ANNUAL REPORT

2001

Report and Statement of Accounts for the
Year Ended 31 December 2001

Mission Statement

The mission of the Bank of Jamaica
is to formulate and implement
monetary and regulatory policies
to safeguard the value of the domestic
currency and to ensure the soundness
and development of the financial system
by being a strong and efficient
organisation with highly motivated
and professional employees
working for the benefit of
the people of Jamaica.

BANK OF JAMAICA
NETHERSOLE PLACE
KINGSTON

12 April 2002

Dr. The Hon. Omar Davies
Minister of Finance & Planning
National Heroes Circle
Kingston 4

Dear Minister:

In accordance with Section 44 (1) of the Bank of Jamaica Act, 1960, I have the honour of transmitting herewith the Bank's Report for the year 2001 and a copy of the Statement of the Bank's Accounts at 31 December 2001 duly certified by the Auditors.

Yours sincerely,

Derick Latibeaudiere
Governor

BOARD OF DIRECTORS

PRINCIPAL OFFICERS

GOVERNOR & SUPERVISOR OF BANKS

Mr. Derick Latibeaudiere

DEPUTY GOVERNORS

Audrey Anderson	Financial Institutions Supervisory Division
Colin Bullock	Research & Economic Programming Division
	Banking & Market Operations Division
Rudolph Muir	Corporate Secretary's Division

DIVISION CHIEFS

Myrtle Halsall	Research & Economic Programming Division
Gayon Hosin	Financial Institutions Supervisory Division
Livingstone Morrison	Finance & Technology
Kenloy Peart	Administration & Technical Services Office
Faith Stewart	Banking & Market Operations Division

SENIOR LEGAL COUNSEL

Randolph Dandy	Legal Department

CHIEF INTERNAL AUDITOR

Evadnie Sterling	Internal Audit Department

SENIOR ADVISOR

Oswald Tie	Protective Services

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1. Overview

Throughout most of 2001, the relative calm in financial markets, a stable exchange rate and the gradual easing of monetary policy allowed the Jamaican economy to accelerate the pace of growth that began in 2000. The events of 11 September, however, completely transformed the character of the world economy leading to a slowdown in global output and a dramatic reduction in world travel. These developments had negative effects on Jamaica that persisted throughout the rest of the year. The domestic policy response to the uncertainty generated by these events included the use of the net international reserves to cushion the fall out in earnings as well as a tightening of monetary policy to preserve price and exchange rate stability. Thus, while there was a relatively sharp increase in domestic interest rates in late October, the Bank's response to the crisis led to satisfactory outcomes for its two main concerns, inflation and financial sector stability.

Headline inflation for 2001 was 8.7 per cent, the fifth consecutive year of single digit inflation. The outturn was higher than the 6.1 per cent that obtained in 2000 and was influenced by several non-monetary factors. The most significant of these were the major adjustments to public transport fares that occurred in June and in postage rates in July. Other important factors were revisions to utility rates and the disruptions to the supply of domestic food items by social upheavals in July and by swings in weather conditions during the year. These shocks were sufficiently large to offset the savings from lower prices for imported commodities, especially oil.

Core or underlying inflation was estimated to have averaged 1 per cent per quarter in 2001, continuing the pattern established over the past 5 years. The base money targets that were set to maintain this path were consistently met or exceeded during the year. The primary impetus to base money expansion emanated from the heavier than programmed inflows of foreign exchange and the resulting build-up of US$871.2 million in the net international reserves of the Bank of Jamaica. In order to avert the potential impact on inflation, the Bank expanded its open market operations to sterilize the proceeds of these private and official inflows. The Bank also raised the interest rates on the longer tenors of its open market instruments to further restrict Jamaica Dollar liquidity during the post-September period of foreign exchange market instability. With the tightening of monetary policy in October, the growth rate of all measures of money supply slowed and was brought in line with the revised expectations for economic growth. Broad money supply (M2J) grew by 9.8 per cent for the year.

The average lending rate charged by commercial banks was reduced to 19.5 per cent by December from 22.1 per cent a year earlier. This was accompanied by an intensification of competition in the industry triggered by the resumption of lending by 2 institutions following their restructuring. In this context, there was a 16 per cent expansion in loans to the private sector. Personal loans continued to account for about one quarter of loans outstanding to the private sector and for about one half of the J$5.4 billion growth in the banks' loan portfolio. Among commercial clients, the Transport, Storage & Communication sector was the heaviest borrower. The concentration of new credit in this sector is consistent with the rate of expansion observed in telecommunications and information technology. Along with the expansion in credit was the reported improvement in the quality of the loan portfolio where the ratio of past due loans, 3 months or over, fell to 6.5 per cent at the end of December 2001 from 9.5 per cent at the end of the previous year. Other prudential measures such as liquidity, capital adequacy, profitability showed further improvement in 2001 and were all better than international performance benchmarks.

The generally favourable developments in Jamaica took place against the background of a slowdown in the global economy in 2001 and which worsened dramatically in the last quarter. The slowdown in external demand was felt sharply in the Caribbean as it was led by the USA, the region's economic hub. Following ten years of uninterrupted expansion, the contraction in the USA economy began in 2000 with capital losses in the high technology sector that affected asset portfolios across the world. World demand was further undermined by the continuing stagnation of the Japanese economy, a financial crisis in Argentina and finally, by the events of 11 September, 2001 in the USA. The slowdown in industrial economies was replicated in emerging markets in East Asia, Latin America and the Caribbean. Concurrently, commodity prices fell further with the slowdown in demand and air travel was severely curtailed due mainly to concerns about safety and security.

With the shocks to the world economy, Jamaica's balance of payments worsened in 2001 with the current account widening to US$641 million or 7.9 per cent of GDP from US$298.5 million or 3.9 per cent of GDP in 2000. Export earnings declined reflecting price and volume declines in alumina and sugar and lower prices for bananas. Reflecting the relatively rapid growth experienced in first 9 months of the year, imports of mainly raw material and capital goods rose. This latter category included transport equipment, telecommunications equipment and construction material.

Despite the expansion that had occurred up to September, tourism earnings for 2001 fell below that for previous year by 4.2 per cent, reflecting a 5.1 per cent fall off in arrivals. Some slowdown had been experienced after the local disturbances in July. The apparently weak growth in cruise arrivals reflected the fact that following their significant contribution in 2000, there were fewer unscheduled cruise calls in 2001. Most of the fallout in visitor arrivals, however, can be attributed to the fear of flying triggered by the events of 11 September. Stronger security measures and heavy discounting induced a modest recovery in visitor arrivals in November and December such that the overall contraction for the year was less than had been feared in September.

Other current inflows, notably remittances, maintained a strong rate of growth despite the major shock to the world economy. These private transfers were some 18 per cent higher than they were in 2000. In addition, private capital investment inflows were twice as strong as the previous year, buoyed by divestment of the publicly owned electricity generating company and an insurance company. Net official inflows also increased by US$271 million to US$654 million. These private and official inflows were sufficient to cover the current account deficit and finance a build up in the net official reserves of US$871 million to US$1845.2 million at 31 December.

Gross Domestic Product (GDP) is estimated to have grown by 1 - 2 per cent in 2001. For the first three quarters, indicators of economic activity pointed to an annual rate of growth of about 3 per cent before the fall out in tourism and shocks to some goods producing sectors in the December quarter moderated the rate of growth. The expansion earlier in the year was most evident in agriculture and mining both of which experienced setbacks late in the year. Heavy rains in November caused substantial losses to export crops such as coffee and bananas and extensive damage to agricultural infrastructure. At the same time, output in the mining sector was curtailed because of industrial action at a major alumina facility. While there continued to be growth in services, especially in transport, storage and communication, the sharp reduction in tourism related services moderated the contribution of the service sector as a whole to real GDP expansion.

For 2002, the economy is projected to return to a growth rate of between 2 - 4 per cent based on the normalization of output in those areas that were adversely affected by the unique events of 2001. Growth in agriculture is predicated on favourable weather conditions, as well as a number of initiatives already underway to stimulate

production and productivity in the sector. The return to full production in the mining sector will raise output above the 2001 level. In addition, changes to the taxation regime related to bauxite and the rebound of growth and demand in the industrial economies should accelerate the rate of capital injection in the sector to increase capacity.

A number of indicators support the projection of an expansion in the services sectors in 2002. The planned and on-going investments in new electricity generating capacity as well as the further expansion in telecommunications will boost output in these basic service sectors. Major infrastructure projects which should begin in April of 2002 are also likely to add to the growth momentum through construction and Government services. The prospects for Other Services depend heavily on the pace of recovery in the industrial economies and with it, the recovery in tourism. The World Economic Outlook of the IMF projects stronger global performance in 2002 including growth in world output of 3.5 per cent versus the 2.6 per cent estimated for 2001. Economic indicators covering the first 2 months of 2002 suggest that a recovery is underway in the USA as well as a normalization of air travel.

In this environment of a growing domestic and world economy, Bank of Jamaica expects that adherence to the current policy framework will deliver an inflation rate of 5 - 6 per cent, a relatively stable exchange rate and will also allow for continuing reduction in interest rates in 2002. These outcomes will be contingent on the achievement of the targets for improved performance in public finance and, in particular, a reduction in the ratio of public debt to GDP. This would set the stage for an easing of the cost of public debt servicing and an era of more rapid growth in the medium term.

2. The Financial System

(a) Base Money Management

Introduction

The Bank's monetary policy framework for 2001, continued to focus on fostering relative stability in the money and foreign exchange markets to support low inflation. The maintenance of macroeconomic stability would facilitate the reduction in interest rates and the lowering of the statutory cash reserve requirement for supervised financial institutions. Within this framework, base money remained the operating target, managed through the conduct of open market operations.

Developments and Challenges

The monetary base declined by 0.3 per cent for 2001, in comparison to the previous year's decline of 5.4 per cent (see Table 1A). This slower rate of contraction was consistent with the less restrictive monetary policy stance pursued during most of the year. The decline in the base occurred in the context of the build-up in foreign reserves in spite of some instability in the foreign exchange market during the latter half of the year. The primary challenge to achieving the base money target related to managing the liquidity impetus associated with the foreign exchange inflows, while continuing reductions in interest rates.

During the year, the Bank's gross foreign assets position was strengthened by the purchase of external loan proceeds from the Government of Jamaica (GOJ). At end December 2001 the net international reserves (NIR) was US$1 840.7 million, an increase of US$871.2 million (see Chart 1) for the period January to December 2001. As a result, the primary challenge for liquidity management originated from the need to sterilize the official foreign exchange inflows to eliminate any threat to inflation. The liquidity impetus was countered by a decline in the net domestic assets (NDA) of the Bank of Jamaica, facilitated through a build-up in Government balances and an increase in open-market operations.

The conditions under which policy was implemented varied widely during the year. In the early part of the year the environment facilitated gradual reductions in interest rates. However, the period July- December was characterized by instability in the foreign exchange market, resulting in the Bank's sharp increase in interest rates on selected instruments.

i. January to June 2001

Base money declined by 11.5 per cent during the first half of 2001, with almost all of the decline (11.4 per cent) occurring in the January to March quarter. This reduction stemmed from the 1 percentage point reduction in the cash reserve requirement for commercial banks in March and the seasonal reflows of currency in January following the increased demand in December 2000.

The decline in the base occurred despite the significant liquidity created from the Bank's accumulation of foreign reserves. The NIR grew by US$571.0 million during January to June 2001, reflecting inflows from various sources including GOJ Eurobond flows and the divestment of public sector owned assets. Jamaica Dollar proceeds from the NIR accumulation amounted to $26 027.0 million (see Table 1A). The liquidity was sterilized by the decline of $5 368.4 million in net claims on the public sector and through placements of open market instruments, which facilitated the net absorption of $22 363.5 million during the period.

On 29 May 2001, the BOJ reintroduced certificates of deposit (CDs) to enhance its capacity to conduct open-market operations. All the terms and conditions governing reverse repurchase agreements were made applicable to CDs. By the end of June 2001, certificates of deposit accounted

for 10.6 per cent of the total outstanding open market liabilities of $74 164.5 million.

Against the background of a strong reserve position of US$1 540.5 million at end June (see Chart 1) and the additional liquidity from cash reserve reductions, the Bank of Jamaica continued reductions in the spectrum of interest rates. This was also supported by the Government's significant amortization of domestic currency debt instruments during the period. The first set of interest rate adjustments on 17 March 2001 was directed towards normalizing the yield curve for open-market instruments, by reducing the premium rates on the longer 270-day and 365-day tenors. Subsequently, the entire spectrum of interest rates was reduced, with the 30-day rate moving from 16.5 per cent that prevailed at the beginning of the year to 14.25 per cent in June 2001 (see Chart 2). In addition, 1 percentage point reduction in the statutory cash reserve requirement for supervised financial institutions in March and June, resulted in a requirement being reduced to 11 per cent by June 2001 from 13 per

Table 1A

BANK OF JAMAICA - SUMMARY FLOWS (J$M)

	Total 2000	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total 2000
Net International Reserves (US$)	**519.40**	**316.80**	**254.20**	**-3.80**	**304.00**	**871.2**
NET INT'L RESERVES (J$)	**22030.80**	**14254.70**	**12672.30**	**-174.50**	**14441.90**	**43788.3**
NET DOMESTIC ASSETS	**-24003.70**	**-18187.80**	**-12697.20**	**-507.40**	**-9904.70**	**-41297.1**
Net Claims on Public Sector	**-3974.80**	**-5671.40**	**303.00**	**2668.40**	**-1407.80**	**-4107.8**
- Central Govt. Deposits	1805.00	-6950.30	1268.00	3041.80	-4870.10	-7510.6
- Govt. Securities	-3006.30	1949.70	-434.20	-359.10	-103.50	1052.9
- FINSAC Securities	2984.20	41.70	0.00	0.00	0.00	41.7
- Other	1908.60	-910.90	-1542.90	51.60	3480.30	1078.1
- Other Public Sector	-4288.80	-2506.60	992.00	-65.90	85.40	-1495.1
Net Credit to Banks	**1608.10**	**-2794.10**	**607.70**	**307.00**	**-472.90**	**-2352.3**
Open Market Operations	**-22514.00**	**-9640.50**	**-12723.10**	**-3361.10**	**-8102.70**	**-33827.4**
Other	**877.00**	**-81.80**	**-884.80**	**-121.70**	**78.70**	**-3622.0**
MONETARY BASE	**-1972.90**	**-3933.10**	**-24.90**	**-681.90**	**4537.20**	**-102.7**
- Currency Issue	-239.30	-2959.90	-137.00	57.40	4760.40	1721.0
- Cash Reserve	-1876.50	-811.40	-77.90	-962.00	-249.50	-2100.8
- Current Account	142.90	-161.80	189.90	222.60	26.30	277.1
NIR Stock (US$ mn) eop	969.50	1286.30	1540.50	1536.70	1840.70	
GROWTH IN MONETARY BASE [Qrtly]	-5.40	-11.40	-0.10	-2.20	15.20	-0.3
INFLATION [Qrtly]	6.10	1.60	2.90	2.70	1.20	8.7

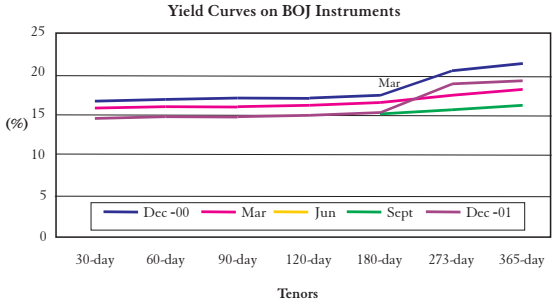
Table 1B

BANK OF JAMAICA - ECONOMIC PROGRAMME TARGETS STOCKS (J$M) DECEMBER 2001

	Target	Out-turn	Deviation from Target
Net International Reserves (US$)	1530.3	1840.7	310.4
NET INT'L RESERVES (J$)	71311.9	87435.2	16123.3
NET DOMESTIC ASSETS	-36565.3	-53125.4	-16560.1
MONETARY BASE	34746.6	34309.8	-436.8

Chart 1

Chart 2



cent that prevailed at the beginning of the year.

ii. July - December

Monetary management during July to December 2001 was influenced by conditions in the foreign exchange market. The period was characterized by instability in the market, manifested in a sharp depreciation in the exchange rate between 03 September and 30 October[1] . Abnormally high demand for foreign currency arose from the investors' need to participate in two locally offered GOJ US Dollar denominated instruments in August and September. More significantly, the increased demand for foreign currency stemmed from the market's reaction to a perceived fall off in the country's foreign currency inflows following the events of 11 September in the USA.

In the face of strong demand for foreign currency from market players during the three months of September to November, the Bank of Jamaica was required to augment the market supply. With continued pressure in the foreign exchange market the Bank of Jamaica tightened monetary policy by increasing interest rate on longer-tenor open market instruments. The rates on 270-day and 365-day tenors were increased by 410 and 400 basis points, respectively on 30 October.

The impact of these higher interest rates was observed in increased placements in the various open market instruments. For the six-month period, $11 463.8 million was absorbed through open-market operations, with most of this occurring in the last two months of the year. A corollary of the policy action was the lengthening of the maturity profile on open-market instruments, pushing significant amounts of Jamaica Dollar liquidity beyond the six-month investment horizon. This moderated the availability of Jamaica Dollar liquidity in the money market and readjusted the differential between domestic and foreign interest rates. These effects represented the two pillars that underlay the strategy to restore and maintain foreign exchange market stability for the remainder of the year.

At the end of the year, the performance targets for the NIR and NDA defined in the context of the economic programme, were achieved. Relative to the revised NIR target of US$1 530.3 million, the out-turn was US$1 840.7 million. The NDA was negative $53 125.4 million relative to the target of negative $36 565.3 million (see Table 1B), reflecting higher open-market liabilities.
Despite the shocks to the economy, particularly in the second half of the year, the Central Bank managed to achieve its base money objective, which was critical to the maintenance of the low inflation path. This was in spite of the significant accumulation in reserves during the first half of the year. In that regard, headline inflation remained in single digit for the fifth consecutive year, with the monetary component, core inflation measured at a stable 4.0 per cent annual average rate.

[1] For the two-month period the weighted average selling rate depreciated by 3.97 per cent.

Table 2

COMPONENTS OF MONEY SUPPLY (DOMESTIC AND FOREIGN CURRENCY) FLOWS				
	2000 (J$M)	2001 (J$M)	2000 %	2001 %
Money Supply (M2)	12739.0	13041.9	10.6	9.8
Money Supply (M1)	-956.9	7197.7	-2.4	18.9
Currency with the public	-227.0	1161.8	-1.3	6.6
Demand Deposits	-729.9	6035.9	-3.4	29.4
Quasi Money	13695.9	5844.2	16.9	6.2
Savings Deposits	7481.8	6531.0	12.9	10.0
Time Deposits	6214.1	-686.8	26.9	-2.3
SOURCES OF MONEY SUPPLY				
Net Foreign Assets	24254.1	36694.4	97.7	70.9
Bank of Jamaica	22030.8	40165.4	116.5	92.1
Commercial Banks	2223.3	-4500.0	37.5	-55.2
Loans and Advances to Private Sector	3210.4	5858.6	10.3	17.0
Net Claims on Public Sector	4170.8	8354.8	4.1	7.9
Net Claims on Financial Institutions	-1253.6	-1490.3	10.6	11.4
BOJ Open Market Operations	-22514.0	-33827.4	76.9	65.3
Other Items (Net)	2180.9	-5160.6	52.2	-81.2
TOTAL	12739.0	13041.9	10.6	9.8

(b) Monetary Survey

Survey

In 2001, the growth rate of broad money supply, including both domestic and foreign currency liabilities, M2*, slowed relative to 2000. This was reflected in an increase of 9.8 per cent for the year relative to an increase of 10.6 percent in 2000. Currency and demand deposits, M1*, recorded growth of 18.9 per cent in 2001 relative to a decline of 2.4 per cent in 2000, hence the lower growth rate in M2* was attributable to a slower growth in time and savings deposits (quasi money). (See table 2)

Within the components of M1*, currency with the public and demand deposits increased by 6.6 per cent and 29.4 per cent, respectively, in 2001 relative to declines of 1.3 per cent and 3.4 per cent, respectively, in 2000. Quasi money grew by 6.2 per cent in 2001 relative to growth of 16.9 per cent in 2000. Within the components of quasi money, savings deposits increased by 10.2 per cent in 2001 as compared to an increase of 12.9 per cent in 2000. However, the slower growth in quasi money in 2000 was attributed to a 2.3 per cent decline in time deposits relative to growth of 26.9 per cent in 2000.

An increase in the Net Foreign Assets (NFA) of the banking system was the major source of the expansion in M2* for the period. While the NFA of commercial banks declined, the Net International Reserves (NIR) of the BOJ increased by J$40 165.4 million or the equivalent of US$871.2 million. The latter compares to a build up of US$519.4 million during 2000. The Jamaica dollar liquidity created by the increase in the NIR during the year was partially sterilized by an increase of $33 827.4 million in open market operations.

An increase in credit extended by the banking system also provided an expansionary impulse to the growth in money supply. Net claims on the public sector expanded by $8 354.8 million or 7.9 per cent, mainly representing financing from commercial banks. This compares to an increase in net claims on the public sector of $4 170.8 million or 4.1 per cent in 2000. Private sector credit, which has been on the rebound, contributed $5 858.6 million to the increase in money supply. This represents an increase of 17.0 per cent relative to the 10.3 per cent recorded in 2000.

An examination of the flows shows that most of the increase in money supply occurred in the second half of the year. (See table 3)

During the first quarter of 2001, M2* expanded by $792 million or 0.6 per cent. This compares to an increase of 2.18 per cent in the corresponding quarter last year. Currency with the public declined by $1 723.8 million or 9.8 per cent while demand, savings and time deposits increased by 2.7 per cent, 2.8 per cent and 0.5 per cent, respectively. The potential expansionary impact of an NIR build up of US$311 million or J$14 254.7 million, was partially offset by an increase in BOJ open market operations and a decline in banking system credit to the public sector.

All components of money supply, except time deposits, grew during the June quarter to effect an overall increase of $1918.2 million or 1.4 per cent in M2* for the period. In the similar quarter of the previous fiscal year M2* increased 2.1 per cent. Demand deposits recorded strong growth of 4.4 per cent influenced by an increase in the foreign

Table 3

COMPONENTS OF MONEY SUPPLY (DOMESTIC AND FOREIGN CURRENCY)
QUARTERLY FLOWS

	Mar 01	Jun 01	Sep 01	Dec 01	2001
Money Suppy (M2)	**792.0**	**1918.2**	**5874.6**	**4457.1**	**13041.9**
Money Supply (M1)	-1142.3	1045.3	3605.2	3689.5	7197.7
Currency with the public	-1723.8	115.6	171.2	2598.8	1161.8
Demand Deposits	581.5	929.7	3434.0	1090.7	6035.9
Quasi Money	1934.3	872.9	2269.4	767.6	5844.2
Savings Deposits	1773.0	878.0	1783.5	2096.5	6531.0
Time Deposits	161.3	-5.1	485.9	-1328.9	-686.8
SOURCES OF MONEY SUPPLY					
Net Foreign Assets	15508.1	11702.2	-830.2	9285.3	35665.4
Bank of Jamaica	14254.7	11643.3	-174.5	14442.0	40165.4
Commercial Banks	1253.4	58.9	-655.7	-5156.6	-4500.0
Loans and Advances to Private Sector	-518.1	144.8	2832.1	3399.8	5858.6
Net Claims on Public Sector	-6610.7	5200.4	6444.7	3320.4	8354.8
Net Claims on Financial Institutions	544.0	-285.0	-2023.8	274.5	-1490.3
BOJ Open Market Operations	-9640.5	-12723.1	-3361.0	-8102.8	-33827.4
Other Items (Net)	480.2	-2121.1	200.4	-3720.1	-5160.6
TOTAL	**792.0**	**1918.2**	**5874.6**	**4457.1**	**13041.9**

currency component. The sources of growth in M2 during the quarter were a build up in the NIR and an expansion in banking system credit.

During the September quarter, money supply increased by $5874.6 million or 4.3 per cent relative to growth of 2.1 per cent during the corresponding period of the previous fiscal year. This was driven by strong growth of 15.6 per cent in demand deposits, which resulted in a 9.1 per cent increase in M1*. Quasi money increased by 2.3 per cent. The major sources of the increase emanated from an expansion in the banking systems net claims on the public sector and an increase in loans and advances to the private sector. The build up in the net foreign assets of the banking system played a minor role in money supply expansion during the quarter.

During the December quarter, money supply expanded by 3.1 per cent and was influenced mainly by the high seasonal demand for currency. This increase was less than the increase of 3.9 per cent recorded during the similar period of the previous fiscal year. Among the major sources of the increase were expansions in the NIR and an increase in banking system credit to both the public and private sectors. Open market operations expanded by $8 102 million, which moderated the expansion of money supply

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It is expected that an increase in credit to the private and public sectors will be the major counterparts to the increase in money supply during 2002. While the growth in private sector credit is expected to continue in 2002, the extent of the impulse emanating from the growth in banking system credit to the public sector will depend on the strategy adopted by the Government to meet its financing requirements. The BOJ will continue to strive for moderate growth in money supply to maintain the low inflation it has achieved over the years.

(c) Commercial Banks

The number of commercial banks remained unchanged at six during the year 2001. During the year, the commercial banks benefited from the retirement of some of the FINSAC securities, cash payment on interest earned on these securities and the subsequent transfer of FINSAC securities to LRS. A major highlight of the activities was the resurgence in lending to the private sector in the context of continued improvement in the macroeconomic fundamentals and increased competition in the financial sector.

Assets and Liabilities

The commercial banking system recorded growth in total assets of $18 171.2 million or 8.4 per cent in 2001, of which two banks accounted for 83.3 per cent. (See Table 4). The growth out-turn compares to a 15.0 per cent increase in assets during 2000.

Commercial banks' assets continued to be concentrated in 'Investments' in 2001. The conversion of FINSAC securities (which were classified as Other Public Sector Securities) to Local Registered Stock (LRS) resulted in Jamaica government securities being more dominant in 2001 when compared to 2000. Although 'Investments' increased by 0.3 per cent for the year, the composition of these investments experienced major changes. There was a shift away from domestic currency denominated securities, which declined by $8 065.7 million, towards GOJ foreign currency denominated securities, which increased by $8 397.1 million.

The resurgence of lending activity by the commercial banking system, especially in the latter half of 2001, resulted in an expansion in loans (net of provisioning) by $9 256.7 million or 26.2 per cent. This compares to an increase of $3 126.7 million or 9.7 per cent during 2000. The quality of the loan portfolio continued to improve based on the steady decline in the stock of past due loans[2]. The ratio of past due loans to total loans for the commercial banking system declined to 6.1 per cent at end December 2001 from the 9.5 per cent recorded at the close of 2000.

The balance sheet of commercial banks was strengthened during 2001. This was due primarily

[2] Loans more than three months overdue

Table 4

COMMERCIAL BANKS
SUMMARY OF ASSETS AND LIABILITIES (J$M)

	Stock 2000	2001	Flows 2000	% 2000	Flows 2001	% 2001
ASSETS	**216456.8**	**234628.0**	**28175.1**	**15.0**	**18171.2**	**8.4**
Cash and Bank Balances	53784.1	63812.3	8102.3	17.7	10028.3	18.6
Investments	98921.6	99253.0	14596.7	17.3	331.4	0.3
-Domestic Currency	89511.6	81445.9	13105.5	17.2	-8065.7	-9.0
Jamaica Government Securities	21100.0	78340.3	-2579.5	-10.9	57240.3	271.3
Other Public Sector	67019.2	1263.3	15054.3	29.0	-65755.9	-98.1
Other Local	1392.4	1842.3	630.7	82.8	449.9	32.3
-Foreign Currency	9410.0	17807.1	1491.2	18.8	8397.1	89.2
Securities Purchased for resale	11357.9	11041.4	6322.5	125.6	-316.5	-2.8
Loans (Net of provisioning)	35318.7	44575.5	3126.7	9.7	9256.7	26.2
Accounts Receivable	8304.4	6344.9	-4164.3	-33.4	-1959.5	-23.6
Fixed Assets	4740.2	4778.9	47.1	1.0	38.7	0.8
Other Assets	4029.9	4822.0	144.1	3.7	792.1	19.7
LIABILTITIES	**216456.8**	**234628.0**	**28175.1**	**15.0**	**18171.2**	**8.4**
Deposits	149666.8	158918.0	22852.8	18.0	9251.2	6.2
Domestic	109739.9	114244.8	15041.5	15.9	4504.9	4.1
Foreign	39926.9	44673.2	7811.3	24.3	4746.3	11.9
Due to Bank of Jamaica	3043.8	83.0	1517.3	99.4	-2960.8	-97.3
Due to Commercial banks	2857.2	9363.2	-206.4	-6.7	6506.0	227.7
Due to Sprecialised Institutions	9653.1	9131.0	89.1	0.9	-522.1	-5.4
Securities sold under Repurchase Agreements	16905.4	20878.1	-1745.5	-9.4	3972.7	23.5
Other Liabilitites	13303.1	12543.6	2648.8	24.9	-759.5	-5.7
Capital Account	21027.4	23711.1	3019.0	16.8	2683.7	12.8

to the settlement of interest accrued on FINSAC securities in one bank by Central Government as reflected in accounts receivable declining by 23.6 per cent.

Deposit liabilities of the commercial banking system increased by 6.2 per cent during the review year compared to an increase of 18.0 per cent during 2000. The increase was almost evenly distributed between domestic and foreign currency denominations, which expanded by $4 504.9 million and $4 746.3 million, respectively. Liabilities due to other commercial banks increased by $6 506.0 million as foreign currency denominated obligations to overseas banks increased steadily during the second half of the

Table 5

COMMERCIAL BANKS'
LOCAL AND FOREIGN CURRENCY DEPOSITS

	J$M 2000	Flows % 2000	J$M 2001	% 2001
Deposits	22,852.8	18.0	9,251.2	6.2
Private	12,956.1	12.6	11,972.8	10.4
Demand	-	-3.4	6,128.7	29.5
Savings	7,481.8	12.9	6,530.9	10.0
Time	6,213.7	26.9	-	-2.3
Government	8,326.2	61.0	-	-
Other	1,570.5	15.0	1,565.0	13.0

year. This change was significant compared to the previous year when amounts due to commercial banks declined by $206.4 million. Securities sold under Repurchase Agreement were another significant component of the expansion in liabilities increasing by $3 972.7 million or 23.5 per cent relative to a 9.4 per cent contraction in the preceding year. The capital account of the commercial banking system increased by 12.8 per cent during 2001, relative to the 16.8 per cent recorded in the previous year. The expansion in the capital account in 2001 was due mainly to additions to retained earnings.

Table 5 shows that during 2001 local and foreign currency denominated deposits increased by $9 251.2 million or 6.2 per cent. This compares to an increase of $22 852.8 million or 18.0 per cent in the previous year and points to a slow down in the rate of deposit expansion. Growth occurred in private sector and 'Other' deposits by $11 972.8 million or 10.4 per cent and $1 565.0 million or 13.0 per cent, respectively. Private sector savings and demand deposits were the two main categories of growth during the review period. In the year 2000 savings and time deposit expansions were more dominant. Overall growth in deposits was moderated by a decline in government deposits of $4 286.6 million or 19.5 per cent during 2001, which contrasts with the $8 326.2 million or 61.0 per cent increase during the preceding year.

Local currency deposits continued to account for the larger share of the increase in private sector deposits in 2001. (See Table 6). However, the

Table 6

COMMERCIAL BANKS' LOCAL AND FOREIGN CURRENCY DEPOSITS /1 (PRIVATE SECTOR) (J$M)

	Stocks 2000	Stocks 2001	Flows 2000	Flows 2001	% 2000	% 2001
Private Sector Deposits	**115,198.9**	**126,989.1**	**12,972.2**	**11,790.2**	**12.7**	**10.2**
Local Currency	82,985.1	90,367.7	7,964.5	7,382.6	10.6	8.9
Foreign Currency	32,213.8	36,621.4	5,007.7	4,407.6	18.4	13.7

\1 Deposits adjusted for Net Items in the Process of Collection

Table 7

COMMERCIAL BANKS' STATUTORY LIQUIDITY

	1999	2000	2001 Mar	2001 Jun	2001 Sep	2001 Dec
Statutory Liquidity						
Cash Reserves	16.0	13.0	12.0	11.0	10.0	10.0
Liquidity	34.0	31.0	30.0	29.0	28.0	28.0
Average Liquidity						
Liquidity Holdings	48.3	45.6	50.1	44.9	43.5	43.1
Excess Reserves	13.9	15.3	21.4	18.4	18.1	17.9

overall slow down in deposit growth was reflected in both local and foreign currency deposits. The growth rate in local currency deposits declined to 8.9 per cent in 2001 from 10.6 per cent in 2000 while foreign currency deposits grew by 13.7 per cent having recorded growth of 18.4 per cent in 2000.

Liquidity

During the year, the Central Bank effected another three-percentage point reduction in the statutory cash reserves requirement in three stages - March 1, June 1 and September 1 - and at end December 2001 this ratio was 10.0 per cent. There were parallel movements in the liquid assets requirement to 28.0 per cent from 31.0 per cent. Nonetheless, commercial banks retained average liquidity in excess of 40.0 per cent and recorded an 18.0 per cent increase in excess reserves to $17.9 billion. (See Table 7).

