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THE PRIVATE SECTOR ORGANISATION OF JAMAICA

ANNUAL REPORT ON THE JAMAICAN ECONOMY

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1996 marked another major transition in economic policy, as for the first time since the lifting of exchange controls in late 1991, the Bank of Jamaica sharply reduced the rate of money supply growth and kept it firmly in check for the first eleven months of 1996. The first major transition in policy in the post 1991 era was the imposition of high real deposit rates in mid 1993. A significant premium above inflation was offered on benchmark government securities and high reserve ratios were imposed on financial institutions in order to establish a large spread between deposit and lending rates. The latter were of course, massively positive.

Up until the beginning of 1996, the high interest rates had been accompanied by high rates of growth in the money supply. This kept inflation going and kept the financial sector growing, although some of the weaker institutions were already showing signs of stress. In the last quarter of 1995, deposit rates were some 10 points above the inflation rate and this margin continued to grow through the first half of 1996. During this latter period, the BOJ introduced a regime of very tight control of base money, which had the effect of rapidly reducing the rate of growth of the money supply. M2 growth in the 12 months up to November 1996 was 6.7%, as against 38% for the similar period to November 1995. The effect on the economy in general, and the financial sector in particular, was dramatic.

Inflation fell quite quickly and actually came in under the government's projection for the calendar and fiscal years. The rumours of difficulties in the financial sector started early in the year when the insurance companies were said to be having cash flow problems, due to a "mismatch " of long term assets and short term liabilities. In essence, the high cost of the short term loans which were financing their long term assets was proving to be extremely burdensome to a number of these companies. However, it was in the banking sector that the first major problem occurred when the Ministry of Finance closed the Century National Bank (CNB) in July 1996. The institution which had been in overdraft at the BOJ since July 1995, suffered another run on its deposits and was put under temporary management by the Finance Minister. By this time the institution was insolvent and the prospect of the depositors losing most of their money caused considerable public disquiet.

The closure of CNB caused some shifting of deposits among institutions, as a number of smaller local banks lost deposits to larger ones. The high level of public uncertainty and loss of confidence in financial institutions was demonstrated by a short run on the deposits of Citizens Bank, a cash-rich bank which was a net lender to the financial system. The run was started by a rumour that the government was about to take over the institution. Fortunately, the run was not sustained and the institution was able to withstand it without being permanently damaged.

Towards the end of the year, the focus of attention shifted again to the insurance sector, as a number of companies reported large losses and the government announced that it was working on an assistance package for the sector. Rumours of the extent of the financing needs of the sector continued to mount and in early 1997, the Minister of Finance and the Prime Minister tabled in Parliament the framework of a J$6.3 billion assistance package for the sector. Shortly after this announcement, assistance began flowing to the Mutual Life Assurance Society, although the

OVERVIEW OF ANNUAL ECONOMIC REPORT 1996

details of this have yet to be made public. Public attention then began to be focused on the Crown Eagle Insurance Company, which was also rumoured to be in some financial trouble.

A combination of rumours and speculation in the press about a government take over of the Eagle group, lead to a sustained run on the financial institutions in the group, which rendered the group insolvent. The group included a merchant bank, a commercial bank, and a unit trust management company, which were all subsidiaries of the insurance company. It continued even after the government company FINSAC, which was set up to administer aid to the financial sector, took over the group for J$1 and promised to keep the companies open and honour all their deposit and other obligations. This all occurred in early March 1997 and FINSAC is now in the process of trying to reassure the public that the government is committed to the companies and has recruited Bank of Nova Scotia (Canada) to run them during a period of restructuring.

The tight control of the money supply did more than contribute to the upheavals in the financial sector, in consort with the very high real interest rates offered on government paper, it also contributed to a revaluation of the Jamaican dollar against the US$ currency. The high interest rates had been attracting private capital inflows while the high lending rates and tight money policy had been slowing down demand for foreign exchange. In mid-year, the exchange rate rose from about J$39 to J$35 to US$1, and this was followed by further inflows of US dollars which the BOJ purchased, ostensibly to prevent the local currency from appreciating further in value. The high real deposit rates were maintained right through to the first quarter of 1997 and the strong private capital inflows continued until the end of 1996. As we go to press, there is somewhat of a reverse flow taking place, but the BOJ is meeting this demand from the Net International Reserves (NIR).

The revaluation has of course, contributed to the Jamaican dollar becoming quite overvalued and has put the foreign exchange earning sectors of the economy into considerable difficulty. The apparel sector has seen a number of firms closing and thousands of jobs have been lost as a consequence. Tourism and export agriculture have also been affected, and there have been layoffs in both sectors. The profitability of these enterprises has also been reduced as a result of the revaluation. In fact export earnings have fallen in 1996, while imports grew marginally.

All these developments lead to a likely contraction in the economy and affected not only the private sector but also the performance of government finances. The 1996/97 budget started out with an J$8 billion financing gap which was to be covered by increased revenue collection. Unfortunately, this target was not achieved and the normal revenue projections were not realised due to shortfalls in tax collection. The contraction in the economy reduced income taxes and GCT revenue, and the revaluation reduced the revenue from import duties. Government expenditure was burdened by increased debt servicing costs as the domestic debt continued to rise, and the assistance package for the financial sector also added considerably to their obligations. The upshot of all this has been the incurring of a huge deficit on government operations which is being financed by local borrowing.

OVERVIEW OF ANNUAL ECONOMIC REPORT 1996

Outlook

The most worrying factor as we look towards 1997 is the state of government finances, especially when 1997 is likely to be an election year. This government has a strong tendency to cast fiscal restraint to the wind when facing an election and if ever there were a time when restraint was needed in Jamaica, it is now. We have practically exhausted our options with regard to monetary policy and if we are to maintain relative stability going forward, fiscal policy will have to be considerably tightened so that it can take up more of the burden of the stabilisation effort. Unfortunately, this is not a likely prospect for the reasons outlined above.

The prime focus of government policy in the run-up to the elections will be the maintenance of the existing exchange rate and the underwriting of the deposits in the banking sector. The extent to which they will be successful at doing the former, will depend on the extent to which they can limit the latter.

Assuming the above, we are likely to see inflation bottoming out during the second quarter of 1997 at about 10% and then beginning to move upwards in the second half of the year. Interest rates on government paper are likely to bottom out in the mid teens and could edge upwards in the second half of the year. The real interest rate on deposits is likely to fall but real lending rates are likely to remain quite high as there is little prospect of the cash reserve ratio being reduced significantly. Government borrowing on the domestic market is likely to continue its strong growth, crowding out the private sector and increasing the contractionary pressures on the economy. In the first half of the year, this could deepen the recession which gripped the economy in 1996.

The financial sector bailout and the deteriorating fiscal position are likely to fuel stronger money growth in the remaining months of 1997. This is likely to pose a severe challenge to the BOJ and is likely to set the stage for dramatic developments in 1998, once the general elections are behind us.

March 1997

1. THE WORLD ECONOMY IN 1996-97

Based on a broad range of preliminary indicators supplied by the International Monetary Fund, the world economic and financial conditions remained generally encouraging and the global economic expansion is expected to continue at a satisfactory pace in 1996/97 and over the medium term.

As a result, total world output in 1996, was projected to expand by 3.8%, and increase by 4.1% in 1997. In industrial countries the growth projections for 1996-97 are 2.3% and 2.5% respectively - marginally higher than the 2.0% recorded in 1995. This expansion reflected the continuing success among industrial countries in controlling inflation and the robust growth of output and employment now being experienced by a number of industrial countries especially the United States.

In summary, it appears that the expansion in World output resulted mainly from the following:

1. Significant progress toward fiscal consolidation.
2. Correction of overvalued currencies
3. Significant containment of inflation
4. Significant growth in world trade in services.

Many industrial countries, however, are yet to share fully in the current expansion and continue to face the important policy challenges of addressing the deep-seated structural and macro-economic weakness in their economy. Some countries are also experiencing difficulties in their banking systems with the attendant downside risks to confidence and economic activity.

In the developing world, output is projected to expand by 6.3% and 6.2% respectively over 1996 and 1997. Despite this, many developing countries continue to struggle with macro-economic imbalances and structural impediments which keep their living standards well below what they are potentially capable of achieving. The role of market forces is generally increasing, but the high degrees of government intervention in the economies and large claims on financial resources by the public sector and quasi-public entities continue to hamper the development of the private sector in many countries.

World Trade

World Trade volume was projected to increase by 6.7% in 1996 (2.2% less than the growth rate in 1995), and 7.2% in 1997 (1.7% less than growth in 1995). Trade among the developing countries is also expanding strongly, supported by trade liberalization and increased intra-regional foreign direct investment.

Oil

The price of oil in recent years has continued to be highly volatile over short periods. It has been relatively stable, however, when compared with the period from the "first oil shock" in 1973 and through the Iraq-Kuwait conflict in 1990-91. However, the recent unexpected climb in the oil price - from about US$16 a barrel in October 1995 to about US$20.50 in April 1996 - has reminded us that oil prices are still very unpredictable. Oil prices in 1997 should average about US$18 per barrel.

Trade Developments

In terms of major trade agreements, there were not many new ones in 1996, but at the Ministerial Conference in Singapore from the 9th to 13th of December 1996, the Ministers declared their commitment to further strengthening the WTO as a forum for negotiating the continuing liberalization of trade within a rule-based system, and the multilateral review and assessment of trade policies.

THE WORLD ECONOMY IN 1996-97

Table 1.1

Overview of the World Economic Outlook Projections, 1994-1997

(Annual percentage change unless otherwise noted)

	1994	1995	1996	1997
WORLD OUTPUT	**3.7**	**3.5**	**3.8**	**4.1**
Industrial Countries	2.8	2.1	2.3	2.5
U.S.A.	3.5	2.0	2.2	2.5
Japan	0.5	0.9	3.5	2.7
Germany	2.9	1.9	1.3	2.4
Italy	2.2	3.0	1.1	2.2
U.K.	3.9	2.5	2.2	3.0
Canada	4.1	2.3	1.4	3.2
EUROPEAN UNION	**2.8**	**2.5**	**1.6**	**2.5**
DEVELOPING COUNTRIES	**6.6**	**5.9**	**6.3**	**6.2**
Jamaica	0.5	0.8	0.5	1.0
Africa	2.9	3.0	5.0	5.0
Asia	9.1	8.6	8.0	7.5
Middle East and Europe	0.5	3.6	3.9	3.3
Western Hemisphere	4.7	0.9	3.0	4.0
WORLD TRADE VOLUME IMPORTS	**8.8**	**8.9**	**6.7**	**7.2**
Industrial Countries	9.3	7.8	5.3	5.5
Developing Countries	8.1	11.6	11.3	10.1
EXPORTS				
Industrial Countries	8.3	7.3	4.3	6.0
Developing Countries	11.1	11.5	10.3	10.7
COMMODITY PRICE (IN SDRS)				
Oil 1	-7.8	1.9	17.8	-7.9
In U.S. dollars a barrel	-5.5	8.0	13.2	-7.6
Nonfuel 2				
In SDRs	10.8	2.1	4.8	-2.4
In US Dollars	13.6	8.2	0.7	-2.5

THE WORLD ECONOMY IN 1996-97

CONSUMER PRICES	1994	1995	1996	1997
Industrial Countries	2.3	2.4	2.3	2.4
Developing Countries	46.8	19.8	13.3	10.8
Countries in Transition	264.8	128.0	41.3	16.8
SIX MONTH LIBOR (IN PERCENT) 3				
On U.S. Dollar Deposits	5.1	6.1	5.6	6.0
On Japanese Yen Deposits	2.4	1.3	1.0	2.4
On Deutsche Mark Deposits	5.3	4.6	3.3	3.8

Source: World Economic Outlook

At this same meeting the protocol for the liberalization of the World telecommunications services was signed. Jamaica was a signatory, and pledged to grant full access to the local market to international telecommunication services and facilities after 2013. According to some commentators, this could result in the cost of international telephone calls dropping by about 80% in the future.

The United States of America and the European Community signed a zero-for-zero bilateral agreement on certain alcoholic beverages. This agreement would allow US exporters of alcoholic beverages zero rate duty access to the European market and allow the European exporters of similar beverages duty free access to the US Market. This could have an impact on the preferential treatment presently enjoyed by Caribbean exporters of rum to the European Market.

The world economy continues to prosper from the Uruguay Round and the other multilateral trade agreements which resulted in further liberalization of the trade in goods and services. In this context, it is a constant reminder to all of the benefits that are likely to accrue to those economies with the capacity to identify and supply the increasing demand for goods and services in the international marketplace.

Inflation and Commodity Prices

The aggregate inflation projections for industrial countries in 1996 and 1997 are expected to remain stable and low at between 2.3% and 2.4% per annum. This low inflation expectation seems to have resulted from a strong commitment by the authorities to the use of tight monetary policies. A more flexible labour market may be contributing to wage moderation, while the growth in international trade and increased global competition should help to lessen the inflationary pressures.

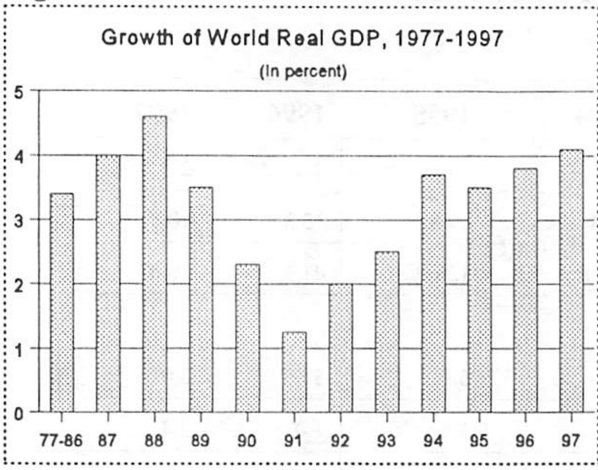
The developing countries, for the first time in years, seem to be coping with the task of keeping inflation under control with the projection for 1996 being 13.3% and 10.8% for 1997. Inflation rates for countries in transition are projected to be 41.3% in 1996 and 16.8% in 1997 which is a significant reduction when it is considered that inflation rates in 1995 averaged 120%.

World Economic Outlook

As shown by Table 1.1, the growth outlook for the world's output in 1997 is estimated at about 3.8% and 4.1% for 1996 and 1997 respectively. Looking ahead to

THE WORLD ECONOMY IN 1996-97

Figure 1



1997, private consumption growth is expected to be relatively stable in most countries. There is likely to be little growth in public consumption in industrialized countries, as there is an effort to reduce fiscal imbalances in those countries.

However, the strong indications from investment intention surveys are extremely encouraging, suggesting that business investment should generally remain high as a buoyant component of overall demand.

The continued restructuring of production in line with global competition and high levels of foreign direct investment should contribute to a rise in overall investment levels which would stimulate rapid growth of trade in capital goods. Japan is expected to regain its momentum in private domestic investment and its outward foreign direct investment is likely to decline as Japanese producers adjust to the realignment of the yen by investing more at home.

2. GROSS DOMESTIC PRODUCT

Preliminary indications are that 1996 was another year in which GDP recorded flat performance. Final growth figure for the year is expected to be, at the most optimistic, positive, but lower than the 0.5% achieved in 1995. The economy experienced mixed fortunes in respect of the performance of its macro economic fundamentals during the year.

Policy initiatives implemented during the year resulted in the lowering of the annual rate of growth of inflation (15.8% for the calendar year), the control of money supply growth (down to single digit rate), sustained high Net International reserve level (US$692.6 million at the end of the year), and further improvement in the Balance of Payment Account (from a deficit of US$24.7 million at November 1995 to a surplus of US$241.8 million at November 1996).

Notwithstanding the above positives the economy ended the year still faced with a number of difficulties, prominent among which were:

1. Continued high interest rates, both in nominal and real terms;

2. Low level of capital formation and investment consequent on these high interest rates;

3. Increased unemployment resulting from down-sizing by a number of entities;

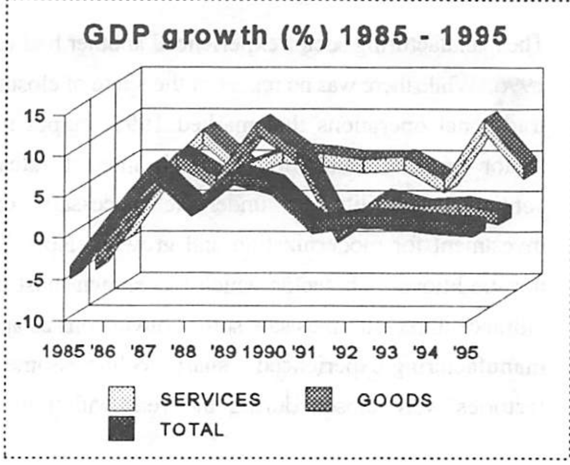
4. A revaluation in the exchange rate that impacted adversely on the export sector, especially apparel manufacturing;

Additionally, the country's financial sector experienced serious turbulence during the year as a major commercial bank was closed by the Ministry of Finance and another experienced a temporary run based on persistent rumours of its impending closure. Furthermore, the protracted period of high interest rates, combined with significant reductions in the prices of both stock and real estate, have placed a number of entities particularly in the financial sector in precarious positions in terms of capital adequacy and cash flow requirements. The upshot of this is that government recently announced a $6.3 billion dollar package to help the sector out of these difficulties.

In respect of the goods producing sectors of the economy, agriculture, mining and quarrying and construction are all estimated to have recorded incremental to modest growth. On the other hand, Manufacturing which accounted for some 18% of the country's GDP in 1995, is estimated to have recorded its second successive yearly decline following on its one percent fall in 1995. This time around the order of decline is expected to be higher as the non traditional sub-sector (especially in the area of apparel manufacture), which has hitherto recorded robust expansion, experienced significant fall out in the last half of the year.

The services sector which accounts for the larger portion of Gross Domestic Product and which has led economic performance since 1991 (see Figure 2.1), faltered badly in 1996.

Figure 2



GROSS DOMESTIC PRODUCT

Financial institutions and financial services which are included in this grouping should see larger declines than the 2.6 and 3.1% respectively, recorded in 1995. At the same time the insurance sub-sector is estimated to have recorded its first decline in many years. There was modest growth in tourism which helped to shore up the overall performance of the service sectors but this could not neutralize completely the fall out from the other sub-sectors.

Domestic consumption, as reflected in the trade data for the first eleven months of the year, was somewhat constrained in 1996 with total imports of US$2,593.3 million reflecting a 2.6% growth over the 1995 January to November figure. This compares with 28.6% growth in imports for the similar period in 1995 over the 1994 figure. The composition of imports remains worrying, however, as whereas imports of consumption items grew by 11.8% those comprising raw material grew by a mere 2.7% while expenditure on capital goods fell by 8.5%. This, combined with the fact that credit to the goods producing sector of the economy declined 17.6% between January and July whereas credit for consumption purposes only declined by 1.7%, underscores the extent to which high interest rates and tight monetary policy have had a more deleterious effect on investment than consumption.

Manufacturing

The manufacturing sector experienced another bad year in 1996. While there was no repeat of the spate of closures of traditional operations that marked 1995, output in this sector remains hamstrung by high interest rates and continued inability to undertake necessary capital investment for modernization and growth. Notably, the non-traditional sub-sector which has shown most of the vibrance in recent times saw some convulsions as apparel manufacturing experienced a sharp decline. Some eight factories were closed during the year with job losses amounting to over 5,000. All of this should result in a decline in the value of non-traditional exports for the year.

The fall out in the apparel sector prompted the announcement by the government of a J$200 million package of assistance over an eighteen (18) month period for the sector.

Mining

In somewhat of a reversal of the 1995 situation when exports were down but earnings were up, the bauxite and alumina sub-sector recorded increases in production and shipment levels for 1996 over 1995 but saw a reduction in gross export earnings. Jamaica Bauxite Institute preliminary statics shows total bauxite production of 11,828,634 tonnes, up by 8.9 % on the 1995 figure. Alumina production for the year amounted to 3,199,513 tonnes, 5.6% higher than the 1995 figure. Shipments of crude bauxite and alumina also recorded increases; these were of the order of 10.4 and 5.6% respectively.

The sector experienced relative industrial calm during the year and saw no repeat of the kind of actions that disrupted production during 1995. This, in large part, accounts for the increases in both production and shipments for the year.

Preliminary estimates are that gross earnings for 1996 at US$691.0 million were 2.8% lower than the US710.6 million recorded for 1995. The reduction in earnings from the sector despite increased output was the result of reduced aluminum prices for the year which in turn led to a reduction in the realised value for alumina. Interestingly, capital expenditure in the sector remained robust with an increase of 41.1% for the year to September compared with the similar period in 1995.

