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THE PRIVATE SECTOR
ORGANISATION OF JAMAICA

# ANNUAL REPORT
# ON THE
# JAMAICAN ECONOMY

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# OVERVIEW OF ANNUAL ECONOMIC REPORT 1997

Although FINSAC was formed in late 1996, 1997 will be remembered as the year when it really began to make its mark. In the first quarter of 1997, there was the collapse of the Eagle Group after a sustained run on its financial institutions, and FINSAC subsequently acquired the Group for one dollar. By that time, the excess of liabilities over assets was somewhere in the region of J$13-14 billion. FINSAC also acquired the commercial banking investments of Life of Jamaica as part of a rescue package for that institution, taking over Citizens Bank in the process and 30% of CIBC Jamaica Ltd. By the end of the first quarter of 1998, FINSAC had given assistance to four life insurance companies, had taken over all the locally owned commercial banks with the exception of two small institutions, and acquired or assisted a number of merchant banks.

The creation of FINSAC was the government's major reaction to the crisis in the financial sector and this company's principal action has been the channeling of government guaranteed debt (known as FINSAC paper) and preference shares into these companies to restore their balance sheets to a healthier state. More recently, FINSAC has also exchanged substantial blocks of non-performing debt from some of the banks which it has taken over, for further injections of FINSAC paper. While this action has staved off, for a while, the solvency problems of these institutions, it has not dealt with the cash flow and liquidity difficulties which they were experiencing, as the FINSAC paper carries no cash payments of interest for several years. As of April 1998, FINSAC has incurred some J$80 billion of debt in its programme of assistance to financial institutions.

There has been no policy response by the government to the collapse of so many of our financial institutions and, in fact, in the latter half of 1997, domestic interest rates rose dramatically in both nominal and real terms. This was in response to increasing pressure on the exchange rate which was already considerably overvalued. The government was successful in its defense of the exchange rate, drawing down on its international reserves and borrowing US$300 million on the international market in order to accomplish its objective.

The 1998/99 budget has also given no indication of a change in the direction of government policy and the implications of it are that the high interest rate policy will remain in place for at least another year, even though inflation has been in single digits for the past year and should continue at this level for a

# OVERVIEW OF ANNUAL ECONOMIC REPORT

while. The size of the budget, almost 60% of GDP, suggests that very little of the adjustment in consumption will take place on the public side of the economy, implying that the private sector will have to bear a disproportional share of the contraction in consumption and output. This will mean a considerable increase in unemployment and in the number of business failures. Of course, the contraction in the productive side of the economy will make it more difficult for the government to realize its revenue targets and therefore more difficult to finance its expenditure. The large fiscal deficits that occurred in the past two financial years will remain a feature of public finances until the government abandons its policy of extremely high domestic interest rates and reduces its administrative expenditure.

While the problems of the financial sector have been occupying centre stage, the real sectors of the economy have not been doing very well either. Agricultural output has declined dramatically, due to prolonged drought in 1997 and to competition from imported produce. Export agriculture has been affected by the overvalued local currency, but the banana industry has been insulated somewhat by good prices in the United Kingdom, its major market. The manufacturing sector has continued to contract, with the apparel industry suffering a number of factory closures. Even the bauxite/alumina industry, which has been enjoying higher prices on the international market and record levels of local production has not been without its problems. High local wages and an unstable industrial relations environment, have caused the companies in this sector to think long and hard about carrying out additional investments, without which the local industry cannot continue to be viable. If there is no change in policy that will encourage and facilitate these investments, the consequences for the economy could be quite severe.

The outlook for the economy in 1998 and beyond is quite gloomy, if one assumes that government policy is going to continue on its present path, and unfortunately there is no reason to think otherwise. They have just received in the December 1997 elections, a mandate for another 5 years in office and have just tabled a budget of continuity. Unless there is a major shift in the direction of policy after the municipal elections that are due in June 1998, we had better resign ourselves to the short and medium term consequences of the present policies.

The recession will deepen in 1998 and the economy will contract even more severely than the 2.4%

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decline that took place in 1997. Business failures and unemployment will rise and both output and consumption will fall, leading to higher rates of poverty and deteriorating social conditions. The fight against inflation will get harder as the government struggles to finance its expenditure in the light of declining revenue, brought about by the economic downturn. The cost of the financial sector collapse and its subsequent rescue will also begin to bear heavily on the economy, and another round of assistance to the sector is a distinct possibility, as the economic environment which created the problems remains firmly in place. The government's economic policy programme is underpinned by its access to foreign loans in order to close the substantial gap in the external account. It can presumably continue to hold the present course until its foreign creditors lose confidence in its ability to meet its obligations. ■

# 1. THE WORLD ECONOMY IN 1997-1998

Based on a broad range of preliminary indicators supplied by the International Monetary Fund, the world economic and financial conditions remained generally encouraging and the global economic expansion is expected to continue at a satisfactory pace in 1997/98 and over the medium term, in spite of the financial crisis in East Asia.

Therefore, total world output in 1997 was projected to expand by 4.2%, and increase by 4.3% in 1998. In industrial countries, the growth projections for 1997-98 are 2.8% and 2.5% respectively - marginally higher than the 2.4% recorded in 1995. This expansion reflected the continuing success among industrial countries in controlling inflation and the robust growth of output and employment now being experienced by a number of industrial countries especially the United States.

It summary, it appears that the expansion in World output resulted mainly from the following:

1. Significant progress toward fiscal consolidation
2. Correction of overvalued currencies
3. Significant containment of inflation
4. Significant growth in world trade in services
5. Significant investment in new technology

The expansion is underpinned by continued solid growth with low inflation in the United States and the United Kingdom; a strengthening recovery in Canada; a broadening of recovery across continental Western Europe not withstanding the unsatisfactory economic performances of the three (3) major economies of Germany, France and Italy.

Robust growth trends exist in most of the developing world, particularly in China, Latin America and much of Asia even though some countries are likely to experience a setback associated with the recent turmoil in financial markets in Southeast Asia. There is also evidence of an end to the decline in output, and perhaps a beginning of growth in Russia and in the transition countries as a group.

## World Trade

World Trade volume was projected to increase by 7.7% in 1997 (1.4% more than the growth rate in 1996) and 6.82% in 1998; (0.5 percentage more than growth in 1995). Trade among the developing countries is also expanding strongly, supported by trade liberalization and increased intra-regional foreign direct investment.

## Oil

The price of oil in recent years has continued to be highly volatile over short periods. It has been relatively stable, however, when compared with the period from the first oil shock in 1973 and through the Iraq-Kuwait conflict in 1990-91. Oil prices declined by 5.1% per barrel

# THE WORLD ECONOMY IN 1997-1998

**Table 1.1**

**Overview of the World Economic Outlook Projections, 1995 - 1998**
**(Annual percentage change in GDP unless otherwise noted)**

| | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|
| **WORLD OUTPUT** | **3.7** | **4.1** | **4.2** | **4.3** |
| Industrial Countries | 2.1 | 2.4 | 2.8 | 2.6 |
| U.S.A. | 2.0 | 2.8 | 3.7 | 2.6 |
| Japan . | 1.4 | 3.5 | 1.1 | 2.1 |
| Germany | 1.9 | 1.4 | 2.3 | 2.8 |
| Italy | 2.9 | 0.7 | 1.2 | 2.1 |
| U.K. | 2.7 | 2.3 | 3.3 | 2.6 |
| Canada | 2.3 | 1.5 | 3.7 | 3.5 |
| **EUROPEAN UNION** | **2.5** | **1.7** | **3.9** | **4.2** |
| **DEVELOPING COUNTRIES** | **6.0** | **6.5** | **6.2** | **6.2** |
| Jamaica | 0.5 | -1.7 | -3.5 | -3.0 |
| Africa | 2.8 | 5.2 | 3.7 | 5.0 |
| Asia | 8.9 | 8.2 | 7.6 | 7.4 |
| Middle East and Europe | 3.5 | 4.8 | 4.6 | 4.2 |
| Western Hemisphere | 1.3 | 3.4 | 4.1 | 4.4 |
| **WORLD TRADE VOLUME** | **9.5** | **6.3** | 7.7 | **6.8** |
| **IMPORTS** | | | | |
| Industrial Countries | 8.9 | 6.1 | 7.1 | 6.4 |
| Developing Countries | 11.4 | 8.7 | 8.4 | 7.8 |
| **EXPORTS** | | | | |
| Industrial Countries | 8.8 | 6.1 | 7.1 | 6.4 |
| Developing Countries | 10.5 | 8.6 | 7.5 | 7.0 |
| **COMMODITY PRICE (IN SDRs)** | | | | |
| Oil [1] | 1.9 | 24.3 | 0.3 | -0.8 |
| In U.S. Dollars a barrel | 8.0 | 18.9 | -5.1 | -1.8 |
| **NON-FUEL** [2] | | | | |
| In SDRs | 2.1 | 3.1 | 2.8 | -1.6 |
| In US Dollars | 8.2 | -1.3 | -2.7 | -2.5 |
| **CONSUMER PRICES** | | | | |
| Industrial Countries | 2.5 | 2.4 | 2.2 | 2.3 |
| Developing Countries | 22.7 | 13.2 | 10.0 | 8.9 |
| Countries in Transition | 119.2 | 40.4 | 32.3 | 14.1 |
| **SIX-MONTH LIBOR (IN PERCENT )** [3] | | | | |
| On U.S. Dollar Deposits | 6.1 | 5.6 | 5.9 | 6.3 |
| On Japanese Yen Deposits | 1.3 | 0.7 | 0.7 | 1.1 |
| On Deutshche Mark Deposits | 4.6 | 3.3 | 3.3 | 4.0 |

[1]Simple average of spot prices of U.K., Brent, Dubai and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was $20.42 in 1996; the assumed prices are $19.69 in 1997 and $18.36 in 1998

[2]Average, based on world commodity export weights

[3]London interbank offered rate.

***Source: World Economic Outlook***

# THE WORLD ECONOMY IN 1997-1998

during 1997 over 1996 and are expected to decline by a further 1.8% during 1998.

## Trade Developments

In terms of major trade agreements, there were not many new ones in 1997, however the World Trade Organisation (WTO) upheld a ruling by its Disputes Settlement Body that the preferential access granted by European Union (EU) countries for bananas from African, Caribbean and Pacific (ACP) countries, violates free trade rules. The EU was given fifteen months in which to come up with a system that is acceptable to the WTO.

There was a tacit agreement on the WTO financial services accord that will open new global markets for banks, insurers and securities firms during 1997/98.

Despite President Clinton's failure to obtain fast-track authority from Congress for the negotiation of the Free Trade Area of the Americas (FTAA), negotiations are still set to begin in April 1998, which will aim for hemisphere-wide free trade by 2005.

## Inflation and Commodity Prices

The aggregate inflation projections for industrial countries in 1997 and 1998 are 2.4% and 2.2% per annum respectively. This low inflation expectation seems to have resulted from a strong commitment by the authorities to the use of tight monetary policies. A more flexible labour market and greater investment in new technology may be contributing to wage moderation, while the growth in international trade and increased global competition should help to lessen the inflationary pressures.

Inflation in developing countries continues to be subdued, with inflation for 1997 and 1998 projected to be 10.0% (3% lower than 1996) and 8.9% respectively. Inflation rates for countries in transition are projected to be 32.3% in 1997 and 14.1% in 1998 which is a significant reduction considering that inflation in 1995 averaged 119.2%

## World Economic Outlook

As shown by Table 1.1, the growth outlook for the world's output in 1997 and 1998 is estimated at about 4.3%. Private consumption growth is expected to be relatively strong in the United States and the United Kingdom. There is however, likely to be little growth in public consumption in industrialized countries, as these are making an effort to reduce their fiscal imbalances.

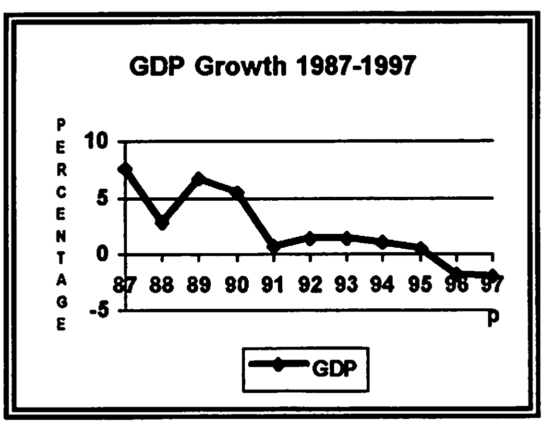
Although a moderation of world growth is indeed likely to occur at some point, there are reasons to believe that the current expansion can be sustained, possibly into the next decade. This is despite the financial and currency upheavals in Southeast Asia, which are expected to be resolved by the end of 1998, given the experience of Mexico in 1995. ■

# 2. GROSS DOMESTIC PRODUCT

## Introduction

The continuation of the high interest rate policy by the Bank of Jamaica has resulted in a continued downturn in economic activity. The policy framework implemented in 1996 resulted in the decline of the Jamaican economy as real GDP contracted by 1.7% for that year. In 1997, the economy continued to exhibit characteristics similar to the previous year's depressed activity as the central bank remained committed to its policy stance. The restrictive monetary policy of the Bank was tightened further towards the end of the year and annual inflation fell to single digit figures by the end of 1997. The annualized inflation rate for 1997 was 9.2% while December's monthly rate was -0.1%, the first monthly fall in the CPI in over a decade.

**Figure 2.1**




This success has again come at the expense of domestic production as preliminary statistics for key macroeconomic variables indicated that the recession deepened in 1997. The adjustment of the productive sector has been very slow and painful. The sector continues to be adversely affected by high real interest rates, the constraints on credit access due to the continuing crisis in the financial sector and operational inefficiencies. This situation was exacerbated by a persistent drought that affected the island for most of last year. The drought conditions caused a major decline in agricultural output which, given its historical contribution to overall GDP, has implications for final output figures.

## Balance of Payments Developments

Scarcity and the inflated prices of agricultural produce on the domestic market because of the drought conditions provided the impetus for increased importation in the food category of consumer goods. This development proved significant, as two of the island's major exporters, sugar and banana producers, were unable to meet their quotas. This resulted in the external accounts showing no growth in overall exports compared to 1996. Preliminary data showed that the balance of payments recorded deficits in the trade, goods and services and current account balances. The rise in consumer goods imports and the fall in raw material imports suggest that local production is being displaced by imports. In the face of stagnant exports, this suggests that local output is falling.

# GROSS DOMESTIC PRODUCT

## Value Of The Jamaican Dollar

The increasing overvaluation of the Jamaican dollar was identified by many experts as a possible explanation for the extent of the deterioration of the external accounts in 1997. The nominal value of the Jamaican dollar had remained relatively stable throughout the review period, depreciating only slightly in the second half of the year. The exchange rate moved from J$34.90 in January 1997 for US$1 to J$36.57 in December. The dollar, however, traded consistently higher in the cambio markets. Transactions involving exchange rates of upwards of $39 or even $40 Jamaican dollars to one US dollar were recorded in early December as speculators sought to take positions based on their expectations of devaluation after the elections. This never occurred, causing liquidation of these short positions. The ensuing appreciation of the dollar in that market has eased the pressured off the official rate.

Bank of Jamaica sold foreign exchange regularly to the current market to prevent a fall in the exchange rate. Therefore, some of the foreign exchange reserves accumulated in 1996 were used in defense of the exchange rate in 1997. The reduction in reserves due to intervention was US$152.1 million. Concerns continue to be expressed as to the wisdom of the BOJ's market intervention in light of the worsening current account balance, which historically has a negative impact on the output of any small, developing economy such as ours.

## Interest Rates

Real interest rates on loans were very high throughout the review period. Very high interest rates on government paper, liquidity constraints imposed by the central bank and the volume of non-performing loans on the books of the commercial banks restricted their ability to provide reasonably priced credit for investment purposes. These rates were, however, at lower nominal levels than the lending rates in 1996. This was due to a reduction in nominal rates from an average lending rate of 55.22 as at December 1996 to 44.17 in December 1997.

Rates on government securities trended downwards in the early stages of the year as inflation came down dramatically and relative calm prevailed in the currency markets. Treasury bill rates went as low as 16.74% in May of last year. However, as the exchange rate came under pressure in the second half of the year, the central bank increased its benchmark repurchase agreement rates in August to 26% which was promptly followed by a rise in treasury bill rates. As at December 1997, 6-month Treasury bill tender had cleared at an average rate of 28.08% while the 30-day repo rate was 29%. The reduction of these benchmark rates in the first part of

# GROSS DOMESTIC PRODUCT

the year led to lower lending rates on commercial bank loans compared to 1996. However, these rates were still too high in real terms and hence, did not attract significant investment ventures from the private sector. Available figures from January to September show that loans to the productive sector increased by 9.85%. The composition of these loan portfolios shows that only J$6228.5 million was loaned to the manufacturing sector, a 3.92% increase over the same period in 1996. Significant crowding out by government was also evident as the government borrowed heavily to finance the activities of FINSAC plus its own expenditure, further reducing the pool of funds available for private investment. The "bailout" of financial sector organizations is, so far, estimated to have cost in the region of J$75 billion, most of which will be financed by domestic borrowing.

## The Elections

The possibility that elections could have been called within the year introduced additional systemic risks to the process of making investment decisions in 1997. Being cognizant of this possibility made many entrepreneurs more apprehensive about investment expenditure given the political risks involved.

## THE PRODUCTIVE SECTOR

### Agriculture

As previously mentioned, the prolonged drought conditions that afflicted the island over the last year had a significantly negative impact on the agricultural sector. The severe drought conditions affected not only plant growth and development but also planting activities resulting in a reduction in production of both domestic and traditional export crops. The Planning Institute of Jamaica Index of Agricultural Production reports a decline in the sector's output, for the period January-September, of 17% compared to the same period in 1996. Domestic crop production was the most seriously affected as, according to the sub index, there was a 22.9% reduction of agricultural produce for this market. Export crops, including sugar and bananas, declined by 9.6% over the same period.

All categories in domestic crop production suffered declines with the greatest contraction being in the production of condiments, cereals (rice and corn), potatoes and other tubers.

The fall in sugar production featured significantly in the overall decline in crop exports. For the crop year October 1996-November 1997, sugar production was 14% lower than the previous crop year 1995-1996. In addition to the negative impact that drought conditions had on the sugar crop, the industry also suffered from strike action by workers at Chedwin Park and the illicit burning of cane at most of the estates.

The sugar industry has continued to experience financial difficulties since divestment. The announcement of a rescue plan by the government is the most recent indication of the extent of the problems currently being faced by the industry. The

# GROSS DOMESTIC PRODUCT

plan proposes assistance of J$400 million to be channeled to sugar farmers while additional funds will be allocated to sugar factories, the majority of which will go to the Sugar Company of Jamaica, the main sugar producer in Jamaica. The total value of the rescue plan is approximately J$1.7 billion.

Coffee production was also reduced due to poor weather conditions. At the end of the crop year in July 1997 total production figures revealed a decline of 12.1% compared to 1995/1996-crop year (16,852 tonnes). During the year one major producer of Blue Mountain coffee, JABLUM was taken into receivership by the Commonwealth Development Corporation (CDC) due to overwhelming financial difficulties. The CDC's loan has been subsequently taken over by the National Investment Bank of Jamaica (NIBJ).

The only success recorded in this sector was in cocoa production. The industry recorded increases in the volume of wet cocoa deliveries to the fermentaries. These increased by 24.4% for the crop year. The expansion was due in part to an increase in the price per box from $150 to $200.

The agricultural sector suffered a serious setback in 1997 when the WTO took the decision to outlaw the preferential trading arrangements in bananas between the European Union and the ACP countries. This does not speak well for the future growth prospects of this export sector.

## Mining

The mining industry was one of the few success stories in the productive sector during 1997. Alumina production hit record levels growing by 6% over 1996 rising from 3.2 million tonnes to 3.39 million tonnes. This represents the highest level of alumina production ever recorded by the local industry, which produced above the 3 million tonne mark for the fourth consecutive year. Export earnings from the industry were also the highest ever recorded as it earned US$723.5 million for the year, about 4.6% over the figure in the previous year.

The success of the local industry was attributable in part to recovery in the world demand for alumina, which increased by 4% over the past year. Relative industrial calm also contributed to the performance of the industry, as there was minimal labour unrest.

## Manufacturing Sector

As one of the more interest rate sensitive industries, the manufacturing sector came under considerable pressure during 1997 as high lending rates and constraints on access to credit persisted throughout the review period. The reduction in consumer spending due to the recession currently being experienced by the economy also negatively affected the profitability of the companies in this industry.

# GROSS DOMESTIC PRODUCT

**Table 2.1**

| KEY MACRO-ECONOMIC VARIABLES FOR 1996-1997 | | |
|---|---|---|
| | 1996 | 1997 |
| REAL GDP GROWTH (%) | -1.70 | -2.0p |
| CONSUMER PRICE INFLATION | 15.80 | 9.20 |
| INTEREST RATES (%) | 55.22 | 44.17 |
| EXCHANGE RATE (%) | 34.71 | 36.57 |
| NET INTERNATIONAL RESERVES (US$Mn) | 692.6 | 540.50 |
| IMPORTS (US$Mn) | 2916.3 | 3106.7 |
| EXPORTS (US$Mn) | 1386.9 | 1387.6 |
| CURRENT ACCOUNT BALANCE (US$Mn) | -139.3 | -330.0 |

The combination of these factors resulted in more closures and companies being placed in receivership due to inability to service their debt obligations. Two such companies were Ser-Wel, a manufacturer of appliances and metal products, and Homelectrix, a major retailer of furniture and appliances. Both have since been re-opened thanks to refinancing exercises but most of the sector remains in a precarious position due to spiraling debt and cheaper imports. Loans to the manufacturing sector from the commercial banks as at October 1997 fell by 8.32% over the same period last year.

