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## Foreign Exchange Flows and the Jamaican Tourist Sector

### INTRODUCTION

Since the oil crisis of the 1970s, the balance of payments of all non-oil producing Third World states have come under increasing pressure as, they sought to maximise their scarce foreign exchange earnings to cope with the growing demand for imported goods and services and to service, in most instances, huge external debts. Given the historical and structural background of these economies and their dependence on developments in the industrialised countries, their options for coping with balance of payments problems are few. The majority of the developing countries are now in the process of restructuring their economies to make them more exported-oriented, rather than to concentrate on an import substitution strategy. In addition to visible export commodities, some countries, such as Jamaica, are in an advantageous position to promote the growth and development of tourism as a quick foreign exchange earner to cushion the effects of deteriorating trade balances.

This paper addresses the foreign exchange flow within the Jamaican tourist sector and the leakage factor therein. It

firstly takes an overview of the impact of the tourist industry on the economy, in general, and, specifically, on the balance of payments. Secondly, it seeks to identify leakages as a result of official transactions and, thirdly, leakages related to the parallel market.

The scarcity of documented information in this sector has meant the heavy reliance on field experience.

### IMPACT OF TOURISM ON THE JAMAICAN ECONOMY

The economic goals of the Jamaican tourist sector may be identified as foreign exchange earnings, contributions to government revenue and other investible surpluses, increased employment and economic growth. Tourism, however, is a peculiar export commodity. It is a luxury export consumed by non-citizens in the exporting, rather than the importing country. It is this unique payment system, associated with tourism, which generates the problems of foreign exchange leakages. Jamaica's tourism sector is characterised by an heterogeneous combination of goods and services cutting across many other sectors. In addition, the sector's direct impact has a real bearing on the pattern and volume of tourist expenditure as well as the visitors' average length of stay (bed/nights). While the economic impact of the tourist dollar is correlated to the tourist multiplier, a graphic impression of the sector's overall contribution to the Jamaican economy is presented in Figure 1.

### Tourism Flows and Balance of Payments

There are various ways of presenting the contribution of tourism to the balance of payments. How revenue from tourism (gross or net): (i) offsets wholly or partly a deficit on visible trade; (ii) helps to reduce the current account deficit; (iii) improves the overall balance; and (iv) how it compares with total export revenue.

However, given the ready availability of balance of payments data, a comparison with visible transactions seems most appropriate.

SOCIAL AND ECONOMIC STUDIES

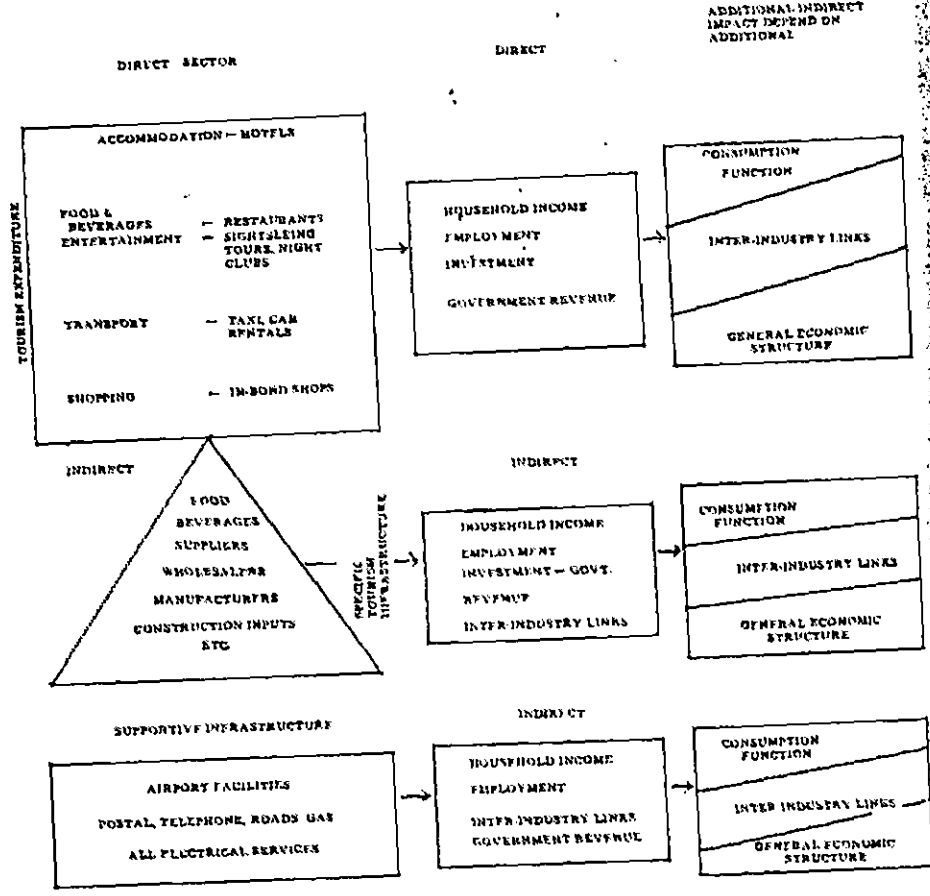


TABLE II: BALANCE OF PAYMENTS SUMMARY 1971-1981  
(US\$m)

