

3. BALANCE OF PAYMENTS

The out-turn of the Balance of Payments at the end of 1997, highlights the significant adverse influence of the continued poor performance of the export sector on the merchandise trade account as well as the continued buoyancy of private transfers and their respective impacts on the current account. The marked reduction in private capital inflows throughout the year and its impact on the overall balance of payments and the level of reserves of the Bank of Jamaica is also significant. This out-turn also reflected the influence/impact on the local economy of international developments and the domestic macro-economic policies and programmes pursued by the government.

International developments included:

- a. fluctuations in international commodity prices which affected both the local import bill and the level of earnings from exports. During the year the fall in crude oil prices brought lower payments for fuel imports while the improved prices for alumina exports helped to support higher export earnings. However, declining prices for sugar and bananas led to reduced earnings for these exports.
- b. There was a decline in the level of private capital and direct investments flowing to developing countries. It was estimated at US\$22 billion for 1997, compared to US\$77.7 billion in 1996. This trend set in, following the meltdown in the economies of South East Asia.
- c. During 1997, short term interest rates edged up in major industrialized economies and their capital markets also showed continued growth.

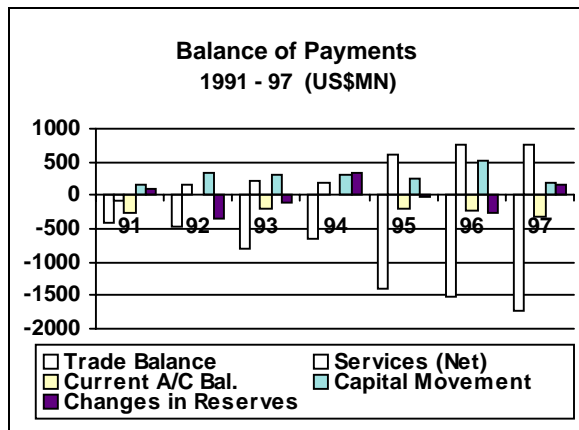
This encouraged the retention of investment funds within these countries.

Domestic Developments:

- a) the overall macro-economic programmes were designed to significantly contain inflation, and stabilize the exchange rate while ensuring an adequate supply of hard currency. However, the tight monetary policy, featuring high interest rates which was used to achieve these objectives, only served to deepen the country's recession.
 - i. Throughout the year, the high interest rate translated into low demand for credit to the productive sector. This fell by 10% in 1997 compared with relatively no growth in 1996. The decline in credit, together with a 4% fall in the importation of raw materials and a 7% reduction in the imports of machinery and equipment capital goods, underscores the devastating effect of high interest rates on investments levels and activities in the productive sector.
 - ii. Although the high rates of interest slowed the growth in consumer credit to 3% in 1997, compared with a 22% growth in 1996, consumer loans no doubt helped to fuel the high demand for consumer imports which grew by 23% in 1997.
 - iii. The high interest rates and an uncompetitive exchange rate, in addition to other factors combined to perpetuate the slump in output and earnings of the export sector, as its earnings stagnated in 1997 following on a 4% decline in 1996.

BALANCE OF PAYMENTS

Figure 3.1



- b. To the above could be added the effect of severe climatic drought conditions which affected the output of agricultural production for the local and export markets and gave rise to a fall in export earnings, a rise in import levels and a widening of the merchandise trade gap.

Table 3.1

The relative stability of the nominal exchange rate and the continuing appreciation of the real exchange rate fostered the continued growth in imports which

displaced local products and filled the growing consumer demand.

Merchandise Trade

At the end of 1997, Jamaica's trade transactions totalled US\$4.494 billion and were comprised of export earnings of US\$1.387 billion and imports of US\$3.107 billion. This compares with total trade of US\$4.303 billion at December 1996, having exports of US\$1.387 billion and imports of US\$2.916 billion. There was a US\$191 million increase in total trade in 1997, as imports rose by US\$190.4 million while exports rose by US\$0.7million. The trade gap in 1997 was US\$1.719 billion widening by US\$189.7 million over US\$1.529 billion gap at the end of 1996.

Balance of Payments 1991 - 1997 (US\$Mn)							
	1991	1992	1993	1994	1995	1996	1997
Merchandise							
Exports (fob)	1150.7	1053.6	1075.4	1219.5	1436.8	1386.9	1387.6
Imports	1575.0	1529.1	1880.5	1871.5	2831.8	2916.3	3106.7
Balance of Trade	-424.3	-475.5	-804.7	-652.0	-1395.0	-1529.4	-1719.1
Services (Net)	-84.3	146.6	233.6	195.0	617.0	753.7	747.4
Foreign Travel	710.4	794.2	878.4	854.0	939.6	952.4	961.7
Investment Income	-478.9	-348.2	-240.2	-284.3	-296.9	-177.5	-196.2
Others	-315.8	-299.4	-404.6	-374.7	-25.7	-21.2	-18.1
Goods & Services (Net)	-508.6	-328.9	-571.1	-457.0	-778.0	-775.7	-971.7
Transfers (Net)	252.8	339.8	376.9	475.3	563.3	636.4	641.7
Private	153.3	248.2	306.4	447.2	505.3	583.8	606.3
Official	99.5	91.6	70.5	28.1	57.7	52.6	35.4
Current A/C Balance	-255.8	10.9	-194.2	18.3	-214.7	-139.3	-330.0
Capital Movement (Net)	150.6	326.3	307.6	319.2	238.1	410.5	177.9
Private	51.4	336.3	309.1	429.3	344.7	498.4	190.9
Official	99.2	-10.0	-8.0	-8.4	-6.4	28.3	-6.7
Government Direct			-1.4	-101.9	-97.0	-144.7	-12.1
Government Guaranteed			2.3	-17.1	-3.2	28.5	5.9
Divestment			5.6	17.3	0.0	0.0	0.0
Change in Reserves	105.2	-337.2	-113.4	-337.5	-23.4	-271.3	152.1

(Minus = Increase)							
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BALANCE OF PAYMENTS

US\$1.719 billion widening by US\$189.7million over the US\$1.529 billion gap at the end of 1996.

