

New Confidential Economic Bulletin

Private Sector Organisation of Jamaica

Monthly Analysis of the Jamaican Economy

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Overview

The foreign exchange trading data for December 1999 has just been released and makes interesting reading. The total purchases of hard currency by banks and cambios in 1999 was 12% or US\$469m less than in 1998 and

only 0.9% or US\$32m more than the figure for 1997. In fact, the banks purchased less FE in 1999 than in 1997, but higher purchases by the cambios offset this deficit. Bearing this in mind, the slippage in the exchange rate is not altogether surprising. A major factor behind the lower purchases by the FE market, may have been the failure of the government to raise hard currency loans in the international market during 1999. This would have reduced the extent to which the BOJ could intervene in the market without lowering the NIR, which have been falling quite noticeably in recent months.

The BOJ balance sheet of 12/1/00, indicates that the NIR fell by about US\$40Mn in the first 2 weeks of the new year and they may well have dipped below US\$400m, but for an infusion of some US\$50Mn which occurred in mid-month. They are likely to fall again given the recent heavy sales into the

market by the BOJ, but there will be a further modest recovery when the proceeds of the Euro 100m bond are received later in February. Thereafter, the pace at which the reserves fall will depend to a large extent on the government's success (or lack of it) in raising hard currency loans to finance next year's budget. The pace at which asset sales in hard currency take place will also have an impact on the reserves, as will inflows of private capital from abroad. The proposed investments in the telecoms sector could be an important factor in this regard.

The IMF's 1999 Article IV consultation with Jamaica was concluded in early January 2000 and released in the latter half of the month. Dr. Davies made a statement in parliament referring to a convergence of views between the government and the IMF, on the challenges facing the Jamaican economy. This was widely interpreted as implying a shift in the government's thinking on the

economy, in the direction of the IMF's prescription for the economy. Subsequent statements by the minister and others have suggested that the consensus centers on what are

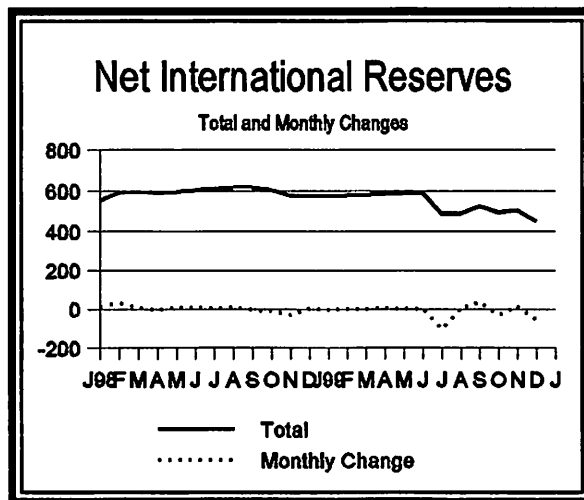
the problems that must be solved, but they are still quite divided on what are the solutions to these problems. Initially, the minister had portrayed the differences as being mainly about the timing and pace of the policy adjustments that

were necessary to turn the economy around, with the IMF arguing for a quick, sharp adjustment and the government preferring a much slower process. However, exchange rate policy has emerged as a major area of difference, with the BOJ continuing to intervene heavily in the FE market and the IMF advocating that the BOJ conserve reserves and let the market set the exchange rate. The Fund argues that a market-determined rate will allow interest rates to come down quickly and that given the current tight monetary policy, depreciation in the rate will not have much of an impact on inflation.

It seems that both parties have agreed to disagree on this and a few other issues of policy. The IMF argues also that the current policy path will leave the economy

the BOJ remains committed to defending it.

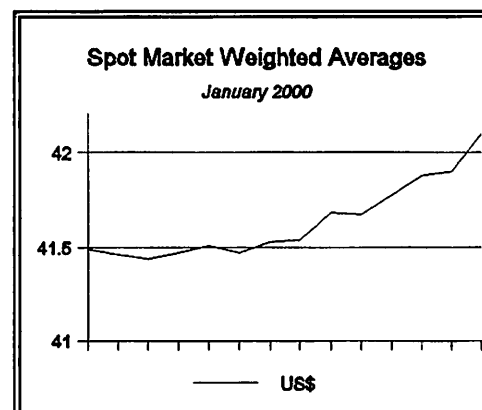
Net International Reserves



Net International Reserves (NIR) as at the end of December 1999 stood at US\$450.17Mn and are estimated to cover 10.62 weeks of imports. The reduction of US\$56.56Mn came about from a US\$62.42Mn reduction in foreign assets and a US\$5.86Mn reduction in foreign liabilities.

