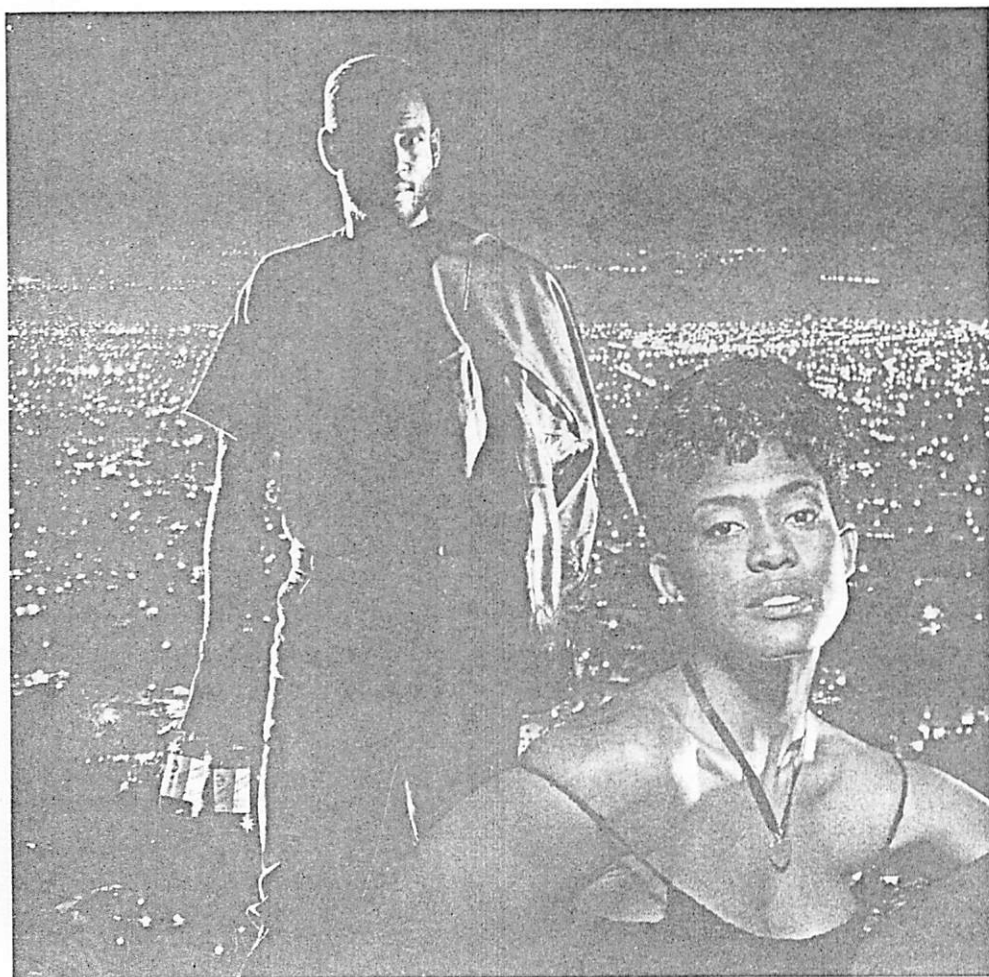
The balance on the current account at October 1993 was US\$-224.0 million and in essence indicates that the positive balances of US\$411.6 million and US\$194.7 million on the "Services" and "Transfer" accounts respectively were insufficient to write off the huge US\$-830.3 million merchandise trade deficit. The 1993 current account deficit equates to a US\$266.7 million deterioration in the account – comparing the surplus in October 1992 with the large deficit in the same month in 1993.

Balance of Payments cont'd.

Activities below the line show that the net results from loan, receipts and other assistance against repayment on direct and guaranteed debts was US\$-4.0 million. However, as a continued spin-off of the liberalization of the foreign exchange market, private inflows rose significantly amounting to US\$279.2 million. This enabled the overall reserve position of the Bank of Jamaica to improve by US\$51.2 million.

OUTLOOK

While the early trend in imports and exports is likely to continue with little moderation through to the end of the year, if the strong private inflows continue, there should not be a significant further deterioration in the rate of improvement of the Bank of Jamaica's Net International Reserves (NIR) position. In December, the Government secured a US\$50 million loan which had the effect of increasing the Net International Reserves position of the Bank of Jamaica by approximately US\$46 million in the last quarter to achieve a positive balance of US\$12.5 million at the end of 1993.



**Right Time.
Right Place.
Right Beer.**



External Trade

The deficit on the Merchandise Trade Account up to October 1993 was US\$830.3 million compared with US\$533.3 million for the comparable period in 1992. This reflected expenditure of US\$1742.9 million on merchandise imports and earnings of US\$912.3 million from merchandise exports. For the ten months of 1993 imports increased by US\$320.0 million or 22.5% while exports rose by US\$23.0 million or 2.5% when compared with the similar period in 1992. The projected trade figures for 1993, show imports approximately twice the value of exports and a trade deficit of about J\$1.0 billion.

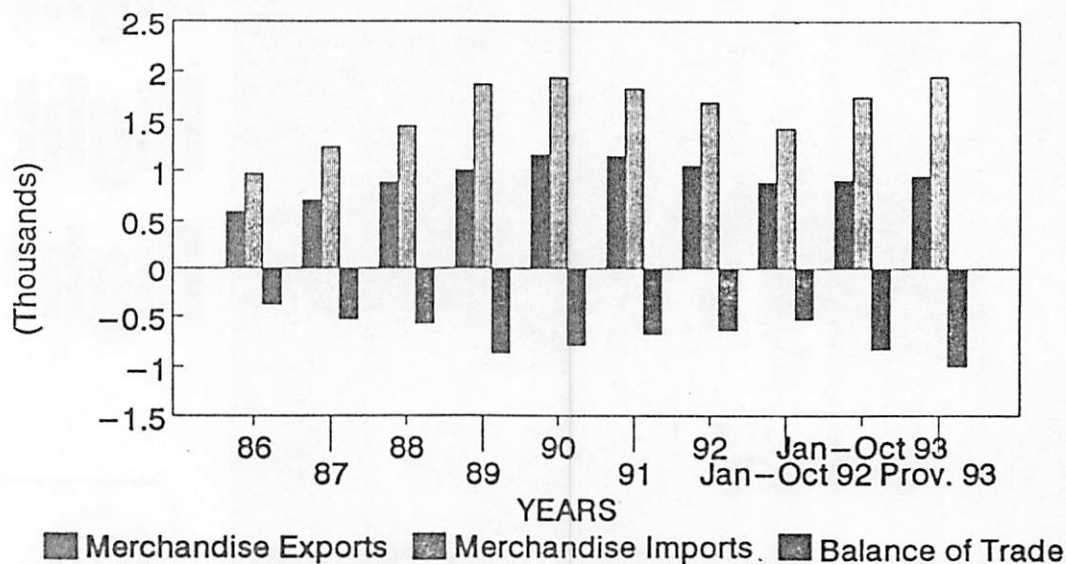
An analysis of the trend in merchandise trade for the

years 1986–1993 shows imports, exports and the trade gap increasing between 1986 and 1990 (the exception being the trade gap declining in 1990). However, for 1991 and 1992, exports, imports and the trade gap all declined, imports at a greater rate than exports thereby supporting a narrowing of the trade deficit.

The ten month 1993 merchandise trade figures so far, show the beginning of another increasing trend. Imports for 1993 rose significantly, and exports marginally, giving rise to a widening of the trade deficit. The year so far has seen the highest monthly

Figure 5.1

JAMAICA'S EXTERNAL TRADE BALANCE 1986–1993



External Trade cont'd.

Table 5.1
JAMAICA'S EXTERNAL TRADE BALANCE 1986-1993 (US\$Mn)

	1986	1987	1988	1989	1990	1991	1992	Jan- Oct '92	Jan- Oct '93	Prov. 93
Merchandise Exports	591.1	709.3	883.0	1004.4	1157.5	1150.7	1052.8	889.6	912.6	950.0
Merchandise Imports (cif)	969.1	1234.3	1449.4	1873.3	1942.1	1828.6	1692.8	1422.9	1742.9	1950.0
Balance of Trade	-378.0	525.5	-566.4	-868.9	-784.9	-667.9	-640.0	-533.3	-830.3	-1000.

Source: Economic and social Survey of Jamaica

level of imports in thirty months US\$211.1 million in July, US\$213 million in September, and the widest monthly trade gap in three years i.e. US\$141 million in September.

The country's trade performance during 1993, was influenced by certain economic and trade related developments in the domestic and international economy. Some of the internal factors were:

1. MONETARY POLICY

- (a) Consistent increases in money supply throughout 1993.
- (b) Decline in interest rates late 1992 into mid 1993.
- (c) Increased credit to the private sector.

2. FISCAL POLICY

- (a) Implementation of the CET in February 1993, effecting reduced tariff rates on some imports.
- (b) Granting of tax concessions including lower import duties on motor vehicles as well as the implementation of other trade

liberalization policies e.g. easier licensing mechanisms and regulations.

- (c) Lowering of the tax rate and increasing the tax threshold to PAYE contributors, as well as the granting of significant wage increases to sectors of the Government Services.

SOME EXTERNAL FACTORS

1. Lingering recession in some leading OECD countries with which Jamaica trades e.g. USA, UK, Canada.
2. Declining world price for alumina and bauxite, one of Jamaica's major exports and foreign exchange earners, due to continued high levels of primary alumina shipments and the dumping of Aluminium on the world market by the Commonwealth of Independent States (CIS) countries.
3. Changes in Trade agreements, and trade arrangements affecting the marketing of traditional crops e.g. banana and its earnings in the European Community as well as other non-traditional exports.

External Trade cont'd.

4. Movements in the value of currencies and changes in trade relationships in countries with which Jamaica trades led to fluctuating values for exports to those countries.

IMPORTS

Up to October 1993, total imports reached US\$1.743 billion implying a 22.5% or US\$319.9 million increase over the similar period of 1992. While all categories of imports except the "Crude Oil" category showed increases over their 1992 levels, the importation of motor vehicles, that is as "consumer durables" and as "capital goods", showed the greatest increase 191.4% over 1992 and was most instrumental in expanding the import bill. If to this were added the 83.6% increase in transport and equipment, together their import levels rose by 138.1% over 1992, and accounted for 9.78% of total imports and 30.8% of the increase in total imports over 1992.

Overall, the three main end-use classes of imports, "Capital Goods", "Consumer Goods" and "Raw Material", showed increases of 55.5%, 41.8% and 10.1% respectively over the 1992 figures.

In the Consumer Goods category, motor car and food imports rose by 136.1% and 52.4% respectively, while a 10.1% rise in the imports of raw material was effected by a 15.1%

Table 5.2
VALUE OF MERCHANDISE IMPORTS BY ECONOMIC USE
1992-1993 (US\$Mn)

	1992	Jan-Oct 1992	Jan-Oct 1993	% Change
Consumer Goods	288.7	228.4	323.9	41.8
Food	103.9	80.9	123.3	52.4
Other Non-Durables	104.9	86.7	111.1	28.1
Durables	79.9	60.8	89.5	47.2
Of which motor cars		9.7	22.9	136.1
Raw Materials	1122.7	965.9	1063.7	10.1
Fuels	289.6	269.0	261.4	-2.8
Other Raw Material	833.1	696.9	802.3	15.1
Capital Goods	281.4	228.5	355.3	55.5
Transport & Equipment	80.0	35.4	65.0	83.6
Construction Materials	68.7	57.4	78.9	37.4
Other Machinery	128.7	105.8	125.2	18.3
Other Capital	4.0	3.4	3.6	5.9
Of which motor cars		26.5	82.6	211.7
Total	1692.8	1422.8	1742.9	22.5

External Trade cont'd.

increase in the sub-category, other raw materials' and a decrease of 2.8% in "Fuel" imports. For the category "Capital Goods", an 83.6% and 211.7% rise in the importation of "transport and equipment" and "motor cars" respectively were mainly responsible for the category's 55.5% overall increase. "Other capital goods" showed the lowest increase in all imports, that of 5.9%.

1994 OUTLOOK

The trend of increased importation is unlikely to continue, as importation will be dampened by the increased cost of foreign exchange and the increased cost of credit. Imports of motor vehicles should fall, due to increased costs and declining demand.

As oil prices trend downward, this should reflect a downward movement in costs and hence in general prices. There is also the indication of an upward movement of prices in the bauxite and alumina

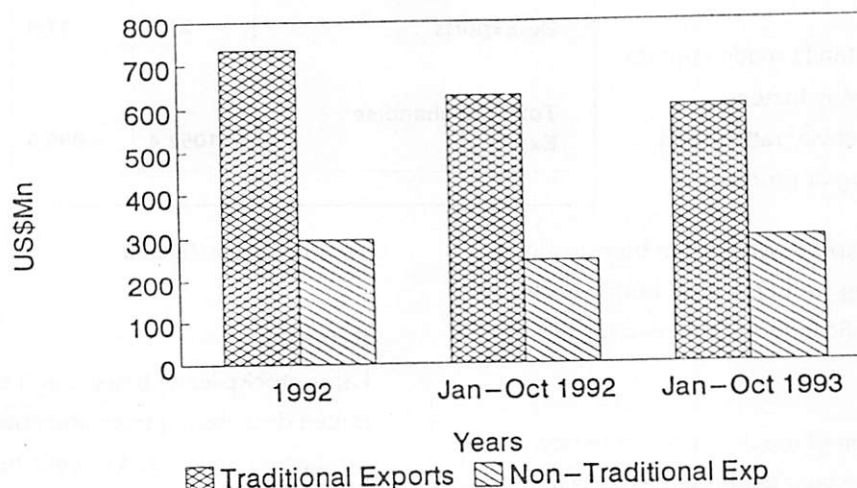
industry. The increased efficiency in production of the local industry should reflect a rise in profitability, thereby staving off the threat of lay-offs and production cut-backs.

The outlook for trade as it relates to traditional and non-traditional exports under the GATT, EEC and NAFTA are mixed, but mostly optimistic. However, the tourism industry should, at its worst, equal that of 1993 in its 1994 performance.

EXPORTS

The estimates of earnings from exports up to October 1993, was US\$912.6 million or a mere US\$23.0 million or 2.6% growth over the US\$889.6 million earned for the comparable period in 1992. This marginal increase in earnings was the result of 35.6% and 12.3% rise in exports earnings from "Miscellaneous Manufactured Articles" (the garment sector in particular) and "Food, Beverage and Tobacco" exports respectively.

Figure 5.3
MERCHANDISE EXPORTS BY CATEGORY 1992-93
(US\$M)



External Trade cont'd.

The overall performance of the export sector was considerably affected by activities in the bauxite and alumina industry. In the past, its revenues boosted the country's exports earnings. Over the last three years earnings from this sector have been on the decline, so, even though the other traditional and non-traditional sectors have shown increases in the value of their exports especially the apparel export sector, these have just been enough to cover the effect of the fall in bauxite and alumina earnings.

FACTORS INFLUENCING EXPORTS**Internal:**

1. The existing bureaucratic and administrative "red tapes" do not serve to promote growth in the export sector.
2. Reduction in tariffs made imports cheaper, thereby fostering distribution activity rather than manufacturing or production.
3. Declines in exports volumes of bauxite along with the falling world prices of both bauxite and alumina significantly reduced earnings from the sector.
4. Over valuation of the Jamaican currency in the first half of the year depressed exports and encouraged imports.

Table 5.3
VALUE OF MERCHANDISE EXPORTS BY CATEGORY
1992-1993 (US\$Mn)

	1992	Jan-Oct 1992	Jan-Oct 1993	% Change
Major Traditional Exports	681.9	583.2	558.2	-4.3
Bauxite	88.8	74.6	71.4	-4.3
Alumina	471.0	392.0	363.6	-7.2
Sugar	82.5	82.5	91.3	10.5
Bananas	39.6	34.1	31.9	-6.6
Other Traditional Exports	52.6	44.8	45.5	1.4
Citrus & Citrus Products	8.1	7.1	5.1	-27.6
Coffee & Coffee Products	16.9	4.2	3.0	-29.4
Cocoa & Cocoa Products	5.9	13.4	16.2	20.2
Pimento	3.7	3.2	1.9	-41.9
Rum	18.0	16.3	18.5	14.0
Gypsum		0.6	0.8	25.5
Total Traditional Exports	734.5	628.0	603.7	-3.9
Non-Traditional Exports	296.1	243.7	294.3	20.8
Total Domestic Exports	1030.6	871.7	898.0	3.0
Re-Exports	21.8	17.8	14.6	-18.1
Total Merchandise Exports	1052.4	889.5	912.6	2.6

Source: Bank of Jamaica

External:

Large stockpiles of bauxite and alumina worldwide forced declines in prices and cut-back in the local production and export of bauxite.

