

# New Confidential Economic Bulletin

*Private Sector Organisation of Jamaica*

## Monthly Analysis of the Jamaican Economy

Vol. 6 No. 1, May 1999

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### Overview

The new withholding tax arrangements came into force on 1/6/99 and have had quite an impact on our financial institutions. The 15% withholding tax has been imposed on all institutions and only credit unions and pension funds will be able to recover it without filing their income tax returns. Apart from disrupting the cash flow of a number of the

institutions, the tax is being withheld on all interest paid by the government after 1<sup>st</sup> June, whether the interest accrued before that date or not. This means that institutions that were repo-ing longer-term instruments prior to this date and have already paid interest gross on those operations will find themselves in a cash deficient position until they can benefit from the tax credit when they file their income tax return.

The withholding on the financial institutions themselves will affect both their cash flow and their profitability. As usual, it is the weaker companies who will suffer the greatest damage and those that have been taken over by FINSAC will find it that much harder to return to profitability and viability. For investors, the tax reduces the gross return by 2.5 to 3 percentage points, lowering current yields to between 15 and 16%. These yields are programmed to fall to between 12.5 and 14% by September 1999. As the returns on Jamaican dollar securities have

approached those available on some hard currency instruments, there has been some asset switching and some unwinding of arbitrage positions. This has lead to some pressure on the exchange rate which has slipped somewhat in recent weeks. Although the J\$ has traded as high as J\$39.35:US\$1.00, the BCI has been selling into the market at about J\$38.70:US\$1.00 and there are no signs of undue stress in the market.

The government is preparing to go to the international capital market in June or early July and there is a good chance that the issue will be successful. Ironically, if the interest rate is fairly attractive (as it is likely to be), it may have the effect of increasing the local demand for US dollars, as investors try to take advantage of the new opportunity. A successful issue will boost the confidence of the policymakers and provide them with some of the resources which they need to continue with the current policy programme.

How well this all holds together will depend in no small part on the government's ability to keep the fiscal deficit on target. Although revenue for the first month of the 1999/00 financial year was off target by 2.7%, expenditure was 9.8% below target due to an 80.9% shortfall in capital expenditure. It appears that government will again sacrifice capital expenditure in an effort to keep the fiscal numbers on track. The other critical issue will be the course of interest rates during this year. Expenditure on interest was 5% over budget in April, thus

## Net International Reserves

The increase in the NIR for April 1999 was solely as a result of a US\$5.88Mn increase in the foreign assets over the March 1999 to April 1999 period, while foreign liabilities remained unchanged at US\$118.59Mn.

The continuation of this trend is going to be dependent on the balance between the

demand for hard currency as arbitrage positions unwind and the supply that comes to the market from the proceeds of divestment sales and the upcoming bond issue.

The chart displays two data series over time from April 1997 to May 1999. The Y-axis represents values from -100 to 700. The 'Total NIR' series (solid black bars) shows a high initial value of approximately 650 in April 1997, which drops sharply to around 550 in May 1997 and then fluctuates between 500 and 650 for the remainder of the period. The 'Monthly Changes' series (patterned bars) shows small fluctuations, with a notable negative change of about -50 in May 1997 and other minor variations throughout the period.

Month	Total NIR	Monthly Changes
A-97	650	-10
J	550	-50
A	580	10
D	600	20
D	550	-10
F	580	-10
A-98	600	50
J	600	10
A	620	20
D	650	30
D	600	10
F	600	20
A-99	600	10
J	600	20
A	600	10
D	600	20
D	600	10
F	600	20
A-99	600	10
J	600	20
A	600	10
D	600	20
D	600	10
F	600	20
A-99	600	10
J	600	20
A	600	10
D	600	20
D	600	10
F	600	20
A-99	600	10
J	600	20
A	600	10
D	600	20
D	600	10
F	600	20
A-99	600	10
J	600	20
A	600	10
D	600	20
D	600	10
F	600	20
A-99	600	10
J	600	20
A	600	10
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D	600	10
F	600	20
A-99	600	10
J	600	20
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D	600	10
F	600	20
A-99	600	10
J	600	20
A	600	10
D	600	20
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F	600	20
A-99	600	10
J	600	20
A	600	10
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A-99	600	10
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A-99	600	10
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A-99	600	10
J	600	20
A	600	10
D	600	20
D	600	10
F	600	20
A-99	600	10
J	600	20
A	600	10
D	600	20
D	600	10
F	600	20
A-99	600	10
J	600	20
A	600	10
D	600	20
D		

Provisional figures for the nominal stock of foreign currency deposits at the BOD, as

Month	1997	1998	1999
J	720	960	940
F	740	960	940
M	800	960	940
A	800	960	940
M	840	960	940
J	840	960	940
J	880	960	940
A	920	960	940
S	920	960	940
O	960	960	940
N	960	960	940
D	1000	960	940



Deflation, or the general decline in the prices of goods and services, does not stimulate

(12) month measure of the monetary base fell by 3.04% up to April 1999 compared to an 8.67% expansion for the same period up to April 1998.

