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**THE PRIVATE SECTOR
ORGANISATION OF JAMAICA**

**A N N U A L
R E P O R T
O N T H E
J A M A I C A N
E C O N O M Y**

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OVERVIEW OF ANNUAL ECONOMIC REPORT 1995

The strong money supply growth and high inflation of 1994 began to have an impact on the external account in early 1995. The downward trend in deposit rates that began in late 1994 continued into the first half of 1995, leading to a fall in lending rates. This in turn fuelled the growth of private sector credit and led to a substantial increase in imports.

By the second quarter of the year, although monthly inflation rates were still in the 1-1.5% per month range, the exchange rate began a very slow decline in the March to June 1995 period. The July to November period saw the decline in the exchange rate accelerating as the local currency lost about 16% of its value as the rate slipped from about J\$34.00 to US\$1.00 to just under J\$40.00 to US\$1.00, during this time.

It is perhaps not just coincidence that July was also the month in which the Bank of Jamaica provided a commercial bank with some J\$3.5 billion of liquidity to support to enable it to withstand a run on the deposits with the institution. This action had a direct impact on money supply growth and must have acted as a further stimulus to the increased inflation of the latter half of 1995.

In response to the pressure on the exchange rate, the Bank of Jamaica rapidly reversed the decline in interest rates and through aggressive open market operations had pushed deposit rates back to over 40% per annum by year end. This strategy, in tandem with the sale of approximately US\$100 million of the Net International Reserves (NIR), resulted in the exchange rate stabilising by December.

The signs of possible upheavals in the foreign exchange market became evident early in the year as there was a substantial deterioration in both the trade deficit and the current account of the balance of payments, as imports grew at a much faster pace than exports of goods and services. However, the high interest rate policy has demonstrated its ability to pull in short term foreign exchange transfers, as by February 1996, the Net International Reserves had returned to its pre-intervention level of just under US\$470 million. Nevertheless, serious concerns are emerging about how much longer the economy can sustain the impact of this policy, without major dislocation in the financial and goods-producing sectors.

Outlook

The out-turn for 1996 is going to be coloured to a large extent by political considerations. With two years to go before the next general elections are due and local government elections considerably overdue, there can be little doubt that these events are foremost in the minds of our policymakers.

The government has declared that exchange rate stability is their principal policy objective and everything will be geared towards maintaining this. Consequently, the high interest rate policy will continue for the foreseeable future barring any major disruptions in the economy or the calling of an early election. It is possible that at some point the government may seek to lower interest rates and use the Net International Reserves as the cushion to maintain stability in the exchange rate, but this is unlikely to happen until the election is imminent.

OVERVIEW OF ANNUAL ECONOMIC REPORT 1995

1996 is therefore likely to be another year of declining output or at best marginal growth. The financial sector, the leading growth sector of the past few years, is now in decline, as rising costs and a growing portfolio of non-performing loans put the squeeze on profits. Loan growth is weak as lending rates are in the 55-65% per annum range and investment is also quite soft. Export profitability is likely to be hurt by the continuing appreciation of the real exchange rate as our inflation levels continue to be considerably higher than those of our major trading partners. Tourism will also be affected by this trend and many companies operating in the domestic economy are having to downsize in order to maintain their viability.

The equity market is at its lowest level in recent years and the real estate market is also softening especially in the middle income segment. The outlook for real sector activity is rather bleak with the only two possible bright spots being the mining sector and the fiercely competitive import and distribution sector.

For the remainder of 1996, the economy is likely to remain in the present stranglehold of the high interest rate policy. Ultimately, there will have to be a compromise between interest rates and the exchange rate but this is unlikely to happen under the present administration. The real outstanding question is whether or not they will be able to reduce substantially the rate of growth of the money supply. If they do

manage to reduce it, there could be a significant slow-down in economic activity. If they don't, the problem of inflation will continue to plague the economy.

The policy prescriptions to take the economy out of the present dilemma are fairly straight-forward if not particularly palatable politically. The government must stop money creation through its relationship with the Bank of Jamaica by radically reforming that institution and restructuring its balance sheet. The distortion with lending rates could be reduced by lowering the cash reserve ratios in commercial and merchant banks. Monetary policy must focus on the reduction of the rate of growth of the money supply rather than on the maintenance of excessively high interest rates.

The adjustment process will involve compromising on the exchange rate but investment and growth cannot be realized in the current interest rate environment. The extent of the compromise will depend on government's ability to generate significant and real public sector surplus and judicious use of the Net International Reserves could also soften the adjustment. Financing for future expansion of the Net International Reserves, should come from the fiscal budget and not from the Bank of Jamaica.

The question as always, comes down to one of political will.

1. THE WORLD ECONOMY IN 1995-96

Economic Activity

Based on a broad range of preliminary indicators supplied by the International Monetary Fund, there appears to have been a slowing of demand and activity in the industrial countries since the beginning of 1995. There were some signs of recession, indicating that the slowdown represented a mid-cycle pause. Additionally, it appeared that there was some softening of economic activity in continental Europe; however, the underlying growth momentum there still appears to be quite strong.

As a result, total world output in 1995 was projected to expand by 3.7 percent, increasing to 4.1 percent in 1996. In industrial countries the projections for 1995-96 are: 2.5 and 2.4 percent respectively - significantly below the 3.1 percent growth that was attained in 1994. *[Table 1.1]*. This moderation in growth has also been reflected in stagnant industrial output in the major industrial countries as a group during the first half of 1995.

In summary it appears that the slowdown in world demand resulted from various leading or coincident indicators of which the main ones are as follows:

- (a) a marked decline in real commodity prices;
- (b) waning consumer confidence, business expectations, and real money growth (which has been slightly negative in most of the major industrial countries since the beginning of the year).

These conclusions are based on a number of country-specific factors. These include the run-up in long-term interest rates worldwide during 1994, which reinforced the effects of pre-emptive monetary tightening in a number of countries that had reached high levels of capacity utilization and has probably been a key factor in affecting consumer confidence and restraining both consumption and residential investment.

Also, overall low real wage growth and tax increases in some countries may have also acted to restrain private consumption. Other factors include the spillover effects of the Mexican crisis on major trading partners, especially the United States, and the adverse effects of exchange rate appreciations on export prospects in Germany, Switzerland, and especially Japan. In Japan, the excessive strength of the yen in the first half of the year and the Kobe earthquake have compounded the difficulties that began with the collapse of the asset price bubble in the early 1990s.

Quarterly GDP statistics confirm that growth was particularly weak in Japan and Canada in the first half of the year and that the major countries also experienced a slowdown.

World Trade

World trade volume was projected to increase by 7.9 percent in 1995, (0.6 percent less than the growth rate for 1994), and less (6.5%) in 1996. Trade among the developing countries is also expanding strongly, supported by trade liberalization and increased intra-regional foreign direct investment.

THE WORLD ECONOMY IN 1995-96

Table 1.1

Overview of the World Economic Outlook Projections, 1993-1996

(Annual percentage change unless otherwise noted)

	1993	1994	1995	1996
WORLD OUTPUT	2.5	3.6	3.7	4.1
Industrial Countries	1.1	3.1	2.5	2.4
U.S.	2.7	3.7	2.9	2.0
Japan	-0.1	0.9	0.5	2.2
Germany	-1.6	2.3	2.6	2.9
France	-1.0	1.9	2.9	2.7
Italy	0.3	1.5	3.0	2.8
U.K.	1.8	3.3	2.7	2.9
Canada	2.6	4.1	2.2	2.7
EUROPEAN UNION	-0.3	2.1	2.9	2.8
DEVELOPING COUNTRIES	6.1	5.6	6.0	6.3
Jamaica	0.2		0.2	2.0
Africa	0.8	2.6	3.0	5.2
Asia	8.7	8.5	8.7	7.9
Middle East and Europe	3.6	0.3	2.4	3.2
Western Hemisphere	3.3	4.6	1.8	4.0
WORLD TRADE VOLUME IMPORTS	3.9	8.7	7.9	6.5
Industrial Countries	1.1	9.2	7.1	5.5
Developing countries	9.3	8.5	11.1	9.5
EXPORTS				
Industrial countries	2.5	8.1	6.9	5.0
Developing countries	7.3	11.3	11.0	9.6
COMMODITY PRICE (IN SDRS)				
Oil 1	-10.7	-6.5	1.1	-6.1
In U.S. dollars a barrel	16.13	15.47	16.67	15.51
Nonfuel 2	2.7	10.8	1.8	-0.2

CONSUMER PRICES	1993	1994	1995	1996
Industrial Countries	2.9	2.3	2.5	2.5
Developing Countries	43.1	48.1	19.5	13.0
Countries in Transition	675.2	301.3	147.7	25.4
SIX MONTH LIBOR (IN PERCENT) ³				
On U.S. Dollar Deposits	3.4	5.1	6.2	6.2
On Japanese Yen Deposits	3.0	2.4	1.4	1.4
On Deutsche Mark Deposits	6.9	5.3	4.6	5.2

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during August 1-23, 1995, except for the bilateral rates among ERM currencies, which are assumed to remain constant in nominal terms.

1 - Simple average of spot prices of U.K. Brent, Dubai, and Alaska North Slope crude oil.

2 - Average, based on world commodity export weights.

3 - London interbank offered rate.

Inflation and Commodity Prices

The aggregate inflation projections for industrial countries in 1995 and 1996 are expected to remain stable and low at 2.5 percent. This low inflation expectation seems to have resulted from a strong commitment by the authorities to the use of tight monetary policies. The credibility of monetary policies is reflected both in the fall of long-term interest rates since early 1995 and in continued moderate wage cost pressures in most of these countries. Additionally, it is felt that more flexible labour markets may be contributing to wage moderation, while the continued rapid growth of international trade and increased global competition should help to alleviate inflationary pressures. Linked to the fact that relatively comfortable profit margins should provide some buffer for unforeseen cost increases, the maintenance of reasonable price stability in most industrial countries bodes well for the future.

However, countries that have experienced significant exchange rate depreciations in recent years are

encountering the greatest difficulties in preserving the momentum of disinflation and in meeting stated inflation targets - reported the IMF.

In the developing countries the figures projected for 1995 and 1996 are 19.5 and 13.0 percent respectively, a significant reduction compared to 43.1 and 48.1 percent that was experienced in 1993 and 1994. Median inflation was forecast at 8 percent in 1995, down from 11.5 percent in 1994. Inflation rates will be higher in Africa than in other regions.

Inflationary pressures in Asian countries were expected to moderate only slightly in 1995 and should rise again in 1996. In 1994, high levels of capacity utilisation exerted considerable pressure on prices in these countries. This problem was aggravated by the impact of large capital inflows on liquidity and demand. In addition to the continued rapid pace of growth in the region, inflation is expected to rise in 1996. In the so called transition countries consumer prices for 1995 were forecast to grow at 89.4 percent.

THE WORLD ECONOMY IN 1995-96

Oil

For 1995 oil prices are assumed to average US\$16.67 a barrel, an increase of 7.75 percent over the previous year. Oil prices were expected to increase by 1.1 percent in 1995 and to decline by 6.1 percent in 1996 (See Table 1.1). Hence, the current projection for oil per barrel in 1996 is US\$15.51.

Non-oil Commodities

The prices of many non-oil primary commodities fell steeply in the first half of 1995, after rising sharply by 10.8 percent in 1994. Much of the upward pressure on commodity prices in 1994 resulted from increased demand in the fast-growing Asian economies. Demand factors, in particular the slowdown in economic activity in the industrial countries, also appear to have contributed to the weakening of commodity prices in the first half of 1995.

In terms of specific commodities, coffee prices in 1994 rose to their highest levels since 1986 in the wake of midyear frosts and subsequent drought in Brazil's coffee growing regions as well as prospects of tight supply in 1995. Large price changes have also been recorded by metals and a number of agricultural raw materials. For metals, improved market fundamentals and speculative purchases by commodity investment funds raised prices throughout 1994. The boom in metal prices ended in the first quarter of 1995, when investor sentiment changed amid signs that the U.S. economy was slowing down. Uncertainty regarding prospects for exports of metals from some transition countries also contributed to the volatility of metal

prices. The downward trend in the prices of most commodities began in the second quarter as new supplies came on to the market and the growth in demand slowed somewhat. In 1996, commodity prices are expected to weaken somewhat further in the context of moderate demand and favourable supply conditions.

Trade Developments

Prospects for world trade are critical for global economic performance. The rapid growth of trade in relation to the growth of world output - by a factor of almost two to one over the past thirty-five years - has been both a cause and a result of rising prosperity. This trend is expected to continue - especially with the introduction of new multilateral agreements which will lead to further liberalisation of trade in goods and services. Trade is more than likely to remain an engine of growth for all countries that position themselves to benefit.

Specifically, the Uruguay Round should provide significant welfare benefits to most countries. In quantifying the outcome of the Uruguay Round the results of a large-scale empirical model by Harrison, Rutherford and Tarr (1995) suggests that the world as a whole stands to gain about US\$96 billion annually, and that the gains in dollar terms are concentrated in the developed countries, especially in the EU, Japan, and the United States, which are projected to gain US\$39 billion, US\$17 billion, and US\$13 billion annually, respectively, from the change. Based on these figures it is clear that industrial countries stand to gain the most from the agreement in the short-run because they have liberalised the most. Nevertheless, some smaller countries are expected to gain significantly: Malaysia

THE WORLD ECONOMY IN 1995-96

3.3 percent of GDP, Singapore and Thailand about 2.1 percent of GDP each, and the Republic of Korea and the Philippines about 1.6 percent of GDP each.

The value of Jamaica's exports over the review period January to November 1995 was US\$1.328 billion. This represents a 20.0% increase over the similar period in 1994, and is the highest increase experienced in this sector over the past 6 years. Significant contributors to this performance were:

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.

garment exports played a major part.

World Economic Outlook

Exports of alumina contributed US\$572.2 million, and bauxite, US\$657.2 million.

As shown by Figure 1.1, the growth outlook for the World's output in 1996 remain essentially unchanged at about 4 percent in both 1995 and 1996. Looking ahead to 1996, private consumption growth is expected to remain relatively moderate in most countries.

Moreover, public consumption is likely to expand only marginally in the industrial countries overall, as efforts continue to control the growth of public expenditure.

The earnings of other traditional export products, sugar, rum, coffee, citrus also showed increased earnings - citrus earnings jumping by 79.0%.

In contrast, the strength of investment intention surveys is extremely encouraging, suggesting that business investment should generally remain by far the most buoyant component of overall demand.

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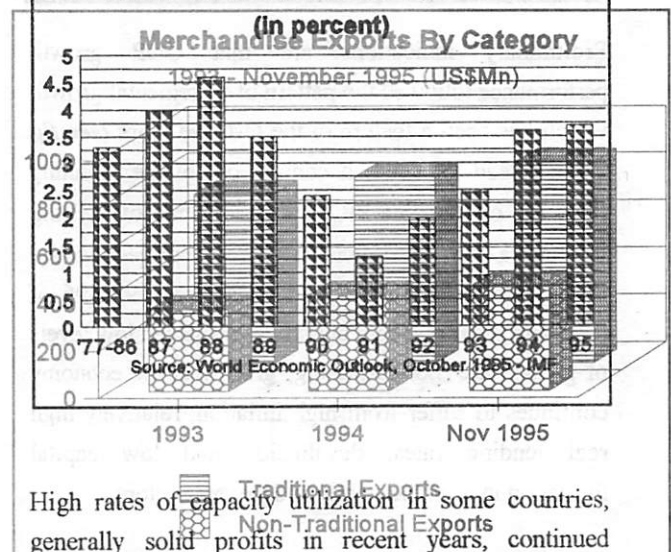
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Figure 1.1

Figure Growth of World Real GDP, 1977 - 95



restructuring under the pressure of global competition, and high levels of foreign direct investment should all contribute to raise overall investment levels and to stimulate rapid growth of trade in capital goods. Japan is the only country where private domestic investment is expected to be relatively weak, whereas outward foreign direct investment is likely to continue at a high level as Japanese producers adjust to the strong yen by shifting production to other countries, especially in Asia.

In 1995, Jamaica's major trading partners were North America, Latin America, European Union and Japan for imports, and North America and the European Union for exports.

2. GROSS DOMESTIC PRODUCT

Overview

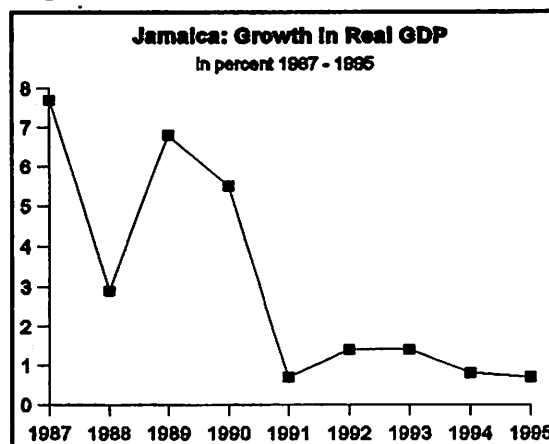
Preliminary indications are that GDP growth performance followed the pattern of incremental growth which has been a feature of the last five years (*see fig 2.1.*) Indeed information coming out of the Planning Institute of Jamaica(PIOJ) at the time of writing indicates a downward revision in growth projections for both calendar year 1995 and fiscal year 1995-96 of 0.2% and 0.4% respectively. These projected low levels of growth are not surprising given that the economy continues to suffer from high inflation, relatively high real lending rates, devaluation and low capital formation in both the public and private sectors.

Capital formation in the private sector is negatively affected by interest rates which declined briefly during the first half of the year but were promptly restored to higher levels in the second half in a bid to reduce pressure on the exchange rate. The need for sustained high interest rate levels is also dictated by the failure to control money supply which continues to run well ahead of targeted levels.

In respect of the public sector, the lion's share of the estimate of expenditures continues to be commandeered by debt service obligations and recurrent expenses which means that capital formation by the government remains in decline. The most recent example of this is the \$2.57 billion reduction of capital expenditure in the supplementary estimates for fiscal year 1995-96.

Contributing to weak GDP performance were lower output from the mining sector, a continued slowdown in the construction sector as reflected in the official

Figure 2.1



statistics and further decline in the manufacturing sector. Positive growth in tourism, non traditional agriculture and in garment manufacturing were not strong enough to counter the negative performance in the aforementioned sectors.

Significantly, the financial sector which has recorded impressive performances over the last few years and accounted for some 15.6% of GDP growth in 1994 saw some disruptions and dislocation during the year that may result in lower output. In fact, one of the major commercial banks has reported relatively flat performance during the year and there are indications that a number of measures introduced during the last quarter should result in a real reduction in credit to both producers and consumers.

Notably, domestic consumption as indicated in the trade statistics increased significantly in the face of the overall poor performance of GDP. The trade gap widened during the year as both exports and imports recorded increases but the growth in imports out

GROSS DOMESTIC PRODUCT

stripped that of exports. Available figures for the January to October period of 1995 show total imports of US\$ 2.275 billion, an increase of 27.8% on the comparative 1994 figure. For the same period exports grew by 22.1% to US\$ 1.230 billion. As a consequence the trade deficit widened by some US\$ 271.6 million to US\$ 1.045 billion.

The major categories recording increased imports were consumer goods up by 46.8% (with imports of private motor vehicle jumping by 65.8% in this category) and capital goods up by 52.5%. Raw materials and intermediate goods imports also registered an increase but this was of a lower order at 14.9%, probably reflecting the slow down in domestic manufacturing production.

Manufacturing

Although, overall, this sector recorded negative performance highlighted by a number of closures and continued complaints about the adverse effects of high interest rates and competition from cheap imports, results varied among individual sub-sectors. Whereas traditional manufacturing declined non-traditional areas such as garments, food processing, chemicals and chemical products all showed positive returns during the year. The year was highlighted by the closure and scaling down of a number of traditional operations and a sharp reduction in the number of new entities registering as manufacturing firms. There was also some controversy during the year as the Jamaica Manufacturers Association (JMA) withdrew from the Private Sector Organisation of Jamaica citing differences in policy emphasis. Talks are however taking place between both organizations with a view to reversing that decision.

Mining

Bauxite and alumina, the major sub-sector in the category designated 'mining', saw an increase in total earnings compared with 1994 but a reduction in output. Preliminary figures put out by the Jamaica Bauxite Institute indicate total bauxite production of 10.9 million tonnes of bauxite in 1995, down 6.2% from 11.6 million tonnes in 1994. Alumina production amounted to 3 million tonnes, some 6.6% less than the 3.2 million tonnes produced in 1994.

Aided by more favorable international prices for alumina exports, earnings from the sector are estimated to have recorded a 15% increase to just over US\$710 million up from the US\$613 million recorded in 1994. The increase in earnings, was achieved despite industrial unrest in the sector during the year which saw losses in production amounting to 215,000 tonnes or just over US\$50 million in export earnings.

Output for the sector is expected to recover in 1996, once there are no further industrial disruptions and consequent on the settlement of a pending environmental dispute between one of the factories and surrounding communities. International prices for alumina are also expected to hold well into 1996 which should result in further improvement in earnings for the year.

