Bank of Jamaica Quarterly Monetary Policy Report

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PREFACE

The Bank of Jamaica's Quarterly Monetary Policy Report reviews the conduct of monetary policy and the main factors that influenced inflation during the quarter. It also presents the Bank's perspective on emerging economic trends and the path of monetary policy over the short to medium term. This issue includes a brief description of the concepts and measurement of external competitiveness as well as the relationship between the exchange rate and inflation in Jamaica. These issues are particularly relevant in light of the developments in the foreign exchange market during the June quarter.

The developments in the review quarter are set against policy targets for the fiscal year, which runs from April to March. In some instances the data used in the preparation of the report are provisional and are therefore subject to change.

OVERVIEW

The first quarter of the fiscal year, April - June 2003, was marked by an episode of sharp depreciation in the foreign exchange market that threatened the attainment of the main macroeconomic targets. In light of the significant role played by the exchange rate in influencing domestic inflation, the focus of monetary policy was on restoring stability to the foreign exchange market. This involved the maintenance of a tight stance on liquidity management along with an increase in the supply of foreign exchange to the inter-bank market.

As outlined in the last quarterly report (QMPR Volume 3 No. 4), the immediate challenge to monetary policy was the restoration of domestic and foreign investor confidence in the Jamaican economy. The improvement in market sentiment would hinge critically on the pace of fiscal correction as outlined in the 2003/04 budget. However, the Jamaica Dollar began to depreciate rapidly towards end April. This stemmed from uncertainties surrounding the incidence and impact of the fiscal measures as presented on 17 April. Several interest groups expressed their disagreement with the new measures announced, and called for rate cuts or a rollback of new taxes. Rumours of a possible return to a borrowing relationship with the International Monetary Fund (IMF) were compounded by negative reviews in the national and international media on Jamaica's economic performance and outlook. These developments triggered greater demand for foreign exchange, and the accelerating foreign exchange rate depreciation in the first two weeks of May added to the economic uncertainty. The market psychology did not change despite relatively high interest rates and the significant sale of foreign exchange by the Central Bank in early May. However, the exchange rate appreciated following an address to the nation by the Prime Minister on 18 May in which he emphasized the Government's strong commitment to taking the necessary steps towards restoring order in the foreign exchange market.

In the weeks following the Prime Minister's speech, the policy action in the foreign exchange market was effectively supported by a period of relatively low Jamaica Dollar liquidity. In the review quarter, the exchange rate depreciated by 4.7 per cent, following a 9.4 per cent depreciation during the March quarter. The weighted average selling rate stood at US$1.00=J$56.24 at the beginning of the quarter, depreciated by 14.8 per cent to US$1.00 = J$67.22 by 16 May, and appreciated by 13.1 per cent to US$1.00 = J$59.01 by 30 June.

Mainly as a consequence of depreciation in the nominal exchange rate, Jamaica's external competitiveness as measured by the Real Effective Exchange Rate (REER) index improved by 2.4 per cent in the June 2003 quarter. This latest round of adjustments put the twelve month improvement to 15.9 per cent, a potentially strong stimulus to export growth. In **Box 1**, a brief description of the concept and measurement of external competitiveness is presented. The article surveys various measurements of competitiveness and focuses on the REER, a measure that is currently calculated and monitored by the Bank of Jamaica (BOJ).

The sales of foreign exchange discussed earlier led to a decline of US$212.3 million in the net international reserves (NIR) resulting in absorption of $11 887.7 million from the financial system for the quarter. Foreign exchange purchases from the Bank were funded from net maturities of open market instruments of approximately $9 007.4 million. The net effect was a fall in the monetary base by 0.3 per cent for the quarter representing a tighter outcome than programmed.

Broad Jamaica Dollar money supply, M3J, grew by 3.8 per cent for the quarter. A broader measure of money supply that includes foreign currency deposits, M3*, increased by 5.8 per cent, fuelled by growth in foreign currency deposits of 7.3 per cent as there was a 2.0 per cent decline in local currency deposits. The growth in foreign currency deposits reflected continued portfolio diversification by households and corporations. Financial data for the June quarter show the proportion of private sector bank deposits denominated in foreign currency increasing to 31.7 per cent at the end of the quarter from 30.1 per cent at the end of March.

The main sources of expansion in money supply during the period were a significant increase in banking system credit, most of which went to the public sector, and the decline in BOJ's open market liabilities. Banking system credit expanded by $21 007.4 million or 11.3 per cent, of which $16 634.3 million went to the public sector. Partially offsetting these expansionary sources was the decline in the NIR.

During the quarter, the Bank took steps to lower interest rates as market conditions allowed. Thus, on 25 April, rates on the 180-day, 270-day and 365-day tenors were lowered by 515, 200, 295 basis points, respectively. Rates were again lowered on 24 June, as stability returned to the foreign exchange market. Despite the lowering of premiums, placements continued to be concentrated in the 180-day and 365-day instruments, given the anticipation of lower rates in the future. As stability returned to the market at the end of the quarter, the Government was able to issue securities at lower rates than they had earlier in the quarter.

With the disquiet in the foreign exchange market, the indicators of stock market performance were mixed. While the All Jamaica Composite Index declined during the period as portfolio holders shifted towards foreign exchange, the main Jamaica Stock Exchange (JSE) index increased. The divergence was primarily attributed to the positive price performance of a few highly capitalized foreign-owned entities included in the JSE index. These firms are also listed on at least one other regional stock exchange, and portfolio holders of these internationally traded stocks took advantage of arbitrage opportunities.

The events of the first quarter have required a re-assessment of the 7.0 per cent - 8.0 per cent inflation target range for fiscal year 2003/04. The current forecast suggests an annual rate of between 10.0 per cent and 12.0 per cent after incorporating the pass-through of exchange rate slippage to prices and the effects of the fiscal measures. However, a potential risk to the projection for the rest of the fiscal year includes possible administered price adjustments such as increases in bus fares and the national minimum wage. In the Jamaican economy, since the import content of the consumer price index (CPI) is relatively high, the exchange rate pass-through to inflation is integral to the design of monetary policy. In **Box 2**, a synopsis of research work conducted by the Bank on exchange rate pass-through in the Jamaican economy is highlighted. The findings suggest that although the degree of pass-through has slowed since 1995, the influence of the short-term movements of the exchange rate is still significant for inflation. Since the exchange rate is an important nominal anchor for expectations, the pass-through is likely to accelerate in an environment of increased exchange rate volatility as experienced in recent months.

Headline inflation of 6.0 per cent recorded in the quarter is the highest quarterly rate in Jamaica since March 1996. The widening of the consumption tax net, exchange rate depreciation as well as a decline in agricultural supplies influenced sharp increases in the *Food & Drink*, *Miscellaneous Expenses*, and *Fuels & Other Household Supplies* sub-indices of the CPI. Abstracting from the influence of agricultural commodity prices, the CPI increased by 4.8 per cent, still significant relative to 2.0 per cent in the March quarter and 1.2 per cent in the June 2002 quarter. Core inflation was estimated at 2.3 per cent in the quarter relative to 1.3 per cent in the March quarter and could be related to the exchange rate pass-through.

In the real sector of the economy, growth is estimated to have been relatively strong compared to a 0.9 per cent decline in the corresponding quarter of last year. The Bank's estimates have suggested that all economic sectors grew except *Manufacturing*. The strongest areas of growth were in *domestic Agriculture, Mining, Construction, Basic* and *Miscellaneous Services*. The tourism industry, the primary sub-sector in *Miscellaneous Services*, showed increased growth in both visitor arrivals and expenditure relative to the June 2002 quarter.

The estimate of overall recovery was consistent with recent trends in commercial bank loan disbursement. The growth in credit of 13.3 per cent in the quarter was channeled mainly into *Tourism* as well as *Transport, Storage, & Communication*. There continues to be a fairly strong demand from the private sector for foreign currency loans which increased by US$33.0 million or 8.9 per cent compared to US$4.4 million in the previous quarter.

The fiscal performance for the first quarter was better than budgetted. Central Government operations resulted in a deficit of $14 210.6 million, as compared to the targeted $19 305.6 million. This resulted from some containment of expenditure and strong revenue flows. A primary surplus of 1.3 per cent of GDP was attained, higher than the surplus of 0.6 per cent targeted for the quarter, reflecting the containment of non-interest expenditure.

The fiscal out-turn for the first quarter, added to an improved outlook for the tourism and bauxite/alumina industries, should have a positive impact on economic performance in the September quarter. Although core inflation is expected to normalize, the current forecast is that headline inflation is likely to be in the range of 3.0 per cent to 4.0 per cent in the September quarter. This is predicated on the seasonal reduction in agricultural supplies, lagged and indirect effects of the recent revenue measures and an upturn in world oil prices.

The major challenge for monetary policy remains the restoration of confidence in Jamaica's financial markets, which depend critically on preserving the stability in the foreign exchange market. Continued positive fiscal performance is a key factor in the process, and provides the basis for a sustained reduction in interest rates. The Central Bank will continue its cautious and deliberate approach in fostering price and financial market stability.

1. Monetary Policy and Financial Markets

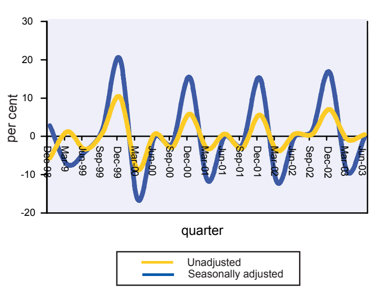
Money and Credit

Base Money

Depreciation in the foreign exchange market was the major impulse to inflation in the first quarter of fiscal year 2003/04. Consequently, base money management focused on stabilizing exchange rate movements through direct sales to the foreign exchange market. This action, supported by the existing interest rate structure on Bank of Jamaica instruments, proved sufficient to deal with the challenge presented to base money management. As market conditions became more favourable, the Bank was able to lower interest rates on the longer tenors of its open-market instruments on two occasions during the quarter. In this context, the monetary base declined by 0.3 per cent for the quarter.

The management of the monetary base in the June 2003 quarter was dominated by the Bank's intervention in the foreign exchange market in order to restore stability and minimize the exchange rate pass-through to inflation (see **Box 2**). The heightened demand for foreign exchange reflected a portfolio shift towards foreign currency driven by a weakening in confidence in the domestic economy. The sale of foreign exchange to the market, contributed to a larger contraction in the base than originally anticipated. In this context, the monetary base contracted by $95.0 million or 0.3 per cent for the quarter. This was marginally greater than the average decline of 0.1 for the June quarter over the last 3 years (see **Figure. 1.1**).

Figure 1.1
Base Money
(quarterly change)



Base money management tightens to limit exchange rate pass through.

Reflecting the base money out-turn were declines in the current account balances of commercial banks and the statutory cash reserve of $333.8 million and $290.7 million, respectively (see **Table 3 in the Appendix**). The currency stock increased by $529.4 million or 2.5 per cent to $21 259.1 million.

In the context of foreign exchange market instability, the Bank of Jamaica's net international reserves (NIR) declined by US$212.3 million for the quarter thereby absorbing J$11 887.7 million. This absorption was due primarily to direct sales to the foreign exchange market in May and to a lesser extent in June. The Jamaica Dollar began to depreciate rapidly towards the end of April, as investor confidence worsened following the announcement of the fiscal measures for the 2003/04 fiscal year (see **Foreign Exchange Market**). Intermittent intervention during the first two weeks of May, coupled with the existing interest rate structure, was not sufficient to arrest the deteriorating psychology of the market. However, the exchange rate appreciated in the latter half of May following an announcement by the Prime Minister on 18 May that *inter alia* communicated a continued commitment to the achievement of exchange rate stability. The appreciation was also supported by tight liquidity conditions in the financial system, which continued throughout June.

BOJ open-market liabilities decline.

The Net Domestic Assets (NDA) increased by $11 792.6 million during the quarter. The liquidity created emanated mainly from the unwinding of open-market securities amounting to $9 077.4 million. This was largely in response to the conditions in the foreign exchange market as investors used funds from maturing open-market instruments to acquire foreign exchange. Net claims on the public sector also increased by $3 622.5 million further contributing to the expansion of the NDA.

Bank of Jamaica lowers interest rates on 180-day, 270-day and 365-day tenors by 665 bp, 500bp and 595 bp, respectively.

