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THE PRIVATE SECTOR
ORGANISATION OF JAMAICA

ANNUAL
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ON THE
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ECONOMY

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Overview of Annual Economic Report 1994

The high interest rates and relatively tight liquidity of the latter half of 1993 carried forward into 1994 and prevailed more or less unchanged until about mid-year. Early in the year, the exchange rate stabilized at about J\$33.40 to US\$1.00 and by year end had actually appreciated slightly to about J\$33.20 to US\$1.00.

The high nominal interest rates in Jamaican dollar deposits and a stable exchange rate encouraged significant inflows of foreign exchange as people sought a higher return on their liquid assets. Through the introduction of a system of cambios in February of 1994, the inflow of foreign exchange into the official system was increased substantially and the Bank of Jamaica was able to make a corresponding increase in its purchases of foreign exchange from the licensed foreign exchange dealers. This led to a rapid build-up in the Net International Reserves of the Bank of Jamaica, which increased by just under US\$400 million during 1994.

The increase in the Net International Reserves created problems for monetary and fiscal policy management as it led to a dramatic increase in the Net Foreign Assets of the Bank of Jamaica which in turn fueled the growth of the money supply. This growth prolonged the period of high inflation which had prevailed since the latter half of 1993, as inflation peaked in July at 40% and did not begin to trend downwards until August 1994. Interest rates on government paper did not begin to decline significantly until the downward trend in

inflation became clear, after which they fell more or less in tandem with the rate of inflation.

Fiscal policy was affected because the interest cost of the large amount of short and medium term government paper which was issued as part of the tight monetary policy was far higher than programmed, due both to the high level of the interest rates and the longer period during which these rates had to be maintained.

By the last quarter of the year inflation was down on average to just over 1% per month and government had begun to reduce its purchases of foreign exchange from the authorized dealers and cambios in an effort to slow the build-up in the Net International Reserves.

Despite the contradictions in monetary policy, there were a number of positive developments in the economy. The trade gap narrowed due to a stagnation in the growth of imports and a 13.8% growth in merchandise exports. The current account recorded a substantial surplus due to the improvement in the trading account and also to substantial private transfers.

These improvements however, were not sufficient to bring about substantial growth in the economy which is not expected to exceed 0.5% for 1994. With the point to point inflation rate for 1994 at 26.7%, the economy continues to be in a state of low level disequilibrium and without radical reform of the monetary authority, it is difficult to see the way out of this dilemma.

Overview of Annual Economic Report 1994 cont'd

Outlook

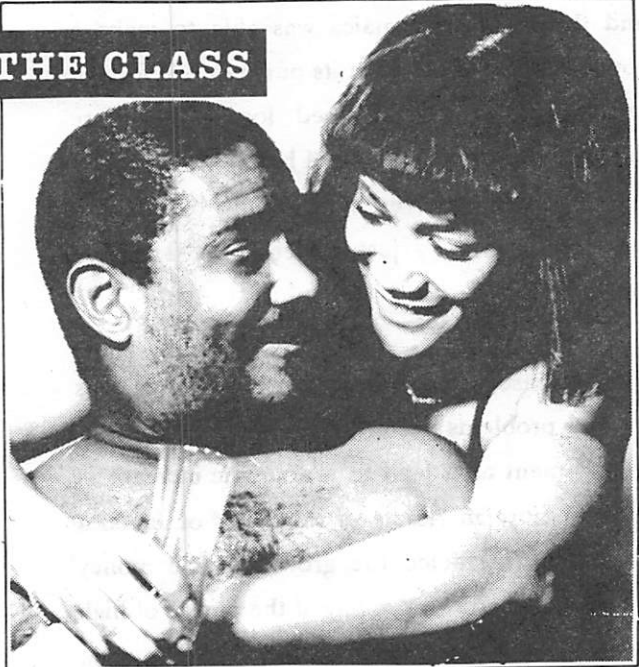
The recently tabled estimates of expenditure for the government's 1995/96 financial year have not given any cause for comfort so far as the development of a growth agenda for the economy is concerned. The expenditure budget continues to expand its share of gross domestic product, moving from 54.6% in April 1994 to 61.3% in April 1995. The government is therefore increasingly crowding out the private sector.

When one adds to this the financial repression that results from the present monetary policy, the

situation looks even more bleak. Through the cash reserve and liquid assets ratios imposed on financial institutions, the government is at present (April 1995) able to borrow locally at interest rates of 22-23% while private firms must borrow from financial institutions at prime rates ranging from 45% to 64%. With 1994/95 fiscal year inflation likely to be between 21-23%, one can see the hugely positive interest rates at which the private sector must borrow. This, together with the crowding out referred to earlier, is unlikely to give a boost to private investment in 1995/96 and hence there is little likelihood of significant economic growth in this fiscal or calendar year.

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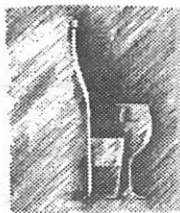
Overview of Annual Economic Report 1994 cont'd

The inflation outlook for this year is not as bright as it might have been, considering the adjustment that the economy went through last year. Money Supply growth is falling very slowly and while the short-term prospects are for a further decline in the point to point inflation rate, this downward trend may not last much longer and may be reversed in the latter half of the year. The huge fiscal budget also suggests that government is expecting an inflation rate in 1995 that is not much lower than that for 1994. Consequently, we expect an inflation rate in the region of 18-22% for the 1995 calendar year.

The major challenge for the government's policy makers remains the issue of growth. 1994 was the fourth consecutive year of economic stagnation and there is nothing in the 1995/96 budget to suggest that things will improve in 1995. The heavy reliance on monetary policy has lead to an increasing drag on the budget through a mushrooming of the local debt and a massive

increase in the local debt servicing cost. It has also created a drag on the productive sector of the economy through the high real interest rates that must be paid on borrowed funds.

At the heart of this problem is the difficulty in controlling the growth of the money supply due to the government's virtually unlimited access to credit from the Bank of Jamaica. This problem has not yet been addressed despite eighteen years of International Monetary Fund structural adjustment programmes and remains unresolved as we approach the end of what is supposed to be our last loan programme with the Fund. It is becoming more and more apparent that unless we can eliminate government's ability to borrow from the central bank and radically reform this institution, the short, medium and long-term prospects for the economy will remain rather bleak.



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The World Economy in 1994-95

Output

In 1994, total world output was projected to expand by 3 percent and by 3.5 percent in 1995, close to the trend rate of growth over the past two decades (Table 2.1). These forecasts are based on expansions which were well under way in North America, and based on clearer signals of recovery across Europe and in Japan. The marked slowdown in world trade and growth in the early 1990s (which occurred despite strong economic activity in the developing countries during the period) appears to have run its course. For the review period of 1994-95, a stronger average growth rate of 5.5 percent was forecast for the developing countries, but with significant disparities continuing between individual countries.

World Trade is expected to expand strongly in the period ahead, possibly rising by over 7 percent in 1994 and 6 percent in 1995, which in comparison to the past two decades, would be well above the 5 percent average growth rate that was observed. The International Monetary Fund (IMF) has noted that "this resurgence reflects increased activity in industrial countries, stronger import demand in countries in transition, and continued rapid growth in developing countries. Trade among the developing countries is also expanding strongly, supported by trade liberalization and increased intra-regional foreign direct investment".

Consumer Prices: In industrial countries, inflation reached 2.4 percent in 1994, and is expected to increase marginally to 2.6 percent in 1995, while

the comparative figures projected for developing countries are: 47.5 percent and 13.2 percent respectively. In the so called transition countries consumer prices for 1994-95 are forecast at 330.8 and 89.4 percent respectively.

Oil: The past year has witnessed sharp price movements in world commodity and financial markets. From a peak of US\$17.80 a barrel in April 1993, oil prices fell sharply to US\$12.65 a barrel in December 1993, rose to US\$13.40 a barrel in March 1994, and recovered to over US\$17 a barrel in early July. Prices declined again in August, and fluctuated around US\$15.75 a barrel in the first week of September. The current projection for 1995 is US\$15.15 a barrel.

Non-oil Commodities: Prices of non-oil raw materials have risen significantly, with particularly large price spikes in a few commodities. Severe adverse weather in Brazil and the very low level of producer stocks brought coffee prices to an eight-year high, with prices in August 1994 up by almost 150 percent from their average in the first quarter. Similarly copper prices were up 30 percent for the same review period, and the prices of other metals also rose substantially. A well known indicator, The Economist's Commodity Price Index, which *weights prices by the value of imports into the industrial countries* - showed a striking increase of more than 37 percent in the twelve months through August 1994. The IMF has argued that speculative behaviour may have contributed to some of these increases, but quite

The World Economy in 1994-95 cont'd

Table 2.1

Overview of the World Economic Outlook Projections, 1991 – 95
(Annual percent change unless otherwise noted)

	1991	1992	CURRENT PROJECTION		
			1993	1994	1995
World output	0.6	1.7	2.2	3.1	3.6
Indus. Countries	0.5	1.7	1.1	2.7	2.7
U.S.	-0.7	2.6	2.7	3.7	2.5
Japan	4.0	1.3	-0.1	0.9	2.5
Germany	1.7	1.9	-1.6	2.3	2.8
France	0.7	1.4	-1.0	1.9	3.0
Italy	1.3	0.9	0.3	1.5	2.8
U.K.	-2.2	-0.5	1.8	3.3	3.0
Canada	-1.7	0.7	2.6	4.1	3.8
European Union	0.8	1.1	-0.3	2.1	2.9
Developing Countries	4.5	5.9	6.1	5.6	5.6
Jamaica	0.3	1.2	0.2		
Africa	-11.8	0.2	1.0	3.3	4.5
Asia		8.2	8.5	8.0	7.3
Middle East and Europe		7	4.8	1.4	2.5
Western Hemisphere		2.5	3.4	2.8	3.3
World Trade Volume	2.4	4.6	3.0	5.0	
Industrial country import volume 1	2.5	4.7	4.0	7.2	5.9
Developing country import volume	9.7	11.2	9.3	7.2	7.9
Commodity Price (in U.S. dollars)					
Oil 2	-17.0	-0.5	-11.5	-6.0	
In U.S. dollars a barrel	18.30	18.22	16.13	15.16	15.15
Nonfuel 3	-4.5	-0.1	-3.8	13.6	6.5
Consumer Prices					
Industrial countries	4.6	3.3	2.9	2.4	2.6
Developing countries	35.7	38.7	46.2	47.5	13.2
Countries in Transition	103.2	730.7	687.9	330.8	89.4
Six-month LIBOR (in percent) 4					
On U.S. dollar Deposits	6.1	3.9	3.4	5.0	6.0
On Japanese Yen Deposits	7.2	4.3	3.0	2.3	2.9
On deutsche mark deposits	9.4	9.4	6.9	5.2	4.8

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during August 1–23, 1994, except for the bilateral rates among ERM currencies, which are assumed to remain constant in nominal terms.

1 – Information on 1993 trade may understate trade volume because of reduced data coverage associated with the abandonment of customs clearance of trade within the European Union.

2 – Simple average of the U.S. dollar spot prices of U.K. Brent, Dubai, and Alaska North Slope crude oil; assumptions for 1994 and 1995.

3 – Average, based on world commodity export weights, of U.S. dollar prices.

4 – London interbank offered rate.

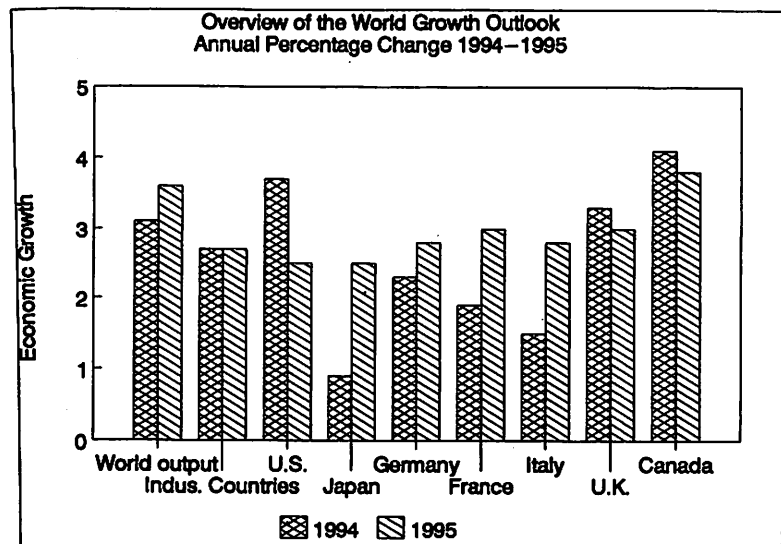
The World Economy in 1994-95 cont'd.

possibly, the most important factor explaining the general pickup in commodity prices was probably the broadening of the recovery among the industrial countries. However, in terms of a longer term perspective, even with these sharp increases, the index is still well below its peaks in the 1980s.

Another significant market development, similar to the increase in commodity prices, was the sharp rise in bond yields in industrial country markets and the likely implications of this development for other markets. A review of economic literature points to the fact that the increase may be attributed to stronger growth, associated with the emerging recoveries in continental Europe and Japan and the continuing expansions in other large economies. Growth in interest rates is therefore a normal equilibrating mechanism that will tend to slow the pace of expansion from what it otherwise would be. Also, it should be noted that part of the increase in bond yields may be a reflection of higher expected inflation and increased risk premiums because of uncertainty regarding inflation prospects and policy responses. The IMF contends that "decisive monetary policy responses, where

warranted, together with greater clarity regarding both fiscal and monetary policy objectives and commitments, may reduce some of these factors".

Figure 2.1



Implications: It is felt that the increases in bond yields may have negative consequences for some countries. For example, in indebted countries such as Jamaica and Guyana, the debt-servicing costs are likely to rise, depending on how rapidly or slowly changes in long-

The World Economy in 1994-95 cont'd.

term rates are passed through to debt-service payments.

Another important implication that should be noted especially by managers of portfolio funds in developing countries such as Jamaica is the fact that in this period of rising long-term bond yields, there is likely to be a significant reduction of capital flows to our markets and downward correction in many of the emerging stock markets. This likely development, of course, would be consistent with the previous period in which low interest rates in industrial economies were associated with large portfolio shifts that pushed emerging equity market prices up sharply, as happened in some Latin American Countries.

<p>Trade Developments: The General Agreement on Tariffs and Trade (GATT)</p>

On the trade front, after 97 months of complex negotiations, 125 participants concluded the eighth round of multilateral negotiations with the signing of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in Marrakesh, Morocco, on April 15, 1994. As noted by the International Monetary Fund (IMF), this trade development will provide a major boost to the movement towards worldwide trade liberalisation by improving market access and broadening the reach of the multilateral trade system to encompass virtually all areas of trade and strengthening its rules and disciplines as well as its dispute settlement mechanism. Also, the signing of this Agreement gave permanency to the multilateral trading system by establishing the World Trade Organisation (WTO), which among other things will provide the vehicle for trade

negotiations on an ongoing basis.

Further, the Uruguay Round has been described by the IMF as "... perhaps the last in a series of comprehensive trade negotiations ... a first in generating the active involvement of almost all participating countries - developed, developing, and those in transition". In the mid-1980s many developing countries were not eager to engage in the broad and complex negotiations for various reasons. For example, the mode of operation of formerly centrally planned economies severely limited their effective participation but over time, and with the convergence of economic policy formulation toward a market-oriented allocation of resources, their participation in the Round increased. As a result, there has been an upsurge in the number of applications for accession to the GATT, and by the time of the signing of the Uruguay Round Agreements, the number of Contracting Parties had risen to 123. Working parties for the accession of a further 21 countries or territories had also been established. Evidently, this drive towards universal membership in the multilateral trading system reflects the recognition: first, that multilateral rules and global trade liberalisation provide an essential anchor for the economic reform efforts of many countries and, second, that they play an important role in improving the investment and employment climate in general and the quality of investment decisions in particular.

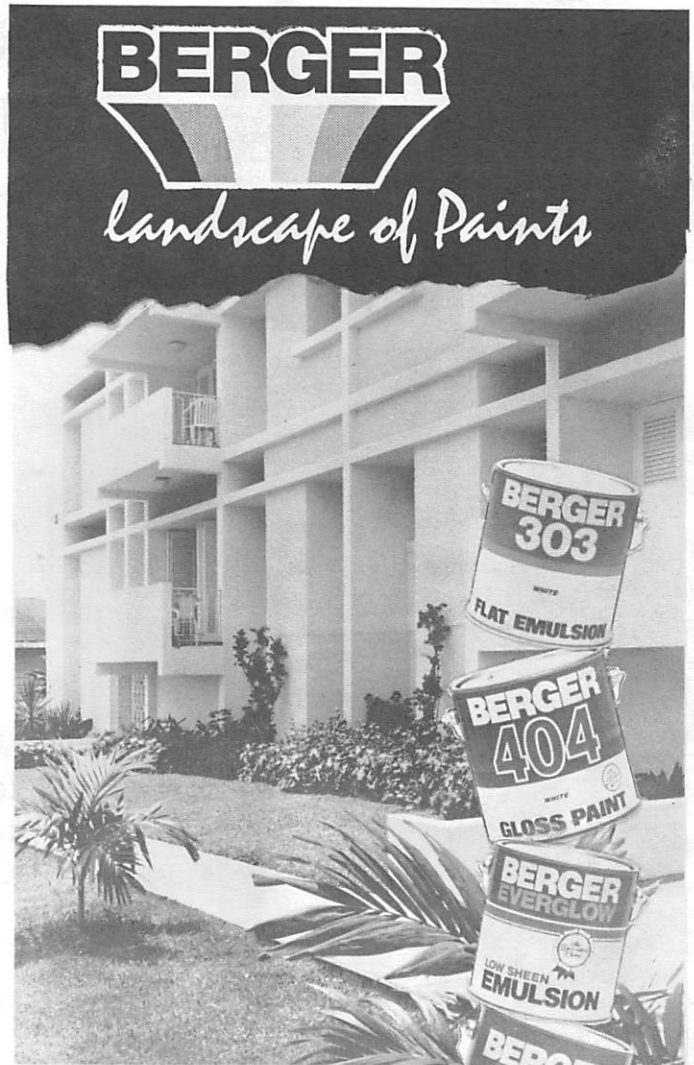
With the recognition of these new issues, the WTO has been provided with a broad agenda. Among the "new areas" proposed for consideration by the WTO are: trade and the environment, competition policy, and trade-related aspects of other policy areas, including labour standards.

The World Economy in 1994-95 cont'd.

World Economic Outlook

As shown by Figure 2.1, the growth outlook for many industrial countries particularly Canada, United Kingdom, United States of America and Japan as well as a number of countries in Asia and Latin America point to improvement in the future. This will probably result from efforts in many countries to keep inflation and unemployment rates under control, as well as increased opportunities for production and trade that will result from the successful conclusion of the GATT negotiations and the passage of NAFTA legislation in the US, in addition to the continuing progress towards European unification. Together, these developments should facilitate increased production and trade which may bring about improvement in the medium term. This process may be accompanied by substantial economic restructuring in many countries, and this adjustment process is likely to cause significant social and economic dislocation.

The Caribbean Development Bank stated that benefits are likely to accrue to those economies with the capacity to identify, create and meet the demand for new goods and services in the international market place, and to those economies with the flexibility to adapt to new products and processes as demand patterns change.




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Gross Domestic Product

In the Jamaican economy, like other small open economies, sustainability of growth depends greatly on significant growth in gross exports of goods and non-factor services. Using a basic model developed by a recognised regional institution to forecast key macro-economic indicators of the Jamaican economy, leading indicators of macro-economic performance and findings from the 1994 PSOJ/USAID Business Behaviour Survey, we are able to forecast the growth of real Gross Domestic Product (GDP).

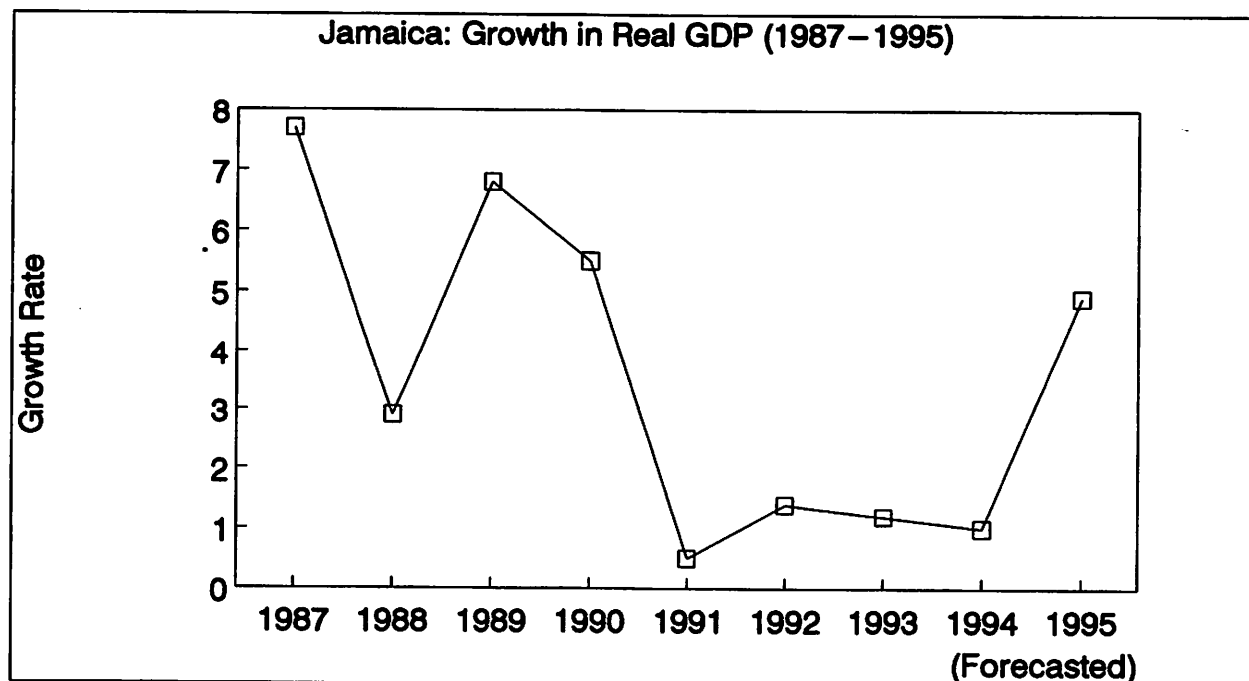
The model indicates that in real terms GDP is expected to grow by 0.5 percent in 1994. This low level of growth is due mainly to continued high

domestic price inflation (26.7%), overall weak performance of traditional exports and the tourism sector. Low growth in gross domestic investment also contributed to this downturn.

Merchandise exports grew by 13.8 percent in 1994, totalling US\$1,223.9 million and gross travel receipts decreased by 3.7 percent over 1993 amounting to US\$915 million.

In this context the pace of capital inflows ultimately rests upon the profitability of investment in economic activity.

Figure 3.1



Gross Domestic Product cont'd

On the demand side, indicators point to a reduction in private consumption. This is reflected by a significant drop in consumer goods imports influenced mainly by a decline in motor car imports. Also, there was a fall in consumer credit by commercial banks, which combined to assist in maintaining the stability of the exchange rate and impacting favourably on the balance of payments and influencing the projected level of economic growth.

