

# NEW CONFIDENTIAL ECONOMIC BULLETIN

## PRIVATE SECTOR ORGANISATION OF JAMAICA

### *Monthly Analysis of the Jamaican Economy*

Vol. 2 No. 1; October 1996

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## OVERVIEW

The economy continues to be buffeted by the aftermath of the CNB closure. Despite the relatively quick ending of the run on Citizens Bank, advances from the BOJ to financial institutions are again on the increase, indicating that all has not quite returned to normal in the banking sector. This is bad news for the rest of the economy for it means that the very tight monetary policies which are currently in place, are unlikely to be relaxed any time soon. Advances to financial institutions have the same effect as printing money and the monetary policy response is similar, namely aggressive open market operations and in this environment, a slower reduction in interest rates.

The falling rate of money supply growth and the recent revaluation are two very sharp contractionary impulses now having a pronounced impact on the real economy. Import volumes are reported to be down, while export volumes are also reported to be relatively soft. Reports from the retail trade also indicate that sales are very sluggish, even for products that have traditionally been considered to be part of the basic food basket. If these micro level trends are indicative of what is happening at the macro-economic level, then we could be in for a significant contraction in the

economy this year, and for an even worse contraction next year. There are a number of reasons for this rather gloomy prognosis.

Firstly, the use of monetary policy rather than say a devaluation to contain domestic demand, implies that economic activity across the country must be reduced to a level which can be supported by the exports of goods and services. In the best of circumstances, this would entail a contraction in the economy, but with our high inflation and huge monetary overhang, the recession is likely to be that much more severe. A Devaluation on the other hand adjusts relative prices by reducing the real value of our stock of Jamaican dollars and thus reduces the real value of the wages which we pay ourselves, thereby reducing domestic demand for goods and services. It also has the added advantage of making our exports cheaper on the International Market.

Devaluations have never been popular in Jamaica and are viewed as a great political liability and therefore are to be avoided for as long as possible. The upcoming general elections therefore mean that the government will use all the means at its disposal to resist this alternative. The consequences will include a prolonged and deepening recession and an increasing number of people thrown out of work. The impact on the unemployment numbers could be quite severe if the fallout in the apparel sector continues. This sector employs a large number of semi-skilled women several thousand of whom have already lost their jobs over the last year or so. Cutbacks in employment are also likely in other export sectors such as tourism, agriculture and bauxite.

The Government has also been affected by the economic downturn this year. Tax revenue continues to run behind the budget estimates but the ministry of finance claims to be reducing capital expenditure to compensate for this shortfall. How long this fiscal discipline will remain in place however, remains to be seen. Even in the most

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advanced countries, politicians sometimes yield to the temptation to spend a little more than they ought to, in an effort to create a feeling of prosperity and strengthen their chances of re-election.

For the next six (6) months or so, look for a somewhat slower fall in inflation and a slower fall in interest rates. Don't be surprised if the NIR also

### Net International Reserves

September saw the National International Reserves (NIR) decreasing for the first time in many months when there was a US\$1.8 million decrease from US\$667.1 million to US\$665.3 million during the month. In fact this is the only decrease since November last year when it decreased by US\$43.2 million.

The high peak months of foreign exchange flow seem to have dried up and with the fall in the T-bill rates the Government (BoJ) has been constantly in the market. This is a welcome sign both for the possible reduction in money supply and for the mounting cost of domestic debt, which is used to combat the excess liquidity put in the system by the build up of NIR.

This action of the Bank of Jamaica will probably continue as long as there is any possibility of a depreciation of the Jamaican dollar against its US counterpart.

### Foreign Exchange Accounts

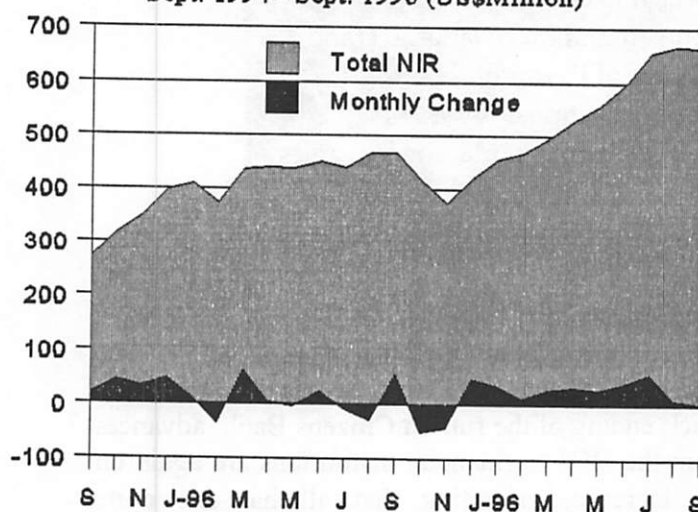
The estimated figure for the funds in the foreign currency accounts was US\$703.14 million, suggesting a US\$16.46 or 2.4% rise over August's stock. This level of Foreign Currency Accounts was estimated using the net of total monthly withdrawals. Actual data for foreign exchange accounts is not available as the Bank of Jamaica is having problems with the collection of the data.

