1999

THE PRIVATE SECTOR ORGANISATION OF JAMAICA

ANNUAL REPORT ON THE JAMAICAN ECONOMY

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With similar policies remaining in place, it should not be surprising that the economic outcomes in 1999 were very similar to those in 1998. The economy contracted by 0.4%, a little less than the 0.7% decline in 1998, while inflation at 6.8%, was less than the 7.9% recorded in 1998. Both these outcomes were outside of the target ranges that had been set by the government when the 1999/00 budget was presented. Growth should have been between 2 to 3% and inflation should have been between 4 and 6%. The exchange rate also declined by about 11%, falling from J$37.16 in December 1998 to $41.42 in December 1999. The target for interest rate reductions was also missed, as they did not fall to 16% by year-end as forecast by the government, but rose slightly to 22% in December 1999.

These outcomes reflect the policymakers' preoccupation with the prevention of downward movements in the exchange rate and the preservation of the net international reserves, two objectives which sometimes come into opposition to each other. The government's inability to raise money on the international capital markets in 1999, led to much greater borrowing on the local market than was originally intended, and also led to a significant fall in the reserves, as there were no new hard currency loan inflows to finance the current account deficit in the balance of payments. The higher than programmed local interest rates were maintained in an effort to minimize private capital outflows which would have worsened the balance of payments situation and depressed the exchange rate even further.

1999 was not without some notable events that had a direct impact on the performance of the economy. There were the riots in April over the increase in the tax on petrol, which caused a good deal of physical damage and also depressed arrivals in the tourism industry. There was also the explosion in July at the Gramercy alumina plant in Louisiana, U.S.A., which caused a major reduction in the shipments of bauxite from Jamaica's Discovery Bay plant. An upsurge in violent crime, particularly murder, around the middle of the year led to the introduction of Operation Intrepid, which brought the Army onto the streets to

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conduct joint patrols and operations with the Police. This initiative did help to reduce the numbers of murders somewhat, but the increased violence did not help the country's image in the international marketplace. Finally, there was the Y2K computer bug which while not wreaking much harm on local commerce, had the perverse effect of keeping foreign visitors at home and therefore led to a rather slow and disappointing start to the 1999/2000 winter tourist season.

Although overall economic output declined in 1999, not all sectors of the economy contracted. Output in the goods producing sectors fell by 0.8% while that of the service sectors grew by 4.8%. However, the service sector growth must be set off against the large growth in imputed service charges, which arose, in large part, to account for the assistance from FINSAC to the financial sector. In the final analysis therefore, there was minimal overall growth in the service sectors and the basic services such as electricity, water, transport and communications were primarily responsible for this growth. Agriculture was the only major goods producing sector to record growth, while mining, manufacturing and construction all recorded declines.

The high interest rate policy continues to cause a rapid build up in the domestic debt, which grew by just under 26% in the 1999/00 fiscal year to reach J$175bn. FINSAC's liabilities also increased to J$108bn and Financial Institutions Services (FIS) holds another J$12bn in liabilities from the rescue of Blaise and Century National Bank. By March 2000, total direct foreign and local debt had reached J$296.5bn or 115% of GDP. When the debts arising from the financial sector rescue operations are added to this, the total becomes J$415.5bn or 162% of GDP. The rise in the FINSAC liabilities is particularly worrying as the company achieved significant success last year in divesting assets in the hotel and insurance sectors. However, in his 2000/01 budget speech, the Minister of Finance announced an initiative to obtain loans from the IDB and the World Bank which would be used to finance some of the FINSAC liabilities and create an exit strategy with regard to the liabilities which

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are due to the commercial banking sector. The details of this arrangement are not yet clear but it will also involve input from the IMF.

The budget for the 2000/01 financial year represents, again, a continuation of the policies that have been in place for the last few years. Real interest rates will remain high and the government will attempt to use inflows from the divestment of public assets to fill the gap in the fiscal accounts. With their confidence boosted by the success of the bond offering in the European market in February 2000, foreign loans are again intended to fill the gap in the external accounts and to lower the government's need to borrow high cost funds on the domestic market. Interest rates are programmed to fall marginally to between 15 to 17% and inflation should fall to between 4 to 6%. The economy is forecast to grow by about 1%, the lowest such forecast in a decade.

Outlook

The very modest targets for growth and interest rate reductions that have been set for the year 2000, suggest that even the policymakers do not expect an economic performance that is much different from that in 1999. We should therefore expect that economic output will change somewhere between –1% and +1%, with a strong likelihood of another small decline in output in 2000. Inflation is likely to be a bit higher than in 1999 and is likely to fall between 8 to 10% and may even be slightly above that range. Interest rates are likely to hover at or above the upper end of the projected band, with the possibility of an increase in rates if the government is unsuccessful in raising loans on the international capital market.

The maintenance of Moody's Ba3 rating of the government's hard currency bonds may not make a big difference to its ability to raise money in the US market, but it certainly will not hurt its cause. The upward trend in interest rates in both the US and Europe may prove to be more of a problem and the continued growth in the domestic debt may also have a negative impact on the interest rates that those markets may demand on Jamaican government bonds. However, the approach to the IDB and the World Bank to borrow money to help with FINSAC,

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may yield sufficient loan inflows to enable the government to avoid returning to the private capital markets in 2000.

Despite being another year of lacklustre economic performance, 2000 will still offer many opportunities for companies that have come through the past few years in good shape. Some of our stronger local companies have completed their restructuring and have husbanded their cash resources well. They are now well positioned to take advantage of the asset sales that will be conducted by FINSAC and the financial institutions that are trying to clean up their loan portfolios. They will also be able to take up the opportunities for mergers and acquisitions that will arise as weaker companies fall or seek alliances in order to survive. ■

1. WORLD ECONOMY REVIEW 1999 - 2000

After starting out with a myriad of set backs, the period has raised a multitude of positives for the world economy. The real GDP growth in the world economy for 1999 was estimated to be 3%, 7/10 of a percent greater than the estimate in the IMF's May 1999 World Economic Outlook. This was reported at the October 1999 World Economic Outlook press conference.

The difficulties associated with the financial crisis of Russia were subdued over the year, through strict and quick policy actions by policy makers. The monthly inflation rate fell from 38½% in September 1998 to 1¼% in August 1999. Industrial production has increased and the equity market has resumed activities on a large scale. There has also been progress in the effort to normalize relations with major international creditors. For continued progress, Russia however has to effectively address the fiscal and structural problems that were the root causes of the crisis; problems such as the federal government's revenue performance and the tax and expenditure arrears.

Japan has experienced positive growth in GDP, taking the country out of the recession it had been experiencing. Paradoxically, the present situation of Japan is partly due to the zero interest rate policy, maintained as an impetus to investment in the present deflationary climate. Exports have increased owing to the recovery of the Asian economies and this has led to increased production, boosting corporate profits and household incomes. Non-performing assets of financial institutions and firms are being disposed of, hence lessening the risk of a related economic crisis. The zero interest rate policy is expected to continue as long as deflation is present.

The Asian emerging markets that saw large declines in 1998 are now expected to have had significant growth in 1999 and a further strengthening in 2000. The support of competitive exchange rates has led to a general increase in exports. Capital inflows are up and inflation is declining in the region. The most significant progress has been made in Korea, where interest rates are

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below pre-crisis levels and there is a large current account surplus and strong capital inflows. Indonesia, however, is a lot slower in recovery. Real GDP is projected to decline further in 1999 with an up-turn in 2000. The economy is also expected to experience single digit inflation in the near future.

The Euro area is also showing evidence of increased growth. After a slow down to 2%, growth projected in the May 1999 World Economic Outlook for the second half of 1999 and 2000 as a whole will average 2¾%. The external economic environment has improved in 1999 with reductions in official interest rates in several European countries outside the Euro area. This has reduced downside risks.

The crisis in Brazil, which had led the May 1999 WEO to forecast a 4% contraction in the economy, has been brought more or less under control. The new forecast for the economy of Brazil is a lot more positive. It is estimated that the economy has hit the trough and is now on an up-turn, with the economy expected to grow by 3-4% in 2000.

Other South American countries continued to face difficulties throughout the period. The anticipated Y2K problem was given the deserved attention across the world. The preparations that were made by the financial institutions were closely monitored and contingency plans were executed by central banks worldwide in order to maintain liquidity towards the end of 1999 and into early 2000.

World Trade

The IMF projected increases of world trade volume in goods and services to be 3.7% in 1999 and 6.2% in 2000. This is indeed a turn around from the May 1999 projections of -0.1% and 0.4% for 1999 and 2000 respectively.

The difficulties have eased for regions which experienced crisis situations in 1998. Russia, Brazil and the South East Asian countries have created positive expectations in performance for 1999 and 2000. The growth rate of trade volumes, which fell from 9.9% in 1997 to 3.6% in 1998, is now expected to increase in 2000.

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Imports of developing countries are expected to change by 1.1% and 7.2% in 1999 and 2000 respectively while exports should increase by 2.4% and 5.6% for the same period. After a decrease of 7.2% in the value of exports from developing countries in 1998, there is an expectation of 3.9% and 9% increases in 1999 and 2000.

An increasing openness to trade and greater attention to appropriate fiscal and monetary policies have made the globe a more favourable trading area and, as such, further expansion in both the volume and value of trade is anticipated in 2000.

Oil

Oil prices have made a noticeable recovery. The average price is projected by the IMF to change from US$13.07 per barrel in 1998 to US$16.70 and US$18.00 in 1999 and 2000 respectively. That represents projected annual changes of 27.7% in 1999 and 7.8% in 2000. Oil prices are however expected to rise above IMF projections. Notably, benchmark crude (such as West Texas) oil, has already passed $30 per barrel. These price changes can be accredited to the strict adherence of OPEC to output cuts. In early 2000, the production curbs were relaxed somewhat and prices fell back to around US$25 per barrel and these new production quotas are expected to continue for the remainder of the year.

Inflation & Commodity Prices

The price of non-fuel primary commodities is projected to decrease by 7.2% in 1999 and increase by 3.4% in 2000. From all indications, the fall in commodity price has ceased and the world is experiencing a trough in this regard. This should come as good news to commodity exporting countries that were especially affected by the slowdown.

The rate of inflation for advanced economies continued to fall, leading to a projected aggregate rate of 1.4% in 1999 and projections of 1.8% in 2000. Events in early 2000 have suggested that the actual outcome may be somewhat higher than this projection as inflation has already crept up above 2% in both Europe and North America. This will occur after a 1997 rate of 2.1% and a 1998 rate of 1.5%. The other price monster,

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deflation, now threatens Japan. Changes in consumer prices for Japan are projected to be a reduction of 0.4% in 1999 and no change for 2000.

For the rest of the world, there is an extension of the projected low inflation. Developing countries are expected to have, in aggregate, inflation of 6.7% in 1999 and 5.8% in 2000, down from 10.3% in 1998. However, countries in transition are projected to have inflation of 39.3% in 1999 and 18.1% in 2000, from a trend of 28.2% in 1997 and 20.9% in 1998.

The fall of world inflation to its lowest level in 40 years (as indicated by the IMF) is as a result of the increased focus by monetary authorities on the low inflation goal. The improvement in fiscal discipline demonstrated by many economies spilt over into monetary discipline and contributed to the reduction in actual and expected inflation. Hence there is a now a movement towards price stability globally.

Trade Development

Trade liberalization continues to be the primary focus of the WTO and the major point of trade negotiations. It is believed in some quarters that there needs to be a revival of the momentum towards greater trade liberalization, which may be faltering under the weight of concerns about globalization. This is especially so after many issues were raised during the protests at the Seattle Meeting of the WTO in December 1999. The next major Round of WTO negotiations will relate to the sensitive issues concerning the multilateral liberalization of trade in agriculture and trade in services.

While the benefits of efficient resource allocation, reduced budget cost and enhanced consumer welfare are anticipated by advanced countries, developing economies mainly wish to overcome market access barriers in agriculture and high subsidies and protection in foreign markets.

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It should be noted that trade in services has grown at an average rate of 7% per year since 1990 and has slightly surpassed the growth rate of merchandise trade. Incidentally, services account for approximately 60% of world output.

With the continued increase of potential gains from trade in services, the main focus for both developed and lesser-developed economies will be the improvement of access conditions. It was unfortunate, however, that deliberations at the Seattle Meeting were postponed and that delegates returned home less than satisfied. Mike Moore, Director General of the WTO, believes that gaps were however narrowed in many important areas but maintenance and consolidation of past achievements are necessary.

World Economic Outlook

The strict attention to fiscal and monetary policies has led forecasters to predict a continued improvement in world economic conditions in aggregate.

With the exception of Canada and the United States, major industrial countries are expected to grow at increasing rates. A slow-down is predicted for Canada, which is expected to grow by 3.6% in 1999 and 2.6% in 2000, from a rate of 4% in 1997 and 3.1% in 1998. However, first quarter data have shown the Canadian economy growing at an annualised rate of 4.5%, so that the full year outcome may be somewhat higher than this forecast. The changes projected for the United States stretch growth from 3.9% in 1997 and 1998 to 3.7% and 2.6% in 1999 and 2000 respectively. Again, actual outcomes for the last quarter of 1999 and first quarter of 2000 have been substantially above these forecasts and even if the Federal Reserve is successful in slowing the rate of growth of the American economy, the full year growth rate for 2000 may well be in the region of 3.5% to 4%.

World output is estimated to have risen by 3% in 1999 and to rise by 3.5% in 2000, recovering from the fall from 4.2% in 1997 to 2.5% in 1998. Incidentally, all crisis struck countries are on recovery and

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ASEAN, which declined by 9.8% in 1998, is expected to grow by 1.4% and 3.6% in 1999 and 2000 respectively. Japan's recovery should lead to growth rates of 1% in 1999 and 1.5% in 2000, up from the 2.8% decline in 1998.

It is however important to note that there is still room for improvement in macro-economic stabilization and the need for an even greater effort to maintain it where such stability occurs. ■

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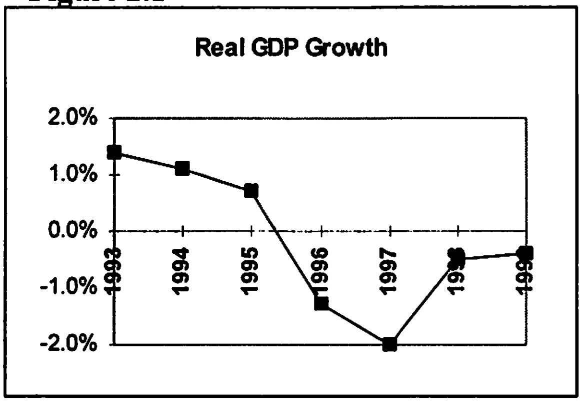
Overview of the World Economy (Annual percent change unless otherwise noted)	1997	1998	Current Projections 1999	2000
WORLD OUTPUT	**4.2**	**2.5**	**3.0**	**3.5**
Advanced economies	3.2	2.2	2.8	2.7
Major industrial countries	2.9	2.2	2.6	2.4
United States	3.9	3.9	3.7	2.6
Japan	1.4	-2.8	1.0	1.5
Germany	1.8	2.3	1.4	2.5
France	2.3	3.2	2.5	3.0
Italy	1.5	1.3	1.2	2.4
United Kingdom	3.5	2.2	1.1	2.4
Canada	4.0	3.1	3.6	2.6
OTHER ADVANCED ECONOMIES	**4.2**	**2.1**	**3.5**	**3.6**
Industrial countries	3.0	2.4	2.6	2.5
Euro area	2.4	2.8	2.1	2.8
Newly industrialized Asian economies	5.8	-1.8	5.2	5.1
DEVELOPING COUNTRIES	**5.8**	**3.2**	**3.5**	**4.8**
Africa	3.1	3.4	3.1	5.0
Asia	6.6	3.7	5.3	5.4
China	8.8	7.8	6.6	6.0
India	5.5	5.8	5.7	5.5
ASEAN-4[1]	3.6	-9.8	1.4	3.6
Middle East and Europe	4.5	3.2	1.8	3.1
Western Hemisphere	5.3	2.2	0.1	3.9
Brazil	3.7	0.1	-1.0	4.0
COUNTRIES IN TRANSITION	**2.2**	**-0.2**	**0.8**	**2.8**
Central and Eastern Europe	3.0	2.2	1.0	3.3
Excluding Belarus and Ukraine	3.4	2.3	1.7	4.0
Russia	0.9	-4.6	0.0	2.0
Transcaucasus and Central Asia	2.5	2.2	2.0	2.9
WORLD TRADE VOLUME (GOODS AND SERVICES)	**9.9**	**3.6**	**3.7**	**6.2**
IMPORTS				
Advanced economies	9.2	4.8	5.9	5.9
Developing countries	11.4	-1.3	1.1	7.2
Countries in transition	7.0	2.9	-2.7	8.2
EXPORTS				
Advanced economies	10.3	3.2	3.0	6.2
Developing countries	11.4	4.9	2.4	5.6
Countries in transition	5.0	5.9	2.7	7.2
COMMODITY PRICES				
Oil[2]				
In SDRs	-0.2	-31.2	27.2	7.4
In U.S. dollars	-5.4	-32.1	27.7	7.8
Nonfuel[3]				
In SDRs	2.0	-13.5	-7.6	3.0
In U.S. dollars	-3.3	-14.8	-7.2	3.4
CONSUMER PRICES				
Advanced economies	2.1	1.5	1.4	1.8
Developing countries	9.2	10.3	6.7	5.8
Countries in transition	28.2	20.9	39.3	18.1
SIX-MONTH LIBOR (in percent)[4]				
On U.S. dollar deposits	5.8	5.5	5.4	6.1
On Japanese yen deposits	0.7	0.6	0.2	0.2
On euro deposits	3.5	3.7	3.0	3.5

Note:
Real effective exchange rates are assumed to remain constant at the levels prevailing during July 26 - August 16, 1999.
[1] Indonesia, Malaysia, the Philippines and Thailand.
[2] Simple average of spot prices of U.K., Brent, Dubai and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was $13.07 in 1998; the assumed price is $16.70 and $18.00 in 2000.
[3] Average, based on world commodity export weights.
[4] London interbank offered rate.