Manufacturing

The Jamaican manufacturing sector which has been declining by an average 3.3 percent annually is not expected to show growth in 1994-95. The export performance of selected major traditional manufactured exports (sugar, rum, bauxite, alumina and gypsum) showed mixed results in 1994. Bauxite and alumina earnings increased by 22.2 percent to US\$537.2 million, while sugar (US\$73.0M), rum (US\$21.0M) and gypsum earnings (US\$1.0M) all declined by 25.1%, 2.5% and 4.7% respectively in 1994. In the non-traditional sub-sectors, Apparel exports amounted to US\$246.3 million, a 25.2 percent increase over 1993. This level of export earnings by the apparel subsector accounts for 61 percent of the US\$403.7 million total non-traditional export earnings in 1994. Also, furniture exports for the first eleven months of 1994 declined by 21.15 percent, recording US\$3.2 million over the corresponding period in 1993.

Mining

Total bauxite performance showed an increase in 1994, based on the main indicators of the industry. Total bauxite production for the year was 11,851,234 tonnes increasing by 6.1 percent over 1993. Again, crude bauxite and alumina exports showed mixed results - bauxite declined by almost 7.0 percent to reach 3.6 million metric tonnes, while alumina exports increased substantially by 13.0 percent to reach 3.3 million tonnes in 1994, compared to 1993. This level of alumina shipments represent the highest ever.

Gross earnings for bauxite and alumina totalled US\$66.9 million and US\$431.6 million respectively between January to November 1994. This represents a 13.6 percent decline in bauxite earnings and a 6.1 percent increase in alumina earnings over the corresponding period in 1993. The out-turn for net foreign exchange earnings is expected to reflect a significant increase for 1994. This development was due in part to the increased production and export of alumina as well as increased alumina prices.

Tourism

The tourism sector recorded an overall decline in visitor arrivals of 2.5 percent or 40,634 tourists in 1994 compared with a growth of 3.4 percent in 1993. For 1994, visitor arrivals totalled 1,575,706, with declines in all subsectors: stopovers fell by 0.2 percent, cruise passengers 5.6 percent and armed forces 50.0 percent. Gross visitor expenditure which was projected to reach US\$1.0 billion in 1994, declined by 3.7 percent amounting to US\$915 million.

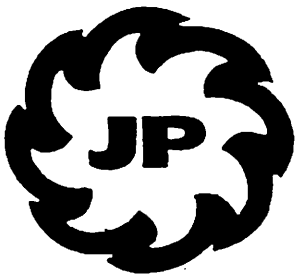
Gross Domestic Product cont'd

Agriculture

Preliminary indicators of the performance of Agriculture in 1994 showed an absence of strong growth. The Planning Institute of Jamaica's Index of Agriculture Production indicated that there was moderate growth of 3.6 percent in the agricultural sector up to the end of the July to September period of 1994 over the corresponding quarter of 1993.

However, there was a 8.1 percent decline in foreign exchange earnings for selected traditional and non-traditional agricultural exports for January to September 1994 over the comparable 1993 period. Foreign exchange earnings amounted to US\$154.1 million for the first nine months of 1994.

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Balance of Payments

The macro-economic policies which were implemented during 1994, were aimed at achieving stability mainly as it related to the exchange rate of the Jamaican dollar and to the levels of inflows of foreign exchange to the official market. They were also intended to slow the economy's overall demand for and ability to consume goods and services and also to restrict the movement of prices as measured by movements in the consumer price index.

Additionally, increases in both demand and prices for some major exports, e.g. bauxite and alumina, boosted export earnings and supported the export sector's overall 13.8% growth during 1994.

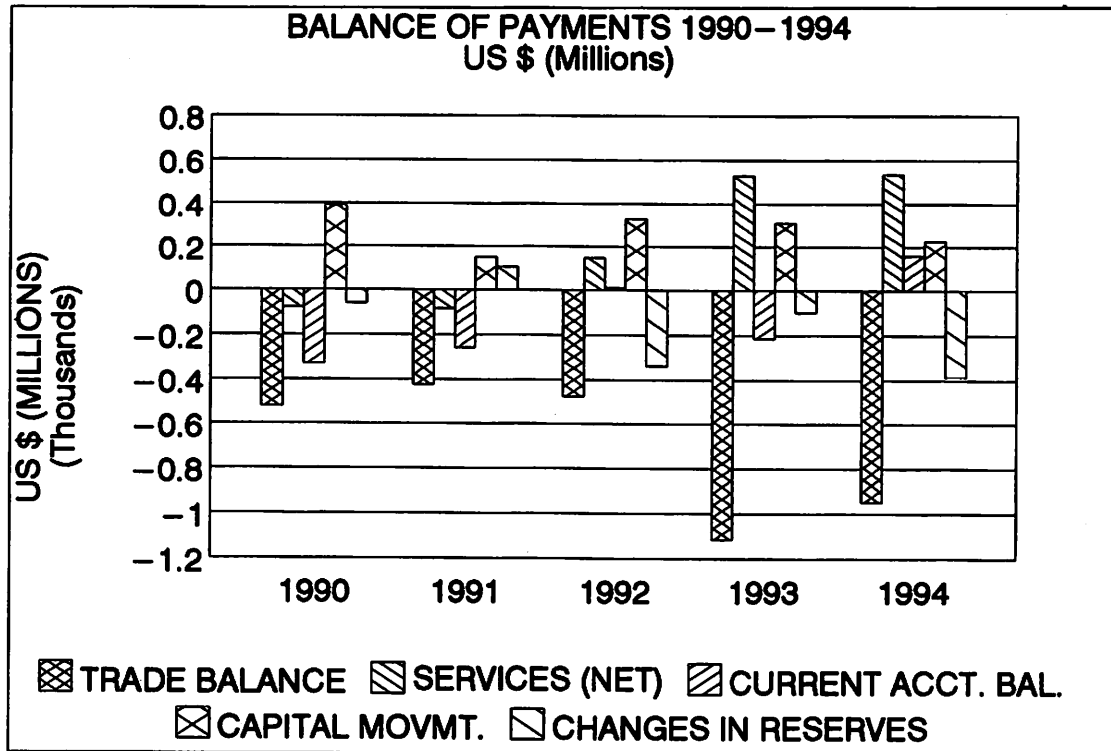
The foreign reserves at the Bank of Jamaica were significantly improved due to the establishment of Cambios which widened foreign exchange market and brought large sums of foreign exchange into the official system. Thus Bank of Jamaica's purchases of foreign exchange increased substantially and the Net International Reserves grew rapidly as a result.

Table 4.1

Balance of Payments 1990 – 1994 (US\$Mn)					
	1990	1991	1992	1993	1994
Merchandise					
Exports (fob)	1157.5	1150.7	1053.6	1075.4	1223.9
Imports (cif)	1679.6	1575.0	1529.1	2189.2	2171.4
Balance of Trade	-522.1	-424.3	-475.5	-1113.8	-947.5
Services (Net)	-77.3	-84.3	146.6	529.7	534.7
Foreign Travel	686.3	710.4	794.2	886.9	874
Investment Income	-517.1	-478.9	-348.2	-240.2	-216.9
Others	-246.5	-315.8	-299.4	-117.0	-122.4
Goods and Services (Net)	-599.4	-508.6	-328.9	-584.1	-412.8
Transfers (Net)	271.4	252.8	339.8	371.9	571.7
Private	155.4	153.3	248.2	306.4	534.3
Official	116.0	99.5	91.6	65.5	37.4
Current Account Balance	-328.0	-255.8	10.9	-212.2	158.9
Capital Movement (Net)	387.6	150.6	326.3	310.3	226.5
Private	291.7	51.4	336.3	314.4	327.9
Official	95.9	99.2	-10.0	-10.6	-8.4
Government Direct				-1.4	-127.4
Government Guaranteed				2.3	17.1
Divestment				5.6	17.3
Change in Reserves (minus = increase)	-59.6	105.2	-337.2	-98.1	-385.4
Source : Bank of Jamaica					

Balance of Payments cont'd

Figure 4.1



Merchandise Trade

Jamaica's trade data for 1994, showed total transactions valued at US\$3.4 billion comprising export earnings of US\$1,223.9 million and import expenditure of US\$2,171.4 million. This resulted in a merchandise trade deficit of US\$947.5 million. Comparable data for 1993, shows trade valued at US\$3.26 billion, comprising exports of US\$1,075.4 million, imports of US\$2,189.2 million and a trade deficit of US\$1,113.8 million. The trade data for 1994 when compared with that for 1993, reveal that for 1994 there was a 0.8% decline in imports, a 13.8% increase in exports and a narrowing of the

trade gap by 14.9%. Although imports declined marginally, the significant rise in exports earnings was the major factor influencing the narrowing of the merchandise trade deficit.

Services

For the third consecutive year, there has been a significant net positive out-turn for the service sector. For 1994, this was US\$534.7 million compared with US\$529.7 in 1993, an increase of US\$5.0 million or 0.9%. This out-turn embodies a 1.45% decline in travel receipts a 9.70% decline

Balance of Payments cont'd

in net out-flows of investment income and a 4.61% increase in net out-flows for other services.

The decline in travel receipts reflects mainly the down-turn in the tourism sector, which during 1994 experienced a fall in visitor arrivals and, in turn, in the sector's earnings. The decline in net out-flow of investment income was affected mainly by lower interest payments by Bank of Jamaica as well as lower levels of profit repatriation by the bauxite companies.

gifts and funds brought in by returning residents. Substantial though as yet unquantified inflows also occurred as a result of the high interest rate differential between local and foreign currency deposits, with the former offering a much higher nominal (and real) rate of returns.

Lower levels of official flows reflect a decline in receipts of grants etc. from traditional sources.

Transfers

Net Transfers for 1994 amounted to US\$571.7 million which was US\$199.8 million higher than the level recorded at December 1993. This improvement was attributed to an increase of US\$200.4 million in gross inflows as against a US\$0.6 million in gross out-flows. The main sources of these private inflows which were made through the financial system included remittances,

The Current Account

The balance on the current account at December 1994 was US\$158.9 million. This balance indicates that the balances of US\$534.7 million and US\$571.7 million on the net services and transfer accounts respectively have together been sufficient to cover the merchandise trade deficit of - US\$947.5 million and leave a positive balance of US\$158.9 million.

CAPITAL ACCOUNT

	1991	1992	1993	1994
NET CAPITAL MOVEMENT	-1.9	326.3	310.3	226.5
Government Direct	66.8	0.0	-1.4	-127.4
Government Guaranteed	9.4	0.0	2.3	17.1
Official Short-term	-38.7	-10.0	-10.6	-8.4
Private (including errors and omissions)	-54.4	326.5	314.4	327.9
Divestment	15.1	9.8	5.6	17.3

Source: Bank of Jamaica

Balance of Payments cont'd

The current account balance for 1994 of US\$158.9 million reflects a significant improvement on the US\$-212.2 million deficit of 1993, and shows that in 1994 the country was in a significantly improved position with regard to meeting its foreign obligations.

Foreign Reserves

Although at year-end 1994, the level of net capital movements recorded was US\$83.8 million, and less than for the same period in 1993, these were both

none-the-less positive balances. The decline in the 1994 balance resulted from increased out-flows to service government's foreign debt.

However, the positive balances both on the current account and in net capital movements served to improve the reserves position at the Bank of Jamaica by US\$385.4 million to amount to US\$397.9 million at the close of the year. This level of net international reserves is the highest the country has experienced since 1975.

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External Trade

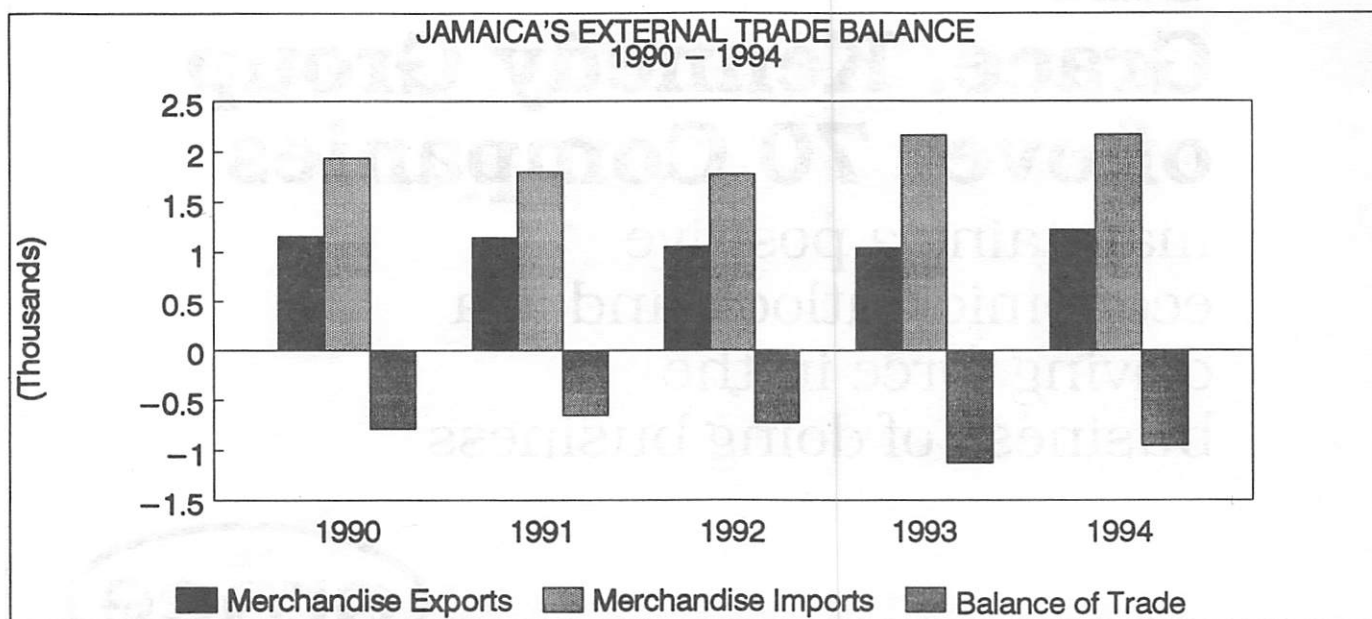
Jamaica's expenditure on imports for 1994 totalled US\$2,171.4 million and its earnings from exports were US\$1,223.9 million. This resulted in a trade deficit of US\$947.4 million. The 1994 trade figures compare with imports of US\$2,189.2 million, exports of US\$1,075.4 million and a trade deficit of US\$1,113.8 million for 1993.

The 1994 merchandise trade performance therefore reflects improved performances in all areas, as imports have shown a 0.8% decline. Exports rose by 13.8% showing the best performance of the sector since 1990, and the trade gap narrowed by 14.9%.

These results, factored into the established trend in merchandise trade balances since 1986, could indicate the beginning of a declining trend in trade balances following on their peaks in 1984 and 1993.

The relatively high negative trade balance of 1993 and especially its effect on the overall Balance of Payment, brought the country's trade dilemma into a sharper focus. Although this out turn was influenced by economic and trade related developments in the local and international economy, stronger efforts were made during 1994 to prevent a worsening of the trade balance for 1994. The domestic efforts included:

Figure 5.1



External Trade cont'd

Table 5.1

JAMAICA'S EXTERNAL TRADE BALANCE 1988-1994 (US\$Mn)					
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Merchandise Exports	1157.5	1145.2	1053.6	1044.5	1223.9
Merchandise Imports (cif)	1942.1	1799.5	1775.4	2165.2	2171.4
Balance of Trade	-784.6	-654.3	-721.8	-1120.7	-947.5
<i>Source: Economic and Social Survey of Jamaica</i>					

- a) the continuance of a mix of restrictive monetary policy and demand management measures aimed at dampening demand and slowing consumption and import expenditure. These measures included maintaining a high interest rate regime, encouraging restraint on wage increases, aggressive open market operations and facilitating the availability of foreign exchange and stability of the exchange rate, by widening the Foreign Exchange market with the establishment of a network of Cambios.
- b) incentives were given to manufacturers and exporters to encourage increased production. This included duty free raw material imports and accelerated capital depreciation to foster re-tooling of plant and equipment.
- c) adjustments to the customs regulations and bureaucracy to facilitate export and further decentralize and liberalize the trade regime.

- d) continued efforts were made for Jamaica to obtain NAFTA Parity in the hope that it would enhance trade between Jamaica and the USA. A trade agreement with Colombia/CARICOM, which includes Jamaica, was signed during the year with the hope that trade with that country would be enhanced.

External Factors

- 1. Following from a worldwide agreed cut-back in the production of alumina, both the demand for and the price of the product saw steady increases from the end of the first quarter of 1994 to the end of the year. This improved local earnings from the sector.
- 2. Further adjustments in the Common External Tariff (CET) served to make imports from CARICOM relative to third countries, more competitive and explains the reason for the large trade deficit Jamaica holds with most of those countries.

External Trade cont'd

3. Currency movements for some countries in the European Union in relation to the Jamaica dollar have helped to boost Jamaica's export earnings.

Imports

For 1994, Jamaica's total imports valued US\$2,171.4 million. This was just 0.8% or US\$17.9 million less than the level of importation undertaken during 1993.

Table 5.2

VALUE OF MERCHANDISE IMPORTS BY ECONOMIC USE 1993 - 1994 (US\$Mn)				
	1993	1994	Change	% Change
Consumer Goods	476.9	446.9	-30	-6.3
Food	145.3	124.8	-20.5	-14.1
Other Non-Durables	138.1	157.8	19.7	14.3
Durables	193.5	164.3	-29.2	-15.1
Of which Motor Cars	99.1	62.8	-36.3	-36.6
Raw Materials	1322.7	1348.8	26.1	2.0
Fuels	343.3	328.6	-14.7	-4.3
Other Raw Material	979.4	1020.2	40.8	4.2
Capital Goods	389.6	375.7	-13.9	-3.6
Transport & Equipment	134.3	101.6	-32.7	-24.3
Construction Materials	95.9	90.2	-5.7	-5.9
Other Machinery	155.4	178.3	22.9	14.7
Other Capital	4	5.6	1.6	40.0
Of which Motor Cars	49.6	38.8	-10.8	-21.8
Total	2189.2	2171.4	-17.8	-0.8

Source: Bank of Jamaica

Imports for the review period classified according to their economic function or end use, and compared with 1993 figures showed declines in the 'consumer' and 'capital goods' categories and an

increase in 'raw materials' category. These movements have resulted in an increased share of imports to the 'raw material' category from 60.4% in 1993 to 62.1% in 1994. This category was the beneficiary of the fall in consumer goods from 22% in 1993 to 20.6% in 1994, as well as of the marginal decline of 0.5% in imports of capital goods between both periods.

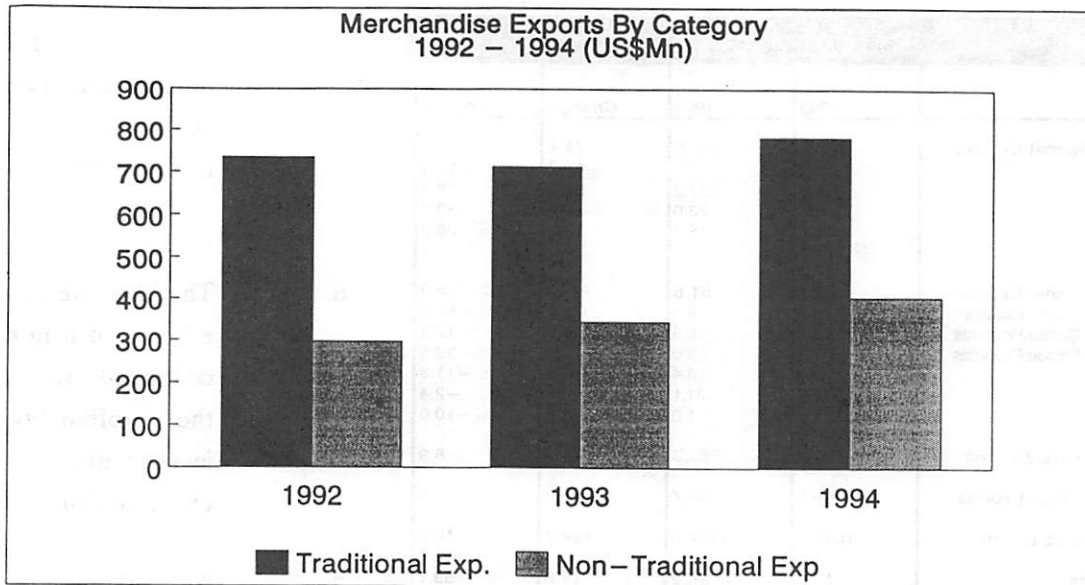
Exports

The value of Jamaica's exports for the review period was US\$1,223.9 million. This represents a 13.8% increase over exports in 1993. It is hoped that this indicates the beginning of an improving trend over the flat and declining performances of 1991 to 1993.

The over-all improvement in the performance of the export sector was largely the result of a 17.0% rise in the earnings from non-traditional exports, a 116.3% increase in re-exports and a 22.2% rise in the value of alumina exports. Of the non-traditional exports earnings of US\$403.5 million, apparel exports accounted for US\$246.3 million or 61.0%. This compares with 57.9% or US\$199.8 million earned for 1993.

External Trade cont'd

Figure 5.3



The Following Factors Influenced Export Performance During 1994

1. Due to increases in price and demand for alumina, local production of the product rose as well as its earnings. However, with bauxite both production and earnings fell. With the break-up of the Russian marketing arrangement, no other viable market replacements have been established, this Jamaica continues to have a marketing problem regarding bauxite.
2. The privatization of the sugar industry was completed in 1994. The change of ownership, as well as industrial disputes and frequent illicit cane-fires all impacted negatively on sugar production. A 15.8% decline in output resulted in a 25% decline in its export earnings.
3. The volume of banana exports rose as well as its earnings. This was the result of increased acreages brought into production, lucrative international joint-ventures undertaken and currency re-valuation in banana markets which returned increased earnings.
4. In relation to the earnings of Other Traditional Exports - citrus was affected by crop disease. Cocoa earnings were boosted by increased

External Trade cont'd

Table 5.3

VALUE OF MERCHANDISE EXPORTS BY CATEGORY 1993 - 1994 (US\$Mn)				
	1993	1994	Change	% Change
Major Traditional Exports	657.1	731.5	74.4	10.2
Bauxite	84.2	73.0	-11.2	-15.3
Alumina	439.8	537.2	97.4	18.1
Sugar	97.5	73.0	-24.5	-33.6
Bananas	35.6	48.3	12.7	26.3
Other Traditional Exports	56.1	51.8	-4.3	-8.3
Citrus & Citrus Products	5.7	3.5	-2.2	-62.9
Coffee & Coffee Products	19.7	16.8	-2.9	-17.3
Cocoa & Cocoa Products	4.2	6.0	1.8	30.0
Pimento	3.8	3.4	-0.4	-11.8
Rum	21.6	21.1	-0.5	-2.4
Gypsum	1.1	1.0	-0.1	-10.0
Total Traditional Exports	713.2	783.3	70.1	8.9
Non-Traditional Exports	345.1	403.7	58.6	14.5
Total Domestic Exports	1058.3	1187.0	128.7	10.8
Re-Exports	17.1	36.9	19.8	53.7
Total Merchandise Exports	1075.4	1223.9	148.5	12.1

Source: Bank of Jamaica

5. Both import and export activities continue to be hampered by bureaucratic barriers at the wharves and from Customs.

6. The high interest rate environment continued to affect the profitability of investments in the export sector.

7. As tariffs were further reduced, imports became cheaper. This encouraged distribution rather than manufacturing and production.

