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PRIVATE SECTOR ORGANISATION OF JAMAICA
Monthly Analysis of the Jamaican Economy
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Overview

The revaluation of the J$ that began in May, gathered pace in June with the rate appreciating to J$34 + before settling back to a buy/sell range of J$35.20/J$35.70 on the last trading day of June. The over the counter rates in different institutions will vary somewhat, above and below this range. There is still considerable debate and discussion about why or how the revaluation came about in the first place, whether it will last (or rather, for how long) and what are the implications of it for business in general and the economy in particular.

We will attempt below some brief speculation on some of these issues.

Firstly, the macro numbers that have been coming out suggest that the tight monetary and fiscal policies of the first 4 months of the year, are starting to have an impact on the real economy. By March, the rate of growth of imports was slowing down and it is reported that import volumes have fallen since then. This of course has implications for the demand for foreign exchange.

It should also be noted that with broad money growth of about 2% for the first 4 months of the 1996 and inflation of about 9% for the same period, there were strong contractionary pressures at work in the economy. The many lay-offs that have been announced since the beginning of the year should therefore come as no surprise to us.

Another factor influencing supply was the fact that although the merchandise trade account deteriorated quite dramatically in the first quarter of 1996, the services account actually improved by a slightly higher margin. The end result was that even though private transfers were down by a significant margin, the current account was still in surplus to the tune of US$27 million. Net capital movements were up by US$42.5 million, due to a US$55 million increase in private capital inflows.

Coming out of the first quarter, therefore, we have a bouyant supply of foreign exchange in a situation where demand growth is softening, and a fairly comfortable equilibruim is prevailing. Interest rates are high and there are no indications that they will be lowered anytime soon. The opportunities for interest rate arbitrage are looking more attractive every day.

It is therefore not surprising that the sale by the Bank of Jamaica, of a relatively small amount of US dollars should have triggered a revaluation of the J dollar. What followed in June was a bit of a snowball effect as those with long positions in US rushed to convert to Jamaican and the buyers sat back to get the best rate possible. Late in the month, Bank of Jamaica intervention had halted the appreciation of the Jamaican dollar and a tense stability returned to the market.

There are a couple of interesting points on the behaviour of the foreign exchange market over the May to June period. Firstly, in May, the authorised dealers sold US$15 million more than they bought from the market; June data is not available yet. Secondly, the strong appreciation of the rate in June was supposed to have been kicked off by one large seller trying to unload a substantial block of US dollars in a hurry.

There are many implications which flow from these developments but we will touch briefly on just a few of them.

Firstly, as monetary policy tightens, we could begin to see more volatility in the exchange rate as it responds to temporary imbalances in the supply and demand for foreign exchange. Capital movements could also increase this volatility.

The revaluation is likely to increase the contractionary forces in the economy, even though it will give a temporary boost to consumer spending power. Local producers, both for the domestic and export markets will find themselves facing increased competition from foreign producers and even tourism will be affected.

Companies right across the economy will find it very difficult to absorb wage increases of 20-30% and the wave of redundancies is likely to continue. Even government may be affected as tax revenue will fall as the economy contracts.

Net International Reserves

During May, the Net International Reserves registered a US$28.64 million increase over the US$529.1 million balance held at the end of April. This implies that the Net International Reserves rose by 5.41% and 19.36% respectively during May and over the first five months of 1996. These movements compare with 2% and 28.85% increases over similar periods in 1995.

The implications for the current level of increase in the Net International Reserves should be reflected in a rise in the money supply but because government seemingly is controlling the other source of money supply growth this may not turn out to be the case.

The Net International Reserves have been rising at well above the targetted rate, since the beginning of the fiscal year. The Finance Minister stated the targetted change in the Net International Reserves for the year is US$95 million and so far the accumulated amount is approximately US$90 million.

