

# New Confidential Economic Bulletin

*Private Sector Organisation of Jamaica*

## Monthly Analysis of the Jamaican Economy

Vol. 5 No. 8, August 1999

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## Overview

The government's difficulty in raising funds overseas has already had an impact on the economy and resulted in a substantial draw down of the NIR as the government used proceeds from it to pay down a US dollar bond which matured in July. As a result of this, the reserves fell by US\$103.6mn in July, though they recovered by about US\$40mn in August as

part of the proceeds of the Carib Cement US dollar bond issue were sold to the BOJ. There are no other major private inflows of hard currency on the immediate horizon and the government still has substantial foreign debt service obligations, which must be honoured before the end of the fiscal year. The BOJ has also continued its interventions in the foreign exchange market. It therefore seems quite likely that the reserves will decline further in the coming months.

After holding steady at just over 20% since May 1999, the 82-day Treasury bill rates fell to about 18.6% at the tender on 8/9/99. It's too early to tell if this is the beginning of a resumption in the gradual decline in interest rates that began earlier in the year, but the government has a great deal to gain from a lowering of T-bill rates to 16% before the end of September. At the end of that month, the interest rates on most of its Local Registered Stock will be reset at a premium above the last T-bill tender in

September, therefore the lower the T-bill rate that prevails at that time, the lower will be the interest rates on the government's large stock of LRS. This year's budget for domestic debt servicing was predicated on T-bill rates falling to 16% by September. We should not therefore be surprised if rates move down further at the next T-bill auction. However, it will be a challenge for the government to keep rates moving down without some re-alignment in monetary policy.

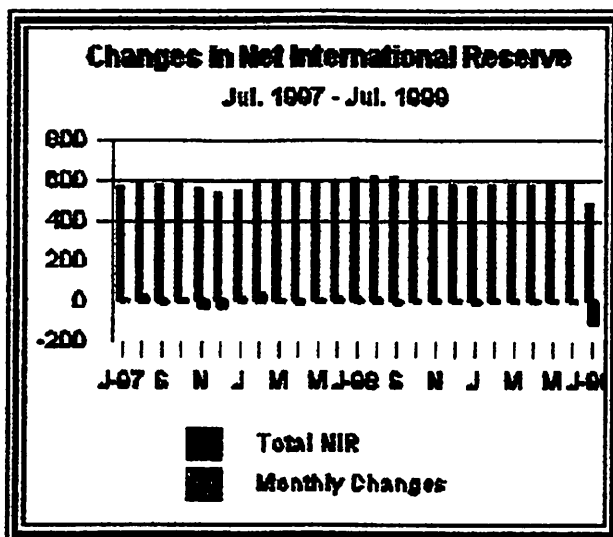
Sustained intervention in the foreign exchange market has kept the exchange rate hovering at just under J\$40:US\$1 for the past month. There is every likelihood that this will continue, though the volume of sales into the market may have to increase if the slow slippage in the exchange rate is to be halted altogether.

While 12-month inflation to July 1999 has remained at the same level of 5% recorded in June, the monthly rate of 1.2% remains outside the target range for the current calendar and fiscal years.

Another worrying factor is the growth in money supply (M2), which had risen to 14% per annum in May 1999. A major factor behind the growth of M2 has been the dramatic increase in domestic credit to the public sector, which has grown by about 100% since the start of 1998 and by 5% in the first 5 months of 1999. Given the shortfall in foreign borrowing, government's need for domestic credit is unlikely to fall in the coming months. These inflationary pressures are therefore likely to continue. If the situation does not deteriorate much further, it appears that calendar year inflation may come out in the range of 6-8% and fiscal year inflation in the range of 8-10%.

## Net International Reserves

The total stock of Net International Reserves (NIR) at the Bank of Jamaica (BoJ) stood at US\$486.98Mn as at the end of July 1999. This reflects a significant reduction of US\$103.59Mn relative to the out-turn of the previous month. The impact of the July out-turn also resulted in an US\$91.02Mn reduction in the NIR since the start of 1999.



