New Confidential Economic Bulletin

The Private Sector Organisation of Jamaica

Monthly Analysis of the Jamaican Economy

Vol. 3 No. 2, November 1997

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Overview

As we go to the polls later this month, the talk and discussion in the press is still very much centred on the electoral process and relatively little focus is being placed on the state of the economy and what is likely to happen after the polls are closed and we have chosen a government for the next 5 years. The winning party will find themselves facing some severe economic problems which will require some fairly unpleasant political decisions and the implementation of some quite unpopular measures. The electorate is now faced with the problem of deciding which of the 3 parties will do the best job of guiding the country successfully through a difficult period of adjustment.

The first and perhaps the most pressing problem will be the closing or reducing of the deficit in the government's finances. The high interest rate policy and the problems that it created in the real and financial sectors of the economy, has left the government in a position where it cannot responsibly finance its obligations for much longer. The fiscal deficit is so large that revenue will have to be increased and expenditure reduced in order to substantially reduce the fiscal deficit and return government operations to financial viability. Of course in a contracting economy, the options for increasing revenue are limited and so the major emphasis will have to be placed on expenditure reduction. This latter policy is unlikely to be successful without a dramatic reduction in the real interest rates being offered on government paper, as interest on the domestic debt is a huge cost to the public purse. Some reduction in the number of employees in the public sector may also be an integral part of this deficit reduction exercise. Government is unlikely to wait until next year's budget to introduce some of these corrective measures and the supplementary estimates will probably contain some new taxes as well as some re-allocation of expenditure.

The government also has problems with the foreign debt and must find about US$150 mn to finance the balance of the amortisation payments on the foreign debt for this financial year. The second tranche of the international bond issue has been withdrawn in the wake of the South-East Asian crisis and it is not clear whether the government intends to return to the market early next year or to go to a multi-lateral lending agency like the IMF. The latter would of course lend at much lower rates than the private capital market, but with rather strict conditionalities. How the government finances its foreign debt payments could have an impact on the local foreign exchange market, as an IMF deal could alter its exchange rate policy somewhat. On the other hand, if it had to buy all its foreign exchange needs on the local market, this too would have an impact on the market's behaviour.

The package of measures that are needed to restore stability and set the stage for sustainable growth are fairly straightforward if not particularly pleasant in the short term. Drastic fiscal reform is required with the major emphasis on the reduction of expenditure and the deficit, real interest rates must be significantly reduced and the growth of public sector credit must be brought under control. The fixation with the exchange rate must be abandoned and more attention must be paid to the economic fundamentals like money supply growth and the fiscal deficit which determine inflation and thereby determine exchange rate stability. A successful transition to economic growth would ease the burden of the assistance to the financial sector and a change in the interest rate policy would also allow the troubled companies to work their way out of their problems and return to a healthy state more quickly.

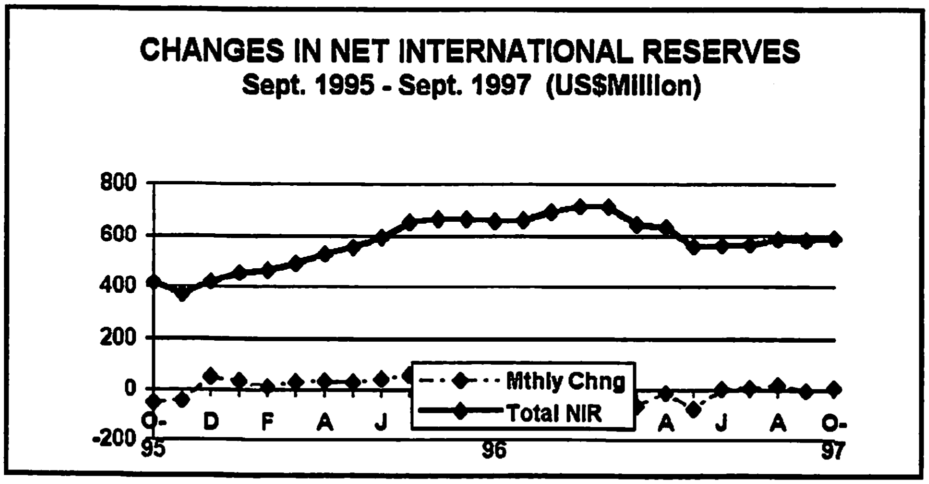
Whatever happens in the medium to long term, the short term picture is one of increasing instability. Inflation is likely to rise substantially in 1998 and the exchange rate is likely to come under considerable pressure. Economic output is likely to fall as the government contracts its operations in order to make room for growth in private investment and to lay the foundation for lower inflation and economic growth. How soon these objectives are realised will depend on the consistency with which policies are implemented and the speed and resolve with which the necessary decisions are made to