GROSS DOMESTIC PRODUCT

Agriculture

The agricultural sector continues to turn out favourable performances despite the difficulties of high cost of inputs and prohibitive interest rates. According to the Planning Institute of Jamaica Index of Agricultural Production, output in the sector recorded a 4.5% increase between January and September compared to 2.3% for the equivalent period in 1995. Output in the traditional crops category is reported to have registered a 9% increase for the first nine months of the year with sugar, banana, coffee and citrus among the crops showing increases.

Non-traditional agriculture is reported to have also recorded positive performance with increased exports of fruits, pumpkins, yams, dasheens and eddoes. Earnings were however constrained by lower prices in the export market and higher cost towards the latter half of the year resulting from the revaluation of the Jamaican dollar viz-a-viz its US counterpart. Indeed, total earnings from exports of both traditional and non-traditional crops for the nine months to September was US$195.3 million, up by a marginal 2.8% on the 1995 figure.

Tourism

Despite a sharp decline in the arrival of stop over visitors during the third quarter the tourism sector is estimated to have recorded another year of positive returns in 1997. Data from the Jamaica Tourist Board for the year show: total stop over visitors of 1,162,449 up by 1.3% on the 1995 statistics; and total cruise ship visitors of 658,178 up 8.8% on the 1995 figure. Arrivals from North America and Europe recorded increases but there were reductions in the number of visitors from Latin America and Japan.

The Jamaica Tourist Board also reported an increase in the average length of stay for stop-over-visitors which, combined with the significant improvement in cruise ship visitors, resulted in estimated gross earnings of US$1.16 billion for the year, up by 5.5% on the 1995 level.

Outlook

Notwithstanding the success achieved in 1996 in terms of reducing the rate of growth of inflation and the emerging trend of lower interest rates, the economy faces a number of major difficulties which will continue to militate against the achievement of robust economic growth in 1997.

Much of the effect of the difficulties in the financial sector will carry over well into 1997 further inhibiting growth in the service sector. Similarly, the full effect of the losses in the garment sectors will no doubt be reflected in the 1997 production statistics. The package of incentives offered to the sector should prove beneficial in halting some of the slide but it is unlikely that the sector will see considerable new investments in the current year.

Traditional manufacturing activities should see some benefits from lower interest rates but again it can hardly be expected that output from that sector will see significant improvements this year. Non-traditional exports will be somewhat hamstrung by the effect of the revaluation of the currency on their costs of operation as well as the fact that market prices for a number of the country's non-traditional exports especially agricultural produce fell last year and are not projected to recover in the current year.

Tourism, though still beset by a number of problems, was the major growth sector in 1996. There were worrying signs, however, during the third quarter of the year (the Olympics and the US elections notwithstanding) when stop over visitors declined by some 3.4%, that all is not well in that sector. If the sector is to continue its expansion, more attention will have to be given to: improving the product quality especially in respect of plant

GROSS DOMESTIC PRODUCT

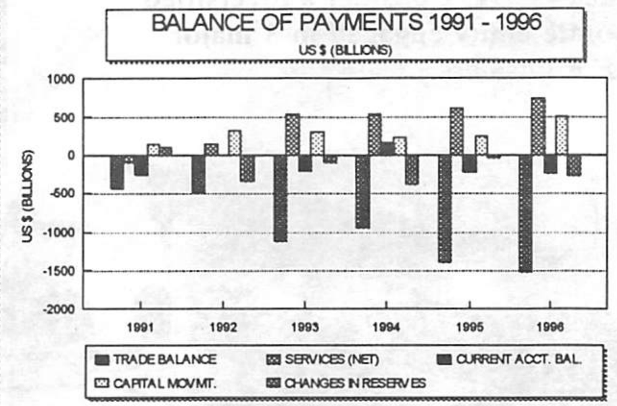
and infrastructure; reducing the country's level of crime and violence and lessening visitor harassment.

In sum: output in manufacturing, some services, and agriculture will be slow in responding to declining interest rates whereas others such as the financial and garment sector will register the full effect, in this year, of events which occurred last year. Those sectors slated for continued growth, (mining, tourism and some areas of service), will do so only modestly. In this regard the economy is not projected to see any growth this year. A spending boom in the run-up to a general election could, of course alter the picture somewhat. However, word from the Minister of Finance is that this is not on the cards. In any event even if it does in fact take place, past experience is that increased government expenditure does more to stimulate domestic inflation than to foster economic growth.

3. BALANCE OF PAYMENTS

The overall out-turn of the Balance of Payments at the end of 1996, was more favourable than in 1995. At December 1996, the balance on the Goods and Services sector, although still negative was just US$2.7 million more than for December 1995 and reflected a more positive performance by the foreign travel sector. Although the current account is still negative it was, however, US$23.7 million larger in 1996 than in 1995. But the capital account was US$271.6 million greater than at December 1995.

Figure 3.1



All the above indicate that although the year saw a significant rise in imports over exports, the performance of the services sector returned greater earnings than in 1995 which has offset just less than half the merchandise deficit. So with lower net transfers in 1996 than in 1995, the current account deficit grew larger in 1996. Nevertheless, the extraordinary performance of the capital account netting a 114.1% increase over 1995, offset the negative current account balance and contributed to a significant improvement in the Net International Reserves of the Bank of Jamaica.

The principal factors influencing the out-turn were the macro-economic policies which were maintained throughout the year. 1996 saw the maintenance of a tight monetary policy, which featured low growth in money supply and continued high interest rates. This combination was designed to, and achieved the objectives of curbing demand, maintain stability in the exchange rate and reduce inflation.

The following resulted from these initiatives:

(a) A significant increase in private capital inflows which were converted to Jamaican dollars to take advantage of the high yields on Government Securities.

(b) The increased foreign exchange inflows brought about a revaluation of the Jamaican dollar.

(c) With a lower exchange rate, imports became cheaper and this supported increased importation and gave rise to the ultimate import bill of US$2.907 billion for 1996.

(d) The revaluation of the Jamaican dollar, however, made local exports less competitive and, combined with the impact of high interest rates on loans, led to a decrease in the production of exports and the decline in the earnings of the sector.

(e) The high interest rates discouraged increased investments as projects proved unprofitable to be implemented. The level of local output therefore declined giving rise to an increased demand for import substitution.

(f) High interest rates impeded imports of capital goods and raw materials, which increased by a lower margin than imports of consumer goods.

BALANCE OF PAYMENTS

Table 3.1

Balance of Payments 1991 - November 1996 (US$Mn)

	1991	1992	1993	1994	1995	1996	Change (US$Mn)
Merchandise							
Exports (fob)	1150.7	1053.6	1075.4	1219.5	1436.8	1379.4	-57.4
Imports (cif)	1575.0	1529.1	1880.1	1871.5	2831.8	2906.7	74.9
Balance of Trade	**-424.3**	**-475.5**	**-804.7**	**-652.0**	**-1395.0**	**-1527.3**	**-132.3**
Services (Net)	**-84.3**	**146.6**	**233.6**	**195.0**	**617.0**	**746.6**	**129.6**
Foreign Travel	710.4	794.2	878.4	854.0	939.6	979.7	40.1
Investment Income	-478.9	-348.2	-240.2	-284.3	-296.9	-209.0	87.9
Others	-315.8	-299.4	-404.6	-374.7	-25.7	-24.1	1.6
Goods & Services (Net)	**-508.6**	**-328.9**	**-571.1**	**-457.0**	**-778.0**	**-780.7**	**-2.7**
Transfers (Net)	**252.8**	**339.8**	**376.9**	**475.3**	**563.3**	**542.3**	**-21.0**
Private	153.3	248.2	306.4	447.2	505.3	481.6	-24.0
Official	99.5	91.6	70.5	28.1	57.7	60.7	3.0
Current A/C Balance	**-255.8**	**10.9**	**-194.2**	**18.3**	**-214.7**	**-238.4**	**-23.7**
Capital Movement (Net)	**150.6**	**326.3**	**307.6**	**319.2**	**238.1**	**509.7**	**271.6**
Private	51.4	336.3	309.1	429.3	344.7	622.7	**278.0**
Official	99.2	-10.0	-8.0	-8.4	-6.4	17.4	**23.8**
Government Direct			-1.4	-101.9	-97.0	-156.3	-59.3
Government Guaranteed			2.3	-17.1	-3.2	25.9	29.1
Divestment			5.6	17.3	0.0	0.0	0.0
Change in Reserves (Minus = Increase)	**105.2**	**-337.2**	**-113.4**	**-337.5**	**-23.4**	**-271.3**	**-247.9**

Source: Bank of Jamaica & PIOJ

(g) The lowering of import duties under the Common External Tariff (CET) arrangements, made the cost of imports lower and, at times, significantly less than the prices of comparable local products. This also served to fuel the demand for the cheaper imports, which discouraged local output while increasing the import bill.

Merchandise Trade

At the end of 1996, Jamaica's trade transactions totalled US$4.286 billion and were comprised of export earnings of US$1.379 billion and imports of US$2.907 billion. This compares with total trade of US$4.269 billion at the end of 1995 with exports of US$1.437 billion and imports of

BALANCE OF PAYMENTS

US$2.832 billion. The point to point differences were US$17.4 million in total trade with imports rising by US$74.9 million and exports declining by US$57.4 million. The Trade Deficit for 1996 was US$1.527 billion and, compared with US$1.395 billion in 1995, has widened in 1996 by US$132.3 million or 9.5%.

During 1996, imports rose by 2.6% and although export earnings fell by 4.0%, because of the larger value of imports, it served to widen the trade gap significantly. Contributing to the increase in imports was an overall 6.8% rise in consumer goods and a 10.1% increase in capital goods imports.

Overall, major traditional exports showed a 1.4% fall in earnings, and this was mainly effected by a 5.0% fall in earnings from alumina exports. The non-traditional export sector also showed a decline of 9.9% mainly due to the fall off in the earnings of the apparel sector.

Services

Complementing the out-turn of the merchandise trade is the services sector, which continued in 1996 to have a positive net outcome. For the year, this sector netted US$746.6 million, or 21.0% more than the US$617.0 million net position of the sector in 1995.

Travel receipts of US$979.7 million, mainly reflecting tourism earnings, is the major contributor to this sector and showed a 4.3% increase in earnings over 1995.

Net investment income was US$-209.0 million and indicated that of the inflows and outflows for the economy in relation to investment earnings, debt-servicing, interest-payments and profit repatriation, the outflows were greater to the extent of US$209.0 million. This figure was substantially less than the US$-296.9 million for 1995 and reflects the lower outflow of profit repatriation from the bauxite sector as their earnings declined in 1996.

Returns for the 'other service' sector were also negative, implying that greater levels of payments than receipts were made for transactions in the economy relating to total travel receipts, farm work remittances, non-merchandise insurance, and freight and port services. Overall, the balance of US$-24.1 million at year end 1996 was US$1.6 million less than December 1995.

Transfers (Net)

Net Transfers for 1996, amounted to US$542.3 million which was US$21.0 million or 3.7% lower than for 1995. This position resulted mainly from a fall of US$24.0 million in private transfers, which is reflecting a decline in inflows of remittances. Although at year end 1996 there was an increase in the level of official transfers, this was not of a sufficient magnitude to offset the fall in private transfers.

The decrease in private transfers has been evident throughout the year. One explanation is that it is the result of a re-classification of the inflows, so that some of these funds are now captured as capital inflows. Nevertheless, the decline in these transfers makes for a higher negative balance on the current account given the huge deficit on the merchandise account.

Current Account

The current account showed significant deterioration of US$23.7million for 1996 as the deficit on this account worsened to US$-238.4 million compared with US$214.7 million at the end of 1995. This position is largely

BALANCE OF PAYMENTS

reflecting the widening of the Merchandise trade deficit by US$132.3 million which was only partially offset by the positive net services position of US$129.6 million. The fall in net transfers balances also helped to further increase the negative current account balance.

A sustained negative current account balance indicates the country's inability to cover its liabilities relating to the trade of goods and services. It therefore, has to resort to the capital account for settlement of these debts. This position highlights the need for improvements in the performance of the earnings sectors of the economy.

Capital Account

At the end of 1996, the capital account balance of US$509.7 million indicated a very significant improvement of US$271.6 million over balances at December 1995. Although marginally higher outflows i.e. US$113.0 million at December 1996 over 1995 went to service government's debts, there was an 80.6% or US$278.0 million net increase in the level of private capital inflows up to year end 1996. The resulting positive net position helped to improve the reserves position of Bank of Jamaica by US$271.3 million.

The significant rise in private capital inflows during 1996 was, to a great extent, due to interest rate arbitrage activity. Its sustainability, therefore, depends on the continuance of the high interest rate policy. This build up should be viewed as short-term, with the potential to disappear overnight. As such, it does very little to foster a sense of confidence and stability.

Table 3.2

Capital Account

	1991	1992	1993	1994	1995	1996
NET CAPITAL MOVEMENT	-1.9	326.3	310.3	226.5	238.1	509.7
Goverment Direct	66.8	0.0	-1.4	-127.4	-97.0	-156.3
Government Guaranteed	9.4	0.0	2.3	17.1	-3.2	25.9
Official Short-term	-38.7	-10.0	-10.6	-8.4	-6.4	17.4
Private (including errors and omissions)	-54.4	326.5	314.4	327.9	344.7	622.7
Divestment	15.1	9.8	5.6	17.3	0	0

BALANCE OF PAYMENTS

Outlook

With the tight monetary policies in place during the latter half of 1996, the rate of growth of imports slowed considerably. This trend could continue into 1997 if the measures remain the same. However, there is every indication they will not, as interest rates are trending down and there is talk of lowering the reserve requirements of financial institutions. This means that credit levels will be expanded and its cost reduced. Therefore, consumption demand will expand and imports will grow especially if the exchange rate remains unchanged. As export earnings will not catch up that quickly, the trade balance is likely to deteriorate again in 1997.

With the lowering of interest rates, there might not be that significant level of capital inflows to improve the overall balance of payments' out-turn.

The build up of NIR is unlikely to continue during 1997 as significant amounts of the reserves will be used to stabilize the exchange rate as it comes under pressure when the speculative capital flows out of the economy. Despite contracting economic activity, unless fiscal policy is tightened considerably, the BOP is likely to deteriorate in 1997.

4. EXTERNAL TRADE

The value of Jamaica's Merchandise Trade for 1996 stood at US$4.286 billion. This included expenditure of US$2.907 billion on imports and export earnings of US$1.379 billion. Comparable figures for 1995 include total trade of US$4.269 billion with export earnings of US$1.437 billion and expenditure on imports of US$2.832 billion. The trade gap for 1996 is US$1.528 billion. This is US$149 million more than the year's total export earnings and 9.5% larger than the US$1.395 billion gap in 1995.

Since Jamaica is also a large exporter of services through its tourism industry, the net value of its export of services is also of significance. At the end of 1996 it was US$746.6 million which mades the net position of the country's trade in Goods and Services US$-780.7 million.

Figure 4.1

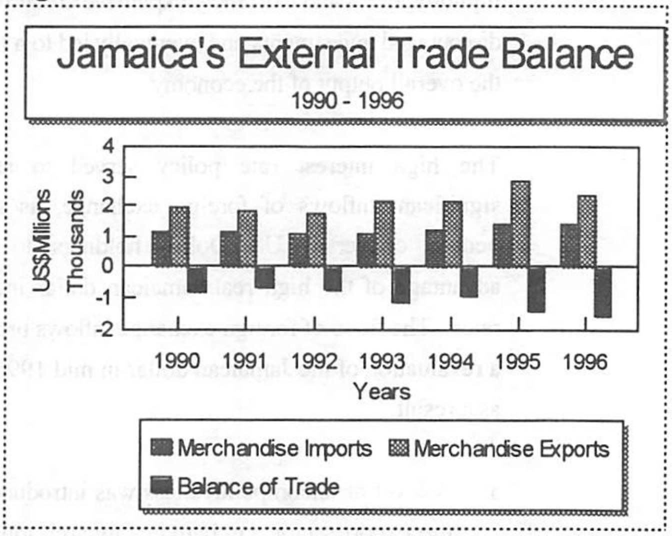


Table 4.1

Jamaica's External Trade Balance 1990-Nov 1996 (US$Mn)

	1990	1991	1992	1993	1994	1995	1996
Merchandise Exports	1157.5	1145.5	1053.6	1044.5	1223.9	1436.7	1379.4
Merchandise Imports	1942.1	1799.5	1775.4	2165.2	2171.4	2831.8	2906.7
Balance of Trade	-784.6	-654.3	-721.8	-1120.7	-947.5	-1395.1	-1527.3

The out-turn of the merchandise trade sector for 1996 was influenced by economic and trade related developments in the local economy and in the international market place.

Internal Factors included

1. The Macro-economic environment in 1996 appears to have tightened somewhat relative to that of 1995. In 1995, both imports and exports grew, though the latter grew at a slower rate than the former. In 1996, exports declined in value but imports continued to grow, though only marginally. The high real lending rates had a dampening effect on imports of raw materials and capital goods, but high real wage increases fuelled the strong growth in imports of consumer goods.

Government policies during 1996 focused on maintaining stability in the exchange rate and control of inflation - these with a view to putting a damper on the J$ devaluations as well as on price increases. To achieve these objectives, the growth rate of broad

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money (M2) declined significantly and, coupled with a high interest rate policy the result was a decline in liquidity levels and extremely expensive credit which discouraged investments and eventually led to a fall in the overall output of the economy.

The high interest rate policy served to attract significant inflows of foreign exchange, as many people converted US Dollar holdings to take advantage of the high real Jamaican dollar interest rates. The flood of foreign exchange inflows brought a revaluation of the Jamaican dollar in mid 1996 and as a result:

a. A level of uncompetitiveness was introduced in the export sector, i.e. bauxite, apparel, tourism, etc., which lowered their earnings and reduced their viability. There were closures, layoffs, lower levels of output and reduced profitability experienced in the export sector which led to an overall decline in their earnings.

b. The high interest rates did not significantly affect the demand for consumer credit and the revaluation of the Jamaican dollar led to imports becoming cheaper in J$ terms. This, combined with cheaper and easily available foreign exchange, facilitated increased demand for imported consumer goods.

c. Although during the year inflation declined and this influenced wages and other input costs to production, this did not encourage increased production as other major inputs, e.g. credit and capital needs, were too expensive and did not lead to project implementation or investments.

d. The overall tight macro environment made it difficult therefore for companies to re-tool, and become more efficient in production to enhance their competitiveness. Consequently, there were closures and down-sizing or mergers and this increased unemployment.

2. Throughout the year industrial action led to decreases in production and declines in productivity which slowed economic activity in major exporting sectors e.g. sugar and bananas.

3. The productivity of employees throughout the island, during 1996, continued to be affected by problems of poor transportation, crime and violence, infrastructural problems and other hazards. This has been reflected in declines in the output of some sectors of the economy.

4. Between April and September 1996, droughts and flood rains affected to some extent agricultural commodity production especially for some starches, e.g. potatoes and vegetables such as carrots. This led to some declines in output for both local and export markets, facilitating the need for additional imports to fill the shortfall on the local market.

5. *Policy Initiatives* effected during the year included :
   a. The further lowering of the Common External Tariff which made the cost of imports cheaper and fostered a significant rise in imports. As cheaper imports entered the local market the demand for comparable yet more expensive local products declined.

   b. The Jamaica Export Free Zone Act was approved during the year. The initiative facilitated the setting up of stand-alone freezones outside the traditional freezone areas. By allowing freezone benefits e.g. tax holidays to accrue to these operations, it will no doubt improve profitability.

EXTERNAL TRADE

c. Efforts continued during the year, through the vigilance of pressure groups like the JEA, to effect improvements in the systems and the operational efficiency of the Customs Department. They also focussed on stemming the flow of illegal imports, as well as on curbing the contamination of exports by illicit substances.

External Factors

As the principles of trade liberalization become more entrenched, and trade barriers are lowered, the realities of the advantages and disadvantages of free trade are impacting on the local economy.

1. The preferential markets for traditional products e.g. sugar and banana, are being dismantled creating a level of nervousness and uncertainty in these industries. The preferential prices accompanying these arrangements are also being eroded giving way to lower prices which have affected the earnings from these exports.

2. Capacity and output in the international alumina industry have increased. However, demand has not kept pace with output and market prices have been depressed. Despite the local industry experiencing increased output during 1996, earnings have been flat.

