



## INVESTMENT: LATIN AND CARIBBEAN EXPERIENCE

- Adolph Palmer, Research Economist, PSOJ

*[The following article is based on the recent findings of the Association of American Chambers of Commerce in Latin America (AACCLA) and PriceWaterhouseCoopers LLP on the foreign investment climate in Latin America and the Caribbean for 1999. Executives from over 200 top multinationals and large conglomerates participated in the survey conducted in March 1999.]*

Many investors are looking for alternatives to the U.S. market. Despite recent drops in capital flows, Latin America remains a major investment target for both multinational corporations (MNCs) and private equity funds in search of new investments.

In 1998, average real gross domestic product (GDP) growth for Latin America declined to 2.6% from 5.5% in 1997, and net foreign direct investment declined to approximately US\$3 billion, a 7% drop from 1997 levels.<sup>1</sup>

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During 1998, most countries in the region have been successful at reducing public sector involvement in the economy through mass privatization programs, as well as improving fiscal discipline and opening economies to trade. Additionally, despite political setbacks, democratic institutions remain firmly in place.

Major issues affecting investors in 1998 and early 1999 included:

### (I) Indirect Effect of the Asian and Russian Economic Crises

The Asian economic crisis affected Latin American countries (LAC) by lowering demand for exports and simultaneously increasing competition, as certain Asian producers benefitted from the currency depreciation. The Russian crisis led to a lack of investor confidence in emerging markets, which also had a negative

effect on investment in the region. Lower export prices and high interest rates have stunted economic growth in 1998 and may keep growth low in 1999.

Market volatility was most extreme in Brazil, Mexico and Venezuela, although Mexico and Venezuela have recovered to a great extent. Brazil, however, continues to remain the object of much speculation, having experienced an approximate 35% decline in its currency from mid-January through mid-April 1999. Although the impact of the Brazilian crisis on the other emerging markets has been relatively small, the real's sharp drop has altered economic conditions in Brazil.

<sup>1</sup> Source: United Nations Economic Commission for Latin America and the Caribbean (ECLAC)

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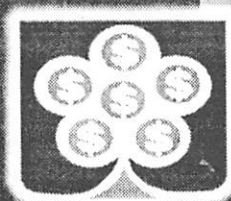
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## (II) Trade Agreement Negotiations

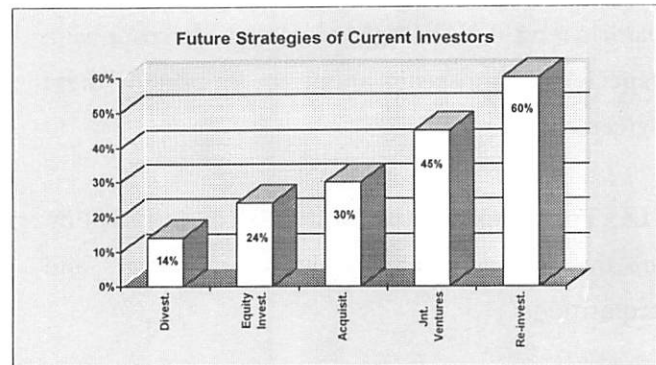
- a) FTAA - In April 1998, the leaders of thirty-four nations agreed to launch negotiations to create a Free Trade Area of the Americas (FTAA) by 2005. The FTAA will ensure that U.S. companies have growing and non-discriminatory access to expanding Latin American markets.
- b) Banana Wars - The World Trade Organization (WTO) ruled against the European Union on two separate occasions to stop discrimination against Central American bananas distributed by American companies in favour of Caribbean products. However, due to a lack of rule clarification, the EU has continued to treat banana imports unequally. This is problematic in that it pits against each other, two regions which should be working together. Ultimately, the dispute may even jeopardize the effectiveness of the WTO and lead to increased trade barriers.