Exports of manufactured goods fell by 41.2% during the period January-August 1997 in year on year comparisons to US$8.2 million. This figure does not contain the apparel sector which is, instead, the main component of miscellaneous manufactured exports. There was a decline in this category of 11.7% to US$152.2 million. These numbers are further indicators on the depth of the recession that has mired the local manufacturing sector.

## SERVICES

### Financial Sector

Most of the policy initiatives implemented by the government and the central bank in 1997 directly affected the financial sector. Based on the performance of some of its largest entities, the policies had an adverse impact on the operations of the financial institutions. The high lending rates that prevailed throughout the sector were primarily responsible for the increase in the level of non-performing loans which rose to over 20%. The high level bad debts caused cash flow problems in some institutions though a few remained cash rich. While the sector as a whole experienced excess liquidity during 1997, some institutions were in over-draft at the BOJ while others had substantial sums invested in government paper.

# GROSS DOMESTIC PRODUCT

FINSAC was very active during 1997. The adjustment company bought the Eagle Financial Network for J$1 in April then acquired Jamaica Citizens Bank from the LOJ. It has also pledged liquidity and equity support for at least four entities, the latest of which was Jamaica Mutual Life Assurance Society. The 45% stake in the National Commercial Bank owned by Mutual Life was transferred to FINSAC as a part of a rescue deal for Mutual Life worth nearly J$10 billion. Other entities, continue to grapple with serious liquidity problems. More closures are imminent in 1998.

The value of this sector's contribution to GDP is difficult to measure in the absence of final net profit positions of individual entities. However, it can be inferred from the spate of closures and well-publicized financial problems that the sector contracted during the year.

## Tourism

Tourism arrivals of 1,903,893 for the year represented an increase of 4.6% over 1996. This was mainly due to increases in the arrival of cruise ship passengers. These totaled 711,699 a 8.1% increase over last year's figures. Cumulative expenditure of visitors for the year grew by 4.4% to stand at US$1.140 billion.

Tourism continues to be the top foreign exchange earner for the Jamaican economy. However, its growth over the last couple of years has stagnated. It is not too surprising that some of the entities within the sector experienced serious financial difficulties in 1997. A major casualty was the Ciboney Hotel Group that was placed in receivership in 1997. This resulted from the take over of Eagle Financial Entities as FINSAC sought to recover debts owed by Ciboney to these companies.

The prospects for tourism are the same as in previous years, moderate to low growth. Although some new hotels are currently under construction and some existing properties are being expanded, internal and external factors may hinder the growth of the industry. The social climate and physical infrastructure have lead to heavy discounting of rates in order to maintain occupancy levels. The profitability of the sector has also been affected by the rising domestic costs and falling income due to the mid-1996 revaluation of the Jamaican dollar.

## Outlook for 1998

We anticipate that the final official figures will show that the economy contracted by 2 to 4%. The major contributing factors informing this prognosis are the declines in the agricultural, construction, manufacturing and financial sectors. The growth of the mining and tourism industries was marginal hence not sufficient to compensate for the contraction of the other sectors. The widening current account deficit, falling net international reserves and high real interest rates were all indicative of an economy with inadequate investment expenditure from either domestic or external sources.

# GROSS DOMESTIC PRODUCT

The increased competition from imported goods add to the woes of the domestic productive entities, a development facilitated by an overvalued exchange rate.

The absence of external balance makes any perceived macroeconomic stability a temporary phenomenon. Restrictive monetary policy, though important, is costly if fundamental issues such as the external positions and fiscal prudence are not addressed. This is so as the ensuing high real interest rates discourage capital accumulation, a critical element in any policy directed towards economic growth and development. Those policies should only be pursued in the short term. The government has these critical problems to address in the 1998.

The recently tabled budget, indicating J$130 billion worth of government expenditure, suggests that 1998 will be another year of significant contraction in the economy. This huge expenditure, almost 60% of GDP, will crowd out private sector access to credit and keep interest rates high. It also suggests that the government will be attempting to keep its interest rate and exchange rate policies in place, thus continuing the contraction in productive activity in general, and export production in particular. ■

# 3. BALANCE OF PAYMENTS

The out-turn of the Balance of Payments at the end of 1997, highlights the significant adverse influence of the continued poor performance of the export sector on the merchandise trade account as well as the continued buoyancy of private transfers and their respective impacts on the current account. The marked reduction in private capital inflows throughout the year and its impact on the overall balance of payments and the level of reserves of the Bank of Jamaica is also significant. This out-turn also reflected the influence/impact on the local economy of international developments and the domestic macro-economic policies and programmes pursued by the government.

**International developments included:**

a. fluctuations in international commodity prices which affected both the local import bill and the level of earnings from exports. During the year the fall in crude oil prices brought lower payments for fuel imports while the improved prices for alumina exports helped to support higher export earnings. However, declining prices for sugar and bananas led to reduced earnings for these exports.

b. There was a decline in the level of private capital and direct investments flowing to developing countries. It was estimated at US$22 billion for 1997, compared to US$77.7 billion in 1996. This trend set in, following the meltdown in the economies of South East Asia.

c. During 1997, short term interest rates edged up in major industrialized economies and their capital markets also showed continued growth. This encouraged the retention of investment funds within these countries.

**Domestic Developments:**

a) the overall macro-economic programmes were designed to significantly contain inflation, and stabilize the exchange rate while ensuring an adequate supply of hard currency. However, the tight monetary policy, featuring high interest rates which was used to achieve these objectives, only served to deepen the country's recession.

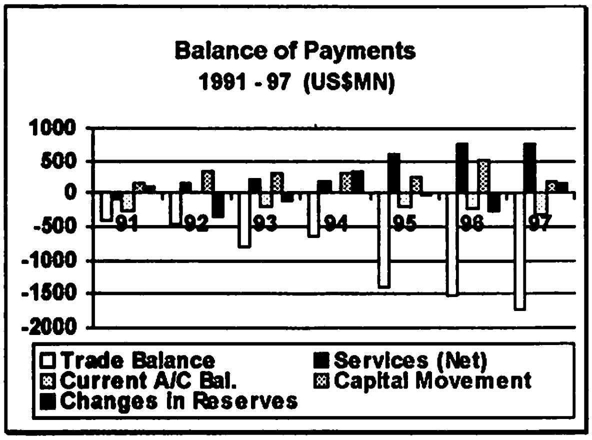
i. Throughout the year, the high interest rate translated into low demand for credit to the productive sector. This fell by 10% in 1997 compared with relatively no growth in 1996. The decline in credit, together with a 4% fall in the importation of raw materials and a 7% reduction in the imports of machinery and equipment capital goods, underscores the devastating effect of high interest rates on investments levels and activities in the productive sector.

ii. Although the high rates of interest slowed the growth in consumer credit to 3% in 1997, compared with a 22% growth in 1996, consumer loans no doubt helped to fuel the high demand for consumer imports which grew by 23% in 1997.

iii. The high interest rates and an uncompetitive exchange rate, in addition to other factors combined to perpetuate the slump in output and earnings of the export sector, as its earnings stagnated in 1997 following on a 4% decline in 1996.

# BALANCE OF PAYMENTS

**Figure 3.1**




b. To the above could be added the effect of severe climatic drought conditions which affected the output of agricultural production for the local and export markets and gave rise to a fall in export earnings, a rise in import levels and a widening of the merchandise trade gap.

The relative stability of the nominal exchange rate and the continuing appreciation of the real exchange rate fostered the continued growth in imports which displaced local products and filled the growing consumer demand.

## Merchandise Trade

At the end of 1997, Jamaica's trade transactions totalled US$4.494 billion and were comprised of export earnings of US$1.387 billion and imports of US$3.107 billion. This compares with total trade of US$4.303 billion at December 1996, having exports of US$1.387 billion and imports of US$2.916 billion. There was a US$191 million increase in total trade in 1997, as imports rose by US$190.4 million while exports rose by US$0.7million. The trade gap in 1997 was US$1.719 billion widening by US$189.7 million over US$1.529 billion gap at the end of 1996.

**Table 3.1**

| Balance of Payments 1991 - 1997 (US$Mn) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
| **Merchandise** | | | | | | | |
| Exports (fob) | 1150.7 | 1053.6 | 1075.4 | 1219.5 | 1436.8 | 1386.9 | 1387.6 |
| Imports | 1575.0 | 1529.1 | 1880.5 | 1871.5 | 2831.8 | 2916.3 | 3106.7 |
| **Balance of Trade** | **-424.3** | **-475.5** | **-804.7** | **-652.0** | **-1395.0** | **-1529.4** | **-1719.1** |
| **Services (Net)** | **-84.3** | **146.6** | **233.6** | **195.0** | **617.0** | **753.7** | **747.4** |
| Foreign Travel | 710.4 | 794.2 | 878.4 | 854.0 | 939.6 | 952.4 | 961.7 |
| Investment Income | -478.9 | -348.2 | -240.2 | -284.3 | -296.9 | -177.5 | -196.2 |
| Others | -315.8 | -299.4 | -404.6 | -374.7 | -25.7 | -21.2 | -18.1 |
| **Goods & Services (Net)** | **-508.6** | **-328.9** | **-571.1** | **-457.0** | **-778.0** | **-775.7** | **-971.7** |
| **Transfers (Net)** | **252..8** | **339.8** | **376.9** | **475.3** | **563.3** | **636.4** | **641.7** |
| Private | 153.3 | 248.2 | 306.4 | 447.2 | 505.3 | 583.8 | 606.3 |
| Official | 99.5 | 91.6 | 70.5 | 28.1 | 57.7 | 52.6 | 35.4 |
| **Current A/C Balance** | **-255.8** | **10.9** | **-194.2** | **18.3** | **-214.7** | **-139.3** | **-330.0** |
| **Capital Movement (Net)** | **150.6** | **326.3** | **307.6** | **319.2** | **238.1** | **410.5** | **177.9** |
| Private | 51.4 | 336.3 | 309.1 | 429.3 | 344.7 | 498.4 | 190.9 |
| Official | 99.2 | -10.0 | -8.0 | -8.4 | -6.4 | 28.3 | -6.7 |
| Government Direct | | | -1.4 | -101.9 | -97.0 | -144.7 | -12.1 |
| Government Guaranteed | | | 2.3 | -17.1 | -3.2 | 28.5 | 5.9 |
| Divestment | | | 5.6 | 17.3 | 0.0 | 0.0 | 0.0 |
| **Change in Reserves (Minus = Increase)** | **105.2** | **-337.2** | **-113.4** | **-337.5** | **-23.4** | **-271.3** | **152.1** |

# BALANCE OF PAYMENTS

US$1.719 billion widening by US$189.7million over the US$1.529 billion gap at the end of 1996.

At the close of 1997, Jamaica's imports rose by US$190.4 million or by 6.5%. This out-paced the lagging output of exports which rose by US$0.7 million and further widened the trade gap when compared with the 1996 data.

During the year, Jamaica showed robust growth in its imports of Consumer and Capital goods, both of which grew by 24.4% and 20.4% respectively. However, imports of raw materials fell by 6.1%.

Earnings from traditional exports over the review period showed a 4.1% increase, fostered mainly by a 7.6% increase in earnings from alumina exports. The earnings from the non-traditional sector lagged behind the 1996 level mainly because of the contraction of the apparel sector which is the dominant player in that sub-sector.

## Services

The outcome of the services account for the year, showed a smaller surplus of US$747.4 million or US$6.3 million below 1996 earnings. The lower net earnings from travel resulted from the increased expenditure of locals travelling abroad which exceeded the increased earnings from the tourism sector. In addition, as a result of increased earnings from alumina exports, there was an increased repatriation of profits, which helped to deplete the net services sector earnings in the external account.

## Transfers

Throughout the year, the level of private transfers to the country remained the only buoyant section of the balance of payments. At year end, the net transfers balance was US$641.7 million or US$5.3 million more than at the end of 1996. Private transfers showed a 3.8% increase over the previous year's figure and this was able to also offset the 32.7% fall in official transfers. The sustained level of inflows of private transfers is thought to reflect the increasing economic difficulties in Jamaica and a corresponding increase in assistance from Jamaican residents overseas who make these remittances to support their relatives in Jamaica.

## Current Account

The current account at the end of 1997, showed a US$330.0 million deficit, indicating significant deterioration from the US$139.3 million deficit at the close of 1996. The deterioration in this account reflects the poor performance of export earnings, in contrast to the expansion in import costs as well as the sluggish performance of the service earnings. The sustained deterioration in the current account reflects the uncompetitiveness of the currency, and highlights the growing imbalance in the external accounts.

# BALANCE OF PAYMENTS

## Capital Accounts

Throughout the year, private capital flows moved through a cycle of positive to negative to positive balances, which gave rise to a similar trend in the capital account balances. At the end of 1997, net capital inflows stood at US$177.9 million or US$232.6 million less than at the end of 1996. This current period shows private capital inflows of US$190.9 million or US$307.5 million or 61.7% below the 1996 levels. The fall off in private capital inflows is no doubt related to the lowering of interest rates as well as the uncertainties regarding the exchange rate. Supporting the current positive net balance on the capital account is a lower level of outflows of official capital, moving from an outflow of US$144.7 million in 1996 to US$12.1 million in 1997, a decline of US$132.6 million.

Net capital inflows of US$177.9 million and a current account deficit of US$330.0 million at the end of 1997, resulted in a net loss of US$152.1 million of the Net International Reserves (NIR). This compares with an addition of US$271.3 million to the reserves at the end of 1996.

## Outlook for 1998

The Jamaican economy will continue to operate at least for the early months of 1998, within the dictates of a tight monetary policy - focussing on inflation control and exchange rate stability - using mainly high interest rate as its monetary tool. This will therefore perpetuate the recessionary path of the economy.

Output and earnings for exports will continue to fall as the high interest rate policy and non-competitive exchange rate will retard export profitability. Output for the local market could increase giving some price competition to imports, but Jamaica's high propensity to consume imports will continue to fuel its growth. Even if interest rates decline somewhat during the year, increased output from the export sector will not materialize to significantly improve the sector's annual earnings. So, at year end, the trade gap may not be significantly narrowed. However, import growth will slow considerably as oil prices fall and the contraction in the local economy deepens.

**Table 3.2**

| Capital Account 1991-1997 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
| **NET CAPITAL MOVEMENT** | -1.9 | 326.3 | 310.3 | 226.5 | 238.1 | 410.5 | 177.9 |
| Government Direct | 66.8 | 0.0 | -1.4 | -127.4 | -97.0 | -144.7 | -12.1 |
| Government Guaranteed | 9.4 | 0.0 | 2.3 | 17.1 | -3.2 | 28.5 | 5.9 |
| Official Short-term | -38.7 | -10.0 | -10.6 | -8.4 | -6.4 | 28.3 | -6.7 |
| Private (including errors and omissions) | -54.4 | 326.5 | 314.4 | 327.9 | 344.7 | 498.4 | 190.9 |
| Divestment | 15.1 | 9.8 | 5.6 | 17.3 | 0 | 0 | 0 |

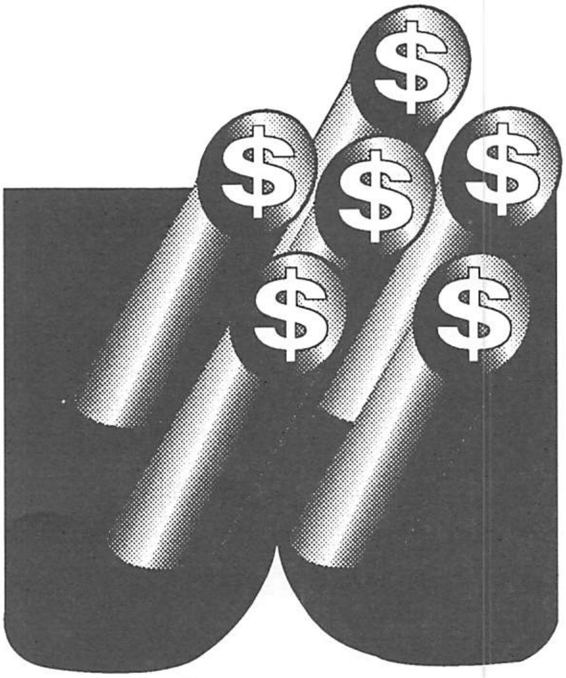
# BALANCE OF PAYMENTS

The services sector will continue to post positive balances as the tourism sector should maintain a modest growth. However, there will be some erosion of the sector's net returns from profit repatriation and increased local travel.

The transfer account should remain buoyant, maybe not showing much growth as remittances have already peaked in 1997 and are beginning to level off.

Despite the positive impact of the services and transfer accounts on the current account, it will continue to be negative as export earnings will be sluggish while imports will be high.

The level of private capital inflows is not likely to see much growth, given the current economic environment. However, government's external borrowings and servicing responsibilities will increase so that net capital movements will not be enough to offset the current account deficit. Therefore a significant portion of the Net International Reserves will be used up in this process. ■



# 4. EXTERNAL TRADE

Jamaica's merchandise trade in 1997 continued in the trend of previous years. Export earnings have shown annual fluctuations while imports have maintained a growth trend with the trade gap continuing to widen.

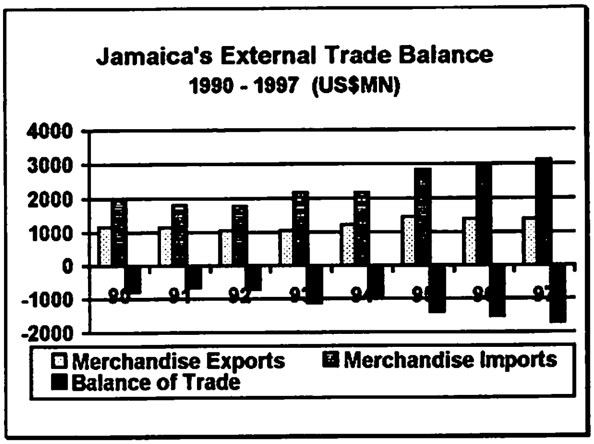
At the end of 1997, expenditure on imports rose to US$3.107 billion, earnings from exports were US$1.387 billion and the trade deficit stood at US$1.719 billion. Comparable figures for the period up to December 1996 were, imports of US$2.916 billion, exports of US$1.387 billion and a trade gap of US$1.529 billion.

As in 1993 and 1996, so in 1997: the trade gap has been significantly greater than total export earnings and the difference between the trade deficit and export earnings continues to widen. Although between 1990 and 1997 export earnings overall rose by 8.6%, between 1990 and 1995 they rose by 24.1%, so that the 1997 export earnings is just marginally below those of 1995. On the contrary however, import levels since 1990 have grown overall by 60.0% and the trade deficit has expanded by 119.1%.

Internationally, growth in the trade in services has continued to exceed that of goods over the past five (5) years. However, Jamaica's services income has not reflected this trend as it experienced a declining growth rate since 1994. This has been less than the growth in imports, so the goods and services trade balance has also deteriorated.

At the end of 1997, with a net services balance of US$747.4 million, this only reduced the goods and services balance to -US$971.7 million. This compares with goods and services balance of -US$775.7 million at the end of 1996.

**Figure 4.1**




In Barbados, for instance, since 1992 its net receipts from the tourism sector have been increasing and have more than offset the merchandise trade gap, making its current account balance always positive.

The out-turn of the goods and services trade sector for 1997, was influenced significantly by local climatic conditions and economic and trade related developments. The revolution in technology, trade liberalization and the increasing globalization of the world economy have also impacted on the local economy.

## Internal Factors Impacting on Trade

1. The tight macro-economic, stabilization policies which were implemented in 1996 continued into 1997. These included high real interest rates,

# EXTERNAL TRADE

**Table 4.1**

| JAMAICA'S EXTERNAL TRADE BALANCE 1990 - 1997 (US$MN) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
| Merchandise Exports | 1157.5 | 1145.5 | 1053.6 | 1044.5 | 1223.9 | 1436.7 | 1386.9 | 1387.7 |
| Merchandise Imports | 1942.1 | 1799.5 | 1775.4 | 2165.2 | 2171.4 | 2831.8 | 2916.4 | 3106.7 |
| Balance of Trade | -784.6 | -654.3 | -721.8 | -1120.7 | -947.5 | -1395.1 | -1529.5 | -1719.0 |

control of money supply, deflation of the economy and exchange rate stabilization. As policies were implemented, they had mixed results and effects on economic activities and trade outcomes:

a. During the year, interest rates moved from a low of 17% in the first half of the year to 30% by year end, as the authorities sought to tighten liquidity, depress demand and curb the pressure on the exchange rate. However, these levels of interest rates made credit expensive to the investor and to businesses which needed funds to undertake restructuring, re-tooling, capacity expansion or the purchase of raw materials. The results show that there was:
   (i) no significant increase in new investments,
   (ii) a decline in raw material imports/purchases,
   (iii) a decline in out-put of goods and services,
   (iv) fall in employment and demand levels,
   (v) prices were depressed - the inflation rate remained relatively low and
   (vi) earnings from export markets declined.

b. Although during the year the inflation rate declined, this did not encourage increased production or growth in GDP, since a major factor of production i.e. credit/capital, remained expensive and proved to be too high for profitable project implementation.

c. During the year, Bank of Jamaica continuously intervened in the foreign exchange market as it sought to maintain the stability of the J$. Just over US$229 million of the NIR was used for this purpose. This intervention did not allow for a truly market determined exchange rate, so the J$ continued to appreciate in real terms and proved uncompetitive to the players in the export sector. So, together with high credit and other input costs, the result was continued decline in both the volume and value of output in that sector.

d. On the other hand, despite the high cost of credit, loans to the consumer sector grew by 18.0% in 1997 and these loans helped to purchase consumer durables and non-durables. This fostered the 23.0% growth in consumer goods imports, which included a 34.6% rise in motor car imports.