2. GROSS DOMESTIC PRODUCT

Introduction

Figure 2.1



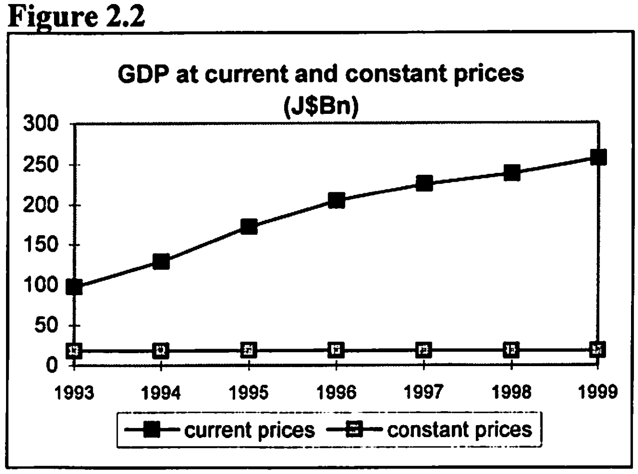
The extremely tight monetary policy that prevailed throughout much of 1998 was maintained throughout most of 1999 as well. Nominal interest rates did not decline to the levels projected in the 1999/00 budget presentation and Treasury Bill rates actually rose slightly towards the end of the year. Real interest rates remained very high but dipped marginally in the last quarter of 1999. Credit to the private sector contracted sharply in 1999, while credit to the public sector increased significantly. As a result of these and other factors, the economy suffered its fourth consecutive year of contraction, with output declining by 0.4% in 1999.

Balance of Payment Developments

The year 1999 recorded a reduction of US$17.3Mn on the current account deficit. This was largely due to an increase in current transfers and a reduction in the Income account deficit. The deficit on the trade balance increased from US$1096.8Mn in 1998 to US$1140.6Mn in 1999. This is reflective of a 7.6% reduction in exports and a 2.9% reduction in imports. The service balance also declined slightly, from a surplus of US$509.9Mn to US$506.9Mn.

A decrease of US$153.6Mn in net capital inflows contributed to a reduction of US$131.8Mn in the reserves, compared with a US$ 41.5Mn increase in 1998.

Figure 2.2



GROSS DOMESTIC PRODUCT

Value of Jamaican Dollar

The nominal value of the Jamaican dollar declined during 1999. The domestic currency had depreciated against the US and Canadian dollars and the pound sterling, with the rate against the U.S. dollar moving from J$37.16 in December 1998 to J$41.42 at the end of 1999.

Interest Rates

The high level of real interest rates were maintained throughout the year and continued to discourage investment in 1999. The government did not meet its interest rate reduction targets but did continue with periodic reductions in the cash reserve ratio of the commercial banks. Bank of Jamaica repo rates were reduced from 22% in 1998 to 18.35% at the end of 1999 and Treasury bill rates also declined slightly over the period, falling from 23.5% in December 1998 to 22% in December 1999. The combination of reductions in the cash reserve ratio and the Treasury Bill rates were major factors behind the fall in the weighted average lending rates at commercial banks which finished 1999 at 27.71% (down from 32.98% in 1998). Weighted average deposit rates also fell (15.54% to 13.4%), leading to a small downward movement in nominal interest rates for the 1999 period.

Productive Sector

Agriculture

After the decline in output since 1997, the agricultural sector in Jamaica showed growth of 1.9% in 1999, and accounted for 7.4% of GDP.

The reasons behind the turn around included the implementation of Government projects and programmes geared at improving production and productivity in both export and domestic crops. Added to this, weather conditions were more favourable in 1999, in contrast to 1997 and 1998 when drought and unusual weather patterns affected output quite severely.

The Traditional Export Crops sub-sector has increased by 1.3% as estimated by the Planning Institute of Jamaica. This led to

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foreign exchange earnings of US$159.6Mn on selected items, a 2% increase over 1998.

The total volume of sugar cane milled at the end of the crop year ended July 1999 was 2.3 million tonnes, producing 200,000 tonnes of sugar. This was an improvement over the 1998 outturn which saw 2.26 million tonnes of sugar cane milled to produce 182,000 tonnes of sugar (i.e. sugar cane per tonne ratios of 11:32 in 1999 compared to 12:14 in 1998). The improvements were actually 1.8% and 9.9% for sugar cane and sugar production respectively, resulting from the easing of drought conditions and increased levels of efficiency. An increase in the sugar quota to Portugal led to an increased export volume of 6% to 177,522 tonnes. However, due to the depreciation of the Euro against the US dollar, earnings per tonne of sugar exported to the UK declined by 4%, leading to a marginal 4% increase in total earnings from sugar exports (to US$95.79Mn).

During the crop year ended July 1999, 13,136 tonnes of coffee cherry were delivered to the processing plants, a 22% fall from the 1998 crop year's total deliveries. The volume of Blue Mountain coffee was affected by heavy and persistent rainfall in the reaping and collection time, which ran from November 1998 to February 1999. Lowland coffee production continued to suffer from the effects of the 1997 drought and also from inefficient farming practices. There was however an increase of 39% in earnings from coffee production for the 1999 crop. This increase resulted in earnings of US$24Mn from this product.

Banana exports for the period amounted to 52,208 tonnes, 15.7% less than in 1998, which were in turn 22.3% below 1997 banana exports. The output level is reportedly the lowest in the decade and is attributed to the effects of the past drought and the restructuring and closure of some farms in the industry. Although the export volume fell, the volume of exportable yield per hectare improved to 18 tonnes per hectare, a gain of 11.8%. Some farmers took marginally productive fields out of production to improve their competitiveness in the European market. There was also slight improvement in the quality of banana

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exported, with a Percentage Units Weights Specification of 82% (up from 81.6% in 1998). Earnings from banana exports amounted to US$29Mn, a 12.1% fall from 1998.

Mining

Total bauxite production (crude bauxite and alumina) declined by 7.6% during 1999 to 11.7 million tonnes, earning US$681.3Mn, down from US$684.8Mn in 1998. This is the first fall in production since 1995 and is a direct result of the major explosion at the Gramercy Refinery in Louisiana, which was unable to take shipments of bauxite from Jamaica after June 1999. Crude bauxite production fell by 30.7% to 2.8 million tonnes in the review period. The reduction in output is likely to persist throughout 2000, as the refinery is unlikely to return to production before the year 2001.

3.6 million tonnes of alumina were produced in 1999, a 3.8% increase over output in 1998. This increase cushioned the effects of the decline in production of crude bauxite, resulting in a total production decline of only 7.6% for 1999. The volume of alumina exported also increased by 3.8%, leading to decline of 7.3% in total bauxite exports. The Manley Accord (established in July 1998) was partly responsible for the improvements in alumina production. This agreement involving the government, the companies and the unions was aimed at improving industrial relations and the investment climate in the bauxite/alumina sector. Despite increased aluminium prices on the international market and increased production of alumina in 1999, overall output from the mining sector declined by 1.2% in 1999.

Manufacturing

The manufacturing sector, in 1999, experienced its fourth consecutive year of decline due to the high domestic production costs which have arisen as a result of the high interest rate policy and the tight domestic demand conditions. Increased production was however recorded in the Chemical and Chemical Products, the Beverages and Tobacco sectors, and some Food Processing industries. The Food

GROSS DOMESTIC PRODUCT

Processing sub-sector saw increased output of poultry meat (8.7%), animal feeds (1.6%), edible oils (12.4%), and dairy products (276.4%), but experienced an overall decline of 16.7% for 1999.

The competition from cheaper priced imports and the closure of the single petroleum refinery (three times in 1999), along with high operating costs, all contributed to the fall in production of manufactured goods.

Export earnings in this sector fell by 12.8% to US$414.6Mn in 1999, compared with an 8.9% decline in the previous year. The reduction in total export value was largely attributed to the performance of the Non-traditional sub-sector. All groups in this sub-sector registered declines (in export value), with the exception of Processed Foods (a 24.6% increase), Animal and Vegetable Oils & Fats (a 50% increase) and Mineral Fuels (a 68.4% increase). Traditional Exports registered improved earnings, while the apparel industry experienced a fourth consecutive year of decline, due primarily to factory closures, increased domestic production costs and a reduced share of the US market.

Services

Financial Sector

The absorption of non-performing loans by FINSAC, allowed the financial sector to appear stronger than in 1998. There was increased confidence in the sector with some institutions undergoing restructuring during the year. The BOJ continued giving liquidity support to the FINSAC controlled commercial banks and the insurance portfolios of the intervened companies in that sector were divested.

There was marked improvement in areas such as the pre-tax profit margins, past due loans, capital base and total assets. Profits were recorded for all the merchant banks and for four of the six commercial banks in 1999.

The cash reserve ratio of commercial banks was reduced to 16% at the end of 1999, from 21% in 1998. Commercial banks' credit to the mining and manufacturing sector fell by

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28.3%, while loans outstanding to the service sector fell by 23%. There were also declines in loans for consumption purposes and foreign currency loans. Private sector loan demand remained weak, while credit to the public sector experienced strong growth.

Tourism

Total visitor arrivals for 1999 amounted to 2,012,738, 6% above the number of visitors arriving in the island in 1998. There was a 13.5% increase in the level of cruise ship passengers to 764,341 persons. Stopover arrivals also increased by 1.9% to a total of 1,248,397 for the review period. This was despite the 10% decrease in the December figures (believed to be as a result of Y2K uncertainties). Non-resident Jamaicans increased their visits by 4.4% while foreign nationals increased visits by 1.7%. The average length of stay was 10.3 nights, compared to 10.9 nights in 1998, a factor that may account for the marginal slippage in earnings in 1999. The BOJ estimates expenditure to be US$1196.7Mn for the year, compared with US$1197Mn for 1998. First time visits accounted for 59.1% of foreign nationals to the island in 1999. Stopover arrivals from the United States made up 69.7% of the total, making the United States the major market for tourism in Jamaica. The island continued to be a winner with the 25 to 49 age group with persons between ages 25 and 34 making up 27.2% of stopover visitors, while persons between 35 and 49 accounted for 30.8%. The next largest group was the 50 to 64 age group which accounted for 14.7% of the stopover visits in 1999. ■

3. BALANCE OF PAYMENTS

The Balance of Payments (BOP) consists of two main accounts, the current account and the capital and financial account. It records transactions between the economy as a whole and the rest of the world. The current account shows the results of trade in goods and services and transfer payments while the capital and financial account shows capital transfers, investments, foreign debt flows and changes in reserves.

Notwithstanding a decline in the goods balance, the current account deficit fell to US$183.3Mn in January to November 1999, compared with a deficit of US$200.1Mn for the same period in 1998. Net capital outflows were greater for the review period and the reserves fell accordingly.

Merchandise Trade

According to the Bank of Jamaica, the merchandise trade account for January to November 1999 had a negative balance of US$989.8Mn. This represents a widening of the trade deficit by US$32.6Mn from the balance recorded for the corresponding period in 1998. The expansion of the deficit reflects a fall in both exports and imports for the period, with the former declining by a greater margin than the latter.

January to November 1999 saw exports and imports falling by US$116.3Mn and US$83.7Mn respectively. Exports for the period amounted to US$1,369.7Mn, 7.8% less than the amount recorded in 1998. Imports fell to US$2,359.5Mn, 3.4% less than the figure recorded in the previous year. Reductions in the import bill came as a result of the fact that the declines in the raw material and capital goods categories exceeded the increase in consumer goods imports. Raw materials, which are the largest category of imports, were significantly affected by a 23.5% increase in the value of fuels and lubricants imported. This was a direct result of the steep increase in oil prices, which took place in 1999.

Declines in non-traditional exports for the 1999 period accounted for US$58.4Mn of the US$71.29Mn fall in domestic exports relative to earnings recorded for 1998. The US$21.3Mn decline in major traditional exports was only partially offset by the

BALANCE OF PAYMENTS

US$8.36Mn increase in the value of other traditional exports, resulting in the overall decline in domestic exports.

Services

The net inflow from services was US$460.7Mn for the January to November 1999 period. This was US$22.1Mn more than the amount recorded for the corresponding period in 1998. The increase in net service earnings was most affected by a US$31.2Mn reduction in the transportation deficit and the US$11.6Mn increase in the deficit for other services. The transportation account deficit was US$212.1Mn, 12.8% less than the deficit recorded in 1998. Net inflows from foreign travel for the period rose by US$1.5Mn (0.17%) to US$878.5Mn. This essentially flat performance was due to an increase in the expenditure of Jamaicans travelling abroad since estimated tourist receipts increased by US$16.7Mn over the corresponding eleven months of 1998.

Income

The income account recorded a deficit of US$249.5Mn, US$10.1Mn lower than the deficit recorded in 1998 for the corresponding eleven months. Compensation of employees decreased by US$9.6Mn to US$54.7Mn, however the decrease in net investment outflows of US$19.7Mn accounted for the resulting change in the balance on the income account.

Net Current Transfers

Net current transfers of US$595.3Mn were recorded for January to November 1999. This is US$18.2Mn or 3.2% more than the amount recorded for the corresponding period in 1998. Net private inflows rose by US$18.3Mn, while net official transfers fell by US$0.1Mn.

BALANCE OF PAYMENTS

1998/1999

Table 3.1

	Jan-Nov '98	Jan-Nov '99	% Change
Goods balance	-957.2	-989.8	-32.6
Export	1486	1369.7	-116.3
Imports	2443.2	2359.5	-83.7
Services - Net	439.6	460.7	22.1
Transportation	-243.3	-212.1	31.2
Foreign Travel	877.0	878.5	1.5
Other Services	-194.1	-205.7	-11.6
Income	-259.6	-249.5	10.1
Compensation of employees	64.3	54.7	-9.6
Investment Income	-323.9	-304.2	19.7
Current Transfers (Net)	577.1	595.3	18.2
Official	41.5	41.4	-0.1
Private	535.6	553.9	18.3
Current Account	-200.1	-183.3	16.8
Net Capital Movements	13.7	11.6	-2.1
Official	3.9	4.0	0.1
Private	9.8	7.6	-2.2
Financial A/c	186.4	171.7	-14.7
Other Official Investment	-48.2	-299.9	-251.7
Other Private Investment	270.4	396.4	126.0
Changes in Reserves	-35.8	75.2	

Current Account

For the period under study, the current account showed a deficit of US$183.3Mn. That was US$16.8Mn less than the deficit recorded for January to November 1998.

This was due to the positive changes in the services and income sub accounts. The improvement in these accounts was offset somewhat by the deterioration in the trade account, an indication that the country's goods producing sector is still undergoing

BALANCE OF PAYMENTS

serious difficulties. It also suggests that the local currency is somewhat overvalued.

Capital & Financial Account

At the end of November 1999, operations since January resulted in capital and financial account balances of US$11.6Mn and US$171.7Mn respectively. The results represented declines in net inflows of US$2.1Mn and US$14.7Mn respectively. The reduction in the financial account surplus was due to an increase of US$251.7Mn in the net outflow of official investments which grew to US$299.9Mn and a US$126Mn increase in net private investment inflows. The increase in official capital inflows came about due to the failure of government to raise loans in the international capital market, while the increase in private capital inflows resulted primarily from divestment proceeds. The Net International Reserves (NIR) fell by US$75.2Mn, as the increase in private capital inflows was not enough to offset the increase in official outflows. This compares with a US$35.8Mn increase in the reserves during the corresponding period in 1998.

