New Confidential Economic Bulletin

Private Sector Organisation of Jamaica

Monthly Analysis of the Jamaican Economy

Vol. 2 No. 11, August 1997

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Overview

This month was marked by an increasing tightness in the foreign exchange market, with the exchange rate edging down in the cambio market and the BOJ intervening fairly consistently by selling into the market. The BOJ has raised both their intervention rate (to $35.11) and the interest rate offered on their repos and 180 day T-Bills (to 19% and 19.25% respectively). There is no sense of panic in the market and one imagines that the BOJ will step up the volume of their sales if the exchange rate comes under more sustained pressure.

While the external account has shown some deterioration in the first half of 1997, the authorities should be far more concerned about the fiscal situation which may worsen significantly as the year goes by. The out turn for the first 4 months of the fiscal year has been quite good but for a much higher than programmed acquisition of domestic debt. However retroactive wage increases for civil servants may fall due in the third quarter of the fiscal year and the new salary scales will come into effect shortly thereafter. This could lead to further increases in the fiscal deficit and attendant increases in public sector credit, which would make the fight against inflation that much more difficult.

Fiscal compression has to become a part of our economic stabilization programme if we are ever to break out of the high interest rate regime and get the country onto a path of economic growth. The private sector is now going through a very painful cost containment process and the government will also have to undertake a similar exercise if the present economic decline is to be reversed. In an election year, however, this is unlikely to happen and one can only hope that good sense prevails after the fact, whoever emerges victorious.

FINSAC continues to be active in the banking sector although there were reports recently that it was having difficulty raising all the financing which it had promised to some of the insurance companies. In order to ease the burden on central government's purse, FINSAC will be issuing its own paper, guaranteed by government, to the market. Where they will get the money to service the interest and principal payments has not yet been made clear, nor has it been made public how the interest subsidy which they will give recipients, will be covered.

What seems clear however, is that pretty soon FINSAC will own or control all the locally-owned commercial banks with one or at most two exceptions. The staggering weight of the non-performing loans (which are as high as 38% in one institution) is slowly wiping out the capital base of the local banks as they make provision for them, and thereby rendering them insolvent. After the meltdown and the mergers are through, we will have fewer commercial banks and maybe one or two in local hands if we are lucky. We should also not be surprised if the instability in the sector continues for sometime if the high interest rate policy is not relaxed considerably in the relatively short term. It is also essential that the purchasers of these institutions be cash rich and very experienced in commercial banking.

The absence of a policy response to the crisis in the financial sector on the part of the government has been quite remarkable. While no one would have expected the government to sit around and watch the financial sector collapse, one would certainly expect them to seek the least cost solution to the problem. This would certainly have involved a policy response to the crisis which would see interest rates being relaxed in order to allow the sector to stop hemorrhaging and start earning its way out of its problems. Fiscal policy would have had to be tightened and other adjustments in policy might have had to be made, but the cost to the public purse would have been far less and the cost to the economy in lost jobs, output and growth would also have been much less. Unfortunately, we are unlikely to see any such adjustment before the elections and by then, ownership of most of the domestic share of the commercial banking sector may already have changed hands.

