

New Confidential Economic Bulletin

Private Sector Organisation of Jamaica

Monthly Analysis of the Jamaican Economy

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Overview

The big news in September was the announcement made at the end of the month that the government and Cable & Wireless had reached an agreement on the ending of the C&W monopoly on voice telephony within 3 years, and the opening up of the telecoms market to full competition. The agreement represented the achievement of one of Minister

Phillip Paulwell's major objectives that he had set on taking office just under 2 years ago. While he initially took a confrontational approach to breaking C&W's monopoly, the Minister demonstrated considerable maturity in switching to negotiation instead to achieve his objective. The agreement is a landmark one, by both local and international standards and should lay the basis for the continued orderly and rapid development of Jamaica's telecoms market.

For their part, Cable and Wireless have once again demonstrated tremendous faith in the Jamaican economy by agreeing to increase their investment in the basic infrastructure by installing 217,000 new lines over the next 3 years. Even in a thriving economy, a dominant provider facing competition might be expected to cut back on basic infrastructure investment and concentrate on the high-end services, which are more profitable and will attract the new competitors when the

market is opened. In a contracting economy with a rather skewed income distribution, that temptation must be considerably greater, especially when the company's major source of revenue, international traffic, is under attack from the ICCC ruling on accounting rates. The risks associated with the position that they have taken are not insignificant and we certainly hope that both the company and the country will benefit in both the short and the long run.

The news on the economic policy front is not as encouraging as that on telecommunications, as the latest fiscal outturn shows a larger deficit than planned. In fact the deficit after 5 months is larger than that which was anticipated for the end of the fiscal year. Revenue is 5.9% below budget, mainly as a result of a 9.2% shortfall in tax revenue, while expenditure has been held to 2.8% below budget, mainly as a result of a 32.8% reduction in capital expenditure. The revenue shortfall resulted from underperformance in the 3

main areas of tax revenue. Income and profits taxes were 5.6% below budget, production and consumption taxes were under budget by 10.5%, and international trade taxes were off budget by 11.8%. Despite these shortfalls, tax revenue for the first 5 months of the 1999/00 fiscal year were 9.2% above the revenue for the corresponding period of 1998/99.

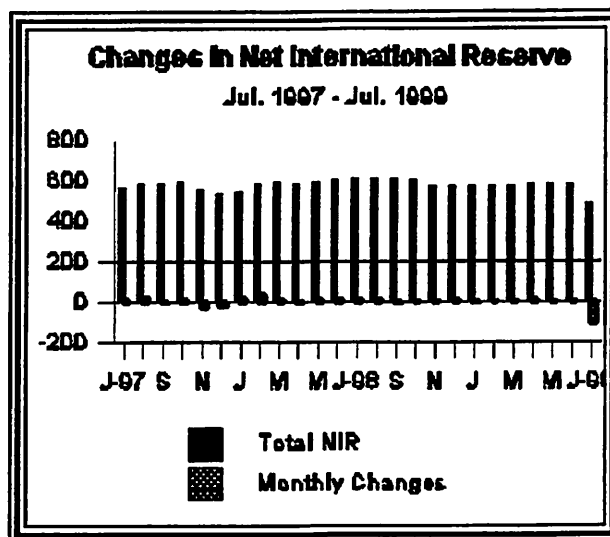
While the fiscal deficit for the first 5 months of 1999/00 was 23% below that for the corresponding period in 1998/99, the difference was mainly accounted for by the retroactive salary payments which were made in the first quarter of 1998/99. The inability of the government to reduce interest rates in line with the projections on which the budget was based, will increase domestic debt servicing considerably. The failure by the government to raise international funding may also add to these costs, as more expensive debt may have to be raised on the local market. It is therefore very unlikely that the government will meet its deficit target of 4.1% of GDP and the eventual outturn may be considerably larger than that.

