

New Confidential Economic Bulletin

Private Sector Organisation of Jamaica

Monthly Analysis of the Jamaican Economy

Vol. 4 No. 1, October 1998

CONTENTS

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

Overview

Despite the private sector press conference, the cabinet retreat, and the flurry of meetings and announcements which have taken place since then, the government has given no indication of its intention to change its policy direction in a meaningful way. Treasury Bill rates have crept back up above 24% and base money growth has fallen to 5.7%, just a

little over half the rate projected rate for as long as possible, but do at the time of the budget debate not wish to run down the reserves in April 1998. The monetary too much, as they view the NIR as screws are being tightened even a key factor in their return to the as the fiscal accounts worsen, the international debt market. The exact opposite of what should be plan is to sell some assets quickly, happening, if the economy were for hard currency, and to use the being positioned for recovery proceeds to tide them over until and growth. If the figures for the some time next year when they first half of the 1998/99 fiscal can again raise capital year are anything to go by, the internationally, even if it is at fiscal deficit at the end of this extremely high rates of interest. year, will probably be There are of course no guarantees somewhere between 11-13% of that the international market will GDP. This projection will be any more receptive to probably entail the deferment of emerging market debt next year, quite a bit of expenditure and than it was this year, and with our does not include the interest on rapidly deteriorating fiscal the FINSAC debt. position, there is certainly no

guarantee that having some The authorities realise that their foreign reserves will impress the most immediate problem is the market.

gap in the foreign exchange

market that has been created by There is also the small matter of the shortfall in government the large size of the foreign borrowing on the international financing gap that will need to be capital market. They are caught filled if the government's policies on the horns of a particularly remain in place unchanged. The sharp dilemma, as they wish to IMF has projected that for the maintain the present exchange years 1998, 1999, and 2000, this

financing gap will be US\$115million, US\$648m and US\$1,049m respectively. It is going to take an awful lot of asset sales and foreign borrowing to close these gaps over the next 2 years. Apart from the major external imbalances that will be created by continuing with the present policy mix, there will of course be the rising social and economic cost of the business failures and redundancies that will flow from maintaining the high interest rate policy.

In the short term, the BOJ will face some hard choices as the daily volumes of hard currency traded on the interbank market have fallen substantially in recent weeks. The BOJ has reduced the amounts that it sells into the market and this has led to a widening of the spread between the weighted average rate and the rate at which large volumes of hard currency trade. This rate has slipped to between J\$38-38.50:US\$1.00 and may slip further if sales volumes do not increase soon. The period between now and Christmas is one in which the demand for foreign exchange is usually quite high, as merchants stock up for increased consumer spending over the Christmas season. It has been suggested that the BOJ have abandoned the J\$36.50 peg and are now targeting J\$37.00 as the rate which they wish to support. Their intervention

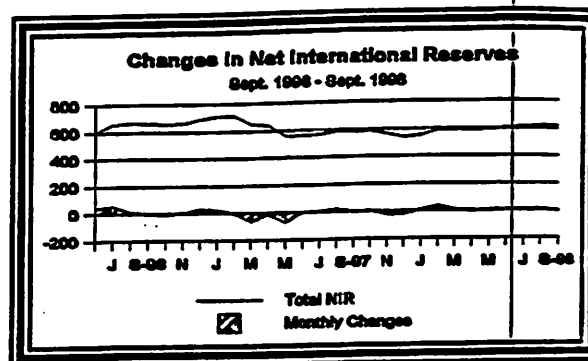
rate (at which they sell into the unchanged from August 1998 to market) has been rising slowly September 1998. but steadily and is now at J\$36.75:US\$1.00.

The bottom line of all this is that there is unlikely to be any ease in the severe pressures that companies in the productive sector are experiencing at present. Those involved in export activity will continue to find it most difficult of all, but the slippage in the exchange rate may give them some slight relief.

Net International Reserves

The month of September 1998 saw Net International Reserves (NIR) falling marginally by US\$2.27 million outcome to US\$616.94 million. This however, marked an increase of US\$66.01 million since the start of the year and US\$31.44 million over the September 1997 period.

