

New Confidential Economic Bulletin

Private Sector Organisation of Jamaica

Monthly Analysis of the Jamaican Economy

Vol. 4 No. 3, December 1998

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Overview

The December announcement of the merging of Mutual Life into the new Independent Life insurance company, and the freezing of Mutual's investment-type policies for an additional 30 days marks a worrying development in the government's handling of the financial sector crisis. It indicates that it's blanket guarantee to policyholders in the insurance companies may now

have ended, in much the same way that its guarantee to depositors in the country's banks has now been limited to the \$200,000 sum which the new Deposit Insurance scheme covers. The full effect of this change in policy is not likely to be felt until some time in February 1999, when the government reveals its payout plan on the investment portion of the policies that have been frozen since mid-December 1998. Some J\$4.5 billion is said to be tied up in these policies and there has been no indication as yet as to how these obligations will be met.

The commercial banking sector is likely to continue experiencing difficulties in 1999, as the liquidity problems in the institutions taken over by FINSAC have not yet been resolved. These problems are likely to worsen, as the non-performing loan portfolios grow under the pressure of the high interest rates and the general

slow-down in economic activity. Here again, there is little information available on how government plans to deal with this problem, although the BOJ did give liquidity support to some institutions late last year. Such support is however, potentially inflationary, and does make it more difficult and more costly for the BOJ to meet its monetary policy objectives. We may see more of this in 1999.

The deterioration of the fiscal accounts is likely to continue in 1999, even if the government does not take the FINSAC costs onto the budget. The continued growth in the domestic debt and the lack of a significant downward movement in interest rates, will combine to keep debt servicing costs on the increase. The government's public stance against downsizing in the public sector will also leave it with virtually no options for significant cost reductions. Unless there is a major turnaround in sentiment on the

international capital market, the government will be facing another large increase in the domestic debt next year, as it will have to finance all its borrowing needs on the domestic market. This will increase the fiscal deficit even further. While there is bound to be a fairly heavy tax package accompanying next year's budget, with the economy continuing to contract, and expenditure increasing, it's unlikely to make a sufficient impact on the deficit.

While it remains to be seen what, if any changes there will be to government policy in 1999, the present course is suggesting another very difficult year for businesses operating here in Jamaica. Interest rates are likely to remain very high and even though lower inflation means that costs are not increasing as rapidly as they did in the past, in many cases they are already too high. Many firms will also face the challenge of downsizing their operations to reach a size which is compatible with an increasingly competitive and contracting local market. The manufacturing, agriculture and export industries will be hardest hit, but even service sector and retailing firms will find the going tough.

The bottom line is that things are likely to remain difficult for as long as the current tight monetary policy remains in effect, and there are no indications that it is likely to change any time soon. On that rather sombre note, we nevertheless hope that you had a Merry Christmas and wish for you greater success and prosperity in 1999!

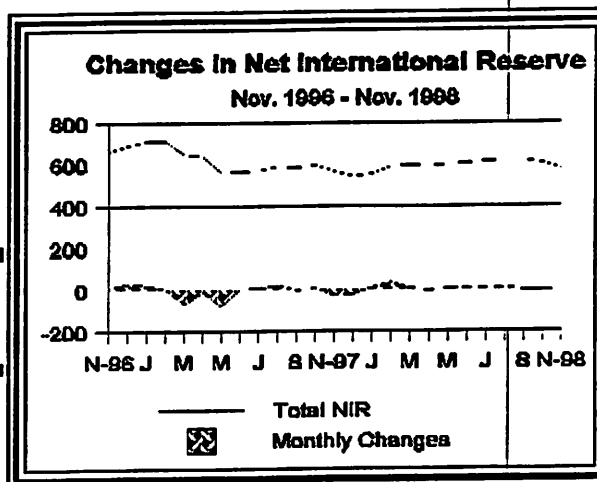
Net International Reserves

Preliminary figures for November 1998 stock of funds stood at US\$576.27 million, a US\$29.34 million decline relative to the previous month's outcome of US\$605.61 million. This however, is still a US\$23.07 million increase over the start of the year along with a US\$13.05 million increase over the corresponding period last year.

