

Confidential Economic Bulletin

December 1997

New Confidential Economic Bulletin

The Private Sector Organisation of Jamaica

Monthly Analysis of the Jamaican Economy

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Overview

The month of December was quite an eventful one, with the elections taking center stage and falling almost in the middle of the month. One of the most notable features of the month was the nervousness in the foreign exchange market, which resulted in the exchange rate falling as low as JS40:US\$1 and the BOJ raising interest rates to about 30%. The BOJ also sold funds into the market on a consistent and fairly significant basis, at a rate of JS35.56:US\$1.00, throughout the month. During

the month, the government also secured a US\$100 million "bridging loan" from a consortium of banks lead by Citibank, for a period of just under 1 year. This loan was intended to fill the gap created by the decision not to approach the international capital market with another bond issue at this time. By the end of the month, the foreign exchange market had calmed down somewhat and the Jamaican dollar was trading in the \$36.50-\$37.50 range. How long the local dollar will be able to resist the pull of gravity is a matter of considerable interest, and we will be exploring some of the factors which will have a bearing on this below.

The first point to note is the continuing deterioration of the fiscal accounts. For the first 6 months of the 1997/98 financial year, the fiscal deficit has grown to JS12.95 billion (6.4% of GDP), up from JS6.1 bn for the corresponding period in 1996/97. At the end of last year, the fiscal deficit was just under JS19 bn or about 9.5% of GDP before the FINSAC commitments were included, this year we are likely to exceed that figure by a substantial margin. We are already seeing the impact of these deficits in the strong growth in credit to the public sector. This factor accounts for the greatest share of the growth in money supply which in September 1997, had increased by about 20% over September 1996. The growth in the money supply is going to drive domestic demand and ultimately drive inflation. Strong domestic demand will inevitably translate into demand for imports and foreign exchange. In an environment of falling exports of goods and very low growth in service exports, the external account is likely to remain in deficit and require shoring up by the BOJ if the foreign exchange market is to remain in relative equilibrium.

In the first 6 months of 1997, the BOJ made net sales of some US\$222 million into the foreign exchange market, and in the latter half of the year, borrowed some US\$340 mn on the international and domestic markets. All the information is not yet in, but from what we can see so far, there is quite a large gap between the country's foreign exchange earnings and its requirements for imports, debt servicing and other obligations. This problem is likely to persist in 1998 and

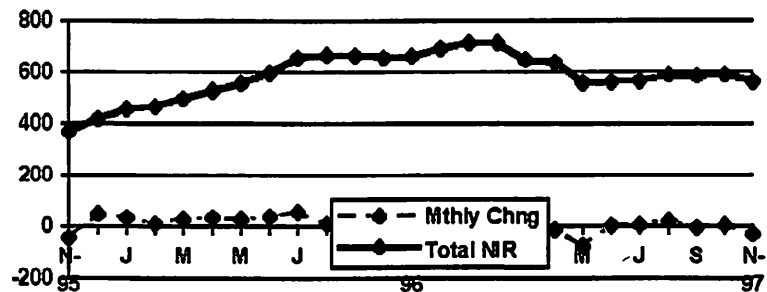
may get worse rather than improve, especially if wage increases do not fall to very low levels. Stability in the foreign exchange market is therefore likely to depend on the government's ability (and indeed its willingness) to borrow substantial amounts of hard currency to close the gap in the external account. They can continue to lean on the reserves for a while longer, and they would also get a further cushion if they were able to attract another round of private capital inflows, though this is a rather remote possibility. In all of this, we should remember that the elections are now behind us and over the next 3 to 6 months we should watch carefully to see if we can detect any changes in government's policy position, which may have a bearing on these issues.

Net International Reserves

The Net International Reserves (NIR) decreased during the month of November by US\$28.8 million to stand at US\$563.22 million at the end of November 1997. This decline was mainly due to the massive decrease of US\$30.1 million in the Gross Foreign Assets during the month of November 1997. The end of November saw Gross Foreign Assets and Liabilities standing at US\$710.69 million and US\$147.37 million respectively.

