

NEW CONFIDENTIAL ECONOMIC BULLETIN

PRIVATE SECTOR ORGANISATION OF JAMAICA

Monthly Analysis of the Jamaican Economy

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OVERVIEW

The signals from the economy continue to be somewhat like the signals from the political polls, some good news and some bad news, but very little room for genuine optimism. A major source of bad news continues to be the state of the financial sector, where advances to institutions from the BOJ have risen in the last month to about \$2 billion above the level of the advances to Century National Bank. This means at best that there is still some shifting of deposits among deposit taking institutions and that the institutions that are losing deposits are not recovering them very quickly. One certainly hopes that the uncertainty which is leading to this problem will ease fairly quickly, as the interest cost to the borrowing institutions will be considerable.

The difficulties in the insurance sector are still haunting the economy as the government has not yet taken action publicly to resolve the difficulties there. Negotiations have been taking place with some of the companies involved, but nothing concrete has been announced as yet. There are reports that the government has approached overseas institutions to borrow money to finance some sort of rescue package and that they are seeking the blessing of the multi-lateral lending

agencies (IDB, IMF, World Bank) for this action. However, there are reports that the government has not been able to agree with these agencies on the proposed economic programme, and this may be delaying the conclusion of these arrangements.

A major sticking point in the discussions with the multi-lateral agencies is the state of government finances and the rather dim prospects for any improvement in the near future. Government finished the first half of this fiscal year with a substantial deficit and has been borrowing money at levels way in excess of the programmed levels to support its expenditure.

In addition to the severe shortfall in the collection of revenue from increased compliance, the general revenue has also under-performed as a result of declining economic activity and shifts in the direction of trade. When one factors in the pay increases to civil servants and the cost of the rescue package for some financial institutions, the state of government finances does not look at all healthy.

An unfortunate consequence of the poor state of government finances is the prolonging of the high real interest rates that are being paid on government paper. The huge borrowing needs of the government are crowding out the private sector and preventing interest rates from falling as fast as the decline in inflation. The BOJ is also contributing directly to the rather slow decline in interest rates but the central government's need for financing is also a major factor in this respect. How all this will pan out as we enter an election year in which the P.M. has announced that there will be no new taxes, that the income tax threshold will be raised and in which "poverty alleviation" will be a major priority, is anyone's guess. Suffice to say that next year may turn out to be even more exciting than this one has been thus far! The supplementary estimates which are due to be tabled in another month or so, should give some indication of the government's intentions for the rest of this fiscal year.

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For the next 6 months, look for point to point inflation to fall quite rapidly, bottoming out in the second quarter of next year. Interest rates on government paper may do the same but at a much more leisurely pace and not to the same degree. The foreign exchange market is likely to tighten slowly over this period, but the BOJ will

undoubtedly keep it well supplied, barring any unforeseen circumstances. The government's handling of the problems in the financial sector and its management of its own finances, will have a major impact on the length of time over which the present policies can be sustained.

Net International Reserves

The Net International Reserves (NIR) continued its declining trend after declining for the first time in many months, in September. The NIR decreased by US\$6.6 million from US\$665.3 million at the end of September to US\$658.7 million at the end of October. This stock of NIR reflects 15.25 weeks of imports down from 15.34 weeks of imports at the end of September 1996.

The lean months of foreign exchange inflows seem to be continuing. This reduction in the NIR should have a positive effects on the growth of Money Supply as well as on the mounting costs of domestic debt. A reduction in the NIR means that the Bank of Jamaica is selling foreign currency which involves issuing US\$ in exchange for J\$. This will tend to reduce the stock of Money as well as the need to borrow to fund the accumulation of the NIR. However, the reduction in the NIR to date is so small that this effect has not yet become a significant one.

