

New Confidential Economic Bulletin

Private Sector Organisation of Jamaica

Monthly Analysis of the Jamaican Economy

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Overview

The economy is indeed heading into a delicate phase as a number of recent developments are highlighting the difficulty which government will have in meeting its objectives for the current fiscal year. The Standard & Poor's rating of Jamaica's sovereign debt has just been released and they have rated our international bonds at B and the government's

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local medium and long term debt at B+. This is a couple of notches lower than the Moody's rating which was done a couple of years ago, but the consensus so far seems to be that it is a fair rating, given the developments in the economy since Moody's did their rating. Some have even argued that the rating simply confirms the market sentiment that was picked up in the government's recent attempts to issue bonds internationally.

Regardless of the merits or otherwise of the rating, it will not make it any easier for the government to borrow abroad and at best, it suggests that the market will demand a higher price on our debt than it has in the past. In their analysis of our economy, S & P were most concerned about the fiscal deficit, the high level of government indebtedness, and the huge debt servicing cost that the high domestic interest

rates placed on government finances. They were also concerned that interest rates were not coming down in line with the projections in the budget and that this would therefore make it very difficult for the government to meet its fiscal deficit target. This latter concern seems to be quite well founded as the most recent treasury bill tender has seen interest rates moving up again, with the 4 month issue clearing at 19.6% and the 12 month issue clearing at over 21.5%. These rates are up from 19.3% and 20.2% at last month's T-bill tenders.

In the absence of hard currency inflows from the postponed bond issues, the pressure on the reserves has continued. While the reserves were boosted in September by the inflow of funds from the Carib Cement restructuring, preliminary figures from the BOJ indicate that the NIR fell in October by about US\$33m, to about US\$492m. In

early November, the exchange rate has come increasingly under pressure and the BOJ has had to be selling into the market quite heavily. Despite these interventions, the Jamaican dollar has slipped to about J\$41:US\$1 for volume transactions.

However, the slippage in the value of the dollar has not yet been reflected in the inflation numbers as September's monthly rate was 0.3% and the 12 month rate was 5.3%. This outturn is even more surprising as the growth rate of money supply has been creeping up quite sharply in recent months, with the growth rate of M2 reaching 18.5% in August. If this trend persists, we are likely to see higher inflation in the not too distant future.

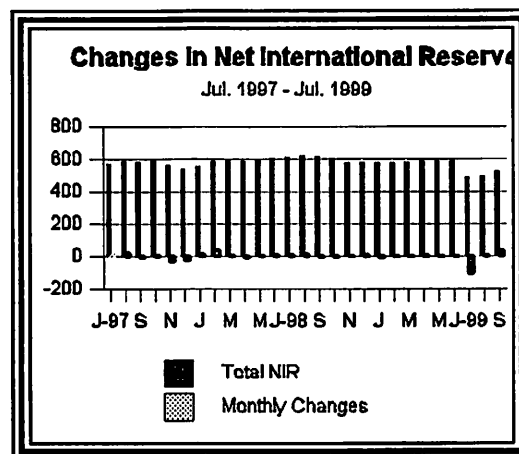
In the short term, we can expect to see the current trends continuing. The government may still raise some hard currency financing but it is unlikely to be enough to halt these trends entirely. In any case, the authorities have said recently that they do not have a problem with an "orderly" adjustment in the exchange rate, and a real adjustment in the rate will help the competitiveness of the export sectors. The more pressing problems are the fiscal deficit and the course of interest rates.

Whatever the outturn in this fiscal year, the authorities will now be turning their attention to the financing of next year's budget. When they do so, they will be facing a much higher domestic debt than they did at the beginning of this year and if interest rates are still at their current levels, the task of financing the budget with a deficit of less than 4% of GDP, will indeed be a daunting one

of US\$35.48Mn is as a result of a US\$31.63Mn. Increase in gross foreign assets and a reduction of US\$3.85Mn. In gross foreign liabilities over two consecutive months.

The provisional stock of NIR at the BOJ as at the end of September 1999 is estimated to cover 12.08 weeks of the country's imports.

Over the 12 months ended September 1999, the NIR reduced by US\$90.66Mn. compared with a US\$31.4Mn. increase up to the end of September 1998.



stock of foreign currency deposits

at the end of August 1999 was US\$1 033.34Mn. This reflected a net increase of

US\$0.7Mn over the previous month's deposits.

Since the beginning of the year, there has been an increase of US\$56.04Mn relative to the performance of US\$22.9Mn in the corresponding period in 1998.

The point to point or 12 month movement in the foreign currency deposits for August 1999 was US\$59.44Mn compared with a US\$121.8Mn increase over the corresponding period in 1998.