The stock of Gross Reserves at the end of November covers 11.85 weeks of imports based on the projected value of imports for Fiscal year 1997/98. This is a decrease over October's cover of 12.35 weeks.

CHANGES IN NET INTERNATIONAL RESERVES Nov. 1995 - Nov. 1997 (US\$Million)

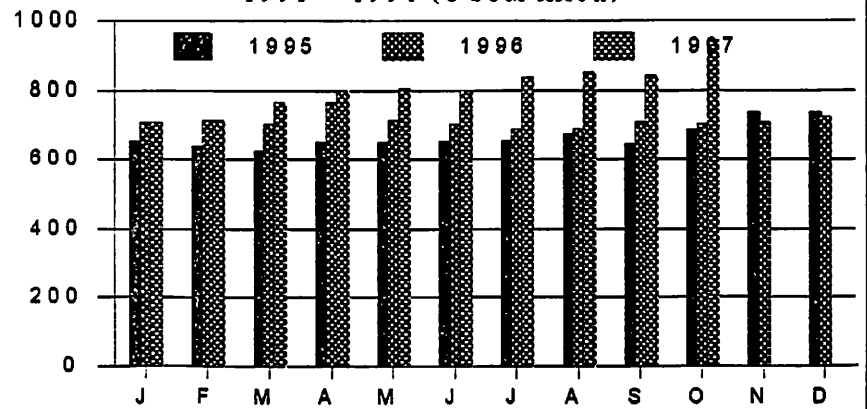


Foreign Exchange Accounts

The revised preliminary figures for the stock of funds in foreign currency accounts at the end of October 1997 stood at US\$912.27 million suggesting a US\$42.78 million increase over September's revised figure of US\$869.49 million.

Activities in foreign exchange accounts in October showed US\$645.18 million in withdrawals against US\$687.9 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.

FOREIGN CURRENCY ACCOUNTS 1995 - 1996 (US\$Million)



Exchange Rates

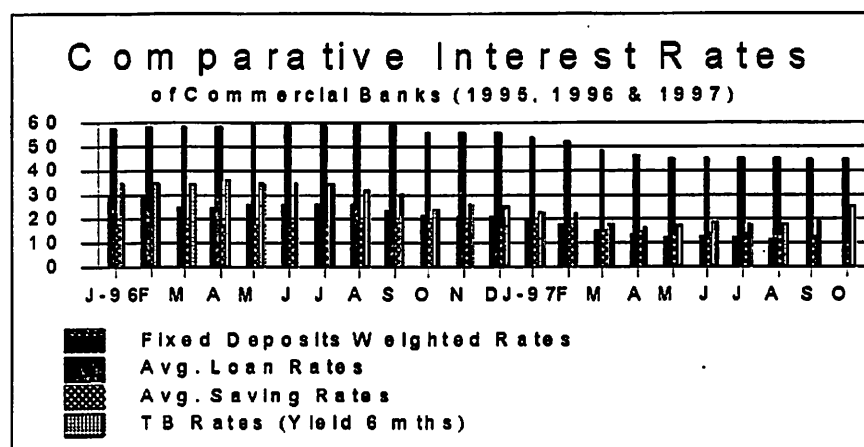
The day to day fluctuation of the Jamaican dollar continued during December. A marginal depreciation was shown at the end of December over November which saw the Jamaican dollar exchanging for J\$36.42 to the US\$1, J\$25.65 to the Canadian \$ and J\$60.5 to the pound sterling. This compares with J\$36.22; J\$26.02 and J\$59.45 respectively at the end of November 1997.

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 December 1997, were as follows:

- The offer of J\$300 million for 91 days was over-subscribed by J\$232.50 million and yielded 30.17% on average.
- The J\$550 million offer for 180 days yielded 28.93% on average and was oversubscribed by J\$282.06 million.
- For the J\$200 million offer for 362 days; the yield was 29.70% and was oversubscribed by J\$324.0 million.

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

Inflation

Following on 0.9% inflation for October, there was a 0.6% movement in the Consumer Price Index for November 1997. For the year so far, apart from the July to September up-tick in the monthly rates of between 1.1 - 1.4% the monthly inflation rates have been kept within the 1% per month target.

