

New Confidential Economic Bulletin

Private Sector Organisation of Jamaica

Monthly Analysis of the Jamaican Economy

Vol. 6 No.5, May 2000

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Overview

There continues to be some debate as to whether or not the economy will grow this year and whether the government's target of 1% growth will be realised. The issue is of importance not merely as it relates to this year's outcome, but there is the hope that if the economy were to grow this year, it would mark the end of the downward trend of the last few years and allow for a more positive outlook for the next few

years. While most of us would be very happy to see the end of this long recession, few of us have the tools to make an accurate forecast especially when the changes that we are considering are very small indeed. Our task is made even more difficult by the fact that the government has not yet signaled a significant change in policy, which might encourage greater optimism with regard to the likelihood of economic growth.

The IMF Article IV report does make some forecasts regarding growth, using the continuation of the current policies as one scenario and an alternative path which was proposed by their technocrats. By their reckoning, the current policies will produce growth of 0.4%, 1%, 1.3% and 1.5% in fiscal years 99/00, 00/01, 01 /02 and 02 /03 respectively. It's worth noting that the actual outturn in 99/00 was -0.4%, nearly 1 point below their estimate. If this becomes a trend, that is, if the other estimates are of a similar level of accuracy, then there might be very little growth, if any, in the economy over the next few years. On the other hand, the IMF reckon that their mix of policies ^{could} see the economy growing at 1.5%, 2.2% and 2.8% in the 00/01 to 02 /03 period, and continuing to increase slowly thereafter. These projected outturns are by no means awe-inspiring but they would certainly be better than stagnation or further decline.

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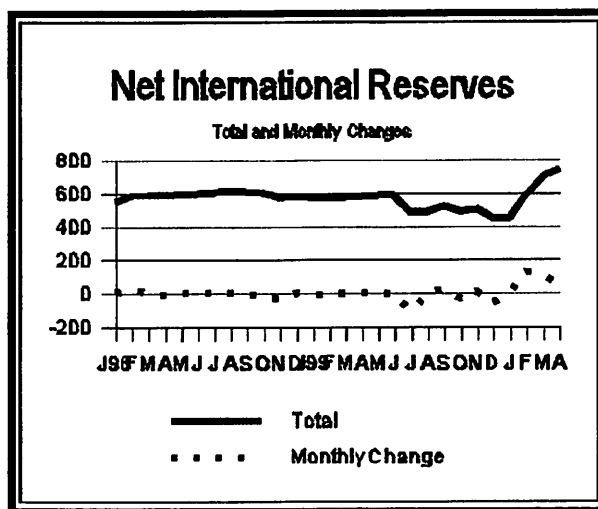
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While strong economic growth is desirable from many different standpoints, the absence of it does not mean the absence of business opportunities. Consumption is unlikely to fall by much, if at all, but companies may have to seek to expand their market share in the local market or increase their penetration of markets overseas in order to increase their sales significantly. The companies that have come through the last few years in good shape should find opportunities to do this as FINSAC continues the divestment of assets and weaker companies seek mergers or withdraw from business segments where their operations are not viable or are marginal. It will not be an entirely easy ride however, as companies will have to pay constant attention to cost control and to continuing with the improvements in efficiency that they have been undertaking over the last few years.

Although the local economy may continue to be rather sluggish, the international outlook is a much brighter one. The American economy continues to experience robust growth, so much so that the Fed is still trying to slow it down with fairly strong doses of higher interest rates. The European Union is also experiencing higher growth rates and this is expected to pick up some of the slack in the world economy that will be created by the slower growth in the US economy, as the Fed's rate increases take hold. South East Asia is also recovering at a very brisk pace and this is leading to a fairly strong recovery in commodity prices. All this growth will mean greater demand for goods and services, both manufactured goods and the primary commodities that form a large part of our exports. The mining sector will certainly benefit from these trends. The bad news is that oil prices may rise also, putting more strain on our balance of payments and higher interest rates in the US and Europe may raise the cost of government's foreign borrowing.

