New Confidential Economic Bulletin

Private Sector Organisation of Jamaica

Monthly Analysis of the Jamaican Economy

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Overview

The BOJ has continued their major intervention in the foreign exchange market for most of October and into the first week of November. The NIR fell by over US$60m in October and the volume of hard currency sold into the market by the BOJ has fallen off in recent days. Interest rates on the 9 and 12 month repos have been reduced to their levels before the 4% increase last month and the government paid off a maturing T-Bill issue at the end of October, rather than hold a tender at which the T-Bill rates would have risen significantly. A rise in the T-Bill rates would have increased the interest rates payable on the government's large stock of floating rate LRS, thus adding substantially to its domestic debt servicing costs.

The manner and extent of the BOJ's intervention in the FE market is still having an impact in the financial sector and may affect the wider economy for some time to come. A lot of institutions found themselves caught short when the unlimited issue of 9 and 12 month repos hit the market, as note holders pulled cash from lower yielding repos to go into the higher yielding ones. While the money market players seem to have sorted themselves out fairly quickly, BOJ had made advances to financial institutions, probably commercial banks, of up to J$2.95bn by 25/10/00. The intervention may also come back to haunt the BOJ itself. That institution now holds about J$7bn of repos which are unbacked by government LRS or other securities. Unless this situation is corrected, the payment of interest on these instruments will put high-powered money into the economy, thus creating serious problems for the containment of inflation in 2001.

At the time of writing, 9/11/00, the Jamaican dollar is trading at between J$45-45.15 on the FE market, with BOJ selling into the market at J$44.30 when they intervene. It is quite likely that the rate will continue to slip if the BOJ does not continue its interventions, but how fast or how slow the movement will be, is anybody's guess. The BOJ seems now to be pursuing a policy of preserving the real effective exchange rate and is therefore trying to limit the depreciation in the local currency to the inflation differential between Jamaica and its major trading partners. If the manner in which they intervened in the FE market in October has set the pattern for future interventions, then we can look forward to a lot more volatility in local interest rates in the coming months.

The pressure in the real sector continues to be quiet intense and the lay-offs that have been a feature of private sector activity for some time now, have begun to hit the public sector as well. Since our last bulletin, the Postal services have announced plans to lay off 300-400 temporary workers and the JDF is also to reduce its civilian workers by a similar level, by a process of attrition. The government is obviously bracing itself for next year's budget when the FINSAC debt comes onto the books and it is quite likely that there will be further reductions of staff in the public sector. Although the fiscal accounts for the first half of the 2000/01 fiscal year showed some improvement over last year's outturn, interest rates have not fallen as planned and so debt servicing costs are going to rise both this year and next. The revenue authorities are making a Herculean effort, with tax revenues rising by 18.2% in the first half of this year, but the interest rate policy is adding to the burden that they have to bear. Next year they will also have to contend with the absence of considerable one-off inflows like the sale of the cellular licences.

The year 2001 is likely to be another very challenging one for both the public and private sectors.

Figure 1: Net International Reserves

Net International Reserves

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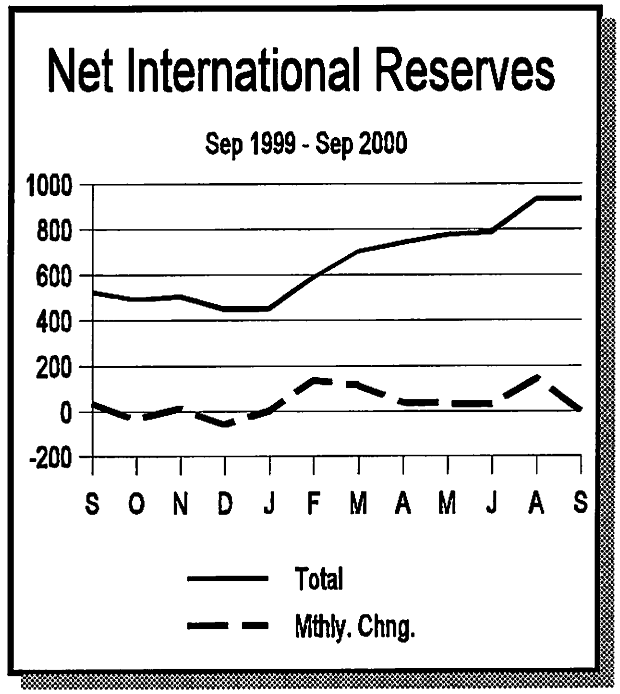
The total stock of net international reserves (NIR)



of the central bank stood at US$935.49M for the month of September, which is just marginally higher than the US$935.35 figure recorded for the previous month. This contrasts sharply with the accelerated growth in the NIR observed in August, due mainly to the US$225Mn bond issue.