## (III) Natural Disasters

Peru and Ecuador were significantly affected by El Niño in 1998, with GDP growth slowing down to 1% in Peru and 1.5% in Ecuador. Hurricane Mitch killed approximately 10,000 people and caused approximately US\$6 billion in damages in the Honduras. The earthquake in Colombia decimated the richest coffee growing region in the country.

(IV) Investor commitment to Latin America and the Caribbean remains strong, despite recent economic crises. Strategic investors in Latin America and the Caribbean have a long term commitment to the region, as indicated by the fact that 55% of the companies surveyed are planning significant new investments in operations, 45% are planning joint ventures and 30% are planning acquisitions over the next two years.

Graph to be inserted



(V) Market potential is the primary reason companies have chosen to invest in the region. Tax benefits and inexpensive labour were the least important reasons for investing. The result of the survey confirms the belief that investors are interested in long term benefits in the countries where they operate.

(VI) New opportunities exist for equity investors. Not only are investors interested in re-investing in their operations with their own funds, but 24% of the investors polled indicated that they are interested in working with outside equity investors, such as private equity funds.

(VII) The key source of competitive advantage for companies in Latin America and the Caribbean, according to the AACCLA report, includes:

1. Relationship with a multinational or parent company
2. Local market knowledge
3. Strong local management
4. Sufficient investment in critical business functions
5. Market share.

*Cont'd overleaf*

(VIII) Western hemisphere trade agreements are seen as having a positive impact. Countries participating in NAFTA (Mexico) and Mercosur were especially enthusiastic about the impact of these agreements.

(IX) Price expectations and lack of information are the primary stumbling blocks in mergers and acquisitions.

(X) Unclear legislative frameworks ranked as the top barrier to foreign investment. Most countries have modified their foreign investment laws in the past five years. However, investors are still unable to

understand the legislative framework due to their ambiguity or inconsistent applications.

#### Regulatory Barriers to Foreign Investment

Unclear legislative framework	- 43%
Environmental costs/regulations	- 11%
Ownership requirements/limitations	- 13%
Import restrictions/duties	- 20%
Repatriation of profits	- 6%
Exchange controls	- 8%



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(XI) Investors generally believe that tax regulations need to be liberalized, but most importantly, that tax administration is in need of reform.

### **General Tax Rates by Country**

Country	Corporate Income Tax	Remittance of Dividends	Royalties	Value Added Tax	Capital Gain
Argentina (1)	35%	varies	21%-31.5%	21%	none
Bolivia	25%	13%	13%	13%	25%
Brazil	33%	none	15%	varies	15%
Chile	15%	35%	30%	18%	35%
Colombia	35%	7%	40%	16%	35%
Costa Rica	30%	15%	25%	13%	none
Dominican Republic	25%	0%	25%	8%	25%
Ecuador	1%	1%	1%	10%	none
El Salvador	25%	25%	25%	13%	varies
Guatemala	20%-30%	13%	30%	10%	none
Honduras	25%	15%	25%	varies	10%
Jamaica	33%	33%	33%	15%	none
Mexico	35%	5%	15%-40%	10%-15%	20%-40%
Nicaragua	30%	none	21%	15%	30%
Panama	30%	10%-20%	30%	5% (sales tax)	30%
Paraguay	30%	5%	18%	10%	none
Peru	30%	none	30%	18%	30%
Trinidad & Tobago	35%	15%	20%	15%	none
Uruguay	30%	30%	30%	23%	none
Venezuela	34%	none	31%	17%	34%

**Note:**

(1) Argentina: Payment of dividends/distribution of profits in excess of net taxable income subject to 35% withholding. VAT of 10.5% for some financial transactions and 27% for some public services. Capital gains for local corporations are taxable.

*Cont'd overleaf*

(XII) Skill level and high social cost obligations are the primary concerns with regard to labour. The skill level of employees was a top concern of companies across all twenty countries. This may indicate that investors will need to invest time and resources in employee training to be competitive. Social cost obligations, such as social security, medical insurance and vacation pay which are mandated by law, were major concerns in Brazil and Mexico.