External Trade cont'd.

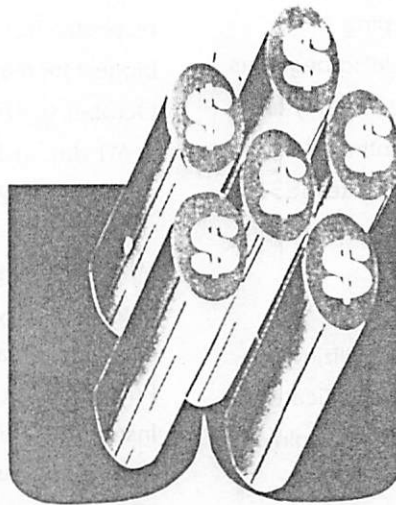
CARICOM TRADE

Up to October 1993, total imports from CARICOM were US\$84.6 million and exports US\$47.8 million as opposed to US\$51.0 million imports and US\$49.4 million in exports over the comparable period for 1992. The trade deficit has therefore moved from US\$1.637 million in 1992 to US\$36.368 million in 1993.

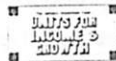
The only categories of exports to CARICOM which showed growth were "Food" - US\$13.236 million or 7.2% and "Mineral Fuels" - US\$3.121 million or 10.9%. All other categories registered declines. On the imports side the "Food" category was the only

one to show a decline. This was valued at US\$124.942 million or 7%. All other categories of imports showed increases, most significant were "Mineral Fuel" - 2978% or US\$17.7 million; Beverages and Tobacco - 301.4% and Animal and Vegetable Oil - 100.8%.

The surge in imports from the CARICOM region to Jamaica is believed to have been significantly influenced by the implementation of the Common External Tariff (CET), which has not only boosted trade and skyrocketed Jamaica's trade deficit with the region but it has increased competition among locally manufactured goods and those imported from CARICOM.



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Money and Banking

During 1993, the Central Bank used all policy instruments including cash reserve and liquid assets ratios, open market operations, amendments to the foreign exchange regime and moral suasion among others, to facilitate the achievement of its overall economic objectives – the major ones being lowering of inflation and stability of the exchange rate.

During the first half of 1993, monetary policy measures were less forcefully implemented as inflation rates were moderate. But, following on the Budget in June and the effecting of additional foreign exchange market measures – an inflationary spiral set in – monthly rates moved from 1.3% in June to 4.1% in July and continued between 2.4% and 4.2% monthly for the rest of the year. A creeping depreciation of the Jamaican currency also began as the J\$ to US\$ rate moved from J\$22.20 in May to J\$26.18 in July and this movement continued so that the exchange rate at year end was J\$32.7 to US\$1. These results prompted more aggressive open market operations by the Central Bank.

With a view to tightening liquidity and stabilizing the local dollar, rates on Treasury Bills and Certificates of Deposit increased to attract purchasers. The spin-offs from these measures were:

- (a) Increased interest rates on loans and deposits in the banking system.
- (b) Restrictions on and lowering of investment and production.
- (c) Draw-downs in excess of agreed credit lines attracted penal rates of interest though overall credit extended continued to rise.

- (d) As the local currency depreciated, the levels of foreign currency inflows both to the official market and the foreign currency accounts rose.

MONEY SUPPLY

At the end of November 1993, M1 – Money Supply which is comprised of currency with the public plus demand deposits, amounted to J\$13.6 billion an increase of J\$3.3 billion or 32.3% over the end of 1992 figures. This reflects the culmination of a steady increase in this variable throughout the year. During 1993, monthly increases in M1 ranged from 2.35% in August to 7.25% in February, while reductions of 1.3% and 2.6% were experienced in June and September respectively. Currency with the public experienced its biggest increases in July (12.42%), April (6.97%) and October (8.45%). However, the overall rate of growth in M1 during 1993 was a slower 32.3% compared with 49.7% in 1992.

Movements in the levels of Money Supply (M1) are determined by increases and or decreases in the following variables – "Net Foreign Assets", "Public and Private Sector Credit", "Credit to other Financial Institutions" and a residual "Other items (Net)". Between January and June 1993, as cumulative "Credit to the Private Sector" rose by J\$3,874.2 million it accounted for 49.4% of the gross increase in M1, while Credit to other "Financial Institutions" with J\$1,046.9 million accounted for 13.3% and Net Foreign Asset of J\$1,765.2 million (22.5%). However, for the period July to November 1993, "Credit to the Public Sector" of J\$4,408.4 million accounted for 46.6% of the gross increase in money supply, Private

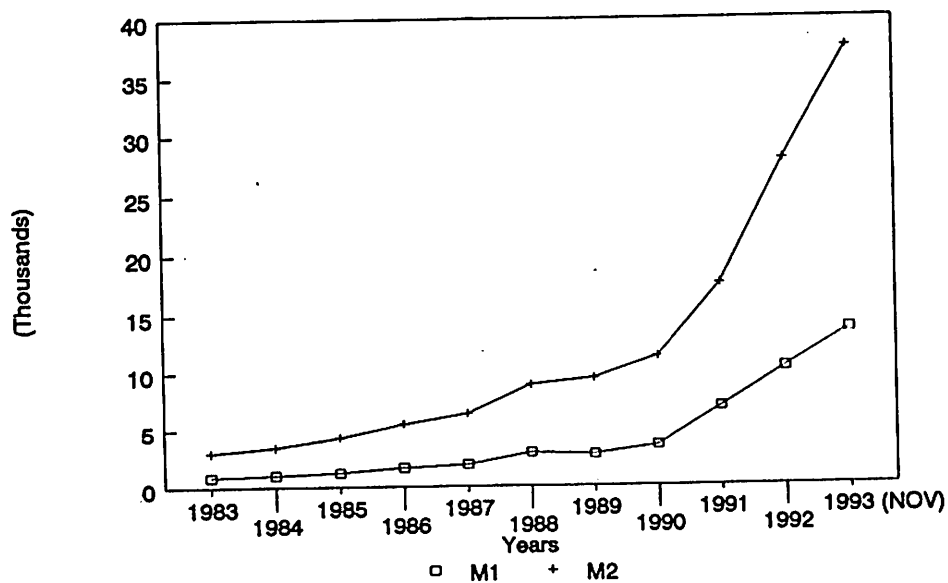
Money and Banking cont'd.

Table 6.1
MONEY SUPPLY 1983-1993

YEAR	M1	Time Deposit	Saving Deposit	Total Quasi Money	M2
1983	884.3	975.0	1122.2	2097.2	2981.5
1984	1012.4	1134.1	1304.7	2438.8	3451.2
1985	1210.4	1091.7	2007.5	3099.1	4309.6
1986	1667.6	1183.3	2646.8	3830.1	5497.7
1987	1874.8	1119.4	3378.1	4497.5	6372.3
1988	2908.8	1625.5	4365.8	5591.3	8900.1
1989	2739.4	1843.5	4882.7	6726.2	9465.6
1990	3516.0	2281.8	5499.0	7780.8	11296.8
1991	6867.1	2464.2	8135.2	10599.4	17466.5
1992	10283.6	4409.8	13124.0	17533.8	27817.4
1993 (Nov.)	13601.4	6464.2	17438.9	23903.1	37504.5

Source: Bank of Jamaica

Figure 6.1
MONEY SUPPLY 1983-1993



Money and Banking cont'd.

Sector Credit of J\$3,718.3 million (39.3%) and Net Foreign Assets of J\$1029.2 million (10.9%). A review of the graphs of six months moving averages of these determinants between 1992 and 1993 highlight their influences. A breakdown of the components of "Other Items Net" would be instructive as to additional variables involved.

Throughout 1993, Quasi Money i.e. time and saving deposits grew by 35.7% compared with 65.4% growth in 1992. In April and July 1993, time deposits experienced 13.98% and 18.85% growth respectively and could be in response to spurts in interest rate on deposits during those two months.

Overall M2 that is Narrow Money plus Quasi Money grew by 34.8% in 1993 compared with 59.3% in 1992. This could be the outcome of monetary policy which sought to curb the growth in money supply as a means of grappling with the problems of inflation and exchange rate stability. The success of this was, however, weakened by the over-riding effects of weak fiscal policy and the massive expansion of credit to the private sector in particular and the public sector to a lesser extent. It is important to note however, that while the rate of growth of credit to the private sector slowed somewhat in the latter half of 1993, credit to the public sector exploded during this period.

Figure 6.2
GROSS INCREASE IN MONEY SUPPLY
Factors behind increase for JAN-JUN 1993

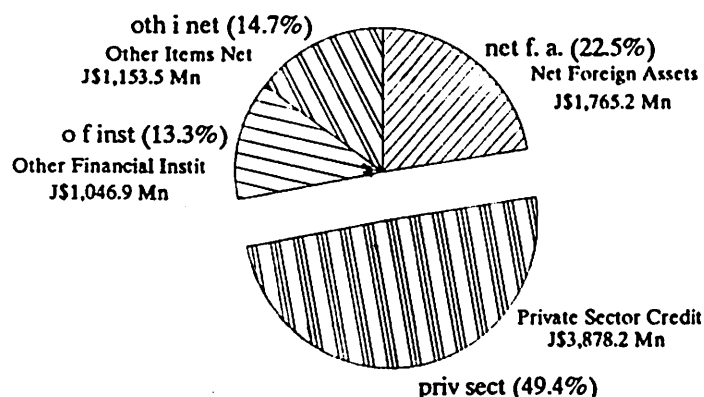
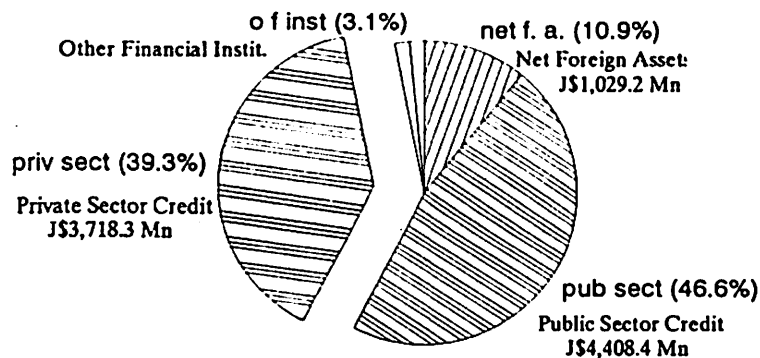


Figure 6.3
GROSS INCREASE IN MONEY SUPPLY
Factors behind increase for JUL-NOV 1993



Money and Banking cont'd.

Figure 6.4
GROSS INCREASE IN M1 – JAN–NOV '93
Factors behind increase

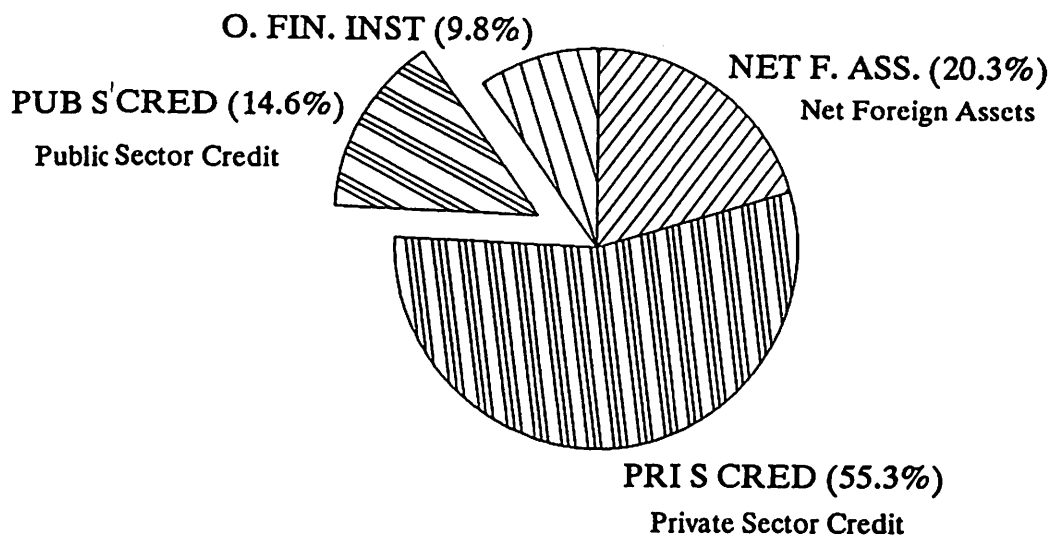
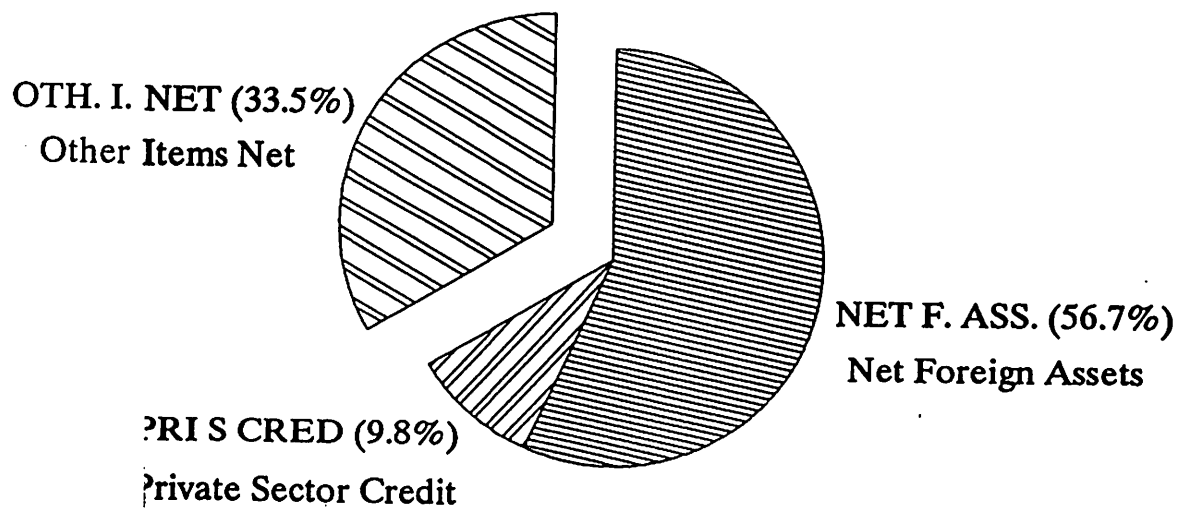


Figure 6.5
GROSS INCREASE IN M1 – JAN–NOV '92
Factors behind increase



Money and Banking cont'd.

Table 6.2
QUARTERLY MOVEMENTS IN THE COMPONENTS OF BROAD MONEY (M2) (J\$Mn)

	1992				1993			1992 Percentage Change				1993 Percentage Change		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Currency	-81.2	204.4	53.3	931.3	-205.4	220.6	260.0	-3.1	8.0	1.9	33.2	-5.5	6.3	6.9
Demand Deposits	1163.4	-95.5	1291.8	-52.0	1791.7	-43.0	348.8	27.4	-1.7	24.3	-0.8	27.4	-0.5	4.2
Total M1	1082.2	108.9	1345.1	879.3	1791.7	-43.0	348.8	27.4	-1.7	24.3	0.8	27.4	-0.5	4.2
Time Deposits	522.8	904.1	558.1	-39.5	-366.9	642.3	960.3	21.2	30.3	14.3	-0.9	-8.3	15.9	20.5
Savings Deposits	1112.7	1983.5	1069.1	1722.8	1471.1	1929.3	278.3	13.7	11.7	10.3	15.1	11.2	13.2	1.7
Quasi Money	1635.5	1987.6	1628.1	1683.3	1104.2	2571.6	1238.6	15.4	16.2	11.7	10.6	6.3	13.8	5.8
Total M2	2717.7	2096.5	2973.2	2562.6	2690.5	2749.2	1847.4	15.6	10.4	13.3	10.1	9.7	9.0	7.0

Source: Bank of Jamaica

LOANS AND ADVANCES

Outstanding loans due to commercial banks at November 1993, stood at J\$22,555 million compared with J\$13,081.4 million outstanding at November 1992. The increase in loans and advances for 1993 over 1992 reflects a 72.42% growth in overall credit compared with a 15.58% increase over the same

period 1992 over 1991.