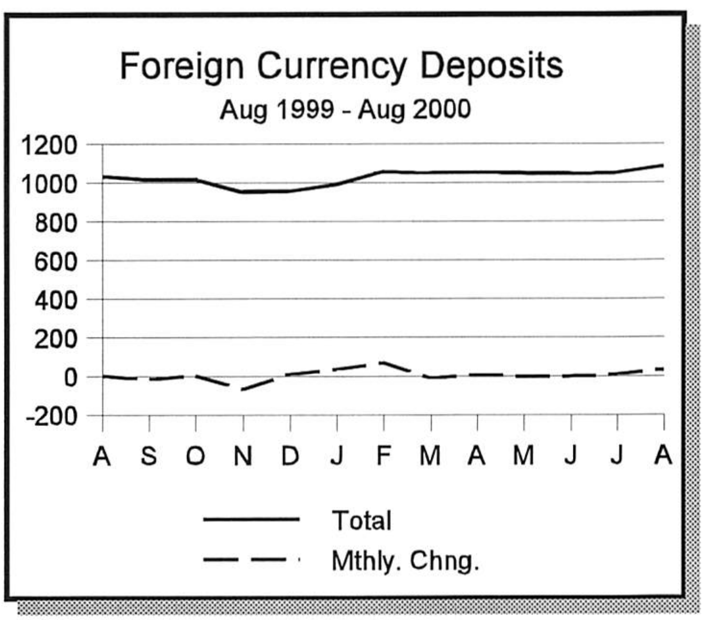
In the twelve months to the end of September 2000, the NIR increased by US$409.3Mn. This contrasts with a US$90.7M decline for the same period ending September 1999. The out-turn at the end of September 2000 still translates into healthy 18 weeks of imports.

The NIR has remained flat due in part to the heavy

BOJ intervention in the foreign exchange market during the month of September, and increased sales of foreign exchange to Petrojam.

With the BOJ intervening heavily in the market during the month of October, there may be an even further draw-down of reserves for October. The BOJ missed its September NIR target and could possibly miss it for October given the current foreign exchange situation.

Figure 2: Foreign Currency Deposits



IADB representatives, speaking at the recently concluded PSOJ Seminar confirmed that the first half of their US$150M FINSAC-related funding would be available by December 2000 subject to progress in the divestment program and financial sector reform outlined in the IADB agreement with the GOJ.

Exchange Rates

The J$ / US$ bilateral exchange rate began trading at J$44.67 at the beginning of October, after coming under increasing pressure from high demand for US$ in September. The dollar lost fifty seven cents in just five days to sell at J$45.24 at the close of trading by the end of the first week. This prompted heavy BOJ intervention to stem the slide. The BOJ also hiked interest rates by four percentage points on its 270 days and one-year instruments, in a temporary move to pull investors back into local investments. This move would seem to suggest that the government was more concerned with exchange rate stabilization, than with lowering interest rates.

The BOJ has been intervening heavily in the foreign exchange market to mop up excess demand for US$, selling foreign exchange consistently whenever there has been any uptick in the exchange rate. This has since seen the rate hovering between J$44.60 and J$44.80, which is contrary to its previously adopted SMP stance of being less reactive in the short term, but probably seen as necessary in the eyes of the BOJ, to allay investors' fears. The current interventions may come at a cost to the NIR accounts and NIR target, and may thus not last for much longer.