Foreign Exchange Accounts

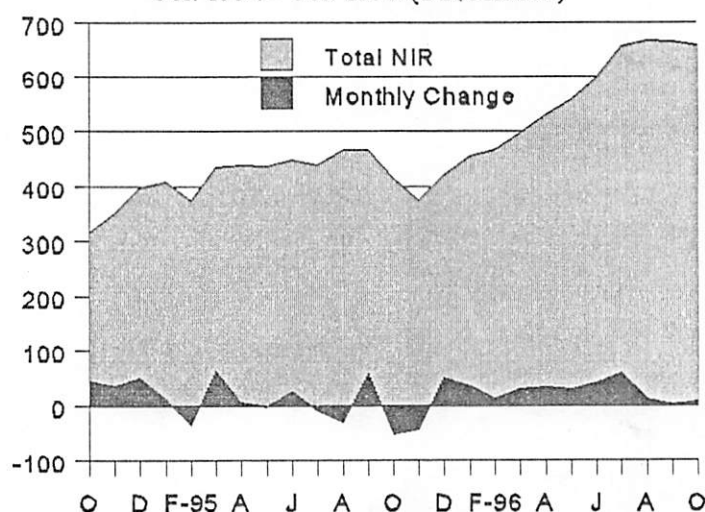
The preliminary figure for the funds in the foreign currency accounts at the end of October was US\$703.0 million suggesting 7.1% reduction over September's stock.

Activities in Foreign Exchange Accounts in October show US\$575.20 million in lodgements, as against US\$580.40 million in withdrawals, this is in contrast with lodgements of US\$656.65 million and withdrawals of US\$639.61 million in September.

The bouyancy in the Interbank Market for

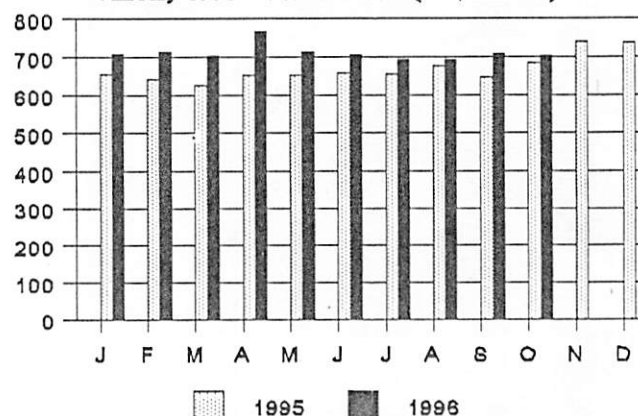
CHANGES IN INTERNATIONAL RESERVES

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



FOREIGN CURRENCY ACCOUNTS

January 1995 - October 1996 (US\$Million)



authorized dealers in foreign exchange continued in October. Foreign exchange purchases in the spot

market were US\$215.84, while sales were US\$211.85 for the month of October. This represents approximately a 130.5% increase in

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activities in this market over the same period last year.

Exchange Rate

The stability of the Jamaican Dollar vis-a-vis its Foreign counterparts continued during November. It was selling for an average of J\$35.10 to US\$1, J\$55.20 to 1 pound sterling, and J\$25 to \$1 Canadian at the end of trading November 29, 1996.

The Bank of Jamaica continued to carefully monitor the market, With its massive stock of NIR, the Bank stands ready to defend the local currency against any speculative attacks. The BOJ has been intervening constantly in the Foreign Exchange Market, selling US\$ whenever they perceive a softness in the supply of hard currency.

Interest Rates

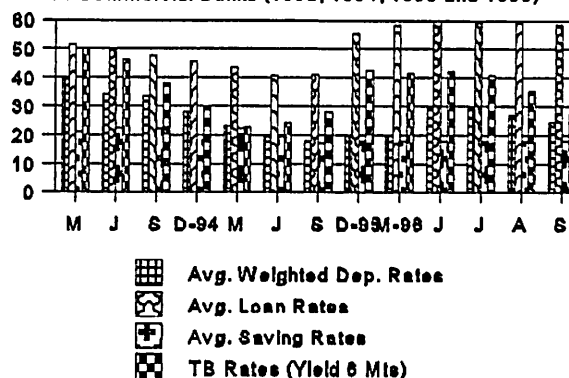
Rates in the Commercial Banking Sector continue to fall slowly. Fixed deposit rates have begun moving downward. Average loan rates declined by 3.28 percentage points from 58.5% in September to 55.22% in October but weighted average Loan rates have not moved significantly.