Interest Rates and Spreads

Interest rates continued to decline during 2001. The decline in market determined interest rates was led by a reduction in the BOJ 30-day signal rate, which fell to 14.25 per cent by end December 2001 compared to 16.45 per cent at end December 2000. The 180-day rate declined by 205 basis points to 15.0 per cent. (See Table 8). The six-month Treasury bill rate closed the year with a yield of 17.03 per cent relative to 20.16 per cent at end December 2000.

Movements in commercial banking system interest rates mirrored the direction of change in money market rates as evidenced by a decrease in interest

Table 8

INTEREST RATES

	1999	2000	2001			
	%	%	Mar	Jun	Sep	Dec
Reverse						
30-day	18.35	16.45	15.50	14.25	14.25	14.25
180-day	19.95	17.05	16.15	14.75	14.75	15.00
*Treasury Bill	22.03	20.16	16.88	16.20	15.10	17.03
Commercial						
1- month	13.89	12.98	12.94	12.56	12.73	11.98
3- month	14.98	14.25	14.08	13.09	13.11	12.22
12- month	13.41	12.35	12.23	12.36	12.21	12.04
**Weighted Average Loan	24.64	22.12	21.49	20.86	19.41	19.50
Weighted Average Deposit	13.27	12.21	12.13	11.11	10.52	10.13
Interest Rate	11.37	9.91	9.36	9.75	8.89	9.37

** Tenors of 6-mth Treasury Bill*
*** Weighted average rate has been revised to reflect adjustments to installment credit*

rates on the different tenors of deposits offered by the banks. The fall in lending rates was sharper leading to a contraction in the overall interest rate spread in the banking system during the year. Following a 262 basis point decline in the weighted average loan rate and a 208 basis point decline in the weighted average deposit rate, the interest rate spread at end December 2001 was 9.37 per cent, down from the 9.91 per cent at end December 2000.

Loans and Advances

The stock of total loans and advances from the commercial banking system increased by 20.9 per cent to $49 035.1 million at end December 2001 (See Table 9). This growth reflects a continuation of the upward trend observed since April 2000. The increase in loans and advances in 2001 was channeled mainly to the private sector, which accounted for approximately 64.0 per cent of the total increase in loans. Public sector loans rose by $3 591.4 million while, loans and advances extended to other financial institutions declined for the second consecutive year.

The increase in loans to the private sector was mainly to Transport, Storage & Communication, which recorded an increase of $2 884.1 million or 189.0 per cent. Personal loans increased by $2 868.5 million or 26.4 per cent and continued to represent over 30.0 per cent of private sector loans (see Chart 3). Other categories of net borrowers were Electricity, Tourism and Construction & Land Development. Professional & Other Services recorded net repayments of $1 177.3 million.

(d) Other Financial Intermediaries

(i) Financial Institutions Act Licensees(FIAs)

Total assets of the eleven (11) institutions licensed under the Financial Institutions Act more than doubled during 2001 (see Table 10). Rapid growth was recorded in most institutions, with the balance sheet further augmented by the merger of one FIA licensee and an investment company. At the end of December 2001 total assets stood at $17 077.7 million, marking growth for the first time in six years.

The growth in assets was mainly reflected in foreign assets which increased by $4 603.9 million to $6 322.1 million, and at end December accounted for 37.0 per cent of total assets. The accumulation of foreign securities included a significant proportion of Government of Jamaica foreign securities. The build up of foreign assets

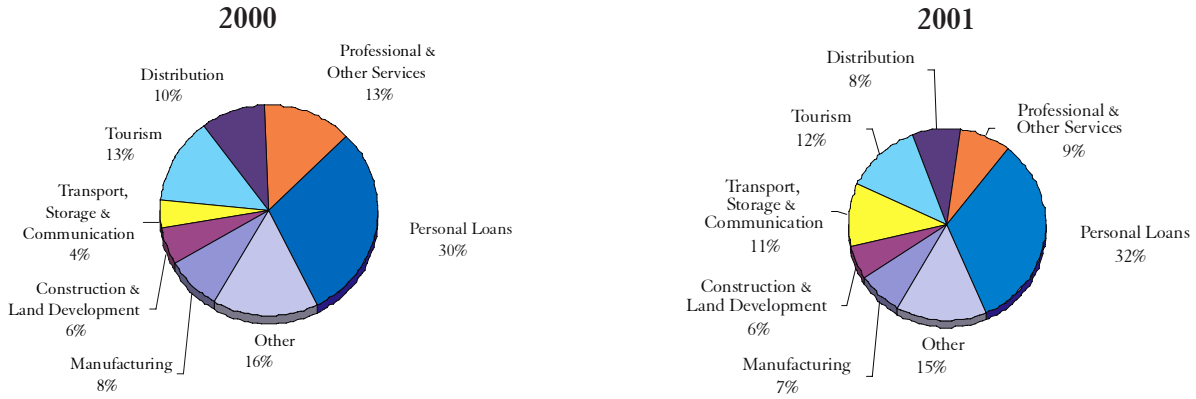
Table 9

COMMERCIAL BANKS
LOANS AND ADVANCES (J$M)

	Stocks 2000	2001	Flows 2000	% 2000	2001	% 2001
Public Sector	6,696.8	10,288.2	1,802.7	36.8	3,591.4	53.6
Other Financial Institutions	747.3	178.2	-513.6	-40.7	-569.1	-76.2
Private Sector	33,129.7	38,568.7	2,565.6	8.4	5,439.0	16.4
Agriculture and Fishing	1,557.2	1,479.6	-31.9	-2.0	-77.6	-5.0
Mining	87.2	98.2	-11.5	-11.7	11.0	12.6
Manufacturing	3,046.8	3,119.3	54.4	1.8	72.5	2.4
Construction & Land Development	2,026.2	2,339.4	-2.9	-0.1	313.2	15.5
Transport, Storage & Communication	1,525.7	4,409.8	79.9	5.5	2,884.1	189.0
Tourism	4,747.7	5,166.3	1,187.0	33.3	418.6	8.8
Distribution	3,563.9	3,224.7	730.8	25.8	-339.2	-9.5
Professional & Other Services	4,730.0	3,552.7	222.7	4.9	-1,177.3	-24.9
Personal Loans	10,882.8	13,751.4	-342.2	-3.0	2,868.5	26.4
Electricity	773.9	1,256.9	707.4	1,063.1	483.0	62.4
Entertainment	137.5	89.4	-13.8	-9.1	-48.1	-35.0
Overseas Resident	50.8	81.0	-14.3	-22.0	30.3	59.6
TOTAL	**40,573.8**	**49,035.1**	**3,854.7**	**10.5**	**8,461.3**	**20.9**

Data do not account for provisioning

Chart 3 Distribution of Private Sector Loans and Advances



was partly funded by growth in foreign currency time deposit liabilities. 'Other Assets' increased by $2 163.8 million or 100.2 per cent reflecting an increase in holdings of Bank of Jamaica reverse repurchase instruments. There was also a significant increase in cash and balances with commercial banks.

There was significant expansion in the deposit base of the sub sector during 2001. Total deposits grew by 83.8 per cent to $7 289.7 million. The expansion in deposits was reflected in a 141.2 per cent increase in private sector time deposits. Throughout the year, institutions in the sub-sector have sought to diversify their operations by offering a wider range of deposit facilities to their customers. In this regard, they engaged in aggressive marketing activities aimed at expanding their customer and deposit base. This led to a rapid expansion in foreign currency time deposits as well as local currency time deposits. There was also a $2 025.9 million increase in other liabilities.

The capital base of the sub-sector has been bolstered by $630.1 million in additional capital and reserves. A significant proportion of this increase in capital and reserves was due to the merger that occurred in the sub-sector during the year. The merger resulted in an increase in share premium and other reserves in the newly formed institution.

Table 11 shows the sectoral distribution of loans and advances by FIA licensees at end December 2001, 2000 and 1999. During 2001, the rate of expansion in loans and advances by FIA licensees was relatively slower than that of other assets. Loans and advances expanded by $377.2 million or 14.2 per cent during the review period. This is in contrast to a $260.0 million contraction in the preceding year, due primarily to a reduction in the number of institutions in the financial sub-sector. Of the overall increase, the private sector benefited from $367.6 million, with Professional & other services and Construction & Land Development being the primary beneficiaries. Other sectors such as Manufacturing, Personal loans, Mining & Quarry and Transport Storage & Communication also recorded growth. There were net repayments from the Entertainment, Distribution and Agriculture sectors during the year.

Building Societies

At the end of 2001 there were four (4) institutions operating under the Building Societies Act relative to five (5) institutions at the end of 2000. The reduction in the number of institutions resulted from the acquisition of Jamaica Savings and Loans Building Society by Jamaica National Building Society. Total assets and liabilities of institutions licensed under the Building Societies Act stood at $50.3 billion at the end of 2001. This followed growth of just under $6.0 billion or 13.5 per cent in 2001 as compared with growth of 10.4 per cent during 2000 (See Table 12).

The primary contributor to the expansion in liabilities was a $3 504.7 million expansion in the

Table 10

ASSETS AND LIABILITIES OF THE INSTITUTIONS LICENSED UNDER THE FINANCIAL INSTITUTIONS ACT AT THE END OF 2001 WITH ANNUAL CHANGE DURING 2001

	December 1999	December 2000	December 2001**	Annual Change 2000 - 2001
Liabilities				
Deposits	4,937.6	3,966.0	7,289.7	3,323.7
Balances due to Commercial Banks	0.0	628.4	1,036.7	408.3
Balances due to Other Financial Institutions	0.0	149.1	323.5	174.4
Foreign Liabilities	211.6	585.7	2,605.3	2,019.6
Capital & Reserve	2,383.5	2,244.9	2,875.0	630.1
-Foreign Capital	19.2	19.2	19.2	0.0
Other Liabilities	3,311.3	921.6	2,947.5	2,025.9
Total	**10,844.0**	**8,495.7**	**17,077.7**	**8,582.0**
Assets				
Cash and Balances with other Commercial Banks	323.8	164.3	1,371.0	1,206.7
Balances with Other Financial Institutions	241.8	189.3	22.7	-166.6
Balances with Bank of Jamaica	740.2	432.2	773.2	341.0
Foreign Assets	1,392.6	1,718.2	6,322.1	4,603.9
Government Securities	2,109.7	1,059.6	920.9	-138.7
Other Local Investments*	162.5	123.0	318.2	195.2
Loans and Advances*	2,909.0	2,649.6	3,026.3	376.7
Other Assets	2,964.4	2,159.5	4,323.3	2,163.8
Total	**10,844.0**	**8,495.7**	**17,077.7**	**8,582.0**
Number of Licensees	14	11	11	

** Includes Provision for Loan Losses*
***Provisional*

savings fund principally reflected in the shareholders component of the savings fund. The growth in the shareholders component appears to have been associated with the low mortgage rates that have been offered throughout the year to borrowers that hold share accounts with these institutions.

The capital and reserves of building societies increased by $296.3 million to $4 615.8 million. There was also a $ 1 210.0 million increase in 'Other liabilities'.

Provisions for building societies to hold cash reserves of 1 per cent if they hold at least 40 per cent of their qualifying assets as residential mortgages remained in place during 2001. All four building societies qualified for the preferential cash reserve of 1 per cent during 2001 and 2000.

The expansion in the savings fund facilitated an increase in 'Other assets', mainly private repurchase instruments. 'Other assets' increased by 37.9 per cent to $13 880.4 million during 2001.

Table 11

SECTORIAL DISTRIBUTION OF LOANS AND ADVANCES OF INSTITUTIONS LICENSED UNDER THE FINANCIAL INSTITUTIONS ACTAT DECEMBER 2000 AND 2001

	2000 Share of Total (%)	Stock*	2001** Share of Total (%)	Stock*	Annual Change in Stock
Public Sector	5.9	155.9	2.9	88.1	-67.8
Financial Institutions	0.0	0.4	2.6	77.8	77.4
Private Sector	94.1	2,492.8	94.5	2,860.4	367.6
Agriculture	2.6	65.7	1.2	35.8	-29.9
Manufacturing	22.8	604.5	21.9	663.5	59.0
Construction & Land Dev	3.6	96.4	6.7	204.1	107.7
Mining & Quarrying	0.4	13.4	0.8	23.6	10.2
Transport, Storage & Comm	1.3	34.8	1.7	52.3	17.5
Tourism	8.2	216.4	7.0	212.3	-4.1
Distribution	11.6	307.2	8.8	265.8	-41.4
Professional & Other Services	29.1	772.1	33.6	1,016.8	244.7
Personal Non-Business Loans to Individuals	11.1	294.4	12.0	362.7	68.3
Electricity	2.3	59.9	0.1	2.3	-57.6
Entertainment	1.1	28.0	0.7	21.2	-6.8
Overseas Residents	0.0	0.0	0.0	0.0	0.0
Total	**100.0**	**2,649.1**	**100.0**	**3,026.3**	**377.2**

Loans increased by $1 952.0 million of which mortgage loans accounted for $1 651.2 million.

The liquid assets of building societies declined during 2001. This was reflected in a significant reduction of 7.4 percentage points in the liquid assets to savings fund ratio to 26.8 per cent. The reduction in the ratio reflects both a reduction in liquid assets as well as the build up in the savings fund during year.

There were marginal improvements in the indicative ratios of building societies during 2001(see the lower panel of Table 12). The advance to savings ratio increased to 45.3 per cent from 44.2 per cent, while the mortgage loans to savings fund ratio increased by 50 basis points to 42.5 per cent.

For the review period, two thousand four hundred and seventy (2 470) new mortgage loans were granted by building societies, relative to two thousand four hundred and forty nine (2 449) during the 2000. The increase in mortgage loans was due primarily to an increase in mortgages in the Agricultural & Other category. Although there was a 19.1 per cent decline in the number of new residential mortgages to 1483 new accounts, this category continued to account for the largest proportion of total new mortgages loans (60 per cent). The average value of residential mortgages was $1.7 million during 2001 relative to $1.2 million during 2000. The market for building societies mortgage loans continues to be highly segmented. Different interest rates are offered to various categories of borrowers with the most

Table 12

ASSETS AND LIABILITIES OF THE INSTITUTIONS LICENSED UNDER THE BUILDING SOCIETIES ACT AT THE END OF 2001 WITH ANNUAL CHANGE DURING 2001

	December 1999	December 2000	December 2001***	Annual Change 2000 - 2001
	(J$MN)			
Liabilities				
Savings Fund	32,576.8	35,196.3	38,701.0	3,504.7
Balances due to the Bank of Jamaica	0.0	0.0	0.0	0.0
Balances due to Commercial				0.0
Banks	0.0	0.3	548.1	547.8
Balances due to Other Financial				0.0
Institutions	1,455.4	1,519.8	1,456.9	-62.9
Foreign Liabilities	26.7	44.2	507.2	463.0
Capital & Reserve	3,470.4	4,319.5	4,615.8	296.3
Other Liabilities	2,593.7	3,210.2	4,420.3	1,210.1
Total	**40,123.0**	**44,290.3**	**50,249.3**	**5,959.0**
Assets				
Cash and Balances with other				
CommercialBanks	640.3	654.5	528.0	-126.5
Balances with Other				
Financial Institutions	0.0	0.0	0.0	0.0
Balances with Bank of Jamaica	818.3	771.2	757.5	-13.7
Foreign Assets	5,567.4	6,609.4	8,461.7	1,852.3
Government Securities	9,750.8	9,684.6	8,024.4	-1,660.2
Other Local Investments*	853.4	932.2	1,071.4	139.2
Loans and Advances*	14,677.4	15,573.9	17,525.9	1,952.0
-of which Mortgages	13,712.4	14,782.5	16,433.7	1,651.2
Other Assets	7,815.4	10,064.5	13,880.4	3,815.9
Total	**40,123.0**	**44,290.3**	**50,249.3**	**5,959.0**
	INDICATIVE ratios (%)			
Liquid Assets : Total Assets	30.1	27.2	20.7	
Advance : Savings Fund	45.1	44.2	45.3	
Mortgage Loan : Savings Fund	42.1	42.0	42.5	
Liquid Assets : Savings Fund	37.0	34.2	26.8	
Number of Licensees	5	5	4	
Number of Licensees qualifying for preferential reserve requirements	4	5	4	

** Includes Provision for Loan Losses*
***Provisional*

attractive interest rates being offered to first time homeowners with savings accounts at the particular institution.

(iii) Credit Unions

Table 13

JAMAICA CO-OPERATIVE CREDIT UNION LEAGUE ACTIVITIES ASSETS AND LIABILITIES						
End of Year	No. of Credit Unions	Membership	Total Savings (J$M)	Loans Outstanding (J$M)	Loans/ Savings ratio	Assets & Liabilities (J$M)
1995	80	447 131	3 516.3	2 830.6	80.5	4 097.5
1996	77	502 090	4 730.4	3 578.8	75.7	5 841.4
1997	73	514 103	6 271.1	4 578.8	72.8	7 621.6
1998	67	539 194	7 877.9	5 532.8	70.2	9 547.2
1999	65	572 074	9 995.6	6 682.6	66.9	12 098.8
2000	61	606 286	12 003.8	7 870.7	65.6	14 642.9
2001	58	635 253	14 167.6	9 124.2	64.4	17 278.6

Source: Jamaica Co-operative Credit Union League

The credit union movement maintained its growth trend in 2001. Although the number of credit unions fell to 58 at the end of 2001 from 61 at the end of 2000, all other indicators, associated with the activities of the movement, suggest that the established pattern of steady growth was reinforced during the review year. During 2001 the assets and liabilities of the credit union movement expanded by 18 per cent to $17 278.6 million compared with growth of 21 per cent achieved in 2000. Total membership within the movement rose by 4.8 per cent in 2001 to 635 253.

The decline in the number of institutions represents three mergers which took place during the year. Accordingly, the credit unions, Christian Brethren Association and T. Geddes Grant merged with Churches Co-operative Credit Union while the WIHCON Credit Union merged with the Mechala Group which also had a name change to ICD and Associates Co-operative Credit Union.

Total savings grew by 18 per cent to $14 167.60 million while loans outstanding expanded by 16 per cent to $9 124.2 million. This compares with growth of 20 per cent and 18 per cent, respectively, in 2000. Notably there was a shift in the ratio of share capital to deposits from 80:20 to 60:40 as depositors took advantage of the higher rates of interest offered on fixed deposits.

This overall growth of the credit union movement is partly attributable to a vibrant marketing programme, particularly on the part of the larger institutions. A strategy to improve their competitiveness also placed emphasis on the development of service delivery standards as the movement sought to address issues such as loan processing and funds withdrawal time.

Preparatory work towards the supervision of credit unions by the Bank of Jamaica continued in 2001. In that regard, regulations have been drafted and were undergoing the legal enactment process. This followed the 1999 initiative by the Minister of Finance and Planning whereby credit unions were designated as "specified financial institutions" which established the foundation for broader legislative changes with respect to the modernization of the Co-operative Societies Act. The process of finalizing the supervisory role of BOJ is also being enhanced by on-going mjndiscussions with the Jamaica Co-operative Credit Union League.

(i) Development Banks

Development Bank of Jamaica

The Development Bank of Jamaica (DBJ), the entity that resulted from the April 2000 merger of

Table 14

DEVELOPMENT BANK OF JAMAICA
ASSESTS AND LIABILITIES (J$M)

Assets	2000	2001	Change	% Change
Cash and Bank Balances	342.2	390.4	48.2	14.1
Receivables and Prepayments	2199.2	2407.5	208.3	9.5
Investments	85.8	69.7	-16.1	-18.8
Loans to Financial Institutions	8618.5	7708.5	-910.0	-10.6
- Loans to People's Co-operative Banks	829.1	799.6	-29.5	-3.6
- Loans to A.F.I.	3537	3956.9	419.9	11.9
- Other Loans	4252.4	2952.0	-1300.4	-30.6
Fixed Assets	116	132.1	16.1	13.9
Other Assets	1574.5	1349.7	-224.8	-14.3
Less Current Liabilities	1508.5	1301.9	-206.6	-13.7
Total Assets	**11427.7**	**10756.0**	-671.7	-5.9
LIABILITIES AND SHAREHOLDER'S EQUITY				
Shareholder's Equity	2423.4	2918.6	495.2	20.4
Long Term Liabilities	7886.3	7270.4	-615.9	-7.8
- From Overseas Institutions	4173.4	3740.5	-432.9	-10.4
- From Government of Jamaica	1742.6	2046.1	303.5	17.4
- Other Loans	1970.3	1066.7	-903.6	-45.9
Short Term Liabilities	1118	567.0	-551.0	-49.3
TOTAL LIABILITIES	**11427.7**	**10756.0**	-671.7	-5.9

the Agricultural Credit Bank and the National Development Bank, recorded profits of $40.85 million for the period April to December 2001. The major source of this profit was income generated from its operations with the Approved Financial Institutions (AFI), which are the DBJ's primary outlet for on-lending its funds to the productive sector, and from programmes undertaken on the behalf of the Government such as those relating to the sugar and coffee industries. The assets and liabilities of the end of December 2000 and 2001 are summarized in Table 14.

The assets and liabilities of the DBJ declined by 5.9 per cent to $10756.0 million. Of this amount, the long-term liabilities accounted for $7270.4 million (67.6 per cent), shareholder's equity accounted for $2918.6 million (27.1 per cent) and short-term liabilities accounted for $567 million (5.3 per cent). Within the long-term liabilities financial support from overseas institutions remained the largest source of financing, and approximately 60 per cent of these funds emanated from the Caribbean Development Bank (CDB). Loans from the Government of Jamaica, another major source of financing, increased by 17.4 per cent. Long-term liabilities were further boosted by the Development Bond 2000, funded by the commercial banks from the liquidity generated by the reductions in the cash reserves requirement. There have been three issues of the Development Bond 2000 over the last two years and these issues have raised a total of $1338 million. Of this amount, $150 million has been disbursed to the National Export-Import Bank of Jamaica (EX-IM Bank) and a further $786.4 million was on-lent to AFI. The 'Other Loans' component of Long Term Liabilities declined by 45.9 per cent largely due to the redemption of a loan the DBJ had with a German bank. Overall, long-term liabilities declined by 10.4 percent.

Short-term liabilities, comprised of commercial paper issued by the Bank and other short-term loans to the DBJ, were reduced by 49.3 per cent during the year chiefly as a result of the decline in commercial paper issued. Shareholder's equity increased by 20.4 percent during the year.

Of the assets held by the DBJ, 'Loans to Financial Institutions' account for $7708.5 million and 'Receivables and Prepayments' account for a

further $2407.5 million. There were significant collections on loans that contributed to the overall decline of 'Loans to Financial Institutions' by 10.6 per cent. Within this grouping, the 'Other Loans' category declined by 30.6 per cent primarily because of the reduction in the stock of loans to the agricultural sector stemming from the repayment on one such significant loan during the year. Additionally the DBJ restricted direct lending during the year, which also contributed to the decline in 'Other Loans'. There was an 11.9 per cent increase in loans made through AFI during the year while loans made to People's Co-operative (PC) Banks showed a marginal decline of 3.9 per cent.

An examination of loans by the DBJ to AFI and PC Banks for the calendar year 2001 by sector revealed that with regards to loan approvals, the manufacturing sector accounted for 26.6 per cent, the agriculture sector 21.8 per cent, the service sector 17.9 percent and the tourism sector 17.2 percent. Regarding loan disbursements, the tourism sector received 37.8 per cent of the loans disbursed by the DBJ while other significant shares went to the agriculture and manufacturing sectors, which accounted for 27.5 per cent and 18 per cent, respectively.

The DBJ intends to maintain its policy of providing financial resources for enhancing and developing productive activities especially in the areas of tourism, agriculture and manufacturing. In order to minimize their exposure to non-performing and bad loans, the DBJ will continue to facilitate lending to the various sectors by channeling funds through relevant financial institutions thereby restricting the use of direct lending.

(ii) National Export-Import Bank of Jamaica

During 2001, the National Export-Import Bank (Ex-Im) focused on identifying industries within the export sector which would aid in fulfilling the National objective of sustainable growth. Within this framework, the Bank identified the Information Technology and Ornamental Fish Farming sectors as areas with the potential for rapid expansion. The Agro Processing sector was also targeted to benefit from low cost medium and long term financing in addition to short-term working capital to aid in the modernization of its productive capacity and to bring it in line with internationally acceptable standards.

The Ex-Im Bank continued to receive funds from the Development Bank of Jamaica to further strengthen its ability to lend at preferential interest rates of 9.5 per cent per annum to the export and productive sectors. The amount of J$50 million was made available through the reduction in the Cash Reserves Ratio (CRR) and brought the total loan disbursement received by the Bank under this programme to J$150 million since the year 2000.

A Line of Credit aimed at financing Jamaican exports to Cuba, benefited from special promotional activities during the year. The Bank continued its close liaison with relevant Cuban agencies and the local private sector, which resulted in a greater number of persons accessing the facility. However the actual disbursements from the CDN$5 million facility declined by CDN$0.017 million to CDN$ 0.283 million relative to last year.

A Risk Capital Fund was established in 2001 to finance the emerging areas of economic activity. The pool of funds was capped at 30 per cent of the Bank's net worth to limit its exposure to potentially risky areas.

In August 2001, the Bank launched its Ornamental Fishing Loan Programme which was geared at providing medium term financing to ornamental fish and satellite farmers. The programme was initially endowed with an amount of J$40 million and loans offered at an interest rate of 12.0 per cent per annum.

In keeping with its rationalization of existing financing facilities, the Bank launched a specifically designed short-term working capital loan scheme for the Agro Processing sub-sector.

This came at a time when significant progress was being made in expanding the market for Jamaican spices abroad and the recent approval given by the Food and Drug Administration (FDA) of the United States of America for Jamaican ackees to re-enter that market.

The Bank continued to undertake research to assess and identify the specific financing needs of the Information Technology sub sector so that it can optimize its intended programme of financial support to the sector. This sub-sector was identified by the Government in its National Industrial Policy (NIP) as a potential growth engine capable of creating new jobs.

Local Currency Disbursements

Disbursements of J$2,045 million were made during 2001. This was J$166.4 million more than during the previous year (see Table 15). The increase was attributed to usage of the new facilities that were introduced as well as increased demand for redesigned credit lines. The Modernization Fund which was primarily accessed by the printing and packaging industry, recorded the highest growth of $130.7 million. This was followed by disbursements through the Small Business and Pre-Shipment Facilities of J$54.5 million and J$45.9 million respectively.

The growth in the Small Business facility was due to modifications in the operating parameters that allowed for a more lenient mix of collateral and debt restructuring. The 'Co-Pack' facility that was introduced in the last Quarter of 2000 to provide working capital loans to Agro-processing companies was increased from J$20 million to J$40 million during 2001.

During the year, the Food and Beverage industry continued to be the main beneficiary of the Bank's funding, accounting for J$1,515.5 million or 74.1 per cent of the local currency loan portfolio. Loans approved for this sub-group increased by J$453.9 million or 42.8 per cent over the previous year (see Table 16)

Foreign Currency Disbursements

Foreign currency loans fell below the level achieved in 2000. This was primarily attributed to the low utilization of the lines of credit by the public sector (see Table 17). As such 64.5 per cent of the loans was disbursed to private sector unlike the previous year when 72.4 per cent was disbursed

Table 15

LOCAL CURRENCY DISBURSEMENTS (J$M)

	Jan-Dec. 2000	Jan-Dec. 2001	Change	%
Facilities				
Bankers Export Credit Facility	1044.0	990.7	(53.3)	(5.1)
Export Credit facility	566.4	535.0	(31.4)	(5.5)
Insurance Policy Discounting Facility	50.9	46.4	(4.6)	(9.0)
Pre-Shipment Facility	28.5	74.4	45.9	161.0
Apparel Sector Financing	78.3	26.2	(52.2)	(66.6)
Modernization Fund for Exporter	43.9	174.6	130.7	298.0
Small Business Facility	44.1	98.5	54.4	123.6
JEA/EXBED	22.6	59.2	36.6	162.2
Co-Pack Facility	-	40.2	40.2	-

Table 16

APPROVED LOANS BY INDUSTRIES (J$M)				
	Jan-Dec. 2000	%	Jan-Dec. 2001	%
Industries				
Agro- Processing	439.0	23.4	271.5	13.3
Food & Beverage	1,061.7	56.5	1,515.5	74.1
Textile & Apparel	114.5	6.1	32.2	1.6
Other Manufacturing	167.7	8.9	104.7	5.1
Distribution/ Services	95.8	5.1	102.5	5.0
Mining	-	-	18.7	0.9
TOTAL	**1,878.6**	**100.0**	**2,045.1**	**100.0**

Table 17

FOREIGN CURRENCY DISBURSEMENTS (J$ '000)				
	2000	2001	Change	%
Facilities				
Lines of Credit				
Factoring of Receivables	14,080.0	7,050.0	(7,030.0)	(49.9)
Programme				
Bankers Export Credit	20.0	70.0	50.0	250.0
Facility	550.0	530.0	(20.0)	(3.6)
TOTAL	**14,650.0**	**7,650.0**	**(7,000.0)**	**(47.8)**

Table 18

UTILIZATION OF FOREIGN CURRENCY BY ECONOMIC SECTOR (J$M)				
	Jan-Dec. 2000	%	Jan-Dec. 2001	%
Sector				
Private	**4.1**	**27.6**	**4.9**	**64.5**
Public	**10.6**	**72.4**	**2.7**	**35.5**
TOTAL	**14.7**	**100.0**	**7.7**	**100.0**

to the public sector (see Table 18). In an effort to stimulate renewed interest in these facilities, the Bank has reduced its service charge on the lines of credit from 4.5 per cent to 2.5 per cent per annum

The Bank continued to offer the Export Credit Insurance facility during 2001 despite the reduction of the portfolio in recent years. It also continued its membership in the International Union of Credit and Investment Insurers (Berne Union) which keeps it informed on current practices and trends in the export credit insurance market.

Despite the challenges during the year, the bank remained a profitable institution. For the nine-month period April to December 2001, the bank recorded an un-audited net profit of approximately J$102.8 million, which was J$19.5 million less than the corresponding nine-month period in 2000.

3. Financial Market Operations

Money Market Developments

Bank of Jamaica Operations

Open-market operations remained the main tool used by the Bank in the management of liquidity in the financial system. Apart from the traditional instruments, reverse repurchases and repurchases, the Bank added certificates of deposit (CDs) to its menu of open market instruments on 29 May 2001 to augment its liquidity absorption capability. All the terms and conditions applicable to Reverse Repurchase transactions apply to CDs except that these instruments are not related to Government securities but are direct claims on the Central Bank. These activities were further supplemented by the outright sale of the Bank's holdings of Government securities. Primary dealers and commercial banks remained the chief intermediaries through which open-market operations were conducted. With the merger of two dealers, the number of primary dealers fell to 14 at the end of 2001.

A net absorption of $26,115.9 Million was achieved through the BOJ's open market operations during 2001, with approximately 77 per cent of this amount or $20.1 billion being absorbed during the first half of the year (see Table 19). The significant absorption was necessary to counter the liquidity impetus emanating primarily from the build-up in the net international reserves in 2001. There was also absorption of $3,697.1 million during the December quarter. This absorption occurred in a context where Government's operations injected approximately $5 976.8 million for the payment of domestic principal and interest during the December quarter.

Government Activities

During 2001, the Government sought to reduce its reliance on local currency debt in order to induce a downward movement in domestic interest rates

Table 19

BANK OF JAMAICA OPEN MARKET OPERATIONS 2001 (J$M)

	Q1	Q2	Q3	Q4	Total
A. Net Outright Sales (+)/ Purchases(-) of securities	-	(716.28)	-	-	(716.28)
B. Net OMO	8,608.53	12,202.64	2,323.92	3,697.10	26,832.19
C. Net Absorption (+)/ Injection (-)	8,608.53	11,486.36	2,323.92	3,697.10	26,115.91

Table 20

Issued in Quarter	Tenor (years)	Amount (millions of units)	Coupon
1	3	euro175 (approx. US$162 million)	10.50%
2	10	US$400	11.75%
4	20	US$250	11.625%

and ultimately its debt service cost. Increased foreign currency financing was sought in both the international and domestic capital markets in 2001.

Three Eurobond issues of progressively longer tenors were successfully launched (See Table 20):

The success of these instruments at relatively favourable rates and in the face of the economic crises in other emerging economies is consistent with the upgrade in Jamaica's foreign currency debt rating by Standard and Poor's in May 2001.

The Government also offered US dollar denominated instruments on the domestic market, raising US$75 million and US$100 million from issues in August and September, respectively. These bonds, each with a 12.0 per cent coupon, mature in 2004 and 2005, respectively.

Another objective of the Government's debt management strategy was the continued extension of the maturity profile of both its domestic and foreign debt. In this regard, the GOJ increased the maximum term on its Local Registered Stock (LRS) to 12 years, up from the previous maximum of 10 years, with four 12-year issues during the year. In addition, the outstanding stock of relatively short-dated Treasury Bills fell by $3.7 billion, from $7.6 billion at end-December 2000 to $3.9 billion at the end of 2001.

The Bank continued its fiscal agency function with regard to primary issues of Government securities conducting a total of 53 debt issues in 2001, 7 less than the previous year. These primary issues consisted 21 auctions of Treasury Bills, 28 auctions of LRS, and two issues each of fixed rate debentures and US indexed bonds.

