

NEW CONFIDENTIAL ECONOMIC BULLETIN

PRIVATE SECTOR ORGANISATION OF JAMAICA

Monthly Analysis of the Jamaican Economy

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OVERVIEW

The month of June was a fairly quiet one, except for the sudden rise in very short term repo rates, there was not much untoward happening. The supply of foreign exchange dried up somewhat in the authorized dealers, leading to queuing for hard currency and some increase in the exchange rate in the cambios. There were also hints of the re-emergence of the parallel market in foreign exchange. Other worrying signs were the increase in the rate of growth of broad money and base money, developments which threaten the achievement of the government's inflation target. The export sector continued to perform poorly and the trade and services gap continues to be plugged by remittances from abroad. The fiscal accounts to June have performed more or less on target, except for the fact that domestic borrowing has been about twice as high as was originally anticipated. This could have negative consequences for the government's plan to reduce expenditure on domestic debt servicing by tighter debt management and refinancing of some of its more expensive debt.

The government got a significant lift this month from the success of its international bond issue. US\$200 million was raised on the Euro-bond market at 9.625% for a 5 year issue. The government originally went out to raise US\$100

million but the offer was oversubscribed by two or three times and so they modestly decided to accept an extra 100 m. The international capital markets are flush with cash and the positive reception given to our debt issue indicates that if we ever manage to create the conditions for large-scale private investment in Jamaica, we should not have great difficulty in raising capital abroad.

The bond issue will serve a number of purposes, the main one being the provision of resources to the government for the servicing of the amortisation payments on its foreign debt. The issue will therefore have an indirect impact on the foreign exchange market, as it will allow the government to forego having to purchase hard currency for the principal portion of its foreign debt servicing from the domestic FE market. Not all the money will be needed immediately so that if things came to a crunch, they could sell some of the bond proceeds into the market with the hope of replacing it at a later date. The issue could therefore also provide some direct cushion to the BOJ's exchange rate management efforts.

Essentially therefore, the bond is being used to refinance external debt, and this may have implications for the cost of servicing that debt. Much of Jamaica's external debt is owed to multilateral and bilateral donors and is contracted at quite concessional interest rates. If the bond is refinancing this type of debt, then the cost of servicing it will almost certainly rise. Furthermore, if the loan is tied to floating US interest rates, then we could face higher interest charges on this debt, as there is a strong likelihood that US interest rates will rise over the next year or so.

Whatever the pro and the cons of bond issue, it has certainly boosted the confidence of the government authorities. The BOJ is reported to be lowering the rates offered on its 10 to 15 day repos and did not intervene as heavily in the FE market in June as it did in May. Although there continue to be severe problems in the real sector of the economy, there is

a tenuous balance at the macro-economic level.

The buyout of JABLUM's debt to the Commonwealth Development Corporation by the ACB indicates that bailouts continue to be needed in many sectors of the economy. Not all businessmen will however be so lucky! A number of financial institutions remain to be assisted by

FINSAC and it will be interesting to see how the institutions that it owns at present will be disposed of. With some luck lending rates will continue to inch downwards, but the cash reserve ratio and the size of the banks' non performing loan portfolios will hinder this adjustment.

Net International Reserves

The Net International Reserves (NIR) experienced a sharp decline in May, when it fell by US\$76.04 million to stand at US\$561.08 million at the end of the month, coming from US\$637.12 million at the end of April 1997. This brings the year to date decline for the 5 months period to US\$131.52 million or 19% below the figure at the end of December 1996. This current stock of NIR covers which obtained at the end of April 1996.

In May, the gross foreign assets decreased by US\$81.20 million to stand at US\$721.41 million. Although the gross foreign liabilities decreased by US\$5.16 million, this fall in the level of gross foreign liabilities was insufficient to offset the fall in the gross foreign assets.

As is indicated by the massive fall in the Gross foreign assets, the fall in the stock of NIR during May has been mainly as a result of the intervention of the Bank of Jamaica in the foreign exchange market to shore up the local currency.