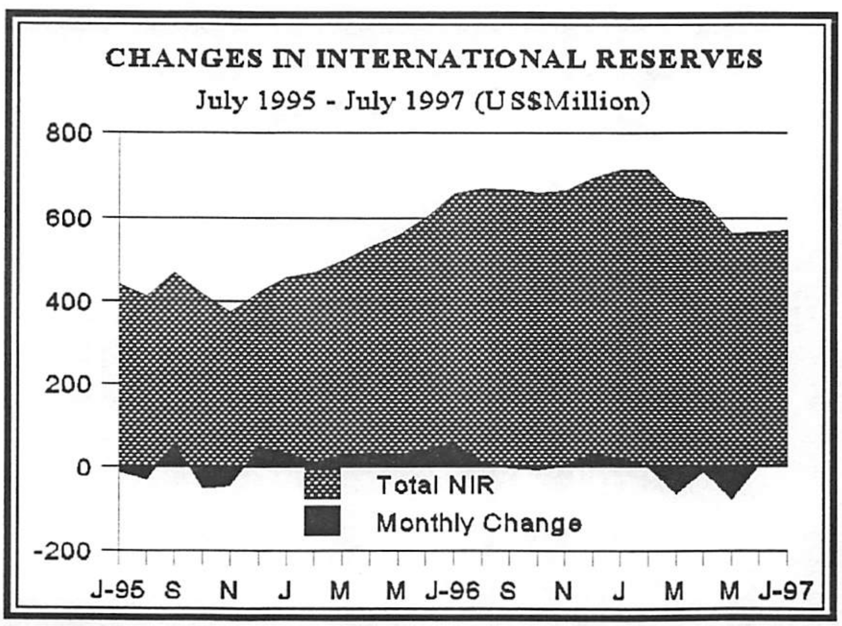
Net International Reserves

The Net International Reserves (NIR) experienced an increase for the second consecutive month, when it rose by US$5.46 million to stand at US$569.38 million at the end of July 1997. The current stock of Gross Official Reserves, covers 12.03 weeks of imports, an improvement over June's coverage of 11.95 weeks of imports.

In July, the gross foreign assets increased by US$4.80 million to stand at US$721.88 million. This was accompanied by a decrease of US$0.66 million in the foreign liabilities, which stood at US$152.50 million at the end of July 1997.

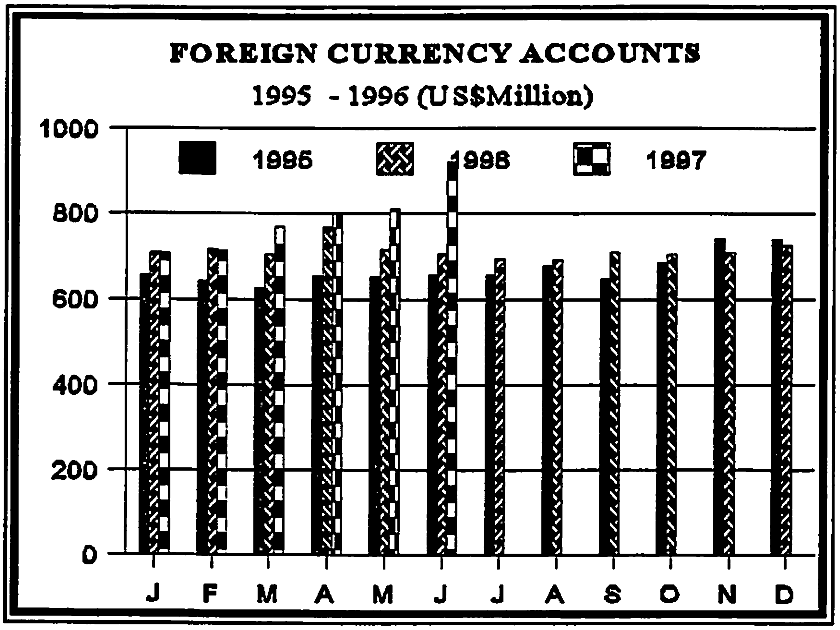
Foreign Exchange Accounts

The preliminary figures for the stock of funds in foreign currency accounts at the end of July 1997 stood at US$919.56 million suggesting an US$11.93 million increase over June's figure of US$817.63. This significant increase may be partly the result of the proceeds