The fall in the NIR at the end of September 1998 is as a direct result of the Central Bank's deliberate intervention in the foreign exchange market through authorized dealers and cambios. As a result gross foreign assets fell by approximately US\$2.3 million with gross foreign liabilities remaining relatively

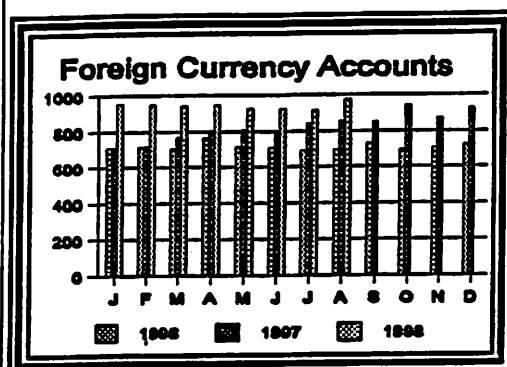


The current level of NIR has the capacity of supporting 12.55 weeks of the country's imports based on projections for the fiscal year 1998/99 compared to 12.59 weeks in August 1998. We expect the reserves to fall further as the BOJ has continued its interventions in the Foreign Exchange market.

Foreign Exchange Accounts

The preliminary figures for the stock of funds in foreign currency accounts at the end of August 1998 stood at US\$973.89 million or US\$59.94 million over the previous month's balance. For the second quarter of 1998 the stock of funds in the foreign exchange accounts have shown a decline of US\$24.81 million compared with a rise or fall of US\$9.88million for the first quarter of 1998. This could signal

a shift of funds off-shore or into other non-banking assets.



Exchange Rates

The Jamaican dollar continued to undergo further pressure during the month of October 1998 all as a result of the tightness in both the local and international capital markets. The weighted average selling rates of the Jamaican dollar vis-a vis its US\$ trading partner as at 2nd November 1998 stood at:

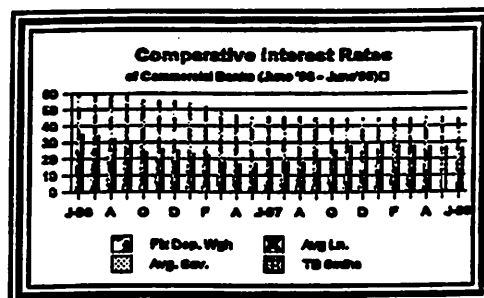
- J\$37.17 to 1 US\$
- J\$23.68 to 1 CD\$
- J\$61.91 to 1 pound sterling

The BOJ has reduced the level of their interventions in the Foreign Exchange market and the daily traded volumes have fallen quite significantly.

Interest Rates

For the month of October 1998 30 day repo rates remained unchanged at 22% as was the case since August 1998, although the Bank of Jamaica has broadened its menu to include 7 and 15 day instruments at rates above the 30 day repo rate.

Average Lending rates for September 1998, by the commercial banking sector continued to be high, inching up by 0.05% point to 40.33% over August 1998 outcome, although being 3.89% points below the same period last year.



September 1998 showed the average savings rate falling by 0.06% points below August 1998 results to 13.02%, the same level that was achieved for the corresponding period last year.

The result of the latest T-Bill offered in October 1998, was as follows:

- The offer of J\$650 million for 182 days was over-subscribed by J\$929.3 million and yielded 24.14% on average.

The result of the investment debenture issue (Series E) which closed October 23, 1998 was as follows:

The country's current LRS and T-Bill issues outstanding topped J\$100 billion reflecting the amount of credit necessary to finance the fiscal deficit.

Inflation

For the month of September 1998, inflation, as measured by the Consumer Price Index (CPI), fell by 0.9% point below the August 1998 outcome to 0.1%. The inflation rate for the first nine (9) months of 1998 stood at 6.2% compared to 7.1% for the same period last year. The point to point inflation rate for September 1998 was 8.4% compared to 9.6% for the corresponding period in 1997.

The driving force behind the fall in inflation is the contraction in base money growth over the August 1998 to September 1998 period. It should be noted, however, that effective November 1st 1998 the Bank of Jamaica's cash reserve ratio will be lowered by a further

2% points. This may effect a one shot increase in money supply which could lead to a jump in the inflation rate for the December 1998 period.

Base Money

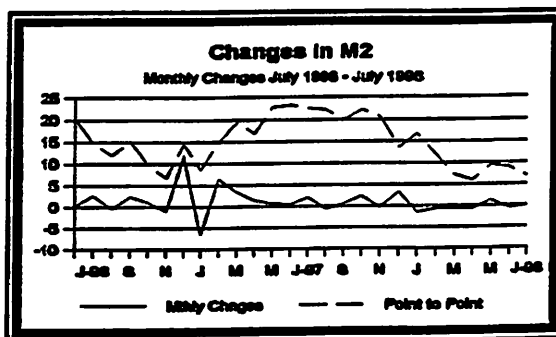
Preliminary figures for the stock of base money at the end of September 1998 showed a 0.2% increase over August 1998 result to J\$35,036.10 million. This represents an overall 1.3% increase since the start of the year relative to the 6.5% increase over the same period in 1997. The point to point movement in base money increased by 5.7% for September 1998, as compared to a 19.2% increase for the September 1997 period.