## Inflation

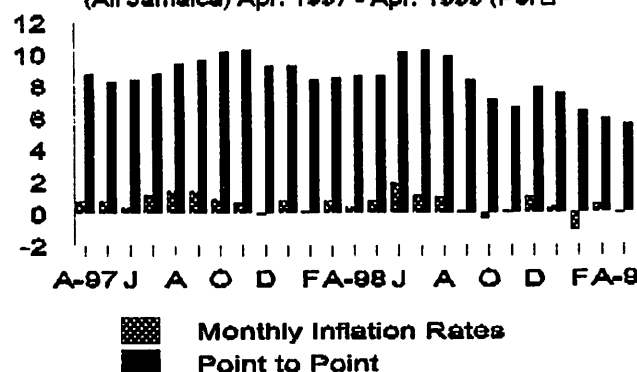
The All Jamaica 'All Group' Consumer Price Index (C.P.I) for April 1999 stood at 1181.32 or 0.1% below the outcome achieved at the end of March 1999. This represents a deflation of 0.35% since the start of the year, as well as a 5.49% inflation rate between April 1998 and April 1999.

Sharp declines in food prices continue to drive the reduction in the CPI. In April 1999 vegetable and fruit prices fell by 5% bringing the decline since January 1999 to 17.2% and 8.8% over the 12 months up to April 1999.

In sharp contrast all other main categories and sub-sectors of the CPI have risen in the 12 months to the end of April. Transportation rose by 23.5% and housing and other housing expenses rose by 13.5% in the past year, with the rental expenses sub-sector rising by nearly a fifth. Fuel and other household supplies have increased by 5.5% over the past year but dropped by 1.6% in April. Furnishings went up by 3.6% point to point, healthcare up 8% and personal clothing 3.7%.

### Changes in Inflation

(All Jamaica) Apr. 1997 - Apr. 1999 (PerU)



The point to point, as well as the movement in the monetary base since the start of the year has pointed to further reductions in the base money. This has been consistent with the government's tight

growth and employment and negatively impacts on the fiscal account through higher real interest rates and lower tax revenues.

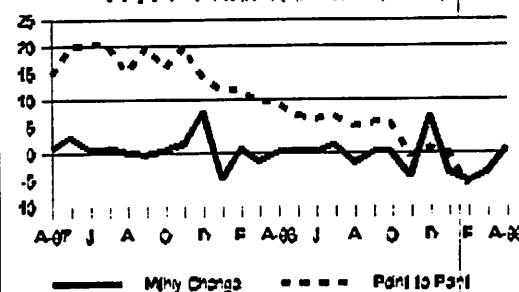
## Base Money

Provisional figures at the end of April 1999 gave \$33,788.16Mn as the nominal measure of base money. This reflects an increase, in nominal terms, of 0.8% relative to the previous month's out-turn of US\$33,521.17Mn.

The monetary base (or base money) has contracted by 2.31% since the start of 1999 compared to a 0.72% expansion for the similar period in 1998. The point to point or twelve

### Changes in Base Money

Monthly and Point-to-point (Apr. 1997 - Apr. 1999)



monetary policy approach and suggests that much of the liquidity that has been released by the reduction in the cash reserve ratio, has been mopped up by open market operations by the BOJ.

## Money Supply

Provisional figures provided by the BOJ reveal that the nominal

stock of money (as measured by M2) stood at J\$102,788.90 as at the end of February 1999.

The point-to-point or 12 month nominal money supply grew by 9.85% up to February 1999 as compared to a growth of 11.87% up to February 1998. This reduction in the nominal growth

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 RFPF-JPPC.