During the quarter, the Bank reduced interest rates twice on its open-market instruments. On 25 April, there was a reduction of the interest rates on the 180-day, 270-day and 365-day open-market tenors from 33.15 per cent, 34.50 per cent and 35.95 per cent to 28.00 per cent, 32.50 per cent and 33.00 per cent, respectively (see **Bond Market, Table 1.6**). This was in the context of relatively orderly conditions in the foreign exchange market and increased foreign exchange inflows. The change also reflected an improved outlook on international conditions based on the reduced likelihood of an adverse impact on tourism and oil prices given the short duration of the war in Iraq. There was no interest rate change in May given the instability in the foreign exchange market. However, on 24 June the Bank further reduced the premiums on its 180-day, 270-day and 365-day tenors of open-market instruments. The new rates on the respective tenors were 26.50 per cent, 29.50 per cent and 30.00 per cent. The reduction was premised on sustained orderly foreign exchange market conditions from mid-May and improved performance of the tourism sector.

The continued containment of base money augurs well for the restoration of confidence in the local currency and the Central Bank's mandate to maintain price stability. The Bank will continue to assess market conditions and take action whenever appropriate.

Money Supply

For the June 2003 quarter, broad Jamaica Dollar money supply, M3J, increased by 3.8 per cent. The main sources of the expansion were an increase in banking system credit and a decline in the Bank's open-market liabilities. The notable decline in the NIR was the most significant factor dampening the growth in M3J. The broader measure of money supply which includes foreign currency deposits, M3, recorded growth of 5.8 per cent.*

Table 1.1

Money Supply (3-month growth rates)			
		M3J	**M3***
2000	March	1.2	3.1
	June	4.1	2.9
	Sept.	1.1	2.6
	Dec.	4.1	3.7
2001	March	0.6	1.1
	June	1.9	1.9
	Sept.	3.2	3.8
	Dec.	3.5	3.1
2002	March	-0.5	1.5
	June	2.5	2.3
	Sept.	6.4	6.7
	Dec.	1.8	2.9
2003	March	-6.3	-1.9
	June	3.8	5.8

Broad Jamaica Dollar money supply (M3J) increased by 3.8 per cent for the first quarter of FY 2003/04, a faster rate of growth than the 2.5 per cent that obtained for the corresponding period of last year (see **Table 1.1**) and the 2.4 per cent anticipated in the monetary programme.

The growth in money supply during the June 2003 quarter was largely influenced by an expansion in banking system credit of $21 007.4 million and the net unwinding of BOJ open-market instruments amounting to $9 007.4 million. (see **Table 5 in Appendix**). Of the increase in banking system credit, credit to the public sector totaled $16 634.3 million. The reduction in the Bank's open-market liabilities occurred in the context of foreign exchange market instability as investors used funds from maturing open-market instruments to increase their foreign currency holdings.

The expansionary impulses were partially countered by declines of $11 887.7 million and $5 430.2 million in the NIR and commercial banks' securities sold under repurchase agreement, respectively. The reduction in the NIR was mainly related to a tightening of monetary policy through direct sales to the foreign exchange market, in light of excessive demand for foreign currency.

Table 1.2

Money Supply *(12-month growth rates)*		
MJ	**June-02**	**June-03**
M1J	11.9	2.9
M2J	8.1	0.4
M3J	8.8	5.7
M*		
M1*	3.8	9.8
M2*	10.9	11.3
M3*	11.1	13.9

The increase in money supply for the review quarter was largely reflected in growth of 12.4 per cent in narrow money, M1J, as quasi-money declined by 1.4 per cent. The expansion in narrow money reflected notable increases of 8.5 per cent and 16.5 per cent in currency in circulation and demand deposits, respectively. For the comparable quarter of 2002, there were marginal reductions of 0.2 per cent and 1.0 per cent in currency in circulation and demand deposits, respectively.

The contraction in quasi-money was consequent on a decline of 11.1 per cent in time deposits that was partially offset by marginal growth of 2.0 per cent in savings deposits. This decline in quasi-money occurred in the context of the instability in the foreign exchange market and relatively higher yields that were offered on GOJ instruments.

The broader measure of money supply that includes foreign currency deposits (M3*) increased by 5.8 per cent during the June 2003 quarter relative to growth of 2.3 per cent for the corresponding period of 2002. This growth for the review quarter largely reflected an increase of 11.3 per cent in foreign currency deposits as local currency deposits increased by 3.1 per cent. The growth in the foreign currency component was largely reflected in demand and time deposits. These deposits recorded strong growth of 35.4 per cent and 26.8 per cent, respectively, during the quarter. During the corresponding period of 2002 demand

Foreign currency deposits increase.

deposits declined by 7.0 per cent while time deposits grew by 2.6 per cent. Foreign currency deposits of the private sector, expressed in US Dollars, increased by 5.9 per cent to total US$974.5 million at end-June 2003. The increase was reflected in growth of 28.6 per cent and 20.5 per cent in demand and time deposits, respectively. There was however, a reduction of 3.9 per cent in savings deposits. The build-up in time deposits could be motivated by the rapid depreciation in the value of the Jamaica dollar during the quarter, as investors sought to preserve the value of their financial assets. Arising from this switch to foreign currency deposits, the ratio of foreign currency deposits to total deposits increased to 31.7 per cent at the end of June 2003 from 30.1 per cent at the end of March 2003 and 25.7 per cent at end-June 2002.

As at end-June 2003 the money multiplier was 4.3, slightly above the 4.2 that obtained at end-March 2003 but was lower than the 4.4 that obtained in June 2002. There was an increase in the currency to deposit ratio to 15.3 per cent at end June 2003 from 14.5 per cent at end-March 2003.

Private Sector Credit

Commercial bank credit to the private sector expanded by 13.3 per cent surpassing the target outlined in the monetary programme for the first quarter of fiscal year 2003/04. Tourism and Transport Storage & Communication recorded the largest share of the increase in commercial credit. This expansion continued to reflect relatively strong demand for foreign currency loans, observed during the last fiscal year. There was further improvement in the quality of the commercial banks' loan portfolio throughout the period.

Table 1.3

Commercial Bank Distribution of Loans and Advances to the Private Sector (Flows J$M)

	Jun. 02	Mar. 03	Jun. 03
Agriculture & Fishing	-20.4	-148.5	22.7
Mining & Quarry	-5.1	48.7	-46.7
Manufacturing	140.0	261.3	377.8
Construction & Land Dev.	417.2	862.0	530.4
Transport, Storage & Comm.	874.0	703.3	1 160.6
Tourism	330.4	695.1	1 972.0
Distribution	-241.6	115.9	1 071.5
Professional & Other Services	487.0	-124.7	538.1
Personal Loans	1 060.9	1 911.0	1 882.6
Electricity	840.7	-719.4	-233.2
Entertainment	11.9	-46.4	2.3
Overseas Residents	-9.1	-15.6	2.4
TOTAL	**3 885.9**	**3 542.7**	**7 280.5**

The growth in commercial bank credit to the private sector, which was observed in the March quarter, continued into the June quarter. Credit expanded by $7 252.5 million or 13.3 per cent to total $61 964.4 million as at end-June 2003. This increase reflected an expansion in loans & advances of $7 280.5 million, which was partially, offset

Figure 1.2
Sectoral Distribution of Commercial bank Credit to the Private Sector Per Cent of outstanding stock June 2002 and June 2003

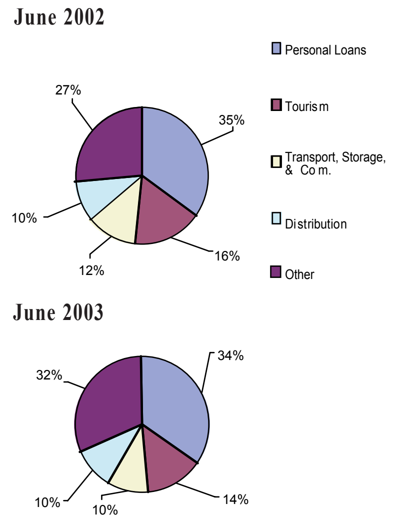


Table 1.4

Commercial Bank Distribution of Foreign Currency Loans & Advances to the Private Sector (flows US$M)	Jun. 02	Mar. 03	Jun. 03
Agriculture & Fishing	-0.9	-0.1	-0.1
Mining & Quarrying	0.1	0.0	0.0
Manufacturing	2.4	-0.7	-0.8
Construction & Land Dev.	1.2	-2.6	0.1
Transport, Storage & Comm.	15.3	12.6	-1.3
Electricity, Gas & Water	20.0	-8.2	-6.7
Distribution	1.0	-0.2	12.0
Tourism	2.0	2.2	27.1
Entertainment	0.0	-0.1	0.0
Professional & Other Services	4.9	2.5	-2.2
Personal Loans	1.5	-1.0	4.9
Overseas Residents	0.0	0.0	0.0
TOTAL	**47.5**	**4.4**	**33.0**

by declines in commercial banks' holdings of other investments and private sector debentures. Against this background, the advance to deposit ratio increased to 34.5 per cent at end-June 2003 from 32.1 per cent at end-June 2002.

Loans to *Tourism* increased by $1 972.0 million, accounting for 27.0 per cent of the total increase (see **Table 1.3**). The *Transport, Storage & Communication* sector also recorded a significant increase of $1 160.6 million in loans accounting for approximately 16.0 per cent of the total increase (see **Table 1.3**). Personal loans continued to grow significantly with an increase of $1 882.6 million. These three categories collectively accounted for 63.0 per cent of the total loan balance (see **Figure 1.2**).

There continued to be a relatively strong demand for foreign currency loans. During the June quarter, loans to the private sector denominated in United States Dollars expanded by US$33.0 million, which was noticeably larger than the US$4.4 million of the previous quarter but significantly less than the US$47.5 million observed during the corresponding period of 2002 (see **Table 1.4**).

During the review quarter, with the exception of *Tourism*, *Distribution* and *Personal Loans*, the stock of foreign currency loans to all other sectors either declined or remained flat. Foreign currency credit extended to the *Tourism* sector accounted for 82.1 per cent of the total increase.

In response to the tightening of monetary policy in the March 2003 quarter, commercial banks' loan rates increased at the end of the June quarter. The overall weighted average loan rate increased to 19.2 per cent at end-June 2003 from 17.2 per cent and 18.1 per cent at end-March 2003 and June 2002, respectively. The lending rate on *Local Government & Other Public Entities*, increased to 21.6 per cent at end-June 2003 from 14.5 per cent at end-June 2002 (see **Table 1.5**). Similarly, the weighted average rate on loans extended to *Central*

Table 1.5

Commercial Bank Domestic Currency Weighted Average Lending Rates (by loan type)

	June 02	Mar. 03	June 03
Instalment	25.4	25.2	24.4
Mortgage	20.3	19.0	19.0
Personal	26.8	27.4	27.8
Commercial	15.9	14.2	14.4
Local Government & Other Public Entities	14.5	14.7	21.6
Central Government	15.8	18.3	24.5
Weighted Average Rate			
Overall	**18.1**	**17.2**	**19.2**
Public Sector	14.9	15.8	22.4
Private Sector	19.4	18.0	17.7

Figure 1.3
Commercial Banks' loan rates weighted average June 2002 to June 2003

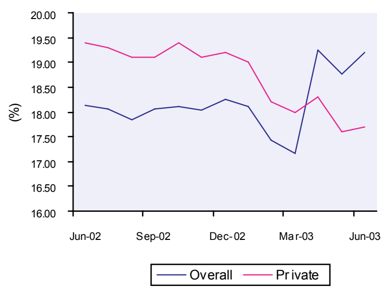
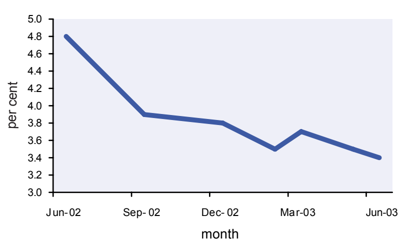


Figure 1.4
Commercial Banks' past due loans three months and over to total loans June 2002 to June 2003



Government increased to 24.5 per cent at end-June 2003 from 15.8 per cent at end-June 2002 (see **Table 1.5**). In contrast, the weighted average interest rate on private sector loans declined to 17.7 per cent at end-June 2003 from 19.4 per cent at end-June 2002 (see **Table 1.5**).

