

MAINTAINING MACROECONOMIC STABILITY

A FINANCIAL PROGRAMME FOR 1998/99

Bank of Jamaica
February 11, 1998

CURRENT FINANCIAL PROGRAMME

1. The financial programme for 1998/99 is couched in a medium term macroeconomic framework characterized by low and declining inflation, sustainable growth rates and declining external and public sector deficits. These elements are mutually reinforcing and create the basis for lasting improvements in living standards and social stability.
2. Price stability is given top priority in this programme. The inflation target for 1998/99 is expressed as a range of 6-8 percent but the programme is built around the achievement of 6 percent. In succeeding years, inflation is programmed to converge towards that of our major trading partner and average 3% by FY 2000/01.
3. The projections for money growth (M3) are consistent with the inflation target while allowing for real growth of 2% in 1998/99, 3% in the following year and 4% in 2000/01. This level of growth will allow for an initial expansion of 10 percent or \$4.5 billion in credit to the private sector and steady increments thereafter, proportional to the growth in money supply.
4. Management of the monetary base is the key to the controlled growth in money supply. For 1998/99, the base is programmed to expand by 7 percent to allow the targeted rate of M3 expansion. The BOJ is expected to continue to rely on open market operations (mainly reverse repurchase agreements) to offset the liquidity generated by the rebuilding of foreign reserves and would therefore aim to contract the net domestic assets of the Bank by 6.2 percent.

5. Net International Reserves of the BOJ will expand by US\$118 million to cover 14 weeks of imports, up from the present 12 weeks. This level of import cover would underwrite exchange rate stability and provide a margin above the proposed statutory minimum to respond to seasonal fluctuations in foreign exchange market conditions.
6. Given the allowance made for a rebound of demand for credit by the private sector, banking system net credit to the public sector can expand in this programme by \$1.6 billion.
7. Net foreign amortization is projected to be J\$12.9 billion. Given the estimated \$1.6 billion of banking system credit available, the public sector would need to generate an overall surplus of \$11.3 billion to be able to maintain its stock of external debt at the level existing at the end of FY1997/98, without simultaneously increasing internal debt and crowding out the private sector in the domestic market.
8. On the other hand, the projected gap between public sector revenue and expenditure is \$25.4 billion. This level of demand plus the required public sector surplus needed for stability suggests a financing gap of \$36.7 billion.
9. Jamaica could borrow the equivalent of the net amortization amount of \$12.9 billion from the international capital market. The financing gap would then be reduced to \$23.8 billion. This is the sum that a combination of revenue enhancement, expenditure reduction and the sale of assets would be required to cover.
10. The programme is built around the maintenance of a stable exchange rate which would average J\$36.50 = US\$1.00. Even with local inflation of 6% in 1998/99, this may imply some loss of external competitiveness during the year. However, long experience has demonstrated that reliance on exchange rate depreciation to maintain

competitiveness yields only temporary gains which are soon eroded by higher domestic costs and social instability. Longer lasting gains require macroeconomic stability and improved factor productivity. It is nevertheless important to retain a mechanism that can respond to market signals in an orderly way to fundamental changes in the external environment.

11. The interest rate on BOJ Open Market Instruments is expected to average 25 percent for 1998/99, moving from around 30 percent at the beginning of the fiscal year to about 20% by year-end. Continued macroeconomic stability would lead to further reductions as inflation declines and the premiums attached to risk continue to fall.

Comments on the programme and the adjustments required

The assessment of available resources and their allocation is guided by the need to maintain macroeconomic stability as measured by low inflation, a stable exchange rate, improvements in the external current account and the maintenance of adequate reserves. The confidence required to steer investment decisions towards longer term ventures can only be built on reasonable expectations of the persistence of an environment that favours such investments. In this context, there is no tradeoff between inflation and growth or between looser monetary policy and fiscal adjustment. The maintenance of low and predictable rates of inflation is a prerequisite for credible and sustainable reductions in interest rates and the maintenance of a stable yet competitive exchange rate.

The need for fiscal adjustment in this context is unavoidable. The financing of a deficit equivalent to 10% of GDP is not possible without a regeneration of inflationary expectations and a climate of speculation and uncertainty. An escalation of the issue of local debt to finance the deficit would require increasing interest premia on Government debt and push debt service costs on the entire stock of debt to an even more alarming level. The adjustments envisaged in the current financial programme would set the stage for a progressive, self-supporting decline in debt service and the overall borrowing requirement towards a sustainable state of public finances by the year 2000.

The programme as drafted postpones the reduction in the cash reserve requirement of commercial banks which had been contemplated earlier. While the maintenance of current requirements will continue to keep an inefficient wedge between deposit and lending rates, the cost of lowering the cash reserve requirement would have added to the adjustment burden of the public sector.

The adjustment required by the public sector is dictated by the unsustainable growth in recurrent expenditure on wages and interest. Further borrowing can postpone the problem but would also worsen the overhang of debt. Success in aligning fiscal policy with a stable macroeconomy in 1998/99 will point the way to significant progress in the medium term.

Bank of Jamaica

February 11, 1998

MAIN INDICATORS
MEDIUM TERM MACROECONOMIC PROFILE

	1996/97	Revised 1997/98	Proj Jun-98	Proj Sep-98	Proj Dec-98	Proj Mar-98	Proj 1998/99	Proj 1999/00	Proj 2000/01
Prices and Income									
Exchange Rate (Average)	36.25	36.00	36.50	36.50	36.50	36.50	36.50	36.50	36.50
CPI end of period (12 mth)	9.5%	9.7%					6.0%	4.0%	3.0%
Real GDP (%)	-1.3	0.0%					2.0%	3.0%	4.0%
Nominal GDP (%)	21.8	9.7%					8.1%	7.1%	7.1%
Money and Credit									
Change in Monetary Base (%)	15.2%	9.7%	0.8%	2.0%	11.7%	-6.8%	7.1%	8.4%	7.1%
Money Supply (M3) (%)	27.8%	11.8%	1.7%	2.2%	6.4%	-1.5%	7.9%	7.6%	7.1%
Bank Credit to Private Sector (%)	8.4	-5.5	3.8	1.8	1.9	2.1	10.1	6.7	6.7
Bank Credit to Private Sector (J\$m)	3622.5	-2620.7	1827.1	879.3	894.3	956.2	4556.9	3354.5	3555.9
NIR Improvement (US\$)	152.2	0.0	38.2	-9.8	34.8	54.8	118.0	69.3	73.0
Gross Reserves (wks. of imports)	14.7	13.1	13.3	13.1	13.7	14.0	14.0	14.0	14.0
Average Reverse Repo rate		22%	30%	25%	25%	20%	25%	15%	12%
Public Sector									
Public Sector Demand (% of GDP)	-12807.2 -6.1	-14759.1 -6.4	-5868.6 -2.4	-9383.8 -3.8	-12647.4 -5.1	2446.9 1.0	-25452.9 -10.3	-9742.0 -3.7	-3356.9 -1.2
February 11, 1998									

SUMMARY PUBLIC SECTOR ACCOUNTS
In millions of Jamaican Dollars

	Actual 1996/97	Actual JUN '97	Prelim SEP '97	Proj. DEC '97	Proj. MAR '98	Proj. 1997/98	Jun-98	Sep-98	Dec-98	Mar-99	Proj. 1998/99	Proj. 1999/00	Proj. 2000/01
DEMAND													
Central Govt./ BOJ	12424.1	6429.8	8373.2	7296.9	-4757.1	17342.8	5868.6	9383.8	12647.4	-2446.9	25452.9	9742.0	3356.9
Bank of Jamaica	-2295.8	-376.8	292.8	-301.9	715.5	329.6	-1655.8	1176.2	-510.9	679.5	-311.0	300.0	200.0
Central Government	14719.9	6806.6	8080.4	7598.8	-5472.6	17013.2	7524.4	8207.6	13158.3	-3126.4	25763.9	9442.0	3156.9
Selected Public Entities	1941.4	382.9	-2050.1	1260.3	-547.6	-954.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Public Entities	-1430.4	-490.6	81.2	-1019.8	-200.0	-1629.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL DEMAND	12935.1	6322.1	6404.3	7537.4	-5504.7	14759.1	5868.6	9383.8	12647.4	-2446.9	25452.9	9742.0	3356.9
SUPPLY													
Foreign Financing	-2137.4	-936.2	3952.9	-955.0	-2324.1	-262.4	-1886.0	-2781.3	-5839.6	-2396.2	-12903.1	-12906.4	-11039.0
Central Government		-916.5	4307.3	-1379.6	-822.3	1388.9					-12903.1	-12906.4	-11039.0
Rest of Public Sector		-19.7	-354.4	424.6	-1701.8	-1651.3					0.0	0.0	0.0
Domestic Financing	15072.6	7258.3	2451.4	7459.4	5729.4	22778.8	-2110.7	1944.3	569.4	1228.5	1631.4	2243.2	1881.7
- Banking System	-1111.9	21585.8	3227.3	2724.4	5650.9	33188.3	-2110.7	2022.8	569.4	1150.0	1631.4	2243.2	1881.7
- Other	16184.4	-14327.5	-775.9	4735.0	78.5	-10409.5	0.0	-78.5	0.0	78.5	0.0	0.0	0.0
	0.0												
TOTAL FINANCING	12935.2	6322.1	6404.3	6504.4	3405.3	22636.0	-3996.7	-837.0	-5270.2	-1167.7	-11271.7	-10663.2	-9157.3
FINANCING GAP	0.0	0.0	0.0	1033.0	-8910.0	-7876.9	9865.3	10220.8	17917.6	-1279.2	36724.6	20405.2	12514.2
OW Foreign Borrowing						0.0	1886.0	2781.3	5839.6	2396.2	12903.1	12906.4	11039.0
OW Other						-7876.9	7979.3	7439.5	12078.0	-3675.4	23821.5	7498.8	1475.2

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GROWTH TREND AND GDP

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*The Planning Institute of Jamaica
January 14, 1998*

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1.0 Introduction

1.1 Consistent with one of the prime objectives of the current economic programme, macroeconomic stability continued to be the main short term objective of economic policy during the first nine months of 1997 (first half of the Fiscal Year 1997/98). The exchange rate remained relatively stable, moving from J\$36.03 to US\$1.00 at the end of 1996 to J\$36.69 to US\$1.00 at the end of 1997 (a depreciation of 4.5 per cent), supported by close monitoring and timely intervention in the exchange rate market by the monetary authorities. This relatively small change occurred despite speculative pressures¹ for much of the year, and seasonal higher demand for foreign exchange towards the end of the calendar year. Tight monetary management coupled with sustained high inflows from transfers, as well as a very successful bond issue on the international financial market by the government were also integral to the relative stability observed in the foreign exchange market.

1.2 The relatively stable exchange rate influenced positively the out-turn of domestic inflation. For the 11-month period to November, consumer inflation out-turn was 9.3 per cent compared with an out-turn of 14.9 per cent for the similar period of 1996, pointing to a sustained reduction in inflation for the fifth consecutive year. This occurred despite the strong negative influence of drought on domestic food supply and hence price (estimated at 2.4 percentage points of inflation to date). This was complemented by positive external influences as prices in industrial countries remained flat or tended downwards.