The movement in the foreign currency deposits for the remaining months of 1999 will be dependent on the movement in interest rates. If the interest rates continue to fall the foreign deposits are expected to increase *pari passu*.

Exchange Rates

The foreign exchange

market during the month of October 1999 experienced continued pressure, a trend indicative since the start of 1999. As such the Jamaican dollar slipped by J\$0.42 and J\$0.19 respectively against the US

dollar and Canadian dollar

while appreciating by J\$0.17 against the British pound sterling as at 8th November 1999.

Since the beginning of the year, the local currency has slipped by J\$2.69, in nominal terms, against its US dollar foreign currency counterpart.

The weighted average selling rates of the Jamaican dollar vis-a-vis its major trading partners as at 8th November 1999 stood as follows:

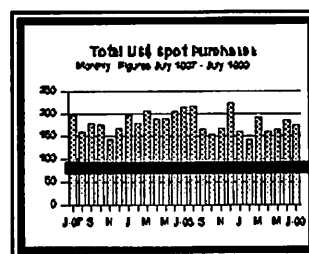
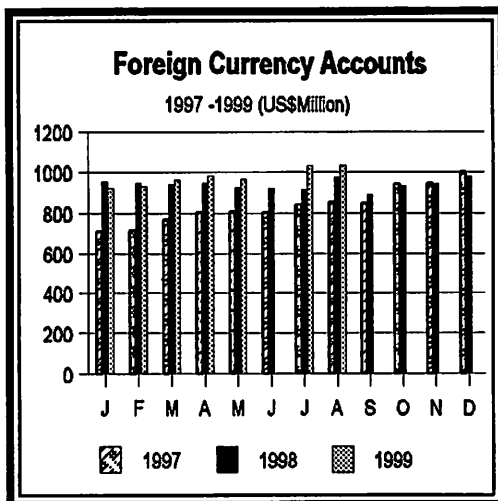
J\$40.41 to 1 US\$
J\$26.9 to 1 CDN\$
J\$63.62 to 1 pound sterling

The falling value of the local currency relative to the US dollar is expected to continue for the remaining months of 1999 given;

(a) falling US dollar inflows relative to demand and

(b) increased speculation.

The trade off facing policy makers is whether or not to maintain a stable exchange rate at the expense of the NIR, given their attempt to lower interest rates.



Interest Rates

The 30 days reverse repurchase (repo) rate at the end of October 1999 stood at 18.35%. The offer of J \$750Mn Local Registered Stock 2001AA dated 28th October 1999, was over subscribed by J \$1,121Mn and offered an average yield of 21.25%. The maturity period of this stock is two years from date of issue.

Additionally, the Government of Jamaica offered a fixed rate US\$ Indexed Bond 11.75% maturing in 2004. The subscription period was October 20-22, 1999. The tenor is for 60 months and was under subscribed by the equivalent of US \$28.8Mn. The issue sought to raise the equivalent of US\$50Mn but raised only the J\$ equivalent of US\$21.2Mn. The feedback from the market was that the interest rate offered on the bond was too low for it to be attractive. The total amount of US\$ Indexed Bonds outstanding as at 31st October 1999 stood at US

\$68.98Mn.

The offer of J\$650Mn Treasury bills dated 29th October 1999 for

182

days

was

over

subscribed

by

J\$511.6

Mn and

yield an

average

19.19%.

Additionally,

the offer

of

J\$800Mn

T-Bills

dated

4th

November

1999

for

67

days

was

over

subscribed

by

J\$668.4Mn

and

yielded

19.30%

on

average.

This

leaves

the

total

nominal

amount

of

Treasury

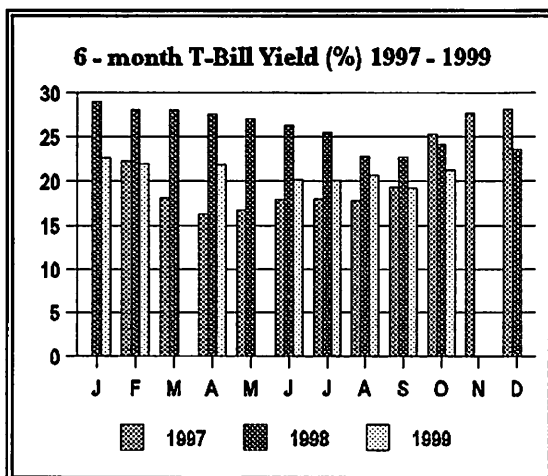
Bills

outstanding

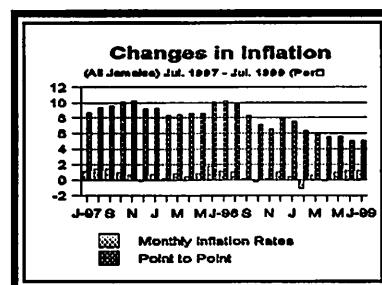
at

4th

November



movement in the rate of inflation up to the end of Sept. 1999 was 5.3%, in



by 7.55% compared with an expansion of 1.264% over the corresponding period for

comparison 1998.

