New Confidential Economic Bulletin

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Monthly Analysis of the Jamaican Economy

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Overview

The 2000/02 budget has been presented by the Minister of Finance and has been greeted with much relief, as there has been no major imposition of new taxation. The increase in the withholding tax on interest was widely expected and represents the collection at source of taxes that, for the most part, ought to have been paid over to the government at some point in time. By collecting the tax at source, the government also effectively lowers its interest cost. The down side of this is that the BOJ may have to increase interest rates later in the year, if too many holders of local debt decide to switch to hard currency investments that will yield a higher risk adjusted return. For the time being the BOJ has the reserves to defend the currency without raising interest rates, but we are unlikely to see rates falling much below their current level any time soon. Borrowers are unlikely, therefore, to get much relief in the way of lower interest rates on their current debt servicing obligations.

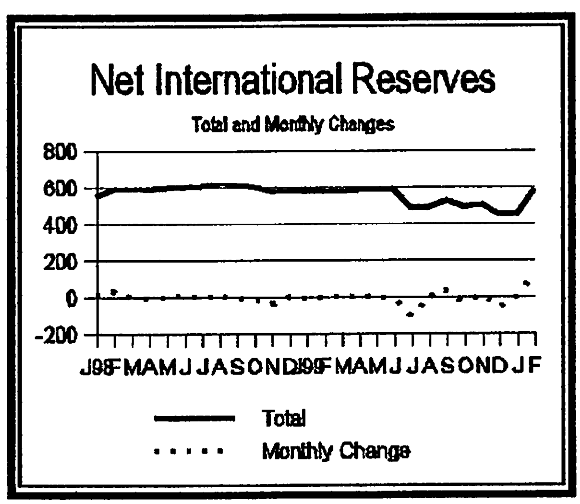
According to the Financial Statements and Revenue estimates 2000/2001 which were tabled in Parliament by the minister, the fiscal deficit at the end of the 1999/00 fiscal year stood at 5.1%, lower than the 1998/99 deficit of 8.1%. The 1999/00 deficit was somewhat above the target of 4.6% and would have been even higher if loan proceeds of over J$4bn had not been included as capital revenue. The deficit was also reduced by the deferral of wage and interest expenses until the current 2000/01 fiscal year. The deferral of expenditure has been a common practice of government for many years now, but the treatment of the loan from Glencore of Switzerland (secured by future sales of alumina) as capital revenue is a new development. The 2000/01 budget projects a deficit of 1.1% of GDP and is predicated on a 21.6% increase in revenue and an 8.7% increase in expenditure. The increase in revenue is due to come primarily from substantial increases in collections of GCT (about J$7bn) and capital revenue (about J$3bn). The increase in capital revenue is to come principally from the divestment of the JPSCo, but it is not exactly clear what will drive the increase in GCT collections. In 1999/00, the GCT intake was 13.7% below that of 1998/99, while in 2000/01, GCT is expected to bring in 39% more than it did in 1999/00. Unless there is a major uptick in inflation, the 2000/01 target does seem to be rather ambitious.

By the end of the 2000/01 fiscal year, we may see a pattern of expenditure cuts and revenue underperformance, similar to that of the past few years. It is surprising that there were no specific announcements of plans to reduce non-debt recurrent expenditure in light of the push to achieve a balanced budget. Capital expenditure is likely to be cut significantly to offset any increase in recurrent expenses and/or reduction in revenue. Of even greater importance than the intricacies of the government's expenditure and revenue plans for 2000/01, was the announcement of their intention to enter an IMF Staff Monitoring Programme in order to access loans from the IDB and the World Bank, to help finance some of the FINSAC debt obligations. The success of this initiative is critical for a number of reasons. Firstly, it will be almost impossible to divest NCB and Union Bank without converting the roughly J$50bn of FINSAC paper which both these banks hold, into government paper which will pay interest in cash. At current interest rates, this would add between J$9bn and J$11bn to government's annual interest costs. While the minister did not give any details of the planned borrowing arrangements, he did suggest that the loans would be used to defray all or some of this cost.

The proposed loans would also have implications for the government's foreign exchange policy, as they would provide the resources to maintain the current exchange rate for a while longer, at least through the remainder of this year. The medium (and possibly short) term impact of the loans would depend to a large extent on the conditionalities, which the IMF attaches to the loans and the diligence with which the government adheres to them. Exchange rate policy has been a major area of difference between the Fund and the government and it will be interesting to see just how much compromise there is on this issue and by whom. The government is unlikely to compromise much on this issue while it has the resources to maintain its current position. It also remains to be seen whether or not the targets and conditionalities of the IMF programme will be published.

