

New Confidential Economic Bulletin

Private Sector Organisation of Jamaica

Monthly Analysis of the Jamaican Economy

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Overview

The government's intention to enter into an IMF Staff Monitored Programme (SMP) has created some uncertainty about the extent to which there will have to be changes in the current policy framework in order to get the IMF's seal of approval, which will in turn facilitate the loans from the IDB and the World Bank. While we can have a fair idea of the government's position, it is not so easy to gauge the

IMF's thinking on either current or future policies. In this regard, the recently published Article IV review and another paper produced by the IMF staff, may offer some insight into the economic policy issues that they are concerned about. The latter paper, entitled 'Selected Issues and Statistical Appendix', looks at four areas, the foreign exchange market, the financial system after the crisis, an assessment of competitiveness and social safety nets. The paper also includes a vast amount of economic data on Jamaica and is available on the IMF's web site.

The section on competitiveness looks at what has happened to the competitiveness of the Jamaican economy as a whole and at the major goods producing sectors. The analysis is based on calculations of movements in the real effective exchange rate based on both unit labour costs and changes in consumer prices. Their findings are that the index of unit labour costs in the manufacturing sector has been rising sharply since 1989, with a surge in 1995-96, and a slowdown in 1998. Both the index based on unit labour cost and that based on the real effective exchange rate indicate that Jamaica gained competitiveness between 1989 and 1992, but that these gains were reversed by 1995 and that there has been a significant loss of competitiveness since then. For example, their index of unit labour costs fell from 100 in 1989 to 77 in 1992, a year in which we had a

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small surplus on the current account of our balance of payments, but rose from there to reach 137 in 1998, an increase of 78%. These increase in labour costs were taking place at a time when real output in the goods-producing sector of the economy was falling so that productivity was decreasing and we were therefore losing competitiveness.

The Staff analysis also looked at other indicators such as the profitability of domestic production and found that this also decreased in every year between 1993 – 1998, excepting 1994. The sectoral analysis indicated that of the agriculture, mining, manufacturing and apparel sectors all lost competitiveness over the period, with the possible exception of agriculture. This sector seemed to have gained some competitiveness in 1996 but the drought of 1997 made it difficult to confirm this trend.

All this makes a very strong case for a more flexible exchange rate system which goes counter to a central tenet of the government's policies. In the short term, we can expect the BOJ to resume significant interventions in the foreign exchange market, as it uses its reserves to defend the current parity. The increase in the withholding tax on interest has lowered the returns in the Jamaican dollar fixed income market to the point where they are quite close to those being offered on tax free US dollar instruments. Some asset switching is therefore likely to occur and may have started already.

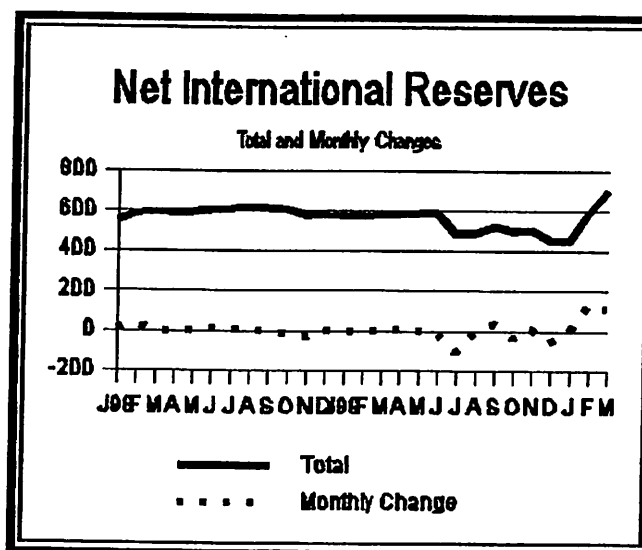
The strength of the demand for US dollars may have an impact on interest rates. While they may not rise in the short term, heavy demand is likely to cause a halt in the slow decline in interest rates that we have seen over the past 6 weeks or so. With the reserves standing at record levels in April, the BOJ is likely to try and meet the pressure on the exchange rate by heavy sales into the market and is only likely to raise interest rates if there is sustained pressure over an extended period of time. It would

also be unwise to rule out the possibility of some further adjustment in the exchange rate over the remainder of 2000.

International Reserves

Net International Reserves (NIR) as at the end of March 2000 were US\$703.51Mn and are estimated to cover 15.4 weeks of imports. That is a US\$112.9Mn increase over the US\$590.61Mn reported for February 2000. Foreign assets increased by US\$109.05Mn over the month to US\$801.27Mn. The NIR balance was raised by this increase in foreign assets and a US\$3.85Mn decrease in Foreign liabilities.