The fall in reserves in 1999 was US\$127.83Mn.

Foreign Exchange



The maintenance of the current policies would suggest that there is unlikely to be much, if any, reduction in interest rates during this year, and there is even the possibility of rates increasing somewhat. The BOJ 180-day repo rates are still at 19.95% and T-Bill rates are unlikely to fall much below that level unless those repo rates are reduced. This is unlikely to happen as long as the exchange rate remains under pressure and

Provisional figures provided by the BOJ, reveal that the total stock of foreign currency deposits at the

end of October 1999 was US\$1016.24Mn. This figure represents an increase of US\$1.51Mn over the deposits for the previous month.

There were also increases of US\$38.94Mn since the beginning of the year and US\$87.44Mn for the 12 months ended October 1999. The point to point movement and the year to date change for the corresponding period in 1998 were reductions of US\$11.2Mn and US\$22.2Mn respectively.

Exchange Rates

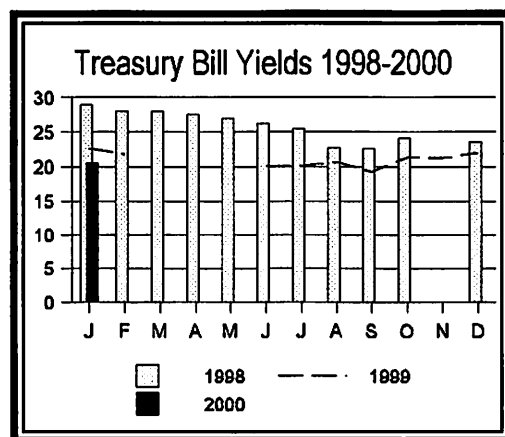
Since the beginning of 2000, the Jamaican dollar has fallen in value by J\$0.68, J\$0.83 and J\$3.01 against the US and Canadian dollars the and pound sterling respectively.

The spot market weighted selling average rates have been slipping slowly.

As at February 8, 2000, the weighted average selling rates of the local currency vis-a-vis its major trading partners are:

42.50 to 1 US\$
J\$28.63 to 1CDN\$
J\$66.81 to 1pound sterling

Interest Rates



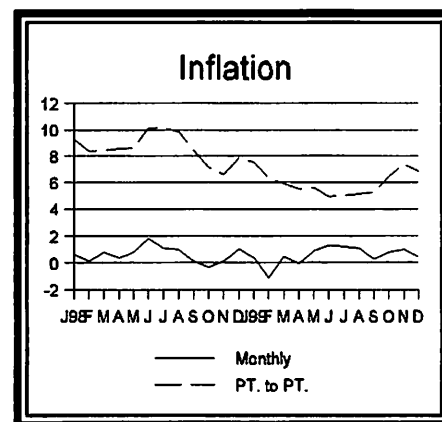
The 30 days reverse repurchase (repo) rate remains at 18.35% and the 180 day rate at 19.95% for January 1999. An offer of 91 day Treasury Bills was issued on January 28, 2000 for J\$300Mn. On the same day there was another offer for J\$650Mn for a tenor of 182 days. Both offers were over subscribed. The 91 day offer was over subscribed by J\$776.99Mn, yielding on average 19.8%. The 182 days offer was over subscribed by J\$1500.19Mn, with an average yield of 20.54%.

These offers take the total nominal amount of Treasury Bills outstanding to J\$10.25Bn.

Inflation

As given by the Statistical Institute of Jamaica, the 'All Jamaica', 'All Group' Consumer Price Index (C.P.I.) for December 1999 was 1265.9. This translates to a 0.5% increase over the CPI for November 1999.

The 12 month inflation rate for the review period was 6.8% for December 1999. For the calendar year 1998 the inflation rate was 7.9%.