|  | 1971   | 1972   | 1973   | 1974   | 1975   | 1976   | 1977   | 1978   | 1979   | 1980   | 1981   |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>A. Merchandise</b>                    |        |        |        |        |        |        |        |        |        |        |        |
| Exports (Lo.b.)                          | 343.3  | 382.6  | 392.9  | 693.8  | 810.4  | 569.7  | 750.6  | 794.5  | 814.7  | 966.7  | 974.0  |
| Imports (Lo.b.)                          | 474.1  | 465.7  | 970.2  | 811.4  | 969.7  | 791.6  | 666.7  | 730.0  | 882.6  | 1038.1 | 1296.7 |
| Services                                 | -4.0   | -1.9   | -29.9  | -72.8  | -149.6 | -176.7 | -158.5 | -156.9 | -144.7 | -181.7 | -196.4 |
| Yankee Trade                             | 92.6   | 100.5  | 99.4   | 97.5   | 76.2   | 46.9   | 93.7   | 136.4  | 184.3  | 228.9  | 270.6  |
| Investment Income                        | -45.1  | -47.5  | -66.1  | -67.7  | -102.8 | -115.6 | -128.6 | -178.6 | -202.6 | -251.7 | -201.5 |
| Other                                    | -51.5  | -54.9  | -71.2  | -102.6 | -123.0 | -108.0 | -103.6 | -114.7 | -136.6 | -158.9 | -207.5 |
| C. Goods & Services (net)                | -134.8 | -135.0 | -202.2 | -190.4 | -308.9 | -308.6 | -54.6  | -113.4 | -222.6 | -257.1 | -461.1 |
| D. Unrequited Transfers (net)            | 20.9   | 24.6   | 25.4   | 23.2   | 26.2   | -6.0   | 30.0   | 25.7   | 80.0   | 00.8   | 124.3  |
| Private                                  | 26.2   | 30.5   | 33.8   | 32.6   | 21.6   | 2.1    | 13.1   | 15.2   | 70.0   | 81.8   | 123.3  |
| Official                                 | -5.4   | -5.9   | -7.4   | -9.1   | -5.2   | 3.9    | 4.9    | 10.5   | 10.0   | 9.0    | 1.0    |
| Current Account Balance                  | -114.0 | -110.4 | -180.8 | -166.9 | -282.7 | -302.6 | -34.6  | -86.7  | -143.6 | -166.3 | -256.6 |
| E. Net Capital Movements                 | 184.5  | 65.8   | 137.1  | 234.2  | 208.9  | 48.5   | 55.9   | 9.6    | -10.4  | 128.6  | 68.2   |
| Official                                 | 4.8    | 20.5   | 36.7   | 90.1   | 124.2  | 79.2   | -6.9   | 178.9  | 71.2   | 207.4  | 103.8  |
| Private                                  | 129.7  | 44.3   | 100.4  | 164.1  | 84.7   | -30.0  | 62.8   | -169.1 | -81.6  | -78.8  | -35.6  |
| F. Total A through E                     | 20.5   | -44.6  | -43.7  | 87.3   | -73.8  | -294.3 | 22.3   | -76.9  | -133.0 | -37.7  | -208.6 |
| G. Allocation of SDRs                    | 3.6    | 5.2    | -      | -      | -      | -      | -      | -      | 10.0   | 10.0   | 10.0   |
| H. Total F plus G                        | 26.1   | -39.4  | 53.7   | 87.3   | -73.8  | -294.3 | 22.3   | -76.9  | -123.0 | -27.7  | -258.6 |
| I. Change in Reserves (Increase = Minus) | -43.7  | 48.0   | 81.3   | -39.5  | 81.0   | 262.0  | 16.1   | 77.5   | -140.9 | 26.7   | 262.1  |
| Holdings of SDRs                         | 6.4    | 5.4    | -0.3   | 1.7    | 1.2    | 4.1    | -15.7  | 11.6   | 4.3    | 1.4    | -1.2   |
| Reserve Position in the IMF              | -5.7   | 12.1   | -      | -      | -      | -      | -      | -      | -      | -8.2   | -9.7   |
| Government                               | 0.5    | 2.1    | 0.4    | 5.2    | -3.7   | 0.1    | 3.2    | -4.2   | -7.5   | -12.6  | 13.8   |
| Capital Development Fund                 | -16.2  | 1.4    | 29.9   | -42.7  | 102.4  | 224.5  | 29.0   | 77.0   | 159.7  | 67.7   | 233.4  |
| Export Development Fund                  | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      |
| Other Banks                              | -17.9  | 27.0   | 1.9    | -11.6  | 2.3    | 2.4    | -0.1   | -7.3   | -      | -8.5   | 5.5    |
| Net Errors & Omissions                   | 18.5   | -8.5   | 12.1   | -16.7  | -7.2   | -7.5   | -38.4  | -0.6   | 2.1    | 1.0    | -10.9  |
| Current Account/GDP*                     | -7.5   | -6.9   | -9.4   | -6.7   | -9.7   | -9.9   | -2.0   | -4.1   | -5.9   | -6.2   | -11.5  |
| *GDP (Current Values)                    |        |        |        | (%)    |        |        |        |        |        |        |        |

Since 1971, with the exception of 1977 and 1978, Jamaica's visible trade has incurred net deficits of varying proportions. These trade deficits have been the main causes of the sharp increases in current account deficits. Imbalances recorded in current account transactions during the 1971 to 1982 (projected) period have ranged from a low of minus US\$34.6 million in 1977 to a high of minus US\$50.5 million (projected) for 1982. These deficits have been partially covered by foreign borrowing from international organisations, friendly countries and commercial sources.