(XIII) Eighty percent (80%) of those surveyed reported that unions have little or no impact on their

operations. This finding is particularly important since unionization is relatively high in Latin America and the Caribbean. Brazil is a notable exception in that 71% of companies operating there believe labour unions have had a negative impact on their operations.

(XIV) Top priorities include: infrastructure improvement, legal reforms with regard to foreign investment and commercial law, and corruption reduction. □

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PORT MARIA  
ANNOTTO BAY  
PORT ANTONIO  
MORANT BAY

# EDUCATION/TRAINING OPPORTUNITIES

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## ● WOODROW WILSON FELLOWSHIPS

October 1, 1999 is the deadline date for the Woodrow Wilson International Center for Scholars to receive applications for fellowships for the academic year 2000-2001.

The Center, which is a research institute created by the U.S. Congress, awards approximately 20 residential fellowships to individuals with outstanding project proposals representing the entire range of scholarship - strong emphasis is placed on the humanities and social sciences.

Details as well as application forms are available from:

*The Fellowships Office  
The Woodrow Wilson Center  
One Woodrow Wilson Plaza  
1300 Pennsylvania Avenue, NW  
Washington, D.C. 20004-3027  
U.S.A.  
Tel: (202) 691-4170  
E-mail: [fellowships@wwic.si.edu](mailto:fellowships@wwic.si.edu)  
Worldwide Web: <http://wwics.si.edu>*

## ● INDUSTRIAL RELATIONS PROGRAMME

The Ministry of Labour, Social Security and Sport, through its Industrial Relations Division, has established an Outreach Education Programme. The aim of this programme is to sensitize the working population, managers and employers to the pertinent principles of Industrial Relations. Consequently, there should be more awareness of the employer/employee relationship as well as their responsibilities, resulting in a reduction in industrial unrest and conflicts.

Companies which would like to benefit from this service should contact:

*Ms. Jean A. Smith  
Director, Outreach Programme  
Ministry of Labour, Social Security and Sport  
1F North Street  
Kingston  
Tel: 922-2368/922-9500-1  
Fax: 922-0996*

## PSOJ EVENTS: SEPTEMBER - DECEMBER 1999

### DATE

### EVENT

September 30

Membership Get-together  
"A Meeting of the Movers, A Soiree with the Shakers!"  
Venue: PSOJ's office

To be confirmed

Past President's Dinner

November 18

Membership Breakfast/Luncheon

November 25

Annual General Meeting  
Venue: Terra Nova Hotel?

November/December

Private Sector Hall of Fame Banquet

*Please put these dates in your diary - don't miss out on being a part of these important events! □*

*A Warm Welcome to...*

\* New Members of the PSOJ family:

Jamaica Manufacturers Association - Association

Ashchar Consultants } - Companies  
ServWel Industries }

Mr. David Garel } - Individuals  
Mr. Sameer Younis, C.D., J.P. }

\* SBAJ President - Mrs. Cheryl Phillips.

We look forward to a mutually satisfying relationship!! □

## *A Get-together with a Difference!*

September 30 is the date of the next PSOJ Get-Together for members of the Organisation and their guests. The Membership Committee has been working very hard at creating an "evening with a difference". Come and be a part of this special event - "A Meeting with the Movers, A Soiree with the Shakers!" □



## THE PSOJ REVIEW

What do you, PSOJ members, think of the Secretariat's newest publication "THE PSOJ REVIEW"? Is it achieving its objective i.e. of informing members about the Organisation's activities on a monthly basis? Please send your comments and suggestions to the PSOJ Secretariat. □

## ECONOMIC BULLETIN

Subscribe now to the PSOJ's Economic Bulletin - a monthly update on economic variables such as NIR, foreign exchange, money supply, inflation, interest rates, etc. as well as current trends and forecasts. Only requirement - a fax machine! Contact the PSOJ's Economics Division for subscription rates. Don't delay - information in this publication could help you to make an important business decision! □

## ECONOMIC REPORT

Copies of the PSOJ's 1998 Annual Report on the Jamaican Economy are available from the PSOJ Secretariat at \$600.00 each. □



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# CONFERENCES

## EXHIBITIONS & TRADE SHOWS



### ● TAX ASSOCIATION CONFERENCE

The annual Foreign Sales Corporation (FSC)/Domestic International Sales Corporation (DISC) Tax Association Conference, the premier event for service providers in this sector, will be held November 7-10, 1999 at Caesar's Palace in Las Vegas, Nevada. The theme of the conference is "Optimizing Your FSC Benefits into the New Millennium".

