

New Confidential Economic Bulletin

*The Private Sector Organisation of Jamaica
Monthly Analysis of the Jamaican Economy*

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Overview

There have been a number of interesting developments during the course of this month, the most interesting being the Prime Minister's statement that exchange rate stability was the government's foremost economic objective. The rapid re-building of the Net International Reserve (it is now back in the region of US\$450 million) could perhaps be seen as the government's preparation for a spirited defence of the present parity. However, the purchase of foreign exchange by the Bank of Jamaica puts Jamaican dollars into the financial system and boosts the money supply. This in turn fuels money supply growth and inflation, thereby putting further pressure on the exchange rate.

The contradictions inherent in this policy seem to be lost on the government authorities.

There have also been changes to the withholding tax provisions in relation to the trading of government securities. Prescribed institutions and the Bank of Jamaica are now withholding tax on any government instruments which they buy and this has had a devastating effect on the secondary market in these securities. This market which it is said ran into hundreds of millions of dollars per day, has been severely affected by this recent imposition. The big question is where will all this money go in order to find a similar rate of return or a safe haven.

One immediate result has been a slight up-tick in short-term T-Bill rates, as the amount of funds

applying for the most recent 9-Day issue, was only slightly more than the amount on offer.

The Minister of Finance also announced recently that Jamaica had failed the September 1995 IMF test. Although there was no mention of exactly what targets were missed, this development will delay the ending of our borrowing relationship with the IMF. Off the record discussions with some of the multi-lateral lending agencies suggest that they are not altogether convinced that the economy has turned the corner and that there are not some fundamental contradictions that haven't yet been resolved.

Work on the Industrial Policy continues, and it is sometimes referred to as the Industrial Plan, indicating a possible shift in orientation. The intention, it seems, is to announce the Plan at or during the budget presentation and to initiate a more growth-oriented macro-economic policy.

Indeed, the Budget Debate will probably be the next major occasion or opportunity for the government to set forth its economic policy framework and give some indication of what is in store for us in 1996.

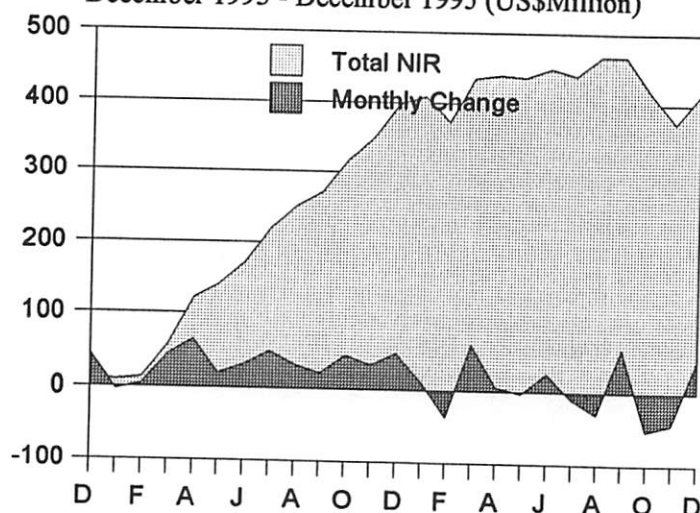
At the moment however, the outlook for 1996 is for the year to be very similar to 1995. Inflation may be in the low twenties again, and the economy may contract slightly. If we are lucky we may avoid a repetition of the upheavals in the financial sector and the foreign exchange market.

Net International Reserves

At the end of December 1995 the Net International Reserves reached US\$417.46 million, regaining the US\$43.24 million it utilized in November mainly for intervention in the foreign exchange market. To date about US\$95 million of the Net International Reserve has been used for this purpose. Since the Government has not increased its percentage of purchases from Authorized Dealers the monthly gain in reserves could have resulted from:

CHANGES IN INTERNATIONAL RESERVES

December 1993 - December 1995 (US\$Million)



- increased inflows to authorized dealers, resulting in an increased intake by Bank of Jamaica;
- Bank of Jamaica could have received additional foreign exchange loans;
- Bank of Jamaica could have been actively purchasing foreign exchange directly from the market;

That the Net International Reserves have been so quickly replenished and the new exchange rate maintained, is indicative of the level of liquidity in the foreign exchange market, and of the impact of the sharp increase in domestic deposit rates..