In 1981, the current account deficit widened to 11.3 per cent of Gross Domestic Product (GDP) (current prices) from a low of 2 per cent in 1977 as shown in Table 1.

A breakdown of the yearly net merchandise balances from 1971-1982 with the contributions of the net foreign travel component of the services category of Jamaica's balance of payments account are shown in Table 2. It is designed to show the impact gross estimated tourist expenditure has had on visible transactions and the resultant effect on the current account balance.

The overall surplus contribution of net foreign travel has been improved since 1977, by not only growth in actual visitor arrivals, but also by foreign exchange restrictions placed on Jamaicans wishing to travel abroad.

TABLE 2  
NET MERCHANDISE BALANCES: 1971-1982  
(US\$m)

| Year                | Net Visible Balance | Net Foreign Travel | Current Account Balance |
|---------------------|---------------------|--------------------|-------------------------|
| 1971                | -130.8              | 92.6               | -114.0                  |
| 1972                | -133.1              | 100.5              | -110.4                  |
| 1973                | -177.3              | 99.4               | -180.8                  |
| 1974                | -117.6              | 97.5               | -166.9                  |
| 1975                | -159.3              | 76.2               | -282.7                  |
| 1976                | -131.9              | 46.9               | -302.6                  |
| 1977                | 83.9                | 93.7               | -34.6                   |
| 1978                | 44.5                | 136.4              | -86.7                   |
| 1979                | -67.9               | 184.5              | -142.6                  |
| 1980                | -75.4               | 228.9              | -166.3                  |
| 1981                | -322.7              | 270.6              | -336.8                  |
| 1982<br>(projected) | -780.2              | 362.4              | -505.3                  |

Insufficient data precludes any meaningful analysis of the sector's contribution to GDP. Nonetheless, the sector's contribution to GDP is determined by the aggregate of value added in various subsectors and the direct sector of tourism. The value added components are interest, rent, wage, profit and depreciation.

### LEAKAGES IN THE TOURIST SECTOR

While it is important to stress the need for increased gross foreign exchange earnings from the tourist sector, one should not lose sight of the fact that it is the net position of such receipts which creates the basis for real economic growth (via the existence of a given investment function). For purposes of this paper, therefore, the import content of the industry is classified as leakage.

#### Methodology Adopted in Estimating Leakage

The absence of adequate and current data on the tourist sector along with the correlated subsectors do not allow for the quantification of all data relating to leakages<sup>1</sup> both through the official channel and into the unofficial market (parallel market). To be able to provide such data would have involved an extensive survey of over 100 hotels islandwide, along with all the other subsectors of the industry. In light of this, however, what is attempted here is, firstly, an identification of the areas of leakage; secondly, actual data from a sample of hotels in the Ocho Rios<sup>2</sup> area in terms of their import needs, actual lodgement of foreign exchange into the banking system and their estimated foreign exchange earnings.

A classification of the principal and secondary areas of import content follow:

#### Main Sectors

- (a) Food and Beverages... food and drink consumed by foreign guest.
- (b) Equipment and services<sup>3</sup>
- (c) Salaries to non-nationals... payments to non-nationals management personnel.

- (d) Commissions paid overseas ... payments to foreign tour operations
- (e) Marketing Expenses paid... Promotions done by large hotels.
- (f) Management fees paid overseas.... technical services
- (g) Debt payment overseas... principal and interest by hotels to foreign bodies.

## Subsector

- (a) Air Jamaica ..... foreign exchange usage include payments on foreign loans, commissions paid externally, fuel cost, maintenance and other external payments.
- (b) U-Drive ..... relates to car rental services. Foreign payments would include commissions on sales, amortization, interest and petrol consumption.
- (c) (JUTA) ..... Jamaica United Taxi Association caters specifically to the tourist market. Leakage through this sector would include payments for amortization, interest and fuel cost.
- (d) In-bond retailing outlets... the purchase of foreign goods for foreign visitors.
- (e) (JTB) ..... Jamaica Tourist Board operates on a budgeted allocation which is given on a fiscal year basis. Overseas expenditure of this institution includes.

## (f) Jamaica Vacations Limited .....

- (i) promotion of the island as a resort base;
- (ii) maintenance of overseas offices; and foreign travel for officers and guests of the JTB.
- operates on a given foreign expense account which includes:
- (i) office maintenance;
- (ii) risk sharing expenditures, e.g. involving the leasing of planes on a joint venture basis with tour operators when offering packages. Here the profits or losses from given tour packages are shared.

## Leakages Incurred by Hotels

A detailed analysis of the financial transactions for 1980, two hotels (from a sample of four) is presented here.