Details are available from:

*Mrs. Patricia Francis  
JAMPRO*

*35 Trafalgar Road  
Kingston 10*

*Tel: 929-7190-5*

*Fax: 960-8082*

*E-mail: jampro@investjamaica.com*

### ● TOOLTECH 99

Tooltech 99, an international exhibition of cutting tools, tooling systems, metrology and CAD/CAM equipment and software, is scheduled to take place November 19-23, 1999 at the Godrej Industrial

Complex in Mumbai, India. Further information is available from:

*The High Commission of India  
4 Retreat Avenue  
Kingston 6*

*Tel: 927-3114/927-4270*

*Fax: 978-2801*

### ● ENTERPRISE COMPETITIVENESS WORKSHOP

The Commonwealth Secretariat in association with the Government of Barbados and the Caribbean Export Development Agency will be hosting a workshop on "Enterprise Competitiveness and Public Policies in the Caribbean." This will be held November 22-25, 1999 at the Grand Barbados Hotel in Aquatic Gap, St. Michael, Barbados.

Further information is available from:

*Ganesh Wignaraja  
Export and Industrial Development Division  
Commonwealth Secretariat  
Marlborough House, Pall Mall  
London, SW1Y 5HX  
ENGLAND*

*Tel: (44) 171 747 6308*

*Fax: (44) 171 747 6307*

*E-mail: g.wignaraja@btinternet.com*

## CONFERENCES, EXHIBITIONS & TRADE SHOWS (CONT'D)

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### ● MIAMI CONFERENCE

The 23rd Annual Miami Conference on the Caribbean and Latin America, sponsored by Caribbean/Latin American Action, will be held December 7-10, 1999 at the Hotel Inter-Continental in Miami, Florida. The conference will feature three days of working sessions, "major meal sessions" with Heads of Governments and business CEOs, a business and technology exposition as well as opportunities for private meetings.

For further details, contact:

*Caribbean/Latin American Action  
1818 N. Street, N.W., Suite 500  
Washington, D.C. 20036  
U.S.A.  
Tel: 202 466 7464  
Fax: 202 822 0075  
Website: [www.claa.org](http://www.claa.org)  
E-mail: [infor@claa.org](mailto:infor@claa.org)*

### ● CARIBEXPO 1999

Organised by the U.S. Department of Commerce (Caribbean Region), this event will be held October 20-23, 1999 in Port of Spain, Trinidad. CARIBEXPO 1999 is the first of its kind and will showcase U.S. firms interested in forming partnerships with companies in the English-speaking Caribbean. Additional information is available from:

*Mr. Emile Alexander Finlay  
Commercial Representative  
Foreign Commercial Service*

*U.S. Embassy  
2 Oxford Road  
Kingston 5  
Tel: 926-8115  
Fax: 920-2580*

*E-mail: [usfcskingston@jamweb.net](mailto:usfcskingston@jamweb.net)*

### ● COMDEX/FALL '99

This conference/expo will focus on four important technology trends for business i.e. software platforms, e-commerce, networking/communications and information appliances. COMDEX/FALL '99 will be held November 15-19, 1999 in Las Vegas at the Las Vegas Convention Centre, Las Vegas Hilton and Sands Expo and Convention Centre. Details are available from:

*The Registration Department  
COMDEX/FALL '99  
300 First Avenue  
Needham, MA 02494-2722  
Fax: 781-449-2674  
E-mail: [www.comdex.com](http://www.comdex.com)*



# ENVIRONMENTAL NEWS



## **Environmental Foundation of Jamaica**

The Environmental Foundation of Jamaica was established in May 1993 under the Enterprise for the Americas Agreement to provide financial assistance to civic organizations involved in the conservation and management of Jamaica's natural resources and issues of child survival and development. Under the agreement, a part of the principal for the PL480 and AID debts was forgiven, however the interest payable on the remaining portion was paid into a Fund, managed by the Foundation.