1.3 Despite the gains made in terms of macroeconomic stability (which has been stated as the

¹Speculative pressures stemmed from the build up of negative expectations about the sustainability of the macroeconomic programme, in the face of declining interest rates, a widening imbalance in fiscal and external accounts and the impending elections.

basis for long term growth), the growth take off enunciated in the National Industrial Policy (NIP), and which was one of the main objectives of the economic programme for Fiscal Year (FY) 1997/98, did not occur in 1997. According to the NIP, FY 1997/98 represents the beginning of the second phase of a broad plan, designed to propel the Jamaican economy into sustained long term growth and development. Although price and exchange rate stability were complemented by some downward movement in indicative interest rates (and to a lesser extent lending rates) for most of the year to facilitate the attainment of this objective, the positive response of the productive sectors was not realized. Credit to the private sector recorded a nominal increase of 4.5 percent or a real decline of 3.0 per cent. In fact, the 42.1 per cent nominal expansion in credit was absorbed disproportionately by the public sector (up 247.2 per cent).

1.4 Using commercial banks loans and advances as a crude measure of the sectoral distribution of credit, credit to the major goods producing sectors declined in real terms by 14.1 per cent, with Agriculture (up 14.7 per cent) registering the only increase. Among the service sector, Government Services (up 24.9 per cent) and Financial Institutions (up 2.5 per cent) were the only two sectors registering real increases in credit (See table 1).

1.5 The general decline in credit to these sectors reflected the high real lending rates, although nominal rates fell during the year. Nominal weighted lending rate (average) declined from 44.19 per cent at the end of 1996 to 37.4 per cent at the end of October 1997, while real lending rates increased from 14.07 per cent to 23.9 percent over the same period.

Other factors which contributed to the weak growth performance during 1997 were:

- the influence of the drought on the agriculture and agro-processing (manufacturing) sectors;
- external factors such as NAFTA continued to affected local industries.

1.6 Other major economic indicators registered less positive changes during 1997. Raw material imports for the nine month period to September fell by 5 per cent compared with an increase of 2.8 per cent during January -- September 1996. The 36.1 per cent increase in capital goods imports was confined to "Other Industrial Transport"(includes the importation of two aeroplanes) and "Construction Material".

1.7 Average unemployment increased up to July 1996, average employment stood at 15.9 per cent. At the end of July 1997 average unemployment increased to 16.7 per cent². All the major productive sectors recorded reduced employment over the one year period to July. The fall in employment in agriculture (214,300 in July 1996 and 201,300 in July 1997) is of particular concern given the critical role of agriculture in creating employment in the rural areas, and its link to rural poverty and rural urban migration.

1.8 There was a 3.0. per cent decline in export for the calendar year to September. A similar change was recorded for the similar period of 1996, but contrasts with the robust 7.3 per cent average export growth recorded during the previous 4 years.

1.9 The change in real output of the major productive sectors, for calendar year 1997 is expected to decline. The overall change in output will however depend on changes in services, particularly Distributive Trade and Financial Institutions. For the FY 1997/98, available information as at September 1997, suggests that the targeted growth of 2-3 per cent will be negative.

² The employment rate at the end of July 1996 and July 1997 were 15.3 per cent and 15.9 per cent respectively.

2.0 PERFORMANCE OF THE PRODUCTIVE SECTORS

2.1 A general down-turn in production permeated output performances of some of the main goods producing sectors during the first nine to eleven months of 1997. The agriculture and manufacturing sectors, which on average, account for about 60 per cent of the goods producing sector (about 26 per cent of total output), are estimated to have declined over the nine month period to September 1997, while the mining sector registered a substantial deceleration in the growth of output. The construction and installation sector recorded strong positive changes in some prime output indicators for the first half of the year.

2.1.1 Agriculture: According to estimates from the Planning Institute's Index of Agricultural Production, agricultural output for the period January - September 1997, declined by 17.2 per cent. This contrasts with an increase of 4.7 per cent increase registered during the corresponding period of 1996 (See Table 1). Domestic Crops production declined by 22.9 per cent while Traditional Export Crops registered a decline of 9.6 per cent (See Table 2). The severe impact of the prolonged drought which began in the latter part of 1996, was the main influence on production during the period. All the major growing areas were affected by the drought which hampered planting activities resulting in a decline in the number of hectares planted. Plant development as well as yields (for the areas where reaping occurred) were also negatively affected.

2.1.2 Domestic Crop production which provides, on average, over 50 per cent of agricultural output, registered declines in all sub-categories. This had negative consequences for imports and inflation. The shortfall in domestic agricultural output was replaced by imports resulting in a 9.5 per cent increase in the import bill during the January - September period.

2.1.3 With a reduction in the production of Domestic Crops, the exports of non-traditional crops declined, totaling 13,695 tonnes for the period January - September 1997 at an earnings per tonne of US\$1348.8. This compares with output of 19,876 tonnes at an earnings per tonne of US\$1,138.9 for the similar period of 1996. Although there was an apparent increase in overall

prices for these commodities on the international market, indicated by the improvement in the earnings per tonne in 1997, two factors influenced the decline in export earnings. Firstly, the prolonged drought negatively affected output, resulting in an overall decline in potential export supplies. In addition, domestic prices were much higher influencing a diversion of supply from the export market to the local market.

2.1.4 Traditional exports also recorded declines. There was a 4.3 per cent decline in the volume of traditional exports recorded for the period January - September 1997 with all crops (except Banana) contributing to this reduction (volume). The decline in sugar exports resulted from pre-shipment of the 1996/97 US quota in the 1995/96 crop year. Drought conditions affected the banana industry through impaired shooting. However the Industry recorded a marginal increase of 0.7 per cent in the volume of output produced. The fall in prices in the UK market however, resulted in a 7.3 per cent decline in exports receipts to US\$160.7 million. This reduction in earnings and increases in cost of production in 1997 presented a major challenge for farmers in continuing production.

2.1.5 Declines in Pimento exports mirrored the lower production levels recorded for other commodities as it suffered from the adverse effects of inadequate water supply.

2.1.6 Towards the latter part of the fourth quarter, rainfall increased substantially. However, agricultural output will require three to nine months to return to normal. As such production for the last quarter of 1997 should continue to decline further contributing to the fall in agricultural output expected for the full year 1997.

2.2.0 Mining: Available data to the end of November suggest that while output from the bauxite/alumina sector will remain positive, there will be a substantial deceleration in the rate of growth in the sector's output. During the nine month period to November, total bauxite production increased by approximately 1.5 per cent, compared with an 11.5 per cent expansion during the similar period of 1996 (see table 4). The slow down in the sector was not unanticipated

given the "near capacity" output level produced in 1996. The 1.5 per cent increase to September, pushed total bauxite production for the year to date to approximately 10969 thousand tonnes. Unless capacity is expanded there will be no significant growth in output in the near future

2.2.1 Output growth for the period under review was solely the result of the alumina sub-sector as the production of crude bauxite declined. Production of alumina increased by 5.9 per cent while alumina exports increased by 13.1 per cent. The increase in alumina production and exports was consistent with steadily improving conditions in the international aluminium market, following on the recovery begun in 1996 (with the return to growth in the international aluminium market and the resultant termination of the Brussels Memorandum of Understanding). The out-turns for crude bauxite (5.9 per cent and 6.0 per cent decline in production and exports respectively) remained subject to the vagaries of strategic stockpiling considerations in the United States of America.

2.2.2 Locally, one factor that contributed significantly to the record performance of alumina was the resolution, in the first quarter, of the problem of frequent electricity outages which affected a number of refining installations in the past. This alongside the attainment of improved profit/cost ratios from last year's redundancy exercise implemented by some plants as part of an ongoing programme aimed at increasing efficiency, contributed to the actual surpassing of production targets in a number of instances. Additionally, deliberations aimed at settling outstanding wages and salaries issues were completed as early as the first quarter and served to create the requisite stability in industrial relations which were facilitated the level of production achieved.

2.3.0 Manufacturing: To support the goals of the NIP, a number of policies and initiatives were outlined during the 1997/98 budget presentation some aimed specifically at re-energizing the Manufacturing sector. Subsequently, a number of measures were implemented during the year by the government as well as the private sector to increase production and productivity. Among them were offers of concessionary rate of financing through the National Development Bank, technical support, increased incentives, and a Performance Improvement Scheme.

2.3.1 At the end of September, data received from the manufacturing sector pointed to an overall poor performance when compared with 1996. This was partially attributed to the problems encountered by most industries in adjusting to a more liberalized domestic market environment in which local manufacturers continued to compete with cheaper and in some instances better quality imported products. Additionally, poor performance by the sector was also the result of very low levels of investment due partly to the high cost of financing.

2.3.2 In contrast to the sector's overall poor showing, there were improved performances in specific industries. These included edible oils, poultry meat, cigars, sulphuric acid and aluminium sulphate. These increases occurred especially during the month of September.

2.3.3 The lower production out-turn was reflected in lower foreign exchange earnings from the sector which declined by 11.7 per cent relative to 1996. The decline continued to be led by reductions in apparel and sewn products, beverages and the traditional export categories.

2.3.4 Limited data for October - December on specific industries indicate improvement in the production and export of apparel particularly the CMT (up 65.0 per cent) and 807A category. Cement production also increased towards the latter part of the year resulting in an overall increase for the full year.

2.4.0 Construction and installation: Unlike the aforementioned changes in the major goods producing sectors, available data on the performance of the construction sector to June 1997, points to some positive movement in the construction and installation sector, in particular the residential sub-sector. One of the prime indicators of construction activities, residential housing starts, registered an increase from 705 units from the first half of 1996 to 3,113 units during the same period of 1997. The public sector through the Ministry of Environment and Housing, National Housing Corporation and National Housing trust accounted for all the units started

during the review period.

2.4.1 In tandem with the positive changes in the sector, cement production for the calendar year increased by 6.5 per cent, while importation of construction material moved up by 19.1 per cent to US\$ 120.1 million for the nine months to September. During the corresponding period of 1996, there was an 8.0 per cent decline in construction material imports.

2.4.2 Less positive out-turn characterized other indicators in the sector. Residential housing completions declined from 996 units during January - June 1996 to 1083 units during the similar period of 1997. In addition, limited data on refurbishing activities suggests a downturn in this type of activity during the first half of 1997.

2.4.3 While limited information is available at the time of writing, expectations are for the installation sub-sector to be also influenced positively by infrastructural development activities being carried out by the government. Public sector supported projects which commenced and/or continued during 1997 included the:

- North Coast Highway Improvement Project;
- Airport Reform and Improvement Project;
- Health Service Rationalization Project;
- Comprehensive Rural Development Programme;
- Primary Education II Project.

3.0 The Service sector

3.1 Limited data on the Service Sector suggests mixed performance in the sector. Commercial Bank loans and advances to the sector as a whole for the January to September declined by 1.1 per cent compared with a 4.2 per cent growth during the similar period of 1996. The largest declines were recorded in "Electricity, Gas and Water" (down 76.4 per cent), "Entertainment" (down 22.0 per cent), Distribution (down 14.8 per cent) and Tourism (down 12.3 Per cent). Loans to government services increased in real terms by 24.9 per cent.

3.2 Changes in Employment among the Service Sector were mixed, with employment in one of the largest service category (according to the employment categories) "Wholesale and Retail, Hotels and Restaurants Services" registering a decline of 3.7 per cent. Employment however increased in "Transport, Storage and Communication" (up 10.0 per cent) and, "Financing, Insurance, Real Estate and Business Services (up 5.1 per cent). Employment in Electricity, Gas and Water remained unchanged.