OFFICIAL LEAKAGE:  
1980

|   |       |               |        |
|---|-------|---------------|--------|
| Name: Hotel X                                   |       |               |        |
| Ownership                                       |       |               |        |
| Local   |       |               |        |
| Foreign - 100%                                  |       |               |        |
| Size - Medium                                   |       |               |        |
| (a) Size  |       |               |        |
| (b) Number of Red/Nights Sold                   |       |               |        |
| Nationals                                       | 3,175 | Non-Nationals | 22,318 |
| Non-Nationals                                   |       |               | 41,369 |
| (a) Number of employees (year ending Dec. 1980) |       |               |        |
| Total nationals                                 |       |               |        |
| Total non-nationals                             |       |               |        |
|   |       |               | 150    |
|   |       |               | Nil    |

|  |                     |                   |        |
|--|---------------------|-------------------|--------|
| (b) Total wages and salaries paid          |                     | 852128            |        |
| Original Investment                        | Expansion           |                   |        |
| Land 210,707                               |                     |                   |        |
| Buildings                                  | 3,671,301           |                   | 62,398 |
| Equipment                                  | 1,429,451           | 186,150           |        |
|  | <u>J\$5,311,459</u> | <u>J\$248,548</u> |        |
| Total Value of Assets                      |                     | 5,129,735         |        |
| Total Value of Liabilities                 |                     | 1,718,061         |        |
| Existing Foreign Debt                      |                     | 1,900,000         |        |
| J\$500                                     |                     |                   |        |
|  | Expiry Date of Debt | Indefinite        |        |
| Annual Foreign Debt Repayment              | Principal           | Interest          |        |
| 1980                                       | Nil                 | Nil               |        |
| Repatriated Profit -- Nil                  |                     |                   |        |
| Value of Sales (year ending December 1980) | Local Value         | Foreign Value     |        |
| Total                                      | J\$4.3m             | US\$2.4m          |        |
| Room                                       | J\$2.1m             | US\$1.2m          |        |
| Food                                       | J\$1.5m             | US\$0.8m          |        |
| Beverages                                  | J\$0.5m             | US\$0.3m          |        |
| Other                                      | J\$0.3m             | US\$0.1m          |        |
| Estimated Cost of Food and Beverages       |                     |                   |        |
| Foreign component                          |                     | US\$112,468       |        |
| Total value                                | J\$667,311          |                   |        |
| Total value of sales (%)                   | 15.5                |                   |        |
| Estimated Cost of Equipment (1980)         |                     |                   |        |
| Foreign                                    |                     | US\$88,909        |        |
| Total value                                | J\$248,548          |                   |        |
| Total value of sales (%)                   | 5.5                 |                   |        |
| Commissions paid on sales                  |                     |                   |        |
| Foreign                                    |                     | US\$74,160        |        |

|                            |            |             |
|----------------------------|------------|-------------|
| Local                      | Nil        |             |
| Total value of sales (%)   |            | 3.1         |
| Advertising and Promotions |            | US\$66,278  |
| Foreign                    |            | US\$66,278  |
| Local                      |            | J\$500      |
| Total value of sales (%)   |            | 2.7         |
| Insurance cost             |            |             |
| Foreign                    |            | Nil         |
| Local                      | J\$54,924  |             |
| Total value of sales (%)   | 1.3        |             |
| Utilities                  |            |             |
| Electricity                |            |             |
| Total value                | J\$241,454 |             |
| Foreign component          |            | US\$135,648 |
| Total value of sales (%)   | 5.6        |             |
| Telephone                  |            |             |
| Total value                | J\$58,836  |             |
| Foreign component          |            | US\$9,911   |
| Total value of sales (%)   | 1.4        |             |
| Water & Sewage             |            |             |
| Total value                | J\$33,564  |             |
| Foreign component          |            | US\$1,508   |
| Total value of sales (%)   | 0.8        |             |
| Printing & Stationery      |            |             |
| Total value                | J\$63,649  |             |
| Foreign component          |            | Nil         |
| Total value of sales (%)   | 1.5        |             |
| Contract Cleaning          |            |             |
| Total value                | J\$18,000  |             |
| Foreign component          |            | Nil         |
| Total value of sales (%)   | 0.4        |             |

## Security Cost

|                          |           |     |
|--------------------------|-----------|-----|
| Total value              | J\$24,181 |     |
| Foreign component        |           | Nil |
| Total value of sales (%) |           | 0.6 |

## Other Cost

|                          |            |      |
|--------------------------|------------|------|
|                          | J\$918,296 |      |
| Total value of sales (%) |            | 21.4 |

Total Cost J\$3,432,000 US\$1,928,090

|  |           |
|--|-----------|
| Gross estimate of foreign exchange receipts by hotel in 1980 | 2,492,039 |
| Foreign exchange lodgements in 1980                          | 2,300,000 |
| Total first round foreign exchange used in 1980              | 488,882   |
| Percentage first round leakage of total cost                 | 26.4      |
| Net foreign exchange earned in 1980*                         | 2,008,157 |
| Year occupancy level (foreign guest) (%)                     | 51.6      |

