

# New Confidential Economic Bulletin

*The Private Sector Organisation of Jamaica*

Monthly Analysis of the Jamaican Economy

Vol. 3 No. 1, October 1997

## CONTENTS

Forecast & Current Trends  
Interest Rates  
Exchange Rates  
Money Supply & Inflation  
Foreign Exchange  
Selected Production  
Tourism  
Merchandise Trade  
Balance of Payments  
Net International Reserves  
Developments in Macroeconomics

## Overview

There has been much discussion on a popular talk show about the most recent Jamaica country report put out by the Economist Intelligence Unit (EIU), which contained forecasts for the performance of some key economic variables in 1997 and 1998. The key forecasts for 1997 were, growth of -2.8% (i.e. a contraction in output), inflation of 12.5%, a current account deficit of US\$377 million and an exchange

rate of JS\$37.40 at year end. These projections did not excite quite as much debate as the ones for 1998 which are as follows: growth of 0.2%, inflation of 34.7%, a current account deficit of US\$50 million and an exchange rate of JS\$59.50 : US\$1.00 at year end.

As could be expected, the debate centred mainly on the likelihood of their exchange rate prediction coming true in 1998. Their forecast is not at all outrageous, but the extent to which it is realised will depend on the extent to which the context on which it is based actually unfolds in the course of next year. Firstly, they assume that there will be a

substantial correction in the current account deficit, fueled by reduced imports and increased exports of goods and services. To the extent that government is able to continue financing the deficit at a higher level than that projected by the EIU (whether by foreign borrowing or reserve reduction), then a smaller exchange rate adjustment might be expected in 1998.

The extent of the adjustment in the exchange rate will also be influenced by the height to which local inflation rises in the course of next year. Lower inflation will mean that a smaller adjustment in the nominal exchange rate is required to achieve a reduction in the real rate of exchange. The government's adherence to its high interest rate policy may also influence the value of the exchange rate at year end, but this policy has long outlived its usefulness and it cannot prevent some adjustment of the exchange rate taking place in 1998.

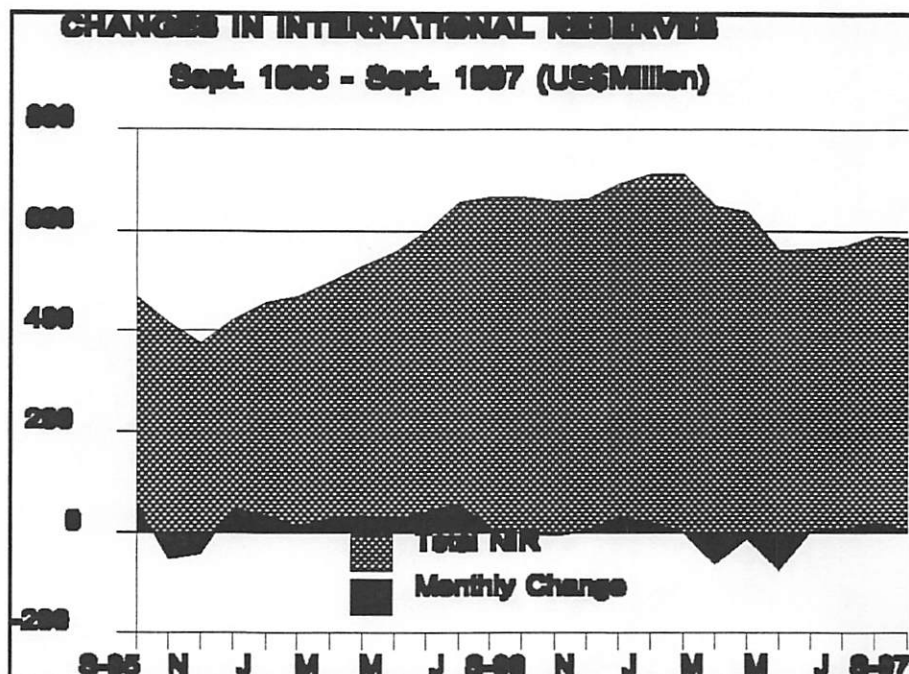
It should be noted that their growth forecast is also predicated on their exchange rate and current account forecasts and that even this feeble growth rate will not be realised if similar adjustments do not take place fairly early in the year. Ironically, a return to the IMF, which the EIU suggest is likely next year, may help the government to avoid a steep adjustment of the exchange rate and may frustrate the development of a more growth oriented economic policy framework.

