

# New Confidential Economic Bulletin

*Private Sector Organisation of Jamaica*

## Monthly Analysis of the Jamaican Economy

Vol. 2 No. 12, September 1997

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## Overview

Despite the recent talk about macro-economic stability, the seeds of instability have already been cast and are now beginning to take root. The July money supply data indicate that M2 is growing at an annual rate of 22.4% and since March has grown on average at over 20% per annum. In light of this, the recent up-tick in the monthly inflation numbers is not entirely surprising. The driving force

behind this growth in the money supply is the strong expansion in credit to the public sector which has accounted for 91.5% of M2 growth since the beginning of 1997. The government's need for credit is unlikely to ease any time soon as it faces substantial payments to civil servants for retroactive salary increases and new wage scales. This is in addition to election spending, financial sector interventions and refunding depositors of the CNB institutions. Money supply growth is likely to accelerate in the medium term before it subsides again. Consequently, inflation is likely to continue to grow over the next 6 to 12 months and is likely to return to double digits by the end of the year.

The monetary authorities continue to confuse a high interest rate policy with a tight monetary policy. The two are completely different things. They are not mutually exclusive, although their objectives may be. A tight monetary policy involves tight control on the growth of the money supply which allows only a small increase in the stock of money.

Such a policy will lead to low inflation and sustainable economic stability. A high interest rate policy on the other hand, is just a decision to offer high rates of interest on local currency debt, usually with a view to distorting the market for foreign currencies, or to attract short term deposits of foreign currencies into the country. This policy is fraught with danger and has led to economic upheavals in a number of countries. Despite having had a high interest rate policy in place since the beginning of the 1990's, Jamaica has had very loose monetary policy and hence has had very high rates of inflation. In 1996, for the first 11 months of the year, monetary policy was tightened up considerably and we saw the results in the fall in inflation. 1997 has seen a significant loosening of monetary policy and the consequences of that are just manifesting themselves.

September was another month in which the Jamaican dollar came under some pressure in the foreign exchange market and required heavy support from the BOJ to maintain its parity. In July and August, the NIR benefited from

loan infusions of approximately US\$40 million and US\$20 million respectively. The former came from the proceeds of the international bond issue and the latter from a local US dollar bond issue. It is reported that the Minister of Finance is at present soliciting bids from investment banks abroad to handle the next tranche of overseas borrowing, and it is possible that the money could be raised before the end of 1997. Given the existing pressure on the local currency, it is quite likely that some of the proceeds of this issue will also go into the NIR to be used to prop up the exchange rate. The BOJ is now selling into the market at J\$35.56 to US\$1.00, up from J\$35.11 a month ago, an indication that they have not completely lost touch with the market.

The cash crunch that the government is facing is perhaps best illustrated by the difficulty that FINSAC is having disbursing its commitments to institutions which it has undertaken to assist. The latest word is that FINSAC will issue its own government guaranteed paper to the institutions, who will then discount it to raise the cash that they need to restructure their businesses. With 6 month T-Bill rates at 25%, and 3 year LRS rates at 26%, one wonders what rate will be offered on the FINSAC paper which will reportedly be of a 5 to 10 year maturity. The

puzzling thing about this whole issue is the fact that the debt will still be a charge on public resources and it is very difficult to see how FINSAC will be able to generate the income that will be required to service the interest on these instruments. Sooner rather than later, these costs will have to be absorbed by central government's budget.