Name: Hotel Y

## Ownership - Government

|   |                     |
|---|---------------------|
| Size - Large                                |                     |
| Nationals                                   | 4,283               |
| Non-nationals                               | 10,427              |
| Number of Employees (year ending Dec. 1980) | Total nationals 320 |
| Total non-nationals                         | 2                   |

|                            | Original Investment | Expansion      | Total  |
|----------------------------|---------------------|----------------|--------|
| Total wages and salaries   |                     | 2,540,000      |        |
| Foreign component          |                     |                | 46,000 |
| Land                       | )                   | Not available* |        |
| Building                   | )                   |                |        |
| Equipment                  | )                   |                |        |
| Total Value of Assets      |                     | 6,754,000      |        |
| Total Value of Liabilities |                     | 6,754,000      |        |

\*Does not relate to foreign exchange lodgements (c). It refers to gross estimated receipts of given hotel less first round leakage.

|                                      |               |              |
|--------------------------------------|---------------|--------------|
| Existing Foreign Debt                |               | Nil          |
| Expiry Date of Debt                  |               | N/A          |
| Annual Foreign Debt 1980             | Principal N/A | Interest N/A |
| Repatriated Profit (1980)            |               | Nil**        |
| Value of sales year ending Dec. 1980 | J\$3.0m       | US\$4.4m     |
| Room                                 | 3.8m          | 2.1m         |
| Food                                 | 2.7m          | 1.6m         |
| Beverages                            | 0.8m          | 0.4m         |
| Other                                | 0.7m          | 0.4m         |

\*Not available.

\*\*In 1979 US\$9,494 was repatriated.

## Estimated Cost of Food (1980)

|                          |              |             |
|--------------------------|--------------|-------------|
| Foreign                  |              | US\$214,394 |
| Total value              | J\$1,272,071 |             |
| Total value of sales (%) | 15.9         |             |

## Estimated Cost of Equipment

|                          |            |             |
|--------------------------|------------|-------------|
| Foreign value            |            | US\$248,691 |
| Total value              | J\$568,103 |             |
| Total value of sales (%) | 7.1        |             |

## (a) Commissions Paid on Sales

|                          |           |             |
|--------------------------|-----------|-------------|
| Foreign                  |           | US\$212,887 |
| Local                    | J\$11,720 |             |
| Total value of sales (%) | 5.0       |             |

## (b) Foreign Management Fees

|                          |     |
|--------------------------|-----|
| Total value of sales (%) | 2.0 |
|--------------------------|-----|

## (c) Advertising and Promotions

|         |             |
|---------|-------------|
| Foreign | US\$182,175 |
|---------|-------------|

Local  
Local

## Insurance Cost

|                          |           |
|--------------------------|-----------|
| Foreign                  |           |
| Local                    | J\$19,000 |
| Total value of sales (%) |           |

## Utilities

|                          |            |             |
|--------------------------|------------|-------------|
| Electricity              |            |             |
| Total value              | J\$615,866 |             |
| Foreign component        |            | US\$207,595 |
| Total value of sales (%) | 7.7        |             |

## Telephone

|                          |            |            |
|--------------------------|------------|------------|
| Total value              | J\$109,531 |            |
| Foreign component        |            | US\$18,460 |
| Total value of sales (%) | 1.4        |            |

## Water and Sewage

|                   |           |         |
|-------------------|-----------|---------|
| Total value       | J\$27,327 |         |
| Foreign component |           | US\$767 |

## Printing and Stationery

|                          |            |     |
|--------------------------|------------|-----|
| Total value              | J\$107,149 |     |
| Foreign component        |            | Nil |
| Total value of sales (%) | 1.3        |     |

|                   |     |     |
|-------------------|-----|-----|
| Total value       | Nil |     |
| Foreign Component |     | Nil |

## Security Cost

|                          |            |     |
|--------------------------|------------|-----|
| Total value              | J\$130,793 |     |
| Foreign component        |            | Nil |
| Total value of sales (%) | 1.6        |     |

|            |              |               |
|------------|--------------|---------------|
| Other Cost | J\$2,212,949 |               |
| Total Cost | J\$8,500,018 | US\$4,775,291 |

|   |               |
|---|---------------|
| *Gross estimated foreign exchange receipts by hotel in 1980 | US\$4,457,543 |
| Foreign exchange lodgements                                 | US\$4.5m      |
| **Total first round foreign exchange used                   | US\$1,219,452 |
| Percentage first round leakage of total cost                | 26            |
| Net foreign exchange earned                                 | US\$3,238,091 |
| Year Occupancy Level (foreign guest) (%)                    | 40.9          |

The average expenditure per person per guest night was put at 23.6 per cent above all the island average for 1980-US\$60.2m. Usage of the latter would have distorted the total gross estimated receipts, given the fact that actual yearly average length of stay of stay for the hotel was used i.e. 5.7 guest nights and not the all island average of 10.2 guest nights.

Does not relate to foreign exchange lodgements. It refers to gross estimated receipts of given hotel, less first round leakage.

## ANALYSIS OF LEAKAGE

The estimates of leakages in the two hotels studied were derived on a sectoral basis so as to highlight those main areas which contribute to such leakages. This analysis will also form the basis for a thorough examination of any linkage possibilities within the tourist sector and the wider economy.