Caricom Trade

At the end of 1994, Jamaica's imports from CARICOM amounted to US\$141.1 million. Compared with December 1993, this represents a US\$25.7 million or 22.2% increase in imports. Export earnings for the same period were US\$58.0 million, reflecting about 3.1% or US\$1.8 million fall in earnings from that

world market prices, Pimento exportation had a marketing problem, and rum production declined locally.

External Trade cont'd

market during 1993. The trade gap therefore widened to US\$83.1 million from US\$55.7 million in 1993.

Jamaica's exports earnings from Caricom for 1994 equates to 41.1% of its imports and comprise mainly of adverse trade balances of US\$93.0 million with Trinidad and Tobago and US\$2.8 million with Dominica. There were however, favourable trade balances with all other Caricom countries.

Major categories of imports from Caricom were Mineral Fuel (US\$49.1 million), Manufactured

goods (US\$25.8 million), Food (US\$21.3 million), Chemicals (US\$17.1 million), and Beverages (US\$14.0 million). While major export categories included Chemicals (US\$13.7 million), Manufactured goods (US\$13.2 million), Food (US\$13.1 million), and Beverage and Tobacco (US\$3.5 million).

The increase in the overall trade gap appears to be influenced by the fact that other Caricom countries focus on exporting to Jamaica, since, being the largest member of the group, its potential market demand is greatest.

Table 5.4

Caricom Imports and Exports By S.I.T.C. US\$'000						
	1993 Imports	1994 Imports	Change	1993 Exports	1994 Exports	Change
Food	19824	21328	1504.0	15333	13113	-2220.0
Beverage & Tobacco	5637	14004	8367.0	4250	3543	-707.0
Crude Materials - Inedible (excluding fuels)	465	701	236.0	3046	627	-2419.0
Mineral Fuels, Lubricant & Related Materials	33872	49137	15265.0	3351	2237	-1114.0
Animal & Vegetable Oils and Fats	2877	5072	2195.0	5	6	1.0
Chemicals	17336	17160	-176.0	13883	13565	-318.0
Manufactured Goods - Chiefly by Materials	27512	25858	-1654.0	10791	13221	2430.0
Machinery & Transport Equipment	4726	4323	-403.0	2425	2372	-53.0
Miscellaneous Manufacturing	3165	3493	328.0	6764	9284	2520.0
Miscellaneous Commodities	0	0		0	0	
All Sections	115414	141076	25662.0	59848	57968	-1880.0

Source: Statistical Institute of Jamaica



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Money and Banking

The calendar year 1994 was the second successive year in which the Central Bank's major Monetary Policy focus was not wholly on the attainment of IMF dictated targets.

Continuing from 1993, its major objective focused on the stability of the exchange rate, and the policies implemented were directed to this end. As a result, for the first quarter of 1994, the high interest rate policy was maintained and vigorous open market operations continued. This encouraged higher inflows of foreign exchange as holders of hard currency sought to take advantage of the higher interest rates available on J\$ deposits, hence reducing the liquidity levels of the economy.

As the year progressed and policy objectives were being achieved combination of arrangements were put in place. The foreign exchange market was widened by the licensing of Cambios and additional authorised foreign exchange dealers. This served to widen the facilities for foreign exchange trading, increase the inflows to the official system and undermine the informal market.

The bond and money market was opened up by the appointment of primary dealers in government securities - this measure aimed at expanding the scope and competitiveness of the financial system in order to reduce the cost of utilizing monetary instruments, especially open market operations, as regulatory tools of policy.

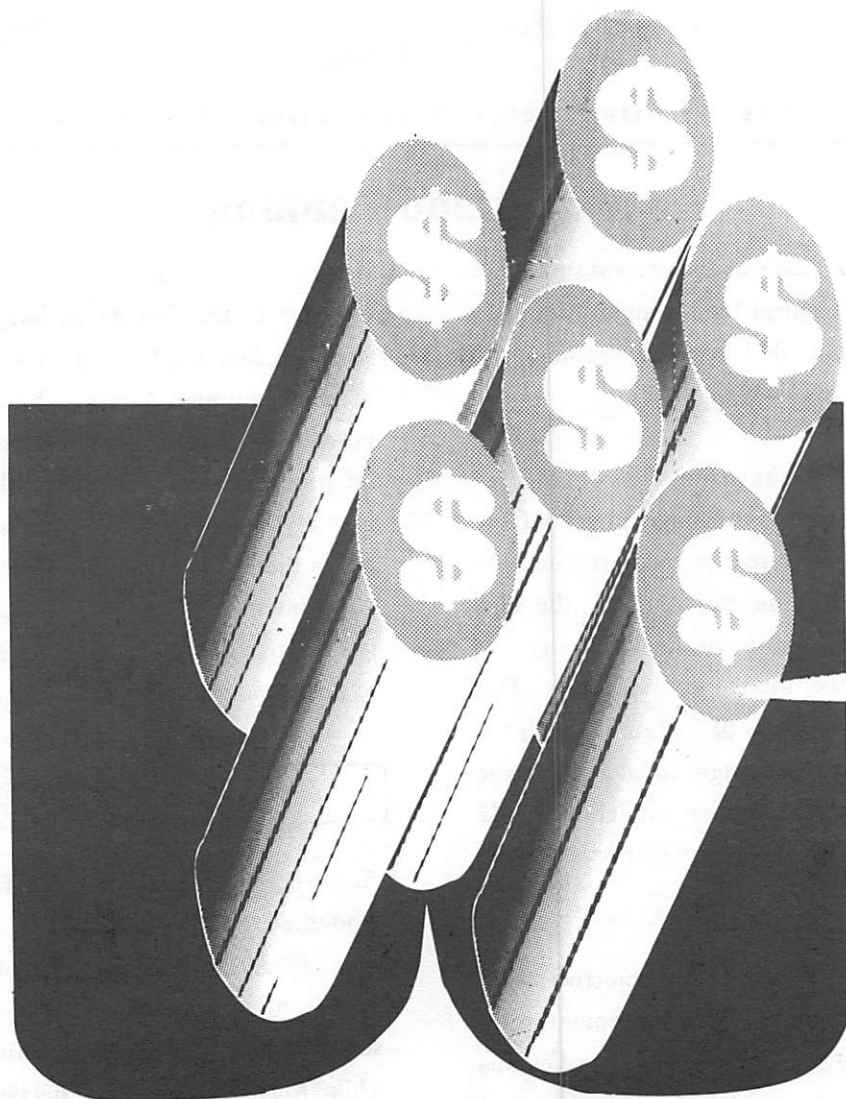
However, by the second quarter of 1994, projected monthly inflation targets were still consistently

being exceeded this was the result of a substantial increase in the foreign exchange inflows to the Bank of Jamaica leading to a rapid increase in their Net Foreign Assets. This in turn fueled the growth of the money supply and thereby fueled inflation. The point to point inflation rate peaked in mid-year and as the point to point rate began to fall in the latter half of the year, interest rates on government paper began to decline also. By the last quarter of 1994 monthly inflation rates began to decline and the fall in deposit rates accelerated.

Money Supply

At the end of December 1994, M2 or broad money amounted to J\$53.2 billion or a 36.8% increase over J\$38.9 billion at December 1993. The significant increase in M2 is the culmination of steady increases throughout the year. In fact, while May and July saw declines of 0.1% and 0.2%, February to April saw a continuous average rise of 4.3%. The largest increase was 6.15% in October.

Movements in the values of M2 components indicate that for 1994 - there has been a relatively steady but slower growth (26.5%) in M1. Its components currency with the public grew by 12.4% while Demand Deposits, showed only a marginal increase. It should be noted, however, that there was a significant adjustment in Demand Deposits during the year, resulting in a decrease of \$3 billion in this variable in the month of July 1994. On the other hand, Quasi-money, comprising Time Deposits and Saving Deposits, grew by 45.7%.



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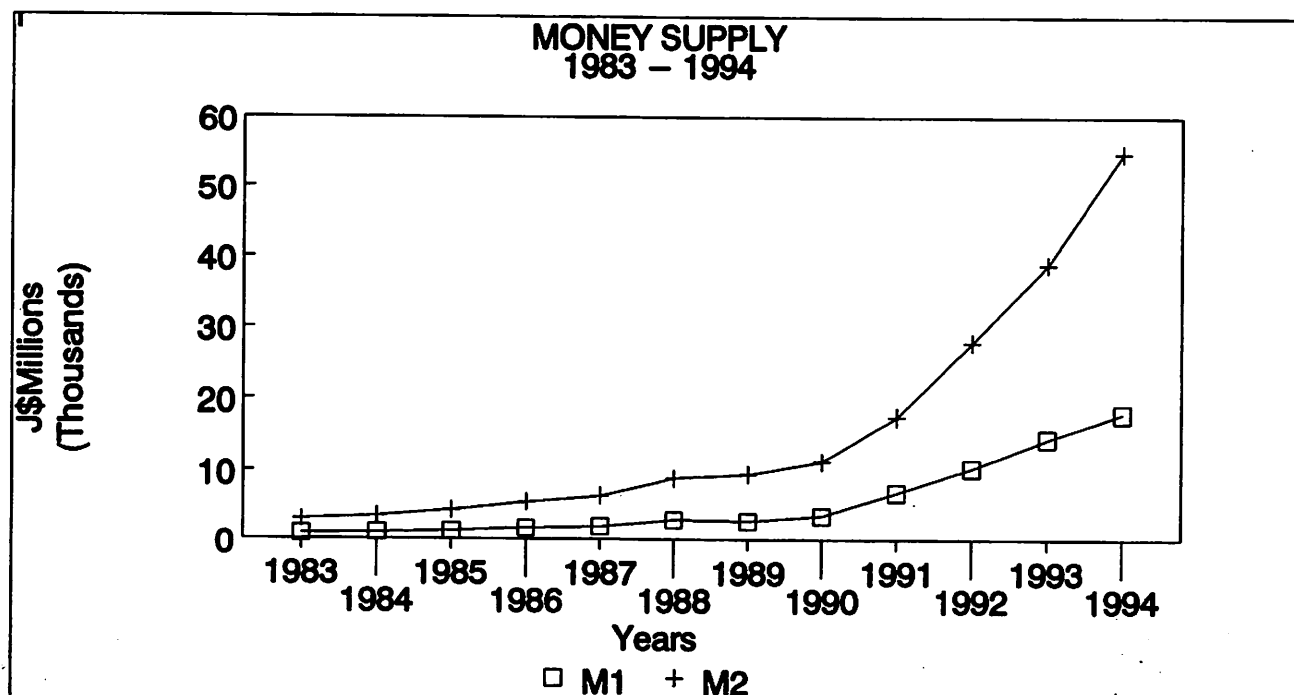
As with any investment of this nature - Unit Price may go down as well as up and there is no assurance of continuous growth

Money and Banking cont'd

Table 6.1

MONEY SUPPLY 1983 - 1993 J\$MILLION					
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	3099.2	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	14398.7	6340.5	18179.6	24520.1	38918.8
1994	17896.7	12153.6	24733.2	36886.8	54783.5

Source : Bank of Jamaica



Money and Banking cont'd

Variations in the levels of Money Supply are determined by values in the following variables viz Net Foreign Assets, Public and Private Sector Credit, credit to other financial institutions and in a residual account Other Items Net.

For 1994, credit to the Private Sector (Net) rose by 31.1%. This compares with a 65.5% increase in 1993. These increases had an expansionary effect on Money Supply (M2). Credit balances to Other Financial Institutions (Net), although always negative, decreased during the year and had a contractionary effect on money supply (M2).

Credit to the Public Sector (Net) balances for the year reflected deposit balances rather than outstanding or credit balances with net levels having moved from - \$1.9 billion in January to -J\$7.2 billion in December. These overall negative balances implied a non-expansionary effect on M2. However, for some months during the year, Public Sector Credit appears to have had the opposite effect. Fluctuating month to month balances implied significant increases in some months and these could have had an expansionary effect on the financial system. For example, from a September deposit balance of -J\$7.3 billion, the October balance fell to -J\$365.1 million, implying a withdrawal/expenditure of J\$6.9 billion, within that time period.

Figure 6.2

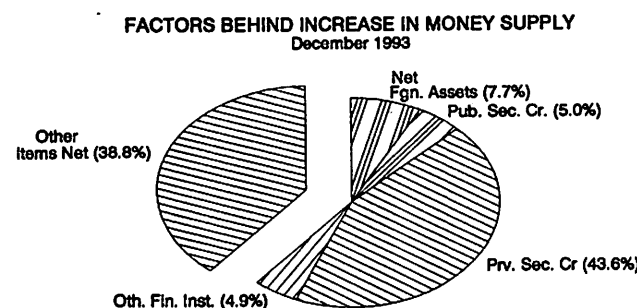
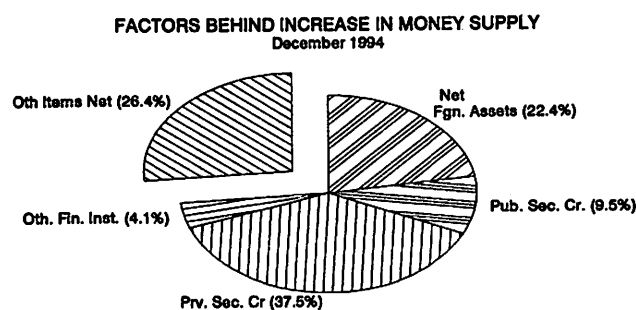


Figure 6.3



Money and Banking cont'd

Figure 6.4

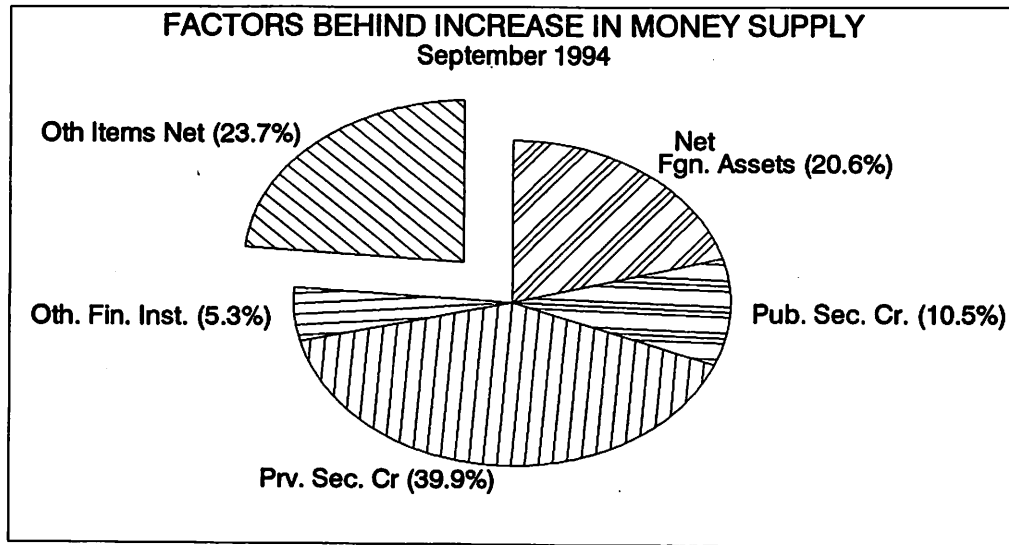
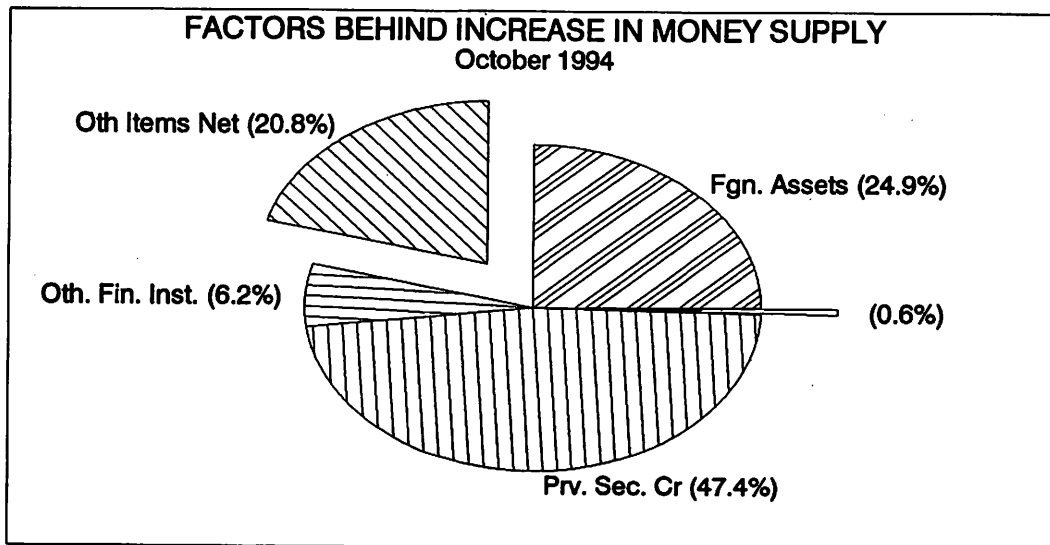


Figure 6.5



Note: These graphs illustrate the monthly fluctuation in the contribution of Public Sector Credit to Money Supply growth.

Money and Banking cont'd

Foreign Assets (Net), having shown continuous growth throughout the year (295.7%), also had an expansionary effect on M2. The component, Other Items, is a residual account and its negative balances could be interpreted as non-expansionary.

Overall, during 1994, although domestic credit rose by 8.3%, due to significant draw-downs in Public Sector Credit, overall domestic credit rose by 17% and 41.8% in August and October respectively. It becomes apparent, then, that while there is a steady M2 expansionary effect brought about by increases in Credit to the Private Sector and in the acquisition of foreign assets, the effect of fluctuating Public Sector Credit balances also resulted in additional growth spurts in the Money Supply. These had a lagged effect on inflation rates.

Loan and Advances

At December 1994 total Assets and Liabilities of Commercial Banks stood at J\$96.128 billion. Of this, J\$32.294 billion or 33.6% was extended in loans and advances. For 1994, total credit extended by Commercial Banks was 36.7% higher than J\$23.614 billion for 1993. Growth in loans and advances during 1994 compares with 67.5% growth experienced in 1993 over 1992 and an 18.7% increase in 1992 over 1991.

This indicates that in 1994, there was a significant decline in the growth rate of Commercial Bank credit and this could be attributed in part to the

effect of the high interest rate policy which was implemented by the Bank of Jamaica.

The other financial institutions in the sector held an asset and liabilities base of J\$36.125 billion as at October 1994 with loans and advances outstanding of J\$11.313 billion, which when compared with credit outstanding of J\$8.7856 billion in October 1993 indicates a growth of 28.8% in 1994 over 1993.

A review of the sectoral distribution of commercial bank credit for 1994, exhibits a similar pattern to 1993. Consumer Oriented credit, while increasing in value by only 23.3% 1994 over 1993, accounted for the largest portion (35%) of the credit portfolio, this was followed by Construction (14.3%), Manufacturing (12%) and Transport (9.4%). For 1993, the respective shares were 38.9%, 14.1%, 12.8% and 9.1%.

Throughout 1994, overall interest rates, and more so that for consumer credit, was very high peaking at about 75%, depending on the institution and the purposes for which one was borrowing.

Credit to the Government Services sector increased by 105% 1994/93 and could have resulted from Government shedding some financial support to some of its entities- thereby forcing them to seek alternate financing. The share of credit absorbed by government also increased and this was the only sector to show a significant increase in its share of overall credit. This must say something about the state of government finances.

Money and Banking cont'd

Table 6.2

LOAN AND ADVANCES BY SECTOR (1990 - 1994)						
J\$ MILLION						
LOANS	1990	1991	1992	December 1993	December 1994	% Growth Over 93
AGRICULTURE	879.7	940.2	1117.1	1416.7	2038.5	43.89 %
MANUFACTURING	1535.7	1897.1	2119.9	3027.0	3867.2	27.76 %
CONSTRUCTION	2060.6	2361.7	2473.9	3321.1	4616.1	38.99 %
MINING	31.8	47.4	73.4	118.1	236.4	100.17 %
TOURISM	748.6	743.8	1027.8	2000.0	2912.1	45.61 %
TRANSPORT	1088.4	1175.9	1137.7	2163.6	3026.9	39.90 %
CONSUMER-ORIENTED	1529.6	2667.0	3202.9	9181.1	11318.1	23.28 %
GOVERNMENT SERVICE	778.1	705.4	813.2	1299.4	2674.3	105.81 %
OTHERS	344.7	1340.6	2129.2	1087.7	1604.8	47.54 %
TOTAL	8997.2	11879.1	14095.1	23614.7	32294.4	36.76 %

Source: Bank of Jamaica

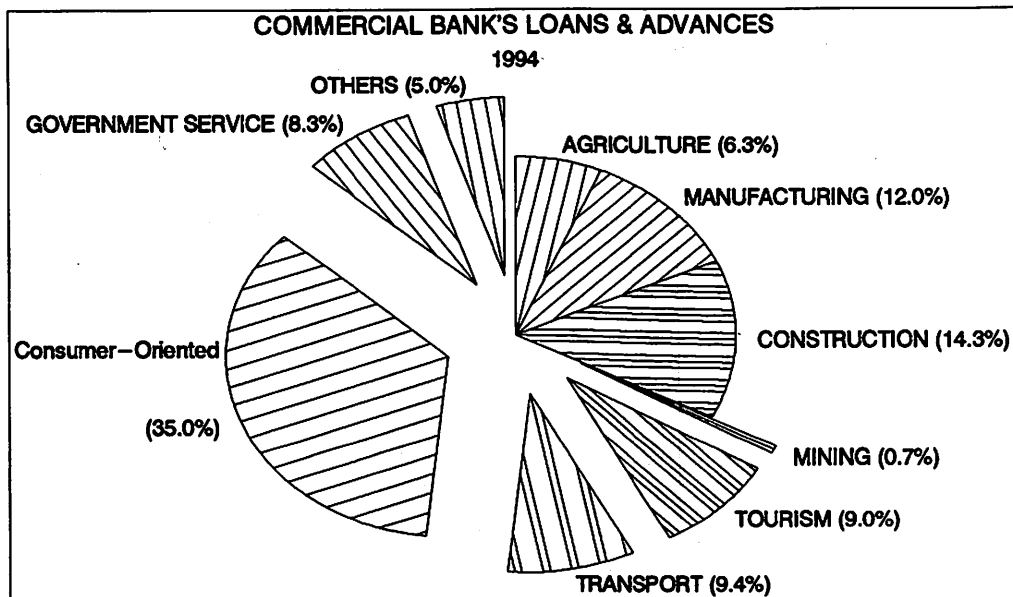
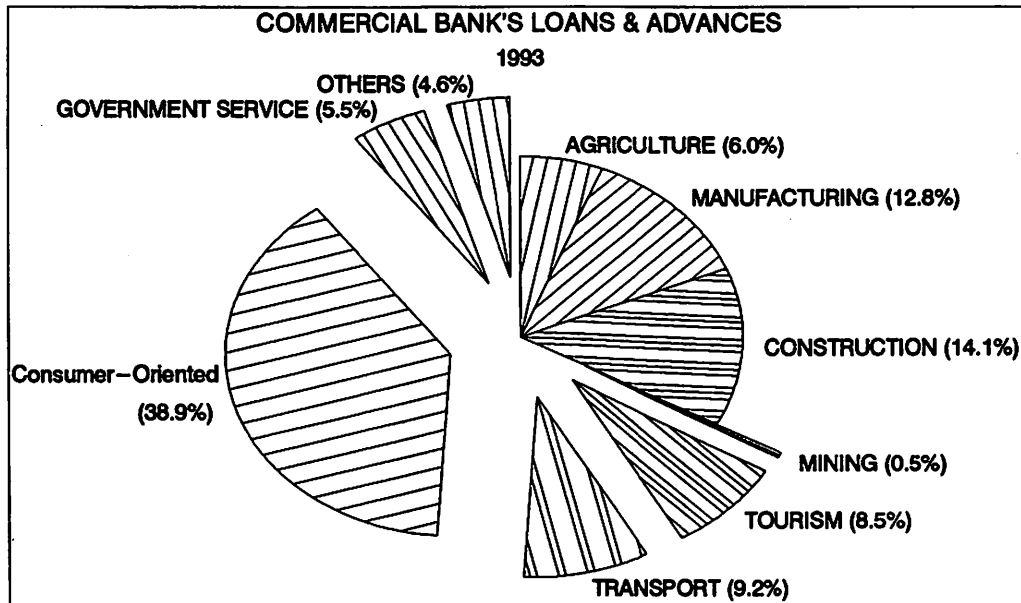
Table 6.3

LOAN AND ADVANCES BY SECTOR (1993/94)				
J\$ MILLION				
LOANS	December 1993	Rel. Share %	December 1994 /fs	Rel.
AGRICULTURE	1416.7	6.0	2038.5	6.3
MANUFACTURING	3027.0	12.8	3867.2	12.0
CONSTRUCTION	3321.1	14.1	4616.1	14.3
MINING	118.1	0.5	236.4	0.7
TOURISM	2000.0	8.5	2912.1	9.0
TRANSPORT	2163.6	9.2	3026.9	9.4
CONSUMER-ORIENTED	9181.1	38.9	11318.1	35.0
GOVERNMENT SERVICE	1299.4	5.5	2674.3	8.3
OTHERS	1087.7	4.6	1604.8	5.0
TOTAL	23614.7	100	32294.4	100

Source: Bank of Jamaica

Money and Banking cont'd

Figure 6.4



Money and Banking cont'd

Commercial Banks Liquidity

The statutory minimum liquidity ratio of commercial banks remained at 50% throughout 1994. This ratio was enforced since July 1992 in an effort to reduce the level of liquidity in the banking system as well as dampen overall demand.