3.3 The decline in employment in the category "Wholesale and Retail, Hotels and Restaurants services and the real decline in credit to the Tourism sector, coincided with a slowing in the rate of growth in the Tourism sector for most of 1997. However fueled by a pick up in the last October and November, indicators for the year to date were more positive.

3.4 Available data for the tourism sector for the period January to November 1997 reflected growth in the major performance indicator, visitor arrivals. Total visitor arrivals which amounted to 1,701,239 grew by 4.8 per cent over the eleven month period. Stop-over arrivals grew by 3.0 per cent while cruise arrivals went up by 8.0 per cent (627,307 passengers) partly due to an increase in cruise ship calls, which was facilitated by the expansion of the Ocho Rios cruise pier in 1996. The growth in total visitor arrivals compares favourably with the 3.3 per cent increase recorded for the comparable period of 1996.

3.5 The improved performance in visitor arrivals were attributed to:

- the continued rigorous marketing efforts of the major tourism interests which effected an increase in arrivals from all US Marketing regions;
- the opening of additional routes associated with the creation of the new Air Jamaica hub at the Sangster International Airport;
- the continued hosting of special events such as music festivals and the Jamaica Carnival;
- the availability of new charters as well as extra flights out of Europe; and
- the expansion of the Ocho Rios cruise pier in 1996

Provisional data placed gross foreign exchange earnings for the 1997 calendar year to US\$1.125 billion, an increase of 3.0 per cent above the previous year.

4.0 Conclusion

4.1 As was programmed for FY 1997/98, the objective of maintaining macroeconomic stability has, to a large extent been met. The challenge which remains is to ignite a growth take off to support continued stability in the medium to long run. The attainment of output expansion should begin to materialize in 1998 if the planned reduction in indicative interest rates is realized and influence a real reduction in lending rates. This will to a large extent hinge on the success of policymakers in suppressing, limiting or eliminating underlying fiscal pressures which impact on the conduct of monetary policies. Lower interest rates, if attained, combined with the assistance (through various programmes)

being given by government to the productive sector should act as a catalyst to the growth process. Longer term imperatives include the continued effort at changing underlying structural relationships, particularly the diversification of the country's production and export base as well as labour market reform.

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A REVIEW OF TRADE IN GOODS AND SERVICES

JANUARY - SEPTEMBER 1997

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Planning Institute of Jamaica

January 13, 1998

1. Balance Of Trade In Goods And Services

The balance of trade in goods and services deteriorated significantly in the January - September period of 1997. The deficit rose to US\$701.5 million from a deficit of US\$453.3 million and US\$488.2 million in the corresponding period of 1996 and 1995, respectively. This US\$248.2 million widening of the deficit was due, for the most part, to a US\$231.1 million increase in the deficit on the merchandise trade account and a US\$17.1 million decline in net inflows on the services account.

TRADE IN GOODS AND SERVICES, January - September 1995 - 1997 (US\$ Million)

				% Change	% Change
	Jan - Sep 95	Jan - Sep 96	Jan - Sep 97	Jan - Sep 96/95	Jan - Sep 97/96
Exports	1109.3	1076.0	1043.8	-3.0	-3.0
- traditional	671.7	723.1	724.7	7.7	0.2
- non-traditional	381.9	324.0	294.9	-15.2	-9.0
Imports	2033.5	2085.9	2284.8	2.6	9.5
- consumer goods	470.2	514.1	634.5	9.3	23.4
- raw materials	1155.0	1187.8	1128.0	2.8	-5.0
- capital goods	417.3	383.9	522.3	-8.0	36.1
Merchandise Trade Balance	-924.2	-1009.9	-1241.0	9.3	22.9
Foreign Travel	684.3	713.2	703.9	4.2	-1.3
Investment Income	-218.1	-138.1	-148.0	-36.7	7.2
Other Services	-30.2	-18.5	-16.4	-38.7	-11.4
Net Services	436.0	556.6	539.5	27.7	-3.1
BALANCE OF TRADE IN GOODS & SERVICES	-488.2	-453.3	-701.5	-7.1	54.8
Source: BOJ, STATIN					

2. Merchandise Trade

Total merchandise trade expanded by 5.3 per cent during the January-September period of 1997 compared with an expansion of 0.6 per cent in the corresponding period of 1996. However, with export earnings declining by US\$32.2 million during the period, this

reflected a substantial expansion of US\$198.9 million in the value of imports which resulted in a widening in the merchandise trade deficit.

Exports

Following a decline of 4.0 per cent during the calendar year 1996, exports earnings declined by a further 3.0 per cent during the January - September period of 1997. This resulted from a 9.0 per cent decline in the value of non-traditional exports led by declines in wearing apparel exports which continued the downturn recorded in 1996. Current indications (from JAMPRO, Caribbean Textile and Apparel Institute) however, suggest that the industry should rebound in the near future as the sector benefits from government assistance. Food, chemicals and manufactured goods were the other non-traditional exports to register declines. The value of traditional exports increased marginally, by 0.2 per cent. Growth primarily came from increases in export revenue from alumina, coffee & coffee products and rum while declines in revenue were recorded for bauxite, sugar, and bananas, among others. Higher alumina earnings reflected favourable prices on the international market coupled with higher volumes supplied.

Imports

The value of imports grew by 9.5 per cent during the January - September period of 1997 due to a 23.4 per cent (US\$120.4 million) rise in the value of consumer imports and a 36.1 per cent (US\$138.4 million) increase in the value of capital goods imports. All consumer goods sub-categories showed increases whereas growth in capital goods imports was confined to only two categories, 'Other Industrial Transport' (primarily

reflecting the importation of two aeroplanes) and 'Construction Material'. Total raw material imports fell by 5.0 per cent reflecting declines in all sub-categories except food.

Factors Affecting Merchandise Trade Performance

During the January - September period various factors influenced the out-turn of merchandise trade. These included:

- The continued high level of remittances which increased disposable income and the demand for imported consumer goods.
- A real increase in consumption-related bank credit (by 11.2 per cent) which would have helped fuel consumer imports.
- Contracting output performance of some domestic industries which result in an increase in imports to augment domestic supply.
- The appreciation in the nominal and real exchange rates (the nominal exchange rate appreciated to an average of about J\$35.30=US\$1 in the January - September period of 1997 from J\$38.00=US\$1 during the corresponding period of 1996) which, on the one hand, contributed to fueling imports while, on the other hand, led to an erosion in competitiveness of some export sectors.
- The existence of relatively high real interest rates which translated to a high cost of debt to the export sector.
- A real reduction in credit to the goods producing sectors. Real credit to the goods producing sectors decreased during the year to September 1997 by 14.1 per cent following on a real decline of 13.5 per cent in the year to September 1996.

- Drought conditions during the year which adversely affected the agricultural exports. Agricultural production is estimated to have declined by 17.2 per cent during the first nine months of the year.
- The current restructuring efforts in a number of industries (including wearing apparel) to improve efficiency and competitiveness in response to heightened competition in the global market and from imports in the domestic market.

3. Trade In Services

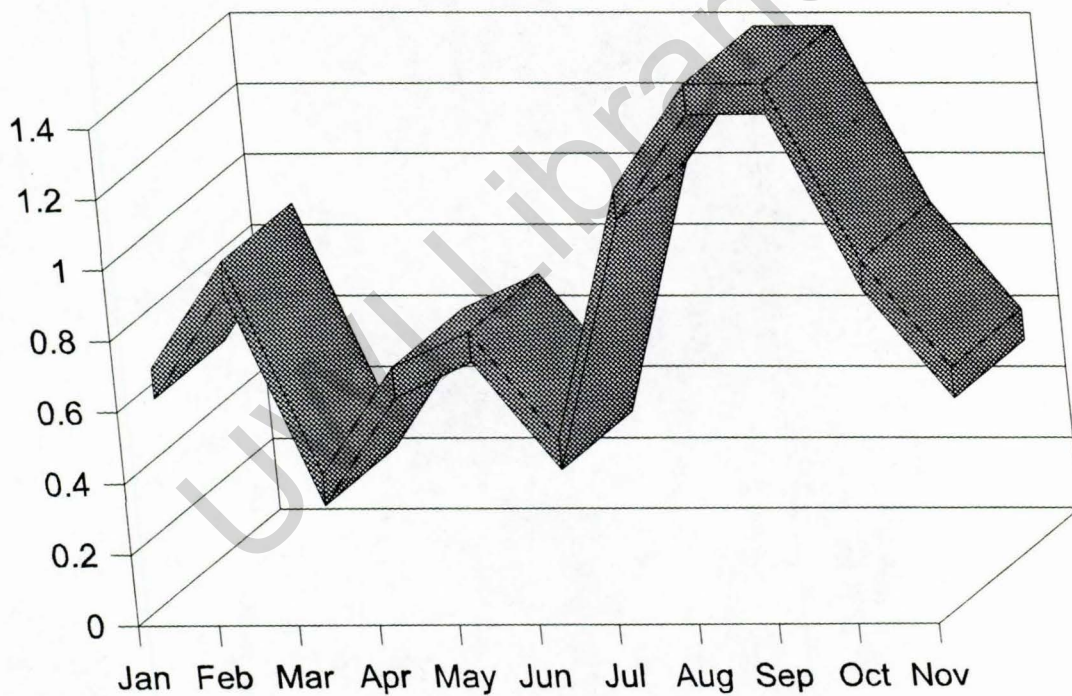
Net service inflows for the January - September period of 1997 totalled US\$539.5 million, representing a reduction of US\$17.1 million relative to the corresponding period of 1996. A modest decline of US\$9.3 million in net inflows from foreign travel (due to increased outflows of US\$29.7 million from Jamaicans traveling abroad) combined with an increase of US\$9.9 million in net outflows of investment income (due primarily to a higher level of repatriated profits by the bauxite companies) accounted for this out-turn. Gross earnings from tourism increased (by 2.5 per cent), although by a smaller magnitude than in 1996 reflecting continuing but slower growth in visitor arrivals, particularly in the stop-over category. To September, total visitor arrivals amounted to 1,421.5 thousand, an increase of 4.6 per cent compared with an increase of 6.4 per cent in the similar period of 1996. Stop-over visitor arrivals increased by 2.4 per cent compared with 3.3 per cent during the corresponding period. The other services balance improved slightly with a reduction in net outflows.