Interest Rates

Favourable macroeconomic conditions facilitated a steady decline in interest rates during the first half of the year. In the third and fourth quarters however, tightened monetary policy coupled with periods of instability in the foreign exchange market reversed this trend.
Following the temporary hike in October and November 2000, interest rates fell continuously throughout the first half of 2001. The signal rate (30-days Reverse Repurchase) was reduced by 220 basis points to 14.25 per cent in June 2001, from

Table 21

REVERSE REPURCHASE RATES

End Month	30-day	180-day	270-day	365-day
		%		
January	16.45	17.05	20.00	21.00
February	16.45	17.05	18.75	19.50
March	15.50	16.15	17.00	17.75
April	15.50	16.15	16.75	17.50
May	14.75	15.30	15.70	16.50
June	14.25	14.75	15.35	15.90
July	14.25	14.75	15.35	15.90
August	14.25	14.75	15.35	15.90
September	14.25	14.75	15.35	15.90
October	14.25	15.50	19.45	19.90
November	14.25	15.50	19.45	19.90
December	14.25	15.00	18.40	18.90

Table 22

Six-Month Treasury Bill Average Yield (%) 2001 (End of Period)	
Jan	19.41
Feb	18.27
Mar	16.88
Apr	16.50
May	15.46
Jun	16.20
Jul	16.65
Aug	16.04
Sep	15.10
Oct	15.11
Nov	17.82
Dec	17.03

16.45 per cent at the end of 2000, where it remained for the rest of the year (see Table 21). The rates offered on the 270-day and 365-day tenors were cut more significantly by 465 and 510 basis points, between end 2000 and June 2001 to 15.35 per cent and 15.90 per cent, respectively. Concurrently, market determined rates also exhibited a declining trend as the 182-day Treasury Bill yield fell to 16.20 per cent in June from 19.41 per cent in January, a decline of 321 basis points.

Relative stability in the foreign exchange market and strong foreign flows contributed to a downward movement in interest rates which was largely sustained by lowered inflationary expectations,. In addition, the reduced reliance on domestic debt-raising throughout the period also facilitated the downward trend in interest rates.

Tightened liquidity conditions toward the end of June continued for most of the third quarter. These conditions adversely affected the cost of Government's debt raising activities during July, as evidenced by the higher Treasury Bill yields during the month. Liquidity conditions improved toward the end of the quarter due to large domestic interest payments in a context where Government's presence in the market was reduced. Against this background, market determined interest rates were able to resume the decline observed earlier in the year. This was evidenced by the 110 basis point decline in the 182-day Treasury Bill yield in September relative to the July out-turn (see Table 22). However, the BOJ in the September quarter, as the unstable conditions in the foreign exchange market resulting from the tragic events of 11 September and the raising of two US dollar denominated bonds, did not facilitate further adjustments at that time.

Following the resurgence of excess demand in the foreign exchange market in October, the BOJ supported its provision of liquidity to the foreign exchange market with adjustments to its reverse repurchase rate structure. The rates on all tenors, except that offered on the 30-day instruments, were increased on 30 October. The most significant adjustments being recorded on the 270-day and 365-day tenors, which were increased by 410 and 400 basis points to 19.45 per cent and 19.0 per cent, respectively. As a result of the steepening of the yield curve, there was a return of relative stability to the foreign exchange market, as well as, a shift to the longer tenors. The 365-day offer

accounted for over 63 per cent of all placements in open market instruments during November and December.

Market determined rates adjusted to reflect the increase in the rates on the Bank's open market-instruments. In this regard, the average yield on the 182-day Treasury Bill offered in November increased by 271 basis points above the average yield on a similar tenor in October.

Against the background of relative stability in the foreign exchange market and improved prospects for foreign inflows in the near term, the Bank reduced the rate on all tenors of reverse repurchases except the signal rate in December. At the end of the year the rate on the Bank's 270-day and 365-day instruments stood at 18.40 per cent and 18.90 per cent, respectively. Improved liquidity conditions were reflected in the decline in the six-month Treasury Bill rate to 17.03 per cent in December

4. Supervision of Financial Institutions

Introduction

The Bank of Jamaica undertakes supervision of deposit-taking financial institutions in Jamaica by virtue of Section 34A of the Bank of Jamaica Act.

In the discharge of its supervisory functions, the Bank of Jamaica continuously strives to protect the financial system and by extension the interest of depositors. The Bank provides to the Boards and management of licensees, guidelines and standards of best practice to ensure that licensees are not only aware of the risks inherent in banking activities, but that these risks are managed prudently and in keeping with their fiduciary responsibilities to customers.

Supervisory Responsibilities

Supervision is undertaken using a combination of well established and internationally accepted supervisory techniques which take account of the dynamic nature of banking and its related risks, with focus being placed on the quality and adequacy of licensees' risk management systems. It involves the continuous assessment of the quality of licensees' operations including their overall financial condition, to ensure that each licensee possesses the appropriate level of technical, financial and human resources at its

Table 23

LEGISLATIVE FRAMEWORK	
Nature of Legislation	**Statute**
Principal Legislation	· The Bank of Jamaica Act . The Banking Act · The Financial Institutions Act . The Building Societies Act · The Bank of Jamaica (Building Societies) Regulations
Subsidiary Legislation	· The Building Societies (Licenses) Regulations · The Banking (Establishment of Branches) Regulations · The Financial Institutions (Establishment of Branches) Regulations · The Banking (Amalgamation and Transfers) Regulations · The Financial Institutions (Amalgamation and Transfers) Regulations . The Banking (Capital Base) Regulations . The Financial Institutions (Capital Base) Regulations

Table 24

Supervised Entities	1997	1998	1999	2000	2001
Commercial Banks	9	9	6	6	6
FIA Licensees	27	18	14	11	11
Building Societies	10	8	5	5	4
TOTAL	**46**	**35**	**25**	**22**	**21**

disposal to facilitate efficient, prudent, profitable and viable operations on an ongoing basis.

The methodology also includes:

i) ensuring that licensees comply with all applicable laws and regulations;
ii) verifying and assessing the quality of licensees' operations through statutorily required annual on-site examinations and continuous off-site monitoring;
iii) enforcing guidelines and performance standards;
iv) making recommendation for the enactment of new regulations/enhanced legislation where necessary to keep pace with the dynamic environment in which licensees operate;
v) providing formal guidance through the dissemination of Best Practice Standards;
vi) ensuring, through the issuance of the "Ladder of Enforcement", that licensees are aware of the legal sanctions and consequences of imprudent activities/actions which place the institution and the safety of depositors funds at abnormal risk; and
vii) promoting the highest degree of disclosure possible.

Legislative Framework

A number of principal and subsidiary statutes govern the discharge of the Bank of Jamaica's supervisory functions[3] :

Legal implementation of two other critical pieces of subsidiary legislation, which will codify the regulatory approach on specific areas of banking practice, is also being pursued and the legal enactment process in both cases is well advanced. These are:

i. Credit Classification, Provisioning and Non-Accrual Requirements Regulations[4]
ii. Capital Adequacy Regulations[5]

The Supervised Deposit Taking System

The population of supervised deposit taking institutions remained relatively stable during 2001 compared to the significant contraction experienced between 1997 and 2000. This contraction was facilitated largely through FINSAC rehabilitation programmes as well as through private sector initiated mergers/amalgamations among several licensees, the latter primarily the result of the synchronization of the statutory cash and liquid

Table 25

Sub-sector	Market Share Of System Assets*					
	1999		2000		2001	
	J$BN	%	J$BN	%	J$BN	%
Commercial Banks	188.3	79	216.5	81	234.6	81
Building Societies	39.8	16	43.1	16	49.1	16
FIA Licensees	10.8	5	8.3	3	16.9	3
Total	**238.9**	**100**	**267.9**	**100**	**300.6**	**100**

[3]Several Bank of Jamaica supervised intermediaries are also licensed securities dealers and as such are subject to dual supervision by the Financial Services Commission under the Financial Services Act.

[4]Once enacted, these Regulations will place on a legal footing the regime which has already been implemented by the Bank of Jamaica.

[5] Once enacted, these Regulations will require licensees to maintain an overall minimum capital of 10 per cent in relation to risk assets. This compares with the Basel 8per cent minimum and is in addition to the present statutory gearing ratios (deposits and borrowings to capital) of 25:1 and 20:1 (banks and merchants respectively) and primary ratio (capital to total assets) of 6 per cent.

Table 26

Supervised Financial Institutions Profile of Deposits (J$BN)

Sub-Sector	Demand		Savings		Time		Total	
	2000	2001	2000	2001	2000	2001	2000	2001
Commercial Banks	39.8	43.5	72.6	79.5	37.2	35.9	149.6	158.9
FIA Licensees	0.0	0.0	0.1	0.1	3.8	7.21	3.9	7.3
Building Societies	0	0	20.3	22.2	14.9	6.5	35.2	38.7
Total	**39.8**	**43.5**	**93.0**	**101.8**	**55.9**	**59.6**	**188.7**	**204.9**

assets reserve requirements applied to banks and merchant banks which has served to reduce opportunities for regulatory arbitrage across the industry.

As at the end of December 2001, the supervised deposit taking system had contracted by 1 to 21, broken out as to 6 commercial banks, 11 merchant banks/finance houses and 4 building societies (refer table above). The supervised population at the end of 2001 is in contrast to the 46 licensees in existence at the end of 1997. However, it is anticipated that the supervised population will shortly experience significant expansion with the imminent inclusion of credit unions (which sub-sector now totals 58) under the full supervisory ambit of the Bank of Jamaica.

Commercial and Merchant Banks

The number of commercial banks and merchant banks remained unchanged during 2001. Major developments occurring during the year included:

i) The acquisition of Union Bank[6] by a Trinidadian financial holding company, RBTT Financial Holdings Limited, in March 2001. The bank was subsequently renamed the RBTT Bank Jamaica Limited (RBTT) as the licensee sought to identify with its Trinidadian holding company while at the same time adopting a more regional banking posture in its operations.

ii) The large stock of FINSAC[7] paper acquired by National Commercial Bank Jamaica Limited (NCB) by way of the rehabilitation process was replaced by GOJ LRS in April 2001.

iii) On 5 July 2001 Manufacturers Merchant Bank Limited changed its name to Manufacturers Sigma Merchant Bank Limited consequent on its acquisition of Sigma Unit Trust Managers Limited and the assets and liabilities of Sigma Investment Managers Limited.

iv) Effective 11 December 2001, Trafalgar Commercial Bank Limited, was renamed, First Global Bank Limited.

v) Additionally, there was a proposal to amalgamate selected areas of the Caribbean operations of Canadian Imperial Bank of Commerce (CIBC) and Barclays Bank Plc. (Barclays) was put forward in 2001. This proposal is currently being assessed by Caribbean regional regulators who will make a final recommendation on its acceptability once the regulatory issues[8] arising are satisfactorily addressed.

Building Societies

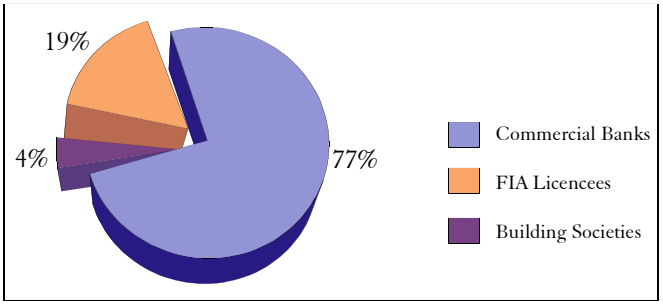
The number of building societies fell from 5 to 4 as the book of business of The Jamaica Savings and Loan Building Society was transferred to Jamaica National Building Society in June 2001.

[6]An amalgamation of several FINSAC intervened entities.

[7]Financial Sector Adjustment Company

[8]These include, but are not limited to, branding, capital adequacy, large exposures and liquidity.

Chart 4: Sub-Sector Deposit Market Share 2001



System Review

System Highlights

For the reporting period, the supervised banking system[9] experienced improvements in key performance indicators as all three sub-sectors exhibited growth in assets, deposits, loans and capital base. Consolidated past due loans (PDLS) 3 months & over, declined from $5.6 billion to $4.7 billion, with only the building societies sub-sector showing marginal deterioration in this area. The system's main asset quality indicator[10] improved, moving to 6.8 per cent from 9.6 per cent (1999 - 12.8 per cent), well within the prudential benchmark of 10 per cent. Satisfactory cash reserve and liquidity levels were maintained within the system, as were profit margins which increased from 16.1 per cent to 16.9 per cent.

Combined assets for the system (net of provisions for losses and contingent liabilities) increased by 12.2 per cent (J$32.7 billion) to J$300.6 billion at the end of 2001 compared with growth of 12.1 per cent and 8.0 per cent in 2000 and 1999, respectively.

The commercial banking sector remained dominant in the market, accounting for over 78 per cent of the system's asset base at end 2001. The FIA licensees increased their share of the market to 6 per cent from 3 per cent in 2000, primarily as a result of Manufacturers Merchant Bank's[11] acquisition of the assets and liabilities of the Sigma business entities[12] during July 2001.

Growth in system assets was financed largely from deposit liabilities which increased by $16.1 billion or 8.5 per cent in 2001. This increased in funds along with borrowings was applied mainly to new advances, an increase in placements with overseas financial institutions and Central Bank deposits.

During the year, the Government converted the system's entire stock of FINSAC securities to Government of Jamaica securities, primarily Local Registered Stocks. Governments securities thus continued to represent the most significant assets held by these institutions accounting for 47.8 per cent in 2001 compared to 50.3 per cent in 2000. The other main categories of assets were cash and bank placements (22.9 per cent) and loans net of provision (21.2 per cent).

Total combined assets of the system as a percentage of GDP declined to 100.5 per cent at the end of 2001 from 110.0 per cent as at 31 December 2000.

Asset Quality

The overall quality of loans in the system continued to improve. During 2001 PDLs had contracted by $0.9 billion (15.8 per cent) to total $4.7 billion and represented 6.8 per cent of the system's total loan stock (down from 9.6 per cent at end 2000). Notwithstanding the overall contraction in the system's ratio of PDLs to total

[9] Commercial Banks, Building Societies and Licensees under The Financial Institutions Act.

[10] Ratio of PDLs 3 months and over to Total Loans

[11] Entity renamed Manufacturers Sigma Merchant Bank.

[12] Sigma Unit Trust Managers Limited and Sigma Investment Management Systems.

Table 27

TOP TEN PERFORMERS FOR 2001	Open	Close	Change
	(J$)	(J$)	(%)
Other Services			
Palace Amusement	13.00	75.00	476.9
Financial Services			
Life of Jamaica	0.70	2.97	324.3
Trafalgar Dev. Bank	1.75	4.55	160.0
Dehring, Bunting & Golding	2.25	7.00	166.7
First Life	4.00	7.10	77.5
Manufacturing			
Salada	6.00	19.00	216.7
Desnoes & Geddes	2.88	5.99	107.9
Goodyear	5.50	9.20	67.3
Communications			
Radio Jamaica	0.73	1.45	98.6
Tourism			
Mo. Freeport	0.24	0.42	75.0

loans, 6 licensees, compared with 9 in 2000, had arrears in excess of the prudential benchmark of 10 per cent. Of the 6 institution, however, 5 reported improved positions in 2001.

The system-wide contraction in PDLs occasioned a $768 million or 11.7 per cent reduction in provisioning levels which totaled $5.8 billion at 31 December 2001. Despite this reduction, provision continued to offer excess coverage, 122.5 per cent (116.8 per cent in 2000), against potential losses, based on the system's total PDLs.

Liquidity

During the period under review, both the statutory cash reserve and liquid assets ratios (domestic and foreign) were reduced by 300 basis points to 10 per cent and 28 per cent, respectively. Building societies, meeting the 40 per cent qualifying assets threshold were assessed at the lower 1 per cent and 5 per cent ratios, respectively. As a consequence, the system held a lower domestic cash reserve position of 8.1 per cent compared to 10.3 per cent at the end of 2000.

Notwithstanding the above, 5 institutions recorded instances of cash reserve breaches during the year and the relevant penalties were imposed. The system recorded a domestic liquid asset ratio of 41.7 per cent for December 2001, 41.2 per cent in December 2000.

Capital

The system's capital position remained adequate at $27.1 billion. This represented capital base positions of $19.9 billion for commercial banks, $2.6 billion for FIA's and $4.5 billion for building societies. The primary ratio, capital base to total assets, with a benchmark minimum of 6 per cent[13], was exceeded in all three sub-sectors (commercial banks 8.5 per cent, FIA licensees 15.4 per cent, building societies 9.3 per cent) resulting in a system average of 9.0 per cent. Transfers of $1.4 billion to the Retained Earnings Reserve Fund accounted for the largest incremental capital movement within the system. The system's average position represented a $2.8 billion increase over the prior year's $24.3 billion, but the growth in the statutory capital base notwithstanding, the system's primary ratio dipped by 10 basis points, as a result of a faster growth rate in system assets.

One institution was being required to inject additional capital of $57.3 million during the year to strengthen its capital position.

[13]An international standard measure used, among others, by the BOJ to assess adequacy of capital resources.

The system's deposit and borrowings to capital base ratio of 9.4: 1 and risk asset ratio of 19.4 per cent, (9.3:1 and 21.7 per cent respectively in 2000) and remained well in compliance with the statutory requirements. In relation to the deposits and borrowings to capital ratio, statutory upper limits of 25:1 and 20: 1 are in place for commercial banks and FIA licensees, respectively. A minimum requirement of 10 per cent obtains for the risk asset ratio. All institutions were in compliance with the respective ratios at year-end.

Profitability

For the calendar year ended 31 December 2001, average un-audited profit margins for the system remained positive, showing an increase from 16.1 per cent to 16.9 percent, that was due largely to an 830 basis point accretion noted in the FIA sub-sector. Significantly, a 60 basis point decline was evidenced in the profit margin for the commercial banking sub-sector. The system recorded aggregate pre tax profits of $7.2 billion for the year, with the commercial banking sub-sector generating $4.8 billion or 66.7 per cent.

Revenue flows were predominantly from investment income, which at $21.6 billion accounted for 50.5 per cent of the overall system revenue of $42.9 billion. Consistent with the balance sheet asset profile, Government securities was the major source of investment inflows. Loan interest income of $11.1 billion contributed 25.8 per cent of system revenues.

As in 2000, interest on deposit liabilities was the most significant charge against system revenues, with the $15.4 billion charge in 2001 representing 43.3 per cent of the total operating expenses of $35.6 billion. Staff expenses of $8.1 billion represented the next most significant charge against revenues. On the other hand, loan loss provisions of $427 million, were less than the prior year's allocation consistent with the lower levels of PDLs evidenced in the system.

Funds Under Management and Repurchase Agreements (Repos) for on-trading to Clients

Regulatory responsibility for the supervision of managed funds and investment management activities fall under the aegis of the Financial Services Commission (FSC), by virtue of provisions of the Securities Act. Deposit-taking financial institutions undertaking such activities for investor clients under licence issued by the FSC are required to report to the BOJ on the extent of their activities in these areas on a quarterly basis. Data submitted by commercial banks and FIA licensees as at 31 December 2001 indicated that a total of $93.4 billion (funds under management - $35.9 billion and Repos for on-trading to clients - $57.5 billion) was being held. This represented an increase of $28.4 billion (43.7 per cent) over the previous year's $65.0 billion. These funds are held principally by FIA licensees ($92.0 billion) and are reported as off-balance sheet transactions, and therefore not included in the system figures shown in Table 27.

Legislative Developments

During 2001 there were some significant developments in respect of the legislative framework for the deposit-taking financial sector. These fall under three categories:

a. Legislative Amendments
b. Approved Proposals for Amendments to Legislation
c. Further Amendments Being Pursued

Legislative Amendments

In March 2001 Section 34D of the BOJ Act was amended to allow the Bank of Jamaica to share information with the Financial Services Commission (FSC) and the Jamaica Deposit Insurance Corporation (JDIC) in keeping with the signed Memorandum of Understanding (MOU) on the establishment of the Financial Regulatory Council[14] (FRC).

[14] An intra-regulatory body comprising the Governor of the BOJ as Supervisor of Banks and Chairman of the FRC, the agency heads of the Financial Services Commission and Jamaica Deposit Insurance Corporation and the Financial Secretary.

Approved Proposals for Amendments to Legislation

The Cabinet in 2001 agreed that certain proposals be made to Parliament requiring amendments to various pieces of legislation governing deposit taking institutions. These amendments, originated from the self-assessment of Jamaica's compliance with the Basel Core Principles[15].

Included are proposals intended to:

i) Enhance the supervision of complex groups by granting to the Bank of Jamaica, such powers that are necessary to ensure that it can carry out consolidated supervision in keeping with the Basel Core Principles.
ii) Empower the Bank of Jamaica to require a deposit-taking institution to separate its banking business from its non-banking business.
iii) Transferring from the Minister to the Bank of Jamaica, the intervention power to assume temporary management of a licensee.
iv) Granting to the Bank of Jamaica, the legal and administrative powers to assess fines for particular breaches of regulatory statutes.

These proposals are now undergoing a process of consultation among relevant agencies prior to presentation of the Bills to Parliament.

Further Amendments Being Pursued

In addition to the amendments highlighted in the previous section, the Bank of Jamaica is also pursuing additional amendments to the banking legislation. This is consequent on the completion of both the self and independent assessments of Jamaica's compliance with the Basel Core Principles, as well as, earlier recognition of gaps in the banking legislation. They include, but are not limited to, matters relating to:

i) Empowering the Bank of Jamaica with the authority to issue Regulations, as currently exists for the Financial Securities Commission under the Financial Services Act, or alternatively, legally imposing on licensees, an obligation to conduct their activities in accordance with Prudential Guidelines and Standards of Best Practice issued by the Bank of Jamaica[16] .
ii) The amalgamation of the Banking Act, Financial Institutions Act and Building Societies Act/Regulations into an omnibus statute governing commercial banks, merchant banks and building societies.
iii) The transfer of the powers and responsibilities of a technical nature from the Minister of Finance to the Bank of Jamaica[17]. This now requires BOJ assessment and recommendation. For example, approval of institutions which may accept money at call or short notice, determine other assets which qualify as liquid assets, etc.

Subsidiary Legislation (Regulations)

In addition to the Credit Classification, Provisioning and Non-Accrual Requirements Regulations and Capital Adequacy Regulations, the enactment of three other pieces of subsidiary legislation is being pursued. These are:

i) Regulations relating to the auditors of deposit taking institutions[18] ;
ii) Regulations that will govern the activities and supervision of credit unions (see Section 4); and
iii) Regulations to introduce the collection of licensing fees for merchant banks and to revamp existing Regulations for commercial banks and building societies so as to ensure equity across all three sectors as well as consistency in the calculation and payment of fees.

[15] The recommendations coming out of the self-assessment of compliance with the Basel Core Principles for Effective Banking Supervision were supported by the independent assessment of compliance conducted by an IMF led team of supervisory experts in April 2001.

[16] Persistent breach or serious breaches of such guidelines or standards will constitute unsafe and unsound practice, which will, in turn, trigger regulatory action.

[17] It is however not intended that the power to issue and revoke licences will be transferred from the Minister to the Bank of Jamaica.

[18] Specifying the qualifying standards for auditors undertaking external audits of a supervised deposit taking financial institution. Dialogue with the accountancy and auditing profession expected to be completed early 2002 following which the legal enactment process will commence.

Policy Development

The Bank of Jamaica pursued several policy initiatives with respect to supervision of financial institutions during 2001. These include matters relating to:

i) Changes to the framework for the supervision and regulation of deposit-taking financial institutions arising from the 2000 self-assessment of compliance with the Basel Core Principles[19] . Among the resulting initiatives was the commissioning of an independent assessment of compliance with the Core Principles.
ii) Additional recommendations for changes to the regulatory framework emanating from the independent assessment of the implementation of the Basel Core Principles.
iii) Cooperation with the Financial Services Commission and the Jamaica Deposit Insurance Corporation through the Financial Regulatory Council.

Basel Core Principles

In 2000 the Bank of Jamaica conducted a self-assessment of Jamaica's compliance with the Basel Core Principles. Consequent on this self-assessment, the Bank developed an action plan to address identified areas for strengthening and other issues, including the need for an independent assessment of the Bank's findings.

An independent assessment was conducted in April 2001 by an IMF led team of international supervision experts (final report issued August 2001). The findings of the team largely validated the Central Bank's earlier self assessment with differences mainly in the areas where the Central Bank had assessed a lower rating for the country. The recommendations of the team formed the basis of some of the major policy initiatives of the Bank that commenced in 2001 and which will be continuing during 2002.

Major Policy Initiatives

Among the specific initiatives pursued during 2001 were:

a. Development of the legal and regulatory framework in consolidated supervision, as well as formalization and enhancement of the approach to market risk supervision.
b. The thrust towards the separation of funds management activities from deposit taking activities within licensees by way of establishment of a separate legal entity. Strict separation of proprietary trading activities from traditional banking activities will also be required once certain minimum conditions exist.
c. Thrust towards the issuance of a Standard of Best Practice and guidelines on Country and Transfer Risk.

Consolidated Supervision

Legal provisions that would enable the Bank of Jamaica to obtain information from a supervised deposit taking financial institution as well as relevant information from members of a group of companies of which it is a member, in relation to the supervision of its activities, have already been drafted and included in proposals to go before Parliament in the legislative term ending 31 March 2002. The provisions also extend to the setting of capital charges and imposing limits in relation to the overall banking activities conducted with members of a group on a consolidated basis. It is also proposed that the Bank of Jamaica will be empowered to require the restructuring of a group and the formation of a separate financial holding company to allow for greater transparency.

A Standard of Best Practice on Conglomerate Risk Management is also now being developed for issuance to the industry.

Market Risk Supervision

A regulatory framework to govern the supervision of market risk, including specific additions to the existing on-site examination programme and the

[19]The twenty-five principles for Effective Banking Supervision that have become the most important global standard for prudential regulation and supervision

prudential reporting regime is currently being developed for full implementation during the second half of 2002. This will see increased focus of the Bank of Jamaica on market risk factors, including, interest rate risk, foreign exchange risk and price risk (including both equity position risk and commodities position risk). More precisely, the new regime will require a trading book/banking book split as well as greater focus on specific qualitative (e.g. operational arrangements) and quantitative (e.g. capital adequacy calculations) issues related to market risk.
A standard of Best Practice on Derivatives Risk Management has been drafted for issuance to the industry during 2002.

Separation of Funds Management from Deposit Taking

A close examination of the activities of a number of licensed deposit taking institutions reflects a trend which has persisted over a number of years whereby merchant banks in particular have been focusing increasingly on off-balance sheet activities, including managed funds operations, rather than on traditional deposit taking business. This trend, which has persisted over a number of years, has resulted in managed funds and other securities dealing activities becoming the predominant business of a significant number of deposit-taking licensees.

Given the differences in the risk profile of funds management and banking, as well as the opportunities for co-mingling of both types of business with consequent potential threats to depositors' funds, the Bank of Jamaica has taken the view that their legal separation is now required. This is in keeping with international best practice and is considered necessary as the Central Bank has concerns that its previous directives to the industry for the operational separation of these activities have not been adequately complied with by all licensees.

The separation is also considered necessary to prevent the co-mingling of on-balance sheet deposit-taking business with funds management activities and the liquidity and other risks associated with such co-mingling as well as to allow for clear demarcations in supervisory responsibility of the Bank of Jamaica and the Financial Services Commission.

Financial Regulatory Council

The "Financial Regulatory Council" (the Council) was established in 2000 with the mandate to develop policies and strategies to facilitate greater co-ordination and information sharing between the various supervisory agencies operating in the Jamaican financial sector. The Council is chaired by the Supervisor of Banks (Central Bank Governor) and its members comprise the Executive Director of the Financial Services Commission, the Executive Director of the Jamaica Deposit Insurance Corporation and the Financial Secretary. The conduct of the Council is guided by a Memorandum of Understanding (MOU), signed by each member, that addresses issues including, inter alia, information sharing, lead regulator and the conduct of coordinated examinations for dually licensed entities.

The Council met on six (6) occasions during 2001 and discussed issues related to institutions licensed or operating under statutes administered by the Bank of Jamaica, the Financial Services Commission and the Jamaica Deposit Insurance Corporation.

Prudential Developments

During 2001, the Bank undertook several initiatives aimed at enhancing the framework and methodologies utilized in the conduct of supervisory activities. These included:

i. Continuation of the process to further develop on-site and off-site supervision methodologies, including the development of standards to govern consolidated supervision and the formalization of standards and policies governing market risk supervision.
ii. Continuation of the process to develop the framework, policies and methodologies for the conduct of onsite and offsite supervision of credit unions.

iii. Commencing the revision of the Comprehensive Financial Returns (CFR) used to capture data submitted by licensees, including the implementation of a specific reporting regime in respect of consolidated and market risk supervision.
iv. Commencing the process of re-engineering the systems used by the Bank of Jamaica to collect, validate, analyse and report on data submitted by commercial banks and other deposit-taking intermediaries.
v. Enhancing forecasting and scenario testing capabilities to further strengthen the Bank of Jamaica's ability to anticipate problems in individual entities and the overall system.

Performance Targets

The programme of quarterly performance targets which commenced in 1999 continued in 2001. This programme, which is aimed at ensuring that all supervised entities maintain certain minimum prudential and regulatory standards consistent with international norms, involves the setting of quarterly targets in certain key operational areas[20] .

A key feature of this programme is that where institutions operate above the required industry minimum standards, their respective managements are requested to maintain these higher standards in order to preserve the financial soundness and integrity of their operations unless legitimate business opportunities require otherwise[21] .

Money Laundering

Money laundering continues to be at the forefront of issues impacting the conduct of financial business globally. Consequently, in keeping with its statutory responsibilities, the Bank of Jamaica, as part of its normal supervisory functions[22] reviews licensees' policies, procedures and controls relating to money laundering prevention and detection. Reviews are guided by specific internally developed supervisory guidelines and a comprehensive examination worksheet that take account of statute and internationally recognized anti-money laundering standards and methodology.

The Bank of Jamaica recognizes that the financing of terrorism[23] potentially threatens all countries and the integrity and stability of financial systems. In keeping with United Nations Security Council Resolution 1373 the Central Bank is actively participating in national efforts to ensure that Jamaican financial intermediaries are not being used as conduits for the funding of terrorist groups[24]. As is the norm, the Central Bank will also be amending the existing Anti-Money Laundering Guidelines to the deposit taking financial sector to incorporate any new measures required by legislative changes or recommended by the Financial Action Task Force (FATF) and the Caribbean Financial Action Task Force (CFATF) of which Jamaica is an active member.

Developments in Banking Practice

Electronic Banking Services

As in most other jurisdictions, technology has had a significant impact on the conduct of deposit taking and other financial business in Jamaica. Accordingly, the local payment system continues to be transformed from a predominantly paper based manual environment to an increasingly electronic and paperless one.

[20]These include capital adequacy in relation to risk management, asset quality, earnings and liquidity.

[21]Provided that the minimum industry standards are not violated.

[22]Specific anti-money laundering guidance notes were issued to licensees during 2000. These represent minimum standard requirements necessary to give effect to the provisions of the anti-money laundering legislation.

[23]Processing or participating in the processing of property from any source that is used to finance terrorism.

[24]This includes the work of the National Money Laundering Committee currently engaged in developing a framework to ensure compliance with the terms of Security Council Resolution 1373 and other international conventions on terrorism, including making recommendations as to necessary changes to law.

The Bank of Jamaica monitors these developments both on an individual institution and a system wide basis[25], with particular reference to their risk potential and how they are managed. In discharging oversight responsibility in this area, the Bank is mindful of the need not to stifle innovation and competition within the industry while ensuring that licensees exercise prudence in managing and controlling the risks, the ultimate objective being to safeguard depositors' funds. In this regard, all licensees are required to advise the Supervisory Authority of, and obtain supervisory sign-off on, all significant electronic money and banking activities prior to implementation.

Regional and International Cooperation

The Bank of Jamaica continues to play a pivotal role in initiatives to execute and maintain high quality banking supervision at the Caribbean region as well as at the wider Latin American Levels. This is undertaken primarily through membership in two regional bodies:

i. The Caribbean Group of Banking Supervisors (CGBS)[26].
ii. The Association of Bank Supervisors of the Americas (ASBA) where the Bank of Jamaica is an associate member[27].

The Central Bank additionally serves as a principal contact for Jamaica of the CFATF[28].

During 2001 the BOJ continued its close association with the Basel Committee on banking supervision.

Outlook for 2002

During 2002, the Bank will focus on, the following supervisory issues, discussed elsewhere in this report:

i. Vigorously pursuing the enhancements to the legislative framework which commenced in 2001.
ii. Formal promulgation of secondary legislation on capital adequacy; credit classification, provision and non-accrual requirements; supervision of credit unions; qualification of auditors and licence fees.
iii. Implementation of the regulatory/operational framework for the supervision of credit unions.
iv. Completion and implementation of the regulatory/operational framework for facilitating consolidated supervision and market risk assessments.
v. Enhancements to the existing early warnings system through further revision of the Comprehensive Financial Returns (CFRs) to, inter alia, accommodate consolidated supervision and market risk reporting; improvements in technology and focused training on early problem detection and offsite monitoring.
vi. Further refining/revamping of existing onsite examination procedures, examiners' manual and working papers.
vii. Formally issuing Standards of Best Practice on Risk Management, Conglomerate Risk Management, Derivatives Risk Management and Country and Transfer Risk.
viii. Tightening corporate governance and risk management standards of licensees and encouraging greater market discipline.
ix. Preparing licensees and supervisory staff to deal with more complex risk and modern risk management methods as well as impending international risk management and supervisory standards such as the New Basel Capital Framework.

