

New Confidential Economic Bulletin

Private Sector Organisation of Jamaica

Monthly Analysis of the Jamaican Economy

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Overview

The pressure on the exchange rate that began very slowly in January has continued into February and early March and has prompted the BOJ to intervene in the market by selling from the reserves at J\$37.95:US\$1.00 and requiring the institutions that buy from them, to re-sell at J\$38.05:US\$1.00. At the time of

the BOJ intervention at the end of the first week of March, the US dollar was trading at rates between J\$38.50 and J\$38.90 to one. It is too early to tell what will be the full effects of this intervention, but it has at least increased the amount of hard currency that is traded in the market on a daily basis. The weighted average rate in the interbank market stood at J\$38.17 on 8/3/99.

There has as usual been the round of speculation as to what is putting pressure on the exchange rate at a time when the inflows of hard currency are usually quite strong. The figures for January's tourism arrival and expenditure numbers, which show a decline of 6% in inflows from tourism, may give an indication as to why purchases of foreign exchange have fallen so far this year. Stopover arrivals were down 1.58% and if these trends continue, they could certainly affect the balance of payments

and the Foreign exchange market.

The other major factor, which will affect the foreign exchange market this year, will be the government's ability to access funds in the international capital market. If they are unable to raise loans abroad, then loans will have to be raised in local currency and the proceeds used to buy hard currency to meet its foreign debt service obligations. This will of course put further pressure on the exchange rate or increase the demands on the reserves. In all of this, one cannot rule out an increase in interest rates by the BOJ, in an effort to attract private capital inflows and thus shore up the foreign exchange market. Higher interest rates will of course add to the already severe fiscal deficit and increase the large stock of high cost domestic debt.

While it is hard to escape the feeling that the government will have to compromise soon on

some aspect of its current economic policies, there position can be significantly improved by a speedy divestment of assets, particularly those acquired through FINSAC. Recent developments, namely the sale of their shares in CHBC Jamaica Ltd., and the sale of a sugar factory in Belize, may be heralding a more aggressive stance by the government with respect to divestment. The benefits of such sales are two-fold. Firstly, they may bring in foreign exchange which can be used to pay overseas debt without putting pressure on the exchange rate, and secondly, the local currency proceeds can be used to pay down FINSAC'S debt, thus achieving significant savings in debt service obligations.

Despite the immediate concern about the pressure on the exchange rate, the BOJ still has enough reserves to mount a defence of the rate for some time to come. The large gap between government's expenditure and its revenue is really a much greater problem at this time. The high interest rates are causing the domestic debt and debt servicing cost to rise at a faster rate than the capacity of the economy to generate revenue to cover this cost. It is this growing deficit that is the greatest threat to all that the government has achieved

with respect to the lowering of inflation and the relative stability of the exchange rate. The more aggressive stance that is emerging with respect to divestment may help to reduce this gap in the coming year.

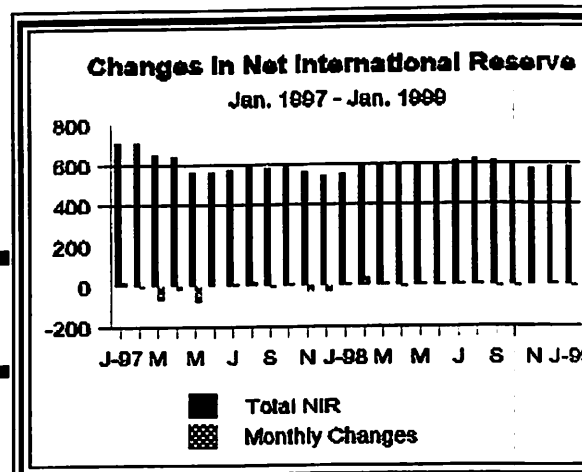
Net International Reserves

The provisional stock of Jamaica's Net International Reserves (N.I.R) at the Bank of Jamaica stood at US\$578Mn as at the end of January 1999. This represents a US\$4Mn contraction relative to the previous month's outcome. Total foreign assets at the end of January 1999 stood at US\$702.54, US\$4Mn less than the previous month's outcome. It was the decline in total foreign assets that accounted for the fall in the level of the NIR as total foreign liabilities remained unchanged at US\$102.04Mn.