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Calendar Year To Date Inflation

November 1997



1. Introduction

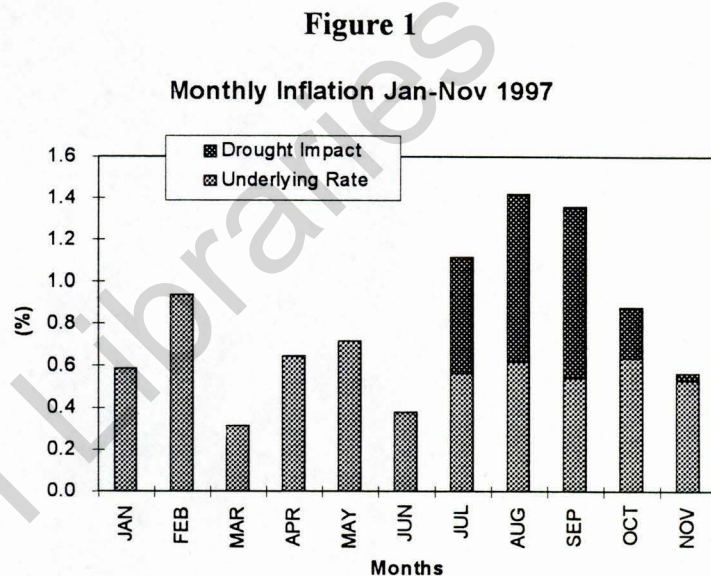
The Consumer Price Index rose by 9.3 per cent during the calendar year to November 1997, a deceleration compared with the 14.9 per cent recorded for the similar period of 1996. Given the inflation rate to date, the inflation rate for the full year should be around 10.0 per cent, representing a fifth consecutive year of price deceleration. For 1996, the calendar year inflation was 15.8 per cent. For the fiscal year to date, the rate was 7.3 per cent, exceeding the 6.7 per cent observed for the corresponding period, as severe

drought conditions induced an increase in the monthly rates of inflation during the July - September period. As the drought effect subsided toward the latter months of the year, however, inflation decelerated to 0.6 per cent in November. (See Figure 1). With respect to the 12-month period to November, the point-to-point

inflation rate at 10.1 per cent converged with the 12-month average measure of inflation, (See Figure 2) reflecting the sustained period of relatively stable monthly inflation for the past 12 months compared to the previous period.

2. Analysis Of Factors Influencing Inflation

The continued moderation in inflation for the calendar year to date was achieved in spite of the rise in food prices resulting from the drought-induced declines in domestic food supplies, and, excess

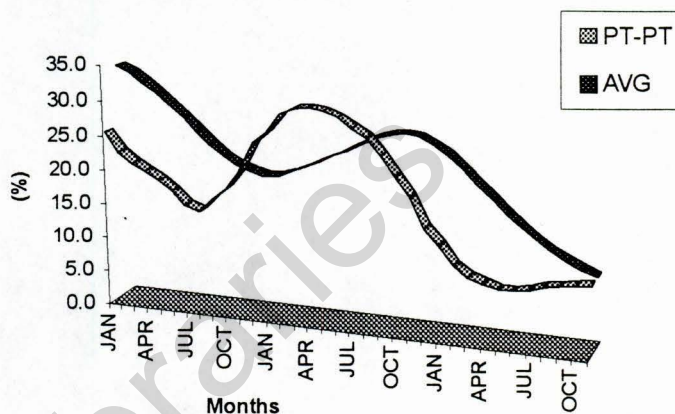


demand pressures in the foreign exchange market, and reflected the success of monetary policies in “taming” the movement in domestic prices. During the calendar year to October the growth rate of broad money supply was restricted to 10.0 per cent, significantly above the growth registered during the similar period of 1996. This helped to restrain the growth in consumer demand and minimized demand-pull influences. The strict control of liquidity through effective base money management was a critical part of overall monetary policy. The maintenance

of a low core inflation of around 0.6 per cent throughout the year attests to the positive price impact of such policy on reducing domestic inflation. Other restraining influences on inflation during the period were:

- **Relative stability of the exchange rate.** Despite demand pressures during the calendar year, there was no major slippage in the exchange rate, partly due to the adept monitoring of and timely intervention into the foreign exchange market by the monetary authorities. Instead, there was a creeping downward adjustment in the value of the Jamaican dollar vis-a-vis the US currency, of an average of less than 0.3 per cent per month between January and November, amounting to an overall depreciation of 3.3 per cent over this period. The impact of domestic prices was minimal.

12-Month Inflation
Jan 1995-Nov 1996



- **Minimal Imported Inflation.** Consumer and wholesale prices in Jamaica's major trading partners remained low during 1997, as these economies continued on a high growth low inflation path. In the United States, consumer prices rose by a relatively low 1.8 per cent for the 12-months to November, while similarly low rates of inflation prevailed in most other developed countries. The benefits of these low inflation out-turns were transferred into the domestic economy as stable external price influences which did not add significantly to inflation. In addition, increases in the international supply for major commodities such as wheat and oil led to lower prices during 1997.

3. The Drought Impact On The CPI

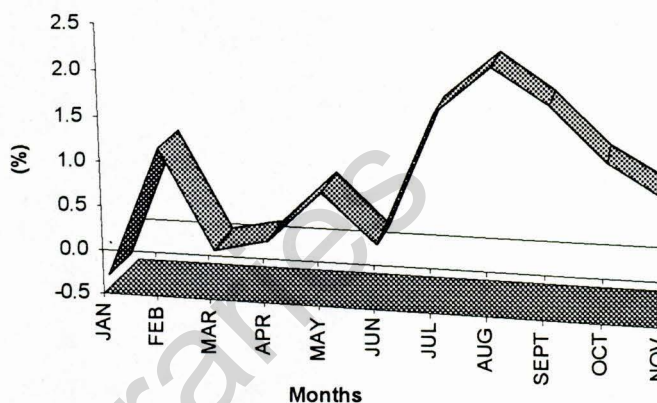
The drought, which significantly reduced stream flow and water reservoir for irrigation purposes, affected planting activities, plant developments and growth and hence the quantity and quality of domestic food crops reaped during 1997. This led to a shortage of domestic supply of almost all crops and a sharp increase in the prices of domestic produce between July and October, exacerbating the seasonal increases which normally occur during the typically drier summer months. The extent of the price hikes was however moderated somewhat by an increase in the importation of food substitutes which partly compensated for the declining domestic production. However, the drought pushed the average monthly inflation rate to 1.1 per cent between July and October, (monthly rates of 1.4 per cent in August and September) up from 0.6 per cent for the first six months of the year. Drought induced price increases for these months was estimated to have added approximately 2.5 percentage points to the overall inflation rate for the year to date (See Figure 1). In November monthly inflation tempered, as the rainfall increased and the rate of change in the price of agricultural products decelerated.

4. The Consumer Price Index

The “Food & Drink” index rose by 9.7 per cent for the calendar year to November, a moderate slowing compared with 11.3 per cent in the corresponding period of 1996. In terms of contribution, 62.8 per cent of the movement in the

CPI was attributed to the increase in the “Food & Drink” index, with just over a third of the increase in the overall CPI due to the movement in ‘Starchy Foods’ and ‘Vegetables & Fruits’. The strong inflationary impulses in these two subgroups reflected primarily the drought experienced during the year, which

Food & Drink Inflation
Jan to Nov 1997



impacted significantly on the supply of the domestic food crops. Between July and November the ‘Starchy Foods’ and ‘Vegetables & Fruits’ sub-indices increased by 27.6 per cent and 25.4 per cent, respectively compared with 1.1 per cent and 4.4 per cent respectively during the first six months of the year. Among the items which recorded significant increases in ‘Starchy Foods’ were sweet potato (up 58%), green bananas (up 42%), plantains (up 37%), and yams (up 36%). In ‘Vegetables & Fruits’ escalation prices (up 140%) and tomatoes (up 85%)¹. The ‘Meals Away From Home’ subgroup registered a 10.2 per cent movement, leading to a contribution of 11.5 per cent. In the restaurant industry increases in factor costs such as wages and rent, (which exceeded the overall inflation rate). The increasing domestic produce prices also affected the prices of meals. The movements in all other “Food & Drink” subgroups were relatively moderate. The ‘Meats, Poultry & Fish’ sub-index rose by a moderate 5.0 per cent, due to the increasing level of meat imports. The price of local meats was also contained by lower imported prices for animal feeds.

¹All figures are for the Kingston Metropolitan Region

Table 1

CPI GROUPS	Year To Date		Year To Date		Contribution Jan-Nov 97
	96/97	97/98	1996	1997	
ALL GROUPS	6.7	7.3	14.9	9.3	100
FOOD & DRINK	4.7	8.9	11.3	9.7	62.8
Meals Away From Home	10.8	8.2	15.5	10.2	
Meats, Poultry & Fish	0.1	3.5	8.0	5.1	
Dairy Products	3.6	1.9	12.8	2.6	
Baked Products, Cereals	5.1	1.1	13.5	0.9	
Starchy Foods	6.6	35.4	8.4	33.3	18.8
Vegetables & Fruits	5.8	26.6	6.0	26.8	15.9
Other Foods & Beverages	5.8	3.9	18.2	6.0	
FUELS & HOUSEHOLD SUPPL.	8.8	4.3	19.7	6.1	4.8
Household Supplies	11.2	4.1	20.2	5.9	
Fuels	6.1	4.5	19.3	6.5	
HOUSING	10.2	3.8	13.5	7.6	4.6
Rental	22.6	10.1	29.6	25.7	
Other Housing Expenses	8.1	2.4	10.9	4.1	
HOUSEHOLD FURNISHING	3.3	4.5	13.0	7.2	1.5
Furniture	-0.2	2.1	9.0	1.0	
Furnishings	4.7	5.3	14.6	9.5	
HEALTHCARE & PERSONAL	12.3	3.2	20.2	8.0	5.4
PERSONAL CLOTHING	10.2	6.7	18.5	10.4	5.8
Clothing Materials	9.2	2.6	19.8	6.1	
Ready-made Clothing	10.3	5.6	20.3	9.3	
Footwear	9.3	7.4	14.5	10.0	
Making & Repairs	14.8	14.8	26.1	22.8	
TRANSPORTATION	1.9	1.2	28.4	2.0	1.2
MISCELLANEOUS EXPENSES	14.9	9.7	24.6	15.5	14.5

The positive impact of minimal import cost was even more evident in the 'Baked Products, Cereals & Breakfast Drink' and 'Dairy Products Oils & Fats' sub-indices, which increased by 2.6 and 0.5 per cent respectively, compared with 13.5 and 12.8 per cent in the corresponding period of 1996. Imports of goods in these sub-groups increased significantly, partly facilitated by the real appreciation of the exchange rate, which increased the relative competitiveness of imports. Declining international prices also led to lower cereal prices in the domestic market as the price for counter flour declined by 3.9 per cent for the calendar year to date, while the price of rice was 5.3 per cent lower over the same period. The drought-induced supply shock also stimulated an increase in food imports to compensate for declining domestic production. However, the negative impact on the exchange rate from the sharp rise in imports was mitigated by timely intervention by the monetary authorities.

The "Miscellaneous Expenses" group index rose by 15.5 per cent for the calendar year to November 1997, compared with 24.6 per cent for the previous calendar year to date. Among the items which pushed this group index were tuition fees, cinema and play fares, cigarettes, and books and stationery. The movements in all other CPI groups was relatively moderate for both the calendar and fiscal the year to date. However, in "Housing & Other Housing Expenses" the sub-index for 'Rentals' increased by 25.7 per cent for the calendar year to date, just below the movement for the corresponding period of 1996. The persistently large price adjustments reflects excess demand for housing units, which, given the relatively fixed supply in the short term would lead to higher rental rates. In the "Personal Clothing, Footwear & Accessories" group, the 'Making & Repairs' sub-index increased by 22.8 per cent reflecting the large component of domestic input costs, which increased in excess of overall inflation.