[25]For example, the BOJ conducts detailed surveys on electronic money and electronic banking developments at least twice per year.

[26]The CGBS comprise the banking supervisory authorities of 14 Caricom jurisdictions.

[27]Representative body of banking supervisors from North America, South America, Latin America and the Caribbean.

[28]An organization of 25 states of the Caribbean Basin which have agreed to implement common countermeasures to address the problem of criminal money laundering.

Table 28

ANNUAL PRUDENTIAL INDICATORS OF COMMERCIAL BANKS LICENSEES UNDER THE FINANCIAL INSTITUTIONS ACT (FIA) AND BUILDING SOCIETIES

	COMMERCIAL BANKS			FIA LICENSEES			BUILDING SOCIETIES			SYSTEM TOTAL (CONSOLIDATION OF ALL 3 SECTORS)		
Overall Structure	**Dec-99 [a]**	**Dec-00 [a]**	**Dec -01**	**Dec-99 [a]**	**Dec-00 [b]**	**Dec -01**	**Dec-99 [c]**	**Dec-00**	**Dec -01[d]**	**Dec-99 [a]**	**Dec-00**	**Dec -01**
Number of institutions in operation	6	6	6	14	11	11	5	5	4	25	22	21
J$MN												
[1]Total Assets **(incl. contingent liabilities)**	194,957	222,104	239,819	12,008	9,194	18,565	39,838	43,122	49,115	246,803	274,420	307,499
[2]Total Assets **(excl. contingent liabilities)**	188,278	216,457	234,628	10,803	8,326	16,898	39,838	43,122	49,069	238,919	267,905	300,595
Total Deposits	126,814	149,667	158,918	4,938	3,966	7,290	32,577	35,196	38,701	164,329	188,829	204,909
Total Loans (gross)	36,719	40,574	49,035	2,909	2,650	3,026	14,677	15,571	17,526	54,305	58,795	69,587
Total Loans (net of prov.)	32,192	35,319	44,576	2,545	2,491	2,850	14,072	14,422	16,368	48,809	52,232	63,794
Past Due Loans [PDL] (3 Mths &>)	5,131	3,849	2,982	577	198	160	1,232	1,572	1,590	6,940	5,619	4,732
Provision For Loan Losses	4,527	5,255	4,460	364	158	177	605	1,150	1,158	5,496	6,563	5,795
Investments [incl. Secs. Purchased] (net of prov.)	89,357	110,280	110,295	3,100	2,991	9,490	18,586	21,373	23,983	111,043	134,644	143,768
[3]Capital Base	14,742	18,183	19,945	3,620	2,014	2,609	3,300	4,136	4,546	21,662	24,333	27,100
Contingent Liabilities [Acceptances.LC's & Guarantees]	6,679	5,647	5,191	1,205	868	1,667	0	0	46	7,884	6,515	6,904
Funds Under Management	50	50	45	18,505	23,361	35,814	0	0	0	18,555	23,411	35,859
Repos on behalf of or for on-trading to clients	446	693	1,360	34,391	40,904	56,190	0	0	0	34,837	41,597	57,550
%												
[2]Rate of Asset Growth	14.1%	15.0%	8.4%	-8.6%	-22.9%	103.0%	-10.1%	8.2%	13.8%	8.0%	12.1%	12.2%
Rate of Deposit Growth	11.2%	18.0%	6.2%	-14.3%	-19.7%	83.8%	-5.7%	8.0%	10.0%	6.4%	14.9%	8.5%
Rate of Loan Growth (gross)	-14.8%	10.5%	20.9%	-5.1%	-8.9%	14.2%	-6.9%	6.1%	12.6%	-12.3%	8.3%	18.4%
Rate of Capital Base Growth	182.5%	23.3%	9.7%	51.8%	-44.4%	29.5%	121.0%	25.3%	9.9%	138.1%	12.3%	11.4%
Rate of PDL (3 Mths &>) Growth	-53.6%	-25.0%	-22.5%	-49.4%	-65.7%	-19.2%	-37.4%	27.6%	1.1%	-51.0%	-19.0%	-15.8%
Investments:Total Assets [2]	47.5%	50.9%	47.0%	28.7%	35.9%	56.2%	46.7%	49.6%	48.9%	46.5%	50.3%	47.8%
Fixed Assets:Total Assets [2]	2.5%	2.2%	2.0%	2.7%	3.2%	1.3%	3.0%	2.8%	2.5%	2.6%	2.3%	2.1%
Loans (net of prov.):Total Assets [2]	17.1%	16.3%	19.0%	23.6%	29.9%	16.9%	35.3%	33.4%	33.4%	20.4%	19.5%	21.2%
Loans (gross) : Deposits	29.0%	27.1%	30.9%	58.9%	66.8%	41.5%	45.1%	44.2%	45.3%	33.0%	31.1%	34.0%
Liquidity												
Average Domestic Currency Cash Reserve : Average Prescribed Liabilities [4]	15.8%	13.0%	10.0%	16.5%	13.0%	11.1%	1.0%	1.0%	1.0%	12.6%	10.3%	8.1%
Average Domestic Currency Liquid Assets: Average Prescribed Liabilities [4]	48.3%	45.6%	43.6%	58.9%	84.3%	128.1%	19.2%	23.9%	26.3%	42.1%	41.2%	41.7%
Asset Quality												
Prov. For Loan Losses:Total Loans (gross)	12.3%	13.0%	9.1%	12.5%	6.0%	5.8%	4.1%	7.4%	6.6%	10.1%	11.2%	8.3%
Prov. For Loan Losses:PDL (3 Mths &>)	88.2%	136.5%	149.6%	63.1%	79.8%	110.6%	49.1%	73.2%	72.8%	79.2%	116.8%	122.5%
PDL (3 Mths &>):Total Loans (gross)	14.0%	9.5%	6.1%	19.8%	7.5%	5.3%	8.4%	10.1%	9.1%	12.8%	9.6%	6.8%
PDL (3 Mths &>): (Total Assets [2] + Provision For Loan Losses)	2.7%	1.7%	1.2%	5.2%	2.3%	0.9%	3.0%	3.6%	3.2%	2.8%	2.0%	1.5%
Capital Adequacy												
Deposits+Borrowings.:Capital Base (:1)	11.0	10.1	10.0	1.6	2.4	4.7	10.5	9.0	9.2	9.3	9.3	9.4
Capital Base:Total Assets [2]	7.8%	8.4%	8.5%	33.5%	24.2%	15.4%	8.3%	9.6%	9.3%	9.1%	9.1%	9.0%
[5]Risk Asset Ratio [RAR] (estimated)	18.5%	21.9%	19.7%	49.8%	37.9%	29.0%	13.4%	16.7%	14.6%	19.8%	21.7%	19.4%
PDL (3 Mths &>):(Capital Base + Provision For Loan Losses)	26.6%	16.4%	12.2%	14.5%	9.1%	5.7%	31.5%	29.7%	27.9%	25.6%	18.2%	14.4%
Profitability												
[6]Pre-Tax Profit Margin (for the calendar year.)	7.4%	15.5%	14.9%	24.2%	30.2%	38.5%	12.0%	13.5%	16.2%	9.7%	16.1%	16.9%
Return on Average Assets (for the calendar year.)	1.3%	2.6%	2.1%	8.6%	10.6%	9.7%	2.2%	2.4%	2.6%	1.8%	2.8%	2.5%
[7]Income Assets/Expense Liabilities (as at 31 Dec.)	89.1%	97.4%	99.8%	128.2%	137.5%	104.6%	101.1%	100.4%	103.0%	92.2%	98.8%	100.6%

Notes:

- Based on unaudited data submitted to BOJ by supervised institutions up to 12 March 2002. Prior years indicators may have minor revisions arising from post publication amendments.
- Aggregated system balances reflect the domestic operations of supervised institutions and do not include balances in respect of overseas branch operations.

a - Reduction in loans and past due loans in 1999/2000 resulted largely from the purchase of non performing loans by FINSAC.
Additionally, the significant increase in statutory capital base during 1999 was due to the merger of selected FINSAC intervened entities resulting in the transfer of only selected assets and liabilities of specific institutions. Consequently, the capital impairment amassed by these particular FINSAC intervened entities up to March 1999 is excluded from statutory capital base.

b - Negative growth trends reported in respect of licensees under the Financial Institutions Act (FIA) (for the review period 1999/2000) were due to Eagle Merchant Bank and NCB Trust and Merchant Bank exiting the FIA sub-system in January 2000.

c - Significant improvement in the statutory capital base of building societies reflected in 1999 data was influenced by the exclusion of the capital impairment amassed by the FINSAC intervened societies (Eagle Permanent Building Society, Capital Assurance Building Society and Citizens Building Society) which merged into one and ceased operations at the end of September 1999.

d - Effective 12 June 2001, Jamaica Savings & Loans Building Society (JSLB) merged its operation with Jamaica National Building Society (JNBS), thereby reducing the total number of societies in operation to four (4).

1 Total Assets include Contingent Liabilities and net of Provisions for Losses.
2 Total Assets net of Contingent Liabilities and Provisions for Losses.
3 Capital Base = (Paid - up Capital + Reserve Fund + Retained Earnings Reserve Fund + Share Premium) minus impairment by net losses of individual institutions (Banks/ FIAs).
= (Permanent Capital Fund + Deferred Shares + Capital Shares + Reserve Fund + Retained Earnings Reserved Fund) minus impairment by net losses of individual societies (Building Societies).
4 Prescribed Liabilities include:
(1) deposit liabilities, (2) reservable borrowings and interest accrued and payable on (1) & (2).
5 Capital Base used in the estimated Risk Asset Ratio (RAR) computation excludes investments in subsidiaries.
Risk based capital ratio: Qualifying Capital in relation to risk weighted assets.
6 Data includes extraordinary income/expenditure and adjustments for prior period.
7 Income Assets comprise FC Cash Reserves, Placements, Investments, Repo Assets and Loans less Past Due Loans (3 months & over).
Expense Liabilities comprise Deposits and Borrowings including Repo Liabilities (from BOJ, Banks, OFI etc).

Statutory reserve requirements :

	Commercial Banks			FIA Licencees			Building Societies		
	Dec-99	**Dec-00**	**Dec-01**	**Dec-99**	**Dec-00**	**Dec-01**	**Dec-99**	**Dec-00**	**Dec-01**
Required Cash Reserve ratio	16.0%	13.0%	10.0%	16.0%	13.0%	10.0%	1% / 16%	1% / 13%	1% / 10%
Required Liquid Assets ratio (incl Cash Reserve)	34.0%	31.0%	28.0%	34.0%	31.0%	28.0%	5% / 34%	5% / 31%	5% / 28%

* The requirements are differentially applied to societies not meeting the prescribed threshold of residential mortgage lending in relation to savings funds.
Societies that meet the prescribed 'qualifying assets' threshold attract lower reserve requirements indicated above. Societies which do not, are requested to meet the requirements which apply to banks and FIA licensees.

Table 29

ASSESSMENT OF PERFORMANCE OF SUPERVISED INSTITUTIONS AGAINST PRUDENTIAL TARGETS
(Commercial Banks, Building Societies, FIA Licensees)

	International Benchmark	Jamaican Prudential Benchmark	Dec-01		Dec-00	
			Actual	Variance	Actual	Variance
Risk Assets Ratio (RAR)	8.00%	> 10.00%	19.4%	9.4%	21.7%	11.7%
Capital Base:Total Assets	6.00%	> 6.00%	9.0%	3.0%	9.1%	3.1%
PDL: Capital Base + Prov.	n/a	< 20.00%	14.4%	5.6%	18.2%	1.8%
PDL: Total Loans	10.00%	< 10.00%	6.8%	3.2%	9.6%	0.4%
Prov. For Loan Losses: PDL *	-	-	122.5%	-	116.8%	-
Prov. For Loan Losses: Total Loans *	-	-	8.3%	-	11.2%	-
Income Assets:Expense Liabilites	n/a	> 100.00%	100.6%	0.6%	98.8%	-1.2%
Return on Average Assets **	n/a	> 0.60%	2.5%	1.9%	2.8%	2.2%

Notes:

i. Actual ratio results generated from unaudited prudential data submitted by supervised institutions.
ii. Capital Base = Paid-up Capital + Reserve Fund + Retained Earnings Fund+ Share Premium less impairment by net losses of individual institutions.
iii. Capital used in the estimated RAR computation represents capital base less investment in subsidiaries.
iv. PDL - Past Due Loans
v. Income Assets comprise FC Cash Reserves, Placements, Investments, Repo Assets and Loans less PDL (3mths & over).
vi. Expense Liabilities comprise Deposits, Borrowings including Repo liabilities (from BOJ, Banks, OFI etc)
vii. Variance = Actual - Prudential Benchmark
viii. n/a - not applicable - no industry benchmark set internationally.
* No industry prudential benchmark set. Targets established based on requirements for provision in each case.
** The range of acceptable performance for this ratio varies with, inter -alia, the size of the institution, national and regional economic factors. The minimum acceptable level for most institutions is 0.6%.

5. The Jamaica Stock Exchange

There have been notable improvements in the management and infrastructure of the Jamaica Stock Exchange (JSE) since 1997. These institutional changes have been geared towards facilitating increased market activity, as well as, the elimination of operational constraints and risks. Firstly, the Jamaica Central Securities Depositories (JCSD) was instituted to manage trade settlements and the transfer of securities, and has facilitated a significant reduction in settlement risks. Further, an electronic trading platform was installed in 1999, which replaced the open outcry system and allowed for the instantaneous capture and dissemination of trading data. This development, coupled with the implementation of remote trading system in 2000, has increased the efficiency and speed of trades on the stock market.

The enhanced operational efficiency, as well as, the gains in the index has generated strong interest in the stock market by many financial firms. Hence, in 2001 there was an expansion in the membership of the stock exchange with four new licences granted to operate stock brokerages, bringing the number of brokerage firms to ten at the end of the year. The increase in firms offering brokerage services is expected to add dynamism to the market by helping to stimulate investor interest in equity investments.

The Jamaica Stock Exchange registered strong performance for 2001, as measured by the advances in the various stock market indices. The JSE index at the end of 2001 was 33,835.6 points, an increase of 17.1 per cent relative to 28,893.2 points at the end of 2000 (See Chart 5). Similarly, the Jamaica Composite Index recorded a gain of 20.9 per cent, closing at 32,508.9 points relative to 26,894.76 points at the end of the previous year. The Jamaica Select Index recorded 1015.3 points at the end of 2001, when compared with 883.67 points at the end of 2000.

During the review year, 38 ordinary stocks and 4 preference shares were traded on the Jamaica Stock Exchange. Of the ordinary stocks traded, 25 stocks advanced, 2 traded firm and 11 declined. This compared favourably with the performance for 2000 of 19 stocks advancing, 5 trading firm and a total of 15 declining. Notably, three firms were delisted from the stock exchange for the non-reporting of audited financial accounts. One stock was delisted due to the purchase of all their outstanding shares by the new majority shareholders. There was also the listing of the Trinidad and Tobago financial conglomerate, RBTT Financial Holdings. During 2001, there were 249 trading days, an increase of 49 trading days relative to the previous year. The increase in trading days was due to the reintroduction of a five-day trading week in January 2001 to facilitate the growth in market activity.

Total trading volume in 2001 amounted to 2.85 billion shares, which compared favourably to the 694.9 million shares traded in 2000. Block transactions totalled 2.13 billion shares and accounted for 74.9 per cent of the total volume traded. This compared to block transactions of 95.1 million in 2000, which represented 13.7 per cent of the volume traded. The significant increase in block transactions was related to the purchase of all shares outstanding of a commercial bank in May 2001. There was also a 19.2 per cent increase in ordinary transactions, to 714.7 million shares from 599.8 million shares in 2000.

The total value traded in 2001 was $5.9 billion, an increase of 72.9 per cent relative to the $3.4 billion traded in the previous year. Block transactions were $2.5 billion, which showed a significant growth when compared to the outturn of $198.1 million for 2000. However, the value of ordinary transactions totalled $3.45 billion, representative of 58.0 per cent of total value traded. The market capitalisation of the JSE at the end of the review year was $222.0 billion, an increase of 38.7 per cent relative to the $160.1 billion at the end of December 2000.

Chart 5

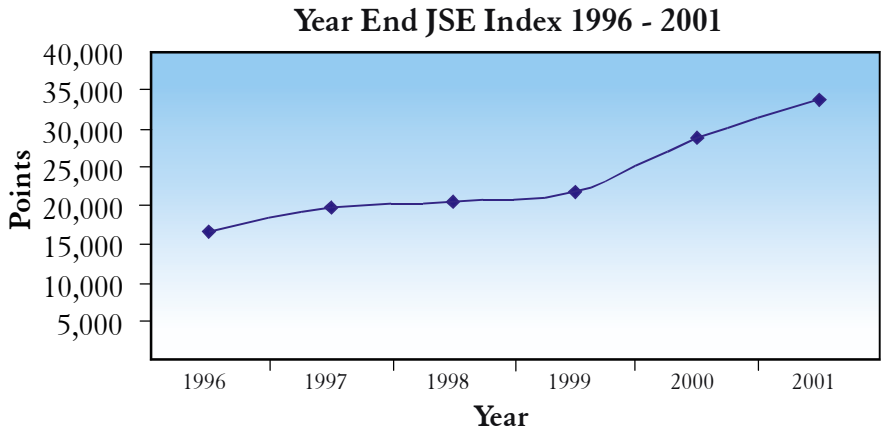


Figure II shows the share of market capitalisation by stocks traded on the JSE for the review year. The top ten stocks accounted for 86.0 per cent of the total market capitalisation and were taken from the financial, manufacturing and distribution sectors. The large percentage of market capitalisation accounted for by these stocks indicates that there is a high level of market concentration in a small number of securities. In this context, declines or increases in the price of one of these stocks can greatly influence the direction of movement in the index, despite any price gains made by other securities. Figures III and IV show the proportion of total traded value and volume by stocks, respectively. Notably, the ten largest securities by traded value account for approximately 81.3 per cent of the market value. Similarly, the top ten stocks by volume traded comprise 93.0 per cent of total volumes on the JSE for 2001.

The top performing stocks for 2001 registered price gains of between 476.9 per cent and 67.2 per cent. Table 25 shows that many listed firms from the financial, manufacturing and services sectors had strong gains in the price of their stock. This stock price appreciation was driven by the strong profit performance and the restructuring of many listed firms.

The average annual return on equity investments has exceeded the earnings from alternative investment instruments since 1999. However, it is generally noted that individual and institutional investors continue to invest heavily in Government bonds. Presently, a relatively stable macroeconomic environment, greater firm profitability, as well as, reductions in domestic interest rates has increased the attractiveness of equity investments. Further, for the stock market to become a more effective investment vehicle there must be an expansion of market liquidity and a more buoyant primary market. Notably, the creation of a regional stock market can aid in promoting greater volumes and liquidity.

Chart 6

Stocks by Market Capitalisation for 2001

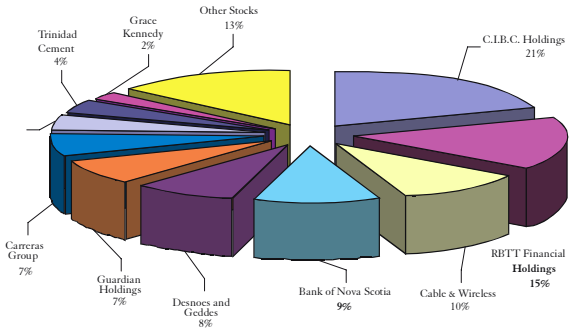


Chart 7

Stocks by Total Value Traded for 2001

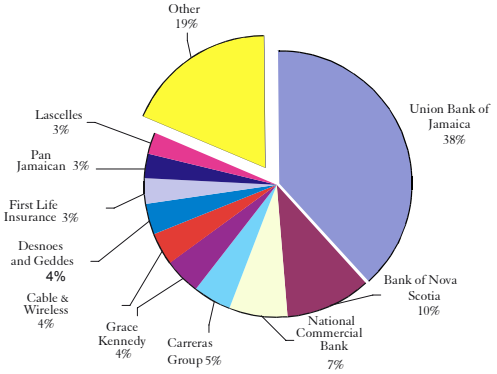
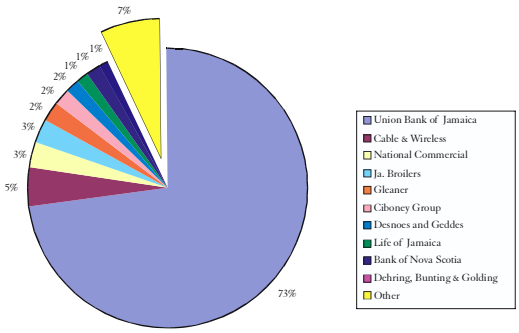


Chart 8

Stocks by Total Volume Traded for 2001



TOP TEN PERFORMERS FOR 2001

	Open (J$)	Close (J$)	Change (%)
Other Services			
Palace Amusement	13.00	75.00	476.9
Financial Services			
Life of Jamaica	0.70	2.97	324.3
Trafalgar Dev. Bank	1.75	4.55	160.0
Dehring, Bunting &	2.25	7.00	166.7
Golding	4.00	7.10	77.5
First Life			
Manufacturing			
Salada	6.00	19.00	216.7
Desnoes & Geddes	2.88	5.99	107.9
Goodyear	5.50	9.20	67.3
Communications			
Radio Jamaica	0.73	1.45	98.6
Tourism			
Mo. Freeport	0.24	0.42	75.0

6. External Sector Developments

(a) International Economic Developments

During 2001, there was a slowdown in global economic activity, following three years of accelerated growth in world output. The deceleration in output growth was influenced by a slowdown in the United States (US) economy and a simultaneous downturn across the other major economic regions of the world. The primary impetus to the weakening of global economic activity was the fallout in the technology sector beginning in 2000. In light of the strengthening of growth in international linkages, the retrenchments in the information technology sector, which originated in the US, weakened the bullish trend that had prevailed on some of the major global stock exchanges. This engendered a sharp correction in global asset prices, which contributed to a significant decline in investment income for both individual and corporate investors in all regions.

These developments, coupled with the continued structural weaknesses in the Japanese economy, a financial crisis in Argentina and the 11 September terrorist attacks on the US, had an adverse effect on consumer and business confidence, which resulted in a decline in global private demand. To counteract the potentially destabilizing effect of a protracted fall off in private demand, central banks around the world, in tandem with their fiscal partners, provided increased access to domestic liquidity. However, the implementation of those economic stimulus packages was insufficient to avert a decline in international commodity prices, arising from lower consumer spending.

Industrial Countries

Economic growth in the major industrial economies exhibited a substantial deceleration in 2001. This general lacklustre performance was occasioned by a rapid reversal of the economic buoyancy that prevailed in the US over the past decade. In light of the rapid pace of globalisation, the other major economies were, therefore, unable to provide the required stimulus to sustain the strong growth in world output, which re-emerged following the financial crisis in 1997.

For 2001, the United States economy registered a marginal increase in real Gross Domestic Product (GDP) estimated at 1.1 per cent compared with 4.1 per cent in 2000. The slowdown in growth in the US economy since the latter half of 2000 continued into the first two quarters of 2001, followed by a

Table 30

INDUSTRIAL ECONOMIES
Real GDP, Consumer Prices, Unemployment Rates and Current Account Balances
(Annual per centage change, per cent of labour force and per cent of GDP)

Country	GDP		Unemployment Rate		Inflation Rate		Current Account % of GDP	
	2000	2001	2000	2001	2000	2001	2000	2001
US	4.1	1.1	3.4	5.8	3.4	1.6	-4.5	-4.1
UK	3.1	1.9	2.1	5.1*	2.1	0.7	-1.7	-1.7
Euro area	3.5	1.5*	2.4	8.5	2.4	2.1	-0.1	0.2
Canada	4.4	1.4*	2.7	8.0	2.7	0.7	2.5	2.7
Japan	2.2	-0.4*	-0.6	5.6	-0.6	-1.2	2.5	2.0

* Estimates
Source: The Economist, The World Economic Outlook and Bloomberg Markets Report

Table 31

Selected Economic Indicators - Selected Developing Countries
Real GDP, Consumer Prices and Current Account Balances
(Annual per centage change and per cent of GDP)

Country	GDP		Inflation Rate		Current Account % of GDP	
	2000	2001	2000	2001	2000	2001
Latin America						
Argentina	-0.5	-1.4	-0.9	-1.5	-3.2	-1.9
Brazil	4.5	1.8	7.0	9.4	-4.2	-4.6
Chile	5.4	4.0	3.8	2.7	-1.4	-2.0
Columbia	2.8	2.1	9.2	7.7	-0.2	-2.5
Ecuador	2.3	5.9	96.2	37.0	5.3	-2.7
Mexico	6.9	-0.3	9.5	4.4	-3.1	-3.0
Venezuela	3.2	3.3	16.2	12.3	10.8	4.0
Caribbean						
Barbados	3.1	-2.8	2.4	3.2	-5.9	-3.8
Jamaica	0.8	2.1	6.1	8.7	-4.1	-6.2
Trinidad & Tobago	6.4	4.2	3.6	5.5	4.9	3.7
East Asia						
China	8.0	7.5	0.4	-0.3	1.9	1.0
Hong Kong	10.5	0.6	-1.3	-1.2	5.4	4.6
Indonesia	4.8	3.0	3.8	12.6	5.2	3.3
Malaysia	8.3	1.0	1.5	1.2	9.4	6.8
Philipines	4.0	3.4	4.3	3.4	12.5	4.8
Singapore	9.9	-2.2	1.3	-0.6	23.7	24.2
South Korea	8.8	3.0	2.3	3.0	2.4	2.3
Taiwan	6.0	-1.9	1.3	-1.7	2.9	5.0
Thailand	4.4	1.3	1.5	0.8	7.5	4.3

Source: The Economist, the World Economic Outlook, the Central Bank of Trinidad and Tobago and the Bloomberg Markets Report.

decline in output for the third quarter of 2001. This marked the end of a decade of continuous increase in quarterly GDP. However, it is estimated that there was a marginal increase in output in the last quarter of the year.

The deceleration in the US economic growth rate was attributable to the depreciation in stock prices, primarily in the information technology sector. This reversal in asset market gains underpinned a reduction in consumer spending which was transmitted into a contraction in the manufacturing sector and diminishing profits. Emanating from these developments was a general decline in business investments and increased redundancies, which contributed to a decline in consumer confidence and fear of a US recession.

In response to the threat of a recession, the Federal Reserve Board initiated a series of interest rate cuts in January 2001. The Federal Funds rate, which was cut eleven times, ended the year at 1.75 per cent, compared with 6.5 per cent at end December 2000. The decline in the Federal Funds rate was intended to stimulate private demand and restore business confidence. However, the effects of these rate cuts coupled with a proposed tax relief package were partially neutralized by the tragedy of 11 September. This triggered an immediate plunge in all major US and other international stock indices,

in particular stock prices in the airline and insurance industries. These events exacerbated the already fragile business and consumer sentiment, which was reflected in a decline in the Conference Board's[29] confidence index for the three months to November 2001. However, by the end of the year, there was a notable improvement in some of the leading economic indicators, in particular, a moderate rally in the major stock market indices, a pick-up in the number of housing starts and an increase in the consumer confidence index, which has continued into 2002.

For 2001, the inflation rate in the US, as measured by the change in the consumer price index (CPI), decreased to 1.6 per cent, from 3.4 per cent in 2000. This was consistent with the general sluggish performance of the economy and lower import prices. The decline in global commodity prices, in particular oil, which was occasioned mainly by the contraction in private demand, resulted in an improvement in the trade balance. This facilitated an improvement in the current account deficit to an estimated 4.1 per cent of GDP in 2001, from 4.5 per cent of GDP in 2000 (see Table 31).

In Canada, economic growth is estimated to have decelerated to 1.4 per cent in 2001, from 4.4 per cent in 2000. This slowdown was concentrated mainly in the second half of the year, as the introduction of tax cuts earlier in the year, provided a boost to consumer spending in the first two quarters. After the events of 11 September 2001, there was a decline in consumer confidence, which induced a softening in domestic demand. The immediate impact of the tragedy was a significant fall out in the major productive sectors and the travel industry. Despite the Bank Of Canada's attempt to minimise the adverse spillover effects on the Canadian economy, there was still a notable increase in the unemployment rate to 8.0 per cent in 2001, from 6.8 per cent in 2000.

In light of a reduced capacity utilisation, there was a remarkable deceleration in Canada's inflation rate to 0.7 per cent in 2001, from 2.7 per cent in 2000. This favourable inflation out turn was also engendered by a re-enforcement of the inflation targeting mechanism, which seek to smooth out the effects of fluctuations in the level of domestic private demand, through changes in the Bank's signal rate. Within the low inflation environment, the Bank lowered interest rates nine times during the year, bringing its benchmark rate to 2.25 per cent in December 2001, from 5.75 per cent in December 2000. Despite the poor performance of commodity prices, there was a further improvement in Canada's current account surplus to 2.7 per cent of GDP in 2001 compared with 2.5 per cent of GDP in 2000. This could partially be explained by the gradual weakening of the Canadian dollar against its US counterpart, its major trading partner.

The United Kingdom (UK) recorded 1.9 per cent economic growth in 2001, down from 3.1 per cent in 2000. Notwithstanding the slowdown, the British economy registered the highest growth rate among the advanced economies. This relatively positive out turn emanated from continued robust domestic demand amidst lower exports and a falloff in the manufacturing sector. The buoyancy in domestic demand was attributable to continued strong consumer and business confidence and a record low unemployment rate of 5.1 per cent in 2001, down from 5.6 per cent in 2000. The protracted decline in the unemployment rate, since 1993, was underpinned by ongoing labour market reform. Despite the tightening labour market, the inflation rate for 2001 was 0.7 per cent compared with 2.1 per cent in 2000. As observed in most other economies, the deceleration in the inflation rate was, to a large extent, attributable to a fall in world commodity prices. This created the impetus for the Bank of England to reduce its repurchase rate to 4.0 per cent at end 2001, from 6.0 per cent at end 2000.

Economic growth in the Euro area is estimated to have deteriorated to 1.5 per cent in 2001, from 3.5 per cent in 2000. This unfavourable growth estimate was exhibited in all of the economies in

[29]The Conference Board is an organization that provides economic research, analysis and forecasts to help new economy business executives assess economic conditions impacting their markets.

the region. The weakness in economic activity, which began in the latter half of 2000, intensified during 2001 as a result of the spillover effects of the events in the US. In light of the slump that ensued in the equity markets, there was a reversal of the gains in business and consumer confidence, which inhibited growth in domestic demand.

Despite the decline in economic activity in the Euro area, the unemployment rate for 2001 remained at 8.5 per cent, comparable to 2000. The absence of labour market pressures, coupled with the decreased global oil and food prices, resulted in a fall in the rate of inflation to 2.1 per cent in 2001, from 2.4 per cent in 2000. This inflation out-turn, which was only 0.1 percentage point above the benchmark rate set by the European Central Bank (ECB), provided the basis for a 150 basis point reduction in the Bank's repo rate to 3.25 per cent at end 2001. Consistent with lower import prices, there was a moderate improvement in the external accounts, as reflected by a current account surplus of 0.2 per cent of GDP in 2001, compared with a current account deficit of 0.1 per cent of GDP in 2000.

In Japan, economic output is estimated to have contracted by 0.4 per cent in 2001, compared with growth of 2.2 per cent in 2000. Underpinning the deterioration in the Japanese economy was the slowdown in the technology sector, following the remarkable depreciation of global asset prices. The simultaneous decline in real investment incomes, coupled with the slowdown in global demand, reversed the benefits of a temporary improvement in consumer spending that obtained in the first quarter of 2001.

Despite the relatively low interest rates that prevailed during the year, the slow pace of structural reform in the banking sector, which threatened the credit ratings of a number of Japanese banks, contributed to lower corporate and consumer confidence. The weakness in corporate and consumer confidence provided the basis for a further weakening of the yen during the year. These negative developments, which undermined the monetary and fiscal stimuli pursued from the previous year, translated into higher unemployment and a continuation of the deflationary trend. Constrained by lower exports, there was also a decline in the current account surplus to 2.0 per cent of GDP in 2001, from 2.5 per cent of GDP in 2000.

Emerging Market Economies

The rate of growth in emerging market economies decelerated during 2001. It is estimated that output in these economies as a whole increased by 4.3 per cent in 2001, compared with 5.8 per cent in 2000. While all the regions in this group are estimated to have experienced reduced economic growth, the weakest performances were in the Latin American and Caribbean region.

Economic activity in the Latin American and Caribbean region is estimated to have increased by 1.7 per cent in 2001, compared with 4.2 per cent in 2000. This outturn ensued from falling investor confidence arising from the financial difficulties that developed in Argentina and also the slowdown in global economic activity. In that regard, there was a notable widening of spreads on emerging market bonds in comparison to US treasury bills, accompanied by a reduction in the volume of portfolio flows to the region.

In Brazil, economic growth of 1.8 per cent in 2001 was below the 4.5 per cent recorded in 2000. The main challenges that faced the Brazilian economy during 2001 were an electricity shortage, which is estimated to have reduced the country's GDP growth rate for the year by two percentage points. Among the other drawbacks were the effects of the crisis in Argentina and the slowdown in the United States, one of its major trade partners. Against this background, there was a decline in investor confidence, which led to portfolio outflows in search of more favourable economic conditions. This induced a substantial depreciation of the real and acceleration in the inflation rate to 9.4 per cent in 2001, from 7.0 per cent in 2000.