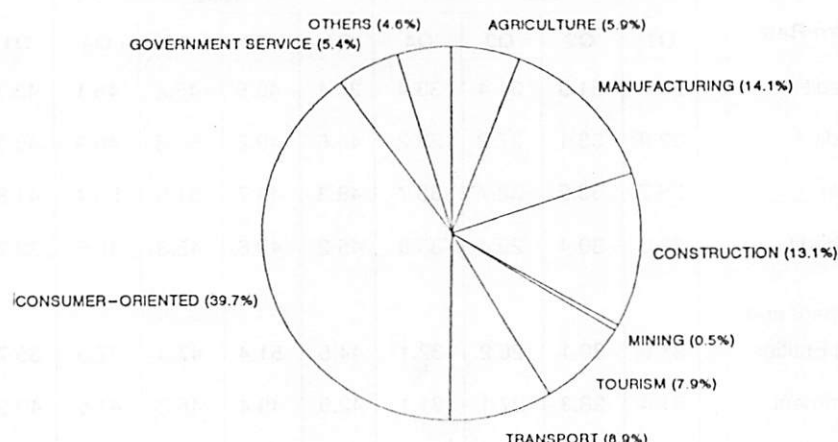
Given the liquidity ratio of 50% for commercial banks who have a deposit base of J\$43,432.8 million, it implies that only 51.9% of total deposits could be tied up in outstanding loans. It is evident that commercial banks have a strong demand for credit despite the high interest rates.

Table 6.3
LOAN AND ADVANCES BY SECTOR (1989-1993)
J\$ MILLION

LOANS	1989	1990	1991	1992	Nov. 1993	% Growth Over 92
Agriculture	702.1	879.7	940.2	1117.1	1330.9	19.9
Manufacturing	1462.7	1535.7	1897.1	2119.9	3179.0	68.1
Construction	1729.1	2060.6	2361.1	2473.9	2944.9	33.2
Mining	33.1	31.8	47.4	73.4	116.5	67.1
Tourism	612.4	748.6	743.8	1027.8	1778.2	96.6
Transport	1117.4	1088.4	1175.9	1137.7	1999.9	83.6
Consumer - Oriented	997.7	1529.6	2667.0	3202.9	8948.8	115.5
Government Services	577.7	778.1	705.4	813.2	1212.8	26.5
Others	214.2	344.7	1340.6	2129.2	1044.0	48.7
Total	7446.4	8997.2	11879.1	14095.1	22555.0	72.4

Source: Bank of Jamaica

Figure 6.6
COMMERCIAL BANK'S LOANS & ADVANCES, NOVEMBER 1993



The sectoral breakdown of commercial bank credit indicates that these institutions find consumer credit demanding the largest share (39.7%) of their lendable funds, followed by manufacturing, construction, transport, tourism and agriculture having reducing shares.

in May. Stringent measures including increased rates of interest on overdrafts incurred at the Bank of Jamaica by commercial banks were introduced during the year to enforce compliance with liquidity requirements.

COMMERCIAL BANK LIQUIDITY

Despite increased attempts during the latter part of 1993 to mop up liquidity through Bank of Jamaica open market operations, the financial system remained quite liquid during 1993. The liquid assets ratio of commercial banks which was increased to 50% in July 1992, continued in force throughout 1993, while that for the PDA institutions moved from 13% in January 1993 to 17% in September 1993. At the end of 1993 the actual average liquid assets commercial banks held in ratio to their deposits was 53.46% which was 3.46 percentage points above the required minimum. This however, shows a level of decline as the ratio was at 61.5% in February and 59%

INTEREST RATES

Interest rates movements remained a significant policy measure in 1993, as the Central Bank sought to stabilize the exchange rate and reduce inflation by reducing liquidity in the system. There was therefore, an aggressive use of open market operations. During 1993, the interest rate on treasury bills ranged between 19.5% and 48.4% and yield between 20.5% and 49.6% while rates on Certificate of Deposits (CDs) were between 21% and 52.5%. Consequently commercial bank loan rates peaked at over 65% during the year, and term deposit rates ranged between 14 and 50%.

Money and Banking cont'd.

Table 6.4
COMMERCIAL BANKS' WEIGHTED LOANS AND DEPOSIT RATES

Weighted Loan Rates	1991				1992				1993			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Instalment Credit	31.4	31.9	31.4	33.4	35.1	40.6	45.2	45.1	43.7	46.3	46.8	
Mortgage Credit	32.9	33.1	27.2	29.2	45.6	49.2	52.8	40.9	40.3	31.6	29.8	
Personal Credit	35.7	33.9	32.7	38.7	48.3	49.7	51.5	50.4	41.8	41.1	49.6	
Commercial Credit	32.6	30.4	29.4	33.9	45.2	49.6	48.3	45.6	39.7	39.6	46.1	
Local Government and Other Public Entities	31.9	30.1	26.2	32.1	44.5	51.4	47.3	37.3	35.7	29.2	40.2	
Central Government	31.4	28.3	27.1	31.1	42.9	49.4	48.2	41.5	40.5	40.2	51.2	
Overall Average/ Weighted Loan Rate	32.5	30.8	29.8	34.0	42.5	48.4	48.2	46.0	40.4	40.7	46.7	
Overall Average/ Weighted Deposit Rate	26.4	20.0	20.3	27.5	36.7	41.2	29.2	23.0	21.2	22.6	34.4	
Average Lending Rates	37.4	33.2	32.4	40.1	54.5	58.4	54.7	46.4	45.8	44.0	57.0	61.3

Source: Bank of Jamaica

STOCK MARKET DEVELOPMENT

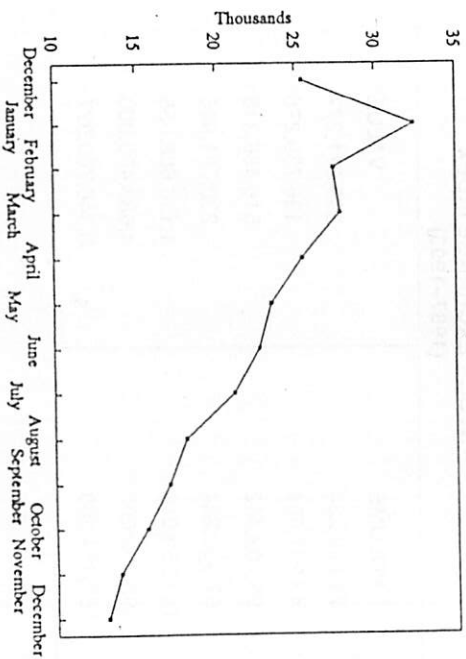
The year 1993, was most disastrous for the Jamaican Stock Exchange. It began with a bullish market as the index peaked to its highest 32,412.7 by the end of January 1993. However, within a month, it declined by 18.2% to 27,424.79 and continued this declining trend throughout the year to culminate in a loss of 59.6% by December 1993, when the index reached 13,099.68. The downward drift in the stock exchange index was the direct result of the interest rate policy measures pursued during 1993. This made

investment in Government gilt-edged securities more attractive and lucrative as short term earners than the equities market, resulting in increased investment in financial paper to the detriment of the stock market.

Throughout 1993, 567.5 million stock units valued at J\$8,346.8 million traded on the exchange. Four new companies were listed during the year.

Money and Banking cont'd.

Figure 6.7
JAMAICA STOCK EXCHANGE
Market Index Summary (Dec. 1992-Dec. 1993)



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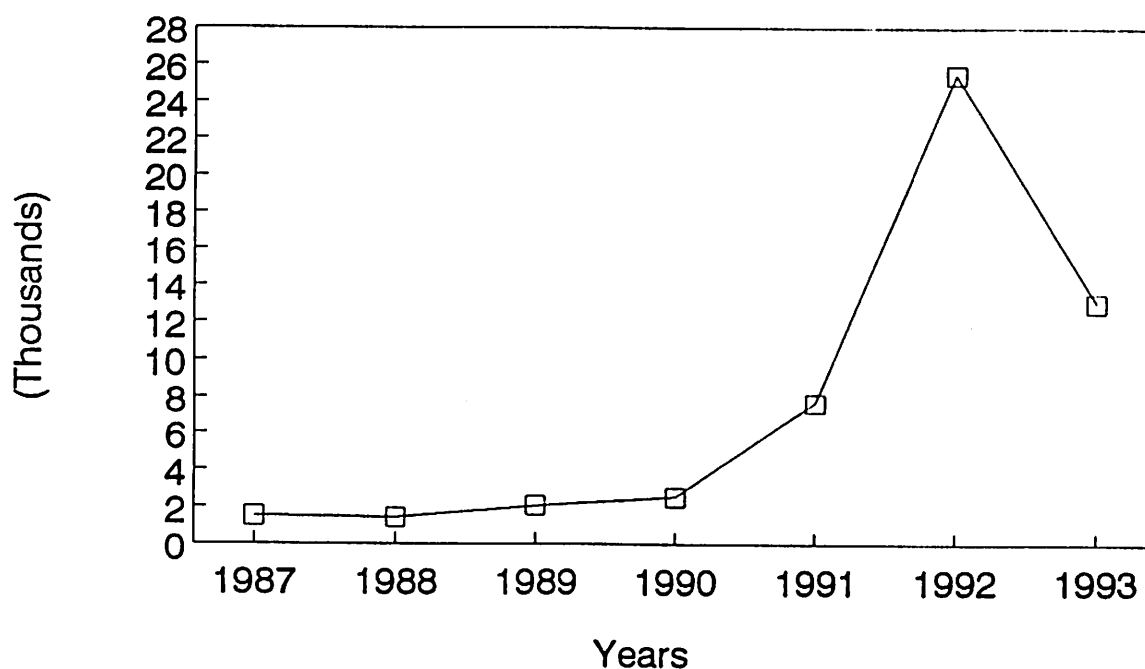
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Money and Banking cont'd.

Table 6.5
STOCK EXCHANGE INDEX
(1987-1993)

YEAR	VOLUME	VALUE	INDEX
1987	71,878,234	399,971,277	1515.09
1988	43,251,904	136,739,278	1439.09
1989	95,202,452	516,456,318	2075.85
1990	57,960,234	230,781,846	2539.36
1991	144,259,019	1,156,608,055	7681.50
1992	395,900,000	4,688,400,000	25475.90
1993	567,454,280	8,346,769,977	13099.68

Figure 6.8
STOCK MARKET INDEX
(1987-1993)



Money and Banking cont'd.

FOREIGN EXCHANGE DEVELOPMENTS

For the first six months of 1993, the Jamaican dollar remained under a managed float. Its exchange rate to the US\$ remained officially at J\$22.20. However, in an effort to increase inflows into the official system, new guidelines were introduced in mid-June into the inter-bank foreign exchange market system.

Consequent on these changes the Jamaican dollar "floated freely" and experienced a series of depreciations amounting to 32.1% by the end of December 1993.

The data suggested that the new measures brought about some improvement in the inflows to the official trading system, as these went up substantially in November and December, and have remained more buoyant since. In addition to seasonal factors, the improvement is probably due to the exchange rate being closer to the market rate allowing a smaller premium on the black market.

Overall deposits and withdrawals to foreign currency accounts increased and balances on these accounts reached US\$497.3 million at the end of December 1993.

Figure 6.9
US\$ RATE TO AUTHORIZED DEALERS 1992-93
(Ja.\$)

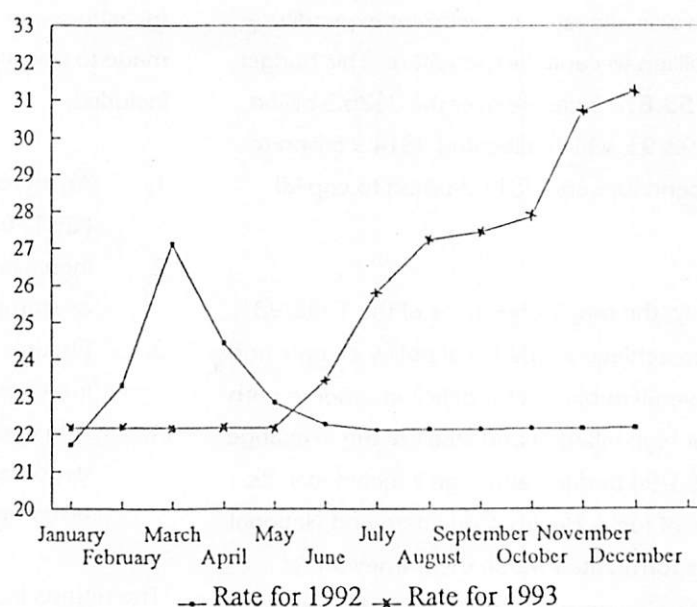
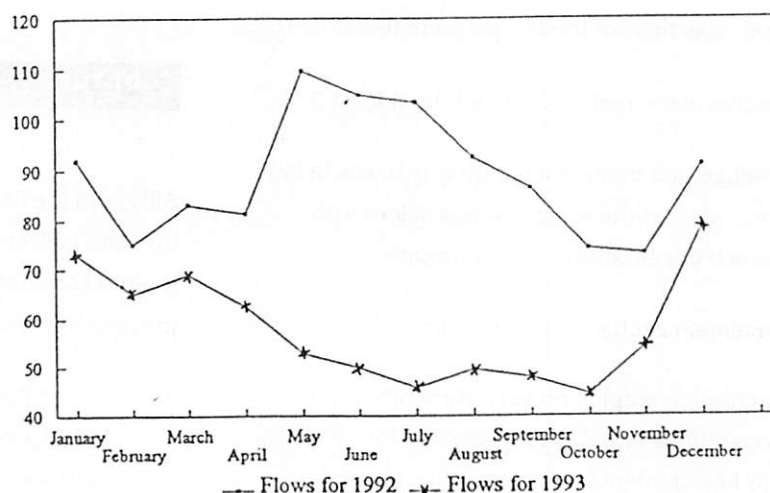


Figure 6.10
AUTHORIZED DEALERS FOREIGN CURRENCY INFLOWS 1992-93
(US\$M)



Fiscal Policy and Accounts

The estimates of expenditure tabled for the 1993/94 budget, was J\$40.3 billion. Of this, J\$28.1 billion was allocated to recurrent expenditure and J\$12.2 billion to capital expenditure. This budget represents a 53.8% increase over the J\$26.3 billion budget of 1992/93, which allocated J\$14.9 billion to recurrent expenditure and J\$11.3 billion to capital expenditure.

Comparatively, the major objectives of the 1992/93 budget was to achieve a tight fiscal policy climate and reduce the overall public sector deficit in order to curb the persistent high inflation and stabilize the exchange rate. The 1993/94 budget, although it included in its priority areas of focus Health, Education and National Security, was formulated within the framework of enhancing the Government's medium-term Economic Programme, complying with the requirements of the new Jamaica - I.M.F. Extended Fund Facility programme which *inter alia* seeks to set the economy on a course of sustainable growth.

The main objectives of the budget were therefore to:

- (a) increase the real GDP growth to at least 3.5%;
- (b) reduce and contain inflation which was being regarded as the most acute problem with which the economy had to grapple;
- (c) maintain exchange rate stability;
- (d) achieve a surplus on Government's fiscal operations equal to 2.5% of GDP for 1993/94 [a key element in achieving (a), (b) and (c) above].

In order to achieve the quantum of revenue required to fund the budget, additional revenue generating measures were effected as well as increased effort made to boost revenue collecting mechanisms. These included:

1. An increase in the General Consumption Tax (GCT) from 10% to 12.5%.
2. Increases in property and transfer taxes as well as stamp duty.
3. Firearm and road traffic licenses were increased.
4. A tax on the returns on bank-type savings/deposits of certain life insurance policies was also imposed.

The returns from these new tax measures were expected to be about J\$3.5 billion. Government pursued its financial management reforms and focused on systems for increasing its revenue collection capacity - such as the establishment of tax courts.