International Reserves

Net International Reserves (NIR) as at the end of April 2000 were US\$743.98Mn and are estimated to cover 14.82 weeks of imports. That represents a US\$40.47Mn increase over April 2000's figure of US\$703.51Mn . The US\$40.47Mn increase in foreign assets was responsible for the change in NIR. The change brought foreign assets to a balance of US\$841.74Mn while foreign liabilities remained at US \$97.76Mn at the end of April 2000.



Foreign Exchange

Provisional figures provided by the BOJ, reveal that the total stock of foreign currency deposits for March 2000 was US\$1047.12Mn, falling US\$10.47Mn below the February 2000 total.

The 12 months ended March 2000, saw an increase of US\$86.81Mn, 9.04% over the total foreign currency deposits for March 1999.

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Exchange Rates

2000 seems to have ended , with rates hovering at about 17.5% since March 2000.

The price of the US dollar in terms of Jamaican dollars was fairly stable this month, having between J\$42 and J\$42.40.

From the beginning of the year to June 7, 2000, the Jamaican dollar has depreciated against the US and the Canadian dollars by J\$0.46 and J\$0.68 respectively. There was a J\$0.68 appreciation when compared with the pound sterling.

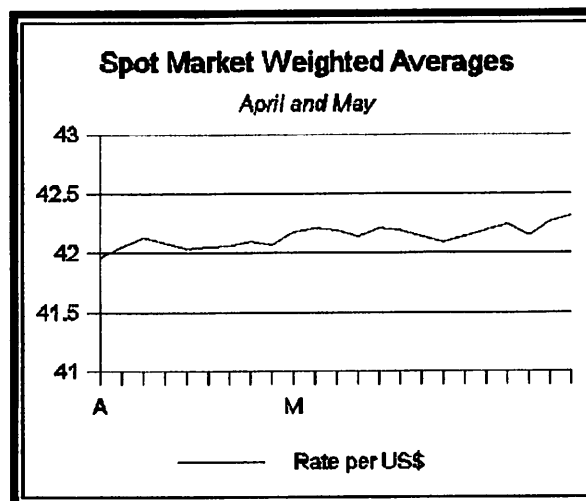
As at June 7, 2000, the weighted average selling rates of the local currency vis-a-vis its major trading partners were:

J\$42.28 to 1 US\$

J\$28.48 to 1CDN\$

J\$63.12 to 1pound sterling

The BOJ has been intervening in the foreign exchange market in support of the Jamaican dollar, only on rare occasions and has kept out of the market for most of May.



The halt in the downward movement in interest rates is a little worrying as the BOJ is flush with reserves and one would have expected them to be making an effort to achieve the very modest interest rate target of 15-17%.

Interest Rates

The 30 days reverse repurchase (repo) rate were reduced to 17% in April 2000.

On May 26, 2000, two Treasury Bill offers were made, one of 182 days tenor and the other, for a 364 days tenor. The 182 days Treasury Bills were issued to raise J\$650Mn and was oversubscribed by J\$643.73Mn, yielding on average 17.64%.

The 364 days offer of J\$400Mn was oversubscribed by J\$652.12Mn and had an average yield of 18.19%.

These offers took the total nominal amount of Treasury Bills outstanding to J\$9.85Bn.

The gentle slide in T-Bill rates that began in January

Inflation

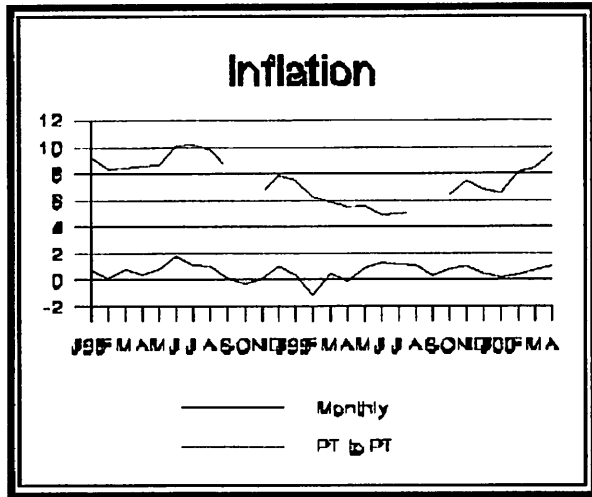
The figures provided by the Statistical Institute of Jamaica on the 'All Jamaican', 'All Group' Consumer Price Index (CPI) for April 2000 reported a 1% increase over the previous month.