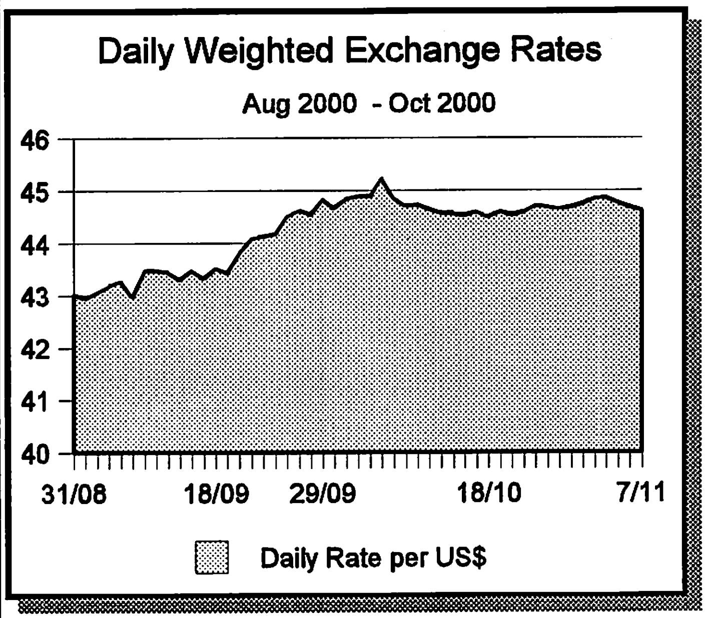
Summary of Exchange Rates

The Jamaican dollar lost ground in October to the US$ by J$0.07, the CDN$ by J$0.62, and the British pound by J$1.21.

From the opening of trading on January 03, 2000 to November 07, 2000 the Jamaican dollar has slipped, in nominal terms, against the US and Canadian dollars, while gaining on the British pound, by J$3.13, J$1.53 and J$1.37 respectively. The weighted average selling rates of the local currency vis-a-vis its major trading partners as at November 07th were:

J$44.62 to 1 US$
J$29.18 to 1CDN$
J$64.05 to 1 pound sterling

Figure 3: Daily Weighted Average Selling Exchange Rates



Exchange Rate Forecast

Exchange rates are one of the most difficult economic variables to predict, especially for a fragile volatile exchange market such as Jamaica. The most accepted view is that the best predictor of tomorrow's (or next week or next month's) exchange rate is today's (or this week's or this month's) rate. But even this view is not very good at forecasting, given the various shocks and intervention measures that could drastically alter the path of exchange rates. However, attempting to forecast the rates is not a useless exercise, and can be used as a proxy for determining the range over which values are expected to move, if market forces no not change in the short term. Advancing with all these precautions and using simple forecasting techniques, the forecast for the next two months is expected to be:

***Table 1:* Short Term Exchange Rate Forecasts for the end of the Months of November and December 2000.**

	November	December
Rate	44.96 - 45.02	45.24 - 45.33
Error	0.07 - 0.12	0.08 - 0.12

Based on the current level of central bank intervention in the market, it appears the BOJ wishes to hold the rate below $45.00 for as long as it possibly can, to establish a semblance of market stability. Further, the dollar has depreciated by 7.5% in nominal terms, to November 07, 2000, which is 1.5 to 2.5 percentage points above the inflation differential between the US and Jamaica. The authorities may thus wish to hold the level of depreciation at this level or at most 8 %, which would put the rate at or just above J$45.00 to the end of the year.

The central bank has given its commitment of no real appreciation in the real exchange rate, thus allowing the nominal rate to reflect underlying market forces for the most part. Given a modest inflation differential of 5% for this year, the exchange rate could possibly depreciate to $46.00 by April of 2001, barring of course, heavy central bank intervention and external shocks.

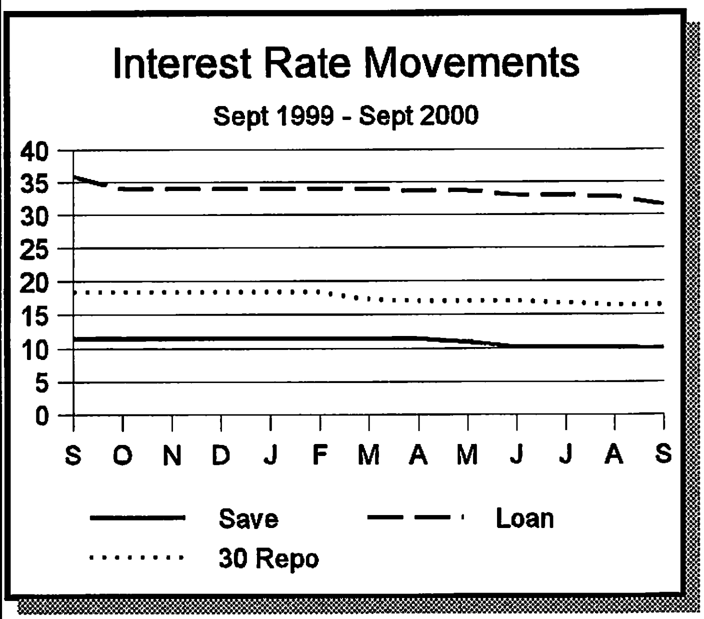
Interest Rates

Savings deposits and loan rates have continued their slow decline. Weighted fixed deposit rates were down from 12.74 in June to 12.64 in July. The weighted loan rate was also down, from 23.48 to 22.85 .