International Reserves

Net International Reserves (NIR) as at the end of February 2000 were US$590.61Mn and are estimated to cover 13.32 weeks of imports. The increase of US$137.52Mn was a result of the change in foreign



assets , and in particular the loan of 200Mn euros which the government managed to secure. This should cause the monetary base to increase other things being equal, however currency levels show evidence of a countering decrease.

At the end of February 2000 the NIR figure was US$12.28Mn greater than the figure recorded for February 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.

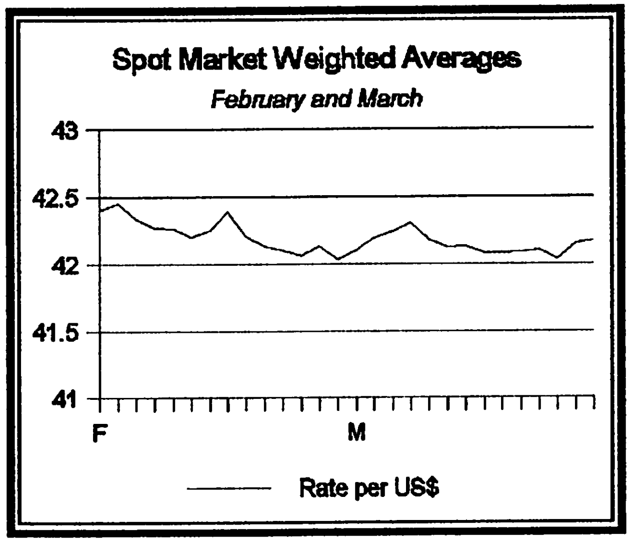
Exchange Rates

Throughout the month of March the price of US in terms of Jamaican dollars was maintained between J$42 and J$42.30.

Since the beginning of the year to April 4, 2000, the Jamaican dollar has depreciated against the US and the Canadian dollars by J$0.14 and J$0.88 respectively and the pound sterling by J$1.58.

The loan inflows which occurred in late February and early March have boosted the reserves and settled the Foreign Exchange market. However the BOJ will continue to sell from the NIR into the market in order to maintain the exchange rate in its current range.

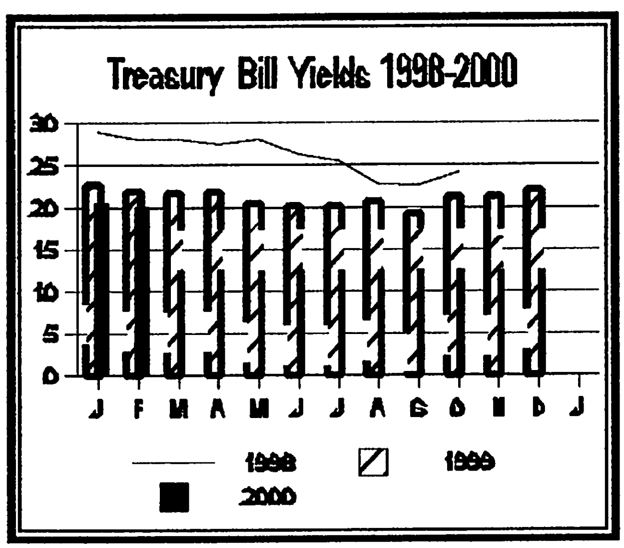
As at April 6, 2000, the weighted average selling rates of the local currency vis-a-vis its major trading partners are:



42.08 to 1 US$
J$28.27 to 1CDN$
J$64.65 to 1pound sterling

Interest Rates

Reverse repurchase (repo) rate were reduced across



the board on March 10, 2000. The thirty days repo became 17.5%, the 60 days rate 18.25%, the 90 days rate 18.4%, and the 120 and 180 days at 18.5% and 19% respectively. The BOJ attributed the decreases to improvements in macroeconomic variables, particularly foreign exchange inflows.

March 15, 2000 saw three Treasury Bill offers for 93 days , 268 days and 365 days tenors. The 93 days offer was issued to raise J$450Mn and was oversubscribed by J$645.8Mn, yielding on average 17.82%.

The 268 days and the 365 days offers were attempts to raise J$350Mn each. Both were oversubscribed; the 268 days offer by J$1592.9Mn, with average yield 18.3% and the 365 days offer by J$1144.69Mn with average yield of 18.37%.