With the government's plans to borrow US dollar to reduce the J dollar debt, this should reduce the growth rate in the Net International Reserves not so much by increasing the gross foreign asset account but by increasing our gross foreign liabilities.

Foreign Exchange Accounts

The stock position of foreign exchange accounts at the end of May stood at US$748 million that is a US$3 million or less than 1% increasse over April.

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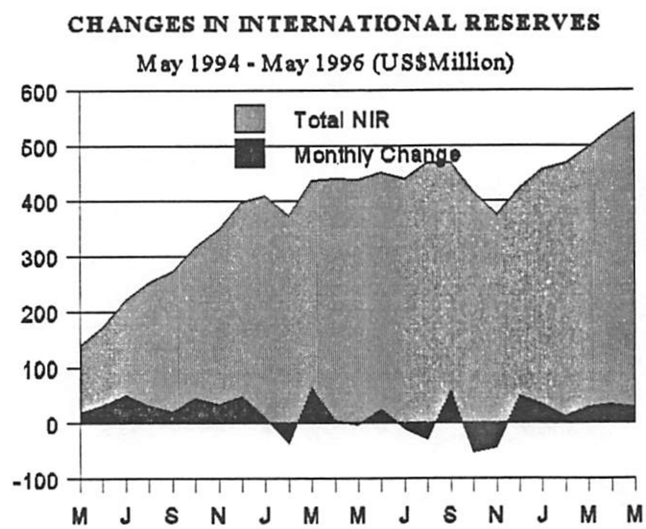


indicates a 1996 first five months increase of US$43 million.

None-the-less, the pattern of stock flows for the first five months of 1996, is relatively similar to that of 1995, the main difference being that 1996 has seen a higher level of stocks than 1995.

Exchange Rate

As June closes, the exchange rate is actually experiencing a slight depreciation. The Jamaican dollar has been exchanging at J$35.03 to J$35.72 to the US$. The scenario at the end of June is the opposite of the trend that existed at the end of May, when the exchange rate of the J$ to the US$ was actually appreciating and edging downward.

With the record inflows of foreign currency the Jamaican dollar has been appreciating. This some people are claiming is as a result of the government via the Bank of Jamaica selling currency in the market. The Bank of Jamaica in a news release denied that it was selling foreign currency into the system. The government accredited this appreciation to its tight monetary policy.

Bank of Jamaica however stated that it was taking quotations from Dealers and Cambios with the intention of intervening in the market in order to slow down the rapid revaluation.

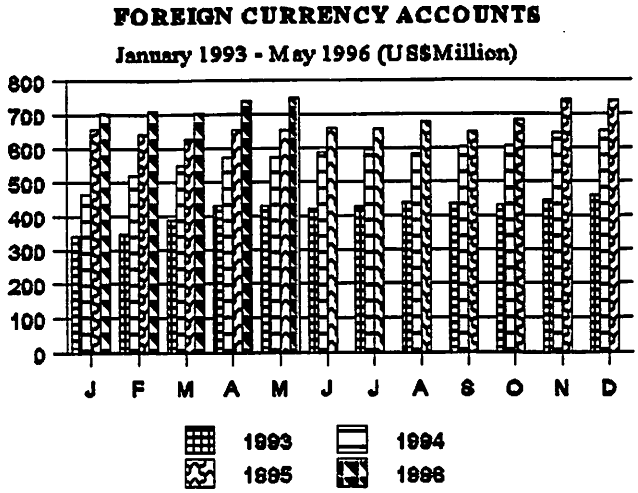
What is interesting to note is the fact that although the trade deficit continued to increase there is still a high level of foreign exchange inflow. However, this peak may be tapering off because June ended with the Jamaican dollar losing a few cents to its major trading partners.