Gross foreign assets fell by US\$29.34 million by the end of November 1998 in comparison to the October 1998 outcome of US\$732.67. This is a US\$7.36 million decline below the level at the same period last year. Gross foreign liabilities remain unchanged at US\$ 127.06 million at the end of November 1998. This marks a US\$20.41

million decline below the level for the similar period last year.

The current level of reserves has the capacity of supporting 11.86 weeks of the country's exports based on projections for the fiscal year 1998/99 compared to 12.36 weeks in October 1998.



funds in foreign currency deposits stood at US\$912.52 million, a US\$16.3 million decline when compared to the previous month's outcome of US\$928.82 million. Total foreign exchange deposits declined by US\$38.43 million since the start of the year although recording a US\$29.77 million increase over the October 1997 period.

The fall in total foreign currency deposits over the September to October 1998 period could be contributed to the purchase of attractively priced Government of Jamaica 2002 and 2005 bonds in September 1998.

The weighted average selling rates of the Jamaican dollar vis-a-vis its major trading partners as at 31st December, 1998 stood at

- J\$37.16 to 1US\$
- J\$23.91 to 1 CD\$
- J\$61.07 to 1 pound sterling

For the four quarters of 1998 the spread between the lowest and highest foreign exchange rates were as follows:

- 1st quarter - J\$0.39
- 2nd quarter - J\$0.15
- 3rd quarter - J\$0.52
- 4th quarter - J\$0.63

The last quarter of 1998 experienced the greatest pressure in the foreign exchange market as was evidenced by the increased spread in rates. Most of the volatility occurred in November 1998 when the build up in demand pressures led to a 0.5 percent depreciation in the exchange rate to J\$37.35 - US\$1.00 at

the end of the month. The rate appreciated slightly in December due to continued BOJ intervention, but has slipped marginally in early January to J\$37.24 to US\$1.

Interest Rates

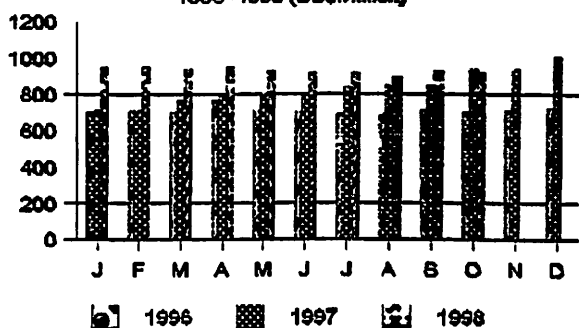
The 30-day reverse repurchase (repo) rate for the month of November 1998 remained at 22% since moving from 24% at the end of June to 22% at the end of July. The Bank of Jamaica has, however, broadened its menu to include 7 and 11 day instruments at rates above the 30 day repo rate.

Effective 1998 November 1, there was a 2.0 percentage point reduction in the cash reserve requirement ratio. This was expected to prompt a reduction in the lending rates by commercial banks, creating a more investment friendly environment. As such average lending rates have fallen by 0.55 percentage points at the end of November 1998 to 39.27% relative to the outcome of the previous month.

Average savings rate fell by 0.57 percentage points to 12.26% when compared to the previous month's outcome of 12.83%. This compares to the 0.76

Foreign Currency Accounts

1996 - 1998 (US\$Million)

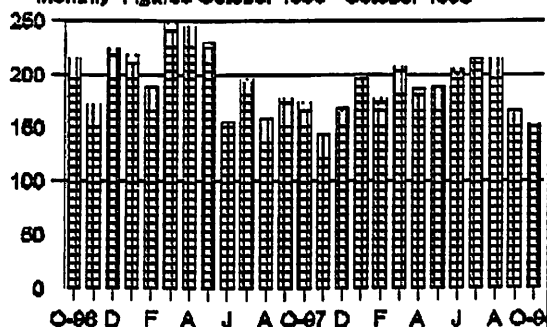


Exchange Rates

The Jamaican dollar exchange rate experienced a J\$0.19 appreciation against its US\$ trading partner for the month of December 1998.

Total US\$ Spot Purchases

Monthly Figures October 1996 - October 1998



percentage point reduction relative to the corresponding November 1997 period which recorded a rate of 13.02 percent.