During 1994, commercial banks consistently met and surpassed these limits, holding between 1.9 and 9.8 percentage points above minimum requirements. High penalty rates continued to be enforced by The Central Bank in order to encourage conformity to these regulations.

However, during 1994, the overall deposit base of commercial banks showed a shift in its composition - the shares of time and demand deposits grew while that of saving deposits declined. This could have enabled a more structured and profitable use of the banks liquid assets portfolio.

Liquidity rates for the FIA institutions remained at 17% during 1994, and these institutions have consistently held close to twice this requirement throughout the year.

Interest Rates

The high interest rate policy regime of 1993 continued in effect into the second quarter of 1994. During this period, rates on Government Paper peaked at 51.98% on Treasury Bills (TBs) in February and at 52.12% on Certificate of Deposits (CDs) in January 1994. These rates levelled off over the next three months then commenced a decline by mid-year. At December 1994, TB rates reached 27.6% and CD's rates stood at 28.9%. In the banking sector, the lagged effect of these rates were reflected both in deposit and loan rates. Throughout the year rates on saving deposits were flat ranging between 15-25% in January peaking to 30% at the higher end and then declining to an average of 18.75% by year end.

Rates on Fixed Deposits of 3-6 months, ranged between 21 and 55% in January, peaked to 21-57% in February, levelled off by May to July, then began declining. At year-end, the range was 20-32% per annum. Loan rates displayed more diversity - and differed with institution and purpose. However, the average rates began at 65.1% in January 1994, peaked at 67% in April and remained in the mid to lower 60% until September 1994. At year-end the average rate was 56.14%.

Money and Banking cont'd

Table 6.2

COMMERCIAL BANKS' WEIGHTED LOANS AND DEPOSIT RATES											
WEIGHTED LOAN RATES	1992				1993				1994		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Instalment Credit	35.1	40.6	45.2	45.1	43.7	46.3	46.8	49.6	50.8	51.9	
Mortgage Credit	45.6	49.2	52.8	40.9	40.3	31.6	29.8	29.5	35.6	36.2	
Personal Credit	48.3	49.7	51.5	50.4	41.8	41.1	49.6	52.9	56.9	57.8	
Commercial Credit	45.2	49.6	48.3	45.6	39.7	39.6	46.2	49.1	50.2	47.7	
Local Government and Other Public Entities	44.5	51.4	47.3	37.3	35.7	29.2	40.2	46.1	50.5	49.5	
Central Government	42.9	49.4	48.2	41.5	40.5	40.2	51.2	52	55.6	53.6	
Overall Average/Weighted Loan Rate	42.5	48.4	48.2	46.0	40.4	40.7	46.7	49.6	51.5	50.0	
Overall Average Weighted Deposit Rate	36.7	41.2	29.2	23.0	21.2	22.6	34.4	39.8	39.3	34.1	
Average Lending Rates	54.5	58.4	54.7	46.4	45.8	44.0	57.0	61.3	66.9	65.0	61.3

SOURCE: BANK OF JAMAICA

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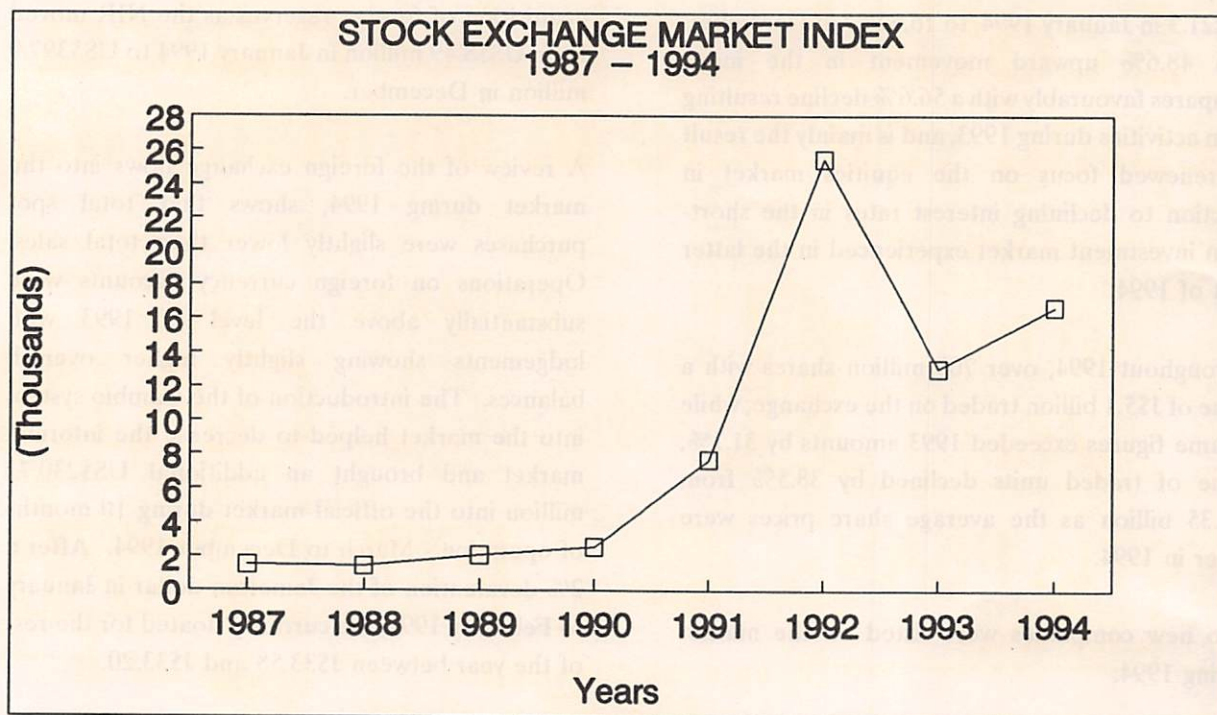


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Table 6.3

STOCK MARKET INDEX (1987 - 1994)			
YEARS	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
1994	743,793,646	5,168,796,309	16676.70

Figure 6.5



Money and Banking cont'd

Stock Market Developments

During 1994, the Jamaica Stock Exchange celebrated its 25th Anniversary. At a seminar held to highlight this event, plans were outlined to improve, upgrade and update the exchange's operations.

Activities on the Jamaica Stock Exchange during 1994, while being more positive than in 1993, lacked the buoyancy needed for meaningful recovery of the market. During the early months of 1994 aggressive open market operations of Bank of Jamaica with their attendant high short-term interest yields continued to divert significant investment from the equities market.

Despite this, the stock market index moved from 11,221.3 in January 1994, to 16,676.7 in December. The 48.6% upward movement in the index compares favourably with a 56.6% decline resulting from activities during 1993, and is mainly the result of renewed focus on the equities market in reaction to declining interest rates in the short-term investment market experienced in the latter part of 1994.

Throughout 1994, over 700 million shares with a value of J\$5.1 billion traded on the exchange, while volume figures exceeded 1993 amounts by 31.1%, value of traded units declined by 38.5% from J\$8.35 billion as the average share prices were lower in 1994.

Two new companies were listed on the market during 1994.

Foreign Exchange Developments

The increased inflows of foreign exchange in the latter months of 1993 carried over into 1994. During the year foreign currency accounts grew by 37.8% from US\$500.3 million to US\$690.0 million.

These inflows sufficed the market demand and brought some stability to the exchange rate although for the first two months of 1994 as the currency floated, it experienced a 2% devaluation. The Bank of Jamaica then, in a further effort to broaden the market and enhance inflows, introduced the Cambio system, licensed additional Bureaux de Change and amended their operating rules. Inflows to the system improved and the Jamaican dollar showed more stability. This scenario facilitated the Bank of Jamaica's acquisition of foreign reserves as the NIR moved from US\$8.49 million in January 1994 to US\$397.9 million in December.

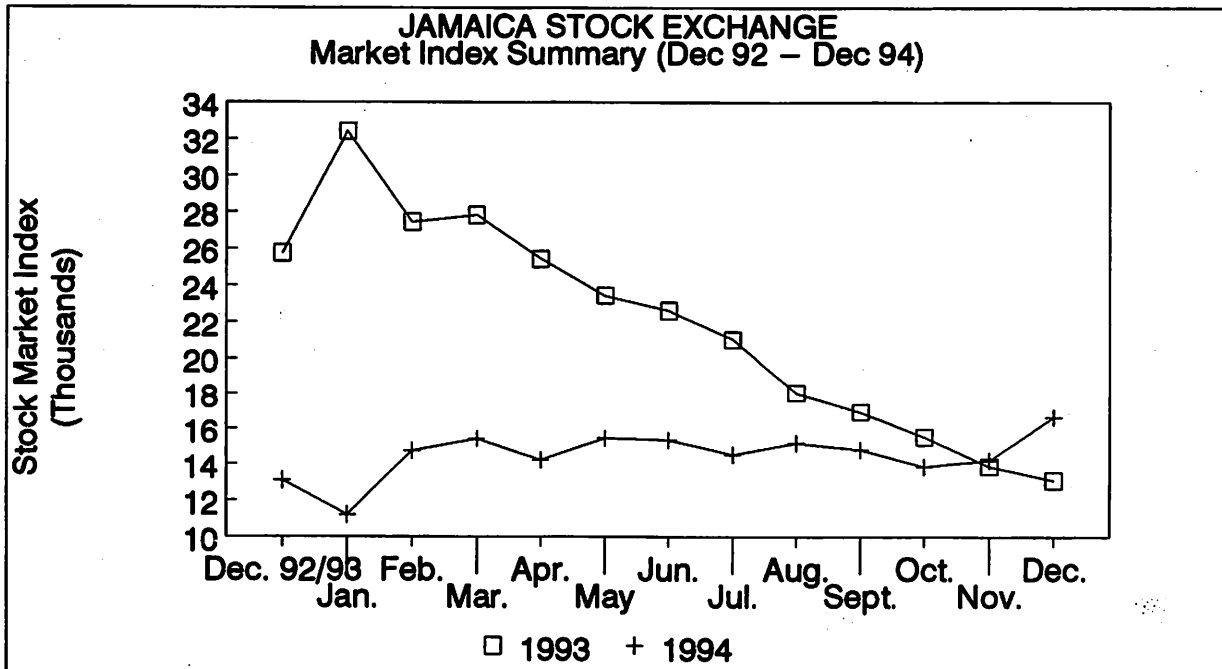
A review of the foreign exchange flows into the market during 1994, shows that total spot purchases were slightly lower than total sales. Operations on foreign currency accounts were substantially above the level of 1993 with lodgements showing slightly higher over-all balances. The introduction of the Cambio system into the market helped to decrease the informal market and brought an additional US\$230.72 million into the official market during 10 months of operation - March to December 1994. After a 2% devaluation of the Jamaican dollar in January to February 1994, the currency floated for the rest of the year between J\$33.58 and J\$33.20.

Money and Banking cont'd

Table 6.4

JAMAICA STOCK EXCHANGE Market Index Summary (Dec. 1992 – Dec. 1994)		
	1993	1994
Dec. 92/93	25745.88	13099.70
Jan.	32421.71	11221.28
Feb.	27424.79	14738.04
Mar.	27809.94	15428.30
Apr.	25426.42	14220.60
May	23462.99	15460.40
Jun.	22654.29	15351.10
Jul.	21062.19	14540.04
Aug.	18044.97	15206.10
Sept.	16963.16	14817.03
Oct.	15550.70	13854.14
Nov.	13882.20	14213.94
Dec.	13099.68	16676.70

Figure 6.8



Money and Banking cont'd

Foreign currency loans grew substantially in 1994 by 114%. Rates on these loans tended to edge upwards at the lower end of the range. Towards the end of the year average rates on saving deposits increased marginally by about 0.2% over the review period.

Figure 6.7

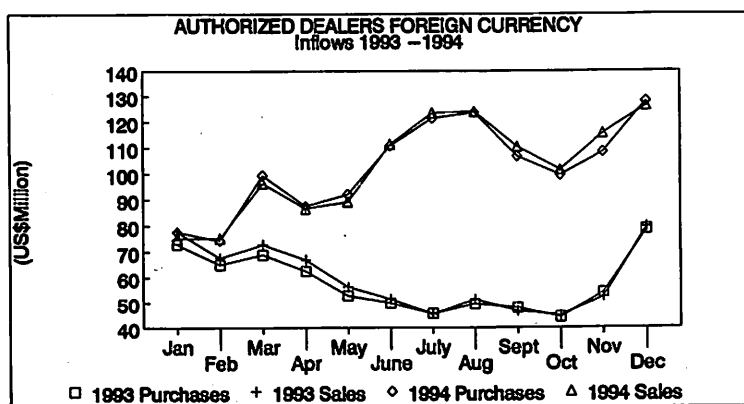
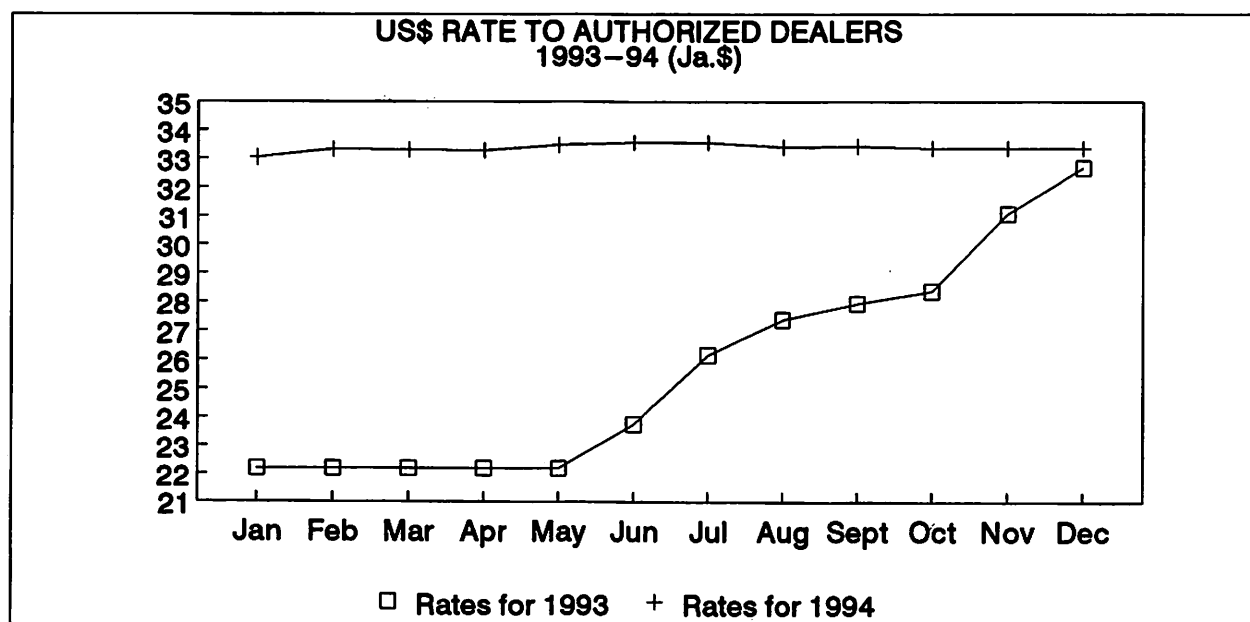


Table 6.7

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
1993 Purchases	79.02	85.05	88.93	82.52	52.74	49.77	45.8	49.49	47.87	44.3	54.11	78.68
1993 Sales	77.77	67.69	72.89	88.92	58.25	51.98	45.4	51.18	46.56	44.91	52.34	79.64
1994 Purchases	77.6	74.4	89.3	87.4	82	110.7	121.3	123.5	106.7	89.4	108.4	128
1994 Sales	75.1	75.2	98.3	86.6	89.1	111.3	123.3	123.9	110.4	101.4	115.6	126.2

Money and Banking cont'd

Figure 6.7



Money and Banking cont'd

Figure 6.9

MISCELLANEOUS DATA ON FOREIGN CURRENCY MARKET OPERATIONS												
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Foreign Currency Loan Outstanding US\$Million	14.6	161	162.1	185.9	188.9	210.9	214.1	234.8		262.4	293	312.2
Rates on Fixed Deposits												
3<6 Months	2.10-7.00	2.10-7.50	2.10-7.50	2.10-7.50	2.10-7.50	2.10-7.50	2.80-7.00	2.80-7.00	2.80-7.00	2.80-7.00	2.80-7.00	3.25-7.00
6<12 Months	2.20-8.00	2.20-8.00	2.20-8.00	2.20-8.00	2.20-8.00	2.20-8.00	4.00-6.35	4.00-6.35	4.00-6.35	4.00-8.00	4.00-8.00	4.00-8.00
Savings	3.61	3.61	3.61	3.61	3.61	3.61	3.72	3.72	3.7	3.88	3.88	3.88

Figure 6.9

CAMBIO BUREAUX de EXCHANGE March to December 1984											
	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Cambio Dealers	0.23	0.86	1.46	4.95	25.54	34.64	35.09	26.73	42.56	59.61	230.72

Source: Bank of Jamaica
Cambio Operations Department

Fiscal Policy and Accounts

The Budget for the fiscal year 1994/95 was presented under the theme of "Growth with Equity". It indicated an expected expenditure of \$55.2 billion which was 33.9% more than budgeted for 1993/94 and a decline of less than 3 percent in real terms. Of this, \$32.8 billion or 59.4% would be on recurrent expenditure while \$22.4 billion or 40.6% was allocated to capital expenditure. With the 1993/94 budget however, recurrent expenditure formed 73.2% of total expenditure and capital expenditure the remaining 26.8%. An increase in Debt Repayment, both domestic and foreign, accounted for this shift.

In the first six months of fiscal year 1994/95 fiscal management hit a six year low with the first reported Fiscal Deficit since 1988/89. This 88/89 deficit was 6.1% of GDP and represented, in large part, the effects of Hurricane Gilbert. In the April to September period however, the fiscal deficit represented 3.1% of GDP, owing largely to a high interest cost on the debt (\$8bil. for the six months, compared to \$10.2bil. for all of fiscal year 93/94). The high interest rate policy of the government has therefore adversely affected its own fiscal accounts.

Figure 7.1

ANNUAL FISCAL ACCOUNTS 1990/1991 – 1994/95 (J\$Mn)										
	90/91	% GDP	91/92	% GDP	92/93	% GDP	93/94	% GDP	Apr–Sept 94/95	% GDP
Revenue	9919.2	36.6	14549.5	20.1	21029.4	27.6	34243.0	33.1	18718.8	14.2
Expenditure	9424.2	41.2	17510.5	35.0	26871.1	35.2	41256.9	41.5	30346.5	23.0
Overall Deficit/Surplus	495.0	4.4	-2961.0	5.9	-5841.7	7.6	-7013.9	8.4	-11627.7	4.0
GDP = (J\$Mn)	33035.4		50113.4		76249.8		102749.9		131931.3	
Fiscal Deficit/Surplus	2377.0	7.2	1123.3	2.2	2145.5	2.8	3149.4	3.1	-4067.9	-3.1

Fiscal Policy and Accounts cont'd

Objectives and Strategies

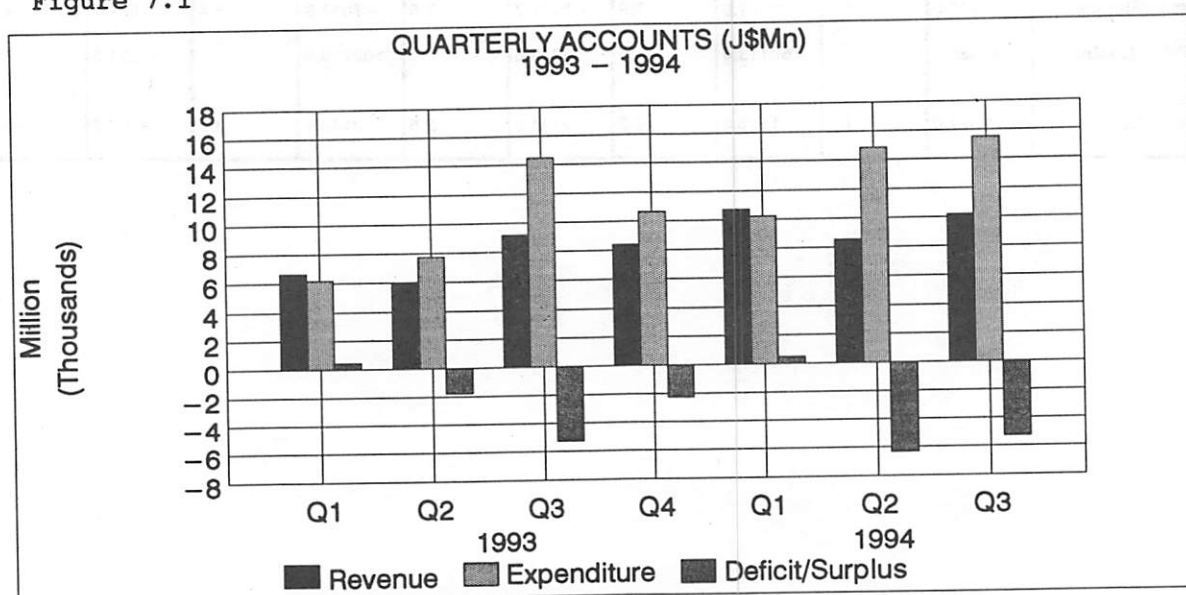
While the shift in the share of budgetary expenditure to capital and recurrent appears to have been in support of the budget theme, the overall objectives of the budget were to maintain macro-economic stability, reduce inflation and achieve a budget surplus. It was intended that budgetary allocations should combine with tight monetary and fiscal policy to achieve these overall objectives.

