

New Confidential Economic Bulletin

Private Sector Organisation of Jamaica

Monthly Analysis of the Jamaican Economy

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Overview

We are now well into the month of February and 1999 is shaping up to be an even more interesting year than 1998. While events in Brazil have been taking centre stage internationally, here in Jamaica the focus of attention has become the state of government finances and the growing gap between expenditure and revenue. The

pressure on many government services has already become quite acute even though this year's recurrent budget has not been reduced significantly. Next year's budget will have to cope with the general increase in cost that comes from inflation, retroactive wage increases for civil servants and worst of all, a portion of the interest on the FINSAC bonds. Estimates of the FINSAC interest for the 1999/00 fiscal year range between J\$18-20 billion, assuming that interest rates remain at roughly current levels. The ministry of finance has not reported exactly how much of this will be taken onto the budget, but initial reports are that only about J\$6 billion of interest will be picked up by government in the 1999/00 fiscal year. The remainder will be met by the issuance of more FINSAC paper or from the proceeds of asset sales.

The supplementary estimates that were tabled in January

1999 suggest that the fiscal deficit for this financial year will be between 10-12% of GDP, larger in both nominal and real terms than the deficit last year. The assumption of about one third of the FINSAC interest in the coming fiscal year, could increase the deficit to between 12-14% of GDP, even if a large package of higher taxes and new imposts are enacted. The higher fiscal deficit will increase the government's borrowing requirements and this is likely to put upward pressure on interest rates. In fact in early 1999, we have already started to see some of this increased loan demand from government manifesting itself in the marketplace. Interest rates have not risen yet because the BOJ have accommodated the government's needs by reducing their stock of repos and thus leaving more liquidity in the financial market. The BOJ will need to do this on a fairly consistent basis throughout 1999, if interest rates are not to rise in the course of the year. The

danger for them, however, is the fact that releasing too much liquidity into the system on a sustained basis will increase money supply growth and threaten their inflation targets. Their task will not be made any easier by the programme of ongoing reductions in the cash reserve ratio of the commercial banks. These reductions are most welcome however, as they should contribute to a lowering of lending rates, even if T-Bill and repo rates do not fall by much.

In 1999, a lot will also depend on the government's ability to raise loans in the international capital market. The problems in Brazil are now making this proposition seem all the more unlikely, though not necessarily impossible. The situation is not made any easier by the difficulties in our domestic economy. As Dr. Manuela Tortora, an advisor to SEIJA, put it at a recent seminar on globalisation at the UWI, the recent systemic crisis in emerging markets suggests that "there is a dangerous cocktail when you have a combination" of some of the following elements:

- Financial openness with weak banking supervision;

- Speculation and/or short-term capital inflows and/or lack of productive investment;
- Current account deficits;
- Unsustainable monetary policies;
- Fiscal deficits.

If the government is unable to make successful debt issues in hard currency and they do not wish to raise interest rates substantially, then it is quite likely that there will be some draw down of the net international reserves. This will be done in an effort to maintain some equilibrium in the foreign exchange market and may also have the effect of absorbing some of the excess liquidity that will be created as a result of a loosening of monetary policy.

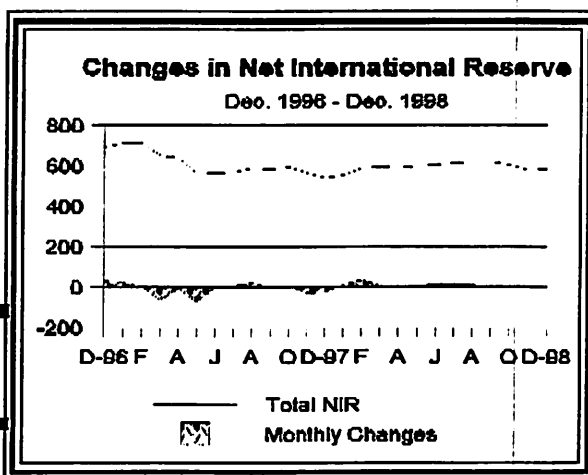
Net International Reserves

The stock of funds at the Bank of Jamaica's Net International Reserves (N.I.R) as at December 1998 stood at US\$581.96 million a marginal increase of US\$5.69 million relative to the previous month's outcome of US\$576.27 million. The level of N.I.R however, represents an overall increase of US\$28.76 million for the

calendar year 1998 as compared to a US\$172.5 million decline for the corresponding period in 1997.

Gross foreign assets improved by US\$3.17 million to US\$706.50 million at the end of December 1998 as compared to the previous month's outcome. This, however, represents an overall increase of US\$13.83 million in gross foreign assets over the calendar year 1998.