Activities in Foreign Exchange Accounts in August show US\$755.84 million in lodgements as against US\$757.08 million in withdrawals, for September there were US\$656.65 million and US\$639.61 million respectively indicating an overall increase in the accounts balances by September.

falls over this period, as the BOJ continues its interventions in support of the Jamaican dollar. Contractionary pressures are likely to deepen with little likelihood of relief until we are well in sight of the elections.

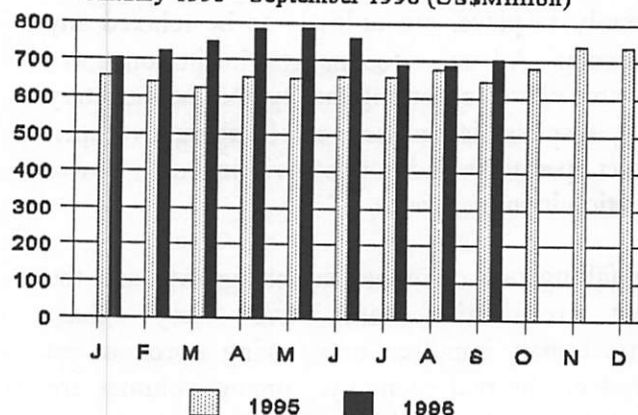
### CHANGES IN INTERNATIONAL RESERVES

Sept. 1994 - Sept. 1996 (US\$Million)



### FOREIGN CURRENCY ACCOUNTS

January 1995 - September 1996 (US\$Million)



The Interbank market for authorized dealers in foreign exchange continued to be buoyant. Foreign exchange purchases in the spot market were

US\$186.07 million while sales were US\$184.75 million for the month of September. This is a 106.5% increase in activities in this market over the same period last year.

The higher volume of Foreign Exchange transactions is indicative of the substantial capital inflows that have taken place since the beginning of the year.

### Exchange Rate

The stability of the Jamaican Dollar vis-a-vis its Foreign counterparts continued during October. It was selling for an average of J\$35 to US\$1, J\$54.44 to 1 pound sterling and J\$25.35 to \$1 Canadian at the end of trading on October 24, 1996.

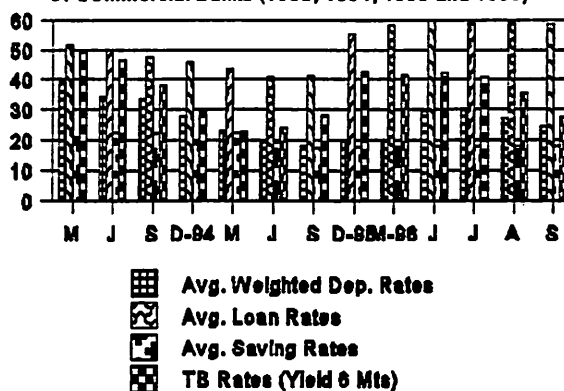
The Bank of Jamaica was an active seller in the market this month in an effort to maintain the exchange rate below the J\$35 mark. This is a signal that the Bank of Jamaica is continuing to intervene in the market to defend the parity of the J\$ vis-a-vis its US counterpart. With the Winter tourist season set to begin in another two (2) months, the increased inflow of foreign currency may allow Bank of Jamaica to decrease its intervention in the market.

### Interest Rates

There were three issues of LRS in October, maturing in 1997, 2004, 2006, they closed on 31 October. From all indications, investor's response has initially been lukewarm to the longer term instruments (2004 and 2006 series). This slow response could be attributed to the fact that these stocks do not qualify as liquid assets and that short term repo rates are higher (33%) than the rates being offered on the LRS issues.

The short-term (1997) bond which has a one year tenure was already fully subscribed by October 14. This may be because investors have not yet acquired the confidence in the economy to prompt them to go long-term. This note has proven to be an attractive option for investors with treasury bills

**Comparative Interest Rates**  
of Commercial Banks (1993, 1994, 1995 and 1996)



maturing in October and also for cash rich financial institutions looking for Government's paper.