undertake the required adjustment.

Net International Reserves

The Net International Reserves (NIR) increased during the month of October by US$6.52 million to stand at US$592.02 million at the end of October 1997. This increase was solely due to increases in Gross Foreign Assets as the Gross Foreign Liabilities remained constant at the end of September figure. The end of October saw Gross Foreign Assets and liabilities standing at US$740.79 million and US$148.77 million respectively.

The stock of Gross Reserves at the end of October covers 12.35 weeks of imports based on the projected value of imports for Fiscal year 1997/98. This is an increase over September's cover of 12.24 weeks.



Foreign Exchange Accounts

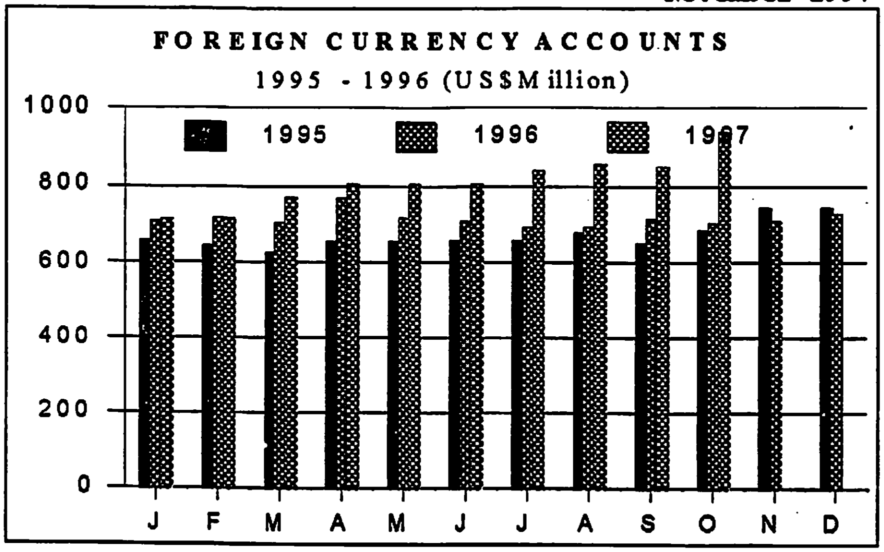
The revised preliminary figures for the stock of funds in foreign currency accounts at the end of October 1997 stood at US$939.97 million suggesting a US$42.78 million increase over September's revised figure of US$897.19 million.

Activities in foreign exchange accounts in October showed US$645.96 million in withdrawals against US$689.96 million in lodgements, indicating an increase in activity compared with September, which saw withdrawals of US$599.04 million against US$644.13 million in lodgements.