The 12 month movement in inflation for the period was 9.57% compared with 5.49% for the 12 month period ended April 1999. The inflation rate for the period January to April 2000 is 2.2%. The reductions in interest rates will influence money supply and hence inflation all things being equal.

With rate increases pending for all the major utilities including transportation, the government will be very hard pressed to make its inflation target this year.

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compared with the negative 12 month movement of 3.04% for April 1999.

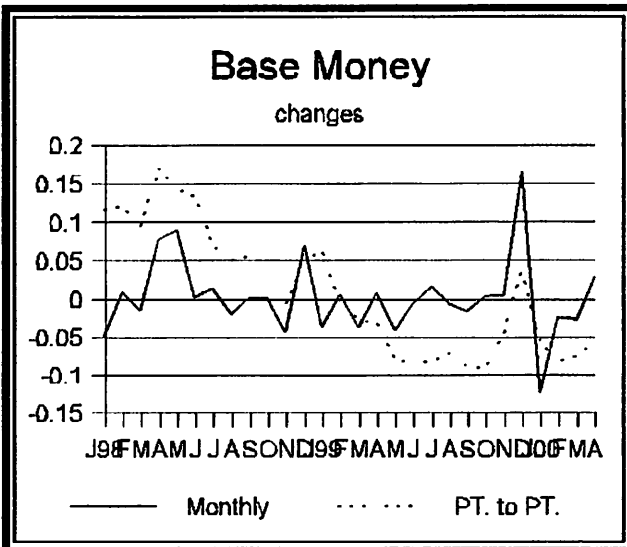
The reductions in the cash reserves have temporarily disrupted the relationship between base money and M2. The lowering of the cash reserve ratio has reduced base money but contributed to the growth of M2.

Money Supply

Provisional data prepared by the BOJ show money

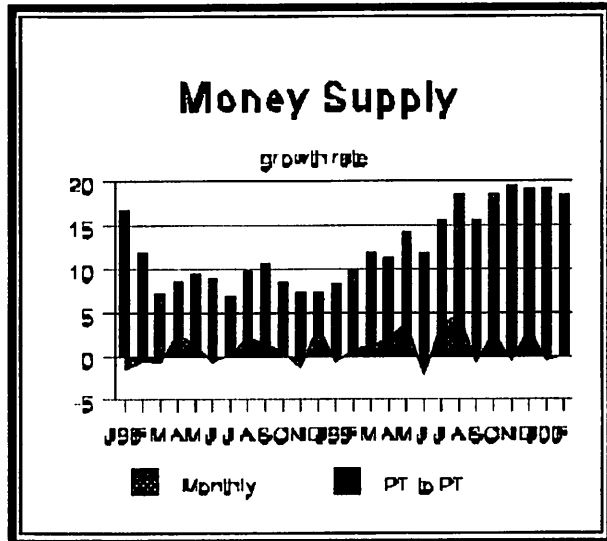
Base Money

Provisional figures from the BOJ, showed a 2.88%



increase in the base money for the month of April 2000, to J\$31,932.72Mn.

The 12 month movement was a 5.49% reduction



supply (measured by M2) to be J\$121,748.8Mn at the end of February 2000. That is a 0.17% increase over the M2 recorded for January 2000. This resulted from a 1.7% increase in quasi money and a 3.2% decrease in M1(cash with public plus demand deposits).

The 12 month point to point movement is an 18.45% increase compared with a 9.85% increase in the 12 months to February 1999.

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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 April 2000 was 31,633 tonnes, 13.59% below production for March 2000 and 18.66% below April 1999's production. Cement production levels for 2000 have been decreasing with each month. February saw a decline of 9.18%, in March the production level was 23.67% less than February - April saw a similar change.

