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New Confidential Economic Bulletin

Private Sector Organisation of Jamaica

Monthly Analysis of the Jamaican Economy

Vol. 6 No.2, February 2000

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Overview

For the past 4 months, since November 1999, the BOJ has been making net injections into the foreign exchange market of about US$50m per month. The movements in the NIR have reflected the net impact of these sales of hard currency by the BOJ and their receipt of loan or other funds during the respective months. For example, in November 1999, the BOJ received about US$70m in the form of a bridging loan against the anticipated receipt of the proceeds of the forward sale of alumina. The NIR moved up by US$13.9m in November. There were no special inflows in December and the reserves fell by US$56.5m that month. In January 2000, there were special inflows of about US$50m and the reserves grew by US$3.5m. In February, the reserves are expected to rise by about US$150m due to the receipt of just under US$200m, which would be the proceeds of the recent Euro bond, raised by Deutsche Bank.

In early March, the BOJ raised about US$100m on the local and regional markets and this boosted the NIR to about US$695m on March 8th 2000. This will provide the BOJ with a little more breathing room and may have given them the courage to lower repo rates by just under 1%. The repo rates are the key benchmark interest rates and the general level of interest rates will not fall by much unless the repo rates lead the way. It will be interesting to see how much further these rates will fall if the BOJ maintains its heavy intervention in the foreign exchange market assuming that it has the resources to do so. While interest rates may not fall much further, the inflows from the sale of the cellular licenses should provide a further cushion to the reserves and thus prevent rates from rising again before the third quarter of 2000.

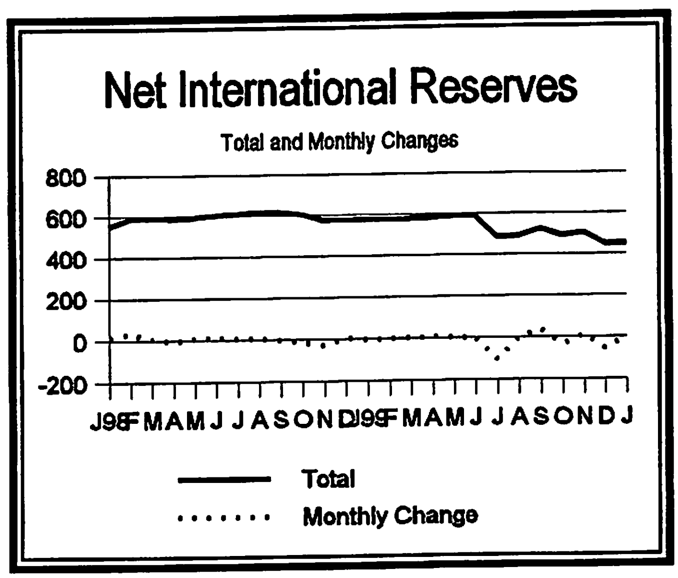
The fiscal outturn for the first 10 months of the 1999/00 fiscal year makes interesting reading. Tax revenue is 5.9% below budget but overall revenue is 1.9% above budget, due mainly to a 463% increase above budget in capital revenue. The extra J$4.6bn of revenue in this heading, came mainly in the form of dividends from state agencies and companies and also included some prepayments of the bauxite levy. It is not clear if these inflows will be repeated again next year, but it seems unlikely to be so. Total expenditure was only 1.8% over budget, despite the fact that recurrent expenditure was 6.6% above budget. Capital expenditure was 28.9% below projections, realising savings of J$2.7bn. The fiscal deficit was therefore only 1.4% above projections and at the March National Planning Council meeting, the minister of finance expressed confidence that the deficit target of 4.6% of GDP would be met.

It is instructive to note that the interest cost of the national debt (excluding FINSAC) consumed 59% of tax revenue (and 56% of total budgeted revenue) in the first 10 months of the fiscal year. The latest estimates are that each 1% reduction in interest rates would save the government J$2.4bn in interest cost. These figures do not include the interest on the FINSAC debt, which the IMF and the rating agencies now include as part of our national debt.

The recent rebound in the stock market has taken many by surprise, although those close to the market say that they were expecting something of a rally this year. The upturn in the market is not altogether surprising as many stock prices were extremely depressed and with real returns falling in the money market, it was only natural that investors would turn to the stock market. The restructuring of two of the failed life insurance companies has also strengthened the institutional base of the market and is likely to provide some substance to the recent rally, even though this may be too early to call. A buoyant stock market will also help to ease the pressure on the Jamaican dollar, as it will provide investors with a local hedge against currency depreciation.