3. The changes in the macro-economic environment in Jamaica during 1996 and Jamaica's unsuccessful bid to gain NAFTA parity status combined to produce a less favourable offshore investment environment. This influenced the departure of quite a number of apparel manufacturers to more competitive and investment friendly environments during the year, bringing about a significant decline in non-traditional export earnings.

4. Jamaica's sugar industry benefitted during 1996 from increased sugar production: an increased sugar quota from the U.S.A. as well as from filling the remainder of Barbados' unfilled quota to the U.S.A. Its earnings rose by 13.2% in 1996.

Imports

For 1996, Jamaica's merchandise imports were valued at US$2.907 billion, increasing by 2.6% or US$75 million over imports of 1995. During the year, although imports have continued their increasing trend, the rate of growth has declined considerably.

In 1995, imports rose by 27.4% over 1994 and this compares with 2.6% growth in 1996. However, during the first quarter of 1996, imports rose by 16.2% but its growth rate moderated steadily during the latter months of the year.

Of the total value of merchandise imports, raw materials formed 55.7% costing US$1.620 billion; Consumer Goods of US$745.3 million was 25.6% and Capital Goods of US$541.4 million was 18.6%. Compared with imports in 1995, Raw Materials had a 58.0% share valued at US$1.642 billion, Consumer Goods 24.6% at US$697.6 million and Capital Goods 17.4% or US$491.8 million.

In value terms, between 1996 and 1995 imports of consumer goods rose by 6.8%, capital goods by 10.1% while raw materials fell by 1.4%. These movements have indicated that the increasing trend in imports is skewed towards consumer goods which consist of mainly food, consumer non-durables and durables. Motor car imports constituted 17.3% of total consumer goods imports. The purchase of aircraft valuing US$30.9 million was significant in influencing the rise in capital goods imports.

About 27.7% of Raw Material imports is fuel and crude oil whose import value rose by 13.0% in 1996 over 1995.

EXTERNAL TRADE

Figure 4.2

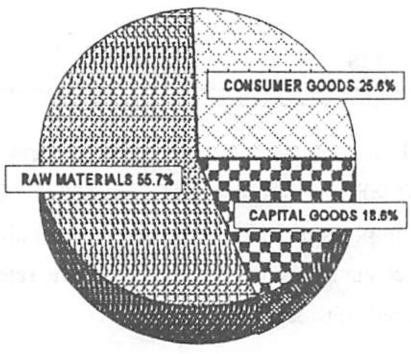
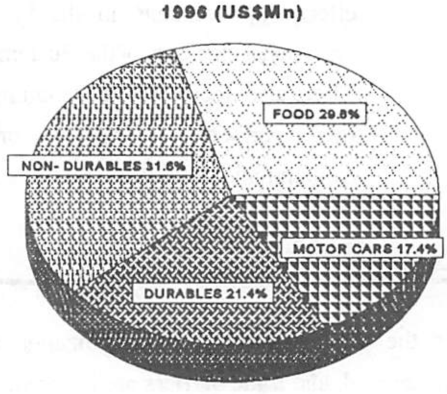


Figure 4.3



The remaining 'other raw material' category, showed a 2.7% decline in 1996 and, coupled with declines in capital goods imports, reflect the reluctance and inability of the productive sector to engage in productive activities.

Table 4.2 **Value of Merchandise Imports by Economic Use**
1993 to 1996 (US$Mn)

	1993	1994	1995	1996
Consumer Goods	**476.9**	**446.9**	**697.6**	**745.3**
Food	145.3	124.8	195.7	220.8
Other Non-Durables	138.1	157.8	214.4	235.5
Durables	193.5	164.3	287.5	289.0
Of which Motor Cars	99.1	62.8	146.6	129.5
Raw Material	**1322.7**	**1348.8**	**1642.3**	**1620.0**
Fuels	343.3	328.6	397.4	448.9
Other Raw Material	979.4	1020.2	1244.9	1171.1
Capital Goods	**389.6**	**375.7**	**491.8**	**541.4**
Transport & Equipment	134.3	101.6	98.2	129.0
Of which Motor Cars	49.6	38.8	7.3	7.2
Construction Materials	95.9	90.2	149.9	131.6
Other Machinery	155.4	178.3	234.7	274.4
Other Capital	4.0	5.6	9.0	6.4
Total	**2189.2**	**2171.4**	**2831.8**	**2906.7**

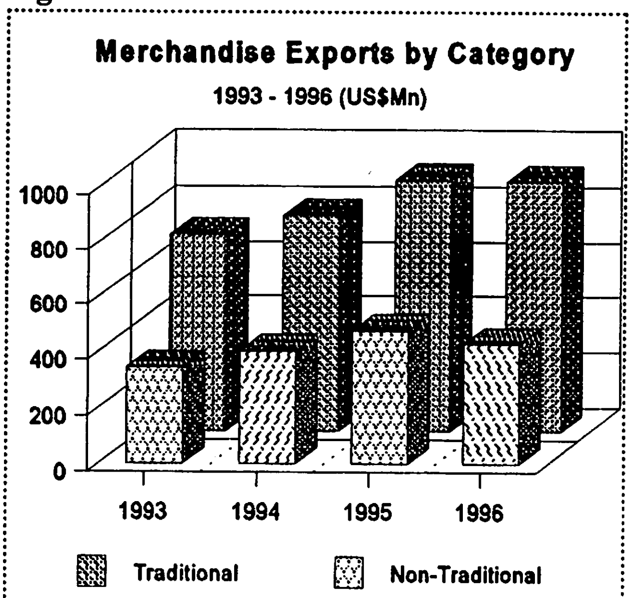
Source: Bank of Jamaica

EXTERNAL TRADE

Exports

The value of exports from Jamaica for 1996 was US$1.379 billion, representing a US$57.3 million or 4.0% decline in exports over the same period in 1995. The decline in export values in 1996, is the reverse of a 17.4% rise in 1995, the highest increase experienced over the preceding six years.

Figure 4.4



All major export sectors except the 'other traditional sector' registered declines in earnings. In the major traditional sector, earnings fell by 1.4% despite significant increases in their export volumes. For alumina and banana earnings, the decreases were by 5.0% and 1.1% respectively, and this was not offset by the 10.4% and 13.8% rise in earnings from bauxite and sugar respectively.

The earnings from 'other traditional exports' e.g. citrus, rum, coffee, etc. showed a 10.7% overall increase although citrus earnings fell by 10.2%. The 'non-traditional export' sector earnings fell by 10.0% and this was due mainly to a 11.7% or US$43.4 million decline in earnings from the apparel sector. While food and beverage exports showed a marginal increase in earnings, export earnings from flowers, foliage, furniture and other domestic exports fell.

CARICOM Trade

Expenditure on imports from the CARICOM region for 1996, amounted to US$296.4 million. This represents a 16.3% rise over imports for 1995.

Total exports to the region for this period were US$55.4 million, indicating an 8.2% fall when compared with 1995. As Jamaica's CARICOM trade continues to be lopsided and the trade gap widens, it should be noted that 60.2% of Jamaica's imports constitute oil imported from Trinidad & Tobago. Data for 1995 and 1996 shows Jamaica increasing its mineral fuel imports by 31.6% and its food imports from the region by 21.3%.

EXTERNAL TRADE

Table 4.3

Value of Merchandise Exports
1993 to 1996 (US$Mn)

	1993	1994	1995	1996
Major Traditional Exports	**657.1**	**731.5**	**844.6**	**833.1**
Bauxite	84.2	73.0	70.9	78.3
Alumina	439.8	537.2	632.0	600.4
Sugar	97.5	73.0	96.0	109.2
Bananas	35.6	48.3	45.7	45.2
Other Traditional Exports	**56.1**	**51.8**	**64.7**	**71.6**
Citrus & Citrus Products	5.7	3.5	5.9	5.3
Coffee & Coffee Products	19.7	16.8	26.9	32.2
Cocoa & Cocoa Products	4.2	6.0	5.2	3.5
Pimento	3.8	3.4	4.3	3.5
Rum	21.6	21.1	22.2	25.5
Gypsum	1.1	1.0	1.1	1.6
Total Traditional Exports	**713.2**	**783.3**	**910.3**	**904.7**
Non-Traditional Exports	**345.1**	**403.7**	**477.8**	**430.3**
Total Domestic Exports	**1058.3**	**1187.0**	**1388.1**	**1335.0**
Re-Exports	**17.1**	**36.9**	**48.6**	**44.4**
Total Merchandise Exports	**1075.4**	**1223.9**	**1436.7**	**1379.4**

Outlook

The out-turn of merchandise trade for 1996 showed a significant increase in the trade deficit. This, coming against the background of declining output, indicates the country is reinforcing the trend of an increasing dependence on imports. This has significant implications for employment and economic growth. There is the urgent need, therefore, for the removal of the obstacles inhibiting investment and growth, as well as the implementation, on a fast track basis, of such policies which will create a more conducive environment to foster production and increase exports. This could stem the need for imports especially of food and some consumer non-durables which form a major part of the import bill.

The importation of motor cars in 1996 was a significant part of the import bill (4.7% down from 5.4% in 1995). With the demand for cars falling and the market appearing to be currently saturated, it is hoped that 1997 will see a further decline in motor car imports.

EXTERNAL TRADE

Table 4.4

Caricom Imports and Exports by S.I.T.C.
1995 & 1996 (US$ '000)

	Jan-Dec 95 Imports	**Jan-Dec 96 Imports**	**Jan-Dec 95 Exports**	**Jan-Dec 96 Exports**
Food	26062	31606	14149	13704
Beverage & Tobacco	22176	16159	3640	3559
Crude Materials - Inedible (excluding fuels)	1358	1976	660	402
Mineral Fuels, Lubricant & Related Materials	135462	178289	6392	3250
Animal & Vegetable Oils and Fats	5965	4606	5	4
Chemicals	24281	30055	13467	13891
Manufactured Goods - Chiefly by Materials	29283	24383	11303	9435
Machinery & Transport and Equipment	4673	3433	3344	3511
Miscellaneous Manufacturing	5520	5922	7414	7676
All Sections	**254781**	**296430**	**60374**	**55432**

Source: Statistical Institute of Jamaica

Overall, for 1997, there should be continued high levels of imports, with those for consumer goods increasing as the fall in interest rates, coupled with a stable exchange rate and available foreign exchange, will foster this. It will take a longer time however, for lower interest rates to translate into investment and production of goods both for local consumption and export. The trade gap will therefore continue to widen.

There is strong belief that the Jamaican dollar at its current rate of exchange is close to 40% over-valued, and as such should be devalued. This would lead to more competitiveness in the export sector. However, the Bank of Jamaica with its stock of reserves would see no justification for this. Therefore, the exchange rates are likely to remain as they are and this will not support much growth in exports in 1997.

However, with an aid package available to the apparel sector and the hope of some change in US/CARICOM agreements re expanding the benefits of the CBI, this could stem the fall out in the apparel sector from which there could be increased earnings and some unemployment relief.

5. MONEY AND BANKING

Base Money

The growth in Base Money for 1996 was 11.4% and shows that significant restraint was achieved in the growth of Base Money during 1996, when compared with growth rates of 30.6% and 42.71% for 1995 and 1994 respectively.

The components of Base Money showed similar results with Currency Issue increasing by 12.9% from J$ 10,979.92 million at the end of December 1995 to J$ 12,391.84 million at the end December 1996. Commercial Banks Accounts increased by 9.8% from J$15,803 million to J$17,283.23 million at the end of December 1996.

BoJ officials declare that tight and continuous management of Base Money has been the means by which they have controlled money supply growth and brought inflation under control. This focus is likely to continue for some time yet.

Money Supply

At the end of November 1996, the nominal stock of broad money that is M2 stood at J$75.42 billion, indicating a J$4.71 billion or 6.7% increase over November1995. The real stock stood at J$7.56 billion in 1988 dollars, indicating a J$0.45 billion or 5.62% decrease over November 1995. For the first six months of 1996, M2 declined by J$1.69 billion or 2.3% with its largest monthly decrease of 4.4% in May. However between July and November, five (5) months, there was a J$3.49 billion increase with July showing the largest monthly rise of 2.8%. This was small relative to last year's largest monthly rise of 6% for the month of October. In July the Ministry of Finance closed Century National Bank (CNB). This contributed to an increase in Money Supply that month by increasing the overall Currency in circulation as depositors sought to withdraw their funds from small financial institutions. This increase was also fuelled by advances from the BoJ to CNB as depositors withdrew funds prior to the closure.

Contributing to the relatively small rise in broad money (M2) were small changes in its components, M1 and Quasi-Money. From January to November 1996, narrow money that is Ml, declined by J$2.13 billion or 9.16%. Its components, "currency with the public" declined by J$436.3 million or 4.59% while "demand deposits" declined by J$1.691 billion or 12.39%. However, "Quasi-money" rose by J$3.928 billion or 7.8%, with its components, that is Time and Saving Deposits, both increasing by J$0.73 billion and J$3.2 billion or 9.26% and 4.6% respectively.

Also affecting money growth through the period, were movements in the net foreign assets, Public Sector Credit and Credit to the Private Sector.

The graphs below indicate the impact of these factors on the growth of Money Supply. Throughout the year to November 1996, except for the months of June, August, October and November 1996, the Net Foreign Assets of the Bank of Jamaica increased and as such, had an expansionary effect on M2 (see Figures 5.1, 5.2 and 5.3). This is so, as Bank of Jamaica introduces J$ into the system when purchasing foreign currency to build up these reserves. Between January and November the Net International Reserves (NIR) of the Bank of Jamaica rose by 57.39% and between January and May by 38.45%, while its highest monthly increase was in July when it rose by 9.7%.

MONEY AND BANKING

Except for the months of March, June and September Credit to the Public Sector increased in all other months. This almost constant increase reflects the poor fiscal out-turn for early months of the fiscal year 1996/97. The Bank of Jamaica, in an effort to keep money supply under control, had to be constantly mopping up liquidity. Therefore the increases in Credit to the Public Sector translated into increases in the level of domestic debt and not so much into increases in the money supply earlier in the year, but, by the end July, it started to influence Money Supply growth.

Figure 5.1

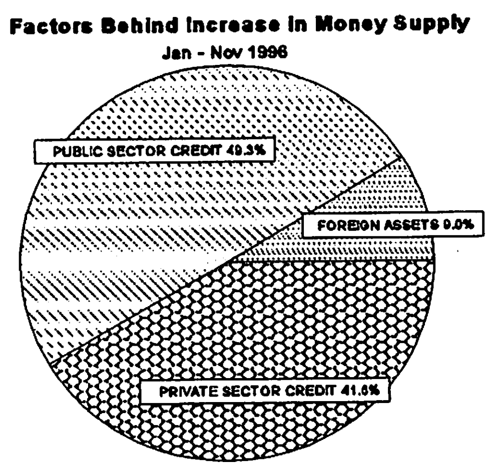


Figure 5.2

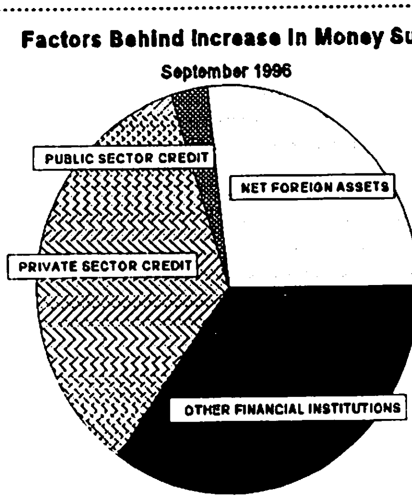
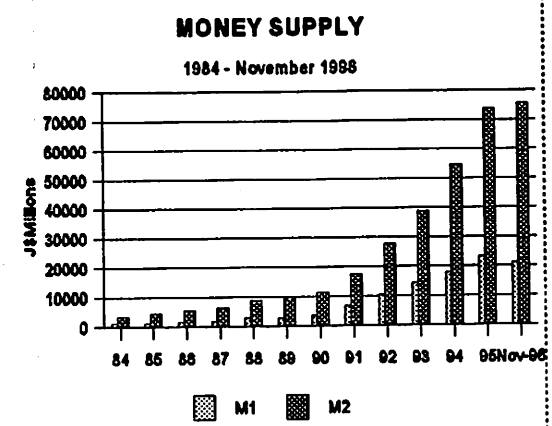


Figure 5.3



Credit to the Private Sector expanded by 21.63% over the period January to November 1996. As such, it had a continous expansionary effect on Money Supply as will be substantiated by the graphical representations. Figures 5.1, 5.2 and 5.3. Private Sector Credit started the year on a declining note but gathered momentum in August 1996, fostered by declines in inflation and Treasury Bill rates.

During the year levels of Credit to the Other Financial Institutions fluctuated (declined in some months while increasing in others) but, overall, there was a decrease of 28.20%.

MONEY AND BANKING

Table 5.1

Money Supply 1984-1996 (J$Million)

YEAR	M1	TIME DEPOSITS	SAVINGS DEP.	QUASI-MONEY	M2
1984	1012.4	1134.1	1304.1	2438.8	34451.2
1985	1210.4	1091.7	2007.5	3099.2	4309.6
1986	1667.6	1183.3	2646.8	3830.1	5497.7
1987	1874.8	1119.4	2646.8	3830.1	5497.7
1988	2908.8	1625.5	4365.8	5591.3	8900.1
1989	2739.4	1843.5	4882.7	6726.2	9465.6
1990	3516.0	2281.8	5499.0	7780.8	11296.8
1991	6867.1	2464.2	8135.2	10599.4	17466.5
1992	10283.6	4409.8	13124.0	17533.8	27817.4
1993	14398.7	6340.5	18179.6	24520.1	38918.8
1994	17896.7	12153.6	24733.2	36886.8	54783.5
1995	23227.7	15839.7	34550.2	50389.9	73617.6
1996 (JAN-NOV)	21100.3	16567.0	37751.1	54318.1	75418.4

Source: Statistical Digest (BoJ).

Loans and Advances

At the end of November 1996, total assets and liabilities of commercial banks were J$136 billion - this amount excludes Century National Bank. Of this, J$56.5 billion or 41.6% of its assets were extended in credit. This represented an increase over the stock of loans at the end of November 1995 of J$44.8 billion or 38.8% of its assets. Total deposits in the banking sector as at the above-mentioned date was J$91 billion, reflecting a marginal increase over the comparable period last year indicating a slowdown in money growth in 1996.

The down turn in the financial sector experienced in 1996 was as a result of the government's tight monetary policy with its very high interest rates and tight control of the growth of base money. The general contraction of economic activity has lead to a growth in the non-performing loan portfolios and a fall off in demand for new loans.

A review of the sectoral allocation of credit extended by commercial banks indicated that in 1996 consumer-oriented loans made up 40.94% of commercial banks' credit portfolios. This was followed by loans to manufacturing (12.5%), construction (8.7%), government services (9.61%), and tourism (8.24%). This order of ranking shows the predominant role now played by government in the economy, having become the third highest recipient of commercial banks' loans. It also shows the perilous state of government finances, resulting in the need to borrow more to finance its operations.