Tourism

After a rare decline in 1994, all the major indicators for the tourism sectors (stop over visitors arrivals, cruise ship passengers and room occupancy) showed recovery

GROSS DOMESTIC PRODUCT

in 1995. Total stop over visitors for the year are estimated to have recorded a 5.9% increase from 1,098,660 for the equivalent period in 1994, to 1,147,001. Room occupancy for the first half of the year averaged 61.5% up from 59.3% for the first half of 1994.

With the country expected to benefit from another severe winter in North America and Europe, the sector is estimated to continue to record positive performance. The Jamaica Tourist Board has projected tourism earnings for the year of US\$965 million. The country is also expected to reap the full benefit in 1996 of the 662 new rooms added in 1995.

Agriculture

Despite being beset by high interest rates, a prolonged drought between November 1994 and August 1995 and heavy flood rains in October, the agriculture sector continues to show the benefit of the significant infusion of capital made in the last few years. Traditional agricultural crops (sugar, banana, coffee, citrus and pimento) all recorded increases during the year. At the same time exports of non-traditional agricultural products continued to grow as well.

Exports of traditional crops for the period January to October 1995 totalled US\$75.15 million up 22.3% from US\$61.52 million for the same period in 1994. Exports of non-traditional agricultural items (cucumbers,

pumpkins, dasheens, yams, papayas, mangoes, etc.) were equally impressive with January to October earnings of US\$65.58 million, up by 21.6% from US\$53.94 million in 1994.

Outlook

The achievement of robust economic growth continues to elude the local economy. This has been made more difficult by the frequent bouts of monetary instability to which the economy has been subjected over the last five years and the macro economic fundamentals do not indicate a departure from this scenario in 1996. Interest rates are expected to remain at their investment inhibiting levels at least for the first half of the year. The control of inflation will be largely dependent on the government's ability to control the growth in money supply and the confinement of wage increases to levels consistent with increased productivity.

The mining, tourism, and the non-traditional areas of both manufacturing and agriculture are expected to show positive performances. However traditional manufacturing activities are projected to record further declines. High interest rates and continued tight monetary policies are expected to keep output in the financial and construction sectors relatively flat. In this regard, our reasoned analysis is that economic growth will at best remain unchanged at 0.7% in 1996 and at worst, overall output may be slightly negative.

3. BALANCE OF PAYMENTS

The major policy objectives of the Government during 1995 were focused mainly on exchange rate stability and the build up of the foreign reserves of the Bank of Jamaica. This was so much the focus during 1995, that the deteriorating position in the balance of payments was allowed to go unchecked for the better part of the year. Resulting from this, 1995 recorded the widest trade gap in recent history and a deterioration in the current account balance when compared with 1994 and 1993.

Contributing to this scenario is the significant lack of accurate data, processed and published in a timely manner for the public. The published statistics on trade currently have a four-to-six-months lag and this information is certainly useless in terms of monitoring the economy and effecting corrective measures before the problems become acute.

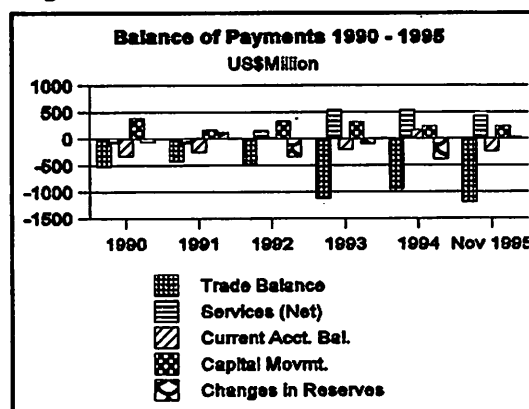
Significant features of the Balance of Payments in 1995, were:

- Over 20% overall increase in export earnings. This was however overshadowed by a 29.7% rise in imports which caused a 42% widening of the trade gap.
- The foreign reserves of the Bank of Jamaica grew during the year and peaked at US\$468.0 million in September. Contributing to this was an increase during the year in the number of Authorized Dealers and variations in the portions of their intake purchased by Bank of Jamaica from these dealers. However, over US\$100 million of the Net International Reserves was used to intervene in the foreign exchange market during the latter part of the year to re-establish stability when the

exchange rate began to fall. Most of this amount was replaced in the last two (2) months of the year after the exchange rate levelled off at J\$40 to US\$1.00.

- Throughout the year net transfers which included remittances were buoyant and at times significantly larger than those of 1994.
- The significant rise in imports over exports

Figure 3.1



out stripped the net returns from the services and transfer sectors effecting serious deterioration in the current account. During 1994, current account balances were always positive but since April 1995, they have remained negative.

Merchandise Trade

Trade data to November 1995 made available in March 1996 showed total transactions valued at US\$3.856 billion and comprised export earnings of US\$1.329 billion and imports valuing US\$2.527 billion, and a trade gap of US\$1.198 billion. The current period's data compared with the similar period in 1994, showed

BALANCE OF PAYMENTS

increases of US\$780.3 million in total trade, US\$217.9 million in exports, US\$562 million in imports and a trade gap increase of US\$344.1 million. Overall, for the eleven month period in 1995, imports increased quite significantly by 28.6%. Similarly, there has been a 20.0% rise in exports and this is significant considering the historical trend in export earnings.

Activities in the apparel sector and earnings in the alumina sector have contributed quite significantly to this growth. Despite the fact that both exports and imports are increasing at more or less the same order of magnitude, because imports are so much larger than exports, the trade gap continues to widen.

Table 3.1

Balance of Payments 1990 - 1995 (US\$Mn)

	1990	1991	1992	1993	1994	Nov '95
Merchandise - Exports (fob)	1157.5	1150.7	1053.6	1075.4	1223.9	1328.9
- Imports (cif)	1679.6	1575.0	1529.1	2189.2	2171.4	2526.7
Balance of Trade	-522.1	-424.3	-475.5	-1113.8	-947.5	-1197.8
Services (Net)	-77.3	-84.3	146.6	529.7	534.7	417.0
Foreign Travel	686.3	710.4	794.2	886.9	874.0	739.7
Investment Income	-517.1	-478.9	-348.2	-240.2	-216.9	-285.0
Others	-246.5	-215.8	-299.4	-117.0	-122.4	-37.0
Goods and Services (Net)	-599.4	-508.6	-328.9	-584.1	-412.8	-780.10
Transfers (Net)	271.4	252.8	339.8	371.9	571.7	530.8
Private	155.4	153.3	248.2	306.4	534.3	478.0
Official	116.0	99.5	91.6	65.5	37.4	52.8
Current Account Balance	-328.0	-255.8	10.9	-212.2	158.9	-249.30
Capital Movement (Net)	387.6	150.6	326.3	310.3	226.5	224.6
Private	291.7	51.4	336.3	314.4	327.9	327.3
Official	95.9	99.2	-10.0	-10.6	-8.4	-102.7
Government Direct				-1.4	-127.4	N/A
Government Guaranteed				2.3	17.1	N/A
Divestment				5.6	17.3	0.0
Changes in Reserves (Minus =Incr.)	-59.6	105.2	-337.2	-98.1	-385.4	-24.7

Source: Bank of Jamaica

BALANCE OF PAYMENTS

Services

The net outcome of the service sector in the Balance of Payments continued to be positive. For the period January to November 1995, this was US\$417.7 million or 7.3% below 1994 US\$450.7 million. Contributing to this out turn was US\$739.7 million in travel receipts. This reflects earnings from the tourism sector. In 1995 arrivals showed a 3.2% rise over 1994 with expenditure moving in a similar direction. Net investment income stood at US\$-285.0 million reflecting payments made re investments i.e debt servicing, interest payments and profit repatriation. Outflows were significantly greater than receipts on these items. Returns from the 'other service' sector were also negative US\$37.0 million implying greater levels of payments over receipts. Categories of transactions recorded in this section include local travel receipts, non-merchandise insurance, freight and port services, and farm work remittances etc. To some extent the 1995 'other service' figures reflect the fall off in remittances from the farm work scheme.

Transfers

Net transfers amounted to US\$530.8 million at November 1995. This is US\$110.2 million or 26.2% more than at November 1994. Positive balances are indicative of a greater level of receipts than payments for both the private and official categories. Ever since the financial liberalization of the economy there has been significant growth in remittances via banks and other remittance agencies. This has continued into 1995 and has contributed to the positive levels of net transfers recorded in the Balance of Payments.

Current Account

The balance on the current account at November 1995 was US\$-249.3 million. This is a US\$266.9 million decline over November 1994. The negative current account balance essentially is indicating that the huge deficit trade balance of US\$-1197.8 billion is that much greater than the positive balances of US\$417.7 million and US\$530.8 million in the net services and transfer accounts, and that the country is that much short of meeting its foreign obligations. This deficit position could have been worse had it not been for the strong performance in the transfers and service sectors.

This negative current account balance is a significant reversal of the US\$17.6 million it accrued in November 1994, and it serves to add downward pressure on the local currency as well as to fuel inflation. A worsening of this trend could easily see Jamaica returning to the International Monetary Fund in a short while for assistance with its Balance of Payments problems.

Capital Accounts

There was some deterioration in the state of the capital account in November 1995 compared with November 1994 as a decline of US\$94.7 million was recorded over this period.

Although lower outflows went to servicing government's debt, there was a significant decline (24.5%) in private capital inflows. However, the resulting positive balance of US\$224.6 million has served to improve the reserves position of Bank of Jamaica by US\$24.7 million.

BALANCE OF PAYMENTS

Table 3.2

Capital Account

	1991	1992	1993	1994	Nov 1995
NET CAPITAL MOVEMENT	(1.9)	326.3	310.3	226.5	224.6
Government Direct	66.8	0.0	(1.4)	(127.4)	N/A
Government Guaranteed	9.4	0.0	2.3	17.1	N/A
Official Short-term	(38.7)	(10.0)	(10.6)	(8.4)	(102.7)
Private (including errors and omissions)	(54.4)	326.5	314.4	327.9	327.3
Divestment	15.1	9.8	5.6	17.3	0.0

Source: Bank of Jamaica

Outlook for 1996

There is the possibility of a continued build up of the Net International Reserves as foreign exchange inflows continue to take advantage of the high domestic interest rates. However we expect that this will taper off soon as government has admitted that increasing the reserves fuels the growth of the money supply and thus fuels inflation. The buoyant reserves may also be a fairly transcient phenomenon as the government has promised to use the reserves to intervene in the foreign exchange market if the exchange rate comes under pressure to devalue.

The services and transfer sectors are expected to continue to show positive net balances consequent on activities in the tourism sector, and if the real interest rates on deposits remain sufficiently attractive, foreign exchange inflows should remain strong for the first half

of the year. The current account will continue to worsen until the returns from export initiatives materialize and increase the sector's earnings. The success of exports and the curtailing of imports will depend to a large degree on what happens with the domestic inflation rate and the resulting real appreciation of the exchange rate.

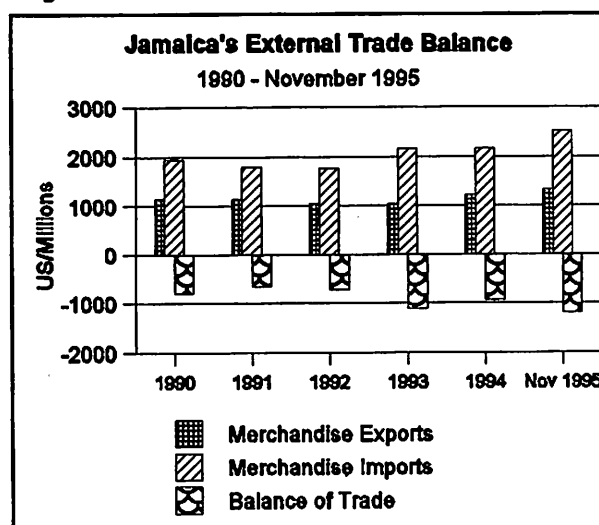
The government has committed itself to maintaining the existing parity (J\$40 to US\$1.00) of the local currency vis-a-vis its US counterpart. If this happens in a context of continuing high domestic inflation, the balance of payments problems will eventually worsen as the real exchange rate appreciates. Given the difficulty that the authorities have had with controlling inflation in the recent past, this does not seem to be an entirely unlikely outcome.

4. EXTERNAL TRADE

The value of Jamaica's trade for the period January to November 1995 was US\$3.86 billion. This included expenditure of over US\$2.53 billion on imports and earnings of US\$1.33 billion from exports. A trade deficit of US\$1.20 billion resulted. Compared with trade figures for the same period in 1994 - there were increases of US\$0.562 billion and US\$0.217 billion in both imports and exports while the trade deficit widened by US\$0.344 billion in 1995.

From previous trends in import and export levels for the last quarter of the year, it is very likely that by December 1995 the trade gap will be the largest ever accrued to the economy. The accumulation of such a significant trade deficit resulted from significant increases in consumer imports reflecting Jamaica's appetite for foreign products, and the lack of timely trade data to inform the effecting of policies which would curb the growth in imports and ultimately narrow the trade gap.

Figure 4.1



However, the overall out-turn of the merchandise trade sector in 1995 was influenced by economic and trade related developments in the local economy and in the international market place.

Table 4.1

Jamaica's External Trade Balance 1990 - 1995 (US\$Mn)

	1990	1991	1992	1993	1994	Nov 95
Merchandise Exports	1157.5	1145.5	1053.6	1044.5	1223.9	1328.9
Merchandise Imports	1942.1	1799.5	1775.4	2165.2	2171.4	2526.7
Balance of Trade	-784.6	-654.3	-721.8	-1120.7	-947.5	-1197.8

Source: Statistical Institute of Jamaica

Local Factors Included:

1. Government's interest rate policy:
 - a. Interest rates trended down in the earlier months of the year and along with the lowering of the Commercial

EXTERNAL TRADE

- Banks' liquidity ratio fostered an increase in the availability of credit and lowered its cost. This stimulated marginal private investment some of which was in the export sector.
- b. Declining interest rates discouraged savings while fostering increased consumption which, in turn, increased the local demand for imports. Other economic factors contributing to this scenario were declining inflation rates and increased wages.
 - c. High domestic interest rates attracted inflows of foreign exchange maintaining the exchange rate in spite of high local inflation. This caused a real appreciation of exchange rate which fostered imports and hampered exports.
2. Throughout the year, heightened levels of industrial action led to decreases in production and declines in productivity which slowed economic activity, in both the importing and exporting sectors.
 3. The productivity of employees throughout the island was affected by problems of poor transportation, crime and violence, and other hazards and infrastructural problems. This has been reflected in declines in the output of many sectors of the economy.
 4. Drought, floods and other natural disasters took their toll on agricultural commodity production leading to declining levels of output both for the local and export markets eg. bananas, vegetables eg. carrots. This led to the need for additional imports to fill the shortfall on the local market.
 5. Policy initiatives relating to:
 - a. The removal of tariffs from all raw material imports and the implementation of CET rates of 5-25% boosted output by lowering costs. It also fostered increased imports e.g. imports from Caricom markets rose significantly. However, as cheaper imports entered the local market the demand for comparable yet more expensive local products declined. This is indicative of the impact that further trade liberalization will have on the Jamaican economy and will either force local producers into more efficient production or prompt their exit from the market place.
 - b. The removal of and reduction in the level of bureaucratic red tape in relation to the import and export processes, as well as increased efficiency in the operations of customs and custom brokers facilitated more speedy processing at

EXTERNAL TRADE

the ports. These have also led to more reliable data being collected from these sources.

External Factors

1. During 1995, with the initiation of the World Trade Organisation (WTO) has fostered the opening up of world markets, lowered many trade barriers and provided increased opportunities for trade in a wider spectrum of products. Resulting directly or indirectly has been:
 - a. an increase in world demand for products e.g. an increased demand for alumina by China and the States In Transition.
 - b. international prices of some commodities have risen, including bauxite, alumina and citrus, from which Jamaica has benefitted.
 - c. The European Union opened up its markets to a larger volume of imports of local products e.g. rum, citrus and other processed goods.
2. Jamaica benefitted, in 1995, from increases in its sugar quotas both to the United States of America and the European Union. As well, it filled a part of Barbados' sugar quota to the United States of America supplying 2600 tonnes thereby boosting its earnings.
3. Lobbying continued, with not much success, in the Senate of the United States of America for the granting of NAFTA parity to the Caribbean Basin (Jamaica included). Resulting from parity status would be the ability of the basin-countries to export duty-free, a wider range of products to that country.
4. Changes in the United States of America/Jamaica apparel export agreement resulted in increases in exports both by volume and earnings of stipulated types of apparel.

Imports

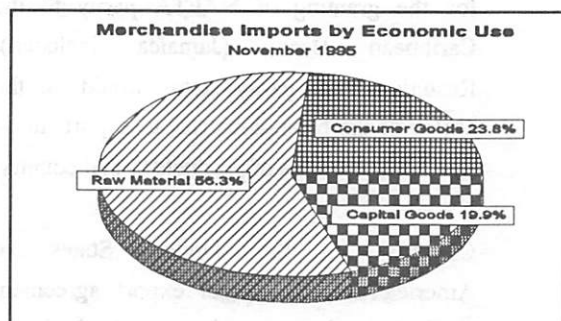
Between January and November 1995, Jamaica's total imports accumulated to US\$2.526 billion, showing a 28.6% increase over total imports January to November 1994 thereby continuing to maintain an increasing trend re-established since 1993. Of total imports, raw material imports formed 56.3% valuing US\$1.423 billion, consumer goods 23.8% for US\$0.602 billion and capital goods imports of US\$0.502 billion was 19.9%. Compared with the similar period in 1994, these categories of imports have shown increases of 15.6%, 47.3% and 54.5% respectively.

Although raw material imports formed the greater value of total imports, 'fuel imports' were 22.7% of this category so the remainder accrued to 'other raw materials' - presumably those being used in the productive process.

Consumer goods which mainly comprise imports of food, durable and non-durable products included

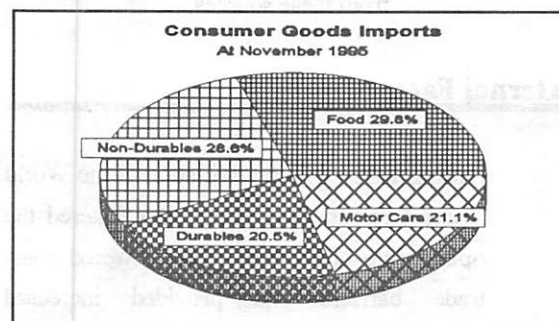
EXTERNAL TRADE

Figure 4.2



US\$127.2 million in motor car imports. The 'capital goods' category also included another US\$12.5 million

Figure 4.3



of motor car imports, so that imports of that commodity formed 5.5% of total imports so far for 1995.

Table 4.2

Value of Merchandise Imports by Economic Use

1993 - November 1995 (US\$Mn)

	1993	1994	Nov 1995
Consumer Goods	476.9	446.9	601.6
Food	145.3	124.8	179.4
Other Non-Durables	138.1	157.8	171.8
Durables	193.5	164.3	250.4
Of which Motor Cars	99.1	62.8	127.2
Raw Material	1322.7	1348.8	1423.0
Fuels	343.3	328.6	322.6
Other Raw Material	979.4	1020.2	1100.4
Capital Goods	389.6	375.7	502.1
Transport & Equipment	134.3	101.6	94.0
Of which Motor Cars	49.6	38.8	12.5
Construction Materials	95.9	90.2	135.9
Other Machinery	155.4	178.3	265.5
Other Capital	4.0	5.6	6.7
Total	2189.2	2171.4	2526.7

Source: Bank of Jamaica

EXTERNAL TRADE

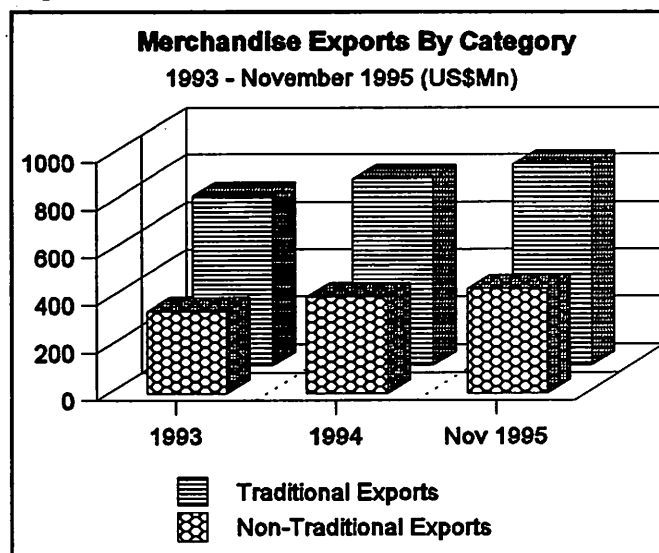
Exports

The value of Jamaica's exports over the review period January to November 1995 was US\$1.328 billion. This represents a 20.0% increase over the similar period in 1994, and is the highest increase experienced in this sector over the past 6 years. Significant contributors to this performance were:

- a. The non-traditional export sector - which contributed US\$436.7 million of which garment exports played a major part.
- b. Exports of alumina contributed US\$572.2 million and bauxite US\$65.7 million. Although both products experienced declining levels of output, their earnings benefitted from improved world prices.
- c. The earnings of other traditional export products, sugar, rum, coffee, citrus also showed increased earnings - citrus earnings jumping by 79.0%.

