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PRIVATE SECTOR ORGANISATION OF JAMAICA

Monthly Analysis of the Jamaican Economy
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Overview

As the end of the first quarter of 1996 draws to a close and government's new financial year begins (1996/97) the economic outlook for the next 9 to 12 months is also beginning to become clearer. The higher than expected inflation out-turn in February (3.3% for the month and 30% point to point) indicates that fiscal year inflation will be 31-33% as opposed to 21% for the year ending March 1995. The point to point inflation rate will probably continue rising to peak in the June to July months at 33 to 36%. Thereafter, if all goes well, it should trend downwards to finish the year in low twenties. If our luck holds point to point inflation should be back in the teens by the end of the first quarter of 1997.

This scenario assumes business as usual as regards government policy but with a gradual slowing in the rate of growth of money supply. The implications of all this for the exchange rate, interest rates and the Net International Reserves, are quite interesting.

Government has committed itself to a stable exchange rate and the two levers with which it can influence this variable are interest rates and the direct intervention by selling hard currency from the Net International Reserves into the foreign exchange market. With rising local inflation pushing up the real value of the

local currency it would not be unreasonable to expect that monetary policy would have to be tightened over the coming months leading to the possibility of higher interest rates before year-end. One would expect the use of the Net International Reserves to be somewhat of a last resort, with a general election unlikely to be held before early 1997.

The fiscal budget is due out shortly and could be used to take up some of the strain of reducing inflation but there are some problems with the effectiveness of the public sector surplus which government has been reporting recently. Put simply, the Central Government's fiscal surplus is quite small and their operations have occasionally registered a deficit. The public sector agencies are therefore the biggest contributors to the public sector surplus, but the figures that they report do not necessarily represent "money in the bank". That is to say, the figures that they report do not necessarily represent sums of money which have been built up in their accounts at the Bank of Jamaica and therefore they do not contribute to the sterilization of money to the extent that their reported surpluses would indicate. Fiscal policy therefore remains quite weak.

The industrial policy was published this month and while it is too early to comment on it in detail, there was one aspect of it that should immediately provide food for thought. The indicative growth and investment targets in the report suggest that the private sector's share of gross investment will decline in absolute and relative terms in the first years of the policy's implementation.

This has a number of implications. Firstly, it suggests that it is increased public sector investment which will drive increased economic growth and that public sector investment is more efficient than private investment. Secondly, it suggests that restrictive monetary policies will remain in place rather longer than we had hoped, hence the lower rate of private investment which is projected.

One must also wonder if there is anything in our recent experience to suggest that increased public sector investment has fostered growth in the local economy and if not, what is likely to change in the near future. We must also ask if the policy of private

sector lead growth has now been completely abandoned.

Net International Reserves

February saw continued growth in the Net International Reserves. During this month, the reserves reached US\$467.5 million, showing a US\$11.73 million or 2.6% rise over January 1996. The level of reserves acquired to February 1996, equals to the highest level achieved for 1995, that of US\$468.1 million in September.

During February, although the actual level of foreign assets only increased by US\$3.52 million, the country's foreign liabilities fell by US\$8.21 million compared with US\$6.55 million in January. This had a positive impact on the overall level of the Net International Reserves.

Foreign Exchange Accounts

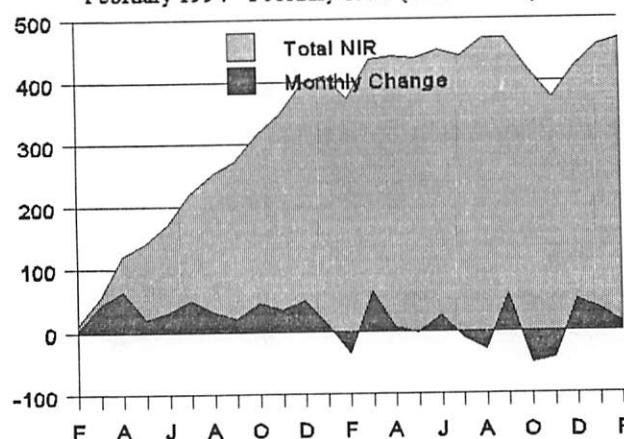
The final end of year figures for foreign exchange accounts balances show totals of US\$740.06 million and US\$737.30 million for November and December respectively. These indicated that during the last quarter of 1995 inflows to these accounts showed goods increases compared with average monthly balances of about US\$650 million during the other months of the year. Balances for January and February are provisionally set at US\$702 and 708 million respectively, down slightly from the 1995 year end figures. Monthly balances for these accounts for the period 1993-1996 are shown in the next column. The graph indicates an increasing trend despite fluctuating monthly balances.

