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PRIVATE SECTOR ORGANISATION OF JAMAICA

Monthly Analysis of the Jamaican Economy

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OVERVIEW

As we go to press, the CNB closure continues to send ripples through the banking sector, as Citizens Bank is in the middle of a run on its deposits. Rumours started circulating over the weekend that the Ministry of Finance was going to take over the bank and this lead to a rush by a number of smaller depositors and account holders to withdraw their funds from the institution. The rush peaked on Tuesday 1/10/96, and after public statements by Dr. Omar Davies and Hon. Dennis Lalor, chairman of the bank, the crisis seems to have eased somewhat. The incident is most unfortunate and unwarranted as Citizens is one of the institutions that has taken in capital, downsized and generally handled its affairs in a responsible and prudent way. It also highlights the fact that the most sound financial institution can be destroyed or severely damaged by wild rumour, speculation and a loss of confidence. Public figures must now be extremely careful about the statements that they issue and the regulatory bodies must move quickly to squash unfounded rumours about financial institutions.

This incident has demonstrated to us the high level of uncertainty and insecurity that has been generated by the CNB closure. The situation hasn't been helped by the uninformed and downright misleading discussion which has surrounded that event. The pubic has not been made to understand that the bank was insolvent, unable to meet its obligations to its creditors (including its depositors) and that is why it was closed. This has lead to the impression that the minister acted capriciously and therefore that any institution, no matter how healthy, may suffer the same fate.

The run on Citizens is doubly ironic as it comes just after things had settled down after the runs on three other banks right after the closure of CNB. The overdraft at the BOJ which they incurred at the time has been more or less eliminated and it appeared that things were returning to normal. One can only hope that things at Citizens will quickly quieten down as well.

Looking at other developments over the last month, we see a large drop in T-Bill rates, from about 38% at the beginning of the month to just over 27% by month-end. There has also been a big jump in liquidity and in the assets of the BOJ, signs that the monetary screws are loosening up. Point to point inflation is still coming down but we have revised our year-end projection up slightly to 18%, and fiscal year inflation to about 15%.

The sharp drop in interest rates during the month has rekindled interest in the stock market which has grown by nearly 4000 points over the period. Interest rates will continue to fall for the next few months, with deposit rates falling much faster than lending rates. This is likely to maintain and further fuel the interest in the stock market, as a number of blue chips are still significantly undervalued.

Next year will for all intents and purposes be an election year and we can expect to see an explosion in capital works by the government. This will increase the growth of liquidity in the financial system and will further boost the stock market, provided interest rates remain low or on a downward trend. The complicating factor will come as this liquidity and lower interest rates are translated into increased demand for imported goods, thus putting further pressure on the balance of payments and the exchange rate. The NIR will undoubtedly be put to the test! In evaluating the exchange rate risk over the next 6 to 12 months (i.e. pre-election) we should remember that only a few years ago we had negative Net International Reserves and there is nothing to stop us returning to that position if it is deemed to be politically expedient.

Look for increasingly buoyant consumer lending and spending as we move into next year and the pre-election spending boom gets underway.

Net International Reserves

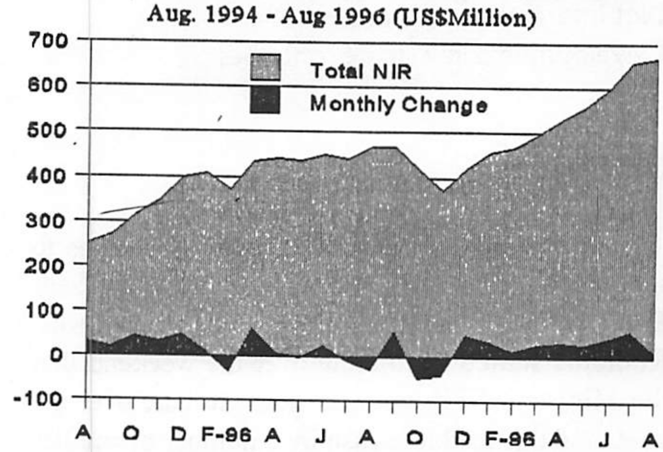
August saw the continued increase in the National International Reserves (NIR) when there was a US$10.54 million increase to US$667.1 million during the month. The NIR rose by US$245.8 million or by 58.3% in the first eight months. Looked at against a projected increase of US$95 million for the year, this achievement is significantly above target.