to 8.4%

for the

same

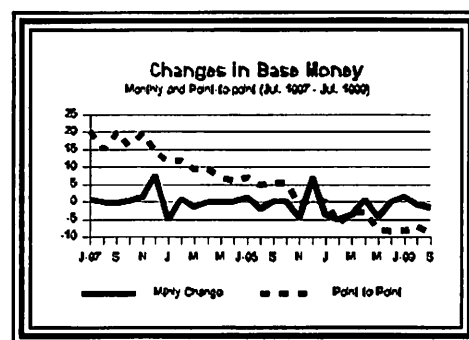
period

up to the

end of

September

1998.



For the

month of September fees charged for the new school term. The movement in the other indices were due to increases in the cost push inflation component imported through higher external oil prices.

Inflation

The All Jamaican 'All Group' Consumer Price Index (C.P.I.) for September was 1237.6 as

provided by the statistical Institute of Jamaica. This represents a 0.3% increase over the index recorded for August 1999. Since the start of 1999 the index has risen by 4.4% compared to a 6.23% increase over the corresponding period in 1998.

The point-to-point or 12 month

Base Money

Provisional figures provided by the BOJ showed a contraction of 1.6% in the base money at the end of September 1999 relative to the nominal base money stock as at the end of August 1999.

Since the start of the year the monetary base has contracted

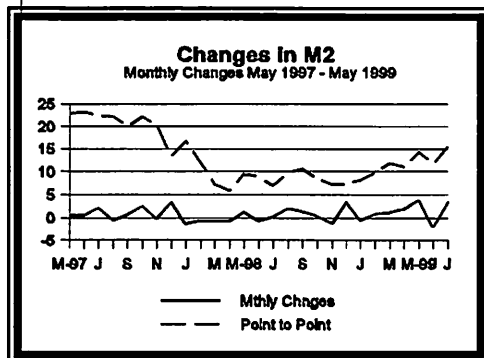
On a point to point basis base money contracted by 8.74% up to the end of September 1998.

In the presence of an increasing M2 growth rate a fall in the monetary base can be explained in terms of a fall in the money multiplier. The fall in the money multiplier is a consequence of a direct increase in the excess reserve to deposit ratio in the commercial banks which has been caused by the reduction in the cash reserve ratio.

Money Supply

Provisional data provided by the

BOJ revealed a 3.43% increase in the nominal growth rate of M2 as at the end of July 1999, relative to the performance at the end of June 1999.



For the first seven (7) months of 1999 the nominal growth rate of the M2 stock stood at 9.59% relative to a growth rate of 2.74% for the corresponding period in 1998.

The point to point or 12 month movement in M2 up to the end of July 1999 stood at 15.54% (in nominal terms) relative to a growth rate of 6.87% for the corresponding period up to the end of July 1998.

The increase in the M2 growth rate during 1999 has been influenced by the reduction in the cash reserve ratio as well as by increased credit to the public sector. If the increased growth rate is sustained, the BOJ may have to nudge interest rates upwards in order to restrain it.

Production of Selected Commodities

Energy: Net generation of power, as supplied by the Jamaica Public Service Company Limited (JPSCo) stood at 263,074,626 kwh for the end of October 1999.

Of the total, private power purchases amounted to 83,022,759, and the largest component came from REPP-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 August 1999 stood at 3,860 tonnes compared to the previous months out-turn of 3,790 tonnes. Production levels between August 1998 and August 1999 fell by 17.34%.

Sugar: There was no production of sugar for the month of August 1999 as

revealed by the BOJ Production figures for the July 1999 period stood at 5,400 metric tonnes. Production in August 1998 stood at 2,400 metric tonnes.

Mining: Total Alumina production for the month of August 1999 stood at 295,007 metric tonnes. Total year to date production for 1999 stood at 2,369,043 metric tonnes or 3.93% increase over the output of the corresponding period in 1998.

Total Crude Bauxite production stood at 114,109 metric tonnes as at the end of August 1999, reflecting a 22.45% decline relative to the corresponding period last year. Total year to date production stood at 2,245,453 metric tonnes, reflecting a 17.57% decline relative to the similar period in 1998.