With regard to foreign currency loan rates, these rates recorded a marginal decline of 5 basis points to 8.74 per cent at end-June 2003 from 8.79 per cent at end-March 2003 but were significantly lower than the 11.76 per cent that obtained at end-June 2002.

The quality of the loan portfolio of commercial banks continued to show improvement as reflected in the ratio of past due loans to total loans that declined to 3.4 per cent at end-June 2003 (see **Figure 1.4**) from the 4.8 per cent that obtained at end-June 2002. The out-turn compares favourably with the 10.0 per cent international benchmark.

Bond Market

During the quarter, yields on successive offers of Government short-term instruments declined, influenced by the reduction in interest rates on Bank of Jamaica's reverse repurchase instruments and conditions in the foreign exchange market. The yields on Government of Jamaica's long-term bonds fluctuated but declined towards the end of the quarter. The decline in yields occurred in a context where the Government was a net borrower in the domestic capital market. Most of the debt was contracted through issues of debentures and indexed bonds and was financed mainly from the unwinding of open-market instruments. Rates in the private money market increased during the quarter due to a tightening in liquidity conditions coupled with the increase in BOJ overdraft rate in May.

Figure 1.5
BOJ OMO Yield Curve

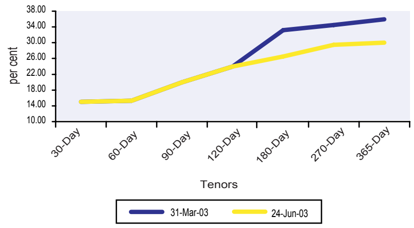


Table 1.6

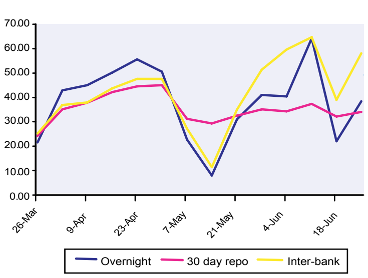
BOJ Reverse Repurchase Rates April - June 2003			
	31 March	**25 April**	**24 June**
30 Days	15.00	15.00	15.00
60 Days	15.30	15.30	15.30
90 Days	20.00	20.00	20.00
120 Days	24.00	24.00	24.00
180 Days	33.15	28.00	26.50
270 Days	34.50	32.50	29.50
365 Days	35.95	33.00	30.00

Table 1.7

Placements and Maturities* in BOJ OMO Instruments April - June 2003		
	Maturities (%)	**Placements (%)**
30 Days	7.57	4.56
60 Days	2.61	0.63
90 Days	22.47	4.23
120 Days	41.10	2.45
150 Days	0.97	0.00
180 Days	1.47	18.25
270 Days	0.79	9.39
365 Days	23.02	60.21

*Excludes overnight transactions during the period.

Figure 1.6
Private Money Market Average Maximum Rates April - June 2003



The Central Bank's monetary policy response to indicators of an improvement in economic conditions influenced the developments in the bond market during the quarter. The reduction in interest rates on the longer tenors of BOJ open market instruments on two occasions during the quarter resulted in a more moderate slope in the yield curve and influenced the decline in rates on Government offers (see **Figure 1.5**). The rates on the 30-day to 120-day tenors remained unchanged while the 180-day, 270-day and 365-day rates were reduced to 26.50 per cent, 29.50 per cent and 30.00 per cent respectively, from 33.15 per cent, 34.50 per cent and 35.95 per cent on these respective tenors at the start of the quarter (see **Table 1.6**).

The interest rate structure created an incentive for investors to invest at the longer end of the market. The objective was to elongate the maturity profile to allow for a period of restoration of stability. In this regard, placements in open-market instruments were mainly concentrated in the 365-day and 180-day tenors, which accounted for 60.21 per cent and 18.25 per cent, respectively, of total take-up. These placements were funded from maturities in the shorter tenors. Open-market maturities, including net interest payments for the quarter, were mainly concentrated in the 120-day, 365-day and 90-day tenors, which accounted for 41.10 per cent, 23.02 per cent and 22.47 per cent, respectively, of total maturities (see **Table 1.7**). The 150-day maturities reflect early encashment of securities from the special offer made in February.

Average maximum interest rates in the private money market were more sensitive to fluctuations in the liquidity conditions throughout the quarter, which led to sharp increases in the overnight and interbank rates. The average rate in the interbank and overnight markets peaked at 64.65 per cent and 62.50 per cent, respectively, during the week ending 11 June 2003. Average rates in the 30-day market peaked at 45.50 per cent during the week ending 30 April 2003 (see **Figure 1.6**).

The yield on successive offers of Government's short-term instruments declined during the quarter and was influenced by the series of adjustments in the Bank's interest rates. The average yield emerging from the 6-month Treasury Bill auctions held in the June quarter declined to 28.46 per cent from 33.47 per cent at the auction held on 28 March (see **Table 1.8**).

Table 1.8

Treasury Bill Auctions & Maturities April - June 2003				
Issue Date	Tenor (days)	Avg. Yield (%)	Allotment (J$M)	Amount Maturing (J$M)
28 Mar 03	182	33.47		
30 April 03	184	30.34	300	300
2 Jun 03	179	29.92	300	300
13 Jun 03				400
26 Jun	181	28.46	300	850
Total			**900**	**1 850**

Most of the Government debt was contracted through issues of debentures and indexed bonds, which are usually highly demanded by the market. Two debentures were offered. The first instrument had a subscription period of 23 - 25 April and a fixed rate of 36.25 per cent. A similar 19-month debenture was offered during 18 - 25 June, at a reduced rate of 33.50 per cent (see **Appendix 8A**). Of note, the Government was able to attract subscriptions to a 36-month debenture at a fixed rate of 18.63 per in January 2003. Two indexed bonds were also issued, one in April and the other in May. The indexed bond issued in April offered a fixed rate of 11.625 per cent while the instrument issued in May offered a higher rate of 12.0 per cent. The second instrument was issued as a part of a strategy announced by the Prime Minister to stabilize the foreign exchange market.

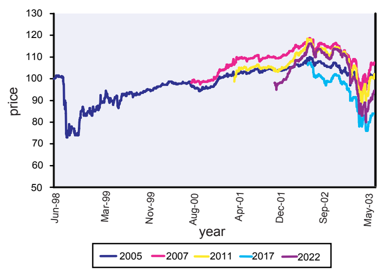
In financing the deficit during the June quarter, the Government's domestic public debt issues raised J$9 983.1 million, net of amortization (see **Table 1.9**). This was reflected in net issues in debentures and indexed bonds of $11 979.1 million and $4 975.5 million, respectively. There was net redemption of Treasury Bills and LRS of $950.0 million and $6 021.5 million, respectively. In addition, the public debt offers were supplemented by private placements.

Table 1.9

GOJ Public Domestic Debt Raising April - June 2003			
	Amount Allotted (J$M)	Amount Maturing (J$M)	Net Issue (J$M)
Treasury Bills	900.0	1 850.0	- 950.0
LRS	2 389.5	8 411.0	-6 021.5
Debenture	20 200.3	8 221.2	11 979.1
US$ Indexed Bonds	4 975.5	0.0	4 975.5
TOTAL	**28 465.3**	**18 482.2**	**9 983.1**

During the quarter, the Government of Jamaica did not approach the international capital market for financing. Some of the prices of GOJ global bonds traded in the secondary market reached their lowest level since they were issued. The 2017 and 2022 eurobond traded at a low price of 76 and 80 in May relative to a price of 87 and 95,

Figure 1.7
GOJ US Dollar-Denominated Global Bond Prices June 98 - June 03



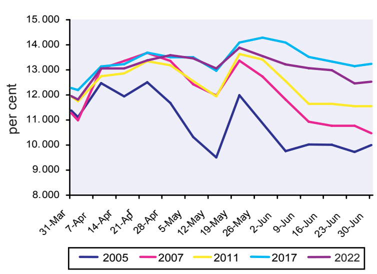
respectively, at the start of the quarter. These correspond to yields of 14.089 and 14.799, respectively. These respective long-term bonds were issued at a price of 99.079 and 98.076, respectively corresponding to yields of 10.75 per cent and 11.882 per cent. The low demand for the GOJ eurobonds reflects the worsening of investor confidence in the Jamaican economic environment during the month of May. However, the prices of all GOJ eurobonds reverted to a trend increase during June following the return of stability to the foreign exchange market (see **Figure 1.7**).

Overall, the yields on the short-term eurobonds declined during the quarter while the yields on the 2017 and 2022 eurobonds increased (see **Figure 1.8**).

Moody's Investor Service downgrades Jamaica one notch.

Moody's Investor Service cut Jamaica's sovereign debt rating one notch from Ba3 to B1 on 27 May 2003. The rate cut was premised on concerns about the Government's policy mix and the public debt burden. The report also cited an improvement in the public sector management but noted that the country was still vulnerable to shocks. The announcement of the downgrade did not have a negative effect on the price of GOJ eurobonds as investors had already factored in a downgrade in the prices. In fact, subsequent to the downgrade, the prices of all GOJ bonds rose.

Figure 1.8
GOJ US Dollar-denominated Global Bond Yields April 03 - June 03



Stock Market

The indicators of stock market performance returned mixed signals during the June quarter. While the main Jamaica Stock Exchange (JSE) index increased, the All Jamaica Composite index declined during the period. General uncertainties regarding Jamaica's fiscal position, along with continual volatility in the foreign exchange market during the first half of the review period tended to reduce investor interest in domestic stocks. Nonetheless, the restoration of relative stability in the foreign exchange market and declining interest rates towards the end of the quarter have set the stage for market recovery.

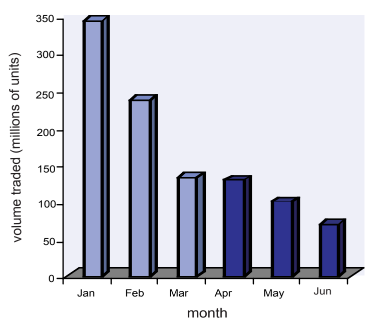
Highly capitalized companies boost main JSE index during June 2003 quarter.

All Jamaica Composite index reveals weakening of domestic stock prices.

Early in the quarter, cautious optimism typified the attitude towards the stock market as investors assessed the likely impact of the 2003/04 fiscal budget. The stock market was adversely affected by negative comments on Jamaica's fiscal position by international rating agencies. The stock market was also negatively affected by relatively high levels of interest rates.

The review quarter culminated in a slowdown of trading activity. For the period, 300 million units of ordinary shares valued at $1.8 billion, were traded. This represented a fall in activity from the 712 million units that were traded at a value of $4.1 billion in the March 2003 quarter, and the 403 million units traded at a value of $1.9 billion during the corresponding period in 2002.

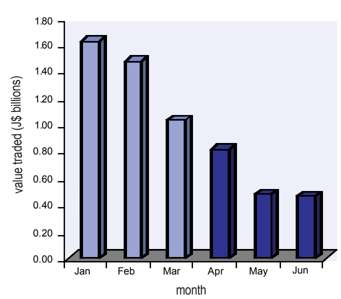
Figure 1.9
Monthly volume traded
Q1 vs Q3 - 2003



Source: Jamaica Stock Exchange

At the end of the review period the main JSE index recorded 50 478.94 points, a 7.4 per cent increase over the 46 981.96 points recorded at the end of March 2003. The movement in the index for the quarter was more impressive than the 3.1 per cent increase in the corresponding period of 2002, as well as the 3.5 per cent gain attained in the March 2003 quarter. At the end of the period market capitalisation was $383.7 billion, reflecting a growth of 7.9 per cent during the review quarter[1].

Figure 1.10
Monthly value traded
Q1 vs Q3 - 2003



Source: Jamaica Stock Exchange

Despite the movement in the main JSE index, there was reduced interest in, and activity on, the stock market for the June 2003 quarter, evidenced in the price pattern of the stocks traded. During the period, of the 37 stocks that were traded, 23 stocks declined, while 13 advanced and 1 traded firm. Domestic stocks were chief among the price losers. This trend was evident in the 3.6 per cent decline in the All Jamaica Composite index, which closed the period at 42 995.02 points. The performance in this index was in contrast to the 18.7 per cent increase recorded for the March quarter, or the 1.2 per cent increase for the corresponding period in 2002.

[1]The listing of Capital and Credit Merchant Bank on 26 May 2003, influenced the increase in market capitalization.