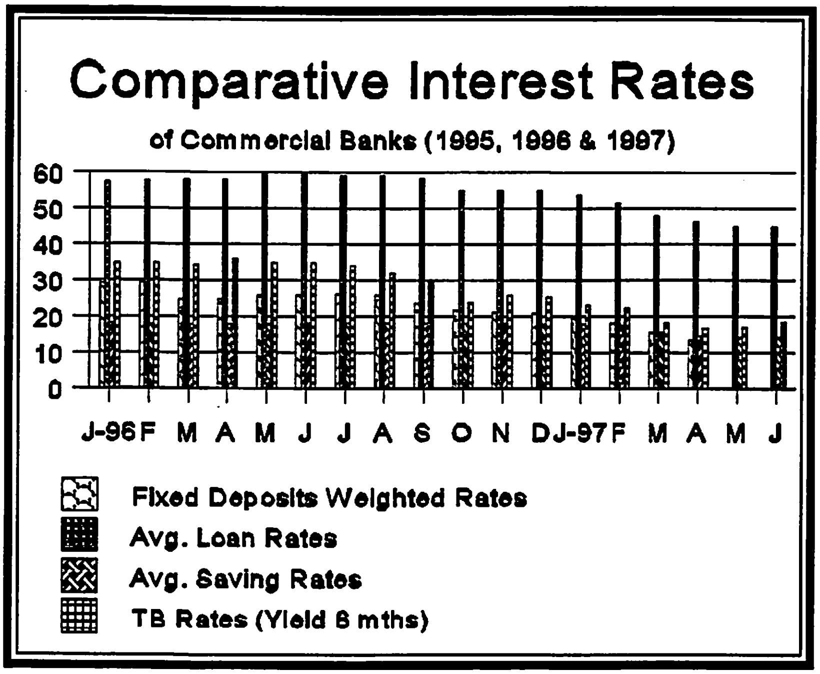
of the ADM buy-out of the Jamaica Flour Mills.

Activities in foreign exchange accounts in July show US$633.87 million in withdrawals, as against US$735.80 million in lodgements, indicating an increase in activity compared with June which saw withdrawals of US$564.15 million and lodgements of US$576.88 million.



Exchange Rates

There was relative stability in the foreign exchange market during the month of August as the Jamaican Dollar showed a slight depreciation against its foreign counter parts. The Jamaican Dollar exchanged for J$35.70 to US$1, at the end of trading on August 27, 1997, showing a slight depreciation of J$0.02 over July. However, with domestic inflation rate averaging 0.6% for the first six (6) months of 1997 and inflation in the US averaging only 0.11%, the real appreciation of the Jamaican Dollar continued.



The Jamaican Dollar exchanged for J$25.5 to Canadian $1 and J$55.81 to 1 pound sterling at the end of trading on August 27, 1997.

Interest Rates

Both fixed Deposits and Savings Deposits rates seem to have stabilized in July 1997, with no change in these rates over June's rates. Lending rates seem to be on the decline, although average loan rate did not change in July over June's rate. The weighted average loan rate for May showed a slight decline from 33.48% at the end of April 1997 to 32.89% at the end of May 1997.

The results of the three (3) new T-Bills offers for the month of August, were as follows:

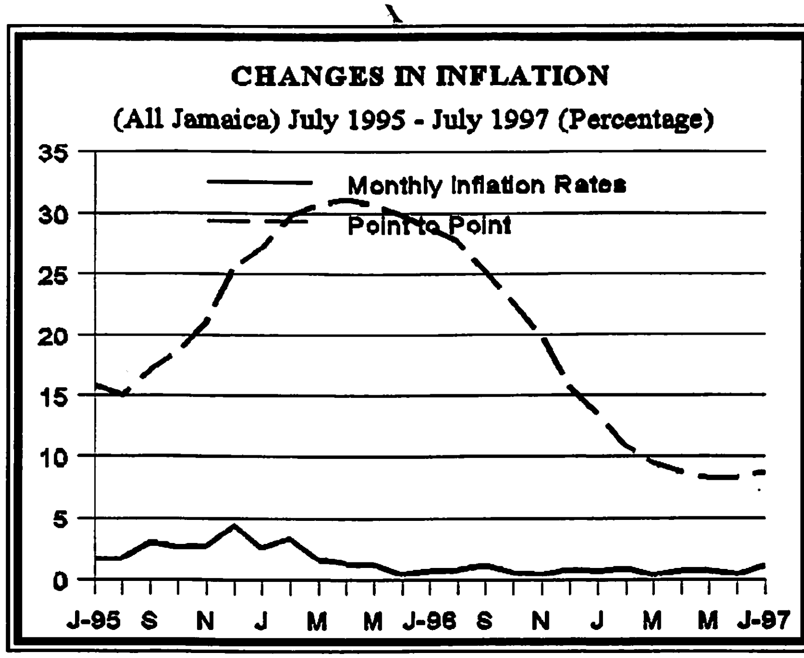
- * The offer of J$350 million for 273 days was over-subscribed by J$886.4 million and yielded 17.97% on average.
- * The offer of J$550 million for 365 days was over-subscribed by J$494.9 million and yielded 19.25% on average.
- * The offer of J$550 million for 182 days was oversubsoribed by J$1,065.54 million and yielded 19.27% on average.