The year to date inflation for 1997, is 9.3% compared with 14.9% for the same period in 1996. The point-to-point rate i.e. November 1996

to November 1997 is 10.2% compared with 19.9% for the corresponding period of 1995/96. The rate of inflation for the first six months of fiscal year 1997/98 is 7.3% indicating an up-surge in the rate when compared with 6.4% for the comparable period in fiscal year 1996/97.

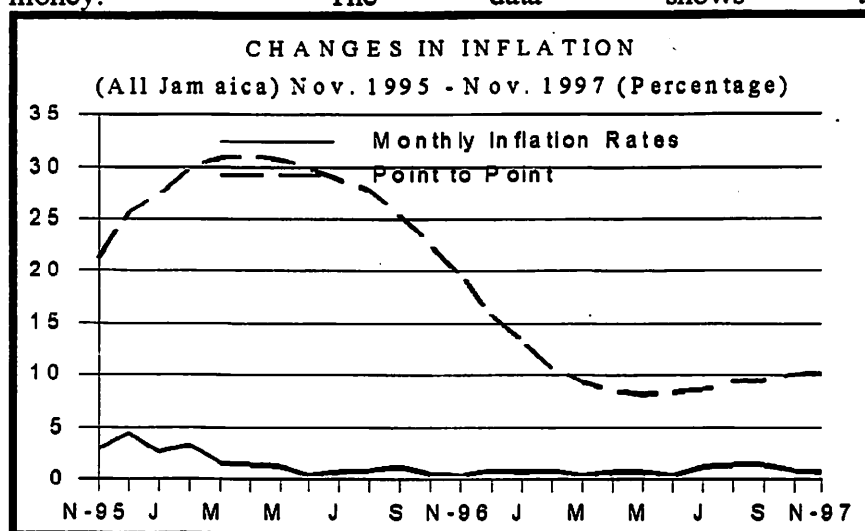
Although the 'All Jamaica' Index indicates an 0.6% rate of price increase for November, for the 'Rural Areas' this was 0.9% 'Others Towns' 0.0% and for the Kingston Metropolitan Area 0.6%. The index is indicating no significant seasonal impact on prices.

Base Money

At the end of November 1997, base money showed a monthly 1.71% increase following on a 0.35% rise in the previous month and marginal declines in September and October.

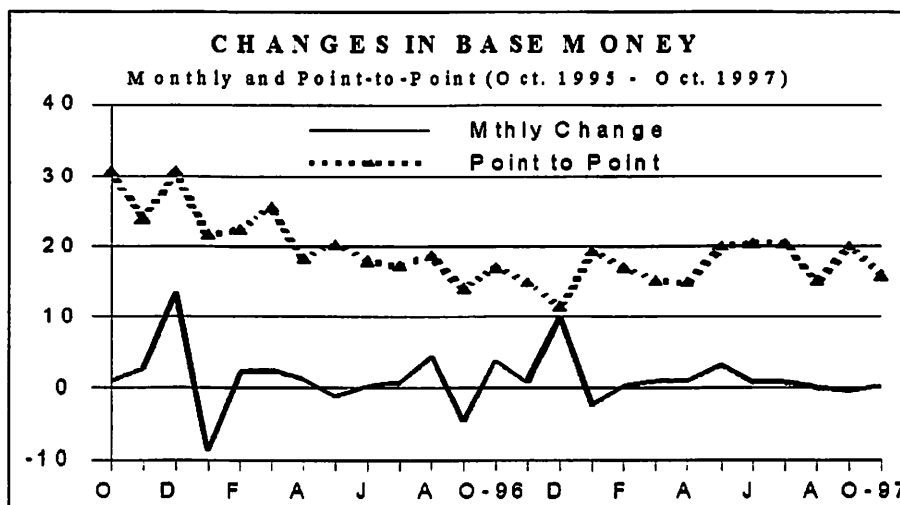
This increase in base money, the second largest experienced so far in the year (3.16% in May), has for the most part been brought on by the seasonal increased demand for

money. The data shows that



between October and November, currency issue rose by J\$700 million.