### Net International Reserves

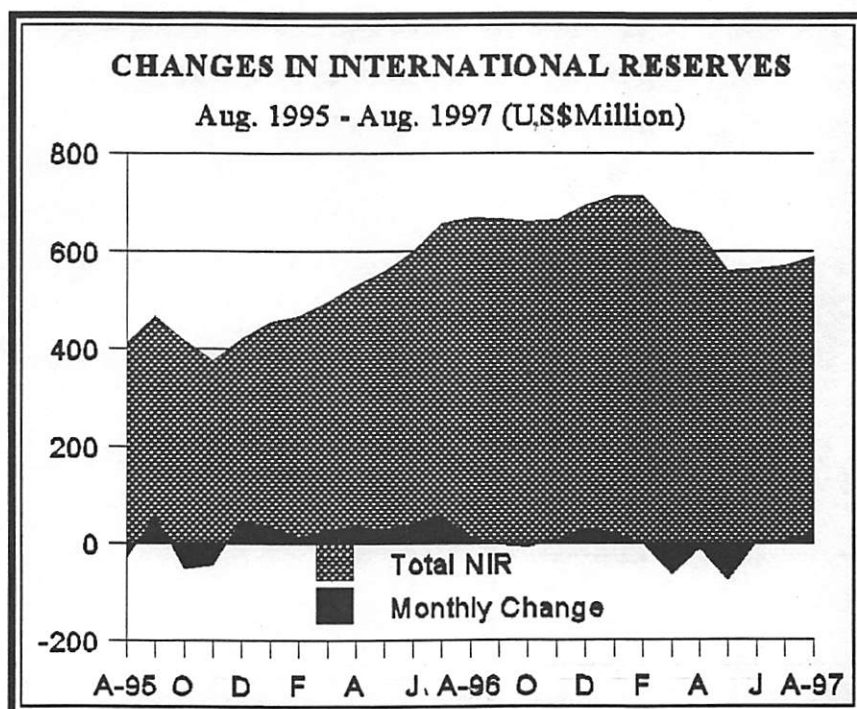
The Net International Reserves (NIR) continued its upward trend in August, increasing by US\$20.32 million from US\$569.88 million at the end of July to US\$589.70 million at the end of August 1997. This increase was primarily due to the US\$20.79 million increase in Foreign Assets, which saw total

foreign assets moving from US\$721.88 million at the end of July to US\$742.67 million at the end of August 1997.

However, contrary to other months, the foreign liabilities increased marginally by US\$0.47 million to stand at US\$152.97 million, this increase was solely due to increased liabilities to the IMF which at the end of August 1997 was US\$152.97 million, while other foreign liabilities stayed constant over the period of review.

Gross Reserves as at the end of August 1997 covered 12.38 weeks of imports up from 12.03 weeks at the end of July. With the recent pressure on the Jamaican Dollar look for the cover to fall in September 1997.

The August rise in the NIR could



have been the result of the receipt of the proceeds of the locally issued US\$20 million bond.

## Foreign Exchange Accounts

The preliminary figures for the stock of funds in foreign currency accounts at the end of August 1997 stood at US\$1,039.31 million, suggesting an US\$37.25 million increase over July's figure of US\$1,002.06 million.

Activities in foreign exchange accounts in August showed US\$470.05 million in withdrawals against US\$507.30 million in lodgements, indicating a decrease in activity compared with July which saw withdrawals of US\$633.89 million and lodgements of US\$846.78 million.

## Exchange Rates

The J\$ experienced some depreciation during the month of September against its foreign counterparts. The Jamaican Dollar exchanged for J\$36.03 to US\$1, J\$25 to Canadian \$1 and J\$57.41 to 1 pound sterling at the end of trading on September 30, 1997.

The pressure in the market is evident as the Bank of Jamaica has increased interest rates and