OUT-TURN OF 1993/94 FISCAL POLICY

Although the fiscal year 1993/94 has not yet expired, the data collected so far indicates that none of the major economic objectives of the 1993/94 budget proposals has been achieved.

1. The inflation rate for January to December 1993 was 30.1% and for April to December was 24%. This is well above the single digit rate targeted.

Fiscal Policy and Accounts cont'd.

Table 7.1
ANNUAL FISCAL ACCOUNTS 1990/1991 – 1993/1994 (J\$M)

	89/90	% GDP	90/91	% GDP	91/92	% GDP	92/93	% GDP	APR- SEPT. 93/94	% GDP
Revenue	8307.3	34.5	9760.4	36.6	14549.5	20.1	21029.4	27.6	15123.0	15.2
Expenditure	9522.0	39.5	10942.1	41.2	17510.5	35.0	26871.1	35.2	22180.4	22.2
Deficit/Surplus	-1214.7	5.0	-1181.7	4.4	-2961.0	5.9	-5841.7	7.6	-7057.4	7.1
GDP = (J\$M)	24078.9		26649.9		50055.8		76241.8		99723.2	

2. The projected GDP growth for 1993 is between -2% and 1%.
3. The exchange rate continues to depreciate and between June and December 1993 had a further loss of 32% of its value.
4. The provisional data for the first two quarters of fiscal year 1993/94, indicate collected revenue was J\$15,123.0 million against total expenditure of J\$22,180.4 million achieving a deficit of J\$7,058.7 million. If the revenue is being supported by J\$4,726.1 million in loans, treasury bills and other instruments – there still remains a **deficit** of J\$2,331.3 million.
5. Rising inflation and exchange rate instability served to increase debt-servicing costs and prompted a revision of the estimates of expenditure. This resulted in an additional J\$3.5 billion being voted for recurrent budgetary expenses for the fourth quarter of Fiscal Year 1993/94.

FISCAL ACCOUNTS

The astute management of the fiscal affairs of Government so as to achieve a budget surplus is a measure of its capacity to achieve set objectives and in turn to achieve its stabilization goals. An analysis of the revenue and expenditure levels for the period 1987/88 to 1993/94 shows continuous increases throughout the period in both revenue collection and expenditure. However, expenditure levels invariably exceed collected revenues, both on a quarterly and on an annual basis. This implies that deficit expenditure is continuously being undertaken.

Revenue intake and expenditure patterns have their peaks and troughs. Collections are highest in the fourth quarter of fiscal years, i.e. January to March, while expenditure is highest in the second and third quarters July to December. However, no effort appears to be made to synchronize these flows to achieve a balance – much less a surplus. This imprudent approach to the handling of one of the most **crucial areas of Government activity** has been perpetuated through the years. The disequilibrium brought about by this activity destabilizes the economy and even more so when it is supported by the printing of money by BOJ to supply

Table 7.2
QUARTERLY FISCAL ACCOUNTS (JSM) 1990/1991 – 1993/1994

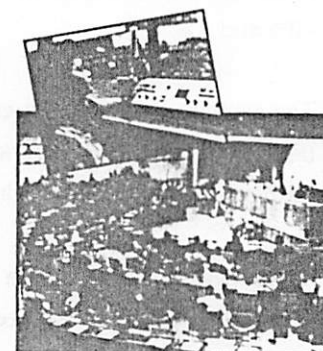
Quarters	1990/1991					1991/1992					1992/1993					1993/1994			
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4
Revenue	2135.9	1891.3	2401.6	3330.8	9759.6	4132.5	2464.4	4059.9	5504.5	16161.3	4131.6	4664.0	5600.5	6632.4	21028.5	5942.4	9180.6		
Expenditure	2245.2	3285.4	2537.5	2870.7	10938.8	4381.3	3776.0	4693.0	4941.4	17791.7	4381.3	7917.9	8390.9	6181.0	26871.1	7719.1	14461.7		
Deficit/Surplus	-109.3	-1394.1	-135.4	460.1	-1178.7	-248.8	-1311.6	-633.1	563.1	-1630.4	-249.7	-3253.9	-2790.4	451.4	-5842.6	-1776.7	-5281.1		

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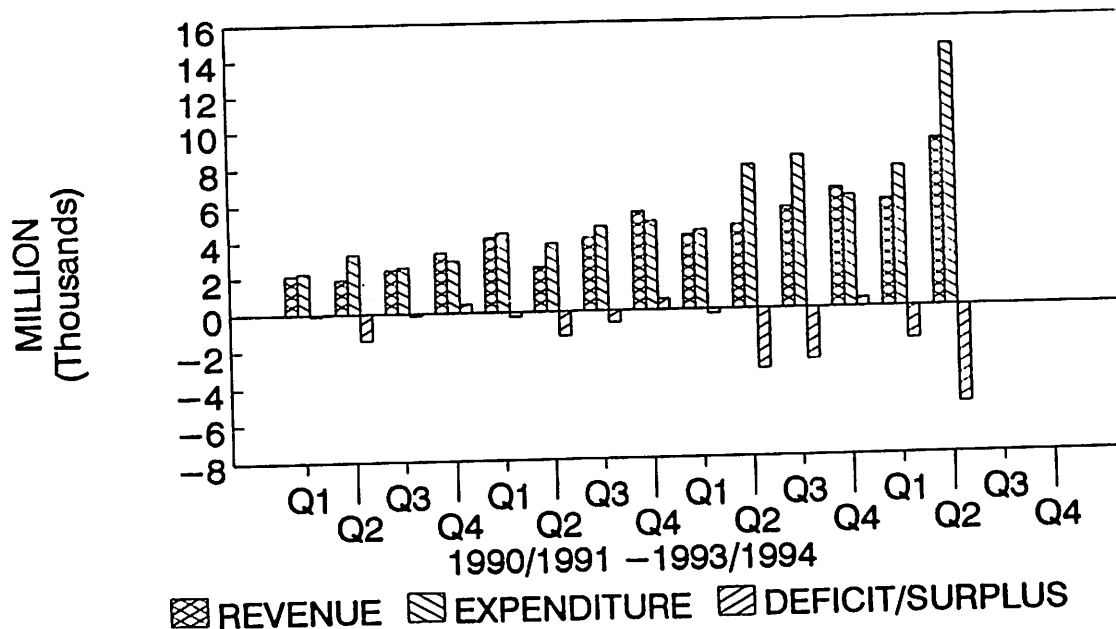

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Fiscal Policy and Accounts cont'd.

Figure 7.1
QUARTERLY FISCAL ACCOUNTS (J\$Mn)
1990/1991 – 1993/1994



the credit requested by Government to finance its operations.

Preliminary data for the period January to September 1993 shows total revenue collected was J\$21.755 billion, a 65.7% increase over the similar period of 1992. Tax revenue formed 83% of total revenue and maintained its position as the highest revenue source. Within the tax revenue category – income tax supplied 44.4% of taxes in January to September 1993. Returns from the General Consumption Tax was 26.9% of total. This moved from 20.7% in 1992/93 emphasizing its significant positive impact on revenue levels. Collections from the Special Consumption Tax and Stamp Duty showed significant increases also.

For fiscal years 1989/90 to 1991/92 recurrent expenditure ranged between 58%–61% of total expenditure. However, for 1993/94 this has moved to 68% of total expenditure. A significant contribution to this is the increased level of internal debt servicing requirements resulting from the growth in domestic debt and the cost of servicing instruments to support monetary policy.

Since 1992/93 the share of capital expenditure from the budget has also increased moving from 39% to 41% and this has also been prompted by the increase in amortization expenditure.

FACTORS AFFECTING FISCAL OUT TURN 1993/94

1. The rapid depreciation of the local currency had mixed effects.
 - (a) Import **duties** on goods valued in US dollars but paid in Jamaican dollars increased, thereby increasing revenue intake.
 - (b) As the national debt increases in Jamaican dollar values with each depreciation of the local currency, so does the amount of Jamaican dollars required to purchase US\$ to service the external debt. These serve to increase expenditure levels putting additional demands on the budget.
2. Significant wage increases granted to many public sector employees, coupled with inadequate restraint on Government expenditure, fostered deficit expenditure.
3. Ill-timed amendments to the income tax laws which served to lessen revenue potential, increase demand and fuel inflation.
4. Failure to implement tax measures which foster compliance as well as tardiness in effecting a simple and efficient revenue collecting system.
5. The establishment of tax courts and the provision of incentives to revenue collectors were positive measures towards boosting revenue collection.

OUTLOOK

Since Government's excessive expenditure is inflationary and the major objective of fiscal policy is to curb inflation, the Government has to place a cap on its expenditure – and rationalize this on the basis of what makes economic sense given its limited resources and the desperate need to establish macro-economic stability. Inter-quarter deficit spending needs to be discontinued and expenditure levels must be tailored to coincide with revenue intake levels. Where deficits exist these must be anticipated and financed through the issue of Treasury Bills and not by borrowing from Bank of Jamaica. Although some efforts are being made, additional measures need to be put in place to achieve an efficient and economical revenue collecting machinery. If no inroads are made in these directions, then inflationary government expenditure can be expected to continue in the future

Inflation

The rate of inflation for 1993 was 30.12 percent, measured by the Consumer Price Index (CPI) on a point to point basis, the index having moved from 419.6 at December 1992 to 546.0 in December 1993.

There was a contained low level growth in the rate of inflation over the first half of 1993. Throughout this period, increases ranged from .47% to 1.67% per month and resulted in a point to point inflation rate of 6.52% for those six months. The second half of the year however, featured higher monthly rates ranging from 2.4% to 4.2% and resulted in a 19.7% increase for the period. This contributed significantly to the overall 30.12% inflation experienced in 1993.

The inflation rate for 1993 was lower than that of 1992 and showed a reversal of the trend for that year. Whereas for the first six months of 1992, point to point inflation was high (30.27%), for the latter half of the year it was 7.62%, resulting in an annual rate of 40.2%. The lower inflation trend of late 1992 continued into the first half of 1993, but was reversed in the latter half of 1993 when monthly inflation rose.

FACTORS INFLUENCING INFLATION IN 1993

1. The pegging of the Jamaican dollar (J\$) at J\$22.20 to US\$1 in early July 1992 brought about some reduction in the monthly rate of price increases which significantly influenced the lower inflation rates experienced in the second half of 1992 and the first half of 1993.
2. The return to a floating exchange rate in June 1993 triggered a downward adjustment in the value of the Jamaican currency. This in turn, set in train a series of price increases which rippled through the economy. Between June and December 1993, there was a 32% depreciation of the value of the Jamaican dollar as the exchange rate moved from J\$22.2 to J\$32.5 to US\$1.
3. The lowering of the personal income tax rate and the increasing of the income tax threshold combined with the granting of significant wage increases to various sectors of the government service throughout the year raised the purchasing capacity of constituents far in excess of the level of local output of goods and services – the excess demand prompted increased imports and

Table 8.1
MONTHLY RATES OF INFLATION 1993

	DEC. 1992	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEPT.	OCT.	NOV.	DEC.
Year to Date		0.9	1.4	2.7	3.8	5.5	6.7	11.1	14.8	19.7	22.6	26.6	30.1
Actual Movements CPI	419.6	423.2	425.2	430.7	435.5	442.8	447.8	466.0	481.9	502.3	514.6	531.2	546.0
Monthly % Change		0.9	0.5	1.3	1.1	1.7	1.1	4.1	3.4	4.2	2.4	3.2	2.8

Inflation cont'd.

Figure 8.1
MONTHLY MOVEMENT IN INFLATION

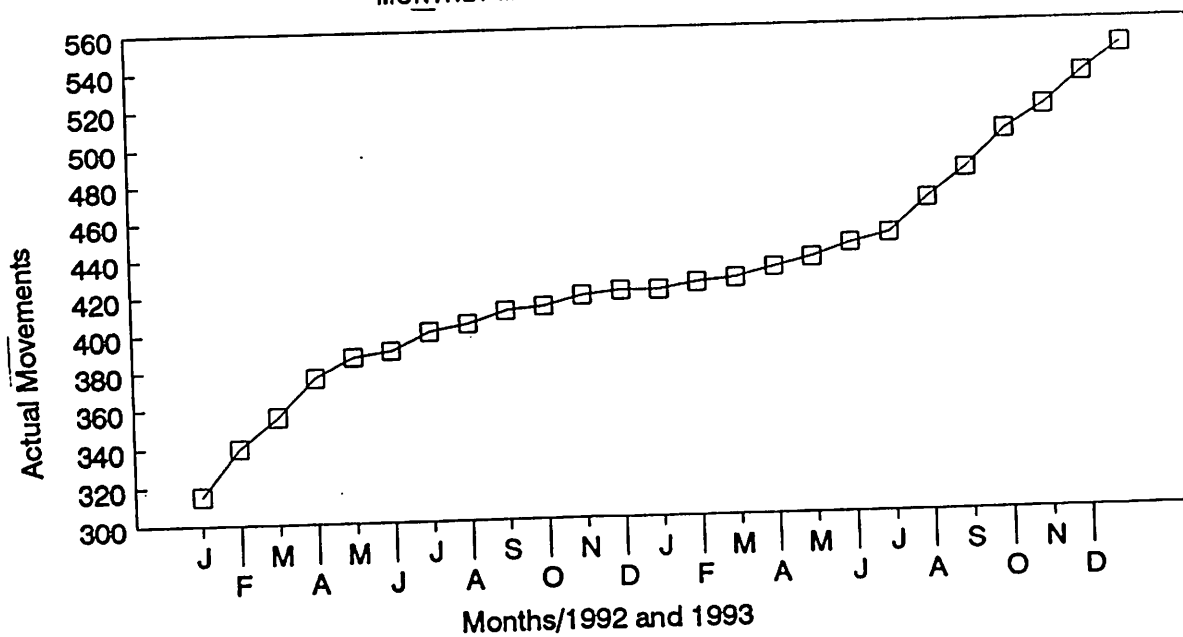
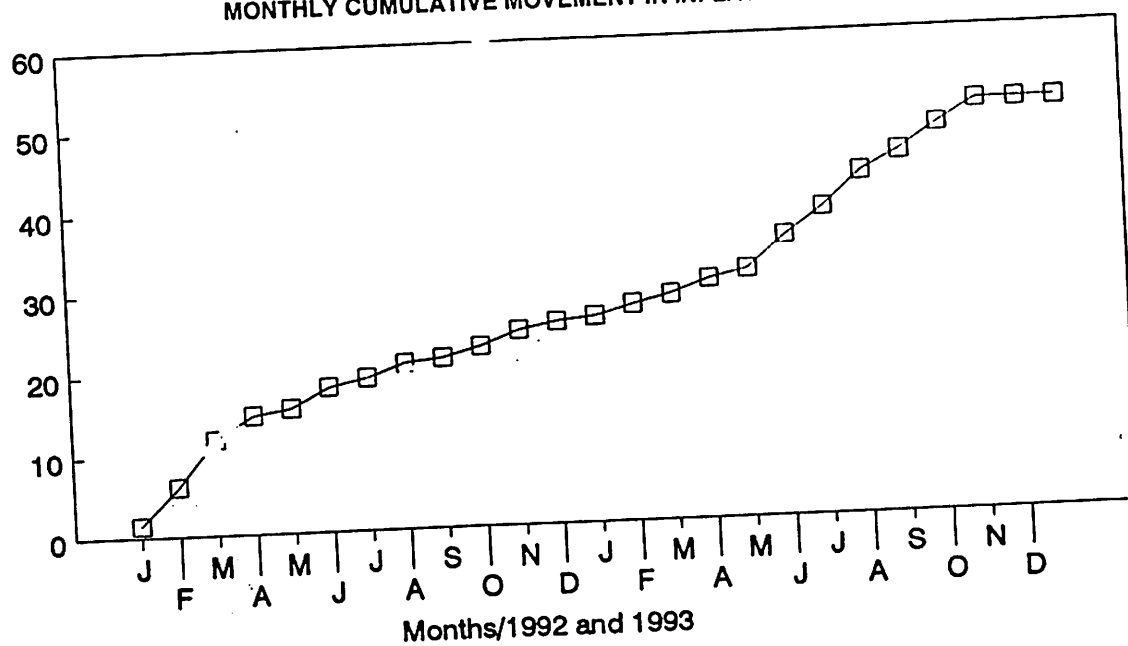


Figure 8.2
MONTHLY CUMULATIVE MOVEMENT IN INFLATION



inflation cont'd..