Exchange Rate

Up to the end of March, the Jamaican dollar exchanged at J\$39-40 to US\$1 buying and selling. This value has been holding since November/December 1995. A few factors point to the holding of this rate for a few months yet. These include:

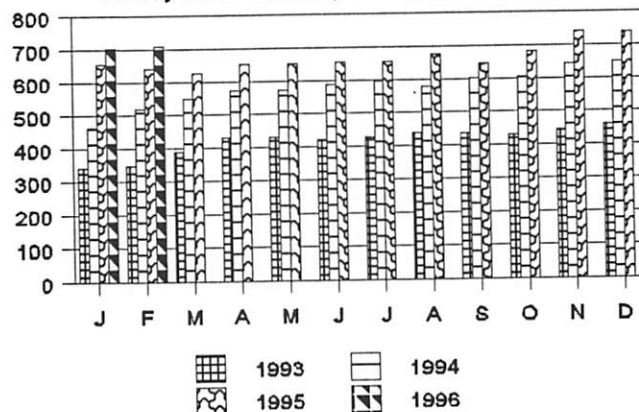
CHANGES IN INTERNATIONAL RESERVES

February 1994 - February 1996 (US\$Million)



FOREIGN CURRENCY ACCOUNTS

January 1993 - February 1996 (US\$Million)



- There seems to be a political commitment to maintaining the present exchange rate, at least through the next election.
- The demand for foreign exchange appears to be adequately met.
- The high interest rates which have been an attraction for foreign exchange inflows continue to be maintained.

- d) The Net International Reserves give the government an option to intervene in the market and maintain at least a temporary stability in the exchange rate.

Interest Rates

Open market operations during March included two issues of Tbills which were both almost 100% over-subscribed and yielded 41.4% and 43.2% respectively. In addition three offers of LRS are to date still open for subscription. These stocks offered with maturity structures of three to seven years are an attempt at lengthening the maturity structure of the debt incurred while mopping up liquidity in the financial system.

They are all offering in the first year 40-43% per annum returns. There-after the rates decline. These rates give some indication of the Government's interest rates policy for the next few years and indicate that at least for the rest of 1996, high interest rates will be the order of the day.

For February, commercial lending rates appear to be levelling off as they varied very little from the January rates; Deposit rates remained at 19-42% and average loan rates moved from 57.64% to 57.95% while saving rates fell from 18.08% to 17.82%.

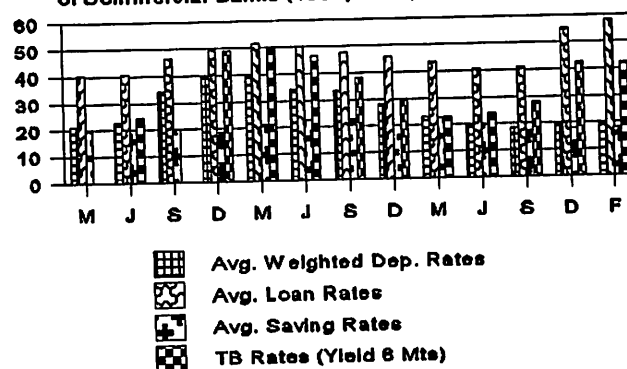
Inflation

The inflation rate of 2.6% for January 1996 continued to reflect both the seasonal influences on prices as well as the instability in the foreign exchange market in the latter half of 1996, these factors continued to affect prices in February, which, in addition to the rise in transportation costs via increased bus fares, and food costs through increased prices for flour and poultry meat resulted in a 3.3% inflation for February. At this rate, inflation for fiscal year 1995/96, could well be in the 30% range.

The point- to -point inflation rate for February 96 is now 29.94% and given the high monthly rates experienced in the latter months of 1995, even with future monthly rates of 1 to 2%, the point-to point rates for the next 6 to 7 months could remain in the high twenties to low thirties.