The marginal increase for September was projected as a result of seasonal demand for money. However, the Bank of

above. This tight monetary stance will persist if and only if the fiscal account is kept under tight scrutiny.

Money Supply

July 1998 saw a 0.23% increase in money supply (M2) following this amount 51,994,851 kWh on the 0.7% contraction of June represented purchases from 1998. The net effect resulted in a 2.74% increase since the start of the year compared to a 12.2% increase over the same period last year.



The significant contraction in M2 growth over the first seven (7) months of this year compared to the same period last year, serves as a good indicator of governments tight monetary regime. Which has depressed investment and stagnated growth through higher interest rates. The governments intention to now lower the cash reserve ratio has to be ongoing in order to generate the level of interest reduction necessary to stimulate investment in order to attain economic growth.

Production of Selected Commodities

Energy: Net generation of power by the Jamaica Public Service Company Limited (JPSCo) stood at 242,668,116 kWh for the month of September 1998. Of this amount 51,994,851 kWh on the 0.7% contraction of June represented purchases from 1998. The net effect resulted in a 2.74% increase since the start of these purchases by the JPSCo came from RFPP-JPPC.

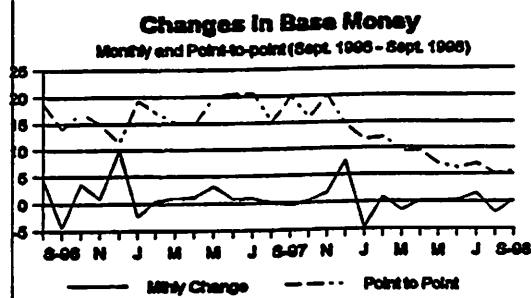
Agriculture/Manufacturing:

Cement Production:

Total cement production for October 1998 stood at 48,692 tonnes or a 16.3% increase above September 1998 production of 41,856 tonnes. Total domestic sales increased marginally by 2.9% to 43,237 tonnes compared to 42,018 tonnes recorded for the September 1998 period. Exports, however, remained at 1,800 tonnes, with all 1800 tonnes going to Guyana.

Bananas: For the month of August 1998 total banana production stood at 4.67 metric tonnes or 0.91 metric tonnes below July 1998 production figure and 1.05 metric tonnes below the corresponding period last year.

Sugar: Production for the month of August 1998 stood at 2.41.



Jamaica's tight monetary stance remains as shown by the percentage changes in base money growth over the periods mentioned

metric tonnes, a reduction of 10.4 metric tonnes below the July 1998 production.

Mining: Alumina production for the month of September 1998 stood at 282,394 metric tonnes or 12,712 metric tonnes below August 1998 production and 8,517 metric tonnes above the same period last year. Total production of alumina, however, increased by 2.02% to 2,561,803 metric tonnes for the first nine (9) months of 1998.

Crude Bauxite production for September 1998 totalled 317,975 metric tonnes or 38,907 metric tonnes below August 1998 figure and 805 metric tonnes above the corresponding period last year. Total production of crude bauxite for the first nine (9) months of 1998 stood at 3,042,084 metric tonnes or 6.27% above the same period last year.

Exports of alumina and crude bauxite production amounted to 292,527 metric tonnes and 327,956 metric tonnes respectively for September 1998. This represents a decline of 3.84% and an increase of 4.05% respectively over the same period last year.

Tourism

Total stop-over arrivals for September 1998 stood at 75,531 or 31.3 % decline below August

1998 outcome and a 5.5% investment in the sector. Super Clubs have a hotel under construction in Runaway Bay, and have others afoot in Cuba and Brazil.

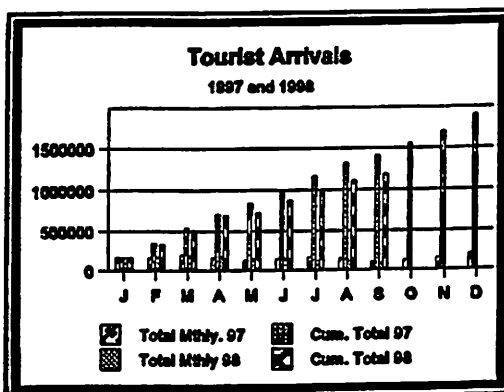
There were 23 cruise ship calls in September 1998 compared with 24 in the previous month. Consequently Cruise ship passenger arrivals fell by 13.3% to 39,025 below August 1998 figure.