Outlook for 2000

The balance of payments is likely to worsen in the year 2000 and this trend is already visible in the data for the 1999/00 fiscal year. The goods balance will probably deteriorate further as export performance continues to be sluggish, while the services balance may show only the most marginal improvement as net earnings from tourism are not likely to increase significantly. Transfers may continue the recent trend of slow, steady growth but this will not be enough to offset the deterioration in the goods balance, leading to a larger current account deficit in 2000.

A combination of large loan inflows and the sale of cellular licenses have boosted the NIR significantly in early 2000. They are likely to fall fairly steadily as the BOJ intervenes in the foreign exchange market during the second and third quarters of the year. The reserves may recover somewhat in the last quarter if the government is successful in raising a substantial loan from the Inter-American Development Bank, as part of its programme to deal with the

BALANCE OF PAYMENTS

FINSAC debts. Whether the reserves finish the year up or down relative to the position at the beginning of the year, will also depend on how much the demand for hard currency increases in response to the lowering of interest rates and the imposition of the 25% withholding tax on interest income. ■

Table 3.2

Current Account Balances							
	Jan-Dec 1994	**Jan-Dec 1995**	**Jan-Dec 1996**	**Jan-Dec 1997**	**Jan-Dec 1998**	**Jan-Nov 1998**	**Jan-Nov 1999**
Current Account	6.9	-172.7	-237.7	-400.6	-322.8	-200.1	-183.3

BALANCE OF PAYMENTS

Table 3.3

Balance of Payments (US$Mn)

	Jan-Dec 1995	Jan-Dec 1996	Jan-Dec 1997	Jan-Dec 1998	Jan-Nov 1998	Jan-Nov 1999
Goods Balance	-829.4	-994.2	-1120.8	-1101.9	-957.2	-989.8
Exports	1796	1721	1699.1	1486	1486	1369.7
Imports	2625.4	2715.2	2819.9	2443.2	2443.2	2359.5
Services Balance	374.2	326.1	307.6	261	439.6	460.7
Transport	-246	-270.2	-287.4	-281.6	-243.3	-212.1
Foreign Travel	921.2	935.2	949.5	909.8	877	878.5
Other Services	-301	-338.9	-354.5	-367.2	-194.1	-205.7
Income	-309.5	-177.4	-201.2	-93.6	-259.6	-249.5
Compensation of Employees	46.5	47.3	53.7	71.9	64.3	54.7
Investment Income	-356	-224.7	-254.9	-165.5	-323.9	-304.2
Current Transfer	5.92	607.8	613.8	611.7	577.1	595.3
Official	37.2	33.9	0.23	24.4	41.5	41.4
Private	554.8	573.9	590.8	591.3	535.6	553.9
Current Account	-172.7	-237.7	-400.6	-322.8	-200.1	-183.3
Net Capital Movement	24.1	21.1	9.4	6.6	13.7	11.6
Official	20.5	18.7	7	4.2	3.9	4
Private	3.6	2.4	2.4	2.4	9.8	7.6
Financial Account	148.6	216.6	391.2	316.2	186.4	171.7
Other Official Investment	-0.97	-144.7	43.1	-57.7	-48.2	-299.9
Other Private Investment	265.3	639.9	1.96	415.4	270.4	396.4
Changes in Reserves	-19.7	-278.6	152.1	-41.5	-35.8	75.2

4. EXTERNAL TRADE

Table 4.1

Jamaica's External Trade 1995 - 1999 (US$Mn)						
	1995	1996	1997	1998	1998 Jan.-Nov.	1999 Jan.-Nov.
Imports	2831.7	2933.7	3127.8	2960.6	2691.71	2593.06
Exports	1436.8	1387.2	1388.3	1290.3	1217.04	1136.84
Trade Balance	(1394.9)	(1546.5)	(1739.5)	(1670.3)	(1474.67)	(1456.23)

The value of the total trade for the Jamaican economy amounted to US$3,729.9Mn for the January to November period of 1999. This represents a 4.57% decline from the value of US$3,908.75Mn for the same period in 1998. Of total trade for the period under review, exports were valued at US$1,136.84Mn, and imports at US$2,593.06Mn, taking the trade balance to a deficit of US$1,456.23Mn, compared with a US$1,474.67Mn deficit in the corresponding period in 1998. That is a 1.2% decline in the trade deficit, brought about by 3.66% and 6.6% reductions in imports and exports respectively.

Exports

For the review period, total exports were valued at US$1,136.84Mn, a reduction of US$80.2Mn relative to the outcome for January to November 1998. Domestic exports represented 97.1% of total exports, earning US$1.10Bn while re-exports earned US$32.6Mn. The fall in exports over the 1998 period is accounted for by declines of 6% and 21% in domestic exports and re-exports respectively.

Total traditional exports amounted to US$793.24Mn, down from the recorded US$806.14 for 1998. This was brought about by a 2.8% reduction in major traditional exports and a 16% increase in earnings from other traditional exports. Total non-traditional exports fell by US$58.4Mn (15.8%) when compared with the same period in 1998. Only the food group in this category[1] experienced

[1] Figures in the text of this chapter are based on STATIN's report and hence STATIN's methodology.

EXTERNAL TRADE

increased earnings. Earnings from agricultural commodities increased by 4.3% to US$58.97Mn. The largest increase, US$5.8Mn (37.6%), was recorded for coffee exports. The earnings from all elements of this category increased, with the exception of bananas.

Reductions of 28.8% and 9.7% in bauxite and gypsum earnings greatly influenced the 1.69% fall in earnings from mining and quarrying, which were US$10.65Mn less than for January to November 1998. Jamaica also saw a reduction of 3.86% in earnings from manufactured products. Sugar export earnings experienced a 7.7% fall over the review period. This US$7.26Mn reduction was enough to outweigh the increased earnings from other manufactured products, resulting in the overall decline in earnings.

The 61.8% fall in tobacco earnings totally outweighed increased earnings from beverages, causing a 38.61% reduction in the value of exports under the category beverages and tobacco.

Table 4.2

Exports by Category 1995-1999 (US$Mn)

	1997	1998	Jan.-Nov. 1998	Jan.-Nov. 1999
Major Traditional Exports	872.2	784.2	753.6	732.4
Bauxite	72.8	81	75.5	53.7
Alumina	651.7	575.3	552	563.4
Sugar	101.9	94.6	94.6	87.4
Banana	45.8	33.3	31.5	27.9
Other Traditional Exports	73.2	56.4	52.3	60.8
Total Traditional Exports	946.4	840.6	806.14	793.24
Non-Traditional Exports	409.3	399.6	369.4	311
Domestic Exports	1355.7	1240.2	1175.5	1104.24
Re-Exports	32.6	50.1	41.46	32.56
Total Merchandise Export	1388.3	1290.3	1217	1136.8

EXTERNAL TRADE

Imports

Total imports for the 1999 period January to November were US$2.59Bn, a US$98.65Mn reduction when compared with the outcome for January to November 1998. This came as a result of reductions in the value of raw materials and capital goods, which fell by 4.7% and 10.6% respectively. The value of consumer goods imported during January to November increased by 2% or US$17Mn over 1998.

Less motor cars were imported in the first 11 months of 1999, reducing by 18% the value of motor cars imported as consumer durables to US$115.45Mn from US$141.4Mn in 1998. This was however not enough to outweigh the increase in the values of non-durables, semi-durables and other consumer goods. The value of fuels & lubricants imported during the January to November 1999 period was 23.5% greater than the value reported for the same period in 1998. The increase was countered by reductions in all other groups in the raw material category of imports. The largest reductions were for parts and accessories and food, which declined in value by US$37.29Mn and US$35.4Mn respectively.

Table 4.3

Merchandise Imports 1998 & 1999 (Jan.-Nov.) (US$Mn)		
	1998	**1999**
Consumer Goods	832.97	850
Raw Materials	1381.99	1316.9
Capital Goods	476.75	426.1
Total	**2691.7**	**2593**

All groups in the category of imports classified as capital goods fell in value for the review period. The most significant contributor to the decline in the value of this category was the group "machinery and equipment" which fell by US$22.8Mn, 45% of the total decline in capital goods imported.

CARICOM Trade

Earnings from exports to the Caribbean common market for January to November 1999 were US$39.4Mn. That was a 1.6 % fall from the US$40Mn earned from exports to the region for the corresponding period in 1998. The value of imports from the region increased from US$280.8Mn in January to November 1998, to US$309.4Mn for the

EXTERNAL TRADE

corresponding period in 1999, a growth of 10.2%. Food and Mineral Fuels continue to be the most significant categories of CARICOM imports, valuing US$68.87Mn and US$146.5Mn respectively. These values represent increases over the 1998 period. Imports of manufactured goods also increased in value, resulting in this category being the third most significant CARICOM import. Of total exports to the region, Food and Chemicals earned 34% and 28% respectively representing the most significant export categories. The deficit stood at US$270Mn, US$29.3Mn more than that for the corresponding period in 1998.

Outlook for 2000

If an improvement in the trade balance is to be achieved, there must be a substantial and sustained increase in the earnings from exports, which have declined steadily since 1996. This is not surprising given the significant loss in competitiveness which has taken place since then. There are no indications in the 2000/01 budget to suggest that there will be any recovery in competitiveness during the year 2000 and we ought not therefore to expect a significant improvement in the trade deficit this year.

The high interest rate policy continues to cripple the economy by discouraging investment in productive activity and by maintaining an over-valued exchange rate. Long-term investment in the export sector is needed to raise the levels of output and efficiency, thereby increasing exports and making Jamaican products more competitive. The outlook for increased exports in 2000 is further dampened by the prevailing drought which threatens to curb agricultural output and bauxite production is not expected to recover fully from the Gramercy explosion in mid-1999, until early in 2001.

Although in 1999, the economy experienced a slight fall in imports, the importation of consumer goods increased with all groups except motor cars increasing in value. Depending on the course of oil prices, there may be another slight fall in imports, but this is unlikely to be significant and may not be any larger than the fall in exports which may come about due to closures in the apparel sector and the other problems outlined above. The trade deficit will remain quite large. ■

5. MONEY AND BANKING

Base Money

The Bank of Jamaica (BOJ) continued to focus on monetary policy as the main tool of containing expansion in the money supply and, by extension, inflation. Consequently, base money increased by 4.0% during 1999. This represents a relaxation in the pressure on the financial system as base money declined by 0.8% during 1998.

Currency issue increased by 36.9% to J$20.87 billion between the end of December 1998 and the end of December 1999. This represents a significant increase over the growth of 7.3% recorded during 1998. Commercial Banks' Accounts registered its third consecutive year of decline to reach $15.53 billion at the end of December 1999 when a 14.8% fall was reported. These significant variations from the previous year resulted from the phased reduction in the cash reserve and the liquid assets ratios. The rise in liquidity at the end of 1999 was a pre-emptive measure by the Central Bank, which was intended to take care of any extra demand for cash that might have arisen due to fears about Y2K.

Money Supply

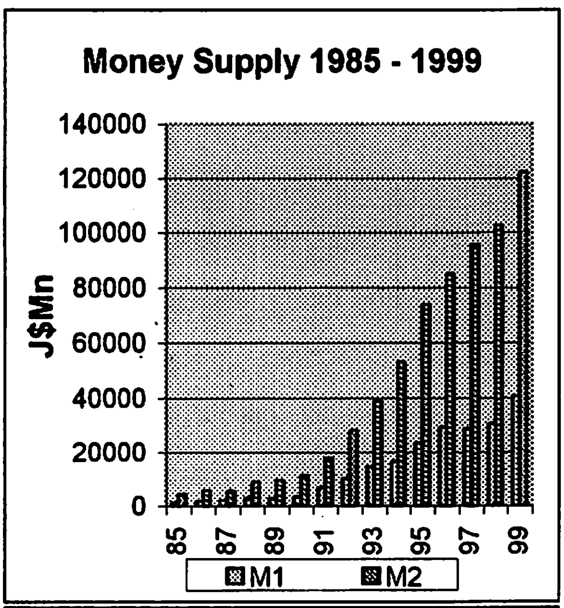
There was an increase in the rate of expansion of broad money (M2), which grew from J$102.53 billion to $122.19 billion between the end of 1998 and the end of 1999. This 19.2% increase is significantly greater than the increases of 7.3% and 12.5% recorded for 1998 and 1997 respectively, and resulted primarily from the expansion of public sector credit and growth in other financial institutions. Reductions in the cash reserve and liquid assets ratios resulted in a rapid expansion in narrow money (M1) which increased by 34.6% to J$40.61 billion at the end of 1999 as against an increase of 5.4% to $30.18 billion at the end of 1998.

MONEY AND BANKING

Table 5.1 Money Supply: 1985 – 1999 (J$Million)

YEAR	M1	TIME DEPOSITS	SAVINGS DEPOSITS	QUASI MONEY	M2
1985	1210.4	1091.7	2007.5	3009.2	4309.6
1986	1667.6	1183.3	2646.8	3830.1	5497.7
1987	1874.8	1119.4	2646.6	3766.2	5641.0
1988	2908.8	1625.5	4365.8	5991.3	8900.1
1989	2739.4	1843.5	4882.7	6726.2	9465.6
1990	3516.0	2281.8	5499.0	7780.8	11296.8
1991	6867.1	2464.2	8135.2	10599.4	17466.5
1992	10283.6	4409.8	13124.0	17533.8	27817.4
1993	14398.7	6340.5	18179.6	24520.1	38918.8
1994	16374.0	12042.8	24733.2	36776.0	53150.0
1995	23227.7	15839.7	34550.2	50389.9	73617.6
1996	29166.5	17204.3	38576.7	55781.0	84947.5
1997	28623.8	16453.7	50527.1	66980.8	95604.6
1998	30177.0	19599.9	52754.4	72354.3	102531.3
1999	40610.7	23672.5	57908.2	81580.7	122191.4

Figure 5.1



Both components of narrow money increased by 34.6% between the end of 1998 and the end of 1999, with "demand deposits" and "currency with the public" amounting to J$22.45 billion and J$18.16 billion, respectively, at December 1999. The rate of growth of "Quasi money" accelerated from 8.0% during 1998 to 12.8% during 1999, resulting in $81.58 billion worth of quasi money at the end of 1999. Time deposits increased by 20.8% from J$19.60 billion to $23.67 billion, while savings deposits increased by 9.8% from J$52.75 billion to J$57.91 billion.

MONEY AND BANKING

Loans and Advances

Total assets at commercial banks increased by 12.8% from J$173.61 billion at the end of 1998 to J$195.75 billion at the end of 1999. Loans and advances accounted for J$43.08 billion (24.8%) of total assets and J$36.79 billion (18.8%) at the end of 1998 and 1999 respectively. Thus, credit extended by the commercial banking system declined significantly between 1998 and 1999, both in absolute value terms and as a percentage of total assets.

Whereas loans and advances to the private sector declined by 17.2% from J$38.37 billion in 1998 to J$31.77 billion in 1999, loans and advances to the public sector increased by 6.4% from J$4.72 billion to $5.02 billion over the same period. This indicates a trend of continued crowding out of private sector credit by the public sector and points to the serious imbalance in public finances.

Total deposits with commercial banks stood at $127.71 billion at the end of 1999 after registering an increase of 11.9% over the J$114.09 billion recorded at the end 1998. The decline in loan and advances as a percentage of total deposits continued as the ratio fell from 54.0% in 1997 to 37.8% in 1998 and then to 28.8% in 1999. The decline in loans and advances has been influenced by the take over by FINSAC, of non-performing loans which were held by commercial banks which have been rescued by that institution.

Only loans and advances for government services and personal usage registered increases in their value and share. Consequently, personal loans continued to dominate the loan portfolio of the commercial banking system and increased its share from 24.7% at the end of 1998 to 30.6% at the end of 1999. Loans for government services increased their share and relative importance when they moved from 10.9% at the end of 1998 to 13.4% at the end of 1999 and ranked second in 1999 as

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opposed to fourth in the previous year. Loans to professionals, tourism, manufacturing, and construction accounted for 12.1%, 19.8%, 8.2% and 5.7% respectively at the end of December 1999. Table 5.2 gives further details on the allocation of loans and advances.