The current level of reserves has the capacity of supporting 11.91 weeks of the country's exports based on projections for the fiscal year 1998/99 compared to 11.86 weeks in November 1998.



The unanticipated rise in the NIR could be the result of:-

- a "softening" of the foreign exchange market as it relates to the demand for the US dollar

Foreign Exchange Accounts

Total foreign currency deposits at the end of November 1998 stood at US\$905.07 million, a contraction of US\$7.44 million in the stock of funds relative to the previous month's out-turn of US\$912.51 million. Total foreign currency deposits have, however, declined by US\$45.93 million since the start of the year.

trading partner relative to the J\$0.19 at the end of December 1998.

The foreign exchange trading summary, reflected by the weighted average selling rates of the Jamaican dollar vis-a-vis its major trading partners as at February 1, 1999 were as follows:

- J\$37.42 to 1 US\$
- J\$24.76 to 1 CDS
- J\$59.84 to 1 pound sterling

The spread in the exchange rate between the Jamaican dollar and its US dollar counterpart was J\$0.40 for the month of January 1999 as compared to J\$0.28 for the December 1998 period. The increased spread over the December 1998 to January 1999 period would suggest greater market pressure and greater market volatility.

The increased pressure may be linked to the increase foreign exchange demand by private and public sector agents to meet commitments falling due at the beginning of the year.

Interest Rates

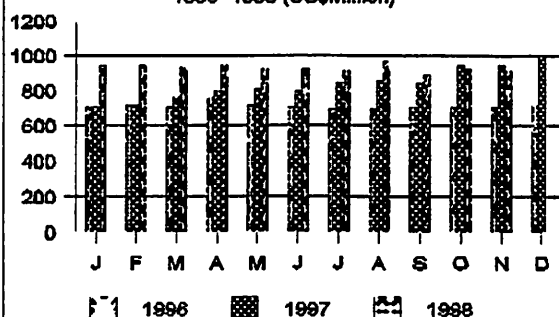
The 30-day BOJ reverse repurchase (repo) rate remained at 22% at the end of December 1998 since last moving from 24% at the end of June. However, the central bank in response to the decline in six month treasury bill yield at the most recent auction reduced the 180 day reverse repo rate by 1 percent to 23%.

The spread between savings deposit and lending rates continue to remain high. As at December 1998 the spread was 26.67 percentage points as compared to a spread of 27.01 percentage points for the previous month's outcome. The reduction in the spread is probably due to the November reduction in the cash reserve ratio.

The result of the latest T-Bill tender in January 1999 was as follows:

- The offer of J\$600 million for 182 days was over-subscribed by J\$1,956.11

Foreign Currency Accounts
1996 - 1998 (US\$ Million)



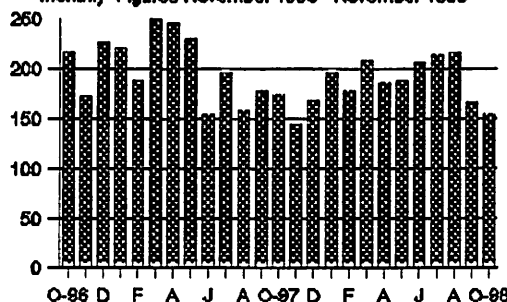
One possible explanation for the fall in total foreign currency deposits over the period could be the purchase of attractively priced short and medium term government bonds.

Exchange Rates

The Jamaican dollar exchange rate during the month of January 1999 experienced a J\$0.26 depreciation against its US\$

Total US\$ Spot Purchases

Monthly Figures November 1996 - November 1998



million and yielded 22.6% on average.

Earlier in the month the government had raised between J\$6-7 billion in a 12 month investment debenture which paid a fixed interest rate of 25.5%.

Although outside governments monthly projection of 0.7 percent, the inflation rate for the calendar year of 1998 was 7.85 percent compared to 9.17 percent for the corresponding period last year.

The inflation rate for the fiscal year 1998/99 currently stands at 5.87 percent. With three months remaining Government's target of 6-8% looks achievable barring unforeseen circumstances. Importantly enough the fall in commodity prices, including fuel costs, in combination with a fiercely competitive local market, lower

tariffs and relative foreign exchange stability have eased cost push pressure on prices.

