



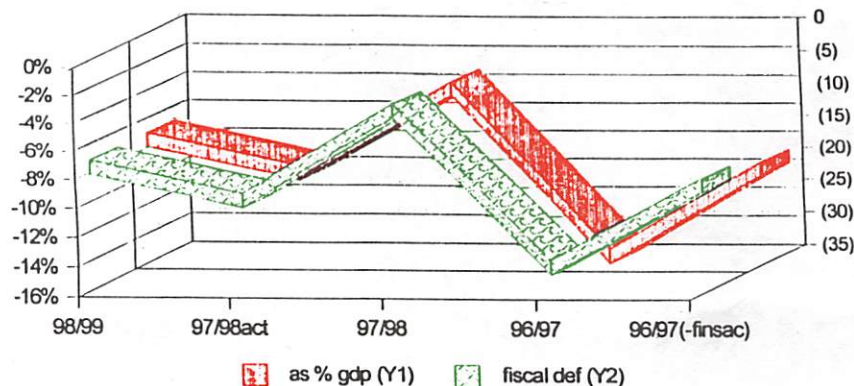
THE WAY AHEAD

- Clifton Cameron, President, PSOJ

(The following is an extract from the PSOJ President's Welcome Address at the Organisation's recent Seminar on the Jamaican Economy)

The fiscal deficit is not going away

And it may increase in 1998/99



The Budget might be regarded as the most important policy presentation which the government makes. It indicates the goals and targets for the national economy, and how

these are to be achieved. It reveals where the government's priorities lie and within what parameters the various sectors may be expected to operated. In this regard, it is a measure of the importance which the government places on each of the sectors within the economy and a signal of the philosophy -- implicitly or explicitly -- underlying its relationship to its other partners.

I don't think that anyone can deny that the Jamaican economy is now in recession, having experienced two consecutive years of negative growth. Last year's decline of 2.4% in our Gross Domestic Product puts us some 4% behind where we were in 1995. This is all the more serious when we bear in mind

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Cont'd on pg. 3

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that, for the previous 24 years, the country has experienced, overall, no growth and that per capita income and consumption are both in decline.

It would be difficult to find a period in Jamaica's history in which businesses at all levels and of almost all kinds have come under such sustained pressure. During the past year, business failures have continued and more financial institutions have either gone under or have had to be rescued by FINSAC. There is every indication that insolvencies and receiverships are on the increase.

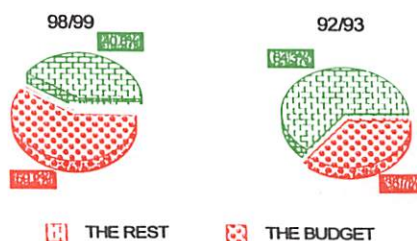
It seems to us, then, to be more urgent than ever that we need to see the kind of macro-economic policies that encourage growth and make business renewal and recovery possible within a reasonable time frame.

The 1998/99 Budget is therefore perhaps the most critical of any budget in recent years. For what happens to the economy this year is going to have a profound impact on our growth and development for at least the next three to five years.

We note that while the primary focus remains the containment of inflation and the stabilization of the dollar, the current budget has targeted 3% growth for the fiscal year -- the same amount, it may be recalled, which was projected for last year. One of the things which we will examine today is how this growth is going to be financed within the context of the current economic policy framework. How is the pump to be primed? What is expected to lead the recovery? These are some of the questions we must look at.

There are a number of other areas which concern us and the implications of which require our attention. One of these is the fact that the public sector now accounts for nearly 60% of GDP -- twice as large as the accepted norm for market economies of our size and at our level of development. This would suggest a significant crowding out of the private sector and must affect the degree to which it can function as the "Engine of Growth" for the economy.

The government expands its share of GDP to nearly 60%



Clearly, also the size of the domestic debt, which is over \$100 billion (not including FINSAC's obligations) has implications for the availability of capital to finance the productive sector. How is this difficulty to be addressed?