## Food and Beverages

Research done on the composition and existing price range of the three main meals, breakfast, lunch and supper, for the 1980 period in four hotels (2 large and 2 small)<sup>4</sup> reveals a first round leakage factor of 30 per cent for all food and beverage bought. A distinct trend was, however, discovered. Over the last five years, the food consumption patterns of visitors have shown signs of a shift towards local supplies and the main factor identified as being responsible for this shift is that prices for most local food and beverages are lower than that of most imported food and drink which carry a higher mark-up price because they are usually brought via the parallel market. This is evidenced in the declining sales, islandwide, of National Hotels Suppliers.<sup>5</sup> The practice of purchasing more local food and drink however, is a function of the lower income earners who now visit Jamaica and other destinations.

| Fiscal Year | J\$       | Foreign Content |
|-------------|-----------|-----------------|
| 1978/79     | 7,914,920 | 62%             |
| 1979/70     | 8,913,654 | 72%             |
| 1980/81     | 5,249,280 | 64%             |
| 1981/82     | 4,439,680 | 56%             |
| 1982/83     | 6,737,000 | 49%             |
| (project.)  |           |                 |

## Equipment

Equipment purchased in hotels vary from motor vehicles to boats, room fixtures and others. Linkages with other sectors of the economy could reduce somewhat the 63.7 per cent and 77.9 per cent first round leakages shown in hotels X and Y.

## Commissions and Advertisements

Commissions and Advertisement between tour operators and hotels result in the former collecting the cost of packages from the visitors. The percentage fee charged by the tour operator is then taken and the remainder remitted to the hotelier. This kind of arrangement needs careful monitoring by the monetary authorities if leakages\* are to be eliminated or minimised.

## LEAKAGE INTO THE PARALLEL MARKET

A significant portion of the gross estimated earnings from tourism does not enter the national banking system while estimates of leakages into the parallel market vary from period to period and average about 40 per cent of gross earnings. Such estimated leakage needs to be qualified.

The derivation of a leakage factor is arrived by the following method. Gross estimated Expenditure<sup>6</sup> - Bank of Jamaica's Receipts<sup>7</sup> = Leakage.<sup>8</sup>

A portion of estimated foreign exchange receipts is paid as commission by hoteliers to tour operators and other wholesalers. On average, this is put at 15 per cent of any given package. This factor would, therefore, affect the overall estimated leakage factor for any given year.

Projected leakage for 1982 does not take account of the recently implemented targeted foreign exchange lodgement requirements of the Bank of Jamaica. These foreign exchange targets are based on a five year seasonally adjusted occupancy level per hotel per month so as to project occupancy level per hotel for 1982. In addition, a projected inflation rate was assumed so as to derive a fixed foreign exchange target per hotel.

The success of these targets would, therefore, affect the 49.9 per cent leakage that this paper is projecting for 1982.

Tables 4 - 7 show estimates of leakages into the parallel market for the years 1979-1982\*

TABLE 4: ESTIMATED PARALLEL MARKET LEAKAGE - 1979  
(US\$m)

|                     | ARRIVALS   |         |         |                    |                    |                    | B.O.J. Receipts | Change | Percentage Change |
|---------------------|------------|---------|---------|--------------------|--------------------|--------------------|-----------------|--------|-------------------|
|                     | Stop-overs | Other   | Total   | Total Expend.      | Total              |                    |                 |        |                   |
| January             | 45,558     | 22,179  | 67,737  | 21.8               | 10.4               | -11.4              | -52.5           |        |                   |
| February            | 52,749     | 17,972  | 70,721  | 23.1               | 13.4               | -9.7               | -42.0           |        |                   |
| March               | 55,058     | 15,183  | 70,241  | 24.0               | 16.0               | -8.0               | -33.3           |        |                   |
| April (1st half)    | 23,235     | 6,121   | 29,354  | 9.8                | -                  | -                  | -               |        |                   |
| April (2nd half)    | 23,235     | 6,121   | 29,354  | 9.2                | 12.1               | -6.9               | -36.3           |        |                   |
| May                 | 23,044     | 11,460  | 34,504  | 10.0               | 14.0               | 4.0                | 40.0            |        |                   |
| June                | 20,590     | 11,176  | 31,766  | 8.5                | 12.3               | 3.8                | 44.7            |        |                   |
| July                | 26,131     | 10,849  | 36,980  | 11.8               | 10.2               | -1.6               | -13.6           |        |                   |
| August              | 31,984     | 11,258  | 43,242  | 16.3               | 10.3               | -6.0               | -36.8           |        |                   |
| September           | 24,465     | 9,828   | 34,293  | 12.6               | 1.6                | -1.9               | -7.9            |        |                   |
| October             | 23,928     | 12,122  | 36,050  | 10.8               | 10.2               | -0.6               | -5.6            |        |                   |
| November            | 34,789     | 16,371  | 51,160  | 15.4               | 11.0               | -4.4               | -28.6           |        |                   |
| December (1st half) | 20,889     | 8,005   | 28,894  | 8.6                | -                  | -                  | -               |        |                   |
| December (2nd half) | 20,889     | 8,005   | 28,894  | 9.1                | 13.7               | -4.0               | -22.6           |        |                   |
| Total               | 426,540    | 166,830 | 593,370 | 191.0 <sup>1</sup> | 145.2 <sup>2</sup> | -45.8 <sup>3</sup> | -24.0           |        |                   |