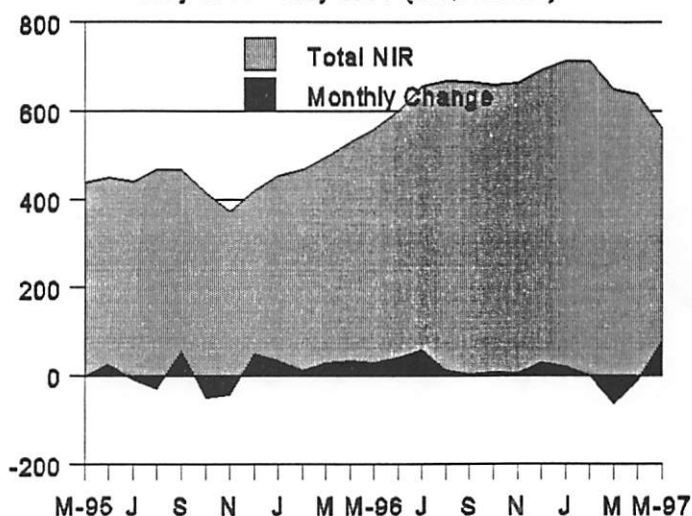
According to the governor of the BOJ, the downward trend in the NIR will soon be reversed with the news of the successful placement of the governments' bond issue on the Euro-bond market.

Foreign Exchange Accounts

The preliminary estimate for the stock of funds in foreign currency accounts at the end of May 1997 was US\$786.69 million suggesting a US\$8.23

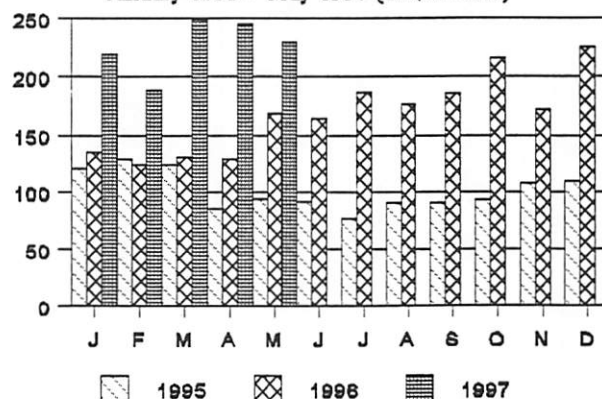
CHANGES IN INTERNATIONAL RESERVES

May 1995 - May 1997 (US\$Million)



FOREIGN CURRENCY PURCHASES(MTHLY)

January 1995 - May 1997 (US\$Million)



million increase over April's figure of US\$778.46 million.

Activities in foreign exchange accounts in May show US\$688.22 million in withdrawals, as against

US\$696.45 million in lodgements, indicating a slow down in activity compared with April which saw withdrawals of US\$731.02 million and lodgements of US\$731.02 million.

The Interbank Market for authorized dealers in foreign exchange, showed continued buoyancy during May. Foreign Exchange purchases for the month, in the spot market were US\$229.74 million while sales were US\$234.69 million. This represents an increase of approximately 32% in activities in this market compared with the same period last year.

Exchange Rate

The Jamaican Dollar fluctuated somewhat vis-a-vis its foreign counterparts during the month of June 1997. The Jamaican Dollar exchanged for J\$35.36 to US\$1, J\$25.03 to Canadian \$1 and J\$58.34 to 1 pound sterling at the end of the trading on June 25, 1997.

The nervousness experienced in the foreign exchange market over the past three (3) months should be easing with the news that the government has managed to raise US\$200 million on the Euro-bond Market. The inflow of this money along with the US\$40 million or so from the sale of the Jamaica Flour Mills should maintain some measure of stability in the exchange rate and hopefully there will be no need to further increase interest rates. However, the gap between the rates offered in the cambios and the authorised dealers, has been rising, with the former trading at rates around J\$36 to US\$1.

Interest Rates

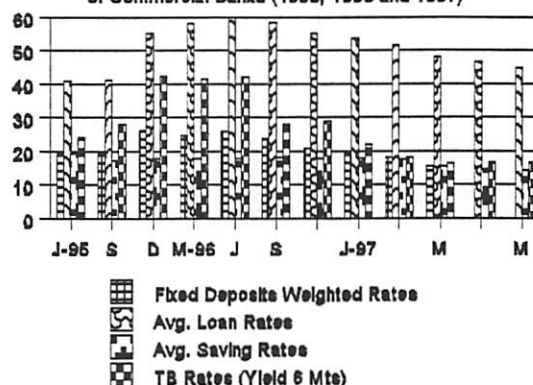
Interest rates in the commercial banking sector continued to decline gradually with the average savings rate moving down from 14.62% at the end of April to 14.22% at the end of May 1997. Over the same period, the average loan rate moved from 48.14% to 44.78%. The weighted average fixed deposits rate moved from 18.08% at the end of February to 15.47% at the end of March 1997 and

the weighted average loan rates stood at 36.11% as of March 1997.