It is likely that by the year end total exports could reach US\$1.500 billion, showing an approximately 22.5% rise over 1994's total exports. Despite the strengthening in export earnings for the review period, they represent

Figure 4.4



only 53.0% of total imports and indicates the need for considerable improvement in the sector's output and growth rate so that the trade gap can be narrowed. This will put less pressure on the exchange rate, and ultimately reflect more positive balances on the current account.

In 1995, Jamaica's major trading partners were North America, Latin America, European Union and Japan for imports, and North America and the European Union for exports.

EXTERNAL TRADE

Table 4.3

Value of Merchandise Exports by Category
1993 - November 1995 (US\$Mn)

	1993	1994	Nov 1995
Major Traditional Exports	657.1	731.5	780.7
Bauxite	84.2	73.0	65.7
Alumina	439.8	537.2	572.2
Sugar	97.5	73.0	96.0
Bananas	35.6	48.3	46.8
Other Traditional Exports	56.1	51.8	64.7
Citrus & Citrus Products	5.7	3.5	5.4
Coffee & Coffee Products	19.7	16.8	26.9
Cocoa & Cocoa Products	4.2	6.0	5.0
Pimento	3.8	3.4	3.8
Rum	21.6	21.1	22.7
Gypsum	1.1	1.0	9.0
Total Traditional Exports	713.2	783.3	845.4
Non-Traditional Exports	345.1	403.7	436.7
Total Domestic Exports	1058.3	1187.0	1282.1
Re-Exports	17.1	36.9	46.9
Total Merchandise Exports	1075.4	1223.9	1329.0

Source: Bank of Jamaica

Caricom Trade

In November 1995, Jamaica's imports from Caricom totalled US\$24.2 million and its exports were US\$6.98 million. For the period January to November 1995, imports totalled US\$208.8 million as against US\$130.3 million for the similar period in 1994. Exports for the

same periods compared were US\$56.7 million in 1995 and US\$54.3 million in 1994. The trade balance for the current review period was US\$151.3 million or US\$75.3 million more than that for 1994. It is clear that while imports from Caricom rose by 60.2% exports rose marginally by 4.4%.

EXTERNAL TRADE

Jamaica's main Caricom trading partner is Trinidad and Tobago which accounts for 83.6% of its imports and 35.4% of exports. Other main partners are Barbados, Guyana and Belize. Oil imports account for a major portion of Jamaica's imports from Trinidad and Tobago. For January to November 1994 and 1995 oil imports were 43.6% and 57.3% respectively. This is followed by imports of manufactured goods, food, chemicals, beverage and tobacco. Major exports were food, manufactured goods, chemicals and re-exports of mineral fuels.

Of Jamaica's total trade gap of US\$-152.1 million with Caricom, US\$-154.5 million accrues to Trinidad and Tobago, so that its positive balances with other Caricom partners have a marginal effect on narrowing the overall gap. Jamaica's imports of mineral fuel from Trinidad and Tobago has led to the accrual of this large deficit. However, the terms of trade from this source are more favourable to Jamaica than from other countries and therefore encourages the use of these facilities.

Table 4.4

Caricom Imports and Exports by S.I.T.C.

US\$'000

	Jan-Nov'94 Imports	Jan-Nov'95 Imports	Jan-Nov'94 Exports	Jan-Nov 95 Exports
Food	19,664	23,633	12,173	13,664
Beverage & Tobacco	13,195	19,792	3,330	3,513
Crude Materials - Inedible (excluding fuels)	612	1,276	539	554
Mineral Fuels, Lubricant & Related Materials	45,743	100,001	2,147	5,470
Animal & Vegetable Oils and Fats	4,563	5,651	6	5
Chemicals	15,594	21,572	12,679	12,411
Manufactured Goods - Chiefly by Materials	23,999	27,461	12,479	10,779
Machinery & Transport Equipment	3,817	4,389	2,250	3,774
Miscellaneous Manufacturing	3,112	5,046	8,686	6,739
All Sections	130,299	208,821	54,289	56,687

Source: Statistical Institute of Jamaica

Outlook

The huge trade deficit which accumulated in 1995, and had a destabilizing effect on the country's current

account, may moderate somewhat in 1996, as a result of the following:

EXTERNAL TRADE

- a. With a devalued dollar, imports will become more expensive thereby curbing demand.
- b. Tight monetary policies - high interest rates, tighter liquidity will tend to discourage consumption borrowing, thus resulting in decreased imports.
- c. Motor car imports will decline as overall demand for these has been abated.
- d. Traditional exports especially bauxite and alumina could see increased earnings from improving world demand and prices thereby boosting export earnings.

However, with domestic inflation still high and the exchange rate stable, exports will become less competitive on the international market and domestic producers will become less competitive with imports. Consequently, our trade deficit is unlikely to improve dramatically in the near future.

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We see the magic of **teamwork**, enhanced by individual brilliance and flair...90 minutes of world class action.

Similarly, in business we prefer the vision that focusses on our company's, and our country's **potential** rather than on the difficulties.

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WE CARE

5. MONEY AND BANKING

The focus of monetary policy during 1995 was basically three-pronged. These were:

1. Maintaining adequate levels of foreign reserves,
2. Fostering exchange rate stability,
3. Controlling inflation.

To this end there was considerable activity in the foreign assets account of Bank of Jamaica. Foreign reserve levels showed monthly fluctuations. These were at times significant, a US\$62million increase in March and a decline of US\$57million in October as the government sought to maintain comfortable levels of reserves while intervening in the foreign exchange market. With relative stability in the foreign exchange market in the first quarter of the year, BOJ's accumulation of reserves slowed. This contributed to a slow-down in money supply growth and a moderation in the monthly inflation rates which hovered around the 1% mark. However, the reduced accumulation of reserves by BOJ facilitated increased purchases by the Commercial Banks, thus adding to the liquidity of the foreign exchange market. During the second quarter of the year, rising imports, declining interest rates and strong M2 growth destabilized the Jamaican dollar and it suffered rapid depreciation.

By August, the BOJ began its intervention in the foreign exchange market by selling quantities of the NIR to financial institutions, and later in the year it reduced its percentage intake from the cambio dealers in order to increase the supply of foreign exchange to the market. By year end however, the Net International Reserve levels were rebuilt to reach US\$421.3 million.

Open market operations slowed in the first quarter of the year as Certificates of Deposit valuing J\$950 million in January 1995 were phased out by February.

This led to a trending down of the interest rates and a build up of liquidity in the system. Monetary policy was further relaxed as the statutory liquid assets reserves of Commercial Banks were reduced from 50% to 47%. Given the prevailing economic conditions in the economy - moderated inflation rates, wages increasing in excess of local output and productivity - these prompted increases in demand/consumption as well as increase private sector credit which continued throughout the year.

In order to counter the increase in liquidity in the system, Bank of Jamaica intensified its trading in the secondary market. Larger offerings in LRS and T Bills were made and the maturity structure on these securities shifted to longer periods.

These measures were late in coming and not entirely effective in drying up the liquidity in the system. The destabilization in the exchange rate persisted, and trading in the informal foreign exchange market resumed. Towards the beginning of the fourth quarter of 1995 interest rates began trending up. By the year end the yield on Treasury Bills was 42.5% up from 20.4% in April. This helped to pull a significant amount of J\$ liquidity out of the system and the higher interest rates also attracted a lot of US\$ seeking to take advantage of the higher J\$ interest rates.

Money Supply

At the end of December 1995, broad money that is M2 stood at J\$74.6 billion, indicating a J\$21.46 billion or 40.4% increase over December 1994. For the first six months of 1995, M2 rose by J\$6.6 billion or by 12.6% with its steepest monthly increase of 4.93% in April.

MONEY AND BANKING

However between July and December, 6 months, there was a J\$14.8 billion or 24.7% increase with October showing the largest monthly rise of 6.33% and September a decline of 1.2%. In July, Bank of Jamaica extended over J\$3 billion in liquidity support to Century National Bank. This also contributed to the increase in Money Supply by way of increase in overall demand deposits levels and in overdrafts from the Bank of Jamaica.

Figure 5.1

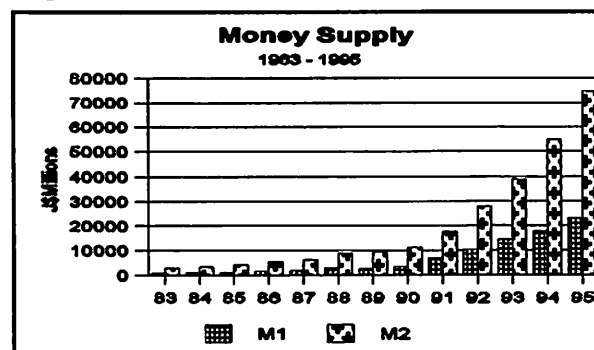


Table 5.1

Money Supply 1983 - 1995 (J\$Million)

YEAR	M1	TIME DEPOSIT	SAVING DEP.	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
1995	23227.7	16839.7	34550.2	51389.9	74617.6

Note: M1 = Currency in Circulation + Demand Deposits
Quasi-Money = Time + Saving Deposits
M2 = M1 + Quasi-Money

Source: Bank of Jamaica

MONEY AND BANKING

Contributing to the rise in broad money (M2) were changes in its components M1 and Quasi-Money. Throughout the period, Money Supply (M1) rose by 41.9%. Its components, Currency with the Public and Demand Deposits, rose by 33.7% and 48.1% respectively. However, while Quasi-Money rose by 39.7% overall, its components, that is Time and Savings Deposits, showed similar increases of 39.8% and 39.7% respectively. Saving deposits growing by an average J\$1.7 billion every three months directly influenced the overall increase in M2.

Also affecting money supply growth through the period, were movements in the level of net foreign assets as well as in both public and private sector credit.

The graphs below indicate the impact of these factors on M2 growth. Throughout the year, except in February, September and October 1995, the Net Foreign Assets of the Bank of Jamaica increased - and as such, had an expansionary effect on M2, (see Figures 5.2, 5.3 and 5.4). This is so, as Bank of Jamaica introduces funds into the system when purchasing

Figure 5.2

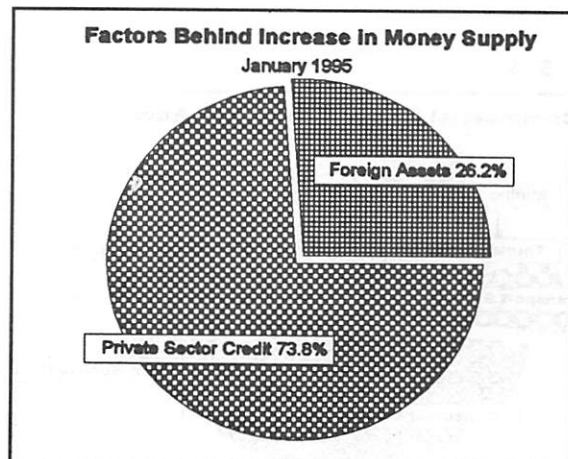


Figure 5.4

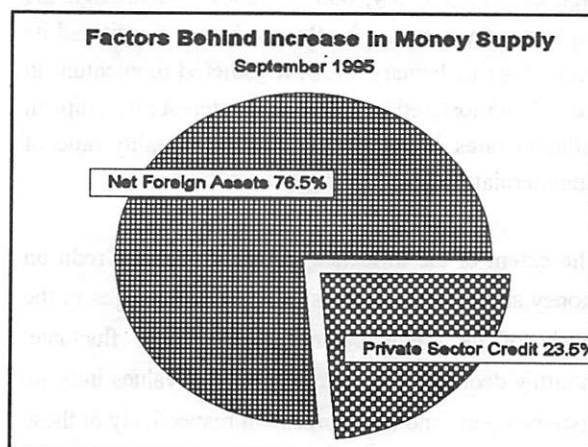


Figure 5.3

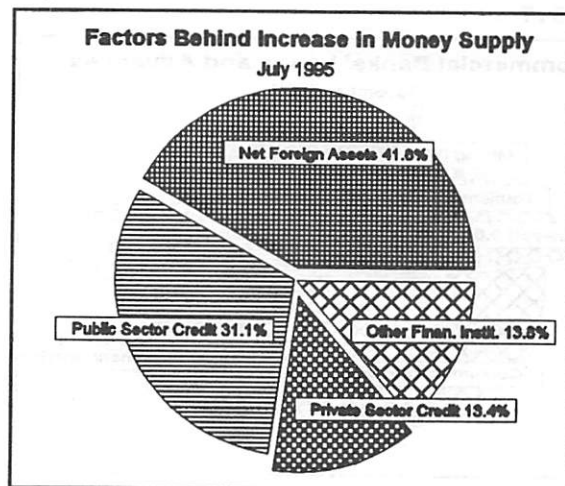
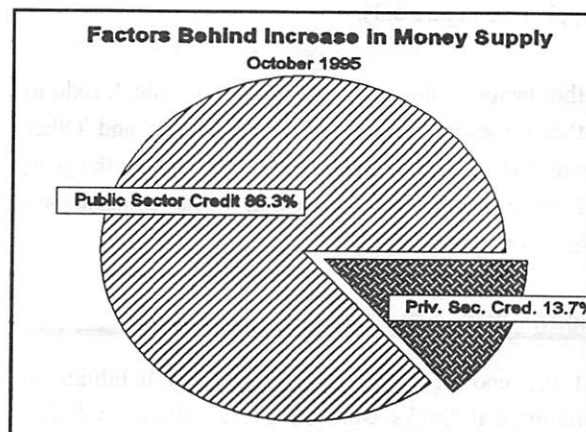


Figure 5.5



MONEY AND BANKING

foreign exchange to build up these reserves. Between January and December the Net Foreign Assets of Bank of Jamaica rose by 70.0% and between February and December 98.5%, while its highest monthly increase was in September when it rose by 18.6%.

Private Sector Credit expanded by 13.1% in the first 6 months of 1995, but accelerated by 13.2% in the three months July to September and ended the year with a 34.5% overall increase. As such, it had a continuous expansionary effect on Money Supply as can be substantiated by the graphical representations in Figures 5.2, 5.3, 5.4, and 5.5 above. Although the expansionary trend in the Private Sector Credit had its beginnings in January 1995, it gathered momentum in April 1995 fostered by declines in interest rates, dips in inflation rates and the decline in the liquidity ratio of Commercial Banks.

The extent of the influence of Public Sector Credit on money supply expansion is reflected in changes in the levels of its credit balances. As these fluctuate, monthly declines and increases in their values indicate disbursements and reimbursement respectively of these funds. The disbursements, regardless of their form or destination, have an expansionary effect on money supply (see Figure 5.3).

Other factors influencing M2 growth include, 'Credit to Other Financial Institutions' 'Quasi-Money' and 'Other Items Net'. The data indicates that throughout the year, all these factors have also had some expansionary impact on money supply.

Loans and Advances

At the end of 1995, total assets and liabilities of Commercial Banks were J\$121.32 billion. Of this, J\$45.86 billion or 37.8% of its assets were extended in

credit and J\$89.14 billion held in deposits. Loans and Advances in December 1995 were 42.0% higher than the J\$32.74 billion outstanding in December 1994, and indicates a higher growth in value and percentage than was experienced in 1994.

The growth in credit experienced in 1995, was facilitated by declines in interest rates as well as in inflation and the acquisition of increased wages which enabled the servicing of increased credit - be it for personal consumption or business activities.

Figure 5.6

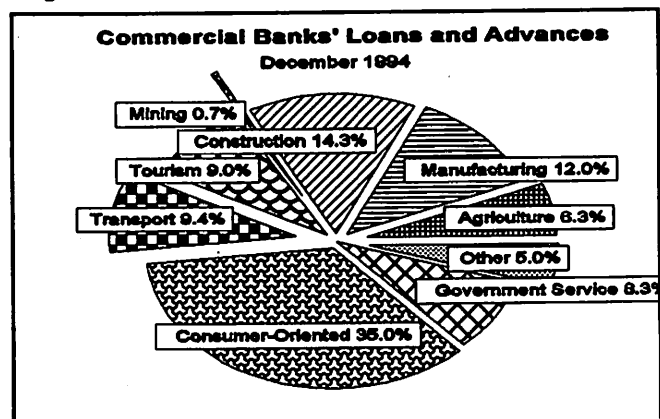
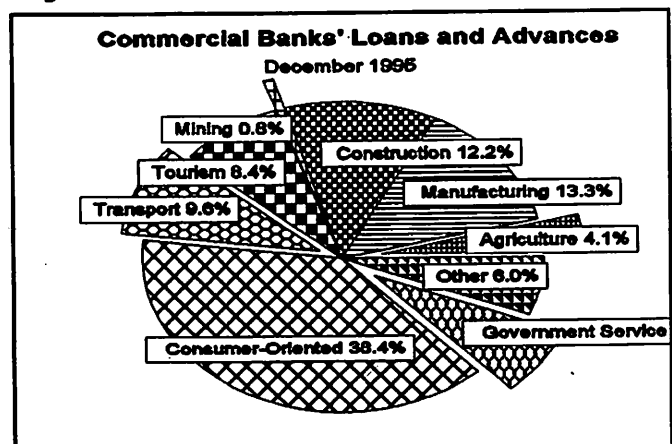


Figure 5.7



MONEY AND BANKING

The Near Banks and Building Societies at December 1995, held assets totalling J\$46.7 billion. Of this, loans outstanding valued J\$15.4 billion and deposits and savings were J\$31.4 billion. For these institutions, their assets grew by J\$4.9 billion or by 11.7% and their loans and deposits by 25.2% and 2.9% respectively.

A review of the sectoral allocation of credit extended by the Commercial Banks, indicates that in 1995 consumer oriented loans made up 38.4% of the Commercial Banks' credit portfolio. This was followed

by loans to manufacturing (13.3%), construction (12.1%), transport (9.6%) and tourism (8.4%). This order of ranking follows a similar trend as in 1994. However, the loan portfolio of the near banks shows the greater share of their loans going to consumer-oriented credit (43.4%) followed by construction (23.4%) and tourism (8.3%). Credit to Government Services from Commercial Banks rose by 25.3% at December 1995 but from the Near Banks it declined by 49.53%.

Table 5.3

Loan and Advances by Sector/Share 1994/95 (J\$Mn)

Loans	December 1994	Share %	December 1995	Share %
Agriculture	2038.5	6.3	1879.0	4.1
Manufacturing	3867.2	12.0	6092.6	13.3
Construction	4616.1	14.3	5587.3	12.2
Mining	236.4	0.7	354.1	0.8
Tourism	2912.1	9.0	3830.4	8.4
Transport	3026.9	9.4	4399.9	9.6
Consumer-Oriented	11318.1	35.0	17633.4	38.4
Government Service	2674.3	8.3	3353.0	7.3
Others	1604.8	5.0	2734.5	6.0
Total	32294.4	100.0	45864.2	100.0

Source: Bank of Jamaica

Commercial Banks Liquidity

Commercial Banks began the year with the statutory minimum liquidity ratio at 50%, this ratio being enforced since July 1992. However, effective June 15,

1995, the ratio decreased to 47%, to be constituted of 25% in cash reserves and 22% in non-cash or other liquid assets. This enabled some reduction in the holdings of excess liquidity which averaged about 11.0% between January to March and about 3.4% for

MONEY AND BANKING

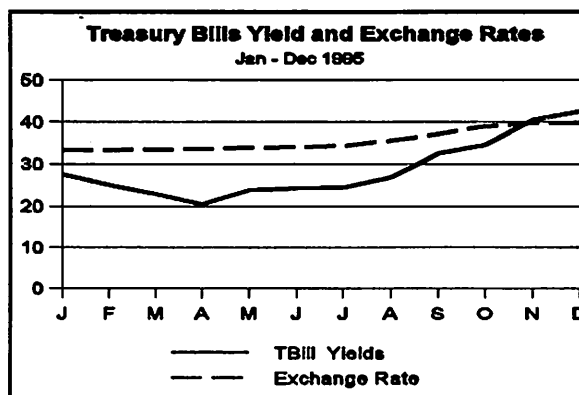
the rest of the year. Penalties for breaches of the liquidity ratio moved also from 90% to 65% per annum. During the year, the liquid assets ratio of institutions licensed under the Financial Institutions Act rose from 17% to 20% and constituted 17% in cash reserves and 3% in non-cash reserves. This ratio is applicable to both domestic and foreign currency deposits. Most institutions held considerable excesses over these minimum requirements throughout the year.

In the latter part of 1995, in a further effort to decrease the liquidity in the system Commercial Banks were required to maintain at Bank of Jamaica a special deposit representing a specified percentage of their prescribed liabilities. This percentage could be as high as 20% of total deposits and the percentage specified differed from institution to institution. The deposits could be wholly cash or a mix of cash and Treasury Bills (TB). Cash deposits would attract interest of 22% per annum and the interest on deposits in the form of Treasury Bills would be .00001% per annum of the instrument's market value at the date of its deposit with Bank of Jamaica.