<sup>1</sup> Gross Estimated Expenditure.  
<sup>2</sup> Bank of Jamaica Receipts.  
<sup>3</sup> Estimated Parallel Market Leakage

\* Technically the term "leakage" should only be applied after the foreign exchange entered the country.  
\*Projected



TABLE 5: ESTIMATED PARALLEL MARKET LEAKAGE — 1980  
(US\$m)

|                     | ARRIVALS   |         |         |                    |                    |                    |                   |
|---------------------|------------|---------|---------|--------------------|--------------------|--------------------|-------------------|
|                     | Stop-overs | Other   | Total   | Total Expend.      | B.O.J. Receipts    | Change             | Percentage Change |
| January             | 48,867     | 17,003  | 65,870  | 29.6               | 19.0               | -10.6              | -35.8             |
| February            | 54,294     | 13,033  | 67,327  | 29.7               | 11.0               | -18.7              | -63.0             |
| March               | 55,389     | 14,891  | 70,280  | 31.3               | 22.5               | -8.8               | -28.1             |
| April (1st half)    | 22,312     | 6,213   | 28,525  | 11.8               | —                  | —                  | —                 |
| April (2nd half)    | 22,313     | 6,214   | 28,527  | 11.3               | 20.2               | -2.9               | -12.6             |
| May                 | 27,748     | 11,455  | 39,203  | 18.9               | 15.5               | 3.4                | 18.0              |
| June                | 24,292     | 10,599  | 34,891  | 14.0               | 14.5               | 0.5                | 3.6               |
| July                | 25,432     | 10,514  | 35,946  | 17.3               | 13.0               | -4.3               | -24.9             |
| August              | 27,168     | 8,577   | 35,745  | 19.1               | 9.0                | -10.1              | -52.9             |
| September           | 18,013     | 6,207   | 24,220  | 11.9               | 7.7                | -4.2               | -35.3             |
| October             | 17,211     | 8,920   | 26,131  | 11.6               | 10.6               | 1.0                | -8.6              |
| November            | 23,195     | 19,095  | 42,290  | 13.6               | 8.5                | -5.1               | -37.5             |
| December (1st half) | 14,558     | 7,513   | 22,071  | 10.1               | —                  | —                  | —                 |
| December (2nd half) | 14,558     | 7,514   | 22,072  | 10.5               | 8.5                | 12.1               | -58.7             |
| Total               | 395,350    | 147,748 | 543,998 | 240.7 <sup>1</sup> | 160.0 <sup>2</sup> | -80.7 <sup>3</sup> | -33.5             |

<sup>1</sup> Gross Estimated Expenditure.

<sup>2</sup> Bank of Jamaica Receipts.

<sup>3</sup> Estimated Parallel Market Leakage.

TABLE 6: ESTIMATED PARALLEL MARKET LEAKAGE — 1981  
(US\$m)

|                     | ARRIVALS   |         |         |                    |                    |                     |                   |
|---------------------|------------|---------|---------|--------------------|--------------------|---------------------|-------------------|
|                     | Stop-overs | Other   | Total   | Total Expend.      | B.O.J. Receipts    | Change              | Percentage Change |
| January             | 41,077     | 13,876  | 54,953  | 30.8               | 15.2               | -15.6               | -50.7             |
| February            | 41,412     | 11,451  | 52,863  | 26.7               | 22.0               | -4.7                | -17.6             |
| March               | 45,014     | 14,028  | 59,042  | 29.7               | 17.2               | -12.5               | -42.1             |
| April (1st half)    | 16,972     | 5,294   | 22,266  | 11.2               | —                  | —                   | —                 |
| April (2nd half)    | 16,972     | 5,294   | 22,266  | 11.4               | 13.4               | -9.2                | -40.7             |
| May                 | 29,323     | 10,797  | 40,120  | 20.7               | 17.0               | -3.7                | -17.9             |
| June                | 25,165     | 12,218  | 37,383  | 16.9               | 13.8               | -3.1                | -18.3             |
| July                | 30,463     | 11,982  | 42,445  | 22.8               | 12.8               | -10.0               | -43.9             |
| August              | 38,302     | 11,673  | 49,975  | 31.4               | 10.2               | -21.2               | -67.5             |
| September           | 22,283     | 9,187   | 31,470  | 18.2               | 12.7               | -5.5                | -30.2             |
| October             | 28,165     | 9,283   | 37,448  | 17.2               | 11.9               | -5.3                | -30.8             |
| November            | 31,195     | 12,916  | 44,111  | 18.1               | 8.8                | -9.3                | -51.4             |
| December (1st half) | 20,005     | 8,762   | 28,767  | 14.4               | —                  | —                   | —                 |
| December (2nd half) | 20,005     | 8,762   | 28,767  | 14.5               | 13.5               | -15.4               | 53.3              |
| Total               | 406,353    | 145,523 | 551,876 | 284.0 <sup>1</sup> | 168.5 <sup>2</sup> | -115.5 <sup>3</sup> | -40.7             |

<sup>1</sup> Gross Estimated Expenditure.