Table 8.2

INFLATION AND EXCHANGE RATE MOVEMENTS 1993

All Jamaica	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEPT.	OCT.	NOV.	DEC.
Inflation	423.2	425.2	430.7	435.5	442.8	447.8	466.0	481.9	502.3	514.6	531.2	546.0
Exchange Rates	22.2	22.2	22.2	22.2	22.2	23.7	26.18	27.4	27.96	28.41	31.1	32.5

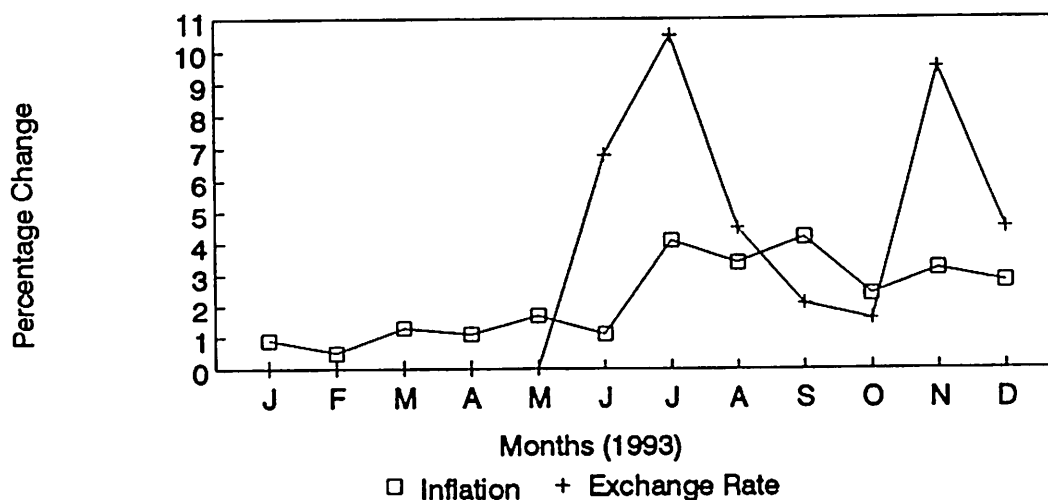
a significant deterioration in the Balance of Payments position.

4. Combine the above with the deficit expenditure undertaken by the Government. The data for the period January to September 1993 shows Expenditure exceeding Revenue by about J\$6,606 million or 30% of total revenue collected over the period. The deficit was funded in part by Treasury Bills and inflows of foreign loans, the former attracting interest rates of between 40 and

50%, as well as by advances from the Bank of Jamaica which increased the money supply and, in an environment of declining production, fueled inflation (figures are provisional).

5. The increase in the rate of the General Consumption Tax from 10% to 12.5% effected in June 1993, along with the return to a floating exchange rate no doubt contributed to the big rise in the CPI in July of 4.1% following a 1.13% rise in June.

Figure 8.3
INFLATION AND EXCHANGE RATE
FOR 1993



Inflation cont'd.

MONETARY POLICIES

There was a continuous increase in money supply (M1) as well as quasi-money throughout 1993, which culminated at 32.3% and 35.7% respectively at the end of the year. These growth rates followed increases of 49.1% and 65.4% respectively in 1992, and had a spill-over effect in 1993. The cumulative effect of this combined with the Government's fiscal policies supported the inflationary trend in the economy.

The tighter monetary policies introduced in the latter half of 1993 and the high interest rates which accompanied served to restrict investment and output, but did not have an immediate effect on the dampening of consumer demand. With demand increasing faster than output - the price of goods and

services increased and filtered through the economy as general increases in price levels.

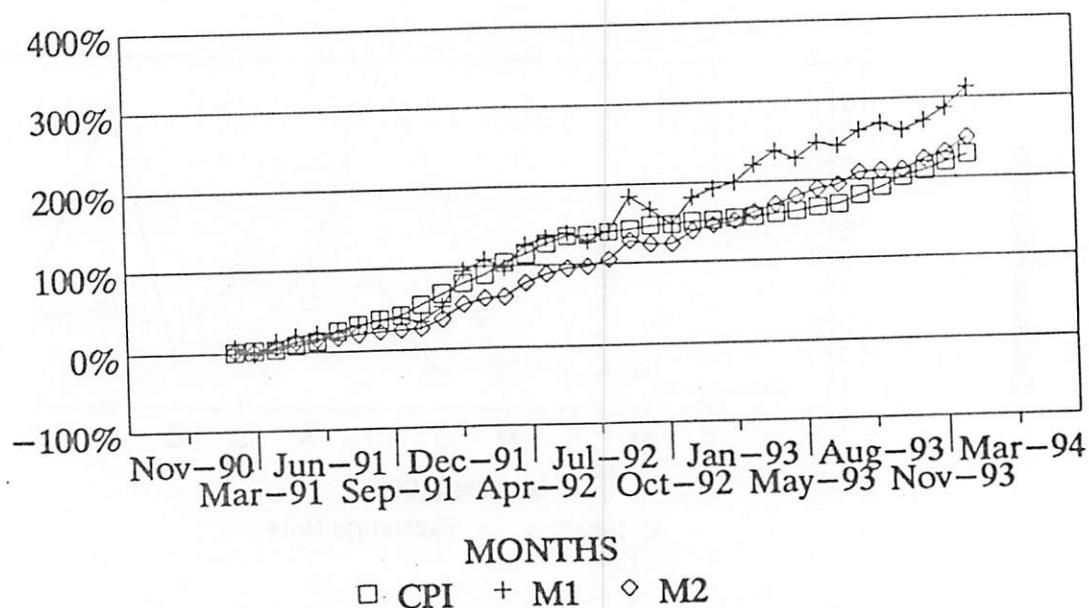
EXTERNAL FACTORS

The level of inflation experienced by Jamaica's main trading partners and the price of crude oil on the international market are the major external influences on domestic prices.

During 1993, inflation rates in Canada, USA and the UK were 1.9%, 2.7% and 2% respectively, which *inter alia* had a moderating effect on local prices. Although the price of crude oil from Jamaica's suppliers remained moderate or trended downwards while fluctuating between US\$16.5 and US\$15.2 per barrel for the year, it was the sliding exchange rate of the Jamaican dollar with respect to the US\$ which effected local price increases to the consumer.

Figure 8.4

M1, M2 & INFLATION RATE vs TIME
(Cum Increase Since Dec. 90)



Inflation cont'd.

Table 8.3
CONSUMER PRICE INDEX POINT-TO-POINT 1989-1993

Categories of Items	Weights	Point-to-Point				
		1989	1990	1991	1992	1993
ALL GROUPS	100.00	17.2	29.8	80.2	40.2	30.1
Food and Drink	55.63	20.9	29.0	84.3	40.4	31.8
Meals away from home		20.7	28.1	65.9	51.1	39.8
Meat, Poultry and Fish		22.3	38.4	92.2	38.4	29.4
Dairy Products, Oil & Fats		26.3	33.0	159.6	38.1	26.4
Baked Products, Cereal, Blast, Drink		26.4	29.1	96.7	48.1	18.2
Starchy Food		16.4	8.3	49.8	39.4	36.5
Vegetables, Fruits		9.0	34.9	40.6	35.9	63.7
Other Foods and Beverages		21.4	15.0	68.3	22.8	25.0
FUELS AND OTHER HOUSEHOLD SUPPLIES	7.35	11.6	42.9	94.0	30.8	18.6
Fuels		14.2	64.5	45.7	33.3	29.7
Other Housing Supplies		7.2	31.3	126.1	25.3	14.0
HOUSING	7.86	7.7	38.5	64.7	27.7	20.9
Rent		3.0	13.5	12.2	20.6	8.7
Other Housing expenses		9.5	45.7	77.1	32.0	22.9
HOUSEHOLD FURNISHINGS AND FURNITURE	2.38	10.0	19.6	70.9	34.8	30.3
Furniture		13.7	22.8	68.1	38.1	26.9
Furnishings		8.7	18.3	73.2	32.6	31.7
HEALTH CARE & PERSONAL EXPENSES	6.97	9.4	29.4	87.3	41.9	32.0
PERSONAL CLOTHING & ACCESSORIES	5.07	13.9	23.1	75.6	73.1	25.0
Clothing Material		9.3	12.2	86.6	57.2	21.0
Make-up, Clothing & Accessories		11.0	26.4	85.2	77.2	23.7
Footwear		18.8	20.6	34.8	67.8	31.5
Making Repairs		18.3	20.6	34.8	67.8	31.5
TRANSPORTATION	6.44	26.7	28.0	59.9	20.6	34.0
MISCELLANEOUS EXPENSES	7.85	11.2	27.5	74.4	50.1	36.8

CONSUMER PRICE INDEX

The Consumer Price Index (CPI) is comprised of the following categories:

1. Food and Drink
2. Fuels and other household supplies
3. Housing and other housing expenses
4. Household furnishing and furniture
5. Health care and personal expenditure
6. Personal clothing, footwear and accessories
7. Transportation
8. Miscellaneous expenses

Overall, all the eight major categories of the Consumer Price Index (CPI) showed increases over 1992 levels, although the rate of increases were lower than in 1992. A major example of this is the "Personal Clothing and Accessories" group which moved by 73.1% in 1992 but by 25% in 1993. "Fuels and other Household Supplies" increased by 30.8% in 1992 and by 18.6% in 1993.

However, major contributing groups to the inflation rate for 1993 were:

- (1) "Transport" moving from a 20.6% rise in 1992 to 34% in 1993. The significant movement in this category could have been caused by the pass through of movements in the price of fuel, spare parts etc., as the exchange rate moved as well as the increases in bus fares which are still under price controls and are regulated by the Government.
- (2) While the "Food and Drink" category weighted at 55.66 moved overall 31.8% – a most significant movement in the sub-groups was "Vegetables

and Fruits" by 63.7%. This reflects – price increases due to increased demand forcing prices up; as well as the pass through of increases in the cost of inputs to production (fertilizers etc.) to the consumer.

- (3) The 18.6% rise in "Fuel and other Household Supplies" overall reflects the movements in the price of butane gas, electricity and coal as the price of kerosene oil, a major cooking fuel, is controlled.

OUTLOOK

If fiscal and monetary policies continue as they are currently being implemented – there is every likelihood that inflation will persist with little moderation.

Without a substantial tightening of fiscal policy and a sharp reduction in the rate of growth of money supply, inflation for 1994 is unlikely to fall below 20%.

Energy

INTRODUCTION

In 1993, the aggregate global supply of crude oil is estimated to have increased by 0.7 percent, amounting to an average 67.2 million barrels per day (mbd) for the first three quarters of 1993 over 1992. This rise in world output was influenced primarily by an increase in output of 3.1 percent by producers from the Organisation of Petroleum Exporting Countries. Output from oil producing countries of the Organisation for Economic Co-operation and Development (OECD) remained flat, while there was a slight fall of 2.2 percent in the output of producers from non-OECD countries.

On the other hand, aggregate demand on the world market for oil stood at an average 66.6 mbd up to the

third quarter of 1993, similar to the figure for 1992. For the April to June 1993 quarter, the average spot prices for the principally traded crudes is reported to have increased for the first time since the third quarter of 1992, and as a result, the average spot price for crude increased to US\$17.87 per barrel.

ELECTRICITY POWER GENERATION

The Jamaica Public Service Company (JPSCo) had an average net electricity generation of 546 million kilowatt hours (kWh) for the first three quarters of 1993. The third quarter output of 580.9 million kilowatt hours of electricity was the highest level of generation for the year to date, and represented a 6.3 percent increase over the corresponding quarter of 1992.

Table 9.1
WORLD OIL PRODUCTION
(mbd)

	1992				1993		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3p
OPEC a	26.2	25.7	26.4	27.1	27.2	26.4	27.2
NON-OPEC:							
OECD	16.8	16.2	16.3	16.9	16.6	16.3	16.4
Non-OECD	23.0	22.7	22.7	22.4	22.4	22.2	22.4
Processing							
Grains b	1.4	1.4	1.4	1.4	1.5	1.5	1.5
Total Supply	67.4	66.0	66.8	67.8	67.7	66.4	67.5

mbd - Million barrels per day

(a) - Includes crude oil, Natural Gas Liquids (NGLs) and non-conventional oil

(b) - Net gain including the gain in volume, as well as losses due to evaporation, etc. in the refining process.

(p) - Preliminary

Energy cont'd.

PETROLEUM IMPORTS

Jamaican imports of petroleum products is expected to total US\$315.7 million in 1993, compared to US\$319.8 million in 1992, a decrease of 1.3 percent. The total value of petroleum imports up to the end of the second quarter of 1993 was US\$157.9 million. Total imports of crude and refined products amounted to 5.8 million barrels up to the end of the second quarter of 1993. Imports of fuel oil (Bunker C and low Vanadium) by the bauxite companies totalled 5.0 million barrels up to the end of the third quarter of 1993. Third quarter imports of fuel oil amounted to 1.5 million barrels, a 20.8 percent decline over the previous quarter and totalled US\$18.9 million in value.

DEVELOPMENTS IN SECTOR - LIBERALIZATION

The petroleum sector was fully liberalized in April, 1993 by legislation which allows all participants in the industry freedom to import petroleum (i.e. crude and refined) products. This policy took effect with the implementation of the Common External Tariff (CET).

The Import Policy of the CET grants petroleum importers freedom to source petroleum products from any supplier outside of the CARICOM region but subject to the established import duties of the regime.

Table 9.2
VOLUME AND VALUE OF IMPORTS
OF PETROLEUM PRODUCTS

Imports by:	Unit	1992 Q2	Q3	1993 Q1	Q2
i. Refinery					
Crude	'000 bls.	1,755.6	2,402.4	2,405.6	2,137.6
Refined Products		861.7	619.5	592.4	666.6
Sub-Total		2,617.3	3,021.9	2,998.0	2,804.2
ii. Bauxite Companies					
Fuel Oil (a)	'000 bls.	1,250.4	1,793.6	1,645.2	1,868.1
iii. Marketing Companies					
Refined Products	'000 bls.	19.6	18.7	20.2	20.0
TOTAL VOLUME		3,887.3	4,834.2	4,663.4	4,692.3
TOTAL VALUE	US\$'000	79,924.4	87,002.3	79,886.5	77,976.6
a - Bunker C and Low Vanadium					
Source: Compiled from data supplied by Petroleum Corporation of Jamaica, Ministry of Public Utilities Transport and Energy					

Manufacturing

Significant macro-economic changes in the Jamaican economy over the past years have greatly constrained the manufacturing sector. Specifically, growth in interest rates (Figure 10.1) linked with depreciation in the value of the Jamaican dollar has caused a slow down in manufacturing investment, new plant and capacity expansion as well as manufacturing output.

As early as June 1993, the PSOJ/USAID Business Behaviour Survey found that the top three problems facing manufacturing firms were: high interest rates, excessive Government regulations and customs procedures. Also, except for the garment sub-sector, the survey was not able to establish any causal link between economic liberalization and the decline of the manufacturing sector between 1992-1993.

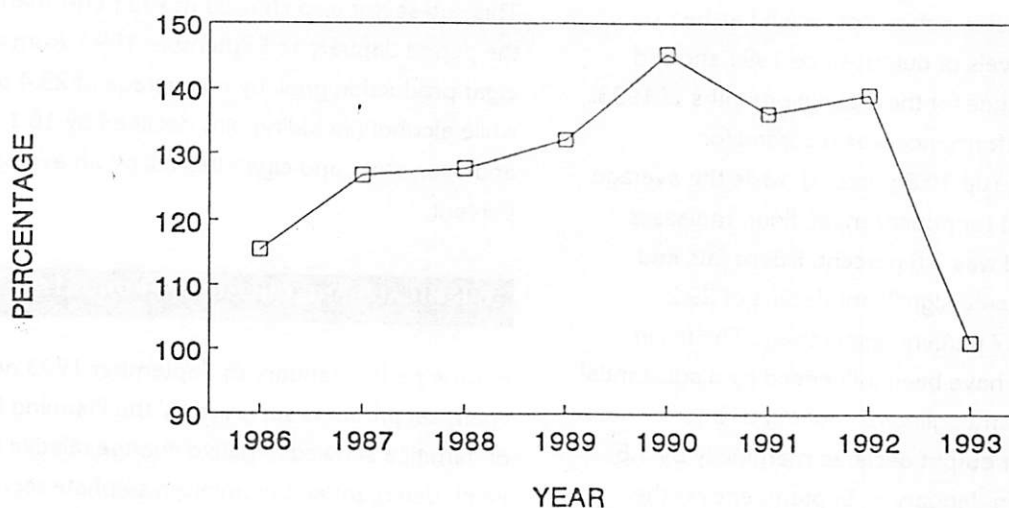
MANUFACTURING. PRODUCTION AND EXPORTS

Data for the first nine months of 1993 indicated that the production of selected commodities constituting the Planning Institute's Index of Manufacturing Production declined by 1.4 percent relative to the same period of 1992. Hence, reduced output was recorded by most sub-sectors, for the period January to September 1993, against the same period of 1992.