The latest T-Bill results for the offers in December 1998 were as follows:

- The offer of J\$350 million for 92 days was over-subscribed by J\$278 million and yielded 22.65% on average,
- The offer of J\$650 million for 182 days was over-subscribed by J\$612.35 million and yielded on average 23.52%,
- The offer of J\$450 million for 345 days was over-subscribed by J\$793.79 million and yielded 23.95% on average.

will be opened January 4, 1999 and closed at or before January 8, 1999.

It will offer an initial interest rate of 25.50% per \$100 of stock for the period from the date of allotment to July 06, 1999. The second and final interest installment will cover the period July 06, 1999 to January 06, 2000 at the fixed rate of 25.50% per annum.

Inflation

For the month of November 1998 the Consumer Price Index (CPI) increased by 0.1% over the previous month's outcome and within government's projection of 0.7% per month.

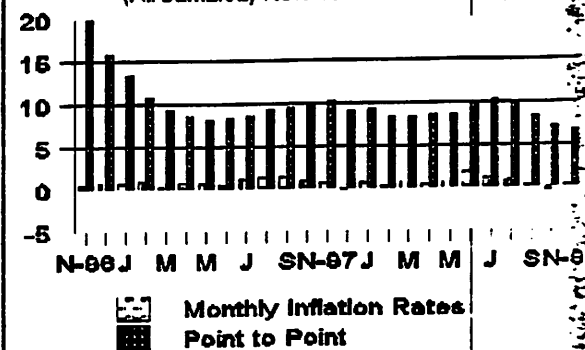
The inflation rate for the calendar year to date currently stands at 6.0% compared to 8.6% for the comparable period last year, whereas the inflation rate for the fiscal year 1998/99 currently stands at 4.8%. The point to point rate of inflation for November 1998 now stands at 6.6% as compared to 10.2% for the similar period recorded in 1997.

Government's greater control of money supply growth and low international commodity prices have contributed to lower levels in the rate of inflation over this

year relative to the corresponding period last year. As a consequence, government's 6-8% target for the year seems attainable, even when taking into consideration heightened consumer demand over the November to December periods.

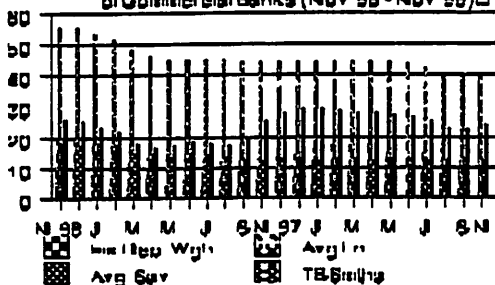
Changes in Inflation

(All Jamaica) Nov. 1996 - Nov. 1998 (Per cent)



Comparative Interest Rates

of Commercial Banks (Nov '98 - Nov '99)



The latest investment debenture issue for December 1998 was:

- Investment debenture 1999/2000 series "F" which

Base Money

The stock of base money at the end of November 1998 stood at J\$33,546.46 million, a 4.38% decline relative to the previous month's outcome of J\$35,084.05 million. The monetary base contracted by 3.04% since the start of the year compared to an 8.03% expansion in base money over the corresponding period last year. The point to point movement in the monetary base contracted by 0.62% for the period to November 1998 as compared with a 17.05% expansion for the November 1996/97 period.

The fall in the stock of base money has been influenced by the reductions in the statutory cash reserves at commercial banks. These reserves form a major constituent of base money. Conversely, this suggests a corresponding rise in money supply (M2).

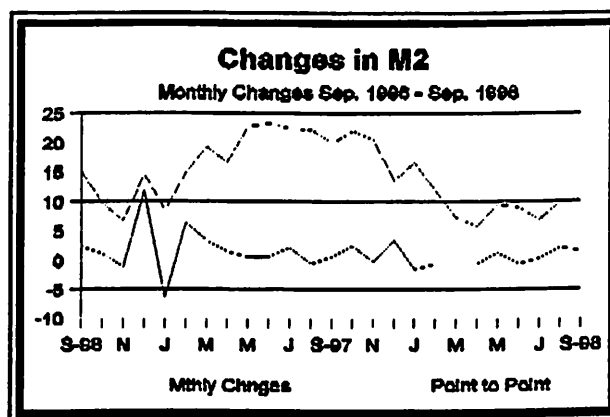
Over the past year government has sought to effectively mop up excess liquidity in light of high demand pressures in both the market for credit and for foreign exchange. This took place against the background of:

- a greater than planned reliance on domestic debt for financing public sector balances;
- temporarily higher inflation rates during the middle of the year,
- increased demand for low priced, high yielding US\$ denominated Jamaican bonds.