<sup>2</sup> Bank of Jamaica Receipts.

<sup>3</sup> Estimated Parallel Market Leakage.

## SUMMARY

The concept of foreign exchange flows within the Jamaican economy represents an area of national life which needs thorough investigation primarily because of the unique payments system associated with the export of tourist services to foreign nationals and the absence of an inherent developed and properly monitored system of foreign exchange payments within the industry. However, any attempt to reduce the extent of leakages associated with the tourist dollar should take into account the sensitivity of the industry to political and bureaucratic strictures.

Outside of such hindrances more attention needs to be focussed on the net foreign exchange receipts from the tourist industry as any cost-benefit analysis of the industry has to revolve around this parameter.

Leakages through the official channel (import content of industry) is projecting a first round leakage of approximately 26 per cent. This low leakage factor is most impressive when one takes a comparative look at other net foreign exchange earners in the productive structure of Jamaica's economy.

Leakages into the parallel market represent a phenomenon which is assumed to be reaching intolerable proportions. The pull of tourist earnings into the parallel market becomes stronger as the gap between the official and parallel markets rates of exchange widens. The presence of the market, while not being legitimised by the monetary authority, is being offered recognition in terms of its real presence. The inclusion in official balance of payments data lends credence to this fact. The existence of retained accounts by hoteliers, themselves, also reinforces this fact. The view that, if properly regulated by the stringent monitoring of "no funds" licences, leakages into the parallel market can serve a useful economic role needs careful examination.

TABLE 7: ESTIMATED PARALLEL MARKET LEAKAGE - 1982  
(ACTUAL AND PROJECTED)  
(US\$m)

|                     | ARRIVALS   |         |         |                    |                    |                    |                   |
|---------------------|------------|---------|---------|--------------------|--------------------|--------------------|-------------------|
|                     | Stop-overs | Other   | Total   | Total Expend.      | B.O.J. Receipts    | Change             | Percentage Change |
| January             | 55,128     | 23,207  | 78,335  | 43.5               | 16.0               | -27.5              | -63.2             |
| February            | 57,937     | 21,835  | 79,772  | 42.3               | 23.0               | -19.3              | -45.6             |
| March               | 54,096     | 23,697  | 77,793  | 39.1               | 24.3               | -14.8              | -37.9             |
| April (1st half)    | 21,875     | 9,825   | 31,700  | 14.8               | -                  | -                  | -                 |
| April (2nd half)    | 21,875     | 9,825   | 31,700  | 14.3               | 12.3               | -16.8              | -57.7             |
| May                 | 32,492     | 17,014  | 49,506  | 25.5               | 23.0               | -2.5               | -9.8              |
| June                | 27,123     | 12,739  | 39,867  | 21.2               | 16.4               | -4.8               | -22.6             |
| July*               | 32,429     | 13,597  | 46,026  | 26.3               | 8.3                | -17.0              | -67.2             |
| August              | 42,000     | 13,000  | 55,000  | 32.7               | 11.5               | -21.2              | -64.8             |
| September           | 25,000     | 12,000  | 37,000  | 19.6               | 15.0               | -4.6               | -23.5             |
| October             | 30,000     | 13,000  | 43,000  | 21.2               | 8.8                | -12.4              | -58.5             |
| November            | 37,000     | 16,000  | 53,000  | 29.0               | 11.5               | -17.5              | -60.3             |
| December (1st half) | 23,500     | 12,000  | 35,500  | 17.4               | -                  | -                  | -                 |
| December (2nd half) | 23,500     | 12,000  | 35,500  | 17.8               | 12.0               | -23.2              | -65.9             |
| Total               | 483,960    | 209,739 | 693,699 | 363.7 <sup>1</sup> | 182.1 <sup>2</sup> | 181.6 <sup>3</sup> | -49.9             |

<sup>1</sup> Gross Estimated Expenditure.

<sup>2</sup> Bank of Jamaica Receipts.

<sup>3</sup> Estimated Parallel Market Leakage

\* July - December are projected

## FOOTNOTES

<sup>1</sup>The import content of the industry is being identified as leakage through the official channel.

<sup>2</sup>Actual data on a sample of four hotels were done. Actual data on two of these hotels are included in the study: One large and one small

<sup>3</sup>Inclusive of services are the import content of light, water and telephone.

<sup>4</sup>Large hotels represent those having more than 200 beds and small implies approximately 100 or less.

<sup>5</sup>National Hotel Suppliers is a Government owned company set up to purchase mainly imported supplies for hotels.

<sup>6</sup>Gross estimated expenditure is compiled by the Jamaica Tourist Board based on an annual survey. This survey computes (a) the average expenditure per person per guest/nights, per category of visitors; (b) the annual average length of stay per stop-over visitor.

<sup>7</sup>Bank of Jamaica Receipts are actual lodgements of foreign exchange into the banking system by hotels, villas and guesthouses which are identified as tourist expenditure.

<sup>8</sup>Leakage in this context refers to the foreign exchange which is assumed to have entered the parallel market. Increasingly the existence of this market is being taken into account in official monetary policy.