A nine-member Board with the support of members and a Secretariat governs the Foundation. The Board is comprised of institutional members namely the Governments of Jamaica and the United States, the University of the West Indies, a Child Survival Director and five NGO Directors. There are currently 59 members of the Foundation, including the Private Sector Organisation of Jamaica. Members help the Foundation to nominate the Board, formulate policy, promote its work and lend their experience to the grant-making operations.

The Foundation gives grants in five main areas namely:-

- Capacity building
- Sustainable Livelihoods
- Active Participation of children in their natural and social environment
- Technological Innovation
- Environmental awareness and action.

The Foundation accepts grant proposals from non-governmental organizations and not-for-profits throughout the year. Depending on the size of the grant, processing time could range from one to four months.

Proposals which show a high level of community and child participation, as well as counterpart support, and demonstrate a methodology that is sustainable and can be replicated elsewhere, increase their chance of approval.

Based on an analysis of the grant-making experience, the Foundation now uses a mix of responsive and proactive strategies to identify eligible projects and organizations for grant funding.

Since inception to July 1999, the Foundation has made approximately 362 awards for a total value of over \$238m.

The Foundation's office is now located at Unit #27, Seymour Park, 2 Seymour Avenue, Kingston 10. □



# DOWNTOWN KINGSTON



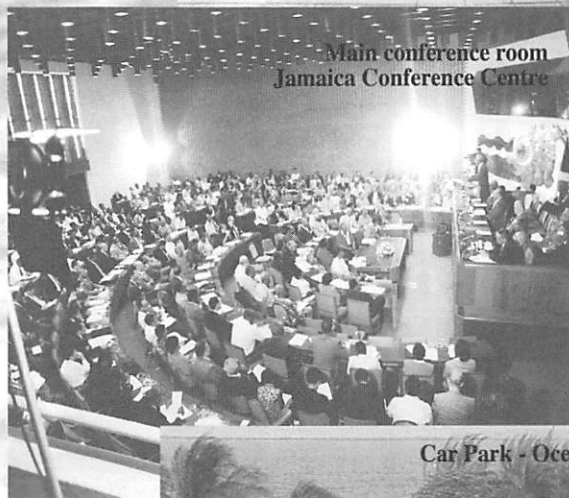
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# Economic Update

## UPDATE ON SELECTED ECONOMIC INDICATORS

INTEREST RATES(%)	Dec 94	Dec 95	Dec 96	Dec 97	Dec. 98	Jan.99	Mar.99	Jun.99	Jul.99
Fixed Deposits (J\$100,000 and over 3 to 6 months)	20-32	19-42	13-27	8-20	10.5-18.75	10.50-18.75	10.50-18.75	10.00-17.50	10.00-17.50
Loan Rates (Avg.)	56.14	55.27	55.22	44.17	38.8	38.47	38.60	37.89	36.50
Savings Rates (Avg.)	18.75	17.82	17.96	13.02	12.13	12.25	12.09	11.96	11.50
Jamaican Treasury Bill (6 months avg. Dis. Rate)	-	34.97	26.37	18.13	23.52	22.62	-	20.16	-

COMMERCIAL BANKS (J\$M)	Dec 95	Dec. 96	Dec. 97	Dec. 98	Jan.99	Mar.99	May.99
Assets and Liabilities	121324.90	135986.00	148343.90	169788.00	171691.20	186027.15	188240.44
Loans and Advances	45864.20	54721.00	59091.80	43083.85	43774.40	47624.67	39918.77
Deposits	89135.40	94103.30	111330.60	114090.96	115064.87	122462.74	125456.99
Liquidity Ratio (%)	47.00	47.00	47.00	43.00	43.00	41.00	39.00
Actual Liquidity (%)	44.78	50.36	50.74	50.17	48.93	52.28	48.20