Exchange Rates

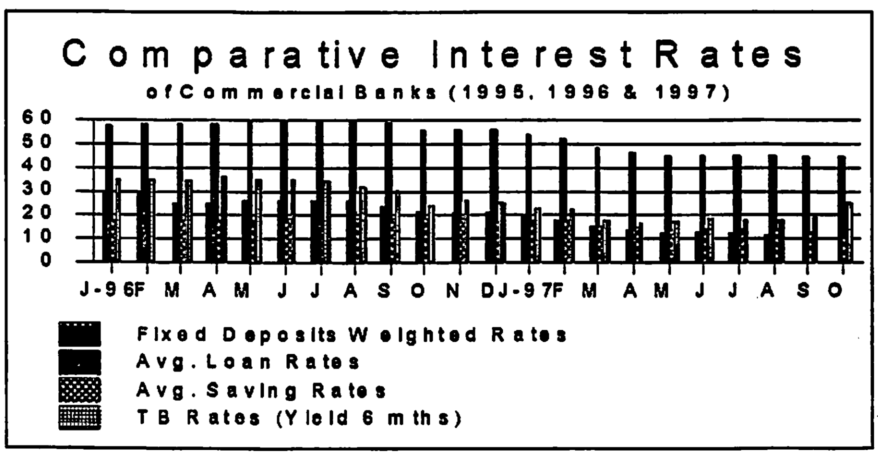
During November, the Jamaican dollar continued to fluctuate on a day to day basis. A marginal strengthening was shown at the end of the month when the Jamaican dollar exchanged for J$36.22 to the US$1, J$26.02 to the Canadian $1 and J$59.45 to the pound sterling. This compares with J$36.30; J$25.74 and 60.60 exchanges respectively at the end of October.

The continued pressure on the exchange rates seems to be coming from two sources, the first is the fact that by all indications the J$ is grossly overvalued. The second comes 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

In response to the signals being sent by the Authorities over the past two (2) to three (3) months, interest rates in the Commercial Banking Sector are on the rise again. The upper boundary of the 6-12 months fixed deposits rate (J$100,000 and over) rose from 18% at the end of September 1997 to 20% by the end of October 1997. While average saving deposits and loan rates remained constant over the same period, the reverse repo rates continue to trend upwards, and between October and November, the 30 day rate went from 22% to 29% and the 60 day rate was 31%. As these are the signal rates for the financial sector - look for commercial rates to continue trending upwards in the coming months.



The results of the new T-bill offers for the month of November 1997, were as follows:

- The offer of J$450 million for 87 days was over-subscribed by J$712.72 million and yielded 28.39% on average.

- The J$250 million offer for 266 days yielded 29.69% on average and was oversubscribed by J$470.58 million.

- For the J$250 million offer for 91 days; the yield was 27.23% and was oversubscribed by J$871.0 million.

- The J$500 million offer for 182 days yielded 28.08% and was over-subscribed by J$757 million and had a 29.79% yield.

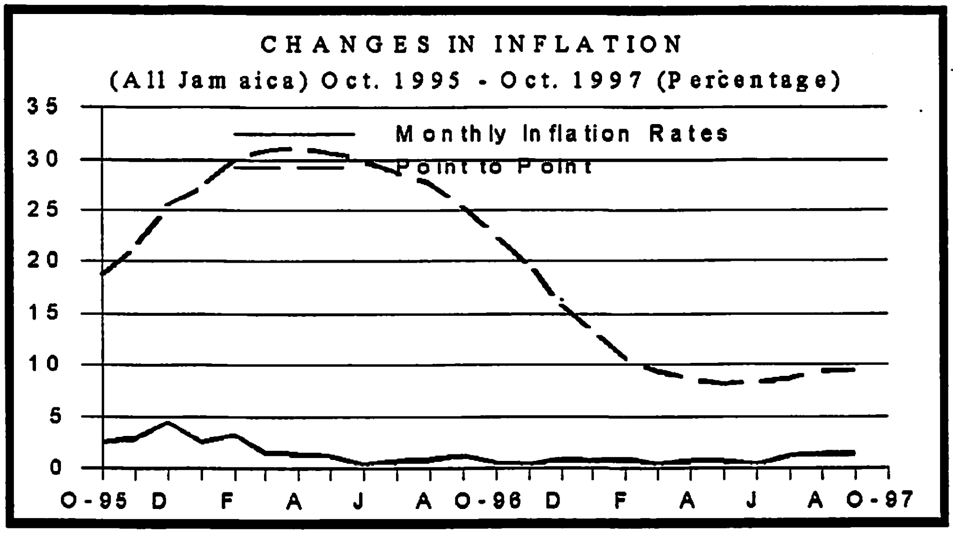
There were no new issues of LRS or Investment debentures during the month.