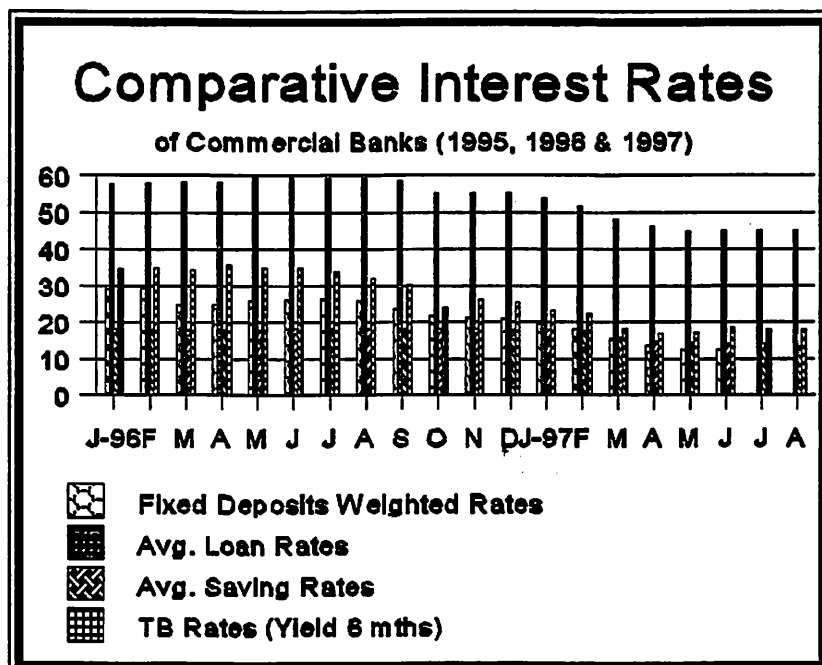
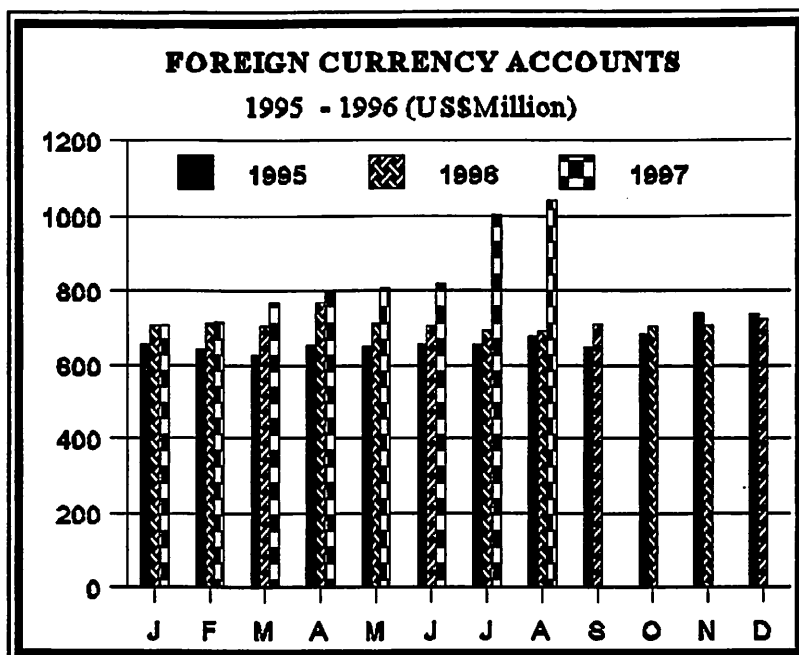
increased direct intervention by selling US\$ into the Market.

Over the last few weeks, BOJ's sales into the market have been substantial and sustained, and appear to have held the spread

between the cambio market and the inter-bank market, at about 2.5%.