The increase in assets in March came about as a result of the draw down of about US\$105Mn which were the proceeds of a local bond issue. The NIR also grew



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Provisional figures provided by the BOJ, reveal that the total stock of foreign currency deposits for the months November 1999 to February 2000 were as follows; deposits at the end of November and December were US\$949.27Mn and US\$956.52Mn respectively, and continued to increase through January and February, with US\$990.11Mn at the end of January and US\$1057.59Mn at the end of February 2000.

These figures represent a decrease of US\$66.97Mn in November and monthly increases of US\$7.25Mn, US\$33.59Mn and US\$67.48Mn for the months December 1999, through February 2000.

For the 12 months ended February 2000, foreign currency deposits have increased by US\$132.75Mn, compared with a US\$22.46Mn decrease for the 12 months ended February 1999.

Exchange Rates

The price of the US dollar in terms of Jamaican dollars was maintained between J\$41 and J\$42.20.

From the beginning of the year to May 4, 2000, the Jamaican dollar has depreciated against the US and the Canadian dollars by J\$0.37 and J\$0.52 respectively and against the pound sterling by J\$0.87.

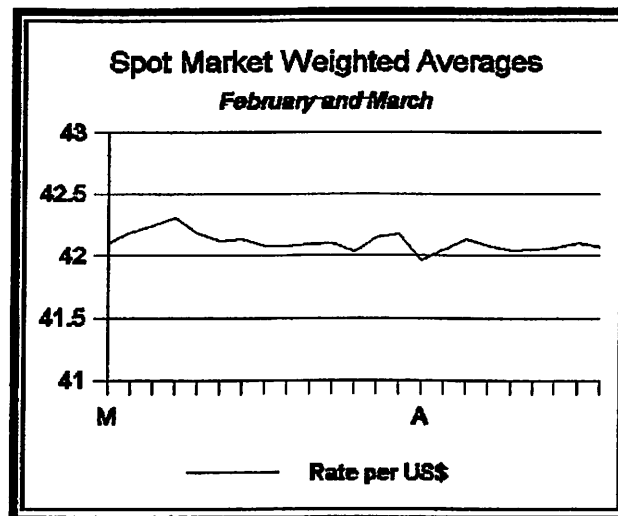
As at May 4, 2000, the weighted average selling rates of the local currency vis-a-vis its major trading partners were:

42.19 to 1 US\$

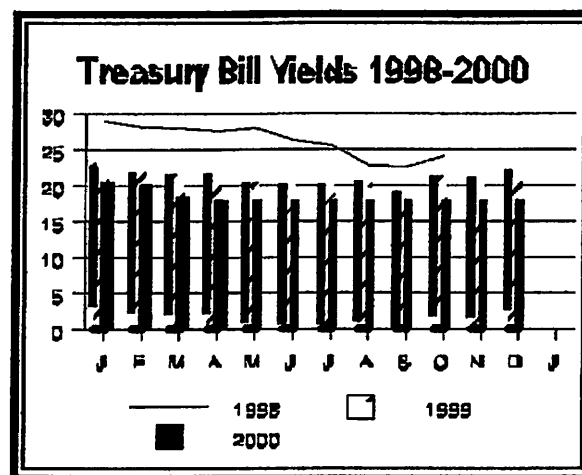
J\$28.32 to 1 CDN\$

J\$64.67 to 1 pound sterling

The BOJ is once again intervening in the foreign



exchange market in support of the Jamaican dollar.

Interest Rates

Reverse repurchase (repo) rate were reduced on March 28, 2000. The thirty days repo became 17.3%, the 60 days rate 17.95%, the 90 days rate 18.1%, and the 120 and 180 days at 18.2% and 18.55% respectively. The BOJ attributed the decreases to the observed reduction in inflationary expectations and

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the raising of external loans (which caused the easing of the pressure on domestic interest rates).

April 14, 2000 saw two Treasury Bill offers for 91 days and 365 days tenors. The 91 days offer was issued to raise J\$300Mn and was oversubscribed by J\$361.44Mn, yielding on average 17.91%.

The 365 days offer was issued to raise J\$450Mn. There was an over subscription of J\$334.46Mn and had an average yield of 18.51%.

These offers took the total nominal amount of Treasury Bills outstanding to J\$9.55Bn. The level of subscription has fallen due to government's decision to reduce the stock of Treasury Bills on offer. Interest rates are unlikely to fall much further while the Jamaican dollar is under pressure, although they may not rise in the short term.