Net International Reserves

Net International Reserves (NIR) as at the end of



January 2000 was US$453.09Mn and are estimated to cover 10.67 weeks of imports. The increase of US$2.92Mn is as a result of a US$2.92Mn increase in foreign assets from US$551.78Mn to US$554.7Mn.Foreign liabilities were kept at US$22.5Mn at the end of January.

At the end of January 2000 the NIR were US$124.91Mn lower than at the end of January 1999.

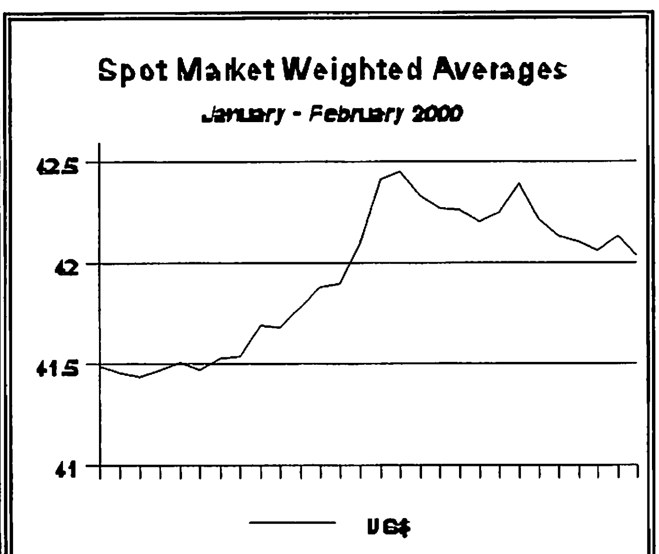
Foreign Exchange

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

At the end of January 2000, weighted average selling rates in the spot market reported declines in the value



of the Jamaican dollar by J$0.73 and J0.87 against the US and Canadian dollars respectively. For the same one month period , the Jamaican dollar gained J$0.43 against the British pound.

For the month of February there were fluctuations in the price of US$ in terms of Jamaican dollars between J$42 and J$42.50. However, on average the Jamaican dollar experienced a slight appreciation.

As at March 7, 2000, the weighted average selling rates of the local currency vis-a-vis its major trading partners are:

42.24 to 1 US$
J$28.72 to 1CDN$
J$64.51 to 1pound sterling

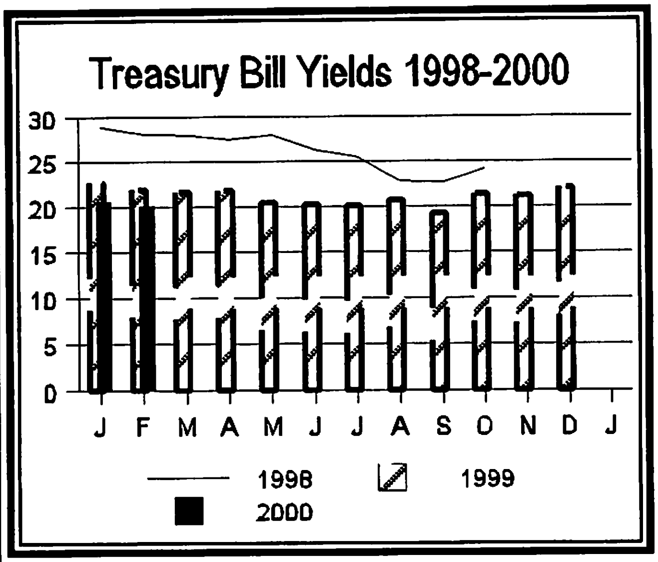
Interest Rates

Reverse repurchase (repo) rate were unchanged as at the end of February. However, all repo rates were reduced on March10, leaving the 30 days rate at 17.5%., 90 day repo at 18.4%, and 120 and 180 days at 18.5% and 19% respectively. The 60 days repo rate is now 18.25%.

Treasury Bills offers of 91 and 182 days tenors were issued on the 25th of February 2000. The 91 days offer was issued to raise J$350Mn and was over subscribed by J$460.1Mn, yielding on average, 19.63%.