Exports of Alumina at the end of August 1999 reached 265,066 metric tonnes, a decrease of 2.75% in comparison to the same period in 1998. Since the start of the year Alumina exports increased by 0.65% to 2,317,034 relative to the corresponding period in 1998.

Crude Bauxite exports at the end of August 1999 fell by 70.53% to 104,609 relative to exports recorded in August 1998. Total year to date exports declined also by 17.09% to 2,252,420 relative to the outcome of the similar period in 1998.

Tourism

For the month of September 1999, total visitor arrivals stood at 124,446, reflecting a 21.63% decline relative to the performance of the previous month. Total stopover arrivals for September 1999 fell by 33.16% relative to that recorded in August 1999. However, cruise passenger arrivals in September 1999 marginally increased by 7.43% relative to the previous months performance of 45,105 cruise visitors.

28 calls were made for the month of September 1999, 13 to Montego Bay and 15 to Ocho Rios.

Total stopover arrivals for the first nine(9) months of 1999 reflected a 3.5% increase (930,466 visitors) relative to the corresponding period in 1998. This was driven by a 5.5%, 12.7%, and 5.6% increase in stopover arrivals from the USA, United Kingdom, and other Caribbean territories respectively.

For the period January to September 1999 total cruise

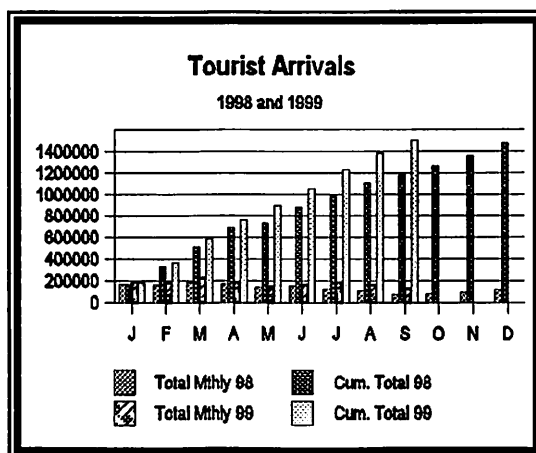
passenger arrivals stood at 548,160, a 15.9% increase relative to the performance of the corresponding period in 1998.

Provisional figures provided by the BOJ revealed cumulative expenditure by tourists between the period January to August 1999 at US \$843.8Mn representing an increase of 2.32% relative to the outcome of the similar period in 1998.

Given the reduced arrivals over the period of August 1999 and

External Trade

Exports: The total nominal value of goods exported (fob) for the review period January to July 1999 stood at US \$726.60Mn relative to total exports of US \$819.21Mn for the corresponding period in 1998.



September 1999, there is a danger that will continue this trend may increase as we enter the Winter Tourist Season. This will strongly depend on the level of advertising abroad given governments tight fiscal constraint, as well as the extent of discounts being offered by local hoteliers relative to their competition both locally and abroad.

During the period under review, domestic exports were valued at US \$702.7Mn, and re-exports US \$23.9Mn. In the comparable 1998 period both were valued at US \$787.6Mn and US \$31.6Mn respectively.

Earnings from the major traditional domestic exports declined by 6.7% to US \$ 508.8Mn. Receipts from the traditional agricultural products were valued at US \$37.1Mn, down from US \$37.2Mn. This was largely due to the decline in earnings from Banana, which fell by 13% to US \$18.2Mn in the 1999 period. Earnings from alumina were worth US \$ 328.4Mn, down from US \$358.4Mn. The value of bauxite fell from US \$ 47.2Mn to approximately US \$43Mn in the 1999 period. Traditional manufactured commodities earned US \$99.8Mn, falling by 1.8%, as there was no export of sugar in July 1999.

Non-traditional exports earned US \$193.9Mn or 20% less than in the comparable period of 1998. During the 1999 period under review exports of 'Food' grew by 1.9% to US \$47.6Mn. 'Beverages (excluding rum)' earned US \$9.3Mn, an increase of 9.1%.

Exports of 'Tobacco' continued to show decline, and were valued at US \$7.3Mn. 'Crude materials' were valued at US \$2.4Mn and 'Other Exports', US \$127.1Mn.

Imports: Over the review period,

January to July 1999, the total nominal value of goods imports (c.i.f) stood at US \$1,585.6Mn, in comparison to US \$1,726.66Mn for the corresponding period in 1998.