## Interest Rates

Interest rates in the commercial banking sector seem to be

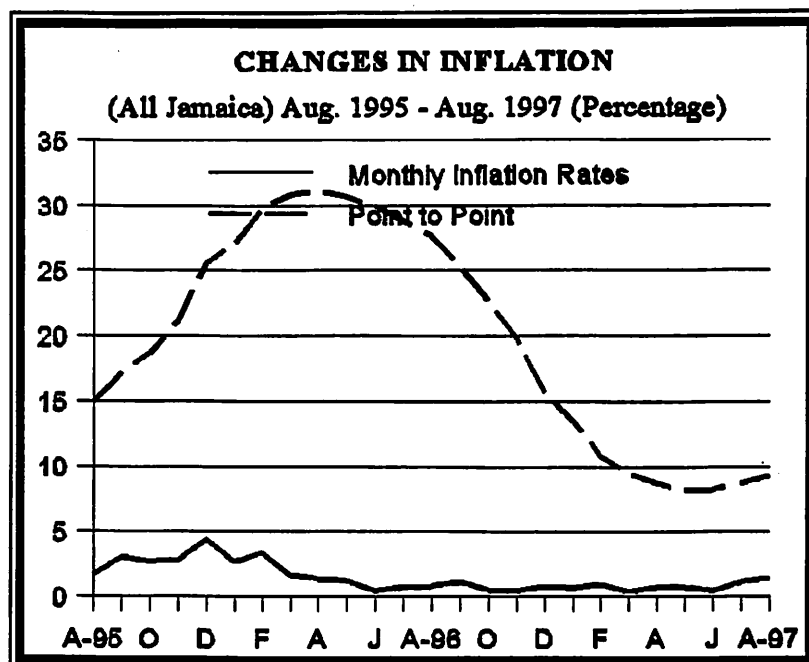


responding to signals from the BOJ. Fixed Deposits and loan rates seem to be on the rise again as the weighted average loan rate moved up from 32.89% at the end of May to 37.54% at the end of June. This is so although the average loan rate remained constant at the end of August over July's figure. The fixed deposit rate also inched up to 12.46% at the end of June from 12.43% at the end of May 1997. The average saving rates however, decreased from 14.08% to 13.27% at the end of August 1997.

The results of the three (3) new T-Bill offers for the month of September 1997, were as follows:

- \* The offer of J\$550 million for 182 days was over-subscribed by J\$1,065.54 million and yielded 19.27% on average.
- \* The offer of J\$1,000 million for 364 days was over-subscribed by J\$487.95 million and yielded 23.53% on average.
- \* The offer of J\$650 million for 182 days was over-subscribed by J\$1,050 million and yielded 25% on average.

A new issue of variable rate LRS was opened in September and will be closed at or before noon on October 3, 1997. The



amount of the offer is J\$1,500 million for 3 years. Initial interest rate of 26% per annum from date of allotment to June 15, 1998. Thereafter, interest will be paid semi-annually at a variable rate of 1.25 percentage points above the weighted average yield rate applicable to the six month T-bill tender. This stock will not qualify to be counted as a liquid asset.

However, the significant increase in the average yield of T-bills average rate of 18.83% for August's issue is worth noting as it suggests, if not confirms the trend in the commercial banking sector, that interest rates are on the rise.

1.4%, and follows on 1.1% for the month of July. This brought the year to date rate to 6.3%, and the fiscal year rate to 4.3%, while the point to point rate inched up to 9.3% from 8.7% in July.

While the monthly inflation rate for 'All Jamaica' was 1.4% for August, the rates varied in different sections of the island from 0.9% for the Kingston Metropolitan Area (KMA); 'rural areas' had a 1.7% rise and for 'other towns' it was 2.1%.

Overall, it was the significant increase in the prices of food - starchy foods and vegetables, resulting from lower levels of production caused by severe islandwide drought, which affected most of the movement in the index, food being allocated a 55.6% weighted factor in its computation.