The other treasury bill offer was for J$650Mn and was over subscribed by J$1286.2Mn, with an average yield of 20.05%. These offers take the total nominal amount of treasury bills outstanding to J$10.25Bn.

The average treasury bill yields fell by 0.17% and 0.49% for the 91 Days and 180 days issue



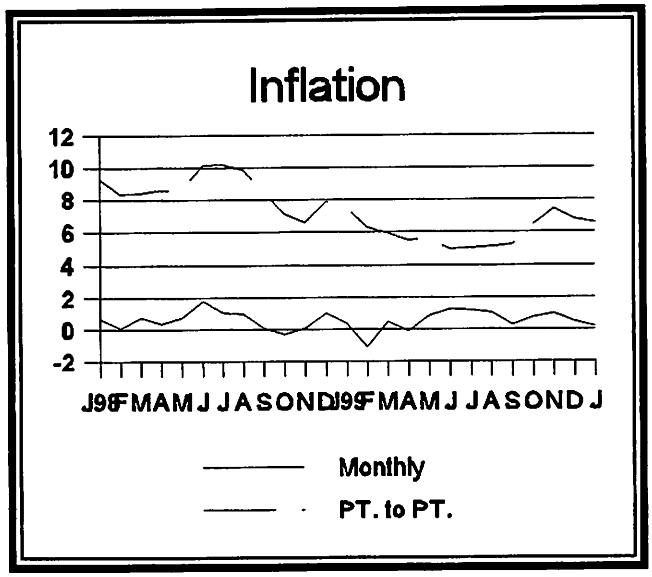
respectively. The large levels of over subscriptions indicate that the demand for T-Bills is high. The rates are expected to continue to fall until demand is more in line with supply.

Inflation

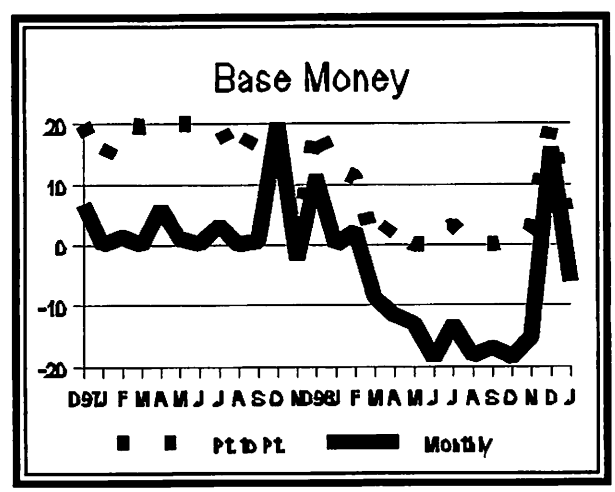
As given by the Statistical Institute of Jamaica, the 'All Jamaica', 'All Group' Consumer Price Index (C.P.I.) for January 2000 was 1268.1, representing a 0.2% increase over December 1999.

The 12 month movement in inflation for the period ended January 2000 was 6.57% and the movement from April 1999 to January 2000 shows a 7.3% change. This is still substantially higher than the 4 to 6% target set for the year 1999/2000. If this target is to be reached, the government may have to further tighten monetary policy in order to reduce the inflation rate. It is unlikely that this year's inflation target will be met.

Base Money



Provisional figures from the BOJ, showed a 12.48% reduction in the base money or monetary base for the month of January 2000. Total nominal stock has thus reduced to J$32,678.18Mn. The increase in December and subsequent decrease in January was as a result of the BOJ's efforts to maintain liquidity



during the Christmas season and the advent of the year 2000. Currency made available to the public at the end of the year was taken out of the system in

January.

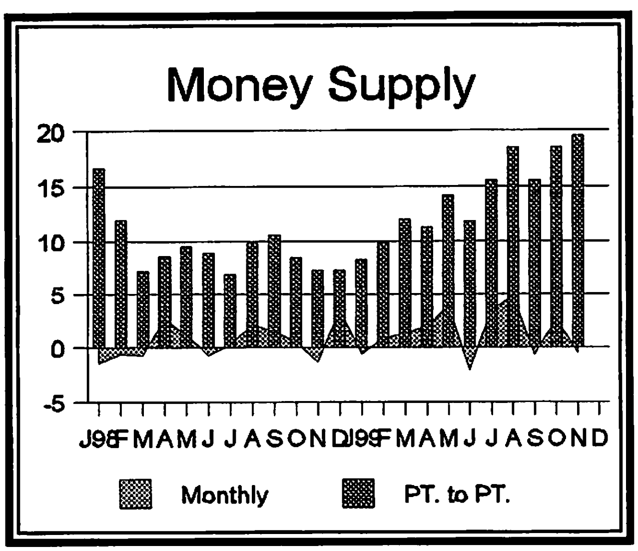
The 12 month movement of the monetary base for the month of January 2000 was a 5.51%reduction relative to a positive 12 month movement of 6.4% for January 1999.

