

New Confidential Economic Bulletin

Private Sector Organisation of Jamaica

Monthly Analysis of the Jamaican Economy

Vol. 5 No. 4, April 1999

CONTENTS

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

Overview

This year's budget debate was one of the more eventful ones in recent times. In presenting his financing package for the J\$160bn expenditure package, the Minister announced a 30% increase in the tax on 4 types of fuel, which was intended to raise J\$2.8bn and came into effect immediately. After 3 days of

roadblocks, demonstrations and some looting, the Prime Minister set up a committee to review the tax measure and make recommendations as to a possible rollback in the tax. The budget debate was suspended while the committee, chaired by PSOJ President, Mr. Peter Moses, deliberated for 4 days and then handed in its recommendation to the Prime Minister. Two days later, the Prime Minister announced a 44% rollback in the tax and the Minister of Finance announced a reduced withholding tax of 15% on all interest-bearing securities to be applied at source.

It was anticipated that the collectibility of the withholding at source would result in revenue of J\$1.751bn above the current tax intake. In an effort to respond to the difficult economic circumstances in which many, especially the young, find themselves, the Prime Minister in his budget

speech announced a \$2.5bn work programme targeted at 40,000 people in the 18-25 age group. The details of the programme were not presented but it is to be spread over an 18-month period and only some \$440mn is to be spent in this fiscal year. This initiative has prompted some commentators to recall the crash programme employment scheme of the 1970's but the Prime Minister has assured the nation that the money will not be wasted and that real work will be done. Unfortunately there was very little in the budget presentations that holds out the prospect of increased investment by the private sector which, if it were to take place, would help tremendously with the problem of unemployment.

The Prime Minister also announced the removal of the stamp duty on insurance policies which would give a welcome boost to that sector, which has been struggling to recover from the general downturn in the

financial sector. A lot will depend on the government's ability to stick to the proposed path of interest rate reduction, which should see T-Bill rates fall to 16% by September 1999. Meeting this deadline will be critical to achieving the average interest rate of 18% upon which the budget has been cast, as most of the IRS will be re-priced for the next 6 months based on the T-Bill rate which is prevailing at that time. The recent reductions in the repo rates and the cash reserve ratio were probably an effort to move rates downward, especially in light of the recent uptick in the 6-month T-Bill rate. This is a commendable move by the BoJ as lower interest rates accrue benefit to both the public and private sectors.

The gas price protests have certainly had an impact on the budget and have also affected those businesses that were looted, damaged or destroyed during the demonstrations. The tourist industry has also been hurt by the disruptions and the industry is now in a recovery mode in an effort to offset the considerable negative publicity that occurred during those 3 days. After a slow start in January, the industry had recorded good growth in February and March and seemed set for a reasonably good winter season. The industry was of

course, hit by many cancellations in the aftermath of the demonstrations. There is also some concern that the island's image in the capital markets of the world may also have been hurt by the protests. If this has in fact occurred, it could make it more difficult for the government to raise the US\$400mn that it plans to borrow to finance the 1999/00 budget.

There has been some pressure on the Jamaican dollar possibly due to the new form of withholding tax that has been announced. It might also be due to pent-up demand that has occurred due to the disruptions of the gas price demonstrations and their negative impact on the tourism industry. Whatever the cause, the BOJ still has the reserves to meet any shortfall between supply and demand and they have stated their willingness to use them in defence of the Jamaican dollar.

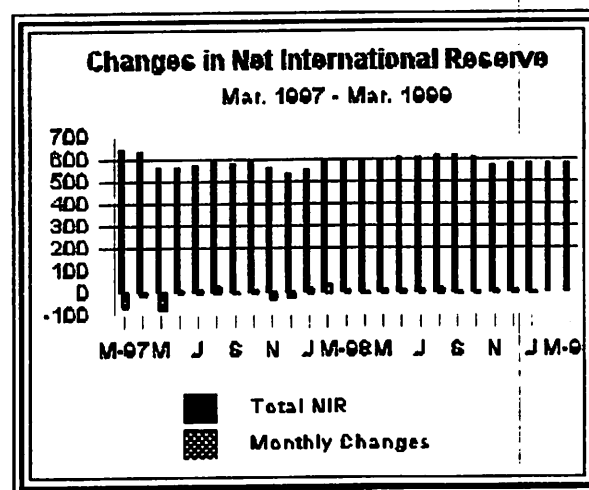
Net International Reserves

Provisional figures provided by the Bank of Jamaica reveal Net International Reserves (N.I.R) at the end of March 1999 at

US\$581.53. This represents an increase of US\$3Mn relative to the previous month's outcome of US\$578.53Mn. The NIR recorded an increase of US\$3.53Mn for the first quarter of 1999.

