

New Confidential Economic Bulletin

Private Sector Organisation of Jamaica

Monthly Analysis of the Jamaican Economy

Vol. 5 No. 3, March 1999

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Overview

In the past month there have been two very worrying developments in the economy, both somewhat interconnected. The first one came from the release of the Bank of Jamaica's statistical digest which showed that during 1998, credit to the private sector declined by over \$8.6 billion or 20%, while credit to the public sector grew by almost \$44 billion

or 106%. We have talked for some time now about the public sector's demand for credit crowding out the private sector, but what happened in 1998 is a most dramatic illustration of this phenomenon. The huge growth in public sector borrowing is a major factor preventing interest rates from falling at a faster rate. It is also responsible for the private sector being slowly squeezed out of the credit market.

The second and related matter is the 1999/00 estimates of expenditure, which were tabled in parliament at the end of March. The \$33 billion or 26% increase in expenditure, most of it going to debt servicing, will only exacerbate the situation with regard to the problem mentioned above. The government's need for credit to finance this budget will force it to continue crowding out the private sector from the credit market and may even do so to a greater extent than that which

occurred in 1998. There is also a grave danger that interest rates may rise as the government seeks to meet its very large credit requirements. It's important to note also that although nominal interest rates have fallen slightly since the middle of last year, because inflation is also lower, real interest rates have not fallen significantly.

It appears that the real cost of the monetary policy that we have pursued for the last few years is now coming home to us in full. It has already taken a toll on the private sector and is now bearing heavily on the public sector finances. There is a very real danger of the country sinking into a deep domestic debt trap, if it keeps growing at the current rate. There seems to be little prospect of escaping it as long as we pursue the high interest rate policy. For the private sector, the major question is how to reduce or eliminate the need for debt in operating our businesses, and how to finance growth and

expansion out of internally generated funds as far as possible.

The revenue estimates have not yet been presented but the prospects for growth in 1999 do not look very good. Even if the government is very successful with its divestment campaign, it will still need to raise a large amount of money on the local credit market. The large share of gross domestic product which the budget will consume, about 66%, will leave very little left to nurture and expand private business, which is still our engine of growth. We must therefore hope that when the minister delivers his opening address in the budget debate, he outlines clearly how the present trends will be broken and how he intends to turn the economy around and set it firmly on the path to sustainable growth.

The good news is that inflation continues to fall and the February out-turn of -1.1% took the 12-month rate down to 6.3%, near the lower end of the government's forecast band. During March, the BOJ also managed to calm the jitters in the foreign exchange market and by

the end of the month, pressure on the exchange rate had eased considerably.

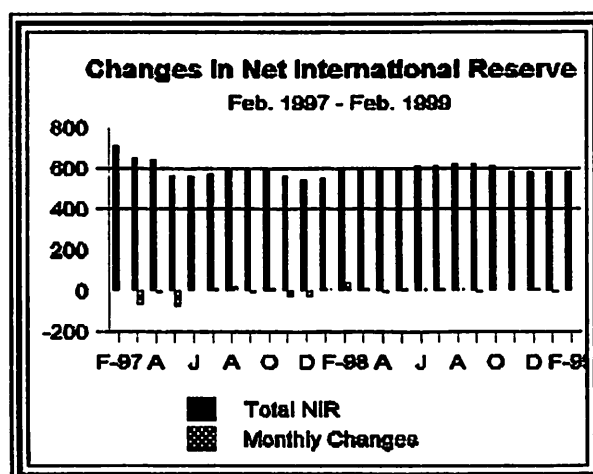
Net International Reserves

Provisional figures for the Bank of Jamaica's Net International Reserves (N.I.R) reveal a stock of funds of US\$578.53Mn at the end of February 1999. This represents a marginal US\$0.53Mn increase in

Additionally, foreign liabilities stood at US\$123.86Mn a reduction of US\$0.68Mn compared to the outcome at the end of January 1999.

The NIR, however, has fallen by US\$9.9Mn at the end of February 1999 when compared to the outcome of the similar period in 1998, when the reserves stood at US\$588.4Mn.