Base Money

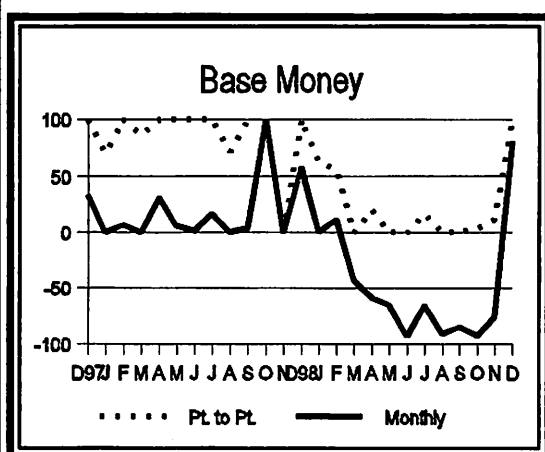
Provisional figures from the BOJ, showed a 16.46% increase in the base money or monetary base during the month of December 1999. This increase moved the total nominal stock to J\$37,338.92Mn.

The 12 month movement of the monetary base for the month of December 1999 was 3.96%, relative to a 12 month movement of 5.12% up to December 1998.

As indicated by the provisional data provided by the BOJ, money supply (measured by M2) had a

of October 1998. This may have implications for higher inflation in the coming months.

Production of Selected Commodities



nominal increase of 2.57% over the previous month in October 1999.

Energy: Net generation of power, as supplied by the Jamaica Public Service Company Limited (JPSCo) was 260,881,358 KWh for the month of December 1999.

Total private purchases amounted to 81,897,764 KWh. The largest

component of private power came from WARTSILLA (J.E.P.).

Agriculture/Manufacturing:

Cement Production: Total cement production for the month of December 1999 was 53,480 tonnes, an increase of 11.7% over the production level recorded for November of the same year. The year to date level of cement production was 503,713 tonnes.

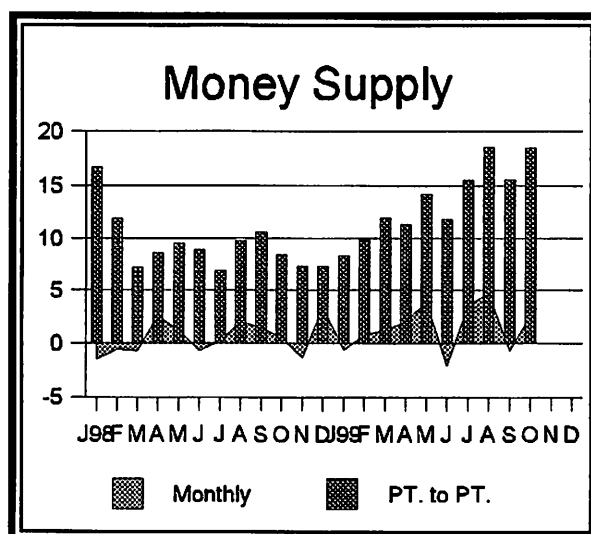
The domestic sales of cement reduced by 6% over the previous month to 52,900 tonnes for December 1999.

Bananas: Total banana production at the end of November 1999 was 4,640 tonnes. There was a reduction of 5.88% from the production level recorded for November 1998.

Money Supply

Since January 1999, M2 has increased by 16.89%, this is more than twice the increase of 6.87% for the corresponding period in 1998.

At the end of October 1999, the point to point or 12 month movement in M2 was 18.48%, suggesting a doubling of the growth rate from 8.45% at the end



Sugar: There was no production of sugar for the months August to November 1999. For the months September to November 1998, no sugar production was recorded either.

Mining: Total alumina production for the month of November 1999 300,375 metric tons. Total year to date production was 3,260,601 metric tons for the period ended November 1999. This is a 3.76% increase over the corresponding period in 1998.

Total Crude Bauxite production was 142,850 metric tons for the November 1999. This is 58.34% less than the level of production recorded for November 1998. Year to date production fell by 28.39% to 2,680,465 metric tons over the corresponding period in 1998.