The G.O.J. weighted average treasury bill (t-bill) yields continued to decline during September except for the 6-month offer. Selected interest rate indicators are listed in *Table 2.*.

Figure 4: Selected Interest Rates

The Government still seems set to miss its 14% interest



rate target for this year by an estimated 1 ½ to 2 percentage points, given the continued slow rate of decline in rates. Of course the impact of not achieving the prescribed interest rate targets will have an enormous impact on the stock of debt burden, and interest repaid on debt.

Table 2:

Selected Interest Rates (%)		
2000	**Aug**	**Sep**
30 day Repo	16.45	16.45
Savings Deposits (avg)	10.11	9.96
Loan (avg)	32.75	31.5
T-BILL YIELDS (avg weighted)		
3 month	--	16.62
6 month	17.04	17.13
9 month	17.14	16.91
12 month	17.44	16.94

In the recent hike to save the dollar, while the BOJ did not change the benchmark 30-day repo rate, the 270-day repo was increased from 17.65% to 20%, and the rate on the 365-day instrument moved from 18 % to 22%. True to their word, these hikes were temporary indeed and have since been withdrawn.

The Finance Ministry has canceled two T-Bill auctions within the past month, and decided not to roll over its $650M T-Bill offer that had matured. It opted instead to pay off the amount of the T-bills outstanding at the tender date, probably fearing investors would seek higher yields. Further, the Ministry has offered a tax free index linked US$ bond to the market, in anticipation that currency nervous investors will purchase the instrument instead of US dollars, to further ease pressure on the local currency. The Ministry is sensitive to any upward movement in interest rates, given its importance to fiscal policy. However, in light of current developments it seems that the authorities may consider exchange rate control as primary and lowering of interest rates as a secondary policy, thus interest rates may be hiked again to stem any excess slippage in the exchange rate. It would be interesting to see the outcome when and if the Government returns to the international bond market, as it is expected to, given the current level of exchange intervention.

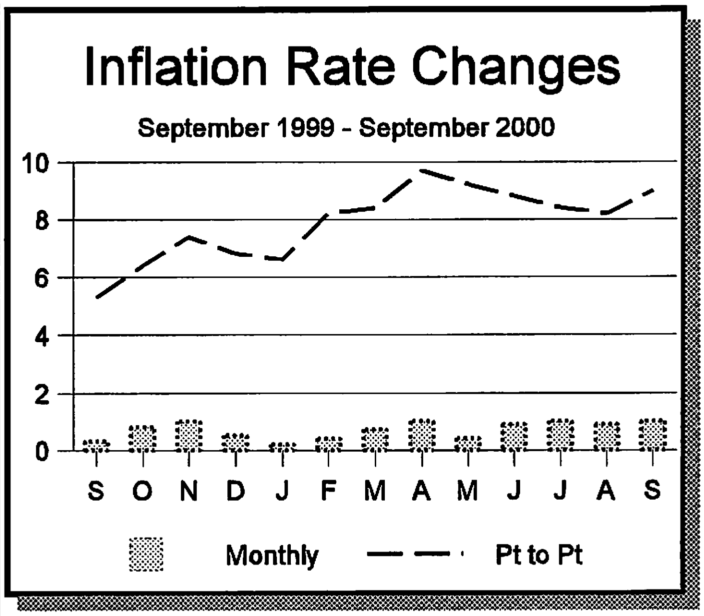


Figure 5: Inflation Movements

Inflation

The all Jamaica 'All Group' Consumer Price Index for September 2000 was 1349.3. This represents an increase of 1.0% over the index recorded for August 2000.The rate of inflation was 0.9 per cent for the month of August and 1.0 percent for the month of July. For the calendar year to date the rate of inflation is 6.6 percent. The rate of inflation for the period September 1999 to September 2000 is 9.0 percent, 3.7 percentage points above the 5.3 percent recorded for the corresponding period last year. The rate of inflation for the fiscal year to date is 5.3 percent.