There was no issue of T-bills this month, hence the Bank of Jamaica repo rate will be used as the benchmark for the general interest rate. The repo rate remains at 33 percent for the month of October.

Interest rates in the Commercial Sector are falling slowly. Fixed Deposit rates remain relatively high. Average loan rates declined by 0.10% in September 58.50% and saving rates remained fixed at 18.12%.

### Inflation

Inflation for September was 0.3% above that for August coming in at 1.1%. This rise reinforces an increasing trend in the monthly rates since they reached a low of 0.4% in June. The September rate brings the year-to-date inflation rate to 13.8%. As the next three months will usher in a season of increased consumerism, coupled with a declining trend in interest rates, one could expect that by year end the 1996 inflation rate could rise to between 16 and 18%, while for fiscal year 1996/97 the rate could be in the low to mid teens.

The data suggests that concerted and sustained efforts are still needed on the part of the Government especially with respect to its fiscal

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activities, in order to bring annual inflation levels down to the target range of 11-15%.

The upward movement in the inflation rate for September resulted from price increases in Food - starches in particular, as well as in the group - Miscellaneous Expenses - which captured the increases in school fees paid in September.

It would also have been influenced by the big jump in the total assets of the Bank of Jamaica which took place in late July.

### Base Money

Base Money, the variable which significantly dictates the level of the economy's money supply, has, since the beginning of 1996, been trending downwards. For the months of August and September 1996, base money, saw a 4.53% growth and a 4.4% decline respectively.

These movements contributed to a year to date increase of 6.16% and a 12 month point to point increase of 14.04%. This compares with a January to September 1995 rise in base money of 13.23% and a 30.56% point to point increase over the preceding 12 month period. The lower rate of growth in base money experienced in 1996 has been reflected in a lower rate of growth in money supply.

### Money Supply

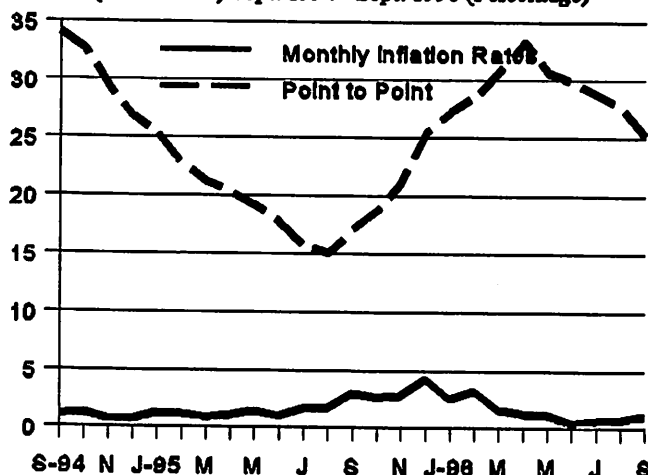
No update is available as Bank of Jamaica sorts out how to handle the July figures - resulting from the Century National Bank fall out which occurred in July this year. However, the large advances that were made to financial institutions in its aftermath, have undoubtedly interrupted the downward trend in money growth.

### Tourism

For September 1996, tourist arrivals, that is stopovers and cruise passengers, fell by 8.91% over similar arrivals in September 1995. Contributing to this were declines of 0.67% and 21.5% in stopovers and cruise ship arrivals respectively. The number