MONEY AND BANKING

Figure 5.4

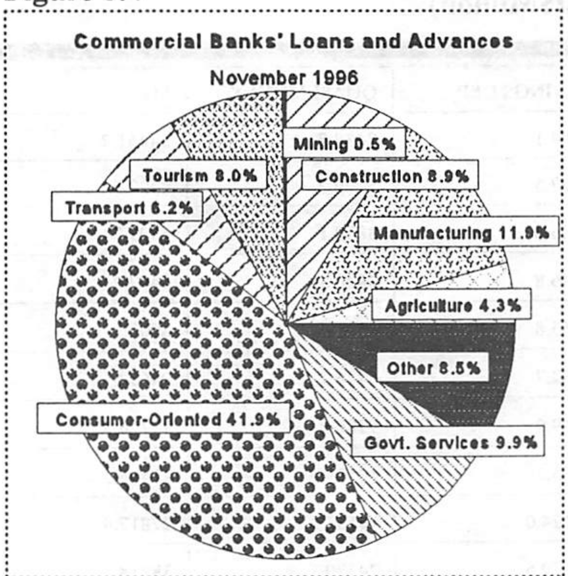


Figure 5.5

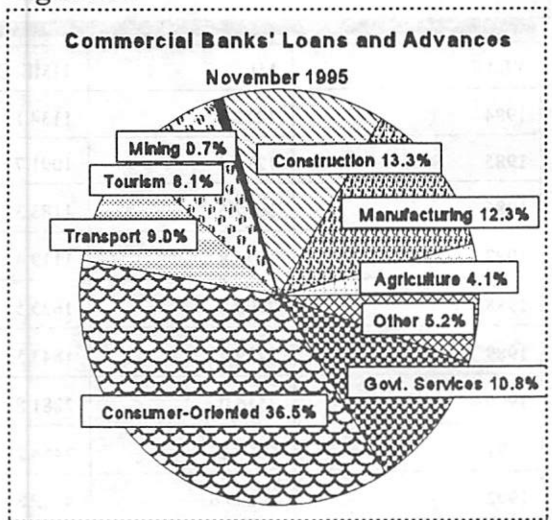


Table 5.2 **Loan and Advances by Sector/Share 1995/96 (J$MN)**

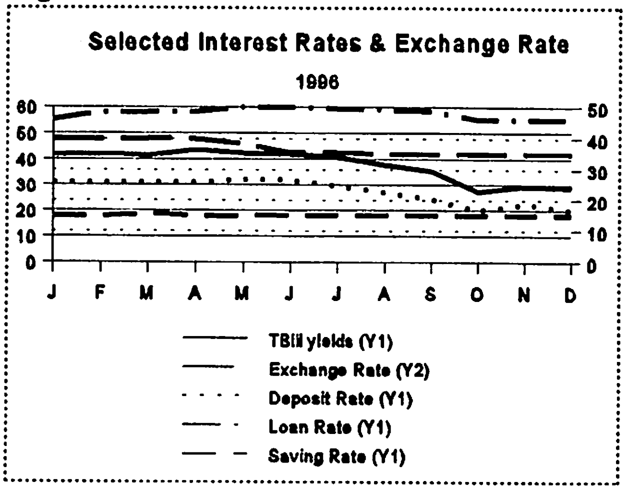
	October 1995	Real Share %	October 1996	Real Share %
Agriculture	1880.6	4.1	2385	4.3
Manufacturing	5694.7	12.34	6666.2	11.9
Construction	6132.7	13.3	4967.1	8.9
Mining	307.4	0.7	291.1	0.52
Tourism	3731.10	8.1	4464.0	8
Transport	4152.6	9.0	3469.0	6.2
Consumer-Oriented	16862.8	36.5	23479.7	41.92
Government Service	4990.1	10.8	5549.4	10
Others	2389.0	5.16	4739.7	8.26
Total	46141	100	56011.2	100

Commercial Banks Liquidity

Commercial banks began the year with the statutory reserve requirement of 47%, made up of 25% cash reserves and 22% liquid assets reserves. These ratios have been enforced since June 15, 1995. With the tight monetary policy of the government and lack of confidence in the financial system, there are little or no excess reserves in the

MONEY AND BANKING

Figure 5.6



commercial banking sector. Excess liquidity began the year averaging about 3.2% but quickly fell to an average of below 1% for the rest of the year. In July the government closed CNB and this led to a run on smaller financial institutions.

Institutions under the Financial Institutions Act (FIA) started the year with a statutory reserve requirement of 25%, (17% cash and 8% in liquid assets). This was increased on February 1, 1996 to 30%, (17% cash and 13% in liquid assets). This was further increased on May 1, 1996 to 35%, i.e. 17% cash and 13% in liquid assets. This ratio is applicable to both domestic and foreign currency deposits. Most of these institutions held considerable excesses of liquidity over these minimum requirements throughout the year.

The special deposit of T-Bills which was imposed on commercial banks on 24 August 1995, in an effort to control liquidity in the system, was lifted on 2 December 1996. However, the high liquid asset requirement which remained in place througnout the year caused liquidity to remain tight and, although T-Bill rates are falling rapidly, Commercial Banks' lending rates remained relatively high.

Interest Rates

The declining trend in interest rates continued at a slow pace in the early months of 1996 but with inflation averaging below 1% per month for the first ten (10) months of the 1996/97 fiscal year, Treasury Bill rates fell quite sharply in August and the months thereafter. Although T-bill rates have fallen significantly, lending rates have not fallen as fast. This is mainly due to the fact that there has not been any significant relaxing of the government's tight monetary regime since the high cash and liquid assets ratios have remained in place.

In January 1996, interest rate yields on T-Bills stood at 43% and fluctuated in the low forties to the high thirties up to September 1996 when the yield fell to 30.57% and by year end it was at 26.36%. By the end of January 1997, T-Bill rates were at 22.5%.

The commercial bank deposit rates followed a similar trend, with rates which began the year at 19-42% increasing to 19-45% by April and then declining to 13-32% by November 1996. While loan rates varied with institutions, movements in the overall average weighted rates fell also but remained in the mid 50's at year end.

The movements in savings rates however, were not as volatile during 1996. These rates averaged between 17-19% throughout the year. The weighted average saving rate started the year at 18.08%, went down to 17.82% in February and ended the year at about 18.19%.

As the inflation rate is declining, there is hope that both nominal and real interest rates will finally come down to tolerable levels. The Government continued to have its high statutory reserve requirement in place which means that real lending rates will remain very high.

As the country experiences relatively lower interest rates there are some implications for borrowers, lenders and the economy overall:

MONEY AND BANKING

Table 5.3

Commercial Banks' Weighted Loans and Deposit Rates

	1994				1995				1996			
Weighted Loan Rates	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Instalment Credit	50.8	51.1	54.9	55.1	53.3	50.1	47.8	60.93	59.66	62.46		
Mortgage Credit	35.6	36.4	10.5	10.5	10.5	24.4	25.7	25.55	25.47	26.75		
Personal Credit	56.9	57.8	53.8	53.6	47.6	47.1	47.0	50.29	49.53	50.75		
Commercial Credit	50.2	47.7	45.8	43.0	41.2	39.1	40.6	45.12	40.97	15.75		
Local Government and Other Public Entities	50.5	49.5	32.3	30.2	32.0	34.7	33.2	37.41	14.77	30.76		
Central Government	55.6	53.6	45.2	45.0	37.7	28.1	26.9	31.55	28.73	30.76		
Overall Average/Weighted Loan Rate	51.5	50.0	47.6	45.8	43.5	40.9	41.4	48.56	43.86	44.23		
Overall Average/Weighted Deposit Rate	39.3	34.1	33.4	27.9	23.0	19.4	19.7	26.22	26.14	26.04		
Average Lending Rates	66.9	65.0	61.3	56.1	48.8	48.7	48.2	55.3	55	59.95	58.5	55.22

Source: Statistical Digest (BoJ).

1. Although deposit rates are trending down, they are still very high in real terms (about 10%) and the real rate will have to fall by at least half in order to facilitate attractive lending rates.

2. Unless the government reduces its cash reserve requirement there will not be any significant reduction in lending rates and investment will continue to be stifled.

There were some economic gains during 1996, but in order for these gains to be translated into potential economic growth the government will have to loosen its tight monetary policy and balance it with tighter fiscal management.

Stock Market Developments

During the early part of 1996, the Stock Market continued to be a casualty of the Government's tight monetary policies but, with the lowering of interest rates in September, the market started to recover. The year began with the market showing bearish tendencies as the index settled at 14,434.62 points during January, moving from 14,266.99 points at the end of December 1995. However, by the end of May the index declined by 10.4% to 12,936.003 points, and continued around this level until the end of August. This trend was reversed in September with the lowering of T-Bill rates and inflation rates. September saw the index increasing by 30% to 16,923.17 points and ended the year at 16,615.99 points.

MONEY AND BANKING

At the end of January 1997, interest yields on T-Bills were 22.25%, coming from a high of 42.5% in December 1995, and from all indications these rates will decline further as inflation comes under greater control. Although interest rates are declining there are basically two reasons why the Stock Market may not rally further in any substantial way:

1. Although nominal interest rates are relatively low, real interest rates on T-Bills are high and investors may prefer to stay with the security and high returns of investment in gilt-edged paper.

2. The market may not be fully rejuvenated until the institutional investors re-enter the market in a big way. The liquidity crisis in the financial sector has curtailed the ability of these investors to return to the market.

During the year, the volume of shares traded decreased by 0.04%, moving from 463.1 million to 462.9 million. The value however increased by 20.6% to J$4.42 billion. Market capitalization at the end of the year was J$66,120.0 billion, moving from J$50,755.8 million at December 1995. From the year's trading, the Stock recording the largest price increase was Seprod. Those with the largest declines were Workers Bank and D & G. ICD and NCC were delisted during the year while a US denominated bond was listed on the exchange.

Figure 5.7

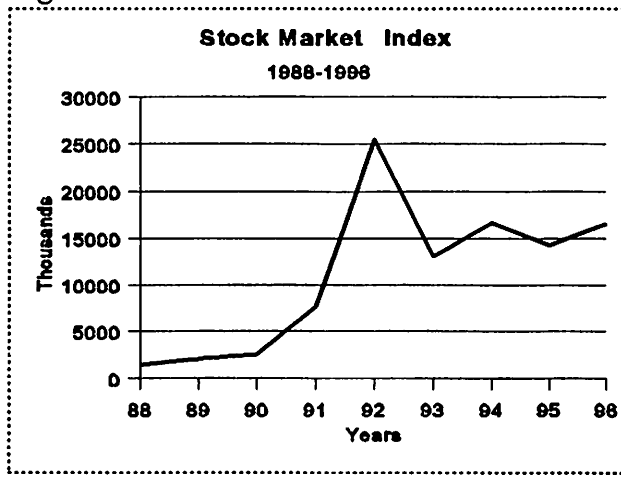
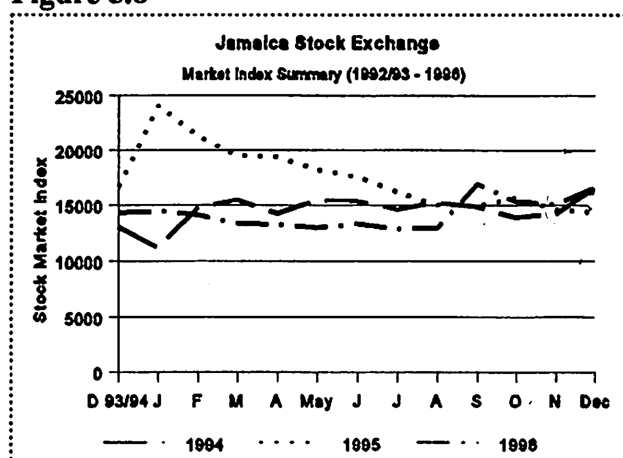


Figure 5.8



MONEY AND BANKING

Table 5.4 **Stock Market Index (1988 - 1996)**

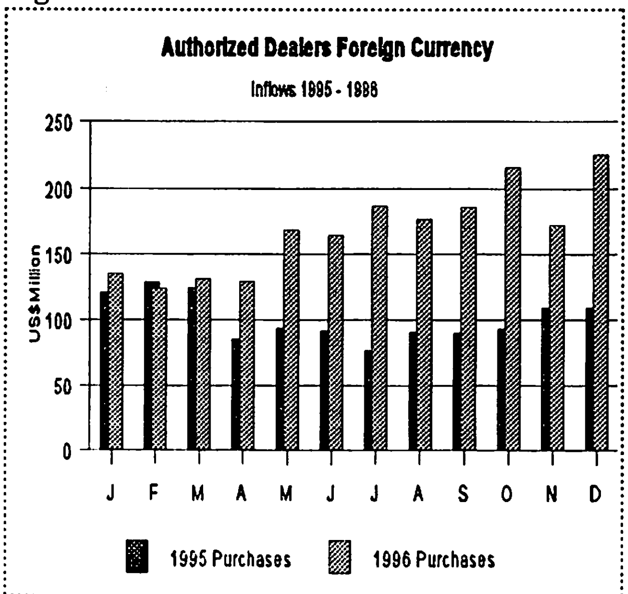
Years	Volume	Value	Index
1988	43,251,904	136,739,278	1,439.09
1989	95,202,452	516,456,318	2,075.85
1990	57,960,234	230,781,846	2,539.36
1991	144,259,019	1,156,608,055	7,681.50
1992	395,900,000	4,688,400,000	25,475.90
1993	567,454,280	8,346,769,977	13,099.68
1994	743,793,646	5,168,796,309	16,676.70
1995	463,050,165	3,664,855,984	14,266.99
1996	462,883,272	4,421,395,416	16615.99

Foreign Exchange Developments

Throughout 1996, the country experienced continued high levels of inflows of foreign exchange into the system. Purchases on the Spot Market grew by 107.95% from US$108.26 million in December 1995 to US$225.13 million in December 1996, while sales in the spot market grew by 98.94% from US$109.42 million in December 1995 to US$217.68 million in 1996.

Foreign currency accounts also showed vast increases in activity. Monthly lodgements increased by 65.5% from US$395.54 million in December 1995 to US$654.61 million in December 1996 while withdrawals increased by 56.30% from US$400.51 in December 1995 to US$626 million in December 1996. Foreign currency account balances declined marginally by US$16.65 million, from US$737.3 million in December 1995 to US$720.65 million in December 1996. However, monthly balances were higher than the levels experienced throughout 1995, indicating a consolidation around the US$700 million mark during 1996. The period saw inflows somewhat lower than outflows, resulting in an overall decrease in the balances in these accounts.

Figure 5.9



MONEY AND BANKING

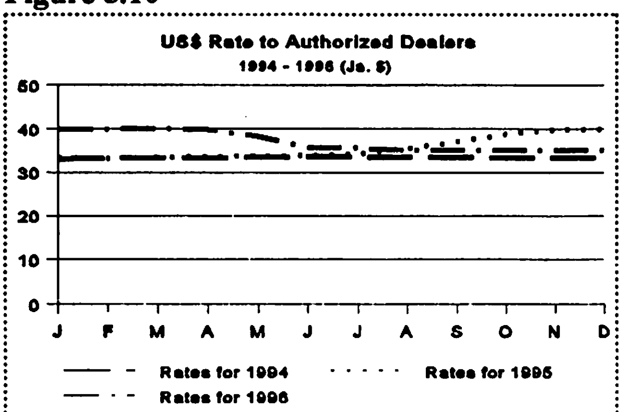
During the year, operations of these foreign currency accounts were affected by two (2) major factors:

a. In early 1996, Jamaican Dollar interest rates were very high to the extent that the profitability of arbitrage activities increased significantly. Many holders of Foreign Exchange converted to Jamaican Dollars to take advantage of the high deposit rates, thereby increasing the inflow of foreign exchange into the economy.

b. Concurrent with the increase in supply was a decline in demand for foreign exchange caused by the tight monetary policy. As a result of this there was a 12% revaluation in the exchange rate in mid 1996.

The year began with the Jamaican Dollar exchanging at J$39.86 to US$1. There was a marginal depreciation in February and March with an exchange rate of J$40.12 to US$1 at the end of March 1996. However, in May there was a revaluation of 3.94% with the US$ selling for J$38.31 by the end of the month. The revaluation picked up pace and by June 14 was 10.7%. There were further revaluations, and by August it was 12.8%. The Bank of Jamaica stepped into the market and started buying US$ and stopped the revaluation of the local currency.

Figure 5.10



The rate has since then settled at around J$35 to US$1. The J$ ended the year exchanging at J$35.03 to US$1 having appreciated by 12% in the course of the year.

The Financial Sector

1996 was the year when the problems in the financial sector came to the forefront. In July the commercial banking sector was rocked by the closure of the Century National Financial Institutions by the Ministry of Finance. This led to the withdrawal of deposits from small financial institutions who then had to lean on the Bank of Jamaica for liquidity support. Later in the year there was a run on the Citizens Bank prompted by rumours of its impending closure by the Ministry of Finance. Citizens Bank serviced this run without relying on the Bank of Jamaica for financial support and has continued to be a viable institution.

The problems in the Insurance Sector surfaced later in the year. This was mainly due to a mismatch of company assets and liabilities in the sector. Short term liabilities were used to finance costly long term assets. With the downturn in the economy, and a slowdown in inflation, the high real interest rates have lead to a liquidity crisis in the sector. The Government has formed the Financial Sector Adjustment Company to administer a J$6 billion package of assistance to these institutions. They are moving very slowly with the delivery of assistance to the sector and this is increasing the likelihood of the problems getting worse before they start to get better.

MONEY AND BANKING

Outlook

1997 will be a challenging year for the financial sector. With the rising fiscal deficit the government will be hard-pressed to repeat its performance of controlling money supply. This will be made worse by problems in the financial sector and the impact on the money supply of the bailout of certain firms in the financial sector.

With liquidity reserves still at 48% the tight monetary policy is still in place. The Governor of the Bank of Jamaica hinted that the cash reserve ratio will be reduced in the near future and this will reduce lending rates further and help to ease the pressure on the financial system. It will increase loans and provide more earning assets to the banking institutions. In 1997 T-Bill rates will probably bottom out in the mid-teens before rising again towards the end of the year. These developments will benefit the insurance sector by allowing them to refinance their short term liabilities and improve the market for off loading some of their fixed assets.

The overall health of the financial sector will depend on government's fiscal and monetary policies. The financial sector is likely to contract further while refocussing on its core business. The big question is whether the sector can undergo this contraction without the collapse and closure of other financial institutions.

6. FISCAL POLICY

The 1996/97 fiscal budget was ostensibly formulated to achieve and maintain macro-economic stability which would facilitate the country achieving an acceptable level of economic growth.

The budget, proposing Expenditure of J$99,856.2 million, represented 56.9% of projected Financial Year (FY), GDP of J$175.5 billion compared to 47% of GDP for FY1995/96 and was approximately 23.1% or J$19.3 billion larger in nominal terms than the revised 1995/96 budget. The size of Government's Expenditure as a percentage of GDP has been steadily increasing, moving from 35.94% in FY1992/93 to 56.9% in FY1996/97.

Recurrent expenditure was projected at J$61,100.00 million or 61.2% of the total budget, a marginal increase of 0.2% over FY 1995/96. General housekeeping expenditure was estimated to be 58% or J$35,400 million of total recurrent expenditure, while interest payments of J$25,700 million accounted for the other 42%. The increase in interest payments was mainly due to the expected increase in the cost of servicing the Internal Debt. Capital expenditure was estimated at J$38,768 million or 38.8% of the total budget and was 21.63% above the previous FY. Of this amount capital allocations for programmes were 37.0%, while amortization payments accounted for 52%. The balance of 11% was set aside for IMF payments.

Figure 6.1

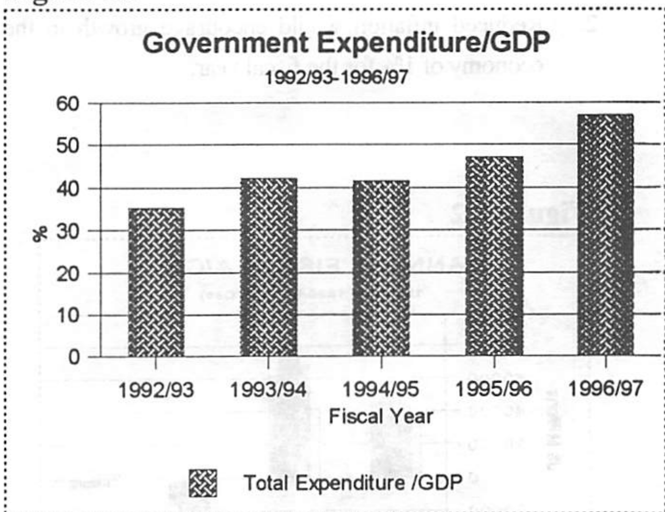


Table 6.1

Annual Fiscal Acounts 1993/94 -1996/97

(J$Millions)

	93/94	%GDP	94/95	%GDP	95/96	%GDP	96/97(Apr-Dec)	%GDP
Revenue	34,243.0	33.1	43,635.7	32.1	58,081.56	34.2	45,565.7	25.96
Expenditure	41,256.9	41.5	68,383.5	50.3	81,341.06	47	61,854.2	35.25
Overall Deficit Surplus	-7,013.9	8.4	-24,747.8	18.2	-23,259.5	13.7	-16,288.5	-9.28
GDP = (J$Mn)	10,2749.9		13,6002.1		169,652.2		175,500	
Fiscal Deficit Surplus	3,149.4	3.1	-4,120.1	3.0	-1,760.19	1.04	-5,926.0	3.4

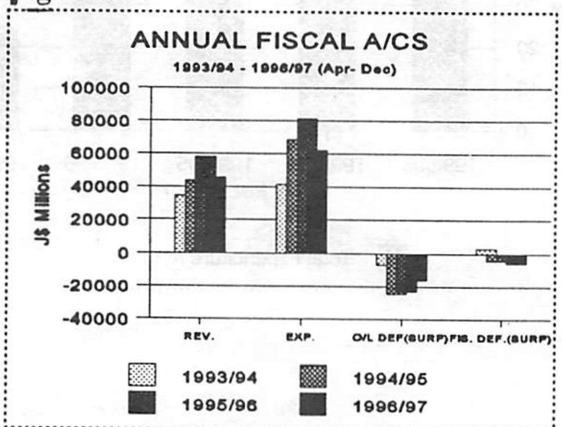
FISCAL POLICY

Some Objectives and Strategies of Budget as set out by the Minister of Finance

1. Achieving and sustaining a reduction in the Inflation Rate to about 1% per month or 11-15% for the fiscal year.

2. Reduced inflation would encourage growth in the economy of 1% for the fiscal year.

Figure 6.2



3. Increasing revenue collection (J$8 billion was to come from this) by improving the tax collection system. A unique Tax Registration Number (TRN) was to be introduced for each taxpayer.