Although the stock of funds at the NIR has fallen relative to December 1998, it has increased by US\$24.8Mn compared to the January 1997 figure of US\$553.2Mn.

The current level of reserves has the capacity of supporting 11.85 weeks of the country's imports based

on projections for the fiscal year 1998/99 compared to 11.92 weeks for December 1998.



increased by US\$26.3 million over the 1998 calendar year.

One possible explanation for the provisional increase in total foreign currency deposits over the period could be explained in terms of the reduction in nominal interest rates.

Exchange Rates

The exchange rate of the Jamaican dollar vis-a-vis its US dollar counterpart experienced a J\$0.38 depreciation by the end of February 1999. This represents twice the depreciation recorded for the previous month.

The weighted average selling rates of the Jamaican dollar vis-a-vis its major trading partners at the end of February 1999 were as follows:

- J\$38.02 to 1 US\$
- J\$24.78 to 1 CUS\$
- J\$58.33 to 1 pound sterling

The spread between the various exchange rates quoted for the US dollar in the inter-bank market continues to widen as it increased by J\$0.20 over the last month to close at J\$0.60. This suggests increased market volatility which could see further reduction in the level of the NIR at the BOJ if they attempt to 'soften' market volatility by selling into the market.

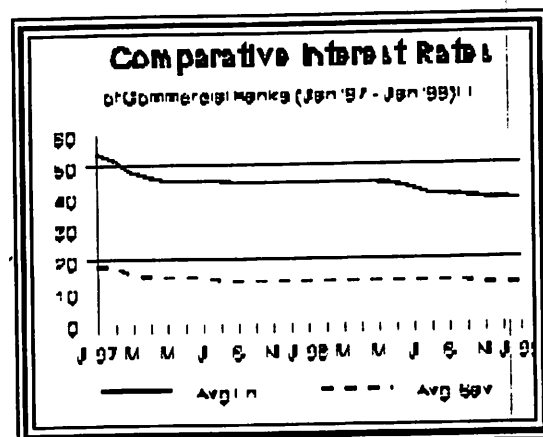
Interest Rates

The benchmark 30-day reverse repurchase (repo) rate at the end of January 1999 remains unchanged at 22%. It has not moved since July 1998. However, the Central Bank reduced the 180 day reverse repurchase rate by 1.0% to 23%.

The gap between savings deposit and lending rates continues to remain high. For December 1998 the spread was 26.67 percentage points as compared to a spread of 27.01 percentage points for November 1998. This spread is expected to decline slowly in line with Government's periodic reductions in the cash reserve ratio.

The result of the latest Treasury Bill offer opened by the Bank of Jamaica dated Friday, 26 February 1999 was as follows:

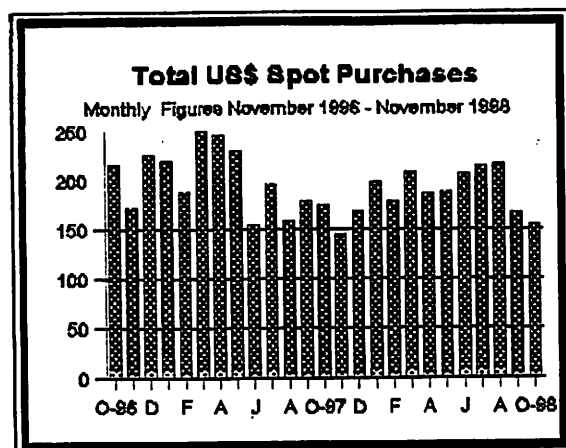
- The offer of J\$650 million for 182 days was over-subscribed by J\$1,142.01Mn and yielded on average 21.85%