Another event which may have a profound effect on developments in the economy next year is the recent upheaval in the international capital markets. The fall in the major international stock markets has sent investors scampering out of emerging stock and bond markets, thus raising the yield on many emerging market sovereign debt issues. Worse than that, it has made investors very wary of such issues altogether and there is some doubt as to whether the government will be successful in the present round of its international bond issue. If the issue fails, the government would be faced with the choice of drawing down the NIR or buying from the local foreign exchange market in order to meet its foreign debt obligations. Neither of these options would be particularly attractive, but the alternatives might be the IMF or a large hard currency bond issued on the local market.

Domestic interest rates have once again gone through the roof, hitting 29% on a one year investment debenture this week. The effect of this will be to worsen the position of the banking sector, thus raising the cost of government's assistance to the sector and speeding up the demise of those institutions that are in trouble. It will have little positive effect on controlling the growth of the money supply as credit to the public sector at present accounts for over 90% of the increase in that variable.

In fact it will aggravate the problem by increasing the domestic debt servicing cost and swelling the budget deficit. This will in turn aggravate the government's need for credit, thus increasing money supply further. This policy seems to be the ultimate no-win situation, one can only hope that a more constructive approach will be taken after the upcoming elections.

Finally, there has been much speculation regarding a December election but this is unlikely if the Prime Minister lives up to his promise to await the cross-matching of the voters list and the distribution of voters cards. Neither of these activities is likely to be completed in time for a December election. That does not mean that the election will not be called at that time, but if it is called then, it will most probably mean that the PM will have reneged on one or both of his undertakings.



### Net International Reserves

The Net International Reserves (NIR) declined during the month of September by US\$4.2 million to stand at US\$585.50 million coming from US\$589.70 million at the end of August 1997. During the month of September Gross Foreign Assets declined by US\$8.4 million to stand at US\$734.27 million at the end of September 1997.

This decline was partially offset by a corresponding decrease in Gross Foreign Liabilities of US\$4.2 million. The Gross Foreign Liabilities was the lowest for the year standing at US\$148.77 million.

The stock of Gross Reserves at the end of September covers 12.24

weeks of imports based on the projected value of imports for Fiscal year 1997/98. This is down from the 12.38 weeks covers that was obtained at the end of August 1997.

### Foreign Exchange Accounts

The preliminary figures for the stock of funds in foreign currency accounts at the end of September 1997, stood at US\$1,086.90 million, suggesting a US\$47.59 million increase over August's figure of US\$1,039.31 million.

Activities in foreign exchange accounts in September showed US\$633.70 million in withdrawals against US\$681.29 million in lodgements, indicating an increase in activity compared with August, which saw withdrawals of US\$470.05 million against US\$507.30 million in lodgements.