The domestic sales of cement were 40,447 tonnes, 8% below domestic sales in April 1999. The Caribbean Cement Company's cement mill and kiln have been operating at reduced capacity since the period, April to May 2000. To meet domestic demand, the importation of cement will continue for at least a couple more months.

Bananas: Total banana production for the months of January and February 2000 was 3461 and 2,925 metric tonnes, respectively. These figures are 25% and 31% less than the 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: 47,980 and 58,750 metric tonnes of sugar were produced in February and March 2000 are, respectively. March production is 39.71% above the 42,050 metric tonnes produced in March 1999. The production level in March 2000 is also 10,770 metric tonnes, 22.4% more than February's outcome.

Mining: Total alumina production for the month of April 2000 was 294,621 metric tons. This was 4.39% below production in 1999 and 0.02% below 1998's production figures.

The year to date production is 1,191,526 metric tonnes and is 3.59% and 4.92% above the year to date outcomes of 1999 and 1998 respectively.

Total Crude Bauxite production was 176,719 metric tons, 46.3% and 56.23% less than production in April 1999 and 1998, respectively.

The year to date production of Crude Bauxite is 751,415 metric tons and is 42.74% below 1999 and 43.69% below 1998.

Alumina exports were 341,318 metric tons for the review period, a 16.4% increase over April 1999, and 13.4% below 1998's export figure. The year to date alumina exports amounted to 1,240,453 metric tons, rising 10.52% and 2.06% over 1999 and 1998, respectively.

Exports of crude bauxite for April 2000 was 165,458 metric tons and represented decreases of 49.75% and 60.74% from the recorded exports in 1999 and 1998, respectively. Total year to date exports were 785,344 metric tons, 40.66% and 41% below the corresponding period in 1999 and 1998, respectively.

Tourism

Total visitor arrivals for April 2000, was 197,760, compared with a total of 175,389 for April 1999 (a 12.76% increase). Total arrivals from January to April 2000 stood at 826,777, 9.1% above total arrivals for January to April 1999.

Cruise ship passengers accounted for 78,341 visitors in April 2000 and 365,127 visitors for the January to April 2000 period. These figures represent increases of 13.9% and 14% for the one month and the four

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month periods, respectively. This is in spite of the 4.4% and 4.8% fall in the number of calls in the respective periods.

April 2000 saw a total of 43 calls to the island. Of this number, 16 calls were to Montego Bay and 27 to Ocho Rios. While the number of calls to Ocho Rios increased by 3.8%, calls to Montego Bay fell by 15.8% when compared with April 1999's outcome.

Total stopover arrivals for April 2000 was 119,419 and the January to April total was 461,650. This is 12% and 5.5% above 1999's figures. When compared with 1999, there was a 9.7% increase in the number of non-resident Jamaicans for the four month period and a 34.8% increase for April.

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.

External Trade

Exports: The total value of exports for January to February 2000 amounted to US\$213.23Mn., 8.9% above total exports for the corresponding period in 1999. February 2000's total export value was US\$106.88Mn and was registered as a 0.49% increase over the previous month.

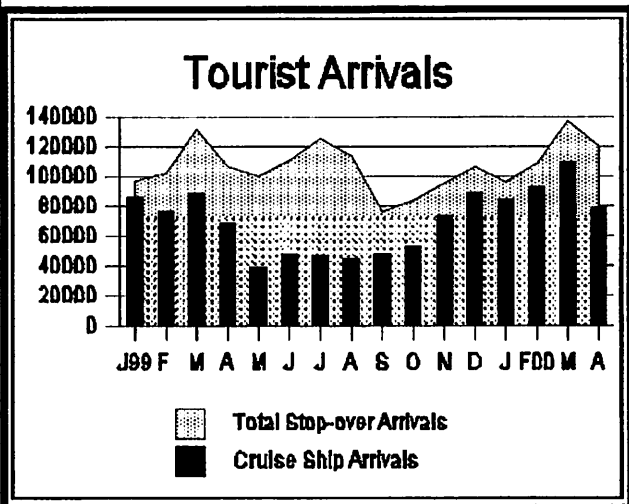
Domestic exports were valued at US\$209.73Mn for the two month period under review. That represents a 14.49% increase over domestic exports for January to February 1999. Domestic exports for February 2000 were recorded as being 1.43% above the value for January 2000.