Users of foreign exchange should seek to fill their needs now and not wait for the leaner days, as speculators are sure to be preparing to get in on the act when such days arrive later in the year.

Foreign Exchange Accounts

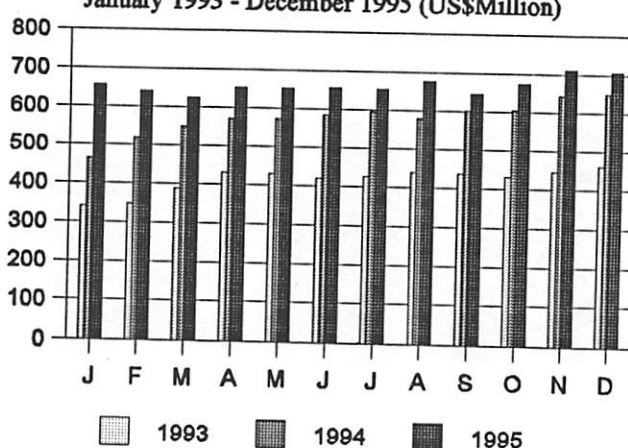
The provisional balances for both November and December have been revised. November balance is estimated to be US\$711.1 million and

December's slightly lower at US\$706.0 million. These have indicated a 5.6% increase in November over October and a 0.7% decline in December over November.

For the year, the stock position of these accounts has shown a growth of 7.77%, compared with 40.0% in 1994. Between January and June 1995, these accounts grew by 0.2% and in July to December by 7.87%.

FOREIGN CURRENCY ACCOUNTS

January 1993 - December 1995 (US\$Million)



Although the annual growth rates in these accounts are significantly different, it should be noted that the average monthly values of these accounts for 1995 was US\$662.3 million compared with US\$578.1 million for 1994, and indicates a consolidation of the accounts around the US\$650 million mark during 1995 as against a growth focus in the accounts during 1994.

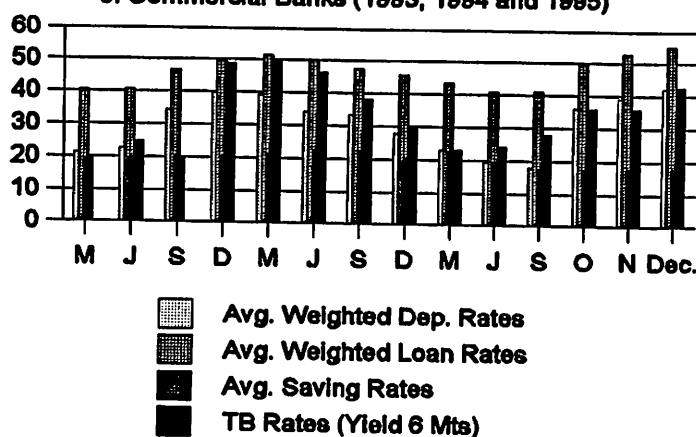
Exchange Rate

For the month of December, the foreign exchange rates stabilized at J\$39-40 to US\$1 on the official market. For the year, the Jamaican dollar therefore had an overall 19.6% depreciation moving from J\$33.28 in January to J\$39.80 in December. January 1996 sees the Jamaican dollar stabilizing at the end of December rates. This stability is being fostered by a liquid foreign exchange market and is presenting a similar market scenario as existed in early 1995.

If the current tourist season holds out to March 1996 - this would help maintain supply and stability in the rates for the first quarter of 1996.