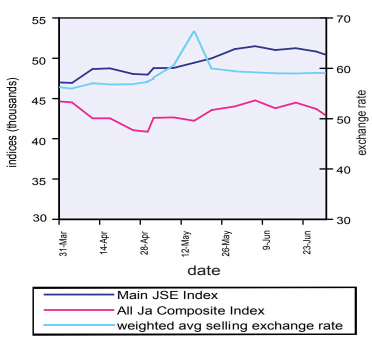
Table 1.10

Exchange Rate Depreciation and the JSE Index - Per Cent Change April - June 2003

	April	May	June
Depreciation	1.9	3.6	-0.7
Change in JSE index	2.1	6.6	-1.3

Source: JSE, Bank of Jamaica Statistics

Figure 1.11
Influence of exchange rate on major stock market indices June 2003 quarter



Source: Jamaica Stock Exchange

Table 1.11

Top Ten Share Price Gains June 2003 Quarter

Sectors/ Companies	Price at 30 June 03 $	Qtr Change %
Financial Services Sector		
FirstCarib Int'l	74.50	24.2
FirstCarib Int'l (Ja)	8.60	8.9
JMMB	8.40	33.3
NCB	10.35	12.9
RBTT	195.05	14.7
Distributive Sector		
Goodyear	4.50	7.4
Hardware & Lumber	8.60	43.3
Other Services Sector		
Ciboney	0.08	14.3
Montego Freeport	0.85	41.7
Pegasus	3.00	25.0

Source: Jamaica Stock Exchange

A disaggregation of the quarterly change in the main JSE Index reveals that the index showed a sharp gain during May, simultaneously with the sharp depreciation in the exchange rate[2]. Furthermore, the index declined in June, when there was an appreciation in the Jamaican currency (see **Table 1.10**). These results are particularly interesting as they reveal signs of increased demand for stocks on the JSE against a background of a weakening Jamaica Dollar. In general, these results point to a fairly close correlation between the performance on the equity market and the foreign exchange market.

The main JSE index outperformed the All Jamaica Composite index for the duration of the quarter (see **Figure 1.11**). The divergence was due primarily to the positive price performance of a few highly capitalised foreign-owned entities that are included in the computation of the main JSE index but excluded from the All Jamaica Composite index. These firms are also listed on at least one other regional stock exchange[3]. One possible explanation for the positive price performance of these entities is that in periods of exchange rate depreciation, portfolio holders tend to prefer internationally traded stocks. This allows investors to benefit from existing arbitrage opportunities by way of purchasing these stocks on the domestic exchange and selling them on another exchange. If the proceeds from the sale of the stocks are immediately reconverted then a profit is realised. It could be deduced that the positive price performance of some cross-listed firms (see **Table 1.11**) is partly attributable to the existence of such arbitrage opportunities.

The restoration of stability in the foreign exchange market towards the end of the review period created the environment for the positive price gains that were achieved by firms that are listed solely on the JSE. The appreciation in the value of the Jamaica Dollar in the latter part of the

[2]The average weighted selling rate was used in the analysis.
[3]Some of the influential firms were FirstCaribbean International Bank, Guardian Life Insurance Company Limited, JMMB*, RBTT Financial Holdings, and Trinidad Cement Company Limited. These firms are all excluded from the All Jamaica Composite index, and are listed on both the JSE and the Trinidad & Tobago Stock Exchange (TTSE). All except JMMB, are also listed on the Barbados Stock Exchange.

period influenced stock price gains for firms such as Hardware and Lumber, Montego Bay Freeport and Pegasus Hotel. These companies posted strong gains of 43.3 per cent, 41.7 per cent and 25.0 per cent, respectively, based solely on price movements in the latter part of the quarter.

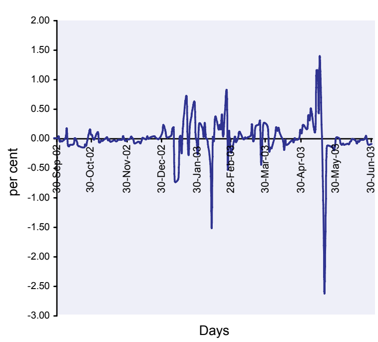
Continued stability in the foreign exchange market will help to strengthen the stock market by facilitating a gradual reduction in interest rates, thereby rendering equity investments more attractive. The increasing number of cross-listed firms on the regional stock exchanges is a positive trend that augurs well for the enhancement of the market's robustness to short-term macroeconomic shocks. Enhanced depth and market integration, and the possibility of arbitrage profits should serve to buoy activity on the JSE.

Foreign Exchange Market

The foreign exchange market experienced intense bouts of instability in the June 2003 quarter. The weighted average selling rate depreciated by 4.7 per cent, compared with 9.4 per cent during the March 2003 quarter. However, this relatively lower rate of depreciation masked the marked instability that occurred in May. The movement in the exchange rate during the quarter was mainly influenced by a fall in market confidence associated with negative reviews of the country's economic performance and outlook. In addition, the market was affected by high levels of Jamaica Dollar liquidity. To address the instability, monetary policy during the quarter was geared towards the maintenance of tight Jamaica Dollar liquidity, as well as to augment the supply of foreign exchange to the market.

Figure 1.12

Exchange Rate Volatility(*)



(*) Volatility is calculated as the daily standard deviation of the daily logarithmic returns.

The trend depreciation in the exchange rate during the March 2003 quarter continued into the June quarter (see **Figure 1.12**). The weighted average selling rate depreciated by 4.7 per cent to US$1.00 = J$59.01 at end-June 2003 from US$1.00 = J$56.24 at end-March 2003

Figure 1.13
Weighted Average Selling Exchange Rate (period average)

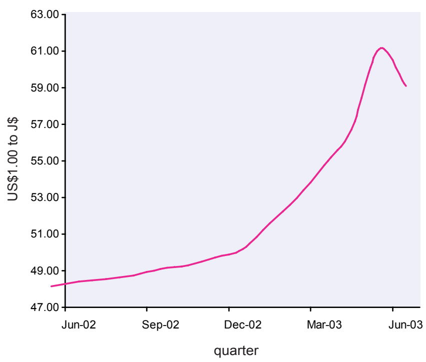
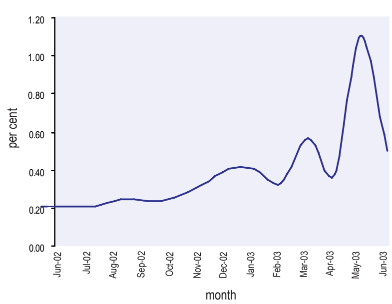


Figure 1.14
Foreign Exchange Spread as a per cent of Average Exchange Rate



(see **Figure 1.13**). The pressures in the market were most pronounced in May, with the average selling rate depreciating by an overall 3.6 per cent for the month. This reflected a 14.8 per cent depreciation in the exchange rate for the first 16 days of the month to US$1:00=J$67.22 and a 13.1 per cent appreciation over the remainder of the month. In this context, an average daily depreciation of J$0.10 was observed for the month, significantly above the average daily rate of depreciation of J$0.05 for April. There was an average daily appreciation of J$0.02 in June 2003.

The unstable state of the foreign exchange market was also reflected in a widening of the spread between the prices at which US Dollars were bought and sold. Relative to an average monthly increase of 15.6 per cent in the spread over the previous two quarters, the average spread increased by 25.3 per cent per month during the June 2003 quarter. This was influenced by a spread of 1.1 per cent of the exchange rate in May relative to a spread of 0.57 per cent of the exchange rate in March (see **Figure 1.14**). This significant increase reflected an average increase of 136.6 per cent in May, compared with average declines of 10.2 per cent and 48.9 per cent in April and June, respectively.

The performance of the foreign exchange market in the review period largely reflected waning confidence in the prospects for the domestic economy. This perception came against the background of negative reviews about the country's macroeconomic performance and near-term outlook. In particular, a report by an external, independent research agency[4] on 10 April 2003 stimulated heightened international interest in the Jamaican economy and fuelled the uncertainty. There was also a perception that the measures announced in the fiscal budget for FY 2003/04 may not have been sufficient to deliver the objective of a meaningful contraction in the fiscal deficit.

[4]See Credit Sights “Jamaica Casualty of War”

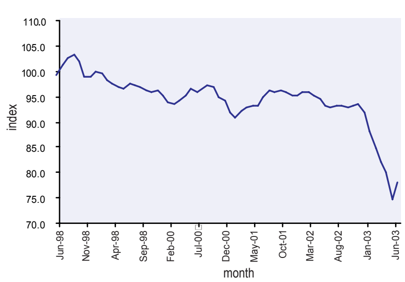
The pressures in the foreign exchange market were related to a fall in confidence.

In the context of the incipient pressures in the foreign exchange market, the view also emerged in the market that the Bank, and the Government, were willing to tolerate the slippages in the exchange rate. This misperception was further compounded by rumours that Government was considering a possible return to a borrowing relationship with the International Monetary Fund (IMF). The general state of uncertainty was manifested in a rapid depreciation in the exchange rate during the first two weeks in May. The fall in confidence was also indicated by a 10.0 per cent decline in Jamaica's Index of Business Confidence during the review period, relative to the March 2003 quarter[5].

The accelerated rate of depreciation in the exchange rate prompted an address to the nation by the Prime Minister on 18 May, where he reiterated a commitment to orderly adjustment in the exchange rate. To restore order in the foreign exchange market, the Prime Minister outlined two broad measures: 1) Central Bank intervention through foreign exchange sales, for as long as necessary, commencing 19 May, and 2) the issue of a US$ indexed bond by the Government of Jamaica.

Following the address to the nation by the Prime Minister on 18 May 2003, the excess demand for foreign exchange, observed in the first half of May, tapered off. The reduction in demand for foreign exchange in the second half of May was effectively supported by a fall in Jamaica Dollar liquidity in the banking system, as relatively few GOJ and BOJ instruments matured during the period.

Figure 1.15
Real Effective Exchange Rate Index**
(December 1998 = 100)



(**) A decline in the REER index suggests an improvement in external competitiveness.

As a consequence of the depreciation in the nominal exchange rate, the Real Effective Exchange Rate (REER)[6] index for Jamaica at end-June 2003 was lower by 2.4 per cent, relative to the index at end-March 2003, representing an improvement in competitiveness (see **Figure 1.15**). The annual point-to-point decline in the REER as at June 2003 was 15.9 per cent, compared with a fall of 2.3 per cent

[5]See Jamaica Conference Board Website (http://www.jaconferenceboard.com) for more discussions.
[6]See Box 1 for a discussion of competitiveness and measures of the real effective exchange rate.

for the similar period in FY 2002/03. For the calendar year to June 2003, the REER declined by 15.1 per cent, compared with a fall of 2.5 per cent in the same measure at June 2002.

The improvement in competitiveness for the quarter, while largely the result of the depreciation in the domestic exchange rate, also reflected an appreciation of 2.9 per cent in the currencies of Jamaica's major trading partners vis-à-vis the US Dollar. Importantly, the estimated improvement in competitiveness was partly offset by an acceleration in domestic inflation to 6.0 per cent for the June quarter, compared with the mild deflation of 0.4 per cent experienced in the March 2003 quarter (see **Inflation**).

Preliminary estimates of foreign exchange flows within the economy for the June 2003 quarter indicate that there was excess demand for foreign currency of US$212.3 million, US$52.9 million above the net demand for the comparable quarter in 2002. Relative to the corresponding quarter in 2002, the demand for foreign exchange is estimated to have increased by US$23.7 million, while supply declined by an estimated US$29.1 million. Total inflows and outflows of foreign exchange for the quarter were estimated at US$1 667.2 million and US$1 879.5 million, respectively (see **Figures 1.16a & 1.16b**).