Interest Rates

The declining trend in interest rates which began in mid-1994 continued until the end of the year and into mid-1995. In fact, the years 1992 to 1995 have been characterized by months of high and low interest rates moving from one year to the next and now appears to be evolving into a cycle. This scenario no doubt helped to contribute to the non-productive growth cycle in the economy as high interest rates do not foster an environment for planning and investment.

Figure 5.8



In January 1995, interest rate yield on Treasury Bills stood at 27.6% and fluctuated in the high to low twenties up to September 1995 when the yield moved to 30.2% and by year end it was at 42.5%.

Commercial rates followed this trend. Deposit rates which began the year at 19-31% declined to 14.50-23.00% by April and moved up to 17-30% by September to close the year back at 19-42%. While loan rates varied with institutions movements in the overall average weighted rate, as displayed in the table below, follows a similar trend with a lag in its movement.

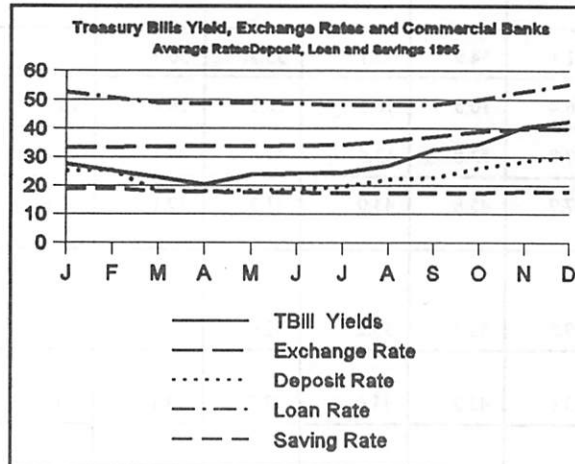
Movements in the savings rate however, were not as volatile during 1995. Since 1991, when saving rates in the banking sector were deregulated, the floor rate of 15% per annum evolved and continues to be effective. Thus during 1995 savings rates moved from 15-30% in January to 15-24% by September 1995.

As the country moves through a cycle of relatively lower interest rates to higher ones there were implications for borrowers, lenders and the economy overall:

MONEY AND BANKING

1. Although the rates trended down, they were not that low and sustained for a period long enough to encourage investment. However, it

Figure 5.9



2. fostered increased consumerism which had an adverse effect on the Balance of Payments.
2. The high interest rate regime makes cost of funds expensive. It results in high levels of loan default, bad debts and company failure. The high level of non-performing loans is having an impact on the bottom lines of a number of financial institutions.
3. High interest rates are therefore a strong deterrent to investment, production and economic growth.

Policy makers should be aware of the outcomes to such policy initiatives and utilize a mix of growth oriented policies to achieve the growth objectives of the economy. First, however, the problem of inflation must be effectively dealt with.



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MONEY AND BANKING

Table 5.3 Commercial Banks' Weighted Loans and Deposit Rates

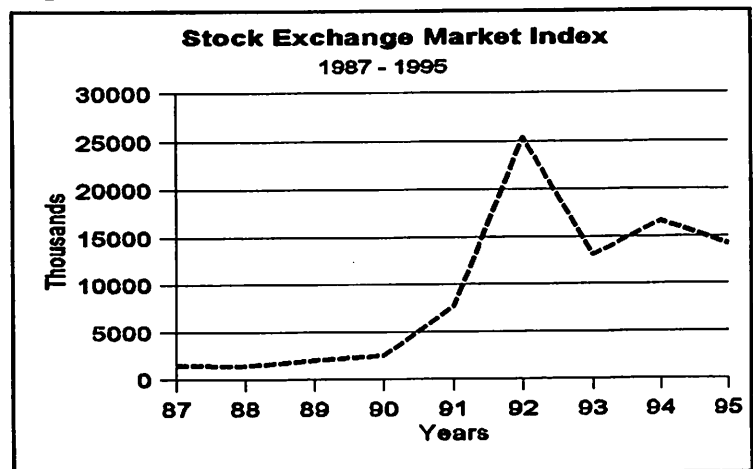
1993-1995												
	1993				1994				1995			
Weighted Loan Rates	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Instalment Credit	43.7	46.3	46.8	49.6	50.8	51.1	54.9	55.1	53.3	50.1	47.8	
Mortgage Credit	40.3	31.6	29.8	29.5	35.6	36.4	10.5	10.5	10.5	24.4	25.7	
Personal Credit	41.8	41.1	49.6	52.9	56.9	57.8	53.8	53.6	47.6	47.1	47.0	
Commercial Credit	39.7	39.6	46.2	49.1	50.2	47.7	45.8	43.0	41.2	39.1	40.6	
Local Gvt. and Other Public Entities	35.7	29.2	40.2	46.1	50.5	49.5	32.3	30.2	32.0	34.7	33.2	
Central Government	40.5	40.2	51.2	52.0	55.6	53.6	45.2	45.0	37.7	28.1	26.9	
Overall Avg./Weighted Loan Rate	40.4	40.7	46.7	49.6	51.5	50.0	47.6	45.8	43.5	40.9	41.4	
Overall Avg./Weighted Deposit Rate	21.2	22.6	34.4	39.8	39.3	34.1	33.4	27.9	23.0	19.4	19.7	
Average Lending Rates	45.8	44.0	57.0	61.3	66.9	65.0	61.3	56.1	48.8	48.7	48.2	55.3

Source: Bank of Jamaica

Stock Market Developments

During 1995, the stock market continued to be a casualty of the Government's tight monetary policies and should these policies continue to be implemented, the market appears destined to stagnation or decline. The year began with the market showing bullish tendencies as the index climbed to 24127.7 points during January, moving from 16676.7 points at the end of December 1994 - a rise of 44.7%. However, by the end of February the index declined by 11.9%, beginning a bearish trend which was maintained for the

Figure 5.10



MONEY AND BANKING

rest of the year. This trend continued despite the existence of lowering interest and inflation rates during the first half of the year. By the end of December 1995,

the index fell to 14267 points, declining by 14.5% over the year.

Table 5.4

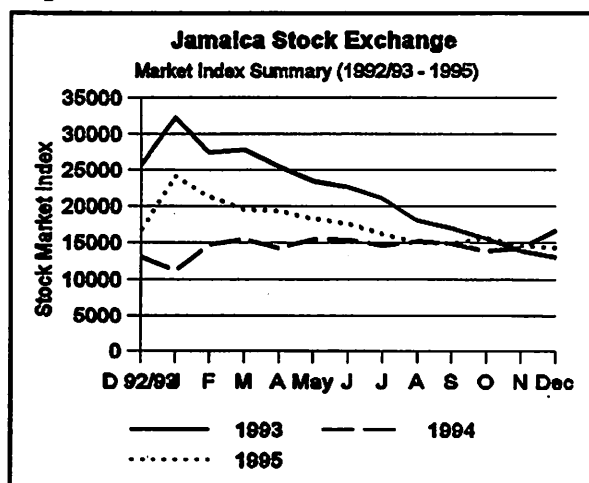
Stock Market Index (1987 - 1995)

Years	Volume	Value	Index
1987	71,878,234	399,971,277	1,515.09
1988	43,251,904	136,739,278	1,439.09
1989	95,202,452	516,456,318	2,075.85
1990	57,960,234	230,781,846	2,539.36
1991	144,259,019	1,156,608,055	7,681.50
1992	395,900,000	4,688,400,000	25,475.90
1993	567,454,280	8,346,769,977	13,099.68
1994	743,793,646	5,168,796,309	16,676.70
1995	463,050,165	3,664,855,984	14,266.99

As 1995 closed, interest yields on Treasury Bills were 42.5% and there is all the indication that these rates will hold for some time, so the stock market will remain essentially bearish. Accepting the existence of high interest returns, as well as the security of investment returns on gilt-edged paper, it is believed that the market will not be rejuvenated until the institutional investors re-enter the market in a big way. They, having been burnt once, will be very cautious about returning to the equities market. The road to market success therefore looks long.

During the year, the volume of shares traded (excluding block transaction) decreased by 37.5% moving from 741.8 million to 463.1 million. The value also declined

Figure 5.11

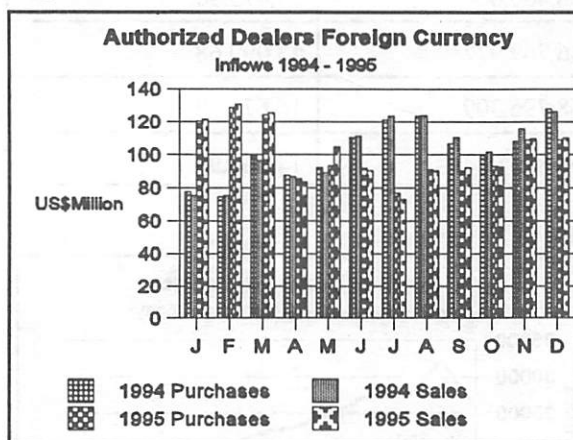


MONEY AND BANKING

by 28.9% to J\$3.66 billion and this was probably buoyed by the higher share prices which prevailed at the beginning of 1995. Capitalization at the end of the year was J\$50,755.8 million moving from J\$58,018.1 million at December 1994.

From the year's trading, volume leader was Caldon followed by Telecommunications of Jamaica. Stocks recording the largest price appreciation were NCC followed by Courts Jamaica Limited. Those with the largest declines were WIPP and Goodyear. The advance/decline ratio for the year was 8:35. In July 1995, KLAS FM began trading on the Stock Exchange.

Figure 5.11



Foreign Exchange Developments

Throughout 1995, the country experienced continued high levels of inflows of foreign exchange into the system. However, the foreign exchange account balances grew by 41% from US\$460.7 million at the end of December 1993 to US\$649.8 at December 1994. In 1995, monthly balances moved from US\$649.8

million in December 1994 to US\$706.0 million in December 1995 - indicating a 8.6% growth. However, these balances were at a much higher level throughout 1995 than in 1994, and indicate more a consolidation around the US\$600 million mark during 1995. The period saw inflows somewhat higher than outflows effecting some positive balances.

During the year, operations of these foreign currency accounts were affected by two major factors:

1. Towards the end of 1994 and early 1995, interest rates trended down to the extent that the profitability of arbitrage activities declined significantly, thereby stemming the inflows of foreign exchange to the economy.
2. Concurrent with the decline in supply, was an increased demand for foreign exchange to fund business needs as well as consumer imports - and this resulted in a depreciation of the exchange rate of the Jamaican dollar versus the US dollar. It therefore became costly to purchase new US dollars; so holders of foreign exchange accounts relied on these accounts to fund their needs. The balances in these accounts stabilized rather than grew significantly.

The year began with the Jamaican dollar exchanging at J\$33.28 to US\$1. There was a marginal appreciation in February as it exchanged at 33.23 to US\$1. However, in March some depreciation set in and for the first three months the J\$ depreciated by 0.39%. The depreciation picked up pace and by June it was 2.0%. At this time there was the emergence of the informal market. So

MONEY AND BANKING

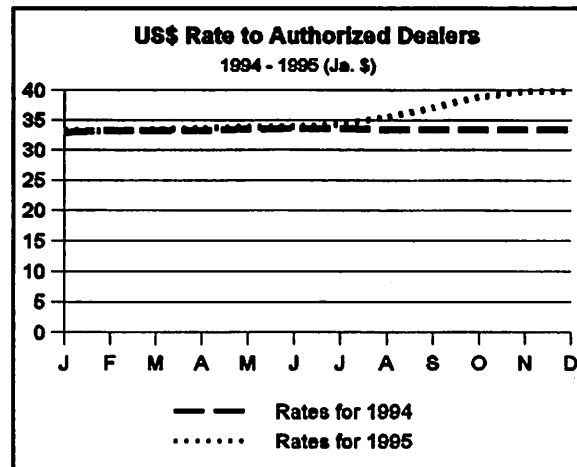
that from June to October - there was an official rate and an informal market rate with a spread of J\$4-5. The Government intervened in the market by selling some of the Net International Reserves in August and September as well as by reducing its percentage intake from authorised foreign exchange dealers and extending the official market by authorizing foreign exchange dealership to fifteen (15) institutions licensed under the Financial Institution Act. This allowed for added supply to the open market. At the end of the year about US\$95 million of the Net International Reserve was used up in the intervention process. By November the rate of depreciation slowed, both market rates coincided and the rates tended to stabilize at about J\$38-39 to the US\$. The J\$ ended the year exchanging at J\$39.98 to US\$1 having depreciated by 20.1% through the year.

Foreign exchange flows to the spot market, during 1995, showed marginal differences between monthly sales and purchases. Total monthly sales and purchases between January and May 1995 were higher than similar period in 1994. However, June to December saw lower levels of sales and purchases, no doubt influenced by the depreciation of the Jamaican dollar and the emergence of the informal market with more attractive rates.

Outlook

It appears that the major focus of the Government for 1996 will be to maintain exchange rate stability as, in achieving this, its basic objective of controlling inflation may be more easily realized. Its proven means of achieving this objective is by maintaining a high interest rate policy. It therefore seems that 1996 will

Figure 5.12



see a continuation of the high interest rate policy which was aggressively pursued in the last quarter of 1995. This policy, however, will not in and of itself control the growth of the money supply which is the underlying factor driving local inflation. Unless government comes to terms with this issue and gets a grip on the growth of the money supply, medium term stability will not be achieved.

However, these policies are only short-term measures at achieving exchange rate stability and inflation control; thus the country looks forward to the effecting of policies such as creating a truly independent Central Bank which will in the longer term lead to lower interest rates and inflation, maintain foreign exchange inflows and create the economic climate which will encourage local savings, facilitate planning and investment which will result in economic growth.

MONEY AND BANKING

Table 5.7

DEALERS' PURCHASES AND SALES 1994/95												
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
1994 Purchases	77.6	74.4	99.3	87.4	92	770.7	121.3	123.5	106.7	99.4	108.4	128
1994 Sales	75.1	75.2	96.3	86.6	89.1	111.3	123.3	123.9	110.4	101.4	115.6	126.2
1995 Purchases	120.4	128.6	124.1	85.4	93.4	91.5	76.6	90.7	90.1	93	109	108.9
1995 Sales	121.5	130.6	125.4	83.3	104.5	90.1	72.7	89.9	92	92.6	109.8	110.1

Table 5.6

PURCHASES OF CAMBIO BUREAUX DE EXCHANGE DECEMBER 1995 US\$M													
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Cambio Dealers	82.58	92.51	71	19.8	25.3	20.05	20.44	19.11	17.01	14.44	26.21	34.86	443.31

Table 5.5

MISCELLANEOUS DATA ON FOREIGN CURRENCY MARKET OPERATION 1995												
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Foreign Currency Loan Outstanding US\$Million	309.8	313.8	333.6	349.6	337.4	344.8	342.5	351.3	348.7	333.7	348.7	354.3
Rates on Fixed Deposits												
3<6 Month	4.00-7.50	4.00-7.50	4.00-7.50	4.00-7.50	4.00-7.50	4.00-7.50	4.00-7.50	4.00-7.50	4.00-7.50	4.00-7.50	4.00-7.50	4.00-7.50
6<12 Month	4.00-8.00	4.00-8.00	4.00-8.00	4.00-8.00	4.00-8.00	4.00-8.00	4.00-8.00	4.00-8.00	4.00-8.00	4.00-8.00	4.00-8.00	4.00-7.50
Savings	3.88	3.88	3.88	3.98	3.88	3.98	3.98	3.98	3.96	3.96	3.96	3.96

6. FISCAL POLICY AND ACCOUNTS

The budget for the fiscal year (FY) 1995/96 was formulated with the objective of creating and maintaining a favourable macro-economic environment conducive to the country's economic growth.

The budget, proposing an expenditure of J\$81,341.0 million represented 51.9% of projected (FY) GDP of J\$156.7 billion and was approximately 19% in nominal terms above the revised 1994/95 budget although smaller by 2% in real terms.

Recurrent expenditure was projected at \$49,618.0 million or 61% of the total budget, up from 59% of the previous fiscal year's. The increases in recurrent expenditure were proposed on the basis that for the

fiscal year 1995/96, there were outstanding public sector wage settlements to be honoured, as well as additional ones to be executed. As well, provisions had to be made for servicing the increasing costs of the internal debt which for FY 1995/95 was estimated at over 50% of the expenditure budget.

Capital expenditure, estimated at J\$31,874 million was 7.5% above the previous FY and equaled just 39.0% of total expenditure. The reduction from previous year's share of 41.0% represents the decline in estimated amortization payments on the external debt, however, a considerable increase in expenditure on capital projects was programmed in the budget.

Table 6.1

Annual Fiscal Accounts 1992/93 - 1995/96 (J\$Mn)

	92/93	%GDP	93/94	%GDP	94/95	%GDP	95/96 Apr-Dec	%GDP
Revenue	21029.4	27.6	34243.0	33.1	43635.7	32.1	41508.1	26.5
Expenditure	26871.1	35.2	41256.9	41.5	68383.5	50.3	42249.6*	26.9
Overall Deficit/Surplus	-5841.7	7.6	-7013.9	8.4	-24747.8	18.2		
GDP = (J\$Mn)	76249.6		102749.9		136002.1		156718.1	
Fiscal (Deficit)/Surplus	2145.5	2.8	3149.4	3.1	-4120.1	3.0	741.4	0.47

* = Excludes Amortization Payments

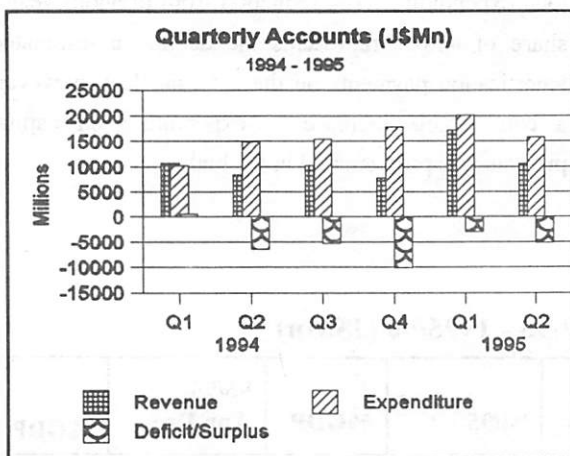
Some objectives and strategies of the budget included:

1. Achieving and sustaining a reduction in the inflation rate to 1% per month or 12% p.a.
2. Reduced inflation would encourage growth in the economy.

FISCAL POLICY AND ACCOUNTS

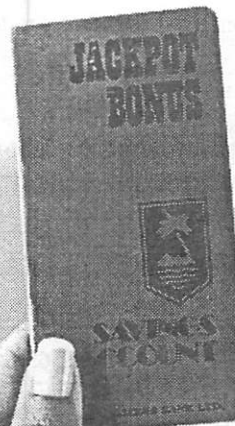
3. By increasing revenue collections and being prudent in expenditure - a surplus could be generated which would help to:
 - a. retire some of the internal debt and lower the debt-servicing burden.
 - b. increase capital expenditure.

Figure 6.1



4. Expenditure would focus on addressing some of the areas not focussed on during the stabilization process e.g. housing, roads, transportation, poverty alleviation etc.
5. An attempt would be made to restructure the maturity profile of the internal debt so as to ease the debt-servicing burden on the budget, and thereby increase funds available to undertake investment activities.

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Half Way Tree 926-5885, 926-4973 Fax: 926-4974	Montego Bay 952-4873-6, 952-4878 Fax: 979-5274	Linstead 985-7872-4 Fax: 985-7875
Liguanea 927-7524, 927-5361 Fax: 927-7721	Sav-la-mar 955-3300 Fax: 955-3301	Port Antonio 993-9755-8 Fax: 993-9770
Spanish Town 984-2904, 984-5413 Fax: 984-4405	Stony Hill 942-2905-6 Fax: 942-9033	



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FISCAL POLICY AND ACCOUNTS

Table 6.2

Summary of Fiscal Operation 1995 (J\$Mn)

	Jan-March 1994/95	Approved Budget Apr - Dec 1995/96	Preliminary (Actual) Apr - Dec 1995/96	Revised Approved Budget Apr- Dec 1995/96
REVENUE AND GRANTS	17146.0	41056.8	41508.1	54422.9
Tax Revenue	15487.0	36732.2	35703.0	51810.6
Non-tax Revenue	746.0	1252.1	2404.0	2149.0
Bauxite (CDF)	-	1754.8	1881.1	2356.4
Capital Revenue	913.0	804.6	502.1	1402.8
Grants		513.1	1017.9	704.1
EXPENDITURE	20182.2	42383.2	42249.6	57334.8
Recurrent Expenditure	9399.3	34727.5	33693.1	47960.6
Interest	2969.1	14400.2	14234.5	21700.0
Traditional Obligation				
LRS				
Transfer to BOJ				
Programmes and Wages	6430.2	20327.3	19458.6	26260.0
Capital Expenditure	10782.9	7655.7	6016.2	9374.2
Amortization	5667.1			
Investment	5115.8			
OVERALL DEFICIT/SURPLUS	(3036.2)	(1326.4)	(741.4)	(1088.1)

GDP 1995/96 = 156718.1

Fiscal Accounts and the Budget

For 1995, it appears that the Government made some effort to come to grips with the fiscal imprudence which characterized its operations in previous years. During the

year the following improvements took place :

- The returns from the tax collection effort showed improved inflows.