However, while this pile-up of NIR is serving as a buttress against exchange rate in stability, it is being acquired at significant costs to the economy; via high interest rates which have deterred investment and growth and the accumulation of greater levels of internal debt to be serviced at the expense of expenditure on vital social services and public infrastructure. Regression analysis by the PSOJ shows that there is a positive relationship between increases in the Net International Reserves and the Internal Debt. We found that for every J$1 million increase in the NIR, the Internal Debt increases by between J$1.72 million and J$1.82 million.

Foreign Exchange Accounts

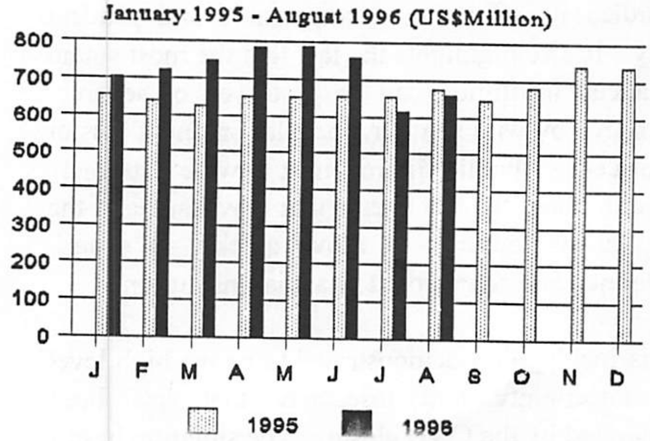
The provisional figure for the stock of funds in foreign currency accounts was US$660 million, suggesting a US$44 million or 7.1% rise over July's stock. This level of foreign currency includes a provisional figure of US$85 million for the Building Societies. Actual data for these institutions is not available as the Bank of Jamaica is having a problem with data collection.

CHANGES IN INTERNATIONAL RESERVES
Aug. 1994 - Aug 1996 (US$Million)



Activities in Foreign Exchange accounts in July show US$699.2 million in lodgements as against US$738.23 million in withdrawals, for August they were US$755.84 million and US$757.08 million respectively indicating an overall fall in the account balances by August.

FOREIGN CURRENCY ACCOUNTS
January 1995 - August 1996 (US$Million)



Interbank trading for authorised dealers in foreign exchange on the other hand, have been very buoyant. In April 1996, monthly purchases and sales of foreign exchange rose some 50-51% respectively over the comparable 1995 period. In May, June the increases were 80-75%; in July 144-155% and in August 94.8-108.6% respectively. This level of activity suggests:

(a) a very liquid foreign exchange market - so that there is the likelihood of short-term stability in the exchange rate.

(b) the revaluation prompted holders of US$ to convert to J$ in order to cut their losses. This situation may change gradually as interest rates come down.

Exchange Rate

The exchange rate of the Jamaican Dollar to its foreign counter parts appeared to have stabilized during September. It exchanged with the US$ at between J$34.88 and J$35.09 during the month, thereby fixing the revaluation level at 12.5% since January 1996.

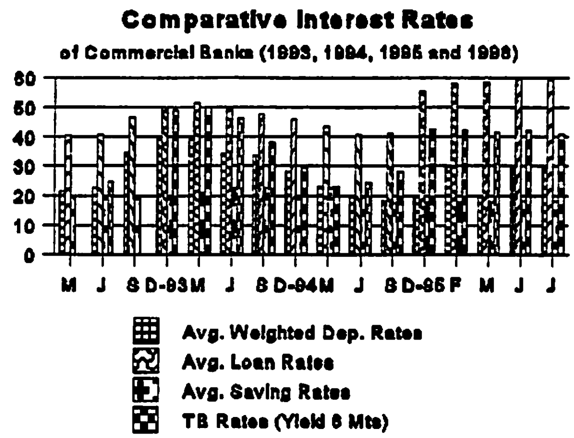
The market appears to be quite liquid, as purchases and sales for August were up 94.8 and 108.6% respectively above those for August 1995, and lodgements and withdrawals from Foreign Currency Accounts were US$755.8 and US$757.08 million respectively also for August.

In addition, BoJ also increased the reserves by US$10.5 million during this period. With Interest rates declining and the season for the rising demand for foreign exchange approaching and three months to go for the beginning of the Tourism winter season; the focus is on the sustainability of supply of foreign exchange and the effects this will have on the rates.

Interest Rates

The three August issues of LRS maturing in 1998, 2002 and 2008 closed in September with the following results:

* 1998 stocks for J$1.5 billion was fully subscribed at interest rate of 37.5% in the first year.