At the close of 1997, Jamaica's imports rose by US\$190.4 million or by 6.5%. This out-paced the lagging output of exports which rose by US\$0.7 million and further widened the trade gap when compared with the 1996 data.

During the year, Jamaica showed robust growth in its imports of Consumer and Capital goods, both of which grew by 24.4% and 20.4% respectively. However, imports of raw materials fell by 6.1%.

Earnings from traditional exports over the review period showed a 4.1% increase, fostered mainly by a 7.6% increase in earnings from alumina exports. The earnings from the non-traditional sector lagged behind the 1996 level mainly because of the contraction of the apparel sector which is the dominant player in that sub-sector.

Services

The outcome of the services account for the year, showed a smaller surplus of US\$747.4 million or US\$6.3 million below 1996 earnings. The lower net earnings from travel resulted from the increased expenditure of locals travelling abroad which exceeded the increased earnings from the tourism sector. In addition, as a result of increased earnings from alumina exports, there was an increased

repatriation of profits, which helped to deplete the net services sector earnings in the external account.

Transfers

Throughout the year, the level of private transfers to the country remained the only buoyant section of the balance of payments. At year end, the net transfers balance was US\$641.7 million or US\$5.3 million more than at the end of 1996. Private transfers showed a 3.8% increase over the previous year's figure and this was able to also offset the 32.7% fall in official transfers. The sustained level of inflows of private transfers is thought to reflect the increasing economic difficulties in Jamaica and a corresponding increase in assistance from Jamaican residents overseas who make these remittances to support their relatives in Jamaica.

Current Account

The current account at the end of 1997, showed a US\$330.0 million deficit, indicating significant deterioration from the US\$139.3 million deficit at the close of 1996. The deterioration in this account reflects the poor performance of export earnings, in contrast to the expansion in import costs as well as the sluggish performance of the service earnings. The sustained deterioration in the current account reflects the uncompetitiveness of the currency, and highlights the growing imbalance in the external accounts.

BALANCE OF PAYMENTS

Table 3.2

Capital Accounts

Throughout the year, private capital flows moved through a cycle of positive to negative to positive balances, which gave rise to a similar trend in the capital account balances. At the end of 1997, net capital inflows stood at US\$177.9 million or US\$232.6 million less than at the end of 1996. This current period shows private capital inflows of US\$190.9 million or US\$307.5 million or 61.7% below the 1996 levels. The fall off in private capital inflows is no doubt related to the lowering of interest rates as well as the uncertainties regarding the exchange rate. Supporting the current positive net balance on the capital account is a lower level of outflows of official capital, moving from an outflow of US\$144.7 million in 1996 to US\$12.1 million in 1997, a decline of US\$132.6 million.

Net capital inflows of US\$177.9 million and a current account deficit of US\$330.0 million at the end of 1997, resulted in a net loss of US\$152.1 million of the Net International Reserves (NIR). This compares with an addition of US\$271.3 million to the reserves at the end of 1996.

Outlook for 1998

The Jamaican economy will continue to operate at least for the early months of 1998, within the dictates of a tight monetary policy - focussing on inflation control and exchange rate stability - using mainly high interest rate as its monetary tool. This will therefore perpetuate the recessionary path of the economy.

Output and earnings for exports will continue to fall as the high interest rate policy and non-competitive exchange rate will retard export profitability. Output for the local market could increase giving some price competition to imports, but Jamaica's high propensity to consume imports will continue to fuel its growth. Even if interest rates decline somewhat during the year, increased output from the export sector will not materialize to significantly improve the sector's annual earnings. So, at year end, the trade gap may not be significantly narrowed. However, import growth will slow considerably as oil prices fall and the contraction in the local economy deepens.

Capital Account 1991-1997							
	1991	1992	1993	1994	1995	1996	1997
NET CAPITAL MOVEMENT	-1.9	326.3	310.3	226.5	238.1	410.5	177.9
Government Direct	66.8	0.0	-1.4	-127.4	-97.0	-144.7	-12.1
Government Guaranteed	9.4	0.0	2.3	17.1	-3.2	28.5	5.9
Official Short-term	-38.7	-10.0	-10.6	-8.4	-6.4	28.3	-6.7
Private (including errors and omissions)	-54.4	326.5	314.4	327.9	344.7	498.4	190.9
Divestment	15.1	9.8	5.6	17.3	0	0	0

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The services sector will continue to post positive balances as the tourism sector should maintain a modest growth. However, there will be some erosion of the sector's net returns from profit repatriation and increased local travel.

The transfer account should remain buoyant, maybe not showing much growth as remittances have already peaked in 1997 and are beginning to level off.

Despite the positive impact of the services and transfer accounts on the current account, it will

continue to be negative as export earnings will be sluggish while imports will be high.

The level of private capital inflows is not likely to see much growth, given the current economic environment. However, government's external borrowings and servicing responsibilities will increase so that net capital movements will not be enough to offset the current account deficit. Therefore a significant portion of the Net International Reserves will be used up in this process. ■

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