FISCAL POLICY AND ACCOUNTS

- b. There was some effort made at restructuring the maturity profile of the internal debt.
- c. Talks related to the divestment programme continued but at a slow pace.
- d. Efforts were made at keeping expenditure in line with revenues, and when the adverse impact of budget over-runs were evident, some expenditures were deferred.

For the first quarter of 1995, total revenue collected was J\$17,146.0 million - representing 31.1% of the total expenditure budget for FY 1994/95. It was also 59.7% greater than the revenue collected for similar quarter in 1994. The significant increase in revenue for this quarter maintains the established trend, as a strong effort is usually made during this quarter to make tax returns for the end of the fiscal year. Contributing to this also was increased inflows from customs, betting, gaming and lotteries and from stamp duties.

Total expenditure for the quarter rose to J\$20,182.2 million, almost double that of the January to March quarter of 1994 while forming 36.6% of total expenditure for the FY 1994/95. Overall, expenditure for this quarter does not follow the usual trend of being less than revenue collected in order to facilitate having an overall quarterly surplus; instead, a fiscal deficit of J\$2.63 billion was realized. For the fiscal year, which ended in March 1995, the overall budget deficit was J\$24.7 billion and the fiscal deficit J\$4.1 billion.

Data for the period April to December 1995 are shown in Table 6.2. They constitute budgeted and preliminary (actual) revenue and expenditure figures for the period. Included also is data on the revised approved budget for the FY 1995/96, resulting from the supplementary estimates passed in January 1996.

For the period April to December 1995 actual inflows of revenues and grants amounted to J\$41,508.1 million which was 1.1% more than was budgeted. Contributing to this was a 98.4% increase in grants, a 7.2% rise in the bauxite levy returns and a 92.0% rise in receipts of non-tax revenues.

On the expenditure side, total actual expenditure was 0.3% less than the budgeted amount of J\$42,383.2 million. Capital expenditure fell by 21.9% while recurrent expenditure was 3.0% less than budgeted. Supporting this was a 4.3% fall in expenditure on programmes and wages. However, while total interest costs fell by 1.2%, there was a 22.9% rise in foreign debt-servicing costs mainly brought about by the depreciation of the local currency during the year.

The revised budget projects revenues of J\$58.4 billion or a 40.8% increase in revenues over actual receipts up to December 1995. It shows tax revenues rising by 45.1%, capital revenues by 179.4% and grants declining by 30.8%.

Revised total expenditures were projected to increase by 35.7% from J\$42.2 billion to J\$57.3 billion. Contributing to this would be increases of 42.3% and 55.8% in recurrent and capital expenditure respectively. Expenditure on wages would increase by 34.9% and on debt servicing, both local and foreign, by 52.4%. At this level, debt servicing would be 37.8% of the total expenditure budget and 45.2% of recurrent expenditure.

The revised budget proposes incurring a deficit of J\$1.1 billion at the end of FY 1995/96.

During the latter months of 1995, following an increased demand for expenditure to offset emergency

FISCAL POLICY AND ACCOUNTS

needs as well as with Government's awareness of the deterioration in the balance of payments, it indicated a rephasing and postponement of some planned expenditure on fiscal operations. The supplementary estimates reallocated expenditure from capital to recurrent and these activities reinforce the need for Government to address the following aspects of its operation as they impact on budget financing, the macro-economic climate of the economy and eventually on GDP and its growth.

1. Government increasingly relies on borrowing as well as open market operations to finance its expenditure and it has now become trapped in an increasing debt spiral, to the extent that for fiscal year 1995/96 it utilized 53% of its expenditure budget on debt-servicing. This situation serves not only to crowd out the private sector, but it robs the country of investment funds and discourages the accumulation of savings which are all vital inputs to economic growth. Since Government's expenditure is skewed to increasing recurrent expenditure which is swamped with the debt-servicing obligations, any expenditure over runs lead to cuts in the capital budget e.g. the recently tabled Supplementary Estimates saw a J\$2.5 billion cut in capital expenditure.
2. To the extent that there continue to be declines in the level of capital expenditure, it implies that investment in development and physical infrastructural projects also declines. As these projects are needed to contribute to the development process, these problems retard growth.

3. Servicing the heavy national debt has lessened available funds for expenditure on vital areas: education and training, health and transportation which are essential for maintaining a healthy economy and achieving sustainable development. Steps therefore need to be taken to drastically retire the bulk of the nation's internal debt.
4. In order to achieve prudence and efficiency in the operation of Government the following needs to be done:
 - a. The size of Government needs to be reduced and its operations become more efficient.
 - b. The tax policies need to be reviewed so as to enhance compliance.
 - c. The revenue collection machinery needs to be consolidated and its efficiency and performance levels significantly improved.
 - d. Government's policies need to be predictable and supportive of growth and investment and its operational rules more transparent.
 - e. Inter-quarter finances need to be managed to prevent serious over runs and, to this end, expenditure needs to be prioritized and rationalized. Interim deficits must be financed through treasury bills and not through the Bank of Jamaica.

FISCAL POLICY AND ACCOUNTS

- f. Revenue inflows need to be structured to prevent the quarterly fluctuations currently being experienced.
- g. Money creation and the containment of public debt need focused attention.
- h. Fiscal and monetary policies need to be coordinated, thought-through and fine-tuned so that their implementation leads to the achievement of the stated policy objectives.

Table 6.3

Quarterly Accounts 1994 - 1995 (J\$Mn)

Quarters	Q1	Q2	Q3	Q4	Total	Q1	Q2
Revenue	10738.0	8518.1	10200.7	7775.7	37232.5	17146.0	10643.0
Expenditure	10220.6	14860.7	15485.9	17854.8	44482.5	20182.2	15796.7
Overall Deficit/Surplus	517.4	-6342.6	-5285.2	-10079.1	-7249.5	-3036.2	-5153.7
GDP					129986.0		131285.9
% GDP					5.6		
Fiscal Deficit/Surplus	2094.2	-777.4	-3290.6	-2678.2	-4652.0	2630.9	-1385.6
% GDP	1.6	0.6	2.5	2.1	3.6	2.0	1.05

Outlook

Data over the past years has shown that annual budgets have shown an increasing trend. However, the rates of growth tend to fluctuate widely but more often tends to keep ahead of annual inflation. To this end, the budget for FY 1996/97 is expected to increase, and given a 1995 inflation rate of 25.5%, budget figures could be close to the J\$100.0 billion mark. As such it would account for over 50% of GDP, given that 1995 GDP is estimated at J\$156.0 billion and very little growth is

expected in the economy for 1996. With the continued level of Open Market Operations the internal debt is expected to grow as well as its servicing costs. There is therefore the need to generate a fiscal surplus of about 2-3% of GDP which could be applied to debt reduction.

7. INFLATION

Continuing from 1994 and into 1995, one of the main focus of Government's policies was towards the control of inflation. Its stated objective was to achieve a 1% monthly inflation rate for 1995. As a result it continued to maintain in 1995 restrictive monetary policies aimed at fostering stability in the exchange rate. These policies led to a lowering of inflation which continued from the latter half of 1994 into mid 1995. However in the latter half of 1995, inflation resumed its upward march.

The year 1995 saw a six-month period of lower monthly inflation rates from January to June (0.9% to 1.3%) followed by a six-month period of higher monthly rates (1.7% to 4.3%). This trend has been characteristic of the monthly rates of the years 1992-1995.

Inflation for the first four months of 1995 totalled 4.5% or an average of 1.12% monthly. This was influenced by relative stability in the exchange rate, moderate growth in the Net International Reserves and improved fiscal balances. However, towards the end of the first quarter of 1995, with a relaxation of interest rate policies and a lack of implementation of corrective initiatives, the macro-economic climate deteriorated, destabilizing the economy and the exchange rate. From July onwards the inflation rate picked up and accelerated as the exchange rate came under pressure in the August to November period.

It does appear that the conditions favouring lower inflation rates can be created in the economy but there is a lack of consistency and continuity of policy to maintain the trend.

The rate of inflation for 1995, as measured by the Consumer Price Index (CPI), was 25.5%. This rate

reflects declines of 1.2% and 4.6% over the 26.7% and 30.12% for 1994 and 1993 respectively and far exceeds the targetted 12% p.a. rate set by the Government. It is also significantly greater than the average 3-3.6% of our international trading partners and the even lower rates of some Caribbean neighbours.

Factors Influencing Inflation during 1995

Internal

- (1) Theoretically there is a standard relationship between growth in money supply, GDP and inflation, which is expressed as follows:

$$\text{Growth in Money Supply} = \text{Growth in GDP} + \text{Inflation}$$

During the year, broad money (M2) which consists of Currency with the Public, Demand, Saving and Time Deposits grew by 38.5%, into an economy whose output grew marginally by 0.25%. This implies that funds associated with M2 growth were pursuing a limited level of increased output which forced prices up, causing inflation. The spill-off was increased demand for imports, which aggravated the Balance of Payments and applied pressure on the exchange rate destabilizing the currency.

2. Because of the high import content of goods and services in the economy, devaluations of the currency inflate prices which are naturally translated into movements in the CPI. During 1995, the exchange rate came under pressure in March, experienced continued slippages up to November when it stabilized, so that by December there was a 16.7% depreciation of the local currency. The increase in the



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INFLATION

Table 7.1

Monthly Rates of Inflation 1993 - 1995

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept.	Oct.	Nov	Dec
YeartoDate												
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	25.0	25.8	26.7
1995	1.3	2.5	3.4	4.5	6.0	7.0	8.8	10.7	14.0	17.1	20.3	24.6
Actual CPI												
Mvmt.												
1993	423.2	425.2	430.7	435.5	442.8	447.8	466.0	481.9	502.3	514.6	531.2	546.0
1994	558.9	587.0	590.7	601.6	616.1	629.8	650.5	666.4	673.5	682.5	687.3	692.0
1995	701.1	709.2	715.8	723.5	734.5	741.8	753.5	766.4	789.4	810.3	832.8	868.7
Mthly Infl.												
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
1995	1.3	1.2	0.9	1.1	1.5	1.0	1.7	1.7	3.0	2.7	2.8	4.3

inflation rates during the year mimicked, with a lag, the effect of the depreciating exchange rate on prices.

3. Government continues to be imprudent in the management of the fiscal aspects of the country's affairs. These accounts continue to show deficit expenditure funded by advances from BOJ and proceeds of open market operations. These instruments of credit to the Government are sources of money creation. As the Government spends these funds the demand for goods and services increases; if production is not rising then the effect is to fuel inflation in the economy.
4. During 1995, there was an increase in the income tax threshold which allowed more disposable income to many. In addition, significant wage increases were granted in

both the public and private sectors. These increases, granted against no comparable rise in productivity, gave rise to excess demand and fuelled a demand-pull inflation which contributed to:

- a. the increase in demand for imported commodities and a growing merchandise trade deficit.
- b. an increased demand for foreign exchange which contributed to the depreciation of the exchange rate and increases in the cost prices of products and services.

5. The interest rate levels in 1995 could have impacted on inflation in the following ways:

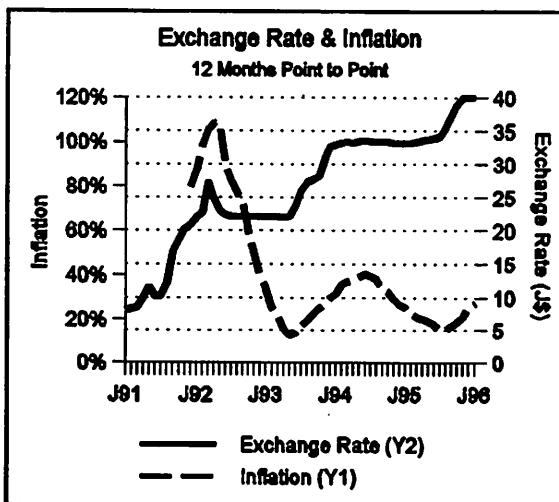
- a. As the rates trended down in the earlier part of the year, combined

INFLATION

with increased disposable incomes, it could have encouraged expenditure and discouraged saving. As well, lower interest rates encourage borrowing for consumption as was evident for the expenditure on motor-car imports and other consumer durables. Where output (supply) is low or flat, this forces prices up, which is inflationary, and also fosters increased importation of goods.

6. While the General Consumption Tax was increased from 12.5% to 15% in April, this brought with it general levels of price increases. However, as there was a basic basket of goods which remained zero-rated and these constitute a fair selection from the CPI's basket of goods, the full impact of the increases in GCT on prices was not captured in the CPI movements.

Figure 7.1



External Factors

1. As trade liberalization took a firmer grip on Jamaica's trading activities, 'cheaper imports' found their way on to the local market and this served to moderate prices to the consuming public with a similar impact on inflation. In a similar vein, as the inflation rate in most of Jamaica's trading partners is significantly less, this was reflected in the costs of some imports to the Jamaican market.
2. Oil and its by-products are essential to all aspects of the country's operations. The costs of imported crude is a major component of domestic costs. During the year, the prices of domestic oil imports rose by 10.0% from US\$16.97 to US\$18.67 per barrel and, coupled with devaluations of the Jamaican dollar, resulted in significant increases in the prices of petroleum products as well as in the cost of goods and services dependent on oil consumption - transportation, water, electricity etc. These increases contributed significantly to inflation during the year.

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 & accessories
7. Transportation
8. Miscellaneous expenses

INFLATION

It should be noted that the 'food and drink' category carries the highest weighting of all the groups (55.63%) so that price movement in this category significantly influenced movements in the overall index. During the year each month saw upward movements in the prices of food items, therefore this group had a constant impact on the inflation rate. This was so as prices for sugar, flour, starchy foods and vegetables, poultry and fish as well as meals away from home rose during the year. The positive impact of this group on inflation was particularly felt in April, August, November and December.

However, for the year 1995, it is the increase in prices for items in the sub-group 'Fuels and Other Household Supplies' which impacted most (37.1%) on overall annual inflation. The removal of the subsidiary on kerosene oil in November and the resulting price increase for this product not only pushed the December

inflation rate to 4.3% but also affected the overall annual rate. Price movements in other sub-groups which had a significant impact on inflation were 'Household Furnishing and Furniture' (30.5%); 'Food and Drink' (27.6%); Personal Clothing, Footwear and Accessories (23.7%).

In 1994, the subgroups, which impacted most on annual inflation included 'Transportation' 36.4%; Housing 32.6% and Food and Drinks 27.3%.

Outlook

The major factor influencing inflation is money supply growth which in turn influences adjustments to the exchange rate. If there is a concerted effort made to control the growth in money supply during 1996, there could be average monthly rates of 1.5% to 2.0% and an annual rate of 18-24%.

INFLATION

Table 7.2

Consumer Price Index Point-to-Point 1989-1995

		Point		-to-	Point			
	Weights	1989	1990	1991	1992	1993	1994	1995
ALL GROUPS	100.00	17.2	29.8	80.2	40.2	30.1	26.9	25.5
FOOD AND DRINK	55.63	20.9	29.0	84.3	40.4	31.8	27.3	27.6
Meals away from home		20.7	28.1	65.9	51.1	39.8	26.3	37.8
Meat, Poultry and Fish		22.3	38.4	92.2	38.4	29.4	16.1	26.6
Dairy Products, Oil & Fats		26.3	33.0	159.6	38.1	26.4	28.4	18.3
Baked Products, Cereal, Breakfast, Drink		26.4	29.1	96.7	48.1	18.2	32.8	33.3
Starchy Food		16.4	8.3	49.8	39.4	36.5	40.0	32.5
Vegetables, Fruits		9.0	34.9	40.6	35.9	63.7	18.8	24.0
Other Foods and Beverages		21.4	15.0	68.3	22.8	25.0	65.5	18.6
FUELS & OTHER HOUSEHOLD SUPPLIES	7.35	11.6	42.9	94.0	30.8	18.6	18.7	37.1
Fuels		14.2	64.5	45.7	33.3	29.7	22.3	91.2
Housing Supplies		7.2	31.3	126.1	25.3	14.0	17.1	11.0
HOUSING	7.86	7.7	38.5	64.7	27.7	20.9	32.6	17.4
Rent		3.0	13.5	12.2	20.6	8.7	31.0	33.5
Other Housing Expenses		9.5	45.7	77.1	32.0	22.9	32.8	15.1
HOUSEHOLD FURNISH. & FURNITURE	2.38	10.0	19.6	70.9	34.8	30.3	13.8	30.5
Furniture		13.7	22.8	68.1	38.1	26.9	12.7	33.3
Furnishings		8.7	18.3	73.2	32.6	31.7	14.4	29.1
HEALTH CARE & PERSONAL EXPENSES	6.97	9.4	29.4	87.3	41.9	32.0	21.2	18.0
PERSONAL CLOTHING & ACCESSORIES	5.07	13.9	23.1	75.6	73.1	25.0	16.5	23.7
Clothing Material		9.3	12.2	86.6	57.2	21.0	4.4	17.5
Make-up, Clothing & Accessories		11.0	26.4	85.2	77.2	23.7	13.6	22.3
Footwear		18.8	20.6	34.8	67.8	31.5	20.4	26.1
Making Repairs		18.3	20.6	34.8	67.8	31.5	36.8	32.4
TRANSPORTATION	6.44	26.7	28.0	59.9	20.6	34.0	36.4	15.0
MISCELLANEOUS EXPENSES	7.85	11.2	27.5	74.4	50.1	36.8	35.6	21.8

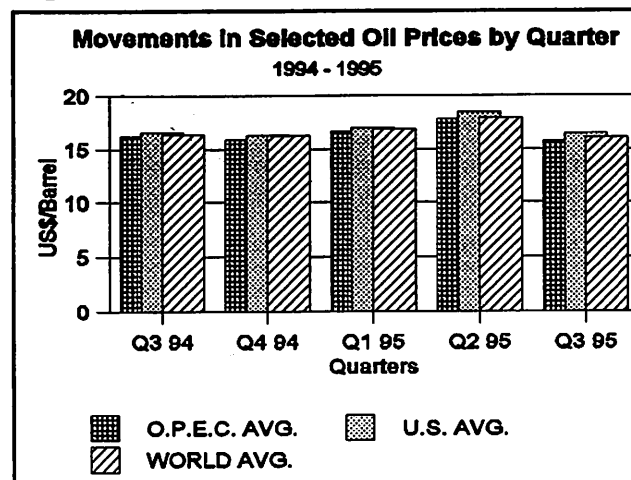
8. ENERGY

International Oil Market

Global oil production averaged just about 65 million barrels per day (BPD) for the first three quarters of the year, up from 61.7 million BPD for 1994, according to figures published by the International Energy Institute (IEA) and OPEC. Production from both OPEC and OECD countries declined but this was more than made up for by an increase in production from non-OPEC and non-OECD producers. Prices for the major crude oils rose during the first and second quarters but fell during the third quarter to levels below those presiding at the end of 1994 (figure 8.1).

Although prices are likely to have risen during the last quarter of the year and into the first quarter of 1996 consequent on high winter demand, indications are that they will return to within the US\$16-17 dollars band during the latter half of 1996. Output is also expected to remain relatively fixed as it is clear that both OPEC and

Figure 8.1



OECD producers are intent on maintaining output within the present band. Any increase in output will therefore have to come from non OPEC and non OECD countries.

Table 8.1

Average Spot Prices for Major Producer Groupings
and Selected Crude Oils 1994-1995 (US\$/bl)

	1994		1995		
	Q3	Q4	Q1	Q2	Q3
Producers: OPEC. Avg.	16.23	15.92	16.65	17.80	15.73
US Avg.	16.58	16.31	16.98	18.44	16.45
World Avg.	16.37	16.30	16.87	17.91	16.09
Bunker C (Jamaica)	14.50	14.26	14.57	14.58	13.17
Products: Spot Crude	16.51	16.13	17.20	18.10	16.50
UK Brent	16.77	16.54	16.90	18.10	16.20
Dubai Light	15.88	15.40	16.40	17.00	15.30
West Texas Inter.	18.33	17.58	18.20	19.30	17.80

Source: Global Reports, OPEC bulletin, Ministry of Mining and Energy and Petroleum Corporation of Jamaica.

ENERGY

Approximately US\$322.6 million were spent on fuel imports for the January to November period of 1995. This represented a 12.7% increase on the US\$286.36 million for the similar period in 1994. Although actual volumes for the major marketing companies were not available at the time of writing, combined total imports for the bauxite sector and the refinery for the year to November were over 14 million barrels.

Average price to the refinery for imported fuel for the first three quarters was just about US\$18.72 per barrel, while that for the lower grade used by the bauxite and alumina sector averaged US\$ 14.11.