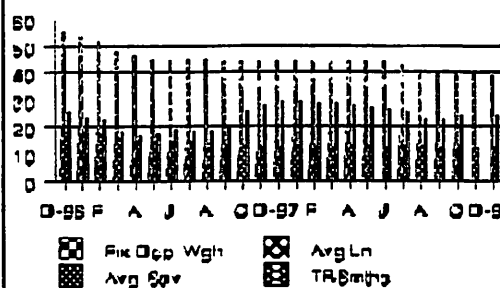
The Government of Jamaica opened an application on February 4, 1999 on its US\$15 million 12% Local Bond issue 2000. Interest will be due and payable semi-annually in US\$ on August 16 and February 16 of each year starting on August 16, 1999 at a rate of 12% per annum. This issue was closed on 8th February 1999 as it was heavily over subscribed.

Base Money

Provisional figures reveal that monetary base at the end of December 1998 stood at J\$35,914 million, an expansion of 7.06% relative to the previous month's outcome.

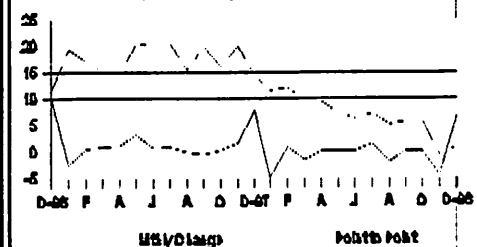
Comparative Interest Rates

of Commercial Banks (1 Feb '98 - 1 Feb '99)



Changes in Base Money

Monthly and Point-to-point (Nov. 1996 - Nov. 1998)

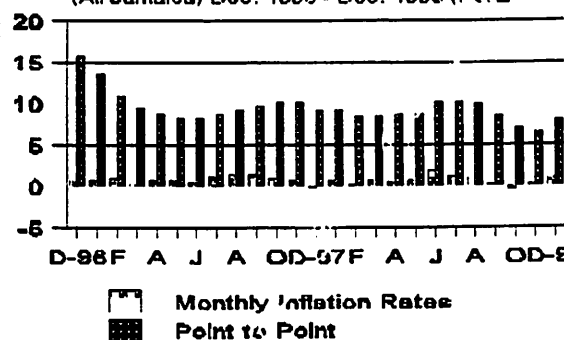


The monetary base has contracted by 0.8 percent in 1998 compared to a 13.34 percent expansion in 1997.

The contraction in base money has been significantly influenced by the reductions in the cash reserve ratio which began in August 1998.

Changes in Inflation

(All Jamaica) Dec. 1996 - Dec. 1998 (Per Cent)



Inflation

The Consumer Price Index (C.P.I) for December 1998 stood at 1185.5 an increase of 1.05 percent relative to the previous month's outcome of 1173.2.

Money Supply

Provisional figures reveal that nominal money supply, as measured by M2, stood at J\$100,577.10 million at the end of October 1998. This represents an increase of 0.45 percent over the previous month's outcome of J\$100,126.5 million.

Nominal money supply has expanded by 6.83 percent for the first ten (10) months of 1998 compared to a 14.93 percent expansion for the corresponding period of 1997.

The point to point or twelve month movement in nominal money supply for October 1998 stood at 8.46 percent relative to 22.1 percent for the October 1996/7 period. The increase in money supply was primarily driven by an increase in net credit to the public sector.

The reduction in both base money and money supply growth in 1998 relative to 1997 has

resulted in a reduction in the level of inflation over the corresponding periods.

Production of Selected Commodities

Energy: Net generation of power by the Jamaica Public Service Company Limited (JPSCo) for December 1998 stood at 248,584,834kwh or 4,357,636kwh above the previous month's output of 244,227,198kwh. Of the net generating power for December 1998 47.394,825kwh represented private power purchases. This represents a reduction of 15,294,252kwh when compared to November 1998.

Agriculture/Manufacturing:

Cement Production: Total cement production for December 1998 stood at 46,290 tonnes, an increase of 5,699 tonnes over the previous month's production of 40,591 tonnes. Total production for the calendar year 1998 amounted to 557,902 tonnes.

Total domestic sales for December 1998 stood at 42,781 tonnes which represents a reduction of 3,562 tonnes below the previous month's sales output figure. Total domestic

sales for 1998 stood at 557,644 tonnes.

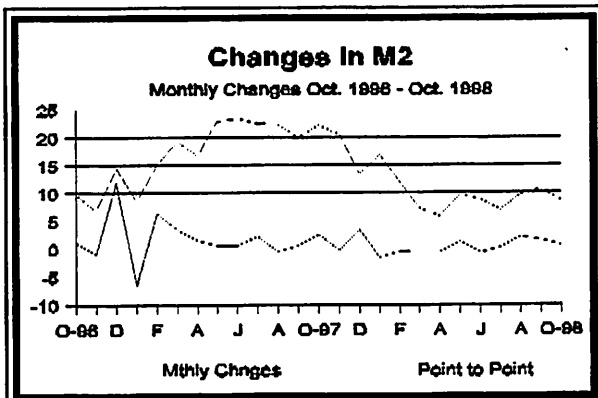
No exports of cement were recorded in December 1998 as was the case for November 1998. However, total exports for 1998 stood at 14,672 tonnes.