Figure 5.2

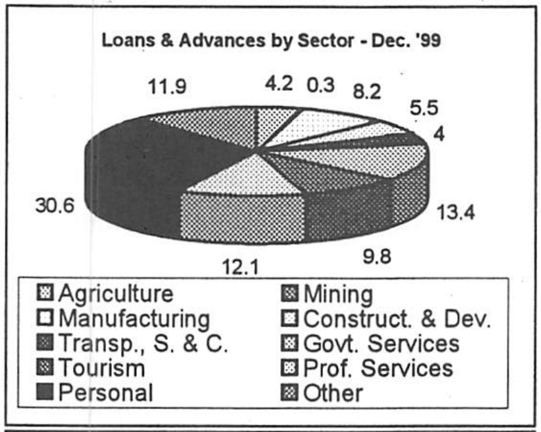

Table 5.2 Loans & Advances by Sector

Sectors	Dec. 1998	Share (%)	Dec. 1999	Share (%)
Agriculture	1,977,036	4.6	1,547648	4.2
Mining	191,027	0.4	98,706	0.3
Manufacturing	4,001,960	9.3	2,992,362	8.2
Construction & Development	2,540,172	5.9	2,029,014	5.5
Transport, Storage & Comm.	1,901,195	4.4	1,445,874	4.0
Government Services	4,716,352	10.9	4,894,041	13.4
Tourism	4,260,418	9.9	3,560,650	9.8
Professional Services	6,427,634	14.9	4,426,683	12.1
Personal	10,625,813	24.7	11,170,349	30.6
Other	6,442,240	15.0	4,311,813	11.9
Total	**43,083,847**	**100.0**	**36,477,140**	**100.0**

Commercial Banks' Liquidity

Further to a programme to reduce the required cash reserve of commercial banks by 8% by the end May 1999, commercial banks started the year with a 43% required statutory reserve ratio. This reserve ratio was reduced to 39% at the beginning of May 1999, with the cash reserve ratio standing at 17%. As a move to increase liquidity and accelerate the reduction in

MONEY AND BANKING

reduced the liquid assets ratio to 35% at the beginning of June 1999 and the cash reserve ratio to 16% at the start of October 1999. This move was principally responsible for the significant increases in narrow money and the currency issues.

The reductions in the cash reserve ratio have resulted in increased liquidity but, despite this fact, the liquidity ratio of commercial banks declined from 55.8% at the end of 1998 to 48.3% at the end of 1999. However, excess liquidity has increased from 11.8% at the end of 1998 to 14.3% at the end of 1999. This increase in excess liquidity has its origin in the slow process of conversion to loans due to the slow pace of interest rate reductions.

Interest Rates

The yield on Treasury bill rates declined from 23.95% at the end of 1998 to 22.03% at close of 1999, after declining from 29.79% in December 1997. This rate is still relatively high when compared to the inflation rate of 6.8% and continues to discourage investment in the real sector due to the high cost of capital. The reduction was due to a gradual reduction in the BOJ's Repo rate from 22% to 18.35% between the end of 1998 and the end of 1999.

Weighted average lending rates at commercial banks fell from 32.98% at December 1998 to 27.71% at October 1999, while weighted deposits rates fell from 15.54% to 13.40% over the same period. Thus, the interest spread declined from 17.44% to 14.31% over the ten-month period, continuing the downward trend. Again this emanates from the increased liquidity caused by the reduction in the cash reserve ratio as well as the low demand for commercial loans due to the poor economic climate. Table 5.3 gives details on lending and deposits rates on a quarterly basis.

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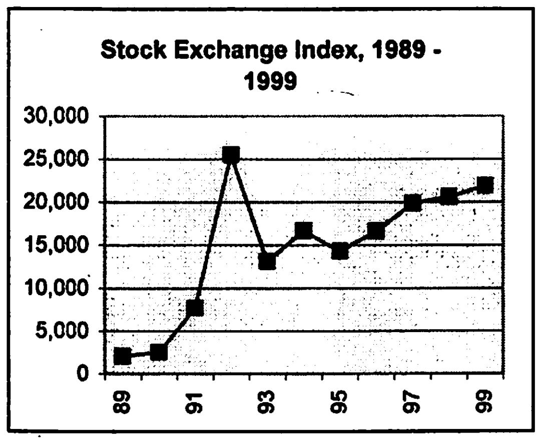
Table 5.3 Commercial Banks' Loan and Deposit Rates, 1997 - 1999

Rates	1997				1998				1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Installment Credit	33.79	33.58	33.26	33.25	32.93	32.69	32.75	32.18	29.94	29.70	29.76	29.65
Mortgage Credit	10.48	14.74	14.74	10.46	10.43	10.42	10.43	10.40	10.39	24.60	24.63	24.67
Personal Credit	43.35	39.58	38.08	38.20	36.62	35.49	34.64	33.87	33.51	32.70	31.38	30.75
Commercial Credit	31.94	35.01	33.01	33.63	33.72	34.35	31.42	30.39	30.75	26.98	25.18	23.18
Local Govt. & Public Entities	14.65	15.89	15.85	21.75	22.65	22.64	19.82	19.09	18.80	18.27	18.00	15.52
Central Govt.	35.86	20.65	19.53	18.30	15.46	28.92	22.33	26.52	22.62	21.48	22.38	22.02
Avg. Weighted Loan Rate	36.09	37.54	35.02	34.96	35.23	36.28	33.72	32.98	32.07	29.80	28.83	24.56
Avg. Weighted Deposit Rate	15.47	12.46	11.80	14.06	17.04	17.70	14.80	15.54	14.63	14.08	13.49	13.27
Avg. Lending Rate	47.92	44.95	44.22	44.17	44.17	43.67	40.33	38.80	38.6	37.89	35.92	33.92

Stock Market Developments

The index trended downward during the first three months, fluctuated for the following four months and then rose for the last five months of the year. Consequently, the index increased from 20,593.32 points at the close of 1998 to 21,892.58 points at the close of 1999. Similar to the previous year, the rise in the value of the index was triggered to a large extent by movements in the values of a few stocks with a very large market capitalization. Thus, the index at the close of 1999 increased by 6.3% over that of 1998 and exhibited less volatile movements during 1999 as against 1998 when the index increased by 5.7%.



Compared to the previous year, in which both the volume and value of shares traded fell, the volume declined from 604.5 million units to 520.5 million units but the value increased from J$2,064.24 million in 1998 to J$2,218.71 million in 1999. Thus, the average daily value of units traded increased from J$3.41Mn in 1998 to J$4.21Mn in 1999, reflecting the 7.5% increase in value and the 13.9% decline in volume. While this

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Table 5.4 Stock Exchange Index, 1989 - 1999

Year	Volume	Value (J$)	Index
1989	95,202,452	516,456,318	2,075.85
1990	57,960,234	230,781,846	2,539.36
1991	144,259,019	1,156,608,055	7,681.50
1992	395,900,000	4,688,400,000	25,475.90
1993	567,454,280	8,346,769,977	13,099.68
1994	741,754,077	5,155,463,519	16,676.74
1995	3,565,612,318	11,560,535,279	14,266.99
1996	560,528,182	4,629,395,414	16,615.99
1997	905,418,910	4,594,418,367	19,846.67
1998	604,545,158	2,064,243,797	20,593.32
1999	520,530,955	2,218,714,305	21,892.58

reflects a further slowdown in stock market activity it masks a recovery in the prices of some shares, which took place in the last quarter of the year. Table 5.4 gives the value and volume trade and the index value between 1989 and 1999.

Foreign Exchange Developments

Deposits into foreign currency accounts increased by 4.6% from US$7,418.41 million in 1998 to US$7,761.43 million in 1999, while withdrawals from these accounts increased by 5.0% from US$7,251.59 million in 1998 to US$7,615.35 in 1999.

The balance on foreign currency accounts at commercial banks, building societies and merchant banks declined by 2%, from US$1,036.72 million at the end of 1998 to US$1,016.42 million at the end of 1999. Commercial banks accounted for 76.8% of deposits balances at the end of 1999, a decline over the 79.7% share at the end of 1998. Both building societies and merchant banks increased their share of deposit balances from 17.6% and 2.7% at the end of 1998 to 18.1% and 5.1% at the end of 1999, respectively.

MONEY AND BANKING

The nominal value of the domestic currency depreciated by 10.7% and the exchange rate trended upwards from J$37.29 for US$1.00 to J$41.27 for US$1.00 between 1998 and 1999. There would have been a steeper depreciation in the exchange rate had it not been for the significant intervention of the central bank.

The Financial Sector

The process of rehabilitation of the financial sector continued during the year and data to June 1999 indicated that the restructuring has resulted in improvements in some performance indicators in the financial services sector compared to the corresponding period of the previous year. These indicators include the profitability and capital adequacy of commercial banks. According to the Planning Institute of Jamaica, preliminary data to June 1999 suggest that there has been a reduction in the numbers of past due loans compared to the similar period of 1998.

The divestment of the assets of FINSAC has been proceeding at the projected pace and some J$7Bn of assets were sold in the 1999/00 fiscal year. The sale of several insurance portfolios and the divestment of shares in the Caribbean Cement Company and CVM Television highlight the progress of the divestment programme. Further, Barbados Mutual acquired a controlling interest in Island Life and Guardian Life of Trinidad and Tobago acquired the life insurance portfolio of Mutual Life. The restructuring of the new Union Bank to reduce the number of branches and the proposal to sell the restructured bank is evidence of the pace of the efforts at rehabilitation.

Outlook for 2000

The process of rehabilitating the financial sector will continue during

MONEY AND BANKING

the year 2000, but the liquidity problems of the two commercial banks controlled by FINSAC, will continue. The government has announced its intention to obtain loans from the World Bank and the IDB to help resolve these problems. With the continued depression of the economy and the accompanying layoffs and redundancies, commercial banks will continue to experience low demand for loans.

The financial sector faces the challenge of attracting borrowers with the ability to repay and will also face difficulty in further reducing their spread between deposit and lending rates. Further restructuring may be needed in order to achieve this objective. The end result is that there may be further job losses within the sector and some rationalization of the top management in these institutions. A sustainable recovery of Union Bank and NCB will depend on the substitution of liquid financial instruments for the large stock of illiquid FINSAC Bonds which these banks hold. The IDB and World Bank loans are intended to begin this process. ■

6. FISCAL POLICY

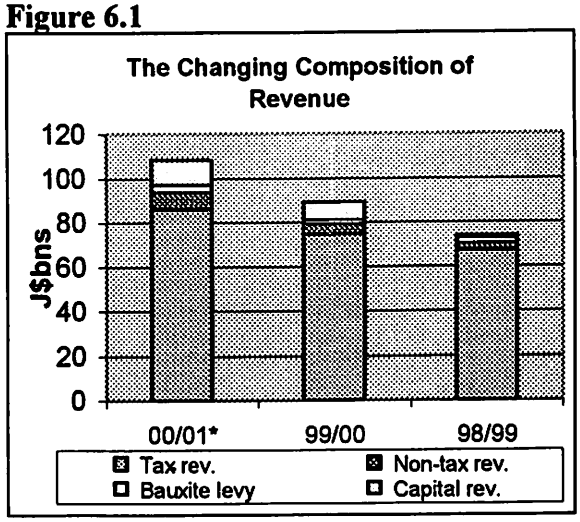
The Budget for the fiscal year 1999/2000 envisaged total expenditure of $160,133Mn, but the actual outcome amounted to $157,612Mn. The reduction in expenditure resulted from lower amortization costs, which came about due to the rescheduling of some local debt. This represents a 23.7% increase on the total actual expenditure for 1998/99, which amounted to $127,391Mn. The total expenditure for the 1999/2000 fiscal year represented 61% of estimated GDP at the end of the year, compared with 54% of GDP for the 1998/99 expenditure.

Revenue

The actual results for 1999/2000 saw Total revenue increasing by 1.09% over the budgeted J$88,139.80Mn to $89,101.7Mn and 20.8% over the figure recorded for 1998/1999. Tax revenue of J$74,633.80Mn was reported for the 1999/2000 fiscal year, 0.27% less than the expected figure, and 11.16% greater than that collected in 1998/1999. Non-tax revenue of J$4,325.8Mn was collected in FY1999/2000, representing an increase of 37% over collections in 1998/1999.

For the period under review, the bauxite levy fell by 17.4% to $1,900Mn when compared with the intake for 1998/1999 and 18% below expectation. This outcome was by and large the result of the accident at the Gramercy Refinery in Louisiana, USA in July 1999, which halted production at the facility and caused a significant fall in bauxite exports from Jamaica.

Figure 6.1



*** - Projected**

FISCAL POLICY

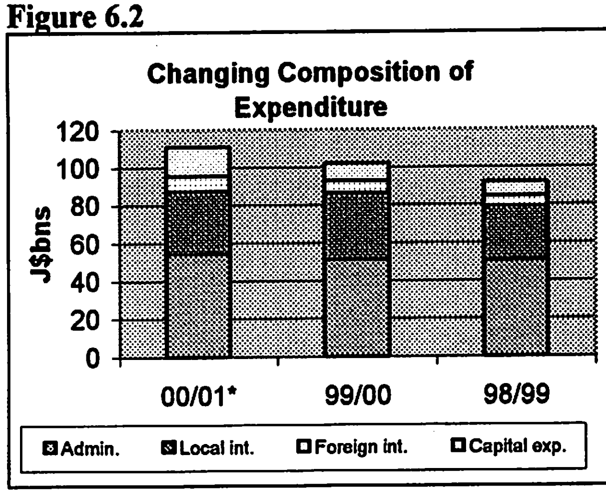
Capital revenue amounted to J$8,242Mn in the fiscal year 1999/2000, an increase of 624% over the 1998/1999 figure of J$1,138.1Mn. An increase in extra ordinary receipts of J$6,900.7Mn to J$7,428.1Mn (a 1308% increase) is primarily responsible for this result. The extra ordinary receipts include the proceeds of a US$100Mn loan to the government, which is secured against future sales of alumina by the government owned Bauxite Alumina Trading Company (BATCO). It also includes arrears on the bauxite levy owed by BATCO and divestment proceeds that came from asset sales during the year.

Expenditure

Total expenditure for FY1999/2000, excluding amortization, increased by 11.06% to J$102,178.6Mn when compared with that recorded in 1998/99, and exceeded by 4.56% the projections contained in the budget.

Recurrent expenditure increased to J$92,918.95Mn in the review period, 11.64% over 1998/1999 and 6.45% over budget. Expenditure on wages was flat but both programmes and interest recorded increases. The more significant, interest expenses, increased by 20.89% over 1998/99 results and 14.81% over the budgeted figure for 1999/2000. Interest costs registered the larger increase, growing by 20.8% over the 1989/99 figure and exceeding the budget by 16%. This was largely due to a combination of increased local borrowing by the government, due to its inability to access the international capital markets in 1999 and also to the refusal of the BOJ to allow interest rates to fall in line with the government's projections.

Figure 6.2



*** - Projected**

FISCAL POLICY

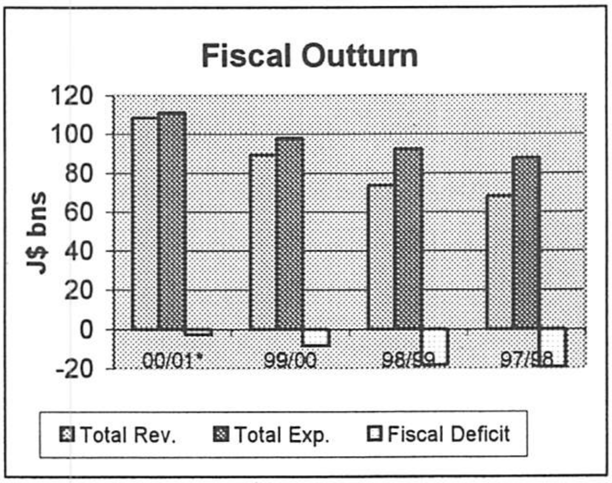
Interest cost is broken down into domestic and foreign debt servicing; of which domestic interest payments constituted the bulk: 83.86% of interest for FY1999/2000.

Expenditure on Capital Programmes for 1999/2000 was J$9,259.64Mn, 5.64% above 1998/1999's figure on capital expenditure and 11.24% below budget. In 1999/2000, capital expenditure on projects fell to its lowest level in real terms since the 1990's, and was only slightly higher in nominal terms, than capital expenditure in the 1994/95 fiscal year. The reduction in capital expenditure follows a pattern that has been established over the last few years, in which capital programmes are cut in order to compensate for unprogrammed increases in recurrent expenditure or shortfalls in revenue collections.