The situation next year will be even bleaker if interest rates are not brought down more aggressively. The domestic debt will be much larger by then and

government will be facing a higher wage and salary bill, as well as interest payments and retroactive salaries that have been deferred from the 1999/00 fiscal year. The need to reduce interest rates to ease the fiscal burden will be in sharp contrast

US\$490.76 Mn as at the end of August 1999. The nominal measure of the NIR showed a US\$3.78 Mn increase relative to the out-turn of the previous month. However, there has been a significant decline in the nominal stock of the NIR from January to August 1999 (down US\$87.24) relative to the corresponding period in 1998 in which the nominal stock improved by US\$66 Mn.

In the 12 months to the end of August 1999 the NIR recorded a US\$128.44 Mn decline, in contrast to the US\$29.5 Mn improvement for the 12 month period up to the end of August 1998.



to the pressure from the BOJ to raise interest rates in the second quarter of next year, in defence of the exchange rate. If the government is unable to raise a significant amount of hard currency financing, both the reserves and the exchange rate may come under considerable pressure in the second half of 2000. It is by no means clear how these conflicting pressures will be resolved.

Net International Reserves

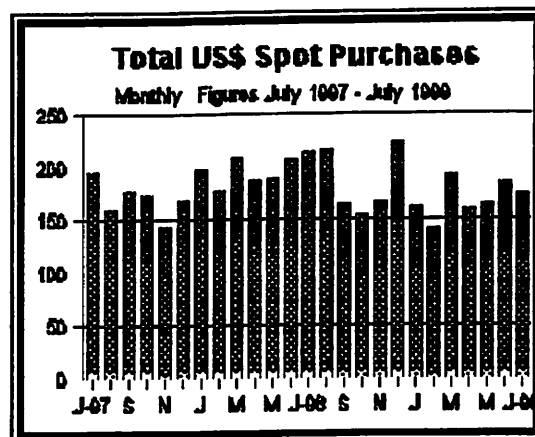
The total of provisional stock of Net International Reserves (NIR), held at the Bank of Jamaica stood at

The movement in the NIR at the end of August 1999 relative to July 1999 was solely as a result of a US\$3.78 Mn improvement in foreign assets, as foreign liabilities remained unchanged at US\$111.32 Mn throughout the two periods. The NIR at the end of August 1999 is estimated to cover 11.48 weeks of the country's imports.

The continued downward trend in the 1999 NIR levels relative to the 1998 levels is expected to continue for the remaining months of the year. This is as a result of the following:

- I. the continued effort by the central bank to intervene in the foreign exchange market, as well as;
- II. the inability of the government to raise foreign loans as planned in the budget.

The 12 month or point to point movement in the stock of foreign currency deposits up to the end of July 1999 rose by 12.46% relative to the 9.03% increase over the corresponding period up to the end of July 1998.



Foreign Exchange

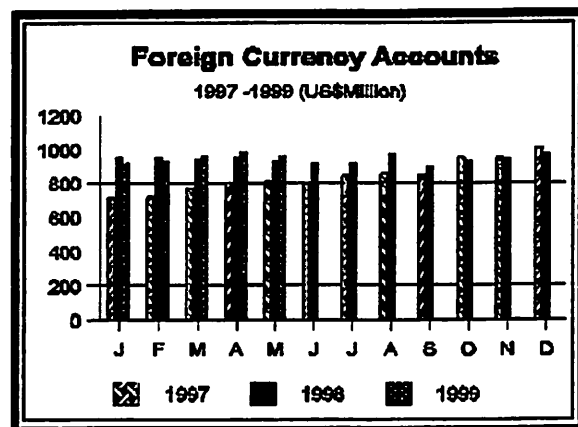
Provisional figures for the total stock of foreign currency deposits revealed by the BoJ at the end of July 1999, stood at

The movement in the foreign currency deposits for the remaining months of 1999 will be dependent on the movement in the interest rate. If the interest rates continue to fall marginally then the expectation is for foreign currency deposits to increase all other things equal.

J\$0.15, J\$0.47 and J\$1.74 against the US dollar, Canadian dollar and Pound sterling respectively, relative to the performance at 3rd September 1999.