Inflation

July saw a monthly inflation rate of 1.1%. This is the first monthly rate above 1.0% experienced since September 1996. With money supply expanding and the exchange rate experiencing some level of depreciation, there could be continued similar upward movements in future monthly rates.

The July rate brought the year to date inflation to 4.8% up from 3.7% in June while the point to point rate moved to 8.7% up marginally from 8.3% in June. Inflation for fiscal year - April to July was 2.9%.

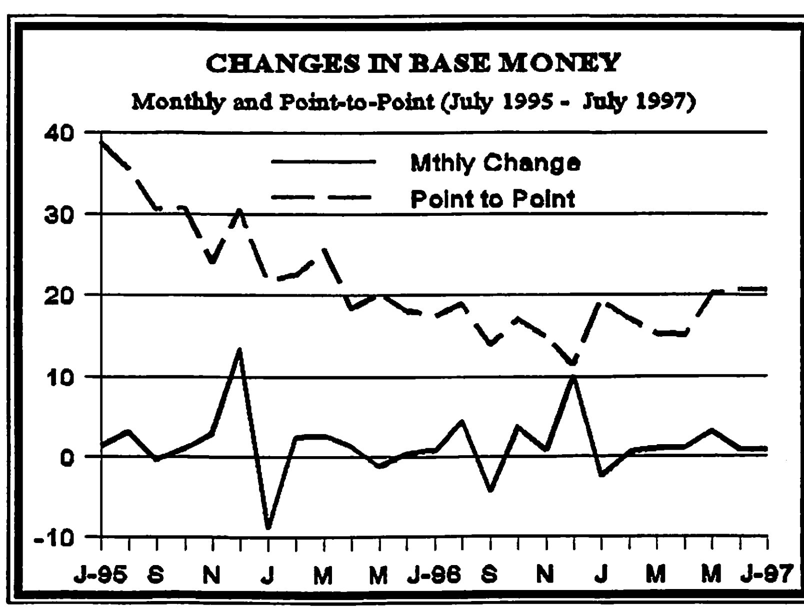
The all-Jamaica inflation rate of 1.1% for July reflects the moderating influence of a lower level of price increases 0.7% experienced in the rural areas, as the rate for both 'other towns' and the Kingston Metropolitan Area was 1.3%.



During July increases in the prices of 'food and drink' (1.6%) as well as those for 'household furnishings and furniture' (1.4%) were most influential in fostering the increases in the inflation rate.

Base Money

During July, base money showed a marginal 0.8% increase. By so doing, it has



maintained the growth trend exhibited since February 1997. However, these monthly growth rates have varied ranging from 0.45% in February to 3.16% in May. So, between January and July 1997 base money had an overall growth of 4.7%. This compares with a 5.7% growth for the similar period in 1996 which saw lower but more sustained levels of monthly growth rates.

The increase in base money for July was effected by a 6.8% rise in currency issue which was not entirely offset by a 2.3% fall in the statutory reserves and current account balances of commercial banks.