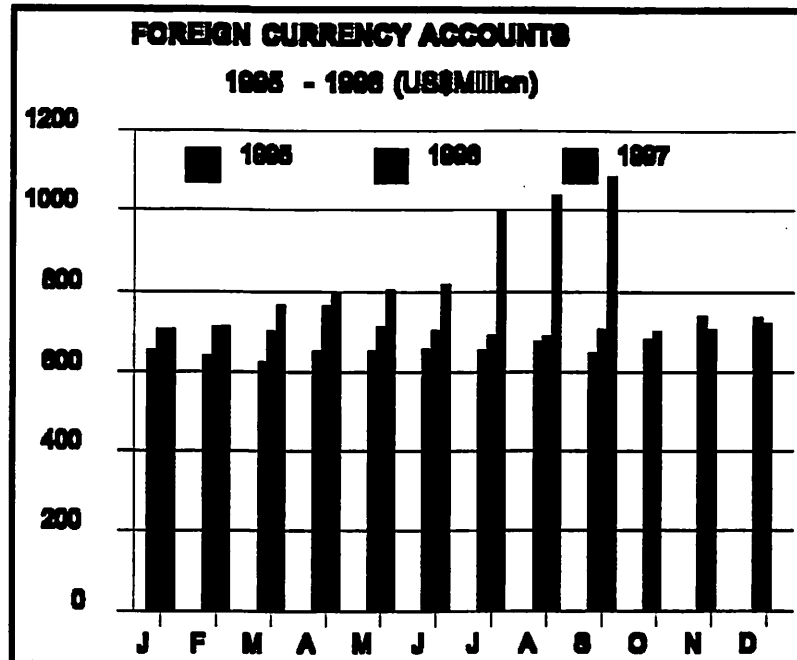
### Exchange Rates

The depreciation of the Jamaican Dollar continued through the month of October. The Jamaican Dollar exchanged for J\$36.30 to US\$1, J\$25.74 to Canadian \$1, J\$60.60 to 1 pound sterling at the end of trading on October 30, 1997.

The continued upward pressure on the exchange rates seems to be coming from two sources, the first is the fact that by all indications, the JS is grossly

overvalued. The second come from the continued increases in money supply. This is a fact that is confirmed by empirical

testing which found that the government fiscal deficit is causing increases in money supply which in turn is causing a depreciation of the currency. Hence look for continued pressure on the exchange rate until the growth of money is once again brought under control.



### Interest Rates

The continued upward trend in Commercial Bank interest rates is evidence that once again the high interest rate policy is being pursued in an attempt to stabilize the exchange rate. Average loan rate for August was 44.94% while the weighted average loan rate for June 1997, showed a 5% increase over May to stand at 37.54%. However, at the other end, saving rates seem to be declining even in the face of the increasing loan and fixed deposit rates. The average saving deposit rate declined from 14.08% at the end of July to 13.27% at the end of August, while the weighted average fixed deposit rate is as low as 12.46% in June 1997.

The results of the two (2) new T-bill offers for the month of October 1997, were as:

- \* The offer of J\$650 million for 182 days was over-subscribed by J\$1,022.50 million and yielded 25.31% on average.
- \* The offer of J\$650 million for 182 days was over-subscribed by J\$993.55 million and yielded 27.69% on average.

There was no new issue of LRS during the month but there was an unlimited issue of GOJ Investment Debenture. The issue was opened on October 27, 1997 and will be closed by Noon October 31, 1997. This instrument will qualify as a liquid asset and will mature in 365 days. The interest is fixed at 29% per annum and will be paid semi-annually.

## Inflation

The rate of inflation for September was 1.4%. As this follows increases of 1.1% and 1.4% for July and August respectively, it suggests that a trend is developing which is defying the authorities one percent per month inflation target. This increasing trend in monthly inflation is not unexpected since:

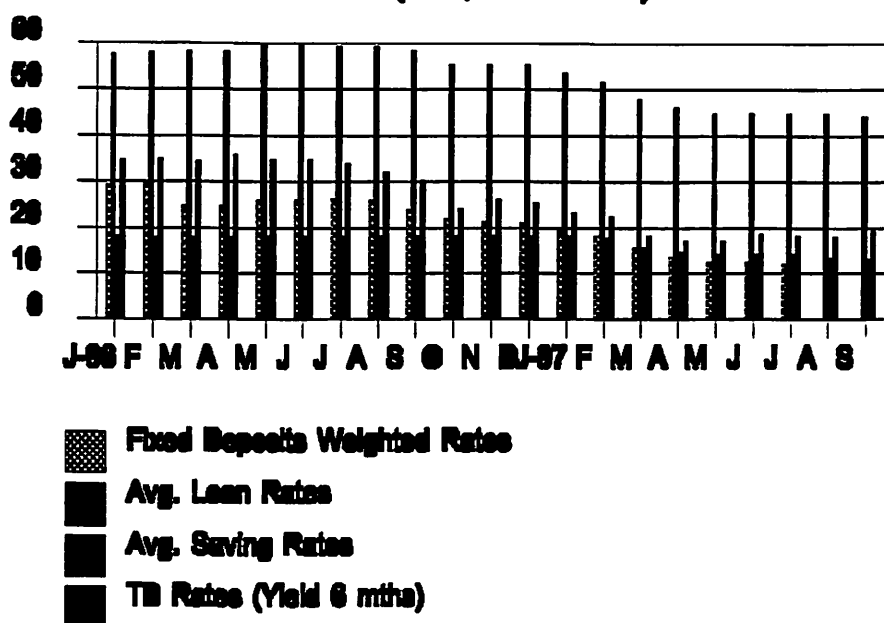
- Money Supply (M2) has been increasing since February of this year, and although at varying monthly rates, the lagged effect of this is expected to pan-out in rising inflation - though the transmission mechanism is not at all times direct.
- The severe drought which has gripped the island for months has impacted on domestic food prices and the increase in the prices of staples and food in

general, has considerable weight on the CPI.