The strategies for achieving these objectives included:

1. Achieving improved efficiency in the revenue collection process;
2. Cuts in total expenditure, resulting in tighter fiscal management;

3. Prioritize expenditure, with a focus on social and developmental infrastructure, as well as prioritize health and education in order to provide the foundation for promoting investment, production and productivity, and ensuring individual social well-being and mobility.
4. Restraint to be shown in levels of wage increases granted.
5. Public entities to be encouraged to promote self-sufficiency and efficiency in their operations.
6. The divestment programme to be accelerated.

Figure 7.1



Fiscal Policy and Accounts cont'd


Fiscal Accounts and the Budget

During 1994, the Government's overall operations continued to be in deficit. In the quarter January to March 1994, there was the usual trend of growth in revenue inflows. This quarter saw a significant increase in revenue total in-take amounting to \$10,738 billion, the highest level of quarterly revenue intake yet which also surpassed that for all of fiscal year 1990/91. The level of inflows for the quarter was largely due to increases in the rates of some tax categories as well as to inflationary increases in revenues. Total expenditure for the quarter was \$10,220.6 million - declining by 3.9%

over the previous quarter and follows the usual trend of last fiscal quarters, expenditure being lower in order to facilitate having a surplus for the quarter and for the fiscal year.

The Quarter April to June 1994 saw government's expenditure significantly greater than its revenue inflow. Traditionally this quarter sees revenue inflows declining. However, as this was the first quarter of the new financial year, significant expenditure was made which lead to a huge deficit. The maintenance of this trend indicates that no meaningful efforts are being made at achieving a surplus on the government's books.

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skilled personnel on the island. ICD believes in the responsibility of businesses in helping to make our young nation grow.

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Fiscal Policy and Accounts cont'd

For the third quarter of 1994 - July to September - the deficit expenditure trend continued. Expenditure exceeded revenue by \$5,285 million. This deficit, being 16.7% less than for the previous quarter, occurred despite a 19.7% increase in revenue inflows over the previous quarter. Increased expenditure was prompted by a rise in government's house-keeping expenses, interest expenses and to a lesser extent increases in capital expenditure.

There is no reliable data on the extent of revenue and expenditure for the rest of the year as well as to the end of fiscal year 1994/95.

Out-turn for Fiscal Year 1994/95 (Analysis Based on 1st Quarter's Data)

1. Deficit expenditure continued to characterize the government's operation with the overall deficit

increasing and the fiscal position resulting in a large deficit. In fact the internal debt and the debt servicing cost rose significantly despite some payments being made to the BOJ to decrease its losses.

2. The projected 1% per month inflation rate was achieved only in the last quarter of 1994 and has remained only slightly above this level for the first two months of 1995.
3. No significant shift to the stronger reliance on fiscal policy was observed, thus leading to an increased cost to the government in the implementation of its monetary policy which required a protracted period of very high real interest rates.

Table 7.2

QUARTERLY ACCOUNTS (J\$Mn) 1993 - 1994									
QUARTERS	1993					1994			
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Total
Revenue	6632.4	5942.4	9180.6	8381.9	30137.3	10738.0	8518.1	10200.7	29456.8
Expenditure	6181.0	7719.1	14464.4	10637.7	39002.2	10220.6	14860.7	15485.9	40567.2
Overall Deficit/Surplus	451.4	-1776.7	-5283.8	-2255.8	-8864.9	517.4	-6342.6	-5285.2	-11110.4
GDP					95784.7				
% GDP					9.2				
Fiscal Deficit/Surplus	2113.8	-546.2	-2282.8	-625.2	-1340.4	2094.2	-777.4	-3290.6	-1973.8
% GDP					-1.4				

Source: Planning Institute of Jamaica - Quarterly Economic Report

Inflation

During 1994, one of the most frequently discussed, monitored and estimated economic variables was inflation. With significantly high increases in prices since 1991, inflation continued to have a strong impact on the lives and livelihood of all, particularly on businesses and institutions. Throughout 1994, inflation became the most important factor to be considered in the formulation of government's monetary policy and the high real interest rates which were the main instrument of that policy. It was factored into wage increases and associated negotiations, company profitability, as well as into the general reasons for price increases in just about any product or service.

The rate of inflation for 1994 as measured by the Consumer Price Index (CPI), on a point to point basis, was 26.7%. While this rate reflected some improvements on the 30.12% of 1993, as well as on

our projected 28-32% out-turn for 1994, it also reflected a huge over-run of the government's projected rate of 1% per month or 12% per annum. It was also significantly greater than the inflation rates of our major trading partners.

A review of the inflation rate trends from 1992-1994 appears to be revealing a six month period of relatively high monthly rates followed by a six month period of decelerating rates. For the period December 1992 to June 1993, monthly inflation rates were between 1.7% and 0.6%. These then rose to between 2.2% and 4.1% from July 1993 to March 1994. Rates then fell slightly between April to August 1994, afterward declining significantly to between 0.7 and 1.1% through year end.

Table 8.1

MONTHLY RATES OF INFLATION 1993/94

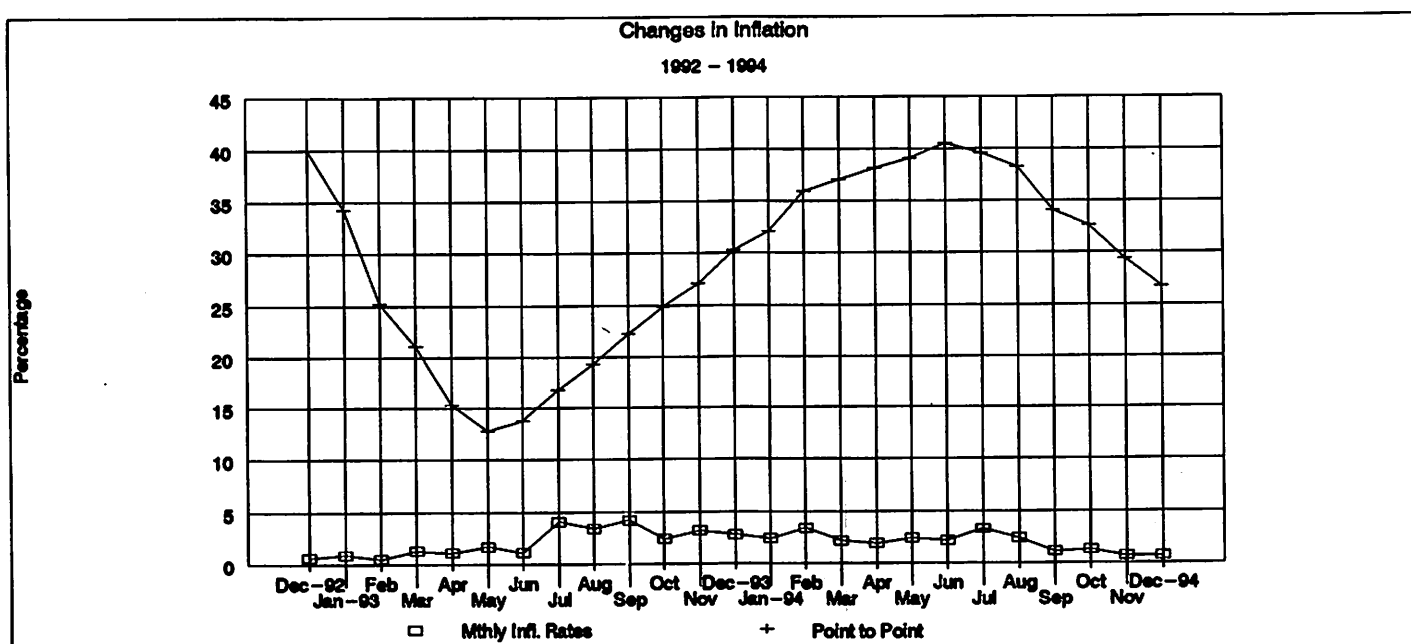
	J	F	M	A	M	J	J	A	S	O	N	D
Year to Date												
1993	0.9	1.4	2.7	3.8	5.5	6.7	11.1	14.8	19.7	22.6	26.6	30.1
1994	2.4	5.8	8.2	10.2	12.8	15.3	19.1	22.1	23.3	25	25.8	26.7
Actual CPI Movements												
1993	423.2	425.2	430.7	435.5	442.8	447.8	466	481.9	502.3	514.6	531.2	546
1994	558.9	578	590.7	601.6	616.1	629.8	650.5	666.4	673.5	682.5	687.3	692
Monthly Inflation Rates %												
1993	0.9	0.5	1.3	1.1	1.7	1.1	4.1	3.4	4.2	2.4	3.2	2.8
1994	2.4	3.4	2.2	1.9	2.4	2.2	3.3	2.4	1.1	1.3	0.7	0.7

Inflation cont'd

The monthly and point to point inflation rates as shown in the graph below reveal a steeper

movement in the rates and a more clearly defined cyclical fluctuation over the period.

Figure 8.1



Factors Affecting Inflation During 1994

Throughout 1994, factors affecting inflation included:

1. Increases in broad money (M2). Over 1994, broad money grew by 36.7%. This growth was effected in spurts throughout the year, and saw quarterly increases in M2 of 9.1%, 2.5%, 3.5%

and 8.8% respectively. Since increases in M2 have a lagged effect on inflation, the rise in M2 during the last quarter of 1994 can be expected to impact positively on inflation rates in the early months of 1995.

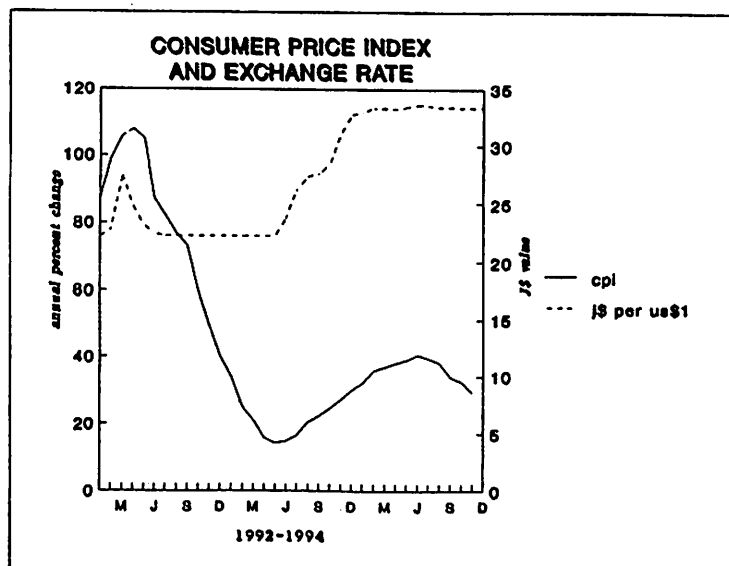
2. The inflation rates for 1994 reacted to several cost-push factors viz:

Inflation cont'd

- a. Increasing levels of interest rates - which resulted in increased costs to borrowers, producers and investors who pass these costs on as increased prices to consumers. High interest rates also discouraged borrowing from financial institutions thus reducing Aggregate Demand, and helping to hold inflation to levels lower than in previous years.
 - b. The reduction in the US rate of inflation to under 3% also had a positive impact on the decline of Jamaica's inflation since imported inflation now became lower.
 - c. Increased wage costs which are also factored into production cost and output prices. Throughout 1994, wage increases averaged between 30 and 50% as workers sought to acquire wages to enable them to cope with or keep ahead of the effects of inflation on their standard of living.
 - d. Minimum wage adjustments, increases in water rates, bus fares, school fees, and school supplies all factored into influencing the general rise of prices experienced. The mid-months of 1994 saw increases in housing costs. While the inflationary effect of this was felt more significantly in the Kingston Metropolitan Area (KMA), it also affected the CPI for the whole island.
3. Throughout 1994, although the J\$ was considered relatively stable, it actually floated within a band of US\$1 to J\$32.70 - 33.59 - January to June 1994 and between J\$33.50 to 33.20 from July to December. This implies close to a 2.7% devaluation in the first half of the year and a 0.89% appreciation in the latter part. The currency movements did help to influence price increases - both as actual cost increases as well as in the expectation of a declining exchange rate given past experience. However, this relative stability did contribute to the lower inflation rate.
 4. The inflation levels of 1994 should not be surprising as a climate of high Interest Rates and declining investments and output, strong wage increases and growth in M2 would tend to foster inflation.
 5. (i) Since the CPI which measures general price movements is heavily weighted by the food and drink group, price movements in food items have a significant impact on the overall index. So during early 1994, the rise in sugar prices - heavily

Inflation cont'd

Figure 8.2



influenced by the privatization of the industry - as well as the increase in the price of rice when the PLO 480 price was adjusted had a significant impact on the inflation rate between February and May 1994.

- (ii) The effects of drought conditions in the farming regions brought on a shortage in the supply of some domestic food crops which forced prices up. This was captured in the CPI movements.

External Factors

For the early part of 1994, the average price per barrel of imported oil declined to US\$12.93; however, the exchange rate movements in the J\$ to US\$ prevented the positive impact of this to be felt by consumers. In fact, gas prices tended to move upwards for the local consumer. However, from the second quarter of the year, oil prices have been fluctuating but with an upward trend and this has translated into increasing price trends to the consumer.

Transportation costs have had the highest impact on increasing the Consumer Price Index for 1994.

The 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.

It should be noted that the 'food and drink' category carries the highest weighing of all the groups (55.63%) so that price movement in this category significantly influence movements in the overall index. This was the case with sugar and rice as mentioned previously.

Inflation cont'd

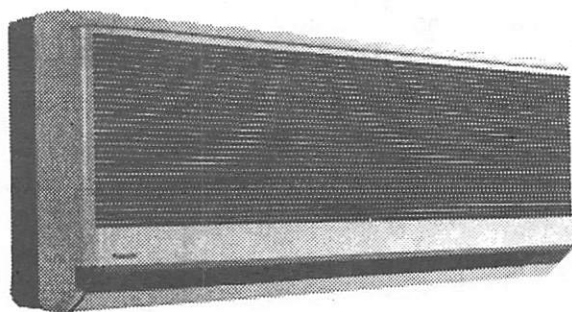
Table 8.2

CONSUMER PRICE INDEX POINT-TO-POINT 1989-1994							
	Weights	Point-to-Point					
		1989	1990	1991	1992	1993	1994
ALL GROUPS	100	17.2	29.8	80.2	40.2	30.1	26.9
FOOD AND DRINK	55.63	20.9	29	84.3	40.4	31.8	27.3
Meals away from home		20.7	28.1	65.9	51.1	39.8	26.3
Meat, Poultry and Fish		22.3	38.4	92.2	38.4	29.4	16.1
Dairy Products, Oil & Fats		26.3	33	159.6	38.1	26.4	28.4
Baked Products, Cereal, Bfast, Drink		26.4	29.1	96.7	48.1	18.2	32.8
Starchy Food		16.4	8.3	49.8	39.4	36.5	40
Vegetables, Fruits		9.0	34.9	40.6	35.9	63.7	18.8
Other Foods and Beverages		21.4	15.0	68.3	22.8	25.0	65.5
FUELS AND OTHERS							
HOUSEHOLD SUPPLIES	7.35	11.6	42.9	94.0	30.8	18.6	18.7
Fuels		14.2	64.5	45.7	33.3	29.7	22.3
Housing Supplies		7.2	31.3	126.1	25.3	14.0	17.1
HOUSING	7.86	7.7	38.5	64.7	27.7	20.9	32.6
Rent		3.0	13.5	12.2	20.6	8.7	31
Other Housing expenses		9.5	45.7	77.1	32.0	22.9	32.8
HOUSEHOLD FURNISHINGS AND FURNITURE	2.38	10.0	19.6	70.9	34.8	30.3	13.8
Furniture		13.7	22.8	68.1	38.1	26.9	12.7
Furnishings		8.7	18.3	73.2	32.6	31.7	14.4
HEALTH CARE & PERSONAL EXPENSES	6.97	9.4	29.4	87.3	41.9	32.0	21.2
PERSONAL CLOTHING AND ACCESORIES	5.07	13.9	23.1	75.6	73.1	25.0	16.5
Clothing Material		9.3	12.2	86.6	57.2	21.0	4.4
Make-up, Clothing & Accessories		11.0	26.4	85.2	77.2	23.7	13.6
Footware		18.8	20.6	34.8	67.8	31.5	20.4
Making Repairs		18.3	20.6	34.8	67.8	31.5	36.8
TRANSPORTATION	6.44	26.7	28.0	59.9	20.6	34.0	36.4
MISCELLANEOUS EXPENSES	7.85	11.2	27.5	74.4	50.1	36.8	35.6

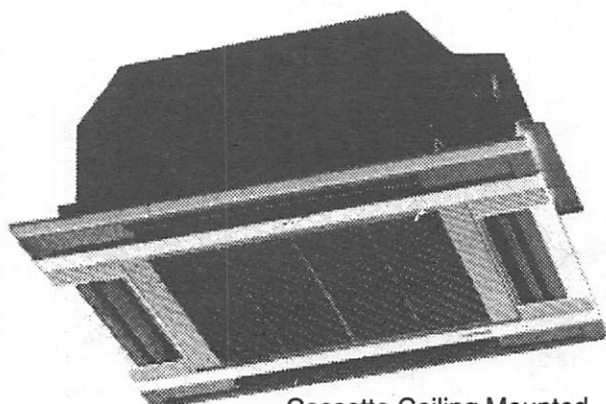
Panasonic

Mini split Systems

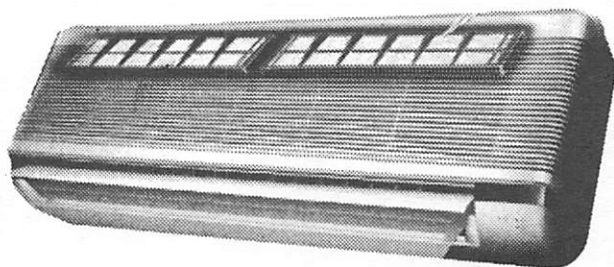
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Inflation cont'd

During 1994, price movements in the transportation sector had the greatest impact on the inflation rate. Price increases in the housing sector during 1994 were also more influential in increasing inflation (32.6%) than those affecting food and drink (27.1%) and personal expenses and health care (21.2%) in 1993. While the effect of the prices of fuel and other household supplies for 1994 on overall inflation rates was about the same as in 1993, the effect on price increases in Personal clothing and accessories, Health Care and Household Furnishing and Furniture was less than in 1993.

in the latter half of 1994 - interest rates trending down, buoyant foreign exchange inflows, and relative stability experienced in the exchange rate - had a positive effect on the level of inflation. Maintenance of this climate coupled with prudent fiscal management and more control over Money Supply could serve to further moderate inflation trends, enhance stability and contribute to building the investor climate needed to attract investment for growth and development.

If this scenario is realized then Jamaica could experience an inflation rate of 20-25% for 1995.

Out-look

The improvements in the macro-economic climate

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Energy

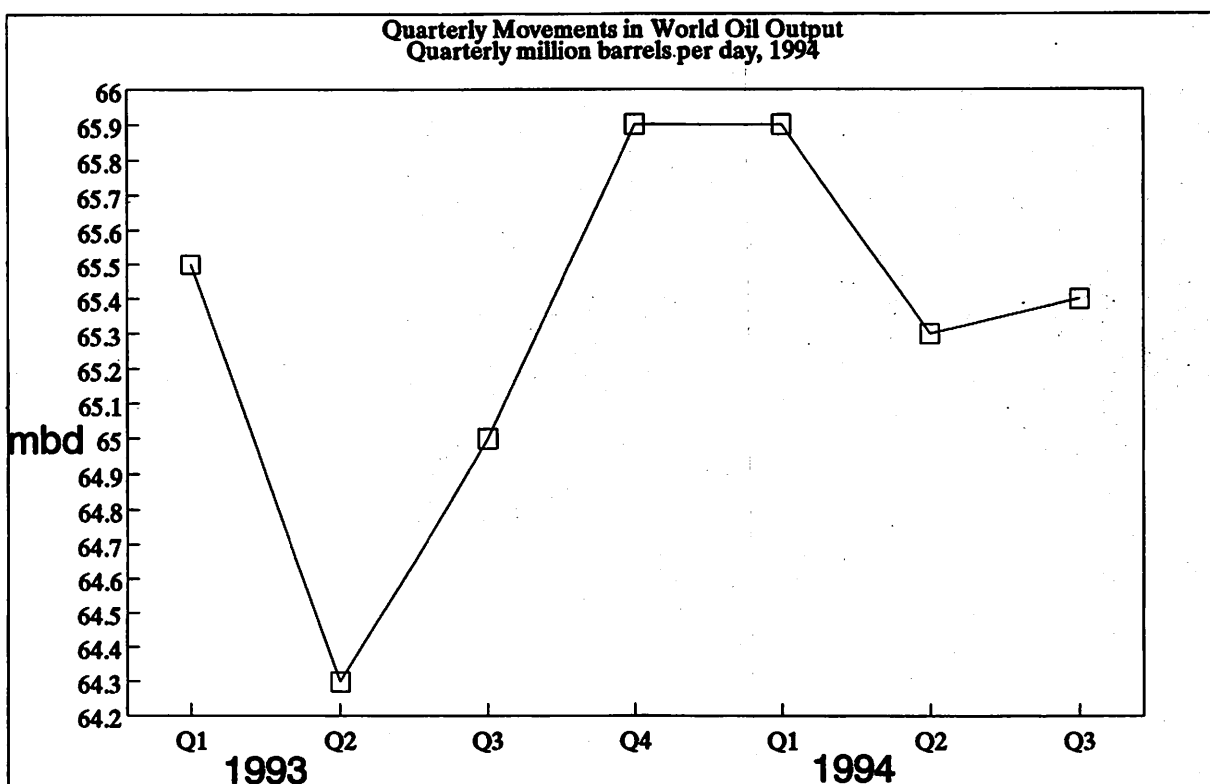
International Oil Market

In 1994, the aggregate global supply of crude oil is estimated to have increased marginally by 0.9 percent, amounting to an average 65.5 million barrels per day (mbd) for the first three quarters of 1994 over 1993. This rise in output was influenced primarily by a 10.3 percent increase in the average quarterly output by the producers from the Organisation for Economic Co-operation and Development (OECD) to reach an average 18.2 mbd in 1994.

Output and Trend

Output from oil producing countries of the Organisation of Petroleum Exporting Countries increased by 3.2 percent up to an average 25.5 mbd in 1994. The overall trend in aggregate oil production is one of stability. Maintaining stable oil production seems to be a definite strategy by producers to guarantee stable incomes in response to the continuing downward trend in crude oil prices.