The point-to-point or twelve (12) month NIR at the end of July 1999 fell sharply by US\$124.92Mn compared to the US\$42.5Mn increase over the similar period up to July 1998.

The sharp movement in the NIR at the end of July 1999 was mainly as a result of an US\$103.59Mn reduction in gross foreign assets relative to the previous month as gross foreign liabilities remained unchanged over the period.

The downward trend in the NIR levels of the first seven months of 1999 relative to 1998 is expected to continue for the remaining months of 1999, given;

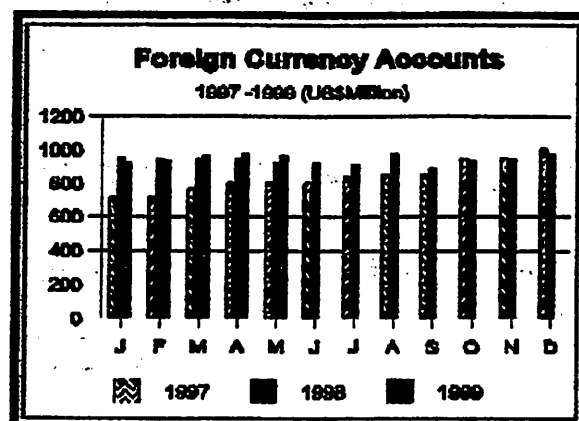
- I. the continued inability of the

government to find external sources of funding.

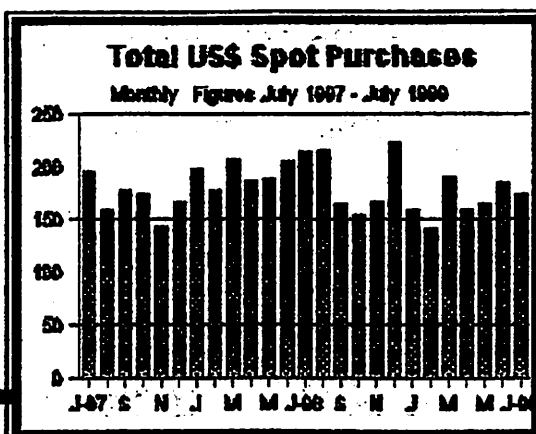
- II. the government's debt servicing obligations, as well as
- III. the continued volatility in the foreign exchange market.

## Foreign Exchange

The provisional figures for the total stock of foreign currency deposits as provided by the BoJ, as at the end of May 1999, stood at US\$965.84Mn. This represents a reduction of US\$13.42Mn relative to the previous month's performance; a trend reflective of the movement in total foreign currency deposits since the start of 1999, which have declined by US\$11.46Mn. The point-to-point or twelve (12)



months movement in the stock of foreign currency deposits up to May 1999 increased by US\$41.5Mn compared with the sharp improvement of US\$119.4Mn over the corresponding period up to the end of May 1998.



The results were as follows:

- the offer of J\$350Mn issued on the 25<sup>th</sup> August 1999 for a maturity of 77 days was oversubscribed by J\$383.9Mn and yielded on average 20.39%.
- the offer of J\$650Mn issued on the 25<sup>th</sup> August 1999 for 182 days was oversubscribed by J\$215.3Mn and yielded a rate of 20.63% on average, up from 20.04% from the previous issue dated 30<sup>th</sup> July 1999.

## Exchange Rates

The volatility in the foreign exchange market continued in the month of August 1999 and by September 3, 1999 the Jamaican dollar slipped by J\$0.14, J\$0.64 and J\$0.75 against the US dollar, Canadian dollar and the pound sterling respectively relative to the performance at July 29, 1999.

Since the start of the year, the domestic currency has slipped, in nominal terms, by J\$2.12 vis-a-vis its US dollar trading partner. The weighted average selling rates of the Jamaican dollar vis-a-vis its major trading partners as at September 3, 1999 stood as follows:

- J\$39.84 to 1 US\$
- J\$26.25 to 1 CND\$
- J\$62.05 to 1 pound sterling.