- Especially for September, the impact of the rising costs of, and the increased expenditure related to school fees, books and other school related items, was significant in pushing the increase in the month's inflation rate.

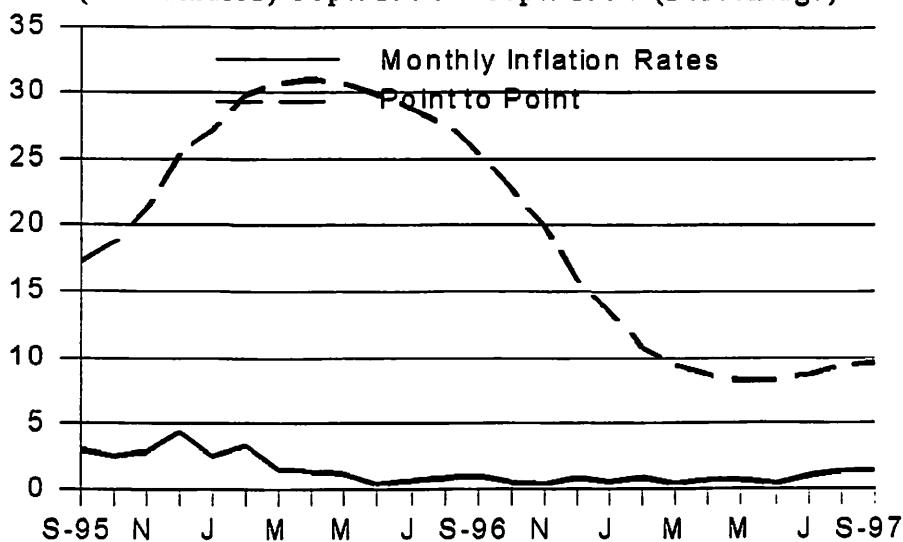
## Comparative Interest Rates

of Commercial Banks (1995, 1996 & 1997)



## CHANGES IN INFLATION

(All Jamaica) Sept. 1995 - Sept. 1997 (Percentage)