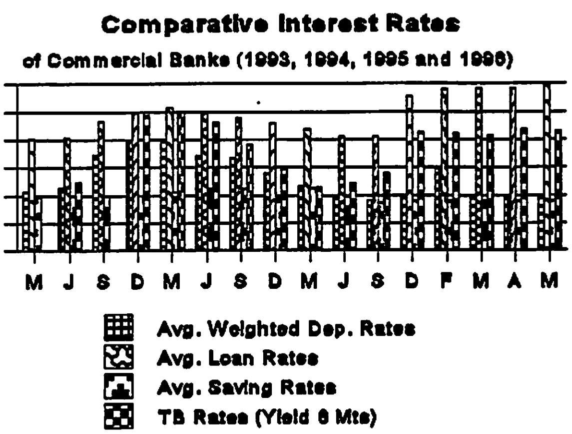
The government's plans to borrow US dollar to reduce the J dollar debt, should increase the supply of foreign currency and could lead to a further revaluation or a levelling off of the J dollar if government decide to sell these funds.

Interest Rates

There was no LRS offer made in June, however, there was a new long-term financial instrument offered by government called "Government of Jamaica Investment Debentures". These had two different maturity periods. The first maturing in 9 months time and the other maturing in 2001. The short maturity period security was closed on 24th June 1996, and offered a rate of 42.5% while the longer maturity had an interest rate of 43% and was closed on 28th June 1996. The short-term security was under-subscribed.

There were three issues of Tbills which consisted of two for J$500 million each and one for J$900 million. These issues were all over-subscribed. The first issue of J$500 million for 25 days was over-subscribed by 47%, the issue of J$500 for 28 days was over-subscribed by 110%, while the issue of J$900 million for 183 days was over-subscribed by 113%.





The average yields were 43.86% for 25 days, 42.13% for 183 days and 41.88% for the 28 days. It is important to note that the yields for 25 days tender, which was issued on June 3, 1996, was 1.98% higher than that for 28 days, which was dated June 28, 1996. This signifies a welcome downward movement in interest rates. To acknowledge this the stock market rebounded by gaining some ground in trading in the last week of June.

During June, however commercial rates continued their upward trend.

The weighted fixed deposits rate moved up by 0.22% while the weighted loans rate also increase by 1.68%. The current reduction in the inflation rate accompanied by the lowering of the average yield on Tbills in June should signal a lowering of interest rates but at a slow pace.

Inflation

The movement in the CPI for May showed a 1.2% rate of increase for the month (as quoted by the Finance Minister). This follows a 1.6% and 1.3% rise in March and April respectively. The rate in May signifies a downward trend in the inflation levels. For the first five months of 1996, the Consumer Price Index rose by 10%. The recent revaluation of the Jamaican dollar has been followed by announcements of price reductions which could mean a faster fall in the inflation rate during the rest of the year.

The point to point rate for May 1995 to 1996 is 30.64% showing a slight decrease from the point to point rate of 31.10% in April 1996.

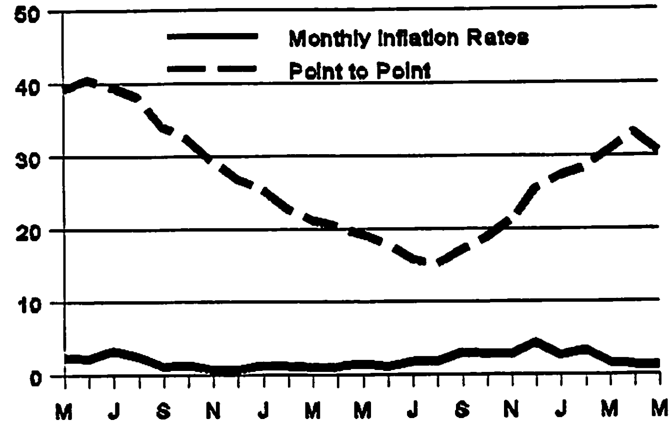
Base Money

The decrease in base money during May was 1.37%, in comparison with the increase of 2.83% experienced in April. This however saw the point-to-point increasing by 1.32% percentage points, that is to 21.32% in May compared with 20.01% in April. The point to point rate has been maintained in the lower twenties since January indicating a moderating trend in 1996 when compared with the similiar period in 1995, which showed point to point changes of 40.01% to 41.2%.