## Inflation

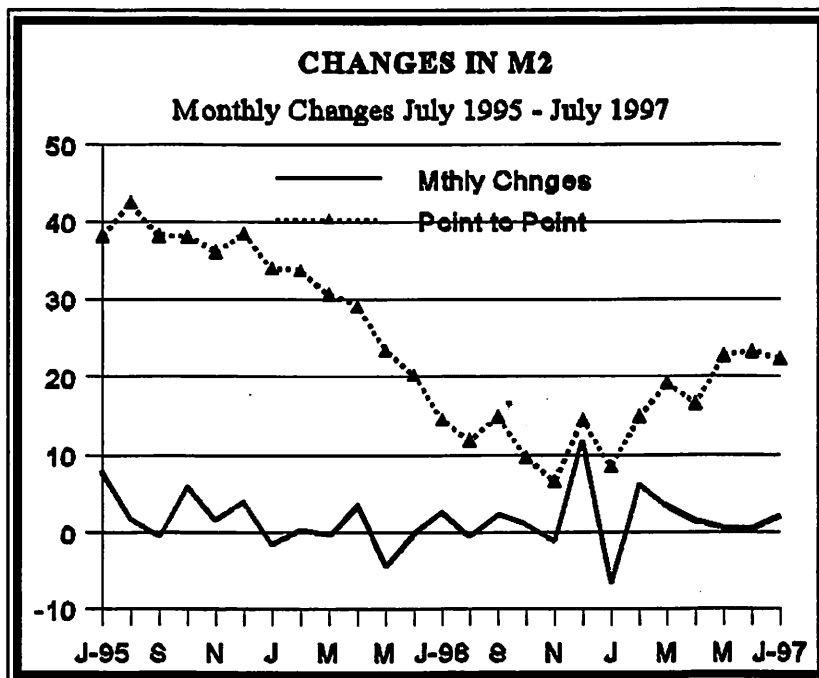
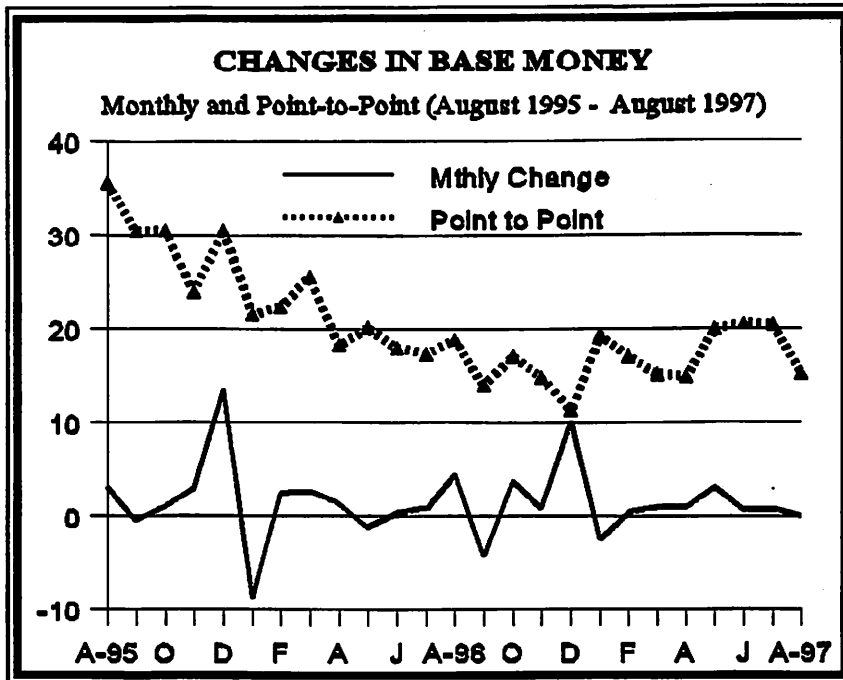
As with July, August saw a continued upward movement in the monthly inflation rate. This was

The lagged effect of the continued increases in Money Supply since February is working its way through the system and contributed to the growth in inflation. This coupled with some slippages in the exchange rate and increases in food prices and in school fees against the background of a depressed economy - have all contributed to the rising trend in inflation. This could continue for some months yet.

### Base Money

During August, there was a marginal decline of 0.02% in base money, the first for 1997, which has broken the increasing trend established since February 1997. Between January and August 1997, base money has expanded by 4.7% and compares with a 1.18% increase over the similar period in 1996. Point to point changes have been 15.23% and 18.24% respectively.