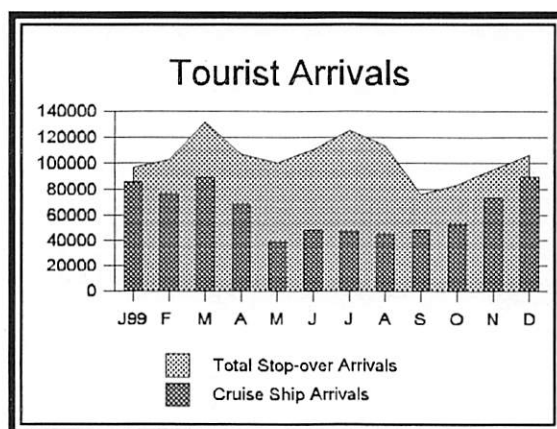
Exports of alumina were 345,437 metric tons for the month. This is 29.67% and 23.51% greater than the amounts recorded for November 1998 and 1997 respectively. Year to date exports increase by 2.98% over 1998 to stand at 3,274,759 metric tons.

The level of exports of crude bauxite was 137,205, 63.93% less than the amount recorded for November 1998. Year to date exports stood at 2,687,365 metric

tons, down by 28.23% over the corresponding period in 1998.

Tourism

Total visitor arrivals for December 1999 were 195,604, increasing by



15.75% over the total arrivals in November 1999. The total stopover arrivals for the month increased by 11.6% or 106,347. Of the total arrivals for the month, cruise passenger arrivals were 89,257 increasing by 21% over the previous month.

The total number of calls for December 1999 amounted to 55. Of these, 17 calls were to Montego Bay, 35 to Ocho Rios.

Total stopover arrivals from January to December 1999 were 1,248,397, an increase of 1.9% over 1998.

Total cruise passenger arrivals for

the same period were 764,341 from a total of 488 calls and taking total tourist arrivals for the year to 2,012,738.

External Trade

Exports: The total value of exports for January to October 1999, was US\$1,228.48Mn (FOB).

The total nominal value of general merchandise exported (fob) for the review period was US \$1,019.8Mn. That is 9.5% less than the merchandise exports for the same period in 1998.

Domestic exports were valued at US\$989.3Mn. For the same period in 1998, domestic exports were US\$1088.3Mn. Traditional exports yielded a total of US\$710.1Mn, a definite decline from the previous year's total of US\$748.2Mn. Major Traditional exports fell by 6.4% from the corresponding period in 1998, to US\$654.Mn. Yields from Other Traditional exports amounted to US\$55.7Mn, an increase of 13.8% over the previous corresponding period. The yield from all Major Traditional exports has fallen. With the exception of gypsum and cocoa, Other Traditional exports had increased over the January to October 1998 period.

Re-exports had fallen by US\$7.7Mn(20.1%) and Freezone exports had a value of US\$183.8Mn, a decline of 17.7%.

Imports: As reported by the Statistical Institute of Jamaica, total imports during the period January to October 1999, were valued at US\$2,281.1Mn. This is a 6.2% decline from the amount imported in the same period of 1998.

The value of 'Consumer Goods' was US\$746.5Mn, declining by US\$1.9Mn from the 1998 figure. The value of motor cars taken into the country, January to October 1999 was US\$24.7Mn less than those imported in the same period in 1998. All categories of 'Consumer Goods' imports, increased in value with the exception of Food and Motor Cars.

'Raw Material' imports fell to US\$1,158.2Mn, a reduction of 8.4%. 'Other Fuels and Lubricants' was the only category of 'Raw Material' which increased in value over the corresponding period in 1998.

External Sector US\$Mn

| | Jan-Oct '98 | Jan-Oct '99 |
|----------------------------------|----------------|----------------|
| Total Exports (FOB) | 1372.2 | 1228.47 |
| Major Traditional Exports | 699.2 | 654.4 |
| <i>Bauxite</i> | <i>67.9</i> | <i>50.99</i> |
| <i>Alumina</i> | <i>507.55</i> | <i>490.03</i> |
| <i>Sugar</i> | <i>94.62</i> | <i>87.4</i> |
| <i>Banana</i> | <i>29.15</i> | <i>26.02</i> |
| Other Trad. Exports | 48.9 | 55.67 |
| Non-Trad. Exports | 340.18 | 279.2 |
| Re-exports | 38.14 | 30.48 |
| Total Imports | 2432.2 | 2281.1 |
| <i>Consumer Gds.</i> | <i>748.4</i> | <i>746.51</i> |
| <i>Raw</i> | <i>1264.57</i> | <i>1158.2</i> |
| <i>Materials</i> | <i>419.2</i> | <i>376.39</i> |
| <i>Capital Gds.</i> | | |
| Trade Balance | -1060 | -1052.6 |

The value of 'Capital Goods' imports also declined by 10.2% over the corresponding period in 1998.