The greater reduction in foreign liabilities (down US\$5.27Mn) compared with foreign assets (down US\$2.27Mn) accounted for the increase in the NIR position for March 1999.

The NIR, however, has fallen by US\$13.57Mn at the end of March 1999 when compared to the corresponding period in 1998, when the reserves stood at US\$595.1Mn.



The current level of reserves has the capacity of supporting 13.43 weeks of the country's imports based on the estimated value of imports for the financial year 1998/99.

Foreign Exchange Accounts

The nominal stock of foreign currency deposits at the end of February 1999 stood at US\$921.11 Mn, down US\$56.19 Mn relative to January's out-turn of US\$977.30 Mn.

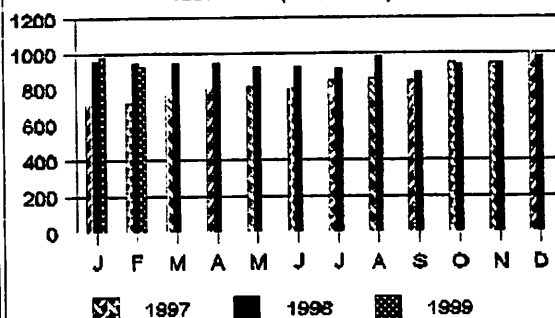
represents a continuing trend since the start of 1999, which has seen the Jamaican dollar slip by J\$1.02 in nominal terms relative to the US dollar.

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

- J\$38.47 to 1 US\$
- J\$25.22 to 1 CDS
- J\$59.64 to 1 pound sterling

The volatility in the foreign exchange market continues to persist despite the sustained intervention during March 1999 of the BOJ to meet increased market demand for US dollars.

Foreign Currency Accounts
1997-1999 (US\$ Million)

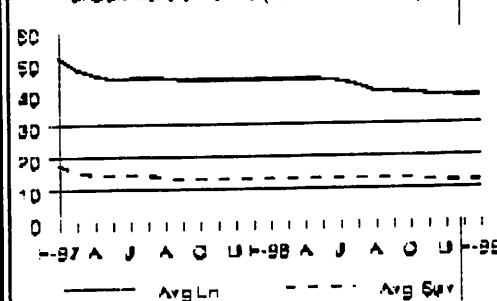


Interest Rates

Effective May 4, 1999 the benchmark 30-day reverse repurchase (repo) rate fell by 1 percentage point to 20.75% on the 90 day instrument, down from 21.50%; and 21.50% for instruments of 180 days in duration, down from 22%.

Comparative Interest Rates

of Commercial Banks (Feb '97 - Feb '99) L



The cash reserve ratio fell during April 1999 by two percentage points to 17% with the implication that it will release more loanable funds to banks, thus making it possible for a reduction in lending rates.

The spread between savings deposit and lending rates continues to remain high given the steady marginal reductions in savings deposits average rate over the beginning of 1999. At the end of February 1999 the spread was

Exchange Rates

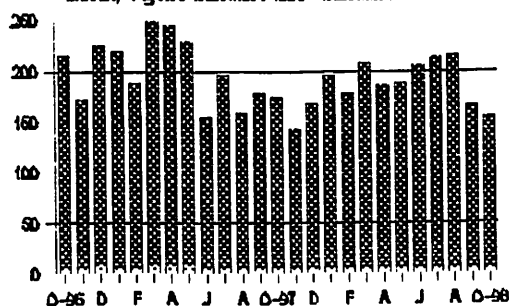
The movement in the foreign exchange market for April 1999 relative to the end of March 1999 saw the Jamaican dollar depreciating in nominal terms, against all its major currency trading partners. The Jamaican dollar slipped by,

- J\$0.19 against the US\$
- J\$0.58 against the CDS
- J\$0.57 against the pound sterling

The marginal depreciation recorded at the end of April 1999

Total US\$ Spot Purchases

Monthly Figures November 1996 - November 1998



26.28 percentage points compared to 26.22 percentage points achieved at the end of January 1999. The average savings deposit rate fell from 12.25% at the end of January 1999 to 12.19% at the end of February 1999. However, the average lending rate remained the same throughout the period at 38.47%.