Total traditional exports earned US\$78.235Mn for February 2000, making the year to date figure, US\$161.03Mn. Earnings for January to February 2000 was 14.8% above 1999's earnings for the corresponding period.

Agricultural produce accounted for US\$8.175Mn of earnings for the year to date period. Earnings from all agricultural sectors with the exception of coffee and cocoa declined.

Mining and quarrying saw an increase of 22%, from US\$104.01Mn in January to February 1999 to US\$126.92Mn in January to February 2000. Bauxite earnings decreased by 39.4%, from US\$13.5Mn to US\$8.18Mn. Alumina export value went up by 30.89% to US\$118.246Mn, benefiting from increased prices in January of the review period.

The value of Manufactured exports for the period January to February 2000, was US\$25.94Mn, up from US\$25.82Mn for the corresponding period in 1999. Earnings from all sectors in this section, with



For January to April 2000, stopover arrivals from Japan, Latin America and Europe (in total) fell by 3.8%, 12% and 3.2% respectively from the 1999 outcome. Stopovers from the USA, the UK, other Caribbean countries and Canada (to a lesser extent) continue to increase.

The BOJ's preliminary statistics reveal a 0.7% increase in cumulative expenditure by visitors from US\$328.5Mn in January to March 1999 to US\$330.8 in 2000.

January to March 2000 saw a total of 629,017 visitor

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the exception of sugar and coffee products, registered increases. Export earnings from coffee products fell 51%, from US\$0.243Mn in 1999 to US\$0.119Mn in 2000.

Total non-traditional exports were valued at US\$48.69Mn, compared with the US\$42.925Mn reported for January to February 1999. This export category consisted of Food, valued at US\$11.27Mn, Beverages and Tobacco valued at US\$4.398Mn, Crude Material of US\$0.567Mn, and Other non-traditional exports valued at US\$32.455Mn.

Re-exports amounted to US\$3.506Mn in January to February 2000, down from a total of US\$12.59Mn for the same period in 1999.

Imports: Total value of imports for the review period January to February 2000, was US\$476.496Mn, a 18.17% increase.

The importation of 'Consumer Goods' increased by 5.16% to US\$141.93Mn in value. Of this category, all sections increased with the exception of Food, which fell by 9.28%.

The value of Raw Material imports increased by 24.97% to US\$245.72Mn. All sections of this import category registered increases in value; the most significant was that of Crude Oil imports which increased from US\$0.007Mn to US\$26.84Mn for the two months to February 2000.

Items under the section, Capital Goods, amounted to a value of US\$88.85Mn, a 24% jump from US\$71.64Mn in 1999. All components of this section increased, with the exception of Motor Cars, which fell from US\$0.497Mn in 1999 to US\$0.224Mn in 2000 (January to February).

External Sector US\$Mn

| | Jan-Feb 1999 | Jan-Feb 2000 |
|----------------------------------|-----------------|-----------------|
| Total Exports | 195.78 | 213.23 |
| Total Traditional Exports | 140.26 | 161.03 |
| <i>Bauxite</i> | <i>13.50</i> | <i>8.18</i> |
| <i>Alumina</i> | <i>90.34</i> | <i>118.25</i> |
| <i>Sugar</i> | <i>22.59</i> | <i>21.76</i> |
| <i>Banana</i> | <i>5.69</i> | <i>3.80</i> |
| Non-Trad. Exports | 42.93 | 48.69 |
| Re-exports | 12.59 | 3.51 |
| Total Imports | 403.23 | 476.50 |
| <i>Consumer Gds.</i> | <i>134.97</i> | <i>141.93</i> |
| <i>Raw Materials</i> | <i>196.6</i> | <i>245.72</i> |
| <i>Capital Gds.</i> | <i>71.64</i> | <i>88.85</i> |
| Trade Balance | -207.45 | -263.27 |

Balance of Payments

The current Account balance fell by US\$66.9Mn. to a deficit of US\$45Mn for the period January to February 2000, compared with the US\$21.8Mn surplus recorded for the corresponding period in 1999.