The depreciation of the Jamaican dollar relative to the US dollar is expected to continue for the remaining months of 1999. The extent of the fluctuations is dependent on the supply of

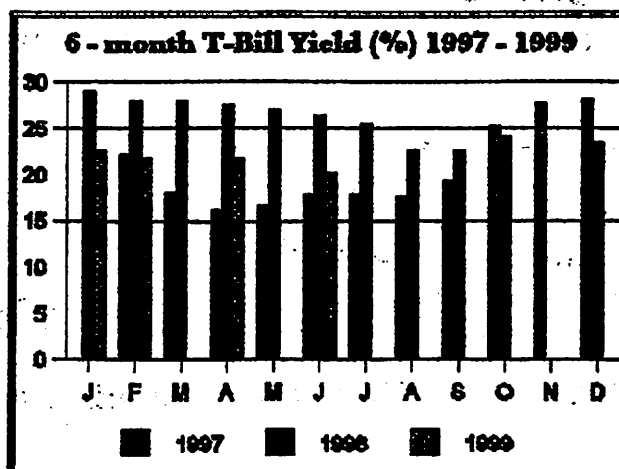
foreign currency given the current inability of the government to obtain funding on the international capital market; the level of the NIR and proceeds from the sale of government assets amidst an increasing demand for foreign currency.

## Interest Rates

There were no further adjustments in the reverse repurchase rate as at the end of August 1999.

There were two (2) short-term Treasury Bill issues at the end of August 1999. This leave the total nominal amount of outstanding Treasury Bills at J\$10.21bn.

The Government of Jamaica investment debenture 2000/2001 series 'II' opened on 30<sup>th</sup> August 1999 and will close on 3<sup>rd</sup> September 1999. It offers an initial fixed rate of 21.75% per J\$100.0 of stock for the period



from the date of allotment to May 31, 2000. The second and final interest payment will cover the period May 31, 2000 to February 28, 2001 and will be made on February 28, 2001 at the fixed rate of 21.75% per annum.

## Inflation

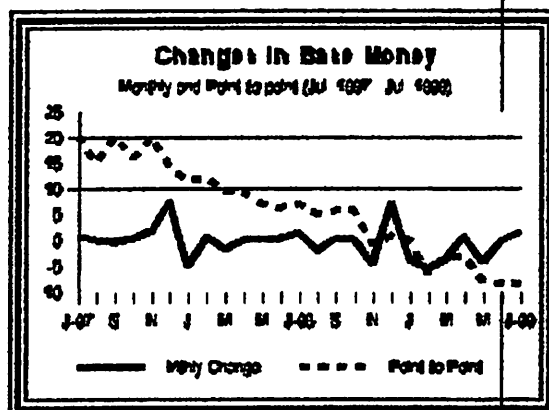
The All Jamaica 'All Group' Consumer Price Index (C.P.I) for June 1999 stood at 1221.0 or 0.2% above the outcome achieved at the end of June 1999. This represents an increase of 3.04% since the start of the year, as well as a 5.09% inflation rate between July 1998 and July 1999.

international market. The impact of this latter factor will continue to be felt throughout the remainder of the year.

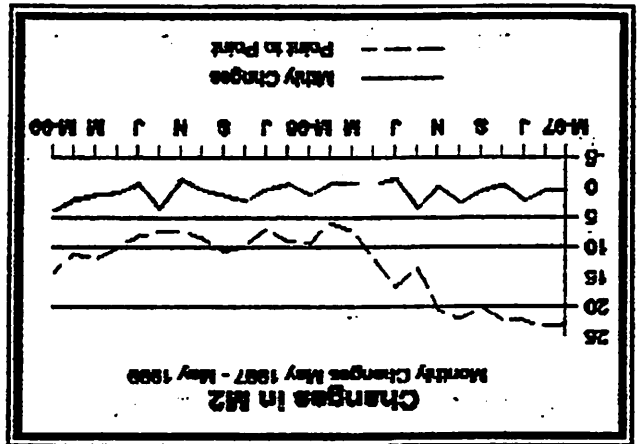
## Base Money

Provisional figures provided by the BoJ revealed the total nominal stock of base money at J\$32,721.94Mn as at the end of July 1999, representing a 1.73% increase relative to the previous month's outcome. Since the beginning of 1999, however, the monetary base has contracted by 5.39% in nominal terms compared to a 3.07% expansion over the corresponding period in 1998.