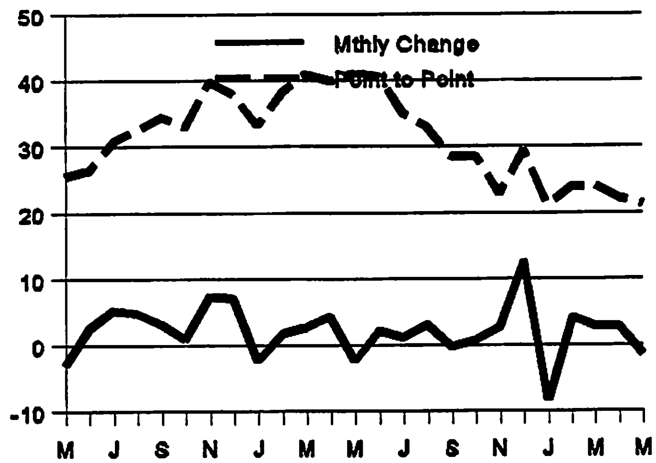
Since January 1996, while the level of currency issue has been steadily trending upwards, the cash reserves of FIA institutions and Building Societies have been constantly adjusting and fluctuating and this has moderated the increasing effect of the rise in currency issues on the overall base money.

But the authorities seem to be managing the base money better in order to control the money supply and the effect of this was seen in the decrease in the base money and hence money supply for March. If they continue to do this effectively it should translate into a reduced inflation rate.

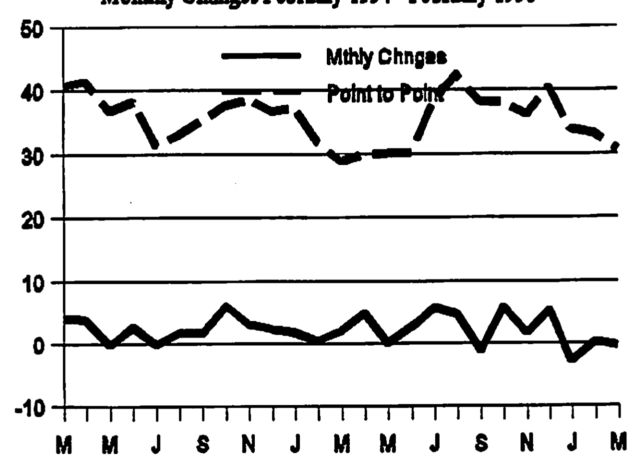
CHANGES IN INFLATION
(All Jamaica) May 1994 - May 1996 (Percentage)



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



CHANGES IN M2
Monthly Changes February 1994 - February 1996



Money Supply

The government promised it was going to control money supply and for the month of March money supply (M2) recorded a decrease of 0.35%, bringing the point to point change for March to 30.58%. This reduction in the money supply has influenced the revaluation of the Jamaican dollar and the slowing down in the growth rate of the Consumer Price Index.

Tourism

During May, tourist arrivals showed a 30% increase compared with May 1995. Of the 138811 arrivals, there were 82969 stop over visitors and 48085 cruise passengers - these increasing by 15% and 30% respectively, when compared with May 1995.

For the five months January to May 1995 compared with the same period this year saw a total of 799932 tourists arriving in the island. This amounted to an 16% rise in arrivals, cruise passengers improving by 15% and stop-overs by 38%.

Expenditure figures for January to February amounted to US$172.00 million which was 8.31% more than the similar period in 1995.