Money Supply

Provisional data prepared by the BOJ shows money supply (measured by M2) to be J$118.58Bn at the end of December 1999. This represents an increase of 3.04% over November's M2 figure.

The point to point movement is a 19.06% increase compared to the 7.3% increase recorded for 12 month movement to December 1998.

The M2 growth rate has increased steadily in 1999. Since the monetary base is decreasing, the upward movement of M2 is as a direct result of increases in the money multiplier. Factors such as reductions in interest rates on deposits, reductions in deposits,



increases in the excess reserves held at banks, and increases in time deposits may be contributing factors. There is also the fact of the growing amount of credit to the public sector.

The sustained increase in M2 may have an adverse effect on the inflation rate since increases in M2 over and above the grow rate of the economy, ceteris paribus will result in inflation. It should also be noted that aggregate demand will increase with the increase of M2.

Production of Selected Commodities

Energy: Net generation of power, as supplied by the Jamaica Public Service Company Limited (JPSCo) was 263,945,634 KWh for the month of January 2000. That is 7.13% over net generation in January 1999

Total private purchases amounted to 82,566,718 KWh. WARTSILLA (J.E.P.) Continues to be the largest component of private power.

Agriculture/Manufacturing:

Cement Production: Total cement production for the month of January was 52,814 tonnes. This figure is 13.3% greater than production recorded for January 1998 and 4.8% greater than January 1999 production.

The domestic sales of cement amounted to 54,354 tonnes, 2.7 over December 1999's figure.

Bananas: Total banana production at the end of December 1999 was 4,169 tonnes , a 10.2% reduction from the level of production in November 1999 and 12.67% from December 1998 production. There was a reduction of 5.88% from the production level recorded for November 1998.

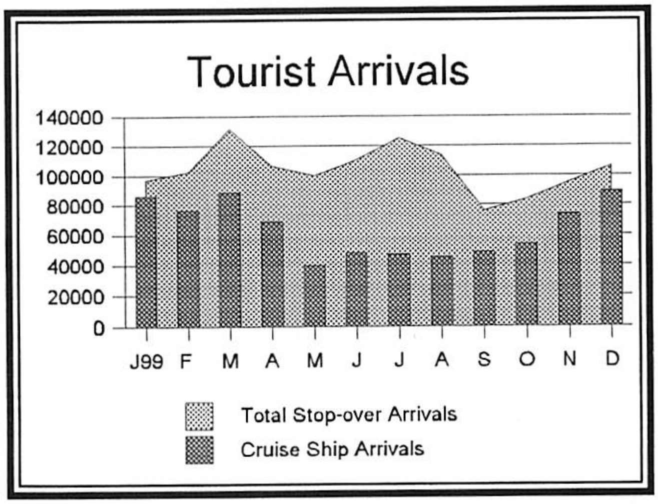
Sugar: No sugar production has been recorded July to December 1999. This was not so for previous years. The performance of the sector reflects industrial disputes which are presently under negotiations.

Mining: Total alumina production for the month of January 2000 was 308,824 metric tons. This was 5.5% over production in January 1999 and 7.16% over January 1998.

Total Crude Bauxite production was 126,709 metric tons, 63.41% less than January 1999 and 53.7% less than January 1998.

Exports of alumina stood at 320,800 metric tons for the month . Exports increased by 11.81% over January 1999 and 27.38% over January 1998.

The level of crude bauxite exports for January 2000 was 134,217 metric tons. This represents exports of 62.3% less than January 1999 and 51.67% less than exports for January 1998.



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

It is estimated that tourist expenditure was US$117Mn for December 1999, taking the total expenditure for the year to US$1,196.7Mn compared with US$1,197Mn 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

External Trade

Exports: The total value of exports (FOB) for January to November 1999, was US$1,369.79Mn., a reduction of 7.8% over the same period in 1998.