For the month of September, all the groups except 'Household Furnishings and Furniture ' (-0.5%) and 'Transportation' (-0.1%) recorded higher indices than in August. The index for the group 'Food and Drink' increased by 0.6%. The increase in the index for the group was largely the result of increased prices for items in 'Starch Foods' (0.9%), 'Vegetables and Fruit' (4.9%) and 'Other food and Beverages' (0.7%).

The push-factors of continued high oil prices, an increase in electricity rates, and foreign exchange depreciation combined to negatively affect the September CPI. Following the current trend in inflation rates, it seems highly likely that the Government will be unable to achieve its 4 - 6% inflation target. Further the impact of the recent explosion at Petrojam on oil reserves is yet to be ascertained. If inflation averages 0.9% for the remaining three months of the year, annual inflation would be just about 9.3%, thus not surpassing the psychological two digit barrier of 10%.

Jamaica recently signed the 'Caracas Energy Agreement' with Venezuela. Under the agreement, Venezuela will provide Jamaica with oil at concessionary rates. However, this arrangement may not necessarily lead to lower oil prices, but rather help in containing price increases, which could have a negative impact on inflation.

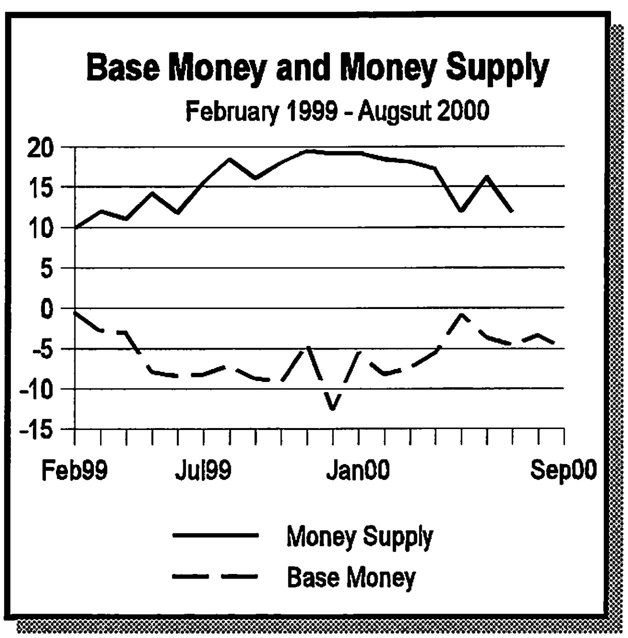
Base Money

Provisional figures from the BOJ showed that the monetary base had a marginal 3.4% decrease, down from US$31,407M in August to US$30,353.31M at the end of September 2000. The 12 month point to point movement was a 5.07% reduction compared to the same period for 1999 which reported a 8.7% reduction.

Over the January to September period, the monetary base has declined by 2.9%, compared to a 11.4% decline for the corresponding period in 1999. The contraction in the base money is as a result of the tabled 1% reduction in cash reserve requirements for financial institutions during September, which has led to increased liquidity in the financial system.

Of particular note is the disparity between the percentage change in Money Supply and its Base Money

Figure 6: Monetary Movements (% change)



counterpart. The two have been traversing different paths since January 1999 and have continued to do so.

Money Supply

The provisional figure recorded for the nominal money supply stock, as measured by the M2 (local and foreign currency) monetary aggregate, stood at J$124,990.70M at the end of July. This represents a 0.46% decrease over the previous month's value. The point-to-point or 12 month nominal money supply grew by 11.83% from July 1999 to July 2000, which is less than the 15.5% growth recorded for the previous period.

The monthly marginal negative growth in M2 was primarily due to decreases in the currency, and demand deposits components. These were significant enough to outweigh increases in time deposits when compared to May. The net growth rate of M2 for the January to July period was 3.9%, compared to 8.7% for the corresponding period in 1999, implying that monetary policy has continued to be tighter over the latter period, even with declining interest rates.

The money supply figures may show an increase in September, due to the scheduled one percent reduction in cash reserve ratio of commercial banks, from 14% to 13%, as at 1st September 2000,and the fall of 1.25 percentage points in the average lending rate of commercial banks, from 32.75. to 31.50%, for the August to September Period.