Money Supply

Provisional figures for the total money stock for September 1998, as measured by M2 (local and foreign currency, time and savings deposits) stood at J\$100,126.50 million, a 1.4% increase over the previous month outcome of J\$98,737.80 million.

M2 has expanded by 6.35% for the first nine (9) months of this year compared to a 12.17% expansion over the corresponding period last year.



The point to point movement in M2 for September 1998 stood at 10.6% relative to 20.00% for the corresponding period to September 1997.

Money supply this period has contracted by approximately a half as much as in the corresponding period last year. This would have prompted

economic agents to hold larger liquid balances to satisfy consumption as well as business

needs. However, in light of government's increased demand for local credit, residual funds through the crowding out effect will push up interest rates in the short run. This creates a negative impact on government's fiscal position as well as hamper economic growth in the short to medium term.

Production of Selected Commodities

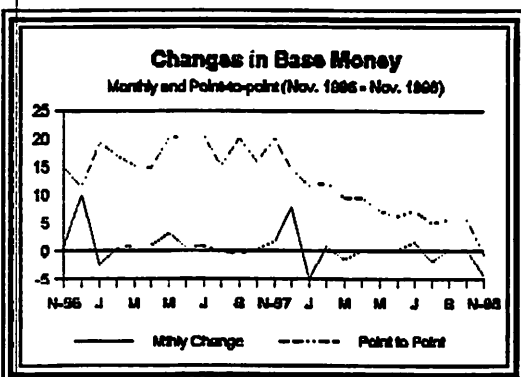
Energy: Net generation of power by the Jamaica Public Service Company Limited (JPSCo) stood at 244,227,198 kwh for the month of November 1998 compared to 247,060,771 kwh for the October 1998 period. Of this amount 62,689,077 kwh represented private power

purchases.

Agriculture/Manufacturing:

Cement Production: Total cement production for November 1998 stood at 40,591 tonnes, a 16.3% decline relative to the previous month's outcome of 48,692 tonnes. Total production since the start of the year amount to 511,612 tonnes.

Total domestic sales increased by 7.2% in November 1998 to



This has driven up interest rates and stagnated economic growth.

46,343 tonnes compared to 43,237 tonnes for the October 1998 period. Total domestic sales for the first eleven (11) months of this year total 514,863 tonnes.

No exports of cement were recorded for the November 1998 period, however, exports to date total 14,672 tonnes.

Bananas: Total banana production for the October 1998 period stood at 4.83 tonnes, 3.25 tonnes below the corresponding period last year and 1.29 tonnes below the previous month's production figure. Total banana production for the first ten (10) months of this year stood at 52.1 metric tonnes as compared to 66.8 metric tonnes for the corresponding period in 1997.

Sugar: Production for the month of August 1998 stood at 2.41 metric tonnes, a reduction of 10.4 metric tonnes below the July 1998 production. Total production of Sugar for the first eight months of 1998 stood at 180.02 metric tonnes as compared to 223.9 metric tonnes for the corresponding period in 1997.

Mining: Total alumina production stood at 281,245 metric tonnes for the November 1998 period, 18,297 metric tonnes below the previous month's out-turn. Alumina production for November 1998 contracted by 3.74% when compared to the corresponding period in 1997. Total alumina

production for the first eleven (11) months of this year stood at 3,142,590 metric tonnes an increase of 1.41% over the corresponding period in 1997.

Production of crude bauxite for November 1998 totalled 342,907 metric tonnes an increase of 43.81% above the corresponding period in 1997.

Total production of crude bauxite for the year to date stood at 3,743,11 metric tonnes, or 11.31% above the corresponding period in 1997.

Exports of alumina and crude bauxite amounted to 266,392 and 380,350 metric tonnes for the November 1998 period. This represents an increase of 14.65% over the corresponding period in 1997. Total year to date exports of alumina and crude bauxite stood at 3,180,001 and 3,744,562 metric tonnes respectively. This represents an overall increase of 2.41% and 12.39% respectively over the comparative period last year.