The total nominal value of general merchandise exported (fob) for the review period was US $1,136.84Mn. This represents a reported figure 6.6% less than recorded in 1998.

Domestic exports were valued at US$1104.27Mn. This too is a reduction from last years recorded value. Traditional exports yielded a total of US$793Mn. Major Traditional exports declined by 2.8% to US$732Mn, while Other Traditional exports yielded

US$60.7Mn, a 16% increase over the previous year's total. The yield from all Major Traditional exports, with the exception of alumina had declined.

Excluding cocoa and gypsum, all other traditional exports have increased over the corresponding period in 1998. Coffee was the most impressive, increasing by 37.2%.

Non-traditional exports declined by 15.8% to US$311Mn.Re-exports fell by 21.5% (US$8.9Mn) and Freezone exports amounted to US$205.45Mn, a 15.9% reduction.

Imports: Total value of imports (cif) as reported by the BOJ, was US$2,762.38Mn for the review period January to November 1999. This was a 3.8% decrease from the 1998 figure for the period.

The Statistical Institute of Jamaica reported that total imports during the period (not cif) declined by 3.66% to US$2593Mn.

The importation of 'Consumer Goods' increased by 2% to US$850Mn for the January to November period of 1999. There was an increase of all components but Motor Cars, which fell by 18.35%.

The value of fuel and lubricants imported as raw materials increased by 23.5% while the value of all other components of 'Raw Material' imports declined taking the aggregate down by 4.7% to USS$1,316.92Mn for the period under review.

Capital Goods imports fell in value by 10.6% over the corresponding period in 1998. This resulted from the decline in the value of all components.

External Sector US$Mn

	Jan-Nov '98	Jan-Nov '99
Total Exports (FOB)	**1486.01**	**1369.79**
Major Traditional Exports	**753.78**	**732.46**
Bauxite	*75.52*	*53.74*
Alumina	***552.12***	***563.38***
Sugar	*94.62*	*87.35*
Banana	***31.52***	***27.99***
Other Trad. Exports	**52.33**	**60.7**
Non-Trad. Exports	**369.4**	**311.09**
Re-exports	**41.46**	**32.56**
Total Imports	**2691.7**	**2593.06**
Consumer Gds.	*832.97*	*850.*
Raw Materials	*1381.99*	***1316.9***
Capital Gds.	*476.75*	*426.1*
Trade Balance	-1205.69	-1223.27

Balance of Payments

The current Account balance increased by US$16.8Mn. to a deficit of US$183.3Mn for January to November 1999. This came as a result of the increases in the Services, Income and Current Transfer balances.

Merchandise Trade: The merchandise trade deficit increased by US$32.6Mn to stand at US$98.8Mn. This was the result of reductions in both export and import balances. Exports amounted to US$1369.7Mn and imports US$2,359.5Mn. That is US$116.3Mn and US$83.7 Mn less than the period in 1998 for exports and imports respectively.

Services: The services balance for the period in review, was a surplus of US$460.7Mn, a US$21.1Mn increase over the corresponding period in 1998. The increase is as a result of the reduction in the transportation deficit and the increase in travel over the period.

Income: The deficit on the income balance was reduced by US$10.1Mn, leaving a deficit of US$249.5Mn. Compensation of employees declined by US$9.6Mn, while there was an increase in investment income , taking the balance to a deficit of US$304.2Mn.

Net Current Transfers: Net receipts from current transfers increased by US$18.2Mn, to US$595.3Mn, from the 1998 figure, US$577.1Mn. The increase came from a US$18.3Mn increase in private and a US$0.1Mn decrease in official net receipts.

Capital and Financial Account: For the period, the financial account recorded a surplus of US$171.7Mn, a US$14.7Mn reduction from 1998. The reduction was as a result of official investments inflows declining by US$251.7Mn and a US$126Mn increase in private investment. The capital account surplus fell by US$16.8Mn to US$183.3Mn.

Reserves have fallen by US$75.2Mn for the January to November period in 1999 compared with the US$35.8Mn increase for the same period in 1998.

Balance of Payments	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	

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	-0.53	19.52
Dec	16.46	3.96	450.17	n/a	0.5	6.8	195604	106347	89257	3.04	19.06
Jan	-12.48	-5.51	453.09	n/a	0.2	6.57	n/a	n/a	n/a	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.*