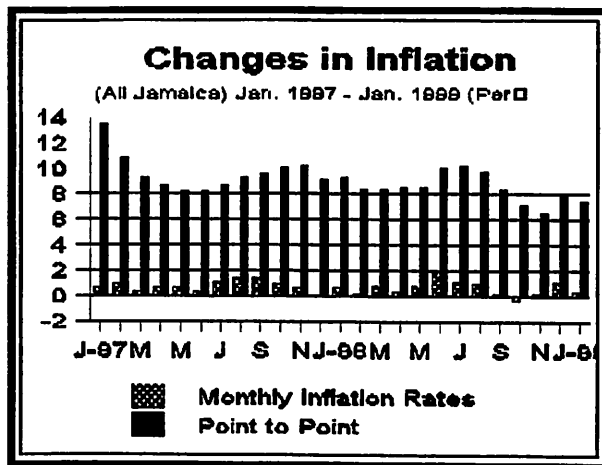


This leaves the total amount of nominal Treasury Bills outstanding as at Friday, 26 February 1999 at J\$11.1 billion.

Inflation

The All Jamaica 'All Group' Consumer Price Index (C.P.I) for January 1999 stood at 1189.9 representing a 0.4% increase over the index recorded for December 1998. This reflects an inflation rate of 7.25% for the 12 months to January 1998. With two months remaining to the end of the fiscal period Government's target of 6-8% looks achievable all other things remaining equal.





The government attempts to set the level of inflation through its monetary policy. It is the subsequent reduction in the money supply growth rate that has led to the downward trend in inflation in the economy. The lower inflation and expectations thereof raises the demand for money balances by private agents with the subsequent increase in interest rates. This impacts negatively on the fiscal deficit through increased interest payments. Hence tighter monitoring of fiscal policy is required in order to secure the subsequent gains from lower inflation.

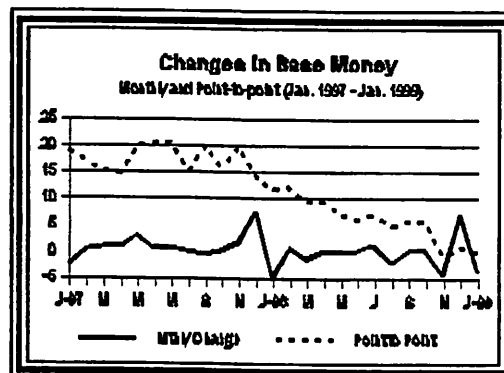
Base Money

Provisional figures reveal that the nominal money base at the end of January 1999 stood at J\$34,587.04Mn. This reflects a contraction of 3.69% relative to

the December 1998 outcome.

The monetary base at the end of January 1999 has contracted by 0.03% relative to the position in January 1998. The fall in base money has been influenced by the reductions in the

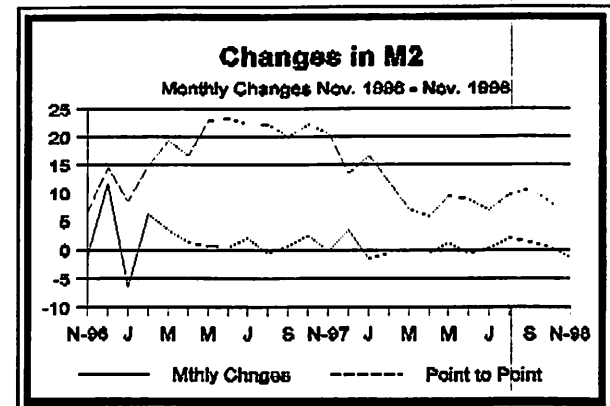
cash reserve ratio. Further reductions may contribute to a continuing increase in the BOC's stock of repos as they try to neutralize the impact of the additional liquidity that these reductions put into the financial system.