Tourism

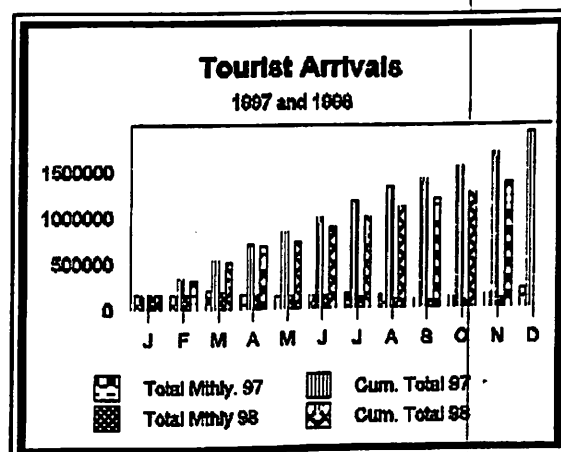
Total stop-over tourist arrivals for November 1998 stood at 94,469, a 14.85% increase over the October 1998 outcome along with a 5.10% increase over the November 1997 period.

Total cruise passenger arrivals for November 1998 stood at

51,993, a increase of 40.01% relative to the October 1998 outcome of 37,134.

Total stop-over arrivals for the year to date stood at 1,107,189 up from 1,073,932, experienced for the corresponding period in 1997. Of the 1,107,189 tourist stop-over arrivals this year 754,253 came from the USA, 190,898 from Europe and the remaining largely from Latin America, Japan and the Caribbean.

Total cruise ship passenger arrivals for the first eleven (11) months of this year stood at 590,532 of which 502,117 went to Ocho Rios, 86,783 went to Montego Bay and 954 to Port Antonio. There were 34 calls made for the November 1998 period compared to 22 calls in the previous month. Of these 34 calls, 11 were made in Montego Bay and 23 in Ocho Rios. In addition 364 calls were made since the start of the year with 117 being made to Montego Bay, 242 to Ocho Rios and 3 to Port Antonio.



Recently, the government reversed its decision to cancel television advertisements in North America and decided to disburse funds to the Jamaica Tourist Board to finance some advertising during the winter tourist season.

External Trade

Exports: For the review period January to October 1998, total exports (F.O.B) were valued at US\$1,126.30 million or US\$39.30 million below the corresponding period last year. This included US\$698.90 million of traditional exports, US\$340.20 million of Non-traditional exports, US\$49.40 million other traditional exports and US\$37.80 million of Re-exports.

Non-traditional exports continue to remain fairly buoyant, increasing by US\$7.70 million over the January to October 1997 period. This was due largely to exports of beverages and tobacco which increased by US\$20.6 million during the review period relative to the similar period last year.

Traditional exports fell by US\$44.10 million relative to the corresponding period last year. Alumina earnings continue to be affected by lower international market prices declining by US\$32 million relative to the

corresponding period last year. Earnings from banana reflected both lower export volumes and depressed prices and as a consequence fell by US\$10.30 million relative to the corresponding period last year.

In the "other traditional" export category, a reduction of US\$15.7 million from coffee exports was the sole influence on the decline of US\$15.1 million in earnings for the review period.

Imports: Total imports (C.I.F) for the review period amounted to US\$2,412.10 million, a US\$162.40 million decline when compared to the corresponding period last year. Raw materials and capital goods declined by US\$46.50 and US\$156.40 million respectively over the review period while consumer goods imported increased by US\$40.5 million. The contraction in capital goods imports was largely attributed to two aeroplanes imported in the previous fiscal year, and to declines in imports of construction material and other machinery. Declines in the raw material imports continue to be influenced by the fall in international fuel price.

External Sector US\$Mn

	Jan-Oct '97	Jan-Oct '98
Total Exports (F.O.B.)	1165.60	1126.30
Major Traditional Exports	743.00	698.90
Bauxite	62.40	67.90
Alumina	539.20	507.20
Sugar	101.90	94.60
Bananas	39.50	29.20
Other Trad. Exports	64.50	49.40
Non-Trad. Exports	332.50	340.20
Re-Exports	25.60	37.80
Total Imports (C.I.F)	2574.50	2412.10
Trade Balance	1408.90	1285.80

Balance of Payments

Merchandise Trade: The deficit on the merchandise account improved by US\$121.80 million over the January to October 1997 period. The reduction in the deficit was due to the combined US\$50.6 million and US\$127.1 million fall in exports (F.O.B) and imports (C.I.F).