Electricity Generation

Available figures show a 4.9% increase in the sale of electricity for the January to November period of 1995. The Jamaica Public Service Company also increased its purchase of electricity from independent sources with the purchase of 71.6 million kwh in the third quarter, up by 33.6% on the previous quarter. The rise in electricity purchase reflects the coming on stream of a new privately owned steam generator (the Wartsilla) in September in keeping with the government's policy to facilitate additional generating capacity from private sources. The country also saw the restoration of the rehabilitated steam generating unit at Old Harbour during the third quarter. This should result in a reduced reliance on the more expensive gas turbines to generate power during peak periods.

Table 8.2 **Volume and Value of Imports of Petroleum Products**
1994-1995 (M/B)

Imports by	Units	1994			1995		
		Q1	Q2	Q3	Q1	Q2	Q3
Refinery							
Crude	000bls	1403	1785	1654	1740	1599	1324
Refined Products		1476	1161.0	1164.9	706.9	1302.4	1225.8
Sub-total		2879	2945.8	2878.5	2447.2	2901.0	2549.8
Bauxite Companies							
Fuel Oil		1738	2027.0	1645.2	1841.0	1981.0	2226.5
Marketing Companies							
Refined Products		211.8	180	420.7	--	--	--
Total Volume		4829	5152.8	4884.4	--	--	--
Total Value	US\$MN	82	80.6	88.7	80.7	107.7	81.8

Source: Petroleum Corporation of Jamaica, Ministry of Public Utilities, Transport and Energy and the Jamaica Bauxite Institute.

ENERGY

Significant Developments

Plans for the divestment of the Jamaica Public Service Company seem to be proceeding apace with the announcement that the short list of purchasers is now down to two entities. It is expected that plans for expanded generating capacity and the potential for lower electricity generating cost will feature highly in the privatization agreement.

The company also continues to emphasize demand management with its effort to reduce line losses and to encourage consumers to save energy. Indeed, it is reported that just over 10,000 households were provided with energy saving devices at reduced cost during the third quarter of the year and that a further 30,000 are to receive such devices during 1996. Equipment supplied under this programme includes fluorescent lamps, low-flow shower heads, sink and faucet aerators, photo electric light controls, refrigerator gasket kits and water heater timers.

Notably during the year the country witnessed the setting up of its first wind turbine facility at Munro in St Elizabeth. The facility will provide electricity to the school complex and is expected to sell excess power to the national grid at a cost of 5 US cents per kilowatt-hour. Following sharply on the development at Munro has been the announcement that the Petroleum Corporation of Jamaica (PCJ) is spearheading plans to set up a wind farm in St Mary. The project which is projected to cost US\$6 million is expected to provide an additional 10 megawatts of electricity (generated from 20 wind turbines) to the national grid and is expected to proceed as a joint venture with a British firm - Renewable Energy Systems Limited (RESL).

Outlook

Indications are that the sector is set to experience significant changes both in the areas of ownership of facilities and generation of energy in the ensuing years. While the soon to be privatized Jamaica Public Service Company is expected to retain its monopoly as a distributor of electricity it is clear that the government is trying to encourage greater diversity in the generation of power. This is evident from the drive to encourage independent power providers and the emphasis on exploiting alternative sources of energy such as wind power.

At the same time, with the efforts undertaken by the JPS in the last few years to rehabilitate existing plant and the coming on stream of additional capacity from independent sources, it is envisaged that the country should experience less disruptions in its main power supply in the future. This is particularly so as the increased capacity should result in reduced pressure on existing plants during peak periods and consequently less outages.

The proposed Office of Utilities Regulation is expected to be fully functional by the end of the first half of 1996. That office, once it is opened, will take over the role of prescribing rates and reviewing increases submitted by utility companies. This should also serve to allay public concerns that in the absence of government ownership, monopoly providers will not be allowed to set rates arbitrarily.

9. MANUFACTURING

Data for the first three quarters indicates that the sector recorded its third consecutive year of negative growth in 1995. High interest rates, industrial unrest, competition from illicit imports, poor management, high inflation, and a period of currency instability during the middle of the year all contributed to the continued negative performance of the manufacturing sector.

The plight of the sector was further underscored by the announcement of a number of closures of manufacturing operations during the year. Foremost among these were Jamaica Feeds Limited., Jamaica Soaps and Detergents, Gillette Caribbean Limited, Reckitts and Coleman, Smithkline Beecham and Consumer Health Care. Among the reasons given for closures are rationalization, unfair competition and continuing losses. In addition to those entities which have closed, others (such as Good Year Limited which has ceased producing non-commercial tyres locally) have also significantly scaled down their Jamaican operations.

Interestingly a number of these entities continue to maintain their local distribution outlets but have relocated their production facilities in an effort to restructure and reduce cost. This underscores the extent to which the country has lost its competitive edge in a wide range of manufacturing activities resulting from high energy cost, poor infrastructure, increasing labour cost both in terms of rates and training, disparity in the rate of implementation of the Common External Tariff compared to the much lower rate of its major trading partners and in some instances higher differentials in duty regimes.

Realizing the crisis position of the sector, the government announced a number of measures during the year in an attempt to stem the decline. These measures included:

1. The establishment of an Investment Facilitation Board chaired by the Minister of Industry, Investment and Commerce having as its main responsibility ensuring that all necessary approvals for productive projects are approved within a specific period after application.
2. Opening of new offices for JAMPRO in New York and Caracas and the up-grading of the existing office in London as part of the thrust to increase exports.
3. A revision of the interest rate rebate scheme for new and expanding enterprises in the agriculture, manufacturing and industrial sectors with the applicable rate being reduced from 30% to 17% with effect from April 1, 1995. The maximum amount available for loans under this scheme is 3.2 million Jamaican dollars.
4. A declaration of the government's intention to use the National Investment Bank (NIBJ) shares as equity risk in new projects in an effort to stimulate increases in investment.
5. The availability of 40 million Jamaican dollars at the Eagle Merchant Bank for on-lending to micro enterprises under a project funded by the Government of the Netherlands and the Government of Jamaica. Additionally, Eagle Merchant Bank would also be receiving an allocation of 3 million ECUs from the European Union for on-lending to the small business sector.
6. The putting in place of a special programme funded by the World Bank to support

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MANUFACTURING

exporters. The programme was said to be capitalized at US\$4.4 million with maximum loan to each exporter of US\$500,000.

7. The flotation of a one billion Jamaican dollars bond issue to provide funding for the productive sector through the National Development Bank (NDB), NIBJ and the Agricultural Credit Bank (ACB).

Despite these initiatives, output for the sector declined further during the third quarter and preliminary indications are that the fourth quarter also recorded a decline.

Notwithstanding the overall decline in manufacturing output, a look at the individual sub-sectors (Table 1) yields mixed results.

Food Processing

In this sub-sector, condensed milk, edible oils, cornmeal and molasses all recorded declines for the period January to September ranging from 72.3% for cornmeal to 2.2% for condensed milk. The decline in the production of condensed milk may mirror the increasing popularity of powdered or reconstituted milk while that for edible oils seems to confirm the complaint from local producers that they are facing stiff competition especially from illicit imports. On the positive side, poultry meat, animal feed, edible fats, flour and sugar all recorded increases in output. Most significant was the growth in output of sugar (10.7%), poultry meats (8.2%) and animal feeds (3.7%).

Beverage and Tobacco

Except for cigars and rum, the products comprising this sub-sector all recorded declines for the January to

September period. Notably, carbonated beverages production declined by 6.2% for the first three quarters and the overall decline for the year is projected to be significantly higher given the strike at a major production facility just prior to the Christmas period and the closure of another facility towards the end of the year. While the production of cigars jumped by 99.7% for the period, it should be noted that output for the comparative period in 1994 was depressed due to layoffs at one factory and industrial unrest at another.

Chemical and Chemical Products

Here again performance shows mixed results. For the January to September period output of soaps and detergent moved by -4.8% and -73.3% respectively, reflecting the problems and eventual closure of a major manufacturer. Tyre output fell by -73.3%, consequent on the cessation of passenger-tyre production by Good Year as this product was the category which recorded declines. Sulfuric acid and aluminum sulphate recorded increases in the order of 16.9% and 13.7% respectively.

Non-Metallic Minerals and Metals

Cement production saw a 13.9% increase for the first nine months of the year increasing to 377,209 tonnes from 331,138 tonnes for the similar period in 1994. Notably, the increase in cement production belies the poor showing reported by the construction sector for the period and, given no evidence of a significant increase in inventory or exports, may indicate that activities in the construction and installation sector are being underestimated. With respect to glass bottles (the other major item in this sub-sector), production declined by 13.6% following on a 5.2% decline in 1994. The contraction in production of glass may in fact be a reflection of increased competition from imported plastic bottles.

MANUFACTURING

Petroleum Products

Production of both diesel oil and gasoline recorded increases for the first three quarters of the year. Diesel oil production was up by 11.6% on the corresponding 1994 figure, while that for gasoline was up by 18.7%. The increases in production of these fuels may be partly

a reflection of the increase in the country's motor vehicle fleet and partly a response to unfavourable movement in import prices for these products during the year that made it more favourable to increase local production. On the other hand there were reductions in the production of Turbo fuels and fuel oils.

Table 9.1

Production of Selected Commodities

Sub-Sector	Unit	1994 Jan. to Sept	1995 (P) Jan. to Sept.	1995/1994 % Change
Food Processing: Poultry Meats	'000kg	28856	31212	8.2
Animal Feeds	'000kg	186249	193409	3.7
Condensed Milks	'000kg	12011	11751	-2.2
Edible Oils	'000lrs	5023	4223	-15.9
Edible Fats	'000kg	4974	5070	1.9
Flour	'000kg	109940	110641	0.6
Cornmeal	'000kg	12158	3373	-72.3
Sugar	'000kg	214156	237123	10.7
Molasses	'000kg	90553	86359	-4.6
Beverages & Tobacco: Rum	'000lrs	18181	18628	2.5
Alcohol	'000lrs	860	642	-25.3
Beer & Stout	'000lrs	54461	51105	-6.2
Carbon Bev.	'000lrs	38345	35538	-7.3
Cigarettes	'000's	967260	805000	-16.8
Cigars	'000's	5964	11907	99.7
Chemical Products: Fertilizer	'tonnes	46761	47143	0.8
Paint	'000lrs	6246	6375	2.1
Soap	'000kg	2366	2253	-4.8
Detergent	'000kg	4382	1877	-57.2
Tyres	tonnes	3301	881	-73.3

The Private Sector Organisation of Jamaica

Sub-Sector	Unit	1994 Jan. to Sept	1995 Jan. to Sept.	1995/1994 % Change
Sulphuric Acid	tonnes	9804	11464	16.9
Aluminum Sulphate	tonnes	5631	6402	13.7
Salt (NaCl)	tonnes	14762	14753	-0.2
Non-Metallic Minerals				
Cement	tonnes	331138	377209	13.9
Glass Bottles	tonnes	15707	13571	-13.6
Petroleum Products				
Gasoline	000ltrs	122129	145007	18.7
L.P.G.	000ltrs	11367	10847	-4.6
Fuel Oil	000ltrs	356399	336523	-5.6
Turbo Fuel	000ltrs	79073	26414	-66.6
Automotive Diesel Oil	000ltrs	135281	150941	11.6
Other Petroleum Products	000ltrs	114677	118870	3.7

P: preliminary

Source: Quarterly Economic Report, Planning Institute of Jamaica

Manufacturing Exports

Notwithstanding the malaise in the manufacturing sector, exports of manufactured goods turned out an impressive performance for the first nine months of the year. Total earnings from manufactured exports recorded an increase of 33.9% for the nine months from January to September, jumping from US\$ 342.0 million for the comparative period in 1994 to US\$ 458.1 million. Non-traditional items continue to account for the major portion of such exports with earnings of US\$330.9 million, representing 72.2% of total earnings, up by 32.6% on the figure for the first nine months of 1994.

Export of apparel highlighted the performance of exports in the non-traditional sub-sector with the Caribbean Textile and Apparel Institute reporting a 23% increase for the year to October. The Institute also

estimates that apparel now account for 74% of Jamaica's non-traditional exports and 33% of the country's gross exports.

Notably, however, the institute reported a slowing down in the rate of growth for garment exports compared with the rate for 1994 and attributes this to the absence of NAFTA parity, a softening of the US retail market and the adverse effect of narcotic contamination of export cargoes. A 23% growth in exports for the sector was 1% below that recorded for Caribbean Basin Initiative countries but well below that recorded for Haiti of 114% and Honduras (46%). On the other hand, growth rates were significantly lower for a number of countries - Dominican Republic (12%), Costa Rica (13%) and Guatemala (20%).

Apart from apparel, the categories processed foods and chemical products also registered good performances.

MANUFACTURING

The increase in exports of processed foods particularly to Third Country markets possibly reflects the growing

popularity of the country's food products in the export market.

Table 9.2 Value of Exports from the Manufacturing Sector (US\$Million)

	Caricom		Third Countries		Total		% Change
	1994	1995	1994	1995	1994	1995	1995/1994
Non Traditional	39.4	40.2	235.8	291.4	250	331	32.6
Processed Foods	7.4	8.9	19.5	25.9	22.2	34.1	53.6
Beverages & Tobacco	2.2	1.9	13.3	14.2	14.1	16.3	15.6
Crude Materials	0.7	0.3	3.1	4.2	3.4	4.5	32.3
Minerals Fuels	1.4	5.3	2.4	1.6	2.8	6.9	146.4
Animal & Vegetable Oils & Fats	--	--	--	--	1.9	--	1.9
Chemicals & Chemical Products	10.2	9	6.8	14.6	10.4	23.6	126.9
Manufactured Goods	9.6	7.8	4.4	4.5	8	12.3	53.7
Machinery & Transport Equip.	1.6	1.9	0.1	.02	0.7	2.1	200.0
Miscellaneous Manufactures							
(mainly apparel)	6.2	4.9	186.2	224.8	188	230	21.9
Traditional	1.8	1.7	91.4	125	92	127	37.7
Sugar	--	--	73	86.8	73	86.8	18.9
Rum	0.2	0.3	16.8	48.9	16.9	19.2	12.0
Other Food Products	1.6	1.4	1.6	19.4	3.2	20.7	546.9
Total	41.1	41.9	327.2	416.2	342.0	458.1	33.9

Source: Statistical Institute of Jamaica (STATIN)

Outlook

All indications point to another difficult year for manufacturing. Interest rates are expected to remain relatively high at least for the first half of the year as the government continues to keep the squeeze on monetary policy to stave off any further decline in the exchange rate and to bring the high inflationary trends

under control. The full effect of the closures and cut backs in production should also result in reduced output for the sector in 1996. At the same time output from the apparel sub-sector is expected to continue to slow down given reports that a number of firms operating in the Free Zone are beginning to find it difficult to recruit workers with the requisite skills locally and the announced downsizing of the Hofab facility during the

MANUFACTURING

latter half of 1995. Notably, there has been an increase in the level of financing available to the sector and the measures announced in early 1995 should have had a favourable effect on production cost. However, the continued fall in output subsequent to the announcement and implementation of these measures seems to indicate that they have not been enough to counter the adverse effects of high interest rates, labour

unrest, inefficient and old machinery, intense competition from cheaper imports and higher raw material cost. Additionally, the decline in traditional manufacturing activities and the robust growth in non-traditional ones may indicate a need for the sector to reorientate itself toward activities in which the country seems to enjoy some competitive advantage.



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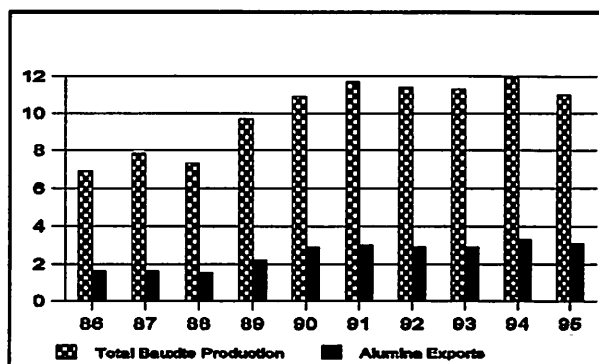
10. MINING

Non-oil Commodities

The prices of many non-oil primary commodities fell steeply in the first half of 1995, after rising sharply by 10.8 percent in 1994. Much of the upward pressure on commodity prices in 1994 resulted from increased demand in the fast-growing Asian economies. Demand factors, in particular the slowdown in economic activity in the industrial countries, also appear to have contributed to the weakening of commodity prices in the first half of 1995.

For metals, improved market fundamentals and

Figure 10.1 Crude Bauxite and Alumina Exports, 1986 - 95 Million Tonnes



speculative purchases by commodity investment funds raised prices throughout 1994. The boom in metal prices ended in the first quarter of 1995, when investor sentiment changed amid signs that the U.S. economy was slowing. Uncertainty regarding prospects for exports of metals from some transition countries also contributed to the volatility of metal prices. The downward trend in the prices of most commodities began in the second quarter of 1995 as new supplies entered the market and the growth in demand slowed down.

Aluminium Prices

In terms of specific metal prices, - the Average Realised Price for aluminium was US\$0.85 per pound at the second quarter of 1995, a 1.2 per cent decline over the first quarter of 1995. On the London Metal Exchange the comparable price was US\$0.82 per pound, a 7.9 per cent decline over the first quarter. The fall in prices was attributed to a slowdown in buying resulting from a general fall in consumption.

Domestic Performance

Based on preliminary figures published by the Jamaica Bauxite Institute, total bauxite production was 10.9 million tonnes. This represents 6.2 percent less than the 11.6 million tonnes produced in 1994. Alumina production reached approximately 3.0 million tonnes or 6.6 percent below the 1994 production level. The main factor accounting for the downturn in the bauxite/alumina sector was industrial action at all four alumina plants; resulting in an output loss of 215,000 tonnes with an estimated export value of US\$50 million.

Notwithstanding the reduced output, foreign exchange earnings in 1995 are expected to show a 15 percent increase above the 1994 level of US\$701.6 million. This rate of increase is similar to the 1994 growth in earnings. This significant increase results from improved realised prices for alumina and primary aluminium in the international market.

MINING

Capital Expenditure

Another indicator of the optimistic outlook in the industry is the 52.9 percent increase in capital expenditure for the first nine months of the 1995 over the similar period for 1994. 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.

Figure 10.2

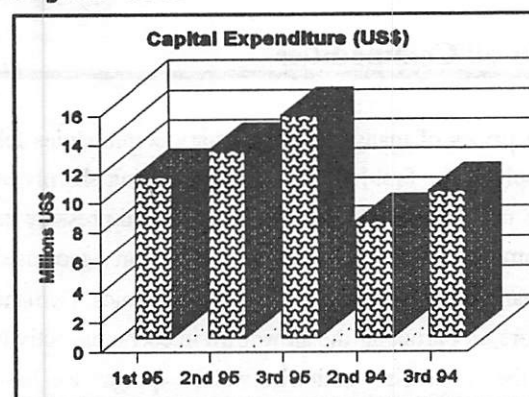


Table 10.1

Production and Shipments of Jamaica's Bauxite and Alumina And Foreign Exchange Earnings, 1991 -95

	1991	1992	1993	1994	1995	% Chng. 94/95
Bauxite						
Production	4,248,784	4,131,752	3,938,592	3,628,832	3,591,293	-1.03
Shipments	4,260,881	4,128,330	3,916,723	3,649,419	3,574,354	-2.06
Alumina						
Production	3,014,585	2,917,162	2,989,360	3,221,222	3,007,134	-6.65
Shipments	3,031,988	2,941,441	2,943,345	3,325,808	3,053,201	-8.20
Total Bauxite Disposed of	11,608,619	11,359,486	11,306,558	11,851,235	10,954,768	-7.56
Gross Earnings						
Levy/Taxes	668.25	587.29	527.94	621.20	714.38	15.0
Royalty	108.70	70.44	66.91	66.60		
Local Cost	5.80	5.22	5.57	5.60		
Inflows	136.13	113.23	128.30	156.1		
Net Earnings	250.6	188.9	200.8	228.4		

Notes:

Total Bauxite Disposed of = Crude Bauxite + bauxite converted to alumina

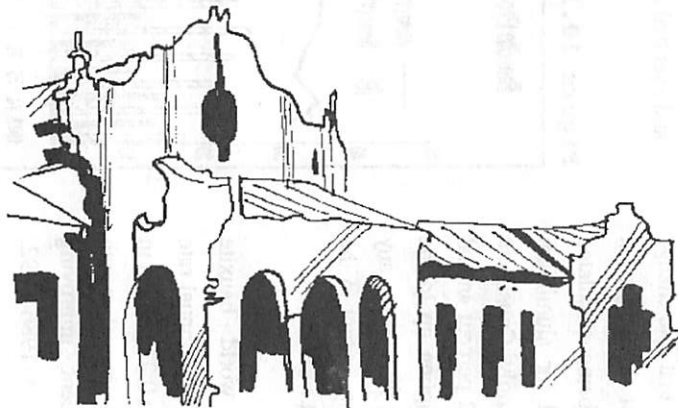
Figures for 1995 are preliminary

Source: Economics Division, Jamaica Bauxite Institute

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MINING

Foreign Exchange Earnings

Gross export earnings for bauxite and alumina totalled US\$701.6 million, a 15.0 percent increase over 1994. This significant increase for 1995 is due mainly to the increased bauxite and alumina prices on the world market as local production of both commodities actually declined when compared with the previous year.