The reduced supply of foreign exchange to the economy during the review quarter largely reflected a change in the timing of Government's external borrowing, relative to the corresponding period of FY 2002/03. This was partly offset by higher private current transfers, tourism and non-mining export receipts. Preliminary data for the June 2003 quarter[7] suggest that private remittance inflows increased by 2.0 per cent relative to the June 2002 quarter to US$318.7 million. Inflows from non-mining exports and tourism are also estimated to have grown by US$14.4 million and US$17.4 million, respectively, for the review quarter. Higher export earnings are estimated from sugar and other traditional

Figure 1.16a
Quarterly Foreign Exchange Cash Inflows & Outflows

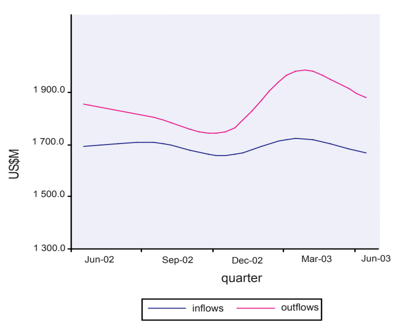
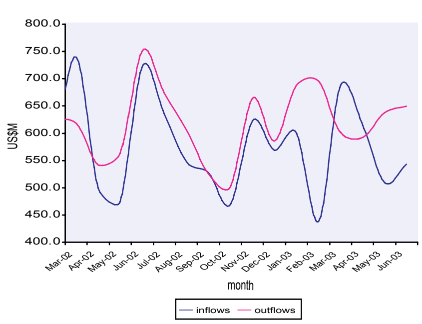


Figure 1.16b
Monthly Foreign Exchange Cash Inflows & Outflows



[7]Bank of Jamaica estimates.

Figure 1.17a
Foreign Exchange Cash Inflows by Institutions

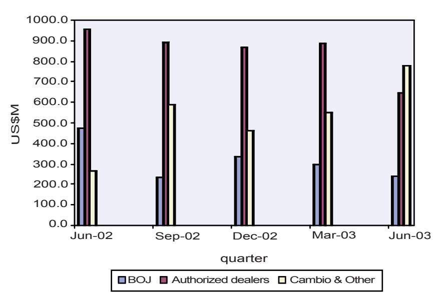
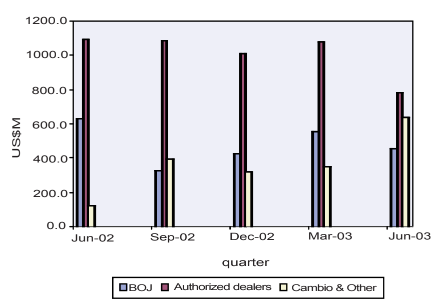


Figure 1.17b
Foreign Exchange Cash Outflows by Institutions



exports, while the growth in tourism receipts reflect a 15.0 per cent increase in total visitor arrivals for the quarter.

Increased demand for US Dollars in the review quarter ensued principally from accelerated private capital outflows, as well as higher payments for fuel imports, which were partly offset by lower Government of Jamaica (GOJ) external debt payments. In addition, a sharp reduction in the prices at which GOJ bonds were traded fostered increased demand for foreign exchange by securities dealers to satisfy margin calls[8]. There was also evidence of an increase in the conversion of Jamaica Dollar deposits to foreign currency deposits (see **Money Supply**). The higher demand for foreign exchange in the quarter was facilitated by the Jamaica Dollar liquidity in the money market, particularly in early May.

The authorized foreign exchange dealers reported net sales of US$135.1 million during the quarter, US$8.5 million lower than the June 2002 quarter. Total purchases fell by US$306.1 to US$647.2 million, while total sales were reduced by US$314.5 million to US$782.3 million (see **Figures 1.17a & 1.17b**).

A major cause of the diminution in supplies to this segment of the market was private capital inflows, which fell by approximately US$304.0 million, relative to the June quarter of 2002. There was also a marginal fall in inflows from transfers in the quarter. Importantly, supplies from tourism interests grew, and have been growing consistently since the September 2002 quarter.

The fall off in private capital inflows may be related to the pressures in the foreign exchange market. The uncertainties about the exchange rate could have caused firms to postpone investment decisions, particularly those entities not involved in foreign exchange earning activities. This,

[8]A margin call is a demand by a lender that an investor deposits additional money or securities to bring the balance in a margin account up to some prescribed level. A margin account is typically used as collateral for loans extended by international brokerage houses to investors for the purpose of acquiring bonds or securities.

in turn, would have precipitated further pressures on the exchange rate.

The contraction in foreign exchange sales largely reflected declines in private capital outflows. Payments for imports, foreign travel and other services also declined in the quarter.

Foreign exchange supplies to the Authorised Dealers affected by lower private capital inflows.

Despite the pressures in the foreign exchange market, the cambios recorded net purchases of US$63.4 million during the June 2003 quarter. This reflected respective increases of US$58.6 million and US$47.6 million in sales and purchases to US$399.0 million and US$462.3 million, relative to the comparable quarter of 2002.

Given the fall-off in foreign exchange flows, the Central Bank sold foreign exchange to the market during the June 2003 quarter, most of which was sold during May. There were also substantial purchases from the market during the period, such that net sales amounted to US$130.5 million in the quarter.

Partly as a result of the aggressive stance of the Central Bank with respect to the foreign exchange market, the NIR fell to US$1 127.4 million at end-June 2003, compared with US$1 339.7 million at end-March (see **Table 1.12**). In this context, the gross reserves of the BOJ at end-June 2003 were US$1 165.2 million, representing 12.0 weeks of projected goods and services imports.

Table 1.12

Net International Reserves (US$M)			
Month	**Stock**	**One Month Change**	**Three Month Change**
Jun-02	1 782.3	-28.4	-159.4
Jul-02	1 743.9	-38.3	-155.9
Aug-02	1 685.6	-58.3	-125.0
Sep-02	1 687.3	1.7	-95.0
Oct-02	1 655.2	-32.1	-88.7
Nov-02	1 614.4	-40.8	-71.2
Dec-02	1 597.0	-17.4	-90.3
Jan-03	1 510.3	-86.7	-145.3
Feb-03	1 252.9	-257.3	-361.5
Mar-03	1 339.7	86.7	-257.3
Apr-03	1 362.1	22.4	-148.2
May-03	1 233.3	-128.8	-19.6
Jun-03	1 127.4	-105.9	-212.3

Table 2.1

Sectoral Contribution to Growth June quarter	Estimated Direction of Change
1. GOODS	+ve
Agriculture Forestry & Fishing	+ve
Mining & Quarrying	+ve
Manufacturing	-ve
Construction & Installation	+ve
2. SERVICES	+ve
BASIC SERVICES	+ve
Electricity & Water	+ve
Transport Storage & Communication	+ve
OTHER SERVICES	+ve
Distributive Trade	+ve
Financing & Insurance Services	+ve
Real Estate & Business Services	+ve
Producers of Government Services	+ve
Miscellaneous Services	+ve
Households & Private Non-Profit Instit	+ve
TOTAL GDP	+ve

*Leading economic indicators suggest an expansion in real GDP during the June 2003 quarter, compared with the decline of 0.9 per cent recorded in the corresponding quarter of 2002. This growth was associated with the normalisation of activities in **Agriculture**, **Mining** and **Miscellaneous** services. In addition, there was continued growth in the **Electricity & Water, Transport, Storage & Communication and Construction** sectors (see **Table 2.1**). The overall growth in the review quarter was consistent with the trends in credit demand which, in part, has facilitated the recovery. From the perspective of aggregate demand, the expansion in economic activity reflected estimated increases in both private and public sector consumption as well as private sector investment, which were partially offset by declines in public investment and net external demand.*

Expansion in all sectors of the economy, with the exception of manufacturing.

Aggregate Supply

During the review quarter, growth was recorded in all sectors of the economy, with the exception of *Manufacturing*. Growth in the goods producing sectors was mainly reflected in *Agriculture*. With regard to services, growth was more pronounced in the *Miscellaneous* and *Basic services*.

The estimated growth in *Agriculture* was derived from an expansion in domestic crop production (see **Figure 2.1**), which was partially offset by a decline in crops produced for the export market. The expansion recorded in the sector was significantly above the average growth between 1998 and 2002. Domestic agricultural production was influenced by relatively favourable weather conditions since the beginning of 2003. These conditions led to an increase in planting activity and aided in the improvement in crop maintenance. These factors facilitated a return of production to normal levels, relative to depressed output levels in the June 2002 quarter, arising from the May/June

Figure 2.1
Trends in Domestic Crop Production (12-month change)

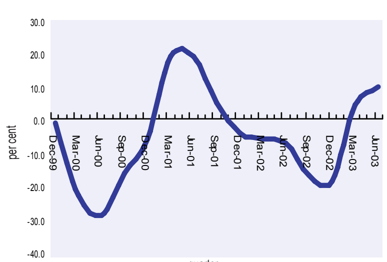


Figure 2.2
Sugar Cane Production
(12-month change)

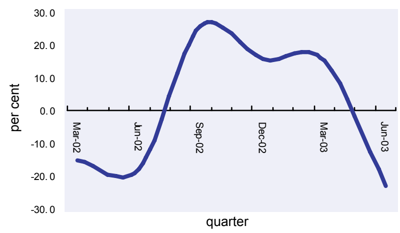


Figure 2.3
Trends in Alumina Production
(12-month change)

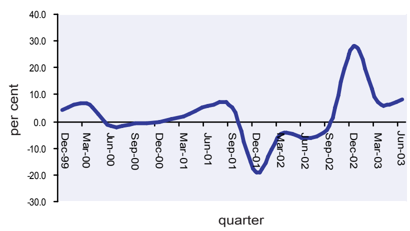
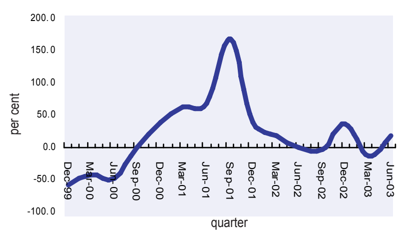


Figure 2.4
Trends in Crude Bauxite Production
(12-month change)



2002 heavy rains. In this context, the production of vegetables, legumes, potatoes and fruits is estimated to have grown significantly in the review period.

Export agriculture during the quarter was dominated by a contraction in sugar cane production (see **Figure 2.2**), which offset the expansion in coffee, pimento and cocoa. Sugar cane production is estimated to have declined by 23.1 per cent, relative to output in the June 2002 quarter. A low level of replanting at the beginning of the current crop year contributed to this decline.

The growth observed in the *Mining* sector over the past two quarters, continued in the review period. This growth was notably above trend and reflected increases of 7.9 per cent and 11.8 per cent in the production of alumina and crude bauxite, respectively (see **Figures 2.3 & 2.4**). The growth recorded in *Mining* was in the context of reduced output in the June 2002 quarter, stemming from the May/June 2002 flood rains, which damaged the sector's transportation infrastructure. During the quarter the industry operated at 99.8 per cent of its capacity, relative to 92.2 per cent in the June 2002 quarter.

Decline in manufacturing attributable to temporary closure of petroleum refining facilities.

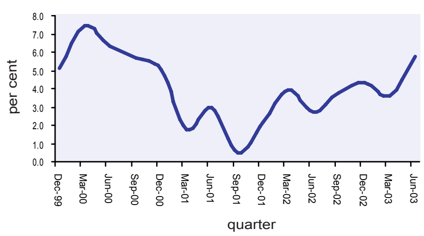
The *Manufacturing* sector is estimated to have declined in the June 2003 quarter. This assessment is based primarily on the significant reduction in petroleum refining activities during the review period, which offset moderate increases in the value added of other manufacturing sub-sectors. The decline in petroleum refining was related to the closure of the Petrojam Refinery for maintenance, throughout the review quarter. Growth of 5.0 per cent, 7.0 per cent and 3.0 per cent were, however, estimated for the food processing, alcoholic beverages and non-alcoholic beverage sub-sectors, respectively. The increase in food processing was partly associated with the notable growth in poultry meat, given reduced output in the June 2002 quarter. Growth in the non-alcoholic beverage sub-sector was enhanced by the installation of a $75.0 million drink manufacturing plant in January 2003. The estimated increase in alcoholic beverages contrast with reduced output levels in the June 2002 quarter.

Buoyant growth estimated in construction.

There was continued growth in the *Construction & Installation* sector in the June 2003 quarter, commensurate with an intensification of roadwork. The expansion in roadwork was associated with the planned completion of Phase 1A of the Highway 2002 project, slated for 01 June 2003. Another indicator of the improved performance of the industry is a real expansion of 90.7 per cent in commercial banks' loans to the sector between May 2002 and May 2003. However, declines of 57.0 per cent and 40.6 per cent in housing starts and completions, respectively, during the period, suggest that growth in the housing segment of the industry was restrained.