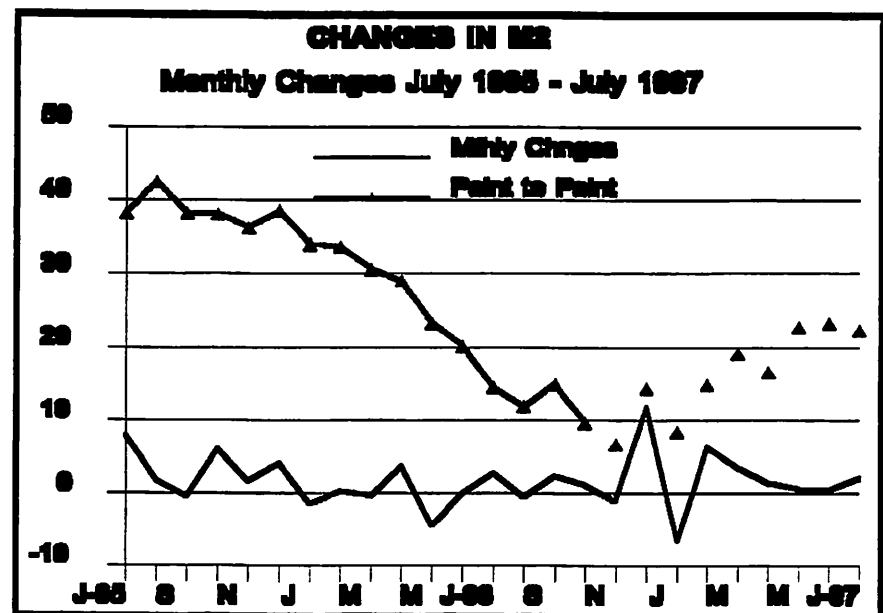
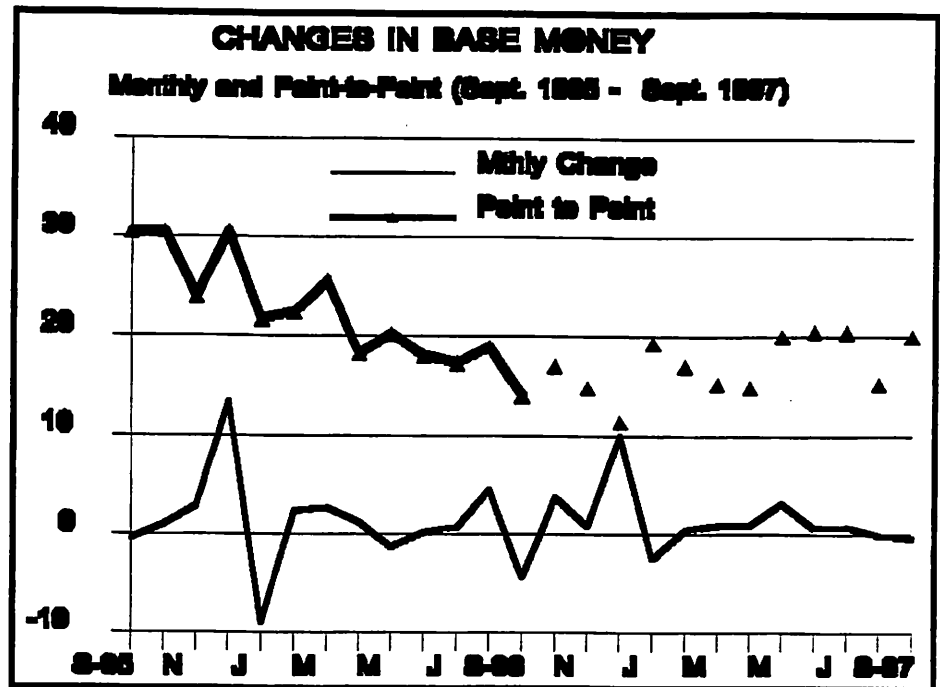


For the first nine months of 1997, the rate of inflation was 7.7% and compares with 13.8% for the corresponding period in 1996. On a fiscal year basis, the April to September 1997 rate was 5.9% slightly above the 5.6% for April to September 1996. If the current trend in monthly rates continue for the rest of the year, then inflation for the calendar year 1997 could about 3% percentage points below that of 1996 or about 12-13%. However, seasonal factors could just derail this projection.

### Base Money

During September, base money showed a marginal 0.05% decline and follows a more marginal 0.02% fall in August. This brings the point-to-point change at September to 19.98% up from 15.23% in August. These erratic point-to-point movements mainly reflect the volatile changes in base money levels experienced in the later half of 1996 since base money has risen by only 1.0% between June and September this year.

During September, although there was a 1.64% rise in Commercial Banks Reserves and Current Account Balances, this was offset by the 0.42% fall in currency issue to bring about the overall decline in total base money.



### 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 increase 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.

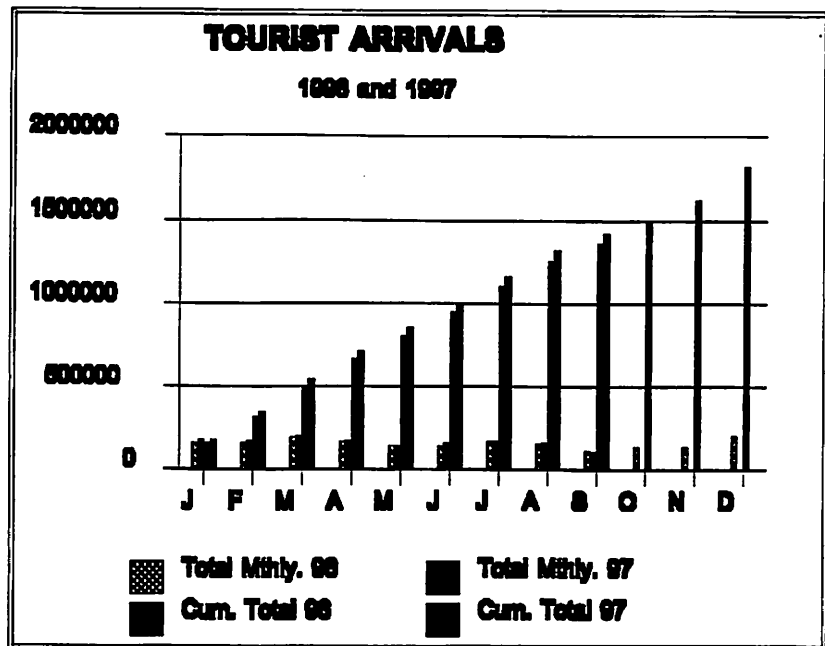
The growth in Money Supply (M2) has been influenced by base money growth which expanded by 4.68% over the current review period. M2 growth has impacted on the monthly inflation rate which in July rose to 1.1% and 1.4% in August after being below 1.0% for many months. With continued fiscal laxity, increases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