The tight base money management in an already recessionary economic climate favours further reduction in demand by consumption and investment agents alike. This results in a widening of the already negative impact on existing and future private sector investments while simultaneously driving down the demand pull inflationary pressures in the



The point-to-point or 12 month movement in the nominal measure increased by 14.21% up to the end of May 1999 relative to the 9.49% expansion recorded for the period up to the end of May 1998.



The further reduction in the cash reserve ratio in February 1999 contributed to the increased growth rate in M2 at the end of May 1999. This increased liquidity which has led to marginal reductions in lending rates in addition to transferring funds into attractive short term low risk financial instruments. The inability, therefore, to attract investor confidence into the productive sectors of the economy will further reduce the economy's growth prospect and potential, increase factory capacity underutilization as well as tighten labour market conditions. This has severe implications given the existing social fabric.

## Production of Selected Commodities

**Energy:** Net generation of power, as supplied by the Jamaica Public Service Company Limited stood at 2,573,363kwh for the end of August 1999. This represents an overall increase of 13.98% relative to the corresponding period of 1998.

**Sugar:** Actual sugar production as at the end of May 1999 stood at 36,910 metric tonnes, a reduction of 4,920 metric tonnes relative to the previous month's performance. The outcome at the end of June 1999 increased by 210 metric tonnes or 13.98% relative to the performance of the corresponding period of 1998.

**Mining:** Total Alumina production for the month of June 1999 stood at 300,418 metric tonnes, a 324 metric tonnes reduction relative to the previous month's performance of 300,742 metric tonnes. For the first six months of 1999 total alumina production stood at 1,751,338 metric tonnes or 3.62% over the output of the similar period in 1998.

## Agriculture/Fishing

**Cement Production:** Total cement production for the month of August 1999 stood at 38,703 tonnes, a reduction of 164 metric tonnes when compared to the output of July 1999.

Total domestic sales at the end of August 1999 stood at 42,751 tonnes down 9,458 tonnes relative to the outcome in July 1999.

**Bananas:** Total banana production stood at 4640

Total Crude Bauxite production stood at 369,247 metric tonnes as at the end of June 1999, reflecting a 44,740 metric tonnes increase relative to the output of the previous month. However, total year-to-date production fell by 1.15% relative to the production achieved in 1998 to close at 2,006,015 metric tonnes.



Exports of alumina at the end of June 1999 reached 303,999 metric tonnes or 7,159 metric tonnes above the previous month's performance of 296,840 metric tonnes. Since the start of the year total alumina exports stood at 1,723,253 metric tonnes, a reduction of 2.49% relative to the performance of the corresponding period in 1998.

Crude Bauxite exports at the end of June 1999 increased by 23,915 metric tonnes relative to the previous month's performance to close at 354,662 metric tonnes. Total year-to-date exports declined by 1.47% relative to the corresponding period in 1998 to end at 2,008,889 metric tonnes.

## Tourism

For the month of July 1999 total visitor arrivals stood at 172,289, representing an 8.72% increase relative to the previous month's performance of 158,466. Total stopover arrivals during the month of July 1999 stood at 125,343, an increase of 13.5% relative to the previous month's out-turn. In addition, cruise passenger arrivals at the end of July 1999 stood at 46,946 or 2.28% below the previous month. 26 Calls were made for the month of July 1999, 13

each to Montego Bay and Ocho Rios.

Total stopover arrivals over the period January to July 1999 increased by 3.8% to 773,452 relative to the performance of the corresponding period in 1998. This was attributable to a 5.3% and 5.8% increase in visitors from USA and Europe respectively.

Total cruise passenger arrivals over the first seven (7) months of 1999 stood at 454,596, representing a 8.9% increase relative to the out-turn of the corresponding period in 1998.