2. For the first nine months of 1997, prolonged drought conditions seriously affected the production of local and export agricultural commodities. Both traditional crops e.g. sugar cane and bananas, non-traditional exports, horticultural and condiments, as well as locally consumed starches and vegetables were affected.

# EXTERNAL TRADE

The fall in output of these commodities led to a decline in export earnings and facilitated the increased importation of food to fill the shortfall in local supply. The relatively poor performance of the export sector resulted from the effects of drought conditions on the agricultural sector, together with the uncompetitive exchange rate, the high cost of credit and some amount of inefficiencies which pervade the sector's operations.

3. Throughout the year, industrial action led to decreases in production and declines in productivity which slowed economic activity in major exporting sectors and contributed to the over-all fall in the export sector earnings. This is true for the tourism sector, banana and sugar production and for the bauxite and alumina sectors.

4. The productivity of employees during 1997 continued to be affected by problems of poor transportation, road congestions, crime and violence, mass demonstrations, infrastructure problems and other hazards. These factors have caused work disruption and unpunctuality which negatively affect productivity, output and profitability of enterprises throughout the country.

5. There was continued hemorrhaging of the apparel sector in 1997, despite the Special Assistance Programme extended to the sector. As a result, more factories closed and the unemployed numbers increased. However, the output of some entities improved and, towards year-end, sector earnings showed improvements. The January to November 1997 earnings for the sector was US$509.2 million, a 3% increase over the corresponding period in 1996.

6. The one-off importation of passenger buses and aircraft helped to swell the import bill of 1997.

## External Factors affecting Trade

As the trade liberalization process deepens worldwide, the local economy in adjusting to and integrating into the system is experiencing mixed results from the process.

1. The relative stability of the Jamaican dollar against the US dollar and the rise of the US dollar against the Japanese yen helped to foster the 34.6% growth in imports of motor cars.

2. Commodity prices on the international market have had mixed effects on the outcome of Jamaica's trade.
    - Beginning in the final quarter of 1996, an increase in demand for alumina in the economies of China, Japan and Europe, have served to effect an increase in the price of that commodity. At about the third quarter of 1997 alumina prices peaked to US$1638 per metric tonne and fell to US$1599 per metric tonne by year end. So, together with a 6.1% increase in alumina

# EXTERNAL TRADE

production in Jamaica, there was an 8.0% rise in alumina earnings for 1997 and this helped to boost the overall export sector earnings for the year.

- Coffee prices also rose by 23% on the international market and, with a 6.4% increase in local output, earnings from coffee rose by 7.7% to US$34.7 million for 1997.
- Prices of crude oil declined over the year, moving from US$21.00 per barrel at the beginning of the year to US$17.20 by year end. Some decrease in the value of fuel imports was seen in the trade data and, to a certain extent, experienced at the fuel pumps and in reduced electricity bills.
- Coupled with some hiccups in the preferential market arrangements for Jamaica's major traditional exports, there was a fall in the prices for these commodities. Sugar prices fell from 433.9 pound sterling per tonne in 1996 to 391.4 pound sterling per tonne in 1997, and bananas' earnings from US$615 million to US$418.24 million by mid year 1997. Although drought conditions affected output volumes, the fall in prices also contributed to reduced earnings for these commodities in 1997.

3. The level of inflation in most of Jamaica's major trading partners was low in 1997. This had a moderating effect on the prices of imports from those countries as well as on the overall import bill.

## Imports

At December 1997, Jamaica's merchandise imports stood at US$3.107 billion increasing by US$190.4 million or 6.1% over the corresponding period in 1996. This increasing trend in the growth of imports, although evident over the years, appears to have gathered momentum since 1993, and the advent of exchange control liberalization helped to facilitate this.

Between January and February 1997, imports into Jamaica grew on average by 5.6% monthly. The next three (3) months saw imports growing monthly by 2-3%. However, for the rest of the year, monthly import growths were between 6 - 12.5%, year on year, with this peak coming in July.

During the year, the growth in imports was being driven by imports of consumer goods - food in particular, supported by motor cars as well as capital goods imports. During the second half of 1997, consumer goods imports showed an average monthly 20% growth and food imports grew monthly by 24.7% throughout the year. The growth rates for capital goods imports were mixed throughout the year, showing declines in the first two months, but changing to an increasing monthly growth trend for the rest of the year, peaking at 43.5% in August.

# EXTERNAL TRADE

Throughout the year, imports of raw materials when compared with 1996, showed continued monthly declines which ranged between 17.9% in February to 1% at October 1997.

The trends exhibited in the varying import categories to a greater extent are the reactions or outcomes to the economic and climatic factors which affected the country in 1997.

The prolonged drought resulted in a decline in food production and this fostered increased imports of food. The macro-economic policies supported expensive credit, and the availability of foreign exchange, which depressed growth in the local goods producing sector and consequently the fall in raw material imports. Consumption was encouraged, resulting in significant growth in the consumption of consumer durables, food and motor cars.

The significant growth in the imports of capital goods was fueled mainly by imports of construction material and by the purchase of buses and aeroplanes during the year.

**Figure 4.2**

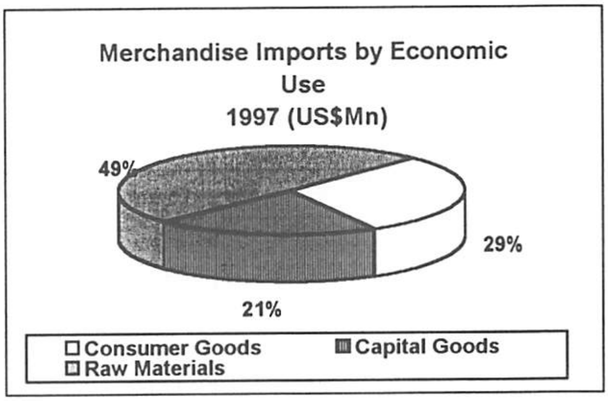
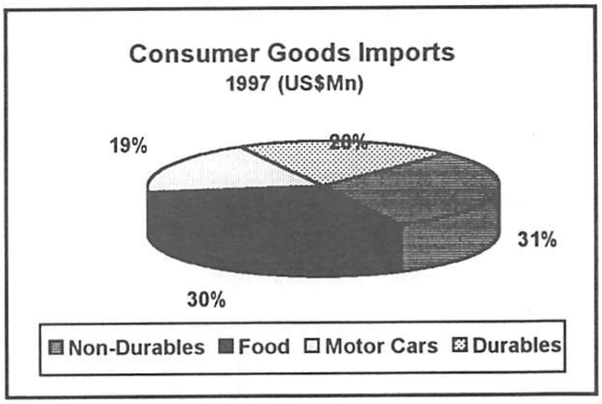



**Figure 4.3**




## Exports

The value of exports from Jamaica at the end of 1997 stood at US$1.388 billion which was 0.7% or US$1.3 million above the December 1996 export earnings. These figures show a second consecutive year of that export earnings for the country. In fact, apart from January 1997 when exports showed an 11.4% increase over January 1996 figures, the other months of the year all registered reduced earnings ranging from 1.0% in November to 10.6% in February.

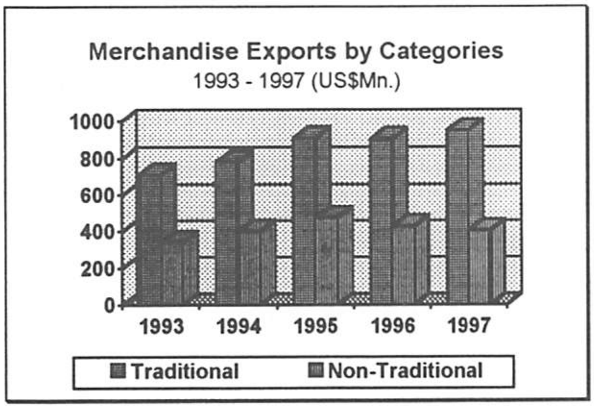
# EXTERNAL TRADE

**Table 4.2**

| VALUE OF MERCHANDISE IMPORTS BY ECONOMIC USE 1993 TO 1997 - US$MN | | | | | |
|---|---|---|---|---|---|
| | 1993 | 1994 | 1995 | 1996 | 1997 |
| **Consumer Goods** | **476.9** | **446.9** | **697.6** | **734.4** | **913.2** |
| Food | 145.3 | 124.8 | 195.7 | 210.4 | 277.2 |
| Other Non-Durables | 138.1 | 157.8 | 214.4 | 233.3 | 276.5 |
| Durables | 193.5 | 164.3 | 287.5 | 290.7 | 359.5 |
| Of which Motor Cars | 99.1 | 62.8 | 146.6 | 130.9 | 173.3 |
| **Raw Material** | **1322.7** | **1348.8** | **1642.3** | **1635.6** | **1535.6** |
| Fuels | 343.3 | 328.6 | 397.4 | 445.5 | 408.0 |
| Other Raw Material | 979.4 | 1020.2 | 1244.9 | 1190.1 | 1127.6 |
| **Capital Goods** | **389.6** | **375.7** | **491.8** | **546.4** | **657.8** |
| Transport and Equipment | 134.3 | 101.6 | 98.2 | 127.7 | 228.4 |
| Of which Motor Cars | 49.6 | 38.8 | 7.3 | 5.8 | 8.8 |
| Construction Materials | 95.9 | 90.2 | 149.9 | 131.7 | 162.2 |
| Other Machinery | 155.4 | 178.3 | 234.7 | 280.1 | 260.3 |
| Other Capital | 4.0 | 5.6 | 9.0 | 6.9 | 6.9 |
| **Total** | **2189.2** | **2171.4** | **2831.8** | **2916.3** | **3106.7** |

*Source: Bank of Jamaica*

**Figure 4.4**




The performance of the major traditional export sectors consisting of sugar, bananas, bauxite and alumina had mixed results for the year. When compared with 1996, earnings from sugar and bauxite fell by 6.7%, and 7.1% respectively while alumina and banana export earnings rose by 7.6% and 2.0% respectively.

In the non-tradition export sector, where the apparel industry is the dominant player, earnings to November showed a 5.7% decline.

As the earnings of both the major traditional and non-traditional sectors account for close to 90% of Jamaica's real sector export earnings, then the lack lustre performance in these sectors during 1997 reflect significantly on the sector's total earnings.

The 'other traditional export' sector which constitutes exports of citrus, coffee, rum, pimento and gypsum, showed a 3.8% increase in earnings at the end of 1997. This sector showed consistent increased earnings through the second half of the year and this resulted from improved earnings for rum, coffee and cocoa as earnings for citrus and pimento showed some decline.

# EXTERNAL TRADE

Table 4.3

| VALUE OF MERCHANDISE EXPORTS 1993 TO 1997 (US$MN) | | | | | |
|---|---|---|---|---|---|
| | 1993 | 1994 | 1995 | 1996 | 1997 |
| **Major Traditional Exports** | **657.1** | **731.5** | **844.6** | **839.8** | **874.3** |
| Bauxite | 84.2 | 73.0 | 70.9 | 78.4 | 72.8 |
| Alumina | 439.8 | 537.2 | 632.0 | 607.0 | 653.5 |
| Sugar | 97.5 | 73.0 | 96.0 | 109.2 | 101.9 |
| Bananas | 35.6 | 48.3 | 45.7 | 45.2 | 46.1 |
| **Other Traditional Exports** | **56.1** | **51.8** | **64.7** | **71.2** | **73.9** |
| Citrus & Citrus Products | 5.7 | 3.5 | 5.9 | 5.2 | 4.6 |
| Coffee & Coffee Products | 19.7 | 16.8 | 26.9 | 3.5 | 3.2 |
| Cocoa & Cocoa Products | 4.2 | 6.0 | 5.2 | 32.3 | 34.7 |
| Pimento | 3.4 | 3.4 | 4.3 | 3.5 | 2.9 |
| Rum | 21.6 | 21.1 | 22.2 | 25.4 | 26.8 |
| Gypsum | 1.1 | 1.0 | 1.1 | 1.3 | 1.7 |
| **Total Traditional Exports** | **713.2** | **783.3** | **910.3** | **911.0** | **948.2** |
| **Non-Traditional Exports** | **345.1** | **403.7** | **477.8** | **436.1** | **407.0** |
| **Total Domestic Exports** | **1058.3** | **1187.0** | **1388.1** | **1347.1** | **1355.2** |
| **Re-Exports** | **17.1** | **36.9** | **48.6** | **39.8** | **32.5** |
| **Total Merchandise Exports** | **1075.4** | **1223.9** | **1436.7** | **1386.9** | **1378.7** |

## CARICOM Trade

At the end of 1997, Jamaica's trade with CARICOM included US$325.0 million in imports and US$47.5 million in exports. This has resulted in a trade deficit of US$277.5 million. Compared with trade in 1996, imports levels in 1997 rose by US$36.5 million or by 12.6%, exports fell by US$7.8 million or by 14.0% and the trade deficit widened by US$44.3 million or by 18.9%.

Jamaica's imports of oil from Trinidad and Tobago continue to be the most significant item in its CARICOM trade, forming about 51.2% of total imports. During 1997, oil imports amounted to US$166.6 million which was US$3.8 million less than in 1996. The country's dependence on oil importation will continue to account for this heavily lop-sided trade with the region. Nothwithstanding this, Jamaica's imports of food from CARICOM rose by US$29.6 million or by 93.6% in 1997.

In 1997, exports to the region fell by 14.0%. Declines in exports of manufactured goods, beverages and mineral fuels accounted for this. Whereas in 1996 Jamaica had a deficit trade balance with only five CARICOM countries, at the end of 1997 that number rose to eight (8).

# EXTERNAL TRADE

**Table 4.4**

| CARICOM IMPORTS AND EXPORTS BY S.I.T.C. 1996 & 1997 (US$ '000) | | | | |
|---|---|---|---|---|
| | **Jan-Dec '96 Imports** | **Jan-Dec '97 Imports** | **Jan-Dec '96 Exports** | **Jan-Dec '97 Exports** |
| Food | 31647 | 61280 | 13520 | 13225 |
| Beverage & Tobacco | 16160 | 18003 | 3566 | 3400 |
| Crude Materials - Inedible (excluding fuels) | 1976 | 1549 | 427 | 694 |
| Mineral Fuels, Lubricant & Related Materials | 170333 | 166562 | 3357 | 2242 |
| Animal & Vegetable Oils and Fats | 4606 | 5326 | 7.0 | 7.0 |
| Chemicals | 30070 | 31762 | 14082 | 11806.0 |
| Manufactured Goods - Chiefly by Materials | 24390 | 28982 | 9461 | 6156 |
| Machinery & Transport and Equipment | 3424 | 3892 | 3218 | 3779 |
| Miscellaneous Manufacturing | 5932 | 7688 | 7665 | 6236 |
| **All Sections** | **288538** | **325044** | **55303** | **47544** |

*Source: Statistical Institute of Jamaica*

## Outlook for 1998

For 1997, the outturn of merchandise trade transactions showed the continuing trend of significant increases in the trade deficit which, coming against the background of a decline in output, serves to highlight the country's increasing dependence on imports.

During 1997 there were other factors which fueled the growth of imports such as the prolonged drought and the one-off purchase of buses and aeroplanes, 1998 might not have these factors to push the import growth. However, the continuation of the high interest rate policy will maintain a fall-off in the viability of businesses and, in turn, output thereby fostering further decline in export earnings, continued high growth in imports and a widening of the trade gap. In this respect, 1998 could be a replica of 1997.

During 1997, motor car imports formed 5.6% of total imports, up from 4.7% in 1'996. With the softening of overall demand in the economy, this could have a negative impact on the demand for and, ultimately, the level of importation of cars in 1998.

As in 1997, earnings for the export sector could be flat. The apparel sector continues to suffer from factory closures so, even with financial and other assistance to the sector, it will take some time to regain previous levels of output and increased levels of earnings. Given the fluctuations being experienced in commodity prices on t, he world market for our traditional and non traditional exports, in addition to falling levels of output, the ability of the country's exports to show growth in earnings looks very uncertain for 1998.

The weak performance of the real sector highlighted in 1997 will therefore continue during 1998 perpetuating the contraction in real output. ■

# 5. MONEY AND BANKING

## Base Money

Base money grew by 14.50% during the calendar year 1997. This was slightly higher than the recorded level of growth experienced in 1996 of 11.4%. This figure still compared favourably with growth rates of 30.6% and 42.71% for 1995 and 1994 respectively.

The components of Base Money showed similar results with currency issue increasing by 14.9% from J$12.4 billion at the end of December 1996 to J$14.2 billion at the end of December 1997. Commercial Banks' Accounts increased by 39.5% from J$14.2 billion to J$19.9 billion at the end of December 1997.

Although this year's increase was slightly higher than the level obtained in 1996, it was still enough to faciliate an inflation rate out-turn of 9.2% for 1997. One can expect that this relatively tight management of base money will continue to be an objective of the BoJ during 1998 as they continue their efforts to control money supply growth and to bring inflation under further control.

## Money Supply

At the end of November 1997, the nominal stock of broad money that is M2 stood at J$92.5 billion, indicating a J$15.8 billion or 20.6% increase over November 1996. For the first six months of 1997, M2 increased by J$4260.8 million or 5.61%, with its largest monthly increase at 6.3% in February and the largest monthly decrease in January 1997 of 6.6%. However, after February the monthly changes were more moderate reaching a low of -0.6% in August 1997.

Figure 5.1

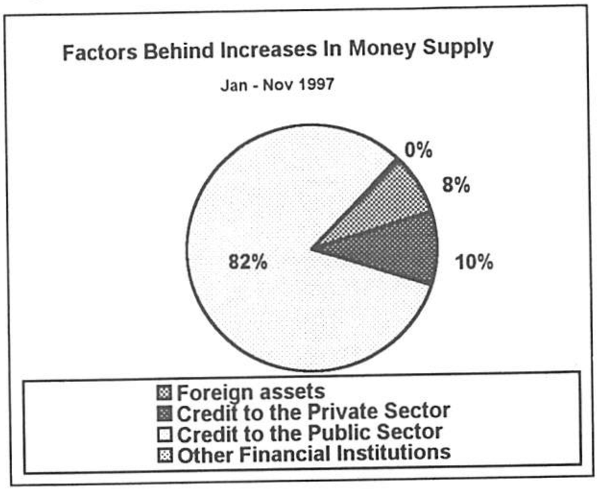
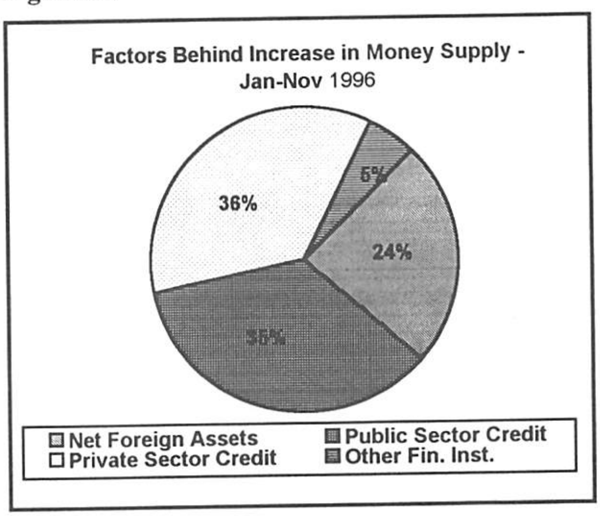



Figure 5.2



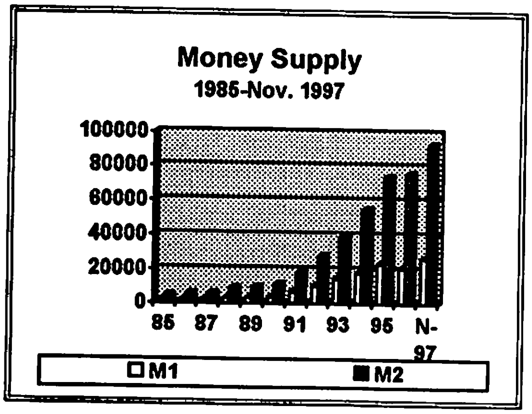
# MONEY AND BANKING

**Table 5.1**

| MONEY SUPPLY 1985 -NOV. 1997 (J$MILLION) | | | | | |
|---|---|---|---|---|---|
| YEAR | M1 | TIME DEPOSITS | SAVINGS DEP. | QUASI-MONEY | M2 |
| 1985 | 1210.4 | 1091.7 | 2007.5 | 3099.2 | 4309.6 |
| 1986 | 1667.6 | 1183.3 | 2646.8 | 3830.1 | 5497.7 |
| 1987 | 1874.8 | 1119.4 | 2646.8 | 3830.1 | 5497.7 |
| 1988 | 2908.8 | 1625.5 | 4365.8 | 5591.3 | 8900.1 |
| 1989 | 2739.4 | 1843.5 | 4882.7 | 6726.2 | 9465.6 |
| 1990 | 3516.0 | 2281.8 | 5499.0 | 7780.8 | 11296.8 |
| 1991 | 6867.1 | 2464.2 | 8135.2 | 10599.4 | 17466.5 |
| 1992 | 10283.6 | 4409.8 | 13124.0 | 17533.8 | 27817.4 |
| 1993 | 14398.7 | 6340.5 | 18179.6 | 24520.1 | 38918.8 |
| 1994 | 17896.7 | 12153.6 | 24733.2 | 36886.8 | 54783.5 |
| 1995 | 23227.7 | 15839.7 | 34550.2 | 50389.9 | 73617.6 |
| 1996 | 21100.3 | 16567.0 | 37751.1 | 54318.1 | 75418.4 |
| Nov. 1997 | 26241.7 | 16828.4 | 49664.2 | 66492.6 | 92734.3 |

*Source: Statistical Digest (BoJ)*

**Figure 5.3**




Contributing to the moderate rise in broad money (M2) were relatively moderate changes in its components, M1 and Quasi Money. From January to November 1997, narrow money, that is M1, decreased by 6.7% or J$ 1.9 billion. Its components, "Currency with the public" increased by J$0.1 billion or 0.9% while "demand deposits" decreased by J$ 1.9 billion or 10.7%. However, "Quasi Money" rose at a faster rate. Over the same period it increased by J$10.1 billion or 18.1% with its components, that is time and saving deposits, decreasing and increasing by J$0.8 billion and J$10.9 billion or 4.7% and 28.2% respectively.