Bananas: Total banana production for November 1998 stood at 4.98 tonnes compared to 4.83 tonnes recorded for the previous month's production output. Total banana production for the first eleven (11) months of 1998 stood at 57.08 metric tonnes when compared to 73.13 metric tonnes for the corresponding period in 1997.

Sugar: No production of sugar was recorded in September, October and November of 1998. However, total sugar production for the first eleven (11) of 1998 stood at 180.02 metric tonnes when compared to 223.9 metric tonnes for the corresponding period in 1997.

Mining: Total Alumina production stood at 297,577 metric tonnes for December 1998. This represents an increase of 16,332 metric tonnes over the December 1997 output. Overall alumina production for the calendar year 1998 stood at 3,440,167 metric tonnes, an increase of 45,990 metric tonnes over the corresponding period in 1997.

Production of Crude Bauxite for December 1998 amounted to 291,533 metric tonnes an increase of 9,059 metric tonnes



above the corresponding period in 1997.

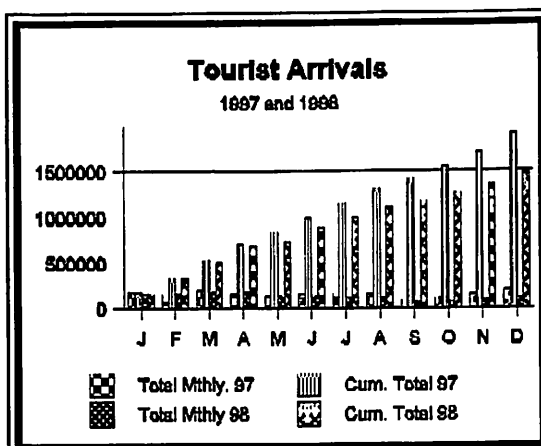
Overall crude bauxite production for the calendar year 1998 amounted to 4,034,644 metric tonnes, an increase of 389,346 metric tonnes above the output of 1997.

Exports of alumina and crude bauxite amounted to 296,562 and 275,848 metric tonnes respectively for December 1998. This represents a reduction of 12,332 and 33,536 metric tonnes respectively below the corresponding period in 1997. Total exports of alumina and crude bauxite for the calendar year of 1998 stood at 3,476,563 and 4,020,210 metric tonnes, an increase of 62,604 and 379,079 metric tonnes respectively over the 1997 exports.

Tourism

Tourist arrivals were flat for the period January to December 1998. Growth of 2.8 percent in stop-over arrivals (1,225,287) was offset by a 5.3 percent decline in cruise ship visitors (673,690). Cruise ship arrivals fell by 13.3 percent with ship calls down to 422 versus 487 calls last year.

Total stop-over tourist arrivals for December 1998 stood at 118,098, a 25.01% increase over the November 1998 outcome.



Total cruise passenger arrivals for December 1998 stood at 83,158, a increase of 59.94% relative to the November 1998 outcome of 51,993.

Total cruise ship passenger arrivals for the year stood at 673,690 of which 568,909 went to Ocho Rios, 103,149 went to Montego Bay and 954 to Port Antonio. There were 58 calls made for the December 1998 period compared to 34 calls in the previous month. Of these 58 calls, 23 were made in Montego Bay and 35 in Ocho Rios.

Although the industry is faced with severe problems there have been positive moves afoot with the construction underway at Ritz Carlton in Montego Bay and LOJ's Sea Splash in Negril.

External Trade

Exports: For the review period January to November 1998, total exports (F.O.B) were

valued at US\$1,219.24 million or US\$53.42 million below the corresponding period last year. Of this amount US\$1,178.10 million accounted for domestic exports, traditional and non-traditional, and the remaining US\$41.14 million were re-exports.

With the exception of Bauxite all major traditional exports have declined over the period of review namely Alumina, Sugar, and Bananas. Other traditional exports have declined over the period as well, the largest of which is coffee, however, there has been a steady increase in the exports of Gypsum, Pimento and cocoa throughout the period relative to the last period's outcome.

Non-traditional exports, being fairly buoyant for most of this year, fell during the period of study by US\$1.9 million when compared to the corresponding period in 1997.