Since the beginning of the year, the local currency has slipped in nominal terms, by J\$2.27 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 30, 1999 stood as follows:

- J\$39.99 to 1 US\$
- J\$26.72 to 1 CDN\$
- J\$63.79 to 1 pound sterling



US\$1,031.15 Mn. This represents an increase of US\$74.33 Mn relative to the previous month's out-turn of US\$956.82 Mn.

For the first seven (7) months of 1999 the stock of foreign currency deposits increased by US\$57.85 Mn relative to the decline of US\$37 Mn over the same period in 1998.

Exchange Rates

The pressure in the foreign exchange market continued for the month of September 1999 as foreign currency demand outpaced supply, resulting in a nominal depreciation of the Jamaican dollar relative to its major trading partners. The Jamaican dollar has slipped by

The slow depreciation of the Jamaican dollar relative to its US dollar counterpart is expected to continue for the remaining months of 1999, given the slight downward trend in interest rates and the remaining expectation of a reduction in the short-run supply of US currency given the inability of the government to

obtain funding on the international capital market.

Interest Rates

Interest rates offered by the central bank on its bench mark 39 days reverse repurchase (repo) instruments inched down on 13th September 1999 from 18.85% to 18.35%.

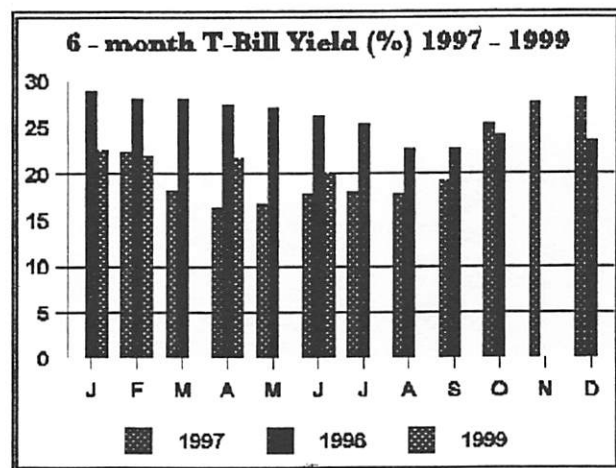
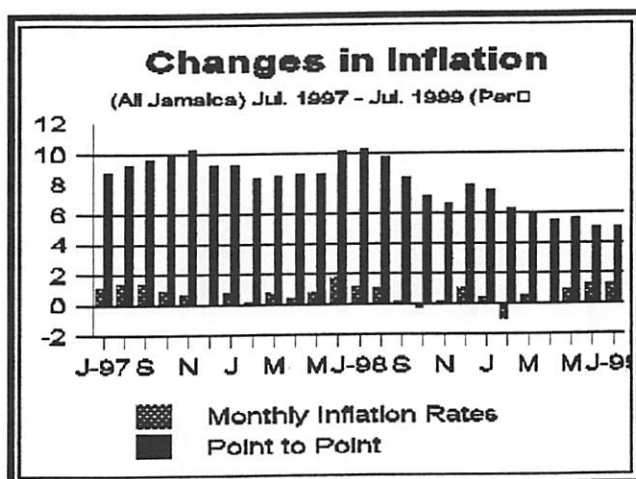
The rate paid on reverse repurchase paper is determined by fiat, and so provides a critical gauge as to where the government wants interest rates to go. The repo rates set the benchmark for investors who bid for the market-driven treasury bills, as well as serving as an important instrument of liquidity management.

initial interest rate of 21.50% per annum from date of allotment to 13th June 2000. Thereafter, interest will be paid semi-annually on 13th December and 13th June, up to 13th December 2003 at a variable rate of 2.25% percentage points above the weighted average yield rate applicable to the six month Jamaica Treasury Bill Tender held immediately prior to the commencement of each half yearly interest period.

There was one short-term Treasury Bill

Inflation

The All Jamaica 'All Group' Consumer Price Index (C.P.I) for August 1999 stood at 1234.3 or 1.1% above the previous months out-turn of 1220.9. Since the start of 1999 the CPI increased



The Government of Jamaica opened on 17th September 1999 a variable rate Local Registered Stock 2003J. It will offer an

over subscribed by J\$850 Mn and offered an average yield of 19.21%.

issued at the end of September 1999. This leaves the total nominal amount of outstanding Treasury Bills at J\$9.9 Bn.