From the three (3) new T-bill offers for the month of November, the results were as follows.

- * For J\$1100 million for 26 days it was over-subscribed by J\$156.8 million and yielded 31.48% interest on average.
- * For J\$ 550 million for 175 days it was over-subscribed by J\$978.3 million and yielded 29.64% interest on average.
- * For J\$400 million 364 days it was over-subscribed J\$685.8 million and yielded 30.12% on average.

These results show that short-term money market instruments are still the preferred choice of investors in the Jamaican economy. The slightly increased yield on the 364 day issue should not be taken as a

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

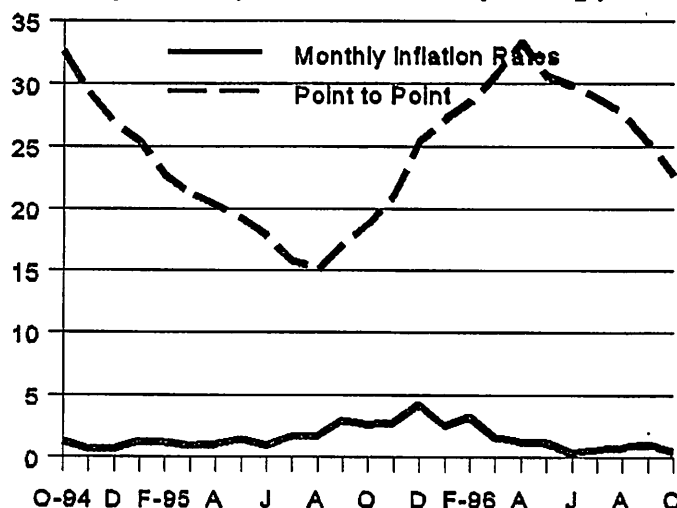


sign of an increasing trend in interest rates. The BoJ has signalled its continued commitment to reducing interest rates by lowering the repo rates from 33% to 31% the day after the issue.

Inflation

The inflation rate for October was 0.5%, the second lowest rate experienced for the year. October's inflation was 0.6% below September's figure of 1.1% and brings the year-to-date rate to 14.37%. The point-to-point rate continues its declining trend to stand at 22.68% down from 25.30% last month.

CHANGES IN INFLATION
(All Jamaica) Oct. 1994 - Oct. 1996 (Percentage)



If this declining trend in inflation continues then the annual rate for 1996 could be within 17-19%.

The downward trend in the point-to-point inflation rate is likely to continue through the 1st quarter of 1997, although there will be some fluctuation in the monthly inflation figures. Fiscal year inflation is likely to fall within the Government's 11-15% target range.

Factors influencing this small movement in the index in October, were two fold. While there were increases in the prices of 'food and drink' - vegetables and fruits in particular as well as in health care and transportation costs to move the index upwards, there was also a negative effect on overall prices as, household furnishings costs declined through the current series of 'SALES' and housing costs trended down, an off-shoot of revaluation and a down turn in the real estate sector.

Base Money

During October base money rose by 3.7% and by so doing continued the fluctuating trend in its monthly movements evidenced since the year begun. While the point to point change for October was 17.1% rising from 14.04% in September. It was also below the 18.9% for August. It now appears that the monthly fluctuations in base money levels prevent the lagged effect of its increases from impacting positively on both Money Supply and Inflation.

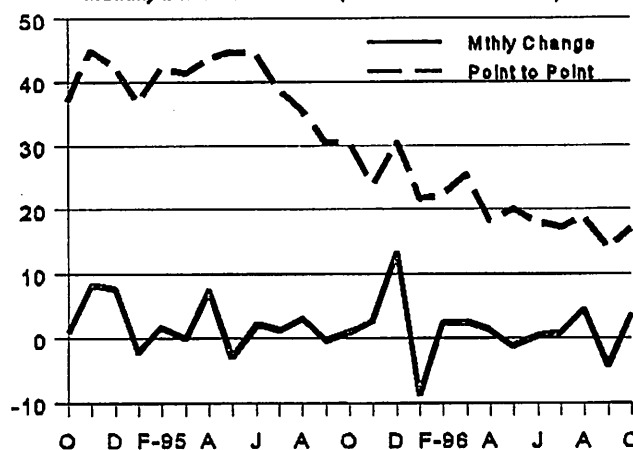
In early November, there was a substantial jump in the value of the total assets of the BOJ which will in turn put upward pressure on base money and in turn money supply. This is not a positive development and does not auger well for future inflation.