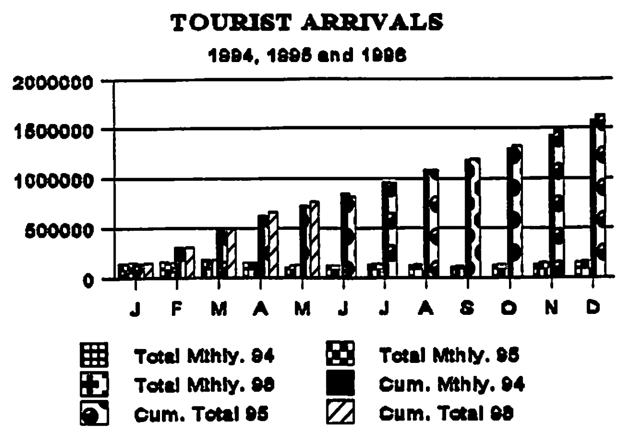
With the recent revaluation of the Jamaican dollar the tourism sector is set to be hit by a loss of income. There is now talk of government having two schemes to help the tourism sector and a plan for the joint marketing of smaller properties. But what is really needed for the tourism sector is a competitive exchange rate, and a macro-economic climate of low inflation and low but positive interest rates.

Labour unrest could also develop as the nominal J$ value of workers' gratuities fall as a result of the revaluation. This will be a testing time for the industry.

Merchandise Trade

The trade data for January and March 1996 show imports totalling US$680.95 million and exports of US$364.98 million, which resulted in a trade gap of US$315.97 million. Compared with the similar period in 1995, imports have risen by US$94.94 million or by 16.2%, exports by US$11.72 million or by3.3%, and the trade gap widened by US$83.22 or by 35.8%.

Contributing to the out turn for the current period were the following factors:



Exports:

The major traditional exports sector showed a 8.9% overall increase in earnings with only sugar showing a decline. Bauxite and Alumina showed increases in both export volumes and earnings. Earnings of both the non-traditional and other traditional sectors fell by 0.2% and 20.1% respectively.

It is interesting to note that the increase in bauxite/alumina earnings of approximately US$20 million was more than the overall increase in exports, highlighting the decline in the other export sectors.

Imports:

Consumer goods imports rose by 33.7%, while raw material and capital goods increased by 11% and 7.9% respectively. Raw materials imports other than fuel rose by 12%. Imports of motor cars formed 19% of the total consumer goods imported for the period.

The trade deficit with Caricom continues to grow. At the end of March 1996, Imports from Caricom stood at US$65.5 million with exports at US$11.95 million leaving a gap of US$53.54 million, of which US$51.4 million accrues to Trinidad and Tobago.

The revaluation of the dollar should see the trade deficit widening as it becomes less expensive to buy imported goods. As our goods become more expensive to export we should see an increase in imports and a decrease in our exports. This does not augur well for our export sector, and one wonders how long private transfers and short-term capital inflows will continue to finance our ever increasing trade deficit?

BALANCE OF PAYMENTS PROFILE: US$Mn

	Merchandise	Services	Transfers	Current A/c	Capital A/c	NIR A/c
Dec '95	-1342.60	508.20	579.30	-255.10	278.50	421.31
Jan-Mar '95	-232.70	124.50	154.60	46.40	5.50	435.30
Jan-Mar '96	-315.90	210.70	132.20	27.00	48.00	496.26

MONTHLY MACRO-ECONOMIC INDICATORS
(December 1994 - May 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 Balances	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	5.53	40.40
Jan 96	-8.46	21.08	455.79	702.00	2.6	27.22	150561	86184	64377	-2.78	34.00
Feb.	4.17	23.91	467.52	722.33*	3.3	29.94	150355	94449	55906	0.27	33.14
Mar.	2.89	24.21	496.26	710.00*	1.6	30.80	180218	108407	71811	-0.35	30.58
Apr.	2.83	22.30	529.37	745.03*	1.3	31.30	149663	89030	60633	-------	--------
May	-1.37	21.32	558.01	748.00*	1.2#	30.64	131052	82967	48085	-------	--------

** Provisional; # Quoted by the Finance Minister*

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