Production of Commodities

Mining: Total alumina production for the month of September 2000 was 294,916 metric tons. This represents2.77% above production in 1999 and

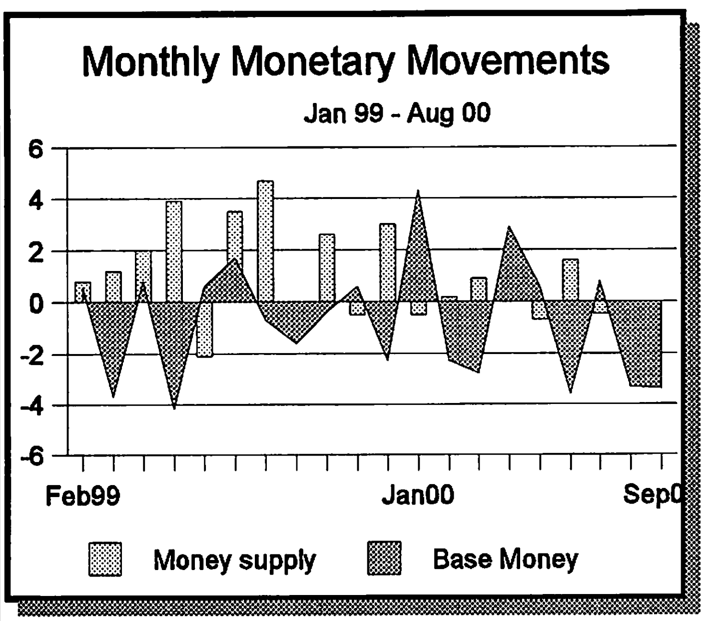
4.43% above 1998's production figures.

The year to date production is 2,688,673 metric tonnes and is 1.23% and 4.95% above the year to date outcomes of 1999 and 1998 respectively.

Total Crude Bauxite production was a mere 75,410 metric tons, 41.83% and 76.28% less than production in September 1999 and 1998, respectively.

The year to date production of Crude Bauxite is 1,474,940 metric tons and is 37.90% below 1999 and

Figure 7: Monthly percentage changes in Base Money



and Money Supply.

51.52% below 1998 production figures.

Alumina exports were 248,833 metric tons for the review period, which represents a 24.63% and 14.94% decrease over the export figures for September 1999, and September 1998 respectively. The year to date alumina exports amounted to 2,662,630 metic tons, rising by a mere 0.58% and 2.62% over 1999 and 1998, respectively.

Exports of crude bauxite for September 2000 were 103,337 metric tons and represented a decrease of 24.26% and a decrease of 68.49% from the recorded exports in 1999 and 1998, respectively. Total year to date exports were 1,546,252 metric tons, 35.27% and 49.22% below the corresponding period in 1999 and 1998, respectively.

The bauxite industry is still reeling from the Gramercy plant accident, which may be accountable for some of the negative figures being reported. These figures should be improved after the Gramercy plant returns to its full operational state in early 2001.

Tourism

The total number of visitor arrivals for September 2000, was 134,685, compared with a total of 196,159 for the previous month's performance. This represents a 4.2% increase over the August 2000 figure.

Stopover arrivals grew by 4.5% while cruise passengers increased by 7.1%. Ship calls were 7 less than the 37 reported for the month of August, over the July-August 2000 period. Both Ocho Rios and Montego Bay arrivals decreased, with the larger ships calling at Ocho Rios accounting for much of the cruise passenger arrivals.

6.0% more stopover tourists visited Jamaica for the January to September period of 2000, compared with corresponding period in 1999. During the months of January to September 2000, a total of 1,020,539 stopover visitors were recorded, with the month of July reporting the highest number of arrivals, at 137,771.