Despite the current negative impact of crime on the development of the industry along with infrastructural and financial restructuring difficulties, the industry is still growing. Recently, hoteliers

to compete in the global marketplace.

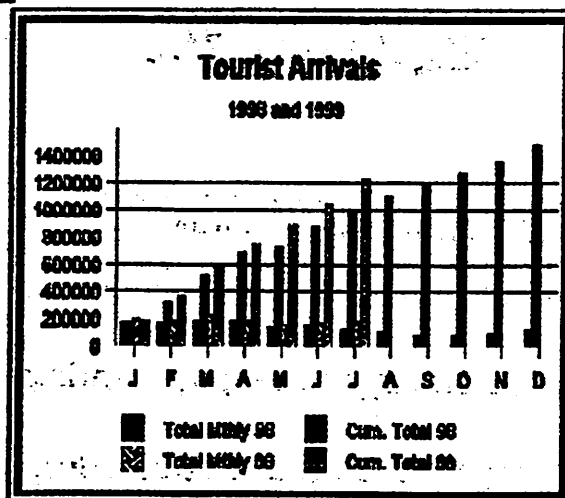
## External Trade

**Exports:** The total nominal value of merchandise exports (f.o.b.) for the review period January to May 1999 stood at US\$606.0Mn, representing a US\$96.4Mn decline relative to the performance achieved in the corresponding period of 1998.

All categories of goods exports fell, with the exception of 'Other Traditional Exports' which increased by US\$2.1Mn when compared to the out-turn of the corresponding period in 1998.

Of the 'Major Traditional Exports' category Alumina recorded the greatest decline (down US\$32.0Mn) stemming from the overall effect of a reduction in volume and price. The fall off in Alumina exports during the review period, however, was partially offset by a US\$8.8Mn increase in sugar exports, attributable to a marked expansion in volume, given the low international market price.

Non-traditional exports fell by US\$35.8Mn over the review period relative to the achievement for the



have holdily decided to offer further discounted rates in order

corresponding period in 1998. This decline in 'non-traditional' reflected the further contraction in garment exports.

**Imports:** Over the review period January to May 1999 total goods imports (c.i.f.) amounted to US\$1,197.3Mn in nominal terms. This represents a US\$64.1Mn decline relative to the outcome of the corresponding period in 1998.

All categories of goods imports fell. Consumer Goods (down US\$10.1Mn), Raw Materials (down US\$37.9Mn), Capital Goods (down US\$5.6Mn) and Freezone imports (down US\$11.4Mn).

#### External Sector US\$Mn

	Jan-May '98	Jan-May '99
<b>Total Exports 702.40 606.00</b> (F.O.B.)		
<b>Major Traditional</b>		
Exports 371.60 346.00		
Bauxite 33.70 33.10		
Alumina 257.90 225.90		
Sugar 65.40 74.20		
Bananas 14.60 12.80		
<b>Other Trad.</b>		
Exports 21.70 23.80		
<b>Non-Trad.</b>		
Exports 168.70 132.90		
Re-Exports 28.60 19.30		
<b>Total Imports 1261.40 1197.30</b> (C.I.F.)		
Consumer Gds. 367.40 357.30		
Raw Materials 607.90 570.00		
Capital Gds. 204.20 198.60		
<b>Trade Balance 559.00 591.30</b>		

## Balance of Payments

**Merchandise Trade:** The merchandise trade deficit widened by US\$45.1Mn over the review period January to May 1999 to close at US\$413.6Mn. Total exports (f.o.b.) which were valued at US\$606.0Mn for the review period, declined by US\$96.4Mn relative to the outcome of the corresponding period of 1998. In addition, total imports (f.o.b.) declined by US\$51.73Mn over the review period relative to the performance of the corresponding period last year which closed at US\$1019.6Mn.

**Services:** The services account showed a surplus of US\$245.9Mn over the review period, representing a US\$23.6Mn increase relative to the outcome of the same period in 1998. This stemmed from a US\$16.2Mn reduction in net payments for transportation services and a US\$13.7Mn increase in net receipts from travel. However, net receipts from other services fell by US\$16.3Mn relative to the outcome over the period January to May 1998. The net position on the travel account was reflective of lower travel outflows associated with less travel by Jamaican residents.