The results of the two (2) new T-Bills offers for the month of June, were as follows:

- * For the offer of J\$500 million for 183 days it was over-subscribed by J\$482 million and yielded 17.90% on average.

Comparative Interest Rates
of Commercial Banks (1995, 1996 and 1997)



- * For the offer of J\$500 million for 365 days it was over-subscribed by J\$15.90 million and yielded 20.19% on average.

There was no new issue of LRS during June, but from all indications interest rates are on the increase again with the 10 days reverse repurchase agreements yielding 26%. This perception perhaps explains the very small over-subscription of the one (1) year TBill offer, while the six (6) month offer was significantly over-subscribed

Inflation

In May 1997, the inflation rate was 0.7%. While this movement is within the 1% 'comfort zone' it is indicative of a creeping increase, as the monthly rates since March have moved from 0.3% to 0.6% to 0.7%.

Inflation in May 1997

Inflation for the first five (5) months of the year is 3.2% and compared with 9.1% for the similar period in 1996 gives the indication that if the present trend continues for the rest of the year, inflation could be 8-9% for 1997. The point to point inflation rate continues to trend down also, reaching 8.2% at the end of May, down from 15.7% at December 1996.

As the tight monetary conditions continue to affect the economy, it should foster continued low levels of inflation, but this scenario could be threatened by an accelerating rate of growth in money supply which is being fuelled by increasing levels of credit extended to the public sector and to a lesser extent to the private sector. Of a threat also, will be the improper timing and management of the new US\$200 million bond as it is brought into the system and utilized.

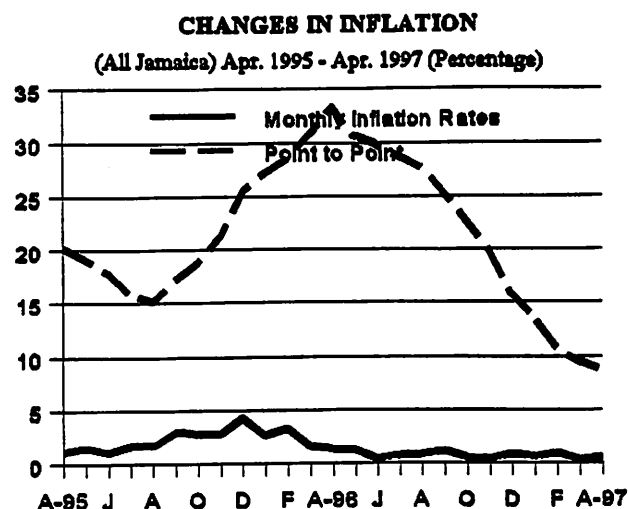
Base Money

Apart from a 2.4% decline in base money effected in January 1997 to help mop up the 10.5% rise in December 1996, base money has since then, continued to show increasing levels of monthly expansions. In May, base money rose by 3.16% the largest for the year to date. Resultingly, the point to point movement which showed a steady decline between February and April from 17.1% to 14.92% shot up by 5 percentage points to 20.03% in May.

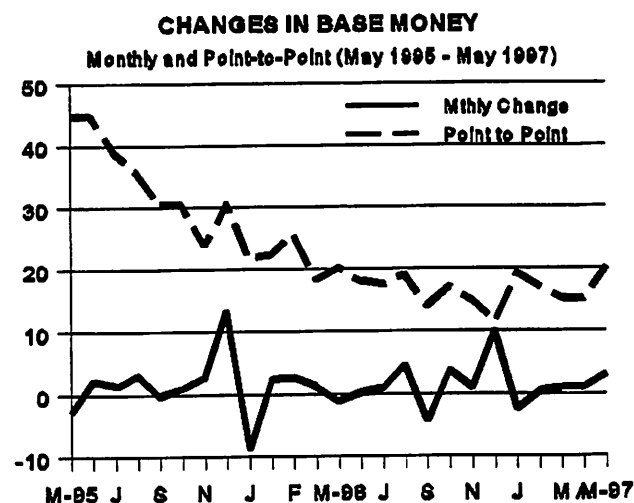
However, between February and May 1997, base money rose by 5.69% and relates closely with the 5.07% increase shown for the similar period in 1996, suggesting that the growth in this variable should continue to be monitored. The recent growth in the domestic assets of the BOJ will make it even more difficult to restrain the growth of base money.