Imports: Total imports (C.I.F) were valued at US\$2,667.18 million for the January to November 1998 review period. This represents a overall decline of US\$155.37 million relative to the corresponding period of 1997.

The fall in imports were to a large extent as a result of the reduction in capital goods and raw materials down US\$142.84 million and US\$47.81 million

respectively. Capital goods was the most significant contributor to the reduction in imports, as in the prior period, the import figures reflected Air Jamaica's purchase of two aircrafts for US\$77 million.

External Sector US\$Mn		
	Jan Nov '97	Jan Nov '98
Total Exports (F.O.B.)	1272.66	1219.24
Major Traditional		
Exports	803.86	755.40
Bauxite	66.63	75.53
Alumina	592.29	553.72
Sugar	101.90	94.62
Bananas	43.02	31.53
Other Trad.		
Exports	69.35	52.75
Non-Trad.		
Exports	371.91	369.95
Re-Exports	27.55	41.14
Total Imports (C.I.F.)	2822.55	2667.18
Trade Balance	1549.89	1447.94

Balance of Payments

Merchandise Trade: For January to November 1998, the merchandise trade account narrowed by US\$57.5 million relative to the corresponding period in 1997. This out-turn reflected a marked decline of US\$126.8 million in the value of imports, which had a countervailing influence on the US\$69.3 million fall off in the value of exports in the review period.

Services: The net balances on the services account was US\$226.3 million for January to November 1998 relative to US\$248.6 million for the corresponding period of 1997. Although the transportation account with a deficit of US\$254.8 million was US\$9.6 million more than the previous period. This was not enough to offset the reduction in travel (down by US\$18.9 million) and other services (down by US\$13 million).

Income: The income account registered a significantly lower deficit of US\$99 million relative to a deficit of US\$174.1 million for January to November 1997. This out-turn reflected the combined improvement in compensation to employees by US\$14.2 million and lower investment income by US\$60.9 million. The decline in profitability of the direct investment companies, particularly mining was again the dominant influence on the income account.

Net Current Transfers: Net current transfers for January to November 1998 of US\$554.4 million was US\$4.5 million less than the figure reported for the similar period of 1997. This reduction was a result of a fall in net official and net private transfer of US\$1.3 million and US\$3.2 million respectively.

Current Account: For the review period January to November 1998, the current account deficit narrowed to US\$257.7 million from US\$363.5 million reported for the corresponding period of 1997.

Financial Account: For the review period the financial account recorded a surplus of US\$251.6 million, US\$102.9 million less than in January to November 1997. The lower surplus was due to a net outflow of US\$53.4 million in official investments relative to net inflows of US\$9.0 million in official investments in the previous period. However, net private investments of US\$340.8 million were sufficient to cover the current account deficit, the official capital deficit and facilitate an increase of US\$35.8 million in the NIR of the BOJ relative to the draw down of US\$129.4 million in the January to November 1997 period. 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.

<u>Balance of Payments</u>	Jan-Nov '97	Jan-Nov '98
Goods balance	-996.9	-939.4
Export	1560.3	1491.0
Imports	2557.2	2430.4
Services - Net	248.6	226.3
Transportation	-264.4	-254.8
Foreign Travel	830.8	811.9
Other Services	-317.8	-330.8
Income	-174.1	-99.0
Compensation of employees	48.7	62.9
Investment Income	-222.8	-161.9
Current Transfers (Net)		
Private	558.9	554.4
(Official)	539.0	535.8
	19.9	18.6
Current Account	-363.5	-257.7
Net Capital Movements	9.0	6.1
Private	2.2	2.2
Official	6.8	3.9
Financial A/c	354.5	251.6
(Other)		
(Official)		
Investment	9.0	-53.4
Other Private		
Investment	216.1	340.8
Changes in Reserves	129.4	-35.8

MACRO-ECONOMIC INDICATORS
(December 1996 - December 1998)

MONTHS	BASE MONEY		NIR	FOREX ACCTS.	INFLATION		TOURIST ARRIVALS			CHANGES IN M2	
	Mthly chng	Point to Point			Mthly Chng	Point to Point	Total Visitors	Stop-overs	Cruise	Money Supply	Point to Point
Dec.96	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	1.71	16.97	563.22	943.56	0.6	10.22	152513	89888	62625	-0.28	20.50
Dec.97	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	945.54	0.4	8.59	175543	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	0.45	8.5
Nov	-1.38	-0.62	576.27	912.52	0.1	6.6	146462	94469	51993	n/a	n/a
Dec.98	7.06	-0.8	581.96	905.07	1.05	7.86	201256	118098	83158	n/a	n/a

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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