For the eleven month period to November 1997, base money has risen overall by 6.29% and this compares with 1.22% for the similar period in 1996. The point to point movement for both periods compared show similar trends 16.97% and 16.97% respectively.



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Money Supply

Following on a 0.6% contraction in August 1997, money supply experienced a similar degree of expansion in September 1997 bringing the overall increase in money supply for the nine month period to 7.4% and the point to point movement to 19.98%. For the comparable period to September 1996, money supply expanded by 2.43% and the point to point growth was 15.04%.

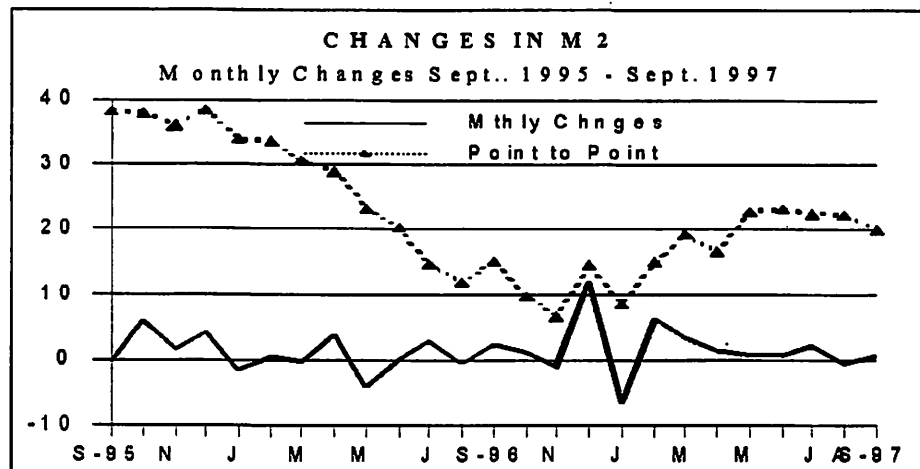
The growth in credit to the public sector over the past nine months of 1997, has had the most significant impact on money supply growth, hence the differences in its growth rates of the 1997 and 1996 periods.

For this period growth in net foreign assets for 1997 was 0.79% and credit to the private sector, 1.9%, growth in credit to the public sector was 222.8%. This scenario highlights the crowding out of the private sector while the authorities continue to enlarge the country's debt burden.

The growth in money supply for the first six (6) months of fiscal year 1997/98 was 4.4% just marginally lower than the 5.5% expansion experienced for the comparable period of fiscal year 1996/97. This slower growth for the current fiscal year, was due both to a lower

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rate of accumulation of net foreign assets, -3%. Currently, as against 10% in previous fiscal year, as well as, to a smaller increase in net domestic credit which was 17% for the current period, compared with 42% for the first six (6) months of fiscal year 1996/97.

**PRODUCTION of SELECTED COMMODITIES**

Energy: Electricity Sales for the month of October 1997 were 196,603 (MWH) while the year to date figure was 1,891,133 (MWH). This represents a 6.1% increase over 1996, with Residential and Industrial Sales increasing by 8.5% and 4.7% respectively.

Agriculture/Manufacturing: Banana export production for October 1997 was 8,079 metric Tonnes while the year to date production was 66,725 metric tonnes which represented a 5.3% decrease over 1996's figures. Sugar production for October 1997 was zero and hence the year to date figure remains constant at September's level of 226,691 metric tonnes. Cement production increased by 3.7% over 1996 figures with the year to date production at October 1997 standing at 482,652 metric tonnes.

Mining: Alumina Production for the month of November 1997 was 292,158 metric tonnes, while the year to date production was 3,098,917 metric tonnes. These figures represent a 15.28% and 5.87% increase over corresponding figures in 1996 respectively. The production figure for Crude Bauxite production for the month of November was 238,438 metric tonnes while the year to date figure was 3,362,824 metric tonnes. These figures represent a 18.37% and 5.91% decline over the corresponding figures for 1996 respectively. Total bauxite production for the year at November 1997 has increased marginally by 1.46% over 1996.