It is estimated that the Mexican economy declined by 0.3 per cent in 2001, compared with growth of

6.9 per cent in 2000. This sharp contraction was attributable primarily to weak demand for exports, occasioned by the reduced buoyancy of its partners in the North American Free Trade Agreement (NAFTA) and the decline in oil prices. The fall in export earnings was translated into reduced domestic demand, which contributed to a contraction in the inflation rate to 4.4 per cent in 2001, from 9.5 per cent in 2000.

Economic growth in the other major economies in Latin America is estimated to have ranged from negative 1.4 per cent to 5.9 per cent in 2001, compared with a range from negative 0.5 per cent to 5.4 per cent in 2000 (see Table 31). This economic outturn was ascribable primarily to the slackening global demand and the fallout in Argentina, the contagion effects of which were tempered by the positive performance of economic activity in Ecuador. The economic situation in Argentina deteriorated sharply in the summer of 2001, amidst expectations of a default on its foreign debt obligations, which triggered massive capital outflows and pressures for the abandonment of the peso's peg to the US dollar. In an attempt to mitigate against contagion in the region, the International Monetary Fund (IMF) provided Argentina with additional monetary assistance in early September 2001. Ecuador's economic fortunes reflected the continued implementation of structural reform and fiscal stabilization measures, in tandem with increased reliance on foreign investment. These measures helped to facilitate a notable decline in the inflation rate for Ecuador to 37.0 per cent in 2001, from 96.2 per cent in 2000.

The major economies in the Caribbean sub-region were adversely affected by the slowdown in the global economy during 2001. The main areas of weakness were in the tourism and travel sectors, remittances and also the downturn in commodity prices. Arising from these developments, a number of economies reported increased reliance on external financing, in particular, from the multilateral lending institutions. In Trinidad and Tobago, provisional data indicate that the economy expanded by 4.2 per cent in 2001, compared with 6.4 per cent in 2000. This lower growth rate was attributable mainly to a falloff in oil revenues arising from reduced oil prices during the year. Increased profitability in the natural gas and services sectors, which moderated the shortfall in energy revenues, contributed to higher domestic consumer spending. The growth in domestic consumer demand was translated into an increase in the inflation rate to 5.5 per cent in 2001, from 3.6 per cent in 2000. The Barbadian economy is estimated to have contracted by 2.8 per cent in 2001, compared with growth of 3.1 per cent in 2000. This marked the end of eight consecutive years of economic growth. The falloff in tourism revenues was the primary source of economic decline in Barbados. For 2001, the inflation rate for Barbados was 3.2 per cent, up from 2.4 per cent in 2000.

For East Asia, it is estimated that the annual economic growth rates ranged from negative 2.2 per cent to 7.5 per cent in 2001, compared with a range of 4.0 per cent to 10.5 per cent in 2000 (see Table 31). The performance of these economies is ascribable to the uncertainties that permeated the global economy during 2001. Of primary concern was the deceleration in the US economy, which is a very important export market for these countries and the political uncertainty in the region, in particular, Indonesia. Export earnings were also adversely affected by the depreciation of the yen vis-à-vis the major currencies in the region. In addition, the global market for electronic products, the region's main export, became subject to greater uncertainty amidst more intense competition and shorter product cycles. The lower inflation outturn for the region reflected the deceleration in the growth in consumer spending (see Table 31).

Commodity Markets

Consistent with slackening global demand, there was a further decline in international commodity prices during 2001. Accordingly, the US Dollar all items index indicated a 7.6 per cent reduction in commodity prices for 2001. Although all commodity groupings experienced declining prices during the year, the most pronounced contraction was registered in the oil market.

Based on the West Texas Intermediate indicator, the price of oil fell to US$20.59 per barrel at the end of 2001, from US$25.70 per barrel at the end of 2000. While demand conditions had an adverse effect on oil prices, the volatility in the market reflected on-going uncertainty in the Organisation of Petroleum Exporting Countries' (OPECs) ability to garner enough support from non-members to honour an agreed production cut. The cut in oil production was aimed at supporting declining revenues in oil exporting countries.

The price of base metals fell by an approximate 11.7 per cent in 2001, also reflective of the decelerated pace of global economic activity. Of particular interest was a marked reduction in aluminium spot prices, which declined to US$1335.0 per tonne at end 2001, from US$1567.5 per tonne at end 2000. This can be explained by a noticeable contraction in the aerospace and automobile industries, which are major consumers of this product.

International food prices declined in 2001 as reflected in a 5.2 per cent reduction in the US-based food index, reflective of the moderation in global demand conditions. Coffee prices declined to US$0.44 per pound at end 2001, from US$0.49 per pound at end 2000. Conversely, wheat prices increased to US$2.89 per 60 pound bushel in December 2001, from US$2.72 in December 2000.

Other Developments

During 2001, the global economy experienced a notable decline in the level of international capital flows, both in terms of portfolio and direct investment flows (FDI). According to estimates from the United Nations Conference on Trade and Development, foreign direct investment declined to US$760.0 billion in 2001, from US$1200.0 billion in 2000. The decline was most pronounced in the industrial economies, being reflective of the significant decline in cross border mergers and acquisitions during the year. This was also influenced by sluggish growth in global economic activity and exacerbated by the events of 11 September 2001. While there was also a notable decline in the level of direct investment to the emerging market economies, it was observed that the larger economies such as Mexico, India and China benefited significantly from these flows.

The decline in portfolio flows occurred mainly in the emerging markets, where the International Institute of Finance lowered its forecast for the flow of private capital by 36.0 per cent for 2001. This falloff in private capital flows was underpinned by waning investor confidence in these markets, triggered by fears of contagion arising from the economic crisis in Argentina and to a lesser extent, the political unrest in Turkey. The shortfall in international capital flows to emerging market economies was compensated for, by an increase in the level of multilateral loans, mainly from the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (World Bank), the Asean Development Bank and the Inter-American Development Bank (IDB).

At a World Trade Organisation (WTO) Conference held in Doha, Qatar in November 2001, the African, Caribbean and Pacific (ACP) countries were granted a waiver from the WTO rules. The approval of the waiver effectively upholds the current preferential trading arrangement between these countries and the European Union under the Cotonou Agreement signed in 2000. This marks a victory for the ACP countries whose request for the waiver had been blocked by the WTO in Geneva in 1999, in response to pressures from banana producing countries in Central America, supported by the US.

Also arising from the Doha meeting was the approval of China's accession to the WTO. China's access to the WTO is expected to accelerate the government's current efforts towards reform and market liberalization. This should facilitate a more predictable trading environment and a surge in the flow of developed technologies and capital into the economy. In response, the Chinese government has committed to the provision of non-discriminatory treatment to all WTO members,

elimination of dual pricing practices and the non-introduction or reduction of export subsidies on agricultural products.

Prospects for 2002

Global economic and financial conditions are expected to improve in 2002, following the slowdown in 2001. To the extent that the Japanese and Euro area economies remain challenged by structural weaknesses, the US and UK economies are expected to lead the recovery in global economic activities. According to the World Economic Outlook, world output is projected to increase by 3.5 per cent in 2002, from the 2.6 per cent registered in 2001. The US and UK economies are expected to register respective growth rates of 2.2 per cent and 2.4 per cent for 2002. The outlook for the US is underpinned by a further strengthening of consumer and business confidence, in response to the maintenance of the stimulative macroeconomic measures being pursued. For the emerging market economies, economic growth is projected to rise to 5.3 per cent in 2002, led primarily by the East Asian economies.

Given the phenomenal growth in international linkages, the anticipated rebound in exports, in tandem with ongoing structural reform and the maintenance of sound macroeconomic policies in a number of economies, will assist in augmenting global demand during 2002. Subdued global inflationary pressure is expected to provide the basis for the continued pursuit of monetary and fiscal stimuli in a number of economies during the year.

(b) Balance of Payments

Preliminary estimates on the balance of payments for 2001 compared with revised data for 2000 and 1999 are provided in Table 32

For 2001, the current account recorded a deficit of US$650.1 million, a deterioration of US$361.9 million relative to the deficit recorded in 2000. The 2001 out-turn was influenced by respective expansions of US$226.9 million and US$138.8 million in the level of net payments on the goods and income accounts, to US$1 580.0 million and US$488.7 million, and a reduction of US$47.7 million in the surplus on the services account. These changes were partially offset by an improvement of US$51.5 million in the current transfers balance, to a surplus of US$872.3 million.

The capital account recorded a deficit of US$12.4 million in 2001, a deterioration of US$14.6 million when compared with the balance recorded in 2000. The financial account, on the other hand, recorded a surplus of US$662.5 million in 2001, an improvement of US$376.5 million when compared with the surplus recorded in 2000. Within the financial account, net official investment inflows of US$653.4 million complemented net inflows of US$880.4 million for private investment. The surplus on the financial account was more than sufficient to finance the deficits on the capital account and the current account. As a consequence, the net international reserves of Jamaica grew by US$871.3 million in 2001.

(i) Merchandise Trade

Exports

During the review year, Jamaica's total export earnings amounted to US$1 451.6 million. Of this, earnings from general merchandise exports amounted to US$1 224.5 million, while freezone exports and goods procured in Jamaican ports by foreign carriers totalled US$195.9 million and US$31.2 million, respectively (see Table 33).

Compared with 2000, total export earnings in 2001 fell by US$103.5 million, or 6.7 per cent. A contraction of US$68.6 million in the value of general merchandise exports was the main factor influencing this outturn. Within the general merchandise group of exports, respective reductions of US$10.9 million and US$42.7 million were recorded for major traditional export and non-traditional exports.

The performance of the major traditional group of exports in 2001 was influenced by contractions of

Table 32

SUMMARY OF BALANCE OF PAYMENTS (US$M)

	1/ 1999	1/ 2000	2/ 2001
CURRENT ACCOUNT	-214.7	-288.2	-650.1
A. GOODS BALANCE	-1184.9	-1353.1	-1580.0
Exports (f.o.b.)	1500.7	1555.0	1451.6
Imports (f.o.b.)	2685.6	2908.1	3031.6
B. SERVICES BALANCE	655.3	594.0	546.4
Transportation	-233.6	-247.1	-260.4
Travel	1052.3	1123.9	1073.2
Other Services	-163.4	-282.8	-266.4
GOODS & SERVICES BALANCE	-529.5	-759.1	-1033.7
C. INCOME	-332.5	-349.9	-488.7
Compensation of employee	70.3	67.4	78.8
Investment income	-402.8	-417.3	-567.5
D. CURRENT TRANSFERS	647.3	820.8	872.3
General Government	45.8	147.9	62.9
Other Sectors	601.5	672.9	809.4
2. CAPITAL & FINANCIAL A/C	214.7	288.2	650.1
A. CAPITAL ACCOUNT	13.1	2.2	-12.4
General government	4.1	15.6	3.5
Other Sectors	9.0	-13.4	-15.9
B. FINANCIAL ACCOUNT	201.6	286.0	662.5
Official Investment	-331.4	383.7	653.4
Private Investments 3/	399.4	421.6	880.4
Reserves	133.6	-519.3	-871.3

1/ Revised
2/ Provisional

US$41.7 million or 6.1 per cent, US$12.8 million or 15.4 per cent and US$4.6 million or 20.2 per cent in earnings from alumina, sugar and bananas, respectively. In contrast, earnings from bauxite exports went up by US$48.2 million to US$93.8 million, more than twice the value exported in 2000.

The increase in the value of bauxite exports reflected the return of the Gramercy alumina

refinery to full operation in the first quarter of 2001 as well as an increase in the reference price for the ore. Bauxite export volumes amounted to approximately 3.6 million tonnes for the year, 1.5 million tonnes or 68.0 per cent above the levels recorded for 2000. The average price of crude bauxite was adjusted upwards by US$4.80 per tonne, to US$25.92 per tonne. This upward adjustment occurred because of a change in Kaiser's pricing formula in late 2000, aimed at facilitating greater transparency in the pricing arrangement for crude bauxite exports.

Given a 1.4 per cent decline in alumina export volumes for the year relative to 2000, the contraction in the value of alumina exports reflected a decline of 4.7 per cent in the average price of the product. For 2001, the export volume of alumina contracted by 51.4 thousand tonnes to approximately 3.5 million tonnes. The lower export volume occurred in the context of a strike at the Jamalco alumina plant in October and the extended closure of that plant to facilitate maintenance work. Alumina prices averaged US$182.00 per tonne, relative to the average price per tonne of US$191.10 that was realised in 2000. While prices declined in all the quarters of 2001 relative to 2000, the strongest contraction occurred in the last quarter of the year, when alumina price averaged US$172.97 per tonne, 7.8 per cent lower

Table 33

TRADITIONAL & NON-TRADITIONAL EXPORTS (US$M)

	1/ 2000	2/ 2001	Change	% Change
TOTAL GENERAL EXPORTS	**1293.1**	**1224.5**	**-68.6**	**-5.3**
Major Traditional Exports	836.0	825.1	-10.9	-1.3
Bauxite	45.5	93.8	48.2	105.9
Alumina	684.3	642.6	-41.7	-6.1
Sugar	83.3	70.5	-12.8	-15.4
Bananas	22.9	18.3	-4.6	-20.2
Other Traditional Exports	73.0	72.0	-1.0	-1.4
Citrus	4.6	4.0	-0.6	-12.9
Cocoa	2.3	3.0	0.6	27.5
Coffee	33.1	30.9	-2.2	-6.5
Pimento	4.4	3.3	-1.1	-25.3
Rum	26.4	28.8	2.4	9.1
Gypsum	2.2	2.0	-0.2	-7.8
Non Traditional Exports	344.3	301.6	-42.7	-12.4
TOTAL DOMESTIC EXPORTS	**1253.3**	**1198.8**	**-54.6**	**-4.4**
RE-EXPORTS	39.8	25.8	-14.0	-35.3
FREEZONE	224.0	195.9	-28.1	-12.6
GOODS PROCURED IN PORTS	37.9	31.2	-6.7	-17.7
GRAND TOTAL	**1555.0**	**1451.6**	**-103.5**	**-6.7**

1/ Revised
2/ Provisional

than the average price per tonne that was realised in the last quarter of 2000.

Alumina prices were adversely affected over the first three quarters of the year by the combined effect of the resumption of full operations at the Gramercy refinery in the first quarter of 2001 and lower world economic growth. The resumption at the Gramercy plant served to boost world supply at the same time when the slowdown in growth among the industrialised economies fostered a reduction in demand for aluminium. The accelerated downturn in prices after 11 September was associated with the fall-off in demand for air travel and its spin-off effects on related industries such as the production of aeroplanes and aeroplane parts.

Earnings from sugar exports amounted to US$70.5 million in 2001, US$12.8 million less than the level of earnings recorded in 2000. Export volumes contracted by 7.0 per cent to approximately 157.1 thousand tonnes, while the average realised US dollar price per tonne of sugar realised in 2001 fell by approximately 9.0 per cent. The fall-off in export volume resulted from the non-shipment of sugar to the United States and a decline in the quantity of sugar exported to Europe under the Special Preferential Sugar (SPS) arrangement. The non-shipment of sugar to the United States market was as a consequence of an oversupply of sugar on that market, necessitating the purchase of Jamaica's certificate of eligibility for 2001[30]. The sale of the quota yielded US$1.3 million as compensation to the local industry. On the European market, while the export volume of 126.0 thousand tonnes under the regular protocol agreement was met, the SPS access arrangement, which is based on demand, contracted by approximately 0.3 thousand tonnes.

The average realised price of sugar on the European market fell to US$448.70 per tonne. This decline occurred in the context of a 5.6 per cent depreciation in the average exchange rate for the euro vis-à-vis the US dollar, over the crop year, relative to the same period in 2000.

Of note, the crop year for 2000/01, which should have run from December 2000 to August 2001, was delayed by a month. A late start to sugar cane reaping was associated with flooding in late December 2000 and early January 2001, while delays in milling operations arose because of mechanical problems at some of the factories. The crop was further affected by a reduction in the quality and quantity of cane reaped as replanting had taken place under drought conditions. In this context, sugar production in 2001 contracted by 12.0 thousand tonnes from 216.0 thousand tones in 2000. The adverse weather conditions also served to lessen the sucrose content of the crop, which reflected itself in a worsening in the tonnes of cane to tonnes of sugar ratio (TC/TS) from 9.3 in 2000 to 10.9 in 2001.

Export earnings from bananas amounted to US$18.3 million in 2001, US$4.6 million or 20.2 per cent below the 2000 level. The lower earnings from bananas in 2001 stemmed from a reduction in price as export volumes increased relative to 2000. The average price per tonne of banana in 2001 was US$419.58, 23.6 per cent below the average realised price in 2000. Prices were affected by the depreciation of the euro vis-à-vis the US dollar, as well as increased competition arising from the European Union's (EU) decision to allow easier access by non-ACP countries to their markets. In this context, despite a significant improvement in the quality of exportable fruits in 2001, the spot price for Jamaican bananas fell during the year.

The export volume of bananas in 2001 amounted to 43.5 thousand tonnes, which was approximately 1.9 thousand tonnes, or 4.4 per cent above the level exported in 2000. This positive out-turn reflects the extent to which the industry has rationalised its operations in the context of support from the European Union. Moreover, the growth in volumes occurred despite the destruction of approximately 110 hectares of the banana crop by flood rains in November.

Earnings from the non-traditional export group fell by US$42.7 million, or 12.4 per cent, to

[30]The certificate of eligibility guarantees Jamaica an export quota of approximately 11.6 thousand tonnes to the United States market on an annual basis.

US$301.6 million in 2001 relative to 2000. Largely accounting for this decrease were respective contractions of US$58.0 million and US$13.7 million in miscellaneous manufactured goods exports and beverage & tobacco exports. The decline in miscellaneous manufactured exports reflected a contraction in exports from the garment sector as local operators continued to either scale down activities or withdraw from the sector. The beverage sector benefited from expansion of production capacity, as well as increased international promotion by manufacturers, while tobacco exports continue to reflect the fall-off in cigar production.

Imports

For 2001, total imports (c.i.f.) were valued at US$3 532.8 million, of which general merchandise imports amounted to US$3 365.0 million, while freezone imports and goods procured in foreign ports by domestic carriers were valued at US$135.2 million and US$32.6 million, respectively. The out-turn for total imports represented an expansion of US$152.1 million or 4.5 per cent relative to 2000, largely reflecting an increase of US$164.9 million in expenditure for general merchandise imports (see Table 34).

Table 34

VALUE OF IMPORTS BY END-USE (C.I.F)
(US$M)

	1/ 2000	2/ 2001	Change	% Change
TOTAL GENERAL IMPORTS	**3200.1**	**3365.0**	**164.9**	**5.2**
CONSUMER GOODS	**975.9**	**988.5**	**12.5**	**1.3**
Food	264.7	269.2	4.5	1.7
Other Non-Durables	324.6	316.3	-8.3	-2.6
Durables	386.6	403.0	16.3	4.2
(Of which motor car)	138.6	137.5	-1.1	-0.8
RAW MATERIAL	**1713.2**	**1810.4**	**97.3**	**5.7**
Fuels	593.6	584.3	-9.3	-1.6
Other Raw Material	1119.5	1226.1	106.6	9.5
CAPITAL GOODS	**511.0**	**566.1**	**55.1**	**10.8**
Transport & Equipment	111.4	107.9	-3.5	-3.1
(of which motor car)	8.3	1.8	-6.5	-78.3
Construction Materials	144.4	139.7	-4.7	-3.3
Other Machinery & Eqp.	245.5	311.4	65.9	26.8
Other Capital	9.7	7.1	-2.6	-26.7
FREEZONE	142.3	135.2	-7.1	-5.0
BUNKER SUPPLIES	38.3	32.6	-5.7	-14.9
GRAND TOTAL	**3380.7**	**3532.8**	**152.1**	**4.5**

1/ Revised
2/ Provisional

The expansion in the general merchandise imports category in 2001 largely reflected increased spending of US$97.3 million, US$55.1 million and US$12.5 million on raw material, capital goods and consumer goods imports, respectively. As a consequence, the respective shares accounted for by raw material imports and capital goods imports increased to 53.8 per cent and 16.8 per cent in 2001 from 53.5 per cent and 16.0 in 2000, while that for consumer goods imports declined to 29.4 per cent from 30.5 per cent.

The growth in the value of raw material imports was influenced largely by an expansion of US$106.6 million, or 9.5 per cent, in the value of other raw material imports. This was partially offset by a US$9.3 million contraction in the value of fuel imports. Within the other raw material imports category, notable expansions were recorded in spending on food imports, industrial supplies and parts & accessories associated with the expansion in the bauxite/alumina sector.

The value of fuel imports in 2001 amounted to US$584.3 million, approximately 1.6 per cent lower than the fuel bill in 2000. The lower fuel bill was attributable to a fall in international fuel prices relative to the previous year. In this context, the volume of fuel imported into the country is estimated to have risen by 12.5 per cent in 2001, reflecting increased demand from both mining-related and non-mining related activities.

The significant increase in capital goods imports in 2001 was due mainly to an expansion of US$65.9 million in the other machinery & equipment category. Increased activity within the telecommunication sector was largely responsible for the expansion of imports of other machinery & equipment, reflected as increased spending on cellular telephones and other communication equipment.

The growth in imported consumer goods in 2001 reflected respective increases of US$16.3 million and US$4.5 million in the durables and food subgroups, which was partially offset by a contraction of US$8.3 million in other non-durable imports.

CARICOM

During 2001, Jamaica's merchandise trade with the CARICOM region increased by US$29.7 million to US$479.9 million (see Table 35). Jamaica's trade deficit with the region widened by US$25.9 million to US$378.8 million in 2001.

Trinidad and Tobago continued to be Jamaica's major regional trading partner in 2001, accounting for 42.6 per cent of Jamaica's total exports to the region, while supplying 82.5 per cent of its total imports from the region. Guyana remained Jamaica's second largest trading partner in CARICOM in 2001, absorbing 7.8 per cent of Jamaica's exports, while supplying 7.2 per cent of its import demand. Although ranking third in terms of Jamaica's total regional trade, Barbados remained the second largest market for Jamaican exports in 2001. During the year, Barbados accounted for 17.2 per cent of Jamaica's exports to the region while supplying 3.8 per cent of total imports from the region.

(ii) Services

During 2001, net earnings from services of US$546.4 million were US$47.7 million less than in the previous year. Accounting for this decline was a contraction of US$50.8 million in net earnings from travel and an US$13.3 million increase in net payments for transportation services. A reduction of US$16.4 million in net payments for other services partially offset the deterioration on the transportation and travel accounts (see Table 36).

Transportation

The transportation sub-account recorded a net outflow of US$260.4 million in 2001, relative to the US$247.1 million recorded in 2000. This performance largely reflected a contraction of US$13.3 million in gross earnings from passenger

Table 35

CARICOM TRADE BY COUNTRY (US$M)

	Exports	1/ 2000 Imports	Trade Balance	Exports	2/ 2001 Imports	Trade Balance
Trinidad & Tobago	21.5	322.9	-301.4	21.5	354.2	-332.7
Guyana	3.0	33.2	-30.2	4.0	30.9	-26.9
Barbados	7.8	16.5	-8.7	8.7	16.3	-7.6
Dominica	1.9	14.0	-12.1	1.7	13.6	-11.9
Belize	3.5	6.0	-2.4	3.2	4.2	-1.0
Suriname	1.0	6.7	-5.7	0.9	7.1	-6.3
St. Vincent	1.2	1.8	-0.6	1.8	2.2	-0.4
Antigua	2.7	0.0	2.7	3.1	0.1	3.0
St. Lucia	2.5	0.0	2.5	2.4	0.1	2.4
Grenada	1.7	0.5	1.2	1.5	0.6	0.8
St.Kitts	1.5	0.0	1.5	1.5	0.0	1.5
Montserrat	0.4	0.0	0.4	0.2	0.0	0.2
TOTAL	**48.6**	**401.6**	**-353.0**	**50.5**	**429.4**	**-378.8**

1/ Revised
2/ Provisional

fares by the domestic carrier, which occurred in the context of the events of 11 September.

Travel

Net earnings from the travel sector amounted to US$1 073.2 million in 2001, representing a decline of US$50.8 million relative to 2000. Gross spending of US$1 279.2 million by visitors to Jamaica was US$53.4 million lower than the expenditure recorded in 2000. Similarly, gross payments by Jamaicans travelling overseas, including expenditure by seasonal workers abroad (e.g., farm workers), fell by US$2.7 million to US$206.0 million in 2001.

The decline in gross earnings from tourism activities in 2001 reflected a 5.1 per cent decrease in total visitor arrivals (see Table 36). Cruise and stopover arrivals contracted by 7.4 per cent and 3.5 per cent, respectively. In addition, against the background of discounts in the sector, there was a 2.4 per cent contraction in the average expenditure per person per day in the stopover category. A marginal increase the average length of stay in 2001 relative to 2000, served as a partial countervailing factor.

For 2001, the total number of stopover visitors from the United States fell by 1.6 per cent. Notwithstanding, this market continued to be the largest source of tourists to Jamaica, accounting for approximately 71.6 per cent of total stopover visitors in 2001. Stopover arrivals from the United Kingdom, Jamaica's second largest tourist market, declined by 5.6 per cent and accounted for 10.3 per cent of total stopover visitors, relative to the previous year. With the exception of Canada and Latin America, visitor arrivals from all other destinations declined.

Other Services

The other services sub-account recorded a deficit of US$266.4 million in 2001, which was US$16.4 million lower than the deficit in 2000. Gross inflows and outflows on this sub-account expanded by US$18.6 million and US$2.2 million, respectively, to US$383.1 million and US$649.5 million.

Table 36

VISITOR ARRIVAL STATISTICS

	1/ 2000	2/ 2001	% Change
Total Stop-overs	1322690	1276516	-3.5
Foreign National Stop-overs	1219311	1186996	-2.7
Long-stay	1151682	1122982	-2.5
Short-stay	67629	64014	-5.3
Non-resident Jamaican stop-overs	103379	89520	-13.4
Cruise Pasengers	907611	840337	-7.4
Total Tourists	2230301	2116853	-5.1
Armed Forces	1464	0	-100.0
Total Visitors	2231765	2116853	-5.1
Gross Estimated Expenditure (US$MN.)	1332.6	1279.2	-4.0

The largest improvement in inflows came from the communication sector, which saw an expansion of US$10.6 million in earnings to US$220.0 million. Marginal improvements were also recorded in earnings for all other services inflows, the primary ones being financial services, other business, personal, cultural, and recreational services. On the payments side, increases were recorded for all the components with the exception of other business services. The reduction in payments for other business services was partly attributable to the decline in the travel sector as Jamaican hotels paid less to external travel agencies for services rendered.

(iii) Income

During 2001, the income account recorded a deficit of US$488.7 million, compared with a deficit of US$349.9 million in 2000. While net inflows for compensation to employees increased by US$11.4 million to US$78.8 million, an increase of US$150.2 million to US$567.5 million in net investment income payments was recorded.

Gross inflows associated with compensation to Jamaicans for work abroad increased by US$19.7 million to US$107.9 million. This principally reflected higher receipts from the US hotel and farm worker programmes. The expansion in inflows was, however, partially offset by an increase of US$8.3 million to US$29.1 million in gross payments to non-residents for work performed while staying in Jamaica.

The deterioration in the investment income sub-account was attributable to an expansion of US$168.3 million in gross payments, which exceeded the increase of US$18.1 million in gross earnings. The higher level of spending was due to an increase of US$113.3 million in interest payments on Central Government's foreign debt. In addition, there was an increase of US$59.1 million in the imputed profit remittances by the

foreign direct investment companies. The expansions in crude bauxite exports during the year facilitated the improved profitability of the mining companies. The improvement in income inflows partly reflected growth in interest earnings on foreign assets held by the Bank of Jamaica, which occurred in the context of a substantial increase in these foreign assets in 2001.

(iv) Current Transfers

Net inflows of current transfers increased to US$872.3 million in 2001, from US$820.8 million in the previous year. This performance was due mainly to an expansion of US$136.5 million or 20.3 per cent in net inflows to the private sector, while net inflows to the public sector contracted by US$85.0 million or 57.5 per cent (see Table 37).

Gross inflows to the private sector increased by US$153.2 million, partly offset by an expansion of US$16.7 million in gross private sector outflows. The remittance companies remained dominant in 2001, accounting for 58.5 per cent of remittance inflows, compared with financial institutions' share of 38.5 per cent.

The level of gross inflows to the Government sector declined by US$85.0 million in 2001, while outflows of US$7.2 million remained flat relative to the previous year. While there were inflows for two licences to operate mobile telephone services in Jamaica in 2000, there were no such receipts in 2001.

Capital and Financial Account

The capital account recorded a deficit of US$12.4 million in 2001, a deterioration of US$14.6 million when compared with the surplus recorded in 2000. The financial account on the other hand recorded a surplus of US$662.5 million in 2001, an improvement of US$376.5 million when compared with the surplus recorded in 2000. The

Table 37

CURRENT TRANSFERS (US$M)

	1/ 2000	2/ 2001	Change
TOTAL RECEIPTS	**969.4**	**1037.6**	**68.2**
General Government	155.1	70.1	-85.0
Private Sector	814.3	967.5	153.2
Postal System	1.2	1.2	0.0
Financial System	334.6	372.5	37.9
Remittance Companies	453.7	566.2	112.5
Other	24.8	27.6	2.8
TOTAL PAYMENTS	**148.6**	**165.3**	**16.7**
General Government	7.2	7.2	0.0
Private Sector	141.4	158.1	16.7
Financial System	131.2	147.3	16.1
Other	10.2	10.8	0.6
NET CURRENT TRANSFERS	**820.8**	**872.3**	**51.5**

1/ Revised
2/ Provisional

Table 38

OTHER OFFICIAL INVESTMENT FLOWS (US$M)

	1/ 2000	2/ 2001	Change
GROSS OFFICIAL INFLOWS	**667.6**	**950.1**	**282.5**
Donor Countries	0.0	0.0	0.0
Multilateral Institutions	162.5	75.0	-87.5
Other Assistance	437.5	811.8	374.3
Project Loan	67.6	63.3	-4.3
GROSS OFFICIAL OUTFLOWS	**284.0**	**296.7**	**12.7**
Government Direct	280.5	295.7	15.2
Bank of Jamaica	3.5	1.0	-2.5
NET OFFICIAL INVESTMENTS	**383.6**	**653.4**	**269.8**

1/ Revised
2/ Provisional

performance on the financial account influenced by substantial increases in net inflows on official and private investment transactions (see Table 38).

Within the financial account, the official investments sub-account recorded net inflows of US$653.4 million, relative to US$383.7 million in the previous year. Gross investment inflows to the sector grew by US$282.5 million to US$950.1 million in 2001, while gross official payments of US$296.7 million were US$12.7 million higher than in 2000 (see Table 38). The higher level of gross inflows in 2001 reflected the Government's receipt of US$75.0 million, US$63.3 million and US$811.8 million in loans from multilateral lending agencies, project loans and from Euro-bond placements, respectively. The loan from multilateral institutions represented an emergency loan from the World Bank in the context of the events of 11 September.

The level of net private financial investments increased by US$458.8 million reflecting, among other things, the proceeds from the sale of the light and power company, Jamaica Public Services Company (JPSCo), and an insurance company, Life of Jamaica. The surpluses recorded in the capital and financial accounts were more than sufficient to cover the current account deficit. Consequently, the net international reserves (NIR) of the country grew by US$871.3 million to US$1 840.7 million at the end of 2001.

The increase in the NIR reflected an expansion of US$868.5 million in Bank of Jamaica's gross foreign assets, which was marginally complemented by a US$1.2 million increase in the gross foreign assets of the Central Government (see Table 40). In addition, the increase in Jamaica's net international reserves was facilitated by a reduction of US$20.2 million to US$62.6 million in the country's gross foreign reserve liabilities. At the end of December 2001 the level of Bank of Jamaica gross reserves stood at US$1 903.3 million, representing approximately 33.4 weeks of goods imports, or 22.6 weeks of imports of goods and services.

(c) Foreign Exchange Management

(i) Foreign Exchange Receipts and Payments

Receipts

Total foreign exchange by Bank of Jamaica in 2001 were US$2 418.0 million, an increase of US$589.2 million or 32.2 per cent over the previous year. A significant portion of these receipts reflect the Bank's purchases of official capital inflows as the Government (GOJ) raised a total of US$ 972.9 million through a combination of international and local bond market issues. This represents an increase of US$376.8 million relative to the previous year.

In February, euro 175 million was raised on a three-year instrument with a 10.5 per cent coupon rate. The first ten-year Eurobond (US$400 million) was issued in May at 11.75 per cent and was later followed by a twenty-year instrument, which raised an additional US$250 million at 11.625 per cent in December.

In the local market, the GOJ raised US$175.0 million from two bond issues of US$75.0 million and US$100.0 million in August and September respectively. These bonds, each with a 12.0 per cent coupon, mature in 2004 and 2005, respectively.

The loan proceeds of US$74.3 million received from the World Bank in December represented emergency funding for reconstruction in the aftermath of the November flood rains. In addition, the Government benefited from grant flows totalling US$31 million for economic reform projects and budgetary support.

The divestment of the electricity company, Jamaica Public Service Company Limited and an insurance company, Life of Jamaica yielded US$191.4 million and US$39.6 million, respectively. Total divestment receipts of US$231.0 million exceeded the inflows for the year 2000 by US$211.7 million.