5. Conclusion & Outlook For The Fiscal Year

The out-turn for the calendar year to November points to the government's success in maintaining price stability, one of the major objectives of the overall macroeconomic policy framework. That core inflation remained around 0.6 per cent per month or approximately 7.4 per cent per annum,

suggesting that a lower inflation out-turn is possible (assuming no exogenous price shocks) and without any further tightening in monetary policies. The challenge however remains on the fiscal side.

If the stability gains attained so far are to be sustained, as the foundation on which long-term growth will be attained, fiscal policies and programmes, will have to be fully supportive of monetary policies throughout the year.

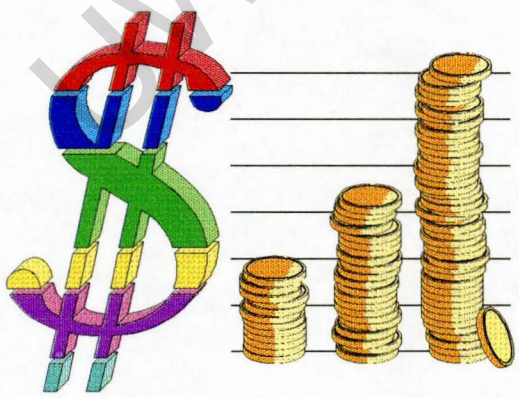
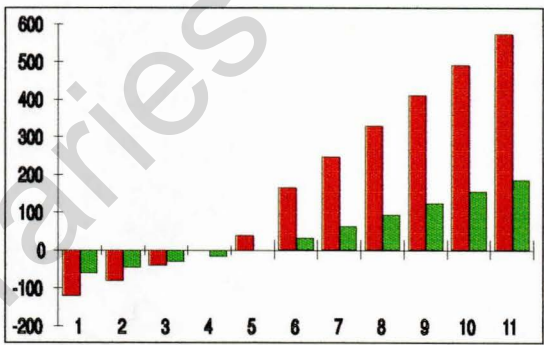
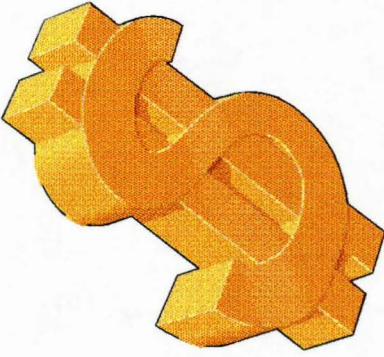
Based on the out-turn to date, and trend expected for the first three months of 1998 (0.6 per cent average monthly), inflation is projected to be around 9.9 per cent for the fiscal year 1997/98, just outside the 9.0 per cent upper end of the target set for the period. The negative influence of the drought during the July - September period is the main reason for the expected non attainment of the target.

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Econ Doc B. Calendar Year to Date
C. Inflation - Nov '97

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RECENT ECONOMIC DEVELOPMENTS



BANK OF JAMAICA
21 JANUARY 1998

MONETARY PROGRAMME

Initial Conditions and Financial Targets

The last half of the 1996/97 fiscal year was characterized by unprogrammed expansion in broad money supply (M3). This was attributable mainly to the instability in some areas of the financial system, which required extensive liquidity support from the Bank of Jamaica. Against this background, the financial program for 1997/98 envisaged minimal growth in monetary aggregates in order to support a further lowering of the inflation rate from 9.5% obtained in the previous fiscal year to a range of 8% to 9% while allowing for real GDP growth of 2%. To achieve these objectives, the mix of monetary and fiscal policies would primarily aim at maintaining stability in the foreign exchange market and an average exchange rate of J\$35 to US\$1. Banking system credit was originally projected to grow by \$8.1 billion with \$6.2 billion targeted for the private sector and the remaining \$1.9 billion allocated to the public sector.

Base money would continue to be the main operating target of monetary policy and the financial program targeted expansion of 10.9% in this variable. Broad money would expand in line with the base and close the fiscal year 10.1% higher. Support from the fiscal sector through a reduction in the previous year's deficit of 5.9% of GDP to 1.8% of GDP would be required to attain these objectives. Reserve accumulation of US\$110 million was projected based on expectations of increased inflows from official bond placements in the international market, while private capital inflows were expected to decline relative to the high inflows obtained in the previous year.

Money Supply

Money supply (M3) expansion was restrained to 1.4% for the first half of the fiscal year compared to the program forecast of 4.6% and was significantly lower than the increase of 10.4% for the same period of the previous fiscal year. A broader measure of money supply, Private sector liabilities, recorded an increase of 3.1% for the April to September period. This was more than twice the increase in M3 and reflects the rapid rate of accumulation in foreign currency deposits which are included in this measure and which helps to explain the level of excess demand pressures observed in the foreign exchange market since late February.

While growth in local currency deposits declined to a sluggish 0.2% in Q2 relative to the first quarter's increase of 1.9 %, the rate of accumulation of foreign currency deposits was significantly higher in both quarters; 4.1% in Q1 and 6.2% in Q2. Foreign currency deposits increased sharply in October by the equivalent of J\$763.9 million, the highest monthly increase since the start of the fiscal year. More recent data show a continued build-up in foreign currency deposits in November, although at a less remarkable rate. This slow-down in the accumulation of foreign exchange deposits was in part influenced by upward shifts in the Central Bank's interest rate regime since August. The step-wise adjustments were designed to stimulate portfolio shifts from US dollar instruments to local currency instruments.

The rapid increase in the growth of foreign currency deposits during April to October took place in spite of the fact that the returns on these instruments were considerably lower than that on local currency instruments. The preference for foreign currency assets despite a widening interest rate differential, revealed the strong expectation of a depreciation of the Jamaican dollar by the holders of these instruments. The general elections were seen by market participants as the event that would trigger this depreciation. With the elections having occurred, and with the increased buoyancy of seasonal inflows to the foreign exchange market, there is some evidence that portfolio

shifts are reverting to a preference for J\$ instruments at prevailing interest rates. This has been reflected in an appreciation of the exchange rate and, judging by the increase in the commercial banks' cash reserves in January, there has been an accompanying increase in Jamaican dollar deposit instruments.

	Q1	Q2	OCT	NOV	FYTD
1. Private Sector Credit	1.8	1.3	2.5	2.4	8.10
M3 – Local Currency	1.3	0.1	2.2	3.1	6.8
Local Currency Deposits	1.9	0.2	2.0	2.5	6.6
Demand	3.7	-1.9	5.9	-3.1	4.6
Savings	7.2	2.1	1.7	-0.1	10.9
Time	-15.7	2.5	-0.5	-4.3	-17.9
Other	-2.9	-7.6	1.0	32.8	29.1
Currency	-2.7	-0.9	3.2	7.2	6.8
Other Liabilities					
Foreign Deposits	4.1	6.2	3.9	-0.7	13.5
2. Credit	-0.4	0.6	-1.9	-7.8	-9.5
Local	1.4	1.1	-1.6	-7.6	-6.7
Foreign	-6.1	1.2	-3.8	-9.7	-18.4

The growth in money supply (M3) for the eight months of the fiscal year to November was 6.8%. Base money growth for the same period was 7.4%. While the increase in currency in circulation in December would be reflected in a spike in the growth of all monetary aggregates, this effect would normally be reversed in the March quarter, consistent with the targets set for Q4 and for the fiscal year.

? The major sources of expansion to the money supply for the review period stemmed from Central Government's draw-down of approximately \$13.8 billion from the Central Bank. Most of this occurred in Q1 (\$11.0 billion) and again in November (\$2.3 billion). Absorption of the liquidity generated from this transfer of funds was undertaken mainly through open market activities. Liquidity of \$6.0 billion was sterilized for the period April to November. Further tightening resulted from the Bank's intervention in the foreign exchange market, which absorbed J\$3.0 billion at the expense of lower Net International Reserves. The reduction in the Reserves reflected sales of US\$485.7 million to the market for the period April to December. The Bank's strong presence in the foreign exchange market served the purpose of moderating volatility in the exchange rate. Depreciation of the local currency during the eight month period was limited to 3% in US\$ terms, with the weighted average selling rate moving from J\$35.07 in March to J\$36.15 in November. Two other major sources of liquidity contraction stemmed from reductions in commercial bank credit to Non-banks and a decline of \$5.2 billion in other commercial bank assets.

Domestic Financing of the Public Sector

Banking returns show that the public sector accessed credit of \$21.6 billion in Q1 and \$3.2 billion in Q2. The impact of this growth in banking system credit on money supply was not as expansionary, as \$11.3 billion of the first quarter's figure represented the issue of debentures to the BOJ by FINSAC on behalf of intervened institutions. Subsequent to a marginal increase of \$178.2 million in October, the public sector's borrowing from the banking system accelerated significantly in November by \$6.6 billion to facilitate budgetary expenditure and retirement of local debt. The Central Bank provided \$2.3 billion and the commercial banks increased their holdings of public sector debt by \$4.3 billion. The reduction of \$2.7 billion in the private sector's outstanding loan balances in November as well as part of the increase in the public sector's debt, largely reflect the exclusion of the Century National Bank from total

private sector loans and the issue of securities by FIS to finance the refunds to former creditors of the Century Financial Institutions.

Private Sector Credit

Loans to the private sector grew by only S478 million in Q1 against program target of S2.9 billion. In Q2, the private sector borrowed even less, accessing only S236.4 million against a target of S1.0 billion. In October and November, the sector's outstanding loan balances recorded a reduction of over S700 million (net of CNB's adjustment). The weak demand for credit by the private sector is in part explained by the uncertainties generated by the instability in the foreign exchange market, the sluggishness in the real sector, the relatively high levels at which lending rates remained during the review period (in the range of about 35%) and expectations for interest rate increases since end-August.

Whilst local currency loans to the private sector showed an overall marginal increase of approximately S198 million for the fiscal year to date, its stock of foreign currency loans fell by JS1.8 billion over the period. The impetus behind these reductions may be partly explained by the same factors behind the increase in foreign currency deposits as expectations of depreciation throughout the period would have also stimulated an interest in reducing foreign currency liabilities. Furthermore, the lowering of interest rates on local currency loans (which commenced in the last quarter of 1996/97), resulted in a narrowing of interest rate differentials and would have provided less incentive to borrow in foreign currency.

Interest Rates

Towards the end of the second quarter, BOJ responded to the demand pressures in the foreign exchange market by increasing the interest rate on its reverse repurchase instruments. The increases which ranged from 8.5 percentage points on the longer tenor of 180 days to 12.5 percentage points on 60 day instruments, was initially aimed at

stimulating portfolio shifts from foreign to local currency instruments. The premiums were initially structured such that the positively sloping yield curve would attract investors' funds to the longer end of the maturity spectrum. This strategy was largely successful but the focus recently shifted to reflect a negative slope in the yield curve with a bias towards more attractive yields for the shorter term instruments of 60 days and less. The change in the term structure is partly a response to investor's preference to hold their funds short but is also reflective of the Bank's outlook for interest rates by the end of the fiscal year.

The increase of about eleven percentage points in the BOJ's reverse repurchase rate over the review period influenced changes of a similar magnitude in the Treasury Bill yield. By end-December, the yield on six-month instruments had climbed to 28.93% and was approximately 2.6 percentage points above the rate prevailing in December 1996. The commercial banks responded by offering more attractive deposit rates which rose by 1.4 percentage points on average, for six-month deposits to 14.68%. The increase, which occurred mainly in October and November, surpassed that offered on savings deposits, as the latter remained flat at 13.02% in the last four months of the review period. Lending rates have fallen over the course of the fiscal year by about 2 percentage points. Since the end of Q1 in particular, there has been a general narrowing of interest rate spreads.