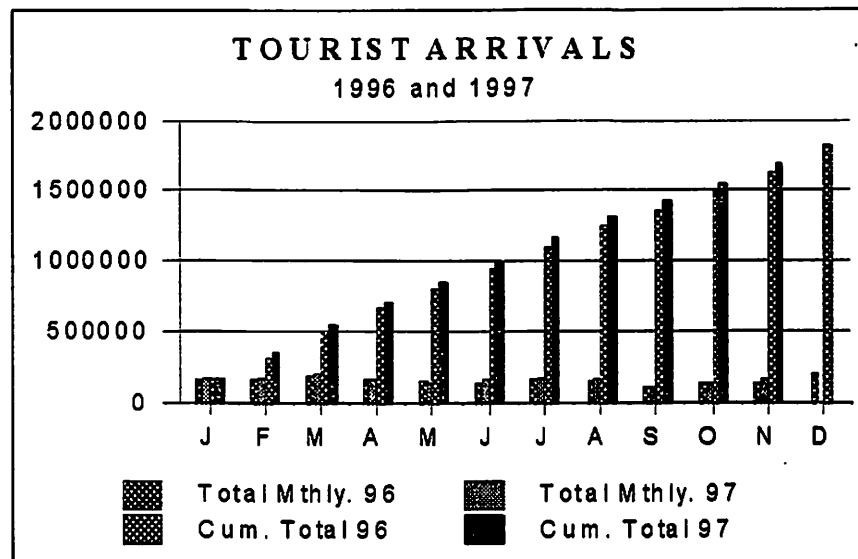
Tourism

As the beginning of the winter season approaches, there appears to be an upswing in the number of visitors to the island. If this trend continues it could augur well for a good winter season. During November 1997, tourist arrivals showed a 14.7% increase over November 1996 arrivals. There was a 6.0% increase in stop-overs, 25.5% rise in cruise passengers and a 45.1% increase in nationals visiting.

The cumulative figures for the period January to November 1997, showed a 4.7% increase over the similar period in 1996. The increases in stop-overs and cruise passengers were 3.4% and 7.8% respectively, while the number of visiting nationals fell by 0.5%. With cumulative figures of 1.7 million arrivals up to November, Jamaican could quite likely make the 2.0 million mark in arrivals in 1997 especially since the North American weather is already quite severe.

Cumulative expenditure by tourists up to October 1997, was US\$904.3 million about 2.75% above expenditure for the similar period in 1996. The overall trend in the arrival figures are showing a comparable higher rate of increase, to that of earnings. This disparity could, to some extent, be reflecting the significant amount of

discounting being effected in the sector.



December 15, brought the official start of Jamaican's winter tourist season and although many within the sector are projecting that the season will be a bright one, there are fears that the recently issued US travel advisory regarding the heavy pollution of Jamaica's coastal waters might have a dampening effect. While tourism interests in the resort areas are making some effort to clean up the situation, it is the belief that only statutes with stiff penalties will curb the situation.

That aside, the achievement of category one status to the islands airports coupled with the Air Jamaica/Delta Airlines recently signed agreement, should facilitate global airline access to Jamaica and boost the number of arrivals to the country.

External Trade

Exports: For nine months to September 1997, the country's export earnings stood at US\$1.044 billion or US\$32.3 million less than the comparable period in 1996.

Earnings from traditional exports, for both the 1996 and 1997 periods compared, showed a US\$0.3 million increase in 1997, to stand at US\$666.1 million. This resulted from declines in the earnings of sugar US\$22.9 million, Bauxite US\$2.3 million and bananas US\$1.04 million. However, there was a US\$26.5 million increase in the earnings from alumina exports, and this offset the fall in earnings from the other products.

The non-traditional export earnings continue to trail those of 1996 and at September 1997, were US\$29.2 million less than at September 1996, notwithstanding a slight upturn in the earnings from the garment sector.