The result was that the offer of J\$650 Mn for 183 days was

by 3.73% up to August 1999 relative to an increase of 6.12% for the first 8 months of 1998.

The point to point or 12 month inflation rate up to the end of August 1999 stood at 5.09%, when compared to an inflation rate of 9.84% over the corresponding period up to the end of August 1998.

The slight upward trend in the inflation rate since the end of May 1999 has been influenced by both the governments tax package in April 1999, as well as the continued upward trend in world oil prices. The tax

package in April will produce only a one time effect on the rate of inflation, however, the upward movement in external oil prices will continuously put pressure on the cost push inflation component.

Base Money

Provisional figures provided by the BoJ revealed the total nominal stock of base money at J\$32,493.21 Mn as at the end of August 1999. This reflects a reduction in the nominal measure

The BoJ has continued on its path of restrictive liquidity management given the trend in base money growth throughout 1999, relative to 1998 figures. This, however, has positively affected inflation rates by reducing the demand pull component but has negatively affected increased productive capacity by crowding out current and future private sector investments.

This has a ripple

effect throughout the economy by not only increasing productive capacity under-utilisation and tightening labour market conditions but threatens to reduce the social fabric of the

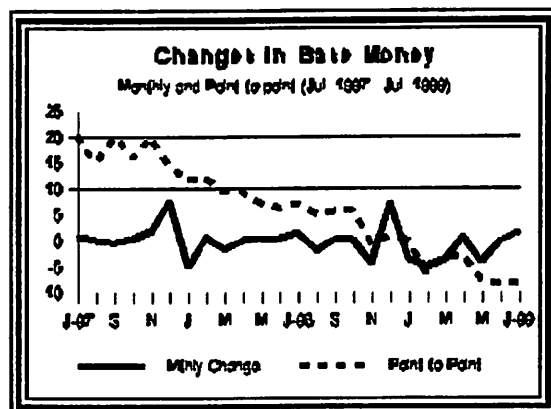
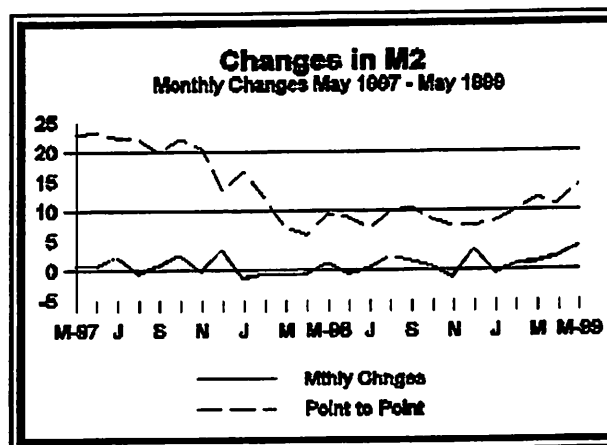
economy as well.

Money Supply

Provisional figures provided by the BoJ showed a 2.14% reduction in the growth rate of money supply (as measure by M2) at the end of June 1999,

relative to the performance at the end of May 1999.

For the first six (6) months of 1999 the nominal growth rate of M2 stood at 5.83% relative to a growth rate of 2.50% for the corresponding period in 1998.



of 0.7% relative to the out-turn of the previous month. Since the start of 1999 base money has declined by 6.05% relative to a 1.06% increase over the corresponding period in 1998.

The point-to-point or 12 month measure of the monetary base contracted by 7.07% up to the end of August 1999, relative to the 5.02% expansion over the corresponding period up to August 1998.

The point-to-point or 12 month movement up to the end of June 1999, saw the nominal growth rate in M2 at 11.75% in relation to a growth rate of 8.89% for the same period up the end of June 1998.

M2 growth has been driven almost exclusively by a sustained and strong growth in credit to the public sector. The contraction in private sector credit over this period has helped to moderate the overall growth of M2 and to keep inflation down.