The total value of manufactured exports for the review period increased by 8.0 percent to reach US\$315.8 million, relative to the corresponding period in 1992. This performance was greatly influenced by growth in the non-traditional sub-sector, especially "Miscellaneous Manufacturers", which are made up primarily of apparel and sewn products.

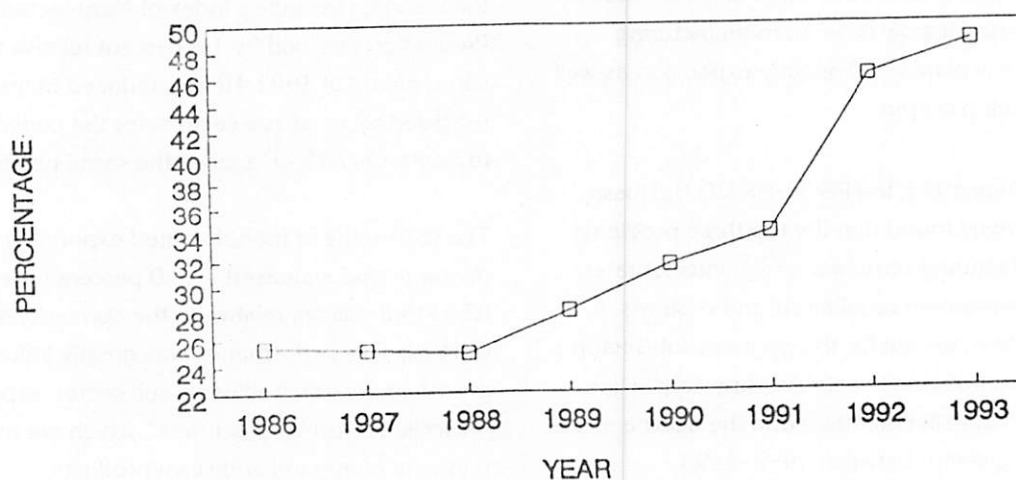
Figure 10.1

MANUFACTURING SECTOR INDEX Annual Average 1986-1993



Manufacturing cont'd.

Figure 10.2

COMMERCIAL BANKS WEIGHTED LOAN RATES
Overall Average Weighted Rates, 1986-1993**FOOD PROCESSING**

The food processing sub-sector which has been recording low levels of output since 1991 showed mixed performance for the first nine months of 1993. Outstanding performance was recorded for condensed milk (up 15.8 percent), while the average growth in output for poultry meat, flour, molasses and animal feed was 3.6 percent. Edible fats and commeal registered significant decline of 29.2 percent and 13.7 percent respectively. The fall in edible fats may have been influenced by a substantial increase in the smuggling of cooking oil into Jamaica. Sugar output declined marginally by 1.8 percent between January to September over the previous period. The increase in output of poultry meat (3.6 percent) was partially due to reduced competition from imported leg quarters and improved local weather conditions.

BEVERAGE AND TOBACCO

This sub-sector also showed mixed performance for the period January to September 1993. Rum and cigar production grew by an average of 29.4 percent, while alcohol (including gin) declined by 16.1 percent and beer, stout and cigarettes fell by an average 1.3 percent.

CHEMICALS AND CHEMICAL PRODUCTS

For the period January to September 1993 nearly all chemical products surveyed by the Planning Institute of Jamaica showed negative change relative to 1992. Paint, detergent and aluminium sulphate recorded an average decrease of 14.2 percent, while the production of fertilizer, soap and tyres grew by 6.3%, 41.7% and 17.8% respectively. It is reported that in the case of paint, industrial action at one of the

Manufacturing cont'd.

factories between July and August constrained its output.

NON-METALLIC MINERALS AND METALS

The production of selected non-metallic products, cement and glass bottles declined by an average 3.0 percent between January to September, 1993. However, it is expected that the eventual out-turn in production for these products will be above the levels for 1992.

PETROLEUM PRODUCTS

All products within this sub-sector declined by an average 18.2 percent for the review period. The most significant decline in output was recorded for Liquid Petroleum Gasoline (LPG), which fell by 29.4 percent. The PIOJ reported that the fall in production was caused mainly by downtime at the petroleum refinery, a consequence of the need to undertake necessary repairs.

EXPORT OF MANUFACTURED GOODS

Data for the first nine months of 1993 showed that the total value of manufactured exports increased moderately by 8.0 percent. Export earnings accumulated to US\$318.8 million compared to US\$292.5 million for the same period of 1992.

OUTLOOK

The overall poor performance in the manufacturing sector was greatly influenced by the very tight monetary policies being pursued by Government.

These policies have had the effect of increasing interest rates and thereby limiting loanable funds to the private sector as a result of the tight liquidity within the financial system. The negative impact was greatest for small and medium-sized companies because of their heavy dependence on bank credit for the financing of their output and new capacity. It should be noted that 1993 PSOJ/USAID Business Behaviour Survey reported that "across all industrial sectors the cost of debt capital is identified as the most significant area of concern for investments (74% of all respondents marked it as the number one problem).

Notwithstanding the problems associated with the access to capital and the cost of funds, it is likely that manufacturing investment and output will benefit from Government's decision to allow accelerated capital depreciation and to eliminate the import duties on raw materials. In order to maximize the returns from these benefits, entrepreneurs in the manufacturing sector should shift the orientation of its economic activities towards the production of goods which can be more competitively marketed in the North American Free Trade Area, as well as in Europe Community and the Asian and Latin American markets.

Further, in order for manufacturers to maintain adequate supplies for these markets it will be necessary for them to increase the capacity utilization of their factories. In mid-1993, the PSOJ gathered from their Business Survey that capacity utilization was not a problem for most firms - with 65 percent of all firms operating at above 70 percent of capacity. However, **manufacturing firms were found to be operating at substantially reduced capacity (i.e. less than**

Manufacturing cont'd.

50%). Poor transportation services, high cost for electricity, obsolete machinery, the need to restrict the production process to day hours only because of lack of security have undoubtedly aggravated the problem of low plant use in manufacturing.

Therefore, growth in the manufacturing sector in 1994 will be influenced by the extent to which entrepreneurs in the sector are able to resolve the above mentioned problems as well as the level of growth in net investment.

Table 10.1
PRODUCTION OF SELECTED COMMODITIES

Sub-Sector	Unit	Jan 1992	to Sept. 1993	% Change 1993/1992
Food Processing				
Poultry Meat	'000 kg	24,561	25,457	3.6
Animal Feeds	'000 kg	183,669	189,486	3.2
Condensed Milk	'000 kg	13,178	15,263	15.8
Edible Oils	'000 kg	5,215	4,901	-6.0
Edible Fats	'000 kg	6,846	4,845	-29.2
Flour	'000 kg	108,440	112,413	3.7
Cornmeal	'000 kg	13,494	11,647	-13.7
Sugar	tonnes	216,861	212,852	-1.8
Molasses	tonnes	96,262	100,140	4.0
Beverages and Tobacco				
Rum	'000 ltrs	13,553	17,061	25.9
Alcohol (incl. Gin)	'000 ltrs	1,404	1,178	-16.1
Beer & Stout	'000 ltrs	58,308	57,885	-0.7
Aerated Water	'000 ltrs	35,794	36,973	3.3
Cigarettes	'000's	979,860	962,310	-1.8
Cigars	'000's	5,057	6,713	32.8
Chemicals & Chemical Products				
Fertilizer	tonnes	44,119	46,885	6.3
Paint	'000 ltrs	6,248	5,233	-16.3
Soap	'000 kg	1,902	2,695	41.7
Detergent	'000 kg	4,695	4,029	-14.2
Tyres	tonnes	2,598	3,061	17.8
Sulphuric Acid	tonnes	12,131	11,372	-6.3
Aluminium Sulphate	tonnes	9,905	8,706	-12.1
Salt (NaCl)	tonnes	15,569	14,633	-6.0
Non-Metallic Minerals				
Cement	tonnes	342,949	330,650	-3.6
Glass Bottles	tonnes	19,147	18,702	-2.3
Petroleum Products				
Gasolene	'000 ltrs	165,409	129,299	-21.8
L.P.G.	'000 ltrs	17,037	12,030	-29.4
Fuel Oil	'000 ltrs	511,514	393,218	-23.1
Turbo Fuel	'000 ltrs	99,521	89,191	-10.4
Automotive Diesel Oil	'000 ltrs	141,993	116,890	-17.7
Other Petroleum Products	'000 ltrs	145,066	135,651	-6.5

Source: Survey conducted by PIOJ

Mining

WORLD NON-FUEL COMMODITY INDUSTRY

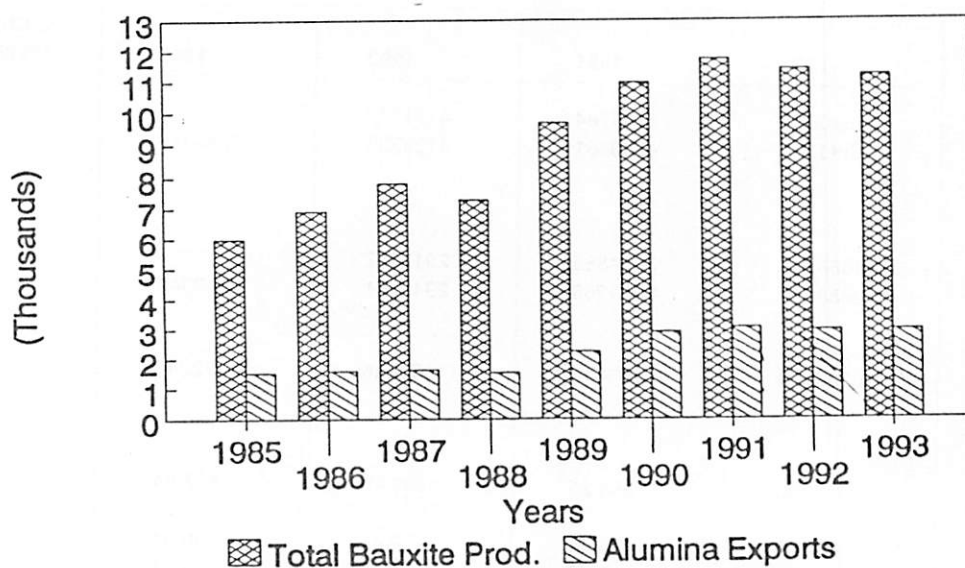
In 1993, average non-fuel commodity prices fell significantly, reflecting the weak overall aggregate demand in industrial countries and mounting stocks. Specifically, the prices of metal and minerals were pushed lower by weak demand and by continued exports from the former Soviet Union, decreasing by 4.5 percent in November 1993 – the lowest level in eight years. The January 1994 "IMF Memorandum to the Press" reported that the November prices of metals and minerals were 16.4 percent lower than in November 1992. Each commodity of this group showed declines of at least 10 percent over the year-earlier period.

Non-fuel commodity prices are projected to increase by 4 percent in 1994 with the expected upturn in world growth. Also of significance to the Jamaican economy is the projected 2 percent annual growth rate in world bauxite consumption up to the year 2000. If this forecast materializes, it should have a positive impact on the local economy.

DOMESTIC PERFORMANCE

Total bauxite performance showed a decline in 1993, based on the main indicators of the industry. Total bauxite production for the year was 11,172,246 tonnes decreasing slightly by 1.64 percent compared to the 1992 level. Crude bauxite and alumina exports

Figure 11.1
JAMAICA'S BAUXITE/ALUMINA PRODUCTION
AND EXPORTS 1985–1993
('000 Tonnes)



Mining cont'd.

showed mixed results – bauxite declined by almost 7.0 percent to reach 3,845,379 tonnes, while alumina shipments increased marginally by 0.06 percent in 1993, compared to 1992.

FOREIGN EXCHANGE EARNINGS AND CAPITAL EXPENDITURE

Gross earnings which totalled US\$527.94 million fell by 10.11 percent compared to the 1992 figure. However, for the review period, net earnings increased marginally by 6.29 percent to US\$200.78, while inflows from royalty and local costs increased by an average 10.0 percent in 1993. For the same period, levy/taxes fell by 50.1 percent.

FACTORS AFFECTING THE INDUSTRY

The downturn in the sub-sector has been influenced by several factors: the overall fall in the commodity's price on the world market – the London Metal Exchange – moving from US\$2,561 per tonne in 1988 to US\$1,302 per tonne in 1991 and up slightly to US\$1,153 per tonne in 1993. Also, weaker world demand for the metal linked with excess supply on the world market, and the loss by Jamaica of the bauxite contract to the former Soviet Union estimated at about US\$25 million annually are other factors that affected the sub-sector.

At the company level, this poor performance in the

Table 11.1
PRODUCTION AND SHIPMENTS OF JAMAICA'S BAUXITE AND ALUMINA
AND FOREIGN EXCHANGE EARNING
FOR 1990–1993

	1990	1991	1992	1993	% Change 1992/1993
Bauxite	3910834	4248784	4131752	—	—
Production	3885698	4260881	4128330	3845375	-6.85
Shipments					
Alumina					
Production	2868844	3014585	2917162	—	—
Shipments	2888630	3031988	2941441	2943345	0.06
Total Bauxite Disposed of	10936725	11608619	11359486	11172246	-1.64
Earnings (US\$Mn)					
Gross Earnings	730	668.25	587.29	527.94	-10.11
Levy/Taxes	122.76	108.70	70.44	66.91	-5.01
Royalty	6.45	5.80	5.22	5.57	6.70
Local Cost Inflows	150.28	136.13	113.23	128.30	13.31
Net Earnings	279.49	250.63	188.89	200.78	6.29

Mining cont'd.

industry which has reflected itself in severe losses for some companies, which based on speculations could have the effect in the future of reductions in the following areas: capital investment expenditure, staffing levels and possible output levels.

INDUSTRIAL MINERALS

Industrial minerals, an important sub-sector of the Jamaican economy is estimated to have grown in output in 1993. Limestone production and export is estimated to have grown by about 10 percent in 1993, influenced mainly by export production for CARICOM and the United States of America and output for the production of whiting.

Sand, gravel and marl fill are estimated to have grown by 10 percent and 5 percent respectively in 1993, facilitated mainly by new investment in the sub-sector and increased demand for these aggregates for road rehabilitation and construction.

CONSTRAINTS

The production of whiting, a high value-added limestone by-product, which is in great demand in foreign markets is reported to be constrained by the absence of suitable port facilities and capital equipment. Lobby efforts requesting Government intervention in the development of port infrastructure and or the provision of an appropriate mix of policies that will attract private investment as well as facilitate strategic alliances with international industrial mining companies have been repeatedly advanced but without any appreciable success.



BERGER
landscape of Paints

(Benson Court Apartments, St. Andrew)

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the Berger landscape of paints...
protecting Jamaican Homes adding colour
to every Jamaican sector...
Adding tone to modern Jamaican Architecture
...weathering the elements ...season after
season ...Proven Quality

BERGER
PAINTS ...For Lasting Beauty and Protection

Tourism

CARIBBEAN TOURISM

Between 1980-1990, international tourist arrivals worldwide grew at an annual average growth rate of 4.3 percent. France continues to be the major destination with 58.5 million international arrivals in 1992, followed by the United States (45.5 million) and Spain (36.1 million). In the Caribbean, tourist arrivals during the months January to August 1993, grew by an estimated 10 percent compared to the same period in 1992. Specific performance for selected countries are shown by (Figure 12.1).

