

# New Confidential Economic Bulletin

*Private Sector Organisation of Jamaica*

## Monthly Analysis of the Jamaican Economy

Vol. 5 No. 11, November 1999

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## Overview

The provisional fiscal out-turn for the first seven months of the fiscal year April- October 99/00 shows an interesting picture. Although revenue is up 17.3% on the same period last year, to \$46.36Bn, it is still 7.2% behind budgeted projections for this year.

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Tax revenue is 10.1% below projections but non-tax capital revenue and the bauxite levy are all ahead of projections. It is of interest to note that PAYE collections are 12.5% below projections and 10.3% below the amount collected in the similar period in 98/99.

The recent reductions are having a significant impact on tax revenues. However, the new withholding tax on interest has been a stellar performance exceeding budget projections by 16.4% and last year's intake by 74%.

Total tax revenue is up 14.1% on the corresponding period last year, quite an achievement for the tax authorities considering that output is contracting and inflation has been between 5 and 6%.

Expenditure has been restrained, growing by 4.6% over last year, but falling behind

budget by 2.2%. This has been achieved mainly by a 34.8% shortfall in capital expenditure and a 4.1% shortfall in spending on programmes. All other categories of recurrent expenditure are somewhat over-budget, but not by a large margin. Of some concern is the fact that domestic interest cost is 3% above budget, despite the fact that a number of recent issues have postponed their first interest payments until the 2000/01 fiscal year. With interest rates trending upwards and the government having to borrow more on the domestic market, this gap is likely to widen. Expenditure on interest could reach \$63bn by the end of the fiscal year, if the trend of the first seven months is maintained. This would be some \$6bn or 16% over budget.

The fiscal deficit for the Apr-Oct. 99/00 period was \$12.8bn or about 5.3% of GDP, already in excess of the 4.6% of GDP year end projection. With both higher

interest rates and higher public sector wages kicking in during the last 5 months of the fiscal year, it is going to be very difficult for the government to achieve the targeted deficit. Both of these factors will also have a significant impact on the shape of next year's budget and the outturn of the associated fiscal deficit.

The Jamaican dollar continued to slip in value during November, with volume trades taking place at around J\$41.8 to US\$1 in early December. BOJ continues to intervene by selling into the market at J\$40.3. It is possible that the disequilibrium in the foreign exchange market is due to a genuine imbalance rather than seasonal or speculative influences. Government's hard currency borrowing has played a significant role, along with private capital inflows, in the relative stability that the currency has enjoyed since 1996. It will be very difficult to maintain that relative stability in the face of significant reductions in both these sources of foreign exchange. Having said that, the government has raised US\$100Mn from the forward sale of alumina proceeds and that

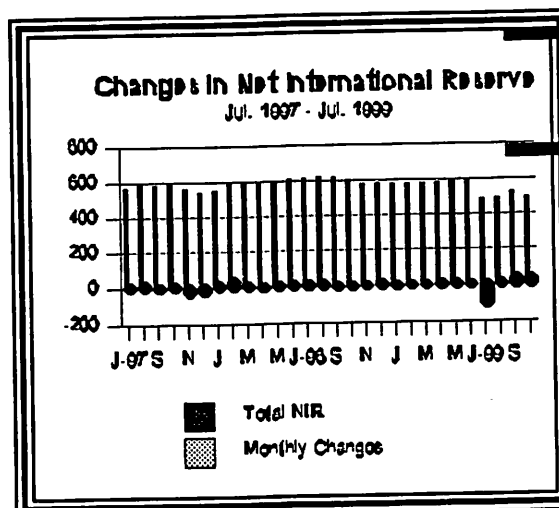
should enable them to slow the fall in the NIR for a few months.

October 1999, the NIR fell by US\$112.78Mn and by US\$85.18Mn since the start of the year.

The trend is expected to continue since there remains a

difficulty to acquire external loans by the government.