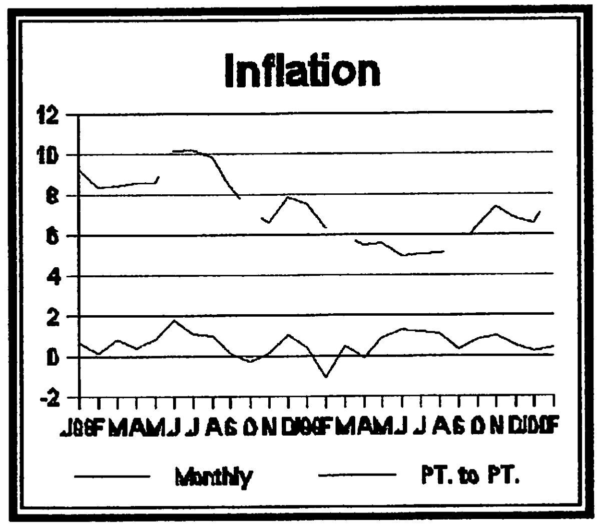
These offers took the total nominal amount of Treasury Bills outstanding to J$9.55Bn. The level of subscription will persist until rates become sufficiently low to cause demand to equal supply.

Repo rates were reduced in early April to 17.3% for 30 days, 18.1% for 90 days, and 18.55% for the 180 days rates.

Inflation

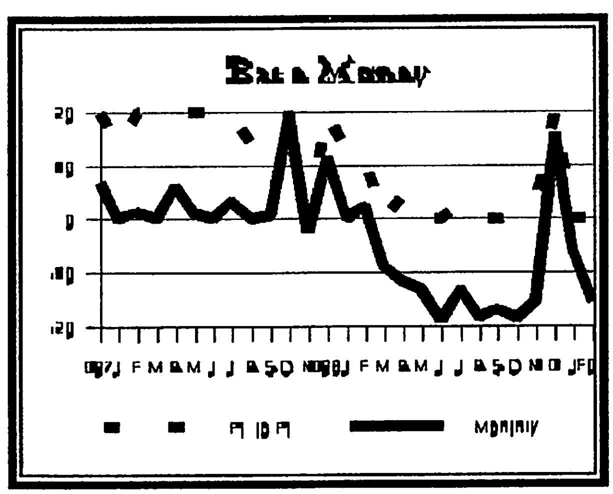
As given by the Statistical Institute of Jamaica, the 'All Jamaican', 'All Group' Consumer Price Index (CPI) for February 2000 was 1273.1, representing a 0.4% increase over January 2000.

The 12 month movement in inflation for the period ended February 2000 was 8.18% and the movement from April 1999 to February 2000 shows a 7.76% change. This increase has taken the government further from its original target of 4 -6%.



Base Money

Provisional figures from the BOJ, showed a 2.3% reduction in the base money or monetary base for the



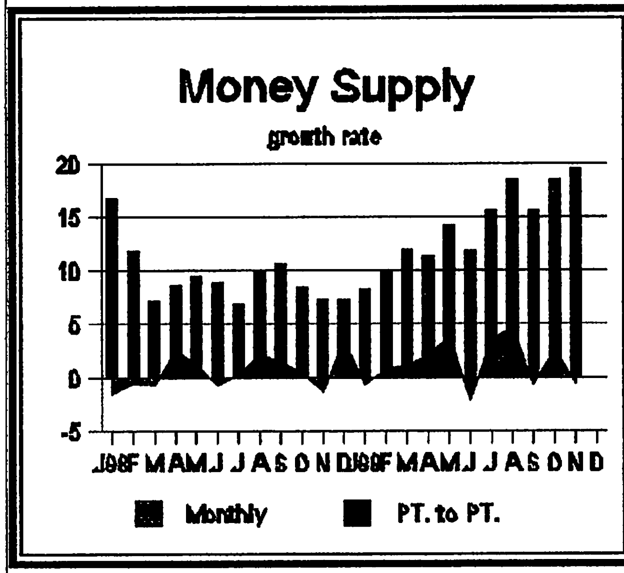
month of February 2000. This took the total nominal stock to J$31,923.88Mn.

The 12 month movement was an 8.24% reduction compared with the negative 12 month movement of 0.46% for February 1999.

Reductions in the cash reserve ratio continue to be a factor in the fall in base money.

Money Supply

Provisional data prepared by the BOJ shows money supply (measured by M2) to be J$121.54Bn at the



end of January 2000. This represents a decrease of 0.5% from December 1999's M2 figure of J$122.19Bn.

The 12 month point to point movement is a 19.18% increase compared to the 8.3% increase recorded for the 12 month movement to January 1999.