The 12 month movement in inflation for the period was 8.42% compared with 5.92% for the 12 month period ended March 1999. The inflation rate for the period April 1999 to March 2000 is 8.5%. This increase has taken the government further from its original target of 4 -6%.

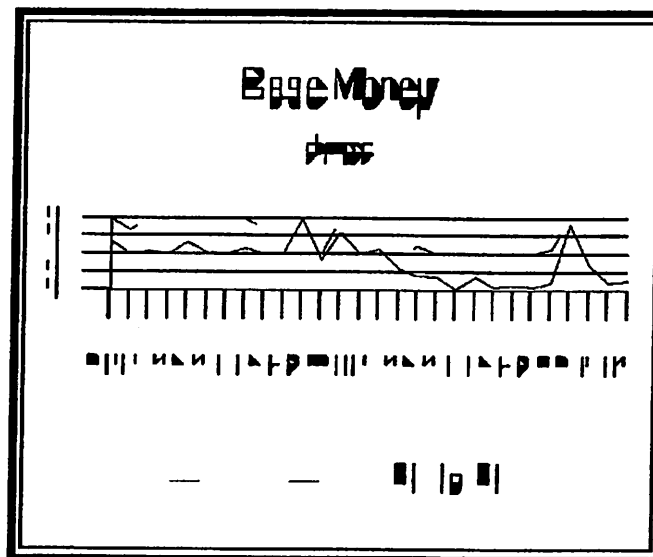
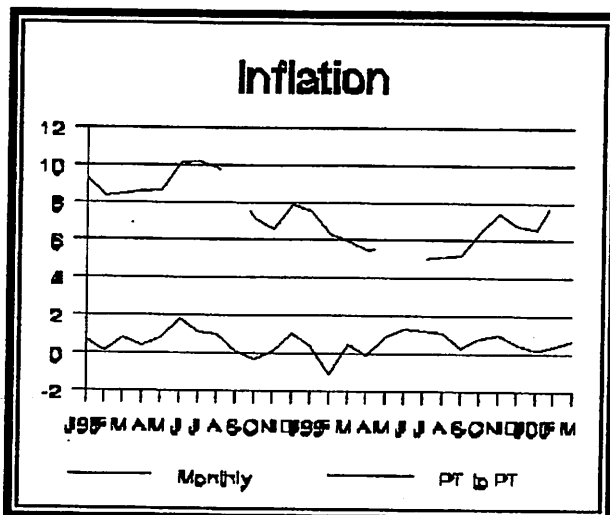
A similar inflation target has been projected for the 2000/01 fiscal year and the government will again be hard pressed to achieve it.

Base Money

Provisional figures from the BOJ, showed a 2.77%

Inflation

The figures provided by the Statistical Institute of Jamaica on the 'All Jamaican', 'All Group' Consumer Price Index (CPI) for March 2000



reduction in the base money for the month of March 2000, to J\$31,038.25Mn.

The 12 month movement was a 7.41% reduction compared with the negative 12 month movement of

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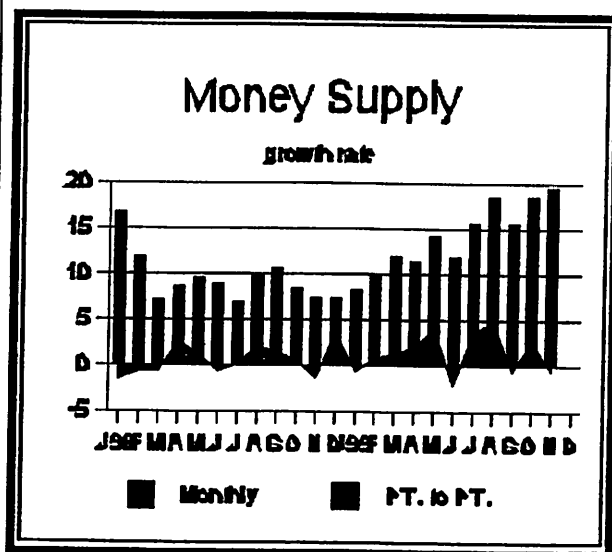
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2.77% for March 1999.

This month's results follow the reductions in the cash reserve ratio which took effect in the period.

Money Supply

Provisional data prepared by the BOJ show 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. M2 growth continues to be driven mainly by credit to the public sector and the current rate of growth is a potential threat to the single digit inflation rate of the past couple of years.

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 was 14% 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 February 1999.

Agriculture/Manufacturing:

Cement Production: Total cement production for March 2000 was 36,609 tonnes. This is 20% less than cement production for March 1999, and the lowest monthly production since the beginning of the year.