Services: The services account, with a net surplus of US\$213.6 million was US\$20.5 million less in January to October 1998 than was recorded for the comparable period of the previous year. The reduction in net earnings from services was attributable to transactions over both the travel and other services accounts which showed declines. For the period, net payments for transportation services declined by US\$11.8

million associated with the lower levels of imports. The surplus of US\$743.9 million on the travel accounts was US\$20.9 million less than the figure reported for the similar period January to October 1997, due to the increased expenditure of Jamaican residents travelling abroad.

Income: A lower deficit of US\$94.7 million was recorded on the income account in January to October 1998 compared with one of US\$162.2 million in January to October 1997. Compensation to employees of US\$53 million represented an increase of US\$11.8 million relative to the corresponding period of the previous year. Concurrently, net investment income outflows of US\$209.3 million were US\$56.2 million less in the review period, due largely to the reduced profitability of the mining companies.

Current Transfers: On the current transfers account the reduction of US\$1.7 million to US\$508.6 million for January to October 1998 was due largely to growth of US\$5.2 million in private sector inflow.

Current Account: The current account deficit improved greatly over the January to October 1998 period by US\$121.8 million to US\$197.9 million. The overall improvement, however, was marred by a sharp and broad based contraction in export earnings and a rise in the bill for consumer goods.

Net Capital and Financial Movements: The capital and financial accounts recorded

respective net inflows of US\$5.7 million and US\$192.2 million for January to October 1998 period. The balance on the financial account represented a decline of US\$188.9 million relative to the previous period. Net payments of US\$39 million by the official sector in contrast to the net receipts of US\$296.3 million in January to October 1998 were responsible for the observed decline on the financial accounts. In particular, an increase of US\$180.6 million in gross official debt payments in the 1998 period negated higher inflows of US\$188.8 million. However, net private investments of US\$296.3 million were sufficient to cover the current account deficit, the official capital deficit and facilitate an increase of US\$65.1 million in the NIR of the BOJ relative to the drawdown of US\$100.6 million in the January to October 1997 period.

Balance of Payments

	Jan- Oct '97	Jan- Oct '98
Goods balance	-901.9	-825.4
Export	1425.3	1374.7
Imports	2327.2	2200.1
Services - Net	234.1	213.6
Transportation	-240.6	-228.8
Foreign Travel	764.8	743.9
Other Services	-290.1	-301.5
Income	-162.2	-94.7
Compensation of employees	41.2	53.0
Investment Income	-203.4	-147.7
Current Transfers (Net)	510.3	508.6
Private	494.0	491.4
Official	16.3	17.2
Current Account	-319.7	-197.9
Net Capital Movements	8.6	5.7
Private	2.0	2.0
Official	6.6	3.7
Financial A/c	311.1	192.2
Other Official Investment	22.8	-39.0
Other Private Investment	187.7	296.3
Changes in Reserves	100.6	-65.1

MACRO-ECONOMIC INDICATORS
(November 1996 - November 1998)

MONTHS	BASE MONEY		NIR	FOREX ACCT'S.	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
Nov.96	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.	-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.97	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	950.95	0.7	9.28	166934	98517	68417	-1.5	16.7
Feb.	0.9	12.10	588.4	947.28	0.1	8.36	166003	99280	66723	-0.6	11.9
Mar	-1.5	9.4	595.1	939.43	0.8	8.45	187021	112474	74547	-0.7	7.2
Apr	0.1	9.5	589.9	945.51	0.4	8.59	175513	109941	65602	-0.7	5.9
May	0.1	7.1	596.5	924.29	0.8	8.60	140030	97063	42967	1.2	9.5
June	0.2	6.2	605.87	920.73	1.8	10.1	149898	107307	42591	-0.7	8.9
July	1.5	7.1	611.89	913.73	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	2.1	9.8
Sept.	0.2	5.7	616.94	888.00	0.1	8.42	114556	75531	39025	1.4	10.6
Oct.	0.14	5.6	605.61	928.82	-0.3	7.14	119388	82254	37134	n/a	n/a
Nov.98	-1.38	-0.62	576.27	912.52	0.1	6.6	146462	94469	51993		

n/a - Not Available

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

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