Also significantly affecting money growth through the period, was an increase in the Public Sector Credit which grew by J$21.4 billion or 232.6% over the period. This was mainly due to the increasing fiscal deficit and the operations of FINSAC.

# MONEY AND BANKING

The graphs on page (31) indicate, that for the year, the Credit to the Public Sector had the most significant expansionary effect on M2. It is also worth noting that credit to the private sector and increases in Net Foreign Assets of the Bank of Jamaica also had an expansionary effect.

## Loans and Advances

At the end of October 1997, total assets and liabilities of commercial banks were J$147.2 billion. Of this, J$59.5 billion or 40.4% were extended in credit. This represented a marginal increase over the stock of loans at the end of October 1996 of J$56 billion or 44.5 % of their assets at that time. Total deposits in the commercial banking sector as at the above-mentioned date was J$ 107.4 billion, reflecting a 17.7% increase over the comparable period last year. The down turn in the financial sector experienced in 1996 continued into 1997. The general contraction of economic activities along with the high interest rate policy of the Government have led to significant growth in non-performing loan portfolios and a fall off in demand for new loans.

A review of the sectoral allocation of credit extended by commercial banks indicated that in 1997 consumer oriented loans made up 40.35% of commercial banks' credit portfolios. This was followed by loans to Government services (12.8%), other (11.7%), manufacturing (10.52%) and tourism (7.8%). This ranking shows the predominant and increasing role played by Government in the economy, having become the second highest recipient of commercial banks' loans. It also reflects the diminishing role of manufacturing as it is regulated to fourth place coming from second place one year ago.

**Figure 5.4**

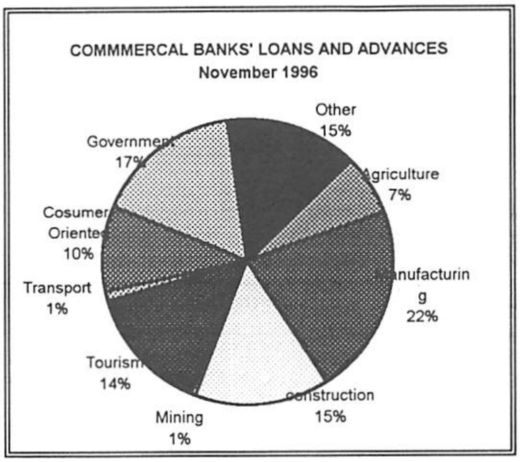
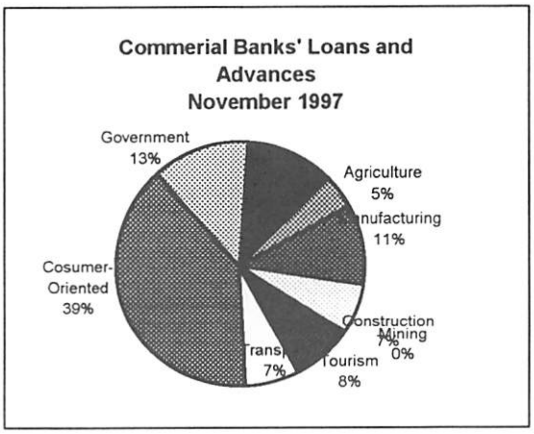



**Figure 5.5**



# MONEY AND BANKING

**Table 5.2**

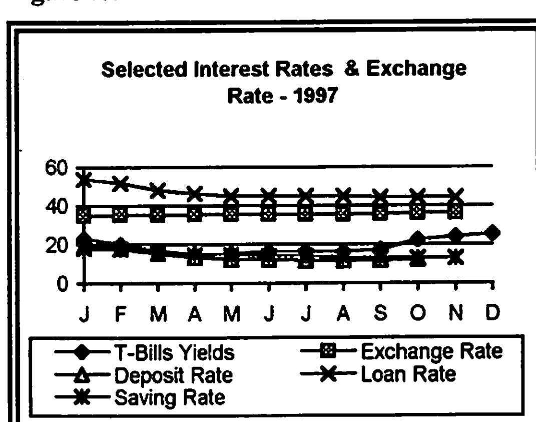
| Loans and Advances by Sector/Share 1996/97 (J$Mn) | | | | |
|---|---|---|---|---|
| | **November 1996** | **Real Share %** | **November 1997** | **Real Share %** |
| Agriculture | 2246.70 | 4.0 | 2524.90 | 4.57 |
| Manufacturing | 7059.20 | 12.55 | 5808.60 | 10.51 |
| Construction | 4890.30 | 8.70 | 3649.00 | 6.61 |
| Mining | 301.20 | 0.54 | 198.9 | 0.36 |
| Tourism | 4654.70 | 8.28 | 4292.60 | 7.77 |
| Transport | 3654.70 | 6.50 | 3840.00 | 6.95 |
| Consumer-Oriented | 23122.50 | 21.12 | 21559.30 | 39.03 |
| Government Service | 5427.00 | 9.65 | 7061.40 | 12.78 |
| Others | 4804.00 | 8.54 | 6306.00 | 11.42 |
| Total | 56233.90 | 100 | 55241.9 | 100 |

## Commercial Banks' Liquidity

Commercial banks began the year with the statutory reserves requirement of 47%, made up of 25% cash reserves and 22% liquid assets reserves. These ratios have been in force since June 15, 1995. The high reserve ratios have been an integral part of the government's high interest rate policy, as they widen the spread between deposit and lending rates. Excess liquidity began the year averaging about 7.0% but fell to an average of 3.0% by October 1997.

Institutions under the Financial Institutions Act (FIA) started the year with a statutory reserves requirement of 35%, comprising 22% cash reserves and 13% in liquid assets reserves. These ratios have been in force since May 1, 1996. These institutions began the year with excess liquidity averaging about 2.5% but they fell to about 1% by June 1997 and have averaged closest 1% up to September 1997.

**Figure 5.6**



# MONEY AND BANKING

**Table 5.3**

| Commercial Banks' Weighted Loans and Deposit Rates | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1995 | | | | 1996 | | | | 1997 | | |
| **Weighted Loan Rates** | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** |
| Installment Credit | 53.3 | 50.1 | 47.8 | 60.93 | 59.66 | 62.46 | 58.03 | 64.09 | 57.53 | 57.78 | 56.65 |
| Mortgage Credit | 10.5 | 24.4 | 25.7 | 25.55 | 25.47 | 26.75 | 25.51 | 21.45 | 10.48 | 14.74 | 14.74 |
| Personal Credit | 47.6 | 47.1 | 47.0 | 50.29 | 49.53 | 50.75 | 50.62 | 47.86 | 43.35 | 39.58 | 38.08 |
| Commercial Credit | 41.2 | 39.1 | 40.6 | 45.12 | 40.97 | 40.05 | 39.77 | 37.11 | 31.94 | 35.01 | 33.01 |
| Local Government and Other Public Entities | 32.0 | 34.7 | 33.2 | 37.41 | 14.77 | 15.66 | 15.00 | 14.21 | 14.65 | 15.89 | 15.85 |
| Central Government | 37.7 | 28.1 | 26.9 | 31.55 | 28.73 | 30.76 | 38.58 | 38.78 | 35.86 | 20.65 | 19.53 |
| Overall Average/ Weighted Loan Rate | 43.5 | 40.9 | 41.4 | 48.56 | 43.86 | 44.23 | 42.74 | 42.16 | 36.09 | 37.54 | 35.02 |
| Overall Average/ Weighted Deposit Rate | 23.0 | 19.4 | 19.7 | 26.22 | 26.14 | 26.04 | 23.73 | 20.79 | 15.47 | 12.46 | 11.80 |
| Average Lending Rates | 48.8 | 48.7 | 48.2 | 55.3 | 55.0 | 59.95 | 58.5 | 55.22 | 47.92 | 44.95 | 44.22 |

## Interest Rates

The declining trend in T-bill rates of late 1996 continued into 1997 and reached a low of 15.0% on average before it began rising again because of pressures on the exchange rate. Although there was a significant fall in T-bill rates, there was not a concomitant fall in lending rates in the commercial banking sector. This was mainly due to the fact that there has not been any relaxing of the government's high cash and liquid assets ratios which have remained in place. However, weighted average lending rates fell from 42.16% at December 1996 to 35.02% at September 1997.

January 1997 yields on T-bills stood at 23.09% and declined to a low of 15.04% in April 1997 before rising again and closing the year at 29.79 in December 1997. The commercial bank deposit rates followed a similar trend, with rates which began the year at 19.38% (Overall Weighted Average) and declined to a low of 11.8% in September 1997 before rising again slightly and closing October 1997 at 12.39%. Savings deposits rates showed a similar trend to other deposits and closed the year at a weighted average rate of 13.02%.

As the inflation rate is holding steady there is hope that both nominal and real interest rates may finally come down to a sustainable and tolerable level. However, if government continues to sub-ordinate growth to exchange rate stability this may not happen for some time yet.

# MONEY AND BANKING

**Table 5.4**

| Stock Market Index (1989 -1997) | | | |
|---|---|---|---|
| **Years** | **Volume** | **Value** | **Index** |
| 1989 | 95,202,452 | 516,456,318 | 2,075.85 |
| 1990 | 57,960,234 | 230,781,846 | 2,539.36 |
| 1991 | 144,259,019 | 1,156,608,055 | 7,681.50 |
| 1992 | 395,900,000 | 4,688,400,000 | 25,475.90 |
| 1993 | 567,454,280 | 8,346,769,977 | 13,099.68 |
| 1994 | 743,793,646 | 5,168,796,309 | 16,676.70 |
| 1995 | 463,050,165 | 3,664,855,984 | 14,266.99 |
| 1996 | 462,883,272 | 4,421,395,416 | 16,615.99 |
| 1997 | 470,353,899 | 4,594,418,368 | 19,846.67 |

## Stock Market Development

In early 1997, the stock market rallied, moving from 16,615.99 points at the end of December 1996 to 17,342.58 points at the end of January 1997. Thereafter, the index settled down and entered a bearish trend and declined to a low of 14,914.92 points at the end of April 1997. From there on, the index rose slowly to close the year at 19,846.67 points recording 19.41% increase over the calendar year 1996.

**Figure 5.7**

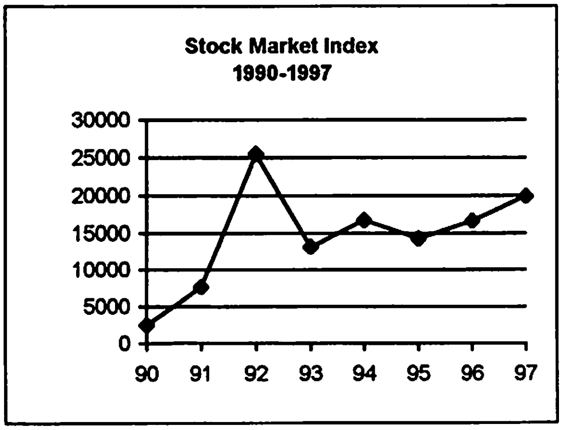
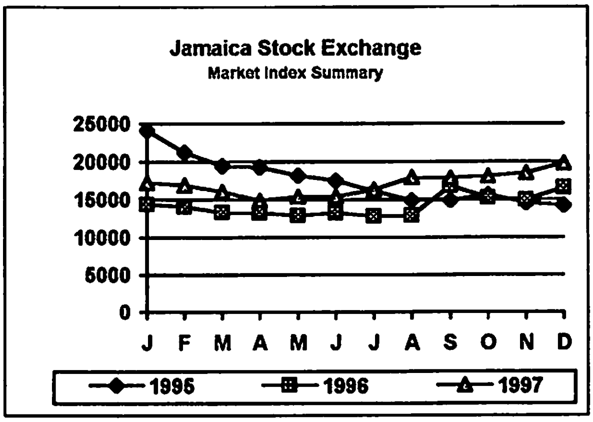



**Figure 5.8**



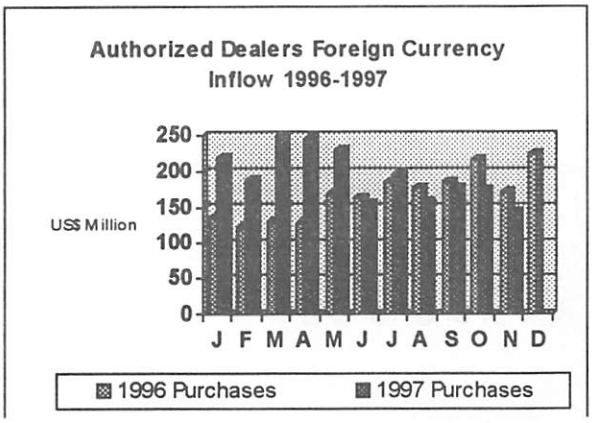

During the year, the volume of shares traded increased by 1.6%, moving from 462.9 million to 470.35 million units. The value also increased marginally rising from J$4.42 billion to J$4.59 billion. From the year's trading, the stock recording the largest price increase was Courts Jamaica Limited (16%), followed by CIBC WI Holdings Limited (15%). Those showing the greatest decline were Kingston Ice (9.4%), followed by Goodyear Limited (4.1%).

# MONEY AND BANKING

## Foreign Exchange Developments

Throughout 1997, the country experienced continued high levels of inflows of foreign exchange into the inter-bank market although purchases on the spot market declined by 25.4%, from US$225.13 million in December 1996 to US$167.88 million in December 1997, and sales in the spot market also declined by 16.9%, from US$217.68 million in December 1996 to US$180.9 million in 1997.

**Figure 5.9**




Foreign currency accounts also showed substantial increases in activity. Monthly lodgments increased by 10.8% from US$654.4 million in December 1996 to US$725.37 million in December 1997, while withdrawals grew by 6.7% from US$626 million in December 1996 to US$ 667.68 million in 1997.

Foreign currency account balances increased significantly growing by US$280.69 million i.e. from US$720.65 million in December 1996 to US$1.0 billion in December 1997. During the year, operations of these foreign currency accounts were affected by two (2) major factors:

a. The fact that 1997 was an election year and there was a lot of talk about an impending devaluation after the election which caused arbitrage seekers to increase their holdings of foreign currency.

b. There was also a measure of currency substitution or unofficial dollarization taking place as people felt safer holding their assets in US$. The year began with the Jamaican Dollar exchanging at J$35.03 to US$1. The currency then came under pressure but major depreciation was prevented by the consistent intervention of BOJ selling hard currency into the foreign exchange market. The J$ ended the year exchanging at J$36.50 to US$1 having depreciated by 4.2% in the course of the year.

## The Financial Sector

1997 was the year when the major problems in the financial sector were confronted by the Government's Financial Sector Adjustment Company (FINSAC). During the year there was a run on the Eagle Financial entities and it was subsequently taken over by FINSAC. The problem in the insurance sector continued and, as part of the assistance process, three (3) insurance companies disposed of their holdings in major commercial banks. None of the commercial banks taken over by FINSAC was closed and there was also a resolution of the Century National liquidation process which

## MONEY AND BANKING

ended with depositors getting back 100% of their money.

The Eagle Financial Network was bought by FINSAC for one dollar. At the time, it had an overdraft with the Bank of Jamaica (BOJ) of J$13 billion which was eventually taken over by FINSAC. In May 1997 Citizens Bank was sold to FINSAC by Life of Jamaica (LoJ) for J$183 million. This was the first apparent separation of Insurance Companies from Banking. The Bank at the time had a net book value of -$400 million. LoJ also sold its 20% stake in CIBC Jamaica for $800 million. It also negotiated another $1.2 billion capital injection by FINSAC in exchange for preference shares.

1997 also saw FINSAC injecting $200 million into Dyoll Group in exchange for 26.5% of the Group's preference shares and two seats on the Board. This was after Dyoll Group had chalked up losses of $211 million in 1996.

After a year of negotiations Mutual Life struck a $10 billion deal with FINSAC. This was in the form of $7 billion in cash and bonds which was used to retire the Insurance Company's overdraft on the books of the National Commercial Bank (NCB) subsidiary. Another $1 billion was for its 43% stake in NCB Group, effectively separating the Bank from the Insurance Company.

## MONEY AND BANKING

On January 22, 1997 both the Securities Commission and FINSAC simultaneously pulled the licence and ordered the closure respectively of Fidelity Finance Merchant Bank. The Bank has had a capital deficiency of J$2.8 million from June 1996.

During 1997, FINSAC also pumped in J$300 million to help Island Life clear its books but did not have to negotiate the separation of the Insurance Company from its banking subsidiary, Island Victoria Bank (IVB) since Island Life had already relinquished control of IVB to Victoria Mutual Building Society (VMBS) which pumped $500 million into the bank to shore up its capital base and save it. The injection gave VMBS 80% ownership of IVB and allowed Island Life to return to policies. The Company also announced plans to sell off over $400 million in assets.

Billy Craig Finance & Merchant Bankers bowed under the pressure of the hostile market environment of 1997. The Montego Bay based operation, as of the end of June 1997, had a short-fall of assets over liabilities of $32 million.

During the early part of 1998 there were three (3) more casualties. Caldon Finance Merchant Bank was the first to go. In February 1998, it was put under temporary management but only after the Chairman of the Bank himself had put the parent group, Caldon Finance Group, into voluntary liquidation.

# MONEY AND BANKING

The Workers Bank was also taken over by the government on February 23, 1998. According to Minister Davies the Central Bank had extended liquidity support of J$4.6 billion to the Bank. The BOJ assessed the group's combined insolvency at J$8 billion, with operating losses of $4.6 billion at December 1997. Also during February 1998, FINSAC merged Horizon Group with Citizens' Bank.

## Outlook for 1998

1998 will continue to be a challenging year for the financial sector. With the very high fiscal deficit, the government will be hard-pressed to continue to control money supply without some major adjustment to the fiscal accounts.

With liquidity reserves still at 47% the tight monetary policy is still in place. Although the Governor of the Bank of Jamaica hinted that the cash reserve ratio would have been reduced during 1997, it did not materialize because of the pressure on the over-valued currency. This still does not look possible if government continues its present policy framework where a stable nominal exchange rate is the center piece of the policy. There will have to be further re-focusing on core business in the financial sector in 1998.

# MONEY AND BANKING

The outlook for money and banking for 1998 will be conditioned by the impact of fiscal policy and the government's desire to achieve a stable exchange rate.

Base money should grow by about 15% during 1998. The components should experience a similar growth rate during 1998. The money supply should continue to grow by about 20% for 1998. This will be due to the fact that by all indications there will be a fiscal deficit which might have to be financed by money creation.

The increase in money supply during 1998 will be mainly driven by credit to the public sector. There will be little increase in credit to the private sector. The other components of money supply will be more or less the same as 1997.

As for loans and advances, consumer oriented loans will continue to take the larger share. Loans to the government service will continue to increase while loans to the manufacturing sector will continue to decline. The overall level of loans and advances will increase marginally in 1998, due to the continued recession in the economy.

The government will continue its high interest rate policy for the foreseeable future. Hence, one can expect interest rates on Government paper to be about 30% and any decline will not come before September to October 1998. Given the high bench mark interest rates, the lending rates in the commercial banking sector will continue to be high during 1998.

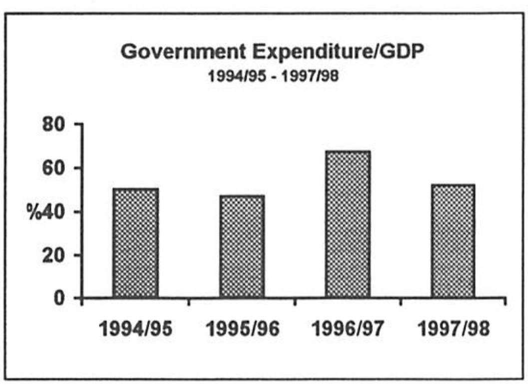
The insurance sector should be out of the woods by the end of 1998 and see some return to profitability. The banking sector will have a much harder time. The fact is banks do well when the economy is doing well and, given that the economy is not expected to do well, the same can be said about the financial sector. ■

# 6. FISCAL POLICY

The 1997/98 fiscal budget was formed with the major objective of supporting the consolidation of the macro-economic stability perceived to have been attained during the previous fiscal year.

The budget proposed expenditure of J$106,591 million, J$8,487.0 million less that the 1996/97 revised estimates. This budget represented 52% of projected financial year (FY), GDP of J$205 billion compared to 56.9% of GDP for FY 1996/97. The size of Government's expenditure as a percentage of GDP has been steadily increasing, moving from 35.94% in FY 1992/93 to 52% in FY 1997/98.