Figure 9.1



Energy cont'd

World oil prices, as measured by the international benchmark Brent Blend which traded at an average US\$17.66 in the first three quarters of 1993, fell by 12.80 percent or US\$2.26 to US\$15.40 in the corresponding period of 1994. Based on other analyses, oil prices fell sharply from a peak of US\$17.80 a barrel in April 1993 to US\$12.65 a barrel in December, then rose to US\$13.40 a barrel in March 1994, and recovered to over US\$17.00 a barrel in early July. Prices declined again in August, and fluctuated around US\$15.75 a barrel in the first week of September. The current projection for 1995 is US\$15.15 a barrel.

1994, compared to US\$226.1 million in the corresponding period. Total imports of crude and refined products amounted to 14.9 million barrels, a 10.1 percent increase over the same period in 1993.

Extraordinary Development

During the second quarter of 1994, there was an explosion and fire which damaged two steam power generating units (123.5 Mega Watts, or approximately 20 percent of total islandwide capacity) at the Old Harbour plant of the Jamaica Public Service Company. As a result the company now relies more heavily on gas turbines for stand-by power generation to meet electricity demand at peak periods.

Imports of Petroleum Products

Jamaica's imports of petroleum products totalled US\$251.3 million in the first three quarters of

Table 9.1

Volume and Value of Imports of Petroleum Products

Imports by:	Unit	Q1	1993 Q2	Q3	Q1	1994 Q2	Q3
I. Refinery	000 bbls.						
Crude		2405.6	2,137.6	465.4	1402.8	1,784.8	1,653.6
Refined Products		592.4	686.6	2022.8	1475.9	1,161.0	1,164.9
Sub-Total		2998	2,804.2	2488.2	2878.7	2,945.8	2,818.5
II. Bauxite Companies							
Fuel Oil (a)		1645.2	1,868.1	1478.9	1738.2	2,027.0	1,645.2
III. Marketing Companies							
Refined Products		20.2	20.0	19	211.8	160.0	420.7
TOTAL VOLUME	000 bbls.	4663.4	4,692.3	3986.1	4828.7	5,152.8	4,884.4
TOTAL VALUE	US\$M.	79.9	78.0	66.1	82	80.6	88.7

p - Preliminary

r - Revised

a - Bunker C and Low Vanadium

Source: Compiled from data supplied by Petroleum Corporation of Jamaica
Ministry of Public Utilities Transport and Energy

Energy cont'd

This development has caused a decline of 17.3 percent in electricity generated by steam during the third quarter of 1994 and a consequent significant increase of 97.6 percent in electricity generated from gas turbines. The greater reliance gas turbine generated electricity will significantly increase the operating costs of the JPSCo and ultimately the billing costs to customers for electricity consumption.

Internal Impediments to Growth

In general, the average electricity rate charged by JPSCo increased by 29.5 percent between July to September over the comparable period in 1993 and 4.6 percent over the preceding April to June quarter of 1994. Given the foregoing, it is interesting to note that Jamaican firms are overly concerned with utility supplies as an impediment to growth. In the PSOJ/USAID 1994 Business Behaviour Survey, we found that the largest non-labour issue of concern to firms was the quality of utility supplies (electricity and water). In 1994, 40 percent of the firms expressed concerns about utilities, with large firms being the most concerned. This compares to less than a third of all firms in 1993.

The concerns are believed to be directly related to the increased frequency and duration of power outages, due to the destruction by explosion of the two power generating units in June 1994.

Economic Outlook

It is not expected that there will be any significant changes in the composition of Jamaica's energy mix in the near future. In the medium-term, there will be continued reliance on petroleum, over 87%, as Jamaica's main source of energy. As a result, future developments in the domestic economy will be influenced mainly by prevailing international prices caused by world aggregate demand and supply conditions.

Future output, economic growth and overall employment will be influenced by the progress that is made by the JPSCo to satisfy electricity demand and minimise or eliminate power outages. Cheaper electricity, especially to the industrial users, will assist in attracting new investments, for example, facilitating the development of "export-free-zone type" manufacturing plants outside of the traditional areas, thus increasing manufacturing output and boosting economic activity.

Also, economic activity will be positively affected by the development of two privately owned power plants by companies which are to be located in Kingston and Montego Bay. The Bogue - Montego Bay plant is expected to add about 30 - 40 megawatts of electricity to the system which will greatly assist in meeting peak demand and thereby minimising power outages.

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Shell uses its calendar to encourage the protection of endangered marine life. Company representatives have discussed with community organizations the need to balance economic progress with environmental preservation. They also have urged business groups to "bring the environment into the boardroom." Within its own operations, Shell uses many opportunities to show its customers how to use its products safely...and in ways that won't hurt the environment. It was Shell's marketing initiative that brought unleaded gasoline to Jamaica.

But Shell knows it still has some way to go in its own operations. The company conducted an exhaustive environmental audit at all its installations, then hired a full time, in-house environmentalist to carry out the improvements.

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Manufacturing

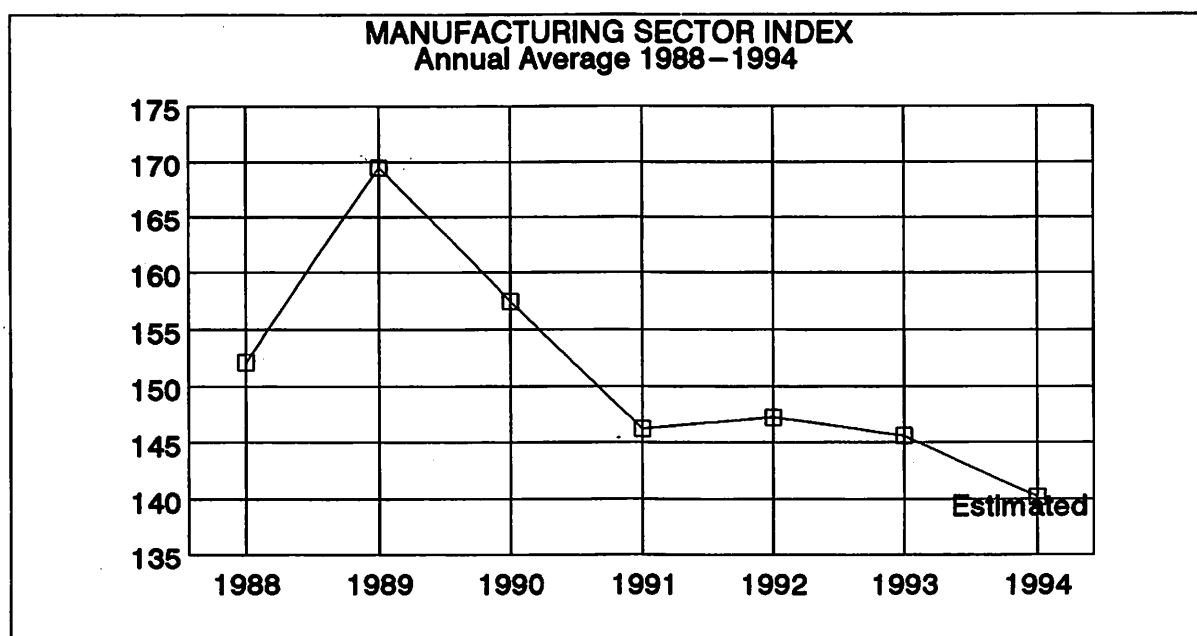
The Jamaican manufacturing sector employs 10.8 percent of the labour-force and contributes 18.5 percent to real GDP. Between 1987-1990 this sector grew at an average annual rate of 5.5 percent but since 1991 it has been declining by an average 3.3 percent annually. In 1993, manufacturing recorded a 2.9 percent decline and is not expected to show growth in 1994-95.

Significant macro-economic changes in the Jamaican economy over the past years have greatly constrained the manufacturing sector. Specifically, the high interest rate regime (nominal rates of 45 - 75% p.a.) (figure 10.1) linked with the depreciation in the value of the Jamaican dollar have caused a slow down in manufacturing investments in new plant and capacity expansion

as well as in 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. Linked to these problems are "the lack of strategic vision among Jamaica's managers and the decline in literacy, numeracy, and work ethic of the workforce". These conclusions are all applicable to the manufacturing sector and are based on a brief, but intensive analysis carried out in June 1994, by a team of consultants from the Academy for Educational Development.

Figure 10.1



Index for 1993 (101.1) is the average of the first three quarters.

Manufacturing cont'd

Manufacturing Production

The Planning Institute of Jamaica (PIOJ) survey of selected commodities reported a reduction in the productive activity of four of the five sub-sectors surveyed in the third quarter of 1994 relative to the corresponding 1993 quarter. The PIOJ noted that this was the first general quarterly decline in 1994 as the trend in output for the previous two quarters of 1994 was largely positive. The downturn was caused by industrial unrest and higher commodity prices leading to lower aggregate demand for some products between April to September 1994.

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 (i.e. January - September) of 1994 (Table 10.1).

Outstanding performance was recorded for poultry meat which increased by 13.4 percent to reach an output of 28,856,000 kilograms. Cornmeal increased by 4.4 percent, while edible oils and edible fats increased by an average 2.6 percent, and sugar fell marginally by 0.6 percent. The output of the remaining products within the food processing subsector declined. The most significant fall was registered by condensed milk (down by 21.3%, the result of an increase in the price of the product and the consequent drop in its demand. The output of molasses fell by 9.6 percent.

Beverage and Tobacco

This sub-sector also showed mixed performance for the period January to September 1994. The output of rum and aerated water grew by an average 5.2 percent and cigarettes grew marginally by 0.5 percent, while alcohol (including gin), beer and stout and cigars declined by 27.0, 5.9, and 11.2 percent respectively. The fall in the production of alcohol may have been in response to weak demand, while fall in the output of cigars may have been associated with production layoffs for about three weeks in one of the major cigar factories in response to a shortage in raw materials and low production at another factory as a result of industrial unrest by workers.

Chemicals and Chemical Products

For the period January to September 1994, the performance of the chemicals subsector was mixed relative to the similar period of 1993. The output of four commodities (paint, detergent, tyres and salt) recorded increases ranging from 19.4 percent to 0.9 percent, while the output of fertiliser, soap, aluminium sulphate and sulphuric acid reflected declines ranging from -35.3 to -0.3 percent.

Non-Metallic Minerals and Metals

Preliminary data for selected non-metallic products, cement and glass bottles showed that there was a marginal increase of 0.1 percent and a decline of 16.0 percent in the output of the respective products. Labour disputes during the

Manufacturing cont'd

Table 10.1

PRODUCTION OF SELECTED COMMODITIES

Sub-Sector	Unit	Jan. to Sept. % Change		
		1993	1994p	1994/1993
Food Processing				
Poultry Meat (a)	'000 kg.	25457	28856	13.4
Animal Feeds	'000 kg.	189486	186429	-1.6
Condensed Milk	'000 kg.	15263	12011	-21.3
Edible Oils	'000 kg.	4901	5023	2.5
Edible Fats	'000 kg.	4845	4974	2.7
Flour	'000 kg.	112413	109940	-2.2
Cornmeal	'000 kg.	11647	12158	4.4
Sugar	tonnes	212852	214156	0.6
Molasses	tonnes	100140	90553	-9.6
Beverages and Tobacco				
Rum	'000 ltrs	17061	18181	6.6
Alcohol (incl. Gin)	'000 ltrs	1178	860	-27.0
Beer & Stout	'000 ltrs	57885	54461	-5.9
Aerated Water	'000 ltrs	36973	38345	3.7
Cigarettes	'000's	962310	967260	0.5
Cigars	'000's	6713	5964	-11.2
Chemicals & Chemicals Products				
Fertilizer	tonnes	46885	46761	-0.3
Paint	'000 ltrs	5233	6246	19.4
Soap	'000 kg.	2570	2366	-7.9
Detergent	'000 kg.	4029	4382	8.8
Tyres	tonnes	3061	3301	7.8
Sulphuric Acid	tonnes	11372	9804	-13.8
Aluminium Sulphate	tonnes	8706	5631	-35.3
Salt (NaCl)	tonnes	14633	14762	0.9
Non-Metallic Minerals				
Cement	tonnes	330650	331138	0.1
Glass Bottles	tonnes	18702	15707	-16.0
Petroleum Products				
Gasolene	'000 ltrs	129299	122129	-5.5
L.P.G.	'000 ltrs	12030	11367	-5.5
Fuel Oil	'000 ltrs	393218	356399	-9.4
Turbo Fuel	'000 ltrs	119663	79073	-33.9
Automotive Diesel Oil	'000 ltrs	116890	135281	15.7
Other Petroleum Products	'000 ltrs	135651	114677	-15.5

(a) - Data from the two major broiler companies

(p) - Preliminary

Source: Survey conducted by the PIOJ

Manufacturing cont'd

third quarter adversely affected the level of output recorded for glass bottles while the significant decline in cement production was influenced by a breakdown of two of the kilns at the cement plant.

Petroleum Products

All products (except automotive diesel oil) within this sub-sector declined by an average 14.0 percent for the review period. The most significant declines in output were recorded by turbo fuel and other petroleum products. Automotive diesel oil recorded a 15.7 percent increase.

Exports of Manufactured Goods

The export performance of selected major traditional manufactured exports (sugar, rum, bauxite, alumina and gypsum) showed mixed results in 1994. Bauxite and alumina earnings increased by 22.2 percent to US\$537.2 million, while sugar(US\$73.0m.), rum(US\$21.0m.) and gypsum earnings(US\$1.0m.) all declined by 25.1%, 2.5% and 4.7% respectively in 1994. In the non-traditional sub-sectors, Apparel exports amounted to US\$246.3 million, a 25.2 percent increase over 1993. This level of export earnings by the apparel subsector accounts for 61 percent of the US\$403.7 million total non-traditional export earnings in 1994, compared to a share of 57.9 percent in 1993. Also, furniture exports for the first eleven months of 1994 reached US\$3.2 million, a 21.15 percent decline over the corresponding period in 1993.

Outlook

The Jamaican manufacturing sector has been declining by an average 3.3 percent annually since 1991 and is expected to show slight improvement in 1995. This should result from an increase in the average level of investment for large manufacturing firms which started in 1994 and should continue throughout 1995. Another positive factor is that the average level of investment for medium-sized firms recorded an increase in 1994 over the 1993 level, and this should result in increased manufacturing output in 1995.

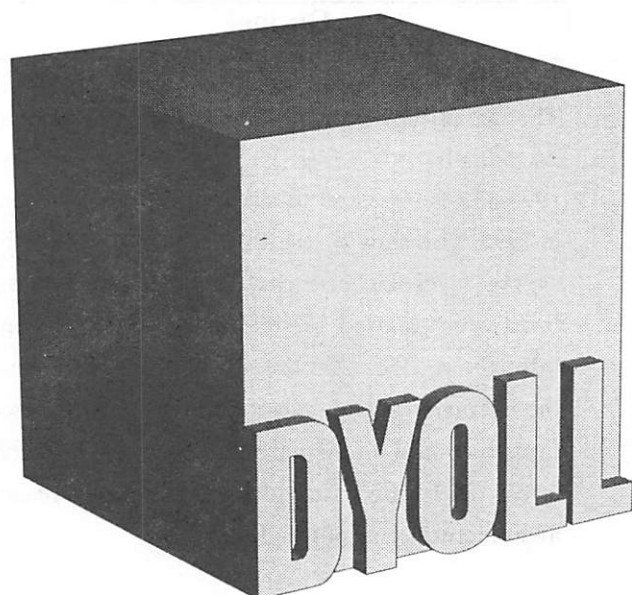
Also, with falling loan rates anticipated in 1995 manufacturing investment and output may further increase during the year.

On the negative side, average investments are expected to decline in 1995 for both small and medium-sized firms, however, with cheaper financing available the level of investment by these firms may either remain stable or increase slightly.

Notwithstanding the above mentioned problems, manufacturing investment and output will continue to benefit from accelerated capital depreciation and duty free importation of raw materials as well as a more conducive manufacturing environment in 1995.

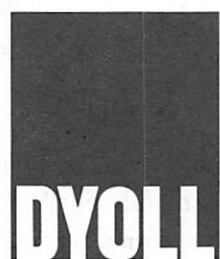
In order to maximize the returns from these benefits entrepreneurs in the manufacturing sector should develop "strategic thinking and a growth mentality within management ... that induces managers to look seriously at the development of their productive assets over the next five years".

Manufacturing cont'd



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In doing so managers must shift the orientation of their economic activities towards the production of goods which can be more competitively marketed in the North American Free Trade Area, the European Community and in 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. Improvement in transportation services, lower utility costs, plant retooling, and extending the production process to include night shifts (assuming improvements in security) will be other prerequisites to moving the

manufacturing sector forward.

Therefore, growth in the manufacturing sector in 1995 will be influenced by the extent to which the present trend towards lower inflation and lower interest rates is maintained and strengthened. This will have the two-fold effect of facilitating investment and halting the appreciation in the real rate of exchange of the Jamaican dollar and hence halting the erosion of our export competitiveness.

Mining

Non-Fuel Commodity Prices

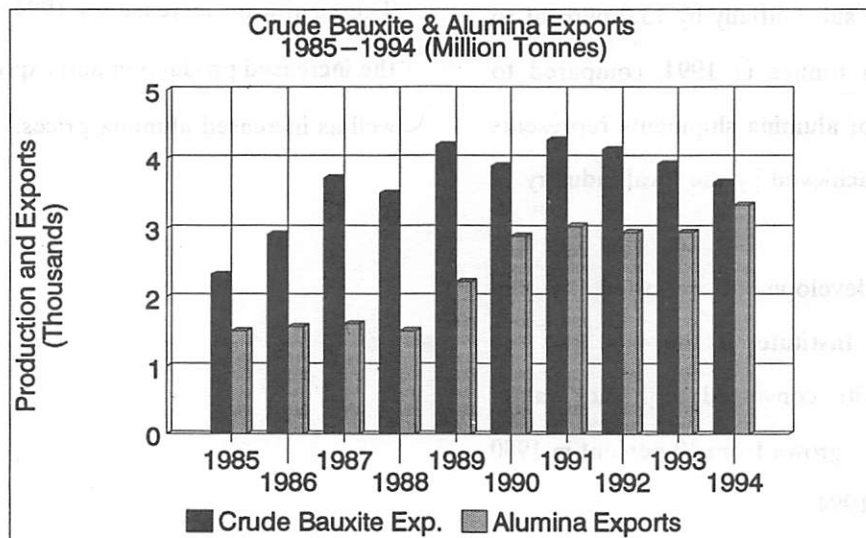
Prices of non-oil raw materials have risen significantly, with particularly large price spikes in a few commodities. At August 1994, copper prices were up 30 percent, in January 1995, aluminum prices reached a 4 1/2 year high while the prices of other metals also rose substantially.

A well known indicator, The Economist's Commodity Price Index, which *weights prices by the value of imports into the industrial countries* - showed a striking increase of more than 37 percent in the twelve months through August 1994. The IMF has argued that speculative behaviour may have contributed to some of these increases, but quite possibly, the most important factor explaining the general pickup in commodity prices was the

broadening of the recovery among the industrial countries. However, in terms of perspective, even with these sharp increases, the index is still well below its peaks in the 1980s.

It is clear therefore that commodity prices are significantly reflecting the improvement in aggregate demand in industrial countries and mounting stocks. Specifically, the prices of metal and minerals were pushed higher by stronger demand. This development is consistent with the 1994 non-fuel commodity prices projected increase of 14 percent in response to the upturn in world growth.

Figure 11.1



Mining cont'd

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

Performance in the bauxite alumina sector showed some improvement in 1994, based on the main indicators of the industry. Total bauxite production for the year was 11,851,234 tonnes increasing by 6.1 percent over 1993. However, crude bauxite and alumina exports showed mixed results - bauxite declined by almost 7.0 percent to reach 3.6 million metric tonnes, while alumina exports increased substantially by 13.0 percent to reach 3.3 million tonnes in 1994, compared to 1993. This level of alumina shipments represents the highest-ever achieved by the local industry.

An important development reported by the Jamaica Bauxite Institute, is the fact that the quantity of bauxite converted to higher value-added alumina has grown from 49 percent in 1980 to 69 percent in 1994.

Foreign Exchange Earnings

Gross export earnings for bauxite and alumina totalled US\$610.1 million in 1994, a 16.4 percent increase over 1993. Specifically, bauxite earnings amounted to US\$72.9 million, a 13.4 percent decline while alumina earnings reached US\$537.2 million, representing a 22.2 percent increase over the corresponding period in 1993. Preliminary figures indicate local cost inflows increased by 21.7 percent up to US\$156.1 million in 1994, while levy/taxes fell marginally by 0.4 percent to US\$66.6 million in 1994. The out-turn for net foreign exchange earnings is estimated at US\$228.4 million compared to US\$200.8 million in 1993. This significant increase for 1994 is due mainly to the increased production and export of alumina as well as increased alumina prices.