TABLE 2
SELECTED INTEREST RATES
1997/98

	April	May	June	July	Aug.	Sept	Oct.	Nov.	Dec.
Treasury Bill Yield	16.27	16.74	17.9	19.51	17.97	25.31	27.69	28.08	28.93
Reverse Repurchase Rate	18.0	18.0	18.0	18.0	20.7	22.0	22.0	25.0	29.0
Average Maturity(days)	30	30	30	30	30	30	30	30	30
Commercial Bank Average Rates									
Deposits									
Six month	12.37	12.36	12.61	12.61	12.43	12.44	12.97	14.27	14.68
One year	11.3	11.19	11.59	11.59	11.65	11.65	12.37	12.91	13.23
Savings Rate	14.62	14.22	14.08	14.08	13.27	13.02	13.02	13.02	13.02
Lending Rate	46.14	44.78	44.94	44.94	44.94	44.22	44.22	44.22	44.17

Outlook for December and Q4

Preliminary investigation of banking system data for December indicates that the liabilities of the banking sector increased during the month. Based on this data and the high seasonal demand for currency in the month, money supply is projected to grow by about 4.0% in December. This would bring money supply growth for the quarter to 9.3%, 0.4 percentage points above the original program target.

The financial program was revised for the second half of the fiscal year to reflect the slippage of about 3% in the exchange rate over the first half of the fiscal year. The new program rate is J\$36 to US\$1. The target for inflation for the fiscal year is likely to be affected by the impact of unfavorable weather conditions despite the careful management of money supply. Notwithstanding the BOJ's strong interventionary presence in the foreign exchange market, the persistence of excess demand and the

resulting loss in reserves points to a revised NIR position of US\$648 million by end March or zero growth for the fiscal year as a whole. This will require significant rebuilding of about US\$108 million in the NIR during Q4.

A reduction of about \$3.2 billion in the Net Domestic assets of the BOJ will be required in the fourth quarter to offset the expansionary effect of the build-up in the NIR. Most of this is targeted to come through increased open market operations of \$4.2 billion. Normalization of remaining pockets of instability in the banking sector is also expected to take place by the end of the year. In these circumstances of lingering speculation against the Jamaican dollar and a need to rebuild reserves, interest rates are likely to remain on a higher trajectory than envisaged in the original program.

FOREIGN EXCHANGE MARKET

FLOWS

For the calendar year 1997, reported inflows in the inter-bank foreign exchange market were US\$2,313.80 million, representing a daily average of approximately US\$8.9 million. These flows were inclusive of Bank of Jamaica sales to the market. For the four quarters of the year, total inflows were US\$657.8 million, US\$629.4 million, US\$533.5 million and US\$493.1 million respectively. This compares with US\$389.4 million, US\$461.5 million, US\$549.5 million and US\$613.2 million for the corresponding periods in 1996. The decline in flows, particularly in the last two quarters of the year, generally reflected market expectations of future exchange rate depreciations which triggered some portfolio shifts by investors from Jamaica dollar to US dollar holdings and heightened speculative activity in the market. Under those circumstances, the Central Bank took the decision to intervene in the market by selling foreign exchange to augment market supply. This moderated fluctuations in the exchange rate. Since mid December 1997, the speculative demand has been significantly reduced. Market flows have increased, indicative of a change in market psychology.

The extent of foreign exchange sales was basically reflective of purchases in the market. Sales through the authorised dealers totalled US\$2,400.7 million for the year, representing a daily average of approximately US\$9.2 million. Foreign exchange sales reported over the quarters were US\$674.7 million, US\$653.5 million, US\$552.3 million and US\$520.2 million respectively. This compares with US\$393.0 million, US\$463.0 million, US\$555.7 million and US\$612.8 million for the similar period in 1996.

EXCHANGE RATE

In early 1997, the Jamaica dollar began to show tendencies of depreciation vis-a-vis its US counterpart. That was caused by portfolio shifts in response to a reduction in Jamaica dollar interest rates and high inflationary expectations. During the second half of the year, speculative activity associated with the expected General Elections resulted in reduced flows to the market and increased pressure on the exchange rate.

Since mid December and continuing into 1998, there has been a sharp reversal in trading rates in the market. Previously, marginal trading rates were in excess of US\$1.00 = J\$39.00. These rates have revalued sharply and trades are now being conducted at US\$1.00 = J\$36.65. At the end of December 1997, the weighted average selling rate was US\$1.00 = J\$36.59.

FOREIGN EXCHANGE PURCHASES – USSM

	Q1	Q2	Q3	Q4	TOTAL
1997	657.8	629.4	533.5	493.1	2313.8
1996	389.4	461.5	549.5	613.2	2013.6

FOREIGN EXCHANGE SALES – USSM

	Q1	Q2	Q3	Q4	TOTAL
1997	674.7	653.5	552.3	520.2	2400.7
1996	393.0	463.0	555.7	612.8	2024.5

EXCHANGE RATE (US\$1.00 = J\$) END OF MONTH

December 1996	35.0328
January 1997	34.7115
February 1997	35.0386
March 1997	35.0751
April 1997	35.4638
May 1997	35.3835
June 1997	35.3731
July 1997	35.4716
August 1997	35.6164
September 1997	36.0301
October 1997	36.0482
November 1997	36.2192
December 1997	36.5880

FOREIGN EXCHANGE CASH FLOW BUDGET UPDATE

AS AT DECEMBER 1997

Final data for December 1997, shows the Net International Reserves to be US\$540.52mn (see table I) reflecting deterioration of US\$44.98mn during the quarter. For the fiscal year to date the NIR has deteriorated by US\$107.96mn.

TABLE I

NET INTERNATIONAL RESERVES
(US\$mn)

	MARCH 1997 ----	JUNE 1997 ----	SEPT. 1997 ----	DEC. 1997 ----	YTD Change -----
Net International Reserve	648.48	563.92	585.50	540.52	107.96
Foreign Assets	815.87	717.08	734.27	680.02	135.85
Foreign Liabilities	167.39	153.16	148.77	139.50	- 27.89
<u>Quarterly Change</u>					
(NIR)		84.56	- 21.58	44.98	
(Assets)		98.79	- 17.19	54.25	
(Liabilities)		- 14.23	- 4.39	- 9.27	

KEY: + denotes deterioration
- denotes improvement

During the quarter ending December 1997, receipts totalled US\$351.19mn. The major contributors to these receipts were:-

- (i) Bauxite flows approximately, US\$76.26mn,
- (ii) The first tranche of US\$50mn from the Citibank (US\$100mn) loan,
- (iii) Flows from foreign exchange market of US\$33.73mn, with cambios averaging US\$0.21mn per day and authorised dealers US\$0.33mn per day.
- (iv) Direct purchases from the market outside of the formal arrangement with cambios and authorised dealers totalled US\$137.12mn.

Payments for the quarter totalled US\$405.45mn. Major items were direct sales to the market of US\$171.20mn or 42.22 per cent of all payment and public debt US\$126.51mn or 31.20 percent.

COMPARATIVE FOREIGN EXCHANGE RECEIPTS & PAYMENTS

APRIL - DECEMBER 1996 AND APRIL - DECEMBER 1997

TABLE II

	APRIL - DECEMBER 1996	APRIL - DECEMBER 1997 US\$MN	CHANGE
Receipts	791.55	882.04	90.49
Bauxite	202.64	213.31	10.77
Sugar	7.00	-	(7.00)
Market Purchases	<u>368.82</u>	<u>359.85</u>	<u>(8.97)</u>
- Authorised Dealers	77.68	61.43	(16.25)
- Cambios	185.04	42.99	(142.05)
- Other Direct	106.10	255.43	149.33
Loan Inflows	<u>133.27</u>	<u>166.60</u>	<u>33.33</u>
- Bonds	97.89	105.36	7.47
- Other	35.38	61.24	25.86
Other Receipts	79.82	142.54	62.72
Payments	648.57	1,017.90	369.33
- Public Debt	402.16	376.96	(25.20)
- Imports/Services	71.22	68.44	(2.78)
- Direct Sales	146.17	471.80	325.63
- Other	29.02	100.70	71.68

Table II highlights the comparative Foreign Exchange Receipts and payments for April to December 1997 and April to December 1996. The data reflects an overall increase in total receipts of US\$90.49mn in the 1997 period. The small increase in bauxite flows and the impact of bond proceeds in 1997 was enough to offset the large reduction of US\$142.05mn in cambio flow in April to December 1997, relative to the same period in 1996.

Per diem intake from authorised dealers and cambios combined for April to December 1997 was US\$0.54mn when compared with per diem intake of US\$1.38mn for the comparable period in 1996 and highlights the significant reduction in volume in the market for the 1997 period.

Total payments for the period April to December 1997 when compared to the same period in 1996 show an increase of US\$369.33mn. This increase in payments was due largely to the incremental amounts in direct sales of US\$325.63mn to the market to supplement the demand for foreign exchange.

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Wages and Salaries

Wages and Salaries are significant components of recurrent cost comprising 63.8% of recurrent budget net of interest and has averaged 62.83% over the period 1995/98. The growth in the public sector wages bill, as shown below, will have to be contained and therefore a public sector wages policy over the medium term will have to be clearly articulated and then implemented.

Year	Wages Bill \$B
1995/96	20.2
1996/97	26.1
1997/98	32.0

The trend above demonstrates the need to dramatically reduce the wage bill if government's medium term macro economic objectives are to be met. The Government will have to contain wage and salary growth, including growth in allowances, to 8% in 1998/99; 7.6% in 1999/2000; 2000/01 and 5.6% in 2001/02. This may involve staff rationalization. Government will also have to address the following:

- a) The practice by different public sector groups of circumventing wage parameters.
- b) The credibility of Government's negotiating position.
- c) The practice of parastatals settling wage packages or wage proposals outside of the parameters set for the Central Government. Parastatals' implementation of bonuses/incentive payments also needs to be addressed.
- d) The multiplicity of allowances
- e) The retroactive implementation of Reclassifications/Upgradings and Pay Plans.
- f) The protracted negotiations

These issues are discussed below and recommendations made for dealing with each.

- a) **The practice of circumventing wage parameters.**
During the period (1980's to early 1990's) when Wage Guidelines were in place, the practice developed whereby salaries and wages were settled within the guidelines whereas allowances were either created, or settled in excess of the wage limits. With the removal of guidelines and the introduction of parameters within which to negotiate, this practice has continued. Generally, salaries have been settled within the parameters whilst the bargaining units use increases in allowances as the way to achieve a larger compensation package. This pattern is clear when allowances are calculated as a percentage of the wage bill.