Within *Basic Services*, the expansion in the real value added of the *Electricity & Water* sector, was inferred from an increase of 6.3 per cent and 4.5 per cent in total electricity generation and sales, respectively, relative to the comparable quarter in 2002 (see **Figure 2.5**). The recorded growth was approximately one-percentage point above the average increase for the June quarters between 1997 and 2002. The growth in generation is related to the additional 80 megawatts of capacity that was installed by the main power company in mid 2002. Sales of electricity for industrial and residential purposes increased by 6.4 per cent and 1.7 per cent, respectively, relative to the comparable period in 2002. In addition, water production grew by 7.6 per cent.

Figure 2.5
Electricity Sales
(change over corresponding quarter)



Continued expansion in the mobile telephone market.

In relation to *Transport, Storage & Communication*, growth in the transport sub-sector was inferred, in part, from a 14.7 per cent increase in visitor arrivals in the review quarter, relative to the corresponding period in 2002. Additionally, there were estimated expansions of 1.4 per cent and 2.5 per cent in domestic cargo movement and the number of ships calling at Jamaican ports, respectively. With regard to communication, the total number of telephone lines in service (mobile and 'plain old telephones' (POTS)) is estimated to have grown by approximately 35.3 per cent for the quarter, relative to the June 2002 quarter. This growth was fuelled primarily by the expansion in mobile services as the volume of POTS lines is estimated to have grown marginally over the period. The heightened competition, which encouraged continuous investments in the sector, has sustained the

Figure 2.6
Merchandise Imports
(change over corresponding quarter)

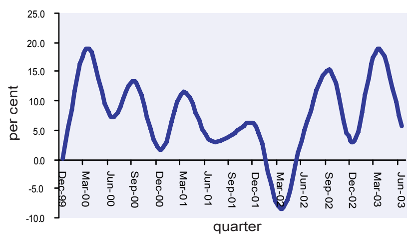
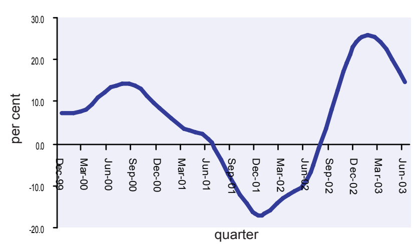


Figure 2.7
Visitor Arrivals
(change over corresponding quarter)



growth in this industry. Facilitating the overall performance of the sector was a real increase of 76.0 per cent in commercial bank loans extended to the industry, during the 12-month period ending May 2003.

Marginal growth is estimated for the *Distributive Trade* sector in the review quarter, relative to the corresponding period in 2002. This growth is inferred from an estimated increase of 5.6 per cent in merchandise imports (see **Figure 2.6**), relative to the June 2002 quarter. The growth in merchandise import was mainly attributed to the expansion in raw material imports. In addition, loans extended to the sector increased by 33.5 per cent, during the 12-month period ending May 2003.

The value added of *Miscellaneous* services is also estimated to have grown over the review period. The tourism industry, the primary sub-sector associated with miscellaneous services, was estimated to have performed well over the period as the positive trends seen in the industry over the previous three quarters continued into the June quarter. Visitor arrivals and expenditure for the quarter were higher by 15.0 per cent (see **Figure 2.7**) and 7.7 per cent, respectively, relative to the June 2002 quarter. Cruise passenger arrivals increased by 28.8 per cent, while stopovers expanded by 6.9 per cent. This improved performance is within the context of depressed output levels in the June 2002 quarter, combined with the present relative attractiveness of the Caribbean islands, given recent unrest in the Middle East and the emergence of Severe Acute Respiratory Syndrome (SARS), in other competing destinations.

Aggregate Demand

For the June 2003 quarter, the overall assessment of aggregate demand suggests an improvement in spending, relative to the corresponding quarter of 2002. Indicators of consumption suggest that real spending increased, relative to the June 2002 quarter. This expansion was evident in both private and public consumption spending. With regard to private consumption, merchandise imports, an

Figure 2.8
Trends in Public Consumption
(change over corresponding quarter)

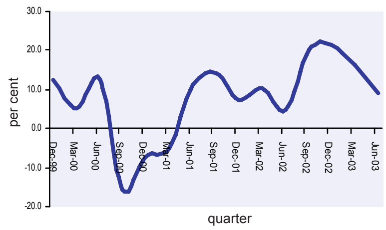


Figure 2.9
Trends in Private Investment
(change over corresponding quarter)

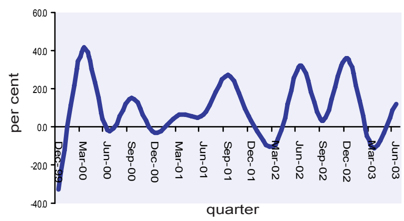


Figure 2.10
Trends in Public Investment
(change over corresponding quarter)

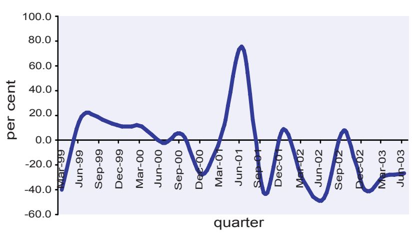
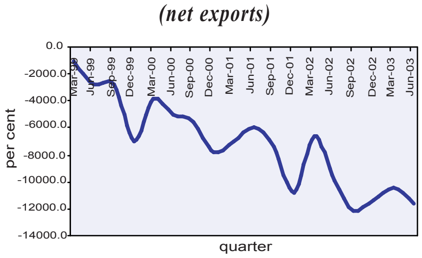


Figure 2.11
Trends in Net External Demand
(net exports)



expenditure proxy, were estimated to have grown in real terms by 21.4 per cent.

With respect to public consumption expenditure, spending on Government programmes and wages & salaries was 9.0 per cent higher during the review quarter, compared to the corresponding quarter in 2002 (see **Figure 2.8**).

Indicators of real investment demand during the quarter suggest an improvement in overall investment spending. This growth was related primarily to higher levels of private investment spending, as public spending declined during the review quarter. The expansion in private investment spending was partly inferred from a growth of 12.2 per cent in real capital goods imports (see **Figure 2.9**). Additionally, the funding of the Highway 2002 Project in the quarter augmented investment spending.

An estimate of foreign direct investment indicated an expansion, relative to the June 2002 quarter. In relation to public investment spending, Central Government capital expenditure, one of its proxies, declined by 26.2 per cent in the review period, relative to the June 2002 quarter. This reduction reflected the effort of the Government at containing spending (see **Figure 2.10**).

There was an estimated deterioration in net external demand during the review period, compared to the June 2002 quarter (see **Figure 2.11**). This deterioration occurred despite improvements in the export of goods and services, given substantial increases in imports. The estimated expansion in imports primarily reflected increases in the value of fuel imports.

Summary

In summary, growth in aggregate supply in the June 2003 quarter is estimated to have been relatively strong in comparison to the average growth over the four preceding quarters. The major areas of growth were *Agriculture*, *Mining*, *Construction*, *Basic* and *Miscellaneous Services*. This growth is predicated partly on normalised production levels in *Agriculture*, *Mining* and *Tourism* and continued expansion in the other sectors. The estimated growth was, however, dampened by lower output in *Manufacturing*, owing to the closure of the petroleum refining plant in the quarter. The expansion in domestic consumption and investment expenditure was the main factor underlying the corresponding growth in expenditure.

Box 1: The Concept and Measurement of External Competitiveness

Introduction

External competitiveness describes the ability of a country to produce goods and services at costs, prices and qualities, which are at least comparable to those of other producers in the world. It also assesses the extent to which the national environment facilitates the growth and development of business and attracts foreign and local investment.

Improvements in competitiveness are important for small open economies. If firms and, consequently, the economy become more competitive, there will be an expansion in the flow of exported goods and services, provided there are no barriers to trade. Similarly, domestic consumers will demand more locally produced goods and services. Both cases would contribute to an improvement in the country's external position. Sustained high levels of external competitiveness may also positively affect the economy's credit worthiness, as investors perceive that the economy is able to repay future debts.

Measures of Competitiveness

There is no unique variable or indicator that can be used to adequately assess external competitiveness. The fairly extensive literature on competitiveness identifies several broad measures. These include the real effective exchange rate (REER), the relative price of non-tradable goods to tradable goods, and measures of market shares, among others. Given its computational simplicity, the REER has become one of the most widely used indicators of external competitiveness. This measure is also widely used by the International Monetary Fund (IMF).

The Real Effective Exchange Rate

The REER in its simplest form is a ratio of domestic prices (costs) to foreign prices (costs),

$$\text{REER} = \frac{eP}{e^*P^*}$$

where, e and P are the nominal exchange rate and the relevant price for the domestic economy, respectively, while e^* and P^* are the respective exchange rate and relevant price for the country's trading partner. The prices used should be comparable across foreign firms and are all converted to a common currency. In practice, economists refer to the ratio e/e^* as the nominal effective exchange rate (NEER) while the ratio P/P^* is referred to as the relative price index (RPI).

In selecting the trading partners, the ideal group of countries should be those whose firms compete directly with domestic firms. In practice however, these are usually difficult to identify. The second best solution is to identify the major trading partners of the domestic economy.

The exchange rate and price indices for the trading partners are weighted averages of the indices for these countries. These weights are typically the share of bilateral trade flows (goods and services) between the domestic economy and its trading partners in a base year, or base period. Base periods are considered ideal if they are characterised by price stability and a sustainable external balance.

A decline in the REER index indicates an improvement in a country's competitiveness. This may result from a reduction in relative prices or a depreciation of the domestic currency relative to those of the competing countries.

The price measures used in the construction of the REER (commonly called deflators) are usually consumer price indices (CPI), unit labour costs (ULC) and export unit value (EUV). The REER that incorporates the CPI is one of the most commonly used indicators of competitiveness. This is because CPIs are usually comparable across countries, are readily available and are published frequently. However, there are a few limitations in the use of this measure. Consumer price indices may be influenced by price controls, indirect taxes, subsidies and other distortions. In addition, the CPI usually contains a fair share of non-tradable goods and services - barber and hairdressing services, preparatory schooling, among others - whose price movements usually bear no direct relation to the competition for external market share. Moreover, CPIs do not contain information about the prices of some important tradable goods such as capital goods.

In the case of Jamaica, large swings in agricultural or other prices may seriously undermine the inferences that can be drawn from short-term changes in this index. In addition, as is the case for a large number of small open economies, there is a lack of independence between the exchange rate and movement in consumer prices. Movements in the former price will invariably influence movements in the latter.

Unit Labour Cost

Another key deflator used in computing the REER is the ULC in the production of traded goods, typically manufacturing. ULC is the ratio of the hourly compensation per worker to the output per man-hour. The ULC-based REER is a ratio of unit labour costs in the domestic economy to unit labour costs for the relevant trading partners. This measure is a useful indicator of a country's competitiveness, if labour is a major cost in the production process. However, it suffers the limitation that data on labour productivity and compensation may not be readily available, and when available may not be at the required frequency. Furthermore, the exclusion of other production costs may mean that differences in the composition of factor inputs and relative productivity trends may detract from the value of the index as a measure of overall competitiveness.

Export Unit Values

Export unit values may also be used to deflate the NEER. Here, the REER is computed by forming a ratio of the export unit value for the domestic economy with an appropriately weighted index of export unit values for the country's trading partners. The use of export unit values may not, however, be an appropriate deflator for developing countries. These countries are typically price takers on the international market so that relative movements in these unit values do not reflect trade performance of the domestic economy. Furthermore, as this index is based on unit values, changes in these values can sometimes reflect changes in the composition and pattern of trade instead of fundamental adjustments in export prices.

Other Indicators

External competitiveness can also be measured by a ratio of the **price of non-tradable goods to tradable goods**[9]. An increase in this index implies a loss in competitiveness. As the relative price of tradables increases, producers will be inclined to increase the production of these goods and reduce the production of non-tradable goods.

This measure of competitiveness suffers from the drawback that price indices for tradable and non-tradable goods and services are typically not readily available. This is compounded by the fact that the distinction between tradable and non-tradable goods is usually quite arbitrary. These measures are also likely to be less appropriate for those countries that are service oriented.

Another popular indicator of competitiveness is the **market share of world trade** that a country enjoys, or its market share for a particular good, service or industry. Assessments of market shares are usually undertaken from the perspective of, inter-alia, a Relative Export Advantage (RXA) Index. This is the ratio of a country's export share of a certain product in the world market to its share in world export of all other commodities. A value above 1.0 indicates that a country has a competitive advantage in a product, while values below 1.0 indicate a less than competitive advantage.