Inflows of US$205.5 million from the bauxite sector comprising production levy, royalties, income taxes and funds to cover local costs, represented a decline of US$39.9 million or 16.3 per cent below the 2000 level. The US dollar requirement to run the local operations declined in the context of a 3.95 per cent depreciation of the Jamaica Dollar during the year. In addition and unlike in previous years, the bauxite companies sold a portion of the US dollar component of these local costs directly to the market.

Table 39

FOREIGN EXCHANGE RESERVES (US$M)
As at December 31

	1/ 2000	2/ 2001	Change
GROSS FOREIGN ASSETS	**1038.7**	**1907.8**	**869.1**
Bank of Jamaica	1034.8	1903.3	868.5
Central Government	0.8	2.0	1.2
Other official Institutions	3.1	2.5	-0.6
GROSS FOREIGN LIABILITIES	**82.8**	**62.6**	**-20.2**
NET INTERNATIONAL RESERVES	**955.9**	**1845.2**	**889.3**

1/ Revised
2/ Provisional

Table 40

SOURCES OF FOREIGN EXCHANGE (US$M)			
	2000	2001	Change
Exports & Services	**778.4**	**894.7**	**116.3**
Bauxite Receipts	245.4	205.5	-39.9
Direct Purchases	533.0	689.2	156.2
- Authorised Dealers	118.1	155.1	36.9
- Cambios	228.4	287.8	59.4
- Other	186.5	246.4	59.9
Prudential Reserves	**29.4**	**27.7**	**-1.7**
Purchase of GOJ Loan Proceeds	**793.6**	**1 093.4**	**299.9**
- Eurobond	413.3	798.4	385.1
- Local US$ bond	182.9	174.5	-8.3
- Other loans	197.4	120.5	-76.9
Grants	**0.0**	**31.0**	**31.0**
Divestment	**19.3**	**231.0**	**211.7**
Sale of Cellular licences	**92.6**	**0.0**	**-92.6**
Other Receipts	**115.6**	**140.2**	**24.6**
Total Cash Inflow	**1 828.8**	**2 418.0**	**589.2**

Sales to the Bank of Jamaica by licensed foreign exchange dealers increased by US$156.2 million in 2001. Cambio surrenders increased from 13.1 per cent of their purchases in 2000 to 19.7 per cent in 2001, while authorised dealers' increased from 5.0 per cent to 7.3 per cent over the same period.

Table 41

USES OF FOREIGN EXCHANGE (US$M)			
	/1 2000	2001	Change
Public Debt	644.8	678.9	34.1
Direct Sales	472.3	734.0	261.7
Other Payments	214.7	150.6	-64.1
Total Cash Outflow	**1 331.8**	**1 563.5**	**231.7**

1/ Revised

As a result of the gradual reduction of the cash reserve ratio from 13 per cent to 10 per cent during the review year, inflows related to prudential reserves fell marginally to US$27.71 million in 2001 from US$29.41 million in 2001.

Foreign exchange outflows from Bank of Jamaica in 2001 totalled US$1 563.5 million, an increase of US$231.7 million or 17.4 per cent over 2000. A portion of this represented direct sales by the Bank to augment the supply of US dollars to meet demand pressures especially towards the end of the year. Foreign exchange sales to the market by Bank of Jamaica in 2001 were US$261.7 million more than the previous year. There was strong demand from local investors for the Government's US dollar denominated bond issues and these pressures were exacerbated by the uncertainties and the expectations of a major fall out in foreign currency earnings following the events of 11 September 2001. Foreign currency debt payments on behalf of the Government for 2001 also increased by US$34.1 million or 5.3 per cent.

(ii) Bank of Jamaica International Reserves

The net international reserves (NIR) almost doubled during the review year, reflecting significant increases in every quarter except the third. The draw down in the NIR in the third quarter occurred against the background of significant sales of foreign currency in an effort to meet the strong end user demand for the Government's bond issues in August and September. At the end of the year, the stock of NIR was US$1 840.7 million an increase of US$871.2 million or 89.9 per cent over the end of 2000. The significant growth in the NIR was largely due to the purchase of official capital flows which the GOJ had raised from both commercial and multilateral sources.

(iii) Reserve Management

Foreign Assets

The Bank of Jamaica's total foreign assets amounted to US$1 903.3 million at the end of 2001 as against US$1 048.8 million at the end of 2000, an increase of US$854.5 million or 81.5 per cent.

During the year the level of gross foreign assets was augmented by the purchase of proceeds from the Government of Jamaica's Eurobond issues and from the divestment of Life of Jamaica and the Jamaica Public Service Co. Ltd. A steady build up

Table 42

NET INTERNATIONAL RESERVES (NIR)
(US$M)

	2000 Dec.	2001 Mar.	June	Sept.	Dec.	Annual Change
NIR	969.5	1 286.3	1 540.5	1 536.7	1 840.7	871.2
Gross Foreign Assets	1 048.8	1 361.9	1 612.5	1 605.9	1 903.3	854.5
Foreign Liabilities	79.3	75.6	72.0	69.2	62.6	-16.7

Table 43

CURRENCY COMPOSITION OF FOREIGN ASSETS
AT 31 DECEMBER

	AMOUNT		US$ EQUIV		% SHARE	
	2000	2001	2000	2001	2000	2001
U.S. DOLLAR	951.28	1 816.10	951.28	1 816.10	90.7	95.42
EURO	93.47	64.53	87.75	57.44	8.37	3.02
BRITISH POUND	2.27	2.32	3.39	3.37	0.32	0.18
CANADIAN DOLLAR	3.75	27.18	2.5	17.07	0.24	0.90
YEN	161.98	41.09	1.42	0.31	0.14	0.02
OTHER	-	-	2.45	9.00	0.23	0.47
TOTAL FOREIGN ASSETS			**1 048.79**	**1 903.29**	**100.00**	**100.00**

of assets continued throughout the year, notwithstanding sales of US$734 million to the foreign exchange market by the BOJ, over the period.

Investment Activities

The Bank of Jamaica's reserve management strategy is formulated against its stated objectives of adequate levels of liquidity, capital preservation, maintenance of high asset quality and returns. Investment decisions throughout 2001 were pursued in accordance with approved investment guidelines and produced an average rate of return of 4.34 per cent per annum compared to 5.95 per cent per annum in 2000. The one month Euro LIBID curve contracted by approximately 475 basis points during the review period closing at 1.75 per cent per annum. Investment instruments such as United States Agency Bonds and Eurodollar deposits were predominantly utilized.

As yields declined sharply, particularly at the short end of the curve, the portfolio shifted and

Table 44

TOTAL FOREIGN ASSETS BY ASSET CLASS 31 DECEMBER				
	2000		2001	
HOLDINGS	US$MN	%	US$MN	%
Eurodollar Deposits	538.7	51.4	968.47	50.88
U.S. Govt. Agency Bonds	187.9	17.9	573.31	30.12
Multi-Currency Fund	36.2	3.4	39.31	2.07
Cash (Federal Reserve Bank)	254.9	24.3	269.24	14.15
Other Balance Held Abroad	31.1	3	52.96	2.78
TOTAL	**1 048.8**	**100.00**	**1 903.29**	**100.00**

dominant positions were maintained in the five to seven year tenors, as this area continued to provide relatively good value. Over the course of the year there was heavy callable redemption of United States Agency Bonds. This necessitated the extension of average duration on replacement bonds in order to reduce the price volatility of the retained portfolio. Thus the decision taken in the previous year to shorten the portfolio's duration was reversed throughout 2001.

See Table 44 for a comparison of the distribution by asset class of the country's total foreign assets at 31 December 2000 and 2001.

Foreign Investment Income

Bank of Jamaica's foreign investment earnings by asset class are provided in Table 45.

Income earned in 2001 amounted to US$62.99 million, an increase of US$15.19 million or 31.78 per cent compared to US$ 47.80 million earned over the similar period in 2000. This occurred in the context of an 81.47 per cent increase in total foreign assets and a 475 basis points contraction of the Federal Reserve Funds rate during the year.

Table 45

FOREIGN INVESTMENT INCOME 31 DECEMBER				
	2000		2001	
HOLDINGS	US$MN	%	US$MN	%
Eurodollar Deposits	25.9	54.2	34.53	54.82
U.S. Govt. Agency Bonds	11.51	23.6	20.41	32.40
Multi-Currency Fund	2.04	4.6	1.53	2.43
Other	8.35	17.6	6.52	10.35
TOTAL	**47.80**	**100.00**	**62.99**	**100.00**

Table 46

PURCHASES AND SALES OF FOREIGN EXCHANGE 1/				
Quarter	Purchases		Sales	
Q	2000	2001	2000	2001
1	662.7	1 466.4	676.8	1 432.5
2	645.0	1 723.1	645.8	1 753.9
3	737.0	1 857.1	738.3	1 843.3
4	990.8	2 092.6	1 006.2	2 037.0
Total	**3 035.5**	**7 139.2**	**3 067.1**	**7 066.7**

1/ Includes BOJ intervention

(iv) Foreign Exchange Market

During the year, the Bank implemented three significant policy changes:

1. Trading spread limits were removed for all licensed foreign exchange dealers;
2. In addition to United States Dollars, cambios were permitted to effect surrenders in the other two major currencies (Great Britain Pounds and Canadian Dollars) and
3. A ceiling was imposed on foreign exchange surrenders from licensed foreign exchange dealers.

The local foreign exchange market experienced relative stability during the first eight months of the year. The exchange rate depreciated marginally during this period, by 0.59 per cent to US$1.00 = J$45.80.

This stability was reversed in September as there was increased demand for foreign exchange to purchase the Government's domestic issue of US dollar denominated bonds totaling US$175 million. The situation worsened in the period following the 11 September events. These developments contributed to 3.72 per cent depreciation in the exchange rate over the period September to October 2001. The Central Bank responded to the foreign exchange market pressures by selling foreign exchange and by intensifying its open market operations through a sharp adjustment in its long term reverse repurchase rates. This induced an appreciation of 0.68 per cent in the exchange rate for the month of November from US$1.00 = J$47.57 to US$1 = J$47.25. At 31 December 2001 the weighted average selling rate was US$1.00 = J$47.40, a depreciation of 3.95 per cent when compared to US$1.00 = US$45.53 at the end of 2000.

The reported volumes of foreign exchange trading in 2001 more than doubled when compared to volumes traded in 2000. The increased volumes largely reflect the new reporting methodology since 27 November 2000 which incorporates transactions of both cambios and authorized dealers as well as inter-dealer trades. Previously, only commercial transactions by authorized dealers were reported. Per diem purchase and sales volumes (inclusive of the Central Bank's foreign exchange sales) during the year were US$28.7 million and US$28.4 million respectively, compared to US$12.1 million and US$12.3 million reported for the previous year. Authorised dealers and cambios accounted for 60 per cent and 40 per cent, respectively, of total foreign exchange market activity. Within this, inter-dealer trading was significant, averaging US$11 million daily and accounting for approximately 40 per cent of total market activity.

The significant increase in trading volumes

Table 47

STATUS OF CAMBIO LICENCES AS AT 31 DECEMBER	2000	2001
Applications Received	45	14
Applications Approved	15	9
Applications Pending	8	6
Cambios Closed	5	11
Total Cambios Licensed	138	136
Number Of Entities	73	66

reported during the December 2001 quarter reflected the Central Bank's increased presence in the market to smooth supply conditions during the post 11 September period.

(v) Cambios

The Central Bank continued to supervise cambios through on-site inspection and in-house monitoring of their operations. This supervision is aimed at ensuring compliance with the Bank of Jamaica Operational Guidelines and adherence to the Money Laundering Act.

The assessment of principals of existing and prospective cambios under the Bank of Jamaica Enhanced Fit and Proper Criteria continued in 2001 with 32 persons being assessed.

Status of Cambio Licences

The number of approved cambio locations at the end of 2001 was one hundred and thirty six (136) operated by sixty-six (66) entities. This compares with 138 approved locations operated by 73 entities at the end of year 2000 (see Table 47).

Approved cambios are located in every parish across the Island with 24 per cent operating in the corporate area (Kingston and St. Andrew). There are also major concentrations in the tourist resort areas of Montego Bay, Ocho Rios and Negril. These locations account for 39 per cent of the licensed cambios.

Nine (9) new cambio locations were approved during the year. Eleven (11) cambios were closed permanently: 7 of these cambios were closed voluntarily by the principals, while the other 4 were closed for failure to comply with Bank of Jamaica's guidelines.

Table 47 provides comparative data on the status of cambio licences for years 2000 and 2001.

7. Production and Prices

The Jamaican economy is estimated to have grown in the range of 1.0 - 2.0 per cent in 2001. This growth in output emanated from both the goods producing and services sectors. The positive performance in the goods sector is largely attributed to expansions in the agriculture and mining sectors. Growth in output from the services sector was driven by basic services, particularly, the electricity & water and transport storage & communication sub-sectors. The other services group is estimated to have declined in 2001, driven largely by a contraction in miscellaneous services, of which the tourism industry is the major contributor.

It is estimated that the agricultural sector expanded in 2001 relative to the severe contraction that was recorded in 2000. While there were periods of poor weather during the year, weather related constraints were less pronounced in 2001. The more favourable weather conditions facilitated new planting and replanting activities, which led to increased levels of production, particularly, in domestic agriculture. Additionally, several on-going and new initiatives of the Ministry of Agriculture had a positive impact on the sector's performance.

Agricultural output is estimated to have grown 5.1 per cent, 12.3 per cent, and 4.6 per cent in the March, June and September quarters, respectively. However, during the December quarter the sector's output is estimated to have declined by 2.2 per cent due largely to flood rains which caused substantial losses to crops, livestock and agricultural infrastructure. In particular, the production of export crops, such as coffee and bananas in the eastern parishes were adversely affected. In other parishes, domestic agriculture sustained significant losses due to fungal infestation associated with excessive and prolonged moisture conditions. The agricultural production index (API) compiled by the Planning Institute of Jamaica (PIOJ) shows that for the March, June and September quarters of 2001 the API increased by 11.5 per cent, 20.4 per cent and 2.6 per cent, respectively, relative to the similar quarters of 2000. In contrast, for the December quarter the API declined 7.1 per cent.

Estimates compiled by the Ministry of Agriculture show that in 2001 domestic crop production increased by 8.8 per cent over 2000. In particular, legumes, vegetables, condiments, fruits, cereals, potato and yams recorded substantial increases relative to the previous year. Plantains and other tubers were the only groups registering declines.

Traditional export agriculture declined by an estimated 1.7 per cent in 2001 relative to 2000. This decline was influenced by estimated reduction in export volumes for sugar (7.1 per cent), citrus (24.1 per cent), coffee (2.2 per cent) and pimento (51.6 per cent). The dramatic fall in pimento exports is attributed to the Black Ant pest, which significantly reduced yield and hampered the harvesting of berries. There were however, partially offsetting increases of 3.1 per cent and 31.9 per cent in the volumes of banana and cocoa exports, respectively. The expansion in the volume of bananas exported reflected a confluence of improved weather conditions and enhancements in yield and quality arising from investment under the European Development Fund (EDF) Banana Support project.

The mining sector is estimated to have expanded in 2001 relative to the contraction in the previous year. The Jamaica Bauxite Institute has stated that, production of bauxite in 2001 represents the highest level of production in 20 years. Total bauxite and crude bauxite output in 2001 grew by 9.1 per cent and 76.3 per cent, respectively, while alumina production contracted by 1.6 per cent. Export volumes of crude bauxite increased by 68.0 per cent, while that for alumina contracted by 2.5 per cent. The performance of the sector occurred within a context of improved worker productivity and industrial tranquility up to the September

Table 48

SECTORAL CONTRIBUTION TO GROWTH CALENDAR YEAR 2001

	Estimated Impact on Growth
1. GOODS	Positive
AGRICULTURE FORESTRY & FISHING	Positive
MINING & QUARRYING	Positive
MANUFACTURING	Positive
CONSTRUCTION & INSTALLATION	Positive
2. SERVICES	Positive
BASIC SERVICES	Positive
Electricity & Water	Positive
Transport Storage & Communication	Positive
OTHER SERVICES	Negative
Distributive Trade (Wholesale & Retail)	Positive
Financing & Insurance Services	Negative
Real Estate & Business Services	Positive
Producers of Government Services	Positive
Miscellaneous Services	Negative
Households & Private Non-Profit Instit	Positive
3. IMPUTED SERVICE CHARGES	Positive
TOTAL GDP	Positive

quarter of 2001. However, growth in the output of the sector declined significantly during the December quarter of 2001 relative to the preceding quarter. This was due to the temporary closure of the Jamalco Halse Hall plant, which accounts for 27.0 per cent of the country's alumina production. The closure, which initially resulted from an industrial dispute was extended by management to facilitate maintenance work. Accordingly, alumina and crude bauxite production fell by 22.0 per cent and 18.2 per cent, respectively, relative to the September quarter.

Marginal growth is estimated to have occurred in the manufacturing sector during 2001. This estimate was supported by indicators, which showed improved performance in food processing, alcoholic and non-alcoholic beverages, petroleum refinery and non-metallic minerals sub-sectors. The non-metallic sub-sector was assessed to have recorded positive growth in 2001 based primarily on higher Carib cement production relative to 2000. It is estimated that growth in the above mentioned sub-sectors was partially offset by decline in the production of sugar molasses & rum, tobacco & tobacco products, textiles & wearing apparels and leather & textile products.

The construction sector is estimated to have grown marginally during the review year. Growth in the sector is inferred from increases in the production and sales of cement, asphalt, the importation of construction materials and National Housing Trust (NHT) mortgage activities. Asphalt sales increased by 49.9 per cent in 2001 relative to 2000, while production grew by 130.5 per cent. In

addition, production by Carib cement during the year increased by 14.1 per cent relative to 2000. Mortgages categorized by the NHT as home improvement and construction loans are reflective of current construction activities. The total number of NHT mortgages for home improvement and construction loans in 2001 increased by 96 per cent relative to 2000. The corresponding value of these mortgages in 2001 was 208 per cent higher than in 2000.

Several government infrastructure projects, as well as various installations by the utility companies were undertaken in 2001 and therefore provided a growth impetus for the construction sector. Further, the construction of cellular sites in the rapidly growing telecommunications industry, partially explains the continued increase in the importation of construction material in 2001. Growth in the construction sector is also inferred from loans to the sector, which increased by 15.5 per cent in 2001 relative to 2000.

The services sector is estimated to have grown in 2001, in spite of the severe fall-out from tourism in the last quarter. With respect to basic services, estimates suggest that there was a continuation of the buoyancy observed in the sector during the previous year. The positive growth assessed for the electricity & water sub-sector in 2001 is inferred primarily from expansion of 1.8 per cent in total electricity sales relative to 2000. Specifically, electricity sales categorized as industrial, and other electricity increased by 1.4 and 2.5 per cent, respectively. Partially offsetting the growth in the electricity sub-sector was the fall in water production of 1.7 per cent in 2001 relative to 2000.

It is estimated that the transport storage and communication sub-group grew, given expansion in road, water, and air transport, storage & warehousing, and communication. With respect to the communications sub-sector, firms have been investing in technology in order to increase the volume of services and range of products offered to consumers with the ultimate objective of increasing market share.

For the distribution sector, marginal increase is estimated for the review year. This is predicated mainly on the expansion in merchandise imports.

As indicated by the performance of the tourism sub-sector, the miscellaneous services sector is estimated to have contracted in 2001, compared with expansion of 5.3 per cent in 2000. Visitor arrivals declined by 5.1 per cent in 2001 in contrast to an expansion of 10.8 per cent in the previous year. The other indicators such as total expenditure, stopover and cruise passengers were all negative in 2001.

The tourism industry recorded fairly low growth during the first half of 2001, following the record growth in the previous year. For the period January to June 2001 total visitor arrivals grew by 2.6 per cent, compared to growth of 10.4 per cent for the same period in 2000. Visitor arrival for the July to August 2001 period declined by 5.4 per cent relative to the similar period in 2000, indicating that the social upheavals of July had some negative impact on the industry.

Following on the events of 11 September in the US, there was a contraction of 17.4 per cent in visitor arrivals during the December 2001 quarter, relative to the corresponding period of 2000. With price discounting, this resulted in a decline in estimated expenditure of 21.8 per cent. Foreign national arrivals contracted by 21.1 per cent, of which arrivals from the U.S.A., Jamaica's main source market, declined by approximately 19.5 per cent. The cruise sector was also affected, recording a decline of 12.0 per cent. This overall contraction in the industry was consistent with trends in the rest of the world where travel was estimated to have fallen off significantly given security concerns.

The financial services sector, is estimated to have recorded a marginal contraction in 2001 relative to expansion of 10.6 per cent in 2000. The performance of the sector in the review period was adversely affected by declines in the value added of the Central Bank and commercial banks. The decline in the value added of the Central Bank was underpinned by the significant increase in interest

expenses due to open market operations. For the commercial banking sector, the reduction in value added was largely attributable to the rise in intermediate inputs, such as advertising, audit, legal fees and other operating costs.

The decline in the value added of the Central Bank and commercial banks was partly offset by improvements in the performance of the near banks and the insurance sub-sectors. In terms of the near bank sub-sector the improvement in value added was attributable to the expansion in income via fee earning activities and foreign exchange gains. Further, there was an increase in interest income as a result of higher earnings from loans and advances. The insurance sub-sector benefited from the injection of new capital and internal restructuring.

Outlook

For 2002, the economy is expected to grow within the range of 2.0 - 4.0 per cent. This projection is predicated on positive performances in the goods producing sectors, as well as most of the services sectors.

In the goods producing sector, agriculture is expected to register significant growth in 2002. The resurgence of strong growth in agriculture is contingent on continued favourable weather, as well as positive results from the various initiatives that have been implemented to stimulate production and productivity within the sector. Prominent among these are the Agricultural Support Services Project (ASSP), the Banana Support Programme, the Fruit Tree Crop Project, Eastern Jamaica Agricultural Support Project, Crop Production and Marketing Project, Citrus Replanting Project and Jamaica Milk Marketing Project.

Continued growth is being projected for the construction and installation sector in 2002 based on several road construction and rehabilitation projects being implemented by the Government. Chief among these projects is Highway 2000, which should also engender other types of construction activities. Construction of new as well as ongoing residential housing units both by private individuals and the public sector is expected to contribute to the overall growth of the sector as mortgage institutions respond to lower interest rates.

The mining sector should continue to grow in 2002. The resumption of mining operations at the Jamalco plant in late December 2001 and expectations for the continuation of growth in crude bauxite exports augur well for the industry. Incremental growth in capacity and output is likely in view of ongoing expansion and upgrading programme at Alpart. This programme is aimed at increasing output from that plant from 1.6 million tonnes of alumina per year to 1.7 million tones by the year 2003, as well as improving fuel efficiencies in the smelting process.

The recent filing by Kaiser Aluminium Corporation for bankruptcy protection in the United States is not expected to have substantial negative repercussions for the Jamaican industry. In addition, the forecast is for growth to resume in the advanced economies led by the USA in the second half of 2002. This should stimulate world demand for aluminium and hence an improvement in the price of alumina.

The basic services sector is expected to continue to grow, given the planned and on-going investments in new electricity generating capacity and greater efficiency in distribution. In addition efforts to widen the existing slim reserve margin of the electricity production system, should augur well for the economy in terms of minimizing production downtime.

The outlook for the communication sub-sector is expected to be improved by continued investments and upgrading in telecommunications. In addition, Government has pledged its commitment to create the environment necessary to facilitate new investments in information technology, which should provide a range of new services, as well as employment opportunities.

Within the "other services" sub-sectors, growth in the miscellaneous sector is expected to be marginal, as the tourism industry is not projected to return to former growth levels before the latter part of 2002. The tourism industry is expected to benefit from increased promotional expenditure designed not only to counter negative perceptions, but also to market Jamaica as a unique travel destination in relatively new areas, such as culture and eco-tourism. The development of port facilities in Port Antonio should also help to bolster the cruise shipping industry and other marine based tourism. The sector is also expected to benefit from the Sustaining the Environment and Tourism (SET) project which is aimed at improving and sustaining the physical environment of resort towns through beautification, sanitation and enhancing visitor convenience.

The continued injection of capital, new ownership and changes in the management structures through mergers and or acquisitions in the commercial banking sector and the insurance industry are expected to have a positive impact on the financial sector. In addition, the positive outlook for new investments in the economy created by the relatively stable macroeconomic environment should lead to an increase in loan demand. This expected buoyancy in economic activity should also augur well for the distribution sector.

Adherence to the macroeconomic policy framework, which facilitates low inflation and a stable exchange rate, is fundamental to sustaining the downward trajectory of interest rates. Reduced interest rates should lower the cost of borrowing to the private sector, thereby enhancing the feasibility and scope of a greater number of investment projects and hence economic growth.

Prices

The 12-month point-to-point headline inflation rate at December 2001 was 8.7 per cent, compared with 6.1 per cent for 2000. This outturn marked the first time since the close of the 1960's that Jamaica has attained five consecutive years of single digit inflation. However, the outturn represented a slight departure from the ten-year declining trend in annual point-to-point inflation being recorded since 1991 (Chart 9).

Factors affecting Inflation

The inflation outturn for 2001 was relatively favourable when viewed against the shocks that threatened to derail the single digit objective. The major concerns were increased bus fares, higher postal rates and increased agriculture prices consequent on periods of adverse weather conditions. In addition, there was some pass-through to prices of exchange rate depreciation, particularly towards the latter part of the year. Over the course of the year, the value of the Jamaican dollar, depreciated by 4.1 per cent, compared to 10.2 per cent in 2000. This depreciation was largely due to uncertainties regarding foreign currency flows after the events of 11 September.

Chart 9

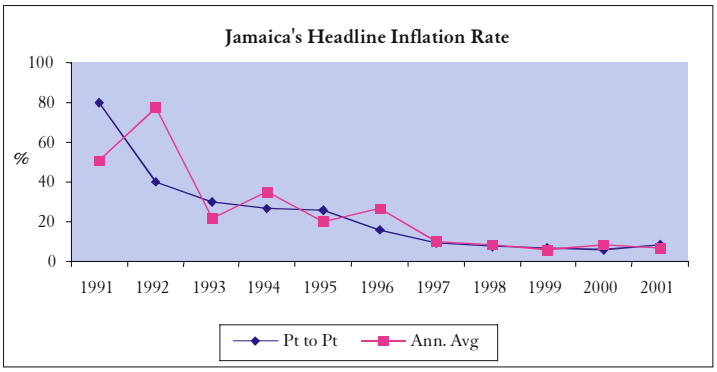
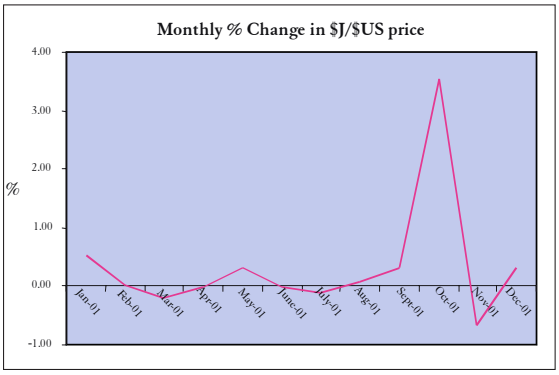


Table 49

International Prices of Selected Commodities (US$) Annual Averages

Commodity	Units	1999	2000	2001
Vegetable Oils				
Coconut Oil	$/mt	737.1	450.3	318.1
Groundnut oil	$/mt	787.7	713.7	680.3
Soybean Oil	$/mt	427.3	338.1	354.0
Grains				
Soybean meal	$/mt	152.2	189.2	181.0
Soybean	$/mt	201.7	211.8	195.8
Maize	$/mt	90.2	88.5	89.6
Sorghum	$/mt	84.4	88.0	95.2
Wheat Canada	$/mt	151.3	147.1	151.5
Rice (A1)	$/mt	192.6	143.5	134.1
Raw Materials				
Cotton, 'A'	¢/kg	117.1	130.2	105.8
Rubber, US	¢/kg	80.9	83.2	74.7
TSP	$/mt	154.5	137.7	126.9
Zinc	¢/kg	107.6	112.8	88.6

Chart 10



The seasonal low prices that are normally attributed to the resurgence in agricultural produce were very late in materializing in 2001. The supply of agricultural produce was disrupted by adverse weather conditions in the year. There was drought in the early months followed by heavy rains in the last quarter. These factors resulted in a shift in the planting cycle. In addition, some crops were destroyed by fungal infestation associated with excessive and prolonged moisture. The result of the foregoing was that the customary pattern of price movements in the Starchy Foods and Vegetables & Fruits sub-groups was shifted with price reductions occurring later than expected. The seasonal pattern is depicted relative to the actual

Chart 11

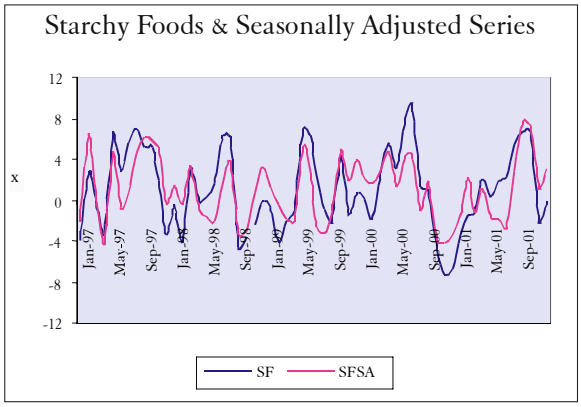
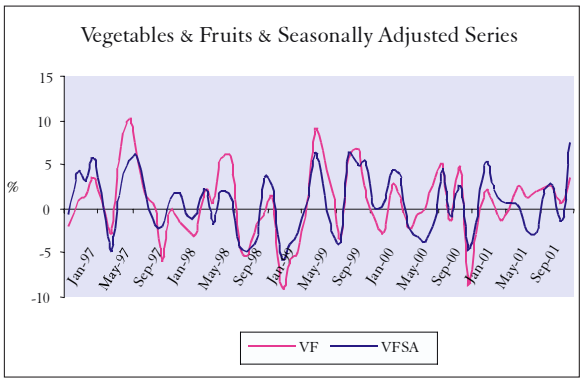


Chart 12



price movements over the last five years in Charts 11 and 12.

Adjustments in administered prices were also a major factor in the inflation outturn in 2001. The increases in bus fares and the cost of postage jointly accounted for approximately 25.0 per cent of the year's inflation.

There were however, some countervailing factors that helped to moderate inflation in the year. In particular, international oil prices declined in 2001 relative to the increase in 2000. The average price of West Texas Intermediate (WTI) crude oil in 2000 was US$30.33 per barrel, while in 2001 it fell to an average of US$25.92 per barrel. Oil prices fell steadily throughout the review year up to 11 September, but fell more steeply thereafter as the global economic downturn depressed demand

Table 50

Jamaica: Component Contribution to Inflation 2000 vs 2001

Groups and Sub-groups	Group Weights	Price Inflation (%)		Contribution to Inflation (%)	
		2000	2001	2000	2001
FOOD & DRINK					
- Meals Away From Home	0.5563	4.4	6.8	39.7	43.9
- Meat, Poultry & Fish	0.0741	5.6	3.1	7.1	2.7
- Dairy Products Oils & Fats	0.1613	2.7	4.9	7.4	9.3
- Baked Products, Cereals	0.0668	4.2	5.3	4.8	4.2
&Breakfast Drinks	0.0864	5.9	2.0	8.7	2.1
- Starchy Foods	0.0525	8.9	17.6	8.0	10.9
- Vegetables & Fruits	0.0650	-0.1	14.1	-0.1	10.9
- Other Food & Beverages	0.0502	4.6	6.3	3.9	3.8
FUELS & OTHER HOUSEHOLD SUPPLIES	0.0735	7.6	10.7	7.7	7.0
- Household Supplies	0.0482	2.6	2.7	2.2	1.6
- Fuels	0.0253	12.8	18.1	5.5	5.4
HOUSING & OTHER HOUSING EXPENSES	0.0786	17.5	4.0	23.6	6.1
- Rental	0.0209	18.5	29.4	6.6	7.3
- Other Housing Expenses	0.0577	17.3	-1.7	17.0	-1.2
HOUSEHOLD FURNISHINGS & FURNITURE	0.0283	8.9	4.8	4.4	1.5
- Furniture	0.0068	6.0	10.0	0.7	0.8
- Furnishings	0.0215	10.1	2.8	3.7	0.7
HEALTHCARE & PERSONAL EXPENSES	0.0697	6.7	5.5	7.9	4.6
PERSONAL CLOTHING FOOTWEAR & ACC.	0.0507	4.5	3.4	3.8	2.0
- Clothing Materials	0.0055	0.6	1.4	0.1	0.1
- Readymade Clothing & Accessories	0.0242	3.2	2.8	1.3	0.8
- Footwear	0.0159	7.1	4.1	1.9	0.8
- Making & Repairs	0.0051	5.5	5.4	0.5	0.3
TRANSPORTATION	0.0644	3.9	26.6	4.3	20.3
MISCELLANEOUS EXPENSES	0.0785	6.3	15.7	8.5	14.6
ALL GROUPS	1.0000	6.1	8.7	100.0	100.0

even further. Additionally, OPEC was reluctant to cut supplies to match lower demand and risk sharp reversals in prices given the fragile conditions of world markets at the time.

World commodity prices also assisted in moderating domestic prices in 2001. Items such as soybeans, rice, coconut oil and groundnut oil reflected declines of 8.0 per cent, 7.0 per cent, 29.0 per cent and 5.0 per cent, respectively, in their average prices relative to 2000.