Balance of Payments

The current Account balance increased by US\$48.9Mn. to a deficit of US\$92.9Mn for January to October 1999. This is as a result of increases in Services, Income and Current Transfer balances.

Merchandise Trade: The merchandise trade deficit stood at US\$851.6Mn for the period January to October 1999. This is US\$13.8Mn less than that recorded for the same period in 1998. Exports and imports declined, compared with the same period in 1998. Exports and imports fell by US\$143.7Mn and US\$129.9Mn respectively.

Services: The services balance for the period in review, was a surplus of US\$429.7Mn, a US\$22.1Mn increase over the corresponding period in 1998. This increase is as a result of the reduction in the deficit recorded on 'Transportation' and 'Other Services'.

Income: There was a reduction of the Income deficit of US\$31.7Mn, taking the negative balance to US\$4208.4Mn. Compensation of employees declined while investment income deficit fell by US\$38.9Mn.

Net Current Transfers: Net receipts from current transfers increased by US\$8.7Mn, to US\$537.4Mn, from the 1998 figure, US\$528.7Mn. The increase came from US\$8.6Mn and US\$0.1Mn increases in Private and official net receipts respectively.

Capital and Financial Account: result of official investments
 For the period, the financial inflows declining by
 account recorded a surplus of US\$244.4Mn. The capital account
 US\$82Mn, a US\$47Mn reduction surplus fell by US\$48.7Mn to
 from 1998. The reduction was as a US\$92.9Mn.

| <u>Balance of Payments</u> | Jan-Oct '98 | Jan-Oct '99 | Change |
|--------------------------------------|------------------------|------------------------|---------------|
| Goods balance | -837.8 | -851.6 | -13.8 |
| Export | 1372.2 | 1228.5 | -143.7 |
| Imports | 2210 | 2080.1 | -129.9 |
| Services - Net | 407.6 | 429.7 | 22.1 |
| Transportation | -217.7 | -189.4 | 28.3 |
| Foreign Travel | 801.5 | 805.5 | 4.0 |
| Other Services | -176.2 | -186.4 | -10.2 |
| Income | -240.1 | -208.4 | 31.7 |
| Compensation of employees | 53.5 | 46.3 | -7.2 |
| Investment Income | -293.6 | -254.7 | 38.9 |
| Current Transfers (Net) | 528.7 | 537.4 | 8.7 |
| Official | 38.2 | 38.3 | 0.1 |
| Private | 490.5 | 499.1 | 8.6 |
| Current Account | -141.6 | -92.9 | 48.7 |
| Net Capital Movements | 12.6 | 10.9 | -1.7 |
| Official | 3.7 | 3.8 | 0.1 |
| Private | 8.9 | 7.1 | -1.8 |
| Financial A/c | 129.0 | 82 | -47.0 |
| Other Official Investment | -38.1 | -282.5 | -244.4 |
| Other Private Investment | 232.2 | 275.4 | 43.2 |
| Changes in Reserves | -65.1 | 89.1 | |

MACRO-ECONOMIC INDICATORS
(Apr 1998 - Dec 1999)