Money Supply

Provisional figures for the stock of nominal money supply, as measured by M2, stood at J\$99,216.90Mn at the end of November 1998. This represents a contraction in the

nominal stock of 1.35% relative to the previous month



Over the first eleven (11) months of 1998 the stock of money expanded by 5.38% as compared to a 14.62% expansion over the period of January to November 1997.

The twelve (12) month or point to point movement in money supply up to November 1998 recorded an increase of 7.3% compared with a 20.5% increase for the 12 month period up to November 1997.

A sharp drop in nominal money supply growth for 1998 compared to 1997 is an indication of Government's tight monetary policy.

Production of Selected Commodities

Energy: At the end of January 1999 net generation of power by the Jamaica Public Service Company Limited (JPSCo) stood at 246,367,632kwh. This represents a sharp decline of 2,217,202kwh relative to the energy demand of December 1998. Of the total net generation for the January 1999 period, 47,880,195kwh represents private power purchases of which the largest proportion came from RFPP-JPPC.

Agriculture/Manufacturing:

Cement Production: Total cement production as at the end of January 1999 stood at 50,414 tonnes, an increase of 4,124 tonnes over the previous month's production of 46,290 tonnes.

Total domestic sales also increased at the end of January 1999 relative to the December 1998 outcome. The figure at the end of January stood at 46,093 tonnes or 3,312 tonnes over the December 1998 figure of 42,781 tonnes.

Bananas: Actual banana production stood at 4,770 metric tonnes at the end of December 1998. This represents a reduction of 210 metric tonnes in comparison to the outcome experienced in November 1998.

Total banana production for the 12 month period of 1998 thus

equates to 61,850 metric tonnes when compared to 79,650 metric tonnes for the corresponding period in 1997.

Sugar: Sugar production figures recorded for the month of December stood at 2,730 metric tonnes, moving for the first time since August 1998. This left the total sugar production for the year to stand at 182,750 metric tonnes when compared to 223,900 metric tonnes for the corresponding period in 1997.

Mining: Total Alumina production at the end of January 1999 stood at 292,728 metric tonnes, a reduction of 4,849 metric tonnes relative to the outcome of the previous month. However, alumina production at the end of January 1999 increased by 4,546 metric tonnes over the corresponding period of 1998.

Total alumina exports at the end of January 1999 stood at 288,914 metric tonnes. This reflects a reduction of 7,648 metric tonnes relative to the previous month's outcome, and an increase of 37,062 metric tonnes over the corresponding period last year.

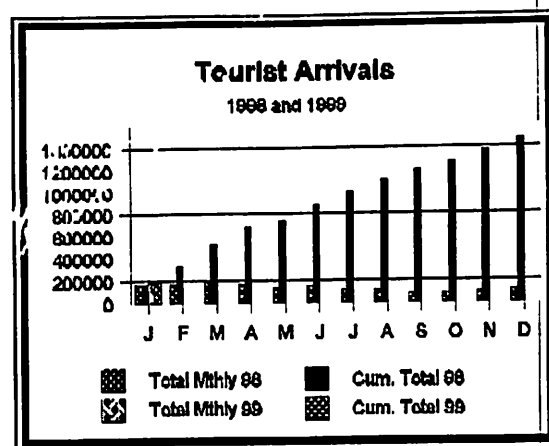
Total Crude Bauxite production reached at the end of January 1999 was 346,319 metric tonnes. This marks an increase of 54,786 metric tonnes compared to the previous month's

outcome, as well as a 72,655 metric tonnes increase when compared to the similar period in 1998.

Exports of Crude Bauxite stood at 356,010 metric tonnes at the end of January 1999. This reflects an increase of 80,162 metric tonnes over the last month's outcome in addition to a 78,278 metric tonnes increase relative to the corresponding period last year.