For the first nine (9) months of this year stop-over arrivals exports valued at US\$33.6 showed an increase of 2.8% over million.

External Trade

Exports: Total exports (F.O.B) were valued at US\$913.7 million for the period January to August 1998 of which domestic exports

Domestic exports fell by 2.5% below the US\$914.6 million recorded for the same period last year. However, Re-export earnings increased by 49.4% over the similar period. Export continue to suffer from lower alumina, sugar, banana and coffee, prices as all four (4) major industries experienced



the corresponding period last year. reductions of 5.8%, 2.5%, 21.4% and 52.9% respectively These

Although the sector continues to remain weak with the anticipated slow down in the global economy. Non-traditional exports, however,

• inadequate infrastructure still remained bouyant increasing (roads, sewage disposal, by 3.9% over the January to August 1997 period.

• re-financing difficulties amidst high interest rates **Imports:** For the review period,

• a cut in the advertising January to August 1998, total budget on the eve of the imports (CIF) amounted to US\$1,938.9 million or a US\$0.1 million reduction relative to the

there continues to be some period last year. The fall in

imports was led by a decline in Capital Goods, lower oil prices and reduced car imports, as in the prior period, the import figures reflected Air Jamaica's purchase of two (2) aircrafts of US\$90 million. Non-durable consumer goods demand continues to grow as this category increased by US\$10 million.

a consequence the trade deficit the mining companies over the improved by US\$68.3 million for review period.

the first eight (8) months of the

calendar year as both imports *Current Transfers*: During the and exports declined, with the review period net current transfers greater reduction coming from of US\$408.7 million were US\$3.8 imports.

million below the comparable period of 1997. Net private

Services: The net returns from sector inflows fell by US\$5.1 the services sector as at August million to US\$395.3million, while 1998 stood at US\$219.6 or net official inflows inched up by US\$23.5 million below the same US\$1.3 million to US\$13.4 period last year. This fall off million.

resulted primarily from a

decrease in travel and other *Current Account*: The current services (excluding account deficit for the January to transportation) of US\$17.9 August 1998 period stood at US\$ million and US\$9.5 million 116.7 million, an improvement of respectively.

US\$68.3 million over the corresponding last year. However,

Income: The income account much of that improvement was recorded a deficit of US\$89.9 driven by a reduction in the profits million or an improvement of and repatriation of income by US\$41.9 million over the foreign companies operating January 1997 to August 1997 locally (mainly the bauxite firms) period. Compensation to as well as a lowering in the employees increased by US\$8.6 merchandise trade deficit.

million to US\$35.7 million over

the corresponding period last *Net Capital and Financial* year, while net investment *Movements*: Net inflows of

income outflows of US\$125.6 US\$3.8 million and US\$ 112.9 million were US\$33.2 million million for January 1998 to less than in the corresponding August 1998 on the capital and period last year. This was financial accounts respectively attributed to reduced profits in

External Sector US\$Mn

	Jan-Aug '97	Jan-Aug '98
Total Exports (F.O.B.)	937.07	913.72
Traditional Exports	655.15	610.68
<i>Bauxite</i>	50.53	54.33
<i>Alumina</i>	426.84	402.20
<i>Sugar</i>	97.06	94.61
<i>Bananas</i>	29.86	23.47
Other Trad. Exports	50.86	36.06
Non-Trad. Exports	259.46	269.49
Re-Exports	22.46	33.56
Total Imports (C.I.F)	2043.26	1938.87
Trade Balance	-1106.19	-1025.14

Balance of Payments

Merchandise Trade: Export and Import earnings for the period January 1998 to August 1998 fell by US\$28.4 and US\$82.2 million respectively below the corresponding period last year. As

were US\$3.6 million and US\$64.7 million less than in the comparable period last year.

The short decline on the financial account stemmed from an expansion of US\$199.4 million in the level of official debt repayment, a portion of which was offset by increases in gross official inflows and net private investments. The level of net inflows on the financial account was nonetheless more than enough to cover the current account deficit thereby facilitating a build up of US\$78.7 million in the reserves of the BOJ relative to the draw-down of US\$102.9 million for the same period last year.