The table below illustrates:

Fiscal Year	Allowances as a Percentage of Wage Bill
1995/96	15%
1996/97	35%
1997/98	37%

In keeping with the trend outlined above, the overall wage bill increase for salaries and allowances over the past four years are illustrated below:

Year	Basic Salaries	Allowances
1994/95	15%	25%
1995/96	14%	15%-20%
1996/97	15%	43%
1997/98	12%	24%

To further illustrate, particular cases are cited below:

	Year	Wage Parameters	Average Percentage increase In Allowances
Teachers	1996/97	15%	55%
	1997/98	12%	15%
Nurses	1996/97	15%	52%
	1997/98	12%	139%
Central Civil Service	1996/97	15%	24%
	1997/98	12%	50%

Recommendation

- 1) All allowances that are not true reimbursable allowances (example taxi and materials and equipment) should be settled within the stated parameters.
- 2) A review of all allowances to determine which are salary related and can be incorporated into basic salary thereby reducing the number of allowances.

b) - The credibility of Government's negotiating position

The practice of Union's pressing for increases on allowances outside of the wage parameters

and the government's acceding to these demands has weakened the credibility of the Government's negotiating position. Union's now expect that the declared position only relate to salaries and that there is no ceiling on the negotiation of benefits as illustrated at a) above

Recommendation

- 1) The Government should establish an across the board position and maintain it. The credibility of government's - i.e. the probability of the announced position being followed through- is critical in any negotiation with the workers

- c) **The practice of parastatals settling outside of the parameters set for the Central Government and their implementation of bonuses/incentive payments.**
Certain Parastatal bodies have developed the practice of settling wage claims, granting increases to staff and introducing new allowances without prior consultation with the Public Service Establishment Division of the Ministry of Finance and Planning as stated in Cabinet Decision No.13/90 dated March 13, 1990 and Ministry Paper No. 47 of 1992. This has resulted in settlements which are in excess of the stated parameters for settlements in the Public Sector. This in turn makes it difficult to achieve settlements within the parameters in other agencies and with some groups in central government.

Some examples are Bank of Jamaica, Agricultural Credit Bank, National Housing Trust, Caribbean Housing Finance Corporation and National Development Bank.

Recommendations

- 1) Re-establish the Public Sector Emoluments Committee (PSEC) to deal with wage settlements and proposals for all parastatals.
- 2) All wage settlements should be within the parameters set for the central civil service irrespective of the agency's ability to pay. If the situation dictates that special consideration be given, the Ministry of Finance must take the proposal to Cabinet for approval.
- 3) Sanctions to be put in place for Ministries/Agencies that settle outside of the stated parameters.

- d) **The multiplicity of allowances**
There are approximately over ninety separate allowances paid across the public sector. Many of these allowances are post or location specific, are not performance based, and provide various routes through which the wage parameters are circumvented. The increases in supper, taxi and subsistence are a case in point. Whereas these allowances at the individual

level seems small and inadequate, the impact on the wages bill is significant.

The Ministry of National Security and Justice has requested \$74M to pay retroactive monies to members of the Police Force for subsistence allowance for the contract period 1996/98.

There are some groups for whom the taxi and supper allowance has become a salary item with some individuals taking home up to \$42,000 .00 additionally per annum tax free.

In addition, government also incurs a high cost in terms of man hours in administering these allowances.

Recommendations

- 1) Hold increases in the wages bill to projected inflation rates. This would give the government a chance to:
- 2) Conduct a review of all allowances with a view to:
 - (i) determining whether not an allowance should exist for a particular situation.
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 - (iii) determining which allowance outside of salary related allowances can be incorporated into basic pay or the payment frozen to those now in receipt.
 - (iv) determining which among the allowances can be frozen to the current beneficiaries if no agreement can be reached in respect of amalgamation.
- 3) A moratorium on reimbursable allowances whilst a comprehensive review of the policy surrounding these allowances which have virtually become salary for some groups. The main allowances are taxi, supper, subsistence.
- 4) Standardize similar allowances where possible, over the public sector and so reduce the need of the public sector to have staff associations/unions competing to see which one can secure better benefits in this area for their representatives. This would allow for transparency and equity to public sector payrolls. This would have the added advantage for allowing easy and accurate computation of payroll adjustments.
- 5) Strict adherence to the policy of non-introduction of new allowances.

This has to be done in order that allowances can be rationalized which would in turn reduce the cost in respect of man hours

- e) **The retroactive implementation of Reclassifications/Upgradings and Pay Plans.**

The retroactive implementation of reclassifications/upgradings and pay plans contributes to growth of the wages bill. The major reclassifications are detailed below:

1995/96 -	Teachers' Reclassification	40%
1996/97 -	Upgrading of posts in the Civil Service	10% - 30%
1997/98 -	Correctional Officers Reclassification	30%

Recommendations

- 1) All reclassifications/upgradings and pay plans should have a forward implementation date.

f) The protracted negotiations

Currently, difficulties are being experienced in settling wage claims expeditiously. This is due mainly to the bargaining units' reticence in accepting the wage parameters and the culture of bargaining for more in the form of allowances. The build up of arrears arising from protracted negotiations places enormous pressure on cash management. For instance funds will have to be found in fiscal year 1998/99 to pay arrears due for the contract period April 1996 to March 1998.

Recommendations

- 1) The government must state its parameters by the beginning of the last quarter in the second year of contract period.
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All the proposals have to be worked on and refined for implementation over the medium term.

The expenditure and revenue assumptions and proposals for cost containment set out in the preceding paragraphs will provide the fiscal profile set out in the table at **Appendix I**. However the expenditure profile produced in these tables will only maintain the services offered by the public sector at current levels and will not generate the incremental services required to support a faster growth rate and new development objectives. For the economy to function at a level of activity that will lead to the creation of new employment opportunities and address pressing social problems, other measures would have to be implemented to generate incremental resources.

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1998

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FISCAL PROGRAMME APRIL - NOVEMBER 1997

REVENUE AND LOAN RECEIPTS

Total revenue and loan receipts for the fiscal year to November were \$76,282.5 million. This was \$11,273.1 million, or 17.3% more than budgeted. Of the total inflows, Revenue and Grants contributed 55.4%, with Loan Receipts accounting for the remainder. Whereas Revenue and Grants recorded a \$1,513.2 million shortfall, Loan Receipts exceeded the budget by \$12,786.3 million.

Revenue and Grants

Revenue and Grants inflows totalled \$42,232.2 million, which represents a 3.5% shortfall against the budget. The major contributor to this shortfall was tax revenue, which fell \$1,737.5 million, or 4.5% below the budget. Collections from most tax revenue items, including income and profit taxes and GCT were less than programmed. With respect to profit taxes from companies, these have been affected by the reduced profit levels due to the anaemic growth in the economy. Bauxite companies, though profitable throughout the fiscal year, have been able to significantly reduce their tax liability through losses carry forward from previous fiscal years. The shortfall in GCT was partly due to the implementation of Phase Two of the National Industrial Policy, which widened the base of items eligible for consideration for waivers.

Non-tax revenue collections have surpassed the budget by \$292.5 million or 16.3%. This over performance has resulted from above programmed departmental revenue, as well as higher than anticipated interest earnings from the commercial banks.

Capital revenue has performed a bit better than expected over the review period. Collections were \$41.4 million, or 11% ahead of target. However, collections for the fiscal year are now expected to fall approximately \$1,000.0 million below the original budget projections due to the fallout of divestment proceeds from the proposed sale of Petrojam.

Bauxite levy has exceeded the budgeted amount by 17.5%, which is reflective of the steady improvement in bauxite production throughout the fiscal year. The movement in the exchange rate has had a positive impact on this item of revenue.

Grant inflows fell \$410.7 million, or 50.5% below the original budget estimates. This fallout is associated with the reduction in Capital B expenditure.

Loan Receipts

Loan receipts surpassed the budget by \$12,786.3 million, or 60%. This additional amount was necessary to compensate for the revenue shortfall and increased expenditure, as well as to assist with liquidity management. To date, the BOJ has been provided with unprogrammed \$5,629.6 million in LRS to assist with liquidity management. On the external side, the excess resulted from

the over-subscription of the Eurobond in July.

NON-DEBT EXPENDITURE

Recurrent expenditure has surpassed the budgeted amount and the bulk of the increase has arisen from higher wage cost. The basic salary increases have been restricted to the 15% and 12% guidelines for the two year contract period. However, Government has experienced difficulties in keeping the non-salary awards within the desired limits. As a result the overall cost to Government has been more than targeted. Despite this, recurrent warrants have been almost fully funded as cash release is a mere \$77.9 million less than warrants issued. To accommodate this recurrent funding, as well as in response to the shortfall in revenue, capital funding has been constrained. For the period under review, unfunded warrants totalled \$1,365.0 million and the containment of capital funding is expected to continue for the remainder of the fiscal year.

PUBLIC DEBT

Total interest payments have increased by \$1,443.5 million over the budget. External payments were below programmed but domestic payments had exceeded the budgeted amount by \$1,865.8 million. The increase in the domestic interest cost is mainly due to:

- Government's inability to reschedule a significant portion of the targeted \$4,000.0 million. To date only \$1,300.0 million has been rescheduled and it is anticipated that no more than \$1,450.0 might be rescheduled given the tight liquidity situation;
- the higher than programmed interest rates that have occurred as part of a strategy to maintain stability in the exchange rates;
- the interest cost on the additional/unprogrammed loans undertaken during the course of the fiscal year.

AMORTIZATION

External amortization was \$1,889.7 million less than budgeted mainly as a result of the rescheduling of some payments. On the other hand domestic payments have exceeded the budget due to the repayment of unprogrammed short term debts undertaken during the current fiscal year, as well as the replacement of high cost debt by lower cost debt.

FISCAL PROGRAMME APRIL - NOVEMBER 1997

(J\$mn)

	Outturn	Budget	Difference
Revenue and Loans	76,282.5	65,009.4	11,273.1
Revenue and Grants	42,232.2	43,745.4	(1,513.2)
Tax Revenue	37,294.7	39,032.2	(1,737.5)
Non-tax Revenue	2,092.3	1,799.8	292.5
Bauxite Levy	2,024.6	1,723.5	301.1
Capital Revenue	418.0	376.6	41.4
Grants	402.6	813.3	(410.7)
Loan Receipts	34,050.3	21,264.0	12,786.3
External	9,116.9	7,923.3	1,193.6
Domestic	24,933.4	13,340.7	11,592.7

	Cash Release	Warrant	Difference
Non-Debt Expenditure	38,899.1	40,425.2	(1,526.1)
Recurrent	31,103.4	30,953.9	149.5
Capital	7,795.7	9,471.3	(1,675.6)

	Outturn	Budget	Difference
Public Debt (Interest)	17,211.9	15,768.4	1,443.5
External	3,228.6	3,650.9	(422.3)
Domestic	13,983.3	12,117.5	1,865.8
Amortization	21,740.1	22,581.4	(841.3)
External	6,258.7	8,148.4	(1,889.7)
Domestic	15,481.4	14,433.0	1,048.4

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Assistance to the Financial Sector

Consequent on the emergence of solvency problems in the Financial Sector commencing with the closure of Blaise and Century Financial Entities, Government took the decision to provide assistance to the Financial Sector in order to protect depositors, pension funds and policyholders and to restore viability to the sector. Support to the sector has been provided through:

A. Financial Institution Services Limited (FIS)

This institution has been responsible for the disbursement of funds to creditors of Blaise and Century Financial Entities which were placed under temporary management. All fixed assets of these institutions are being sold or managed by FIS and proceeds from outstanding loans collected to recover resources in the shortest possible time.

B. Financial Sector Adjustment Company (FINSAC)

FINSAC has been charged with the responsibility of providing assistance to the Financial Sector with a view to revitalising the relevant companies through the provision of capital and/or restructuring under specific terms and conditions for each company.