These and other questions are issues which we must grapple with and analyse objectively and dispassionately. We need also to start shifting from crisis thinking and to begin to look at the longer term, examining the impact and implications of economic policy over three and five year horizons. □



TRADE IN SERVICES FOR CARICOM REGION

CARICOM economies, the smaller ones in particular, are especially vulnerable to international economies' changes and need to adapt intelligently to globalization, a process that has accelerated in the post Cold War context. This process involves the global liberalization of financial flows, the internationalization of production through geographical segmentation of firm activity and the opening up of international market access to a degree that makes it possible to speak about the global market place. It is a process involving heightened economic competition and rapid change which generate uncertainty especially for small open economies with undiversified foreign exchange earning capacity, such as those of CARICOM Member States. Their currently high degree of vulnerability has both political and economic sources, which are inter-related.

Caribbean countries have generally lost geopolitical significance in the post Cold War era with the disappearance of bipolar rivalry which deprived them of international leverage for pressing their economic concerns.

This economic vulnerability derives primarily from high dependence on an extremely narrow range of exports, which has earned CARICOM economies the title of monocrop economies (be they agricultural, mineral or tourism reliant). Increased market competition fueled by global trade liberalization threaten protected markets, without which many important CARICOM commodity exports would not survive or be sharply reduced, with the attendant social backlash. This is most notably the case of bananas at present but extends to other traditional

exports as well. Non-traditional merchandise exports are also threatened as a result of global trade liberalization and other external changes, as is clearly the fate of Caribbean apparel exports to North America with the erosion of their preferential access margin in favor of Mexico, as a consequence of its joining NAFTA.

These circumstances require CARICOM countries to engage in external economic risk-spreading through the adoption of export diversification policies and targeted support for export winners. Such an exercise must focus attention on the competitive possibilities of services as well as goods. Services exports merit special attention because of the sector's growing importance in international trade as well as its growth potential. In 1995, world trade in services was 57% of total trade and 62% in 1996. For the CARICOM region, trade in services formed 60% of its GDP. More specifically, output from services was 80% of the GDP of the Bahamas and Cayman Islands and was no less than 30% of the GDP of Guyana, Trinidad & Tobago and Suriname.

Notwithstanding the importance of tourism for most CARICOM economies as a generator of investment, employment and foreign exchange and the fact that certain newer service activities (for example, offshore financial services and data processing) have been developing favorably, policy discourse on trade-related activity in CARICOM countries continues to have a heavy goods premise and needs to be refocussed in a more balanced way, in order to take account of the possibilities of the highly heterogeneous services

sector. This need appears particularly pressing since the proposed Free Trade Areas of the Americas (FTAA), to which all CARICOM countries have committed themselves, is intended to include services trade liberalization, which is likely to be conducted on a reciprocal basis, as occurs within NAFTA. At the multilateral level also, fulfillment of the objectives agreed to at Marrakesh requires the achievement of a progressively higher level of liberalization in services and the eventual full MFN agreements and national treatment. The region needs, therefore, to accelerate the development of this sector and improve competitiveness in different areas by pursuing required policy and other objectives, and also to prepare itself for reciprocal negotiations on this sector.

Against this background, it is useful to take stock of the information, insights and recommendations provided in the disparate analyses relating to services in CARICOM that have been made available over little more than a decade, with the increasing prominence of service sector issues as the subject was first tabled on the multilateral trade negotiations agenda for the Uruguay Round.

At a recent workshop on "Trade in Services" sponsored by CARICOM/UNDP, there was a review of the Community's programme geared towards the establishment of a regime for trade in Services among its member states. The main objective of the workshop was to inform regional officials and, in turn, the public of the studies being conducted under the initial phase of the programme with a view to obtaining their input on the formulation of a future work-programme for the medium to long-term development of the regional services sector.

The Workshop's review was quite timely, fitting in with the recent signing of the CARICOM Protocol II Establishment Services (Capital) which will bring into being the free movement of the factors of production within the community.

Various reports from consultations done on the region's service sector - findings and recommendations - are at the PSOJ Secretariat and are available for review by interested persons. The reports are voluminous and can be copied at a cost to the individual.

The PSOJ Secretariat has a list of the service-areas reviewed in the consultative works.



This information is being sent to inform the private sector of the current thrust in world trade, so that those who are contemplating diversification, could have some background information to boost their decision-making process. □

CONFERENCES, EXHIBITIONS & TRADE SHOWS

● THESSALONIKI TRADE FAIR

The 63rd Thessaloniki International Trade Fair will be held September 5-14, 1998 in the International Exhibition Center in Thessaloniki, Greece. Interested persons should contact:

Mrs. Del Crooks
Director, Missions & Promotions
JAMPRO
35 Trafalgar Road
Kingston 10
Tel: 929-9450-61
Fax: 960-8082

● TOWARDS THE NEW MILLENNIUM

This is the theme of the International Exposition being staged by the Trinidad & Tobago Export Trading Company Limited during the period September 18-27, 1998 at the International Trade Centre in Trincity, Trinidad & Tobago. Exhibitors from North, Central and South America, Europe, Asia and the Caribbean are expected to showcase products from a wide range of sectors including apparel and accessories, automotive components and vehicles and household products.