However, this has led to the crowding out of private sector firms and the tight macroeconomic conditions, that now prevail. The consequent

reduction of private investment will negatively impact growth prospects for the remaining months of 1999.

Production of Selected Commodities

Energy: Net generation of power, as supplied by the Jamaica Public Service Company Limited (JPSCo) stood at 269,174,071 kwh for the end of August 1999. This represents an overall increase of 2,573,363kwh relative to the energy demand of July 1999. Of the total net generation for August 1999, 72,928,067kwh represents private power purchases of which the largest component came from RIPP-JPPC.

Agriculture/Manufacturing:

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 for the end of July 1999 stood at 3,790 tonnes compared to the previous month's performance of 5,240 tonnes. Additionally, there has been a 6.43% reduction in

banana production this year relative to the corresponding period of 1998.

Sugar: Actual sugar production as at the end of July 1999 stood at 36,910 metric tonnes, a reduction of 4,920 metric tonnes relative to the previous month's performance.

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 (6) 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.

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 August 1999 total visitor arrivals stood at 158,800, reflecting a 7.83% decline relative to the previous months performance of 172,289 visitors. Total tourist stop-over arrivals recorded at the end of August 1999 fell by 10.24% to 113,695 relative to the performance of the previous month.

In addition, cruise passenger arrivals stood at 45,105 or 3.92% below the previous months output.

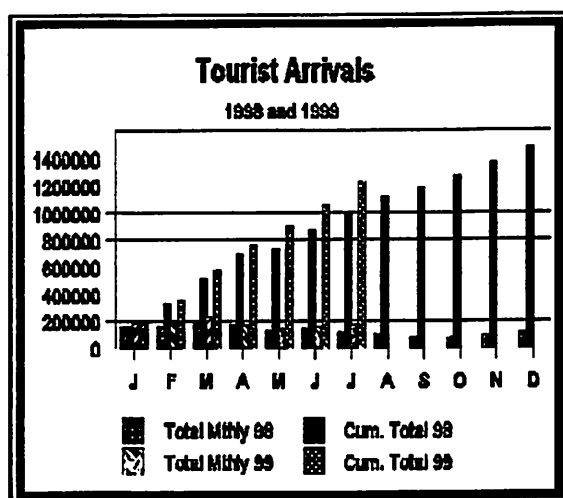
24 calls to port were made for the month of August 1999, 11 to Montego Bay and 13 to Ocho Rios.

Total stopover arrivals over the period January to August 1999 reflected a 3.8% increased performance (887,147 visitors) relative to the corresponding

period in 1998. This was led by a 14.3%, 5.4% and 5.2% increase in stopover arrivals from United Kingdom, USA and Europe respectively.

For the first 8 months of 1999 total cruise passenger arrivals stood at 499,701 or an 8.1% increase relative to the achievement of the same period in 1998.

The industry although still grappling with both the macroeconomic and social problems, is still showing signs of growth. In the first 7 months of the year, the increased arrivals did not contribute to increased



earnings as spending fell slightly, relative to 1998.. Recently, Hedonism III in Runaway Bay was opened, giving an indication as to the tremendous potential of the industry.

External Trade

Exports: The total nominal value of goods export (f.o.b.) for the review period January to June 1999 stood at US\$738.29 Mn representing a US\$113.80 Mn, reduction relative to the out-turn of the corresponding period in 1998.

All categories of goods exports fell, with the exception of 'Other Traditional Exports' which increased marginally by US\$1.99 Mn, when compared to the out-turn of the same period in 1998.

Major Traditional Exports declined by US\$31.16 Mn over the review period, relative to the corresponding period of 1998. This was influenced by lower earnings from alumina and bananas as adverse price movements affected both commodities. Non-traditional exports contracted by US\$45.31 Mn, attributable to declines in garments, beverages and tobacco.

Imports: Over the review period January to June 1999 the total nominal value of goods imports (C.I.F.) fell by US\$115.78 Mn to US\$1,449.55 Mn.