Comparative Interest Rates

of Commercial Banks (1993, 1994 and 1995)



Interest Rates

The high interest rate policy has continued into 1996, as the Treasury Bill yields, which is the bench mark for other rates, continues to rise. The early January 4, 1996 issue of Treasury Bills for the 6 months and 1 year had yields of 41.9% and 43.4% respectively. It is therefore expected that interest rates in the financial sector will continue to rise. Since September, rates for loans and on fixed deposits continued to move up at an average of 3-3.5% per month. In December, average loan rates were 55.27% and rates on fixed deposit ranged between 19-42%. However, rates on saving remained flat. This scenario combined with a high inflation environment is not at all conducive to increasing long term savings which will supply investment funds needed to fuel economic growth.

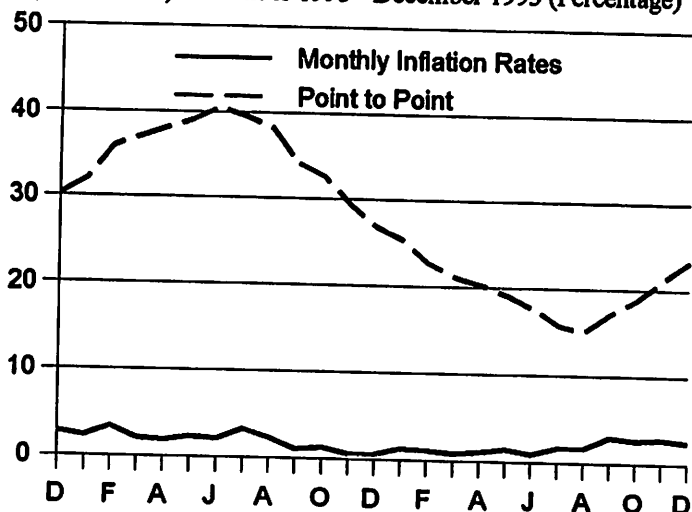
The stock market ended the year in a bearish trend. The index showed a 14.5% decline for the year with its capitalization declining from J\$58.0 billion in December 1994 to J\$50.8 billion in December 1995.

Inflation

The inhouse projected inflation rate for December 1995 is 2.5%, and follows on monthly

CHANGES IN INFLATION

(All Jamaica) December 1993 - December 1995 (Percentage)



rates of 2.7% and 2.8% for October and November respectively. The projected annual inflation rate for 1995 is therefore 23.3%.

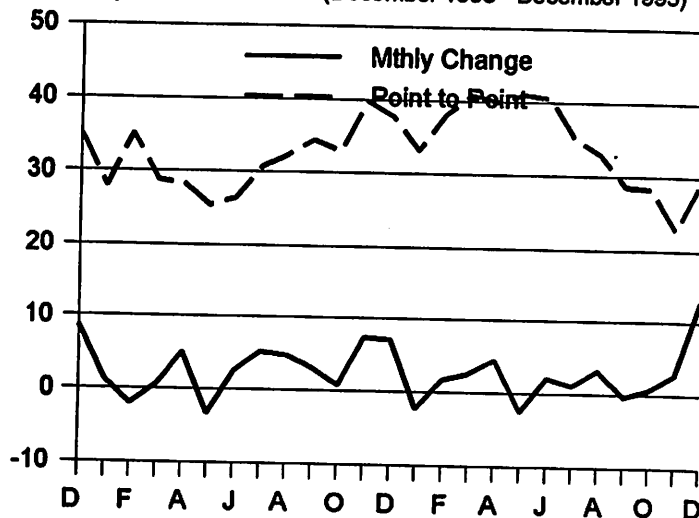
The outlook for 1996 is for average monthly rates of 1.8 to 2.1%, ending up with an annual rate of 20 to 25.2% for 1996. Since exchange rate movements significantly affect prices the outlook is predicated on an average exchange rate of J\$42 to US\$1, prevailing for most of 1996.

Base Money

In December, base money increased significantly by 12.81% and follows on increases of 2.71% and 0.69% in November and October respectively. This has been the largest monthly increase in base money experienced and has emanated from the significantly high demand for money in the economy during December. Currency in circulation in December rose from J\$8.7 billion in November to J\$11.0 in December 1995 an increase of J\$2.3 billion. This compares with an increase of J\$1.9 billion in December 1994. The J\$4 billion increase in currency in Circulation in December 1995 over December 1994, is seasonal, and covers to some extent the 23% inflation experience in the economy in 1995.