Inflation

Following three (3) months with inflation increases of over 1.0%, October brought a 0.9% monthly change. This brings the year-to-date inflation to 8.7% and the fiscal year to-date rate to 6.7%. These rates compare with 14.3% and 6.16% respectively for similar periods of 1996 which indicates that while the year to date rate is significantly below that of 1996, the fiscal year rate is just marginally higher, and there is very little room for continued up-ticks in monthly rates if the fiscal year rate for 1996/97 of 9.5% is to be improved on.

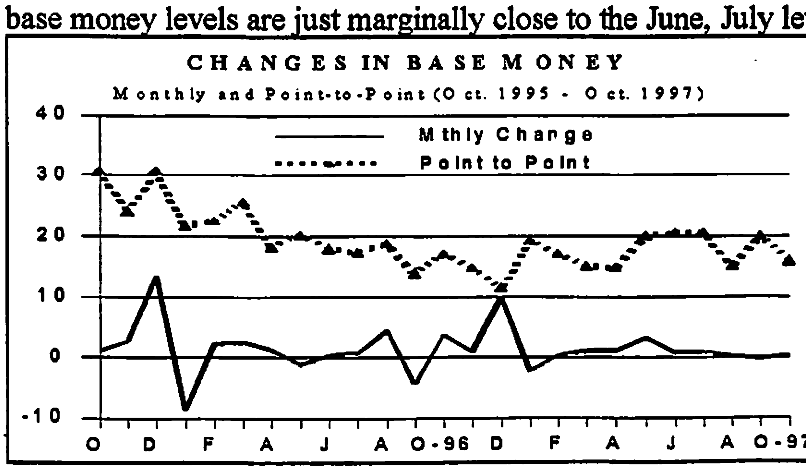
Despite the moderating trends for 1997, the point to point inflation rate at October 1997 stood at 10.05%, having climbed from 8.3% to 8.7% in April through July and 9.3% and 9.6% in August and September. These rates are none-the-less favourable as they compare with point to point rates of 27% to 30% to 22.7% in January through May and October 1996. All these indicate that inflation for 1997 so far, has been milder than 1996.

Over the past months, the drought conditions in the island, led to the shortage of some food items, which prompted increased importation and increased prices which helped to fuel inflation. However, other significant influences were, continued increases in the money supply, which was an offshoot of the extremely high levels of credit extended to the public sector. Between January and August 1997, money supply (M2) rose by 6.7% overall, and credit to the public sector increased from J$9.8 billion to J$29.9 billion or by 205.1%.



Base Money

During October, there was a 0.35% rise in base money, and following on decreases of 0.4% and 0.02% in September and August respectively, base money levels are just marginally close to the June, July levels.



Contributing to the marginal rise in base money in October were increases of 1.1% and 1.3% respectively in currency issue and commercial bank's statutory reserves. Although commercial banks' current account balances fell from J$0.273 million to J$0.003 million or by 98.9%, this did not offset the increases in the other variables.

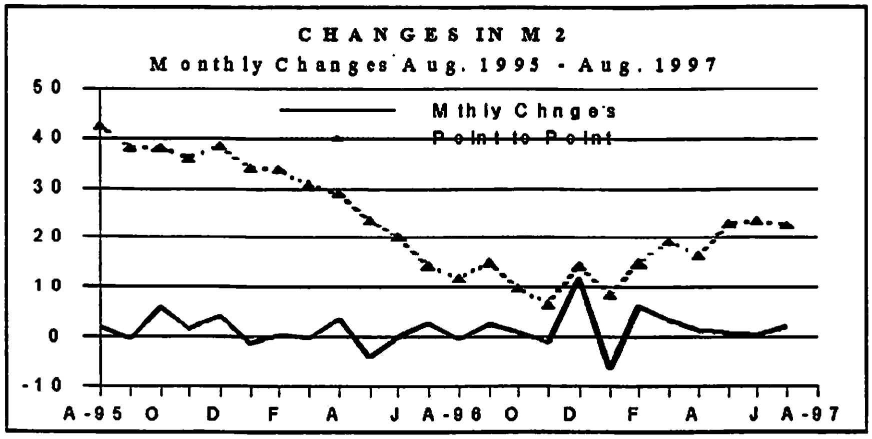
This moderating growth trend in base money should have a similar impact on money supply - although there are other factors which impact on its growth.