The Fiscal Deficit

According to the budget papers tabled in Parliament by the Hon. Dr. Omar Davies, Minister of Finance,

Figure 6.3



the fiscal deficit for 1999/2000 was J$13,076.99Mn, 28.28% less than the previous year when a deficit of J$18,262.68Mn was recorded. At 5.1% of GDP, the actual deficit was somewhat higher than the projected target of 4.5%, but these figures are preliminary and may be modified at a later date. However, the deficit has benefited from the treatment of the alumina loan as revenue, while this inflow should really have been set off against amortization payments rather than recurrent and project expenditure. It will be interesting to see how the IMF and the international rating agencies react to our treatment of this loan. The fiscal accounts also benefited from the deferral of significant expenses related to wage increases and

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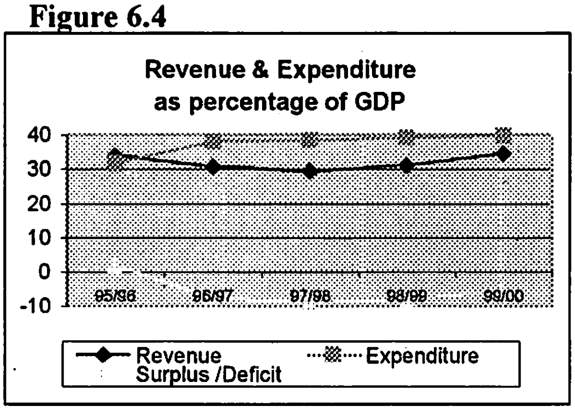
retroactive wage payments. The treatment of the loan as revenue would have reduced the deficit by just under 2% of GDP and the deferral of wage payments would have saved at least 1% of GDP. This indicates that the underlying fiscal deficit is still rather large and it will take some major adjustment in order to be brought into a position of sustainable balance.

Figure 6.4



Ministerial Allocations

The allocation to the Ministry of Local Government, Youth and Community Development (under Recurrent Expenditure) increased from J$740.77Mn in 1998/1999 to J$2,185.35Mn in 1999/2000, one of the most significant increases. Expenditure by the Ministry of Finance and Planning increased from J$41,242.41Mn in 1998/1999 to J$48,993.24Mn in 1999/2000. These increases have greatly contributed to the 11.64% increase in Recurrent Expenditure which grew from J$83,230.7Mn to J$92,918.95Mn.

A number of Ministries saw significant cuts in capital expenditure while some experienced increases and others reported small changes. Spending in the Office of the Prime Minister increased from J$172.52Mn in 1998/1999 to J$907.79Mn in 1999/2000 in the area of government funded projects. There was a 50.9% increase in actual expenditure in the Ministry of Security and Justice (from J$268.64Mn in 1998/99 to J$405.48Mn in 1999/2000. The Ministry of Local Government, Youth and Community Development saw an increase of J$85.029Mn from J$27.97Mn in foreign funded projects; while the

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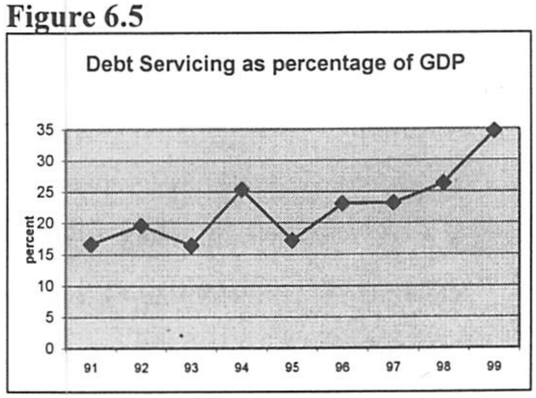
Ministry of Industry, Commerce and Technology almost doubled spending from J$6.289Mn in 1998/1999 to J$11.1Mn in 1999/2000. There was a large decrease in spending in the Ministry of Tourism and Sports. This was a cut from J$300Mn in 1998/1999 to J$174.2Mn in 1999/2000. The Ministry of Environment and Housing also saw large decreases in spending. For this Ministry, spending on government funded projects fell from J$183.65Mn to J$94Mn and foreign funded projects were cut from J$100Mn to J$32.72Mn for the years under comparison.

Loan Receipts And Balances

Loan Receipts for 1999/2000 were J$70,274.52Mn, 15.36% greater than receipts in 1998/1999, and 3% over the budgeted figure. Total external receipts rose from J$13,060.42Mn to J$14,560.78Mn, that is 19% below the budgeted figure of J$17,993.22Mn. Total domestic loan receipts saw an increase from J$47,852.59Mn to J$55,713.738Mn, and were 10.92% above budget. External loan receipts were below budget due to the government's inability to raise loans in the international capital market until February 2000 when they were successful in raising 200Mn Euros in bonds on the European market. This was followed closely by US$105Mn in bonds that were raised in the local and regional capital markets. The shortfall and delay in foreign borrowing led to an increase in local borrowing, in order to make up the slack. The increase in local borrowing was one of the major factors behind the unbudgeted increase in domestic debt servicing costs.

Total debt servicing for 1999/2000 was 43% above that for FY1998/1999 and 1.59% less than the budgeted figure for the period.

Figure 6.5



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Amortization accounted for 56.95% of the J$97,335.21Mn debt payment for 1999/2000, with interest cost at J$41,901.65Mn. The domestic portion of amortization increased by 107.3% over the previous year and made up 71% of Amortization (J$55,433.56Mn). For the fiscal year just ended, total debt servicing was 37.9% of GDP, compared with 28.59% in 1998/99.

Table 6.1

Summary of Fiscal Operations as presented to the House of Representatives on April 6, 2000

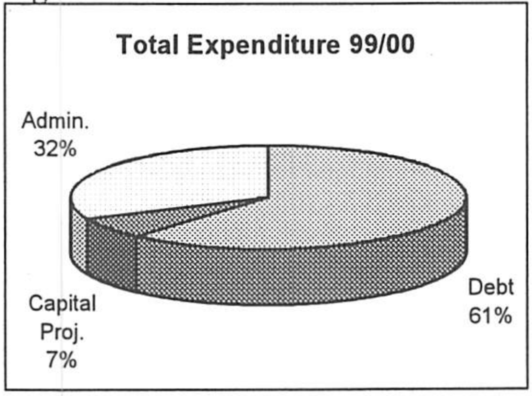
			J$Mn		% changes		
	Budget 00/01	Actual 99/00	Budget 99/00	Actual 98/99	Bud 00/01 Act 99/00	Act 99/00 Bud 99/00	Act99/00 Act98/99
Revenue	**108,304.70**	**89,101.60**	**88,139.80**	**73,732.70**	**21.6**	**1.1**	**20.8**
Tax Revenue	85,681.60	74,633.80	74,842.90	67,139.10	14.8	-0.3	11.2
Non-tax Revenue	7,819.00	4,325.80	4,021.80	3,155.50	80.8	7.6	37.1
Bauxite Levy	3,551.60	1,900.00	2,316.30	2,300.00	86.9	-17.9	-0.5
Capital Revenue	11,252.50	8,242.00	6,958.80	1,138.10	36.5	18.5	624.2
Total Expenditure	**111,285.50**	**102,178.60**	**97,714.39**	**91,995.38**	**8.9**	**4.6**	**11.1**
Recurrent	95,540.46	92,918.95	87,281.59	83,230.70	2.8	6.5	11.6
Programmes & Wages	54,136.35	51,017.30	50,786.69	48,572.40	6.1	0.5	5.0
Interest	41,404.11	41,901.65	36,494.90	34,658.30	-1.2	14.8	20.9
Domestic	33,101.75	35,139.40	30,157.40	28,220.98	-5.8	16.51999	24.5
Foreign	8,302.36	6,762.19	6,337.50	6,437.34	22.8	6.701223	5.0
Capital Programmes	15,745.08	9,259.64	10,432.80	8,764.68	70.0	-11.24492	5.6
Fiscal Balance	**-2,980.84**	**-13,076.99**	**-9,574.59**	**-18,262.68**	-77.2	**36.6**	**-28.4**
Loan Receipts	56,255.07	70,274.52	68,221.40	60,913.01	-19.9	3.0	15.4
Amortization	56,102.43	55,433.56	62,418.78	33,397.54	1.2	-11.2	66.0
Domestic	42,997.56	39392.23	47,743.94	18,998.48	9.2	-17.5	107.3
External	13,104.87	16,041.33	14,674.84	14,399.06	-18.3	9.3	11.4
Overall Balance	**-2,828.20**	**1,763.97**	**-3,771.97**	**9,252.79**	**-260.3**	**146.8**	**-80.9**

FISCAL POLICY

Projections And Outlook For 2000/01

Total revenue is budgeted to increase by 21.55% over the previous fiscal year (1999/2000) to $108,304.7Mn. Tax revenue for the 2000/2001 fiscal year is expected to increase by 14.8% over the 1999/00 outcome to $85,681.6Mn, compared with actual growth of 11.2% in 1999/00 over 1998/99. Revenue from General Consumption Tax (GCT) is expected to rise to $24.68Bn in 2000/2001, after a fall from $20.56Bn for 1998/99 to $17.73Bn in 1999/00. In the presence of anti-inflationary policies, an increasing unemployment rate (16% in October 1999 against 15.5% in October 1998) and a contracting economy, this increase in revenue from GCT is unlikely to be realised, especially in the absence of increases in the tax rates. The lower inflation rate that has been projected will reduce the inflationary impact on the GCT revenues, suggesting at best, a marginal increase in earnings from this tax category. If unemployment increases further overall consumption could fall, leading to a flat or reduced GCT intake. This would have serious implications for the government's achievement of a balanced budget, which they have projected for 2000/01.

Figure 6.6



The bauxite levy for 2000/2001 is projected to be J$3,551.6Mn, 86.9% over 1999/2000. It is not clear what is behind this substantial increase in the levy, but aluminium prices are expected to rise in 2000 and this may boost the levy intake somewhat. Production is also expected to increase marginally.

The government expects revenue from post offices to increase by 507.8% from J$605.36Mn in 1999/2000 to J$3,679.53Mn in 2000/2001. This is after revenue

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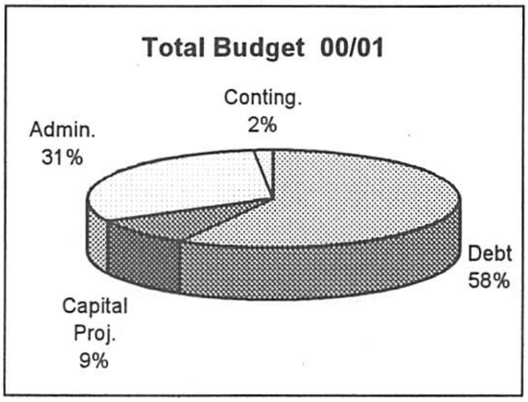
from post offices showed an increase of 5.46% from $573.98Mn in 1998/1999 to $605.36Mn in 1999/2000. It should also be noted that actual revenue from this category for 1999/2000 fell short of the budgeted amount by 13.39%. This increase in revenue is primarily made up of the anticipated proceeds from the sale of cellular phone licenses which are expected to realise US$92.5Mn based on the tenders that were accepted in January 2000.

Stamp duties are expected to experience a 25.3% increase in 2000/2001, after actual figures for 1999/2000 fell 5.9% below 1998/1999 and 14.4% below budget. It is not clear what will prompt the projected increase in the collections of this tax, as no new impositions have been announced, nor has there been any increase in the existing tax rates.

Expenditure

The 2000/01 budget has proposed an 8.9% increase of Total Expenditure from the $102,178.6Mn outcome in

Figure 6.7



1999/2000, to $111,285.5Mn. Recurrent expenditure is expected to increase by 2.8% to $95,540.46Mn, with Programmes and Wages at $54,136.4Mn, taking up the largest share of the growth with a 6.11% increase over the 1999/2000 outcome. For the 2000/01 fiscal year, total debt servicing is budgeted to take up 58% of expenditure. Interest payments are projected to experience a decrease of 1.2% to $41,404.1Mn, resulting from an anticipated decline of 5.79% in domestic interest costs for the next fiscal year. Interest payments will constitute 43% of total recurrent expenditure in the 2000/01 fiscal year. Interest payments on external debts are expected to increase by 22.77% to $8,302.4Mn and will make up 20% of total

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interest cost for that period. The government has not stated an explicit interest rate target for the 2000/01 fiscal year, but has projected a continuing gradual lowering of interest rates. The course of domestic interest rates will have a very definite impact on debt servicing costs in the coming fiscal year, and if rates do not fall as projected, then we can expect that interest costs will exceed the projections contained in the budget.

Expenditure on capital programmes is expected to increase by 70% from $9,259.6Mn in 1999/00, to $15,748.1Mn in 2000/2001. This provision comes after the 1999/2000 out turn for capital expenditure fell 11.24% short of budget and came out at only 5.65% above the figure recorded for 1998/99. The expected surge in capital spending is reflected in the 2000/01 budget for Ministries such as that of Industry, Commerce and Technology which is slated to incur an increase of 3,624% on government funded projects and 350% for multilateral/bilateral funded projects. There are also expansion plans for the Ministry of Transport and Works, the Ministry of Agriculture, the Office of the Deputy Prime Minister and Ministry of Land and Environment as well as the Ministry of Local Government, Youth and Community Development.

The government has budgeted J$200Mn for capital projects in the Ministry of Tourism and Sports. This is after a 1999/2000 capital expenditure of J$174.2Mn, a little more than half of the 1998/99 spending of J$300Mn and less than the J$200Mn budgeted for 1999/2000. The Government should be careful not to under budget for this Ministry since Jamaica has been experiencing a large amount of negative publicity throughout the fiscal year, and the tourism industry is of vital importance to the economy. For this sector to attain and maintain top productivity, enough spending has to be made in the areas of advertising

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and general maintenance of the tourism product.

For the next year, total debt servicing is budgeted to take up 58% of the budget, compared with the 61.7% share in 1999/2000. Amortization is projected to increase by 1.2% to $56,102.4Mn in 2000/01, with domestic debt servicing rising by 9.2% to $42,997.5Mn and external repayments falling by 18.3% to $13,104.9Mn. Last year, the government was able to reduce its domestic amortization costs by rescheduling selected issues of Local Registered Stock which came due for repayment. It is not clear if this approach will again be used in 2000/01 to moderate the amortization costs regarding maturing domestic debt instruments.

Loan Receipts & Balances

Loan receipts are projected to be 19.94% less in 2000/01 when compared with receipts in 1999/2000. The fiscal balance is however slated to show improvement from a 1999/2000 deficit of J$13,076.99Mn to a budgeted deficit of J$2,980.84Mn in 2000/01. This projection is as a result of an expected increase in revenue of 21.55% compared with the expected increase in expenditure of 8.9%. The expectation that the fiscal deficit will contract by 77.2% in the next fiscal year is extremely ambitious since it can be fairly argued that expected revenues are overstated and expenditure somewhat under budgeted. From all indications, the 2000/01 fiscal balance will again be in deficit and the deficit is likely to be larger than the approximate J$3,000Mn indicated by the budget. It should also be noted that the budgeted deficit includes a large sum of money from asset sales which ought not to be counted as revenue but which ought to be set off against amortization obligations.

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The proposed revenue in the 2000/2001 budget suggests an increase in the inflation rate, as the increases in tax collection that have been projected could only be reasonable in the context of higher inflation. While the government has stated that it remains firmly committed to low inflation, the anticipated decrease in domestic interest payments point to further reductions in domestic interest rates, which will certainly affect the money supply and prices. However, even if inflation does increase somewhat, the rise is unlikely to be enough to yield the growth in tax revenue that has been projected in the 2000/01 budget. ■

Table 6.2

ANNUAL FISCAL ACCOUNTS 1995/96 - 1999/2000 (J$Bn)										
	95/96	% GDP	96/97	% GDP	97/98	% GDP	98/99	% GDP	99/00	% GDP
Revenue	58.6	34.1	63.1	30.8	66.4	29.5	73.7	31	89.1	34.7
Expenditure	54.8	31.9	78.1	38.1	86.4	38.3	91.99	38.7	102.2	39.8
Deficit/Surplus	3.8	2.21	-15.0	-7.3	-20.0	-8.9	-18.3	-7.7	-13.1	-5.09
GDP(J$Bn)	172.0		204.8		225		238		256.8	

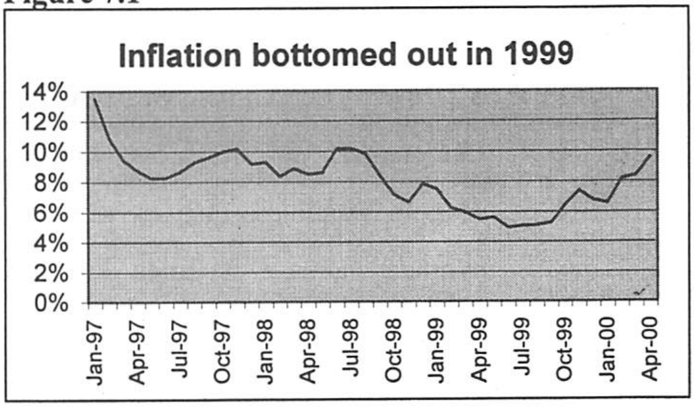
7. INFLATION

As measured by the Consumer Price Index (CPI) produced by the Statistical Institute of Jamaica, the point to point inflation rates for the years 1996 to 1998 were 15.8%, 9.2% and 7.9%. In keeping with its emphasis on inflation reduction, the government sought to reduce the rate further, and hence set a target of 4 to 6% for the year 1999.