Further information is available from:

Mrs. Del Crooks
Director, Missions & Promotions
JAMPRO
35 Trafalgar Road
Kingston 10
Tel: 929-9450-61
Fax: 960-8082

● CURACAO FAIRS

The following Fairs will be held simultaneously i.e. October 14-16, 1998 at the World Trade Center in

Curacao:

- i) The First International Latin-American and Caribbean Trade Fair and Congress on Building and Materials, with the theme "Sustainable and Safe Construction". This Fair will feature appliances, vehicles and tools, among other things.
- ii) HSE '98 i.e. the 2nd International Trade Fair and Conference on Health, Safety and the Environment - Solar and Wind Energy. This event will provide an excellent opportunity for companies to exhibit their expertise, products and services.

Details on both Fairs are available from:

InterExpo Curacao
P.O. Box 3814
Willemstad, Curacao
Netherlands Antilles
Tel: 005999-4611 766
Fax: 005999-4613 506

● EXINTEX

An International Textile Exhibition, EXINTEX will be held November 10-13, 1998 in Puebla City, Mexico. This event will be able to accommodate exhibitors of thread, yarn, woven and knitted fabrics, chemical products and accessories for apparel, among others.

Interest persons should contact:

Mr. Marco Antonio Huerta
Trade and Bilateral Cooperation
Embassy of Mexico
36 Trafalgar Road
Kingston 10
Tel: 926-6891/926-4242
Fax: 929-7995

CONFERENCES, EXHIBITIONS & TRADE SHOWS (CONT'D)



● SIAL 98

This international food exhibition, which takes place every two years, will be held October 18-22, 1998 at the Paris-Nord Exhibition Centre in France. In addition to being a showcase of products in the global food industry, attendees will also be exposed to new products being launched, global consumption trends as well as an international symposium on Food Safety. For further information, please contact:

Salon International De L'Alimentation

Tel: +33 1 46 88 60 13

Web-site: <http://www.sial.fr>



BUSINESS OPPORTUNITIES IN MEXICO

The following are some of the products available from Mexico and for which importers and/or distributors are being sought:

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Contact: Mr. Gerardo E. Martinez
Silvermex by Tanis
Mexico D.F.
Tel/Fax: (52-5) 395-8892
E-mail: silvermexx@hotmail.com

★ Handicrafts (Hammocks, Clay, etc.)

Contact: Ms. Elvia Rubio de Rueda
Eximafel
S.A. de C.V.
Tel/Fax: (52-99) 44-8949
E-mail: wial@yucl.telmex.net.mx

★ Polo Shirts, T-Shirts, Sweat Shirts and Casual Clothing For Women

Contact: Mr. Paul Mitre
Confecciones Satelite,
S.A. de C.V. Naucalpan
Edo. de Mexico
Tel: (52-5) 358-2900/3039
Fax: (52-5) 576-8438

OVERVIEW - PSOJ'S ANNUAL ECONOMIC REPORT 1997

Although FINSAC was formed in late 1996, 1997 will be remembered as the year when it really began to make its mark. In the first quarter of 1997, there was the collapse of the Eagle Group after a sustained run on its financial institutions, and FINSAC subsequently acquired the Group for one dollar. By that time, the excess of liabilities over assets was somewhere in the region of J\$13-14 billion. FINSAC also acquired the commercial banking investments of Life of Jamaica as part of a rescue package for that institution, taking over Citizens Bank in the process and 30% of CIBC Jamaica Ltd. By the end of the first quarter of 1998, FINSAC had given assistance to four life insurance companies, had taken over all the locally owned commercial banks with the exception of two small institutions, and acquired or assisted a number of merchant banks.