4. Achieving prudence in fiscal expenditure.

5. Expenditure would be focussed on housing, roads, transportation, poverty alleviation etc.

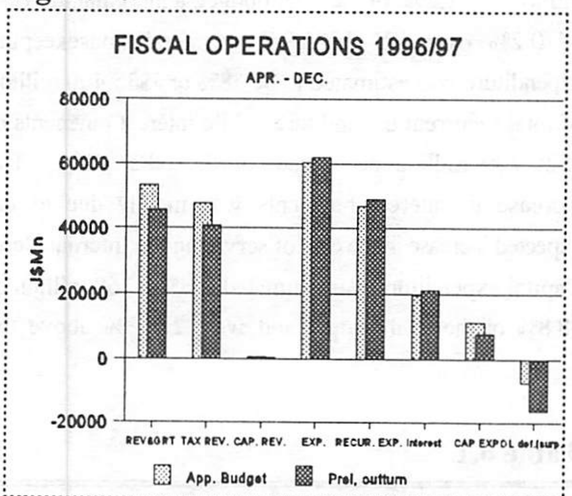
6. Continuing the attempt to restructure the maturity profile of the internal debt so as to smooth out the debt servicing burden and thereby release funds to undertake public investment activities.

Fiscal Accounts and the Budget

The year 1996 saw a down-turn in the economy with some companies going out of business while others were downsizing or operating on significantly reduced margins. The fiscal out-turn was far worse than was expected. During the year the following events affected fiscal performance:

a) The returns from improved tax collection were far below the expected/programmed levels despite the introduction of the TRN.

Figure 6.3



b) There was a fall off in tax revenues from incomes because of the falling profitability in the corporate sector and downsizing in many businesses.

c) Customs duty and GCT revenues were reduced by the 13% revaluation of the JA$ in June 1996.

d) The effort to restructure the maturity profile of the internal debt was only partially successful.

FISCAL POLICY

e) There was an increase in internal debt servicing because of the increase in the stock of domestic debt.

f) Talks related to the Social Partnership continued but at a very slow pace.

g) Expenditure far out matched revenue because the latter was far less than anticipated and there was no corresponding effort to reduce spending.

For the first quarter of 1996, total revenue collected was J$19,795.8 million - representing 24.6% of the total expenditure budget for the FY 1995/96 and 34.1 % of total revenue collected in 1995/96. It was also 4.4% greater than the revenue collected for the similar quarter in 1995. This was not a significant increase in revenue for this quarter compared to increases realized in 1995 over 1994. Contributing to the increase however, were increased inflows in Non-Tax Revenue and Bauxite (CDF). However, Tax Revenue decreased by 10.3%. This was perhaps the beginning of the slowdown in the growth of government's revenue and foretold the serious problems that would occur in 1996/97.

Total Expenditure for the quarter rose to J$25,522.8 million, an increase of J$11,458.2 million or 27.52% over that of the January to December expenditure for the FY 1995/96.

This quarter recorded an overall deficit of J$5,727 million but generated a fiscal surplus of J$42.3 million. For the fiscal year, which ended in March 1996, the overall budget deficit was J$14,401 million with a fiscal surplus of J$757.9 million.

Data for April to December 1996 are shown in Table 6.2. They consist of budgeted and preliminary (actual) revenue and expenditure figures for the period.

For the period April to December 1996 actual inflows of revenues and grants amounted to J$45,565.7 million which was 14.17% less than was budgeted. Contributing to this was a 14.13% decrease in tax revenue and a 35.7% decline in non-tax revenue. Other revenues and grants showed increases however, but the increases were not significant enough to offset the negative effect of the above-mentioned shortfall in other categories.

On the expenditure side, total actual expenditure was 2.52% less than the budgeted amount of J$60,331.6 million. Capital expenditure fell by 29.9% while recurrent expenditure was 4.6% greater than budgeted. This was mainly due to a 1.8% increase in programmes and wages and an 8.4% increase in interest payments.

There is presently the need for government to address the following aspects of its operation as they impact on budget financing, the macro-economic climate of the economy and, eventually, on GDP and its growth.

i. In the light of the current downturn in the economy and the decline in government's revenue, there is a need for government to downsize its operations and reduce its expenditure.

ii. Servicing the heavy debt has lessened available funds for expenditure on vital areas such as education and training, health and transportation which are essential for maintaining a healthy economy and achieving sustainable development. Steps therefore need to be taken to stop increasing the nation's internal debt and to lower inflation and real interest rates in order to reduce the cost of servicing this debt.

iii. Government should keep its expenditure constant in nominal terms while implementing policies to make the economy grow. This strategy is needed in order to reduce real public consumption and to release more of the economy's resources to finance private investment and economic growth.

FISCAL POLICY

Table 6.2

Summary of Fiscal Operations 1996/97 (J$Mn)

	Actual Apr-Dec 1995/96	Approved Budget Apr-Dec 1996/97	Perrliminary (Actual) Apr- Dec 1996/97
REVENUE AND GRANTS	41,632.0	53,090.2	45,565.7
Tax Revenue	35,667.5	47,463.4	40,757.3
Non-tax Revenue	2,670.6	2,354.7	1,514.3
Bauxite (CDF)	1,881.1	2,017.8	2,043.3
CAPITAL REVENUE	408.9	725	485.2
Grants	1,003.9	529.0	765.6
EXPENDITURE	42,966.2	60,331.6	61,854.2
RECURRENT EXPENDITURE	32,626.8	46,798.6	48,929.5
Interest	13,106.1	19,565.7	21,202.2
CAPITAL EXPENDITURE	6,016.2	11,494.1	8,062.3
Amortization		16,419.6	17,897.6
OVERALL DEFICIT/SURPLUS	-1,334.2	-7,241.4	-16,288.5

Table 6.3

Quarterly Accounts 1995-1996 (J$ Mn)

	1995					1996	
Quarters	**Q1**	**Q2**	**Q3**	**Q4**	**Total**	**Q1**	**Q2**
Revenue	10,643.0	13,200.8	14,595.6	19,008.4	57,447.8	15,464.3	15,589.4
Expenditure	15,791.2	21,754.4	15,331.1	16,218.0	69,094.7	24,252.7	27,620.4
Overall deficit/surplus	-5,153.7	-7,864.8	-735.8	-2,790.4	-16,544.7	-8,788.4	-12,031.01
Fiscal deficit/surplus	-1,385.6	-853.3	972.9	5,864.4	4,598.4	-4,561.3	-2,980.8

FISCAL POLICY

iv. Government must make a commitment to only spend revenue which it has received. This would call for truly tight and prudent fiscal management. Alternatively, it must undertake to finance revenue shortfalls by borrowing on the open market, not from the Bank of Jamaica.

v. The tax base needs to be broadened to increase revenue without increasing the tax rates. Improving the tax collection mechanism would also support increased revenue intake.

Outlook

Data for the past few years show that annual budgets have been increasing as a percentage of GDP. This means that government's expenditure has been increasing in real terms at quite an alarming rate. However, with the down-turn in the economy and the consequent fall off of revenue intake, this trend could accelerate if more control is not exercised over nominal expenditure. As this year will be a pre-election year, the temptation to increase the size of the budget will be great. This has negative implications for both inflation and economic growth. The size of the 96/97 budget as a percentage of GDP could be about 61% based on the recently tabled Supplementary Estimates. However, the economy is expected to record negative growth in 96/97 fiscal year. With the BoJ aggressively continuing its Open Market Operations, the internal debt is expected to grow and, with it, the debt servicing costs of central government. There is a need to find other ways of conducting monetary policy without increasing the domestic debt much further.

The proper conduct of fiscal policy has now assumed critical importance in the conduct of macro-economic policy, as fiscal surpluses are desperately needed to ease the heavy reliance on monetary policy to control inflation. The situation is critical because the monetary tools (namely government debt instruments) are. contributing to the worsening fiscal performance, exactly the opposite of what we need now.

7. INFLATION

For three (3) consecutive years, the control of inflation has been one of the major focuses for Government's policy, and rightly so, as this variable is one of the central factors influencing economic stability. During this period their stated objective was to achieve an annual inflation rate no greater than 12%, but the actual out-turn has been far in excess of this target.

Over these years, monthly inflation rates exhibited cyclical periods of peaks and troughs, which culminated in annual rates of 26.7% (1994), 25.5% (1995) and 15.8% (1996). Although the target has not been achieved to date, the calendar year rate for 1996 has come the closest to it, and there is the expectation that the Inflation rate for fiscal year 1996/97 could be within the 12% target.

It appears that for 1996 the economy, having shown the most favourable response to Government's policy measures, is exhibiting the cumulative effect of policy trial and error over the years, and there is the coming to terms with the realization of the positive effects that a low money supply (M2) growth has on influencing inflation. Nonetheless, current monetary policies need to be so measured as to create a less restrictive environment while achieving the desired inflation and money supply growth targets.

The containment of inflation during the year, has been a major talking point of the Government, as it has sought to negotiate wages in the public sector as well as to influence private sector wage increases. It was a key issue in the social partnership discussions as inflation influences wages, costs and prices which are all of major concern to the contracting partners.

Figure 7.1

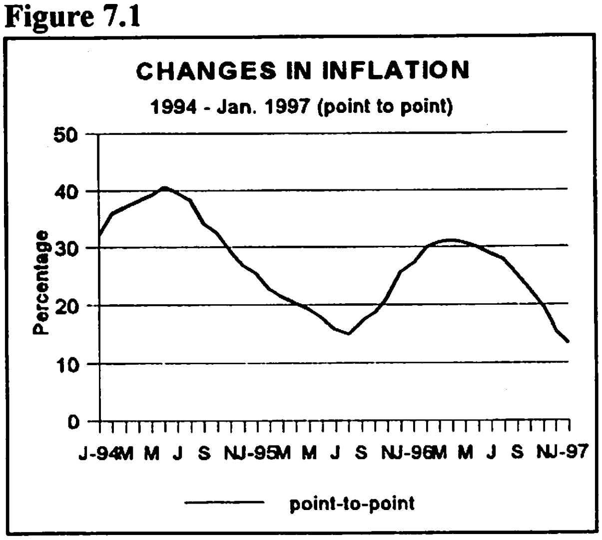
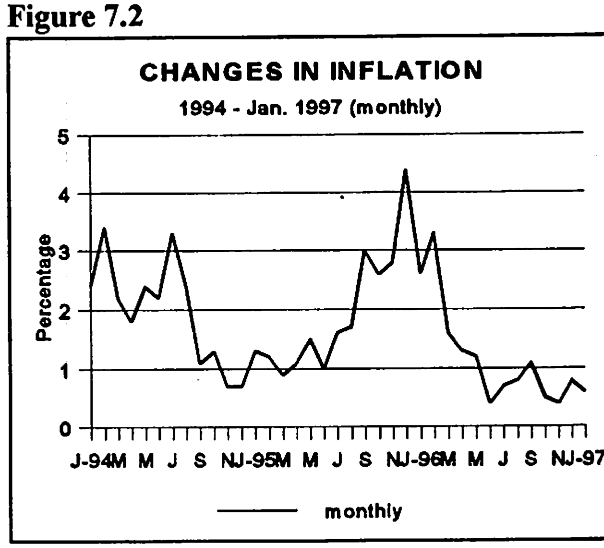


Figure 7.2



The year 1996 began with monthly inflation rates in one of their cyclical peaks. This trend began in September 1995 and continued into the second quarter of 1996, as monthly rates ranged between a high of 4.4% in December 1995 to 3.3% in February 1996 and 1.6% to 2.8% for the other months. The rates for the first and second quarters of 1996 were 7.7% and 2.9% respectively.

INFLATION

Table 7.1

MONTHLY RATES OF INFLATION 1993/1996

	J	F	M	A	M	J	J	A	S	O	N	D
Year to Date												
1993	0.9	1.4	2.7	3.8	5.5	6.7	11.1	14.8	19.7	22.6	26.6	30.1
1994	2.4	5.8	8.2	10.2	18.8	15.3	19.1	22.1	23.3	25	25.8	26.7
1995	1.3	2.5	3.4	4.5	6	7	8.8	10.7	14	17.1	20.3	24.6
1996	2.69	6.06	7.78	9.22	10.50	10.92	11.69	12.62	13.89	14.50	14.98	15.8
Actual CPI Movements												
1993	423.2	425.2	430.7	435.5	442.8	447.8	466	481.9	502.3	514.6	531.2	546
1994	558.9	587	590.7	601.6	616.1	629.8	650.5	666.4	673.5	682.5	687.3	692
1995	701.1	709.2	715.8	723.5	734.5	741.8	753.5	766.4	789.4	810.3	823.8	868.7
1996	892.1	921.4	936.3	948.8	960	963.6	970.3	978.4	989.4	994.7	998.9	1006.1
Monthly Inflation Rates %												
1993	0.9	0.5	1.3	1.1	1.7	1.1	4.1	3.4	4.2	2.4	3.2	2.8
1994	2.4	3.4	2.2	1.9	2.4	2.2	3.3	2.4	1.1	1.3	0.7	0.7
1995	1.3	1.2	0.9	1.1	1.5	1	1.7	1.7	3	2.7	2.8	4.3
1996	2.63	3.3	1.63	1.32	1.2	0.4	0.75	0.8	1.1	0.5	0.4	0.8

Beginning in April 1996, monthly inflation rates began trending down from 1.3% in that month, hitting its lowest monthly rate in eight (8) years of 0.4%, both in June and November. With the exception of September's rate of 1.1%, all other monthly rates since then have been below 1.0%.

The out-turn of inflation for 1996 was therefore 15.8% which was 9.7% percentage point below the 25.5% for 1995. However, comparing Jamaica's inflation rate with its trading partners, U.S.A. (2.9%), U.K. (2.4%) and Trinidad and Tobago (6.8%), there is the need to further reduce our inflation rate in order to be competitive.

The monthly point-to-point inflation rates for the year exhibited an overall declining trend as the year wore on. Between January and June 1996, it ranged between 29.23% and 31.1%, but for the rest of the year there was a steady decline from 29.9% to 15.8 % in December.

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Table 7.2

1993-1996 Inflation - Jamaica v Selected Countries & Regions (%)				
YEARS	**1993**	**1994**	**1995**	**1996**
Industrial Countries	2.9	2.3	2.4	2.3
United States of America	2.8	2.6	2.8	2.9
Developing Countries	42.7	46.8	19.8	13.3
Asia	9.6	13.4	9.2	7.9
Jamaica	30.1	26.9	25.5	15.8
Trinidad & Tobago	11.1	8.5	5.3	6.8
Barbados	1.1	0.1	1.9	2.0

There were quite a few factors, internal and external which had a significant influence on the inflation rate in 1996.

External

1. Given the downturn in output of the Jamaican economy, higher levels of imports dominated merchandise trade during the year. Coming from countries with lower inflation rates, prices of most imports tended to be lower than average local prices and this had the overall effect, in most cases, of keeping prices low with a similar effect on inflation.

2. To the consuming public, imported crude, refined oil, LPG and other by-products are very essential commodities, whether they are consumed directly as motor fuel, cooking gas or indirectly as electricity or bus fares. Thus fuel price increases affect all consumers and are very influencial in fueling inflation.

   During 1996, the price of crude oil to Jamaica rose from US$18.5 to US$20.75 per barrel, and LPG prices moved from US$21.90 to US$23.30. These price increases influenced the overall 20.6% rise in the category "fuels and other household supplies" experienced in 1996.

Internal

1. The growth in Broad Money (M2) has a positive impact on increasing inflation. Up to November 1996, M2 showed an overall 6.7% growth, down from 36.1 % for the same period last year. However, during the year, monthly movements in M2 showed sharp movements up and down with some months increasing by up to 3.7% (April) and others declining by up to 4.4% (May). The months showing increases in M2 were often followed immediately by months of declines as the BOJ sought to get control of money supply growth.

   Supporting the lower growth in money supply (M2) was the authority's control of the growth in base money. During the year, base money, mainly composed of 'currency in circulation' (a major constituent of M2), increased by 11.4%. The greater share of this increase was in December, as between January and November the rise in base money was 1.2% overall. By keeping this tight

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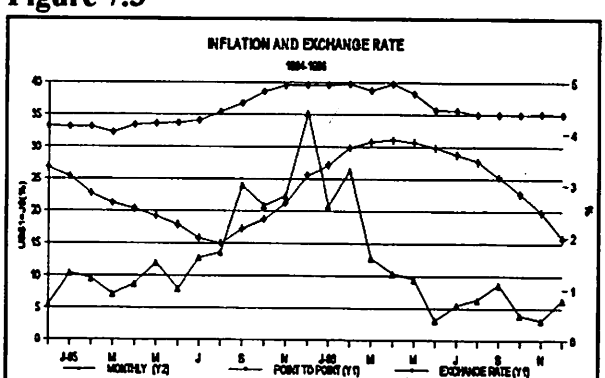
grip on base money growth a major control was effected in money supply growth and inflation.

2. In addition to the above, the overall tight monetary climate - high interest rates and significant open market operations by the BOJ - kept liquidity tight. This served to keep a lid on the growth of money supply as well as to depress overall demand, so that there was very little excess liquidity to push up prices and fuel inflation.

3. During 1996, interest rates were high for most of the year. This translated into high costs to investors, consumers, producers and exporters. To investors and producers, this resulted in a decline in investment and output. Several businesses were closed, while some shifted from production to distribution. This led to an increased demand for imports, which at times proved cheaper than the local products they replaced and this had a tempering effect on inflation. In addition, the increasing levels of unemployment resulting from closures and downsizing meant lower levels of overall demand which, against the

Figure 7.3



decline in local output, did not give rise to the proverbial "too much money chasing too few goods" and was therefore non-inflationary.

4. The fall-out in the Century National Bank in mid 1996, served to sterilize a considerable amount of funds which reduced the level of liquidity in the system. This depressed the impact of the demand-pull inflation factors in the economy.

5. Although, during the year, the lowering of inflation was always evident because of its unstable trend and the need for workers to catch-up, keep pace with, or get ahead of inflation there was always the agitation for significant wage increases. The wage increases to the Bauxite Sector, the Police and Scotia Bank were significant at the higher end of wage awards and this served to push up real wages in some sectors. However, the awards to most other Public Sector workers and to most of the Private Sector were moderate and this had an overall tempering effect on inflation.

On the other hand, minimum wage adjustments, increases in rates for water and electricity, school fees and school supplies as well as bus fares effected at different times throughout the year, reflected upward movements in the inflation rates.

6. The value of the J$ in relation to its foreign counterparts experienced a revaluation in July 1996 and from then the J$ stabilized and exchanged at about J$35 to US$1. This expressed itself in lower prices for some consumer items and had a moderating overall effect on both monthly and annual inflation rates.

The Consumer Price Index

The Consumer Price Index is comprised of the following categories:

1. Food and Drink
2. Fuels and other household supplies

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3. Housing and other housing expenses
4. Household furnishing and furniture
5. Health care and personal expenditure
6. Personal clothing, footwear and accessories
7. Transportation
8. Miscellaneous expenses

It should be noted that the 'food and drink' category carries the highest weighting of all the groups (55.63%) so that price movements in this category significantly influence movements in the overall index.

For all months of the year 1996, price movements in the food and drink category of products effected some level of upward movement in the index. In the summer months, the effects of drought conditions in the farming regions as well as the increased exportation of domestic food crops brought on a shortage of food supply which forced prices up.

Table (7.3) highlights the impact of price increases in the transportation fuel, personal care, clothing and footwear categories on the overall inflation rate for 1996.

Outlook

As the consumption and earning patterns of constituents in the economy have changed significantly since a revision of the CPI in 1988, it seems that the time is right for the composition of a more representative basket of goods to facilitate the re-calculation of a revised CPI. It is understood that the review is at present underway and there will probably be a change over to the new index in late 1997 or early 1998.