* 2002 unlimited stocks had J$1.718 billion in subscription at interest rate of 37.5% in the first year.

* 2008 unlimited stock had J$2.827 billion in subscription at interest rate of 37.9% in the first year.

This implies that J$6.046 billion is locked in at rates ranging between 37.5 - 37.9% for at least the next year and there-after rates will be linked to the prevailing Tbill rates. The effect suggests a considerable decline in demand, on imports and less pressure on the exchange rate.

From the two new Tbill offerings at the end of September, the results were as follow:

* For J$500 million for 184 days it was over-subscribed by J$997 million and yielded 27.3% interest.

* For J$300 million for 212 days, it was over-subscribed by J$920 million and yielded 28.14% interest.

These rates indicate a significant fall in interest rates over the last three months. These have declined by 12.8 percentage points. This rapid decline could lesser the inflow of arbitrage money and even reverse the flow of funds.

Declining interest rates will certainly increase demand for credit which will have an adverse effect on money supply growth, consumption demand and the visible trade balance.

Rates in the commercial sector are falling slowly. Fixed deposit rates in August were at 16-38% down from 19-40% in July. Average loan rates declined by only 0.10% in August and average saving rate remained fixed at 18.12%.

The problem with interest rate movements is that when they fall, it is the consumer's credit loans which are the quickest and easiest to grow, while the investment project which was designed to foster growth takes such a long period to process and materialize that by then, consumption gets out of control, so rates move up again and the investment process is thwarted. This knee-jerk reaction can only be avoided if we are prepared to accept a devaluation which will keep local demand in check.

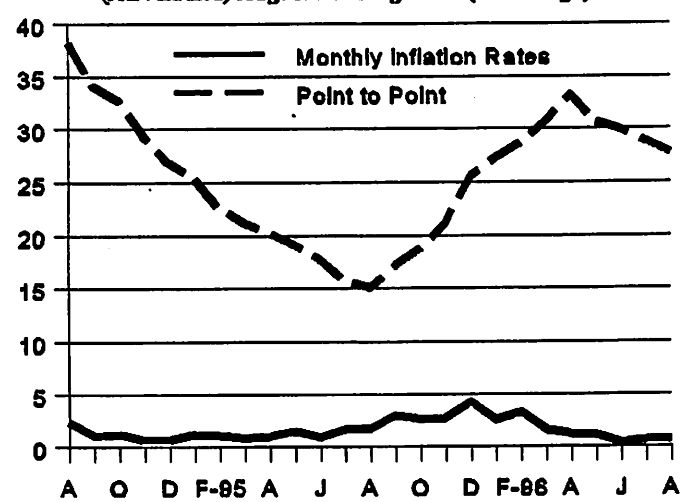
Inflation

August saw the monthly inflation rate inching upwards as the CPI showed a 0.8% increase in price levels. This follows on a 0.7% rise in July and 0.4% in June. Although inflation for the last few months has been held within the 1% limit, the inflation rate for the period January to August 1996 is 12.5% compared with 10.7% for the comparable period in 1995, and the point to point August 1995 to August 1996 is 27.7% which is significantly above 15% recorded for the similar 1994/95 period.

The upward movement in the CPI in August has been attributed mainly to increases in the price of 'food and drink' - starchy vegetables and 'meals away from home' which affected prices in the Metropolitan areas. This is a cyclical price movement as in the summer months supplies of these vegetables decline as weather conditions and export needs reduce supply.

CHANGES IN INFLATION

(All Jamaica) Aug. 1994 - Aug. 1996 (Percentage)



As well money supply growth has also been inching upwards and its lagged effect is influencing inflation levels. This latest development has pushed up our inflation projections to 18% for the calendar year and 15% for the fiscal.

Base Money

During August, Base Money grew by 4.5% effecting a point to point movement of 18.89%. This increase was fostered by: a 408.0% rise in Commercial Banks Current Accounts balances with BOJ as the banks hiccupped from the effects of the closure of C.N.B. in July coupled with a 2.6% rise in currency issue. This rise is base money may have the effect of increasing M2 during the coming months.

Money Supply
Following on a 4.4% fall in money supply in May, there was a marginal 1.1% increase in June resulting in a point to point movement of 21.4% down from 23.31% in May.