Mining cont'd

Table 11.1

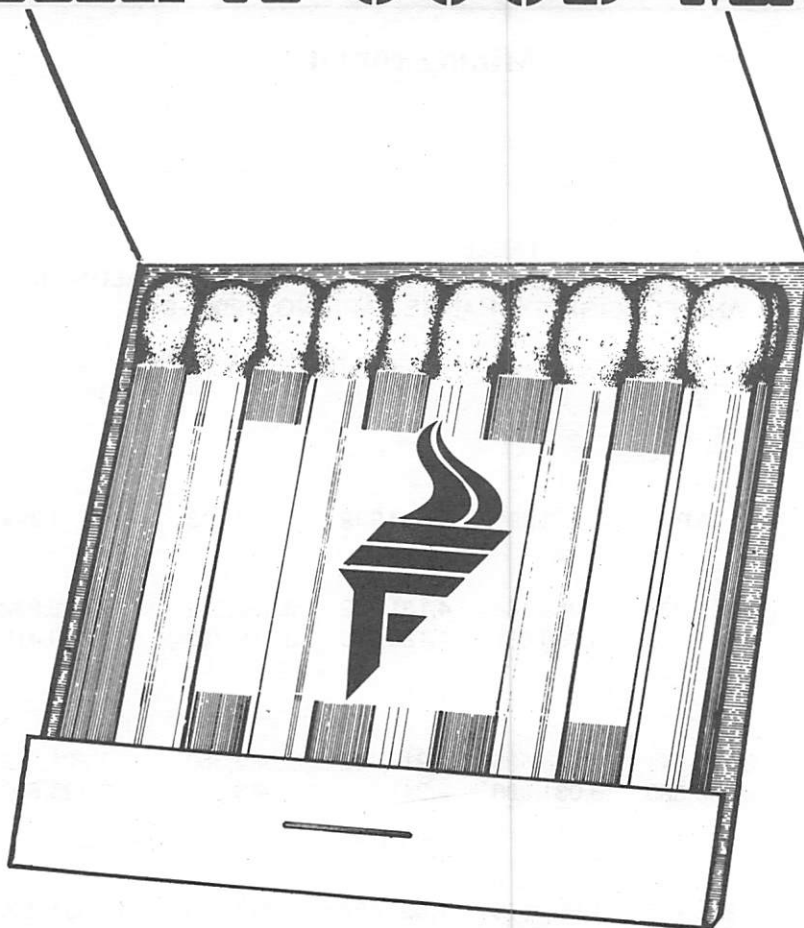
TABLE
PRODUCTION AND SHIPMENTS OF JAMAICA'S BAUXITE AND ALUMINA
AND FOREIGN EXCHANGE EARNING, 1990-94

	1990	1991	1992	1993	1994	% Change 1993/1994
BAUXITE						
Production	3,910,834	4,248,784	4,131,752	3,938,592	3,628,832	-7.86
Shipments	3,885,698	4,260,881	4,128,330	3,916,723	3,649,419	-6.82
ALUMINA						
Production	2,868,844	3,014,585	2,917,162	2,989,360	3,221,222	7.76
Shipments	2,888,630	3,031,988	2,941,441	2,943,345	3,325,808	12.99
Total Bauxite Disposed of	10,936,725	11,608,619	11,359,486	11,306,558	11,851,234	4.82
Earnings (US\$Mn)						
Gross Earnings	730	668.25	587.29	527.94	621.2	17.66
Levy/Taxes	122.76	108.70	70.44	66.91	66.6	-0.46
Royalty	6.45	5.80	5.22	5.57	5.6	0.54
Local Cost Inflows	150.28	136.13	113.23	128.30	156.1	21.67
NET EARNINGS	279.49	250.63	188.89	200.78	228.4	13.76

Ref: Shipment.Wk1

Source: Economics Division, Jamaica Bauxite Institute

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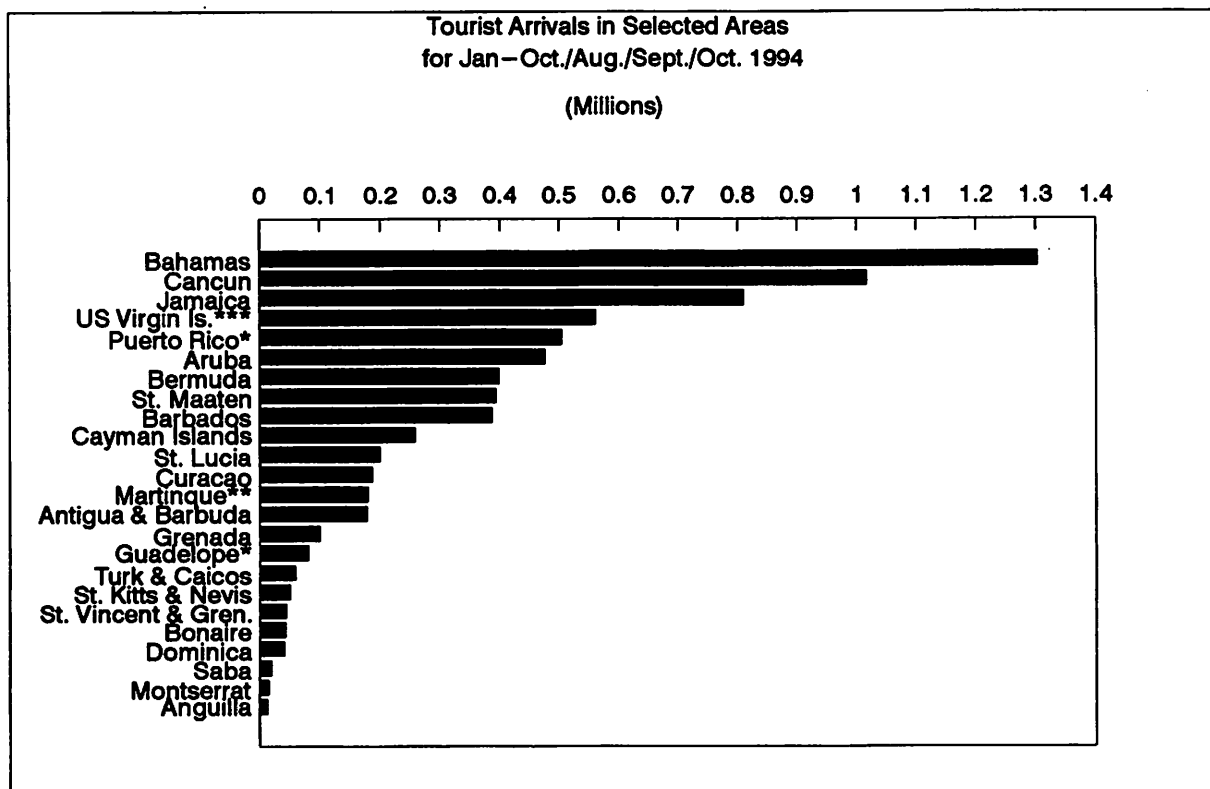
Tourism

Caribbean Tourism

Overall tourist arrivals to the Caribbean between January to October 1994 grew by about 3 percent, compared with the same period in 1993. Most Caribbean destinations recorded strong growth in arrivals during the winter months (January to April), followed by a relatively weak performance in the summer months (May to October). Estimates based on the monthly returns from 22 Caribbean destinations (excluding Dominican Republic and Cuba) which together account for approximately 70 percent of all tourist arrivals to the region, showed an estimated 8 percent growth

in arrivals during the winter months compared to a significant decline of just under 2 percent in the summer months. Also, all destinations reported lower growth rates during the summer months. The single exception was the Cayman Islands which significantly, has maintained an effective advertising programme in the United States (its major market) throughout the year. The overall regional decline during the summer period was greatly influenced by the decreases recorded in three of the largest destinations. Specific performance for selected countries are shown in Figure 12.1.

Figure 12.1



Tourism Cont'd

Table 12.1

Tourist (Stop-over) Arrivals in Selected Countries, 1994

<u>Country</u>	<u>Tourist Arrivals</u>
1 Bahamas	1302651 Jan-Oct
2 Cancun	1017600 Jan-Aug
3 Jamaica	810525 Jan-Oct
4 US Virgin Is.***	560789 Jan-Oct
5 Puerto Rico*	503841 Jan-Aug
6 Aruba	476401 Jan-Oct
7 Bermuda	397890 Jan-Nov
8 St. Maaten	392716 Jan-Aug
9 Barbados	386896 Jan-Nov
10 Cayman Islands	257672 Jan-Sep
11 St. Lucia	198865 Jan-Nov
12 Curacao	186926 Jan-Oct
13 Martinique**	178231 Jan-Apr
14 Antigua & Barbuda	177861 Jan-Sep
15 Grenada	99481 Jan-Nov
16 Guadelope*	80662 Jan-Jun
17 Turk & Caicos	58481 Jan-Oct
18 St. Kitts & Nevis	50693 Jan-Jun
19 St. Vincent & Gren.	44426 Jan-Oct
20 Bonaire	42700 Jan-Sep
21 Dominica	40318 Jan-Aug
22 Saba	19916 Jan-Aug
23 Montserrat	14855 Jan-Sep
24 Anguilla	13160 Jan-Mar

* Hotel Registration

** Estimated visitor arrivals based on continuous sample survey

*** Visitor air arrivals

Source: Caribbean Tourism Organisation, Statistical News, Oct. 1994

Jamaica's Tourism Performance

Economic analysis of the Jamaican tourism sector in a recent study by the OAS substantiates the fact that it is the most important sector of the economy. Tourism accounts for approximately J\$8.3 billion or about 13.3 percent of Gross Domestic Product in 1992 and employs directly and indirectly about 71,710 and 217,000 workers respectively. Most significantly the sector earns 45 percent of the economy's foreign exchange income. The direct contribution of the tourism industry in terms of value added by subsector is summarised in Figure 12.2.

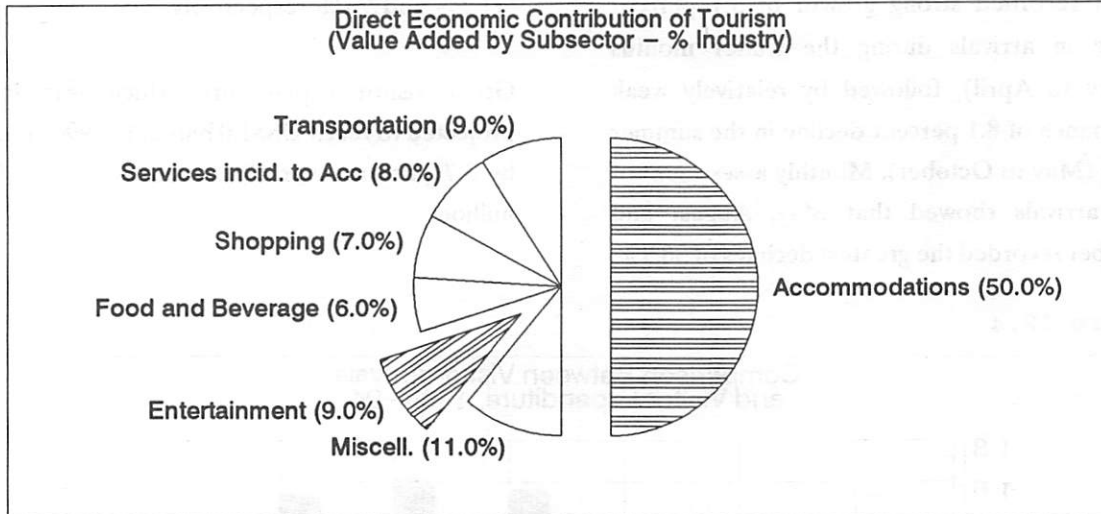
Hotel Investment

In the 1994 PSOJ/USAID Business Behaviour Survey of 255 firms, which included 31 firms in the hotel/restaurant category, it was discovered that there has been an increase in average investments from 1993 to 1994 by all types of hotels.

However, it is expected that there will be a reversal of this trend for small hotels in 1995. The reason for this reversal may be two-fold: first, small hotels tend to rely on high cost domestic financing, whereas larger hotels source their financing from cheaper foreign sources; second, very low capacity utilisation (i.e. room occupancy of 40-49%) among the majority (55.6%) of small hotels may be limiting further expansion.

Tourism cont'd.

Figure 12.2

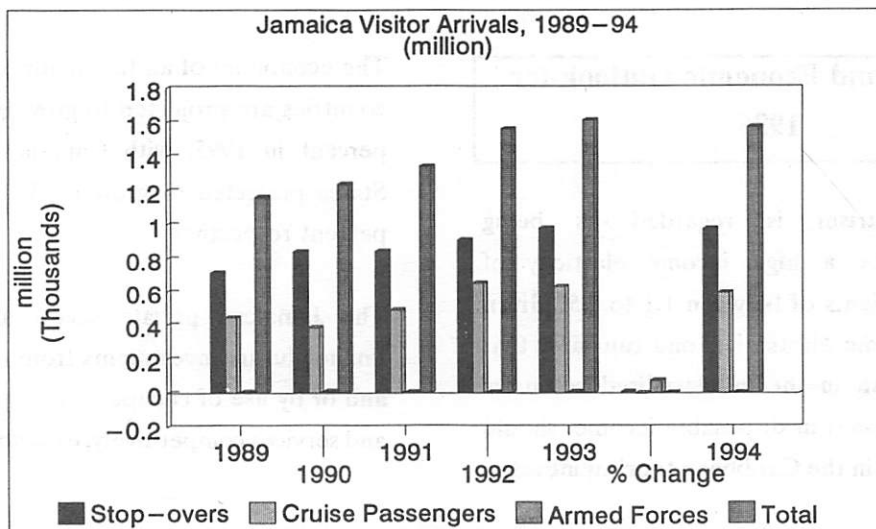


Visitor Arrivals & Expenditure

The tourism sector recorded an overall decline in visitor arrivals of 2.5 percent or 40,634 tourists in 1994 compared to growth of 3.4 percent in 1993. Visitor arrivals totalled 1,575,706, with declines in

all subsectors: stopovers fell by -0.2 percent, cruise passengers -5.6 percent and armed forces -50.0% (Figure 12.3).

Figure 12.3



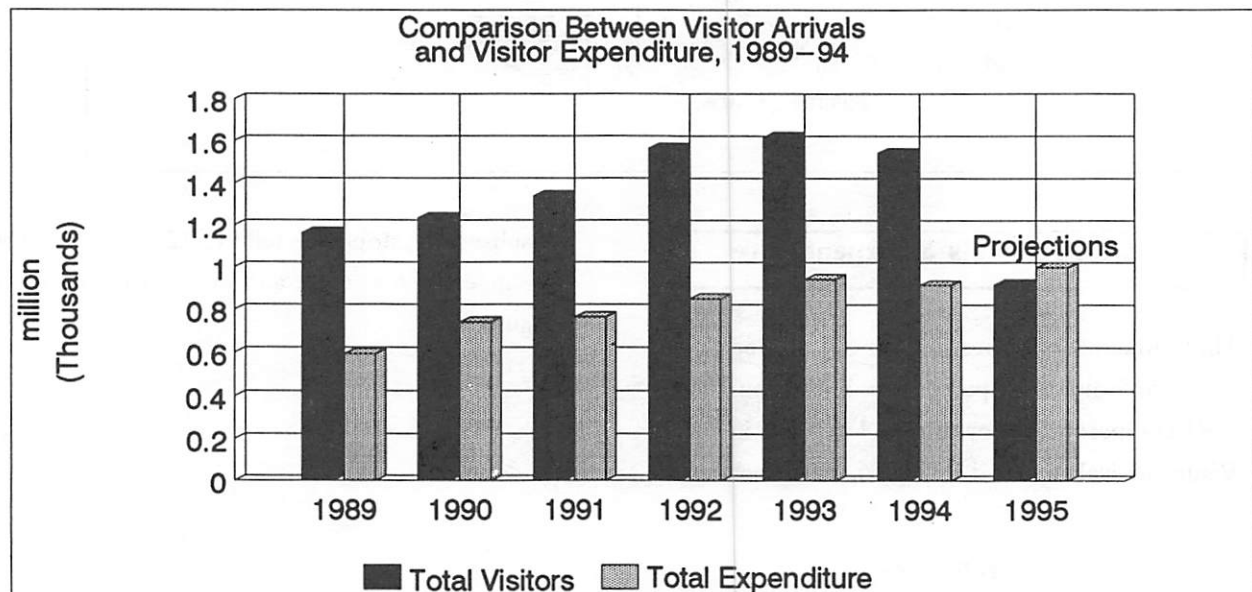
Tourism cont'd.

Jamaica recorded strong growth of 5.1 percent increase in arrivals during the winter months (January to April), followed by relatively weak performance of 8.1 percent decline in the summer months (May to October). Monthly assessment of visitor arrivals showed that May, August and December recorded the greatest declines of 36.9%,

11.2% and 9.1% respectively.

Gross visitor expenditure which was initially projected to reach US\$1.0 billion in 1994, declined by 3.7 percent over 1993 amounting to US\$915 million.

Figure 12.4



Strategies and Economic Outlook for 1995

Caribbean tourism is regarded as being characterised by a high income elasticity of demand coefficients 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 by an average 2.9 percent in 1995, with Canada and the United States projected to grow by 3.4 percent and 2.8 percent respectively.

The Jamaican private sector should therefore finance future investments from retained earnings and or by use of cheaper funds, price its products and services competitively, expand its international

Tourism cont'd.

marketing programme and expand as well as improve the quality of its range of vacation activities. Specifically, tourism operators should concentrate on the following top 10 vacation activities:

sun/beach	nature/outdoor
water sports	sailing
sightseeing	shopping
scuba diving	golf
night life	gambling

Niche marketing to capture tourists interested in these vacation activities should be advanced.

Growth Forecasts: Based on the foregoing and using the recognised macroeconomic model of Jamaica - both stopover visitors and gross travel

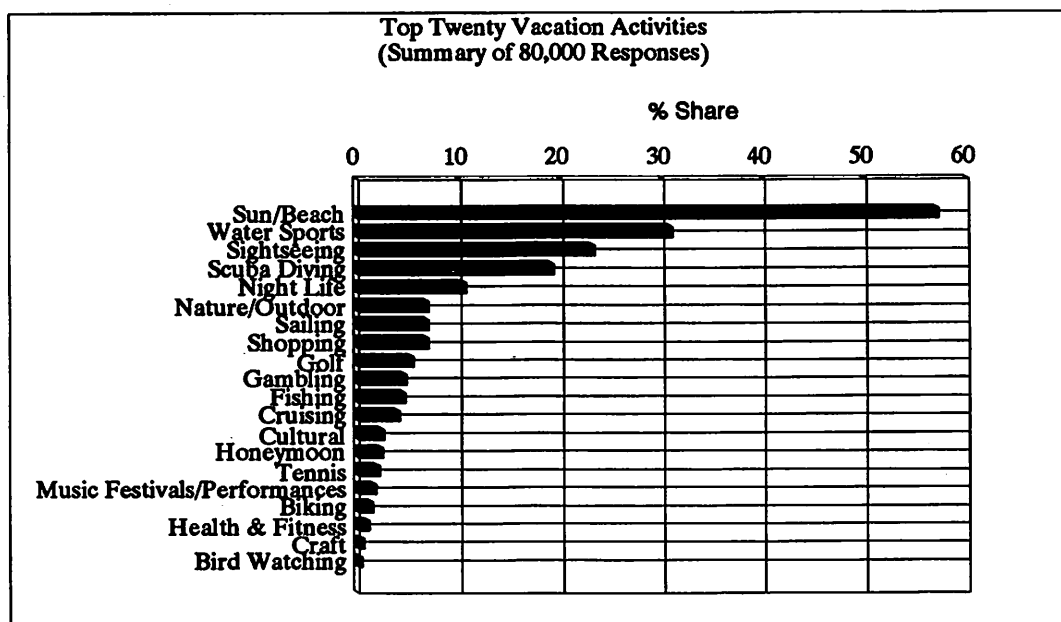
receipts are projected to grow in 1995.

However, tourism growth may be hampered by the lack of adequate infrastructure and a less than friendly visitor environment.

For example, the absence of a satisfactory water and sewage system in Negril and Ocho Rios, land squatting in areas adjacent to resort towns, continuing visitor harassment and high levels of crime and violence may combine to negatively affect visitor arrivals and expenditure in 1995.

Lower destination advertising expenditure by the Jamaica Tourist Board is also likely to have a negative impact on the prospects for growth in visitor arrivals.

Figure 12.5



Note: This information was gathered from a recent marketing survey conducted by the Caribbean Coalition for Tourism. In the survey consumers calling a 1-800 number were asked to give their top two vacation activities. The information above represents a summary of the results.

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• UNITED REALTORS COMPANY LTD. • JAMAICA HERALD LTD. • SWEET RIVER RESORTS LTD.
• POWER SUN JAMAICA LTD. (Owners & Operators of Golden Seas Beach Resort) • VIDEOMAX PRODUCTIONS LTD. • LEADER AUTO RENTALS & TOURS LTD.
ASSOCIATE COMPANY: SWEET RIVER LIMITED.

Graphic Economic Data: 1983-1994

Figure 13.1

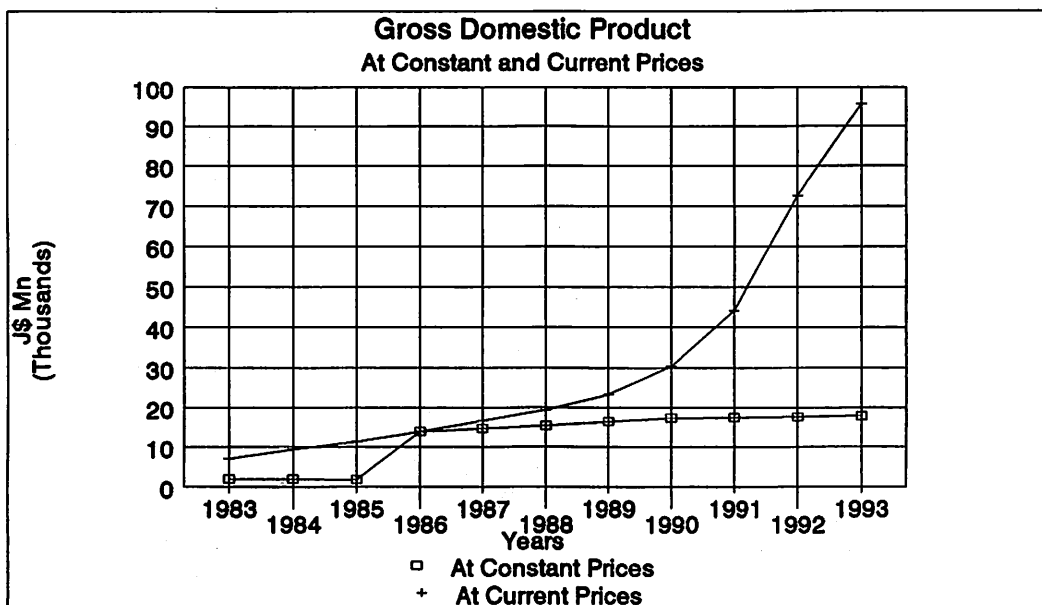


Figure 13.2



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WEALTH is available to all Workers Bank customers, including Post Office savers.