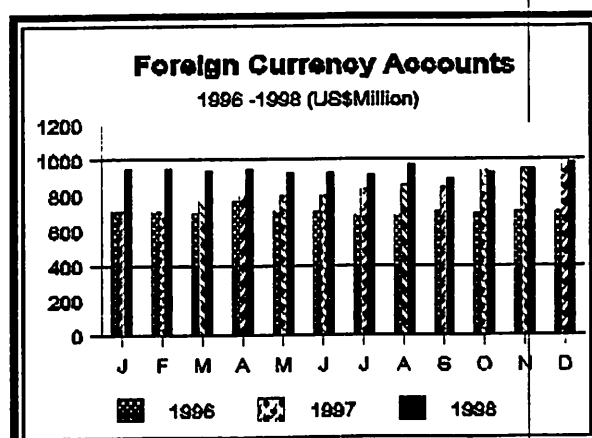
The current level of reserves can support 11.85 weeks of the country's imports based on the projected value of imports for the financial year 1998/99.



Foreign Exchange Accounts

Provisional foreign currency deposits at the end of December 1998 stood at US\$977.30 million, an expansion of US\$34.3 million in the stock of funds relative to the previous month's out-turn

February's outcome relative to the outcome recorded at the end of January 1999 of US\$578Mn. The greater fall in foreign liabilities, accounted for this marginal improvement in the NIR position. Foreign assets at the end of February 1999 stood at US\$702.39Mn, down US\$0.15Mn relative to the out-turn at the end of January 1999.



of US\$943 million. Total foreign currency deposits have, however, 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 on Jamaican dollar deposits.

Exchange Rates

The exchange rate of the local currency against its US dollar trading partner experienced a depreciation of J\$0.26 in nominal terms, as at the end of March 1999. This represents a continuing depreciation since the beginning of 1999 where the Jamaican dollar has now slipped by J\$0.83 in nominal terms relative to the US dollar.

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

- J\$38.28 to 1US\$
- J\$24.64 to 1 CD\$
- J\$59.64 to 1 pound sterling

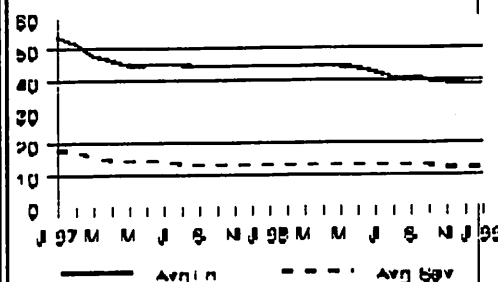
Increased market pressure has resulted in greater volatility of the exchange rate. This has further consequences for the NIR held at the BOJ if the central authorities were to intervene in the foreign exchange market so as to reduce the speculative 'cloud' that currently exists. However, the stability could be reinforced by the significant foreign exchange inflows anticipated from the sale of public sector assets.

Interest Rates

For the first time in seven months the benchmark 30-day reverse repurchase (repo) rate fell by 1.25 percentage points to 20.75% by the end of March 1999, relative to the last seven months' outcome of 22%. The central authorities has also adjusted downwards the 90 days and 180 days repo rates.

Comparative Interest Rates

of Commercial Banks (Jan '97 - Jan '99)



<u>Repo Rates</u>	30 days	90 days	180 days
New Rates	20.75	21.50	22.00
Previous Rate	22.00	22.50	23.00

The spread between savings deposit and lending rates continues to remain high. At the end of January 1999 the spread recorded was 25.45 percentage points, although falling marginally by 1.22 percentage points relative to the spread achieved at December 1998.

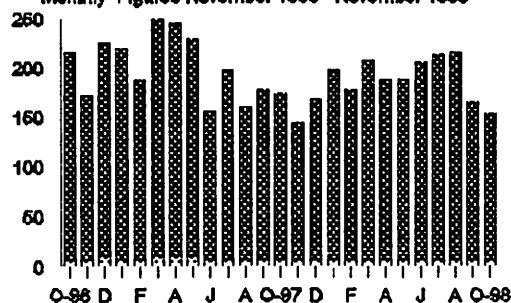
The results of the latest Treasury Bill auctions show that the 182 days rate fell from 21.85% to 21.32%, the offer of J\$350 Mn issued April 1, 1999 for 106 days was oversubscribed by J\$306.8Mn and yielded on average 21.24%.

- the offer of J\$650Mn issued April 1, 1999 for 182 days was over subscribed by J\$576.06Mn and yielded on average 21.32%.

This leaves the total nominal amount of Treasury Bills outstanding as at 01 April 1999 at J\$10.45 billion.