Tourism

Tourist arrivals were up 10% for the first month of 1999. Growth of 25.8% in cruise ship visitors was recorded while stop-over arrivals fell by 1.6%. Ship calls were up 36% to 61 at the end of January 1999. Of this amount 27 calls were for Montego Bay and the remaining 34 calls to Ocho Rios, no calls were made to Port Antonio.



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The largest proportion of visitor arrivals came from the United States of America (63.84%), Canada (12.34%) and the United Kingdom (8.53%).

The Industry is hoping for growth at least for the first two quarters of 1999, as greater visitor arrivals are expected from college Spring breakers this year compared to the turn out in 1998. Further industry expansion may be inhibited through inadequate infrastructure as is the case in Portland.

External Trade

Exports: For the review period January to December 1998, total exports (F.O.B) were valued at US\$1,290.34Mn, a reduction of US\$95.79Mn relative to the outcome of the corresponding period in 1997. Of this total amount US\$1,240.28Mn accounted for domestic exports while the remaining US\$50.06Mn came from re-exports.

Contributing to the decline in total exports were reductions of US\$87.92Mn, US\$16.85Mn and US\$8.53Mn in major traditional, other traditional and non-traditional exports respectively. These were marginally contracted by an increase of US\$17.51Mn in re-exports. The reduction in the major traditional group continues to reflect mainly the effect of depressed

international prices on the value of alumina exports. During the review period earnings from alumina dropped by US\$76.37Mn despite an increase in export volume. Earnings from sugar and banana exports were also lower than in the 1997 period, falling by US\$7.3Mn and US\$12.48Mn respectively. This stemmed from declines in both the average price and export volume. A decrease of US\$17.28Mn in earnings from coffee was responsible for the reduction in the value of other traditional exports with marginally offsetting increases in cocoa, pimento and gypsum. Crude Material exports, which declined by US\$73.91Mn or 10% in the 1998 period, were largely accountable for the decline in the non-traditional category. A US\$20.11Mn increase in export earnings from beverages and tobacco was the main countervailing influence.

Imports: Total imports (C.I.F) for the January to December 1998 review period stood at US\$2,960.64Mn, a US\$152.4Mn reduction compared to the outcome in 1997.

The US\$152.4Mn reduction in imports was strongly influenced by the decline in raw materials of US\$75.7Mn and capital goods of US\$105.9Mn. The raw materials import category continues to be influenced by the decline in fuel prices on the international market, while the

capital goods import category continues to be influenced by the reduction in Transport and Equipment.

Consumer goods, however, were up US\$29.2Mn mainly through increases in food and other non-durables albeit a contraction in motor vehicle imports. During 1998 motor vehicle imports, as it relates to consumer goods, were US\$31.21Mn lower than for the comparable period in 1997. The driving force behind the increased importation in food and non-durables is directly linked to lower commodity prices prevalent in the international market.

External Sector US\$Mn

	Jan-Dec '97	Jan-Dec '98
Total Exports (F.O.B.)	1386.20	1290.30
Major Traditional Exports	872.20	784.20
<i>Bauxite</i>	72.80	81.00
<i>Alumina</i>	651.70	575.30
<i>Sugar</i>	101.90	94.60
<i>Bananas</i>	45.80	33.30
Other Trad. Exports	73.20	56.40
Non-Trad. Exports	408.20	399.60
Re-Exports	32.60	50.10
Total Imports (C.I.F)	3113.00	2960.60
Trade Balance	-1726.80	-1670.30

Balance of Payments

Merchandise Trade: For the review period January to December 1998 the merchandise trade account recorded a trade deficit of US\$1,101.9Mn. This represents an improvement of US\$18.9Mn compared to the corresponding period in 1997. The improvement on the balance of trade was mainly as a consequence of lower imports relative to exports over the review period. The most notable decline in imports was recorded by the raw materials category. This import category continued to be influenced by the decline in fuel prices on the international market.