Money Supply

In August, Money Supply (M2) experienced a marginal decline of -0.5%. This movement follows on a 2.8% rise effected in July over June. Since January, the monthly levels of M2 have been

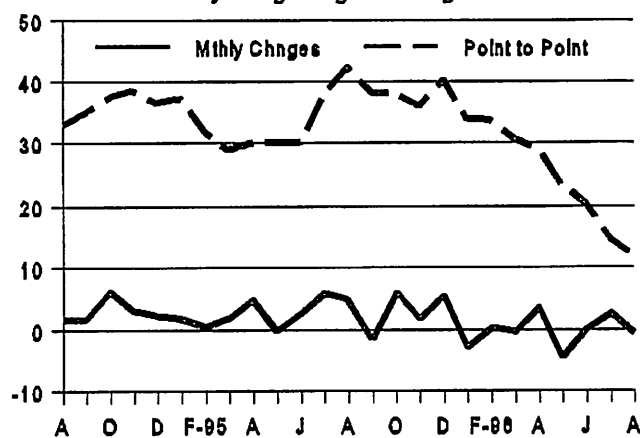
CHANGES IN BASE MONEY

Monthly and Point-to-Point (Oct. 1994 - Oct. 1995)



CHANGES IN M2

Monthly Changes Aug 1994 - Aug 1996



characterised by increases followed by decreases, so that the net effect has been an overall 0.015% increase over the eight month period, notwithstanding that in April, there was a rise of 3.66% and in May a decrease of 4.4%.

Despite the fluctuating monthly changes experienced, the point-to-point movement in money supply has been consistently declining and in August this stood at 11.90% down from 14.55% in July, and 38.51% in December 1995.

The decline in M2 in August is the net effect of movements both in its components as well as other monetary variables. Consequent on the closure of the Century National Bank in July this year, the panic this event created in the financial system led to significant shifts in the levels of both M1 and Quasi-Money Component.

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However, with the bank remaining closed in August, 'demand' and 'time deposits' fell to a greater extent than, the increases experienced in 'currency with the public' and 'saving deposits' and this led to an overall decline in Money Supply.

It is likely that money supply levels will continue to fluctuate until November/December when it will show a seasonal increase, and probably have a positive impact on inflation then.

Tourism

Tourist arrivals for October 1996, showed a 1.7% decline over October last year. During the month, although cruise-ship arrivals surpassed last year's arrivals by 3.2% this was not large enough to offset the 5.6% fall in stop-over visitors. Arrivals of Nationals during October 1996, was also 27.4% less than in October 1995 and no doubt contributed to a 3.2% overall decline in total arrivals during October.

However, the periods January to October 1996 and 1995 compared saw total arrivals including nationals, for 1996 rising by 5.5% over 1995. Although the total arrivals of Nationals in 1996 over 1995 fell by 10%, stopovers and cruise ship arrivals rose by 3.8% and 11.7% respectively.