## PRODUCTION of SELECTED COMMODITIES

**Energy:** Electricity Sales for the month of August were 212,530 (MWH) while the year to date figure was 1,500,634 (MWH). This represents a 6.0% increase over 1996, with Residential and Industrial Sales increasing by 7.6% and 5.1% respectively.

### *Agriculture/Manufacturing:*

Banana export production for August 1997 was 5,724 metric Tonnes while the year to date production was 52,151 metric tonnes which represented a 7.2% decrease over 1996's figures. Sugar production for August was 779 metric tonnes while the year to date production was 226,691 metric



tonnes which represented a marginal increase of 0.1% over 1996 production. Cement production increased by 4.7% over 1996 figures with the year to date production for August 1997 standing at 388,447 metric tonnes. Rum production increased by 16.9% over 1996, while other alcohol declined by 45.4%.

**Mining:** Alumina Production for the month of September 1997 was 273,877 metric tonnes, while the year to date production was 2,511,139 metric tonnes representing an increase of 4.19% over 1996. The production figure for Crude Bauxite production for the month of September was 317,170 metric tonnes and the year to date figure was 2,862,506 metric Tonnes representing a decline of 3.68%. Total bauxite production for the year to September has increased marginally by 0.83% over 1996.

## Tourism

September 1997 was not good for tourist arrivals in Jamaica. The data shows a 4.5% fall in arrivals for the month. Stop-overs visitors declined by 1.4% and cruise passengers fell by 11.1%. However, included in these figures was a 4.3% increase in the number of nationals visiting during the month.

For the nine month period - January to September 1997, visitor arrivals rose by 4.6% when compared with the similar period in 1996. Contributing to this was a 2.4% rise in stop-overs and an 8.4% increase in cruise passengers. Supporting this increase in cruise passengers, was

an 11.0% increase in cruise ship arrivals. The Ocho Rios port was the main beneficiary of this increase.

The estimated gross expenditure by tourists for the period January to August 1997 was US\$750.1 million or just 1.6% more than for the similar period in 1996.

During September a call was made by the president of the Jamaica Chamber of Commerce, a prominent member of the PSJO and in itself a powerful voice for the business sector of Jamaica, for among other things:

The government to reconsider its ban on the introduction of Casinos in the tourist industry. It has long been felt that Casinos could be the billion dollar revenue earner for Jamaica, so the call is timely. It is hoped that the recent down-turn in economic output will prompt a second look at this as a part of a prospective solution.

## External Trade

**Exports:** The first seven months of 1997, saw the value of Jamaica's exports at US\$813.7 million which was US\$27.9 million less than at the same period in 1996. The current period shows traditional export earnings of US\$564.1 million declining by 2.0% below 1996 values. Contributing to this were decreases in earnings from bauxite, sugar and banana exports, while other traditional

and alumina exports registered increased earnings. For the non-traditional sector, at the end of July 1997, the earnings were US\$25.8 million less than at July 1996. While the earnings from the apparel sector showed improvement, the adverse weather conditions affected the output and earnings of the agri-based component of the sector.