Services: On the services account a net surplus of US\$261Mn was recorded for the review period which was US\$46.6Mn lower when compared to the 1997 period. The decrease in net service earning was influenced by the travel and other services sub-accounts. Net contributions from travel declined by US\$39.7Mn to US\$909.8Mn, the expansion in gross tourism receipts was counterbalanced by increased expenditure from Jamaican travelling abroad. The growth in travel receipts was influenced mainly by a 5% improvement in arrivals of foreign national stop-over visitors.

Income: The income account recorded a deficit of US\$93.6Mn in January to December 1998, which was markedly lower than the deficit of US\$201.2Mn for the comparable period of 1997. Compensation to employees

increased by US\$18.2Mn while net investment outflows were US\$89.4Mn less than in the corresponding period of the previous year. The investment income out-turn was due largely to the reduced profitability of the direct investment companies, particularly the mining companies.

Net Current Transfers: Net current transfers of US\$611.7Mn were recorded in January to December 1998, US\$2.1Mn lower than in the comparable period of 1997. Net inflows to the private sector grew by US\$0.5Mn while that of the official sector fell by US\$2.6Mn.

Current Account: For the review period January to December 1998 the current account deficit narrowed by US\$77.8Mn to US\$322.8Mn relative to the corresponding period in 1997.

Capital and Financial Account: The capital and financial account recorded net inflows of US\$6.6Mn and US\$316.2Mn respectively in January to December 1998. The balance on the financial account represented a decline of US\$75Mn when compared to the previous period. This decline was attributed to the official sector, which registered a net deficit of US\$57.5Mn relative to the net surplus of US\$43.1Mn for the previous period. The 1998 turn-out was due to an increase in official debt payments and a reduction in foreign borrowings. The increased net private inflows of US\$415.40Mn were sufficient to cover the official outflows and the current account deficit. This facilitated an increase of

US\$41.5Mn in the NIR of the BOJ compared with the draw down of US\$152.1Mn for the 1997 period.

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<u>Balance of Payments</u>	Jan-Dec '97	Jan-Dec '98
Goods balance	-1120.80	-1101.90
Export	1699.10	1590.40
Imports	2819.90	2692.30
Services - Net	307.60	261.00
Transportation	-287.40	-281.60
Foreign Travel	949.50	909.80
Other Services	-354.50	-367.20
Income	-201.20	-93.60
Compensation of employees	53.70	71.90
Investment Income	-254.90	-165.50
Current Transfers (Net)	613.80	611.70
Private	590.80	591.30
Official	23.00	20.40
Current Account	-400.60	-322.80
Net Capital Movements	9.40	6.60
Private	2.40	2.40
Official	7.00	4.20
Financial A/c	391.20	316.20
Other Official Investment	43.10	-57.70
Other Private Investment	196.00	415.40
Changes in Reserves	152.10	-41.50

MACRO-ECONOMIC INDICATORS
(January 1997 - January 1999)

MONTHS	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
Jan. 97	-2.40	19.32	713.03	708.81	0.6	13.50	173411	91490	81921	-6.60	8.49
Feb.	0.45	17.08	712.34	715.21	0.9	10.80	170162	95382	74780	6.30	14.98
Mar.	0.95	15.18	648.48	767.06	0.3	9.50	199779	125600	74197	3.40	20.93
Apr.	1.03	14.92	637.12	801.47	0.6	8.70	165067	96008	69059	1.41	16.67
May	3.16	20.03	561.08	804.90	0.7	8.2	138439	89862	48577	0.6	22.79
June	0.7	20.49	563.90	800.59	0.4	8.3	152729	107265	45164	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.	7.73	14.50	540.5	1001.28	-0.1	9.20	202926	118262	84664	3.4	13.45
Jan. 98	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	-1.35	5.37
Dec.	7.06	-0.8	581.96	905.07	1.05	7.86	201256	118098	83158	n/a	n/a
Jan. 99	-3.69	-0.04	578	977.3	0.4	7.5	183049	96959	86090		

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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