

## **BALANCE OF PAYMENT**

The Balance of Payments (BOP) consists of two main accounts, the current account and the capital and financial account. It records transactions between the economy as a whole and the rest of the world. The current account shows the results of trade in goods and services and records transfer payments while the capital and financial account shows capital transfers investments, foreign debt and reserves.

Even with the decline in the goods balance, the current account deficit was lowered to US\$183.3Mn in January to November 1999, compared with a deficit of US\$200.1 Mn for the same period in 1998. Net capital outflows were greater for the period and reserves fell accordingly.

### **Merchandise Trade**

According to the Bank of Jamaica's reports the merchandise trade account for January to November 1999 had a negative balance of US\$989.8Mn. This widens the trade deficit by US\$32.6Mn from the balance recorded for the corresponding period in 1998. The expansion of the deficit reflects a more than proportionate fall in exports relative to the fall in imports for the period.

January to November 1999 saw exports and imports falling by US\$116.3Mn and US\$83.7Mn respectively. Exports for the period amounted to US\$1369.7Mn, 7.8% less than the amount recorded in 1998. The fall in imports took the balance to US\$2359.5Mn, 3.4% less than the balance in the previous year. Reductions in the import bill came as a result of the declines in raw material and capital goods expenditure outweighing the increase in consumer goods imported. Raw materials which represent the greatest portion of imports was significantly affected by a 23.5% increase in the value of fuels and lubricants imported.

Declines in non traditional exports for the 1999 period accounted for US\$58.4Mn of the US\$71.29Mn fall in domestic exports relative to earnings recorded for 1998.

## **Services**

Net services was US\$460.7Mn for the period under review. This was US\$22.1Mn more than the amount recorded for the corresponding period in 1998. The increase in net service earnings was most affected by a US\$31.2Mn reduction in the transportation deficit and the US\$11.6Mn increase in the deficit for other services. The transportation account deficit was US\$212.1Mn, 12.8% less than the deficit recorded in 1998. Foreign travel for the period rose by US\$1.5Mn (0.17%) to US\$878.5Mn. This was due to an increase in the expenditure of Jamaicans travelling abroad since estimated tourist receipts increased by US\$16.7Mn over the corresponding eleven months of 1998.

## **Income**

The income account recorded a deficit of US\$239.5Mn, US\$10.1Mn lower than the deficit recorded in 1998 for the corresponding eleven months. Compensation of employees decreased by US\$9.6Mn to US\$54.7Mn, while the decrease in net investment outflows accounted for the US\$19.7Mn offset.

## **Net Current Transfers**

Net current transfers of US\$595.3Mn were recorded for January to November 1999. This is US\$18.2Mn more than the amount recorded for the corresponding period in 1998. Net private inflows rose by US\$18.3Mn, while net official transfers fell by US\$0.1Mn.

## **Graph to be inserted**

## **Current Account**

For the period under study, the current account showed a deficit of US\$183.3Mn. That was US\$16.8Mn less than the deficit recorded for January to November 1998. This was due to the positive changes in the services and income sub accounts. There was a major offset from the trade account. An indication that the country has difficulty meeting its foreign obligations.

### **Capital & Financial Account**

At the end of November 1999, operations since January resulted in the capital and financial accounts balances of US\$11.6Mn and US\$171.7Mn, respectively. The results represented declines in net inflows of US\$2.1Mn and US\$14.7Mn in the same order. The reduction in the financial account surplus was due to an increase of US\$251.7Mn in the net outflow of official investments to US\$299.9Mn and a US\$126Mn increase in net private investment. The Net International Reserves (NIR) fell by US\$75.2 compared with a US\$35.8Mn increase for the same period in 1998.

### **Outlook for 2000**

The year 2000 is expected to record larger sums on the net services balance since seasonal tourism continues to grow steadily. The spring break market has increased and is expected to grow rapidly as Jamaica is marketed as a 'fun place' for teenagers and young persons as a whole. Not only foreigners, but also Jamaicans will enjoy the experience of a vacation at home.

Any improvement on the current account will however be offset if the goods balance continues to decline. It is important to have increases in export earnings if falls in imports are to significantly affect the goods balance.

There has been evidence of a gradual lowering of interest rates. Though this is not expected to significantly affect investments in 2000, it will eventually give direct investments a push. This will see the development of industrial and technology, hence the improvement of efficiency and the

Jamaican product as a whole. At this time investment inflows not only need to increase but they need to increase at a greater rate than movement in outflows. Reduction of reserves has indicated an effort to lower money supply through the monetary base. If effective, this will greatly influence the low inflation policy by keeping prices down.

**Graph to be inserted**

<b>Current Account Balances</b>							
	<b>Jan-Dec 1994</b>	<b>Jan-Dec 1995</b>	<b>Jan-Dec 1996</b>	<b>Jan-Dec 1997</b>	<b>Jan-Dec 1998</b>	<b>Jan-Nov 1998</b>	<b>Jan-Nov 1999</b>
Current Account	6.9	-172.7	-237.7	-400.6	-322.8	-200.1	-183.3

<b>Balance of Payments (US\$Mn)</b>						
	<b>Jan-Dec 1995</b>	<b>Jan-Dec 1996</b>	<b>Jan-Dec 1997</b>	<b>Jan-Dec 1998</b>	<b>Jan-Nov 1998</b>	<b>Jan-Nov 1999</b>
Goods Balance	-829.4	-994.2	-1120.8	-1101.9	-957.2	-989.8
Exports	1796	1721	1699.1	1486	1486	1369.7
Imports	2625.4	2715.2	2819.9	2443.2	2443.2	2359.5
Services Balance	374.2	326.1	307.6	261	439.6	460.7
Transport	-246	-270.2	-287.4	-281.6	-243.3	-212.1
Foreign Travel	921.2	935.2	949.5	909.8	877	878.5
Other Services	-301	-338.9	-354.5	-367.2	-194.1	-205.7
Income	-309.5	-177.4	-201.2	-93.6	-259.6	-249.5
Compensation of Employee	46.5	47.3	53.7	71.9	64.3	54.7
Investment Income	-356	-224.7	-254.9	-165.5	-323.9	-304.2
Current Transfer	5.92	607.8	613.8	611.7	577.1	595.3
Official	37.2	33.9	0.23	24.4	41.5	41.4
Private	554.8	573.9	590.8	591.3	535.6	553.9
Current Account	-172.7	-237.7	-400.6	-322.8	-200.1	-183.3
Net Capital Movement	24.1	21.1	9.4	6.6	13.7	11.6
Official	20.5	18.7	7	4.2	3.9	4
Private	3.6	2.4	2.4	2.4	9.8	7.6
Financial Account	148.6	216.6	391.2	316.2	186.4	171.7
Other Official Investment	-0.97	-144.7	43.1	-57.7	-48.2	-299.9
Other Private Investment	265.3	639.9	1.96	415.4	270.4	396.4
Changes in Reserves	-19.7	-278.6	152.1	-41.5	-35.8	75.2

Ref: Balance of Payment Econ Dept (F/server - 05/04/00)