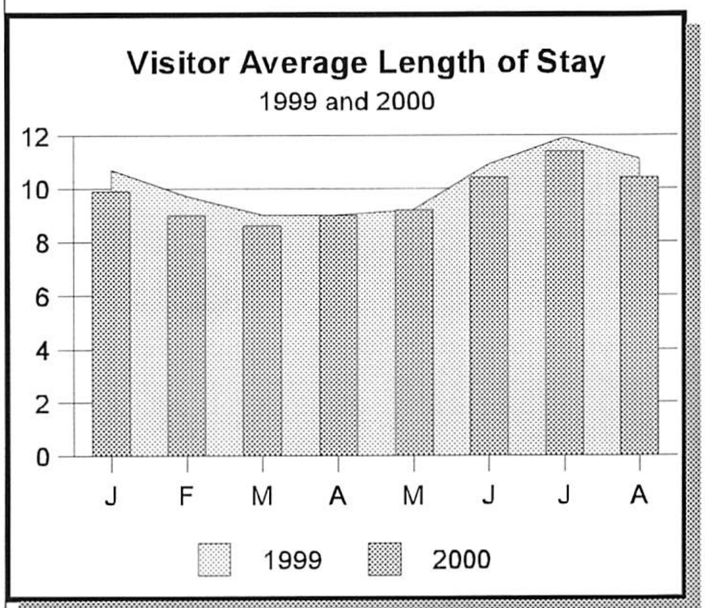


Figure 8: Foreign Nationals Average Length of Stay for 1999 and 2000.

Cruise passengers continued to visit Jamaica in large numbers, with 664,747 reported between January and September 2000, representing a 21.27% increase over the same period in 1999.

Provisional figures provided by the BOJ for the January -August 2000 period showed total cumulative tourist expenditure at US$929.30Mn or 2.76% above the performance for the corresponding period in 1999. This trend is expected to continue over the next year, what with a vibrant tourism sector. It should be duly noted however, that the increase in expenditure by tourists is not matching the corresponding increase in visitors. This may be seen as the average length of stay for the January to August period was 9.8 nights compared to 10.2 nights in 1999.

The tourism sector continues to face hiccups along its path to greater performance by continued cuts from the overseas based travel sector, the most recent being the withdrawal of the European carrier Martin Air. This is further compounded by the fall out in the Euro currency, which may see thousands of European tourists opt for cheaper destinations. These negatives may be offset to some extent by projections of a larger number of U.S. arrivals. There has also been complaint about the high level of departure tax for Jamaica, which is the highest in the region and fourth largest in the world.

Amid these problems coupled with the scourge of crime and violence, the industry is still holding its own on the world market. The triumphs of Jamaica at the recently held World Travel Awards was simply spectacular and underlie the potential of the sector - "Caribbean's Leading Destination", " Caribbean's Leading Tourist and Convention Bureau", and "Travel Man of the Millennium" - were some of the major awards copped by the industry and its players.

Developments and Outlook

Exchange rate stability is currently being maintained by central bank intervention and is expected to continue for some time, at least until the authorities are convinced that all the excess demand for foreign currency is mopped up. The indexed linked US bond being offered at a tax free coupon rate of 11.125%, with 14% effective yield is designed to help reduce demand for US$, which is even more important now, given the expected high level of imports in the run-up to Christmas.

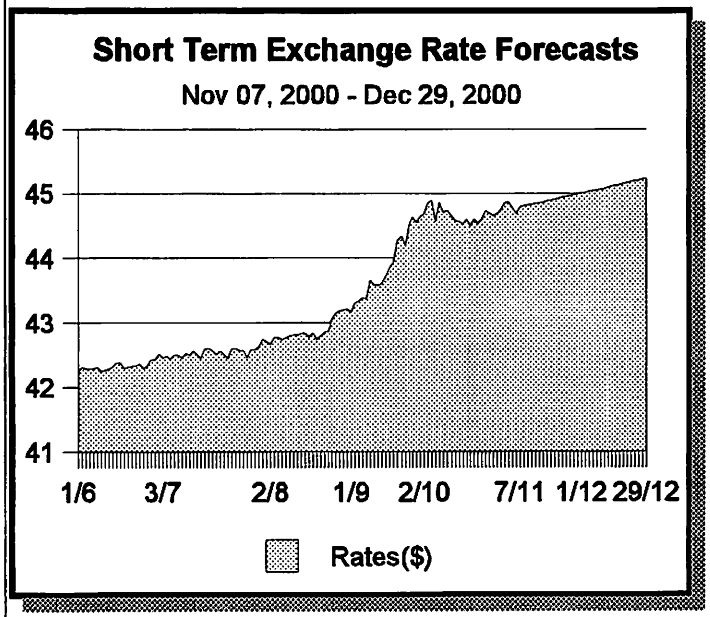


Figure 9: Short Term Exchange Rate Forecast to December 2000.