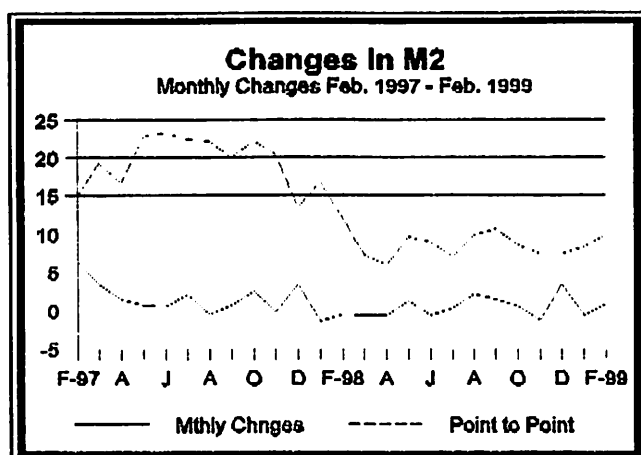
the previous month. In addition, total sugar production has increased by 87.49% at the end of March 1999 relative to the outcome achieved for the similar period last year.

**Mining:** Total Alumina production for the month of April 1999 was 308,152 metric tonnes, a 4.57% increase relative to the outcome of the corresponding month last year. For the first four months of the year total alumina production stood at 1,150,178 metric tonnes. This reflects a 1.28% increase when compared to the similar period of 1998.

Exports of alumina for the month of April 1999 reached 293,232 metric tonnes or 25.6% below last period's output. Since the start of the year total alumina exports stood at 1,122,414 metric tonnes, a 7.65% reduction when compared to the output of the corresponding period in 1998.

Total Crude Bauxite production stood at 329,133 metric tonnes for the month of April 1999, reflecting an 18.48% decline relative to the out-turn achieved in April 1998. Additionally, the year to date production of 1,312,261 metric tonnes has declined by 1.65% relative to the outcome of the similar period in 1998.

Crude Bauxite exports for the month of April 1999 reached 329,320 metric tonnes. This



### 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 stood at 4640 tonnes compared to the previous month's performance of 4240 tonnes. Additionally, there has been a 5.22% increase in banana production this year relative to the corresponding period of 1998.

**Sugar:** Total sugar production at the end of March 1999 stood at 42,050 metric tonnes as compared to 33,030 metric tonnes recorded at the end of

rate of money supply is an indication of the central authorities tighter liquidity management in recent months. However, the point to point rate is now on the increase, up from a low of 7.3% in November 1999.

### **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

represents a 21.85% drop relative to April 1998. Since the start of the year exports of Crude Bauxite fell marginally by 0.56% to 1,323,560 metric tonnes as compared to the outcome of the corresponding period in 1998.

## Tourism

Tourist stop-over arrivals at the end of April 1999 stood at 106,611 visitors, of which 99,050 are foreign nationals and the remaining 7,561 are non-resident Jamaicans. The outcome of April 1999 reflects a decrease of 24,892 visitors relative to the outcome of the previous month. Overall, total visitor arrivals stood at 437,618

compared to the previous month's out-turn of 88,792 passengers. Ocho Rios recorded the highest number of cruise ship calls with 26, whereas Montego Bay recorded 19 calls. Since the start of the year a total of 320,308 cruise passenger arrivals were made, this represents an increase of 16.4% relative to the outcome of 1998.

With the recent JAPEX programme, a serious attempt has been made by the Jamaica Tourist Board to reduce the already marred image of Jamaica as a tourist destination and to recover its share of the market as a consequence of the April riots.

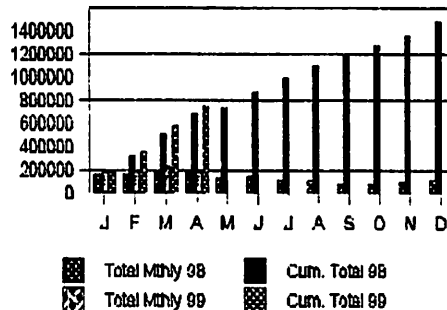
review Food, Crude Materials, and Miscellaneous Manufactured Articles accounted for the majority of total domestic exports. However, in the 1999 period, of these three S.I.T.C. sections, only Food which earned US\$44.6Mn showed growth. Exports of Crude Materials (excl. fuels) which includes the major items, bauxite and alumina declined by US\$20.0Mn to US\$102.3Mn. Earnings from the Miscellaneous Manufactured Articles of which wearing apparel is the major export item, fell from US\$32.2Mn to US\$22.9Mn in the 1999 period.