Economic Outlook

In 1996, non-oil commodity prices are expected to weaken somewhat further in a context of moderate demand and favourable supply conditions. For example, it has been reported that the end use consumption of aluminium may be affected by the planned switch of some beverage can plants from aluminium to steel. However, in light of the fact that several new aluminium can projects have been announced in recent months, some analysts are contending that the change may not adversely affect the demand for aluminium - at least, not in the long run. Instead it is being speculated that in the years ahead, the demand for aluminium products may actually exceed its supply. Consistent with this view is the projection of a 2 percent annual growth rate in world bauxite consumption up to the year 2000. However, it is unlikely that we will see any significant increase in Jamaica's bauxite output in the short term - in response to this forecast.

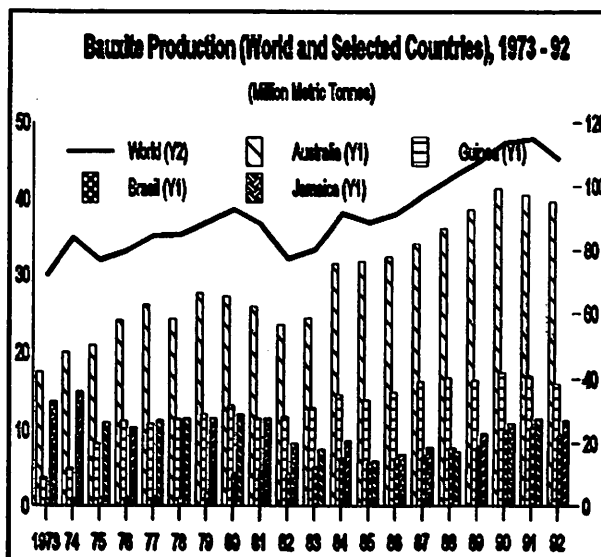
In terms of bauxite production, world bauxite production has been growing at an average annual rate of 2.41 percent since 1974 compared to 0.32 percent in Jamaica. Between 1974 - 85 the average annual growth in bauxite output was -5.41 percent, improving considerably to 10.88 percent between 1986 - 92. Despite this improvement in output, Jamaica has been

overtaken by countries it once led: Guinea and Brasil (Figures 10.3 & 10.4).

Given Jamaica's lagging bauxite production and changes underway in the world bauxite/alumina industry, specifically, the growing trend by transnational firms to consolidate and/or concentrate (overall and or selected) production activities in certain geographic areas and or around selected plants in order to maximise their international competitiveness, the Authorities should ensure that the Jamaican investment and manufacturing climate will facilitate such developments here in Jamaica rather than hinder it.

The alumina plants in Jamaica are quite small by international standards and some of them are also old. The mining companies will therefore very soon be facing crucial decisions about the future of these investments and will have to face the decision to either inject substantial capital to modernise and expand the existing facilities or let them slide into obsolescence and eventual closure.

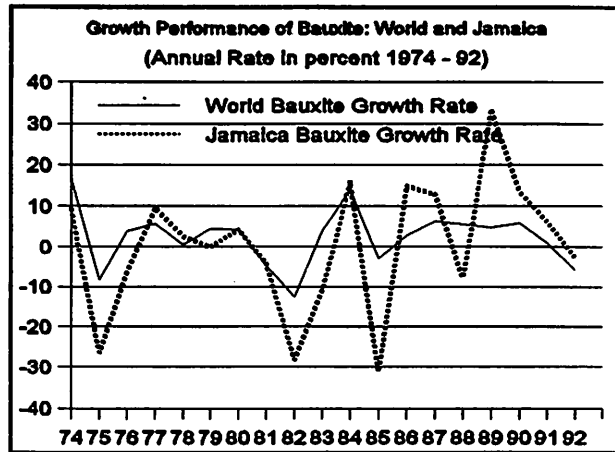
Figure 10.3



MINING

At present, there is a multiplicity of factors mitigating against further investment by the bauxite companies, from production and labour related problems to a government authority that is not allocating mining lands on an expeditious basis. The bauxite/ alumina industry is still of critical importance to the Jamaican economy and, therefore, it is essential that everything be done to ensure that the industry grows and expands rather than be allowed to go into decline.

Figure 10.4



W E L C O M E

The Private Sector Organisation of Jamaica

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Data for the first three quarters of 1995 recorded its third consecutive negative growth

in 1995. High interest rates, industrial unrest, competition from illicit imports, poor management,

high inflation, and a period of currency instability during the middle of the year all contributed to the continued negative performance of the manufacturing sector.

The plight of the sector was further underscored by the announcement of a number of closures of manufacturing operations during the year. Foremost among these were Jamaica Foods Limited, Jamaica Soaps and Detergents, Gillette Caribbean Limited, Reckitts and Co., and Smithline Beecham.

Consumer health care. Among the reasons given for the closures are high interest rates, industrial competition, and continuing loss of market share to those entities which have closed others.

Under the terms of the Local Government Act, the Government has ceased producing non-commercial tyres locally. This has also significantly reduced their Jamaican operations.

Interestingly, a number of these entities continue to maintain their local distribution outlets but have relocated their production facilities in an effort to restructure and reduce cost. This underscores the extent to which the currency has lost its competitive edge.

A wide range of manufacturing activities resulting from high energy costs, poor infrastructure, increasing labour cost both in terms of rates and training, disparity in the rate of implementation of the Common External Tariff compared to the much lower rate of its major trading partners and in some instances higher differentials in duty regimes.

Realizing the crisis position of the sector, the government announced a number of measures during the year in an attempt to stem the decline. These measures included:

1. Facilitation Board chaired by the Minister of Industry, Investment and Commerce having as its main responsibility ensuring that all necessary approvals for investment are granted in a timely manner.

2. Opening of new offices for JAMPRO in New York, London, and Caracas.

3. Existing office in Miami as part of the thrust to increase exports.

4. Agriculture, manufacturing, and services sectors with the applicable rate being reduced from 30% to 17% with effect from 1st January 1995.

5. The maximum amount available for loans under this scheme is 3.3 million dollars.

A declaration of the government's intention to establish the National Investment Bank (NIB) shares as equity.

6. To stimulate increases in investment.

7. Direct dial telephones.

8. Hair Dryers in each room.

9. The availability of 40 million dollars each stay, at regular, national, corporate, or WynClub rates.

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● 6 MEETING ROOMS

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11. TOURISM

Caribbean Tourism

Overall tourist arrivals to the Caribbean declined in 1995. However, stop-over tourists grew by an estimated 4 percent during January to August. Most Caribbean destinations recorded moderate growth averaging 3.9 percent in visitor arrivals. Estimates based on the monthly returns from 23 Caribbean destinations (excluding the Dominican Republic), which together account for over 75 percent of all tourist arrivals to the region, showed an estimated increase of 3.2 percent growth in arrivals during the winter months (January to April) compared to an increase of 4.6 percent in the summer months (May to October). (Table 11.1).

The destination which showed the most striking performance during the review period was Cuba. With 519,400 stop-over visitors up to September, Cuba ranked number four among Caribbean destinations. Also, of the four major sources of Caribbean tourists (USA, Canada, Europe and other countries),

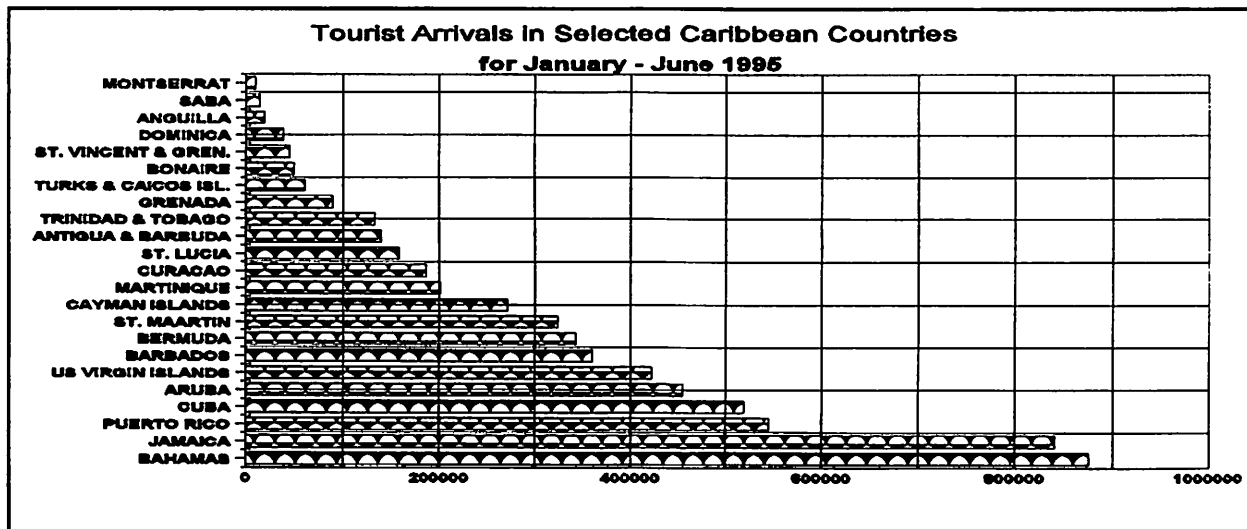
Cuba recorded top performance for all areas except USA.

For example, visitors to Cuba from Europe and Canada totalled 97,853 and 74,850 respectively as at April 1995. The specific performance for selected countries is shown by (Figure 11.1).

In the case of cruise passenger arrivals, it is estimated that this category of visitors declined by just over 1 percent during the January to August period. Based on preliminary data, the estimated growth rates from the Caribbean's major tourist markets over the January to August period are as follows:

Country of Origin	Estimated Growth Rate
U.S.A.	+ 5 percent
Europe	+ 3 percent
Canada	- 3 percent

Figure 11.1



TOURISM

Table 11.1

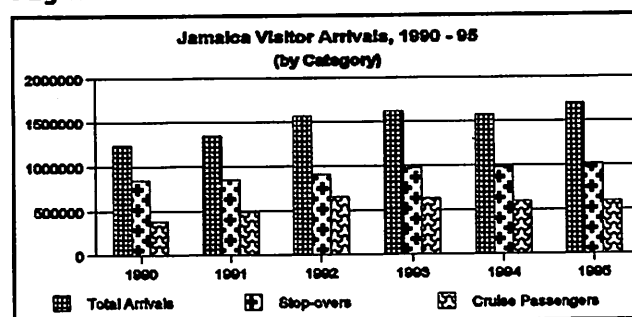
Tourist (Stop-over) Arrivals in Selected Countries, 1995

Country	Period	USA Tourists % Change	
Anguilla	Jan-Apr	13150	n.a.
Antigua	Jan-Jul	48595	-5.2
Aruba	Jan-Sep	242379	2.2
Bahamas	Jan-Jun	739620	5.1
Barbados	Jan-Oct	88772	-1.7
Bermuda	Jan-Oct	280287	-8.2
Bonaire	Jan-Oct	21908	6.8
Cayman Islands	Jan-Sep	201901	0.6
Curacao	Jan-Oct	27200	-1.2
Dominica	Jan-Jul	7188	36.0
Grenada	Jan-Oct	25045	-0.7
Jamaica	Jan-Oct	549877	4.7
Montserrat	Jan-May	4299	16.9
Puerto Rico	Jan-Jul	433210	26.1
St. Lucia	Jan-Aug	59094	11.0
St. Maarten	Jan-Jun	146003	2.3
St. Vincent & Grenadines	Jan-Sep	12891	-2.1
Trinidad & Tobago	Jan-Jun	48523	0.5
Turks & Caicos Island	Jan-Oct	41903	5.0

Jamaica's Tourism Performance

Tourism, which accounts for approximately J\$8.3 billion or about 13.3 percent of Gross Domestic Product and employs over 288,000 workers directly and indirectly, is the most important economic sector in the Jamaican economy.

Figure 11.2



For the period January to August 1995, gross visitor expenditure was about US\$661.5 million and it is projected that the out-turn for 1995 should reach US\$1.0 billion. This would represent an 8.1 percent increase over 1994 expenditure of US\$924.7 million.

Visitor Arrivals & Expenditure

The tourism sector recorded an overall 2.9 percent increase in visitor arrivals between January and November 1995 over the comparable period in 1994. Visitor arrivals totalled 1,466,305 with 918,763 stop-over visitors rising by 4.1 percent and cruise ship passengers totalling 547,542 visitors, rising by 1.0 percent. There were 104,422 nationals visiting the country in 1995, an almost 5 percent increase over 1994. When this category of visitors is included, total tourist arrivals amounted to 1.5 million, a 3.1 percent

TOURISM

Table 11.2

Tourist Arrivals by Main Market, 1995									
Country	Period	USA Tourists % Change		Canada Tourists % Change		Europe Tourists % Change		Other Tourists % Change	
Anguilla	Jan-Apr	13150	n.a.	519	n.a.	1115	n.a.	4144	n.a.
Antigua	Jan-Jul	48595	-5.2	9676	-18.3	54874	2.6	26268	-0.9
Aruba	Jan-Sep	242379	2.2	18943	16.7	37051	1.8	156519	16.4
Bahamas	Jan-Jun	739620	5.1	54005	-13.2	51210	3.3	30845	26.7
Barbados	Jan-Oct	88772	-1.7	40791	1.1	161871	1.4	68637	7.4
Bermuda	Jan-Oct	280287	-8.2	28825	-3.2	26308	-3.0	7620	9.3
Bonaire	Jan-Oct	21908	6.8	621	-1.9	16770	13.2	10288	-9.3
Cayman Islands	Jan-Sep	201901	0.6	9774	-4.2	28145	24.6	32241	33.7
Curacao	Jan-Oct	27200	-1.2	2852	66.1	70236	4.7	86241	-4.8
Dominica	Jan-Jul	7188	36.0	1258	0.2	8563	6.5	21001	10.2
Grenada	Jan-Oct	25045	-0.7	3168	-24.4	29307	-5.7	32101	4.8
Jamaica	Jan-Oct	549877	4.7	76987	7.4	153354	1.9	61125	-3.2
Montserrat	Jan-May	4299	16.9	843	9.1	1330	3.5	3435	5.4
Puerto Rico	Jan-Jul	433210	26.1	5071	-22.2	14782	7.4	91788	-19.2
St. Lucia	Jan-Aug	59094	11.0	8004	-9.2	53510	6.0	37413	-1.2
St. Maarten	Jan-Jun	146003	2.3	23797	-7.1	80978	3.9	72793	32.8
St. Vincent & Grenadines	Jan-Sep	12891	-2.1	3808	5.6	31424	2.7	19572	17.8
Trinidad & Tobago	Jan-Jun	48523	0.5	16657	3.0	28211	-6.1	39454	9.1
Turks & Caicos Island	Jan-Oct	41903	5.0	6888	7.9	6621	-4.9	5265	0.7

rise. Jamaica recorded strong average monthly arrivals of 146,448 during the winter months (January to April), with March and April recording the highest levels; followed by a lower monthly average of 122,602

visitors in the summer months (May to October). The months of May and September recorded the lowest levels in arrivals.

TOURISM

Strategies and Economic Outlook for 1996

The official tourist winter season which began in mid-December appears to hold some promise for a busy season. The worsening cold weather in the northern hemisphere should contribute to increased visitor arrivals as North Americans seek warmer environments. Government has projected that there will be increased investment in the industry by local and foreign investors.

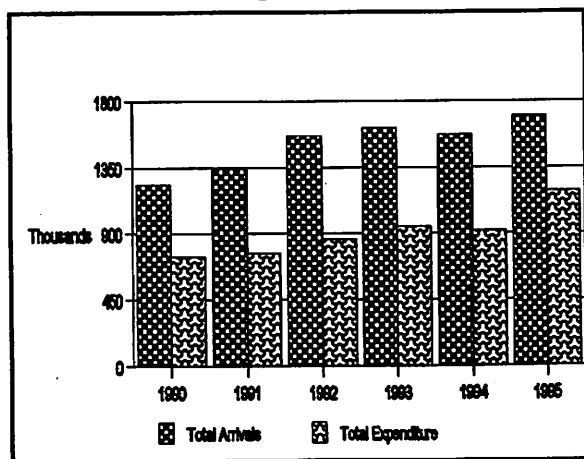
In response to this optimistic outlook, there has been increased marketing activity by hoteliers aimed at increasing their occupancy levels. To meet such expectations there should be provision for increased scheduled and charter seat capacity. Government projects that there should be a 6-7 percent growth in the tourism sector in 1996, and this projection is consistent with the average annual growth of 6.8 percent in tourist arrivals over the past five years: 1991 - 95. Given the fact that there has been a 1.5 percent increase in expenditure for every 1 percent increase in arrivals between 1991 - 95, we expect that gross visitor

expenditure should increase by about 10.2 percent in 1996. If this level of growth is realised, it will translate into gross earnings of about US\$1.1 billion.

The foregoing will be dependent on the extent to which the Authorities are able to do the following, namely:

- advance infrastructural development in existing and targeted resort areas;
- achieve macroeconomic stability that will lead to the rebuilding of confidence in the economy and to the attracting of new capital investment;
- provide continued and increased government support for the marketing of Jamaica as the leading Caribbean destination and
- the achievement of social stability - reduction in crime and the absence of any violence when an election is called.

Figure 11.3
Comparison Between Visitor Arrivals
and Visitor Expenditure, 1990-1995



Additionally, at the firm level, it will be necessary for some hotels to diversify their range of products into areas of greater demand, particularly: water activities (such as) scuba diving, sailing and other water sports), shopping, golf, gambling and outdoor events - sightseeing, camping and related activities. In terms of casino gambling, it will be important that Jamaica quickly introduce this product, so as to broaden its competitive advantage as a major tourist destination.

Product diversification, differentiation and development will be very important in light of the fact that the

TOURISM

increasing opening of Cuba as a major tourist destination should increase competition with the likely result of a fall in visitor arrivals. With this development, it appears that smaller hotels would be more threatened than larger ones, given the former's

resource constraints, lower levels of occupancy and the high costs of interim financing. In general, the sector will also be constrained by rising local input costs.