OTHER FINANCIAL INSTITUTIONS (J\$M)	Dec 95	Dec. 96	Dec. 97	Dec .98	Jan. 99	Feb.99	Jun. 99
Assets and Liabilities	46712.20	56789.70	55200.00	67870.53	55932.57	52445.25	62412.29

BALANCE OF PAYMENTS (US\$M)	Jan - Dec 1993	Jan - Dec 1994	Jan - Dec 1995	Jan - Dec 1996	Jan-Dec 1997	Jan-Dec 1998	* Jan-Mar 1999	* Jan-Apr 1999	* Jan-May 1999	**US\$Mn Change 98/99
Merchandise	-1113.80	-957.70	-1395.00	-1527.30	-1726.80	-1670.30	-244.20	-314.70	-413.60	-45.10
Exports (fob)	1075.40	1219.50	1436.80	1379.40	1386.20	1290.30	343.30	477.30	606.00	-96.40
Imports (cif)	2189.20	2177.20	2831.80	2906.70	3113.00	2960.60	587.50	792.00	1019.60	-51.30
Services (net)	529.70	500.70	617.00	746.60	700.60	738.30	131.10	220.00	245.90	23.60
Foreign Travel	886.90	854.00	939.60	979.70	968.50	932.90	275.10	358.00	425.30	13.70
Investment Income	-240.20	-284.30	-296.90	-209.00	-199.90	-127.10	-5.60	-78.80	-102.10	42.70
Other	-117.00	-69.00	-25.70	24.10	-68.00	-67.50	-95.40	-78.80	-94.10	-6.30
GOODS AND SERVICES	-584.10	-457.00	-778.00	-780.70	-1026.20	-932.00	-	-	-	-
Transfers (net)	371.90	457.30	563.30	542.30	626.30	620.70	150.80	211.20	266.70	6.20
Private	306.40	447.20	505.60	481.60	596.30	596.10	147.40	198.10	250.70	9.40
Official	65.60	28.10	57.70	60.70	30.00	24.60	3.40	13.10	16.00	-3.20
Current A/C	-212.20	18.30	-214.70	-238.40	-399.90	-311.30	46.50	54.0	15.40	29.40
Net Capital Movements	310.30	367.10	238.10	509.70	247.80	352.80	-50.20	-58.70	-20.70	-20.70
Official	-4.10	-93.70	-106.60	-113.00	43.10	-57.70	-51.50	-69.00	-81.30	-39.50
Private (including net errors and omission)	314.40	460.80	344.70	622.70	204.70	410.50	0.80	15.70	69.10	-39.10
Change in reserves (BOJ) (Increase = minus)	-98.10	-385.40	-23.40	-271.30	152.10	-41.50	-0.50	-5.40	-8.50	n/a

\* - Calculated using the *New Methodology*

\*\* - Change calculated from Jan-May 1998 to Jan-May 1999 using the *New Methodology*



EXCHANGE RATES	Dec 93	Dec 94	Dec 95	Dec 97	Dec. 98	Jan 99	Mar 99	Jun 99	Jul 99
US\$ = J\$	32.70	33.37	39.80	35.59	37.16	37.65	38.28	38.58	39.69
BR. Pound = J\$	42.60	50.15	59.20	59.80	61.07	59.74	59.64	58.33	62.66
Can\$ = J\$	21.80	22.96	28.11	24.77	23.91	24.35	24.64	25.79	25.85