External Sector US\$Mn

	J-Sep '96	J-Sep '97
Total Exports	1076.1	1043.3
Traditional		
Exports	665.9	666.1
Bauxite	59.1	56.8
Alumina	461.7	488.2
Sugar	109.2	86.4
Bananas	35.8	34.7
Other Trad.		
Exports	57.3	58.5
Non-Trad.		
Exports	324.0	294.9
Re-Exports	29.0	24.3
Total Imports	2085.9	2284.8
Consumer Goods	514.2	634.5
Raw Materials	1187.8	1128.0
Capital Goods	383.9	522.3
Trade Balance	1009.8	1241.0

Imports: At September 1997, total imports valued US\$2284.8 million and this was US\$198.9 million or 9.5% above those of September 1996. Both periods compared, raw materials intermediate goods imports fell by US\$59.8 million or 5.03%. However, imports of Consumer goods rose by US\$120.3 million or 23.4%, and capital goods imports by US\$138.4 million or 36.1%.

The fall in imports of raw materials resulted mainly from a 9.12% decline in the importation of industrial supplies, while continued increased importation

of construction materials, food and motor cars accounted for the increases in the other two (2) end use categories.

Balance of Payments

Merchandise Trade: Earnings from Exports up to September 1997 totalled US\$1.044 billion, and the value of imports stood at US\$2.285 billion. This has led to a negative trade gap of US\$1.241 billion. The comparable figures for the similar period of 1996 were exports of US\$1.076 billion, imports of US\$2.086 billion and a trade deficit of US\$1.010 billion.

The evolving trend from the data added to the depressed state of economic activity, indicate that by year end, the trade gap should widen significantly as exports will not increase sufficiently to offset the increased level of imports precipitated by the demands of the Christmas season. So by year-end, the trade gap could be well above the US\$1.5 billion mark.

Services: The services account, showed a US\$539.5 million balance, which was US\$17.1 million less than a September 1996. Contributing to this were lower levels of net travel receipts, and higher levels of investment income outflows when compared with 1996 figures. The travel receipts reflect the lack of buoyancy in the tourism sector, while the increased outflows of investment income reflect the slight upturn in the alumina sector's output and earnings.

Balance of Payments

	J-Sep '96	J-Sep '97
Merchandise	-1009.9	-1241.0
Exports	1076.0	1043.8
Imports	2085.9	2284.8
Services (Net)	556.6	539.5
Foreign Travel	713.2	703.9
Investment		
Income	-138.1	-148.0
Other	-18.5	-16.4
Goods & Services	-453.3	-701.5
Transfer (Net)	454.4	484.1
Private	408.4	459.6
Official	46.0	24.5
Current A/c	1.1	-217.4
Net Capital Movement	242.9	110.3
Official	-19.0	-18.3
Private	340.0	95.9
Change in Reserves	-244.0	107.1

Transfers: The net out-turn on the transfer account of US\$484.0 million for the current period is US\$29.7 million over the similar 1996 period reflecting the continued buoyancy of this sector. Private transfers registered a US\$51.2 million increase over the 1996 period, while official transfers showed a fall of US\$21.5 million.

Current Account: Despite the continued positive performances of the services and transfers sectors, showing balances of US\$539.5 million and US\$484.1 million respectively, together they have proven inadequate to offset the

US\$1.241 billion trade deficit, so that there is a negative balance of US\$217.4 million on this account.

Compared with a balance of US\$1.1 million on this account at September, 1996, the current balance indicates a deterioration of US\$218.5 million in the account.

Net Capital Movements: The activities in this account shows that there continues to be a significant fall in the level of inflows of private capital. This was US\$95.9 million at September 1997 compared with US\$340 million in September 1996.

Overall, activities in capital movements, resulted in a net balance of US\$110.3 million for the current period thereby registering a decline of US\$132.6 million over the September 1996 figures.

The net capital movements balance of US\$110.3 million is inadequate to offset the US\$217.4 million current account deficit, so that US\$107.1 million of Bank of Jamaica's reserves were used to finance this gap in the external accounts.

MACRO-ECONOMIC INDICATORS (December 1995 - November 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	0.6	19.98
Oct.	0.35	16.01	592.02	939.98	0.9	10.05	127187	78730	48457		
Nov.	1.71	16.97	563.22	869.49p	0.6	10.22	152513	89888	62625		

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

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