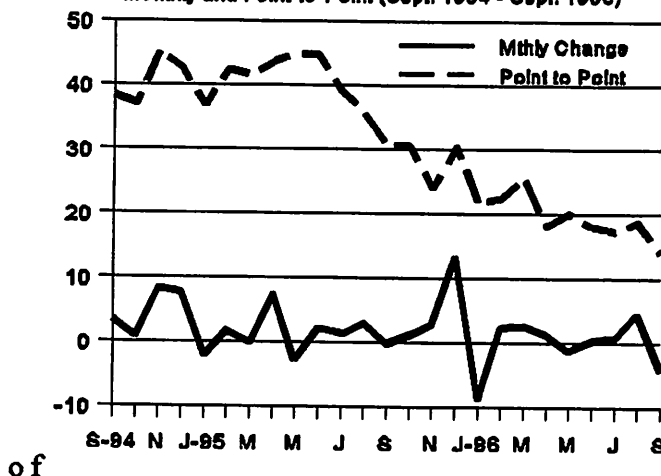
### CHANGES IN INFLATION

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



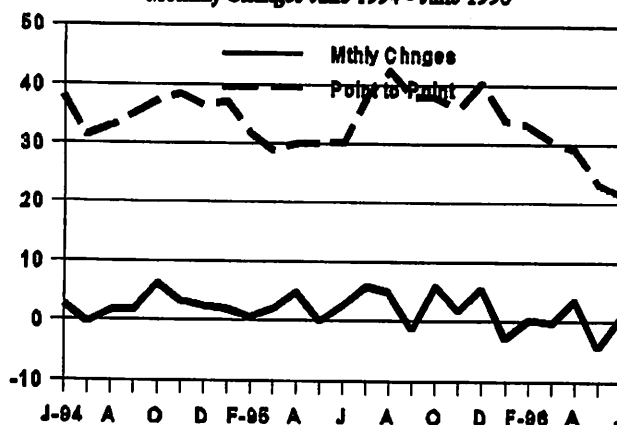
### CHANGES IN BASE MONEY

Monthly and Point-to-Point (Sept. 1994 - Sept. 1996)



### CHANGES IN M2

Monthly Changes June 1994 - June 1996



nationals arriving in the island during September also showed a 19.7% fall compared with September 1995 figures.

Tourist arrivals for the first nine months of 1996, saw a 7.53% increase in arrivals compared with the similar period in 1995. Over these months, there was a 4.65% rise in stopovers visitors and a 12.81% increase in cruise ship arrivals. However, the number of nationals visiting declined by 8.43% over the period.

Traditionally, September and October are regarded as slow months in the tourism industry and indeed visitor arrivals have declined not only in Jamaica, but this softened market has been the experience of the entire Caribbean. Major contributing factors among others, has been the possibility of hurricanes affecting the islands, as well as, related adverse publicity in the international media, the Atlanta Olympics and the US Presidential Elections.

Efforts are being made locally to boost arrivals and these include the staging of various festivals, as well as the discounting of travel packages.

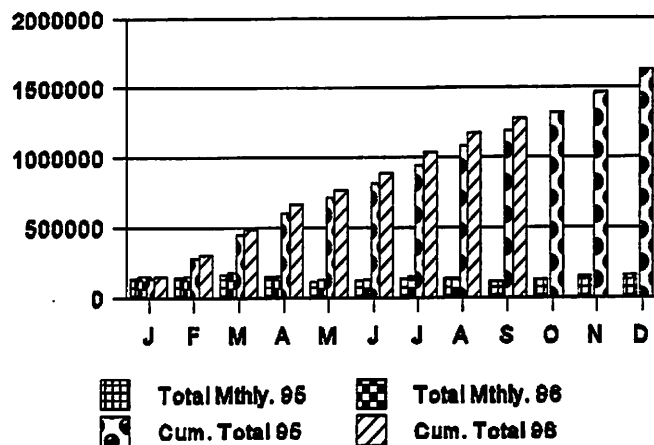
Never-the-less the current scenario points to the need for a more intense effort to be put into formulating strategies geared at product diversification and enhancement to ensure continued interest and increased patronage.

### Merchandise Trade

An analysis of Jamaica's external trade for the period January to July 1996, showed that the trade deficit reached US\$776 million, a 19.4 percent increase over the comparable period in 1995. This unfavourable performance in the country's merchandise trade resulted from an overall decline of US\$38.8 million in total exports or a fall of 4.4 percent. In terms of, the direction of trade, Jamaica recorded a negative trade balance of US\$142 million deficit with CARICOM member countries, of which Trinidad and Tobago accounted for 97.4 percent of the deficit.

### TOURIST ARRIVALS

1994, 1995 and 1996



**Imports:** For the review period, imports increased by almost 6 percent to reach US\$1.6 billion, reflecting an 18.6 percent increase in consumer goods and an overall average increase of 2.2 percent in raw materials and capital goods. The marginal growth in raw materials and capital goods reflects the continuing stagnation in economic activity and implies negative consequences for investment and employment. Motor car imports for both consumer and capital consumption totalled US\$78.9 million, a 2.3 percent over the seven-month period of 1995.

**Exports:** Total export earnings (traditional and non-traditional) were valued at US\$836 million in the review period, a 4.4 percent decline over the first seven months of 1995. The categories of exports which showed positive performance included: bauxite which grew by 0.5% and sugar, coffee and rum gypsum - which together grew by an average 10.9 percent. Non-traditional exports declined by 3.3 percent.

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## 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-Jul'95	-650.00	336.40	331.00	17.40	25.00	440.35
Jan-Jul '96	-776.4	465.9	306.80	-3.70	238.90	656.55



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### MACRO-ECONOMIC INDICATORS

(December 1994 - September 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
July	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	-----	-----
Sept.	-4.4	14.04	665.32	703	1.1	25.30	100543	66219	34324	-----	-----

\* Provisional

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