Major traditional domestic exports earned US\$137.8Mn, down from US\$156.4Mn. Agriculture (which includes items such as banana, citrus, coffee, cocoa and pimento), earned US\$10.4Mn. Receipts from Mining and Quarrying were US\$19.8Mn less, amounting to US\$101.9Mn. Manufactured Goods, (sugar, rum, citrus, coffee and cocoa products) together earned US\$25.5Mn, an increase of 3.6% over the 1998 period.

Non-traditional domestic exports for the 1999 period earned US\$43.2Mn, or US\$18.0Mn less. Exports of non-traditional food increased slightly to US\$11.1Mn. Beverages and Tobacco (excl. Rum) earned US\$4.0Mn, Crude Materials US\$0.4Mn and the Other Exports which includes wearing apparel earned US\$27.8Mn.

**Tourist Arrivals**

1998 and 1999



since the start of the year compared with 420,212 for the corresponding period in 1998.

Total cruise passenger arrivals during April 1999 stood at 68,778, down 20,014 when

## External Trade

**Exports:** Total exports for January and February 1999 declined by 12.3% or US\$27.1Mn to earn US\$193.6Mn. The trade deficit at the end of this period stood at US\$207.5Mn compared to US\$230.1Mn in the comparable period of 1998.

Domestic exports amounted to US\$181.0Mn and re-exports US\$12.6Mn. This compares to US\$217.8Mn and US\$3.1Mn respectively during the comparable period of 1998. During the periods under

**Imports:** Imports for the first two months of 1999 were valued at US\$401.1Mn, 11.0% below the comparable period of 1998 when US\$450.8Mn was spent.

All categories of imports showed declines. Consumer Goods fell by US\$5.5Mn or 3.9% to approximately US\$135.0Mn. This decline was largely due to the US\$10.3Mn fall in the expenditure on Durable Goods - Motor Cars, during the period. The increases in the importation of Food (including Beverages) and other Consumer Durables however were not enough to offset this decline. Goods imported for use as Raw Materials declined by 16.2% to US\$194.5Mn. The major contributor to this was Industrial Supplies, which fell from US\$118.7Mn to US\$96.7Mn in this period. Expenditure on Capital Goods at US\$71.6Mn was less by US\$6.5Mn or 8.3%. Machinery and Equipment was the only sub-category to show an increase.

External Sector US\$Mn		
	Jan-Feb '98	Jan-Feb '99
<b>Total Exports (F.O.B.)</b>	<b>268.61</b>	<b>230.39</b>
<b>Major Traditional Exports</b>	<b>149.76</b>	<b>129.96</b>
Bauxite	11.80	13.50
Alumina	109.90	88.20
Sugar	22.05	22.58
Bananas	6.10	5.68
<b>Other Trad. Exports</b>	<b>6.66</b>	<b>7.82</b>
<b>Non-Trad. Exports</b>	<b>61.23</b>	<b>43.25</b>
<b>Re-Exports</b>	<b>3.09</b>	<b>12.60</b>
<b>Total Imports (C.I.F.)</b>	<b>483.85</b>	<b>430.17</b>
Consumer Gds.	140.50	135.00
Raw Materials	232.15	194.54
Capital Gds.	78.16	71.64
<b>Trade Balance</b>	<b>215.24</b>	<b>199.78</b>

## Balance of Payments

**Merchandise Trade:** For the review period January to February 1999 the merchandise trade account recorded a deficit of US\$135.3Mn, a US\$7.1Mn improvement when compared to the same period last year. Exports (f.o.b.) totalled US\$230.4Mn during the review month, compared with US\$268.5Mn in 1998. This reflected the adverse effect of declining earnings from alumina and garment exports and also a reduction in the value of banana exports.

Merchandise imports (f.o.b.) contracted by US\$45.2Mn to US\$365.7Mn. All categories of goods declined, the most

notable being Raw Materials (down US\$37.6Mn) compared to Consumer Goods (down US\$5.5Mn) and Capital Goods (down US\$6.5Mn. Merchandise imports continues to be influenced by the decline in fuel prices in the international markets as well as Jamaica's deep economic recession.

**Services:** The US\$79.2Mn surplus on the services account, which includes tourism revenue and transportation charges, was not enough to fund the deficit on the merchandise account. Tourism inflows improved by US\$1.4Mn to US\$172.4Mn during the review period. The improvement was due both to an increase in gross tourism receipts, offset by an increase in the payments made by the Jamaicans travelling abroad. At the same time, however, the outflow from transportation payments contracted by US\$9.6Mn reflecting the reduction in freight and insurance charges caused by the decline in merchandise importation.