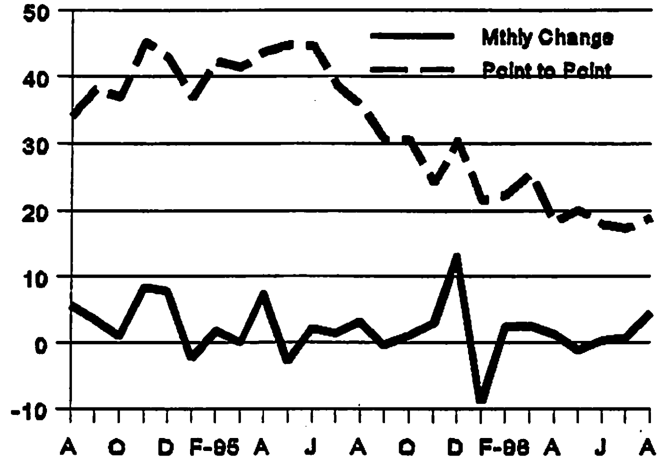
Since December 1995, Money Supply levels have been fluctuating, featuring alternate months of increases and decreases. Overall, these movements have served to both lower the point to point growth rates of money supply and dampened the rate of inflation. The 5% increase in the assets of the Bank of Jamaica in August has worrying implications for inflation in the coming months.

Tourism
In August, tourist arrivals, that is stopover and cruise passengers, fell by 4.8% over August 1995. Despite a 17.1% rise in cruise passengers, this was inadequate to offset the 0.9% fall in stopovers. During this month the arrivals of nationals also fell by 13.6% when compared with August 1995.

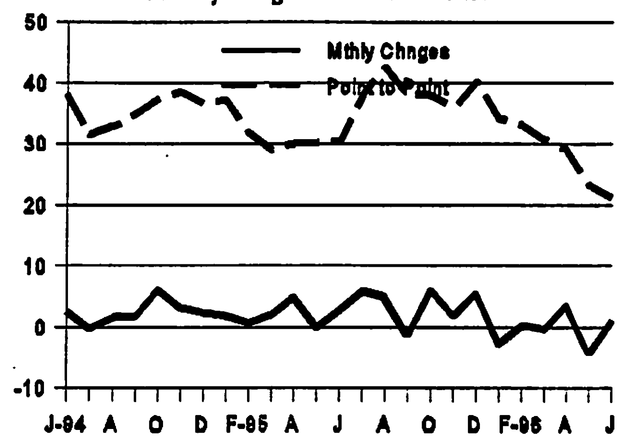
Between January and August this year, tourist arrivals rose by 9.2% over similar period in 1995. Contributing to this, were increases of 5.15% and 16.8% in stopover and cruise passengers respectively. Earnings for the first seven months of 1996 were US$635 million or 6.6% above the same period in 1995.

Although the data suggests a better cumulative performance than last year, it is believed that arrivals for August, and the summer in general, were disappointing and that the two major reggae festivals held in August should have attracted more visitors. Reasons given for the summer blight are: the active hurricane season, the Atlanta Games, the US Presidential Election/Campaign combined with

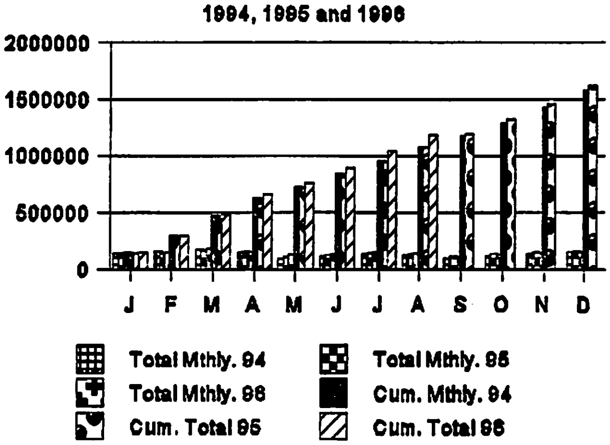
CHANGES IN BASE MONEY
Monthly and Point-to-Point (Aug. 1994 - Aug 1996)



CHANGES IN M2
Monthly Changes June 1994 - June 1996



TOURIST ARRIVALS
1994, 1995 and 1996



local crime and violence have all served to dampen visitor's arrival levels to the island.

The sector has just celebrated Tourism Awareness Week. As the sector which earned over US$1 billion in 1995, and employs close to one quarter of the workforce, a number of initiatives were focussed on. The Youth of the population were exposed to the Tourism product to encourage them to cultivate a more tourism-friendly attitude and expose them to the industry's potential for offering them jobs and economic fulfilment. Issues relating to educating them re tourism's importance to the economy and its link to environment protection and the historical and heritage preservations were also emphasized. American Express pledged resources for increasing
visitor numbers, enhancing their stay as well as increasing their expenditure.