For 1997, the low monthly inflation rates are expected to continue, at least up to the end of the first quarter which would yield a fiscal year inflation rate of 10-11%. If money supply is kept under continued control, the exchange rate holds and foreign exchange supply satisfies the demand, there is the possibility of the inflation rate for 1997 trending to 12-14%.

However, 1997 is an election year, and political expediency could take precedence over economic objectives re policy directives and implementation. Therefore, increases in money supply (M2) spurred by the further loosening of fiscal policy for election purposes, in the face of declining production of goods and services, could foster increases in inflation.

Wage restraint is another critical factor which may affect inflation this year. The major unions are still requesting wage increases which are way above the current rate of inflation. If the Industrial Dispute Tribunal does not moderate its wage awards to be more in keeping with current inflation trends, then wage increases could become a cost push factor behind higher inflation.

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Table 7.3

CONSUMER PRICE INDEX POINT TO POINT 1989-1996	Weights	POINT TO POINT							
		1989	1990	1991	1992	1993	1994	1995	1996
All Groups	**100**	**17.2**	**29.8**	**80.2**	**40.2**	**30.1**	**26.9**	**25.5**	**15.8**
Food and Drink	**55.63**	**20.9**	**29**	**84.3**	**40.4**	**31.8**	**27.3**	**27.6**	**12.1**
Meals away from home		20.7	28.1	65.9	51.1	39.8	26.3	37.8	
Meat, Poultry and Fish		22.3	38.4	92.2	38.4	29.4	16.1	26.6	
Diary Products, Oil & Fats		26.3	33	159.6	38.1	26.4	28.4	18.3	
Baked Products, Cereal, Bfast, Drink		26.4	29.1	96.7	48.1	18.2	32.8	33.3	
Starchy Food		16.4	8.3	49.8	39.4	36.5	40.0	32.5	
Vegetables, Fruits		9.0	34.9	40.6	35.9	63.7	18.8	24.0	
Other Foods and Beverages		21.4	15.0	68.3	22.8	25.0	65.5	18.6	
Fuels & Other Household Supplies	**7.35**	**11.6**	**42.9**	**94.0**	**30.8**	**18.6**	**18.7**	**37.1**	**20.6**
Fuels		14.2	64.5	45.7	33.3	29.7	22.3	91.2	
Housing Supplies		7.2	31.3	126.1	25.3	14.0	17.1	11.0	
Housing	**7.86**	**7.7**	**38.5**	**64.7**	**27.7**	**20.9**	**32.6**	**17.4**	**13.8**
Rent		3.0	13.5	12.2	20.6	8.79	31.0	33.5	
Other Housing Expenses		9.5	45.7	77.1	32.0	22.9	32.8	15.1	
Household Furnishings & Furniture	**2.38**	**10.0**	**19.6**	**70.9**	**34.8**	**30.3**	**13.8**	**30.5**	**12.9**
Furniture		13.7	22.8	68.1	38.1	26.9	12.7	33.3	
Furnishings		8.7	18.3	73.2	32.6	31.7	14.4	29.1	
Health Care & Personal Expenses	**6.97**	**9.4**	**29.4**	**87.3**	**41.9**	**32.0**	**21.2**	**18.0**	**21.8**
Personal Clothing & Accessories	**5.07**	**13.9**	**23.1**	**75.6**	**73.1**	**25.0**	**16.5**	**23.7**	**22.8**
Clothing Material		9.3	12.2	86.6	57.2	21.0	4.4	17.5	
Make-up, Clothing & Accessories		11.0	26.4	85.2	77.2	23.7	13.6	22.3	
Footwear		18.8	20.6	34.8	67.8	31.5	20.4	26.1	
Making Repairs		18.3	20.6	34.8	67.8	31.5	36.8	32.4	
Transportation	6.44	26.7	**28.0**	59.9	**20.6**	**34.0**	**36.4**	**15.0**	**28.5**
Miscellaneous Expenses	7.85	11.2	27.5	74.4	50.1	36.8	35.6	**21.8**	**25.7**

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International Oil Market

Global demand for oil is estimated to have been just over 70 million barrels per day for 1996 indicating growth of just 2.3% over the figure for 1995. The Organization of Petroleum Exporting Countries (OPEC) continued to maintain production more or less at the same level as that obtaining three years ago, hence most of the additional supplies to meet the growth in demand came from non-OPEC producers.

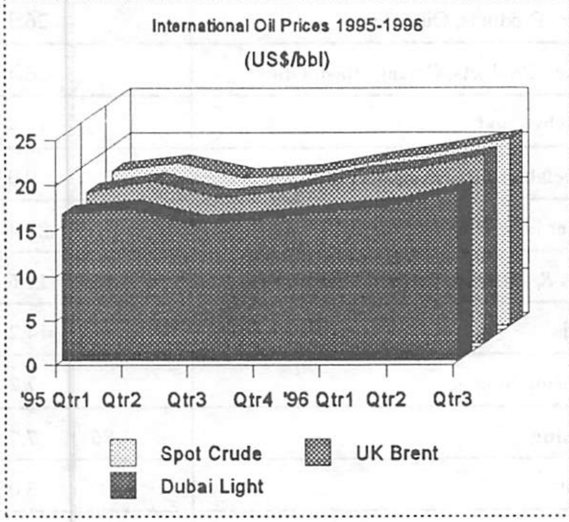
OPEC's tight position in the market combined with strong demand for refined products in the US and Europe, resulting from severe winter temperatures, rising tension in the Middle East due to the US strike against Iraq in September, uncertainties for the greater part of the year surrounding whether or not the United Nations (UN) would allow Iraq to export crude as well as the positive effect on demand of sustained US economic growth, all contrived to produce higher oil prices in 1996. Available data for crude in selected markets showed that average prices for the year moved within a band of US$18-20 for the year compared with the US$ 15-17 that persisted during 1995 (Table 8.1) and prices ended the year above the US$24.00 per barrel mark.

Notably even the addition of a further 650,000 barrels per day under the UN arrangement with Iraq did not quell the rising price tide (Figure 8.1).

Local Consumption

For the first nine months of the year the country is reported to have spent US$48.84 million on crude oil; this compares with US$76.26 million spent for the similar period in 1995 and represents a fall of 35.9%. For the same period however imports of other fuel and lubricants (mainly refined products) amounted to US$232.7 million up by 33.2% on the 1995 total of US$174.7 million.

Figure 8.1



The sharp alteration in the make up of the country's fuel bill reflects the fact that during the third quarter the island's lone refinery undertook major maintenance work on its storage facilities which resulted in no crude oil being imported for July and August and a much lower than normal import level for September. There was therefore the need for a significant increase in refined products to replace what Petrojam would normally process.

Notably, the country's oil bill for January to September at US$318.7 million was up by 18% on the US$270.2 spent during the 1995 period.

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Table 8.1

AVERAGE SPOT PRICES FOR MAJOR PRODUCER GROUPING AND SELECTED CRUDE OILS 1995 - 1996 (US$/BL)

	1995				1996			
PRODUCERS	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
OPEC Average	16.65	17.80	15.73	16.10	---	18.58	19.32	---
US Average	16.98	18.44	16.45	16.30	---	19.90	20.47	---
World Average	16.87	17.91	16.09	16.10	---	19.07	19.86	---
PRODUCTS								
Spot Crude	17.20	18.10	16.50	16.90	18.30	19.40	20.80	---
UK Brent	16.90	18.10	16.20	17.00	18.60	19.50	20.90	---
Dubai Light	16.40	17.00	15.30	15.80	16.60	17.30	18.90	---
West Texas Intern.	18.20	19.30	17.80	18.00	19.70	21.50	22.40	---
Bunker C (Jamaica)	14.57	14.58	13.17	13.80	14.15	14.23	14.00	---

Source: *Global Report OPEC BULLETIN, Ministry of Mining & Energy and Petroleum Corporation of Jamaica*

Table 8.2

VOLUME & VALUE OF IMPORT OF PETROLEUM PRODUCTS 1995 - 1996 (M/B)

		1995				1996			
IMPORTS BY:	**UNITS**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Refinery	00BLS								
Crude		1,740.0	1,599.0	1,324.0	416,394	827,281	1,419.7	255.3	1,036,731
Refined Products		706.9	1,302.4	1,225.8	2,191,090	1,434,345	1,532.4	2,348.0	1,363,991
SUB-TOTAL		2,447.2	2,901.0	2,549.8	2,607,484	2,261,626	3,024.2	2,603.3	2,400,722
Bauxite Companies									
Fuel Oil		1,841.0	1,981.0	2,226.5	2,093.70	2,126.30	2,069.4	1,937.3	---
Marketing Companies									
Refined Product		---	---	---	---	---	---	---	---
Total Volume		---	---	---	---	---	---	---	---
TOTAL VALUE	US$MN	80.70	107.70	81.80	81.40	74.0	111.60	133.10	---

Sources: *PCJ, JBI and Ministry of Mining and Energy*

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This increase was due in part to the increase in international oil prices but also reflects the fact that more expensive refined products had to be imported to make up for reduced production from Petrojam.

Electricity Generation

Available data indicate an overall increase in the sale of electricity for 1996. Up to the end of October, the Jamaica Public Service Company recorded a 3.6% increase in its sales to residential customers, compared with the figure for the same period in 1995, and a 9% increase in sales to commercial customers.

Generation of electricity by the company fell while purchases from independent generators grew. For the first nine months of the year the company purchased 500.4 million KwH of energy. This amounted to an 81% increase on the the 275.3 million KwH purchased in 1995. Private power generation is provided by the Jamaica Private Power Company (JPPC) and the Wartsilla. Additionally, there are arrangements in place for purchase of excess power from a number of companies which generate their own electricity, notably the Caribbean Cement Company, BRACO Resorts, ALCOA, Desnoes and Geddes, Wyndham Rose Hall and Jamaica Broilers.

At the same time, the company is reporting continued success in its effort to reduce line losses claiming a 22.5% decrease in such losses during the third quarter of 1996.

Significant Developments

The government announced during the year that negotiations were concluded for the sale of the Petrojam refinery. The new owner of the facility is Petroleum Development Limited (PDL), an entity whose principal share holders comprise the refinery's existing management team. The purchase is expected to be financed by Austin Blade, an international finance company. It is understood that, once the sale is completed, the staff of Petrojam will be invited to take equity as part of an Employee Share Ownership Plan (ESOP). The

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sale is expected to result in a significant capital injection to modernize and expand the facility. It is also understood that the new owners of Petrojam are committed to undertake a feasibility study for the establishment of an integrated energy chemical facility.

On the other hand, in a surprising move after what had seemed a foregone conclusion, the imminent sale of Jamaica Public Service Company was shelved as the government indicated that it was dissatisfied with the offers made by the two major overseas companies, Southern Electric and Houston Industries. In the wake of the decision not to proceed with the sale, the government has indicated that the company will have to be run as a growing concern. It is not yet clear, however, how the capital needed for the expansion and modernisation of the operation is to be raised.

The Office of Utilities Regulation (OUR), which should have responsibility for regulating and setting rates for entities such as the Jamaica Public Service Company, commenced operation during the year. It is yet too early to say, however, what impact the OUR will have on the operation of the energy sector.

Outlook

Indications are that global demand for oil is set to continue to grow at a modest pace in 1997. At the same time, the signal coming out of the November 1996 OPEC meeting is that there will be further attempts to keep supply tight so as to sustain the current prices. It is likely, therefore, that the country will find itself faced with a higher oil bill in 1997.

It should also become clearer, during the year, what plans are in place for the Jamaica Public Service Company (JPS) now that the decision has been taken not to divest. Furthermore, the company has been requesting a rate increase since 1995 which has not yet been granted. Given government's assertions that the JPS will have to be run as a growing concern, the country may well witness upward adjustment in the cost of electricity in 1997.

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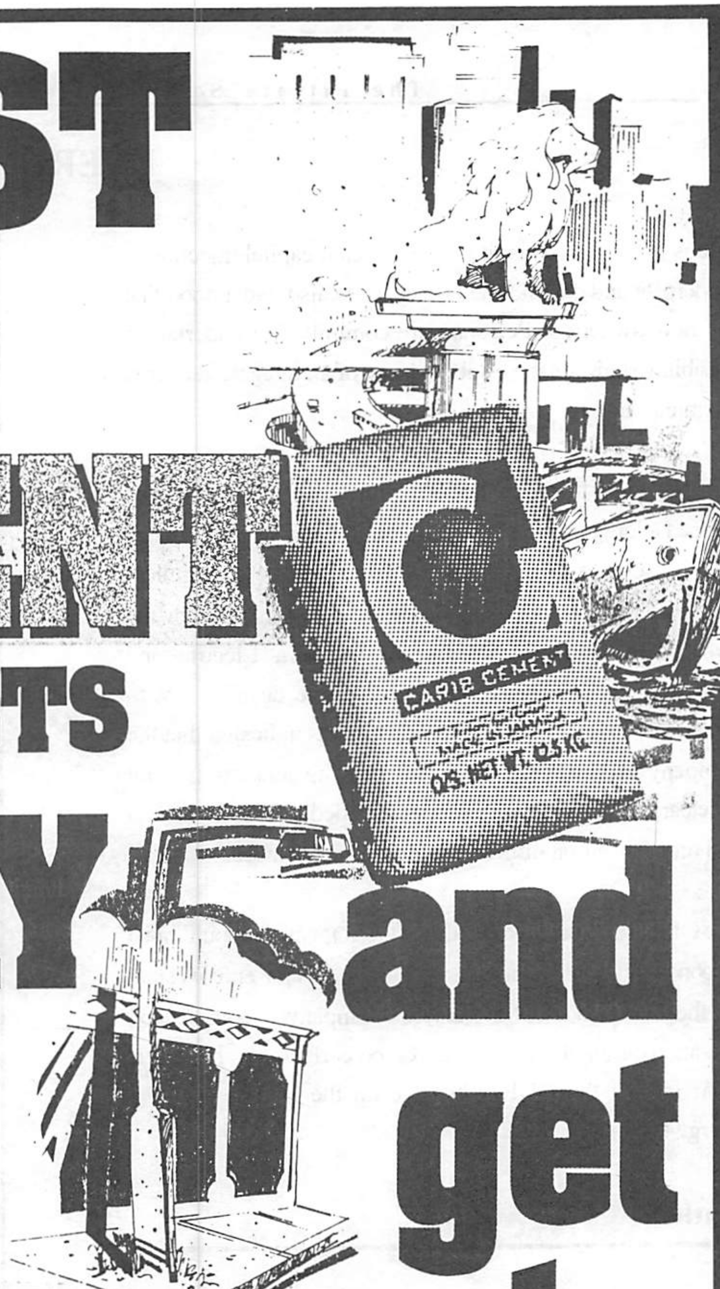

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9. MANUFACTURING

Data for the first three (3) quarters indicates that the sector recorded marginal improvement relative to the comparable period of 1995. This was in spite of high interest rates, industrial unrest and competition from illicit imports.

The plight of the sector was made worse by a 12% revaluation of the J$ which saw a number of closures of manufacturing operations (especially in the apparel sector) during the year. Among the reasons given for the closures are rationalization, unfair competition, increased costs and continuing losses.

In addition, some complained of the lack of NAFTA parity which made their products uncompetitive in the US market. Other factors also affected the sector such as high energy cost, poor infrastructure, increasing labour cost (both in terms of rates and training), disparity in the implementation of the Common External Tariff compared to the much lower rates of its major trading partners and higher differentials in duty regimes.

In recognition of the crisis in the sector, the government announced a number of measures during the year in an attempt to stem the decline. These measures included:

i. Reduction in the cost of capital through concessionary financing by development banks.

ii. Intention to make the programme of incentives under the Export Industry Encouragement Act (EIEA) more flexible to accommodate local firms that wish to expand into the international markets.

The value of the overall package of assistance was valued at some J$200 million. Notwithstanding the negative out-turn in manufacturing output, a look at the individual sub-sectors (Table 9.1) yields mixed results.

Food Processing

Within this sub-sector all items, with the exception of flour, reflected increased production. Notable improvement was recorded for condensed milk (2.7%), poultry meat (2.4%), animal feeds (11.8%), and sugar molasses (6.0%). There was, however, a 4% decline in the production of flour.

Beverages and Tobacco

No data was available for rum and alcohol but for the other sub-sectors only one shows any decline - that was Carbonated Beverages which declined by 24.8% to 26,734,000 litres. Output of cigarettes and cigars improved by 12.3% and 8.3% respectively while the production of Beer and Stout remained constant. The decline in Carbonated Beverages was mainly due to increased competition from imported substitutes.

Chemical and Chemical Products

Here again, there were mixed results for the January to September period output of Fertilizer and Paint - both increased by 2% and 15.4% respectively. Sulphuric Acid, Aluminium Sulphate and Salt (NaCL) all declined during the above-mentioned period with Sulphuric Acid showing the largest decline of 29.4%.

Non-Metallic Minerals

This sub-sector showed positive growth for the period with cement production increasing by 12.2% and glass bottles production increasing by a massive 38% over the similar period for 1995.

Petroleum Products

There was an overall decline in the production of petroleum products which was mainly due to renovation work on the storage tanks at the refinery. This resulted in a dramatic increase in the imports of refined products.

Turbo Fuel and LPG were the only products that saw any increase with 63.4% and 9.7% increase respectively. Other Petroleum Products and gasolene were the categories which saw the largest decrease of 32.1% and 27.1% respectively.

MANUFACTURING

Table 9.1

PRODUCTION OF SELECTED COMMODITIES

Sub-Sector	Unit	1995 Jan. To Sept.	1996 (p) Jan. To Sept.	1996/1995 % change
Food Processing				
Poultry Meats	'000kg	31212	31955	2.4
Animal Feeds	'000kg	193409	216187	11.8
Condensed Milks	'000kg	11751	12064	2.7
Flour	'000kg	10641	10622	-4.0
Sugar	'000kg	237123	226508	-11.8
Molasses	'000kg	86359	91511	6.0
Beverages & Tobacco				
Rum	'000ltrs	no data	no data	
Alcohol	'000ltrs	no data	no data	
Beer & Stout	'000ltrs	51105	51099	0.0
Carbonated Beverages	'000ltrs	35538	26734	-24.8
Cigarettes	'000	805000	904000	12.3
Cigars	'000	11907	12900	8.3
Chemical Products				
Fertilizer	'tonnes	47143	48100	2.0
Paint	'000ltrs	6375	7355	15.4
Sulphuric Acid	'tonnes	11464	8089	-29.4
Aluminium Sulphate	'tonnes	6402	6111	-4.6
Salt - NaCl	'tonnes	14753	13463	-8.6
Non-Metallic Minerals				
Cement	'tonnes	377209	423410	12.2
Glass Bottles	'tonnes	13571	18726	38.0
Petroleum Products				
Gasoline	'000ltrs	145007	105734	-27.1
L.P.G.	'000ltrs	10847	11898	9.7
Fuel Oil	'000ltrs	336523	329455	-2.1
Turbo Fuel	'000ltrs	26414	43156	63.4
Automotive Diesel Oil	'000ltrs	150941	147408	-2.3
Other Petroleum Products	'000ltrs	118870	80756	-32.1

MANUFACTURING

Manufacturing Exports

The value of exports from the manufacturing sector, such as rum, sugar, cocoa, coffee and apparel, for the year totalled US$483.026 million, representing a 6.5% decline vis-a-vis 1995. The decline was mainly due to the downturn in the apparel exports, as traditional manufactured exports recorded an 11.44% increase to US$137.48 million. The decline in the apparel sector saw total exports moving from US$288.028 million to US$244.626 million or by 15.07% over 1995. For the July to September, quarter total export earnings declined by 20.3% to US$101.6 million. This third quarter decline may be as a result of the impact of the 12% revaluation experienced in July 1996, and may signal a sharper decline in exnorts for 1997.

Outlook

From all indications, the first half of 1997 will be a difficult one for the manufacturing sector. This is so because despite falling interest and inflation rates, the negative impact of rising real wages in the manufacturing sector has led to some firms closing and others laying off workers in order to remain competitive in the global market place. This is made harder by the over-valuation of the Jamaican Dollar which, according to IMF data, is about 40% over-valued. The real value of the Jamaican Dollar is in need of downward adjustment but this is unlikely to come before the next general election.

There is also a need for the sector to look for new methods of production which make full use of existing technology and to seek to achieve internal efficiency in cost management so as to improve the productivity of the sector.