Two other broad indicators of competitiveness are the Growth Competitiveness Index (GCI) and the Microeconomic Competitiveness Index (MCI)[10]. These two indices focus on the non-price aspects of competitiveness. The GCI examines the growth prospect of an economy, looking particularly at the ability of the country to foster technological innovations, the nature of its public institutions and the macroeconomic environment. These factors are considered to play a critical role at all stages of economic development. The nature of public institutions reflects the degree of corruption and the extent to which the rule of law and the protection of private property prevails. The macroeconomic environment encompasses macroeconomic stability, as productivity and income within an economy. This measure, which focuses on microeconomic competitiveness, seeks to quantify the degree of company sophistication, as well as the quality of the national business environment.

Jamaica's External Competitiveness

The Bank of Jamaica currently computes a REER index that is based on consumer price indices. All the exchange rates used in the index are expressed in US$ terms. The major trading partners and the associated weights were chosen on the basis of bilateral trade, in goods, as well as tourism, between Jamaica and the rest of the world, between 1996 and 1998. The trading partners, with the global weights, are presented in table 1.

Table 1

Jamaica's Main Trading Partners: Bilateral Trade Weights

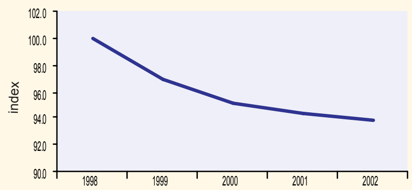
Rank	Trading Partners	Weights
1	USA	52.9
2	Euro Area	10.8
3	United Kingdom	8.5
4	Canada	7.3
5	Trinidad and Tobago	5.0
6	Japan	4.7
7	Norway	2.0
8	Mexico	1.6
9	Venezuela	1.3
10	Other	5.9

[9]A tradable good is one that is sold, or can be sold, on international markets.

[10]A The World Economic Forum publishes these Indices in the Global Competitiveness Report.

The annual average REER index for Jamaica over the period 1998 to 2002 is presented in Figure 1.

Figure 1
Real Effective Exchange Rate Index
(December 1998 = 100)



The annual average REER index declined by an average of 1.6 per cent over the four-year period, indicating that the Jamaican economy progressively gained in competitiveness over that period. This change reflected an average depreciation of 5.3 per cent in the NEER, in the context of an average annual depreciation of 6.8 per cent in the domestic exchange rate and an average depreciation of 1.6 per cent in the exchange rate of Jamaica's major trading partner. The annual average inflation rate over the period averaged 7.0 per cent and was partly offset by average annual inflation of 3.0 per cent among Jamaica's main trading partners. Therefore, the deterioration in relative prices was offset by the depreciation in the NEER. The overall improvement in external competitiveness comes against the background of the Bank's efforts to lower inflation over the period.

Other measures of competitiveness for Jamaica over the same period indicate differently[11]. The relative price of tradables to non-tradables and unit labour cost-based REER for the manufacturing sector indicates an overall loss in competitiveness over the same period (see Table 2).

Table 2

Additional Measures of Competitiveness*
1998 - 2002 (% change)

Year	1998	1999	2000	2001	2002
Annual Average REER	5.5	-2.9	-2.0	-0.9	-0.5
Non-Tradables to Tradables	6.3	0.8	-0.2	1.5	4.1
Unit Labour Cost (Manufacturing)	-3.8	-4.1	7.4	2.9	-1.3

** An increase represents a loss in competitiveness.*

In addition, in 2002, Jamaica was ranked 60th among a total of 80 countries in the Global Competitiveness Report, compared with a ranking of 52 in 2001. This deterioration reflected a fall-off in competitiveness for all three categories of the growth competitiveness index. With respect to the microeconomic environment index, Jamaica was ranked 59 in 2002, relative to a rank of 39 in 2001.

Concluding Remarks

In a rapidly changing global environment, the maintenance of external competitiveness is becoming increasingly important. The above discussion has highlighted few measures of competitiveness, the most common one being the CPI-based - REER. However, the information provided by this index must be treated with caution, given the biases that are inherent in its calculations. For an accurate assessment of competitiveness positions, an appeal to a wide range of indicators is necessary, and even then, they may give disparate signals. Importantly, improvements in competitiveness can come from a range of sources, including adjustments to national institutions and business practices.

[11]For a full discussion of these measures, see Henry C., (2001), Measuring Competitiveness in the Jamaican Economy.

3. Inflation

The headline inflation rate for the June 2003 quarter was 6.0 per cent. This out-turn was significantly above the inflation rate in the preceding quarter and that of the corresponding quarter of 2002. The inflation during the quarter reflected the effects of the imposition of the General Consumption Tax (GCT) on previously exempt and zero-rated items, the pass-through of recent exchange rate depreciation and some tightening in agricultural supplies relative to the March quarter. Inflation for the first six months of the year was 5.6 per cent, 3.4 percentage points above the rate recorded in the comparable period of 2002. Similar to headline inflation, core inflation is estimated to have risen significantly by 2.3 per cent in the June quarter. In the six months to June, core inflation is estimated to have been 3.7 per cent relative to 1.4 per cent estimated for the comparable period in 2002.

Figure 3.1
Inflation rate
(3-yr Average, 02/03 & 03/04 Comparison)

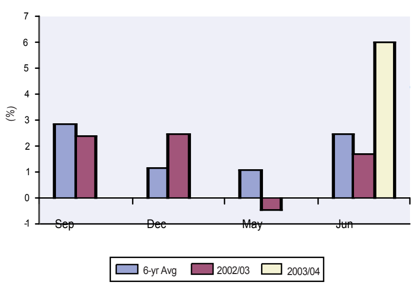
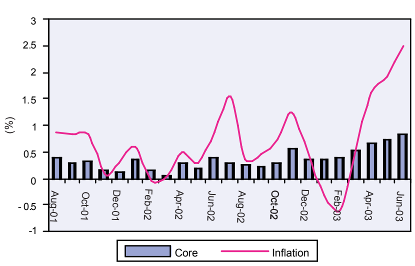


Figure 3.2
Monthly Headline Inflation & Core



The All Jamaica Consumer Price Index (CPI) increased by 6.0 per cent in the review quarter. This is the highest quarterly rate since the March 1996 quarter when inflation was 7.7 per cent. The average rate of increase in the June quarter for the previous six years has been 2.5 per cent (see **Figure 3.1**). The monthly changes in the CPI during the quarter were 1.6 per cent, 1.9 per cent and 2.5 per cent in April, May and June, respectively (see **Figure 3.2**). June's inflation was also the highest monthly out-turn in 7 years. Consequently, the annual point-to-point inflation rate at June 2003 was 10.7 per cent, 4.3 percentage points above the out-turn at June 2002. However, the mean annual inflation rate at end-June was 7.0 per cent, relative to the 7.6 per cent recorded for corresponding period in 2002. Inflation for the first six months of the year was 5.6 per cent, or 3.4 percentage points above the rate recorded in the comparable period of 2002.

Figure 3.3
Core Inflation per quarter

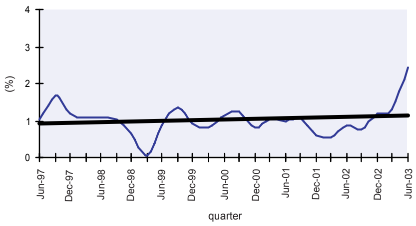


Figure 3.4
Lagged Base Money & Core Inflation

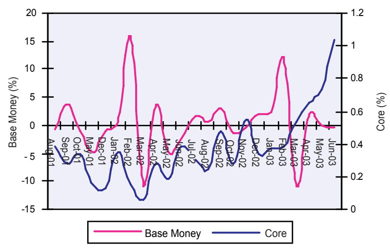
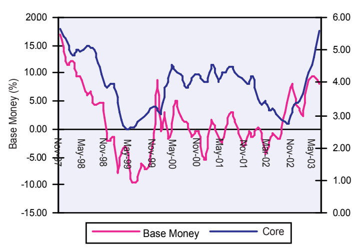


Figure 3.5
12 month % change average base money and core inflation



Monetary Policy and Inflation

Underlying or core inflationary impulses were stronger than usual (see **Figure 3.3**) and seem contrary in a context of relatively tight monetary policy over the March quarter (see **Figure 3.4**). However, preliminary empirical findings on money demand suggest that the increase in core inflation may not be inconsistent with the recent economic developments. Indications are that heightened exchange rate slippage has intensified levels of currency substitution and dollarization, which serves to lower money demand and hence weaken the effectiveness of monetary policy. In particular, a decline in money demand brought about by a preference for foreign assets produces a gap between programmed money supply and aggregate demand. Pressure applied to the exchange rate arising from the demand for foreign assets then creates inflationary impulses.

Core inflation for the quarter was 2.3 per cent, representing a significant increase relative to the 1.3 per cent recorded in the March quarter. In April and May, underlying inflation, as measured by the trimmed mean index was approximately 0.65 per cent and 0.73 per cent, respectively. However, core inflation was higher at approximately 0.91 per cent in June.

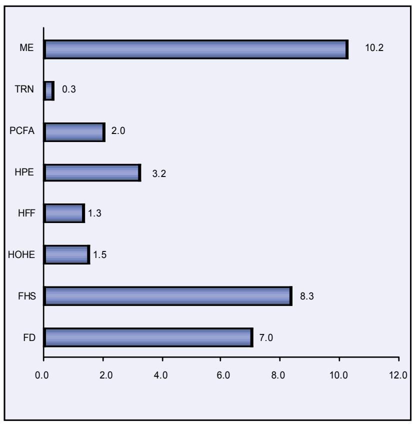
Non-Core Factors

The influence of non-core factors on the CPI was stronger in the June quarter relative to the March quarter. The major factors contributing to this were the revenue measures of Central Government and more pronounced seasonal agricultural volatility. While the review of crop production points to higher output than a year ago, domestic supply of certain food groups contracted relative to the March quarter.

Major Impulses

The major factors influencing the movements in the CPI during the period were the widening of the GCT net to include some previously zero-rated and exempt items, the pass-through of exchange rate depreciation to prices and some tightening in agricultural supply relative to the March quarter. These developments influenced sharp price increases in the *Food & Drink, Miscellaneous Expenses* and *Fuels & Other Household Supplies* sub-indices (see **Figure 3.6**). Within the *Food & Drink* group, *Baked Products, Cereals & Breakfast Drinks* and *Meat, Poultry & Fish* were the main categories driving the increases. Over the quarter, there was growth of 9.4 per cent and 5.0 per cent in these respective sub-groups. Within the *Fuels & Other Household Supplies* group, the significant increase in the price of kerosene in the KMA affected the *Fuels* sub-group, while exchange rate depreciation affected many household products, which are major constituents of the *Other Household Supplies* sub-group. The *Miscellaneous Expenses* group, which grew by 10.2 per cent, was the category most affected by the revenue measures and reflected noticeable increases in the prices of schoolbooks, magazines, newspapers and cigarettes.

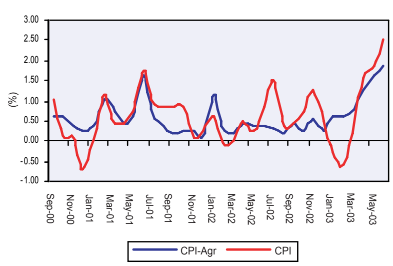
Figure 3.6
Inflation by Group



FD=Food & Drink, FHS=Fuels & Other Household Supplies, HOHE= Housing & Other Housing Expenses, HFF=Household Furnishings & Furniture, HPE=Healthcare & Personal Expenses, PCFA=Personal Clothing, Footwear & Accessories, TRN=Transportation, ME= Miscellaneous Expenses

Abstracting from the influence of agricultural commodity prices, inflation in the June quarter, measured by the changes in the CPI-A[12] index, was 4.8 per cent relative to 2.0 per cent in the previous quarter and 1.2 per cent that was attained in the June 2002 quarter. This increase was due mainly to higher impulses from revenue measures and the impact from exchange rate depreciation on meats and baked products. For the calendar year-to-date, the CPI-A increased by 6.8 per cent relative to an increase of 2.8 per cent for the comparable period in 2002. This highlights the significant contribution of agriculture to dampening inflationary impulses in the first quarter of the year.