| MONTHS | BASE MONEY | | NIR | FOREX ACCTS. | INFLATION | | TOURIST ARRIVALS | | | CHANGES IN M2 | |
|---------|------------|----------------|-----------|----------------|------------|----------------|------------------|------------|--------|---------------|---------------|
| | Mthly chng | Point to Point | Total NIR | Total Balances | Mthly Chng | Point to Point | Total Visitors | Stop-overs | Cruise | Money Supply | Point to Pint |
| Dec. | 7.73 | 14.5 | 540.5 | 1001.28 | -0.1 | 9.2 | 202926 | 118262 | 84664 | 3.4 | 13.45 |
| Jan. | 4.9 | 11.6 | 553.2 | 950.95 | 0.7 | 9.28 | 166934 | 98517 | 68417 | -1.5 | 16.7 |
| Feb. | 0.9 | 12.1 | 588.4 | 947.28 | 0.1 | 8.36 | 166003 | 99280 | 66723 | -0.6 | 11.9 |
| Mar. | -1.5 | 9.4 | 595.1 | 939.43 | 0.8 | 8.45 | 187021 | 112474 | 74547 | -0.7 | 7.2 |
| May | 0.1 | 7.1 | 596.5 | 924.29 | 0.8 | 8.6 | 140030 | 97063 | 42967 | 1.2 | 9.5 |
| June | 0.2 | 6.2 | 605.87 | 920.73 | 1.8 | 10.1 | 149898 | 107307 | 42591 | -0.7 | 8.9 |
| July.98 | 1.5 | 7.1 | 611.89 | 913.73 | 1.1 | 10.2 | 173621 | 120426 | 53195 | 0.2 | 6.9 |
| Aug. | -1.96 | 5.02 | 619.21 | 973.89 | 1 | 9.84 | 154934 | 109927 | 45007 | 2.1 | 9.8 |
| Sept. | 0.2 | 5.7 | 616.94 | 888 | 0.1 | 8.42 | 114556 | 75531 | 39025 | 1.4 | 10.6 |
| Oct. | 0.14 | 5.6 | 605.61 | 928.82 | -0.3 | 7.14 | 119388 | 82254 | 37134 | 0.45 | 8.5 |
| Nov | -4.38 | -0.62 | 576.27 | 912.52 | 0.1 | 6.6 | 146462 | 94469 | 51993 | -1.35 | 7.29 |
| Dec. | 7.06 | -0.8 | 581.96 | 905.07 | 1.05 | 7.86 | 201256 | 118098 | 83158 | 3.44 | 7.35 |
| Jan. | -3.69 | 0 | 578 | 921.11 | 0.4 | 7.5 | 183049 | 96959 | 86090 | -0.68 | 8.21 |
| Feb. | -5.18 | -6.19 | 578.53 | 929.03 | -1.1 | 6.3 | 179193 | 102545 | 76648 | 0.79 | 9.85 |
| Mar. | -3.66 | -2.8 | 581.53 | 960.31 | 0.5 | 5.4 | 220295 | 131503 | 88792 | 1.2 | 11.96 |
| Apr | 0.8 | -3.04 | 587.41 | 979.26 | -0.1 | 5.49 | 175389 | 106611 | 68778 | 2.0 | 11.0 |
| May | -4.2 | -7.8 | 590.5 | 965.84 | 0.9 | 5.61 | 139367 | 100066 | 39301 | 3.93 | 14.21 |
| June | -0.1 | -8.5 | 590.57 | 956.82 | 1.3 | 5.04 | 158466 | 110425 | 48041 | 2.14 | 11.75 |
| July | 1.73 | 8.24 | 486.98 | 1032.64 | 1.2 | 5.09 | 172289 | 125343 | 46946 | 3.56 | 15.54 |
| Aug 99 | -0.7 | -7.07 | 490.76 | 1033.34 | 1.1 | 5.09 | 158800 | 113695 | 45105 | 4.71 | 18.5 |
| Sept | -1.6 | -8.74 | 526.24 | 1014.73 | 0.3 | 5.3 | 124446 | 75987 | 48459 | -0.68 | 15.55 |
| Oct | 0.37 | -9.2 | 492.82 | 1016.24 | 0.8 | 6.43 | 136848 | 83638 | 53210 | 2.57 | 18.48 |
| Nov | 0.6 | -4.456 | 506.73 | n/a | 1 | 7.4 | 168992 | 95278 | 73714 | n/a | n/a |
| Dec | 16.46 | 3.96 | 450.17 | n/a | 0.5 | 6.8 | 195604 | 106347 | 89257 | n/a | n/a |

n/a - Not Available

Source: Compiled from National Statistics as Supplied by Bank of Jamaica, Planning Institute of Jamaica and Jamaica Tourist Board.

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