Total US\$ Spot Purchases

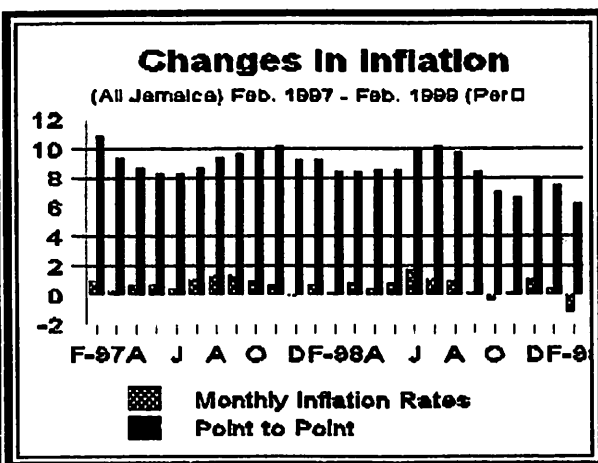
Monthly Figures November 1996 - November 1998



Inflation

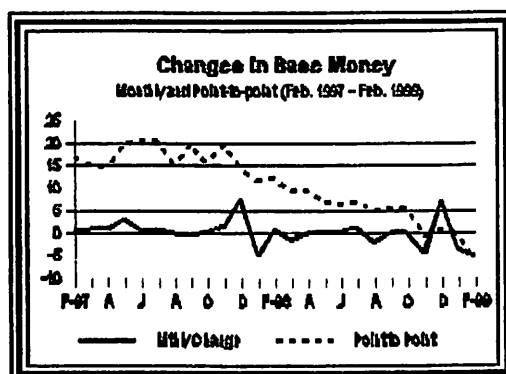
The All Jamaica 'All Group' Consumer Price Index (C.P.I) for February 1999 stood at 1176.81 representing a 1.1% reduction relative to the outcome recorded for the end of January 1999.

Inflation continued on its steady downward path with point to point inflation at 6.3%, reflecting its lowest levels for the decade. The February inflation out-turn of negative 1.1%, and the fiscal year to date out-turn of 5.5%, confirms that the objective of 6% to 8% inflation for the fiscal year 1998/99 will be achieved. With this lower out-turn of inflation, real interest rates would likely experience an increase. This would, however, have a negative impact on the fiscal account, as it would increase real interest payments.



Base Money

Provisional figures provided by the BOJ revealed that at the end of February 1999 the nominal stock of base money stood at J\$32,794.32 Mn. This represents a reduction of 5.18% relative to the outcome of January 1999. The nominal point to point or twelve (12) month movement for February



1999 contracted by 6.19% as against an 11.54% expansion for the corresponding period up to February 1998.

The fall in the monetary base since the start of 1999 has signalled to the market government's continued efforts to stringently monitor its monetary policy.

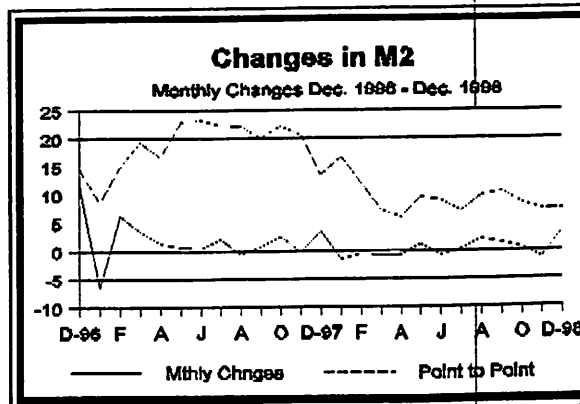
However, a tight monetary policy increases the rate of interest and consequently

retards short to medium term development. The contraction in base money has also been influenced by the reduction in the cash reserve ratio of the commercial banks.

Money Supply

Provisional figures revealed that the stock of nominal money supply, as measured by M2, stood at J\$102,628.9Mn at the end of December 1998. This represents an expansion in the nominal stock of 3.44% relative to the previous month's outcome of J\$99,216.9Mn.

For the twelve (12) month period of 1998 the nominal money supply experienced an overall 7.35% expansion as compared to the nominal expansion of 13.43% for the corresponding period in 1997. This sharp drop in nominal money supply growth is in line with BOJ's target of lower inflation.