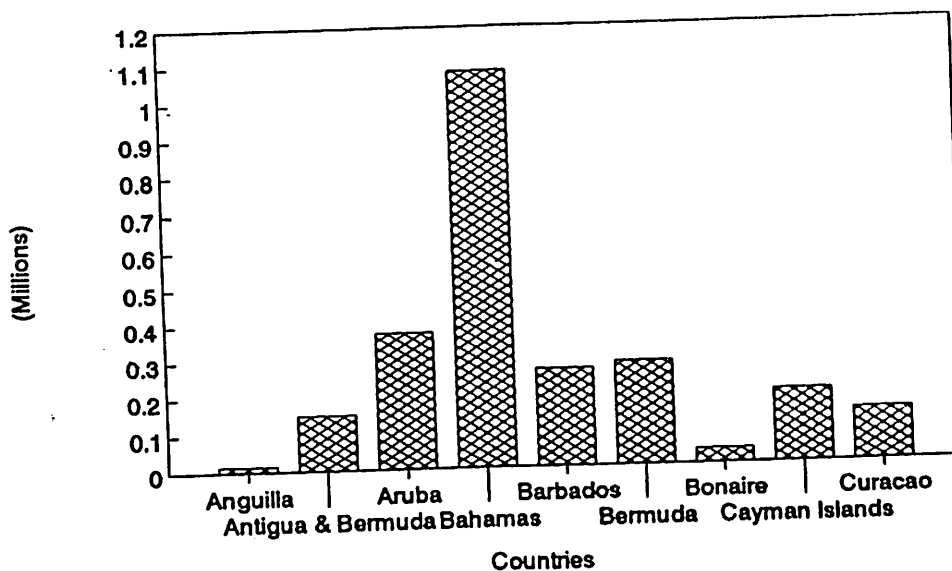
Table 12.1

TOURIST ARRIVALS FOR JANUARY-APRIL

Country	Tourists
Anguilla	14,636
Antigua & Bermuda	150,002
Aruba	373,824
Bahamas	1,079,985
Barbados	265,533
Bermuda	281,828
Bonaire	37,841
Cayman Islands	196,302
Curacao	139,593

Figure 12.1

TOURIST ARRIVALS FOR JANUARY TO APRIL 1993



Tourism cont'd.

JAMAICA'S TOURISM PERFORMANCE

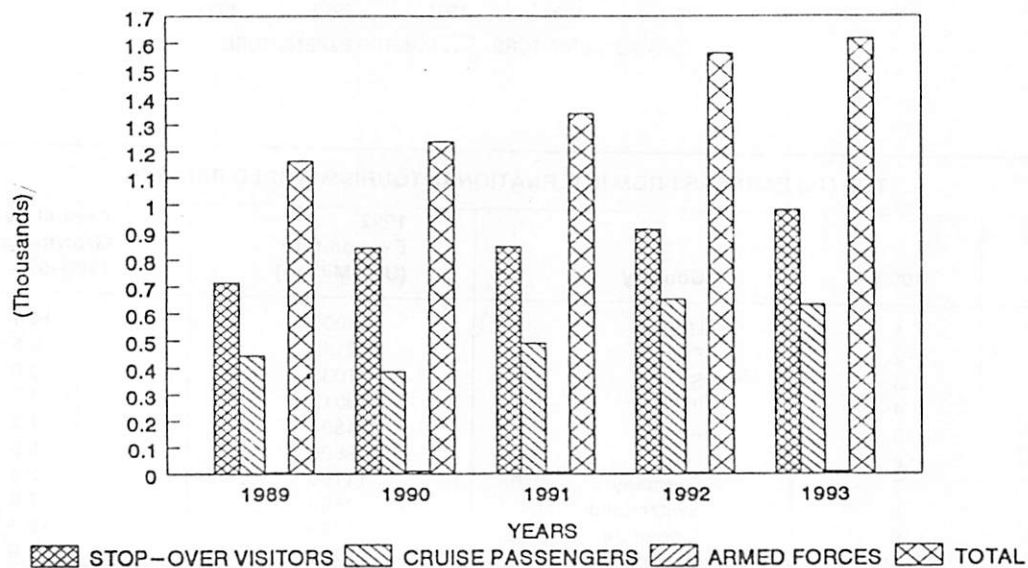
VISITOR ARRIVALS

The tourism sub-sector showed overall growth in 1993 despite a prolonged recession in the U.S.A. and Canada, the main destinations from which Jamaica's tourists originate. Visitor arrivals in 1993 increased by 3.4 percent, totalling 1,616,340 compared with 1,563,097 in 1992. Much of this increase was attributable to stopover arrivals which increased to 978,715 – a 7.7 percent growth over 1992. Cruiseship arrivals decreased by 3.1 percent (Figure 12.2).

For the first six months of 1993, an overall increase in visitor arrivals was recorded from most of the major sources. The average increase in tourists from North America (USA), Europe and Japan was about 10.0 percent. The only source that reflected a decline for the review period was Canada. The decline was almost 6.0 percent compared with the same period of 1992.

Specifically the increase in US tourist arrivals has been due to a number of factors: growth in the US economy after a period of economic recession, linked with growth in consumer confidence and hence spending.

Figure 12.2
VISITOR ARRIVALS 1989–1993
(IN '000)



Tourism cont'd.

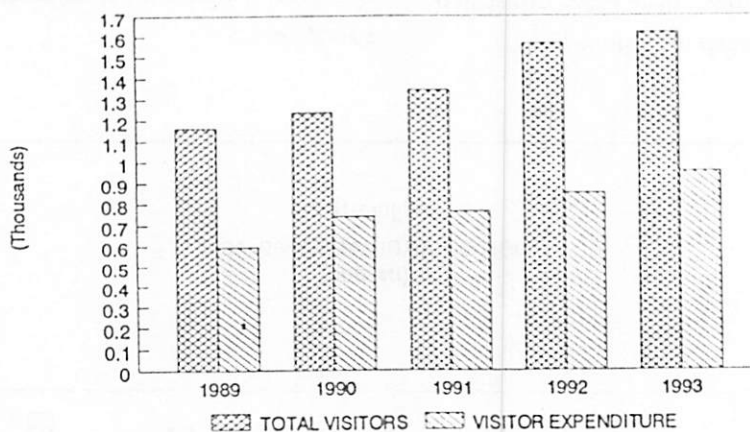
JAMAICA - WORLD SPENDING RECEIPTS

Jamaica's gross visitor expenditure for 1993 was estimated to be US\$950 million, an increase of 11.8 percent compared with 1992. This increase in foreign exchange receipts was attributed to the almost 8.0 percent increase in stop-over tourists. (Figure 12.3).

In terms of visitors' expenditure worldwide, the United States continues to head the ranking up to 1992 (with US\$49 billion), followed by France (US\$22 billion) and Spain (US\$21 billion).

Taken as a whole, the Caribbean Region (US\$9.8 billion) would have been in eighth position worldwide in terms of receipts (Table 12.2).

Figure 12.3

**COMPARISON BETWEEN
TOTAL VISITORS & VISITOR EXPENDITURE****TOP (10) EARNERS FROM INTERNATIONAL TOURISM WORLD RANKING**

1980	1992	Country	1992 Expenditure (US \$Million)	Annual Average Growth Rate 1980-92
1	1	U.S.A.	49000	14.1
2	2	France	22190	8.6
4	3	Spain	21035	9.6
3	4	Italy	20013	7.7
7	5	Austria	14804	7.2
5	6	U.K.	13600	5.8
6	7	Germany	11100	5.4
9	8	Switzerland	7590	7.6
15	9	Singapore	5782	12.3
10	10	Canada	5750	8.0
World Total			278705	8.7

Source: World Tourism Organisation

COMPARATIVE PRICING - ECONOMIC OUTLOOK

Caribbean tourism is regarded to be characterised by a high income elasticity of demand co-efficients of between 1.1 to 1.5. Given these high income elasticities, one can infer that economic growth in the industrialised countries leading to increases in disposable income, should result in growth in the Caribbean tourism industry. The economies of all the major tourist-generating countries are projected to grow in 1994, with Britain, Canada and the United States expected to perform the best.

Jamaica should therefore continue to experience growth in both visitor arrivals and gross foreign exchange earnings from the industry. However, tourism growth may be hampered by the lack of adequate infrastructure and a friendly visitor environment. For example, the absence of a satisfactory water and sewage system in Negril and Ocho Rios has resulted in a hold on further tourism development. Land squatting in areas adjacent to resort towns, continuing visitor harassment and high levels of crime and violence may also negatively affect visitor arrivals and expenditure in 1994.

Graphic Economic Data: 1983-1993

Figure 13.1
GROSS DOMESTIC PRODUCT
AT CONSTANT AND CURRENT PRICES

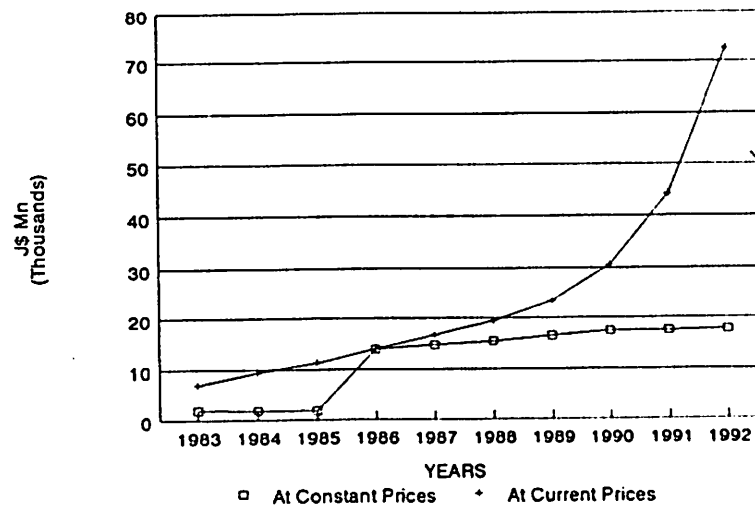
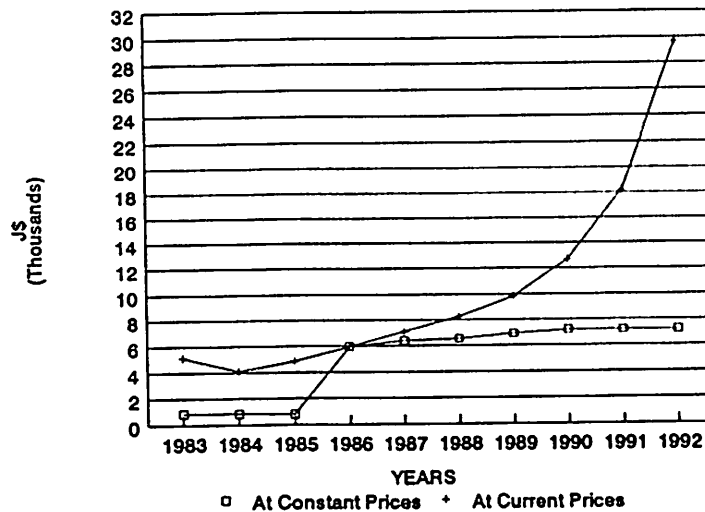


Figure 13.2
PER CAPITA GDP
AT CONSTANT AND CURRENT PRICES



Graphic Economic Data: 1983-1993 cont'd.

Figure 13.3
COMMERCIAL BANKS' LOANS AND ADVANCES
TO DEPOSITS

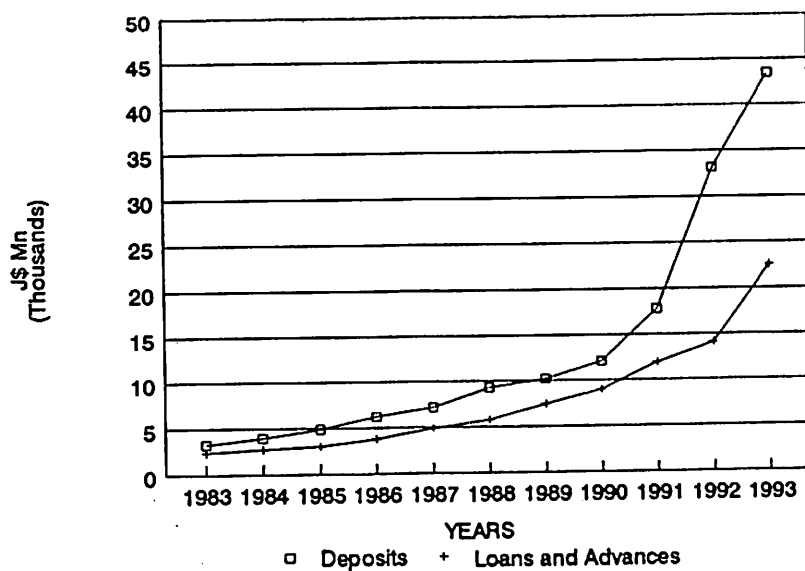
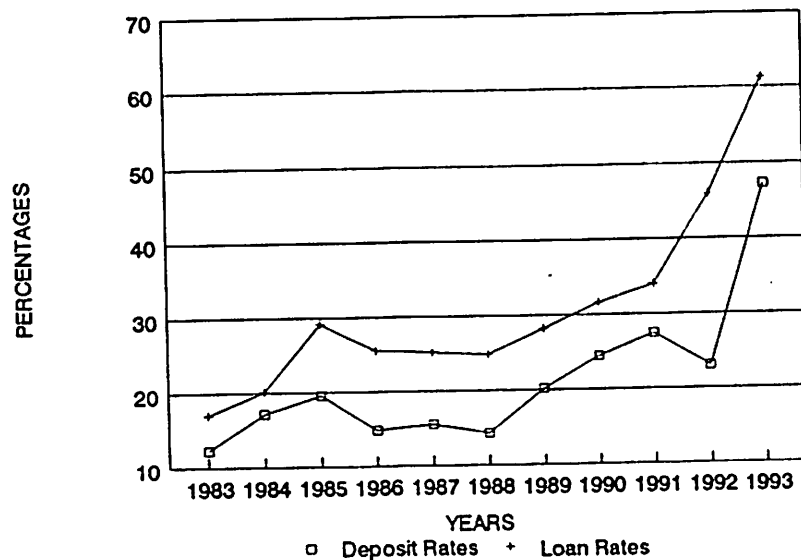


Figure 13.4
COMMERCIAL BANKS' WEIGHTED DEPOSIT
AND LOAN RATES



Graphic Economic Data: 1983-1993 cont'd.