## Net International Reserves



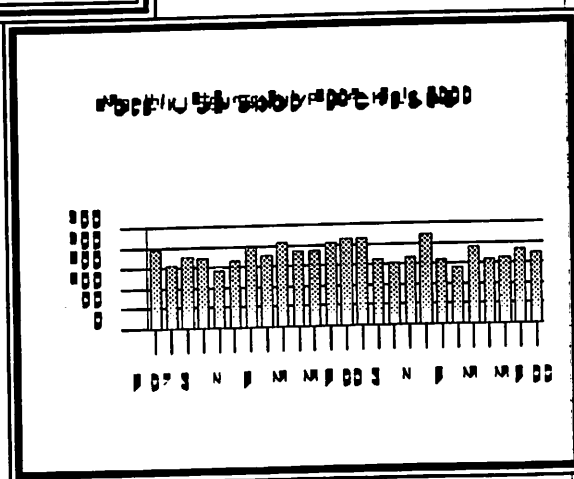
## Foreign Exchange

According to provisional figures provided by the BOJ, the total stock of foreign currency deposits at the end of August 1999 was US\$1033.34Mn. This reflected an increase of

The provisional stock of the Net International Reserves (NIR) held at the BOJ was US\$492.82Mn at the end of October 1999 and is estimated to cover 11.5 weeks of imports. The negative change over the September figure of US\$526.24Mn, resulted from a decrease in foreign assets of US\$33.42Mn.

Over the 12 months ended

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



Since the beginning of the year, there has been an increase of US\$56.04Mn compared with an increase 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.

## Exchange Rates

Through out the month of November 1999, the Jamaican dollar continued to slide in value. For the period November 8 to December 1, 1999, the Jamaican dollar has reduced in value by J\$0.42, J\$1, and J\$0.34 against the US and Canadian dollars and pound sterling respectively.

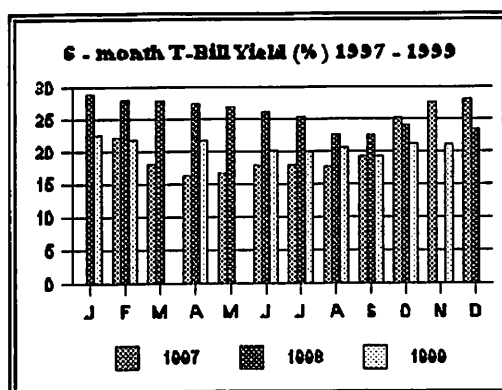
Since the beginning of the year, the Jamaican currency experienced a nominal decline in value of J\$3.11 against the US dollar.

As at December 2, 1999, the weighted average selling rates of the local currency vis-a-vis its major trading partners are:

J\$40.83 to 1 US\$  
J\$27.89 to 1 CDN\$  
J\$63.96 to 1 pound sterling

## Interest Rates

The 30 days reverse repurchase (repo) rate for November 1999 was 18.35%. Two Treasury Bill offers were issued on December 1, 1999. Of the two one was for J\$350Mn for 91 days and the other was J\$550Mn for a tenor of 183 days. Both offers were subscribed. The 91 day offer was oversubscribed by J\$966.5Mn

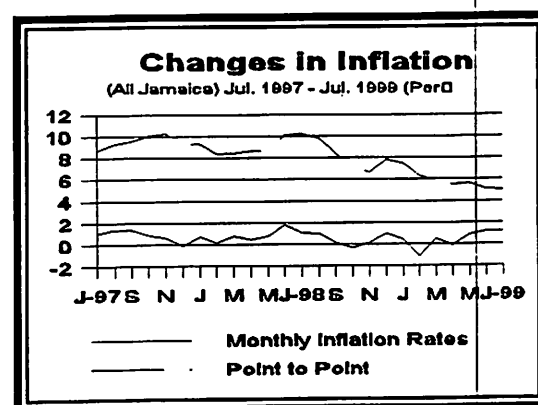


and yield on average 19.92%. The other offer for 183 days was oversubscribed by J\$576.4Mn with an average yield of 20.61%. The total nominal amount of Treasury Bills outstanding as at Wednesday December 1, 1999 is J\$10.65Bn.

The offer of J\$750Mn. Local Registered Stock 2001AB dated 25<sup>th</sup> of November 1999, was over subscribed by J\$91.85Mn and had an average yield of 23.47%. The offer of J\$400Mn

Local Registered Stock 2002AA dated 25<sup>th</sup> of November 1999, was oversubscribed by J\$510.4Mn and had an average yield of 23.64%. The maturity period of both stocks is two years from the date of issue.

## Inflation



The All Jamaican 'All Group' Consumer Price Index (C.P.I.) for October 1999 was 1247.5 as provided by the statistical Institute of Jamaica. This represents a 0.8% increase over the figure recorded for the previous month. Since the beginning of 1999, the index has risen by 4.84%, relative to a 5.89% increase for the corresponding period in 1998.

The point to point or 12 month movement in the rate of inflation up to the end of October 1999 amounted to 6.43% compared with 7.14% for the corresponding period in 1998.