**Figure 6.1**




Recurrent expenditure was projected at J$65.251 billion or 61.2% or the total budget. Of the total recurrent budget, J$44.151 billion is expected to be allocated to programmes while J$21.1 billion will be absorbed by interest payments. Capital spending in the budget is estimated at J$41.339 billion. Of this amount, J$12.33 billion is allocated to capital projects, J$27.816 billion to public debt and J$1.194 billion to be absorbed by the IMF No. 1 account.

The total public debt allocation of J$48.916 billion represents 46.0% of the total expenditure budget. This very high allocation is a direct result of the enormous increases in domestic debt which stood at J$85.156 billion at the end of March 1997.

**Some Objectives And Strategies Of The Budget As Set Out By The Minister Of Finance**

1. To consolidate the gain of reduced inflation and lower interest rates of the previous year.
2. To focus on the development of education in particular, and the social sector in general.

In order to control the increasing debt burden, the following strategies would be used:

a. re-scheduling and re-financing of domestic debt;
b. prepayment of debt where possible;
c. redesigning of existing instruments; and
d. the introduction of new, longer term instruments.

# FISCAL POLICY

**Table 6.1**

| Annual Fiscal Accounts 1994/95 - 1997/98 (J$Millions) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 94/95 | %GDP | 95/96 | %GDP | 96/97 | %GDP | 97/98 | % GDP |
| Revenue | 43,635.7 | 32.1 | 58,081.56 | 34.2 | 63,100.2 | 36 | 48,261.5 | 23.55 |
| Expenditure | 68,383.5 | 50.3 | 81,341.06 | 47 | 118368.1 | 67.4 | 90,625.9 | 44.21 |
| Overall Deficit/Surplus | -24,747.8 | 18.2 | -23,259.5 | 13.7 | -55267..9 | 31.5 | -19,629.4 | 9.58 |
| GDP = (J$Mn) | 136,002.1 | | 169,652.2 | | 175500 | | 204,982 | |
| Fiscal Deficit/Surplus | -4,120.1 | 3.0 | -1,760.19 | 1.04 | -31192.2 | 17.77 | 6,074.8 | 2.96 |

**Figure 6.2**

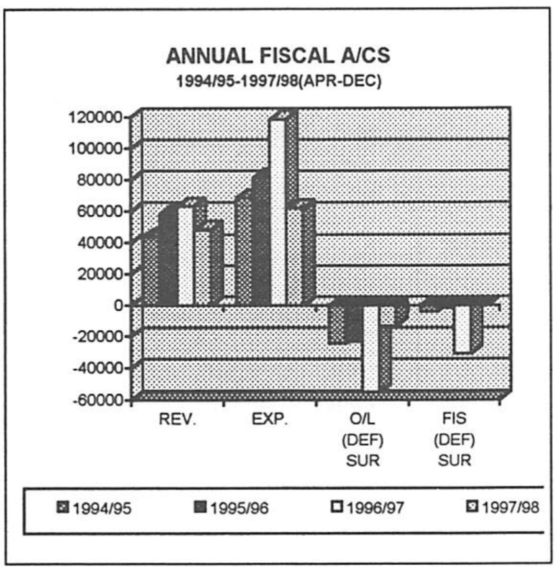
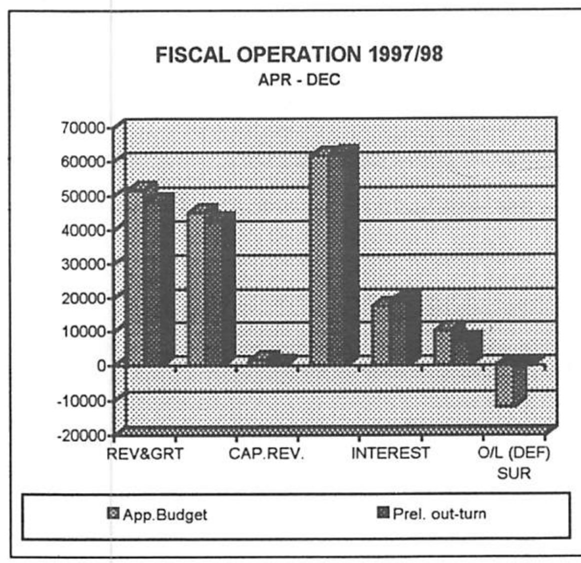



**Figure 6.3**




## Fiscal Accounts And The Budget

The year 1997 saw the continued down-turn in the economy with more companies going out of business, while others were downsizing or operating on significantly reduced margins. The fiscal out-turn to date has been far worse than 1996. While inflation has remained low, interest rates went up sharply in late 1997 and the domestic debt has continued to grow.

During the year the following events affected fiscal performance:

i. The returns from tax collection were below expected/programmed levels.
ii. Expenditure was significantly higher than expected, in particular, interest payments and wages and salaries.
iii. There was a continued fall off in tax revenues from incomes because of the falling profitability in the corporate sector and downsizing in many businesses.

# FISCAL POLICY

iv. There was an increase in internal debt servicing because of the increase in the stock of domestic debt and higher domestic interest rates.

v. Expenditure far out-matched revenue because the latter was less than anticipated and there was not sufficient effort made to reduce spending.

For the first quarter of 1997, total revenue collected was J$16.9 billion representing 14.28% of the total expenditure budget for the FY 1996/97 and 26.75 % of total revenue collected in 1996/97. It was also 0.4 % less than the revenue collected for the similar quarter in 1996.

Total Expenditure for the first quarter rose to J$37.8 billion, an increase of J$24.1 billion or 174.33 % over that of the first quarter of 1996.

This quarter recorded a fiscal deficit of J$14.9 billion coming from a surplus in the similar quarter in 1995. This brought the fiscal balances for FY 1996/97 to a deficit of J$31.1 billion or J$37.3 billion more than the J$3.2 billion Surplus that was registered in the similar period of the previous fiscal year.

**Table 6.2**

| Summary of Fiscal Operations 1997/98 (J$Mn) | | | |
|---|---|---|---|
| | **Actual Apr-Dec 1996/97** | **Approved Budget Apri-Dec 1997/98** | **Preliminary (Actual) Apri-Dec 1997/98** |
| **REVENUE AND GRANTS** | 45,565.7 | 51,615.0 | 48,262.9 |
| Tax Revenue | 40,757.3 | 45,144.8 | 42,553.9 |
| Non-tax Revenue | 1,514.3 | 2,279.0 | 2,413.4 |
| Bauxite (CDF) | 2,043.3 | 1,579.3 | 2,234.0 |
| **CAPITAL REVENUE** | 485.2 | 1,570.9 | 455.9 |
| Grants | 765.6 | 1,041.5 | 605.7 |
| **EXPENDITURE** | 61,854.2 | 61,741.9 | 62,086.3 |
| **RECURRENT EXPENDITURE** | 48,929.5 | 50,425.8 | 54,073.4 |
| Interest | 21,202.2 | 17,552.5 | 19,199.8 |
| **CAPITAL EXPENDITURE** | 8,062.3 | 10,264.7 | 7,122.4 |
| Amoritization | 17,897.6 | 23,457.8 | 22,735.0 |
| **OVERALL DEFICIT/SURPLUS** | -16,288.5 | -11,864.5 | -123.8 |
| **FISCAL DEFICIT/SURPLUS** | -4,881.2 | 252.3 | -6,074.8 |

# FISCAL POLICY

**Table 6.3**

| QUARTERLY ACCOUNTS 1996-1997 (J$MN) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1996 | | | | | 1997 | |
| **Quarters** | **Q1** | **Q2** | **Q3** | **Q4** | **Total** | **Q1** | **Q2** |
| Revenue | 15,464.3 | 15,589.4 | 14682.7 | 16878.1 | 63100 | 16922.1 | 16210.2 |
| Expenditure | 24,252.7 | 27,620.4 | 26147.0 | 37825.6 | 118368.1 | 31126.3 | 31611.1 |
| Overall deficit/surplus | -8,788.4 | -12,031.01 | -11464.3 | -14944.7 | -31192.2 | -4128.0 | -15400.9 |
| Fiscal deficit/surplus | -4,561.3 | -2980.8 | 6601.6 | -5486.5 | -6427.0 | -6766.2 | -1,845.4 |

For the period April to December 1997, preliminary data indicate that actual inflows of revenues and grants amounted to J$48.3 billion which was 6.5% less than was budgeted. Contributing to this was a 5.7% less than programmed realization of tax revenue, a 71% reduction in capital revenue and a 41.8% reduction in grants. Other revenues and grants showed higher than expected returns but this was not sufficient enough to offset the negative effect of the above-mentioned shortfalls.

On the expenditure side, total actual expenditure was 0.6% more than the budgeted amount of J$62.1 billion. Capital expenditure was 30.6% less than budgeted while recurrent expenditure was 7.2% greater than budgeted. This was mainly due to a 7.0% increase in programmes, a 5.5% increase in wages and salaries and a 14.3% increase in interest payment.

There is still a need for government to address the following aspects of its operations as they impact on budget financing. the macro-economic climate and eventually, on investments and GDP growth.

i. In the light of the continued down-turn in the economy and the decline in government's revenue, there is a need for government to downsize its operations and reduce its expenditure.

ii. Servicing the heavy debt has lessened available funds for expenditure on vital areas such as education and training, health and transportation which are essential for maintaining a healthy economy and achieving sustainable development. Steps therefore need to be taken to stop the mushrooming of the nation's internal debt and to lower real interest rates in order to reduce the cost of servicing this debt.

iii. Government must make the effort to put in place a proper budget management information system that can produce data on a timely basis which can be used to facilitate tight and prudent fiscal management.

# FISCAL POLICY

iv. For the past couple of years the projections for revenue collection have been over-estimated; these need to be more modest and realistic in order to prevent the recurrence of large fiscal deficits.

## Outlook for 1998

By all indications, 1998/99 fiscal year will be a difficult one. The estimate of expenditure for 1998/99 is J$130 billion. However, up to the time of writing, the Revenue estimate was not out. The following analysis and forecast are based on the following underlying assumption:

1. Government will continue with its policy of using the interest rate policy to defend the exchange rate within the current band.
2. Government will continue to target low single digit inflation, using a combination of money supply targets and exchange rate policy.
3. The problems in the financial sector will not be completely resolved in this fiscal year.
4. The economy will continue to contract.

With the economy contracting, the government is going to be hard pressed to raise even a half of the estimated expenditure of 1998/99 from tax revenue. This means that they will have to finance the remaining part by borrowing. This will leave the government with the options of borrowing locally and/or internationally.

The Government had initial success borrowing from the international bond market last year but, since then, the international bond market has changed. Given the present crisis in Southeast Asia it will be difficult for the Government to raise the amount of money that will be needed to fill the gap from the international market. This means that a great portion of the borrowing will have to be raised in the domestic market, so local interest rate will remain high, and the domestic debt servicing cost will increase.

Given the foregoing, there will be a fiscal deficit in 1998/99. Hence, the need for the proper conduct of fiscal policy has now assumed critical importance in the administration of Macro-economic policy, as the creation of fiscal surpluses are desperately needed to ease the heavy reliance on Monetary Policy to control inflation. The situation is critical because the heavy use of debt instruments to effect monthly policy is contributing to the worsening of fiscal performance and this is exactly the opposite of what is needed now. ■

# 7. INFLATION

Continuing from 1996 and into 1997, the disinflation policies pursued by the authorities maintained a moderating effect on inflation. Whereas in 1995 and 1996 the inflation rates were 25.5% and 15.8% respectively, this fell to 9.2% in 1997.

This indicates that the Bank of Jamaica's handling of monetary policy is having some measure of success. This policy is underpinned by a moderation in the rate of growth of base money.

While this achievement is commendable, Jamaica's inflation rate is still significantly higher than its trading partners U.S.A (2.4%), U.K. (3.0%), Barbados (2.4%), Trinidad & Tobago (3.6%). Thus there is the need for continued reduction in the inflation rate in order to enhance the competitiveness of Jamaica's productive base.

## Inflation trends for 1997

The monthly inflation rates for the first half of 1997 were well below the targeted 1% per month. For January and February the rates were 0.6 and 0.9% respectively, while for March it was 0.3%, the lowest monthly rate of increase since February 1989. This trend continued through the second quarter of 1997, with an average monthly rate of 0.6%. However, for the July to September quarter, monthly rates rose above the 1.0% target to 1.1% and 1.4% and ended the year with last quarter monthly rates ranging between -0.1% and 0.9%.

In December, there was 0.1% decline in the CPI. This is an unusual phenomenon which last occurred in Jamaica in 1988 and was certainly not expected to occur in December, one of the heaviest shopping months of the year. This fall in inflation in December took the annual rate for 1997 to 9.2%

The containment of inflation for fiscal year 1996/97 to 9.7% as well as to 9.2% for calendar year 1997 is being looked upon as a major achievement of the authorities, especially so, since it comes after four (4) years of trying to get inflation down to single digits.

This out-turn resulted from the declining trend in the growth of inflation which began in mid 1996. While monthly inflation rates for the first five months of 1996 ranged between 1.2% and 3.3%, except for September's 1.1% rate, the rest of the year saw monthly rates below 1.0%. This trend continued into 1997, where except for the uptick in rates in the third quarter, monthly rates were below 1%, culminating in a 0.1% fall in December. Therefore, for fiscal year 1997/98, the out-turn should not be above that of fiscal year 1996/97.

**Table 7.1**

| 1993 - 1997 INFLATION: JAMAICA VS SELECTED COUNTRIES & REGIONS (%) | | | | | |
|---|---|---|---|---|---|
| | **1993** | **1994** | **1995** | **1996** | **1997** |
| Industrial Countries | 2.9 | 2.3 | 2.4 | 2.3 | 2.2 |
| United States of America | 2.8 | 2.6 | 2.8 | 2.9 | 2.4 |
| Developing Countries | 42.7 | 46.8 | 19.8 | 13.3 | 10.0 |
| Asia | 9.6 | 13.4 | 9.2 | 7.9 | 5.8 |
| **Jamaica** | **30.1** | **26.9** | **25.5** | **15.8** | **9.2** |
| Trinidad & Tobago | 11.1 | 8.5 | 5.3 | 3.6 | n/a |
| Barbados | 1.1 | 0.1 | 1.9 | 2.4 | n/a |

# INFLATION

Generally, the monthly, year to date and annual inflation rates are the most frequently used measures of price movements. However, the point to point measure of inflation proves to be more practical, as it expresses the current annualized rate of inflation and forms a continuing connection between the gaps in the annual rates.

The inflation rate for 1995 was 25.5% and the monthly point to point rates during 1996 fluctuated between 31.6% to 19.8%, culminating with the annual inflation rate for 1996 of 15.8% at year-end. Similarly for 1997, while the monthly point-to-point rates ranged between 15.7% and 8.2%, the annual rate was 9.2%, at the end of December.

Although the 'All Jamaica' CPI gives an indication of the overall level and rate of price increases experienced islandwide, this is not representative of isolated sections of the island. Inflation rates tended to vary quite a bit throughout the regions around the island and, at the end of 1997, were higher in 'rural areas' and in the Kingston Metropolitan Area (KMA), than the All Jamaica Index indicated. As a result, the 1997 annual inflation rates for the 'rural areas' was 9.3%, and the KMA, 9.5%. The 'All Jamaica' Index was 9.2% and the rate for 'other towns' was 8.3%, the lowest rate of all.

During the year, inflation was driven in the KMA to a great extent by movements in the prices of 'food and drink' 'fuel and other household supplies', 'personal clothing' and 'miscellaneous expenses'. In the 'other towns', the categories in order of significant impact were 'personal clothing' 'transportation', 'other expenses and 'food and drink'. While in the rural areas, the driving factors were increases in the prices of 'other expenses', 'health care', 'personal clothing', 'food and drink' and 'fuel and other household supplies'.

**Table 7.2**

| MONTHLY RATES OF INFLATION 1994 - 1997 ALL JAMAICA | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan. | Feb. | Mar. | Apr. | May | Jun. | Jul. | Aug. | Sept . | Oct. | Nov. | Dec. |
| **Year to Date** | | | | | | | | | | | | |
| **1994** | 2.4 | 5.8 | 8.2 | 10.2 | 18.8 | 15.3 | 19.1 | 22.1 | 23.3 | 25 | 25.8 | 26.7 |
| **1995** | 1.3 | 2.5 | 3.4 | 4.5 | 6 | 7 | 8.8 | 10.7 | 14 | 17.1 | 20.3 | 25.5 |
| **1996** | 2.69 | 6.06 | 7.78 | 9.22 | 10.50 | 10.92 | 11.69 | 12.62 | 13.89 | 14.50 | 14.98 | 15.8 |
| **1997** | 0.6 | 1.5 | 1.8 | 2.5 | 3.2 | 3.6 | 4.8 | 6.2 | 7.7 | 8.7 | 9.3 | 9.2 |
| **Actual CPI Movements** | | | | | | | | | | | | |
| **1994** | 558.9 | 587 | 590.4 | 601.6 | 616.1 | 629.8 | 650.5 | 666.4 | 673.5 | 682.5 | 687.3 | 692.8 |
| **1995** | 701.1 | 709.2 | 715.8 | 723.5 | 733.7 | 740.9 | 753.5 | 766.4 | 789.2 | 810.3 | 833.0 | 869.3 |
| **1996** | 892.1 | 921.4 | 936.3 | 948.8 | 960.0 | 963.6 | 970.3 | 978.4 | 989.4 | 994.7 | 999.0 | 1006.9 |
| **1997** | 1012.8 | 1022.0 | 1025.5 | 1032.1 | 1039.5 | 1043.4 | 1055 | 1069.3 | 1084.5 | 1094 | 1100.2 | 1099.2 |
| **Monthly Inflation Rates %** | | | | | | | | | | | | |
| **1994** | 2.4 | 3.4 | 2.2 | 1.9 | 2.4 | 2.2 | 3.3 | 2.4 | 1.1 | 1.4 | 0.7 | 0.8 |
| **1995** | 1.3 | 1.1 | 0.9 | 1.1 | 1.5 | 1.0 | 1.7 | 1.7 | 3.0 | 2.7 | 2.8 | 4.3 |
| **1996** | 2.63 | 3.3 | 1.63 | 1.32 | 1.2 | 0.4 | 0.75 | 0.8 | 1.1 | 0.5 | 0.4 | 0.8 |
| **1997** | 0.6 | 0.9 | 0.3 | 0.6 | 0.7 | 0.4 | 1.1 | 1.4 | 1.4 | 0.9 | 0.6 | -0.1 |

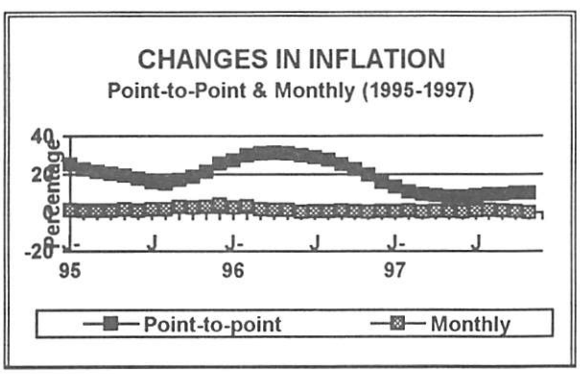
# INFLATION

There are some factors, internal and external to the country, which had significant influence on the inflation out-turn of 1997.

## External

1. Given the continued downturn in the output of the Jamaican economy, higher levels of imports dominated merchandise trade during the year. These imports originating from countries such as the United States, United Kingdom and Canada , with lower inflation rates, had prices which tended to be lower than average local prices which, combined with the softening of local demand, had the overall effect in some cases of keeping prices low, with a similar effect on inflation.

**Figure 7.1**




2. To the consuming public, imported crude, refined oil, liquid petroleum gas (LPG) and other by-products are very essential commodities, whether they are consumed directly as motor fuel, cooking gas or indirectly as electricity or bus fares. In this regard, the movements in fuel prices affect all consumers and are very influential in affecting inflation.

During 1997 while the price of crude oil and LPG to Jamaica fluctuated during the year, prices overall declined especially towards the last quarter of the year. This, together with the relative stability of the J$ to US$ exchange rate, kept fuel prices generally stable, giving a dampening effect on inflation. During 1997, the prices of fuel and other household supplies increased by 7.3% with a 5.7% impact on the annual inflation rate (see Table 7.3).

## Internal

1. Throughout the year, the authorities maintained a fairly tight monetary stance:

a. There was relatively restrained growth in broad money (M2) as well as in base money during the year. Between January and November, M2 and base money grew by 9.7% and 6.3% respectively. By keeping some restraint on the growth of these variables, inflation growth is also restrained.

b. There was aggressive liquidity management which helped to restrain the amount of funds available for expenditure and, by extension, control the growth of overall demand. Although interest rates were reduced by mid 1997, growth

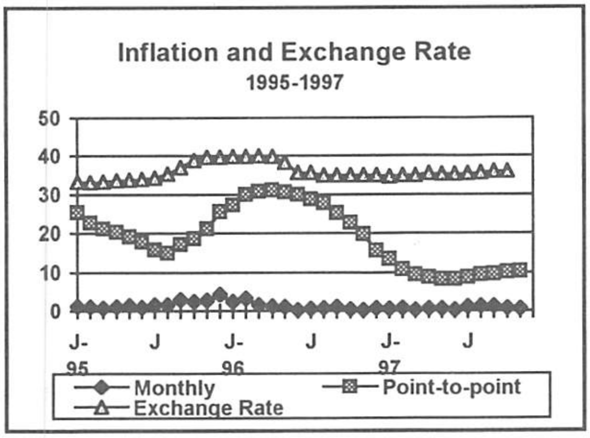
# INFLATION

in loans was not significant since funds were previously locked into long term high interest bearing transactions. This restricted credit expansion. In the latter half of the year, as deposits matured, interest rates began trending upwards and continued so until year end as BoJ increased its open market operations. This activity not only depressed the credit market, but also facilitated Government's garnering a greater share of it.