Balance of Payments

	Jan- Aug '97	Jan- Aug '98
Goods balance	-708.9	-655.1
Export	1142.4	1114.0
Imports	1851.3	1769.1
Services - Net	243.1	219.6
Transportation	-181.4	-177.5
Foreign Travel	665.6	647.7
Other Services	-241.1	-250.6
Income	-131.7	-89.9
Compensation of employees	27.1	35.7
Investment Income	-158.8	-125.6
Current Transfers (Net)	412.5	408.7
Private	400.4	395.3
Official	12.1	13.4
Current Account	-185.0	-116.7
Net Capital Movements	7.4	3.8
Private	1.6	1.6
Official	5.8	2.2
Financial A/c	177.6	112.9
Other Official Investment	15.4	-33.7
Other Private Investment	59.3	225.3
Changes in Reserves	102.9	-78.7

MACRO-ECONOMIC INDICATORS
(August 1996 - August 1998)

MONT HS	BASE MONEY		NIR	FOREX ACCTS.	INFLATION		TOURIST ARRIVALS			CHANGES IN M2	
	Mthly chng	Point to Point	Total NIR	Total Balances	Mthly Chng	Point to Point	Total Visitors	Stop-overs	Cruise	Money Supply	Point to Point
Aug.96	4.50	18.89	667.09	691.00	0.8	27.70	151466	101747	49719	-0.50	11.90
Sept.	-4.40	14.04	665.32	708.00	1.1	25.30	106924	72600	34324	2.40	15.04
Oct.	3.70	17.10	658.57	689.50	0.5	22.68	131955	74571	57384	1.10	9.69
Nov.	0.87	14.82	663.11	699.50	0.4	19.83	132922	83034	49888	-1.10	6.66
Dec.	10.05	11.40	692.60	728.11	0.8	15.80	195020	120520	74500	11.80	14.49
Jan.	-2.40	19.32	713.03	708.81	0.6	13.50	173411	91490	81921	-6.60	8.49
Feb.	0.45	17.08	712.34	715.21	0.9	10.80	170162	95382	74780	6.30	14.98
Mar.	0.95	15.18	648.48	767.06	0.3	9.50	199779	125600	74197	3.40	20.93
Apr.	1.03	14.92	637.12	801.47	0.6	8.70	165067	96008	69059	1.41	16.67
May	3.16	20.03	561.08	804.90	0.7	8.2	138439	89862	48577	0.6	22.79
June	0.7	20.49	563.90	800.59	0.4	8.3	152729	107265	45464	0.5	23.27
July	0.8	20.48	569.40	838.28	1.1	8.7	166026	118948	47078	2.1	22.37
Aug.97	-0.02	15.23	589.70	852.10	1.4	9.3	153870	109221	44649	-0.6	22.16
Sept.	-0.40	19.98	585.50	847.20	1.4	9.6	102095	71577	30518	0.6	22.16
Oct.	0.35	16.01	592.02	939.98	0.9	10.05	127187	78730	48457	2.5	19.98
Nov.	1.71	16.97	563.22	943.56	0.6	10.22	152513	89888	62625	-0.28	20.50
Dec.	7.73	14.50	540.5	1001.28	-0.1	9.20	202926	118262	84664	3.4	13.45
Jan.	4.9	11.60	553.2	1025.02	0.7	9.28	166934	98517	68417	-1.5	16.7
Feb.	0.9	12.10	588.4	1037.87	0.1	8.36	166003	99280	66723	-0.6	11.9
Mar	-1.5	9.4	595.1	1045.66	0.8	8.45	187021	112474	74547	-0.7	7.2
Apr	0.1	9.5	589.9	1073.8	0.4	8.59	175543	109941	65602	-0.7	5.9
May	0.1	7.1	596.5	1073.49	0.8	8.60	140030	97063	42967	1.2	9.5
June	0.2	6.2	605.87	1069.92	1.8	10.1	149898	107307	42591	-0.7	8.9
July	1.5	7.1	611.89	1063.14	1.1	10.2	173621	120426	53195	0.2	6.9
Aug.	-1.96	5.02	619.21	973.89	1.0	9.84	154934	109927	45007		
Sept.98	0.2	5.7	616.94		0.1	8.42	114556	75531	39025		

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

NOTE: The contents of this bulletin are only for use by the addressee. The information is provided on a strictly confidential basis to subscribers. Copyright reserved.