Money Supply

After experiencing a 2.1% increase in July, money supply had a marginal 0.6% decline in August. This is the first monthly decline experienced since January 1997. The point to point movement in M2 level at August 1997 was 22.16% slightly down from 22.27% in July but significantly above. The 11.90% and 14.55% respectively for similar months in 1996.

For the eight months of calendar year 1997, money supply has grown by 6.7% and compares with 0.01% for the similar period in 1996. For the first 5 months of fiscal year 1997/98 M2 has risen by 3.8% compared with 1.57% April to August 1996.

Certainly, if these trends continue, the inflation targets for both calendar and fiscal years will be seriously challenged.



PRODUCTION of SELECTED COMMODITIES

Energy: Electricity Sales for the month of September 1997 were 193,896 (MWH) while the year to date figure was 1,694,530 (MWH). This represents a 5.8% increase over 1996, with Residential and Industrial Sales increasing by 8.3% and 4.5% respectively.

Agriculture/Manufacturing: Banana export production for September 1997 was 6,495 metric Tonnes while the year to date production was 58,648 metric tonnes which represented a 7.8% decrease over 1996's figures. Sugar production for September 1997 was zero and hence the year to date figure remains constant at August's level of 226,691 metric tonnes. Cement production increased by 1.9% over 1996 figures with the year to date production at September 1997 standing at 430,019 metric tonnes.

Mining: Alumina Production for the month of October 1997 was 295,620 metric tonnes, representing an increase of 4.98% over 1996. The production figure for Crude Bauxite production for the month of October was 261,880 metric tonnes and the year to date figure was 3,124,386 metric tonnes representing a decline of 4.80%. Total bauxite production for the year at October 1997 has increased marginally by 0.94% over 1996.

Tourism

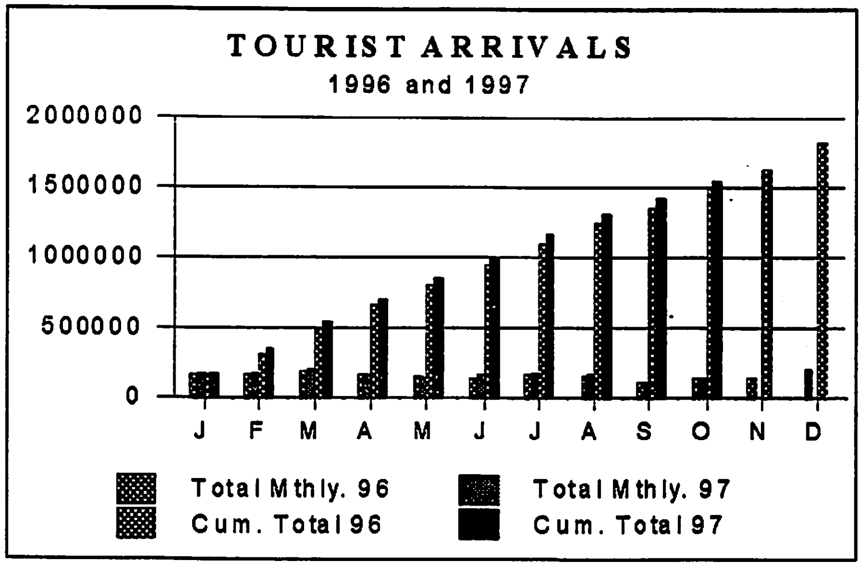
Tourist arrivals for October 1997 continued to fall as compared with October 1996, registering a 3.6% overall decline. While the number of stop-over visitors rose by 5.3% and nationals visiting by 9.0%, there was a 15.6% fall in cruise-ship passenger which was significant in effecting the overall decline.