The actual inflation rate for 1999 was however 6.8%. Although the target was exceeded slightly, the Bank of Jamaica has continued its fairly aggressive stance in relation to anti-inflationary policies, which remain central to the government's overall economic policy. Jamaica's inflation rate is still significantly higher than its major trading partners, and is also above the projected aggregate inflation for developing countries (6.7%). The United States and the United Kingdom had inflation rates of 2.2% and 2.3% respectively in 1999. Canada also had a low inflation rate of 1.5% according to statistics provided by the IMF.

Trends for 1999

Figure 7.1



February reported the lowest monthly rate for 1999 at –1.1%, while June had a rate of 1.3%, the highest monthly rate for the year. On average, the first quarter of the year maintained the lowest inflation. In fact, the average change in the price level for January to March 1999 was a deflation of 0.06%. The slight fall in prices was heavily influenced by the rebate which was given back to customers by the JPSCo, the electricity utility which was found to have overcharged customers for a

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number of years. The government agreed that a portion of the excess billing should be returned to customers over the period of a few months, beginning in February 1999. The average change in the price level for July to September, was however the greatest upward movement for 1999. The third quarter saw an average increase in price level of 0.86%. The increase in the third quarter was influenced by the hike in school fees and the general back-to-school preparations, coupled with the increases in oil prices internationally. These price increases also reflected the impact of the tax measures introduced in the 1999/00 budget.

Of all the items contributing to the consumer price indices, Food and Drink has a 55.6% weighting, which means that changes in the price level of this category will affect inflation significantly. The category that has the least effect on the CPI is Household Furnishings and Furniture.

The increased rates of inflation for items in the categories Housing and Household Expenses, Clothing and Accessories and Health Care and Personal Expenses, were not enough to outweigh the effects of the fall in the rates for other categories.

Table 7.1

Average growth per quarter		
Quarter	**Percent (%)**	**Percent (%)**
	1999	**1998**
Qt1	-0.06	0.5
Qt2	0.7	1
Qt3	0.86	0.73
Qt4	0.76	0.28

Internal Factors

Despite the continuing policy of high real interest rates and the government's stated emphasis on the reduction of inflation, money supply growth picked up in 1999 to reach over 19% by year end. The fact that this fostered only a very small increase in the inflation rate was due to a number of factors. Firstly, the high number of job losses in the formal economy and the slowdown in wage increases, seem to have

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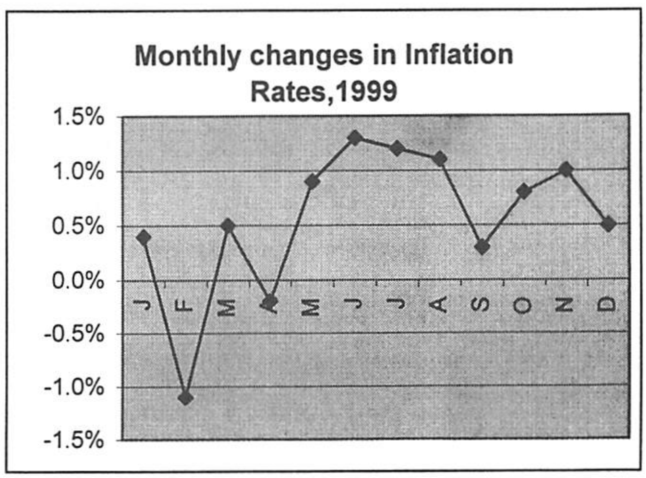
lowered the rate of growth of consumption and lead to a softening of demand. This has been accompanied by greater competition in the food and drink sector of the wholesale and distributive trade, which has slowed significantly the rate of growth of prices in this very important aspect of the basket of goods which make up the CPI. The restraint exercised with respect to government's recurrent expenditure was also a significant factor holding down local price increases.

External Factors

Jamaica's inflation performance has been helped by the global trend towards lower inflation and the very low inflation rates which are prevailing in many of our major trading partners. In fact, in the face of intense international competition, prices were actually stagnant or falling slightly for many manufactured goods. These positive influences would have been countered by the substantial increase in oil prices which took place during 1999 and the roughly 10% depreciation of the Jamaican dollar which took place during the year. However, the sharper contraction in exports than imports, pointed to a fall in overall domestic demand, and this, in conjunction with heightened domestic competition, helped to keep price increases moderate during 1999.

Figure 7.2



INFLATION

Table 7.2

Inflation, Money Supply and Monetary Base Average changes per Quarter 1999			
	Inflation	**MS (m2)**	**MB**
Qt1 (Jan-Mar)	-0.06	0.47	-2.25
Qt2 (Apr-Jun)	0.7	1.25	-1.34
Qt3 (Jul-Sept)	0.86	2.53	-0.197
Qt4 (Oct-Dec)	0.76	1.69	5.81

Outlook for 2000

Although in 1999, the average quarterly movements of inflation and the M2 measure of money supply correspond in terms of high and low periods, the monthly and point to point movements show little correlation. It should then be safe to say that although money supply directly influences inflation, other factors existing in the economy have, for now, effectively outweighed the effects of the overall movement of M2. There is no guarantee that this will continue to be the case in the year 2000 and if money supply growth continues to be strong, we can expect higher inflation in 2000.

While international conditions are likely to remain quite favourable, inflation rates are trending upwards in the industrialized economies but the monetary authorities are moving to head off this upward movement. Oil prices have fallen somewhat and are unlikely to increase much further in 2000, but the recovery in the South East Asian economies will lead to a general strengthening of commodity prices. On the domestic front, the government's recent inflows of hard currency loans have provided it with the resources to hold the exchange rate at or about its current level (J$42.30:US$1.00) for most of the year 2000.

The main inflationary impulses will come from similar factors to those which drove them in 1999. Money supply growth will be driven primarily by reductions in the cash reserve ratio and by growth in credit to the public sector. In 2000, another factor will be the rapid rise in the net international reserves, although this will be somewhat offset by the

INFLATION

contractionary impact of the BOJ's interventions in the foreign exchange market. When all the various factors are taken into account, there is the strong likelihood that inflation may rise to between 8 to 10%, and could rise even higher if the anticipated inflows from increased tax collection and the divestment of the JPSCo are not realised in a timely manner. ■

8. ENERGY

International Oil Market

In 1999, the OPEC cartel members cut their supplies of oil and effectively achieved their objective of increasing the price of oil, which had fallen in 1998 and early 1999, due to increasing supplies and reductions in the global demand for oil. Consequently, the price of spot crude increased by 33.8% during 1999, almost restoring the 1997 price which had prevailed before the 32.2% decline in 1998. Thus, the average price of spot crude was US$17.49 per barrel in 1999 compared to US$13.07 and US$19.27 in 1998 and 1997 respectively.

The price per barrel of UK Brent, Dubai and West Texas Intermediate increased by 40.3%, 42.0% and 21.2% from US$12.72, US$12.09 and US$14.42 respectively in 1998. These increases almost restored the 1997 prices which preceded the declines of 33.5%, 33.2% and 30.0% in the price per barrel of UK Brent, Dubai and West Texas Intermediate respectively during 1998. Table 8.1 gives average spot prices for selected crude oils.

Figure 8.1

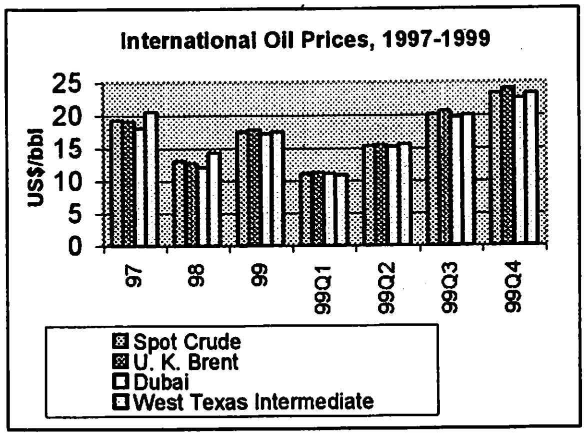


Table 8.1 **Average Spot Prices for Selected Crude Oils**

	Unit (US)	1997	1998	1999	99Q1	99Q2	99Q3	99Q4
Spot Crude *	$/BBL	19.27	13.07	17.49	11.08	15.44	20.11	23.35
U.K. Brent	$/BBL	19.12	12.72	17.84	11.28	15.46	20.58	24.04
Dubai	$/BBL	18.10	12.09	17.17	11.07	15.25	19.72	22.65
West Texas Intermediate	$/BBL	20.59	14.42	17.47	10.89	15.60	20.03	23.35

(* Spot crude is an equally weighted average of U.K. Brent, Dubai and West Texas Intermediate.)

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Local Consumption

The volume and value of petroleum imports by Petrojam increased by 5.4% and 47.3% to 11.7 million barrels and US$222.945 million for 1999. This significant increase in the value of imports, despite the small nominal increase in volume, was due to the significant increase of 33.8% in the price of spot crude and the greater share of refined products imported. Whereas the volume and value of crude oil imports declined by 38.1% and 1.2% respectively, the volume and value of refined products imported increased by 43.5% and 78.5% respectively. The significant reduction and increase in the importation of crude oil and refined products, respectively, were due to a closure of Petrojam's refinery which emanated from an explosion during the early part of the year. Table 8.2 gives details of the volume and value of petroleum imports between 1997 and 1999.

The average billing price of all petroleum products on the local market increased by approximately 40% and unleaded gasoline surpassed $20 per litre. The increase in the government's special consumption tax on gasoline, despite the partial role back due to riots against it in April 1999, compounded the rate of increase in the price of petrol that came about due to increases in world oil prices. Further, it was announced that the production and sale of leaded gasolene would be phased out by March 2000. This is an acceleration in the given structure and will result in a reduction in the level of pollution of the environment.

Table 8.2 **Volume and Value of Petroleum Imports, 1997 - 1999**

	1997		1998		1999	
	Volume (BBLS)	**Value (US$M)**	**Volume (BBLS)**	**Value (US$M)**	**Volume (BBLS)**	**Value (US$M)**
REFINERY						
Crude Oil	5,131,200	94.000	5,198,400	59.257	3,217,455	58.537
Refined Products	5,412,300	119.051	5,936,800	92.094	8,517,082	164.408
Sub-Total	**10,543,500**	**213.051**	**11,135,200**	**151.351**	**11,734,537**	**222.945**
BAUXITE COMPANIES						
Fuel Oil	8,961,900	141.078	9,054,000	99.302		
TOTAL IMPORTS	**19,505,400**	**354.129**	**22,868,200**	**306.860**		

ENERGY

Tale 8.3 **Electricity Sales, 1995 - 1999**

	1995	1996	1997	1998	1999
Total Sales (TS) – M.W.H.	1,997.8	2,144.7	2,281.0	2,446.1	2,576.0
Commercial Sales (CS) – M.W.H.	1,262.0	1,330.1	1,398.0	1,464.8	1,510.0
Private Sales (PS) – M.W.H.	735.8	814.6	883.0	981.3	1,066.0
% Change – TS		7.4	6.4	7.2	5.3
% Change – CS		5.4	5.1	4.8	3.1
% Change – PS		10.7	8.4	11.1	8.6

Electricity Sales

Total electricity sales grew by 5.3%, increasing from 2,466.1 megawatts to 2,576.0 megawatts during 1999. This is the lowest rate of increase over the period 1995 to 1999 and represents a deceleration in the rate of increase for the previous year when total sales grew by 7.2%. Table 8.3 gives further details on electricity sales between 1995 and 1999.

Sales for commercial usage as well as private use increased between 1995 and 1999, but private usage continues to expand at a faster rate than commercial usage. Electricity sales for commercial purpose increased by 3.1% from 1,464.8 megawatts in 1998 to 1,510.0 megawatts in 1999, while sales for domestic or private use increased by 8.6% from 981.3 megawatts to 1,066.0 megawatts over the same period. This signals a deceleration in rate of expansion as sales for commercial and domestic (private) usage during 1998 increased by 4.8% and 11.1% respectively.

Outlook for 2000

International oil prices have fallen slightly in the first quarter of 2000, following an OPEC agreement to increase production quotas slightly. Thus, there should not be significant increases in local oil prices, unless there is a fall in the value of the Jamaican dollar. On the other hand,

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general commodity prices recovered quite strongly in 1999 and will probably continue to rise in 2000. This general trend may also be reflected in the price of oil and a recovery in prices later on in the year cannot be ruled out.

Consumers have felt the increases in oil prices in their electricity bills as the new tariff schedule allows JPSCo to make faster adjustments in billing rates. These adjustments will continue into the year 2000 as bills have not been fully adjusted for the increases of 1999, and further adjustments relating to the anticipated increases will also be made. In addition, there were talks of building a new powered generator plant with assistance from China and the possible divestment of JPSCo during the review year. Given the government's financial constraints, it is very possible that the shares of JPSCo will be placed on the market during the year 2000. ■

9. MANUFACTURING

The relative importance of the manufacturing sector continued to dwindle in light of systemic problems within the sector associated with high financing costs. Preliminary data indicates that the sector has continued along the path of decline, to register its fifth consecutive year of lower output.

During the year, the output of processed food and paints increased and beverages and tobacco recorded mixed results, while petroleum and cement registered significant declines in output. The reduction in manufacturing output was primarily due to financing and refinancing constraints, which rendered domestic goods less price competitive than imported goods.

Food Processing

Data on poultry meats for the first six months of 1999 indicate that output increased by 32.1% from 16,092,000 kilograms in 1998 to 21,262,000 kilograms in 1999. This is a reversal of the 29.2% decline recorded for the comparative period of the previous year and resulted from government intervention to protect poultry farms from unfair competition from imports. Sugar production registered an increased 7.1% as sugar production climbed from 183,000 metric tonnes in 1998 to 196,000 metric tonnes in 1999. Between January and June 1999 the production of condensed milk increased by 5.7% to reach 9,124 tonnes for the first half of 1999. These statistics indicate that the food-processing sub-sector is on the rebound.

Beverages & Tobacco

Unlike the food-processing sub-sector that is showing signs of resurgence, mixed results were recorded in the production of beverages and tobacco. Consequently, between January and June, aerated water and rum and alcohol increased sharply by 116.7% and

MANUFACTURING

34.1% respectively, while the production of cigarettes and beer & stouts declined by 6.3% and 2.2% respectively over the same period. The significant increase in the output of aerated water emanated from the resolution of a situation in which Trinidad & Tobago was benefiting from a considerable competitive advantage. Cigar production declined by a sharp 67.4% due to the closure of the main production company due to financial troubles. Details on actual production are contained in Table 9.1.

Petroleum Products

Total output of petroleum products continued to decline as in the previous year and declined by 30.2% from 772.6 million litres in 1998 to 539.0 million litres in 1999. All products within this sub-sector declined as gasoline, diesel & fuel oils, turbo-fuel/kerosene and other petroleum products declined by 39.4%, 28.5%, 24.9% and 30.8% respectively. The fall in production is as a result of an accident at the plant which caused a significant reduction

Table 9.1 Production of Selected Commodities

Sub-Sector / Commodities	Unit	1998	1999	% Change
Food Processing				
Poultry Meats**	000 kg	6,0920	21,262	32.1
Condensed Milks**	Tonnes	8,630	9,124	5.7
Sugar	Met. Ton.	183	196	7.1
Beverages & Tobacco				
Rum & Alcohol**	000 litres	11,406	15,296	34.1
Beer & Stout*	000 litres	48,725	47,665	-2.2
Aerated Water*	000 litres	13,671	29,623	116.7
Cigarettes**	000	618,241	579,038	-6.3
Cigars*	000	16,762	5,464	-67.4
Chemical Products				
Paint**	000 litres	3,531	4,002	13.3
Non-Metallic Minerals				
Cement	Tonnes	558,100	503,800	-9.7
Petroleum Products				
Gasoline	'000 litres	139,000	84,300	-39.4
Diesel & Fuels Oils	'000 litres	561,400	401,400	-28.5
Turbo-Fuel/Kerosene	'000 litres	56,300	42,300	-24.9
Other Petroleum Products	'000 litres	15,900	11,000	-30.8

* Data available for January to September.
** Data available for January to June.

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in the operating capacity of the facility. Repairs were completed in the last quarter of 1999 and the plant is once again operating at full capacity. Table 9.1 contains further details on actual production.