### External Sector US\$Mn

	Jan-Jul '96	Jan-Jul '97
<b>Total Exports</b>	<b>841.60</b>	<b>813.70</b>
<b>Traditional</b>		
Exports	519.80	517.30
Bauxite	45.20	44.10
Alumina	343.50	364.80
Sugar	103.00	81.50
Bananas	28.10	26.90
<b>Other Trad.</b>		
Exports	45.50	46.80
<b>Non-Trad.</b>		
Exports	256.00	230.20
Re-Exports	20.30	19.40
<b>Total Imports</b>	<b>1,610.40</b>	<b>1,810.00</b>
Consumer Goods	404.40	486.20
Raw Materials	908.40	883.40
Capital Goods	297.60	440.40
<b>Trade Balance</b>	<b>-768.80</b>	<b>-996.30</b>

### Balance of Payments

	Jan-Jul '96	Jan-Jul '97
<b>Merchandise</b>	<b>-768.80</b>	<b>-996.30</b>
Exports	841.60	813.70
Imports	1,610.40	1,810.00
<b>Services (Net)</b>	<b>458.40</b>	<b>437.80</b>
Foreign Travel	575.70	555.60
Investment		
Income	-103.00	-107.30
Other	-14.30	-10.50
<b>Goods &amp; Services</b>	<b>-310.40</b>	<b>-558.50</b>
<b>Transfer (Net)</b>	<b>346.70</b>	<b>384.10</b>
Private	306.70	364.60
Official	39.80	19.50
<b>Current A/c</b>	<b>36.30</b>	<b>-174.40</b>
<b>Net Capital Movement</b>	<b>199.00</b>	<b>51.20</b>
Official	-69.50	-24.50
Private	268.50	75.70
<b>Change in Reserves</b>	<b>-235.30</b>	<b>123.20</b>

**Imports:** Total imports up to July 1997 was US\$1,810 million or US\$199.6 million more than at July 1996. Data indicates that there was an increase in all categories of imports except raw materials, which showed a decline of 2.8%. Imports of consumer goods rose by 20.2% and this includes an increase in motor car imports as well as in food imports consequent on the drought conditions which affected the island. Capital goods imports rose by 48.0%, but this was mostly aggravated by the importation of two (2) aeroplanes costing US\$92 million. Imports of raw materials fell by US\$25 million and could reflect the declining levels of output in the economy.

The combinations of a 3% fall in exports and a 12.4% rise in imports brought about a trade deficit of US\$996.3 million. This trade deficit is now 18.3% larger than the earnings from merchandise exports.

## Balance of Payments

**Merchandise Trade:** For the period January to July 1997, exports of US\$813.7 million and imports of US\$1,810 million resulted in an adverse trade balance of US\$996.3 million. This compares with imports of US\$1,610.4, exports of US\$841.6 million a trade deficit of US\$768.8 million at the end of seven months to July 1996. The current period's data

indicating a deteriorating merchandise trade balance which is trending towards becoming worse as the year progresses.

**Services:** The net services balance at July 1997, was US\$437.8 million which was US\$20.6 million less than at July 1996. This position resulted from, lower levels of net travel receipts - as both tourists' expenditure fell and domestic travel outflows increased. In addition to this, there was an increased outflow of investment payments compared with the 1996 period which contributed to the overall fall in the net position.

**Transfers:** This sector continues to be the only positive section of the Balance of Payments. Up to July 1997, inflows of private transfer reached US\$364.6 million or US\$57.7 million more than at July 1996, however, the level of official inflows fell resulting in a net inflow of US\$384.1 being US\$37.4 million, more than at July 1996.

**Current Account:** The adverse merchandise trade balance of US\$996.3 million was not offset by the services and transfer balances and this resulted in a negative current account balance of US\$174.4 million implying a US\$210.7 million deterioration compared with the July 1996 position of US\$34.3 million.

**Net Capital Movements:** Cumulative private capital inflows at July 1997 of US\$75.7 million show improvement over the early months of 1997, however, they were US\$192.8 million less than at July 1996. With only US\$24.5 million in capital outflow at the current period the net capital movement was US\$51.2 million being US\$147.8 million less than at July 1996. Bank of Jamaica's reserves have fallen by US\$123.2 million to cover the current account balance. The position at July 1996 showed an increase in reserves of US\$235.3 million.



### MACRO-ECONOMIC INDICATORS (December 1995 - September 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	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	563.90	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		
Sept.	-0.40	19.98	585.50	1086.90	1.4	9.6	102095	71577	30518		

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