Money Supply

The 1.4% increase in money supply in April indicates a continued monthly rise in this variable. For the months February to April, M2 has increased by 11.39%. The point-to-point trend has overall



been increasing also - moving from 8.49% in January, 14.98% in February peaking at 20.93 in March and falling to 16.7% in April.



Between January and April 1997, M1, that is currency with the public and demand deposits fell by 10.9%. However, Quasi Money, that is, time and savings deposits rose by 11.7% overall, with time deposits falling by 5.0% and saving deposits increasing by 19.04%. Infact, saving deposits grew steadily over the period and was the major component effecting the rise in M2.

Between January and April, there was a fall in the net foreign assets of BOJ. However, there was a significant rise (28.83%) in domestic credit, the larger share, J\$12.01 billion accessed by the public sector, and J\$3.24 billion went to the private sector. The increase in domestic credit has been the driving factor in M2 increases.

The control of money supply growth is going to be a major challenge for the government as the cost of the bail-out continues to take its toll on the fiscal accounts and as further assistance is extended to other companies in the financial sector.

Tourism

Tourist arrivals for May 1997 registered a marginal decline of 0.6% over those for May 1996. During this month, stop-overs visitors showed a 1.6% fall in arrivals, and despite a 40% fall in cruise-ship arrivals at the Montego Bay port, the number of cruise passengers visiting showed an overall 1.2% increase. The number of nationals visiting during the month was 5.5% higher than in May 1996. However, total visitor arrivals for the month, nationals included, fell by 0.6% when compared with May 1996.

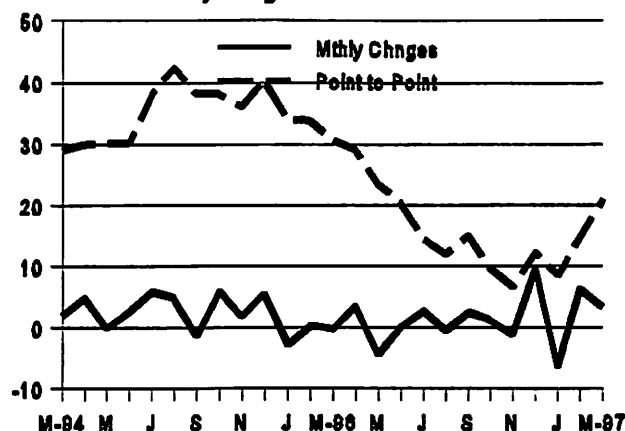
The first five (5) months of 1997 and 1996 compared showed total arrivals, including nationals in 1997 rising by 5.9%, as stop-over visitors arrivals rose by 0.1%, cruise passengers by 15.8% while arriving nationals fell by 3.2%. For this period tourist arrivals, that is stop-overs and cruise passengers showed a 6.3% increase over the similar 1996 period.

Estimated earnings from January to March 1997, for the sector was US\$290 million which was 4.6% more than was earned in the similar period in 1996.

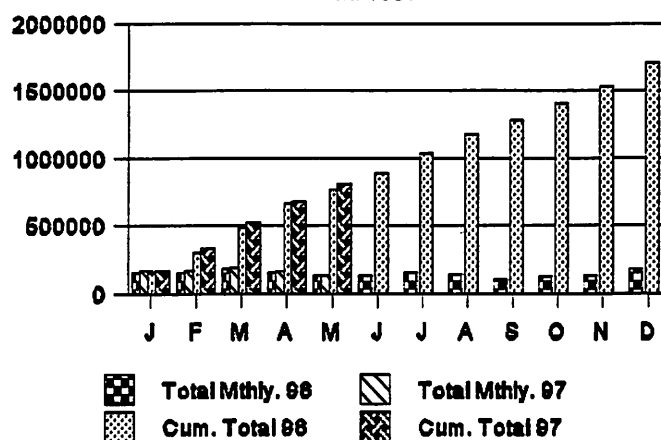
External Trade / Balance of Payments

At the end of the first three months of 1997, Jamaica's expenditure on imports stood at US\$690.3 million, increasing by 1.44% or US\$9.8

CHANGES IN M2
Monthly Changes Mar. 1994 - Mar. 1996



TOURIST ARRIVALS
1996 and 1997



million over January to March 1996. Total exports at March stood at US\$321.69 million, declining by 9.5% or US\$43.77 million over January to March 1996. The trade deficit stood at US\$368.63 million compared with US\$325.05 million for the corresponding period in 1996.