The creation of FINSAC was the government's major reaction to the crisis in the financial sector and this company's principal action has been the channeling of government guaranteed debt (known as FINSAC paper) and preference shares into these companies to restore their balance sheets to a healthier state. More recently, FINSAC has also exchanged substantial blocks of non-performing debt from some of the banks which it has taken over, for further injections of FINSAC paper. While this action has staved off, for a while, the solvency problems of these institutions, it has not dealt with the cash flow and liquidity difficulties which they were experiencing, as the FINSAC paper carries no cash payments of interest for several years. As of April 1998, FINSAC has incurred some J\$80 billion of debt in its programme of assistance to financial institutions.

There has been no policy response by the government to the collapse of so many of our financial institutions and, in fact, in the latter half of 1997, domestic interest rates rose dramatically in both nominal and real terms. This was in response to increasing pressure on the exchange rate which was already considerably overvalued. The government was successful in its defense of the exchange rate, drawing down on its international reserves and borrowing US\$300 million on the international market in order to accomplish its objective.

The 1998/99 budget has also given no indication of a change in the direction of government policy and the implications of it are that the high interest rate policy will remain in place for at least another year, even though inflation has been in single digits for the past year and should continue at this level for a while. The size of the budget, almost 60% of GDP, suggests that very little of the adjustment in consumption will take place on the public side of the economy, implying that the private sector will have to bear a disproportional share of the contraction in consumption and output. This will mean a considerable increase in unemployment and in the number of business failures. Of course, the contraction in the productive side of the economy will make it more difficult for the government to realize its revenue targets and therefore more difficult to finance its expenditure. The large fiscal deficits that occurred in the past two financial years will remain a feature of public finances until the government abandons its policy of extremely high domestic interest rates and reduces its administrative expenditure.

While the problems of the financial sector have been occupying centre stage, the real sectors of the economy have not been doing very well either. Agricultural output has declined dramatically, due to prolonged drought in 1997 and to competition from imported produce. Export agriculture has been affected by the overvalued local currency, but the banana industry has been insulated somewhat by good prices in the United Kingdom, its major market. The manufacturing sector has continued to contract, with the apparel industry suffering a number of factory closures. Even the bauxite/alumina industry, which has been enjoying higher prices on the international market and record levels of local production has not been without its problems. High local wages and an unstable industrial relations environment, have caused the companies in this sector to think long and hard about carrying out additional investments, without which the local industry cannot continue to be viable. If there is no change in policy that will encourage and facilitate these investments, the consequences for the economy could be quite severe.

The outlook for the economy in 1998 and beyond is quite gloomy, if one assumes that government policy is going to continue on its present path, and unfortunately there is no reason to think otherwise. They have just received in the December 1997

elections, a mandate for another 5 years in office and have just tabled a budget of continuity. Unless there is a major shift in the direction of policy after the municipal elections that are due in June 1998, we had better resign ourselves to the short and medium term consequences of the present policies.

The recession will deepen in 1998 and the economy will contract even more severely than the 2.4% decline that took place in 1997. Business failures and unemployment will rise and both output and consumption will fall, leading to higher rates of poverty and deteriorating social conditions. The fight against inflation will get harder as the government struggles to finance its expenditure in the light of declining revenue, brought about by the economic downturn. The cost of the financial sector collapse and its subsequent rescue will also begin to bear heavily on the economy, and another round of assistance to the sector is a distinct possibility, as the economic environment which created the problems remains firmly in place. The government's economic policy programme is underpinned by its access to foreign loans in order to close the substantial gap in the external account. It can presumably continue to hold the present course until its foreign creditors lose confidence in its ability to meet its obligations. □



Panelists leading the discussion on "The Jamaican Economy - Repression or Depression" were (from left) PSOJ's Charles Ross (Moderator), Prof. Wolfgang Grassl (Mona Institute of Business) Ms. Donna Duncan (JMMB), Dr. Damien King (UWI) and Mr. Vivian Brown (ICWI).

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The course aims to provide skills in promoting entrepreneurship, identification of enterprises and formulating suitable support systems for the promotion of women's enterprises.

Participants are invited from financial institutions, commercial banks, government and non-governmental organizations.

The Government of India will provide funding for selected candidates.