Production of Selected Commodities

Energy: Net generation of power, as supplied by the Jamaica Public Service Company Limited (JPSCo) stood at 218,628,670kwh for the end of February 1999. This reflects a sharp decline in output of 27,738,962kwh relative to the energy demand of January 1999. (Of the total net generation for February 1999, 46,413,454kwh represents private power purchases of which the largest proportion came from RIPP-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 February 1999 stood at 268,295 metric tonnes, a sharp reduction of 24,433 metric tonnes relative to the outcome of the previous month. However, alumina production at the end of February 1999 increased by 7,955 metric tonnes over the corresponding period of 1998.

Total alumina exports at the end of February 1999 stood at 276,903 metric tonnes. This represents a reduction of 12,011 metric tonnes relative to the previous month's outcome in addition to a drastic 71,430 metric tonnes reduction relative to the corresponding period last year.

Total Crude Bauxite production reached at the end of February 1999 stood at 305,701 metric tonnes, a 40,618 metric tonnes reduction when compared to the previous month's out-turn of 346,319 metric tonnes. The

out-turn for February 1999 represents, however, a 1,320 metric tonnes increase over the corresponding period of 1998.

Exports of Crude Bauxite at the end of February 1999 stood at 319,259, a reduction of 36,751 metric tonnes relative to the previous month's out-turn of 356,010 metric tonnes. This however, reflects an increase of 9,369 metric tonnes over the corresponding period in 1998.

Tourism

Tourist arrivals were up 9% for the first two months of 1999. Growth of 20% in cruise ship visitors was noted while stop-over arrivals increased by 1%. Ship calls were up 30% to 118.

For February 1999, total stop-over arrivals stood at 102,545 compared to 96,959 in January 1999. (Of the 102,545 in February 1999, 65,235 came from the USA, 19,080 from Europe and the remaining from Latin America, Japan, the Caribbean and other countries.

In addition 57 calls were made in February 1999 with cruise ship passengers amounting to 76,648. (Of this 57 calls 27 were made at Montego Bay and 30 to Ocho Rios.

With the advent of soldiers in tourist areas and the April 1st implementation of a new

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licensing system for the Ocho Rios cruise ship pier, the government seeks to find solutions to the problems of the Industry. However, growth may be inhibited by both inadequate physical infrastructure and reduced expenditure by tourists as a result of lower net disposable income in the international economy. Cumulative tourist expenditure for January 1999 amounted to US\$109.0Mn, a reduction of 6.03% over the January 1998 figure of US\$116.0Mn.

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 declines were marginally offset 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.

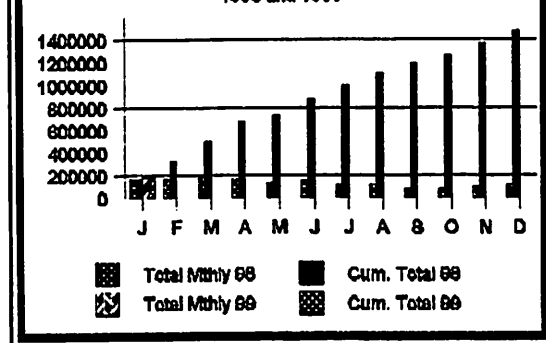
Imports: Total imports (C.I.I.) for the January to December 1998 review period stood at US\$2,960.64Mn, a US\$152.4Mn reduction compared to the outcome in 1997.

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 despite 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.

Tourist Arrivals

1998 and 1999



External Trade

Exports: For the review period January to December 1998, total exports (I.C.I.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

External Sector US\$Mn		
	Jan-Dec '97	Jan-Dec '98
Total Exports 1386.20 (F.O.B.)	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 3113.00 (C.I.F)	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 Jamaicans 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 out-turn 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.

<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
(February 1997 - February 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
Feb. 97	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
Sep.	-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	950.95	0.7	9.28	166934	98517	68417	-1.5	16.7
Feb. 98	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	8.6
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	-4.38	-0.62	576.27	912.52	0.1	6.6	146462	94469	51993	-1.35	7.29
Dec.	7.06	-0.8	581.96	905.07	1.05	7.86	201256	118098	83158	3.44	7.35
Jan.	-3.69	-0.04	578	977.3	0.4	7.5	183049	96959	86090	n/a	n/a
Feb. 99	-5.18	-6.19	578.53	n/a	-1.1	6.3	179193	102545	76648	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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