The domestic sales of cement were 58,103 tonnes for March 2000. That is 1.89% above domestic sales in March 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 runs 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 March 2000 was 299,489 metric tons. This was 6.58% over production in March 1999 and 2.42% over March 1998.

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Total Crude Bauxite production was 231004 metric tons, 30.24% less than production in March 1999 and 34.48% less than March 1998..

Alumina exports were 283011 metric tons for the review period, a 6.65% increase over the corresponding month in 1999, and 28.01% over the 1998 figure. Total year to date exports amounted to 899,135 metric tons. That is 8.44% more than exports recorded for the same period in 1999.

Exports of crude bauxite was 245,125 metric tons, representing a 23.15% reduction from March 1999. Total year to date exports amounted to 619,886 metric tons, 37.65% and 31.85% less than exports recorded for the corresponding period in 1999 and 1998, respectively.

March 2000 (2 calls less than March 1999), 23 were to Montego Bay, 39 to Ocho Rios and 1 to Port Antonio. This is a turn around from the March 1999 out come of 32 calls to Montego Bay and 33 calls to Ocho Rios.

Total stopover arrivals for March 2000 was 137,408, compared with the 131,503 reported for March 1999. These arrivals consisted of 129,623 foreign nationals and 7785 non-resident Jamaicans which increased over March 1999 by 4.7% and 1.7% respectively.

January to March 2000 saw a total of 629,017 visitor arrivals. This represents 342,231 stopovers and 286,786 cruise ship passenger arrivals, 3.4% and 14% respectively, over figures recorded for the same period in 1999.

Tourism

Total visitor arrivals for March 2000, was 247,225, compared with a total of 220,295 for March 1999. That is a 12.22% increase.

Cruise ship passengers accounted for 109,817 visitors for the month, 23.7% over the number reported for cruise ship passengers March 1999. Of the 63 calls in

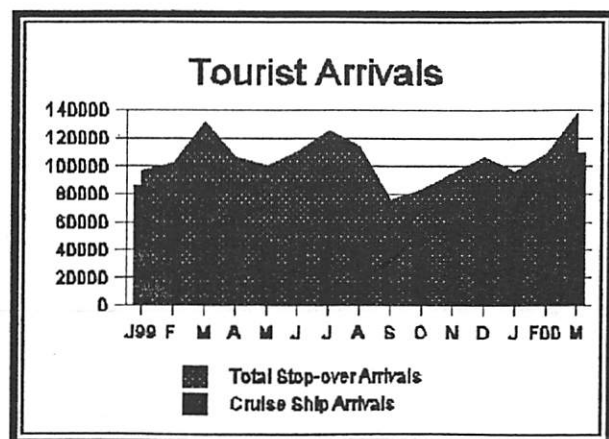
External Trade

Exports: The total value of exports for January 2000 amounted to US\$106.3Mn., 22.5% more than the value of exports for January 1999.

Domestic exports were valued at US\$104.1Mn for the period. That represents a 33.6% increase over domestic exports for January 1999. Total traditional exports earned US\$82.798Mn, compared to earnings of US\$59.73Mn in January 2000 and US\$75.2Mn in December 1999.

Agricultural produce accounted for US\$4.35Mn. Earnings from all agricultural sectors with the exception of coffee and cocoa declined.

Mining and quarrying saw an increase from US\$53.477Mn in January 1999 to US\$65.3Mn in January 2000. Bauxite yielded US\$3.37Mn, compared with US\$7.12Mn in 1999. The value of alumina exported increased from US\$46.22Mn in January 1999 to US\$61.64 in January 2000. Reports are that alumina prices increased by 21.6% and volume by



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9.7%.

Manufactured exports increased in value from US\$1.22Mn in January 1999 to US\$13.15Mn in January 2000. This directly related to the change in sugar exports from zero in January 1999 to US\$10.967Mn in 2000 and the increases in the values of rum, citrus products and cocoa products exported.

Total non-traditional exports were valued at US\$21.32Mn, compared with the US\$18.22Mn reported for January 1999. This export category consisted of Food valued, US\$5.7Mn, Beverages and Tobacco valued ,US\$2.4Mn, Crude Material of, US\$0.353Mn, and Other non-traditional exports valued at , US\$12.79Mn.

Re-exports fell by US\$6.66 to US\$2.24Mn from the US\$8.9Mn recorded for January 1999.

Imports: Total value of imports for January 2000 was US\$232.1Mn 12.7% above the 1999 outcome.

The importation of 'Consumer Goods' increased by 0.35% and amounted to US\$67.79Mn. Food importation under this category was reduced by 9.3% over January 1999. All other changes were less significant.