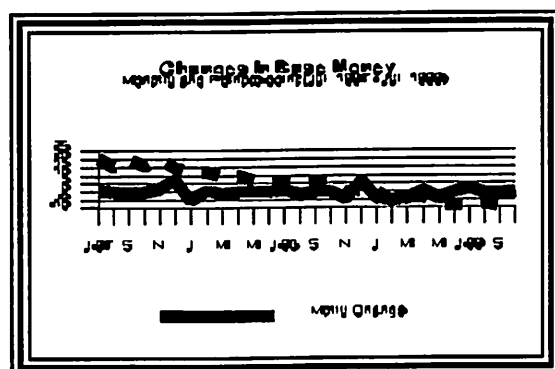
Strong growth in broad money, M2, may cause inflation to rise in the coming months.

## Base Money

Provisional figures provided by the BOJ revealed a contraction of 0.37% in the base money at the end of October 1999, leaving the

total nominal stock to be J\$31855.46Mn.

Since the start of the year the monetary base has contracted by 7.9% compared to a 1.4% increase in the corresponding period for 1998.



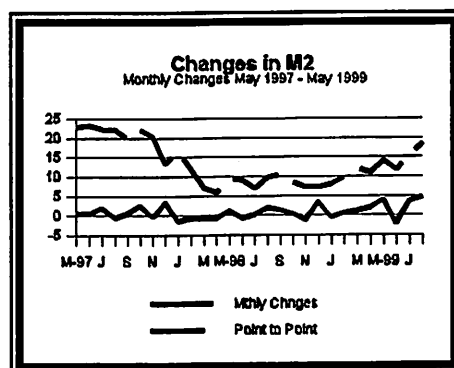
The point to point or 12 month movement in base money for the month of October 1999, was a decrease of 9.2% while there was an expansion of 12.52% in the 12 months to October 1998.

The contraction of the base money is primarily as a result of a

reduction in the cash reserves held by the BOJ.

## Money Supply

As indicated by provisional data provided by the BOJ, money supply (measured by M2) had a nominal increase of 4.71% for the month of August, relative to the previous month's



performance.

Since the beginning of the year, M2 stock grew by 14.75% compared to a 5% growth rate for the corresponding period in 1998.

In nominal terms, the point to point or 12 month movement in M2 at the end of August 1999 was 18.53% compared to a 10.6% growth rate in the corresponding period for 1998.

This strong growth in M2 is likely to put upward pressure on

the inflation rate in coming months.

## Production of Selected Commodities

**Energy:** Net generation of power, as supplied by the Jamaica Public Service Company Limited (JPSCo) was 257,564,150 KWh for the month of November 1999.

Total private purchases amounted to 79,776,801 KWh. The largest component of private power came from WARTSILLA (J.E.P.).

### Agriculture/Manufacturing:

**Cement Production:** Total cement production for the month of October 1999 was 21,772 tonnes, a reduction of 45.7% over the previous months production of 40,121 tonnes. This takes the year to date cement production to 402,355 tonnes.

Domestic sales of cement for October 1999 were 46,703 tonnes, declining by 6,779 tonnes from the sales of September 1999.

**Bananas:** Total banana production for the end of August 1999 was 3,860 tonnes, relative to the previous month's performance of 3,790 tonnes. Production levels between August 1998 and August 1999 fell by 17.34%.

**Sugar:** The BOJ production

figures revealed that there was no production of sugar for the months August and September 1999. There was no sugar production for September 1998 either.

**Mining:** Total Alumina production for the month of September 1999 was 286,955 metric tons. Total year to date production was 2,655,998 metric tons for the period ended September 1999, reflecting a 3.68% increase over the corresponding period in 1998.

Total Crude Bauxite production was 129,646 metric tons for the month September 1999. This is 59.23% less than the total bauxite production for September 1998 and reflects the reduced production by Kaiser Ja.. The total year to date production for crude bauxite was 2,375,099, showing a 21.93% decline over the corresponding period ended September 1998.

Exports of Alumina were 330,166 metric tons, for the month September 1999. This is 12.87% more than the figure reported for September 1998. The year to date figures also reflect an improvement of 2.03% over the corresponding period in 1998.