General merchandise imports contracted by US\$105.45 Mn influenced by declines of US\$15.87 Mn, US\$75.25 Mn and US\$16.20 Mn in the C.I.F. values of consumer goods, raw materials and capital goods, respectively. The decline in the consumer goods category stemmed from lower expenditures on food and other non-durables, as well as consumer durables. The raw materials category was influenced by reductions in the values of fuel, food imports for processing and other raw materials. Capital goods reflected lower importation of construction materials, transport equipment and other machinery and equipment.

External Sector US\$Mn

	Jan Jun '98	Jan Jun '99
Total Exports (F.O.B.)	852.09	738.29
Major Traditional Exports	443.55	412.38
Bauxite	40.78	40.17
Alumina	310.75	274.36
Sugar	74.23	81.84
Bananas	17.79	16.01
Other Trad. Exports	27.15	29.15
Non-Trad. Exports	205.57	160.26
Re-Exports	29.85	21.14
Total Imports (C.I.F.)	1565.33	1449.55
Consumer Gds.	452.29	436.63
Raw Materials	762.56	689.63
Capital Gds.	251.23	234.37
Trade Balance	713.24	711.26

Balance of Payments

Merchandise Trade: For the review period January to June 1999, the deficit on the goods balance widened marginally by US\$17.4 Mn, relative to the performance of the corresponding period in 1998. This performance reflected a sharp decline in the value of imports (down US\$113.8 Mn), relative to export earnings (down US\$96.4 Mn).

Services: The services account showed a surplus of US\$297.7 Mn over the review period, an improvement of US\$31.5 Mn, relative to the corresponding period in 1998. This performance stemmed largely from a reduction in net payments for transportation services.

Income: The deficit of US\$131.8 Mn on the income account for the review period narrowed by US\$38.1 Mn, relative to the performance of the corresponding period in 1998. This was largely as a result of a US\$42.1 Mn decline in net investment income payment, reflecting continued contraction in the profitability of the mining companies.

Net Current Transfers: Net receipts from current transfers improved marginally by US\$3.1 Mn. This was largely attributable to a US\$5.9 Mn increase in private sector inflows off-setting a US\$2.8 Mn decline in net official transfers.

Current Account: The current account of the balance of payments improved by US\$55.3 Mn over the review period of 1999, relative to the performance in 1998 over the corresponding period. The current account deficit at the end of January to June 1998, stood at US\$64.1 Mn compared to a deficit of US\$8.8 Mn over the same period in 1999. This performance over the review period was influenced by improvements in all sub-accounts.

Capital and Financial Account: A surplus of US\$2.3 Mn was recorded on the financial account, which was US\$56.0 Mn lower than the surplus in the corresponding period January to June 1998. The decline was largely reflective of a reversal of US\$118.3 Mn in net official investment flows to a deficit of

US\$98.8 Mn over the review period January to June 1999. However, net private investment inflows of US\$109.7 Mn, in combination with a marginal surplus on the capital account compensated for the shortfall in official investment flows and covered the deficit on the current account. Consequently, there was a marginal build up in the NIR of the BoJ.

<i>Balance of Payments</i>	Jan-Jun '98	Jan-Jun '99	Change
Goods balance	-479.0	-496.4	-17.4
Export	852.1	738.3	-113.8
Imports	1331.1	1234.7	-96.4
Services - Net	266.2	297.7	31.5
Transportation	-128.2	-105.5	22.7
Foreign Travel	501.8	517.5	-15.7
Other Services	-107.4	-114.2	6.8
Income	-169.9	-131.8	38.1
Compensation of employees	19.4	15.4	-4.0
Investment Income	-189.3	-147.2	42.1
Current Transfers (Net)	318.6	321.7	-3.1
Official	22.2	19.4	2.8
Private	296.4	302.3	-5.9
Current Account	-64.1	-8.8	55.3
Net Capital Movements	5.8	6.5	0.7
Official	1.8	2.6	0.8
Private	4.0	3.9	-0.1
Financial A/c	58.3	2.3	56.0
Other Official Investment	19.5	-98.8	-79.3
Other Private Investment	104.2	109.7	-5.5
Changes in Reserves	-65.4	-8.6	56.8