Table 9.2

VALUE OF EXPORTS FROM MANUFACTURING SECTOR (US$Mn)

	CARICOM		Third Countries		Total		% change
	95 Q3	96 Q3	95 Q3	96 Q3	95 Q3	96 Q3	1996/95
Non Traditional	14.4	12.9	102.4	74.7	116.8	87.6	-25
Processed Foods	3.3	2.4	9.0	3.0	12.3	5.4	-56.1
Beverages & Tobacco	0.7	0.6	5.0	7.3	5.7	7.9	38.6
Crude Material	2.3	0.1	1.6	0.3	2.7	0.8	-74.5
Animal & Vegetable Oils & Fats	---	0.0	--	--	--	--	--
Chemicals & Chemical Products	3.3	4.1	8.1	6.0	11.4	10.1	-11.4
Manufactured Goods	2.0	2.4	2.3	0.8	4.3	3.2	-26.4
Machinery & Transport Equipment	0.6	0.8	0.2	0.1	0.8	0.9	9.1
Miscellaneous Manufacturing (mainly Apparel)	2.1	2.1	75.8	56.3	77.9	58.4	-25.0
Traditional	0.4	0.5	10.3	13.9	10.7	14.0	30.7
Sugar	---	0.0	2.7	5.3	2.7	5.3	94.5
Rum	0.1	0.0	7.3	8.3	7.4	8.3	12.2
Other Food Products	0.3	0.0	0.3	0.4	0.6	0.4	28.7
Total	1413.8	12.9	112.7	88.6	127.5	101.5	-20.3

10. MINING

Non-oil Commodities

1996 was not a good year for producers of non-oil primary commodities. The International Monetary Fund's (IMF) data showed that, up to the end of November, its index of non-fuel commodity prices was some 5.8 points lower than the level obtaining during the first quarter of the year. The index for metal fell sharply during the first ten months before recovering some ground in November.

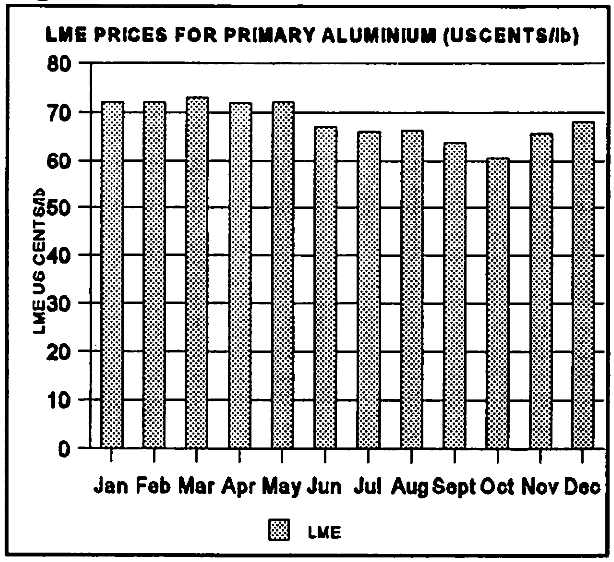
The continued fall in commodity prices in 1996 reflected a reduction in speculative buying by major funds and also the fact that apart from the US, the other major economies are still experiencing relatively sluggish economic activity. At the same time, the expected slow-down in exports of commodities from the transition economies is yet to materialise.

International Primary Aluminium Industry

The local Mining Sector registered mixed performance in 1996. While output in its major sub-sector, bauxite and alumina increased, earnings fell due to the adverse effect of falling prices for primary aluminium in the major markets and lower prices for alumina during the first two quarters of the year. According to CRU Metal Monitor's data, the average cash price per pound for primary aluminium fell by 16.6% (from US81.90 cents to 68.30 cents) in 1996 compared with the 1995 figure. For the same period consumption of aluminium in the major industrial markets (North America, Japan, Europe and others) declined marginally (1%).

The decline in primary aluminium prices (Fig. 10.1) apart from mirroring the general weakness in demand for metals, also reflects a sharp correction from prices that were somewhat inflated by speculative buying in 1995. In fact, it is believed that a large amount of the metal bought in 1995 was re-sold in 1996, thus putting downward pressure on prices. Interestingly, reports are that inventory levels in the industry are at their lowest since 1987. However, this

Figure 10.1



situation is not expected to result in any significant increase in prices as there is still significant excess smelting capacity in the industry and the prospect for growth in the major consuming economies, with the exception of the US, remains marginal.

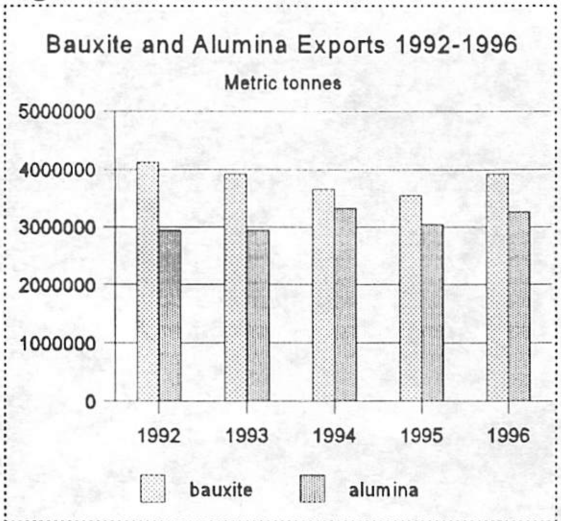
Domestic Performance

Total bauxite disposed of, that is crude bauxite exported plus bauxite processed into alumina locally, totalled 11,951,723 tonnes for the year under review. This represents an increase of 9.5% on the 10,915,596 tonnes disposed of in 1995. Crude bauxite export also recorded an increase with 3,253,072 tonnes exported, up 6.8% on the 3,546,893 tonnes exported in 1995 (Table 10.1).

In respect of alumina both production and export rose as a more settled industrial climate during the year allowed for higher production and exports. Total production for the year was 3,199,513, tonnes, 5.6% higher than the 1995 level. Similarly shipments of 3,253,072 tonnes were 6.8% above their 1995 counterparts.

MINING

Figure 10.2



Foreign Exchange Earnings

Preliminary estimates are that gross earnings of US$691 million for the year were 3% lower than for 1995. This is notwithstanding the fact that rising prices for alumina and primary aluminium in the third and fourth quarters should have had some favourable effect on gross earnings. In terms of net earnings, this should record a modest increase over the previous year as the revaluation of the currency and increased capital expenditure should see increased retention to cover local costs.

Table 10.1

PRODUCTION AND SHIPMENT OF JAMAICA'S BAUXITE & ALUMINA 1992-1996

	1992	1993	1994	1995	1996
Bauxite					
Production	4,131,752.00	3,938,592.00	3,628,832.00	3,532,805.00	3,924,776.00
Shipment	4,128,330.00	3,916,723.00	3,649,419.00	3,546,893.00	3,917,478.00
Alumina					
Production	2,917,162.00	2,989,360.00	3,221,222.00	3,030,167.00	3,199,513.00
Shipment	2,941,441.00	2,943,345.00	3,326,305.00	3,044,590.00	3,253,072.00
Total Bauxite Disposed of	11,359,486.00	11,306,558.00	11,844,392.00	10,915,596.00	11,951,723.00

**Total Bauxite disposed of represents ore shipped and bauxite processed into alumina.*
Source: JBI Economics Division

Capital Expenditure

Up to the end of September, capital expenditure for the sector at US$54.7 million was running at some 41.1% above the 1995 figure of US$38.8 million.

Outlook

The world economy is expected to continue to grow at the current modest level at least for another year. This means that consumption of aluminium products is not expected to show

MINING

any sharp increase in 1997. Reported stock levels, as indicated earlier, are very low but capacity remains high and additional capacity is slated to come on stream during the year. All of this will serve to keep prices in check for the current year.

In respect of the local situation, it is expected that the industrial climate will remain calm given the accord reached last year between the companies, the unions and the Jamaica Bauxite Institute. Production costs should be marginally higher than those obtaining last year given that there has been some upward movement in crude prices and, more importantly, given the effect of the 12% revaluation in the Jamaican dollar viz-a-viz its US counterpart.

While it is unlikely that output will be adversely affected by the marginal increase in costs generated by the revaluation, it should be noted that 1996's production level represents over 96% of the sector's existing production capacity in alumina. The upshot of this is that there is little scope for any significant increase in output in the short term. At the same time, if a significant increase in output is to be secured over the medium term, the country must look to new investment in the sector and in this regard it becomes even more important for production costs to be contained.

The projection in respect of output is for production and shipment levels similar to those obtaining last year. Revenues should show a modest increase however, as the gains in alumina and aluminium prices during the last half of 1996 are expected to be sustained well into this year.

11. TOURISM

World Tourism

Although the report on world tourism for 1996 is not yet available, the prediction is that it will follow the trend of 1995, which experienced growth of 3.8% in contrast to 5.4% in 1994. The 1996 outlook is based on a continued slowdown in the pace of economic expansion internationally, the persistence of relatively high unemployment in major industrial economies as well as the existence of attractions in native countries which biases the preferences away from overseas travel.

World trends indicate people taking shorter holidays, and staying closer to home. The most visited destination in the world in 1996 was France followed by Spain and the U.S.A. Cuba and Mexico in that order, are the world's largest growth destinations for visitor arrivals. However, U.S.A. earned the highest from the tourism trade (US$58.4 billion), followed by France (US$27 billion).

Caribbean Tourism

Tourism in the Caribbean for 1996 is expected to produce a gross output of US$25.4 billion, the equivalent of 25.5% of the area's GDP, and the industry should account for 2.4 million jobs or 22% of total employment.

Table (11.1) does not capture data for all of 1996, and for all the listed countries. However, the overall trend in arrivals to the Caribbean is toward increasing numbers of visitors in 1996, compared with 1995. It also suggests that both stopover visitors and cruise passengers have contributed to this growth.

Available data does not include Cuba's trade, but its tourism sector is one of the fastest growing in the Caribbean and could be the largest in a few years.

The Caribbean Tourism Organisation, in its efforts to enhance the Caribbean Tourism industry late in 1996, embraced a work programme which will focus on market penetration, the development of electronic marketing, tourism information systems, human resource development and the strengthening of relations with other tourism organisations. It is hoped that this programme will be implemented and have a positive impact on the industry in the Caribbean.

Figure 11.1

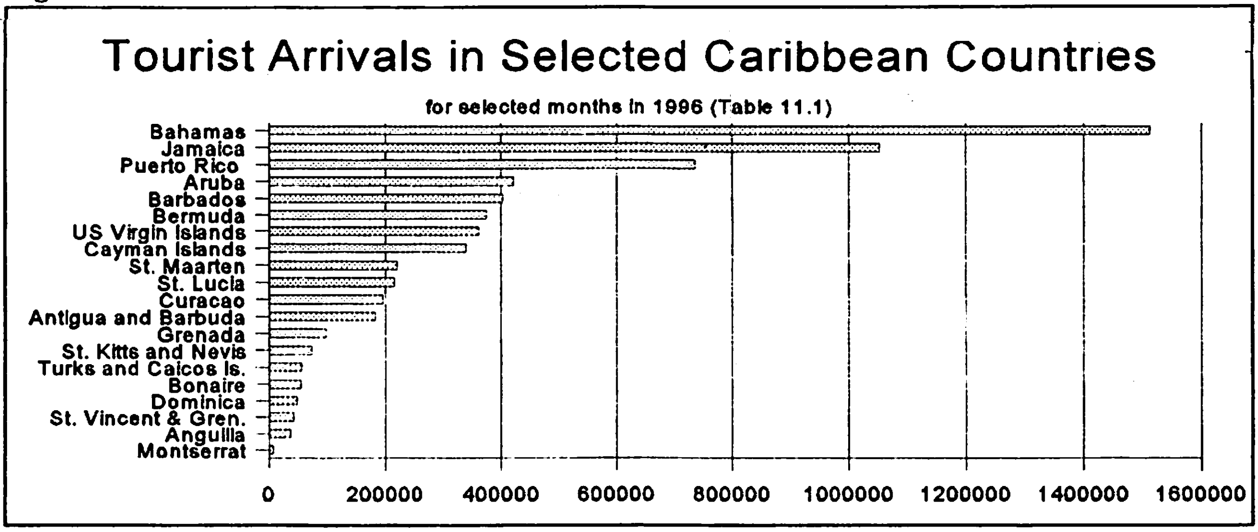


Table 11.1

TOURISM

Tourist (Stopover) Arrivals In Selected Countries for 1996

Country	Period	Tourist Arrivals	% Change Overall
Anguilla	Jan - Dec	37,498	-2.7
Antigua and Barbuda	Jan - Nov	182,454	3.1
Aruba	Jan - Aug	421,767	4.6
Bahamas	Jan - Nov	1,512,400	2.4
Barbados	Jan - Nov	402,843	1.3
Bermuda	Jan - Nov	374,462	0.9
Boniare	Jan - Oct	55,279	11.5
Cayman Islands	Jan - Nov	338,787	2.8
Curacao	Jan - Nov	195, 120	-4.6
Dominica	Jan - Sept	48,826	3.5
Grenada	Jan - Nov	97,715	-0.4
Jamaica	Jan - Dec	1,053,097	3.4
Montserrat	Jan - Aug	6,573	-54.4
Puerto Rico	Jan - Oct	736,359	0.8
St. Kitts and Nevis	Jan - Nov	73,979	7.0
St. Lucia	Jan - Nov	215,457	3.3
St. Maarten	Jan - Jul	219,174	-41.5
St. Vincent & the Grenadines	Jan - Sept	43,328	-3.7
Turks and Caicos Islands	Jan - Jul	55,957	19.0
US Virgin Islands	Jan - Oct	360,746	-27.8

TOURISM

Jamaica's Performance in 1996

The tourism sector showed some amount of improvement in its overall performance for 1996. This was fostered by increased visitor arrivals and expenditure, some level of infrastructural upgrading, product and plant improvement as well as a fall in the level of harassment and crime rates in the tourist areas.

The tourism sector continued in 1996 to be the major foreign exchange earner for the country. In 1996, it is estimated to account for approximately US$1.16 billion in gross earnings which would be about 5.5% greater than 1995. Contributing to this increase was the rise in the number of visitor arrivals, their increased length of stay, (moved from 10.7 to 12.5 nights), as well as the increases in the average daily expenditure for major categories of visitors. Stopover daily expenditure rose 3.3% to US$86.84 and cruise passengers went up by 11.7% to US$92.87.

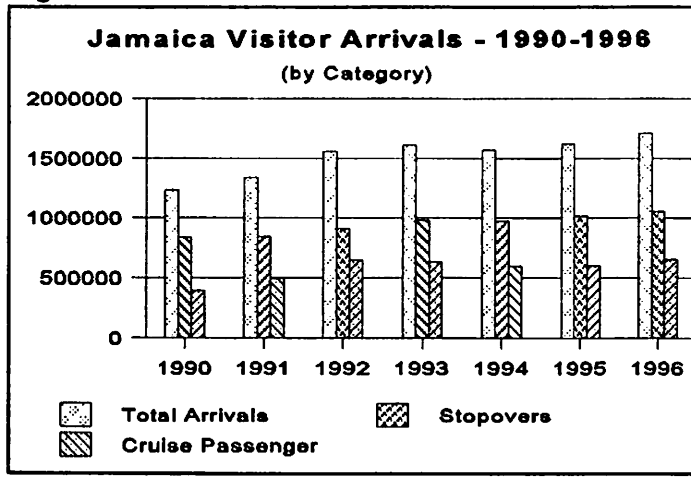
Visitor Arrivals

The Tourism Sector during 1996, recorded an overall increase in visitor arrivals of 3.9% or 68,448 tourists, compared with a 3.4% growth in 1995.

Total visitor arrivals (non-nationals and nationals) for the year were 1,820,627 persons. This comprised stopovers of 1,053,097, cruise-ship passengers of 658,178 and nationals 109,352 which indicate increases of 3.4%, 8.8% and a decline of 14.6% respectively in these categories over 1995.

The sector recorded strong growth (8.1%) in stopover arrivals between January and June 1996 - compared with the same period in 1995. March 1996 saw 108,407 non-nationals arriving, the highest monthly figure for 1996. For the same period, although the number of cruise ship calls declined by 2.1%, the passenger arrivals rose by 13.6%, the highest number in monthly calls and passengers arriving in the January to April period.

Figure 11.2



Summer was not a bumper season for tourism as July to October 1996 saw marginal declines in non-national stopover visitors compared with 1995. During these months, however, the number of cruise liners visiting as well as the passengers showed significant increases over arrivals for the same period in 1995 and these helped to boost the overall tourist arrival figures for 1996.

During the year, there was an overall decline of 14.6% in the number of nationals visiting the island. This decline was evident in all but two months of the year and its impact was significant in reducing the level of overall growth in tourist arrivals.

Developments in the Sector during 1996

The infrastructural support to the tourist sector has been constantly highlighted as needing drastic overhauling and, in some instances, the need for upgrading grew more acute.

TOURISM

Table 11.2

TOURIST ARRIVALS BY MAIN MARKET - 1996									
Country	Period	U.S.A. Tourists % Change		Canada Tourists % Change		Europe Tourists % Change		Other Tourists % Change	
Anguilla	Jan-Dec	22963	-4.9	1258	13.6	2926	21.7	10351	-4.8
Antigua & Barbuda	Jan-Nov	54812	-6.5	13637	25.5	71007	5.6	42998	6.9
Aruba	Jan-Aug	251696	13.9	15873	-12.0	34538	4.0	119660	-8.7
Bahamas	Jan-Nov	1246555	1.1	76315	0.1	117670	11.4	71860	16.1
Barbados	Jan-Nov	100931	0.7	47962	5.0	181400	1.9	72550	-1.6
Bermuda	Jan-Nov	304915	1.0	32407	-0.3	28810	1.2	8330	-1.3
Bonaire	Jan-Oct	23206	5.9	1401	125.6	19372	15.5	11300	9.8
Cayman Islands	Jan-Nov	250196	2.7	14082	14.6	30410	-11.1	44099	11.8
Curacao	Jan-Nov	27220	-10.2	2356	-24.4	71187	-7.6	94357	0.4
Dominica	Jan-Sep	10939	24.5	1329	-4.7	9081	-10.8	27477	2.4
Grenada	Jan-Nov	27748	1.0	3720	8.7	33792	2.4	32455	-5.2
Jamaica	Jan-Nov	699644	3.7	87986	-4.4	183716	5.0	70592	-2.4
Montserrat	Jan-Aug	2069	-64.5	549	-45.8	1233	-42.9	2722	-49.5
Puerto Rico	Jan-Oct	587024	1.4	7736	11.0	24549	6.2	117050	-3.5
St. Kitts & Nevis	Jan-Nov	32649	0.6	8095	-0.8	10483	20.6	22712	14.9
St. Lucia	Jan-Nov	70129	-9.4	9802	-0.5	75734	2.3	59792	26.6
St. Maarten	Jan-Jul	85113	-48.6	7741	-70.0	68086	-28.9	58234	-33.7
St Vincent & G'dines	Jan-Sep	12164	3.3	2923	-15.2	13340	4.4	14901	-12.4
Turks & Caicos Is.	Jan-Jul	40272	21.4	6606	14.4	5021	17.3	4058	7.4

During 1996, some effort was made at improving these - the airports had some upgrading work done and the facilities at the Ocho Rios Cruise pier and its environs were improved to accommodate mega liners and their passengers. Some roads were upgraded and the Ocho Rios bypass completed. Work on sewerage systems in Negril, Montego Bay and Ocho Rios began and water supply systems were upgraded in some areas. Overall, the number and frequency of electrical outages were less throughout 1996

An anti-harassment programme was forged in August by the Authorities, to help stem the effect of this scourge on the industry. Some attempts were also made to stem the level of crime and violence but not with significant positive results.

There was some attempt at increasing environmental awareness and its positive effects on the country as a whole and the industry specifically. Cities and towns were, for the most part, less dirty and more environmentally friendly areas were created and encouraged.

TOURISM

During the year, the J$ experienced a 12.5% revaluation amid tight monetary conditions including persistent high interest rates. Small hotel operators in particular, have experienced financial distress. There were a number of hotel closures and staff layoffs. The sector was offered Government's assistance through the NIBJ as J$20 million was made available to them at 25% interest rate. This was to assist hoteliers, with capacity of 50 rooms or less, in their refinancing as well as in keeping them afloat.

Strategies

During 1996, the tourism sector adopted some strategies to encourage improved sectoral performance while fostering development. The Tourism Product Development Co. initiated a course to train and license tour guides. This is to be administered at the Mico College. Training was also undertaken for lifeguards.

School children both in the urban and rural areas were also targeted as seminars were held to sensitize them on the importance of tourism to the country and to themselves.

American Express pledged US$100,000 per annum for three years, to combine efforts with JHTA in order to encourage increased arrivals to the Jamaican destination, enhance the visitors' stay and encourage repeat visitors.