Figure 13.5
ANNUAL PERCENTAGE CHANGE IN M1,
QUASI MONEY AND M2 1983-1993

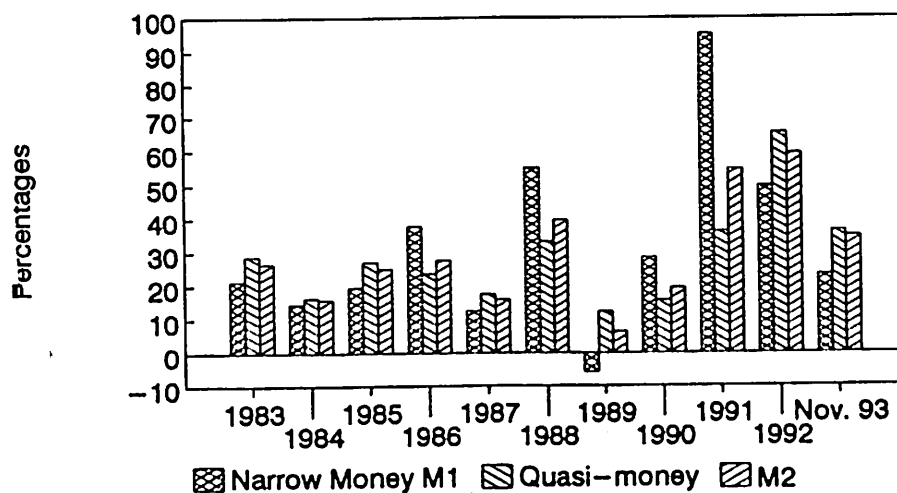
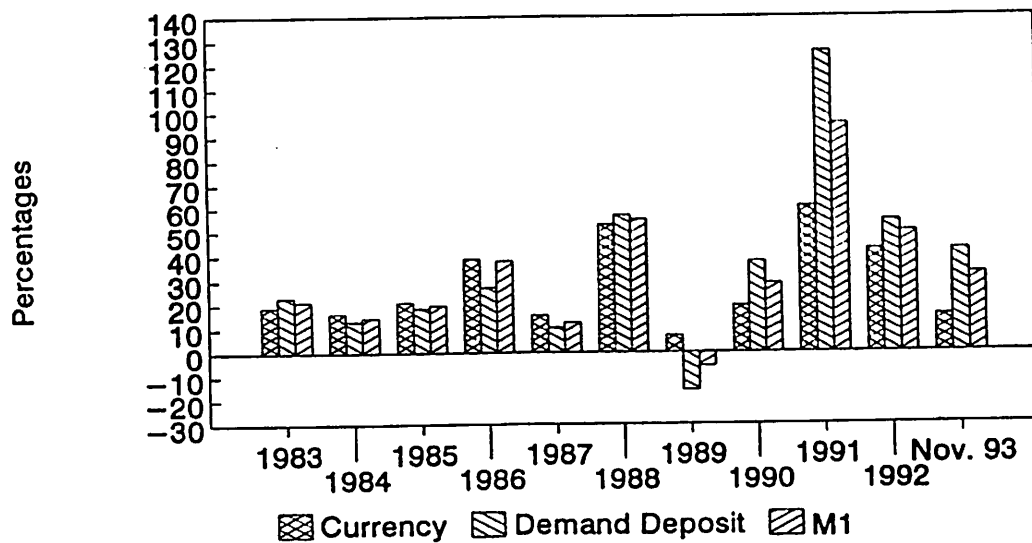
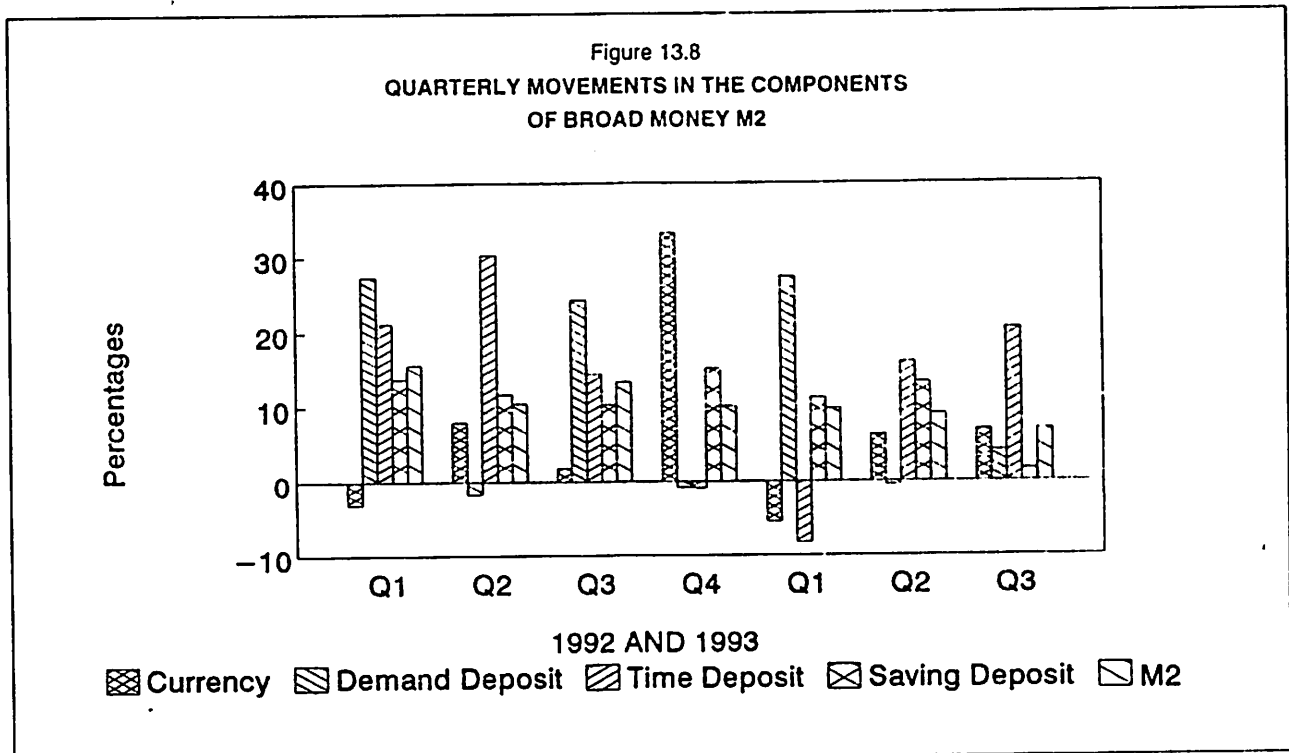
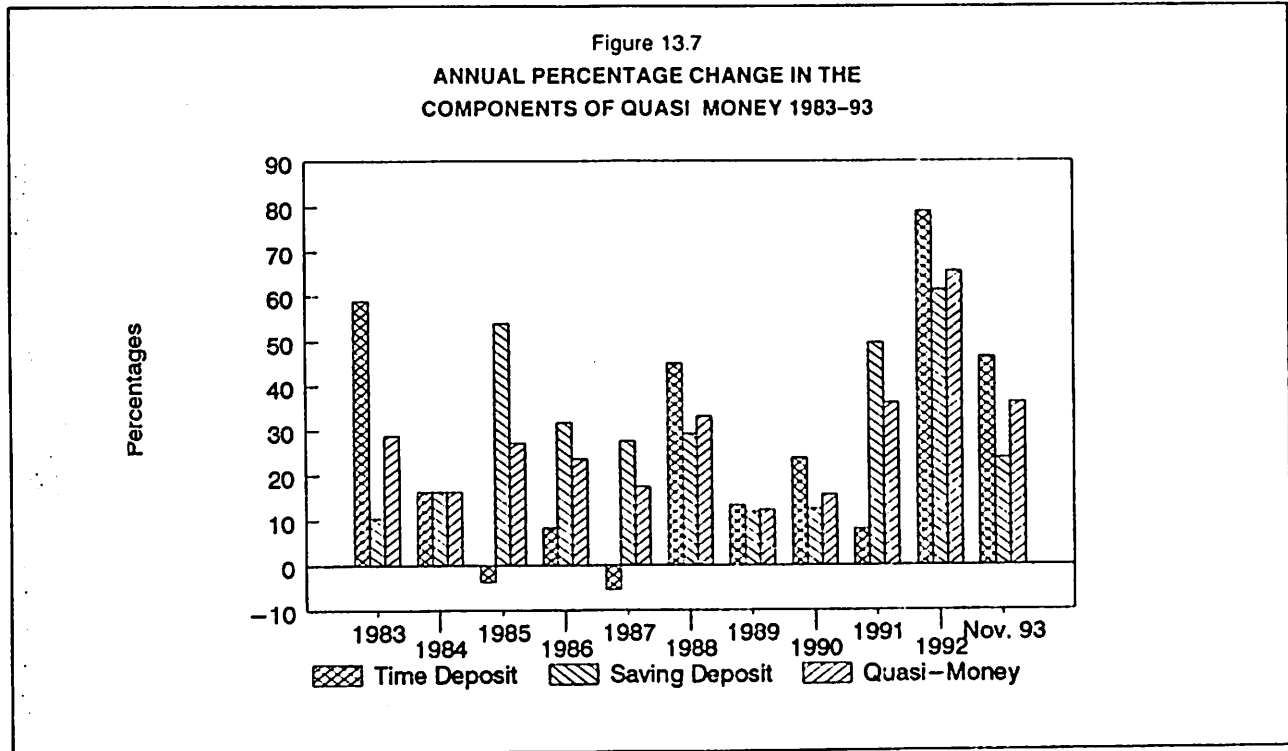


Figure 13.6
ANNUAL PERCENTAGE CHANGE IN THE
COMPONENTS OF NARROW MONEY (M1) 1983-93



Graphic Economic Data: 1983-1993 cont'd.



Graphic Economic Data: 1983-1993 cont'd.

Figure 13.8
JAMAICA'S EXTERNAL TRADE BALANCE
1986-1993 (US\$Mn)

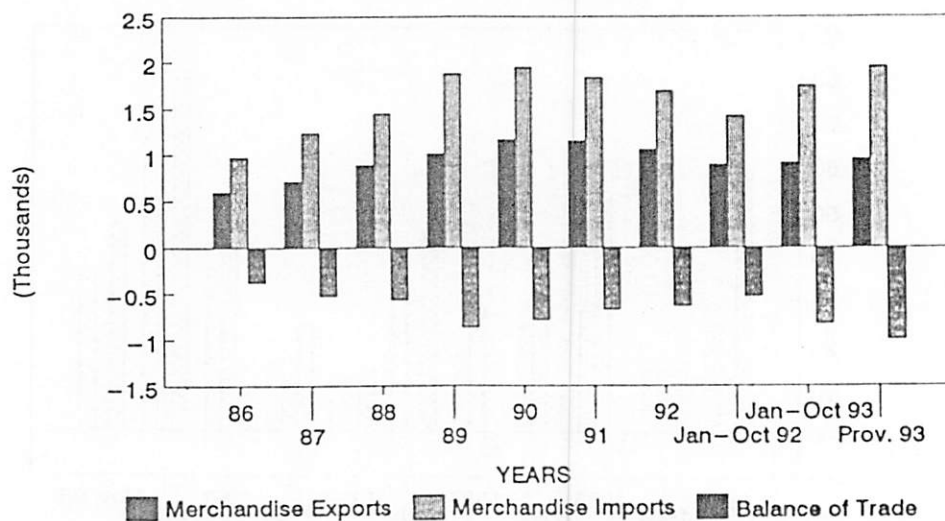
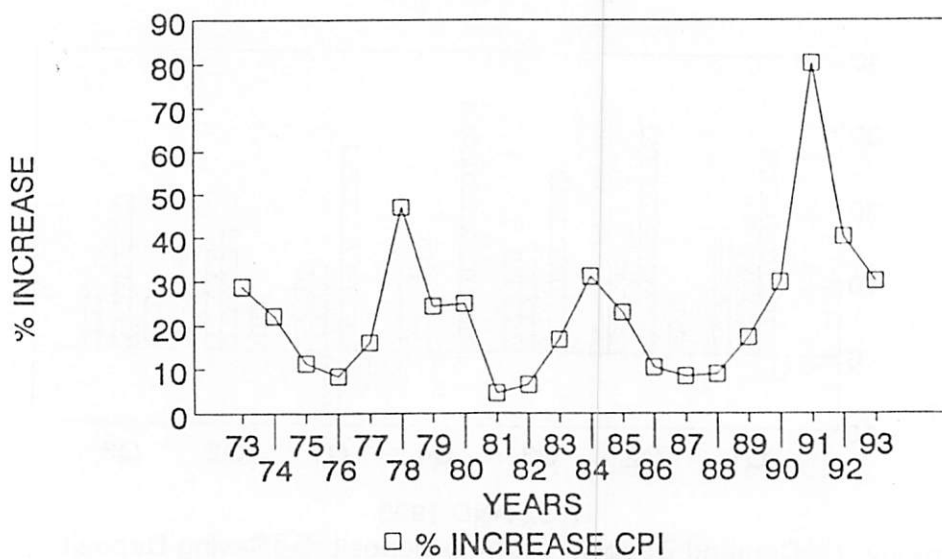


Figure 13.10
RATE OF INFLATION
1973-1993



Graphic Economic Data: 1983- 1993 cont'd.

Figure 13.11
CONSUMER PRICE INDEX (ALL JAMAICA)
ANNUAL INFLATION RATES

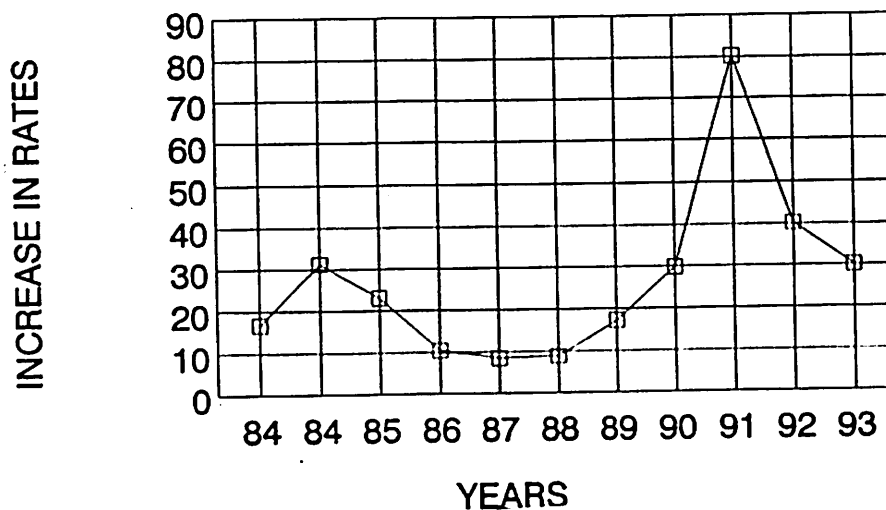
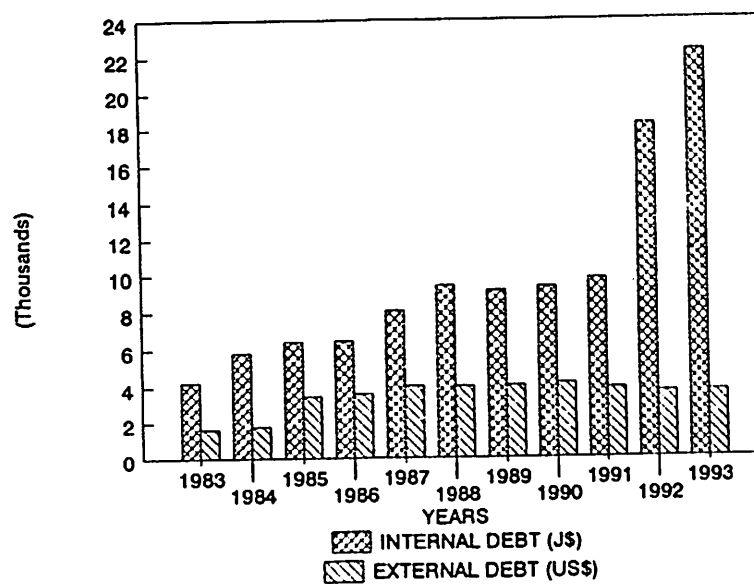


Figure 13.12
JAMAICA'S INTERNAL AND EXTERNAL DEBT



PRIVATE SECTOR ORGANISATION OF JAMAICA

Graphic Economic Data: 1983-1993 cont'd.

Figure 13.13
EXCHANGE RATE JS/US\$

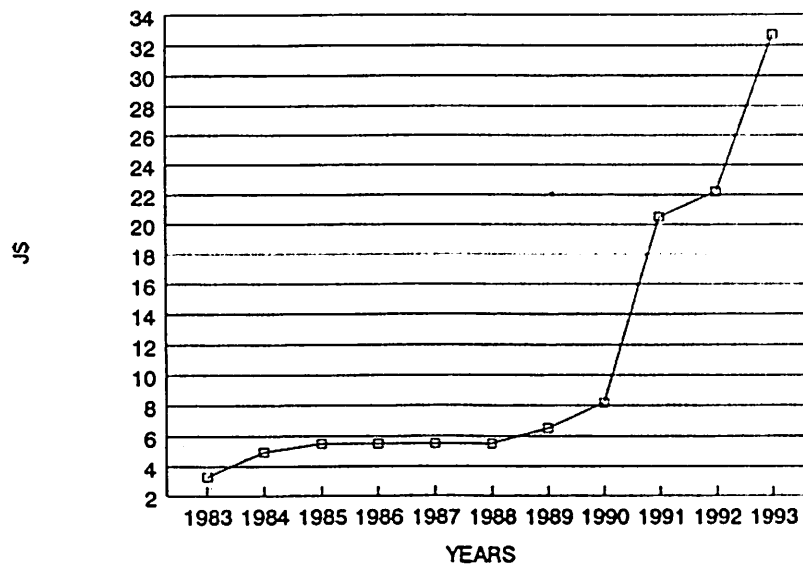


Figure 13.14
STOCK EXCHANGE MARKET INDEX
1983-1993