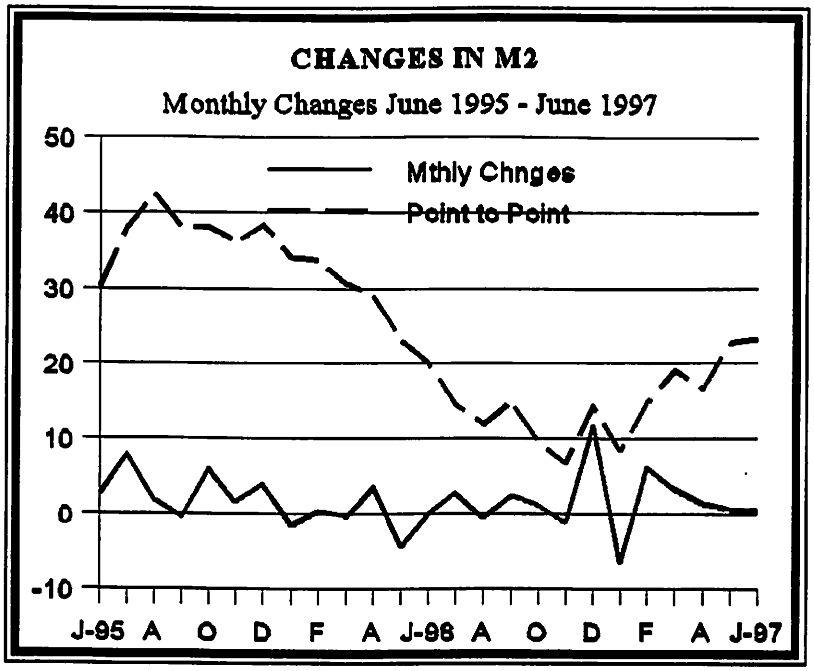
The significant increase in currency issue during this month should influence the growth in money supply.

Money Supply

Money Supply (M2) expanded by 0.5% in June. Although marginal, this variable none-the-less is continuing its expansion trend. The first six (6) months of the year saw M2 expanding by 5.2% while the point-to-point rate at June was 23.27%. These compare with a decline in M2 of 2.3% and a point-to-point of 20.23% at June 1996.

During June 1997, the expansion in the components of money supply were seen in increases in demand and saving deposits as the levels of both currency with the public and time deposits in the system fell. This increase in M2 was effected mainly through increases in the acquisition of foreign assets as well as a significant rise, J$4.87 billion in the level of credit extended to the public sector. The overall effect of this was negated somewhat by a J$2.6 billion fall in credit to the private sector and a J$0.5 billion improvement in the credit balances of other financial institutions.

Empirical evidence suggests that the impact of M2 expansion has a two (2) to three (3) month lagged effect on inflation. This would suggest that the M2 increases of the first quarter of 1997 are impacting on the current inflation out-turn.



Selected Production

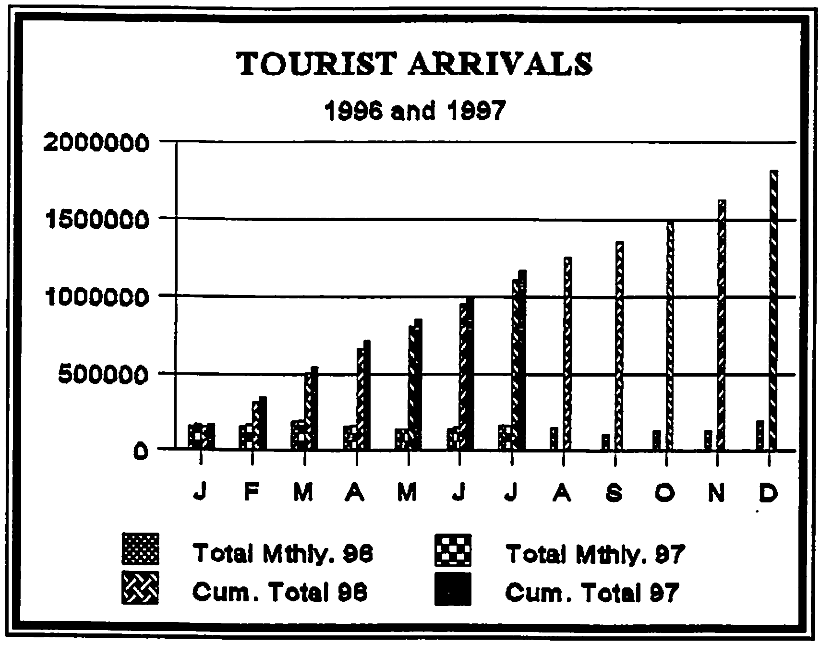
Energy: Electricity Sales for the month of June were 186,226 (MWH) while the year to date was 1,040,207 (MWH). This represents 5.1% increase over 1996, with Residential and Industrial Sales increasing by 6.2% and 4.5% respectively.