For the ten-month period to October 1997 however, tourist arrivals experienced a 3.9% increase over the similar period in 1996. Contributing to this were increases of 3.2%, 6.2% and 3.1% respectively in stop-over visitors, cruise passengers and nationals.

Estimated cumulative earnings by the sector to September 1997 were US$815.9 million or 0.30% more than at September 1996. During October, there was considerable focus on the tourism industry locally and internationally.

Jamaica was ranked number 2 in the world recently as a honeymoon destination. An achievement for the industry, but there is still scope for improvement.

An Organisation of American States (OAS) Tourism Unit working group met in Washington. This unit seeks to further develop and strengthen tourism institutions in the Caribbean and Latin American countries. Chaired by Jamaica's Ambassador Richard Bernal, it will undertake research and market development as well as formulate sustainable hemispheric tourism development policies. The Unit at its first sitting, outlined its work programme, and looked at issues such as regional and technical support and investment in the Industry. It is hoped that from these programmes some benefits will accrue to Jamaica and the Caribbean.



A new mega-liner: 'Enchantment of the Seas' carrying over 3,000 passengers made its inaugural visit to Ocho Rios in October. From discussions with Cruise lines and shipping agencies comes the proposal that 1998 could see close to 200,000 additional cruise passengers to the Ocho Rios pier. This could mean increased business for the town. The responsible agents need to adjust the piers to ensure safe and adequate accommodation and docking facilities, while the civic and business community needs to make the town more physically attractive and tourist friendly.

External Trade

__Exports:__ As the year progresses, the Export sector's earnings continue their declining trend. For the period up to August 1997, Jamaica earned US$923.1 million from exports. This was US$29.4 million less than at August 1996.

The earnings from other traditional exports e.g. citrus, coffee, cocoa etc. were marginally above those as at August 1996. However, with the traditional exports, except for alumina whose returns were US$23.8 million more than at August 1996, all other export categories, showed a fall in earnings; sugar, bauxite and banana earnings fell by US$21.5 million, US$1.6 and US$1.8 million respectively and this resulted in an overall marginal fall for that sector.

The non-traditional sector continued to show a downward trend. The food, crude materials, furniture and apparel sectors' earnings fell while earnings from beverage and tobacco exports grew by 15.9% to US$16 million at August 1997.

External Sector US$Mn

	J-Aug '96	J-Jul'97
Total Exports	**952.50**	**923.10**
Traditional Exports	**590.50**	**517.30**
Bauxite	**51.50**	**50.50**
Alumina	**403.90**	**427.70**
Sugar	**103.00**	**81.50**
Bananas	**32.10**	**30.30**
Other Trad. Exports	**50.70**	**51.40**
Non-Trad. Exports	**287.40**	**259.20**
Re-Exports	**23.90**	**22.50**
Total Imports	**1,851.70**	**2,043.00**
Consumer Goods	**459.50**	**557.10**
Raw Materials	**1,055.10**	**1,010.80**
Capital Goods	**337.10**	**475.10**
Trade Balance	**-899.20**	**-1119.90**

Imports: The value of Jamaica's imports at August 1997 stood at US$2,043 million or US$191.3 million more than at August 1996. Contributing to this were increases of 21.2% in consumer goods, 40.9% in capital goods and a 4.2% fall in imports of raw materials.

Imports of all categories of consumer goods rose, January to August 1997 and 1996 compared. However, in the current period, higher imports of food and beverages, non-durable goods and motor cars have dominated this category.

The decline in import of raw materials was effected by lower imports of industrial supplies and other fuels and lubricants which declined by 9.2% and 17.7% respectively.

The increase in imports of capital goods, reflect mainly the imports of buses and aeroplanes as 'other industrial transport equipment' rose by 274.2% over August 1996 level of imports. Machinery and equipment imports continue to fall.