**Income:** Investment income, or the outflow created by companies repatriating profits and dividends, fell by a quarter over the period January to February 1999 to US\$4.8Mn, largely reflecting reduced profitability by foreign companies operating in Jamaica and the declining returns on portfolio incomes. Hence, the outflow of investment income fell by US\$10.4Mn to US\$17.1Mn. At the same time, Net Compensation to Employees rose by US\$1.2Mn to US\$12.3Mn.

**Net Current Transfers:** A major source of the funding for the merchandise imports continued to be the remittances by Jamaicans living abroad, mainly in the United States, Canada and in the United Kingdom. However, private transfers fell marginally by US\$3.2Mn to US\$87.7Mn over the review period. Official transfers, over the period January to February 1999 remained at US\$2.2Mn relative to the outcome of the comparable period in 1998.

**Current Account:** The surplus on the current account for January to February 1999 improved by US\$24.1Mn when compared to the same period last year. It was developments in the merchandise, income and services accounts that had the biggest impact on the current account.

**Capital and Financial Account:** The inflows of the capital and financial account, which are usually sufficient to fund the short fall created by the merchandise imbalance, had a disappointing performance during January to February 1999. Official investments declined by US\$50.6Mn while private sector investments declined by US\$25.7Mn. As a result, the Capital and Financial account deteriorated by US\$24.1Mn. The result was that the overall hard currency inflow in January to February 1999 was insufficient to cover the import bills, forcing the central bank to draw down its net international reserves by US\$3.5Mn to fund the short fall. This reversed the US\$47.9Mn surplus posted for the first two months 1998.

<b><i>Balance of Payments</i></b>	<b>Jan-Feb '98</b>	<b>Jan-Feb '99</b>
<b>Goods balance</b>	<b>-142.4</b>	<b>-135.3</b>
Export	268.5	230.4
Imports	410.9	365.7
<b>Services - Net</b>	<b>70.6</b>	<b>79.2</b>
Transportation	-40.1	-30.5
Foreign Travel	171.0	172.4
Other Services	-60.3	-62.7
<b>Income</b>	<b>-16.4</b>	<b>-4.8</b>
Compensation of employees	11.1	12.3
Investment Income	-27.5	-17.1
<b>Current Transfers (Net)</b>	<b>93.1</b>	<b>89.9</b>
Private	90.9	87.7
Official	2.2	2.2
<b>Current Account</b>	<b>4.9</b>	<b>29.0</b>
<b>Net Capital Movements</b>	<b>1.3</b>	<b>2.1</b>
Private	1.0	1.1
Official	0.3	1.0
<b>Financial A/c</b>	<b>-6.2</b>	<b>-31.1</b>
Other Official Investment	3.2	-47.4
Other Private Investment	38.5	12.8
<b>Changes in Reserves</b>	<b>-47.9</b>	<b>3.5</b>



**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
Apr.97	1.03	14.92	637.12	801.47	0.6	8.7	165067	96008	69059	1.41	16.67
May	3.16	20.03	561.08	804.9	0.7	8.2	138439	89862	48577	0.6	22.79
June	0.7	20.49	563.9	800.59	0.4	8.3	152729	107265	45464	0.5	23.27
July	0.8	20.48	569.4	838.28	1.1	8.7	166026	118948	47078	2.1	22.37
Aug.	-0.02	15.23	589.7	852.1	1.4	9.3	153870	109221	44649	-0.6	22.16
Sept.	-0.4	19.98	585.5	847.2	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	20.5
Dec.	7.73	14.5	540.5	1001.28	-0.1	9.2	202926	118262	84664	3.4	13.45
Jan.	4.9	11.6	553.2	950.95	0.7	9.28	166934	98517	68417	-1.5	16.7
Feb.	0.9	12.1	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.98	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	8.6	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	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	921.11	0.4	7.5	183049	96959	86090	-0.68	8.21
Feb.	-5.18	-6.19	578.53	929.03	-1.1	6.3	179193	102545	76648	0.79	9.85
Mar.	-3.66	-2.8	581.53	n/a	0.5	5.4	220295	131503	88792	n/a	n/a
Apr.99	0.8	-3.04	587.41	n/a	-0.1	5.49	175389	106611	68778	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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