Agriculture/Manufacturing:

Banana production for June 1997 was 6,308 metric Tonnes while the year to date production was 39,407 metric tonnes which represented a 3.9% decrease over 1996's figures. Sugar production for June was 12,190 metric tonnes while the year to date production was 218,125 which was marginally higher than 1996 production by 1.6%. Cement production increased by

1.6% over 1996 figures with the year to date production for June 1997 standing at 243,736 metric tonnes.

Mining: Although Alumina production increased by 4.9% over 1996, Crude Bauxite production was down by 4.7%. The year to date productions for June 1997 were 1,391,968 metric tonnes and 1,592,475 metric tonnes for Alumina and Crude Bauxite respectively.



Tourism

For July 1997, tourist arrivals showed a 2.3% increase over July 1996 arrivals. For this month, there was an 8.2% rise in stop-over visitors, while the number of cruise-ship passengers fell by 9.7%. The fall in cruise-passenger arrivals resulted from a decline in ship calls. July saw 27 ships calling compared with 30 in July 1996.

The number of Nationals visiting during the month showed a 2.7% decline.

Tourist arrivals for the January to July 1997 period showed a 5.9% increase over the similar period for 1996. This is the lowest percentage increase in cumulative total arrivals for the year. Contributing to this were 2.0% and 12.4% increases in stop-over visitors and cruise-ship passengers respectively.

For the period the number of nationals visiting showed a 4.2% fall.

With the rest of the economy in a depressed mode, tourism is increasingly being viewed as the sector to drive the country's foreign exchange earnings. So continuous focus is being placed on the product. The Cruise-shipping interests are reviewing the effects of the head-tax charges on the cruise trade, and having expressed the view that more passengers could be attracted if the resort areas were cleaner, more attractive and visitor-friendly, have come up with initiatives to effect the necessary improvements, in Ocho Rios.

The industry interests in Portland are fine-tuning their promotional plans and marketing campaign strategies to attract a good share of visitors to that parish.

"The Caribbean Tourism Organisation (CTO) reported that long stay tourist arrivals to most Caribbean countries increased during the first six (6) months of this year. Of the 20 countries from which statistics were available, Anguilla, the United States Virgin Islands, Puerto Rico and St. Martin reported the largest increases."

External Trade/Balance of Payments

Merchandise Trade

Export: Export earnings for the period January to May 1997 were US$594.6 million which was US$28.3 million less than for the comparable period in 1996. This decline reflects US$14.4 million and US$10.6 million fall in the earnings from major traditional and non-traditional exports, as other-traditional exports showed a marginal US$0.4 million increase in earnings. Over the period, the export volumes and values of major traditional exports of sugar, bauxite and bananas fell and the increased earnings from alumina was marginal and insufficient to offset the fall in earnings from the other products.

Historically earnings from the apparel sector, drive the non-traditional sector earnings, so even though the current earnings from export apparel are improving, they are still below that of the comparable period in 1996.

Imports: Jamaica's imports for the period January to May 1997 were valued at US$1,202.7 million or more than twice the value of its exports for the same period. They were also US$40.5 million or 3.5% more than at the end of May 1996. For this review period, imports of capital goods rose by 15.9% Consumers goods by 15.6% while raw material imports fell by 6.1%.

Consumer goods, including motor car imports, continue to dominate imports forming 27.9% of its value and being second in share to imports of other raw materials (excluding fuels) having a 36.8% share and followed by capital goods with a 21.4% share.

"The period up to May therefore, saw the country's merchandise trade gap widening to reach US$608.1 million exceeding its level of exports by US$13.5 million and being US$68.9 million larger than at May 1996."

Balance of Payments

Trade: At the end of May, the Merchandise trade deficit stood at US$608.1 million resulting from a 4.5% fall in exports and a 3.5% rise in imports. This compares with a gap of US$539.3 million at May 1996.

Services: The net trade in services stood at US$287 million which was US$6.1 million greater than at May 1996. This position resulted from lower levels of travel receipts mainly from the tourism sector along with larger travel outflows as Jamaicans travelled abroad. As there were lower net outflows for interest payments, profit remittances etc., this resulted in a larger net service balance.