Base money is a component of broad money (M2). Fluctuations in base money values can factor through to affect levels of broad money. The slower growth or decline - 0.4% in base money in the first half of 1996 influenced the slower money supply growth (-2.3%) over that period. In January to June 1997, (5.2%) growth in money supply over this period was influenced by the 3.8% growth in base money



over the same period. If these trends continue for 1997, it is likely that the money supply and inflation targets for 1997 will be overrun.

The dip in base money during

August was due mainly to a 2.3% decline in currency issue which was not entirely offset by a 1.4% rise in the statutory reserves of Commercial Banks.

## Money Supply

During July, there was a 2.1% rise in money supply which served to maintain an increasing trend in this variable since February 1997. Although the monthly rates of increases have fluctuated between 6.27% in February and 0.5% in June, the overall growth between January and July is 7.4%. This compares with 0.47% growth over the similar period in 1996 and whereas the point to point growth was 14.55% at July 1996, it has moved to 22.37% at July 1997.

The growth in Money Supply (M2) has been influenced by base money growth which expanded by 4.68% over the current review period. M2 growth has impacted on the monthly inflation rate which in July rose to 1.1% and 1.4% in August after being below 1.0% for many months. With continued fiscal laxity, increases in foreign reserves acquisition, and instability in the exchange rate, the growth in money supply and inflation will continue.

## PRODUCTION of SELECTED COMMODITIES

**Energy:** Electricity Sales for the month of July were 194,557

(MWH) while the year to date figure was 1,288,104 (MWH). This represents 5.5% increase over 1996, with Residential and Industrial Sales increasing by 6.7% and 4.9% respectively.

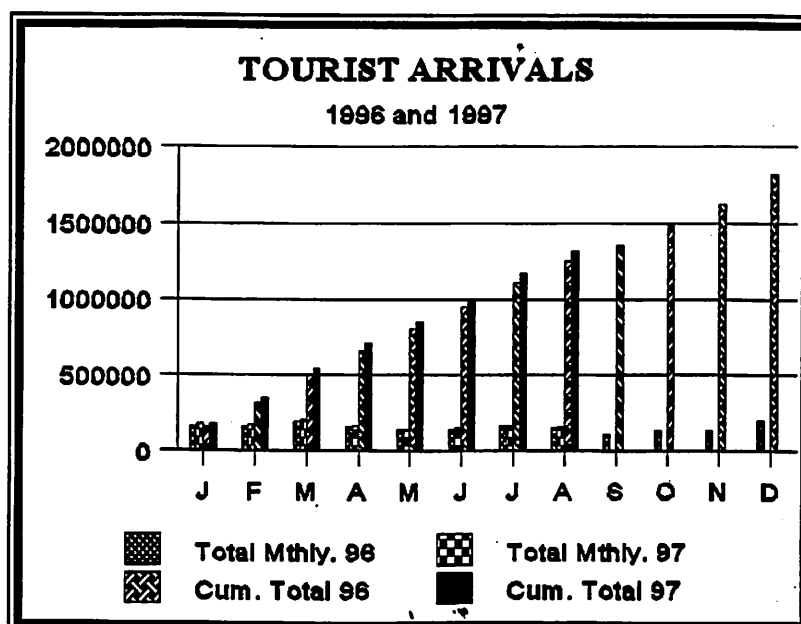
**Agriculture/Manufacturing:** Banana export production for July 1997 was 7,020 metric Tonnes while the year to date production was 46,427 metric tonnes which represented a 3.2% decrease over 1996's figures. Sugar production for July was 7,787 metric tonnes while the year to date production was 225,912 metric tonnes which represented 0.2% increase over 1996's figures. Cement production increased by 3.2% over 1996 figures with the year to date production for July 1997 standing at 342,144 metric tonnes.