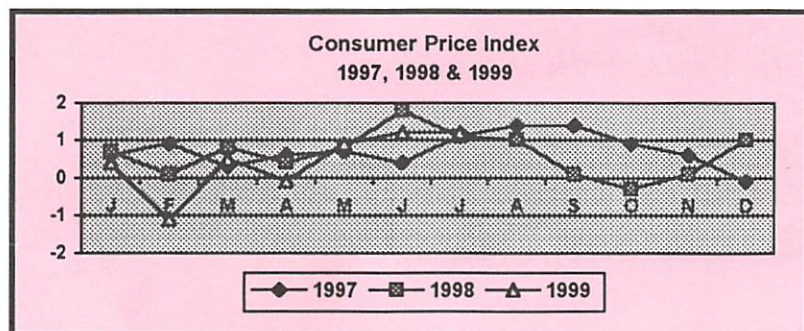
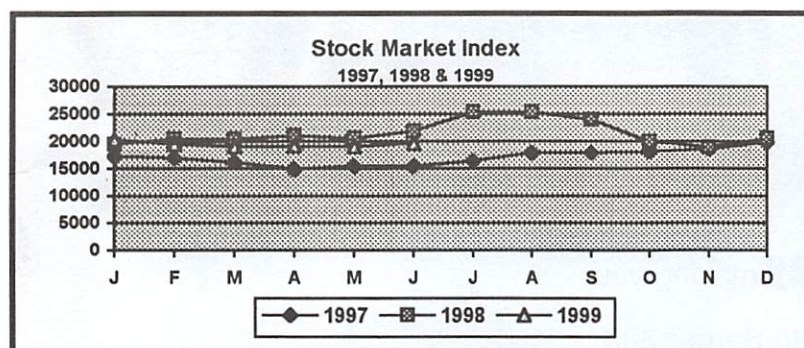
FOREIGN CURRENCY A/C (US\$M)	Dec 93	Dec 94	Dec 95	Dec 96	Dec 97	Dec. 98	Jan. 99	Mar. 99	Jun. 99
Commercial Banks	428.40	649.76	737.30	722.68	927.21	764.03	825.57	771.31	809.78

INTER BANK TRADING (US\$)	Dec 93	Dec 94	Dec 95	Dec 96	Dec. 97	Dec. 98	Jan. 99	Mar. 99	Jun. 99
Purchases	78.70	128.00	108.90	225.13	167.66	223.33	160.42	191.44	185.12
Sales	79.60	126.20	110.06	217.68	180.90	217.33	155.60	201.00	209.68

FISCAL ACCOUNTS (J\$M)	Apr - Mar 1997/98	Apr - Mar 1998/99	April - Jun Actual 1998/99	April - Jun Actual 1999/2000	Out-turn Difference 1999/2000
Revenue	66426.1	74092.1	16957.2	18726.1	1768.9
Expenditure	86387.7	92246.1	24519.7	25955.1	1435.4
Deficit/Surplus	-19961.6	-18154.0	-7562.5	-7229.0	333.5

NATIONAL DEBT	Dec 93	Dec 94	Dec 95	Dec 96	Dec. 97	Dec. 98	Jan. 99	Mar. 99
Internal Debt (J\$M)	23554.80	41248.50	59470.00	7703.83	101351.16	121014.64	132782.92	139203.68
External (US\$M)	3647.20	3651.80	3446.00	3231.90	3277.60	3306.40	3289.40	3215.70

SELECTED MONETARY INDICATORS (J\$M)	Dec 93	Dec 94	Dec 95	Dec 96	Dec. 97	Dec. 98	Jan. 99	Mar. 99	May 99
Money Supply (M1)	14523.30	17896.70	23227.70	28491.40	28623.80	30273.50	29891.60	30306.50	33812.40
(M1 and Quasi-Money) M2	39492.30	54783.50	73617.60	84272.40	95604.60	102628.90	101983.70	103612.30	110292.10
Net International Reserves (US\$Mn; BOJ)	51.10	398.60	418.60	694.90	540.50	581.96	578.00	581.53	590.50
Credit to Public Sector	-2408.10	-8506.30	-4995.90	9179.60	41325.70	88930.30	87026.00	83223.40	92915.70
Credit to Private Sector	21148.00	26282.80	39927.50	50036.90	42159.50	34126.60	34561.10	33268.80	28962.70





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