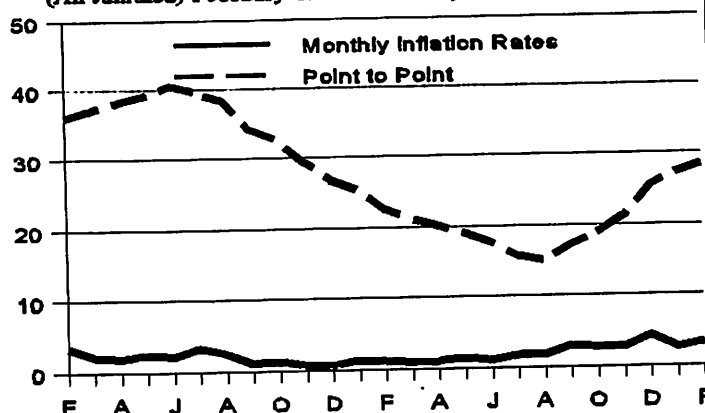
Comparative Interest Rates

of Commercial Banks (1993, 1994, 1995 and 1996)



CHANGES IN INFLATION

(All Jamaica) February 1994 - February 1996 (Percentage)



Base Money

Although there was a 2.3% rise in base money in February, compared with a 8.2% decline in January, this had only a 0.7% positive impact on its point to point change which moved from 21.08% in January to 21.07% in February. The rise in base money during February was effected mainly by a 3.54% rise in the combined statutory cash reserves of commercial banks and other financial institutions as currency with the public showed a marginal (0.05%) decline.

Money Supply

Money supply for December 1996, showed a 5.5% increase. This was fostered by increased seasonal demand for money/cash, increase in credit extended by the public and private sectors as well as for increases in the Net International Reserves.

However, January 1996, saw a 2.8% decline in supply supply. Significantly contributing to this, was an overall 8.5% decline in base money, 'currency with the public' being reduced by 17.5% in effect drew off some of the additional funds which entered the system in the Christmas season.

In December, the point to point change in M2 shot up to 40.4% after averaging in the mid thirties throughout the year. However, in January, the decline experienced in M2, lowered the point to point change over that month to 34.0%. This trend in M2 growth could be maintained with increased fiscal prudence, and lower levels of foreign exchange acquisition by the Bank of Jamaica for the Net International Reserves.

Tourism

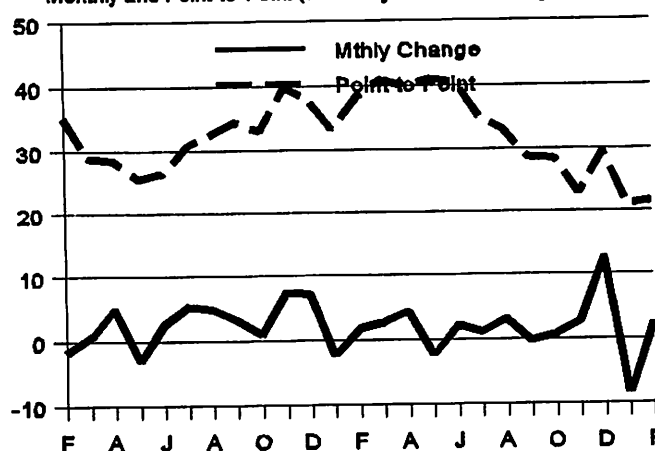
Tourist arrivals for January 1996, showed an 8.3% increase over those for January 1995. The number of stop-over visitors rose by 5.9% and cruise ship passengers by 11.8%. However, during the month the number of nationals visiting the island declined by 13.8%, compared with those who came in January 1995. So, in January 1996 the total number of arrivals to the island, nationals included showed a 7.2% increase over those for January 1995. Expenditure figures for the month approximate to US\$72.0 million.

The adverse weather in North America appears to have satisfied the expectations to some extent of local industry. However, these outcomes should not lead to complacency, as the industry's product has scope and needs for improvement to facilitate its growth and enhance its competitiveness. The completion of the cruise shipping pier in Ocho Rios should serve to improve the product in that area.