The recent call by one of the worlds' leading economist, Professor Hanke, for Jamaica and indeed the Caribbean to adopt dollarisation makes for interesting debate. The benefits of dollarisation are notable - reduces currency risk and risk of currency crises, leads to a decline in interest rates which lowers debt servicing costs, thus improving our fiscal position. This then leads to increased investment and fosters economic growth. However, it also has tremendous risks - absence of central bank to act as lender of last resort, removes monetary sovereignty and benefits from issuing money, host country(US) can withdraw its currency at any time, leaving us in a much worse state than we were before. The Governor of the Eastern Caribbean Central Bank (ECCB) has however, dismissed adoption of this strategy for the Caribbean.

Suggesting the adoption of the more subtler form of dollarisation, that of a currency board (issuing domestic currency fully backed by foreign currency, say US$), might have been more politically acceptable, as under a currency board Jamaica would continue to issue J$ and thus continue to derive a significant portion of revenue from issuing it. None of these strategies are expected to be adopted by the Government anytime in the near future.

The NIR accounts for October are expected to fall, given the current foreign exchange market conditions. However, a possible return to the international bond market coupled with the almost certain disbursal of the first tranche of the IADB loan in December, may lead to an improvement in these accounts. A return to the market may be necessary to repay outstanding loans and achieve the March US$994Mn NIR target outlined in the SMP.

It now appears as though the authorities may be trying to continue reducing interest rates, but more slowly in order to more or less hold the exchange rate. They may also be trying to hold inflation as near as possible to where it is now, given that the 4 - 6 percent inflation target is clearly out of reach. The objective now is for it not to surpass the psychological 10% barrier.

In spite of the enormous odds, the tourist industry is holding its own in terms of visitor arrivals and new investment, and should continue to improve given its tremendous international rating. The slow recovery of the agricultural and productive sectors of the economy are continuing to have a negative impact on the governments medium term growth objective of 1.5 to 2.5 percent, which may have to be revised. Recent trade developments may also have negative long term effects on these sectors.

The decision by the European Union (E.C.) to extend duty and quota free access to products from all Least Developed Countries (LDC's) beginning 2001 may indirectly destroy preferential agreements enjoyed by CARICOM countries like

Jamaica. The sectors most hit would be sugar and bananas. The sugar industry is even further hit by a weak euro currency, as most of our sugar is exported to Europe. On the plus side, the Government is projecting that increased trade with Turkey has the potential to save millions in foreign exchange, by bypassing secondary traders of products originating in Turkey.

Thus the services sector coupled with a take-off in the communications industry and information technology, which offer opportunities for rapid expansion, are expected to be the catalysts for economic growth and employment. The tremendous push by the Government to revitalize the micro business sector by providing millions of dollars in loans to small investors may also play a key role in the economy over the immediate future.

However, unemployment continues to be a major issue for the Government, with the recent pull out of cigar company, Cifuentes Y Cia resulting in the loss of 225 jobs. Further, the projected 300 to 400 workers to be made redundant from the postal services has continued the trend of high redundancy rates possibly offsetting some of the projected gains from providing jobs in the IT sector.

A recent World Investment Report gave Jamaica a boost in international markets, by listing the country as 13th among the top twenty economies in Latin America and the Caribbean. Further, representatives of the rating agency Standard and Poor were expected to visit the island in late October to investigate the country's creditworthiness. The publishing of their findings will be anxiously awaited by both policymakers and the market alike.

MACRO-ECONOMIC INDICATORS

(Jul 1998 - Sep 2000)

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*	*Monthly chng*	*Point to Pint*
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	11
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 99	1.73	8.24	486.98	1032.64	1.2	5.09	172289	125343	46946	3.56	15.54
Aug	-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	-4.46	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	-12.5	-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	109817	0.9	18.1
Apr	2.88	-5.49	743.98	1052.9	1	9.57	197760	119419	78341	1.2	17.2
May	0.58	0.76	776.25	1047.26	0.4	9.2	163592	103266	60326	-0.7	11.9
Jun	3.59	3.73	756.48	1042.08	0.9	8.8	175744	120091	55653	1.6	16.2
Jul	0.8	4.61	788.68	1050.27	1	8.5	188329	137771	50558	-0.46	11.83
Aug	**0.6**	**-3.34**	**935.5**	**1082.5**	**0.9**	**8.2**	**196159**	**118339**	**77820**	**n/a**	**n/a**
Sep00	**-3.4**	**-5.07**	**935.49**	**N/a**	**1**	**9**	**134685**	**79422**	**55263**	**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.*