For September 1999, crude bauxite exports declined by 58.4% to 136,429 metric tons in relation to September 1998 export figures. The year to date figures revealed a

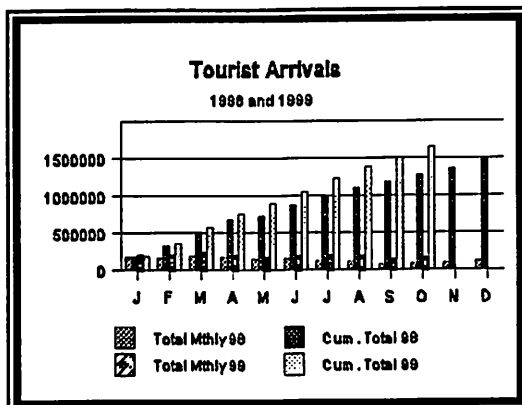
21.54% decrease in export of crude bauxite over the corresponding period in 1998. The 1999 year to date figure is 2,388,849.

## Tourism

Total visitor arrivals for October 1999 were 136,848, increasing by 9.97% over the previous month. The total stopover

increase over the corresponding period in 1998.

The total cruise passenger arrivals since the beginning of the year was 601,370 at the end of October 1999. This reflects a 3.4% increase over the corresponding period in 1998.



arrivals for the month increased by 10% to 83,638. Of the total arrivals for the month, cruise passenger arrivals were 53,210, an increase of 9.8% over the previous month.

The total number of calls for October 1999 amounted to 32. Of these numbers, 14 calls were to Montego Bay and 18 to Ocho Rios.

Total stopover arrivals from January 1999 up to October 1999 is 1,046,772, a 3.4%

## External Trade

**Exports:** The total nominal value of general merchandise exported for the review period January to August 1999 was US \$824.32Mn compared with US\$916.64Mn for the corresponding period in 1998.

During the review period, domestic exports were valued at US \$797.9Mn. For the same period in 1998, the figures were US\$882.77Mn. Traditional domestic exports yielded a total of US\$576.4Mn, declining by 6% from US\$613.2Mn in the corresponding period, January to August 1998. Of this outcome, major traditional exports were US\$533.4Mn declining by 7.6% and earnings from other traditional exports appreciated by 20.2% to US\$42.9Mn.

There was a decline for all items of

the major traditional export category as provided by the BOJ external trade data. Of these export items, earnings from Alumina declined by US\$24.5Mn representing a 6.1% reduction. Bauxite earnings declined by 17.1%, yielding US\$45Mn for the review period. There was also a significant 12.5% decline in earnings from bananas.

For other traditional export items, there was a 25.9% decline in cocoa earnings leaving it at US\$2.2Mn in the period under study. The earnings of all other items increased except for gypsum, which declined by 6.8%.

Non-traditional exports earned for the country, US\$221.5Mn in the period January to August 1999. This represents a 17.8% decrease from a US\$269.6Mn earnings for the corresponding period in 1998.

Freezone exports declined by 12.4% to US\$157.6Mn while the re-exports figures show a decline of 22% amounting to US\$26.4Mn.

**Imports:** Total nominal value of general merchandise imports for the period under study, was US\$1823.3Mn compared to US\$1956.6Mn for the corresponding period in 1998.

The value of 'Consumer Goods' was US\$591.1Mn, representing a 6.8% decline from the 1998 figure of US\$603.5Mn for the corresponding period. 'Food' and 'Other Non-durables' increased by

1% to US\$180.7Mn and 1.4% to US\$197Mn respectively. There was a marked decline of 7.3% in the value of durables imported, leaving the figure for this period to be US\$213.15Mn.

The value of 'Raw Materials' imported was reduced to US\$928.85Mn representing a 9.5% decline. Also, expenditure on 'Capital Goods' was US\$303.3Mn, resulting from a decline of 7% over the corresponding period in 1998.

External Sector US\$Mn		
	Jan-Aug '98	Jan-Aug '99
<b>Total Exports (F.O.B.)</b>	<b>1114.6</b>	<b>1001.9</b>
<b>Major Traditional Exports</b>	<b>577.4</b>	<b>533.3</b>
Bauxite	54.33	45.04
Alumina	404.98	380.44
Sugar	94.61	87.35
Bananas	23.46	20.53
<b>Other Trad. Exports</b>	<b>35.76</b>	<b>42.98</b>
<b>Non-Trad. Exports</b>	<b>269.59</b>	<b>221.53</b>
<b>Re-Exports</b>	<b>33.87</b>	<b>26.41</b>
<b>Total Imports</b>	<b>2089.54</b>	<b>1939.44</b>
Consumer Gds.	603.5	591.09
Raw Materials	1026.8	928.85
Capital Gds.	326.2	303.38
<b>Trade Balance</b>	<b>-974.94</b>	<b>-937.54</b>

## Balance of Payments

**Merchandise Trade:** For the review period January to August 1999 the merchandise trade deficit amounted to US\$656.4Mn representing a US\$7.7Mn decrease over the corresponding period for 1998. This reflects a reduction of US\$1565.6Mn in imports.