During the year, credit to the public sector grew by over 200%. This activity should have expanded money supply and in turn inflation. However, the expansionary impact of this was countered by open market operations and by the crowding out of the private sector. During the year, credit to the private sector grew by only 1.8% and commercial banks' loans and advances grew by 8.0% in 1997 compared to 19.0% in 1996.

2. In addition to the above, the labour market remained soft and was characterized by job losses or the threat thereof, which created a low level of consumer confidence as well as a lower capacity to spend thereby weakening demand.
3. As well, the relatively stable exchange rate and more competitive trading environment combined with a loose labour market, served to temper wage pressure and gave rise to moderate to lower levels of wage claim settlements. The cost-push inflationary factors were somewhat restrained.

**Figure 7.2**




4. Throughout 1997, output of the Jamaican economy had fallen and, with it, the overall reduced capacity to spend. This lowered overall demand and fostered lower levels of inflation in the economy.
5. For most of 1997, the island experienced severe drought conditions which impacted negatively on the volumes of domestic and export food crops produced. The decrease in local food supplies was offset by increased food imports. However, the decline in supply of local foods had singly the greatest impact on inflation in 1997, mainly due to the fact that 'food and drink' is the most heavily weighted factor in computing the CPI and therefore quite sensitive to price changes. During the months of July to September, increased food prices brought on by shortages, pushed the monthly inflation rates which were previously well below the 1% levels to 1.1% and 1.4% respectively. Cheaper food imports, however, had a deflationary impact on prices in the latter part of the year and into 1998.

# INFLATION

## The Consumer Price Index (CPI)

The Consumer Price Index is comprised of the following categories:

1. Food and Drink
2. Fuels and other household supplies
3. Housing and other housing expenses
4. Household furnishing and furniture
5. Health care and personal expenditure
6. Personal clothing, footwear and accessories
7. Transportation
8. Miscellaneous Expenses

It should be noted that the 'food and drink' category carries the highest weighting of all the groups (55.63%), so that price movements in this category significantly influence movements in the overall index.

For most months of the year 1997, price movements in the food and drink category effected some level of upward movement in the index. In the summer months, the effects of drought conditions in the farming regions brought on a shortage of food supplies which forced prices up.

Table (7.3) highlights the impact of price increases in the housing, fuel, health care and personal expenses and personal clothing categories on the overall inflation rate for 1997.

## Outlook for 1998

During 1998, the low monthly inflation rates are expected to continue at least up to the end of the 1997/98 fiscal year, so its inflation out-turn would be between 8 & 9%.

However, Government's tight monetary policy is strangling the economy and the negative impact of the excessively high interest rate policy is being realized. So, as the year progresses, interest rates will trend down. Money Supply growth will increase to facilitate growth in money demand and this will have an impact of fueling inflation.

With a fall in interest rates will come some pressure on the exchange rate which, if allowed to run, will fuel some level of inflation also, but BOJ will probably, by way of intervention, control the run on the exchange rate and by extension the inflationary impact.

The year could see a trade off between controlling the growth of inflation, managing the exchange rate and lowering interest rates. This trade-off could see some growth in inflation which could send the rate back to low double digits by year end. The very loose fiscal policy, as evidenced by the large fiscal deficit, also increases the likelihood of higher inflation occurring later in the year. ■

# INFLATION

**Table 7.3**

| CONSUMER PRICE INDEX<br>Percentage Contribution to Inflation 1993-1997 | | | | | | |
|---|---|---|---|---|---|---|
| | WEIGHTS | POINT TO POINT | | | | |
| | | 1993 | 1994 | 1995 | 1996 | 1997 |
| All Groups | 100 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Food and Drink | 55.63 | 63.2 | 61.5 | 65.8 | 47.1 | 58.3 |
| Fuels & Other Household Supplies | 7.35 | 4.6 | 4.8 | 9.2 | 7.6 | 5.7 |
| Housing | 7.86 | 4.4 | 7.2 | 4.2 | 5.0 | 6.3 |
| Household Furnishings & Furniture | 2.38 | 2.2 | 1.1 | 2.4 | 1.6 | 1.8 |
| Health Care & Personal Expenses | 6.97 | 7.0 | 5.3 | 4.5 | 8.3 | 6.1 |
| Personal Clothing & Accessories | 5.07 | 4.6 | 3.3 | 4.6 | 7.0 | 6.0 |
| Transportation | 6.44 | 5.5 | 6.8 | 3.10 | 8.8 | 1.2 |
| Miscellaneous Expenses | 7.85 | 9.0 | 10.3 | 7.0 | 13.1 | 15.0 |
| Annual Inflation Rate | 7.85 | 30.1 | 26.7 | 25.5 | 15.8 | 9.7 |

*Source: PIOJ*

# 8. ENERGY

## International Oil Market

International oil prices fell dramatically in 1997 due in part to rising supplies. OPEC, led by Saudi Arabia, increased its production of crude oil by almost 10 percent during the year to just over 27.2 million barrels per day. A further increase in production has been proposed by these nations in 1998, which implies a further lowering of oil prices especially when the UN-Iraq programme of increased exports of oil in return for more food imports takes effect.

Should prices fall too low, however, there is every possibility that the OPEC producers will try to reach an agreement to cut back production and boost prices. The overall supply of crude oil by all oil producing nations in 1997 was 74.3 million barrels per day.

Speculation of an imminent reduction in the global demand for oil was also a contributing factor to the lowering of prices at the end of 1997. These expectations were fuelled by the economic turmoil in the East Asian region, one of the largest importers of crude oil in the world, and the warmer than usual weather conditions in temperate climate zones. The total demand for oil globally was 73.7 million barrels per day, an increase of 2 million barrels over the previous year's figures.

The price of spot crude averaged about US$19.18 per barrel during 1997 but ended the year as low as US$17.20 in December. The reduction in prices is good news for non-oil producing nations especially the developing countries including Jamaica, who are currently grappling with serious balance of payments problems.

**Figure 8.1**

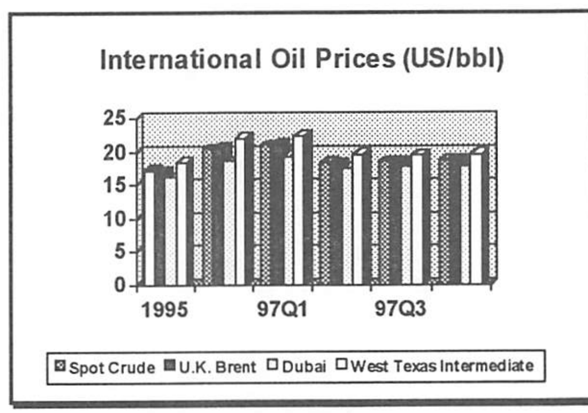



**Table 8.1**

| AVERAGE SPOT PRICES FOR SELECTED CRUDE OILS | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Units(US) | 1995 | 1996 | 1997 | 97Q1 | 97Q2 | 97Q3 | 97Q4 | Dec-97 |
| **Petroleum** | | | | | | | | | |
| Spot crude | $/BBL | 17.17 | 20.42 | 19.18 | 21 | 18.4 | 18.57 | 18.77 | 17.2 |
| U.K. Brent | $/BBL | 17.05 | 20.65 | 19.1 | 21.17 | 18.06 | 18.53 | 18.65 | 17.1 |
| Dubai | $/BBL | 16.13 | 18.55 | 18.1 | 19.31 | 17.52 | 17.67 | 17.91 | 16.31 |
| West Texas Intermediate | $/BBL | 18.32 | 22.05 | 20.33 | 22.47 | 19.59 | 19.51 | 19.75 | 18.16 |
| (Spot crude is an average of U. K. Brent, Dubai and West Texas, equally weighted) | | | | | | | | | |

*Source: IMF Commodities Prices Tables*

"INTEGRITY
PROFESSIONALISM
RESPONSIBILITY"

## *Statement of General Business Principles*

Royal Dutch/Shell Group of Companies

75 YEARS IN JAMAICA

# ENERGY

## Local Consumption

Imports of petroleum products by Petrojam and the bauxite companies in 1997 amounted to US$343.7 million. This was a 6 percent reduction compared to the US$369.2 million spent in the previous year. The reduction in expenditure was due to the decrease in oil prices on the international markets. These entities actually imported 3% more quantitatively in 1997 than in the previous year.

According to preliminary reports, Petrojam's importation of crude oil increased marginally in volume but its bill was 11.8% less than in 1996. The volume imported was 5.1 million barrels, which was valued at just under US$94 million.

Though the overall volume of imports of petroleum products for the year had increased, imports by Petrojam actually declined by 6.5%. This was because of the increase in production by the Petrojam refinery that operated at near capacity for most of 1997. The result was increased production of petroleum products over the previous year in which production was hampered by the major maintenance work that was undertaken on the refinery's storage facilities. These developments combined to result in the reduction in the country's oil bill the first nine months of the review period by 4%.

Jamaican consumers benefited from the reduction in international oil prices through the reduction in billing prices for petroleum products produced by Petrojam. Premium and unleaded gas had price reductions of 5 and 6 percent respectively while LPG prices fell by as much as 19% between January and December.

## Electricity Generation

The Jamaica Public Service Company's generation capacity fell by 4.9% in 1997. The company reported that 645.3 megawatts were generated during operations compared 678.7 megawatts in 1996. This was due to a reduction in the purchases of power

**Table 8.2**

| VOLUME AND VALUE OF PETROLEUM PRODUCTS | | | | |
|---|---|---|---|---|
| | 1996 | | 1997 | |
| | VOLUME ('000 BBLS) | VALUE ('000 US$) | VOLUME ('000BBLS) | VALUE ('000US$) |
| REFINERY | | | | |
| Crude Oil | 5113.6 | 106624.0 | 5131.2 | 93999.9 |
| Refined Products | 6165.0 | 148526.5 | 5412.3 | 119050.7 |
| Sub-total | 11278.6 | 255150.5 | 10543.5 | 213050.6 |
| BAUXITE COMPANIES | | | | |
| Fuel oil | 7490.5 | 114120.1 | 8863.9 | 130722.3 |
| TOTAL VALUE | 18769.1 | 369270.6 | 19407.4 | 343772.9 |

*Source: Petroleum Corporation of Jamaica*

# ENERGY

from private producers, a reversal of the pattern of purchases in 1996 when there was a significant increase in purchases of privately generated power.

JPSCo generated approximately 1.9 million megawatt hours (MWh) of electricity during 1997, while 864000 MWh was purchased from private producers. This resulted in an overall generation of 2,768,388 megawatt hours (MWh), an increase of 8.3% as compared to the corresponding period in 1996.

The sale of electricity rose by 6.3% to 2,281,130 MWh. Sales to all categories of customers excepting "Large Power" had increased, with residential and company customers recording the largest increases. These went up by 6.3 and 13 percent respectively when compared to the same period in 1996. The increase in sales in 1997 was due mainly to the increase in housing developments as well as to the continuation of JPSCo's Rural Electrification Programme (REP).

Despite the increases in output and sales to customers, JPSCo was able to conserve on its own energy use by reducing fuel consumption by 1.9% during the operating year 1997. Fuel consumption totaled 570.1 million litres, down from 580.9 million the year before. This meant a further reduction in their fuel costs, which were already lower due to reduced oil prices on the international markets. Fuel costs fell by 31.3% to just over J$2.5 billion.

Revenues declined by 7.7% with all categories of customers contributing to this reduction. This was as a result of line losses from inefficient transmission, theft and non-billing. Most significant was the 12.2% fall in revenues from residential customers, which raises concerns about illegal connections prevalent in the Kingston Metropolitan region. JPSCo earned just over J$9.3 billion in 1997 compared to over J$10 billion in 1996.

## Significant Developments

The proposed divestment of Petrojam to the Petroleum Development Limited (PDL) was suspended indefinitely when PDL failed to come up with the initial payment of J$59 million as laid out in the 1996 sale agreement between them and the government. As a consequence, the Managing Director Pete Fenton was sent on 'special leave' in March and two interim mangers from the National Investment Bank of Jamaica (NIBJ) have since been in charge of the refinery's operations. The government, according to one of its officials, is now weighing its options and has yet to decide what to do about the ownership of this entity that is again in its control. In the meantime, extensions of the time to pay the required sums of money are currently being sought by PDL. Difficulties with the deal emerged due to requests by PDL's financiers to alter the Memorandum of Agreement that was signed by the government and their client. The government subsequently rejected the requests resulting in the current impasse.

# ENERGY

JPSCo continued its Demand Side Management Demonstration Pilot Project initiated in 1994 in collaboration with the Inter American Development Bank and other international funding agencies. Set for completion in 1998 the program was designed to influence customers use of electricity in ways that will produce changes in the utility's load shape, reduce customers' bills and reduce JPSCo's cost of producing electricity. The main objective of the project is to test and demonstrate the marketing, technical, financial and economic feasibility of implementing cost-effective energy conservation measures in both the commercial and residential sectors. The information acquired through evaluation of demonstration activities will be used to design full-scale sustainable long-term energy efficiency programmes.

The following have been completed as at December 1997:

- 17090 participants have been approved under the Residential Phase 11 Programme.
- Fifteen energy audits have been completed under both the small and large retrofit categories.
- The Cogeneration Policy has been revised and submitted for review of senior management.
- Bakarat and Chamberlain, consultants engaged to undertake the monitoring and evaluation of the Residential Phase II Programme, completed the first round of the process on December 17, 1997.

In October, JPSCO unveiled its new services designed to make payment of bills easier and more convenient for customers. These included an Interactive Voice Response system (IVR), a customer courtesy card and Interactive Telephone System.

## Outlook for 1998

In the international oil markets, the market balance was much improved from 1996 because of higher inventories, rising production and renewed exports from Iraq. Higher production from OPEC and non-OPEC sources is expected to lower prices even further in 1998. The implication for Jamaica is that consumers will continue to enjoy lower fuel prices. The country should also benefit from a lower oil bill, which is good news, given our current balance of payments problems.

The decision not to divest JPSCo came with assurances that the operations of the company will be streamlined to ensure greater levels of efficiency in its operations. Steps were taken in that direction in 1997 with the restructuring exercises that took place during the year. Savings from lower fuel cost should assist the Jamaica Public Service Company in furthering this process by allowing increased capital expenditure to improve the physical aspects of its operations. Given these developments, we can expect better service from JPSCo in 1998 and reduced threat of any significant upward adjustment in electricity rates. ■

# 9. MANUFACTURING

The data for the first three (3) quarters indicates that the sector recorded a decline when compared to the similar period for 1996.

The food processing sub-sector was a major contributor to this decline. The relatively poor performance reflected, among other things, market conditions in which locally produced goods continue to compete in an aggressive liberalized domestic market. This competition has come at a time when the Jamaican dollar is overvalued, thus making imports cheaper than locally produced goods. The high interest rate policy of the Government also contributed significantly to this decline. Also, the extended drought experienced during the first half of the year had a negative impact on the sector, especially sugar production. Whereas the sector is estimated to have recorded an overall decline, a marked improvement was reported for edible oils (25.6%), while the petroleum sub-sector showed an overall improvement.

There have been some initiatives by the government as well as private sector entities to help improve production. These include:

a. lowering the cost of financing by the development banks;
b. continued efforts to encourage firms to embark on modernization programmes;
c. plans to establish industrial parks across the island and most recently, the renewed momentum to advance the anti-dumping legislation.

## Beverages And Tobacco

No data was available for alcohol but all other categories except rum recorded declines during the period. Beer and stout and cigars showed the greatest decline of 17.99% and 23.63% respectively. Carbonated Beverages declined by 2.59% and cigarettes declined by 0.33%.

## Chemical And Chemical Products

All categories with the exception of Aluminium Sulphate recorded a decline during the period. Aluminium Sulphate recorded an increase of 14% while Fertilizers (6.52%), Paint (5.22%), Sulphuric Acid (1.32%) and Salt-NACI (29.7%) all recorded declines.

## Non-Metallic Minerals

This sub-sector showed a mixed performance over the period with Cement production increasing by 1.56% while Glass Bottles production decline by 2.38%.

## Petroleum Products

This was the only sub-sector where all the categories recorded increases. These were Gasoline (34.7%), L.P.G. (11.3%), Fuel Oil (15.99%), Turbo Fuel (21.9%), Auto Diesel Oil (6.04%) and other Pet-Products (10.1%). The major factors which accounted for this improvement were falling oil prices and increasing car imports.

# MANUFACTURING

**Table 9.1**

| Production Of Selected Commodities | | | | |
|---|---|---|---|---|
| **Sub-Sector** | **Unit** | **1996** | **1997** | **1997/96 % change** |
| **Food Processing** | | | | |
| Poultry Meats | '000kg | 51464 | 42545 | -17.33 |
| Animal Feeds | '000kg | 287976 | 296863 | 3.09 |
| Condensed Milks | '000kg | 16079 | 15357 | -4.49 |
| Flour | '000kg | 140626 | 125435 | -10.80 |
| Sugar | '000kg | 236027 | 224232 | -5.00 |
| Molasses | '000kg | 95247 | 82513 | -13.37 |
| **Beverages & Tobacco** | | | | |
| Rum | '000ltrs | no data | 12604 | n/a |
| Alcohol | '000ltrs. | no data | no data | n/a |
| Beer & Stout | '000ltrs | 67974 | 58563 | -13.84 |
| Carbonated Beverages | '000ltrs | 34233 | 32191 | -5.97 |
| Cigarettes | '000 | 1220000 | 1219000 | -0.08 |
| Cigars | '000 | 16335 | 15199 | -6.95 |
| **Chemical Products** | | | | |
| Fertilizers | 'tonnes | 55631 | 52647 | -5.36 |
| Paint | '000ltrs | 10061 | 10024 | -0.37 |
| Sulphuric Acid | 'tonnes | 12278 | 11720 | -4.54 |
| Aluminium Sulphate | 'tonnes | 9871 | 9003 | -8.79 |
| Salt -NaCl | 'tonnes | 17866 | 12822 | -28.23 |
| **Non Metallic Minerals** | | | | |
| Cement | 'tonnes | 556509 | 591235 | 6.24 |
| Glass Bottles | 'onnes | 28400 | 24358 | -14.23 |
| **Petroleum Products** | | **Jan-Sept. 1996** | **Jan-Sept. 1997** | |
| Gasoline | '000ltrs | 105734 | 142422 | 34.70 |
| L.PG. | '000ltrs | 11898 | 13243 | 11.30 |
| Fuel Oil | '000ltrs | 329455 | 382143 | 15.99 |
| Turbo Fuel | '000ltrs | 43156 | 52617 | 21.92 |
| Automotive Diesel Oil | '000ltrs | 147408 | 156308 | 6.04 |
| Other Petroleum Products | '000ltrs | 80756 | 88914 | 10.10 |

# MANUFACTURING

## Manufacturing Exports

The value of exports from the manufacturing sector, such as rum, sugar, cocoa, coffee and apparel for January to November 1997, totalled US$339.87 million, representing a 9.96% decline vis-a-vis 1996. Declines were experienced in every sub-sector except other non-traditional exports, with apparel declining by 6.3%, traditional manufactured exports by 19.29% and other non-traditional exports increasing by 8.7%. The decline in the apparel sector saw total exports moving from US$221.32 million to US$207.41 million, traditional exports moved from US$136.21 million to US$114.18 million and other non-traditional manufactured exports decreased from US$291.7 million to US$266.3 million.

## Outlook for 1998

The overall outlook for the Manufacturing sector for 1998 will be the same as 1997. There is expected to be an overall decline in the sector. The high interest rate policy will continue to induce a decline in investment in the sector. While some companies will continue to look for ways to reduce cost and downsize, others will look outside of Jamaica in order to survive.

Sectoral outlook will be similar to the overall outlook. The Beverages and Tobacco will continue to decline as there is increased competition form imports coupled with increasing production costs and high interest costs. The chemical and chemical products will also continue to decline during 1998. It is becoming increasingly cheaper to import chemical and chemical products as the overvalued currency is causing local producers to become uncompetitive relative to their foreign counterparts.

The output of Petroleum Products should continue to increase and this will be enhanced by rising demand due to the increasing number of cars on the roads and the reduction of world oil prices.