**Mining:** Although Alumina production for the year to August 1997 increased by 4.65% over

1996, Crude Bauxite production for the same period declined by 1.64%. This brought the increase for total bauxite production for the same period to 8,031,700 metric tonnes, an increase of 2.08% over 1996's figures. The year to date productions for August 1997 were 2,237,262 metric tonnes and 2,587,861 metric tonnes for Alumina and Crude Bauxite respectively.

## Tourism

Like July 1997, August 1997 showed some marginal improvement in the number of tourists visiting the island. For this month, tourist arrivals were 1.59% more than in July, as stop-over arrivals rose by 7.35% and Cruise passengers fell by 10.2%. This was the second month's recording of a decline in Cruise passengers for



1997. However, data trends suggest a fall in the visit of cruise passengers around this time of the year.

For the first eight months of 1997, tourist arrivals showed a 5.43% increase over the similar period in 1996. This increase is quite low as for the January to February and January to March 1997 periods cumulative increases peaked at 9.7% and 8.4% respectively.

Between January and August 1997, stopover visitors showed a 2.7% increase in arrivals with the number of nationals visiting falling by 4.7%, and cruise passengers visiting rose by 10.37%.

Estimated cumulative expenditure by tourists for the first six (6) months of 1997 stood at US\$542.7 million which is 3.12% more than for the similar period of 1996.

As Jamaica observed tourism Awareness Week and Tourism Day in September, this brought increased focus in the tourism product. The American Ambassador made some frank and forthright criticisms of the product indicating that the number one problem affecting the industry was not harassment but the pollution of Jamaica's coastal water. He indicated the coliform readings of water taken of some of the North Coast tourist corridor made it unsafe for bathing and eating

seafood. His statement was timely and while there was mixed reaction from the public to his statement, certainly it helped to highlight and reinforce the call the environmentally conscious have been making over the years. It is hoped that positive action is forthcoming.

There are plans in the pipeline to improve the airport corridor. The roadways, Harbour View, Mountain View, Victoria Avenue, Camp Road are to be upgraded and beautified. The Hope Botanical Gardens and the Papine areas are also to get some upgrading, giving them a face lift.

## External Trade

### Merchandise Trade

**Exports:** Up to June 1997, the value of Jamaica's exports stood at US\$695.4 million which was 3.4% or US\$26.7 million below that of June 1996. The current period's exports showed 'traditional exports' earning US\$449.6 million, 'other traditional exports' US\$38.1 million and non-traditional exports US\$191.6 million compared with the earnings of exports at June 1996. Traditional export earnings fell by US\$7.5 million, with only the earnings from alumina improving over 1996.

Earnings from other traditionals rose by US\$1.3 million with only the earnings from citrus and

pimento declining. While that from non-traditional exports fell by US\$20.0 million, the major contributors to this was the fall in earnings from the apparel and food export sectors.

External Sector US\$Mn		
	Jan-Jun '96	Jan-Jun '97
<b>Total Exports</b>	<b>722.10</b>	<b>695.40</b>
<b>Traditional Exports</b>	<b>457.10</b>	<b>449.60</b>
<i>Bauxite</i>	39.00	37.70
<i>Alumina</i>	295.40	308.10
<i>Sugar</i>	97.80	81.50
<i>Bananas</i>	24.90	22.30
<b>Other Trad. Exports</b>	<b>36.80</b>	<b>38.10</b>
<b>Non-Trad. Exports</b>	<b>211.60</b>	<b>191.60</b>
<b>Re-Exports</b>	<b>16.60</b>	<b>16.10</b>
<b>Total Imports</b>	<b>1,375.80</b>	<b>1,459.60</b>
<i>Consumer Goods</i>	341.50	410.40
<i>Raw Materials</i>	776.90	748.50
<i>Capital Goods</i>	257.40	300.70
<b>Trade Balance</b>	<b>-653.70</b>	<b>-764.20</b>

**Imports:** The country's import bill up to June 1997 stood at US\$1459.6 million, US\$83.8 million or 6.1% above that of June 1996.