Manufacturing Exports

Data for the period January to September indicate that the value of manufactured goods exported declined by 22.7% from US$168.26 million in 1998 to US$130.11 million during 1999 and the share of manufactured goods in exports declined from 13.5% to 11.7% over the same period. This results from a declining manufacturing sector as well as lower international prices for manufactured goods that are exported. Imports of manufactured goods for the first nine months of 1999 were 7.1% lower than the US$669.19 million recorded for the comparative period for the previous year.

The apparel sector declined for the fourth consecutive year as indicated by a 15.1% decline in earnings from apparel exports to US$429.2 million. This decline captures the episodes of factory closures, increased and high domestic production costs and reduction in the share of the US market, among other things.

Outlook for 2000

The manufacturing sector is no longer being viewed as one of the major engines of growth by those in charge of economic policy, and very little is being done to address the problems which affect the manufacturing sector. The pattern of the last few years can therefore be expected to continue in the year 2000, although the decline will be tempered by increases in output by some of the larger firms which have restructured their operations. Given the slow pace of reduction in commercial lending rates and the lack of refinancing to facilitate speedier reductions in financing costs, the year 2000 will be another trying year for the productive sector. There may be further closures of factories especially in the apparel sector, as manufacturers struggle to overcome the loss in competitiveness which has been caused by the over-valuation of the Jamaican dollar.

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The positive expectations for the sector is that there will be new but small entrants who will rely on equity financing as opposed to debt due to the fear of borrowing, even though rates will fall. This is supported by the hesitation of investors to access the second round of the BNS economic growth initiative. ■

10. MINING

International Metal Industry

The actual market prices of all metal products that are listed on the London Metal Exchange (LME), with the exception of lead, registered increases in prices between the end of 1998 and 1999, and signaled a reversal of the general decline experienced during the previous review period. Between December 1998 and December 1999, the unit price of copper, aluminium, tin, nickel and zinc increased from US$0.66, US$0.56, U$2.35, US$1.86 and US$0.42 to US$0.84, US$0.74, US$2.77, US$3.83 and US$0.56 respectively. However, the unit price of lead declined marginally from US$0.23 to US$0.22 over the same period. These significant recoveries emanate from the return to growth in the economic activities of Russia and the Asian economies, which suffered an economic slump due to the fallout in their financial sectors.

Production & Export

The production of total bauxite declined by 7.6% from 12.65 million tonnes in 1998 to 11.69 million tonnes, breaking the upward trend. This resulted from a major accident at the Gramercy Louisiana Alumina Refinery, which buys 60% of the island's crude bauxite. Operations at the plant were closed almost completely after the accident in July 1999 and are not expected to be back to normal until the last quarter of 2000. Consequently, there was a 30.7% fall in the production of crude bauxite for export from 4.03 million tonnes in 1998 to 2.79 million tonnes in 1999. Alumina production, on the other hand, continued its upward trend and registered a 3.8% increase to reach 3.57 million tonnes in 1999.

Total export volume mirrored production developments and total exports declined by 7.3% to 11.79 million tonnes in 1999 compared to an increase of 5.7% to 12.72

MINING

million tonnes in the previous year. Similarly, crude bauxite exports declined by 30.5% from the peak of 4.02 million tonnes recorded in 1998 to 2.80 million tonnes in 1999.

The volume of alumina exported continued to expand and increased by 3.8% from 3.48 million tonnes to reach 3.61 million tonnes in 1999. This acceleration in the growth rate of 1.8% for the previous year reflects the upturn in international market conditions for metal products.

The Memorandum of Understanding – "The Manley Accord" – which was signed in July 1998 by the government, trade unions and bauxite companies, achieved its objective of improving the industrial relations climate in the bauxite/alumina sector. This is evidenced by the virtual non-existence of industrial action in the sector and the smoothness with which reduced working hours were implemented due to the fallout in demand arising from the accident at the Gramercy Refinery. Alpart has announced a 500,000-ton expansion in the capacity of their Nain Alumina plant. The project will cost approximately US$119 Mn and will be carried out over a 3 year period.

Foreign Exchange Earnings

Due to the significant reduction in the export volumes of crude bauxite, gross receipts declined from US$684.8 million in 1998 to US$681.3 million in 1999. The 1998 outturn was a 6.8% reduction in gross receipts from US$735.0 million in 1997, and resulted from the sluggish international market conditions associated with the economic turbulence in Asia.

Net receipts are estimated to have declined by 6.4% from US$337.5 million in 1998 to US$315.8 million for the review period. The estimated retention will pay for wages, investment, and the Government

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levy, which together approximate to 40% of the gross earnings of the bauxite industry.

Outlook for 2000

The recovery of Russia and several Asian countries has resulted in an increase in the demand for metal products. This increase in demand is associated with increases in the prices of these products and is expected to continue during 2000. Consequently, Jamaica can expect to increase its earnings from exports of crude bauxite and alumina. However, recovery in the exports of crude bauxite will depend on the timing of the re-opening of the Gramercy plant. As the plant is not expected to resume production until late in the year, crude bauxite exports are likely to be lower in 2000 that they were in 1999.

Given the improvement in labour relations and the success of the industry in recent years, additional capital investment to further increase capacity levels is also expected in 2000. However, new investors will be cautious, as the macro-economic environment is risky, given the continued decline in general economic activities and the over-valuation of the Jamaican dollar. Further, Jamaica can anticipate an increase in foreign exchange earnings from the sector, as increased world demand is expected to continue to push metal prices upwards. ■

11. TOURISM

World Tourism

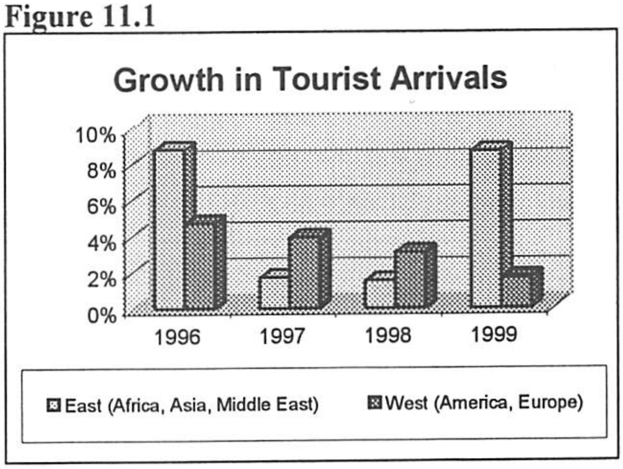
There has certainly been a significant amount of travelling worldwide. For 1999, world tourist arrivals amounted to 656.9Mn, 3.2% over 1998. According to the World Tourism Organisation, the region experiencing the greatest level of growth in tourism is the Middle East with a growth rate of 17.5%. The East Asian/Pacific region was reported to have a growth rate of 7.5% and total arrivals reached 93.6Mn. This comes after two years of decline in tourist arrivals.

The African region grew 9% in tourist arrivals for the year, with Morocco, Zambia and Zimbabwe increasing the number of arrivals by as much as 22%, 26% and 17% respectively. The region is expected to continue on a steady growth path for the near future.

Results in the Americas however, reflect a wide range of growth rates. The figures show a large decline of 10.4% for Puerto Rico, with increases of 1.3% and 2% for United States and Mexico respectively. Among the high rollers were Cuba (16%), Argentina (23%), Guatemala (29%) and El Salvador (26%).

The European region, though hosting over 50% of the world's total tourists, only increased total arrivals to the region by 1%. France however, remains a popular destination, ranking number one for 1999 and was visited by 71.4Mn tourists, while holding its place at number three among high tourism earners.

Figure 11.1



TOURISM

Table 11.1

Growth in Tourist Arrivals	**1996**	**1997**	**1998**	**1999**
East (Africa, Asia, Middle East)	8.79	1.7	1.5	8.7
West (Americas, Europe)	4.7	3.9	3.07	1.7

The sharp increase in arrivals to eastern destinations (8.7%) comes at a time when the world is getting ready to cross over into the new millennium, and many people may be making the choice of a visit home instead of the regular sun, sand, sea and western cultures.

Table 11.2
International Tourist Arrivals by Region

Country	**1995**	**1996**	**1997**	**1998**	**1999**	**Change 98/99**
Africa	20,327	21,930	23,419	25,023	27,263	9%
Americas	110,689	116,700	118,334	122,027	126,709	3.8%
East Asia/Pacific		89,037	88,254	87,183	93,679	7.5%
Europe	338,454	353,700	370,616	381,939	385,910	1%
Middle East	12,356	13,234	14,261	15,314	17,992	17.5%
South Asia	4,200	4,434	4,834	5,190	5,380	3.7%
World Total	**567,381**	**599,035**	**619,718**	**636,676**	**656,933**	**3.2%**

Jamaica's Performance for 1999

Jamaica attracted a total of 2,012,738 visitors in 1999. Of this number 1,248,397 were stop-over arrivals, while the remaining 764,341 visitors were cruise ship passengers. January to December 1999 saw an increase in stop-over arrivals of 1.9% over 1998 and a 13.5% increase in cruise ship arrivals for the same period.

Foreign nationals visiting the island for this one-year period represent 92% of stop-over arrivals with a majority staying for long durations.

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Throughout the period, seasonal fluctuations were evident in the number of foreign nationals recorded to have landed. March saw 123,849 foreign nationals in the 'carnival-spring break season', the highest number recorded for any month this year. The summer months, June to August followed in high numbers with 101,407, 113,029, and 104,044 foreign nationals arriving in those months. September saw the least number of foreign nationals for 1999 and the number recorded for December was 9% less than that for December 1998. Although December recorded the highest number of non-resident Jamaican arrivals for the year, the figure was 14.8% less than that for the previous year, 1998. The large decrease in arrivals of foreign nationals for December 1999 is believed to have been a consequence of the Y2K concerns which kept many people close to home and discouraged air travel.

The effect of the April riots was a 3% reduction of total stop-over arrivals for the month. There was also a 14.3% reduction in the number of cruise ship calls for the month of May, believed to be as a result of the tension that existed in the country and the extensive international media coverage at this time, in the aftermath of the riots.

The largest number of cruise ship calls to Montego Bay came in the 'spring break season', revealing a 128.6% increase in calls over March 1998 and a 155% increase in passengers. August recorded the least number of calls to the city and there was a 13% reduction in the number of calls in December 1999.

Ocho Rios had a bad year in the areas of cruise ship arrivals. Although March recorded 33 calls for Ocho Rios, there was a 10.8% reduction in the number of calls over the corresponding month in 1998.

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This continued for the remaining months to August; the number of calls and passengers fell when compared with the same period for 1998. There was no change in the number of calls for September or December, but passengers increased by 6.3% and 6.8% respectively. For the year, the number of calls to Ocho Rios declined by 2.9% while the number of passengers only increased by 2.6%.

In total, the greatest number of calls and the largest number of passengers were recorded in March 1999, while the lowest was recorded in May. December saw a 5.2% reduction in calls but total calls for the year increased by 15.6%.

For January to November 1999, 70% of stop-over arrivals were from the United States with the number increasing by 5.9% over the figure recorded for January to November 1998. The number of tourists from Canada, Europe and other destinations declined, while there was an increase in tourists from the UK over this period. The greatest number of stop-over arrivals were in the age 25 to 34 category but there was a significant increase of 12.4% in tourists aged 18 to 24 over the corresponding 11-month period in 1998. This probably reflects the buoyant Spring Break season which the island enjoyed.

Table 11.3

Age Distribution 1998 - 1999

Age	1999 Jan-Nov	% Share	1998 Jan-Nov	% Share	% Change 1999/98
Under 18	138,237	12.1	135,934	12.3	1.7
18 - 24	122,028	10.7	108,599	9.8	12.4
25 - 34	313,087	27.4	312,049	28.2	0.3
35 - 49	353,665	31	339,939	30.7	4
50 - 64	168,414	14.7	164,089	14.8	2.6
Over 64	46,619	4.1	46,579	4.2	0.1
Total	**1,142,050**	**100**	**1,107,189**	**100**	**3.1**

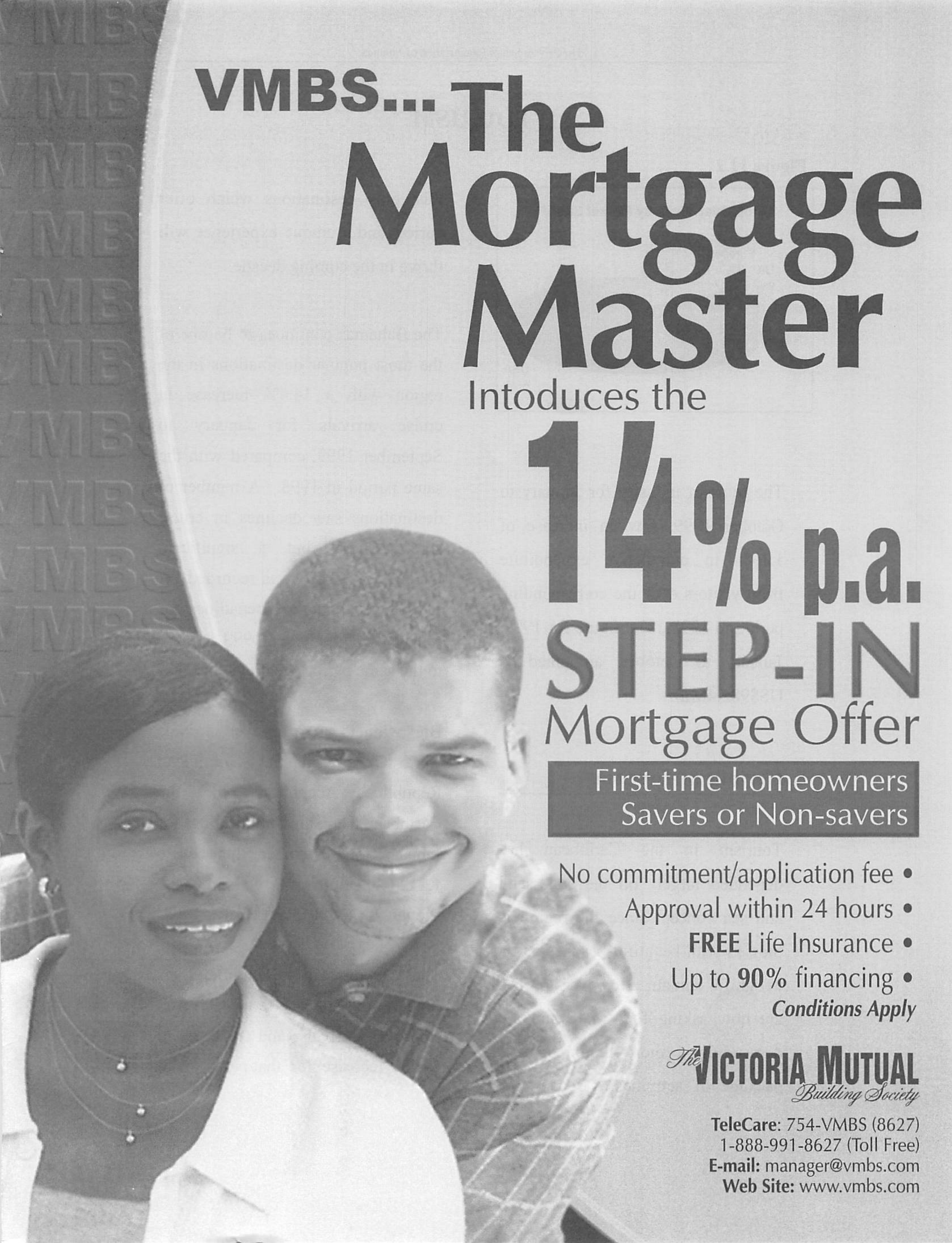
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Figure 11.2

The tourism industry for January to October 1999, saw an increase of 1.19% in cumulative expenditure from visitors over the corresponding period in 1998. The figure for 1999, January to October, amounted to US$982.4Mn.

Caribbean Tourism

Tourism in the Caribbean has depended largely on the sun, sand and sea concept since the region is blessed with beautiful beaches and a delightful climate. However, tourists are now asking for more and are demanding a more comprehensive package of activities. Because of this, only destinations which offer variety and a unique experience will thrive in the coming decade.

The Bahamas continues to be one of the most popular destinations in the region with a 14.4% increase in cruise arrivals for January to September 1999, compared with the same period in 1998. A number of destinations saw declines in cruise ship visitors, but a significant increase of 95.4% was recorded for St. Vincent and the Grenadines for January to September 1999 relative to the same period the previous year.

Big winners in stop-over arrivals were Cuba and the Dominican Republic. According to the Caribbean Tourism Organisation, for January to September there were 1,212,020 stop-over arrivals in Cuba, showing a 17.3% increase over 1998.