**Services:** The services balance for the period January to August 1999 showed a surplus of US\$410.9Mn, a US\$39.9Mn increase over the period January to August 1998. This resulted from a reduction of US\$28.2Mn in net payments for transportation services and a US\$20.6Mn reduction in payments on Foreign travel.

**Income:** The income account for the period January to August 1999, revealed a deficit of US\$190.8Mn in comparison with a deficit of US\$210.1Mn for the corresponding period in 1998. The narrowing of the deficit is as a result of a US\$24Mn decrease in net payments for Investment Income.

**Net Current Transfers:** Net receipts from current transfers increased by US\$13.8Mn, from

US\$418.9Mn in January to August 1998 to US\$432.7Mn in the review period in 1999. This result came about since private sector net receipts for the period grew by US\$14.3Mn.

***Capital and Financial Account:***

A deficit of US\$5.1Mn is recorded on the financial account for the review period. This represents a reduction of US\$80.2Mn, from a surplus of US\$75.1Mn in the corresponding period in 1998.

The net outflows (net official debt payments) increased by US\$226.8Mn over the corresponding period in 1998. As a result of the current account deficit and the reduction in the net inflow of private investment, the net international reserves of the BOJ has fallen by US\$91.2Mn. This compares with an increase of US\$78.7Mn in the corresponding period of 1998.

<b><u>Balance of Payments</u></b>	<b>Jan-Aug '98</b>	<b>Jan-Aug '99</b>	<b>Change</b>
<b>Goods balance</b>	<b>- 664.1</b>	<b>-656.4</b>	<b>7.7</b>
<b>Export</b>	<b>1114.6</b>	<b>996.3</b>	<b>-118.3</b>
<b>Imports</b>	<b>1778.7</b>	<b>213.1</b>	<b>-1565.6</b>
<b>Services - Net</b>	<b>371</b>	<b>410.9</b>	<b>39.9</b>
<b>Transportation</b>	<b>-168.5</b>	<b>-140.3</b>	<b>28.2</b>
<b>Foreign Travel</b>	<b>688.7</b>	<b>709.3</b>	<b>20.6</b>
<b>Other Services</b>	<b>-149.2</b>	<b>-158.1</b>	<b>-8.9</b>
<b>Income</b>	<b>-210.1</b>	<b>-190.8</b>	<b>19.3</b>
<b>Compensation of employees</b>	<b>33</b>	<b>28.3</b>	<b>-4.7</b>
<b>Investment Income</b>	<b>-243.1</b>	<b>-219.1</b>	<b>24</b>
<b>Current Transfers (Net)</b>	<b>418.9</b>	<b>432.7</b>	<b>13.8</b>
<b>Official</b>	<b>30.9</b>	<b>30.4</b>	<b>-0.5</b>
<b>Private</b>	<b>388</b>	<b>402.3</b>	<b>14.3</b>
<b>Current Account</b>	<b>70.3</b>	<b>11.4</b>	<b>-58.9</b>
<b>Net Capital Movements</b>	<b>9.2</b>	<b>8.7</b>	<b>-0.5</b>
<b>Official</b>	<b>2.2</b>	<b>3.2</b>	<b>1</b>
<b>Private</b>	<b>7</b>	<b>5.5</b>	<b>-1.5</b>
<b>Financial A/c</b>	<b>75.1</b>	<b>-5.1</b>	<b>-80.2</b>
<b>Other Official Investment</b>	<b>-23.1</b>	<b>-249.9</b>	<b>-226.8</b>
<b>Other Private Investment</b>	<b>176.9</b>	<b>153.6</b>	<b>-23.3</b>
<b>Changes in Reserves</b>	<b>-78.7</b>	<b>91.2</b>	



## MACRO-ECONOMIC INDICATORS

(July 1997 - Oct 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	1032.64	1.2	5.09	172289	125343	46946	3.56	15.54
Aug 99	-0.7	-7.07	490.76	1033.34	1.1	5.09	158800	113695	45105	4.71	18.5
Sept	-1.6	-8.74	526.24	n/a	0.3	5.3	124446	75987	48459	n/a	n/a
Oct	0.37	-9.2	492.82	n/a	0.8	6.43	136848	83638	53210	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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