Imports: Total imports at March valued US\$690.3 million of which Consumer Goods had a 23.04% share, raw materials 49.78%, and capital goods 27.18%. Both consumer goods and capital goods experienced increases of 7.5% and 20.1% respectively while raw materials experienced a decline of 8% over the same period for 1996.

Exports: Total exports for January to March 1997 were valued at US\$321.7 million. Of this, traditional exports - bauxite, alumina, sugar, bananas - earned US\$204.68 million, other traditionals accounted for US\$17.3 million, re-exports accounted for US\$0.64 million and non-traditional US\$93.31 million.

The balance on the services account at March 1997 was lower by US\$11.7 million than in 1996. This resulted mainly from decreased net earnings from tourism and other services.

The economy continued to experience buoyant levels of private transfers which were US\$66.1 million more than at March 1996. This helped to

offset the negative balances in the goods and services sectors so that the current account in March 1997 was US\$6.8 million compared with US\$3.1 million in March 1996.

The capital account at March 1997 saw a decline of US\$141.5 million in private capital inflows. At March 1996 private capital inflows stood at US\$146.7 million and at March 1997 it was US\$5.2 million indicating a significant reversal of the flows. However, there was also a lower level of capital outflows to service government debts in this period which helped to cushion the net balance of the account which was - US\$50.9 million. This implies a decline in the NIR over this period.

BALANCE OF PAYMENTS

	Merchandise	Services	Transfers	Current A/c	Capital A/c	NIR A/c
1996	-1527.30	746.60	542.30	-238.40	509.70	692.60
J -Mar'96	-325.10	206.70	121.50	3.10	71.90	496.26
J -Mar'97	-368.60	195.00	180.40	6.80	-50.90	648.48

MACRO-ECONOMIC INDICATORS
(December 1995 - May 1997)

MONTHS	BASE MONEY		NIR	FOREX ACCTS	INFLATION		TOURIST ARRIVALS			CHANGES IN M2 (Money Supply)	
	Mthly. Chng.	Point to Point	Total NIR	Total Balances	Mthly Chng	Point to Point	Total Visitors	Stop-overs	Cruise	Mthly. Chng.	Point to Point
Dec.95	13.43	30.58	421.31	737.30	4.3	25.50	157819	100183	57636	5.53	40.40
Jan.96	-8.92	21.63	455.79	706.09	2.6	27.22	150561	86184	64377	-2.78	34.00
Feb.	2.38	22.36	467.52	713.21	3.3	29.94	150355	94449	55906	0.27	33.64
Mar.	2.62	25.55	496.26	702.80	1.6	30.80	180218	108407	71811	-0.35	30.58
Apr.	1.26	18.27	529.37	765.60	1.3	31.30	149663	89030	60633	3.66	28.99
May	-1.23	20.18	558.01	713.30	1.2	30.64	131052	82967	48085	-4.4	23.31
June	0.32	17.96	598.43	703.90	0.4	29.9	127745	90366	37379	0.1	20.23
July	0.82	17.32	656.55	692.00	0.7	28.8	148901	96742	52159	2.8	14.55
Aug.	4.5	18.89	667.09	691.00	0.8	27.7	139629	89910	49719	-0.5	11.90
Sept.	-4.4	14.04	665.32	708.00	1.1	25.30	100543	66219	34324	2.4	15.04
Oct.	3.7	17.10	658.57	689.50	0.5	22.68	126110	68726	57381	1.1	9.69
Nov.	0.87	14.82	663.11	699.50	0.4	19.83	128119	78231	49888	-1.1	6.66
Dec. 96	10.05	11.40	692.60	728.11	0.8	15.8	176366	101866	74500	11.8	14.49
Jan. 97	-2.4	19.32	713.03	707.83	0.6	13.5	166754	84833	81921	-6.6	8.49
Feb.	0.45	17.08	712.34	712.75	0.9	10.8	164481	89701	74780	6.3	14.98
Mar.	0.95	15.18	648.48	763.24	0.3	9.5	191733	117554	74197	3.4	20.93
Apr.	1.03	14.92	637.12	778.46	0.6	8.7	156769	87710	69059	1.41	16.67
May	3.16	20.03	561.08	786.69	0.7	8.2	130258	81676	48577	-----	-----

* Provisional

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