The results of the latest Treasury Bill auctions were as follows:

- the offer of J\$750Mn issued April 30, 1999 for 182 days was over subscribed by J\$185.5Mn and yielded on average 21.75%.

Inflation

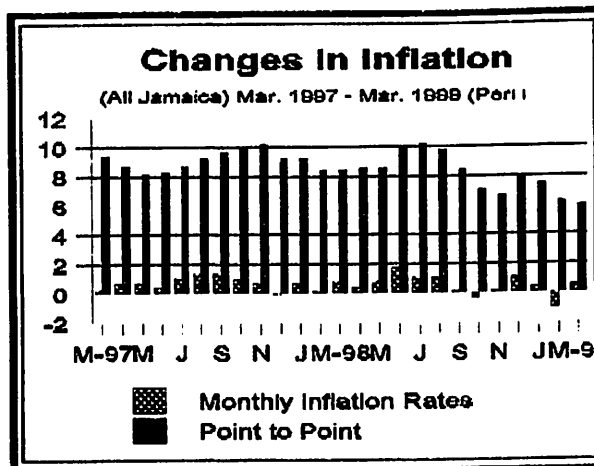
The All Jamaica 'All Group' Consumer Price Index (C.P.I) for March 1999 stood at 1182.5 or 0.5% above the outcome recorded at the end of February 1999. This represents an inflation rate of 6% for the fiscal year 1999 and at the lower end of the 6-8 percent band targeted by government for the period.

The inflation for the fiscal period was an improvement on the 7.9% recorded during the calendar year 1998 due largely to the 1.1% deflation in February.

The Kingston Metropolitan Area recorded the highest level of

price increase during the fiscal year of 6.8%. A virtual freeze in the price of food was the main factor behind the low inflation during the review year.

point to point or twelve (12) month movement up to March 1999 contracted by 2.8% compared to a 13.95% expansion for the corresponding period up to March 1998.



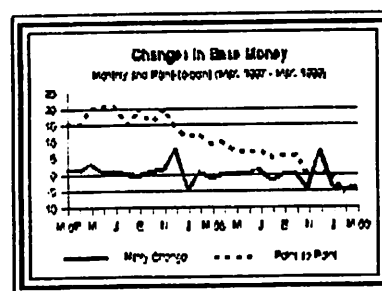
With this lower out-turn of inflation, real interest rates would likely experience an increase. This would, however, have a negative impact on the fiscal account, as it would increase real interest payments.

Base Money

Provisional data provided by the BOJ revealed that the nominal measure of base money at the end of March 1999 stood at J\$33,521.17Mn. This represents a contraction in the nominal measure of 3.66% relative to the February 1999 out-turn, as well as an overall 3.08% contraction since the start of the year. The nominal

The government's tight base money management continues for 1999, even more so than 1998. This has severe implications for the ability to achieve growth given the already weakened position of the economy. The implication here is

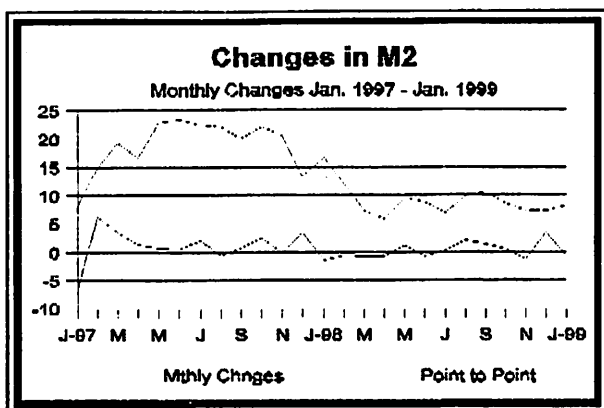
that not only will the average individual be severely constrained by his tight budget but the government is likely to face increased real interest rates in debt payments on the fiscal accounts.



Money Supply

Provisional figures provided by the BOJ showed the nominal stock of money M2 for the end of January 1999 at J\$101926.40Mn.

This reflects an 8.21% increase relative to the out-turn in January 1998. However, nominal money supply contracted by 0.68% relative to the outcome recorded at the end of December 1998.