While the major summer festivals, Reggae Sunsplash and Sumfest did not attract the usual influx of visitors or generate substantial revenue, a Jazz and Heritage Festival was introduced in October in an effort to boost arrivals and earnings for the sector. It was not as successful as anticipated and there are plans to repeat this in 1997.

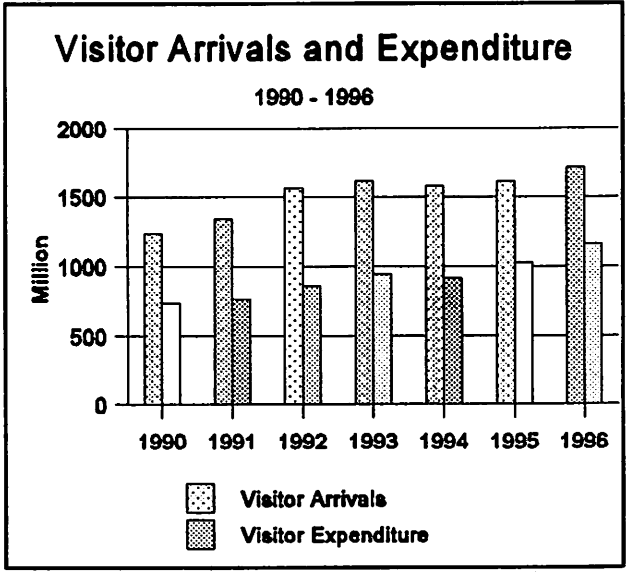
Outlook

Jamaica being one of seventeen Caribbean destinations having basically the same setting features, in order to stay alive and be competitive, needs to focus more intently on creating a product which will capture the imagination of visitors through the uniqueness of the product. This product innovation will build the image of the Jamaican destination and encourage return visitors.

Concurrent with the focus on the tourism product should be the diversification of products to include attractions which will result in increased visitor expenditure so that the earning potential will keep pace with increased arrivals.

If there is some adjustment of the exchange rate, and less restrictive monetary policies in effect, the plans and projections for increased investments in the sector could be realized and the earning potential of the sector boosted.

Figure 11.3



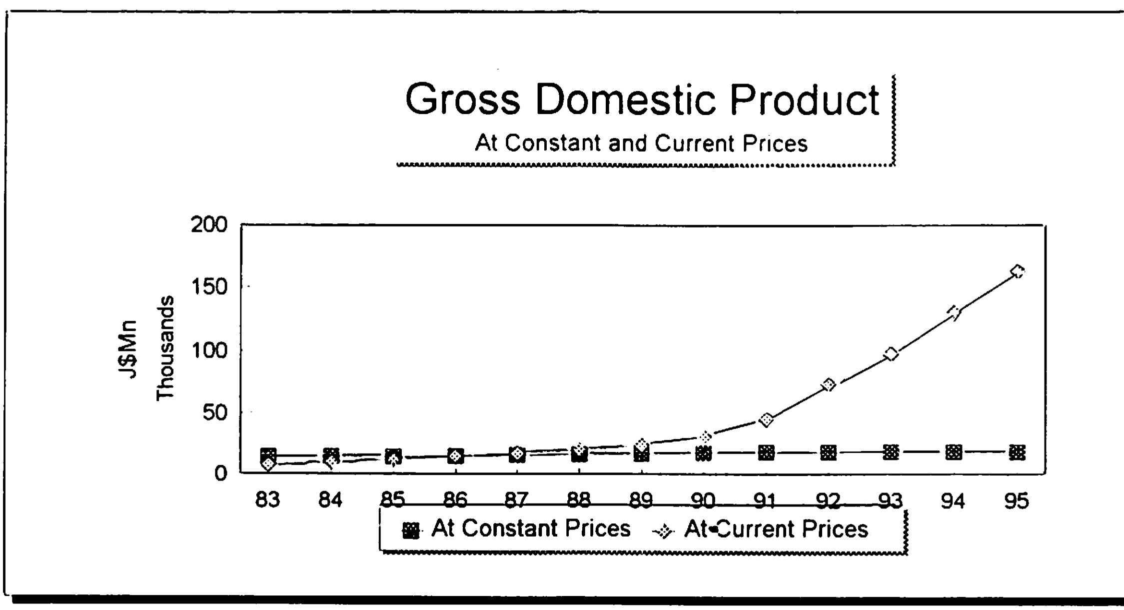
12. GRAPHIC ECONOMIC DATA

Table 12.1

COMMERCIAL BANKS' LOAN AND ADVANCES BY SECTOR (1992 - NOV 1996) J$ MILLION						
LOANS	1992	1993	1994	1995	Nov '96	% Change Nov 96/95
AGRICULTURE	1,117.1	1,416.7	2,038.5	1,879.0	2,246.7	21.50
MANUFACTURING	2,119.9	3,027.0	3,867.2	6,092.6	7,059.2	18.96
CONSTRUCTION	2,473.9	3,321.1	4,616.1	5,587.3	4,890.3	-18.83
MINING	73.4	118.1	236.4	354.1	301.2	-2.59
TOURISM	1,027.8	2,000.0	2,912.1	3,830.4	4,654.7	24.46
TRANSPORT	1,137.7	2,163.6	3,026.9	4,399.9	3,727.7	-6.92
CONSUMER-ORIENTED	3,202.9	9,181.1	11,318.1	17,633.4	23,122.5	29.63
GOVERNMENT SERVICE	813.2	1,299.4	2,674.3	3,353.0	5,427.0	101.39
OTHERS	2,129.2	1,087.7	1,604.8	2,734.5	5,050.2	115.18
TOTAL	14,095.1	23,614.7	32,294.4	45,864.2	56,479.5	26.24

Source: Bank of Jamaica

Figure 12.1



GRAPHIC ECONOMIC DATA

Figure 12.2

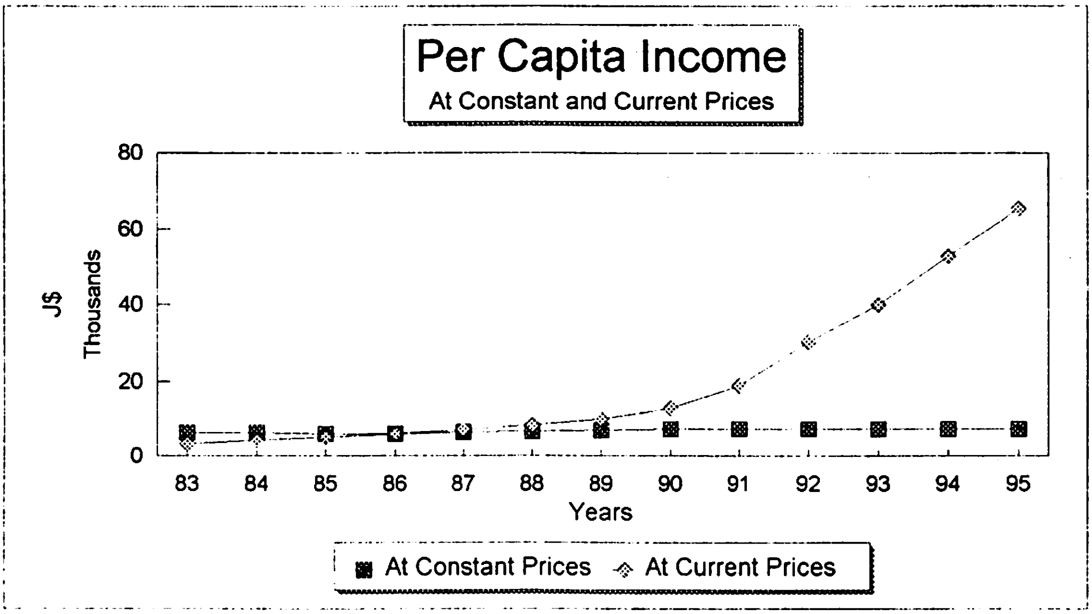
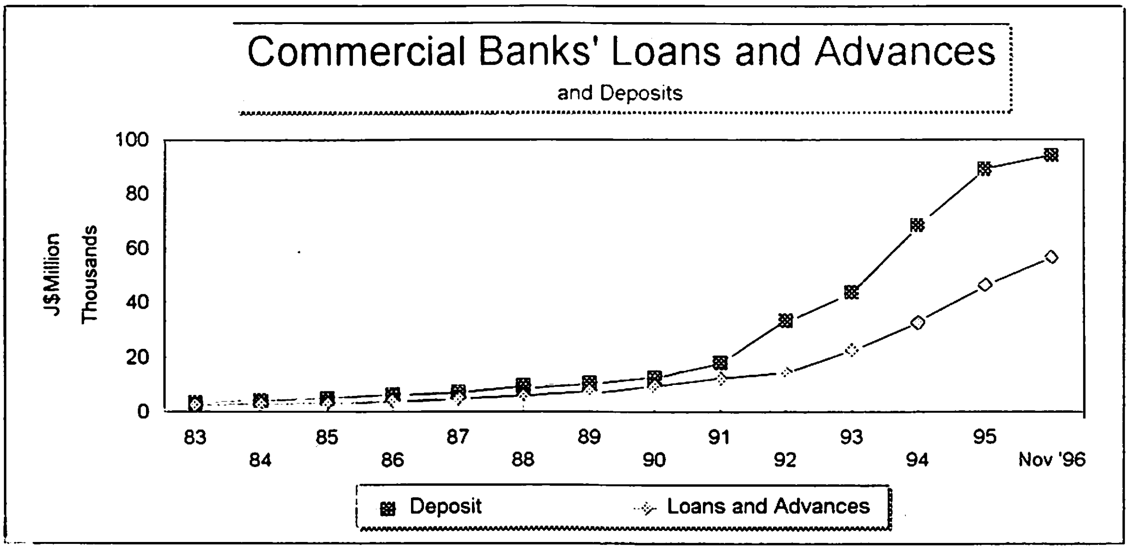


Figure 12.3



GRAPHIC ECONOMIC DATA

Figure 12.4

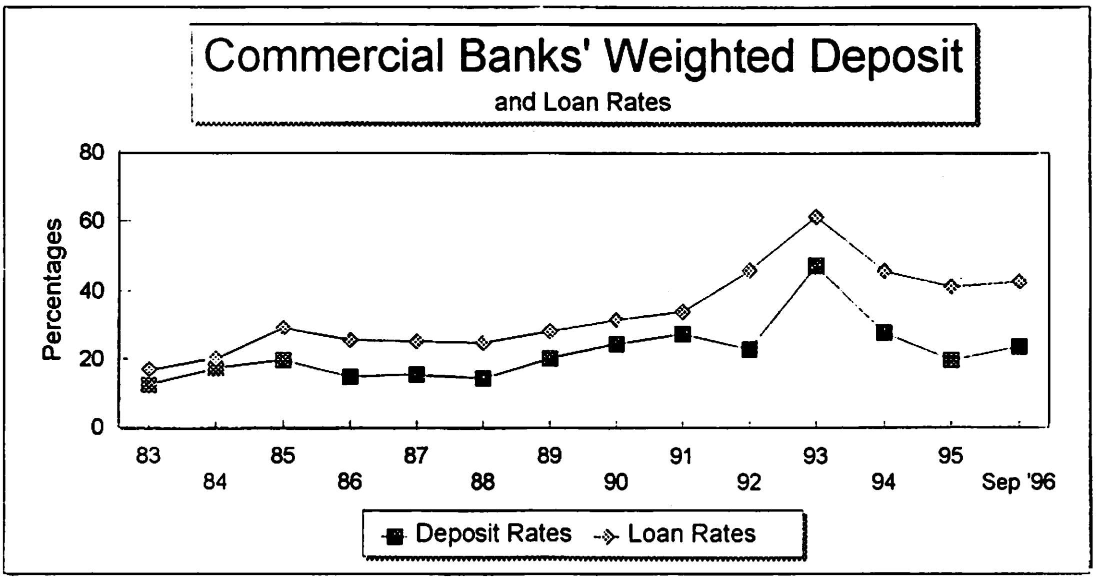
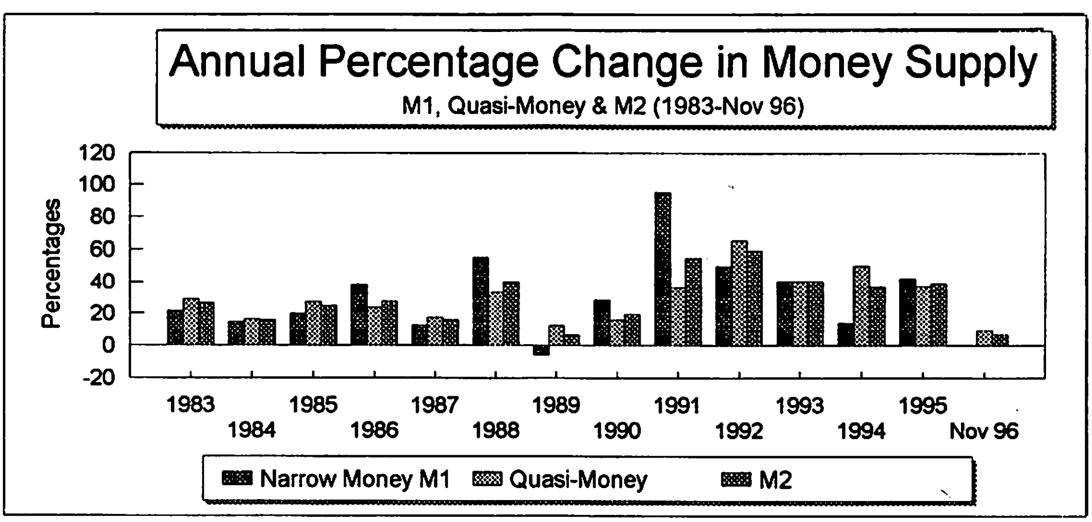


Figure 12.5



GRAPHIC ECONOMIC DATA

Figure 12.6

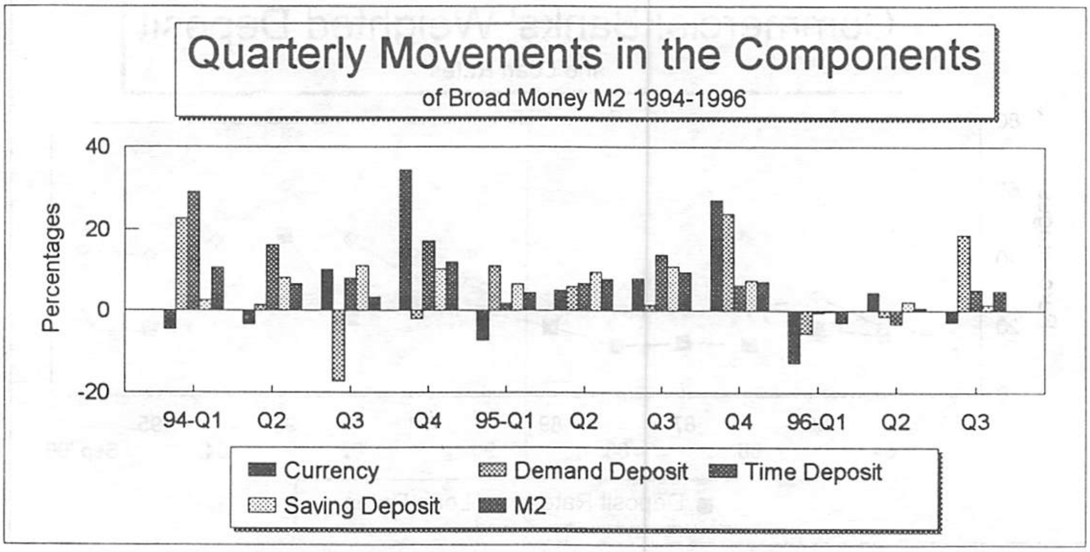
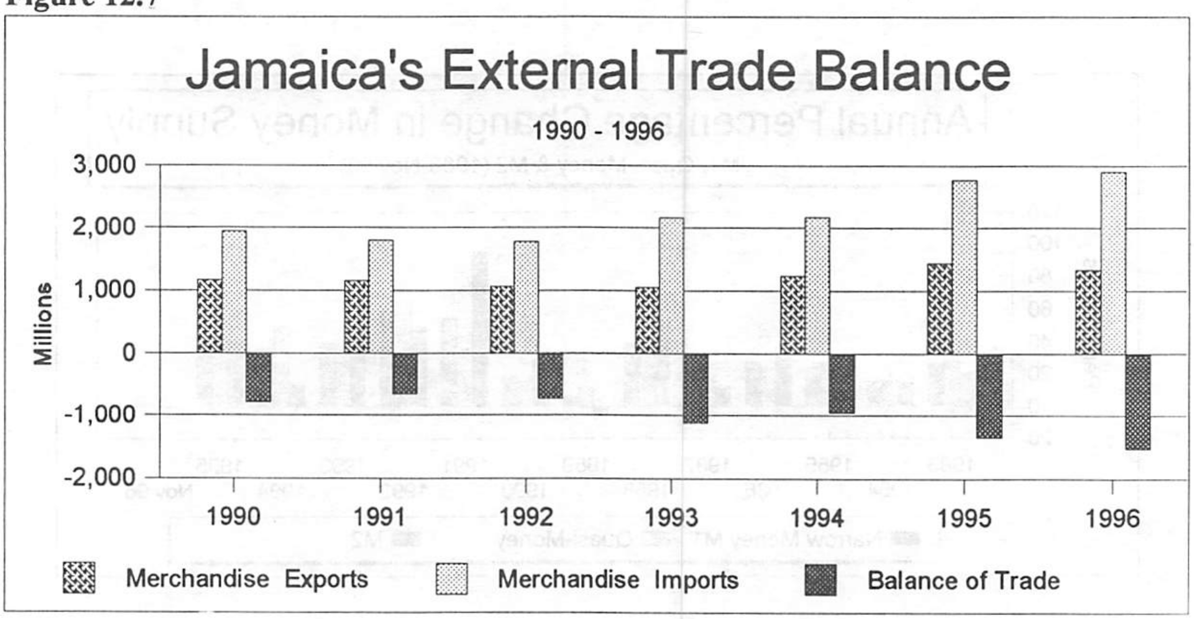


Figure 12.7

Figure 12.7



GRAPHIC ECONOMIC DATA

Figure 12.8

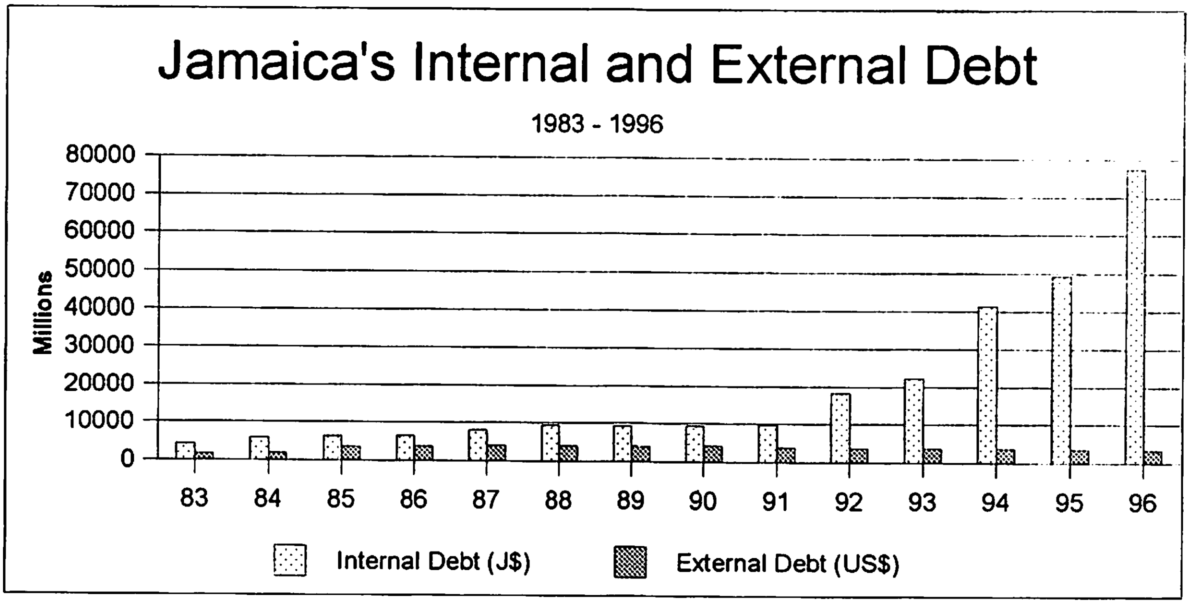


Figure 12.9