The PSOJ Secretariat has additional information as well as the application form which is to be completed in triplicate. The completed form should be returned by October 5, 1998 to:

Miss J. Lebert
Management Development Division
Human Resource Management & Development
Branch
(Office of the Cabinet)
Citibank Building, 8th Floor
63-67 Knutsford Boulevard
Kingston 5
Tel: 926-3237-47
Fax: 920-1291/926-7917

WORK FORCE DEVELOPMENT CONSORTIUM PIONEERS NEW GROUND WITH JOB MATCHING SYSTEM

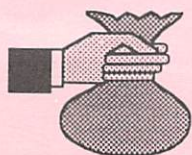
Job seekers and employers with vacancies available in their organisations both have a common goal, which is: **to find each other**. The key to an effective and efficient job placement service is to be able to match the occupational qualifications and skills of the person looking for work with an employer who has a position requiring those skills. In April, WFDC in association with Hickling-Macauley-HRDC of Canada launched its **Electronic Labour Exchange (ELE)** web-site as a service to Jamaican employers and job seekers.

The first of its kind in the Caribbean, the ELE is a dynamic and user-friendly job matching service for both employers and job seekers. The system uses a simple three (3) step process to generate relevant data. It saves time, money and effort, and is quick and easy to use.

Employers and job-seekers use a similar in-built checklist which creates a) a profile of the vacancy and b) the job seeker's skills profile/resume. The ELE executes an automatic job match for the ideal worker as well as a more precise short-list of potential employees. Consequently, it reduces the need to advertise vacancies and the time consuming task of developing detailed job requirements, and also eliminates the hassle of sorting and short-listing resumes. Using the ELE, job seekers have the opportunity to have their skills and interests displayed to thousands of potential employers via the Worldwide Web. The ELE is the easiest way of job matching for both organisations and potential employees.

For further information on this innovative system contact:

Work Force Development Consortium
22b Old Hope Road, Kingston 5
Tel: 920-8278-82
Fax: 920-6722



ECONOMIC

Update

UPDATE ON SELECTED ECONOMIC INDICATORS

INTEREST RATES(%)	Dec 94	Dec 95	Dec 96	Mar 97	Jun 97	Sept 97	Dec 97	Mar. 98	Apr. 98
Fixed Deposits (J\$100,000 and over 3 to 6 months)	20-32	19-42	13-27	8-17.5	8-20	8-20	8-20	12-30	12-27
Loan Rates (Avg)	56.14	55.27	55.22	47.92	44.94	44.22	44.17	44.17	44.44
Savings Rates (Avg)	18.75	17.82	17.96	15.52	14.08	13.02	13.02	13.02	13.02
Jamaican Treasury Bill (6 months avg. Dis. Rate)	-	34.97	26.37	18.13	17.90	28.08	22.99	27.99	27.51

COMMERCIAL BANKS (J\$M)	Jan 95	Dec 95	June 96	Dec. 96	Mar 97	Jun 97	Sept. 97	Dec. 97	Feb. 98
Assets and Liabilities	96276.50	121324.90	121634.40	135986.00	154232.0	141254.9	147359.2	148343.9	149376.9
Loans and Advances	33610.90	45864.20	46570.20	54721.00	67258.9	55422.2	58538.70	59091.8	57898.9
Deposits	68751.80	89135.40	88083.30	94103.30	102944.5	104143.8	106,658.50	109,313.2	108347.1
Liquidity Ratio (%)	50.00	47.00	47.00	47.00	47.00	47.00	47.00	47.00	47.00
Actual Liquidity (%)	61.95	44.78	48.43	50.35	56.71	54.27	49.62	50.74	47.37

OTHER FINANCIAL INSTITUTIONS (J\$M)	Dec 94	July 95	Dec 95	Mar 96	Jun 96	Sept 96	Dec. 96	Jan 97	Sept. 97
Assets and Liabilities	29023.50	47213.80	46712.20	49175.40	47268.10	52181.90	56789.70	55573.6	55200.00