This movement in the nominal money supply growth rate is in line with the 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 247,040,300kwh for the end of April 1999. This represents an overall increase of 28,412,630kwh relative to the energy demand of February 1999. Of the total net generation for April 1999, 60,555,482kwh represents private power purchases of which the largest component came from RFP-PPC.

Agriculture/Manufacturing:

Cement Production: Total cement production at the end of April 1999 stood at 38,892 tonnes, a reduction of 6,880 metric tonnes when compared to the output of March 1999.

Total domestic sales at the end of April 1999 stood at 45,153 tonnes down 11,859 tonnes relative to the outcome in March 1999.

Bananas: Total banana production at the end of

February 1999, stood at 4,240 metric tonnes. This reflects a 380 metric tonnes reduction relative to the previous month's outcome of 4620 metric tonnes, as well as a 500 metric tonnes decline when compared to the corresponding period in 1998.

Sugar: Total sugar production for February 1999 increased by 13,330 metric tonnes to 33,030 metric tonnes when compared to January 1999. However, sugar production declined by 9,000 metric tonnes for February 1999 relative to the corresponding period in 1998.

Mining: Total Alumina production at the end of March 1999 stood at 281,003 metric tonnes, an increase of 12,708 metric tonnes relative to the outcome of the previous month. However, alumina production at the end of March 1999 has

declined by 3.91% relative to the corresponding period of 1998.

Total alumina exports at the end of March 1999 stood at 265,365 metric tonnes, a decline of 11,538 metric tonnes relative to the previous month's outcome. However, export volume increased by 20.03% when compared to the similar period in 1998.

Total Crude Bauxite production at the end of March 1999 stood at 331,128 metric tonnes, an increase of 25,427 metric tonnes when compared to the previous month's out-turn of 305,701 metric tonnes. The outcome for March 1999 represents, however, a 6.08% decline relative to the corresponding period in 1998.

Exports of Crude Bauxite at the end of March 1999 stood at 318,971 metric tonnes, a reduction of 288 metric tonnes relative to the previous month's out-turn of 319,259 metric tonnes. Exports of crude bauxite for March 1999 reflects a 0.93% decline relative to the outcome in March 1998.

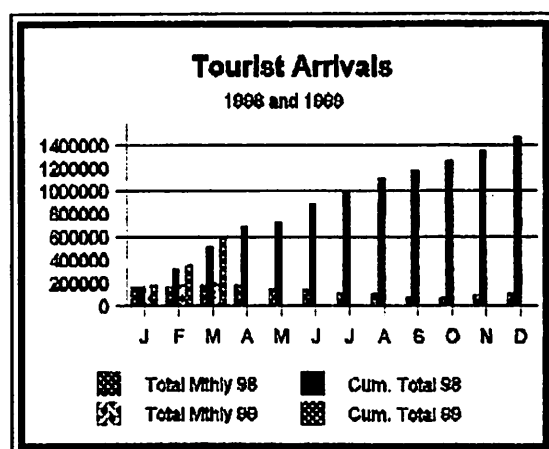
Tourism

For March 1999, total stopover arrivals stood at 131,503 compared to January and February's outcome of 96,959 and 102,545 visitors respectively. Of the 131,503 stopover arrivals, 71.7% came from the USA.

14.39% from Europe and the remainder largely from the Caribbean, Latin America and Japan.

In addition 65 calls were made in March 1999 with cruise ship passengers amounting to 88,792, up 3.14% and 15.84% respectively when compared to the out-turn in the first two months of 1999. Of the 65 calls, 32 were made to Montego Bay and 33 to Ocho Rios.

The cumulative expenditure for the January to February 1999 period was US\$215.40Mn, a 0.42% reduction when compared to the corresponding period of 1998.



The recent riots in April 1999 may have a severe negative impact on the out-turn for the remaining months of 1999, given the existing social fabric and physical infrastructure in the economy.

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 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.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 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.

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 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
(March 1997 - March 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
Mar. 97	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.	7.73	14.50	540.5	1001.28	-0.1	9.20	202926	118262	81664	3.4	13.45
Jan.	1.9	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. 98	-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	-1.38	-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	-0.68	8.21
Feb.	-5.18	-6.19	578.53	921.11	-1.1	6.3	179193	102545	76648	n/a	n/a
Mar. 99	-3.66	-2.8	581.53	n/a	0.5	5.4	220295	131503	88792	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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