The manufacturing sector will continue to decline in 1998 at a more rapid rate than in 1997. The high cost structure of firms, overvalued currency, high interest rate and a 'charged' industrial relations climate will all contribute to this expected decline. Real interest rates are too high to facilitate the sector's retooling exercise and enhance its international competitiveness. This is made worse by the high cost structure of doing business in Jamaica and an over-valued currency further erodes international competitiveness. The sector is also in need of urgent labour market reforms to add some flexibility to operations. ■

# MANUFACTURING

**Table 9.2**

| Value of Exports from Manufacturing Sector (US$Mn) | | |
|---|---|---|
| | Total | |
| | 96Q3 | 97Q3 |
| **Non Traditional** | **87.6** | **93.7** |
| Processed Foods | 5.4 | 7.5 |
| Beverages & Tobacco | 7.9 | 7.6 |
| Crude Material | 0.8 | 3.4 |
| Animal & Vegetable Oils & Fats | 0.0 | 0.0 |
| Chemicals & Chemical Products | 10.1 | 10.8 |
| Manufactured Goods | 3.2 | 1.6 |
| Machinery & Transport Equipment | 0.9 | 1.2 |
| Miscellaneous Manufacturing (mainly Apparel) | 58.4 | 61.1 |
| **Traditional** | **14.0** | **13.9** |
| Sugar | 5.3 | 4.8 |
| Rum | 8.3 | 8.9 |
| Other Food Products | 0.4 | 0.2 |
| **Total** | **101.5** | **107.6** |

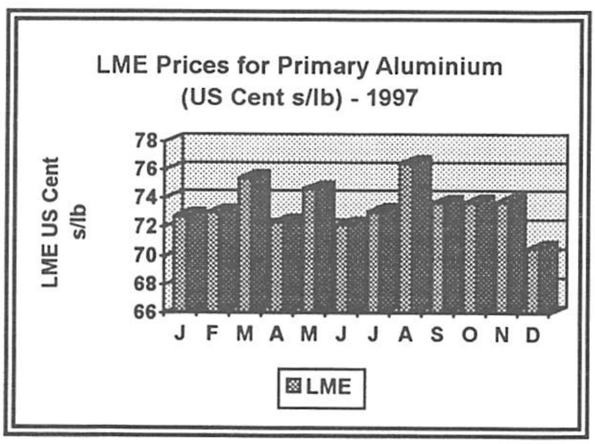
# 10. MINING

## International Metal Industry

The IMF's Indices of Market Prices for Non-Fuel Commodities, Petroleum and Natural Gas showed that the average prices for metal products on the international market increased over the review period. The index rose by over 2 percentage points with the sub-index for aluminium going up almost six points.

On the London Metal Exchange (LME), which determines the prices at which Jamaican bauxite trades, there was a reversal of the fall in the price of aluminium, which occurred in 1996. According to Metals Week Magazine, the average monthly-cash price for aluminium on the LME rose by 6.2% in 1997 compared to the 1996 data. The year-end cash price increased from 68.3 US cents per pound to 72.54 cents per pound.

**Figure 10.1**




The higher prices resulted in part from the world economy's steady recovery from recession in the early 1990s leading to higher demand for consumer durables, such as motor vehicles, that utilize aluminium as a major component.

## Domestic Alumina Production

After a relatively slow start, the bauxite industry ended the year by recording its highest yield ever in its history (since 1952). Alumina output increased by 6%, from 3.2 million in 1996 to 3.39 million tonnes in 1997 according to the Jamaica Bauxite Institute (JBI). All three major alumina companies contributed to the industry's performance by producing at record levels.

There was actually a decline in the production of crude bauxite by 7.12% from 3.9 million tonnes to 3.6 million but total bauxite (crude bauxite + bauxite converted to alumina) went up by 1.34%.

The expansion in production levels led to increased export levels as shipment of alumina went up by 4.95%, from 3.2 million tonnes to 3.4 million tonnes. Exports of crude bauxite, as was the case with production levels, declined by 7.05%. This reduction in crude shipped was again more than compensated for by an increase in the amount of bauxite converted to alumina. This brought the level of total bauxite exported to over 12 million tonnes, a marginal increase of 0.69% over 1996 shipment levels.

Industrial relations played an essential role in the improved performance of the industry, as there was

# MINING

little labour unrest during the year. Three (3) major wage negotiations were completed during the year without any strike.

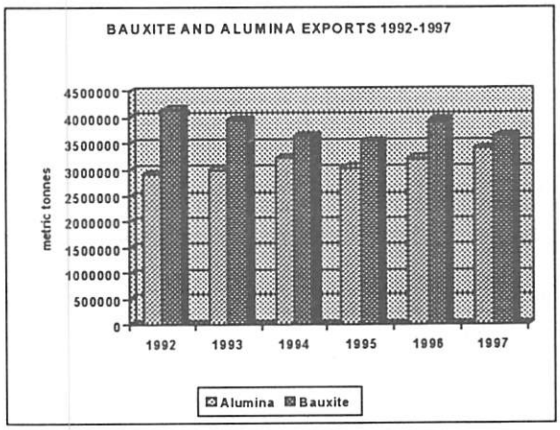
The sector also emerged as a leader in industrial relations in 1997, according to University lecturer Trevor Munroe in an address to the business community in April last year. In his speech, he referred to the productivity incentive schemes at Kaiser and Alpart's approach to cost cutting and stabilization as evidence of their commitment. He went on to mention Alcan's approach in relation to job separation and redundancy as examples of the industry's success in creating an amiable industrial relations environment. The industry also scored high marks for safety in global terms. These developments have contributed to the increase in labour productivity, allowing the plants to operate at close to capacity during the year.

## Foreign Exchange Earnings

Preliminary estimates project that exports of bauxite and alumina earned the local industry a record US$723.4 million, an increase of 4.6% over last years reported earnings. The industry was finally rewarded for its improved production performances in recent years as the market price rose along with output in 1997.

Jamaica retains 40% of the earnings of the bauxite industry. This means that about US$290 million of total earnings goes directly into the local economy to pay for wages, investment and for the Government levy.

**Figure 10.2**




## Outlook for 1998

Consumption growth in Europe and the US should spur prices. However, consumption weaknesses in Asia, because of their recent economic crisis, should result in some uncertainty as to the future direction of prices. Experts, however, predict that the economic fallout of the countries could benefit the world economy by lowering the prices of the goods these countries export. If this materializes, the increased consumerism should serve to push prices of aluminium even further up, a situation that should improve the prospects of the local industry.

Given their successes in recent years the leaders of the industry are proposing substantial capital investment to increase capacity levels in the very near future. They, however, warn that these investment decisions are conditional on the domestic macro economic conditions as well as the industrial relations climate that prevail within the industry.

# MINING

We project that output level should continue to show marginal improvements in 1998 while increased capital investment should ensure the growth and consolidation of the industry well into the next millenium.

Recently, however, the daunting prospect of a pull-out from the country by Kaiser Bauxite has arisen. Kaiser has identified an attractive supply of bauxite and will be taking test shipments by mid-year. If the Jamaican operators cannot return to a reasonable level of profitability then their future could be in grave doubt. Kaiser Jamaica's difficulties also cast doubt on the likelihood of the country attracting the investment that is needed to maintain and expand these facilities and keep them in operation.

**Table 10.1**

| Bauxite/Alumina Production and Export Statistics | | | | | | |
|---|---|---|---|---|---|---|
| **Production:** | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
| Alumina | 2917162 | 2989360 | 3221222 | 3030167 | 3199513 | 3394177 |
| Crude Bauxite | 4131752 | 3938592 | 3628832 | 3532805 | 3924776 | 3645298 |
| Total Bauxite | 11,302,485 | 11,306,485 | 11,571,326 | 10857492 | 11828634 | 11987304 |
| **Exports:** | | | | | | |
| Alumina | 2941441 | 2943345 | 3326305 | 3044590 | 3253072 | 3413959 |
| Crude Bauxite | 4128330 | 3916723 | 3649419 | 3546893 | 3917478 | 3641131 |
| Total Bauxite | 11395486 | 11306558 | 11844392 | 10915596 | 11951723 | 12034691 |

*Source: JBI Economics Division*
Total Bauxite includes shipment and bauxite processed into alumina

# 11. TOURISM

## World Tourism

During 1997, there was continued expansion in tourism activity as international tourist arrivals grew by over 4.0%, slightly below the 5.5% growth in 1996. With world output expected to continue its expansion in 1998, international travel may experience continued buoyancy, with arrivals growing by about the same 4%. However, the global outlook will not necessarily be the same for all individual/regional destinations as risks and fragilities will ultimately affect their outcomes. The main areas of concern relating to prospects over the short to medium term include risks of overheating (U.S.A.), uncertainties about the EU and its economic and monetary thrust, and the sustainability of capital flows to emerging market countries.

The tourism markets are becoming increasingly competitive as the industry is now being regarded as an economic generator to create new employment and income or replace existing or defunct industrial infrastructure. New changes to the tourism product will focus on:

a. developing and maintaining environmentally sound destinations in response to consumers' awareness, concerns and international demands.

b. developing man-made attractions, theme-parks or mega resorts which combine general tourist attractions with entertainment and gaming activities.

c. the development of culturally linked and health focussed products which relate to the significant shift in the age cohorts of world population.

**Table 11.1**

**GROWTH PROSPECTS OF INTERNATIONAL TOURISM**
**WORLD AND REGIONAL PICTURE, 1996 - 1998 - TOURIST ARRIVALS - MILLION**

| Region | Actual Data % Change | | Forecasts | | Yearly Change % | |
|---|---|---|---|---|---|---|
| | 1996 | 96/95 | 1997 | 1998 | 1997 | 1998 |
| Africa | 21.5 | 7.0 | 22.8 | 24.2 | 6.2 | 6.1 |
| Americas | 116.1 | 4.3 | 120.8 | 125.5 | 4.1 | 3.9 |
| East Asia/Pacific | 87.3 | 9.6 | 93.0 | 98.0 | 6.5 | 5.4 |
| Europe | 351.2 | 4.6 | 363.0 | 375.0 | 3.4 | 3.3 |
| Middle East | 14.2 | 4.9 | 15.5 | 16.8 | 9.5 | 8.4 |
| South Asia | 4.5 | 4.6 | 4.9 | 5.2 | 8.7 | 6.1 |
| WORLD | 594.8 | 5.5 | 620.0 | 644.7 | 4.2 | 4.0 |

***Source: World Tourism Oroganisation (WTO)***

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## Caribbean Tourism

Caribbean destinations generally recorded a relatively modest winter tourist season in 1997, although destinations affected during the 1995 hurricane season, mainly Anguilla, Antigua and Barbuda, St. Marteen and the US Virgin Islands reported large percentage increases as businesses returned to normality.

However, a relatively mild US winter and the threatened strike by American Airlines had the effect of decreasing bookings to the region as potential visitors chose domestic destinations as alternatives.

Cruise tourism grew robustly during the winter season and continued through to summer, despite some repositioning to destinations outside the region. The Caribbean cruise market in 1997 accounted for 48.5% of capacity. For 1998/99 considerable berthing capacity is expected to be added most of which is destined for Caribbean waters. So, together with the growth trend in increasing preference for two to five-day category of cruises, this does augur well for Caribbean destinations which feature these packages. The Caribbean Tourism product should therefore be improved to capture and retain this market.

It is estimated that visitor arrivals for the Caribbean grew by about 3% in 1997 with cruise passenger arrivals alone showing close to 10% increase. The Cuban destination continued to show significant growth during 1997.

**Table 11.2**

| TOURIST (STOP-OVERS) ARRIVALS IN THE CARIBBEAN 1997 | | | |
|---|---|---|---|
| **Country** | Period | Tourist Arrivals | Overall % Change |
| **Anguilla** | Jan-Oct | 34,856 | 17.9 |
| **Antigua & Barbuda** | Jan-Oct | 176,099 | 6.4 |
| **Aruba** | Jan-Aug | 442,945 | 5.0 |
| **Bahamas** | Jan-Jun | 908,880 | -3.1 |
| **Barbados** | Jan-Sept | 347,021 | 3.7 |
| **Belize** | Jan-Jun | 48,417 | -1.4 |
| **Bermuda** | Jan-Aug | 263,805 | -5.9 |
| **Bonaire** | Jan-Sep | 48,149 | -3.7 |
| **Cayman Islands** | Jan-Jul | 240,401 | 2.4 |
| **Curacao** | Jan-Aug | 138,877 | -3.0 |
| **Dominica** | Jan-Jul | 39,717 | 2.9 |
| **Grenada** | Jan-Sep | 84,447 | 2.5 |
| **Jamaica** | Jan-Dec | 1,192,194 | 2.6 |
| **Martinique** | Jan-Apr | 242,482 | 13.3 |
| **Montserrat** | Jan-May | 3,103 | -39.9 |
| **Puerto Rico** | Jan-Aug | 689,491 | 13.6 |
| **St. Kitts and Nevis** | Jan-Oct | 67,641 | 1.3 |
| **St. Lucia** | Jan-Oct | 205,434 | 6.3 |
| **St. Maarten** | Jan-Sep | 337,618 | 22.5 |
| **St. Vincent & the Grenadines** | Jan-Aug | 47,123 | 16.8 |
| **Trinidad & Tobago** | Jan-Jun | 163,686 | 25.7 |
| **Turks & Caicos Islands** | Jan-Jul | 56,472 | 0.6 |
| **US Virgin Islands** | Jan- Oct | 410,429 | 11.7 |

# TOURISM

**Table 11.3**

| TOURIST ARRIVALS BY MAIN MARKET - 1997 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Country | Period | Tourists U.S.A. | %Change U.S.A. | Tourists Canada | % Change Canada | Tourists Europe | % Change Europe | Tourists Other | % Change Other |
| Anguilla | J-Oct | 21467 | 20.1 | 1195 | 30.6 | 4166 | 110.8 | 8028 | -8.6 |
| Antigua & Barbuda | J-Oct | 53907 | 9.2 | 14836 | 21.1 | 67168 | 4.3 | 40188 | 1.6 |
| Aruba | J-Aug | 254108 | 1.0 | 17706 | 11.5 | 38192 | 9.9 | 132939 | 11.3 |
| Bahamas | J-Jun | 752970 | -4.6 | 55320 | 2.9 | 61665 | 10.1 | 38925 | 1.6 |
| Barbados | J-Sep | 81322 | -5.7 | 42248 | 6.4 | 158485 | 7.4 | 64966 | 5.9 |
| Bermuda | J-Aug | 214211 | -7.1 | 22363 | -8.4 | 20982 | 6.5 | 6249 | 10.1 |
| Bonaire | J-Sep | 22420 | 3.4 | 627 | -54.3 | 16413 | -3.2 | 8689 | -12.9 |
| Cayman Islands | J-Jul | 181231 | 1.5 | 11204 | 18.5 | 18349 | -2.3 | 29617 | 5.6 |
| Curacao | J-Aug | 19703 | -1.3 | 1235 | -38.8 | 48901 | -4.2 | 69038 | -1.5 |
| Dominica | J-Jul | 9300 | 4.9 | 1192 | 4.9 | 7617 | -0.1 | 21608 | 3.1 |
| Grenada | J-Sep | 22551 | -3.0 | 3745 | 14.5 | 27944 | 1.1 | 30207 | 6.9 |
| Jamaica | J-Dec | 804361 | 3.9 | 99226 | -2.9 | 210632 | 1.1 | 77975 | -0.1 |
| Montserrat | J-May | 834 | -52.8 | 198 | -50.2 | 549 | -41.0 | 1522 | -22.5 |
| Puerto Rico | J-Aug | 571.068 | 12.8 | 7186 | 12.8 | 21841 | 7.7 | 89396 | 20.0 |
| St. Kitts & Nevis | J-Oct | 30808 | 5.3 | 6083 | -14.1 | 10337 | 8.6 | 20413 | -2.3 |
| St. Lucia | J-Oct | 61195 | -4.9 | 12974 | 52.5 | 79315 | 17.6 | 51950 | -1.9 |
| St. Maarten | J-Sep | 140594 | 36.5 | 17262 | 91.3 | 95668 | 9.7 | 84094 | 10.1 |
| Trinidad & Tobago | J-Jun | 58624 | 30.4 | 19182 | 6.8 | 37243 | 44.4 | 48637 | 17.0 |
| St Vincent & G'dines | J-Aug | 14373 | 23.3 | 3332 | 22.2 | 13496 | 6.6 | 15922 | 16.8 |
| Turks & Caicos Is. | J-Jul | 40489 | 0.5 | 6400 | -3.1 | 4323 | -13.9 | 5062 | 24.7 |

## Jamaica's Performance in 1997

During 1997, the tourism sector survived the harshness of and depression of the local economy and managed to show some growth in its overall performance. This resulted mainly from increased visitor arrivals and expenditure. There was a 4.6% overall increase in arrivals, that is stop-over and cruise passengers. The estimated visitor expenditure for 1997 was US$1.140 billion or 4.4% above earnings for 1996. The sector therefore, continues to be the country's largest earner of foreign exchange. Factors influencing this outcome were:

a. There was increased numbers of visitors to the island both as stop-overs as well as cruise passengers.

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b. Although the average length of stay for stop-overs fell marginally from 10.8 to 10.7 nights - their average estimated expenditure improved to US$91.5 daily for winter rates and US$85.5 daily for summer which should have resulted in a higher level of spending.

c. While the growth in stop-over visitors was just 3%, cruise passengers visiting rose by 8.2%. With an estimated expenditure of US$85.4 daily, which almost equals that of stop-over visitors, this should have led to increased sector earnings also.

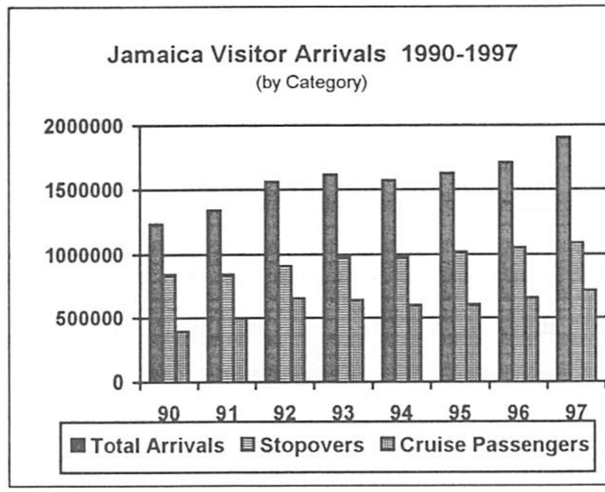
## Visitor Arrivals

The sector, during 1997, recorded an increase in total visitor arrivals of 4.6% or 83,266 more arrivals than in 1996 when a 3.9% growth was experienced.

Total arrivals (non-nationals and nationals) for the year saw 1,903,893 persons visiting. This comprised stop-overs of 1,085,399, cruise ship passengers of 711,699 and nationals 106,795. These figures represent increases of 3.1%, 8.1% and a decline of 2.3% respectively in these categories when compared with the 1996 figures.

A significant boost to the arrivals figures was the strong growth in cruise passenger visitors. The year saw a five percent (5%) growth in cruise ship calls and an eight percent increase in cruise passenger arrivals. This gave Jamaica an increased share in this international market which, since 1996, has continued to experience robust growth. 1997 saw cruise ship passengers surpassing the 700,000 mark for the first time. The port of Ocho Rios welcomed

**Figure 11.1**




the greater portion of cruise visitors which rose by 17% compared with 1996, to 532,408. Cruise ship calls also rose by 13%. Montego Bay experienced an 11% fall in cruise passenger arrivals and a 3% decline in ship calls.

The growth in stop-over visitors to the island in 1997 was 3.0%, indicating a declining growth trend when compared with a 3.4% growth rate in 1996. Stopover arrivals for the 1997 winter (January to April) saw no growth, however there was improved performance in the May to December period when 4% growth was recorded.

Stopover arrivals from major markets showed overall growth. There was a 3.9% increase from the USA, 1.1% from Europe/UK and 10.5% from Latin America. Deteriorating economic conditions in Canada and Japan led to a 2.9% and 29.2% fall respectively in arrivals from those countries.

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During the year, there was a 2.3% fall in the number of non-resident Jamaicans visiting. This, following a 14.6% fall in 1996 for this category of visitors, indicates a continuing decline in the number of Jamaicans visiting home.

## Developments in the Sector during 1997

The infrastructural support to the tourist sector continued, in 1997, to be highlighted as needing drastic overhauling and upgrading. During the year, work continued, albeit hampered by industrial action, on the sewerage systems in Negril, Montego Bay and Ocho Rios. Work on upgrading the water supply systems in these and other areas as well as on the facilities at both international airports was also undertaken. However, many of these projects were plagued with various problems which hampered their smooth operation and scheduled completion. This caused major disruptions in towns and cities and the creation of conditions not conducive to the growth of the industry.

The anti-harassment programme initiated in 1996 and continued into 1997 was not successful during the year in stemming this scourge on the industry. As tourist harassment continues and escalates, the problem is being regarded as a serious deterrent to growth in the local industry.

The travel advisory posted on Jamaica by the U.S.A., following on the US Ambassador's frank and forthright criticisms re the heavy pollution of Jamaica's coastal waters, could have had damaging

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effects on the industry. However, it also awakened the sector to focus on the urgency of effecting corrective actions to the problem.

Jamaica ranked number two (2) in the world as a honeymoon destination during 1997. It also had an inaugural visit from the megaliner 'Enchantment of the Sea'. The liner brought 3,000 passengers to Ocho Rios in October 1997. There was also a dispute between the cruise-shipping interests and the Government re the effect of the head-tax on the cruise sector. This brought an adjustment in the rates.

There was a call for a review of Government's policy re the use of casinos in the industry as an added attraction to improve sector earnings. Increased expenditure was undertaken during the year to advertise the Jamaican tourist destination, sensitize Jamaicans to the importance of the industry to them, while encouraging their participation, care and nurture in all aspects of the industry.

## Outlook for 1998

Failure to make significant improvements to the tourism product, eradicate harassment, successfully complete the strangling infrastructure works in the major tourist resorts, and clean up the pollution of the marine environment, will condemn the industry to stagnation, decay and decline. Thus in 1998, if those problems remained unsolved, the result could well be just a marginal increase in visitor arrivals and earnings over the 1997 figures.

For 1998, there are, in the pipeline, proposals to construct a number of hotels around the island. Only one or two will come on stream for 1998 but a couple more should be operational by 1999 providing the industry with additional rooms.