BALANCE OF PAYMENTS (US\$M)	Jan - Dec 1993	Jan - Dec 1994	Jan - Dec 1995	Jan - Dec 1996	Jan-Dec 1997	Jan-Mar 1997	Jan-Mar 1998	US\$Mn Change 97/98
Merchandise	-1113.80	-957.70	-1395.00	-1527.30	-1719.1	-369.10	-357.00	-3.30
Exports (fob)	1075.40	1219.50	1436.80	1379.40	1387.6	337.20	346.70	2.80
Imports (cif)	2189.20	2177.20	2831.80	2906.70	3106.7	706.30	703.70	-0.40
Services (net)	529.70	500.70	617.00	746.60	747.40	228.60	198.00	-13.40
Foreign Travel	886.90	854.00	939.60	979.70	961.70	270.60	258.80	-4.40
Investment Income	-240.20	-284.30	-296.90	-209.00	-196.20	-37.00	-51.80	40.00
Other	-117.00	-69.00	-25.70	24.10	-18.10	-5.00	-9.00	13.20
GOODS AND SERVICES	-584.10	-457.00	-778.00	-780.70	-971.70	-140.50	-159.00	-6.90
Transfers (net)	371.90	457.30	563.30	542.30	641.70	173.60	161.60	
Private	306.40	447.20	505.60	481.60	606.30	164.60	156.40	
Official	65.60	28.10	57.70	60.70	-13.00	9.00	5.20	-92.10
Current A/C	-212.20	18.30	-214.70	-238.40	-212.20	33.10	2.60	
Net Capital Movements	310.30	367.10	238.10	509.70	310.30	-77.20	52.00	
Official	-4.10	-93.70	-106.60	-113.00	-4.10	-65.10	-16.30	
Private (including net errors and omission)	314.40	460.80	344.70	622.70	314.40	-12.10	68.30	
Change in reserves (BOJ)	-98.10	-385.40	-23.40	-271.30	-98.10	-44.10	-54.60	
(Increase = minus)								

EXCHANGE RATES	Dec 93	Dec 94	Dec 95	Mar 97	Jun 97	Sept 97	Dec 97	Feb. 98	Mar 98	Apr. 98	May 98
US\$ = J\$	32.70	33.37	39.80	35.07	35.37	36.03	35.59	36.28	36.51	36.53	36.47
BR. Pound = J\$	42.60	50.15	59.20	55.59	57.66	57.41	59.80	58.35	60.20	59.81	58.34
Can\$ = J\$	21.80	22.96	28.11	25.21	25.36	26.00	24.77	25.09	26.40	26.60	25.37

FOREIGN CURRENCY A/C (US\$M)	Dec 93	Dec 94	Dec 95	Dec 96	Mar 97	Jun 97	Sept 97	Dec 97	Feb 98	Mar 98	Apr 98
Commercial Banks	428.40	668.70	737.30	728.11	767.1	817	869.49	1001.3	1037.9	1037.9	1073.8

INTER BANK TRADING (US\$)	Dec 93	Dec 94	Dec 95	Dec 96	Mar 97	Jun 97	Sept 97	Dec 97	Feb 97	Mar 98
Purchases	78.70	128.00	108.90	225.13	249.80	154.7	178.03	167.66	178.10	207.70
Sales	79.60	126.20	110.06	217.68	258.50	152.9	180.61	180.90	174.65	228.70

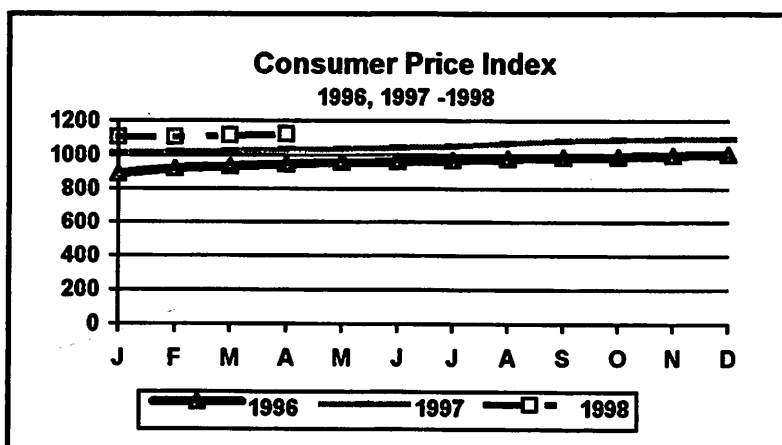
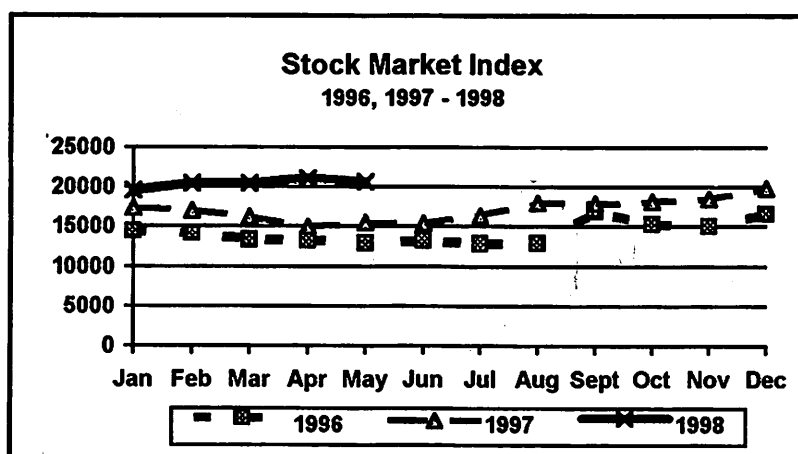
FISCAL ACCOUNTS (J\$M)