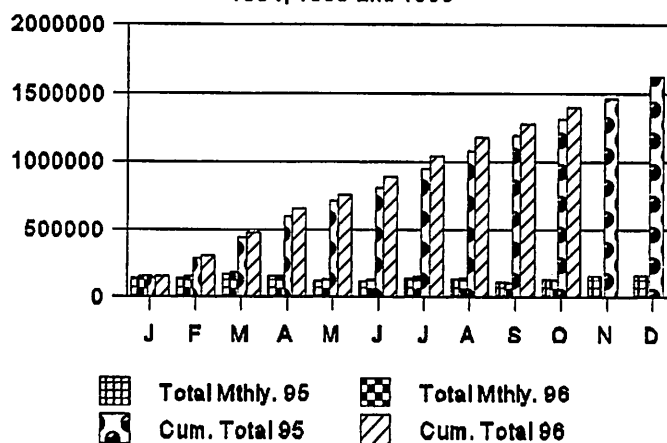
As the tourist winter season draws near, and the weather in the Northern Hemisphere shows signs of becoming quite severe, no doubt, the sector is expecting this to give it a bouyant season. To support this, some attention is being paid to improving infrastructure, and additional rooms are scheduled to come on stream this season. With the economy in a declining mode it is hoped that the tourism and mining sector earnings will give some boost to the economy for 1997.

Merchandise Trade

Although between July and August 1996, the value of Jamaica's imports declined by US\$9.4 million, the value of total imports January to August 1996, rose by 5.4% to US\$1850.5 million. This was

TOURIST ARRIVALS

1994, 1995 and 1996



US\$94.2 million over the corresponding period in 1995. Export earnings however, over the same period fell by 4.8% or by US\$47.8 million to reach US\$938.8 million. This outcome resulted in a trade deficit of US\$911.7 million which was US\$141.9 million larger than at August 1995.

One would hope that, with the decline in economic activity and the rise in unemployment there would be a continued fall in general demand and hence a fall in imports. However, the latter half of the year usually sees increased imports prompted by seasonal demands, so there is the prospect of a continued widening of the trade gap for the rest of the year.

The most dismal prospect is the contraction of exports which should be growing in order to lead the economy out of its present slump. Unfortunately, the decline is likely to continue as Monetary Policy and the accompanying revaluation and infavourable international conditions militate against the expansion of export earnings.

Imports: For the period under review, all categories of imports showed increases; Consumers Goods by 14.5%, or by US\$59.1 million; Raw Materials by 2.3% or US\$23.8 million; and Capital Goods by 3.5% or by US\$11.7 million. The importation of 'food' including beverages, both as finished goods

and as raw material continue to dominate the import bill, and in August was just 25% less than the value of imports of Capital Goods. There should be renewed focus on Jamaica producing to feed itself and this would certainly go a far way in reducing the import bill.

Exports: The value of non-traditional exports showed a 7.2% fall over the review period, this was mainly the result of a US\$26 million or 13.4% decline in the value of apparel exports. Recent factory closures are likely to accelerate this declining trend. For the exports of traditional commodities, the fall in the earnings from alumina US\$24.9 million or 6.1%; Bananas US\$25 million; Cocoa and Citrus US\$2.2 million all combined to effect an overall fall in the earnings of the export sector.

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-Aug'95	-769.80	391.80	374.00	-4.00	17.30	411.23
Jan-Aug'96	-911.70	532.1	335.90	-43.70	289.50	667.09

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MACRO-ECONOMIC INDICATORS

(December 1994 -October 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	706.09	2.6	27.22	150561	86184	64377	-2.78	34.00
Feb.	2.38	22.36	467.52	713.21	3.3	29.94	150355	94449	55906	0.27	33.64
Mar.	2.62	25.55	496.26	702.8	1.6	30.80	180218	108407	71811	-0.35	30.58
Apr.	1.26	18.27	529.37	765.6	1.3	31.30	149663	89030	60633	3.66	28.99
May	-1.23	20.18	558.01	713.3	1.2	30.64	131052	82967	48085	-4.4	23.31
June	0.32	17.96	598.43	703.9	0.4	29.9	127745	90366	37379	0.1	20.23
July	0.82	17.32	656.55	692.0	0.7	28.8	148901	96742	52159	2.8	14.55
August	4.5	18.89	667.09	691.0	0.8	27.7	139629	89910	49719	-0.5	11.90
Sept.	-4.4	14.04	665.32	708	1.1	25.30	100543	66219	34324	-----	-----
Oct.	3.7	17.1	658.57	703	0.5	22.68	126110	68726	57381	-----	-----

* Provisional

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