Consumer goods continue to show strong growth, increasing by 20.18% to US\$410.4 million; Capital goods also rose by 16.82% to US\$300.7 million while imports of raw materials fell by 3.66% to US\$748.5 all compared with imports at June 1996.

The categories of consumer goods fueling that sector's import growth include - 'food' imports rising by 25.8% and durables of which motor

car imports rose by 32.8%. In the capital goods category, - imports of transport and equipment rose by 130.6% - This could reflect Air Jamaica's aeroplane purchase as well as the importation of buses for the transportation sector.

For the raw-material sector imports of non-bauxite fuel rose by 8.2%, no doubt to complement the rise in motor car and air transport needs.

## Balance of Payments

*The out-turn on the Balance of Payments for the first half of 1997 features a worsening of the merchandise and current accounts, net out-flows on the capital account and a positive growth trend in the inflows of private transfers.*

**Trade:** At June 1997, the balance on the merchandise trade account stood at US\$-764.2 million or US\$102.5 million more than at June 1996. This is alarming as the gap in the goods trade is 110% of the value of exports for the period and highlights both the need for boosting visible exports as well

as the growth trend in demand for imports which has enveloped the economy.

**Services:** The net services account of US\$368.4 million showed a US\$10.9 million larger balance than at June 1996. This position resulted from lower net outflows of interest payments, project remittances etc. in June 1997 over 1996, which were able to offset the lower net returns from travel receipts. These receipts reflect the lack-lustre performance of the tourism industry as well as increases in locals travelling abroad.

**Transfers:** At June 1997, net transfers were US\$336.1 million or US\$35.0 million more than at June 1996. The inflows of private transfers to the economy have continued to be buoyant and at June 1997 was US\$55.1 million more than at June 1996. However, official private inflows fell by 50% to US\$20.5 million.

**Current Account:** The positive performance of the transfers served to lower the negative goods and services trade gap of US\$-395.8 million to US\$-59.7 million. This, when compared with a surplus of US\$4.9 million at June 1996, shows a deterioration in the current account of US\$-64.6 million.

**Capital Account:** The continued decline in private capital inflows has served to maintain the deterioration in net capital movements despite lower outflows of official capital. At June 1997,

the capital account showed a net outflow of US\$-69.0 million, compared with an inflow of US\$172.2 million at June 1996. The inability of the capital account to finance the current account deficit implies that the Bank of Jamaica reserves would deteriorate by US\$128.7 million to offset these balances. The fall in its reserves in June 1997 compares with a build up of US\$177.1 million at June 1996.

Balance of Payments		
	Jan-Jun '96	Jan-Jun '97
Merchandise	-653.70	-764.20
Exports	722.10	695.40
Imports	1,375.80	1,459.60
Services( Net)	357.50	368.40
Foreign Travel	470.40	455.20
Investment	-101.30	-75.70
Income	-11.60	-11.10
Other		
Goods & Services	-296.20	-395.80
Transfer (net)	301.10	336.10
Private	260.50	315.60
Official	40.60	20.50
Current A/c	4.90	-59.70
Net Capital Movements	172.20	-69.00
Official	-74.00	-94.20
Private	246.20	25.20
Trade Balance	-653.70	-764.20
Change in Reserves	-177.10	128.70



## MACRO-ECONOMIC INDICATORS

(December 1995 - August 1997)

MONTHS	BASE MONEY		NET INT'L RESERVE	FOREX ACCTS.	INFLATION		TOURIST ARRIVALS			CHANGES IN M2	
		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	Mthly Chng	-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	563.90	817.00	0.4	8.3	152729	107265	45464	0.5	23.27
July	0.8	20.48	569.40	1002.1	1.1	8.7	166026	118948	47078	2.1	22.37
Aug.	-0.02	15.23	589.70	1039.3	1.4	9.3	153870	109221	44649		

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

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