	Apr - Mar 1995/96	Apr - Mar 1996/97	April - Mar Budget 1997/98	April -Dec Out-turn 1997/98	Out-turn Budget Difference 1997/98
Revenue	78208.0	63085.6	66080.50	73867.10	-7786.60
Expenditure	61659.0	78050.8	87393.70	78774.40	8619.30
Deficit/Surplus	-16549.0	-14965.2	-21313.20	-4907.60	16405.60

NATIONAL DEBT	Dec 93	Dec 94	Dec 95	Jun 96	Dec 96	Mar 97	Jun 97	Sept 97	Dec. 97	Mar 98	Apr. 98
Internal Debt (J\$M)	23554.80	41248.50	59470.00	62997.67	7703.83	85123.00	93144.0	96420.0	101237.8	101540.2	n/a
External (US\$M)	3647.20	3651.80	3446.00	3340.51	3231.90	3170.30	3230.0	3350.0	3277.6	3223.1	3216.1

SELECTED MONETARY INDICATORS (J\$M)

	Dec 93	Dec 94	Dec 95	June 96	Dec 96	Mar 97	Jun 97	Sept. 97	Dec. 97	Mar. 98
Money Supply (M1)	14523.30	17896.70	23227.70	22168.43	26913.50	25694.4	25464.0	25142.24	28623.80	25780.70
(M1 and Quasi-Money) M2	39492.30	54783.50	73617.60	72642.40	82679.90	86669.5	88663.9	90479.83	95604.60	92947.30
Net International Reserves (US\$Mn; BOJ)	-80.12	397.92	417.46	598.43	692.61	648.48	563.9	585.50	540.50	595.10
Credit to Public Sector	-2408.10	-8506.30	-4986.90	-3526.50	9192.60	9330.9	30301.6	31920.20	33154.50	35148.80
Credit to Private Sector	21148.00	26282.80	39927.50	42555.00	50194.70	54094.4	52479.9	52444.10	53628.50	58937.10



For the calendar year 1997, Inflation Rate = 9.2%
For the Fiscal year (April 1997 - March 1998) = 7.9%
Inflation for April 1998 = 0.4%
Year to date 1998 = 1.9%