Contribution to Inflation

The inflation out turn in 2001 was largely reflected in increases in the Food & Drink, Transportation and Miscellaneous Expenses sub-indices. These three sub-indices expanded by 6.8 per cent, 26.6 per cent, and 15.7 per cent, respectively, and contributed 43.9 per cent, 20.3 per cent, and 14.6 per cent of the total inflation out turn, respectively. Within the Food & Drink sub-index, the Starchy Foods and Vegetables & Fruits sub-groups provided equal impetus to the increase in prices, reflecting overall increases in the prices of yams, potatoes, tomatoes, carrots, cabbages and escallion. The Meat, Poultry & Fish sub-group also provided a significant stimulus to prices primarily as a consequence of a 10.0 per cent increase in the retail price of poultry early in the year. The prices of substitutes such as beef and pork also increased in the subsequent months of 2001.

For the Transportation sub-index, the administered increase in bus fares in June exerted the greatest impulse to prices. For the month prices

rose 1.7 per cent with the impact of the increased bus fares accounting for 1.3 percentage points. For the full year, this sub-index contributed 20.0 per cent to the inflation outturn despite significant declines in the cost of air travel.

The Miscellaneous Expenses sub-index was affected by an average 50.0 per cent increase in postage cost. In addition, there was an eight-fold increase in the basic cost of sending a telegram. Despite the lower weights on telegrams the considerable increase propelled it to greatest importance in the group. These escalations were a part of initiatives intended to make the postal industry profitable.

Regional Inflation

Over the year, the index for the KMA and the Other Towns both increased by 9.7 per cent, while the index for the Rural Areas increased by 6.8 per cent. The disparity in price movements was primarily due to the effects of disproportionate increases in bus fares. Whereas fares were doubled on some routes in the corporate area, the highest increase in the Other Towns and Rural Areas was 33.3 per cent. For the Other Towns, the disparity from Rural Areas stemmed from the influence of the Starchy Foods sub-group and the Miscellaneous Expenses sub-index. The Starchy

Table 51

Regional Inflation 2001

Groups/Sub-groups	Weight in CPI	KMA (%)	Other Towns (%)	Rural (%)
FOOD & DRINK	0.5563	6.9	8.2	6.0
- Meals Away From Home	0.0741	3.2	2.4	3.5
- Meat Poultry & Fish	0.1613	5.8	5.1	3.6
- Dairy Products Oils & Fats	0.0668	4.9	6.2	5.4
- Baked Products, Cereals & Breakfast Drink	0.0864	3.3	2.2	0.7
- Starchy Foods	0.0525	20.6	28.9	12.4
- Vegetables & Fruits	0.0650	14.8	16.8	12.0
- Other Food & Beverages	0.0502	6.4	7.5	5.7
FUELS & OTHER HOUSEHOLD SUPPLIES	0.0735	7.5	8.3	16.5
- Household Supplies	0.0482	3.0	3.7	1.9
- Fuels	0.0253	11.9	11.9	31.3
HOUSING & OTHER HOUSING EXPENSES	0.0786	7.4	-0.3	-0.6
- Rental	0.0209	36.4	7.9	7.9
- Other Housing Expenses	0.0577	-2.0	-1.3	-1.6
HOUSEHOLD FURNISHINGS & FURNITURE	0.0283	4.8	5.7	4.2
- Furniture	0.0068	4.1	12.7	13.9
- Furnishings	0.0215	5.2	3.0	0.3
HEALTHCARE & PERSONAL EXPENSES	0.0697	5.6	6.5	4.7
PERSONAL CLOTHING FOOTWEAR & ACC.	0.0507	4.3	3.2	2.6
- Clothing Materials	0.0055	2.1	0.9	0.4
- Readymade Clothing & Accessories	0.0242	4.3	2.3	1.9
- Footwear	0.0159	3.5	3.3	5.2
- Making & Repairs	0.0051	8.2	8.9	0.1
TRANSPORTATION	0.0644	46.8	8.5	12.2
MISCELLANEOUS EXPENSES	0.0785	13.0	30.1	10.0
ALL GROUPS	1.0000	9.7	9.7	6.8

Chart 13

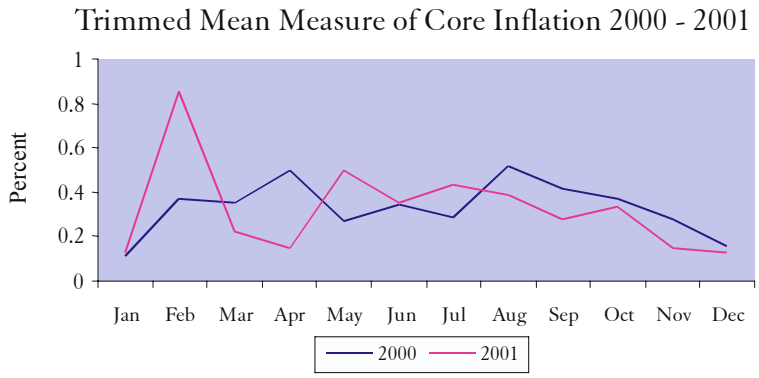


Table 52

DECOMPOSITION OF INFLATION OUTTURN: CALENDAR YEAR 2001		
	(%) FYTD	CONTRIBUTION
SHOCKS	4.87	55.7%
TRANSPORTATION	1.71	19.6%
OTHER HOUSING EXPENSES	0.44	5.1%
Light	-0.15	1.8%
Water	-0.02	0.2%
Rental	0.61	7.0%
AGRICULTURE	1.84	21.1%
Starchy Foods	0.92	10.6%
Vegetables & Fruits	0.92	10.5%
POSTAGE	0.88	10.0%
CORE	3.87	44.3%
TOTAL	8.74	100.0%

Foods sub-group was affected by shortages in supply brought on by vendors bypassing these markets for the corporate area markets, while the Miscellaneous Expenses sub-index reflected a structural change in the basket caused by the closure of a low-priced cinema in the region.

Core Inflation

For the year core inflation was 3.98 per cent compared to 4.03 per cent in 2000. On a monthly basis, core has been on a declining trend since February when it peaked at 0.85 per cent, and by December was estimated to be 0.13 per cent. This out-turn for core inflation is largely consistent with the containment in the growth of the monetary aggregates over the review year. The relatively tight policy stance of the Central Bank throughout the year was reflected in the restrained growth of the monetary aggregates. The stylized decomposition below shows that agricultural influences were most significant in the 2001 outturn, with core remaining less than 50.0 per cent of total inflation. The Bank is projecting inflation in the range of 5.0 - 6.0 per cent for fiscal year 2002/03. This is predicated on relative stability in the exchange rate, stable international commodity prices, no increase in administered prices and the continuation of favourable weather conditions.

8. Banking and Currency Operations

(a) Banking

Banking Services

The Bank of Jamaica provides a wide range of banking services. Its main customers include the Government, commercial banks, primary dealers and other central banks. As fiscal agent the Bank provides advice to the Government in relation to debt issues and administers new borrowings in the domestic Treasury Bill and bond markets.

The Bank provides cheque clearing and settlement facilities for the local banking system and plays a supervisory and policy framing role in this regard. During the year a total of 11.10 million items valued at J$1 619.77 billion were exchanged through the local clearing relative to 11.06 million items cleared in 2000 and valued at J$1 516.82 billion.

The Bank of Jamaica's oversight role is facilitated through the Bank of Jamaica Act, the Banking Act, the Financial Institutions Act and the Currency Issue and Redemption Statutes. In addition, the Clearing House Rules codify the arrangements between member banks (including the BOJ) with respect to the local clearing of both Jamaica and US dollar instruments.

The Bank continues to provide vaulting services to the Jamaica Central Securities Depository (JCSD). A wholly owned subsidiary of the Jamaica Stock Exchange Limited, the JCSD's main functions are to provide safekeeping of shares and certificates and to facilitate more efficient equities trading with a shorter turnaround time for settlement and delivery of certificates.

Developments in the Payment and Settlement Systems

The Jamaican banking industry has taken steps towards modernising the domestic payment and settlement systems through the establishment of an automated clearing house (ACH) facility. The ACH represents the collaborative efforts of the six local commercial banks and the Bank of Jamaica. The ACH will replace the manual clearing system and allow the electronic clearing and settlement of negotiable instruments. The recourse and hold periods for cheques will be synchronized and reduced so that customers will receive 'cleared' funds within 3 business days of a cheque deposit instead of the current 5 to 7 days. Multilateral netting will take place and settlement will continue to be settled through accounts at the Central Bank.

The ACH will be implemented on a phased basis starting in 2002. In Phase 1 cheques, direct debits and direct deposits (for payroll, dividends, pensions, etc.) will be processed through the ACH. In a subsequent Phase II there will be new clearing processes such as cheque truncation which can eliminate physical presentation and further speed up clearing and settlement, digital imaging, using cheques as the source of information to create an electronic payment at point of sale or point of deposit and electronic payment products. When fully implemented the ACH will allow banks to offer a range of new and enhanced products and services to their customers in a cost-effective and efficient way.

Other activities in relation to the payment system include the settlement of regional payments through the CARICOM bilateral arrangements and the exchange of CARICOM currencies.

(b) Currency

The Bank of Jamaica has responsibility for the physical integrity of the Jamaican currency of which it is a monopoly supplier. The Bank keeps the security, design and denominational structure of its notes under constant review to ensure that they remain well protected from counterfeiting. During 2001 currency activities were focused mainly on consolidating the efficiencies gained from initiatives to rationalize the currency

structure in the previous year. Throughout the year, the Bank continued its educational programme, targetting large-volume cash handlers in the retail and financial services sectors, to improve their knowledge and awareness of the security features of the banknotes.

Banknotes Issued

The Bank continued its clean note policy as a major thrust of its ant-counterfeit strategy. In addition, the increasing use of Automated Teller (Banking) Machines (ATMs) necessitated the issuance of larger quantities of new notes to keep pace with the demand for ATM-quality notes.

For the year under review, banknotes valued at $40.56 billion were issued to the public. This figure represents a 23 per cent (or $7.63 billion) increase over the previous year. Of banknotes issued in 2001, 68.7 per cent were new notes, representing a significant increase when compared to the 56.4 per cent in the year 2000.

The issue patterns for the various denominations were influenced by the introduction of the $1000 banknote in 2000 as well as the coining of the $20 denomination in that year. The year 2001 marked the first full year of circulation for the $1 000 banknotes. A decline in the demand of the $500 note, which followed the introduction of the $1 000 in 2001, subsequently leveled off in 2001. The $500 notes accounted for 30 per cent of the value of currency in circulation at year-end compared with 38 per cent at the end of 2000. In comparison the $1 000 note represented 59 and 49 per cent of the value of currency in circulation at the end of 2001 and 2000, respectively. The coining of the $20 denomination has resulted in a shift in demand to what has now become the low value utility denominations: the $100 and $50 notes.

Due to the short useful lives of the lower denominations ($100 and $50 banknotes) only a small percentage of these notes could be reissued for ATM use

Coins Issued

The value of coins issued to the public in 2001 declined by 15 per cent when compared to 2000. The $20 coin accounted for 60 per cent of total issues, followed by the $10 and $5 with 22 per cent and 10 per cent, respectively.

Redemptions and Banknote Processing

Bank notes valued at $38.95 billion (or 106.9 million pieces) were processed during the year, of which $38.8 billion or (105.5 million pieces) were redeemed by commercial banks. A total of 73.97 million pieces ($20.44 billion) or 69 per cent of these were destroyed on- line. In the previous year, 139.3 million pieces were processed, of which 108.5 million or 78 per cent were destroyed. The decline in 2001 was due mainly to the elimination of the

Table 53

Analysis of Total Notes Issued
(Per centages)

	2000		2001	
Denomination	New Notes	ATM-Fit Notes	New Notes	ATM-Fit Notes
Total Notes Issued	56.42	43.58	68.74	31.26
$1 000	76.00	24.00	50.12	49.88
$500	21.88	78.12	52.78	47.22
$100	86.79	13.21	82.13	17.87
$50	95.57	4.43	88.55	11.45
$20	99.40	0.60	N/A	N/A

$20 banknote and its replacement with the higher value $1 000 note with a significantly lower rate of circulation.

Currency In Circulation

In 2001 currency in circulation grew by 7.9 per cent to $22.34 billion. Banknotes accounted for $21.57 billion or 96 per cent of the currency in circulation.

9. Financial Legislation

In 2001 the following items of legislation relating to the regulation of the financial sector were enacted:

1. **The Financial Services Commission Act, 2001**

   The purpose of this Act is to establish the Financial Services Commission as the regulatory body for persons and entities providing services in connection with insurance, securities and unit trusts.

2. **The Securities (Amendment)Act, 2001**

   This Act amends the Securities Act to incorporate the regulatory provisions introduced by the Financial Services Commission Act.

3. **The Unit Trusts (Amendment) Act, 2001**

   This Act amends the Unit Trusts Act to incorporate the regulatory provisions introduced by the Financial Services Commission Act.

4. **The Bank of Jamaica (Amendment) Act, 2001**

   The purpose of this Act is to incorporate the Bank of Jamaica Act provisions to allow the Supervisor of Banks and Financial Institutions to share information relating to supervised deposit-taking institutions with the Chief Executive Officer of the Jamaica Deposit Insurance Corporation, the Executive Director of the Financial Services Commission and the Financial Secretary.

5. **The Insurance Act, 2001**

   This Act repeals the old Insurance Act and establishes a new and comprehensive regime governing the conduct of insurance business in Jamaica.

10. Administration

In the year under review the management of the Bank sought to consolidate earlier efforts at organizational restructuring aimed at strengthening the Bank's capacity to meet its mission and strategic objectives. To this end, the Bank's administrative operation continued to emphasize staff development, improved administrative procedures and the enhancement of the Performance Appraisal System which was revised and reintroduced in 2000. The revised Performance Appraisal System focused on improving individual performance and development and hence organizational growth.

Staffing

As at 31 December 2001, the number of permanent and contract employees totalled 414 and 10 respectively. During the year, eighteen 18 individuals were recruited to work in the areas of economics and financial analysis. Of this number, 12 persons possessed postgraduate degrees and other professional designation such as ACCA, while the remaining 6 had first-degrees. An additional seventeen 17 persons were recruited to provide clerical and technical support. During the year, the rate of staff turnover remained relatively stable, 7.4 per cent compared to 7.6 per cent in 2000.

Training

The Bank of Jamaica is committed to maintaining and retaining a highly motivated and well trained team of professionals. In its second year of operation, the Bank's Training Institute facilitated the training and development of staff at the management, technical and clerical levels. A variety of training programmes, inclusive of courses, seminars, workshops, conferences and attachments, were arranged locally and overseas. During the year, several programmes in the areas of economics, banking and financial management were conducted utilizing both local and overseas facilitators. Of significance was a two-week in-house programme on Credit Risk Analysis hosted jointly by the Bank and the United States Federal Reserve Bank and a seminar cohosted with Thomas De la Rue on The Security Features of the euro. This seminar afforded regional and local members of the financial and business community an opportunity to become familiar with the security features of the euro introduced in the European Economic Community in January 2002. During the year, 35 members of staff participated in 24 overseas training programmes, while 332 staff members participated in sixty-one 61 local programmes.

Industrial Relations

In 2001, the industrial relations climate within the Bank remained calm, reflecting progress made by the management, staff and Union representing unionized staff, The Bustamante Industrial Trade Union (BITU) in developing a harmonious industrial relations environment within the institution. The two-year Labour/Management Salary and Benefits Agreement between the Bank's Management and the BITU expired on 31 March 2000. After several rounds of discussion between the management and the union, the matter was referred to the Industrial Disputes Tribunal (IDT) for settlement. On 23 November 2001 the IDT handed down its award which has since been implemented.

Physical Upgrading

Over the review period, the Bank continued the second phase of its three-year capital development programme. The programme which includes rehabilitation of the Bank's building infrastructure and the refurbishing of several departments is aimed at ensuring a safe and productive work environment, while maintaining the property as an important national institution and landmark.

11. Compensation of Executive Management

Salary Range of Executive Management

$4,601,737 - $7,843,544

Allowances of Executive Management

(a) Governor
$1,277,705

(b) Deputy Governors
$654,988 - $979,847

Notes

Executive Management includes the Governor and three (3) Deputy Governors.

1. A fully maintained official residence and an official car are provided for the Governor. However, in the case of the incumbent, a rental allowance is paid in lieu of the provision of an official residence.

2. Allowances for the Governor represent rental and utilities, while allowances for Deputy Governors reflect motor vehicle upkeep/payment in lieu of a fully maintained car.

3. Each member of the Executive Management is eligible for staff benefits including a non-contributing pension plan, health insurance, life insurance, and staff loans.

4. Salary for Year 2001 now includes consolidation of allowances, that were previously treated separately, into basic salary, as recommended by the Board.

12. Calender of Monetary Developments

January - December 2001

2001 01 17 The 365-day Reverse Repurchase Rate was reduced from 21.00 per cent to 20.50 per cent.

2001 02 14 The 270-day Reverse Repurchase Rate was reduced from 20.00 per cent to 19.25 per cent.

The 365-day Reverse Repurchase Rate was reduced from 20.50 per cent to 20.00 per cent.

2001 02 20 The 270-day Reverse Repurchase Rate was reduced from 19.25 per cent to 18.75 per cent.

The 365-day Reverse Repurchase Rate was reduced from 20.00 per cent to 19.50 per cent.

2001 03 01 Commercial banks' liquid assets in respect of local and foreign currency liabilities reduced from thirty-one per cent to thirty per cent.

Cash reserve ratio of commercial banks' local and foreign currency liabilities reduced from thirteen per cent to twelve per cent.

2001 03 01 Liquid assets ratio of FIA institutions in respect of local and foreign currency liabilities reduced from thirty-one per cent to thirty per cent.

Cash reserve ratio of FIA institutions in respect of local and foreign currency liabilities reduced from thirteen per cent to twelve per cent. Dual cash reserve ratios of one per cent and twelve percent for Building Societies in respect of local and foreign currency liabilities.

2001 03 08 The 270-day Reverse Repurchase Rate was reduced from 18.75 per cent to 18.25 per cent.

The 365-day Reverse Repurchase Rate was reduced from 19.50 per cent to 19.00 per cent.

2001 03 12 The 30-day Reverse Repurchase Rate was reduced from 16.45 per cent to 16.00 per cent.

The 270-day Reverse Repurchase Rate was reduced from 18.25 per cent to 17.75 per cent.

The 365-day Reverse Repurchase Rate was reduced from 19.00 per cent to 18.50 per cent.

2001 03 22 The 30-day Reverse Repurchase Rate was reduced form 16.00 per cent to 15.50 per cent.

The 270-day Reverse Repurchase Rate was reduced from 17.75 per cent to 17.00 per cent.

The 365-day Reverse Repurchase Rate was reduced from 18.50 per cent to 17.75 per cent.

2001 04 11 The 270-day Reverse Repurchase Rate was reduced from 17.00 per cent to 16.75 per cent.

The 365-day Reverse Repurchase Rate was reduced from 17.75 per cent to 17.50 per cent.

2001 05 21 The 30-day Reverse Repurchase Rate was reduced from 15.50 per cent to 14.75

The 270-day Reverse Repurchase Rate was reduced from 16.75 per cent to 15.70 per cent.
The 365-day Reverse Repurchase Rate was reduced from 17.50 per cent to 16.50 per cent.

2001 06 01 Commercial banks' liquid assets in respect of local and foreign currency liabilities reduced form thirty per cent to twenty-nine per cent.

Cash reserve ratio for commercial banks' in respect of local and foreign Currency liabilities reduced from twelve per cent to eleven per cent.

Liquid assets ratio of FIA institutions in respect of local and foreign Currency liabilities reduced form thirty per cent to twenty-nine per cent.

Cash reserve ratio for FIA institutions in respect of local and foreign currency liabilities reduced from twelve per cent to eleven per cent.

2001 06 01 Dual liquid asset ratios of five per cent and twenty-nine per cent for Building Societies in respect of local and foreign currency liabilities.

Dual cash reserve ratios of one per cent and eleven per cent for Building Societies in respect of local and foreign currency liabilities.

2001 06 08 The 30-day Reserve Repurchase Rate was reduced from 14.75 per cent to 14.50 per cent.

The 270-day Reverse Repurchase Rate was reduced from 15.70 per cent to 15.35 per cent.

The 365-day Reverse Repurchase Rate was reduced from 16.50 per cent to 15.90 per cent.

2001 06 29 The Bank Of Jamaica has added Certificates of Deposit to the instruments used in the conduct of open market operations.

1. Primary Dealers and Commercial Banks will be able to purchase Certificates of Deposit (CDs) directly from the BOJ. The Certificates, issued in the name of the contracting institution are assignable. Except for the underlying securities, all other terms and conditions applicable to the Reverse Repurchase transactions apply to CDs.

2. Bank Of Jamaica will continue to conduct Reverse Repurchase evidenced by the Certificates of Securities Held. (COSH).

3. Central Bank deposits which are maintained in statement form (i.e. no physical certificate is issued) will continue to be used for placements of seven (7) days or less.

2001 09 01 Commercial banks' liquid assets in respect of local and foreign currency liabilities reduced from twenty-nine per cent to twenty-eight per cent.

Cash reserve ratio for commercial banks' in respect of local and foreign currency liabilities reduced from eleven per cent to ten per cent.

Liquid assets ratio of FIA institutions in respect of local and foreign currency liabilities reduced from twenty-nine per cent to twenty-eight per cent.

2001 09 01 Cash reserve ratio for FIA Institutions in respect of local and foreign currency liabilities reduced from eleven per cent to ten per cent.

Dual liquid assets ratios of five per cent and twenty-eight per cent for Building Societies in respect of local and foreign currency liabilities.

Dual cash reserve ratios of one per cent and ten per cent and for Building Societies in respect of local and foreign currency liabilities.

Dual liquid assets ratios of five per cent and thirty per cent for Building Societies in respect of local and foreign currency liabilities.

2001 10 23 Surrenders in Canadian dollars and Great Britain Pounds by all Authorised Dealers and Cambios to the Bank of Jamaica will be purchased at the previous day's published 10-day moving average selling rate of the respective currency.

The rate applicable to surrenders in United States dollars remains unchanged at the previous day's weighted average selling rate.

2001 10 30 The 270-day Reverse Repurchase Rate was increased from 15.35 per cent to 19.45 per cent.

The 365-day Reverse Repurchase Rate was increased from 15.90 per cent to 19.90 per cent.

2001 12 28 The 270-day Reverse Repurchase Rate was reduced from 19.45 per cent to 18.90 per cent.

The 365-day Reverse Repurchase Rate was reduced from 19.90 per cent to 18.90 per cent.

Auditors' Report

KPMG Peat Marwick
Chartered Accountants

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TO BANK OF JAMAICA

Pursuant to Section 43(1) of the Bank of Jamaica Act, we have audited the financial statements set out on pages 3 to 25 and have obtained all the information and explanations which we required. The financial statements are the responsibility of the directors and management. In preparing the financial statements, the directors and management are required to select suitable accounting policies and apply them consistently, make judgements and estimates that are reasonable and prudent, follow applicable accounting standards, and apply the going concern basis unless it is inappropriate to presume that the Bank will continue in operation for the foreseeable future. The directors and management are responsible for maintaining proper accounting records, for safeguarding the assets of the Bank, and for the prevention and detection of fraud and other irregularities. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Auditing Standards. Those standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors and management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been maintained and the financial statements, which are in agreement therewith and have been prepared in accordance with generally accepted accounting principles in Jamaica, give a true and fair view of the state of affairs of the Bank as at December 31, 2002 and of the results of its operations and its cash flows for the year then ended and, except for the matters referred to in notes 2(j) and 9, comply with the provisions of the Bank of Jamaica Act.

Without qualifying our opinion, we draw attention to notes 5(b) and 13(b), and mention the following:

(a) Of the approximately J$29.2 billion (2001: J$29.1 billion) of non-marketable securities, J$27 billion (2001: J$26.96 billion) comprise notes issued to the Bank by Finsac Limited, of which $13.3 billion (2001: J$13.3 billion) is guaranteed by Government of Jamaica.

(b) The interest earned on the Finsac notes comprise 26.3% (2001: 26%) of the Bank's interest revenue. However, no payments have been received or additional notes issued for all the interest earned on the Finsac notes up to and since the balance sheet date.

(c) Deposits and other demand liabilities include J$13.46 billion, being J$13.0 billion received from the Government to offset against Finsac Bonds and interest of J$0.46 billion, which is capitalized at 4% per annum.

KPMG Peat Marwick

April 8, 2002

Balance Sheet
December 31, 2001

	Notes	2001 J$'000	2000 J$'000
ASSETS			
Foreign assets			
Notes and coins		9,223	6,167
Cash resources	3	15,012,093	12,892,221*
Interest in funds managed by agents		1,850,377	1,677,111
Foreign currency denominated securities	4	72,992,293	33,293,372*
International Monetary Fund - Holding of Special Drawing Rights		68,895	3,822
		89,932,881	47,872,693
Local assets			
Notes and coins		39,196	25,496
Securities - marketable	5(a)	29,243,864	27,930,619
- non-marketable	5(b)	29,206,156	29,164,474
Advances to banks and other financial institutions	6	-	2,921,425
International Monetary Fund - Quota Subscription	7	1,798,707	1,721,258
Investments in financial institutions	8	3,360	3,360*
Due from Government and Government Agencies	9	9,026,607	8,556,035
Fixed assets	10	1,152,334	1,150,083
Other	11	6,027,543	2,825,261*
		76,497,767	74,298,011
		166,430,648	122,170,704

*Reclassified to conform with 2001 presentation.
The accompanying notes form an integral part of the financial statements.

Balance Sheet (cont'd)
December 31, 2001

	Notes	2001 J$'000	2000 J$'000
LIABILITIES, CAPITAL AND RESERVES			
Liabilities			
Notes and coins in circulation	12	22,367,790	20,572,228
Deposits and other demand liabilities	13	95,778,359	53,803,473
Securities sold under repurchase agreements	14	38,446,253	42,156,477
International Monetary Fund - Allocation of Special Drawing Rights	15	2,347,016	2,245,959
Foreign liabilities	16	291,721	378,697
Other	17	5,979,665	2,047,333
		165,210,804	121,204,167
Capital and reserves			
Capital		4,000	4,000
General Reserve Fund		20,000	20,000
Other reserves		1,195,844	942,537
		1,219,844	966,537
		166,430,648	122,170,704

_____Governor
D. M. Latibeaudiere

_____Senior Director, Finance and Technology
L. B. Morrison

_____Advisor, Finance and Technology
H. A. Hylton

The accompanying notes form an integral part of the financial statements.

Statement of Income and Expenses
Year ended December 31, 2001

	Notes	2001 J$'000	2000 J$'000
Operating income			
Interest		12,181,605	11,698,207
Foreign exchange gain, net	18	1,920,161	1,714,599
Other		102,321	56,021
Total		14,204,087	13,468,827
Operating expenses			
Interest		13,944,896	9,110,152
Salaries, pension scheme contributions, and staff and post retirement benefits		752,651	688,890
Currency expenses		223,592	176,465
Property expenses, including depreciation		244,808	210,832
Other operating expenses		217,173	308,739
Total	19	15,383,120	10,495,078
Net operating (loss)/income		(1,179,033)	2,973,749
Other gains/(losses)			
Bad debt recovery, net		-	(24)
Gain on revaluation of securities		96,192	98,213
Gain on disposal of fixed assets		5,559	5,988
Loss on disposal of investments in financial institutions		-	(100,000)
Expenditure on behalf of Government of Jamaica not reimbursed	9	(223,531)	(248,164)
Net (loss)/income for the year		(1,300,813)	2,729,762
Transferred to General Reserve Fund		(1,300,813)	(2,729,762)

The accompanying notes form an integral part of the financial statements.

Statement of Changes in Equity
Year ended December 31, 2001

	Share Capital J$'000	General Reserve Fund J$'000	Securities Revaluation Reserve J$'000	Special Stabilization Account J$'000	Fixed Assets Revaluation Reserve J$'000	Total J$'000
Balances at December 31, 1999	4,000	20,000	-	181,938	667,628	873,566
Total recognised gains and losses	-	2,729,762	24,159	-	(2,990)	2,750,931
Transfer from coins in circulation	-	-	-	71,802	-	71,802
Due to consolidated fund (see note 2 below)	-	(2,729,762)	-	-	-	(2,729,762)
Balances at December 31, 2000	4,000	20,000	24,159	253,740	664,638	966,537
Total recognised gains and losses	-	(1,300,813)	245,339	-	(2,982)	(1,058,456)
Transfer from coins in circulation	-	-	-	10,950	-	10,950
Due from consolidated fund (see note 2 below)	-	1,300,813	-	-	-	1,300,813
Balances at December 31, 2001	4,000	20,000	269,498	264,690	661,656	1,219,844

Note 1: Section 8 of the Act provides for the capital of the Bank to be $4,000,000, which has been paid by Government of Jamaica.

Note 2: Section 9 of the Act provides that the Bank shall establish and maintain a General Reserve Fund:

(a) to which, at the end of each financial year, the net income for that year shall be transferred or the net losses charged;

(b) from which shall be paid to the Consolidated Fund the amount by which, at the end of the financial year, the balance thereon exceeds five times the Bank's authorised share capital.

The accompanying notes form an integral part of the financial statements.

Statement of Cash Flows
Year ended December 31, 2001

	2001 J$'000	2000 J$'000
Cash provided by operating activities:		
Net (loss)/income for year	(1,300,813)	2,729,762
Adjustments to reconcile net (loss)/income for year to net cash provided by operating activities:		
Depreciation	126,950	109,402
Gain on disposal of fixed assets	(5,559)	(5,988)
Loss on disposal of investments in financial institutions	-	100,000
Unrealised exchange gain on overseas securities	245,339	24,159
Transfer from coins in circulation	10,950	71,802
Unrealised exchange gain on International Monetary Fund - Quota subscription	(77,449)	(110,108)
Unrealised exchange loss on International Monetary Fund - Allocation of SDR's	101,057	143,674
Net cash (used)/ provided by operating activities	(899,525)	3,062,703
Cash flows from investing activities:		
International Monetary Fund - Holding of Special Drawing Rights	(65,073)	23,503
Interest in funds managed by agents	(173,266)	(221,539)
Foreign currency denominated securities	(39,698,921)	(25,268,946)*
Securities purchased under resale agreements	-	118,000
Securities - marketable	(1,313,245)	4,358,226
- non-marketable	(41,682)	(2,105,521)
Advances to banks and other financial institutions	2,921,425	(2,142,123)
Due from Government and Government Agencies	830,241	(239,391)
Additions to fixed assets	(133,243)	(148,845)
Repayment of investment in promissory notes	-	6,753
Proceeds of disposal of fixed assets	6,619	9,439
Other assets	(3,202,282)	54,795
Net cash used by investing activities	(40,869,427)	(25,555,649)*
Cash flows from financing activities:		
Notes and coins in circulation	1,795,562	(237,232)
Deposits and other demand liabilities	41,974,886	6,759,241
Securities sold under repurchase agreements	(3,710,224)	14,784,863
Foreign liabilities	(86,976)	(60,828)
Other liabilities	3,932,332	874,758
Net cash provided by financing activities	43,905,580	22,120,802
Net increase/(decrease) in cash	2,136,628	(372,144)*
Cash at beginning of year	12,923,884	13,296,028
Cash at end of year	15,060,512	12,923,884*
Foreign notes and coins	9,223	6,167
Foreign currency cash resources	15,012,093	12,892,221*
Local notes and coins	39,196	25,496
	15,060,512	12,923,884*

*Reclassified to conform with 2001 presentation
The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements
December 31, 2001

1. Identification

Bank of Jamaica (hereafter "the Bank") was established under the Bank of Jamaica Act (hereafter "the Act"). The Act was most recently amended effective December 31, 1992.

The principal objects of the Bank, as set out in the Act, are to issue and redeem notes and coins; to keep and administer the external reserves of Jamaica; to influence the volume and conditions of supply of credit so as to promote the fullest expansion in production, trade and employment, consistent with the maintenance of money stability in Jamaica and the external value of the currency; to foster the development of money and capital markets in Jamaica; and to act as banker to the Government of Jamaica.

These financial statements are presented in Jamaica dollars (J$).

2. Basis of preparation and significant accounting policies

The financial statements have been prepared in accordance with Jamaican generally accepted accounting principles ("GAAP"). The significant accounting policies used in the preparation of these financial statements are summarised below and conform, in all material respects, to GAAP.

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, contingent assets and liabilities at the balance sheet date and the income and expense for the year then ended. Actual amounts could differ from these estimates.

The significant accounting policies are as follows:

(a) Accounting convention:

The financial statements are prepared under the historical cost convention, modified for the inclusion of certain fixed assets at valuation and marketable securities at market value.

(b) Foreign currencies:

The rate of exchange of the Jamaica dollar for the United States dollar is determined by the average of the weighted average rate at which the commercial banks trade in US dollars and the rate at which the Bank itself buys US dollars. The rates of exchange for other currencies are derived from the US$ rate thus determined using rates published by the Federal Reserve Bank and the Financial Times.

Foreign currency balances at the balance sheet date are translated at the rates of exchange prevailing at that date.

Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions.

Gains and losses arising from fluctuations in exchange rates are, respectively, credited and charged in arriving at the net result for the year.