CHANGES IN BASE MONEY

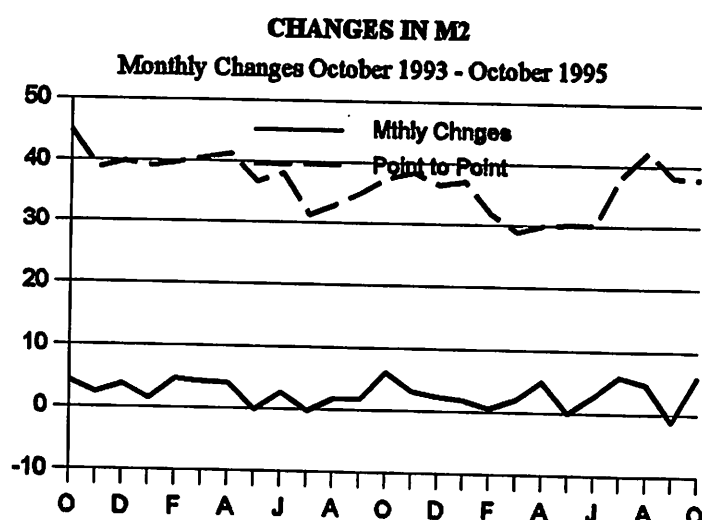
Monthly and Point-to-Point (December 1993 - December 1995)



Money Supply

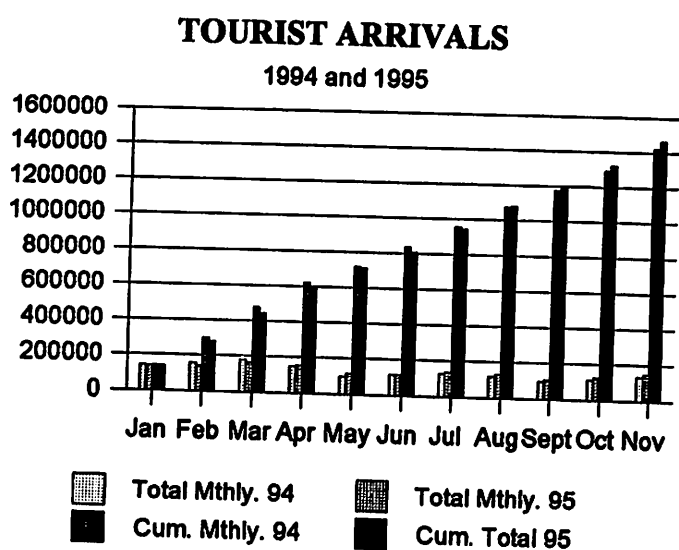
Following on a 1.29% fall in money supply in September 1995, there was a 6.0% rise in this variable in October. The point to point change, October 1994 to October 1995 was 38.04% indicating that despite the monthly fluctuations the trend in money supply movements overall was towards increasing and is currently way above the programmed growth target of 21% for fiscal year 1995/96.

During October increases in credit by both the private and more so the public sector were most influential in increasing money supply.



Tourism

Tourist arrivals for November 1995 showed an 8.5% increase over November 1994. Contributing to this overall improvement were increases of 7.6% and 9.6% in stop-over and cruise ship arrivals. The January to November arrivals for 1995 rose by 2.9% over January to November 1994 figures. Stop-over visitors for the current period were 4.1% more than in 1994 and the number of cruise passengers rose by 1.0%. There was a 4.8% rise in the number of nationals arriving in the island between January to November 1995 when compared with the similar period in 1994.



Total passenger arrivals January to November 1995 that is, both national and non-nationals, showed a 3.1% growth over 1994 totals for the same period.

For December 1995, cruise ship passengers arrivals rose by 4.8% over those for December

1994. So far, in 1995, a total of 605,178 cruise passenger arrived in the island that is, 1.4% more than in 1994.

The official winter tourist season began in mid-December and while there are mixed reports emanating from the different sections of the industry, the overall indication is that the season began well and with prevailing adverse weather conditions in the Northern Hemisphere, there is all the more optimism that the season will be good.