THE PSOJ'S MONTHLY CONFIDENTIAL ECONOMIC BULLETIN

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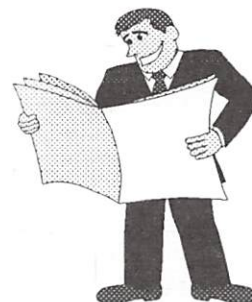
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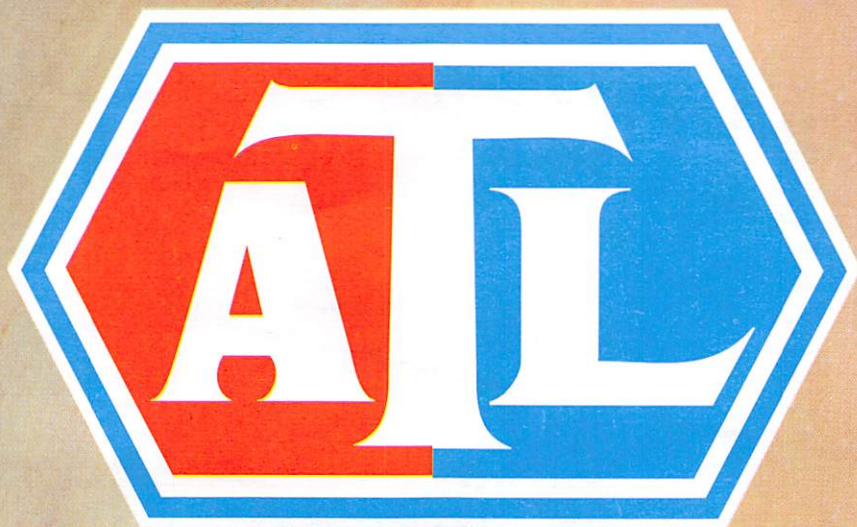
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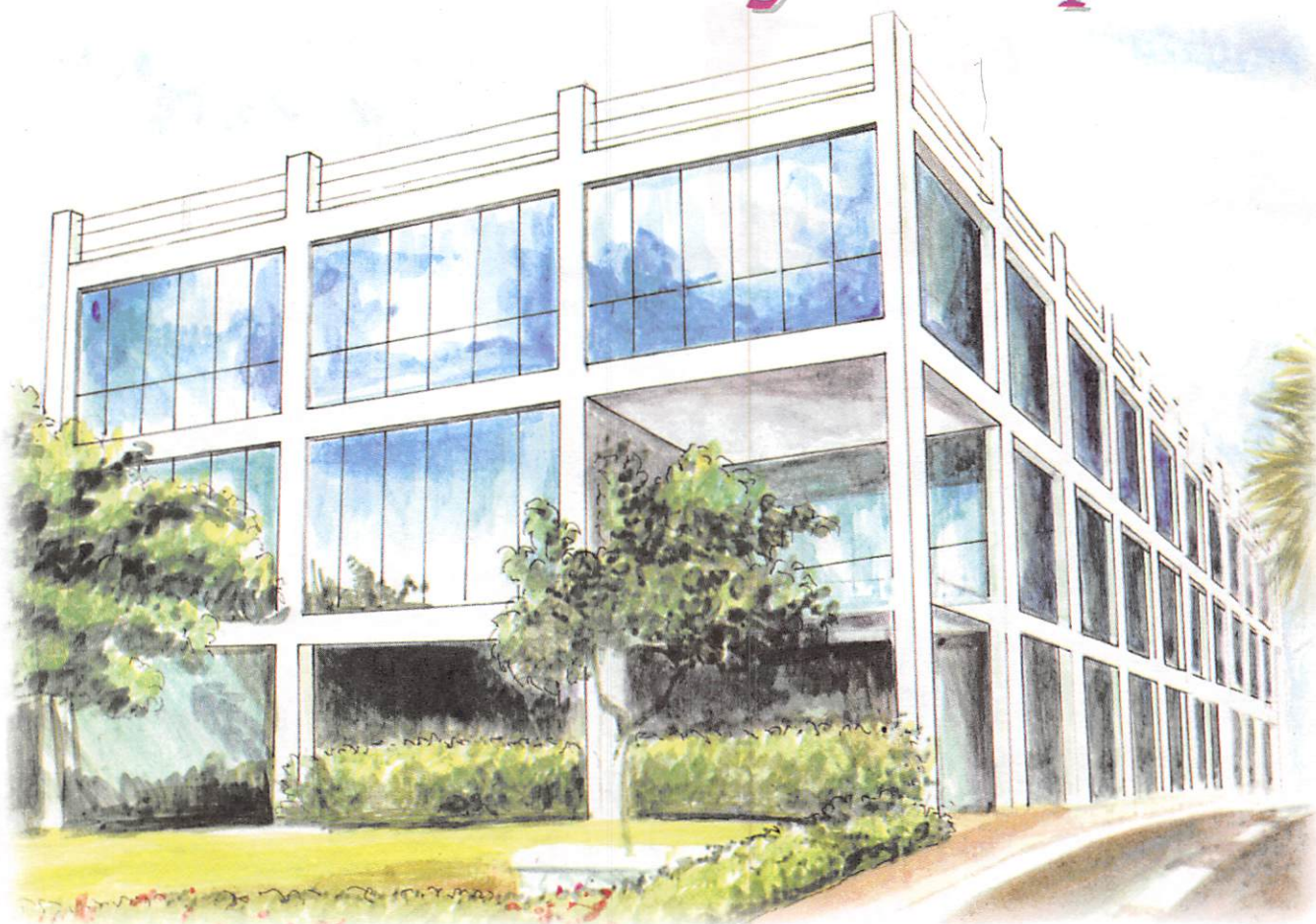
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