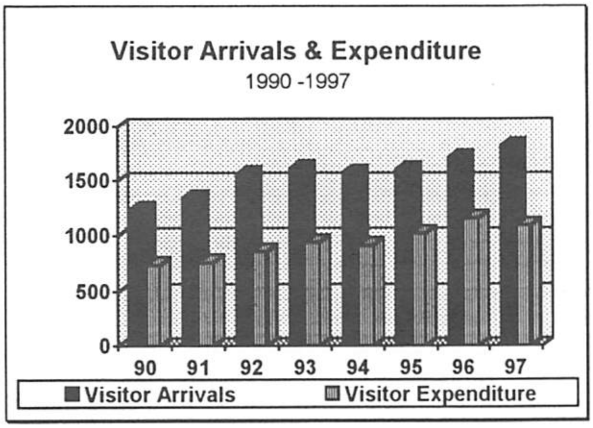
The Jamaican tourist industry has come to be regarded as the country's major foreign exchange earner, boasting a number of regionally comparable advantages. It should therefore in 1998 be focussing on implementing projects aimed at:

a. providing new rooms while aggressively marketing its current capacity so as to maximise returns from them;
b. developing sports-related tourism products; and
c. focusing on developing the vacation/retirement/health aspects of tourism, using to greater advantage, the country's ambiance, climate and skills of its people to enhance the implementation of these ventures.

As world trade liberalization becomes more entrenched, the country will experience greater shifts to and reliance on the services sectors of the economy to earn the bulk of the foreign exchange needed for BOP purposes. The tourism sector could be the major service sector for filling this gap, so the thrust towards structural and purposeful development of the sector should have taken off already.

# TOURISM

**Figure 11.2**




In 1998, the tourism sector will continue to struggle to maintain profitability as the overvalued Jamaican dollar continues to squeeze margins in the industry. The deteriorating economic situation will put increasing pressure on the tourism industry, as the actions of unemployed workers add to the problems of tourism harassment.

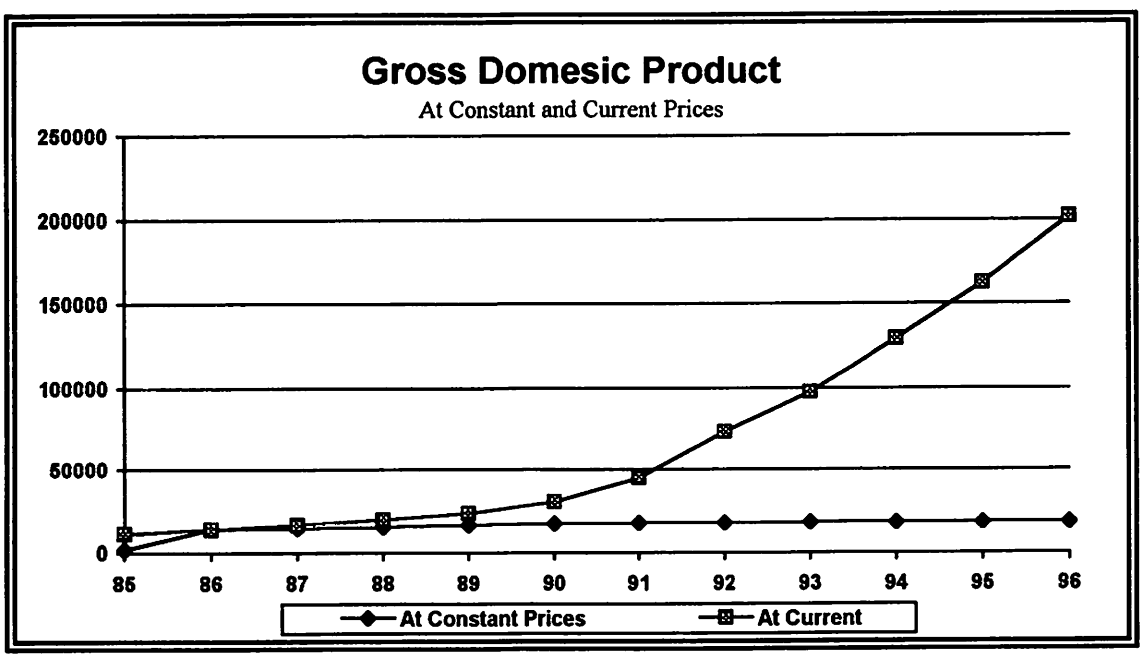
# 12. GRAPHIC ECONOMIC DATA

**Table 12.1**

| COMMERCIAL BANKS' LOAN AND ADVANCES BY SECTOR (1992 - 1997) J$ MILLION | | | | | | |
|---|---|---|---|---|---|---|
| LOANS | **1992** | **1993** | **1994** | **1995** | **1996** | **1997** |
| AGRICULTURE | 1,117.1 | 1,416.7 | 2,038.5 | 1,879.0 | 2,251.6 | 2,551.6 |
| MANUFACTURING | 2,119.9 | 3,027.0 | 3,867.2 | 6,092.6 | 7,314.2 | 5,882.7 |
| CONSTRUCTION | 2,473.9 | 3,321.1 | 4,616.1 | 5,587.3 | 4,758.0 | 3,983.9 |
| MINING | 73.4 | 118.1 | 236.4 | 354.1 | 320.7 | 219.1 |
| TOURISM | 1,027.8 | 2,000.1 | 2,912.1 | 3,830.4 | 3,811.2 | 4,333.4 |
| TRANSPORT | 1,137.7 | 2,163.6 | 3,026.9 | 4,399.9 | 4,682.2 | 3,853.0 |
| CONSUMER-ORIENTED | 4,497.7 | 9,181.1 | 11,318.1 | 17,633.4 | 21,551.2 | 22,223.0 |
| GOVERNMENT SERVICE | 813.2 | 1,299.4 | 2,674.3 | 3,353.0 | 5,176.3 | 8,736.3 |
| OTHERS | 834.4 | 1,087.7 | 1,604.8 | 2,734.5 | 4,855.5 | 7,308.8 |
| TOTAL | 14,095.1 | 23,614.7 | 32,294.4 | 45,864.2 | 54,721.0 | 59,091.8 |

*Source: Bank of Jamaica*

**Figure 12.1**



# GRAPHIC ECONOMIC DATA

**Figure 12.2**

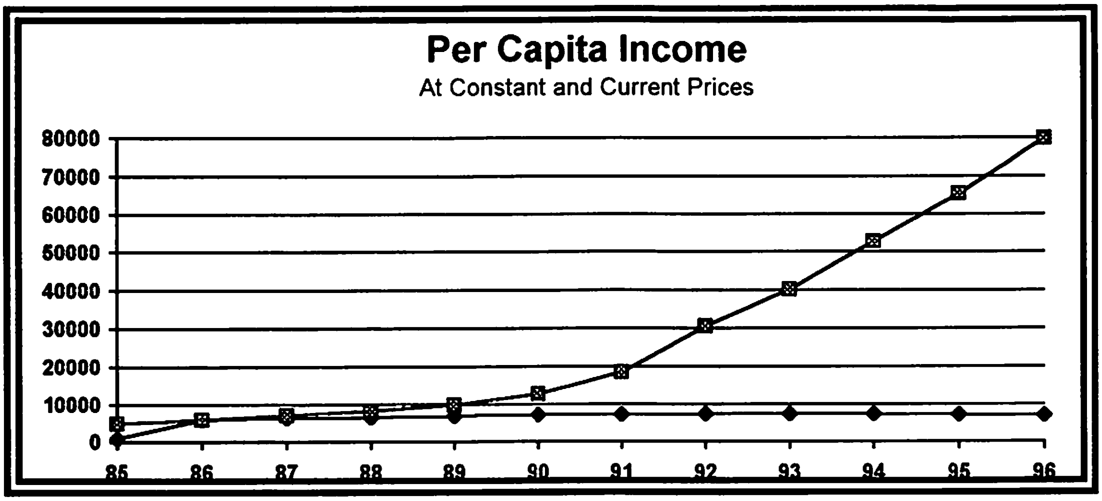
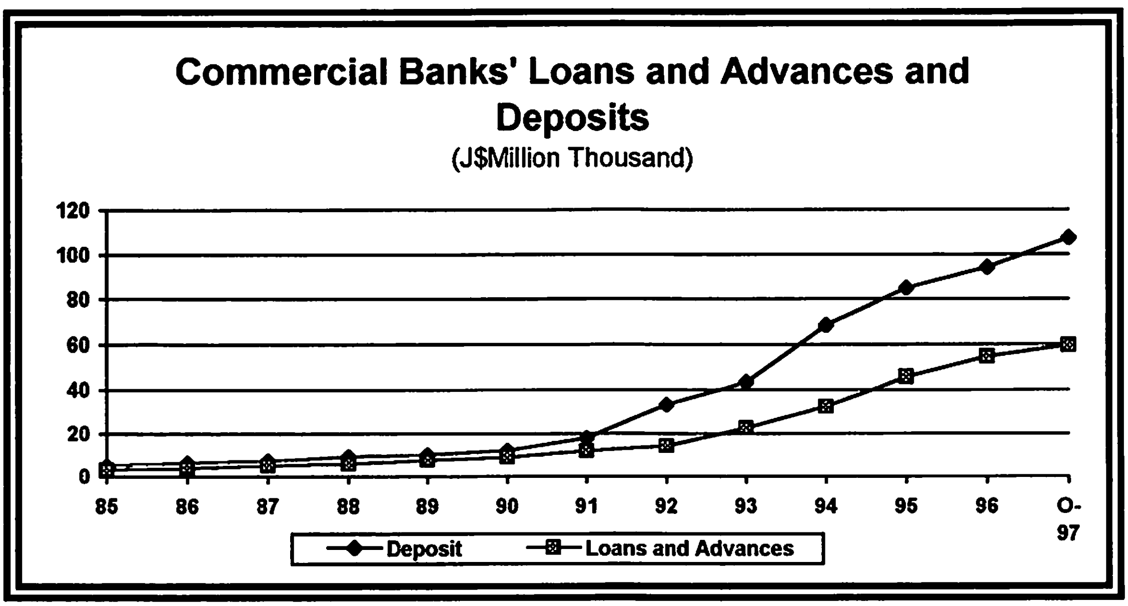



**Figure 12.3**



# GRAPHIC ECONOMIC DATA

**Figure 12.4**

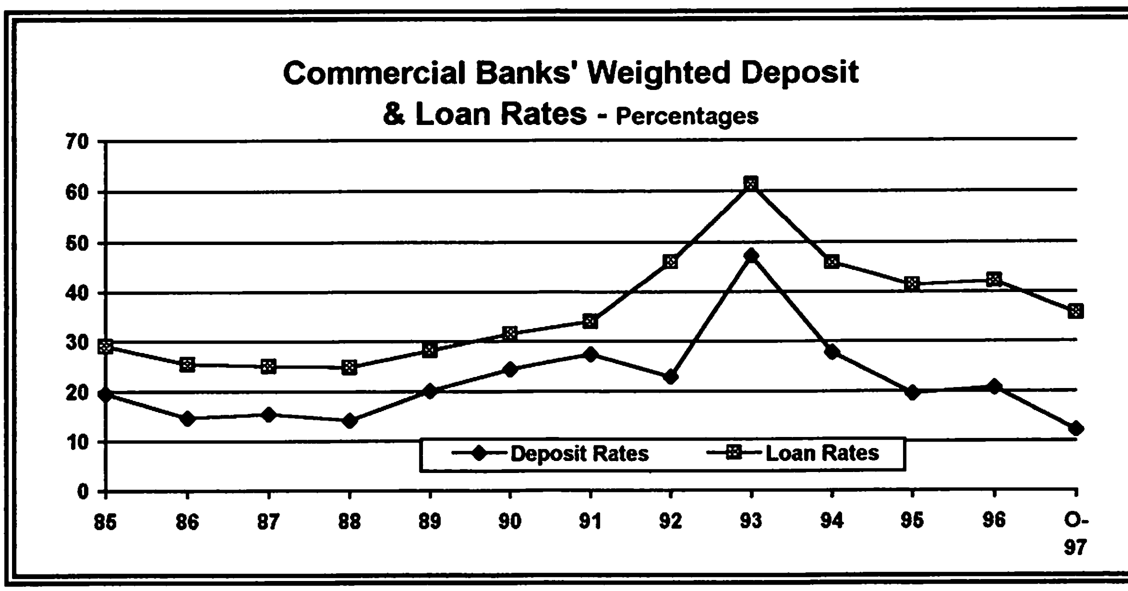
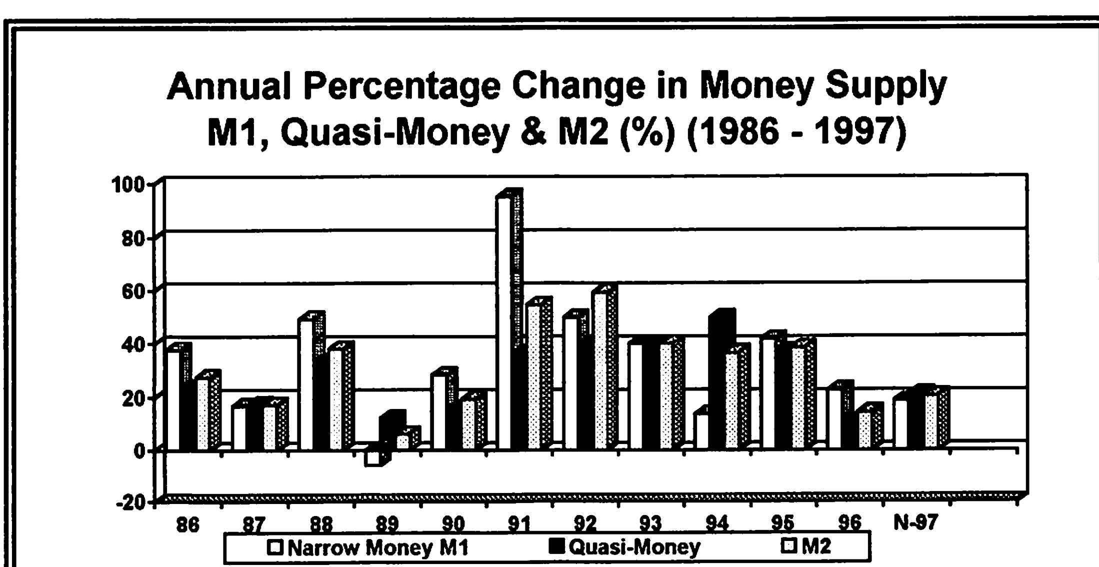



**Figure 12.5**



# GRAPHIC ECONOMIC DATA

**Figure 12.6**

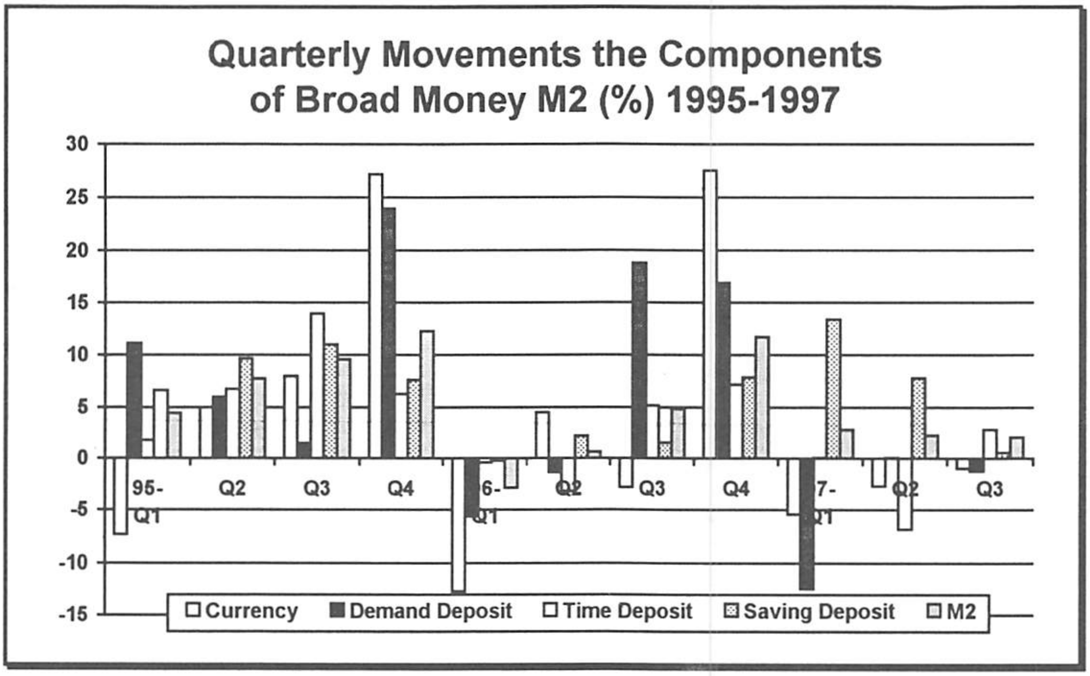
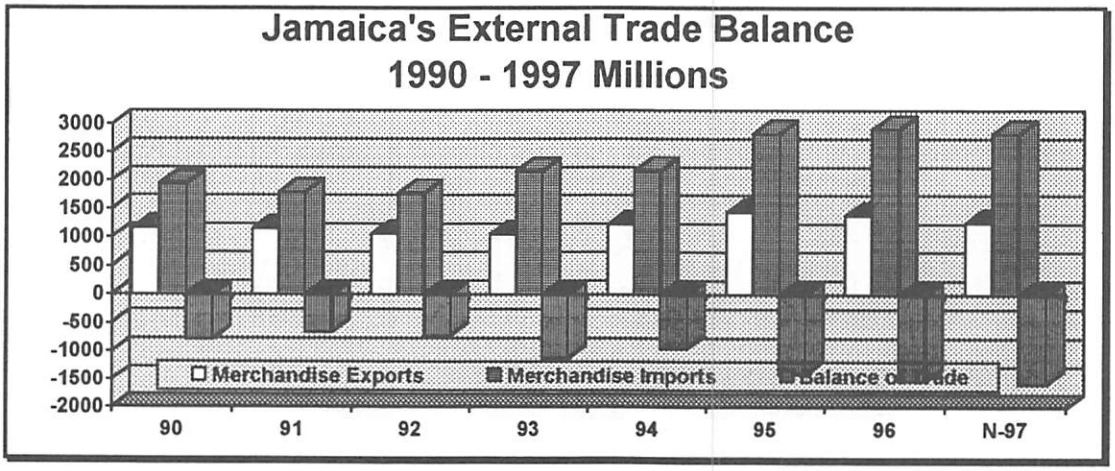
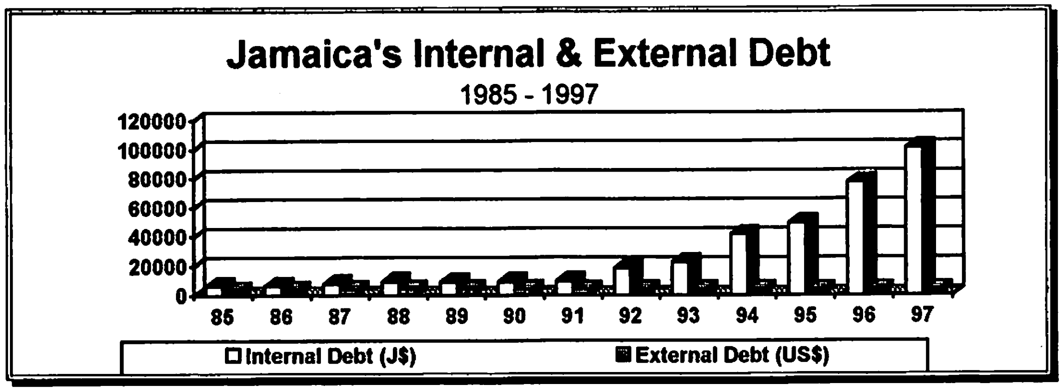



**Figure 12.7**

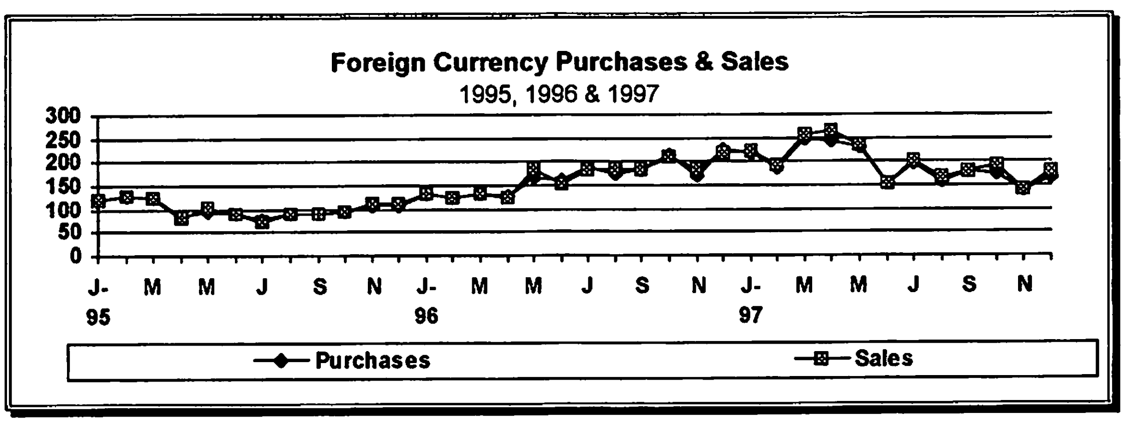


# GRAPHIC ECONOMIC DATA

## Figure 12.8




## Figure 12.9




## Figure 12.10