A. Financial Institutions Services Ltd. (FIS)

- ▶ The Government has so far committed a total of **\$11.8B** through Financial Institutions Services in respect of the failed Blaise and Century Financial Institutions.
- ▶ Cash advances of **\$1B** were made to FIS to facilitate payment to depositors of the failed Blaise Financial Entities.
- ▶ Cash advances of **\$5.5B** were made to Bank of Jamaica to cover the overdraft facility which was extended to Century Financial Entities. These resources were obtained from Central Government's balances in the Central Bank.
- ▶ Government guaranteed securities amounting to **\$5.4B** are to be issued to National Commercial Bank to underwrite the deposit accounts for former depositors of the CFE's. Securities amounting to **\$3.1B** were issued as at December 1997.
- ▶ FIS indebtedness in respect of Century Financial Entities amounted to **\$8.1B** at December 1997.

Cost Recovery - Blaise

Sale of some fixed assets and collection of a portion of outstanding loans have yielded **\$150M**. Of this amount **\$56m** has been paid over to the Consolidated Fund, **\$85m** is on deposit and the remainder has been used for legal fees and other expenses associated with the transfer of assets to private ownership. The disposal of the remaining assets are expected to yield **\$285.6m**. Assuming that these assets can be disposed of at that value a total of **\$402.5** will be realised.

Cost Recovery - Century Financial Entities

FIS has recovered **\$95.4m** from the sale of assets and the collection of outstanding loans since November 1997. The following are the items that are to be disposed of in order to recover additional costs:

	\$m
Investments	480.0
Jamaica Grande Shares	760.9
Century National Properties	88.4
Motor Vehicle	2.5
Paintings & Artwork	4.5
Furniture	4.5
Loans	1,800.0
Total	3,140.8

The following table is a projection for the realisation of assets for FIS for 1998/1999-2000/2001..

	1998/99	1999/2000	2000/01
	\$M	\$M	\$M
Sale of Assets	80.5	116.3	120.0
Loan Collection	<u>519.8</u>	<u>319.7</u>	<u>335.1</u>
Total	600.3	436.0	455.1

It should be noted that disputes regarding the ownership of some assets have contributed to the delay in the disposal of some assets

1. The repayment of principal and interest on loans advanced to institutions; the payment of dividends on preference shares and the redemption of preference shares.
2. The sale of FINSAC's stake in the Financial Institutions that have been acquired.
3. Realizations from FINSAC's purchase of non-performing loans.

A breakdown of financial assistance, ownership position of Finsac, and approximate value of equity is given in the attached schedule.

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TO BE REVIEWED

**Financial Assistance Granted to FINSAC Controlled Financial Institutions
Value of Ownership Position
January 12, 1998**

Financial Institution	Committed/ Disbursed Financial Assistance	Effective Ownership/ Control Position	Approximate Value of Equity	Medium Term Asset Recovery
Crown Eagle Life Insurance Company	<p>\$13.2 billion (12½% loan payable on demand).</p> <p>\$500 million (12½% 7 year loan).</p>	86%	<p>-\$9.9 billion (unaudited book value at November 1997)</p>	<p>Life Insurance Portfolio (120 million)</p> <p>Holiday Inn Montego Bay (900 million)</p> <p>Forte Belle (Crown Plaza Hotel) (300 million)</p> <p>Real Estate and Non-Financial Sector Affiliates (800 million)</p> <p>Cement Company Shares (250 million)</p>
• Eagle Merchant Bank Limited	\$2 billion (7 year 12½% loan for liquidity support).	98% (owned by Eagle Premium Growth Fund which is controlled by Crown Eagle Life Insurance Company)	-\$1.03 billion (unaudited book value at November 1997)	Art Collection (35 million)

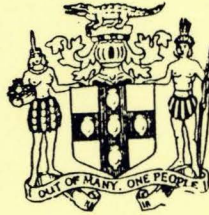
<ul style="list-style-type: none"> Eagle Commercial Bank Limited 		100% (owned by Eagle Merchant Bank)	\$510 million (book value at June 30, 1997)	
<ul style="list-style-type: none"> Eagle Permanent Building Society 		100%	\$167 million (book value at June 30, 1997)	
Citizens Bank Limited Group	\$1 billion (12½% non-cumulative redeemable preference share equity injection). \$1.7 billion (purchase of non-performing loans from Citizens Bank Limited and Citizens Merchant Bank Limited.)	81%	\$220 million (market value at January 13, 1997)	
Life of Jamaica Limited	\$186 million (purchase of Citizens Bank Group Limited ordinary shares) \$109 million (preference share purchase from BanPonce) \$520 million (purchase of CIBC ordinary shares) \$1.06 billion (12½% preference share purchase) \$140 million (ordinary share purchase)	26.5%	\$186.3 million (market value at January 13, 1998)	

Island Life Insurance Company Limited	\$80 million (ordinary share purchase) \$220 million (12½% preference share purchase)	26.5%	\$50.6 million (market value at January 13, 1998)		
Dyoll Group Limited	\$37.1 million (ordinary share purchase)	26.5%	\$14 million (market value at January 13, 1998)		
• Dyoll Life Limited	\$162.9 million (12½% preference share purchase)	—	—		
Workers Bank	\$2 billion (12½% loan)	To be determined	To be determined		
National Commercial Bank Limited	\$3.1 billion (purchase of non-performing loans)	44%	\$950 million (market value at January 13, 1998)		
The Jamaica Mutual Life Assurance Society	\$9 billion (15 year subordinated loan at 4.5% per annum with a five year moratorium on interest payments) \$950 million (purchase of 44% of the NCB Group from the Society)	Right to appoint 7 of 15 directors and to approve appointment of the Executive Chairman. Right to 49% upon demutualisation.	—		
Billy Craig Finance & Merchant Bank Limited	\$75 million (form of assistance to be determined)	To be determined	To be determined		

Financial Assistance to Financial Sector
1997

280 million (ordinary share purchases)	280 million	280 million (market value at January 13, 1997)	Island Life Insurance Company Limited
210 million (12% preference share purchase)	210 million	210 million (market value at January 13, 1997)	Island Life Insurance Company Limited
217.1 million (ordinary share purchase)	217.1 million	217.1 million (market value at January 13, 1997)	Island Life Insurance Company Limited
22 billion (12% loan)	22 billion	To be determined	Workers Bank
21.1 billion (purchase of non-performing loans)	21.1 billion	21.1 billion (market value at January 13, 1997)	Commercial Bank Limited
29 billion (17 year subordinated loan at 4.2% per annum with a five year moratorium on interest payments)	29 billion	29 billion (market value at January 13, 1997)	The Jamaica Mutual Life Assurance Society
290 million (purchase of 44% of the NCB Group from the Society)	290 million	To be determined	City Credit Finance & Mercantile Bank Limited
To be determined	To be determined	To be determined	To be determined

UWI Libraries



**Report from
The Ministry of Education
and Culture
Cabinet Retreat
San Souci, Lido
St Mary**

February 11 – 15 1998

MINISTRY OF EDUCATION AND CULTURE REPORT ON INITIATIVES FOR CABINET RETREAT

EARLY CHILDHOOD EDUCATION

The Ministry has been working with the Ministry of Health in order to assume responsibility for the registration and regulation of Day Care Centres, thus bringing about the full articulation of the education System.

Twenty nine (29) posts of Caregivers have been established and schools have been making appointments to these positions.

PRIMARY EDUCATION

FULL ATTENDANCE MOBILIZATION

Assessment of the problem affecting poor attendance at primary schools indicates that among the factors contributing to less than ideal attendance are:

- poor economic condition of some families
- inefficient transportation system
- poor attitude to "Friday School" on the part of some students and teachers.

STRATEGIES BEING USED TO ADDRESS THESE INCLUDE:

- breakfast programmes
- enrichment of offerings on the days of lowest attendance.
- increased supervisory visits on Fridays by Education Officers.
- directing parents to the services of other Government agencies that provide support services eg. Poor relief, Children's Services, health authorities.

- outreach programmes with local church communities to educate parents on the value of regular school attendance, as well as to plan welfare support programmes.
- guidance counsellors (where they exist) establishing and maintaining contact with parents of children whose attendance is irregular.
- public relations programme utilizing the services of the public electronic media.

It is too early to assess the impact of these programmes but a thorough analysis will be done at the end of the academic year (July '98).

GRADE SIX ACHIEVEMENT TEST (GSAT)

The final sitting of the Common Entrance Examination took place in January 1998 and the first sitting of the GSAT will take place in April 1999.

Trial runs of GSAT will be held in 1996 and 1997 and will also be done in 1998. In-service teacher training in readiness for this examination is underway and a public information programme for the National Assessment Programme including the GSAT is underway.

The period 1999-2001 will be a period of transition as it relates to the matter of eligibility to sit the exam.

In this period the age criterion will be used as currently exists but afterwards it becomes a one-shot examination for students in Grade 6 who have completed the curriculum.

SECONDARY EDUCATION

In relation to the policy that as of September 1999 all secondary level institution must use the ROSE Grade 7-9 Curriculum, training programmes for teachers, sensitization of communities and procurement of instructional materials are being addressed.

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UNIVERSAL SECONDARY EDUCATION

- Addition of 3000 places to High School Population.
- For the 1997/98 Academic Year 1754 more places than in 1996 were awarded to the secondary level through Common Entrance Examination, the Common Entrance to Technical High Schools, the Grade Nine Achievement Test and the Junior High School Examination.
- Identification of additional places is continuing while a full plan is being developed using demographic data to determine the need for new schools, extensions, staffing and other infrastructural requirements for inclusion in the PSIP.

The second phase involves:

UPGRADING OF 35 ALL AGE SCHOOLS TO JUNIOR HIGH

The Ministry has already done general and specific repairs to twenty-eight (28) of the thirty-five (35) All Age Schools to be upgraded to Junior High Schools. Approximately \$15.6 million has been spent on such repairs. Another \$16 million out of \$20 million committed was spent for the provision of furniture. Training sessions have been done with the Principals and Chairman of these schools and others are scheduled for May 1998.

TECHNICAL/VOCATIONAL RATIONALIZATION

In keeping with the rationalization of Secondary Education, the Ministry has also instituted a Technical Vocational Education Rationalization project. This is aimed at streamlining the Technical Vocational offerings at the Secondary level to increase efficiency in the use of resources and assuring better quality output.

HIGH SCHOOL EQUIVALENCY

Further study of the proposal submitted by JAMAL is being done alongside appraisal of models existing in other countries including the G.E.D. (USA).

At the same time an Advisory Committee comprising HEART, NCTVET, JAMAL, MOEC and the National Council on Education will work alongside a Consultant to develop a programme suitable for local conditions.

Request will be made in the 1998/99 Budget for JAMAL for funds for the consultancy to move the project forward.

STRENGTHENING OF THE MINISTRY TO ENSURE MONITORING OF QUALITY

One Officer has been identified to co-ordinate this area. She is scheduled to undertake the task in March 1998. The Officer has already begun to attend meetings to familiarize herself with the operations of the Ministry.

- One Officer is on board in respect of the integration of Day Care and Early Childhood Education.
- A Public Relations Unit will be established in March 1998. The two Officers have already been selected.
- The pool of professionals is being strengthened in critical areas to ensure clinical supervision of institutions and programmes. Through increased training the capabilities of Administrative and Project staff are also being improved.

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