At August 1997, Jamaica's merchandise trade is showing the largest trade deficit yet, US$1,119.9 million, with exports of US$923.1 million and imports of US$2,043.0 million. The resulting trade gap is 121.3% of export earnings.

Balance of Payments

Merchandise Trade: The cumulative value of exports for the first eight (8) months of 1997 stood at US$923.1 million and imports valued US$2,043.0 million resulting in an adverse trade balance of US$1119.9 million which equals to 121.3% of total exports. These figures compare with exports of US$952.5 million, imports of US$1,851.7 million and a trade balance of US$899.2 million for the similar period in 1996. The current period's data while indicating some significant deterioration in the country's export earnings, is highlighting a significant growth in demand for ~~ex~~imports. The country's experience of drought conditions have supported the increased demand for food imports and the one-off purchase of aeroplanes and buses has also fueled the growth in import values during 1997.

Services: The net services balance at August 1997 was US$652.8 million which was marginally lower than at August 1996. Although there were higher levels of travel (mainly tourism) inflows in 1997 compared with 1996, outflows were also higher and resulted in lower net figures. Net results from investment income was also negatively larger mainly due to increased outflows from the mining sector and for debt servicing.

Balance of Payments

	J-Aug '96	J-Aug '97
Merchandise	**-899.20**	**-1119.90**
Exports	*952.50*	*923.10*
Imports	*1,851.70*	*2,043.00*
Services (Net)	**520.90**	**509.50**
Foreign Travel	*657.90*	*652.80*
Investment Income	*-120.50*	*-128.50*
Other	*-16.50*	*-14.80*
Goods & Services	**-378.30**	**-610.40**
Transfer (Net)	**399.40**	**436.50**
Private	*357.10*	*415.00*
Official	*42.30*	*21.50*
Current A/c	**21.10**	**-173.90**
Net Capital Movement	**224.70**	**71.00**
Official	**-95.10**	**14.40**
Private	**319.80**	**56.60**
Change in Reserves	**-245.80**	**102.90**

Transfers: ***Significant inflows of private transfers continue to dominate this sector of the BOP***. At August 1997, the net position of US$436.5 million was US$42.6 million more than at August 1996. Over the current period, private transfers rose by US$62.6 million compared with 1996 while official inflows fell by US$20.0 million. However, although outflows of both private and official transfers rose, they were offset by the larger volumes of private inflows.

Current Account: The services and transfer balances totaling US$946.0 million were inadequate to cover the adverse merchandise trade balance of US$1119.9 million and has resulted in a current account balance of US$-173.9 million. This represents a US$195.0 deterioration in the account, since at August 1996 the current account balance was US$21.1 million.

Net Capital Movements: Private Capital inflows of US$56.6 million at August 1997, were US$263.2 million less than at August 1996. However, with greater inflows of official capital via assistance and project loans, and lower levels of debt servicing outflows, the net capital account stood at US$71.0 million. Compared with US$224.7 million at August 1996, there was a deterioration of US$153.7 million on this account.

As, the balance of US$71.0 on the capital account is inadequate to cover the current account balance of US$173.9 million, BOJ reserves of US$102.9 million will be used to offset this.

MACRO-ECONOMIC INDICATORS
(December 1995 - October 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	708.81	0.6	13.50	173411	91490	81921	-6.60	8.49
Feb.	0.45	17.08	712.34	715.21	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	801.47	0.6	8.70	165067	96008	69059	1.41	16.67
May	3.16	20.03	561.08	804.90	0.7	8.2	138439	89862	48577	0.6	22.79
June	0.7	20.49	563.90	800.59	0.4	8.3	152729	107265	45464	0.5	23.27
July	0.8	20.48	569.40	838.28	1.1	8.7	166026	118948	47078	2.1	22.37
Aug.	-0.02	15.23	589.70	852.10	1.4	9.3	153870	109221	44649	-0.6	22.16
Sept.	-0.40	19.98	585.50	847.20p	1.4	9.6	102095	71577	30518		
Oct.	0.35	16.01	592.02	939.98	0.9	10.05	127187	78730	48457		

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