Notes to the Financial Statements (cont'd)
December 31, 2001

2. Basis of preparation and significant accounting policies (cont'd)

(c) Investment securities:

Marketable investment securities, both domestic and foreign, are carried at market value. This includes all domestic government securities, whether or not they have more than a year to maturity, since such securities as are held are effectively available for sale, given that the Bank, by its nature, purchases and sells them in pursuit of its liquidity management objective. Where quoted market prices are available they are used to value securities. If not, market values are estimated using a generally acceptable alternative method.

Non-marketable securities [comprising certain local registered stock and Finsac Limited notes] are carried at cost.

Unrealised changes in the market value of securities are included in reserves as a revaluation adjustment; however, where a decrease exceeds a previously recorded surplus, the excess is charged to income; a subsequent increase is credited to income to the extent that any decreases were previously charged to income.

(d) Investments in financial institutions:

Investments in financial institutions are stated at cost less provision for losses. A provision for loss is made where, in the opinion of the directors, there has been a permanent impairment in the value of an investment. Consolidated financial statements are not prepared because the directors are of the view that, at this time, the cost is out of proportion to the benefit to be derived having regard to, *inter alia*, the nature of the activities of the investees. The only remaining subsidiary is in voluntary liquidation (see note 8).

(e) Fixed assets:

With the exception of land, art works, statues and museum coins, on which no depreciation is provided, and leasehold property, which is amortised in equal instalments over the shorter of the lease term and the property's estimated useful life, fixed assets are depreciated on the straight line method at annual rates estimated to write off the assets over their estimated useful lives. The depreciation rates are as follows:

Freehold property	5% and 10%
Leasehold property	Shorter of lease term and useful life
Furniture, plant and equipment	10%
Computer and software	20%
Motor vehicles	20%

(f) Notes and coins in circulation:

The nominal value of numismatic coins sold is included in notes and coins in circulation. The net proceeds from such sales are included in the statement of income and expenses.

Notes and coins in circulation is stated after a deduction of 25% of the value of coins in circulation in accordance with the Bank of Jamaica (Value of Coins in Circulation) Order 1973, as permitted under Section 22 of the Act. The deductions are credited to the special stabilisation account.

Notes to the Financial Statements (cont'd)
December 31, 2001

2. Basis of preparation and significant accounting policies (cont'd)

(g) Repurchase and resale agreements:

In accordance with generally accepted accounting principles, repurchase and resale agreements, which are described in more detail in note 14, are accounted for as short-term collateralized borrowing and lending, respectively.

(h) Taxation:

Section 46 of the Act exempts the Bank from income tax, stamp duties and transfer tax. The Bank's supplies are substantially exempt from general consumption tax (GCT); it incurs GCT at standard rates on taxable supplies acquired.

(i) Cost of retirement benefits:

The cost of retirement benefits is the cost to the Bank of its administration of, and contributions to, the pension scheme established to provide retirement benefits, and its payments to pensioners to supplement the basic pensions to which pensioners are entitled under the rules of the scheme (see note 20). The contributions are a percentage of the members' salaries; the percentage is determined by the scheme's actuaries using the *aggregate actuarial cost* method. The contributions are charged to income as they fall due; administration costs are charged when incurred; and supplemental payments are charged when paid.

(j) Statutory transfer of profits and losses:

Section 9 of the Act provides for each financial year's net income to be credited, or net loss charged, to the General Reserve Fund, and for the balance on the General Reserve Fund in excess of five times the Bank's authorised share capital to be transferred to the Consolidated Fund. Likewise, any losses not covered by reserves are required by the Act to be funded by Government out of the Consolidated Fund.

In applying this section, the Bank's directors, having regard to what is required to meet the Bank's objectives, including controlling inflation by, *inter alia*, controlling the supply of money and credit in the economy, have determined that the transfer of profits from the General Reserve Fund to the Consolidated Fund will be made:

(i) only after losses of previous years have been funded by Government;

(ii) only after amounts due from Government have been recovered; and

(iii) only to the extent that profits have been realised.

3. Cash resources

	2001 J$'000	2000 J$'000
Current accounts and money at call with foreign banks	14,884,189	12,674,250
Current accounts with local banks	127,904	217,971
	15,012,093	12,892,221

Notes to the Financial Statements (cont'd)
December 31, 2001

4. Foreign currency denominated securities

	2001		2000	
	Cost J$'000	Market J$'000	Cost J$'000	Market J$'000
Short-term deposits with foreign banks	45,822,092	45,822,092	23,483,212	23,483,212
US Government bonds	26,904,701	27,146,559	9,760,181	9,787,541
Barbados Government bond	23,642	23,642	22,619	22,619
	72,750,435	72,992,293	33,266,012	33,293,372

Remaining term to maturity from the balance sheet date:

	Within 3 months J$000	Three to 12 months J$000	One to 5 years J$000	Over 5 years J$000	Carrying Values 2001 J$000	Carrying Values 2000 J$000
Short-term deposits with foreign banks	45,793,053	-	-	29,039	45,822,092	23,483,212
US Government bonds	-	-	186,605	26,959,954	27,146,559	9,787,541
Barbados Government bond	-	-	-	23,642	23,642	22,619
	45,793,053	-	186,605	27,012,635	72,992,293	33,293,372

5. Jamaica dollar denominated securities

	2001		2000	
	Cost J$'000	Market J$'000	Cost J$'000	Market J$'000
(a) Marketable:				
Jamaica Government Securities:				
Local registered stock	28,455,430	26,230,785	27,605,307	27,585,998
Treasury bills	140	134	8,857	8,828
Investment debentures	2,995,105	3,012,945	336,161	335,793
	31,450,675	29,243,864	27,950,325	27,930,619

Remaining term to maturity from the balance sheet date:

	Within 3 months J$'000	Three to 12 months J$'000	One to 5 years J$'000	Over 5 years J$'000	Carrying Values 2001 J$'000	Carrying Values 2000 J$'000
Jamaica Government Securities:						
Local registered stock	220,671	6,906,512	12,852,649	6,250,953	26,230,785	27,585,998
Treasury bills	97	37	-	-	134	8,828
Investment debentures	3,003	1,019,416	1,990,526	-	3,012,945	335,793
Total	223,771	7,925,965	14,843,175	6,250,953	29,243,864	27,930,619

Notes to the Financial Statements (cont'd)
December 31, 2001

5. Jamaica dollar denominated securities (cont'd)

	Cost	
	2001 J$'000	2000 J$'000
(b) Non-marketable:		
Jamaica Government Securities:		
Local registered stock -		
Non-interest bearing (i)	2,209,346	2,209,346
Other - Finsac bonds (ii)	26,996,810	26,955,128
	29,206,156	29,164,474

Remaining term to maturity from the balance sheet date:

	Within 3 months J$'000	Three to 12 months J$'000	One to 5 years J$'000	Over 5 years J$'000	Carrying Values 2001 J$'000	Carrying Values 2000 J$'000
Ja. Government Securities:						
Local registered stock -						
Non-interest bearing	-	-	245,950	1,963,396	2,209,346	2,209,346
Other -						
Finsac bonds	-	-	5,459,213	21,537,597	26,996,810	26,955,128
Total	-	-	5,705,163	23,500,993	29,206,156	29,164,474

(i) These securities mature substantially in the years 2035 and 2036.

(ii) Of the $26,996,810,000 of Finsac bonds, Government of Jamaica has issued to the Bank a guarantee covering principal and all interest accruing, amounting to $13,306,321,000 at December 31, 1998, and undertook to issue a guarantee for the balance, together with all interest accruing thereon, amounting to approximately $6,119,937,000. Neither a guarantee nor an undertaking to issue a guarantee has been received in respect of the additional principal notes received or the interest thereon since December 31, 1998.

Interest on these notes was being settled by the issue to the Bank of additional notes bearing interest at the same rates as the respective principal notes. Interest has been settled by issue of additional notes as follows:

	2001 J$'000	2000 J$'000
Prior years	7,092,599	4,108,681
Current year	13,857	2,983,918
Accumulated amount since principal notes were first issued	7,106,456	7,092,599

Interest of J$3,210,766,763 (2000: J$3,043,845,087) being 26.3% (2000: 26%) of the Bank's interest income, represents interest on Finsac notes.

Notes to the Financial Statements (cont'd)
December 31, 2001

6. Advances to banks and other financial institutions

During the year, the Bank made certain advances for the purpose of facilitating stability in the financial system. The advances were in compliance with Sections 23(f) and 24(c) and (e) of the Act, in that the advances were secured in the manner prescribed by the Act and were repaid before the expiration of the six-month period stipulated by the Act.

7. International Monetary Fund – Quota Subscription

This represents the portion of Jamaica's fee for membership of the IMF, based on its quota, which was paid by the Bank (the other portion having been subscribed by the Government of Jamaica).

Quotas are reviewed every five years, when adjustments may be considered.

	SDR'000	2001 J$'000	2000 J$'000
Amount subscribed (net of reserve tranche of J$Nil):			
At beginning of year	31,125	1,721,258	1,611,150
Effect of exchange rate fluctuation	-	77,449	110,108
At end of year	31,125	1,798,707	1,721,258

8. Investments in financial institutions

	2001 (cost/wdv*) J$'000	2000 (cost/wdv*) J$'000	Equity holding %	Latest audited financial statements	Retained earnings/ (deficit) J$'000
Subsidiary companies:					
Jamaica Export Credit Insurance Corporation Ltd. (in voluntary liquidation)	3,200	3,200	100.00	31.12.96	45,106
Associated company:					
Jamaica Export Trading Company Ltd.	150	150	50.00	31.03.99	(29,255)
Other:					
Development Bank of Jamaica Limited	10	10*	17.35	31.03.97	(263,614)
	135,420	145,245			

By virtue of Section 23(j) of the Act, the Bank is empowered to, with the approval of the Minister, subscribe to, hold and sell shares in any corporation which, with the approval, or under the authority, of the Government, is established for the purpose of promoting the development of a money market or securities market in Jamaica or of improving the financial machinery for the financing of economic development.

Notes to the Financial Statements (cont'd)
December 31, 2001

9. Due from Government and Government Agencies

	Dec. 31, 2000 J$'000	Movements during the year: Advances/ Losses J$'000	Profit/ Settlements J$'000	Charged to expenses J$'000	Dec. 31, 2001 J$'000
Expenditure on behalf of Government:					
Payment of interest on certificates of deposit	1,686,875	-	-	-	1,686,875
Payment of exchange losses and interest on foreign liabilities [see (b) below]	4,935,351	283,619	(61,259)	(223,531)	4,934,180
Other expenditure on behalf of Government	5,464	-	-	-	5,464
Uncollected interest on Government securities and advances	5,961,220	205,497	(935,779)	-	5,230,938
Accrued interest on Government securities	707,962	709,319	(707,962)	-	709,319
Overdrafts – Government and Government Agencies	155,234	-	(100,145)	-	55,089
Net profit payable to Consolidated Fund [see (c) below]	(4,896,071)	1,300,813	-	-	(3,595,258)
	8,556,035	2,499,248	(1,805,145)	(223,531)	9,026,607

(a) By virtue of Section 36 of the Act, the Bank is empowered to make advances to the Government up to thirty percent of the estimated revenue of Jamaica for that financial year of the Government, which are to be repaid within three months after the financial year. Where advances are not duly repaid, the power of the Bank to grant further advances in any subsequent financial year is not exercisable until the outstanding advances are repaid.

Advances made to the Government during the Bank's financial year ended December 31, 2001 amounted to J$205,497,000 (2000: J$730,283,000) which was 0.2035% (2000: 0.7266%) of the estimated revenue of Jamaica for the year of J$101 billion (2000: J$100.5 billion).

(b) Exchange losses paid and interest on foreign liabilities comprise:

(i) advances to cover exchange losses realised on repayment of Government of Jamaica foreign liabilities, and

(ii) interest paid on Government of Jamaica foreign liabilities.

(c) Government is required by the Act to pay to the Bank, out of the Consolidated Fund, the losses incurred by the Bank. Section 9 (3) provides that if, in the opinion of the Minister, a payment to the Bank to clear the losses cannot be made from the Consolidated Fund, then such losses may be cleared by the issue to the Bank of securities charged to the Consolidated Fund. Losses of $13,190,797,000 accumulated for the financial years 1989 through 1994 were partly covered by payment of $5,986,530,000 from the Consolidated Fund, leaving an unpaid balance of $7,204,267,000.

Notes to the Financial Statements (cont'd)
December 31, 2001

9. Due from Government and Government Agencies (cont'd)

(c) cont'd)

On the basis of the policy decision by the Bank's board of directors set out in note 2(j), and for the reasons set out there, the statutorily required transfer of net profits to the Consolidated Fund (see "note 2" on page 5) has not been effected. The untransferred balance of profits of $3,595,258,000 (2000: $4,896,071,000) represents the portion remaining after set off of the unpaid balance of accumulated losses described in the preceding paragraph.

10. Fixed assets

	Freehold land and buildings J$'000	Leasehold property J$'000	Furniture, plant and equipment J$'000	Motor vehicles J$'000	Work-in-progress J$'000	Total J$'000
At cost or valuation:						
December 31, 2000	917,106	1,149	523,495	37,184	28,161	1,507,095
Additions	35,261	59	38,011	35,790	24,122	133,243
Transferred during the year	10,834	-	17,327		(28,161)	-
Disposals/write-offs	(3,300)	-	(262)	(10,376)	-	(13,938)
December 31, 2001	959,901	1,208	578,571	62,598	24,122	1,626,400
At cost	127,601	-	-	-	-	127,601
At valuation	832,300	1,208	578,571	62,598	24,122	832,300
	959,901	1,208	578,571	62,598	24,122	1,626,400
Depreciation:						
December 31, 2000	98,733	441	243,544	14,294	-	357,012
Charge for the year	51,252	114	67,092	8,492	-	126,950
Eliminated on disposals/write-offs	(340)	-	(229)	(9,327)	-	(9,896)
December 31, 2001	149,645	555	310,407	13,459	-	474,066
Net book values						
December 31, 2001	810,256	653	268,164	49,139	24,122	1,152,334
December 31, 2000	818,371	707	279,952	22,891	28,162	1,150,083

Certain of the Bank's land and buildings were revalued in 1999 by The C. D. Alexander Company Realty Limited, Real Estate Brokers, Appraisers and Auctioneers on the open-market, existing-use basis. The surplus arising on revaluation, inclusive of depreciation no longer required, is included in fixed assets revaluation reserve.

Notes to the Financial Statements (cont'd)
December 31, 2001

11. Other assets

	2001 J$'000	2000 J$'000
Items in process of collection	157,461	457,340
Overdrafts	14,185	9,977
Staff and ex-staff loans	673,083	657,625
Stock of unissued notes and coins	355,211	279,944
Accrued interest receivable other than on GOJ securities and staff and ex-staff loans	4,470,531	1,152,052
Promissory notes	132,060	141,885*
Other	225,012	126,438
	6,027,543	2,825,261*

12. Notes and coins in circulation

	2001 J$'000	2000 J$'000
Notes	21,573,720	19,811,008
Coins	749,070	761,220
	22,367,790	20,572,228

Section 21 of the Act requires the Bank to hold assets of an amount in value sufficient to cover the value of the total amount of notes and coins in circulation as defined in that section. The assets held shall include, *inter alia*, (a) gold; (b) "hard currency" cash, bank balances or securities issued by a foreign government or international financial institution of which Jamaica is a member; or (c) Special Drawing Rights. Specified assets held by the Bank as at December 31, 2001 were 4.02 (2000: 2.33) times the value of notes and coins in circulation at that date.

13. Deposits and other demand liabilities

	Payable on demand J$'000	Payable after notice J$'000	Payable on a fixed date J$'000	2001 J$'000	2000 J$'000
Government and Government agencies	1,933,113	17,600,000	-	19,533,113	17,685,274
Commercial banks and specified financial institutions	494,913	17,555,764	5,305,398	23,356,075	31,164,430
International Money Fund	-	-	58,828	58,828	58,828
Certificates of Deposit	-	-	43,059,703	43,059,703	-
Others	9,767,877	-	2,763	9,770,640	4,894,941
	12,195,903	35,155,764	48,426,692	95,778,359	53,803,473
Jamaica dollar equivalent of foreign currency deposits	7,906,747	5,416,659	1,243,692	14,567,098	9,134,205
Jamaica dollar deposits	4,289,156	29,739,105	47,183,000	81,211,261	44,669,268
	12,195,903	35,155,764	48,426,692	95,778,359	53,803,473

* Reclassified to conform with 2001 presentation.

Notes to the Financial Statements (cont'd)
December 31, 2001

13. Deposits and other demand liabilities (cont'd)

(a) Deposit liabilities of the Bank include cash reserves held in connection with the Bank's supervision of the prudential requirements of commercial banks and specified financial institutions under the provisions of section 28 of the Act, section 14 of the Banking Act and section 14 of the Financial Institutions Act.

In relation to its management of liquidity in the financial system, the Bank may, under section 28A of the Bank of Jamaica Act, require commercial banks and specified financial institutions to make special deposits with it in the form of cash or specified securities. Cash so deposited is also included in deposit liabilities of the Bank; securities so deposited are, however, excluded from the Bank's liabilities, as title is not transferred and the Bank merely holds them in safekeeping.

At the balance sheet date, the following obtained:

	2001 J$'000	2000 J$'000
Amounts included in deposit liabilities of the Bank, representing statutory reserves	22,861,621	21,302,675

(b) Deposits and other demand liabilities include J$13.46 billion, being J$13.0 billion received from the Government to offset against Finsac Bonds and interest of J$0.46 billion, which is capitalized at 4% per annum.

14. Securities sold under repurchase agreements and securities purchased under resale agreements

As part of the process of controlling liquidity in the financial system, the Bank acquires funds from or makes funds available to financial institutions and this is effected by entering into short term agreements with the institutions. The Bank, on taking delivery of the funds, delivers certificates evidencing transfer of interest in securities and agrees to repurchase them on a specified date and at a specified price ('repos'). When the Bank makes funds available, it receives securities and agrees to resell them on a specified date at a specified price ('reverse repos').

At the balance sheet date certificates evidencing transfer of interest in the following securities were delivered as repos:

	2001 J$'000	2000 J$'000
Jamaica Government Securities:		
Local registered stock	25,605,006	26,921,868
Investment debentures	2,620,008	270,526
Finsac bonds	10,221,239	14,964,083
	38,446,253	42,156,477

Notes to the Financial Statements (cont'd)
December 31, 2001

15. International Monetary Fund - Allocation of Special Drawing Rights

This represents the Bank's obligation for SDRs allocated to it. This allocation does not change unless there are cancellations or further allocations. There have been no further allocations or cancellations during the year (2000: nil) and, accordingly, the changes arise from exchange rate fluctuations.

	SDR'000	2001 J$'000	2000 J$'000
At beginning of year	40,613	2,245,959	2,102,285
Effect of exchange rate fluctuation	-	101,057	143,674
At end of year	40,613	2,347,016	2,245,959

16. Foreign liabilities

	2001 J$'000	2000 J$'000
Borrowings - Principal	284,428	358,818
- Interest	9,770	9,025
Unsettled balances on bilateral accounts for Caricom trade	(2,477)	10,854
	291,721	378,697

17. Other liabilities

	2001 J$'000	2000 J$'000
Interest payable	5,323,691	1,852,935
Staff and staff-related expenses	121,744	121,054
Other	534,230	73,344
	5,979,665	2,047,333

18. Foreign exchange gain

	2001 J$'000	2000 J$'000
Net unrealised gain on translation of foreign currency assets and liabilities and realised gain on settlement of foreign assets and foreign liabilities	1,904,161	1,712,799
Exchange gain on over the counter purchases and sales of foreign currency	16,000	1,800
	1,920,161	1,714,599

19. Operating expenses

Operating expenses include the following charges:

	2001 J$'000	2000 J$'000
Depreciation	126,950	109,402
Auditors' remuneration	4,200	3,800
Payments for redundancies	3,481	6,254

Notes to the Financial Statements (cont'd)
December 31, 2001

20. Employee retirement benefits

(a) Except as set out at (c) below, the Bank funds retirement benefits for employees by means of a non-contributory pension scheme for all its permanent eligible employees. Benefits under the scheme are computed by reference to final salary. The assets of the scheme, which are held separately from those of the Bank, are under the control of trustees, with day-to-day management by employees of the Bank.

(b) A preliminary report on the latest actuarial valuation of the scheme, carried out as of June 30, 2001, disclosed that, after taking credit for the scheme's net assets available for benefits at that date, there was a surplus of J$876,400,000 in respect of past services. This surplus would allow the Bank to reduce its contribution to 0.5% per annum of the pensionable salaries of existing members throughout their expected future membership.

(c) In 1991, 1993, and 1994, the Bank granted increases to pensioners as a supplement to the pensions paid by the scheme. The preliminary actuarial valuation referred to in paragraph 20(b) also disclosed that for the scheme to take over these supplemental payments currently being paid by the Bank, in addition to increases proposed with effect from August 1, 2001, a special contribution of J$207,300,000 would be required from the Bank as of the valuation date. No provision for this lump sum amount is included in the financial statements, and none was made in prior years, as the Bank has decided not to fund the scheme for this purpose but to bear the cost of supplemental payments when made.

In addition, the bank granted a further supplement to pensioners in 1997, 1998, 1999, 2000 and 2001. These supplemental pension payments amounted to J$ 24,537,211 for the year (2000: J$24,720,292), all of which have been included in post-retirement benefits in the Statement of Income and Expenses.

Contributions by the Bank to the pension scheme for the year were J$ 47,990,139 (2000: J$44,907,304).

21. Number of employees

The number of employees at the end of the year was 422 (2000: 421).

22. Capital commitments

At the balance sheet date, the Bank had commitments for capital expenditure as under:

	2001 J$'000	2000 J$'000
Authorised and contracted	26,217	14,130
Authorised but not contracted	560	8,030
	26,777	22,160

Notes to the Financial Statements (cont'd)
December 31, 2001

23. Contingent liabilities

At December 31, 2001, the Bank was a defendant in various relatively minor suits claiming damages. The Bank is of the view that the claims are generally without merit and will not result in any significant losses to the Bank.

In addition, a number of lawsuits have been filed against the Bank claiming amounts totalling approximately J$179,480,000. For the most part, the lawsuits arise out of the operations of certain of the Bank's former foreign currency agents over a period which ended in February 1993.

The relevant appearances and defences have been filed and the lawyers which are representing the Bank are confident that, based on their research in Jamaica and overseas, the Bank has sound defences to all these actions.

In one of the cases which went to trial, in which US$3 million was being claimed from the Bank, the Jamaica Supreme Court and Court of Appeal found and the Privy Council found in favour of the Bank and costs were awarded in favour of the Bank. In January 2002, the Bank received payment of an amount in full settlement of the costs.

24. Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

Information relating to fair values and risks of financial instruments is summarised below.

(a) Fair value of financial instruments:

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties, who are under no compulsion to act, in an arm's-length transaction.

Determination of fair value:

Because of the short-term nature of some financial instruments, their fair value was determined to approximate their carrying value. The instruments are: interest in funds managed by agents, advances to banks and other financial institutions, other assets, deposits and other demand liabilities, securities sold under repurchase agreements, International Monetary Fund – Allocation of Special Drawing Rights, foreign liabilities and other liabilities.

The fair value of marketable securities is assumed to be equal to the estimated market values as provided in note 5(a). These values are obtained on the basis outlined in note 2(c).

Because of their nature, including the absence of predictable future cash flows, non-marketable securities, due from Government and Government Agencies, and Finsac bonds, there is no practical means of estimating their fair values.

Notes to the Financial Statements (cont'd)
December 31, 2001

24. Financial instruments (cont'd)

(b) Financial instrument risk:

Exposure to foreign currency risk, interest rate, credit, market and liquidity risk arises in the ordinary course of the Bank's business.

(i) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. At the balance sheet date, the Bank's net exposure to foreign exchange rate fluctuations was as follows:

	2001 J$'000	2000 J$'000
Foreign currency assets	92,914,779	47,938,316
Foreign currency liabilities	(17,180,747)	(11,758,861)
Net foreign currency assets	75,734,032	36,179,455

	2001	2000
Buying exchange rates at December 31:		
US$1 to J$	47.28	45.30
UK£1 to J$	68.77	65.43
CDN$1 to J$	29.69	30.17

At April 8, 2002, the buying exchange rates were US$1 to J$47.65, UK£1 to J$67.20 and CDN$1 to J$29.53.

(ii) Interest rate risk:

Interest rate risk is that the value of a financial instrument will fluctuate due to changes in market interest rates. The Bank manages this risk by monitoring interest rates daily and ensures that, even though there is no formally predetermined gap limits, to the extent practicable, the maturity profile of its financial assets is matched by that of its financial liabilities.

The following table summarises the carrying amounts of balance sheet assets, liabilities and equity and off-balance sheet financial instruments to arrive at the Bank's interest rate gap based on the earlier of contractual repricing and maturity dates.

Notes to the Financial Statements (cont'd)
December 31, 2001

24. Financial instruments (cont'd)

(ii) Interest rate risk cont'd):

	2001						
	Within 3 months J$'000	Three to 12 months J$'000	Over 12 months J$'000	Payable after notice J$'000	Non-rate sensitive J$'000	Total J$'000	Weighted average interest rate %
Assets							
Notes and coins	-	-	-	-	48,419	48,419	-
Cash resources	-	-	-	-	15,012,093	15,012,093	-
Interest in managed funds	-	-	-	1,850,377	-	1,850,377	4.57
Foreign currency denominated securities	45,793,053	-	27,199,240	-	-	72,992,293	5.04
International Monetary Fund - Holding of Special Drawing Rights	-	-	-	-	68,895	68,895	-
Securities – marketable	223,771	7,925,965	21,094,128	-	-	29,243,864	18.54
Securities – non-marketable	-	-	26,996,810	-	2,209,346	29,206,156	11.89
International Monetary Fund – Quota Subscription	-	-	-	-	1,798,707	1,798,707	-
Investments in financial institutions	-	-	-	-	3,360	3,360	-
Due from Government and Government agencies	-	-	-	-	9,026,607	9,026,607	-
Fixed assets	-	-	-	-	1,152,334	1,152,334	-
Other assets	-	-	-	132,060	5,895,483	6,027,543	0.22
Total assets	46,016,824	7,925,965	75,290,178	1,982,437	35,215,244	166,430,648	7.97
Liabilities							
Notes and coins in circulation	-	-	-	-	22,367,790	22,367,790	-
Deposits and other demand liabilities:							
Jamaica dollar equivalent of foreign currency deposits	8,918,945	-	-	5,648,150	-	14,567,095	4.50
Jamaica dollar deposits	6,870,111	44,602,048	-	17,600,000	12,139,105	81,211,264	13.55
Securities sold under repurchase agreements	16,573,007	21,873,246	-	-	-	38,446,253	18.39
International Monetary Fund – Allocation of Special Drawing Rights	-	-	-	-	2,347,016	2,347,016	-
Foreign liabilities	-	-	284,428	-	7,293	291,721	8.30
Other liabilities	-	-	-		5,979,665	5,979,665	-
Capital and reserves	-	-	-	-	1,219,844	1,219,844	-
Total liabilities	32,362,063	66,475,294	284,428	23,248,150	44,060,713	166,430,648	11.28
On-balance sheet gap	13,654,761	(58,549,329)	75,005,750	(21,265,713)	(8,845,469)	-	
Off-balance sheet gap	-	-	-	-	-	-	
Total interest rate sensitivity gap	13,654,761	(58,549,329)	75,005,750	(21,265,713)	(8,845,469)	-	
Cumulative gap	13,654,761	(44,894,568)	30,111,182	8,845,469	-	-	

Notes to the Financial Statements (cont'd)
December 31, 2001

24. Financial instruments (cont'd)

(ii) Interest rate risk: (cont'd)

	2000						
	Within 3 months J$'000	12 months J$'000	Three to 12 months J$'000	Over after notice J$'000	Payable sensitive J$'000	Non-rate Total J$'000	Weighted average interest rate %
Assets							
Notes and coins	-	-	-	-	31,663	31,663	-
Cash resources	-	-	-	-	12,892,221	12,892,221	-
Interest in managed funds	-	-	-	1,677,111	-	1,677,111	5.25
Foreign currency denominated securities	23,483,212	1,121,488	8,688,672	-	-	33,293,312	6.45
International Monetary Fund - Holding of Special Drawing Rights	-	-	-	-	3,822	3,822	-
Securities – marketable	40,962	3,064,535	24,825,122	-	-	27,930,619	20.38
Securities – non-marketable	-	-	26,955,128	-	2,209,346	29,164,474	11.79
Advances to banks and other financial institutions	2,921,425	-	-	-	-	2,921,425	47.95
International Monetary Fund – Quota Subscription	-	-	-	-	1,721,258	1,721,258	-
Investments in financial institutions	-	-	-	-	3,360	3,360	-
Due from Government and Government agencies	-	-	-	-	8,556,035	8,556,035	-
Fixed assets	-	-	-	-	1,150,083	1,150,083	-
Other assets	-	-	-	141,885	2,683,376	2,825,261	-
Total assets	26,445,599	4,186,023	60,468,922	1,818,996	29,251,164	122,170,704	13.47
Liabilities							
Notes and coins in circulation	-	-	-	-	20,572,228	20,572,228	-
Deposits and other demand liabilities:							
Jamaica dollar equivalent of foreign currency deposits	1,266,681	165,478	-	7,702,046	-	9,134,205	5.49
Jamaica dollar deposits	9,664,639	3,615,100	-	16,128,067	15,261,462	44,669,268	7.24
Securities sold under repurchase agreements	15,353,995	26,802,482	-	-	-	42,156,477	19.88
International Monetary Fund – Allocation of Special Drawing Rights	-	-	-	-	2,245,959	2,245,959	-
Foreign liabilities	-	-	358,818	-	19,879	378,697	8.31
Other liabilities	-	-	-	-	2,047,333	2,047,333	-
Capital and reserves	-	-	-	-	966,537	966,537	-
Total liabilities	26,285,315	30,583,060	358,818	23,830,113	41,113,398	122,170,704	14.93
On-balance sheet gap	160,284	(26,397,037)	60,110,104	(22,011,117)	(11,862,234)	-	
Off-balance sheet gap	-	-	-	-	-	-	
Total interest rate sensitivity gap	160,284	(26,397,037)	60,110,104	(22,011,117)	(11,862,234)	-	
Cumulative gap	160,284	(26,236,753)	33,873,351	11,862,234	-	-	

(iii) Credit risk

Credit risk is the risk of loss arising from a counter-party to a financial contract failing to discharge its obligations.

Credit risk in the foreign currency investment portfolio is managed by restricting the holdings of investments substantially to US Government bonds, Jamaica Government US$ debentures and issues by highly-rated supranational institutions.

Notes to the Financial Statements (cont'd)
December 31, 2001

24. Financial instruments (cont'd)

(iii) Credit risk

Credit risk for local securities is managed by investing in Jamaica government local registered stock, treasury bills and investment debentures, except that there is a significant investment in Finsac bonds which are only partly Government-guaranteed [note 5 (b)]. Other credit exposures consist primarily of staff loans for housing and motor vehicles.

Exposures to credit risk attaching to financial assets are monitored through credit rating and lending limits, which are regularly reviewed. In addition, Government of Jamaica guaranteed securities are obtained for advances to financial institutions, and mortgages and liens are obtained for staff loans for housing and motor vehicles respectively.

With regard to cash resources, there is no significant concentration; amounts are held in financial institutions which management regards as strong. The Bank's significant concentrations of credit exposure by geographical areas (based on the entity's country of ownership) were as follows:

	2001 J$'000	2000 J$'000
Jamaica	68,729,912	71,392,010
U.S.A. and other industrialised countries	90,052,443	45,897,034
Barbados	23,642	22,619
Multilateral Institutions	1,867,602	1,725,080
Other	5,546,145	1,952,215
Total financial assets	166,219,744	120,988,958

Current credit exposure is the amount of loss that the Bank would suffer if every counterparty to which the Bank was exposed were to default at once; this is represented substantially by the carrying amount of financial assets shown on the balance sheet.

(iv) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, its issuer or factors affecting all securities traded in the market.

The Bank manages market risk on its foreign asset portfolio through:

- Its investment policy, which prescribes the quality of the issuer and limits investments to specific foreign government securities that are deemed to be virtually risk free.
- Diversification of the portfolio into various instruments while limiting the maximum permitted exposure to any one security or issuer.
- Its policy of holding securities to maturity which in essence eliminates the possibility of loss arising from fluctuations in market price.

Notes to the Financial Statements (cont'd)
December 31, 2001

24. Financial instruments (cont'd)

(iv) Market risk (cont'd):

Market risk on the Bank's local asset portfolio of investment is minimised by restricting investments to securities issued or guaranteed by the Government of Jamaica.

(v) Liquidity risk:

Liquidity risk, also referred to as funding risk, is the risk that the Bank will encounter difficulty in converting its securities to cash at close to its fair value or in raising funds to meet its commitments. Prudent liquidity management implies maintaining sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed standby credit facilities to meet commitments.

The Bank's exposure to liquidity risk to meet foreign liabilities, as an institution is, limited due to the minimal amount owed to overseas creditors/lender. Management of liquidity risk relates primarily to the availability of liquid foreign resources to sell to the Government of Jamaica and its agencies to repay their creditors and lenders. The Bank manages this risk through a combination of :

- Budgetary procedures to identify the timing of Government foreign payments.
- Scheduling the maturity of foreign deposits to coincide with the demands of Government and its Agencies.
- Maintaining a portion of its foreign assets in cash or near cash as precautionary funds to meet unforeseen demands.

The Bank, like all central banks, has no real liquidity risk in relation to its domestic financial obligations.