Merchandise Trade

For the first six months of 1996, imports were valued at US$1.371 billion that is, US$85.9 million or 6.7% above the comparable period in 1995. Earnings from exports were US$ 718.1 million or 4.0% below that of the same period. Resulting the trade deficit has widened to US$653.3 million or US$85 million more than at June 1995.

The out-turn in merchandise trade accounts for the period has some hidden features viz:

1. Although the deficit widened over the period its rate of growth has been slower than over the similar period in 1995.

2. The value of exports has been significantly influenced by prices because up to June 1996, export quantities for most major and other traditional exports were higher than in 1995.

3. The Growth in imports against declining values for exports could be indicating a shift towards an increasing dependence on imports. This has serious implications for local investments and production, employment and socio-economic stability.

Imports: All the major import categories saw increases. For the period January to June 1996, Consumer Goods rose by 17.6% to US$348.6 million, Capital Goods moved up by 3.9% to US$252.9 million and Raw Material imports rose by 3.3% to reach US$770.0 million. In the category - Consumer Goods - consumer durables including motor cars as well as non-durables formed the major portion of imports.

Export: For the first half of 1996, earnings from major traditional exports declined by US$9.1 million. This includes the main sector mining, whose export volumes rose, but earnings from alumina fell. There was a 12% rise in the earnings from manufactured goods which included sugar and rum. Non-traditional domestic exports fell by 6.1% to earn US$220.1 million. These include declines in apparel earnings by US$15.7 million and other non-traditional exports by US$12.5 million.

BALANCE OF PAYMENTS

	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-Jun '95	-537.3	237.30	290.60	-9.4	61.4	449.89
Jan-Jun '96	-653.30	355.60	267.40	-30.30	207.40	598.43

MACRO-ECONOMIC INDICATORS

(December 1994 - August 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	7.71	42.71	397.92	649.76	0.7	26.80	147290	94127	53017	2.31	36.57
Jan. 95	-2.22	36.91	408.70	655.12	1.3	25.40	138969	81385	57570	1.85	37.22
Feb.	1.78	42.37	373.13	640.34	1.1	22.70	140787	86147	54281	0.55	31.82
Mar	0.00	41.43	435.30	625.15	0.9	21.20	164222	96378	67844	1.99	28.89
Apr	7.50	43.65	440.41	652.66	1.1	20.76	141814	86552	55262	4.93	30.01
May	-2.80	44.75	437.55	651.42	1.5	19.20	106772	71945	34827	0.00	30.16
Jun.	2.21	44.65	449.89	656.38	1.0	17.80	118253	87480	30773	2.70	30.22
Jul. 95	1.37	38.84	440.35	654.51	1.7	15.80	138624	101244	36780	5.88	38.15
Aug	3.15	35.57	411.23	676.25	1.7	15.10	133198	90747	42451	4.84	42.44
Sept	-0.37	30.45	468.05	646.13	3.0	17.20	110372	66663	43709	-1.29	38.19
Oct.	1.08	30.56	416.42	682.86	2.7	18.80	128394	72803	55591	6.03	38.04
Nov.	2.87	24.00	373.22	740.06	2.8	21.20	148839	77419	71419	1.73	36.11
Dec.95	13.43	30.58	421.31	737.30	4.3	25.50	157819	100183	57636	5.53	40.40
Jan 96	-8.92	21.63	455.79	702.00	2.6	27.22	150561	86184	64377	-2.78	34.00
Feb.	2.38	22.36	467.52	722.33	3.3	29.94	150355	94449	55906	0.27	33.14
Mar.	2.62	25.55	496.26	749.00*	1.6	30.80	180218	108407	71811	-0.35	30.58
Apr.	1.26	18.27	529.37	784.03*	1.3	31.30	149663	89030	60633	3.66	28.99
May	-1.23	20.18	558.01	787.00*	1.2	30.64	131052	82967	48085	-4.4	23.31
June	0.32	17.96	598.43	759.00*	0.4	29.9	127745	90366	37379	1.1	21.4
J uly	0.82	17.32	656.55	616.33	0.7	28.8	148901	96742	52159	-------	--------
August	4.5	18.89	667.09	660.0	0.8	27.7	139629	89910	49719	-------	--------

* *Provisional*

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