**Income:** For the review period January to May 1999 the deficit on the income account narrowed by US\$44.7Mn to US\$83.6Mn. This performance was largely attributable to a US\$42.7Mn net investment income payment, reflecting continued contraction in the profitability of mining companies.

**Net Current Transfers:** Net receipts from current transfers improved by US\$6.2Mn to US\$266.7Mn over the review period, as net inflows from the private sector increased by US\$9.4Mn, offsetting a US\$3.2Mn decline in net official transfers.

**Current Account:** The current account of the balance of payments recorded a surplus of US\$15.4Mn for the review period January to May 1999, relative to the deficit of US\$14.0Mn recorded for the corresponding period in 1998. The performance in 1999 was influenced by improvements in the services, income and current transfers account which more than offset the deficit on the merchandise trade account.

**Capital and Financial Account:** The capital account surplus increased marginally by US\$1.7Mn over the period January to May 1999, while the deficit on the financial account reflected a reduction of US\$31.1Mn relative to the surplus of US\$10.4Mn over the corresponding period of 1998. Reductions of both US\$39.5Mn and US\$39.1Mn in both official and private investment were responsible for the performance on the financial account.

<b><u>Balance of Payments</u></b>	<b>Jan-May '98</b>	<b>Jan-May '99</b>	<b>Change</b>
<b>Goods balance</b>	<b>-368.50</b>	<b>-413.60</b>	<b>-45.10</b>
Export	702.40	606.00	-96.40
Imports	1070.90	1019.60	-51.30
<b>Services - Net</b>	<b>222.30</b>	<b>245.90</b>	<b>23.60</b>
Transportation	-101.50	-85.30	16.20
Foreign Travel	411.60	425.30	13.70
Other Services	-87.80	-94.10	-6.30
<b>Income</b>	<b>-128.30</b>	<b>-83.60</b>	<b>44.70</b>
Compensation of employees	16.50	18.50	2.00
Investment Income	-144.80	-102.10	42.70
<b>Current Transfers (Net)</b>	<b>260.50</b>	<b>266.70</b>	<b>6.20</b>
Official	19.20	16.80	-3.20
Private	241.30	250.70	9.40
<b>Current Account</b>	<b>-14.00</b>	<b>15.40</b>	<b>29.40</b>
<b>Net Capital Movements</b>	<b>3.60</b>	<b>5.30</b>	<b>1.70</b>
Official	1.10	2.50	1.40
Private	2.50	2.80	0.30
<b>Financial A/c</b>	<b>10.40</b>	<b>-20.70</b>	<b>-31.10</b>
Other (Official Investment)	-41.80	-81.30	-39.50
Other Private Investment	108.20	69.10	-39.10
<b>Changes in Reserves</b>	<b>-56.00</b>	<b>-8.50</b>	<b>47.50</b>



**MACRO-ECONOMIC INDICATORS**  
(July 1997 - July 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	Cruises	Money Supply	Point to Point
July 97	0.8	20.48	569.1	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	913.56	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.	4.92	11.6	553.2	950.95	0.7	9.28	166934	98517	68117	-1.5	16.7
Feb.	0.9	12.1	588.1	917.28	0.1	8.36	166403	99280	66723	-0.6	11.9
Mar.	-1.52	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	596.3	924.29	0.8	8.6	140130	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 98	1.50	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	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	-0.01	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	-28.2	581.53	960.31	0.5	5.4	220295	131503	88792	1.2	11.96
Apr	0.8	-3.04	587.11	979.26	-0.1	5.49	175389	106611	68778	2.0	11.0
May	-4.2	-7.8	590.50	965.84	0.9	5.61	139367	100066	39301	3.93	14.21
June	-0.06	-8.5	590.57	n/a	1.2	5.04	158466	110425	48041	n/a	n/a
July 99	1.73	8.21	486.98	n/a	1.2	5.09	172289	125343	46946	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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