Transfers: Up to May this year, higher levels of private transfers continue to flow into the country and although the inflows of official transfers declined somewhat, the net balance stood at US$287.5 million or $45.3 million more than at May 1996.

Current Account: The positive balances from both the services (US$287.0 million) and transfers (US$287.5 million) accounts served to significantly offset the large merchandise deficit, so that the current account balance stood at -US$33.6 million showing a US$17.4 million deterioration compared with May 1996.

Capital Account: The net capital account for the current period continued to show significant deterioration as it fell by US$ 250.8 million from US$152.9 million in May 1996 to - US$97.9 million in May 1997. This turn around was effected mainly by major declines in private capital inflows which moved from US$259.4 million in May 1996 to an outflow position of US$13.3 million at May 1997.

This turn-around, to a large extent reflects the inability of the interest rates to attract significant arbitrage funds as they did in 1996.

"The inability of the Capital account to finance the current account deficit, resulted in the deterioration of Bank of Jamaica's reserves to the extent of US$131.5 million. This current position compares with US$136.7 million increase in its reserves at the similar period in 1996."

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
Jan-May '96	-539.30	280.90	242.20	-16.20	152.90	558.00
Jan-May '97	-608.10	287.00	287.50	-33.60	-97.90	561.10

MACRO-ECONOMIC INDICATORS
(December 1995 - July 1997)

MONTHS	BASE MONEY		NET INT'L RESERVE	FOREX ACCTS.	INFLATION		TOURIST ARRIVALS			CHANGES IN M2	
	Mthly Chng	Point to Point	Total NIR	Total Balances	Mthly Chng	Point to Point	Total Visitors	Stop-overs	Cruise	Money Supply	Point to Point
Dec. 95	13.43	30.58	421.31	737.30	4.3	25.50	181452	123816	57636	5.53	40.40
Jan. 96	-8.92	21.63	455.79	706.09	2.6	27.22	157204	92827	64377	-2.78	34.00
Feb.	2.38	22.36	467.52	713.21	3.3	29.94	155983	100077	55906	0.278	33.64
Mar.	2.62	25.55	496.26	702.80	1.6	30.80	188216	116405	71811	-0.35	30.58
Apr.	1.26	18.27	529.37	765.60	1.3	31.30	159718	99085	60633	3.66	28.99
May	-1.23	20.18	558.01	713.30	1.2	30.64	138811	90726	48085	-4.40	23.31
June	0.32	17.96	598.43	703.90	0.4	29.90	130142	100763	37379	0.10	20.23
July	0.82	17.32	656.55	692.00	0.7	28.80	162262	110103	52159	2.80	14.55
Aug.	4.50	18.89	667.09	691.00	0.8	27.70	151466	101747	49719	-0.50	11.90
Sept.	-4.40	14.04	665.32	708.00	1.1	25.30	106924	72600	34324	2.40	15.04
Oct.	3.70	17.10	658.57	689.50	0.5	22.68	131955	74571	57384	1.10	9.69
Nov.	0.87	14.82	663.11	699.50	0.4	19.83	132922	83034	49888	-1.10	6.66
Dec. 96	10.05	11.40	692.60	728.11	0.8	15.80	195020	120520	74500	11.80	14.49
Jan. 97	-2.40	19.32	713.03	707.83	0.6	13.50	173411	91490	81921	-6.60	8.49
Feb.	0.45	17.08	712.34	714.75	0.9	10.80	170162	95382	74780	6.30	14.98
Mar.	0.95	15.18	648.48	767.06	0.3	9.50	199779	125600	74197	3.40	20.93
Apr.	1.03	14.92	637.12	800.00	0.6	8.70	165067	96008	69059	1.41	16.67
May	3.16	20.03	561.08	805.87	0.7	8.2	138439	89862	48577	0.6	22.79
June	0.7	20.49	563.9	817.00	0.4	8.3	152729	107265	45464	0.5	23.27
July	0.8	20.48	569.4	910.00	1.1	8.7	166026	118948	47078		

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

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Statistical Tables	☐	☐	☐

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