Cumulative expenditure figures for the sector up to September was US\$725 million, a 5.47% improvement over January to September 1994. The projected earnings for the sector for 1995 is some US\$965 million.

Merchandise Trade

The first nine months of 1995, saw Jamaica's exports totaling US\$1.096 billion and its imports US\$2.033 billion. These were 20.2% and 29.4% respectively more than its exports and imports for the similar period in 1994. The trade gap for these periods were US\$936.6 million and US\$658.7 million respectively. Despite the significant rise in exports, 1995 compared with 1994, the even larger rise in imports has served to widen the trade gap. It is most likely that by December 1995, the trade gap will be the largest ever for the economy.

The rise in exports January to September 1995 has been significantly influenced by export earnings for alumina, sugar, coffee, rum, citrus and apparel exports. Although alumina export volumes declined, the product benefitted from improved international prices.

The three major categories of imports impacted almost equally on the increasing level of imports. The data shows that Capital Goods accounted for US\$158.7 of the increase, Raw Materials US\$153.1 million and Consumer Goods US\$150.1 million of which motor car imports accounted for US\$40.1 million.

It would be far more beneficial to the growth of the economy if there were less consumer goods imports and more capital and raw material imports as these would serve to fuel growth in the productive capacity of the economy and in turn impact positively on unemployment levels

and GDP growth. There is a need for some policy initiatives to address this trend, as current policies have failed to reduce consumption

imports and therefore have failed to restore balance to the external account.

BLANCE OF PAYMENTS PROFILE: USSMn

	Merchandise	Services	Transfers	Current A/c	Capital A/c	NIR A/c
Dec. 1994	-957.80	502.70	571.70	116.60	268.80	397.92
Jan-Sept '94	-658.70	397.60	334.20	73.10	186.10	271.70
Jan-Sept '95	-936.60	354.60	430.20	-151.80	222.00	468.05

MONTHLY MACRO-ECONOMIC INDICATORS
(December 1994 - December 1995)

MONTH S	BASE MONEY		NET INT'L RESERVE	FOREX ACCTS	INFLATION		TOURIST ARRIVALS			CHANGES IN M2	
	Mthly Chng	Point to Point	Total NIR	Total Balance s	Mthly Chng	Point to Point	Total Visitors	Stop- overs	Cruise	Money Supply	Point to Point
Dec. 94	7.07	37.83	397.92	649.76	0.7	26.80	147290	94127	53017	2.31	36.57
Jan. 95	-2.13	33.19	408.70	655.12	1.3	25.40	138969	81385	57570	1.85	37.22
Feb.	1.79	38.18	373.13	640.34	1.1	22.70	140787	86147	54281	0.55	31.82
Mar	2.64	40.85	435.30	625.15	0.9	21.20	164222	96378	67844	1.99	28.89
Apr	4.43	40.01	440.41	652.66	1.1	20.76	141814	86552	55262	4.93	30.01
May	-2.43	41.09	437.55	651.42	1.5	19.20	106772	71945	34827	0.00	30.16
Jun.	2.17	40.51	449.89	656.38	1.0	17.80	118253	87480	30773	2.70	30.22
Jul. 95	1.17	35.06	440.35	654.51	1.7	15.80	138624	101244	36780	5.88	38.15
Aug	3.21	32.95	411.23	676.25	1.7	15.10	133198	90747	42451	4.84	42.44
Sept	-0.17	28.69	468.05	646.13	3.0	17.20	110372	66663	43709	-1.29	38.19
Oct.	0.69	28.49	416.42	673.08*	2.7	18.80	128394	72803	55591	6.03	38.04
Nov.	2.71	22.87	373.22	711.05*	2.8	21.20	148839	77419	71419	-----	-----
Dec.95	12.81	29.46	417.46	706.00*	2.5*	23.30	-----	-----	-----	-----	-----

* Provisional

Source: Compiled from National Statistics as Supplied by Bank of Jamaica, Planning Institute of Jamaica and Jamaica Tourist Board.