Production of Selected Commodities

Energy: Net generation of power, as supplied by the Jamaica Public Service Company Limited (JPSCo) was 250,561,990 KWh for the month of February 2000. That was14% more than net generation for February 1999 and 5% less than that for January 2000.

Total private purchases amounted to 82,566,718 KWh. The largest component of private power for the month was RFPP-JPPC. Total private net generation was 75% over the 46,413,454 KWh reported for February1999.

Agriculture/Manufacturing:

Cement Production: Total cement production for January to February 2000 was 100,775 tonnes. Of this 47,961 tonnes were produced in February, 19.69% more than that produced in the same month in 1999.

The domestic sales of cement were 55,439 tonnes for February 2000, representing a 21.5% increase over February 1999.

Bananas: Total banana production for the months of January and February 2000 was recorded as 3461 and 2,925 metric tonnes, respectively. These figures are 25% and 31% less than recorded production for January and February 1999 respectively. There has been a steady decrease in the level of banana production over the last four months.

Sugar: There was no sugar production recorded for January as reaping has not yet started. The crop year for sugar cane run on average from November to October and reaping from January to June. This explains the absence of production figures since the 22.5 metric tonnes recorded for June 1999.

Mining: Total alumina production for the month of February 2000 was 288,592 metric tons. This was 7.57% over production in February 1999 and 10.85% over February 1998.

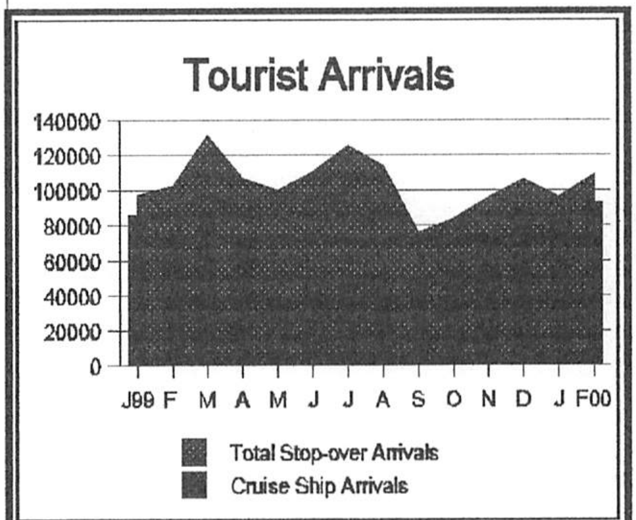
Total Crude Bauxite production was 216,983 metric tons, 29.02% less than production in February 1999.

Alumina exports were 295,324 metric tons for the review period, a 6.65% increase over the corresponding month in 1999,and 15.22% less than exports in 1998.Total year to date exports amounted to 616,352 metric tons at the end of February 2000. That is 9.32% more than exports recorded for the same period in 1999.

Exports of crude bauxite was 240,544 metric tons, representing a 24.66% reduction from February 1999's exports.

Tourism

Total visitor arrivals for January and February 2000,



were 180,356 and 201,436 respectively. That made 381,792 visitors for the two months , a 5.39% increase over 1999.

Cruise ship passengers accounted for 84,256 visitors in January and 92,713 visitors in the following month. Of the 54 calls in January 23 were to Montego Bay and 31 to Ocho Rios. That recorded 7 calls less than January 1999. In February there were 57 calls, the same total as the in February 1999 with a larger pax in 2000. Of this 26 calls were to Montego Bay and 31 to Ocho Rios.

Total stopover arrivals for January and February 2000 were 96,100 and 108,723 respectively, compared with the 1999 figures of 96,959 and 102,545 for the corresponding months. That is a reduction of 0.8% for January and a 6% increase for February.

The numbers are expected to increase through March.

External Trade

Exports: The total value of exports (FOB) for the year 1999 amounted to US$1,490.67Mn., 7.6% less than exports in 1998.

Domestic exports were valued at US$1202.36Mn for the period. That represents a 5% decline in value from January to December 1998. Major Traditional exports continued to represent the largest portion of Domestic exports and amounted to a value of US$799.58Mn, compared with a 1998 value of US$809.62Mn. The values of all components of Major Traditional export category with the exception of Alumina fell with the most significant being bauxite (31% decline). Other traditional exports were worth 23.6% more than the value placed on them in the previous year. This US$13.14Mn increase to US$68.8Mn was as a result of increases in the values of citrus, coffee, pimento, and rum added to reductions in cocoa, and gypsum export values.

Non-traditional exports valued 16.6% less than the recorded value for 1998. That is a US$66.6Mn decrease to US$333.99Mn in 1999.