The value of Raw Material imported increased by 12.78% to US\$114.6Mn. This was as a result of Crude oil imports increasing from US\$0.007Mn to US\$17.52Mn in value over January 1999.

Items classified as Capital Goods amounted to US\$49.69Mn from US\$36.81Mn in January 1999. This represents a 34.98% increase . All components of this category increased with the exception of Motor Cars and Transport Equipment. Construction material and other machinery and equipment were the most significant components of capital goods imported for the period.

External Sector US\$Mn

	Jan 1999	Jan 2000
Total Exports	86.8	106.3
Major Traditional Exports	56.26	78.04
<i>Bauxite</i>	7.1	3.37
<i>Alumina</i>	46.2	61.64
<i>Sugar</i>	0	10.96
<i>Banana</i>	2.96	2.07
Other Trad. Exports	3.468	4.758
Non-Trad. Exports	18.217	21.319
Re-exports	8.9	2.24
Total Imports	205.99	232.1
<i>Consumer Gds.</i>	67.555	67.79
<i>Raw Materials</i>	101.625	114.61
<i>Capital Gds.</i>	36.81	49.69
Trade Balance	-119.19	-125.8

Balance of Payments

The current Account balance fell by US\$9.4Mn. to a deficit of US\$12.5Mn for January 2000, compared with the US\$3.1Mn recorded for January 1999. This widening of the deficit came about from the reductions experienced in all sub accounts with the exception of current transfers.

Merchandise Trade: The merchandise trade deficit widened by US\$3.6Mn from US\$79.4Mn in January 1999 to become US\$83Mn for January 2000. Exports and imports increased by US\$15Mn and US\$18.6Mn, respectively. For the period under review exports were reported to be US\$125.4Mn in value, while imports were valued at US\$208.4Mn.

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Services: The Services balance for January 2000 was a surplus of US\$46.2Mn. This is US\$8.7Mn below the US\$54.9Mn recorded for January 1999. The January 2000 balance was a result of a US\$2.2Mn increase in the net payments for transportation services and a US\$6Mn fall in net travel receipts to US\$81.9Mn.

Income: January 2000 recorded a deficit of US\$35.5Mn on the income account. This balance is a US\$8.5Mn widening from the January 1999 deficit of US\$27Mn. This was the outcome of a US\$7.3Mn increase in net investment outflows and a US\$1.2Mn reduction in compensation of employees.

Net Current Transfers: Net receipts from current transfers increased by US\$11.4Mn to US\$59.8Mn for January 2000. The increase is attributed to the US\$11.4Mn increase in net private receipts to US\$56.7Mn.

Capital and Financial Account: For January 2000, the financial account recorded a surplus of US\$11.9Mn, a US\$10.4Mn increase over January 1999. An increase of US\$21.2Mn to US\$38.8Mn in net private investment inflows and an increase of US\$3.9Mn to US\$24Mn in net official investment payments are responsible for the January 2000 financial account balance.

Reserves increased by US\$2.9Mn for the period under review compared with a US\$4Mn decrease in January 1999.

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<u>Balance of Payments</u>	Jan 1999	Jan 2000	Change
Goods balance	-79.4	-83	-3.6
Export	110.4	125.4	15
Imports	189.8	208.4	18.6
Services - Net	54.9	46.2	-8.7
Transportation	-14.5	-16.7	-2.2
Foreign Travel	87.9	81.9	-6
Other Services	-18.5	-19	-0.5
Income	-27	-35.5	-8.5
Compensation of employees	3.4	2.2	-1.2
Investment Income	-30.4	-37.7	-7.3
Current Transfers (Net)	48.4	59.8	11.4
Official	3.1	3.1	0
Private	45.3	56.7	11.4
Current Account	-3.1	-12.5	9.4
Net Capital Movements	1.6	0.6	-1
Official	0.8	0.1	-0.7
Private	0.8	0.5	-0.3
Financial A/c	1.5	11.9	10.4
Other Official Investment	-20.1	-24	-3.9
Other Private Investment	17.6	38.8	21.2
Changes in Reserves	4	-2.9	

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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	949.27	1	7.4	168992	95278	73714	-0.53	19.52
Dec	16.46	3.96	450.17	956.52	0.5	6.8	195604	106347	89257	3.04	19.06
Jan	-12.48	-5.51	453.09	990.11	0.2	6.57	180356	96100	84256	-0.5	19.18
Feb	-2.3	-8.24	590.61	1057.59	0.4	8.18	201436	108723	92713	n/a	n/a
Mar	-2.77	-7.41	703.51	n/a	0.7	8.42	247225	137408	109,817	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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