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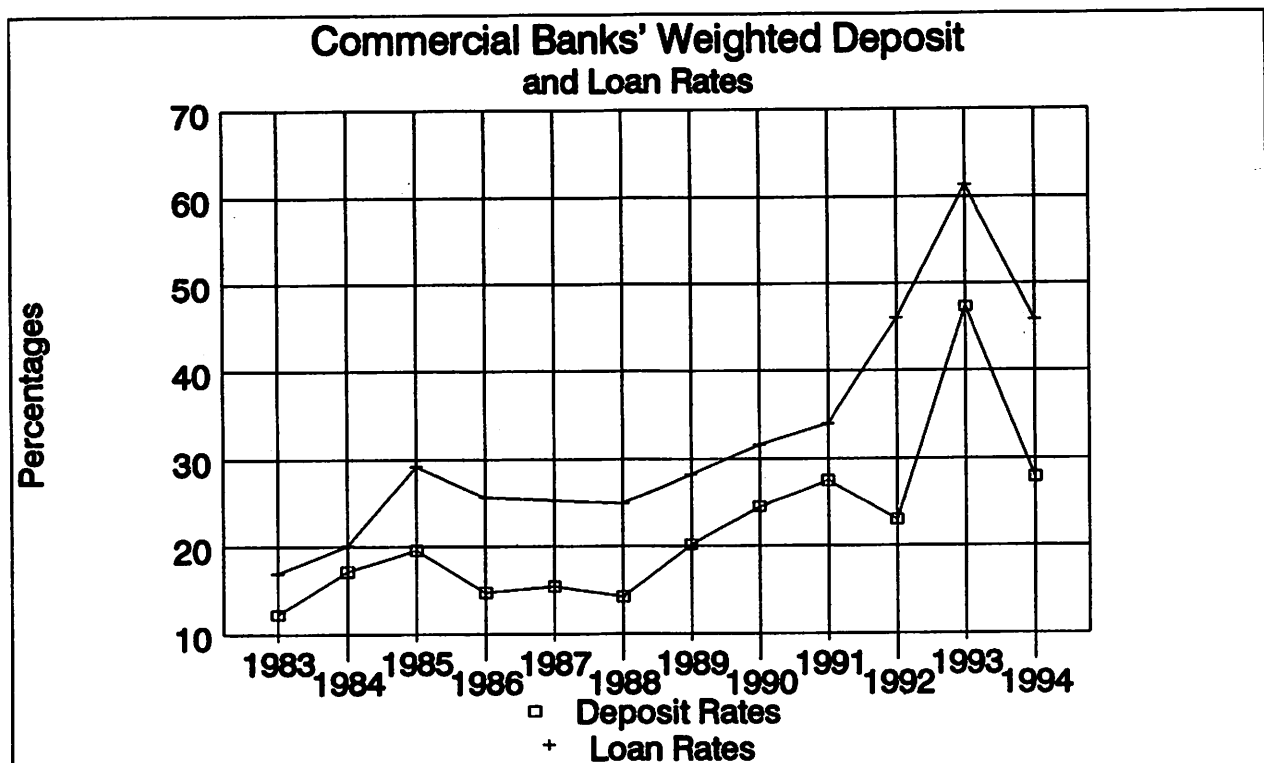
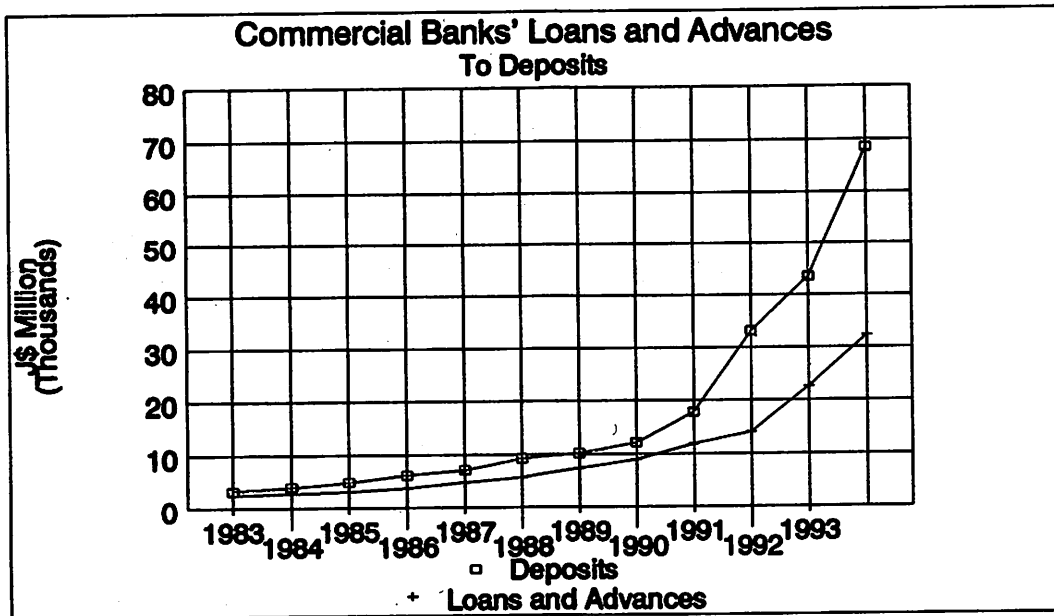
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Fostering Enterprise through WEALTH



A Member of the Corporate Group of Companies
Licensed by the Bank of Jamaica under the Banking Act.
Committed to Quality Service

Graphic Economic Data: 1983-1994 cont'd

Figure 13.3



Graphic Economic Data: 1983-1994 cont'd

Figure 13.5

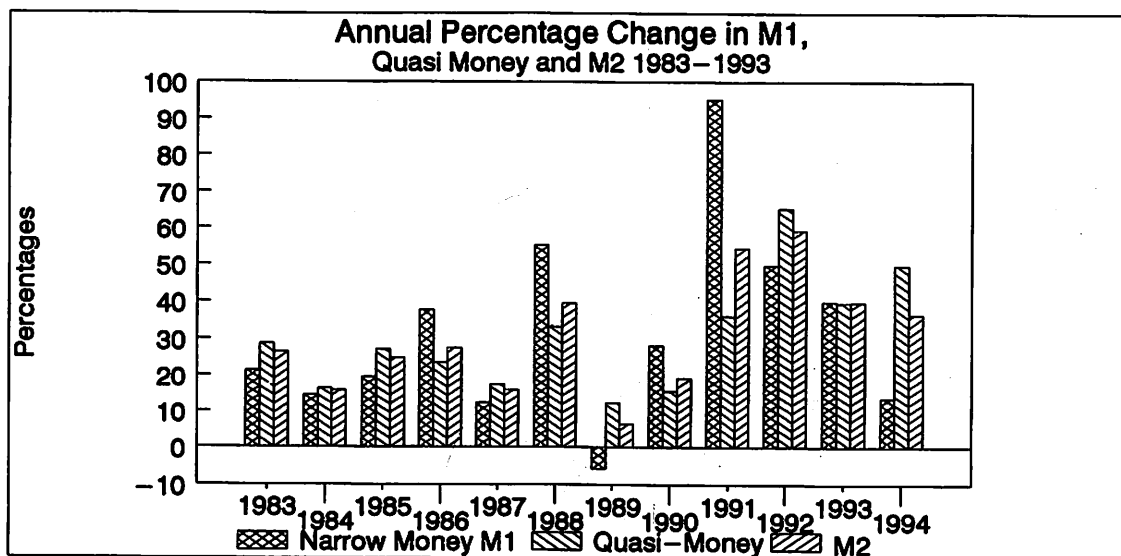
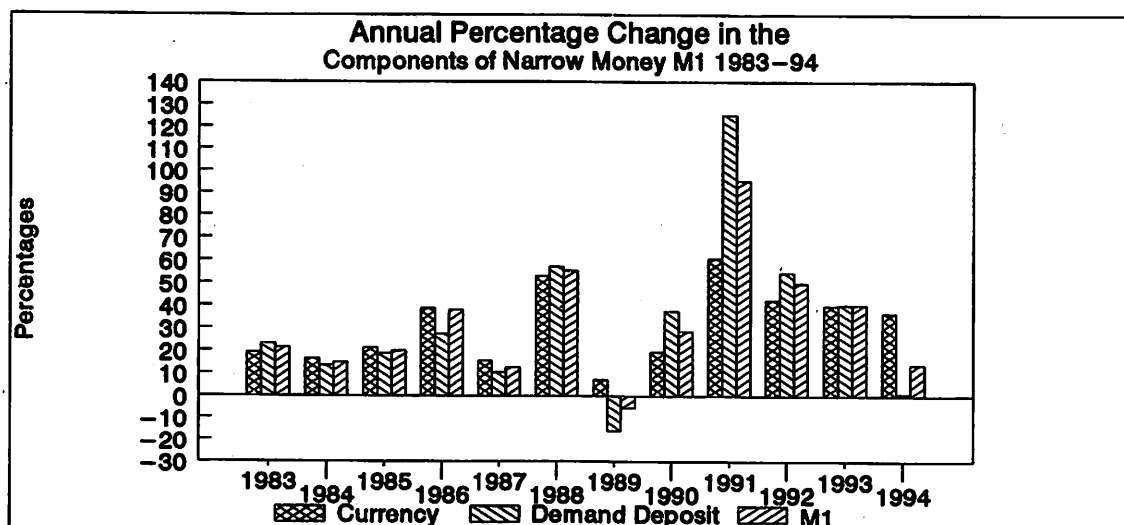


Figure 13.6



Graphic Economic Data: 1983-1994 cont'd

Figure 13.7

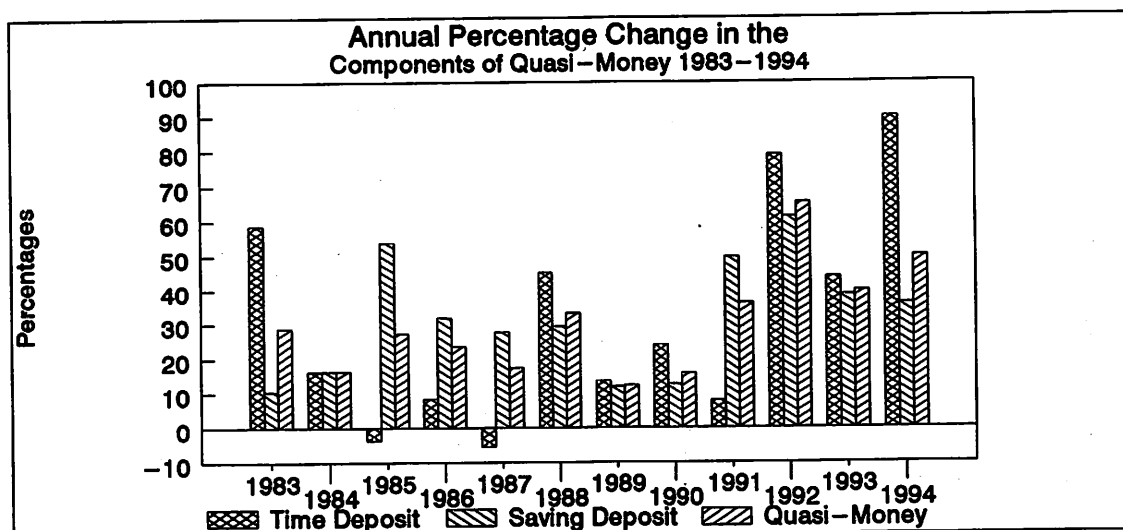
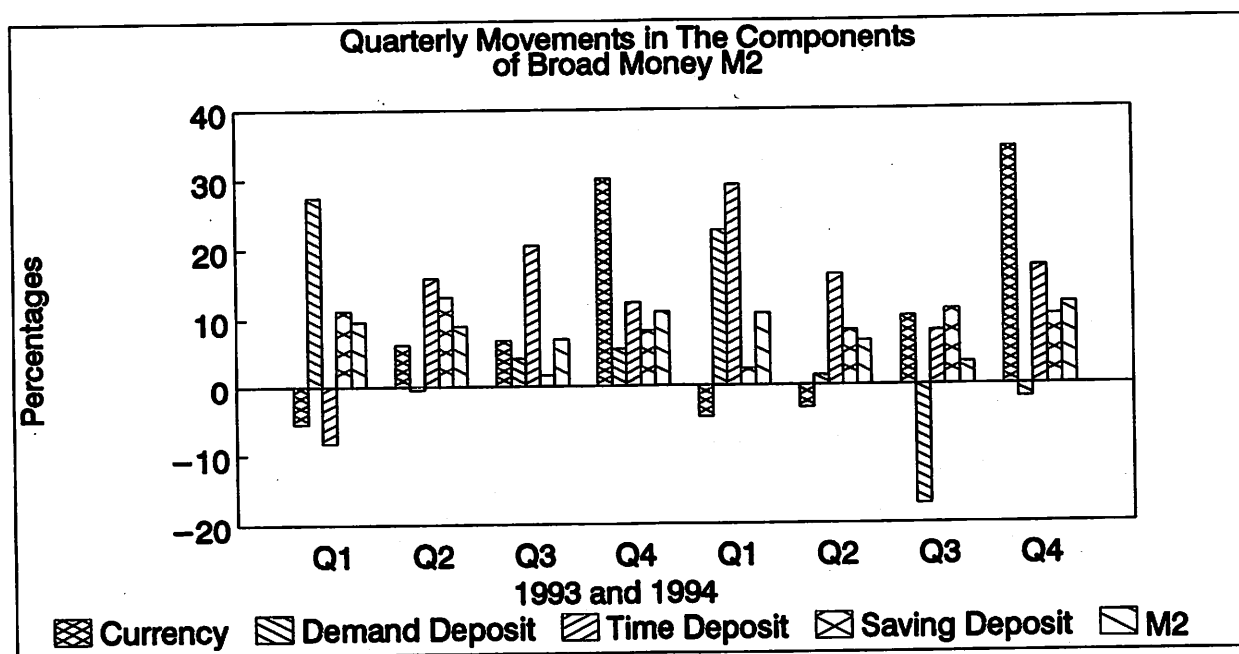


Figure 13.8





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Today, we renew our commitment to providing quality products and excellent service.



Graphic Economic Data: 1983-1994 cont'd

Figure 13.9

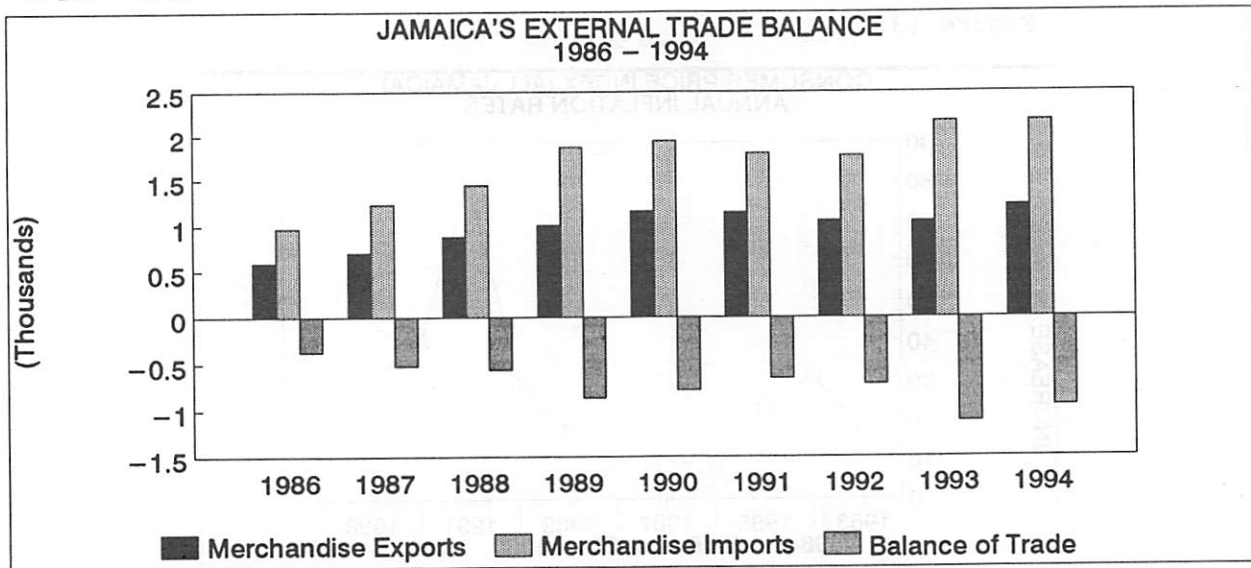
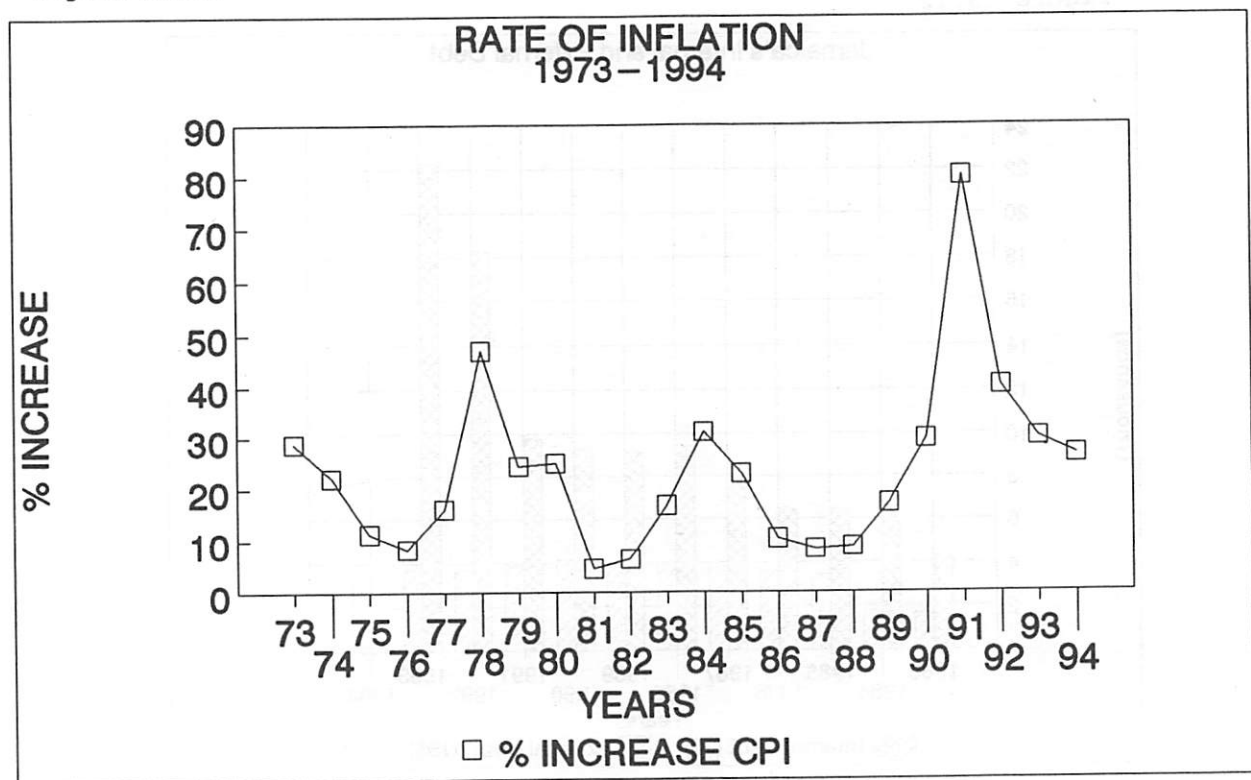


Figure 13.10



Graphic Economic Data: 1983-1994 cont'd

Figure 13.11

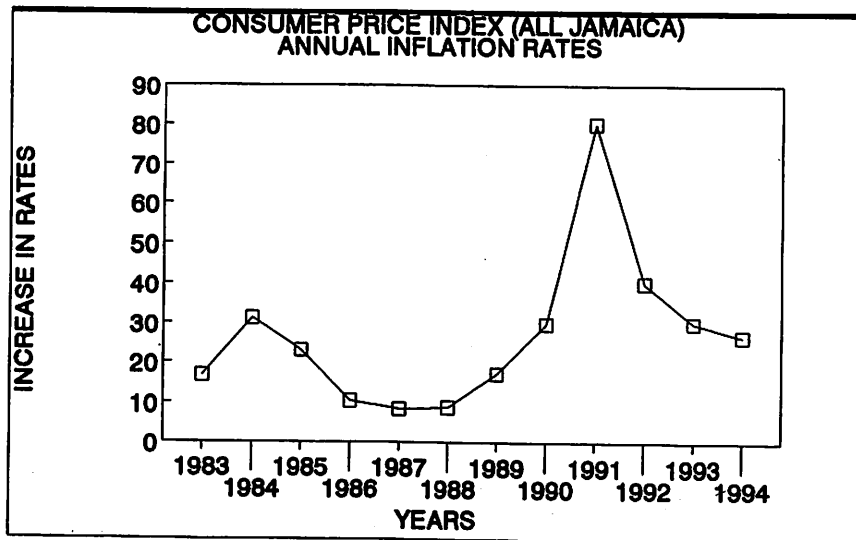
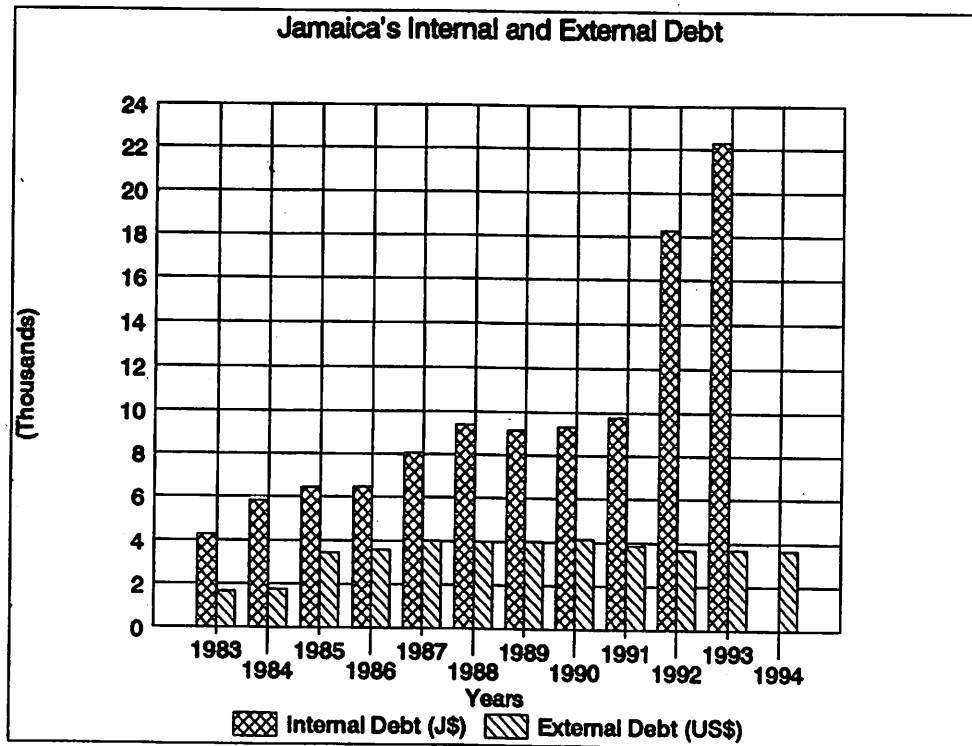


Figure 13.12



Graphic Economic Data: 1983-1994 cont'd

Figure 13.13

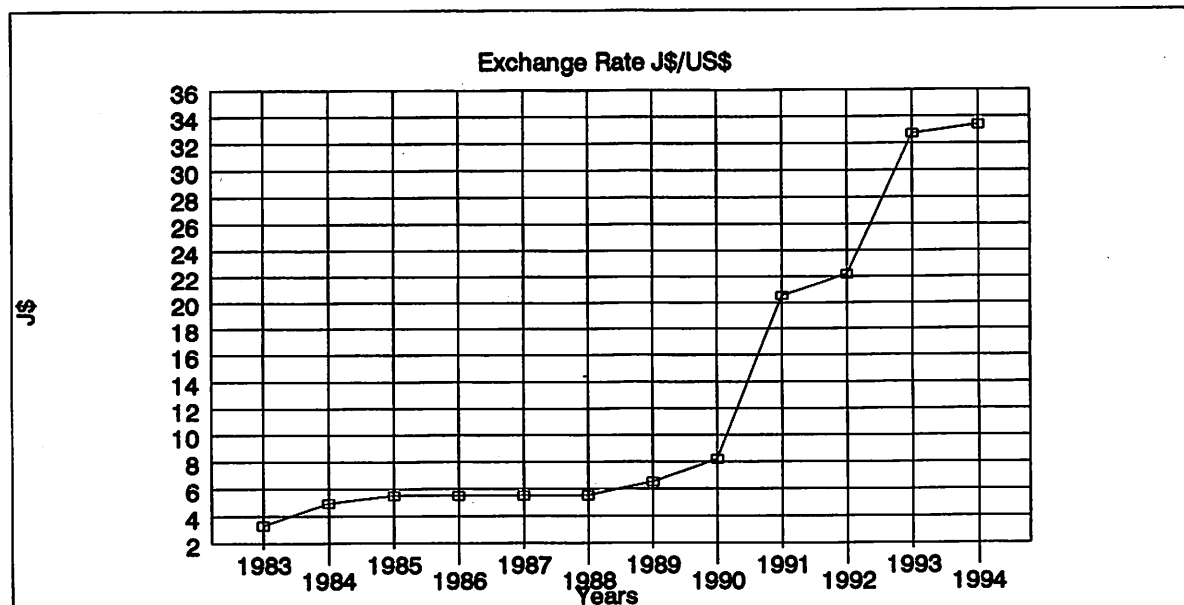


Figure 13.14