The Dominican Republic, for January to August, saw 1,889,563 stop-over arrivals and reported a 10.2% increase for that period over

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the same period in 1998. This shows that arrivals in the Dominican Republic, in the first 8 months of 1999, were larger than those reported for Jamaica's January to October 1999 10-month period.

St. Kitts & Nevis was a big loser over all, with arrivals falling by 16.4% for the January to June 1999 period, relative to January to June 1998. Winter arrivals fell by 22.4% while summer arrivals declined by 2.4%.

Outlook for 2000

The high level of tourist harassment in Ocho Rios has affected the In-bond merchants and craft vendors who have blamed the decrease in income and arrivals on this problem. This is a problem that affects many Caribbean destinations but, in Jamaica, the problem is exacerbated by the island's high crime rate. It contributes to Jamaica's poor image in the international marketplace and depresses the room rates that hoteliers are able to get for their properties. The industry will continue to grapple with this issue in 2000 and beyond. The continuing economic stagnation will not reduce the problems of harassment and crime and will only make the situation worse.

In 1999, tourist arrivals peaked in the 'carnival - spring break' season. Coupled with that, the greatest increase by age group was from young persons aged eighteen to twenty-five. The country needs to capitalise on this growing market in the year 2000. The young tourists form a ready market for branded Jamaican products and if they enjoy their vacation, there is the possibility of them returning in later years when they will probably have more disposable income.

The current trend in world tourism suggests that more visitors are seeking more than just a good time at the beach. Attention will have to be given to the development of more attractions and an effort will have to be made to place greater emphasis on Jamaican culture. This is even more important now as Cuba is building their tourist sector aggressively and

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is slowly opening their economy. The development of eco-tourism ventures will be an important part of this diversification of the industry.

For Jamaica to have a better year in 2000, adequate funding will have to be provided for the international advertising and marketing campaign for the destination. In the past few years, the budget for these functions has been falling consistently and it is not surprising that the growth in arrivals has slowed and that the earnings from the industry have stopped increasing. The industry has suffered a severe loss in competitiveness and profitability over the last 4 years and there is very little to suggest that there will be any improvement in these circumstances in the year 2000. ■

12. GRAPHIC ECONOMIC DATA

Table 12.1

COMMERCIAL BANKS' LOANS AND ADVANCES BY SECTOR (1994-1999) J$Mn						
Sectors	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
Agriculture	2038.47	1879.01	2247.8	2541.33	1977.03	1547.64
Mining	236.44	354.05	320.72	245.63	191.02	98.71
Manufacturing	3867.24	6092.57	7310.51	5898.6	4001.96	2992.36
Construction & Land Dev.	4616.15	5587.26	4692.01	4070.14	2540.17	2029.01
Financial Inst.	1232.08	2352.68	4310.66	7009.78	2638.61	1260.9
Transport	3026.86	4399.85	3810.41	3845.81	1901.19	1445.87
Electricity,Gas & Water	197.36	93.67	224.92	96.38	68.24	66.54
Govt.services	2674.28	3353.04	5237.42	8736.34	4716.35	4894.04
Distribution	2061.71	3513.74	4034.54	3751.92	3610.45	2833.06
Tourism	2912.1	3830.39	4682.19	4335.95	4260.41	3560.65
Entertainment	175.34	288.13	258.78	213.95	124.93	151.31
Other	9256.36	14119.75	17433.14	18596.27	17053.44	15597.03
Total	32294.39	45864.14	54563.1	59342.1	43083.8	36477.12

Figure 12.1

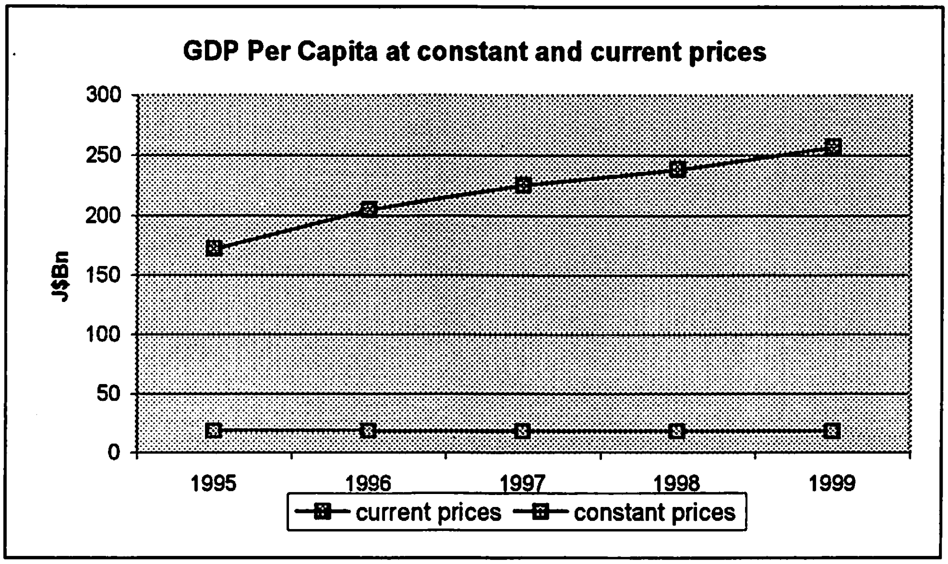

Figure 12.2

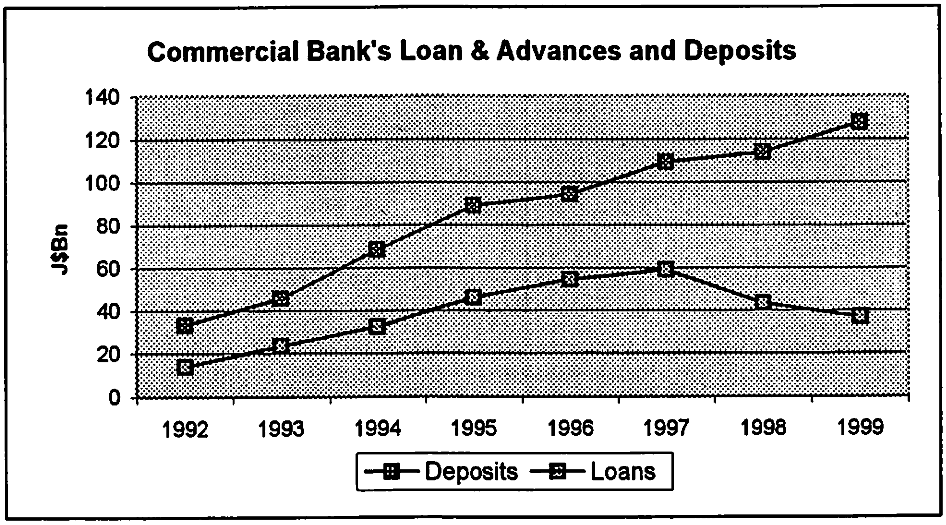

Figure 12.3

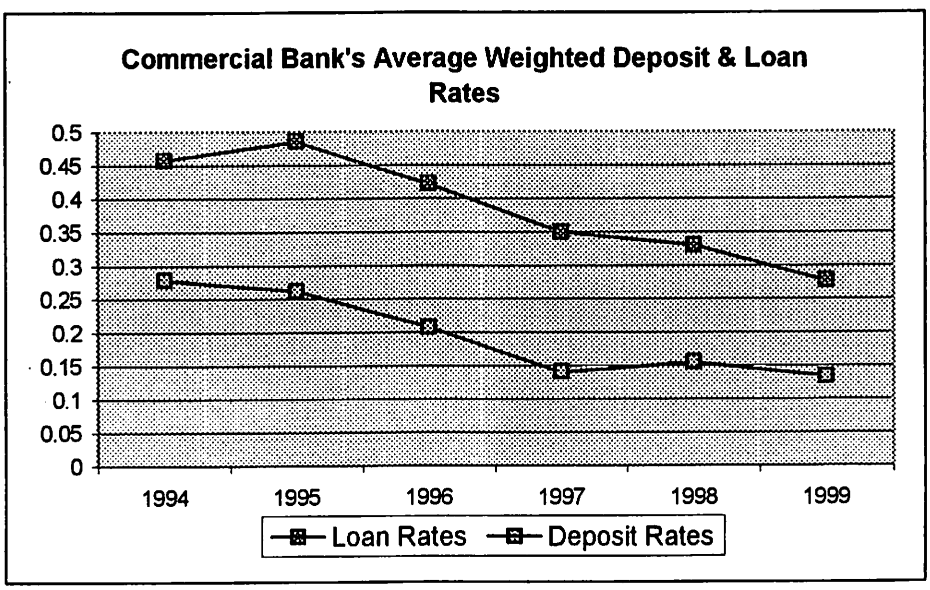

Figure 12.4

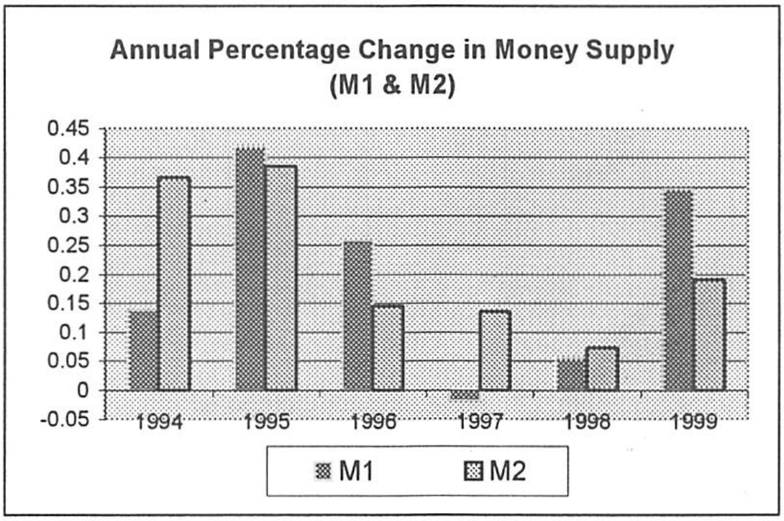

Figure 12.5

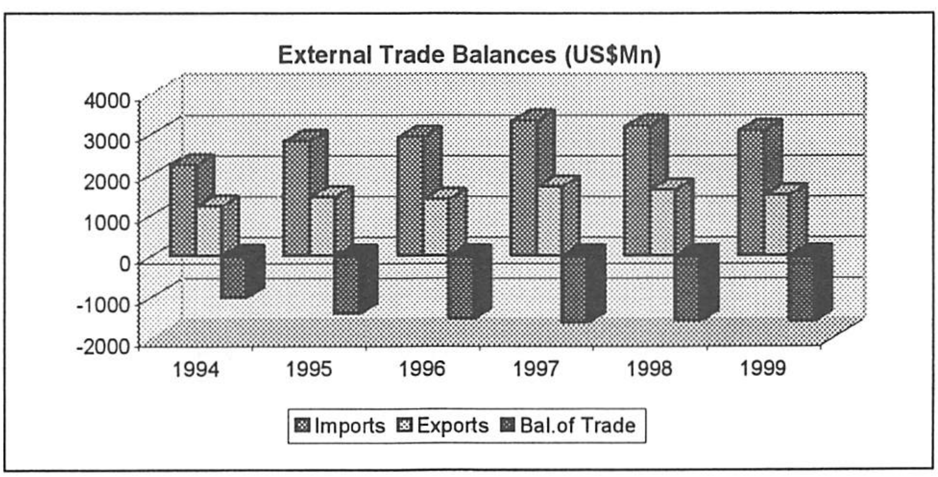

Figure 12.6

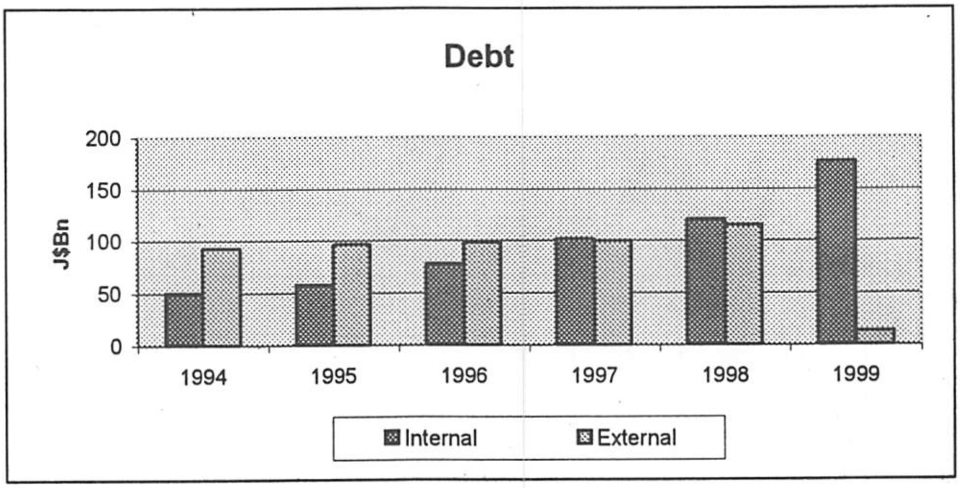

Figure 12.7

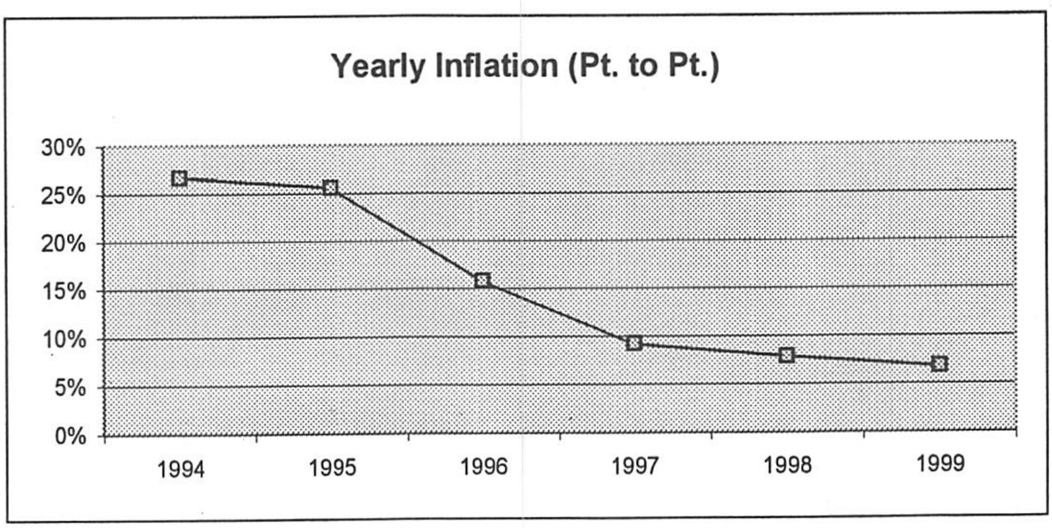

Figure 12.8

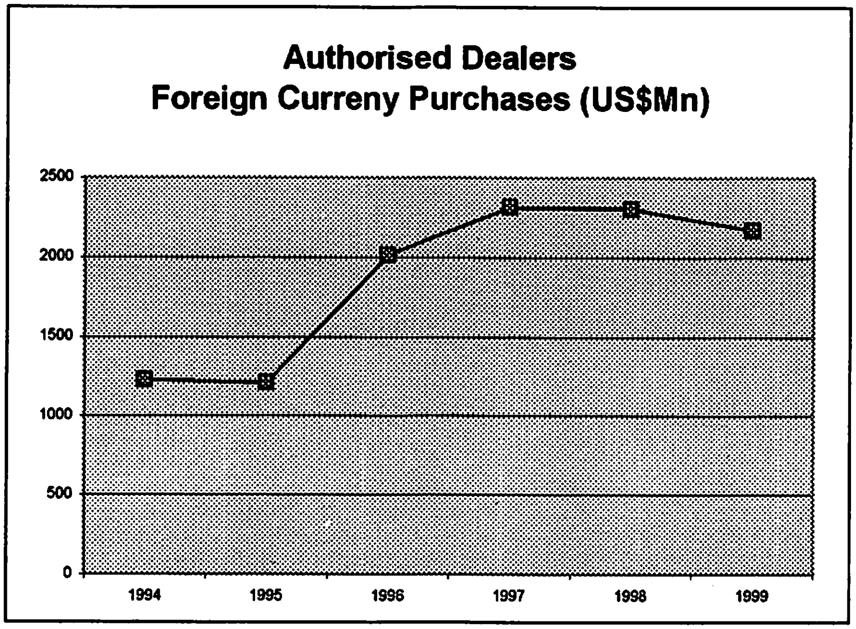

Figure 12.9