Re-exports fell by 32.3 to US$34.1Mn and Freezone exports amounted to US$224.2Mn, a 17% decline.

Imports: Total value of imports (cif) as reported by the BOJ, was US$3076.6Mn for 1999, 3.6% below 1998's outcome.

The importation of 'Consumer Goods' increased by 3.8% and amounted to US$959.8Mn. Motor car importation under this category was reduced by 15.3% over 1998.

Thee value of Raw Material imported fell by 2.6% to US$1,488.4Mn. This results from an increase 27% in the value of fuels and a 9.7% decrease in other raw material imports.

Items classified as Capital Goods amounted to US$488.27Mn from US$550.26Mn in 1998. All components of this category declined in value over the period.

External Sector US$Mn

	Jan-Dec '98	Jan-Dec '99
Total Exports (FOB)	**1613.41**	**1490.66**
Major Traditional Exports	**809.62**	**799.57**
Bauxite *Alumina* *Sugar* *Banana*	*81* *600.7* *94.62* *33.3*	*55.9* *626.53* *87.36* *29.78*
Other Trad. Exports	**55.67**	**68.8**
Non-Trad. Exports	**400.6**	**333.98**
Re-exports	**50.39**	**34.1**
Total Imports	**3187.48**	**3076.62**
Consumer Gds. *Raw Materials* *Capital Gds.*	*924.67* *1508.82* *550.26*	*959.81* *1488.4* *488.27*
Trade Balance	-1574	-1585.96

Balance of Payments

The current Account balance fell by US$17.34Mn. to a deficit of US$273.1Mn for 1999. This came as a result of reductions in the goods and services balances.

Merchandise Trade: The merchandise trade deficit increased by US$43.9Mn to stand at US$1,140.6Mn. Exports and imports decreased by US$122.8.8Mn and US$78.9Mn respectively.

Services: The US$3Mn decline on the services balance came from decreases of US$29.4Mn and US$9.4Mn in Travel and Other Services respectively. Transportation increased by US$35.8Mn reducing the deficit on that account to US$233.8Mn. The Services balance rests at US$506.9Mn.

Income: The deficit on the income account was reduced by US$16.4Mn to US$287.6Mn. This was the result of increases of US$0.6Mn and US$15.8Mn on compensation of employees and investment income respectively.

Net Current Transfers: Net receipts from current transfers increased by US$13.2Mn to US$648.2Mn for 1999. The increase is largely attributed to a US$14.1Mn increase in net private receipts to US$603.4Mn and a US$0.9Mn decrease in official receipts.

Capital and Financial Account: For 1999, January to December, the financial account recorded a surplus of US$260Mn, a US$19.7Mn increase over the previous year. There was a large reduction of US$290.1Mn in net official investments inflows taking the deficit to US$331.4Mn. Private investment inflows increased to US$459.6Mn, from 1998's figure of US$323.1Mn. The capital account surplus increased from US$255.8Mn in 1998 to US$273.1Mn for 1999.

Reserves fell by US$131.8Mn for the period under review compared with a US$41.5Mn increase for 1998.

Balance of Payments	Jan-Dec '98	Jan-Dec '99	Change	
Goods balance	-1096.8	-1140.6	-43.9	
Export	1613.4	1490.6	-122.8	↓7.6%
Imports	2710.1	2631.2	-78.9	↓2.9%
Services - Net	509.9	506.9	-3.0	
Transportation	-269.6	-233.8	35.8	
Foreign Travel	998.9	969.5	-29.4	
Other Services	-219.4	-228.8	-9.4	
Income	-304.0	-287.6	16.4	
Compensation of employees	70.2	70.8	0.6	
Investment Income	-374.2	-358.4	15.8	
Current Transfers (Net)	635.0	648.2	13.2	
Official	45.7	44.8	-0.9	
Private	589.3	603.4	14.1	
Current Account	-255.8	-273.1	17.3	
Net Capital Movements	15.5	13.1	-2.4	
Official	4.2	4.1	-0.1	
Private	11.3	9	-2.3	× P I OJ
Financial A/c	*= 281.8 240.3	* 128.2 -260.0	19.7	
Other Official Investment	-41.3	-331.4	-290.1	
Other Private Investment	323.1	459.6	136.5	
Changes in Reserves	-41.5	131.8		

MACRO-ECONOMIC INDICATORS
(Dec1997 - Feb2000)

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	180356	96100	84256	-0.5	19.18
Feb	-2.3	-8.24	590.61	n/a	0.4	8.18	201436	108723	92713	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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