'Consumer Goods' were valued at US \$516.2Mn, down by US \$14.5Mn. There were increases in the sub-categories 'Food (including Beverages)', 'Semi-durables' and 'Other Consumer Goods', but these were offset by the US \$25.8Mn decline in the value of 'Durable Goods-Motor Cars'. The importation of goods to be used as 'Raw material/ Intermediate Goods' fell by 12 percentage points to US \$799.1Mn. Expenditure on goods classified as 'Capital Goods' declined by 6.2% to US \$270.3Mn..

External Sector US\$Mn		
	Jan-Jul '98	Jan-Jul '99
Total Exports (F.O.B.)	988.49	870.07
Major Traditional Exports	513.42	471.39
Bauxite	47.23	42.95
Alumina	358.44	328.39
Sugar	86.82	81.84
Bananas	20.93	18.21
Other Trad. Exports	31.70	37.36
Non-Trad. Exports	242.47	193.96
Re-Exports	31.62	23.88
Total Imports	1842.10	1689.36
Consumer Gds.	530.72	516.19
Raw Materials	907.89	799.12
Capital Gds.	288.06	270.30
Trade Balance	-853.81	-819.30

Balance of Payments

Merchandise Trade: For the review period January to July 1999 the merchandise trade deficit narrowed by US\$10.4Mn relative to the corresponding period of 1998. This resulted from the combined effect of a US\$128.8Mn decline in the value of goods imported (fob) and a US\$118Mn contraction in exports.

Services: The services balance recorded a surplus of US\$362.7Mn over the period January to July 1999, reflecting a US\$33.0Mn increase relative to the outcome of the corresponding period in 1998. This performance was attributable to a US\$26.5Mn reduction in net payments for transportation services.

Income: Over the review period the income account recorded a deficit of US\$168.4Mn, relative to the US\$195.1Mn deficit recorded in the corresponding period of 1998. A US\$30.9Mn contraction in net payments for investment income was the main source of the improvement in the account. This reflected reduced remittances of profit by the mining companies.

Net Current Transfers: Net receipts from current transfers improved by US\$11.1Mn to US\$379.1Mn over the period January to July 1999 relative to the similar period in 1998. This was influenced by a US\$11.1Mn increase in net receipts from the private sector.

Capital and Financial

A c c o u n t : a

The financial account recorded a deficit of US\$11.6Mn over the review period, a reversal from the surplus of US\$69.7Mn recorded January to July 1998. The outcome

in 1999 was largely reflective of

sharp increase of US\$234.5Mn in net official outflows (i.e. net official debt payments). With net inflows of private investment and current account deficits had to be financed by a draw down of US\$95.0Mn in the net international reserves of the Bank of Jamaica.

<u>Balance of Payments</u>	Jan-Jul '98	Jan-Jul '99	Change
Goods balance	- 579.9	-569.50	10.40
Export	988.50	870.10	-118.40
Imports	1568.40	1439.60	-128.80
Services - Net	329.70	362.70	33.00
Transportation	-149.00	-122.50	26.50
Foreign Travel	608.80	622.30	13.50
Other Services	-130.10	-137.10	-7.00
Income	-195.10	-168.40	26.70
Compensation of employees	25.70	21.50	-4.20
Investment Income	-220.80	-189.90	30.90
Current Transfers (Net)	368.00	379.10	11.19
Official	26.70	26.70	0.00
Private	341.30	352.40	11.10
Current Account	77.30	-3.90	-81.20
Net Capital Movements	7.60	7.70	0.10
Official	2.10	3.00	0.90
Private	5.50	4.70	-0.8
Financial A/c	69.70	-11.60	-81.30
Other Official Investment	2.90	-231.60	-234.50
Other Private Investment	138.20	125.00	-13.20
Changes in Reserves	-71.40	95.00	

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	Cruise	Money Supply	Point to Point
July.97	0.8	20.48	569.4	838.28	1.1	8.7	166026	118948	47078	2.1	22.37
Aug.	0	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.	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.98	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	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	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	960.31	0.5	5.4	220295	131503	88792	1.2	11.96
Apr	0.8	-3.04	587.41	979.26	-0.1	5.49	175389	106611	68778	2.0	11.0
May	-4.2	-7.8	590.5	965.84	0.9	5.61	139367	100066	39301	3.93	14.21
June	-0.1	-8.5	590.57	956.82	1.3	5.04	158466	110425	48041	2.14	11.75
July	1.73	8.24	486.98	1103.15	1.2	5.09	172289	125343	46946	3.55	13.2
Aug 99	-0.7	-7.07	490.76	1033.34	1.1	5.09	158800	113695	45105	n/a	n/a
Sept	-1.6	-8.74	526.24	n/a	0.3	5.3	124446	75987	48459	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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