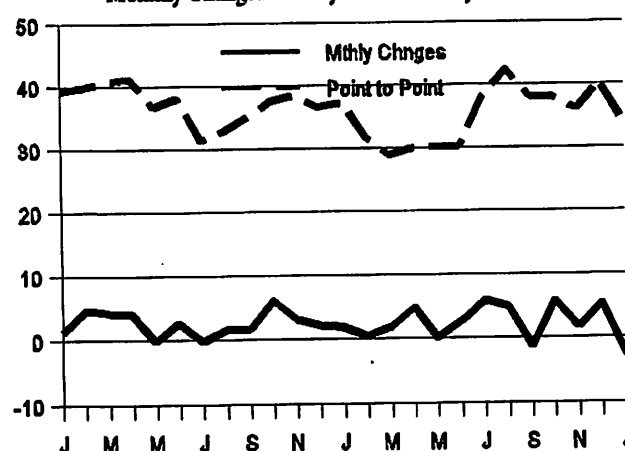
Merchandise Trade

For the period January to November 1995, Jamaica's exports totalled US\$1.329 billion, and imports totalled US\$2.527 billion, resulting in a trade gap of US\$1.1978 billion. Compared with January to November 1994, exports rose by US\$218 million or by 19.6%, imports by US\$562 million or 28.6% and

CHANGES IN BASE MONEY
Monthly and Point-to-Point (February 1994 - February 1996)

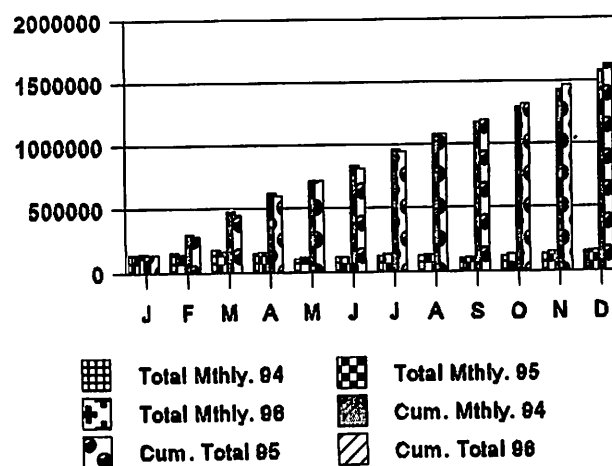


CHANGES IN M2
Monthly Changes January 1994 - January 1996



TOURIST ARRIVALS

1994, 1995 and 1996



the trade gap widened by US\$344 million or by 40.3%. While the data shows a positive direction in export growth trends, it is however pointing to the need for further efforts at improving the output of this sector as the growth in imports continues to surpass that in exports, resulting in a widening of the merchandise trade gap.

Over the review period, all traditional exports, except bauxite and cocoa, showed increased earnings compared with the similar period in 1994. The non-traditional, sector dominated by earnings from apparel, continued to show significant increased

earnings.

Imports of consumer goods, dominated by food and durables mostly motor cars, showed a 47% increase over January to November 1994. Raw material imports, a significant part of which is fuel, rose by only 15.6%, while other capital goods imports rose by 54.5%. Major imports in this category include equipment and construction materials, which showed increases of 60.8% and 66.3% respectively over the similar periods in 1994.

BALANCE OF PAYMENTS PROFILE: US\$Mn

	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-Nov '94	-853.70	450.70	420.60	17.60	319.30	349.41
Jan-Nov '95	-1197.80	417.70	530.80	-249.30	224.60	373.22

MONTHLY MACRO-ECONOMIC INDICATORS
(December 1994 - February 1996)

MONTHS	BASE MONEY		NET INT'L RESERVE	FOREX ACCTS.	INFLATION		TOURIST ARRIVALS			CHANGES IN M2 (MONEY SUPPLY)	
	Mthly Chng	Point to Point	Total NIR	Total Balance \$	Mthly Chng	Point to Point	Total Visitors	Stop-overs	Cruise	Mthly. Chng.	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	682.86	2.7	18.80	128394	72803	55591	6.03	38.04
Nov.	2.71	22.87	373.22	740.06	2.8	21.20	148839	77419	71419	1.73	36.11
Dec.95	12.81	29.46	421.31	737.30	4.3	25.50	157819	100183	57636	5.5	40.40
Jan 96	-8.46	21.08	455.79	702.00*	2.6	27.22	150561	86184	64377	-2.8	34.00
Feb 96	2.3	21.70	467.52	708.00*	3.3	29.94	-----	-----	55906	-----	-----

* Provisional

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