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LINSTEAD

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MAY PEN

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MANDEVILLE

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SAVANNA-
LA-MAR

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MONTEGO
BAY

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BROWN'S
TOWN

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ST. ANN'S
BAY

•
OCHO RIOS

•
PORT
MARIA

•
ANNOTTO
BAY

•
PORT
ANTONIO

•
MORANT BAY

12. GRAPHIC ECONOMIC DATA: 1983-1995

Table 12.1

STOCK MARKET INDEX (1987 – 1995)			
Years	Volume	Value	Index
1987	71,878,234	399,971,277	1,515.09
1988	43,251,904	136,739,278	1,439.09
1989	95,202,452	516,456,318	2,075.85
1990	57,960,234	230,781,846	2,539.36
1991	144,259,019	1,156,608,055	7,681.50
1992	395,900,000	4,688,400,000	25,475.90
1993	567,454,280	8,346,769,977	13,099.68
1994	743,793,646	5,168,796,309	16,676.70
1995	463,050,165	3,664,855,984	14,266.99

Table 12.2

LOAN AND ADVANCES BY SECTOR (1991 – 1995) J\$ MILLION						
LOANS	1991	1992	1993	December 1994	December 1995	% Change
AGRICULTURE	940.2	1,117.1	1,416.7	2,038.5	1,879.0	-7.82
MANUFACTURING	1,897.1	2,119.9	3,027.0	3,867.2	6,092.6	57.55
CONSTRUCTION	2,361.7	2,473.9	3,321.1	4,616.1	5,587.3	21.04
MINING	47.4	73.4	118.1	236.4	354.1	49.79
TOURISM	743.8	1,027.8	2,000.0	2,912.1	3,830.4	31.53
TRANSPORT	1,175.9	1,137.7	2,163.6	3,026.9	4,399.9	45.36
CONSUMER-ORIENTED	2,667.0	3,202.9	9,181.1	11,318.1	17,633.4	55.80
GOVERNMENT SERVICE	705.4	813.2	1,299.4	2,674.3	3,353.0	25.38
OTHERS	1,340.6	2,129.2	1,087.7	1,604.8	2,734.5	70.40
TOTAL	11,879.1	14,095.1	23,614.7	32,294.4	45,864.2	42.02

Source: Bank of Jamaica

GRAPHIC ECONOMIC DATA: 1983-1995

Figure 12.1

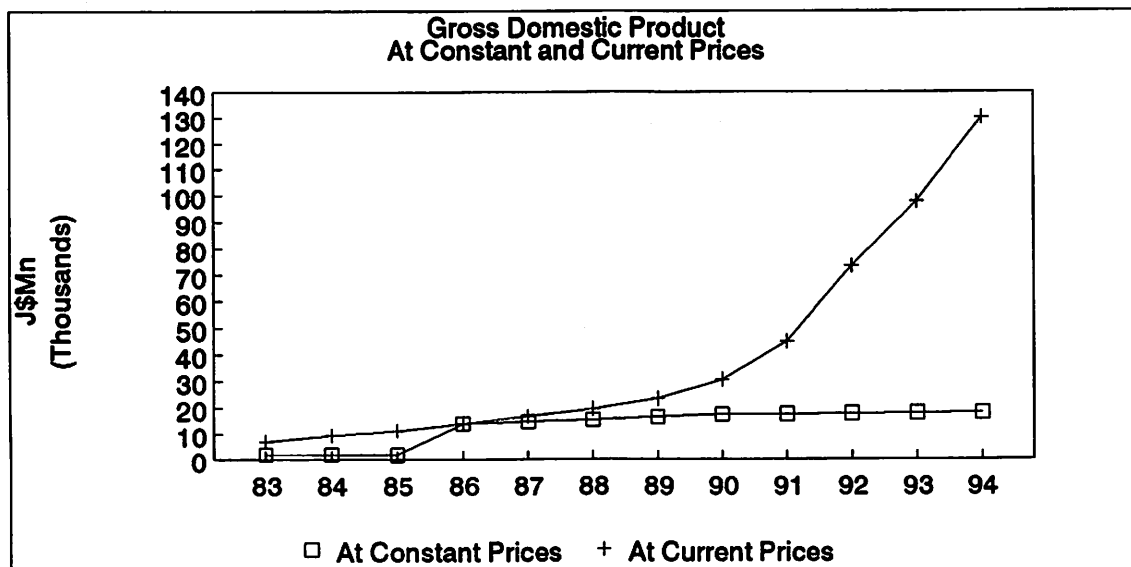
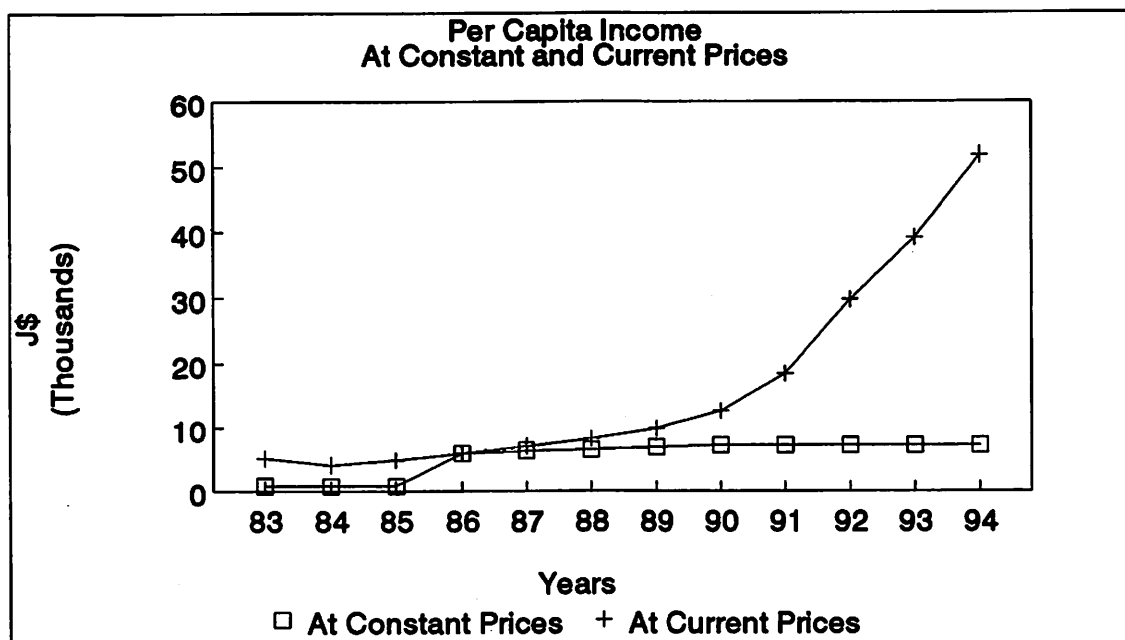


Figure 12.2



GRAPHIC ECONOMIC DATA: 1983-1995

Figure 12.3

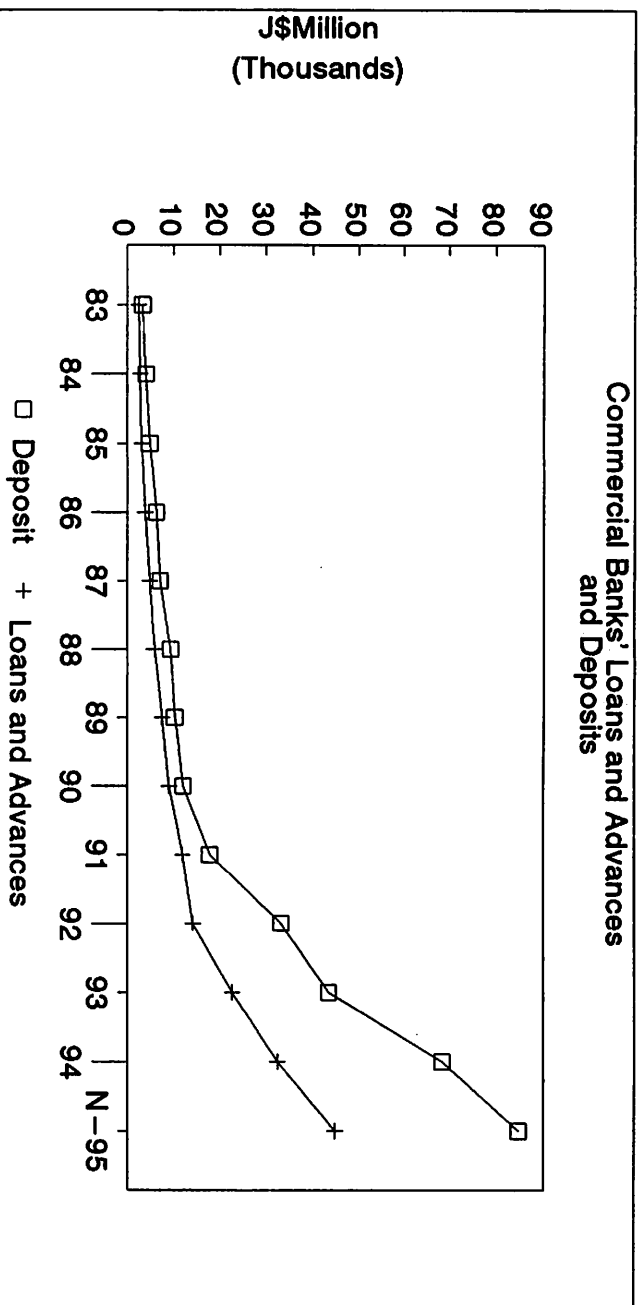
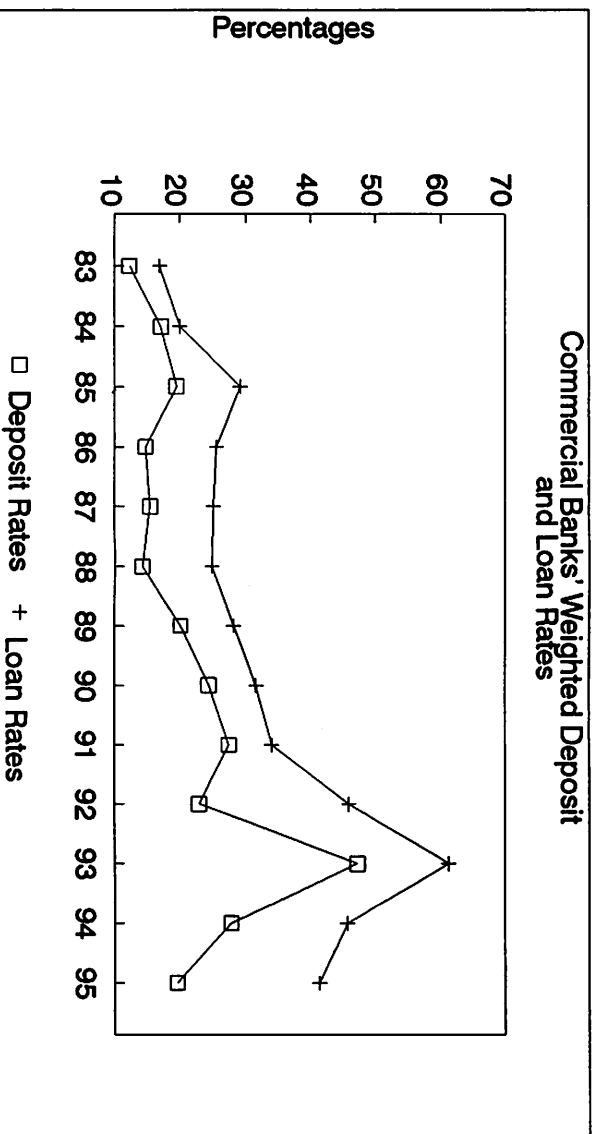


Figure 12.4



GRAPHIC ECONOMIC DATA: 1983-1995

Figure 12.5

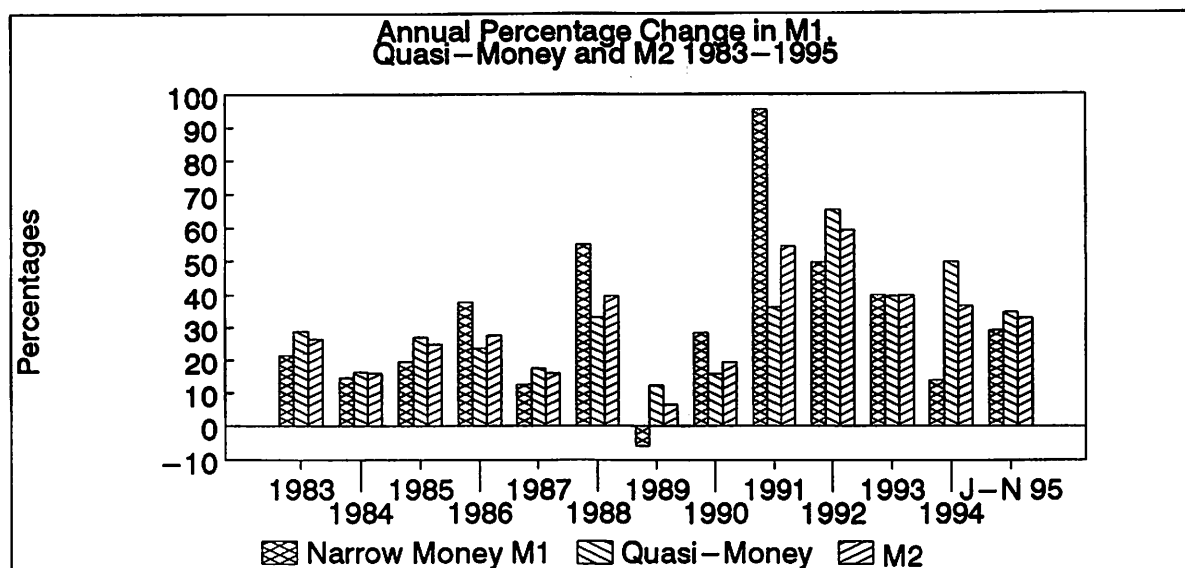
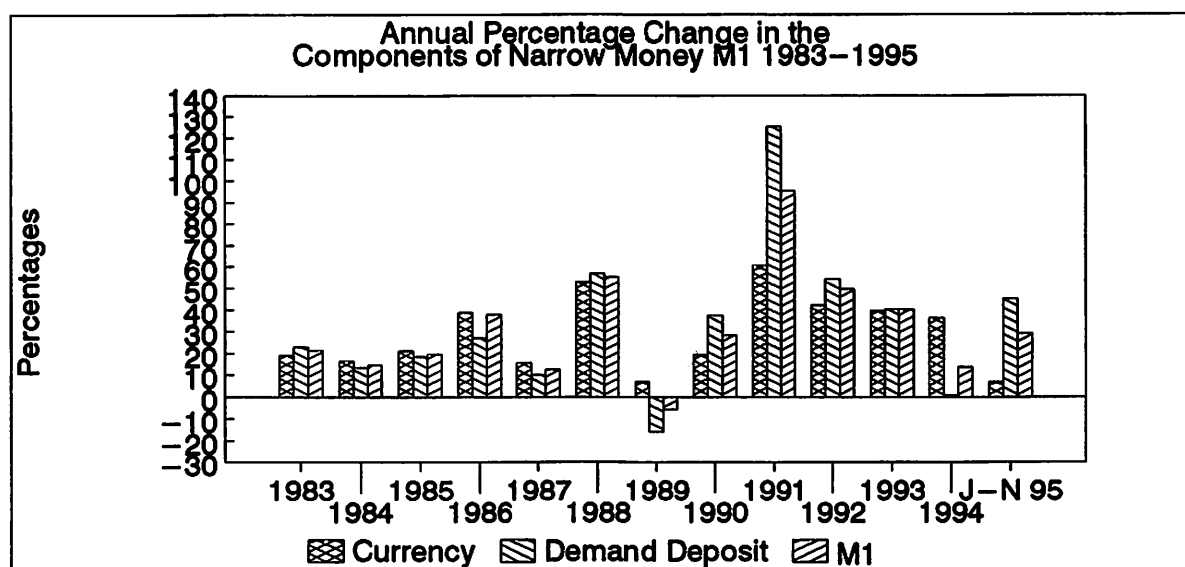


Figure 12.6



GRAPHIC ECONOMIC DATA: 1983-1995

Figure 12.7

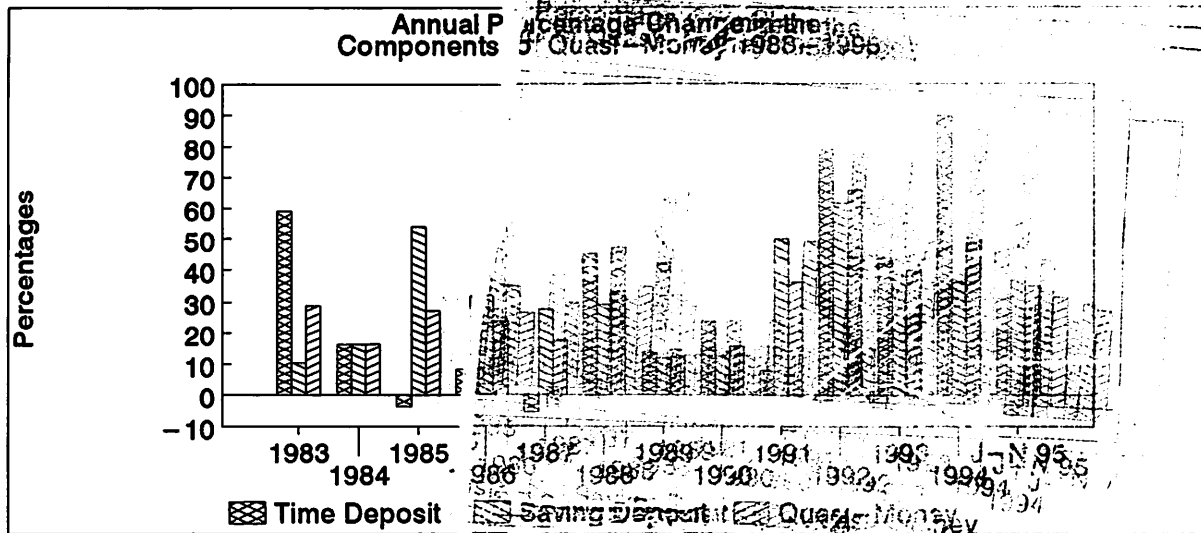
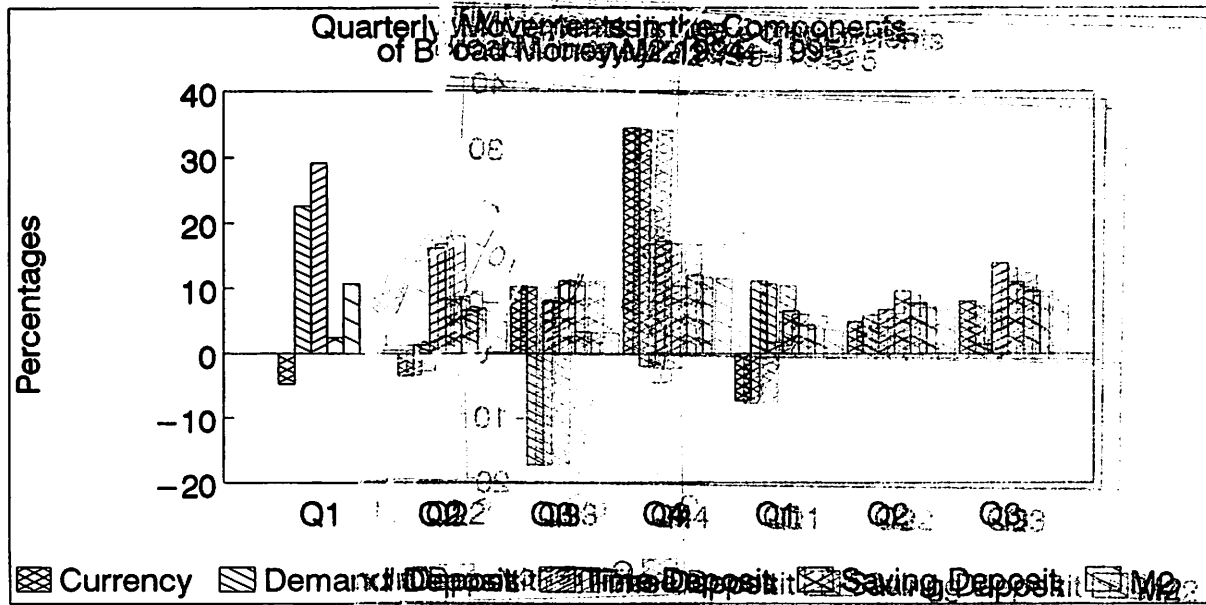


Figure 12.8



GRAPHIC ECONOMIC DATA: 1983-1995

Figure 12.9

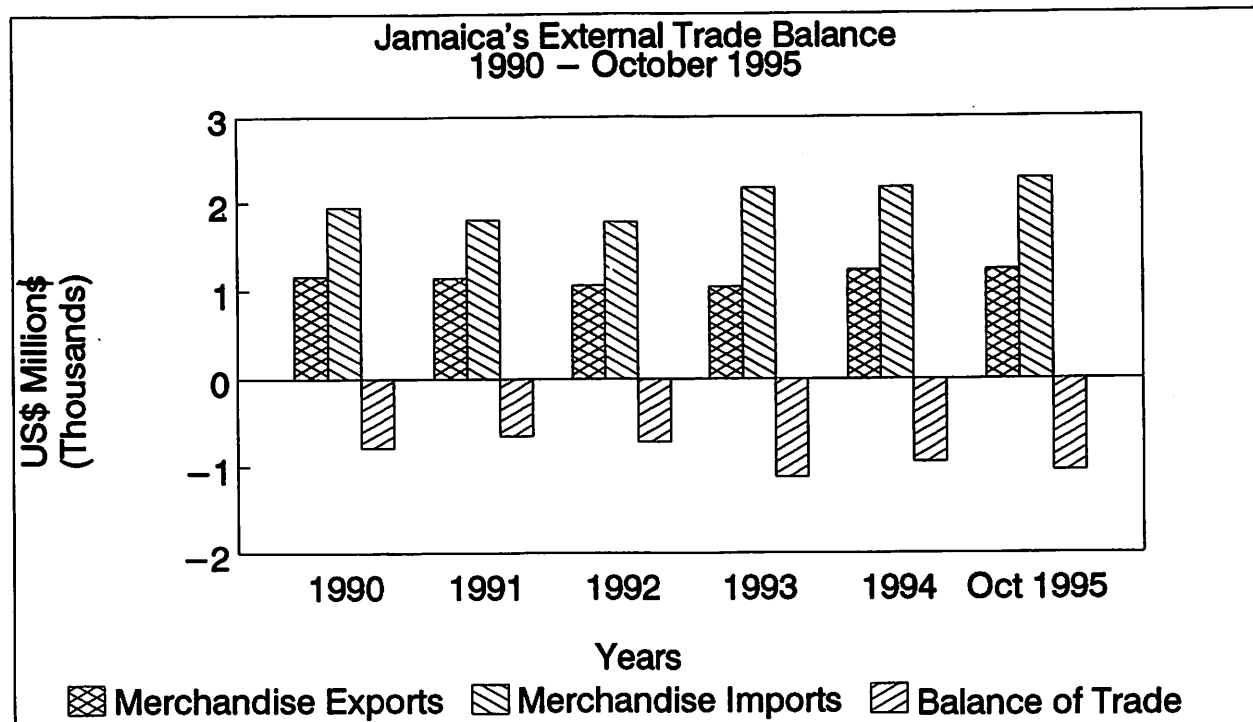


Figure 12.10