Merchandise Trade: The merchandise trade deficit widened by US\$47.2Mn to become US\$181Mn for the period under review. Exports and imports increased by US\$18.9Mn and US\$66.1Mn, respectively. For the period, exports were US\$251.1Mn in value, while imports amounted to US\$432.1Mn.

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Services: The Services balance for January to February 2000 was a surplus of US\$97.5Mn. This is a US\$13.5Mn fall from the 1999 balance. The current balance is a result of decreases of US\$3.9Mn and US\$9.6Mn for net transportation and net travel receipts, respectively. There was no change for the balance on other services as the deficit remained at US\$40.3Mn for the corresponding period in 1999.

Income: The income account had a negative balance of US\$75.6Mn for the period under review. This represents a US\$25.2Mn decrease from the 1999 balance. Net receipts from investment and compensation of employees fell by US\$21.4Mn and US\$3.8Mn, respectively.

Net Current Transfers: Net receipts from current transfers increased by US\$19Mn to US\$114.1Mn for January to February 2000. The increase is attributed to the US\$19.2Mn increase in net private inflows to US\$107.4Mn for the period.

Capital and Financial Account: For January to February 2000 period, the financial account recorded a surplus of US\$38Mn, a US\$61.8Mn increase over the results of January to February 1999. Net private investment inflows experienced a US\$8Mn increase to a balance of US\$23.3Mn, while net official investment inflows increased by US\$197.7Mn, to a balance of US\$155.1Mn for January to February 2000. This increase in official flows resulted from the successful issue of Euro 200Mn in bonds in the European capital market.

Reserves increased by US\$140.4Mn for the period January to February 2000, compared with a US\$3.5Mn decrease in the corresponding period of 1999.

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| <i>Balance of Payments</i> | Jan-Feb 1999 | Jan-Feb 2000 | Change |
|--------------------------------------|-------------------------|-------------------------|---------------|
| Goods balance | -133.8 | -181.0 | -47.2 |
| Export | 232.2 | 251.1 | 18.9 |
| Imports | 366.0 | 432.1 | 66.1 |
| Services - Net | 110.9 | 97.5 | -13.5 |
| Transportation | -26.8 | -30.6 | -3.9 |
| Foreign Travel | 178.0 | 168.4 | -9.6 |
| Other Services | -40.3 | -40.3 | 0.0 |
| Income | -50.4 | -75.6 | -25.2 |
| Compensation of employees | 4.7 | 0.9 | -3.8 |
| Investment Income | -55.1 | -76.5 | -21.4 |
| Current Transfers (Net) | 95.1 | 114.1 | 19.0 |
| Official | 6.9 | 6.7 | -0.2 |
| Private | 88.2 | 107.4 | 19.2 |
| Current Account | 21.8 | -45.0 | -66.9 |
| Net Capital Movements | 1.9 | 7.0 | 5.1 |
| Official | 1.0 | 5.7 | 4.7 |
| Private | 0.9 | 1.3 | 0.4 |
| Financial A/c | -23.7 | 38.0 | 61.8 |
| Other Official Investment | -42.6 | 155.1 | 197.7 |
| Other Private Investment | 15.4 | 23.3 | 8.0 |
| Changes in Reserves | 3.5 | -140.4 | |

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MACRO-ECONOMIC INDICATORS
(Dec1997 - Apr00)

| 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 |
| 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 | 0.17 | 18.45 |
| Mar | -2.77 | -7.41 | 703.51 | 1047.12 | 0.7 | 8.42 | 247225 | 137408 | 109,817 | n/a | n/a |
| Apr | 2.88 | -5.49 | 743.98 | n/a | 1 | 9.57 | 197760 | 119419 | 78341 | 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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Pete King

Trade Policy for the

Nicola Gordon Rose

part. program

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