Figure 3.7
Monthly changes in the CPI and CPI-A



The continued depreciation in the exchange rate was an important determinant in the inflation outcome for the June 2003 quarter. Over the period January to May 2003, the exchange rate depreciated by approximately 14.2 per cent. Of note, however, was a 14.8 per cent depreciation in the exchange rate for the first 16 days of May. Despite the subsequent appreciation in the exchange rate which resulted in a depreciation of 3.0 per cent for the month,

[12] CPI-A is calculated by removing agriculture prices from the CPI.

price-setting behaviour may have been influenced by the sharp depreciation in early May. This is supported by the observation that the subsequent appreciation in the exchange rate does not appear to be reflected in commensurate reductions in the prices of imported items, reflecting price stickiness behaviour. The exchange rate depreciation affected the cost of electricity over the June quarter. The billing exchange rate for electricity increased by 10.6 per cent in the quarter (see **Table 3.1**). This was the primary source of the increased cost of electricity to the consumer, which grew by 1.4 per cent over the review period. Energy costs, being a pervasive item, also affected the prices of other goods and services in the consumer basket.

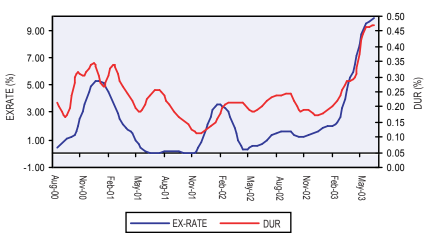
Table 3.1

Changes in the Factors influencing electricity bills June 2003 quarter	March 03	June 03	% change
Billed Fuel Rate ($ per KWH)	3.766	3.282	-12.9
Energy Rate ($ per KWH)			
first 100KWh	3.83	4.10	7.1
above 100 KWH	5.41	5.80	7.1
Customer Charge ($)	54.00	58.00	7.4
Billing Exchange Rate	53.74	59.42	10.6

There was a strong correlation between the changes in the exchange rate and an estimated Durables Index[13] (see **Figure 3.8**). This suggests that with increasing exchange rate slippage, prices for durables have moved in tandem. Research has indicated that in recent times, pass through has moderated, leading to greater absorption of costs by merchants. However, heightened depreciation could alter these relationships, as some firms will be unable to further absorb costs. For a more detailed discussion on exchange rate pass-through see **Box #2**.

Figure 3.8

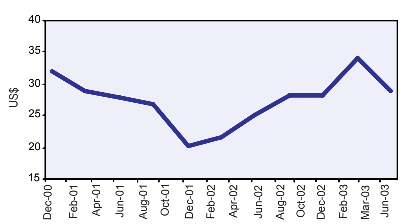
3 month pt-to-pt changes in the durables index & the exchange rate



A shorter than expected war in Iraq, weakening demand from United States refineries and assurances of output stability from OPEC all influenced a trend decrease in oil prices during the quarter. This occurred despite some indeterminacy as to the timing of the resumption of oil exports from Iraq. The benchmark West Texas Intermediate (WTI) crude oil price fell by 15.4 per cent during the June quarter relative to a 21.2 per cent increase in the preceding quarter. The WTI crude oil price decreased to an average US$28.86 per barrel in the June quarter, from US$34.12 per barrel in the March quarter (see **Figure 3.9**). The average price per barrel for April, May and June was US$28.26,

Figure 3.9

Average WTI Crude price (US$) per barrel



[13] The durable Index includes commodities such as Household Furniture & Furnishings, Personal Clothing, Footwear & Accessories, Healthcare & Personal Expenses and Fuels & Other Household Supplies.

US$28.13 and US$30.19, respectively. The mild rebound in June reflected some uncertainty with regard to the labour unrest in Nigeria and the delay in resumption of oil exports from Iraq. The generally favourable oil price movement was reflected in the price of petroleum products locally and contributed to the 0.3 per cent out-turn in the *Transportation* group, which was the lowest in the quarter.

Other commodities, such as groundnut oil and granular triple superphosphate fertilizer TSP increased significantly, adding impetus to prices (see **Table 3.2**).

Table 3.2

Quarterly Percentage Changes in International Prices of Selected Commodities

Commodity	Units	Apr - Jun 2002	Jan - Mar 2003	Apr - Jun 2003
Vegetable Oils				
Coconut oil	$/mt	15.7	2.8	-6.5
Groundnut oil	$/mt	-3.8	31.5	27.8
Soybean oil	$/mt	9.5	-6.9	2.5
Grains				
Soybean meal	$/mt	-1.5	3.5	3.7
Soybean	$/mt	4.6	2.1	1.6
Maize	$/mt	-0.3	-2.4	0.8
Sorghum	$/mt	-4.3	4.6	-5.4
Wheat US (HRW)	$/mt	1.6	-16.6	-6.8
Rice (5%)	$/mt	2.5	6.6	0.0
Exports				
Sugar (EU)	¢/kg	2.5	2.0	1.0
Sugar (US)	¢/kg	-4.4	0.5	-1.7
Sugar (World)	¢/kg	-5.9	9.2	-14.8
Fertilizers				
TSP	$/mt	5.6	2.9	7.6
Potassium Chlor.	$/mt	-1.4	0.0	0.0

Contribution to Inflation

Consequent on the major impulses enumerated, the most significant effects of inflation were reflected in the *Food & Drink*, *Miscellaneous Expenses* and the *Fuels & Other Household Supplies* sub-indices. These groups increased by 7.0 per cent, 10.2 per cent and 8.3 per cent (Table 2A, Appendix C and Figure 3.6) accounting for 68.0 per cent, 14.4 per cent and 8.7 per cent of the quarter's out-turn, respectively. Within the *Food & Drink* group the primary sub-groups affected were *Meat, Poultry & Fish, Baked Products*, Cereals & Breakfast Drinks and *Meals Away From Home*. These sub-groups were influenced by a combination of exchange rate movements, international commodity prices and revenue measures. Soybeans, which are important inputs in animal feeds, have been affected by adverse weather conditions in South America. Exchange rate movements were reflected in the price of feeds and flour, and affected meat and baked products prices, respectively.

The *Meals Away From Home* sub-group was chiefly affected by a significant increase in the cost of alcoholic drinks, which was due to the impact of the imposition of an excise tax on alcoholic beverages. The *Miscellaneous Expenses* sub-index was mainly affected by the revenue enhancement measures of the Government. The widening of the GCT net, effected on 01 May, when combined with exchange rate movements and the 2.0 per cent customs user fee, contributed to the prices of many items within this

Figure 3.10
Geographical Distribution of Inflation

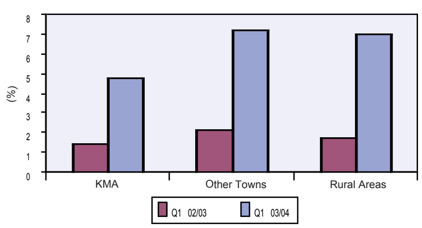


Table 3.3

Decomposition of Inflation Outturn January - June 2003		
	Inflation (%)	**Contribution (%)**
Non Core Factors	**1.3**	**22.6**
Fuels	0.2	3.0
Other Housing Expenses	0.2	3.6
Misc Expenses	0.4	7.0
Food & Drink	1.1	20.3
Meals Away	0.3	4.7
Baked Products	0.4	7.5
Meat, Poultry	0.5	8.1
Other	-0.6	-11.3
Core	**4.3**	**77.4**
TOTAL	**5.6**	**100.0**

group increasing by as much as 20 per cent. The *Fuels & Other Household Supplies* group was also affected by the revenue measures. A significant increase of 60.0 per cent in the cost of kerosene in the KMA led to an overall increase of approximately 24.0 per cent in the price of this good, imparting a significant inflationary impetus to the group.

Regional Inflation

Inflation in the Other Towns and Rural Areas was higher than in the Kingston Metropolitan Area (KMA). The index of the KMA rose by 4.7 per cent, while the indices of the Other Towns and Rural Areas rose by 7.2 per cent and 7.0 per cent, respectively. In the corresponding period of last fiscal year, prices rose by 1.4 per cent, 2.1 per cent and 1.7 per cent in the KMA. Other Towns and Rural Areas, respectively (see **Figure 3.10**). Higher inflation in the Rural Areas in June helped to propel the overall headline inflation. This disparity was largely as a result of the movements recorded in the *Food & Drink* and *Miscellaneous Expenses* sub-categories. For the June quarter, the *Food & Drink* sub-index had respective increases of 8.8 per cent and 8.6 per cent in the Other Towns and Rural Areas, while the index in the KMA increased by 4.7 per cent (see **Table 2B, Appendix C**). This imbalance was influenced in part by more significant growth in the prices of beer, white rum and margarine outside the KMA. Within the *Miscellaneous Expenses* sub-index, the cost of school-related items rose more sharply in the Other Towns and Rural Areas.

Summary

The inflation during the quarter emanated primarily from budgetary measures, slippage in the exchange rate and the higher cost of agricultural commodities. Headline inflation, at 6.0 per cent over the quarter, is the highest realized in seven years. Underlying inflationary impulses have strengthened but should normalize in response to the tightening of monetary policy since mid-May.

Box 2: Exchange Rate Pass-Through in the Jamaican Economy

Introduction

In a small, trade-dependent economy such as Jamaica, the exchange rate has a significant influence on economic activity. The term 'exchange rate pass-through' is generally used to refer to the effect of exchange rate changes on one or more of the following: import and export prices, consumer prices, investments, and trade volumes. The focus of this box is on the effect of exchange rate changes on consumer prices. That is, the degree to which exchange rate changes are transmitted to domestic inflation. This interest stems from the fact that the exchange rate pass-through to consumer prices is integral to the design of monetary and exchange rate policies.

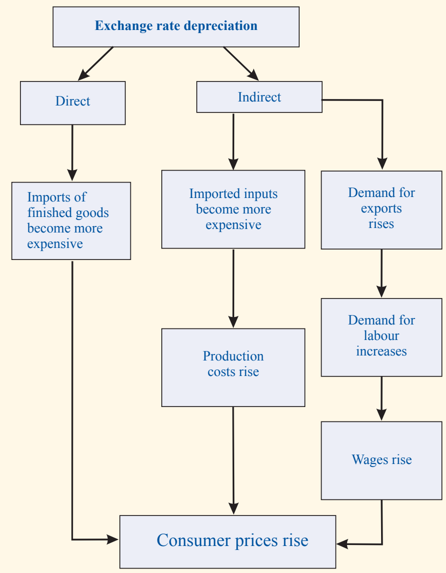
The Transmission Mechanism of Exchange Rate Pass-Through

Exchange rate fluctuations influence consumer price inflation through several channels. They affect inflation through a direct effect on prices for imported consumer goods (see **Chart 1**). The exchange rate also influences inflation indirectly via prices for imported intermediate goods, which in turn influence the final price for domestically produced goods and services. Exchange rate changes can also affect labour costs and consequently affect inflation through a price-wage spiral. Additionally, changes in the exchange rate can affect consumer prices indirectly, via expectations.

The transmission of exchange rate fluctuations to consumer prices may be complete or incomplete. A complete pass-through means that, a 1.0 per cent depreciation in the exchange rate would lead to a 1.0 per cent increase in prices over time. An incomplete pass-through on the other hand, means that, a 1.0 per cent depreciation in the exchange rate would lead to a less than 1.0 per cent increase in prices over time.

Chart 1

Transmission Mechanism of Exchange Rate Pass-Through



Empirical studies[14] have indicated that the main factors influencing the degree of pass-through are the openness and size of the economy. These studies found that the more open an economy, the lower the degree of pass-through. In general, the pass-through was found to be substantially lower in developed economies than in emerging market countries. Other factors include relative elasticities of demand and supply for

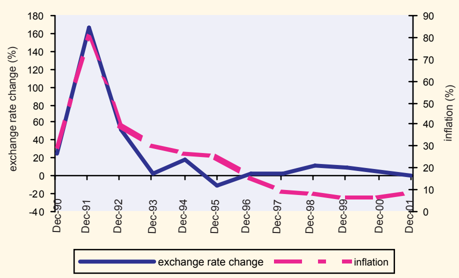
[14]A See for example, G. A. Khan (1987) "Dollar depreciation and inflation", Federal Reserve Bank of Kansas City Economic Review.

traded goods, macroeconomic conditions and microeconomic factors. These studies found that the more responsive the demand for exports and the less responsive the supply of imports, the greater the degree of pass-through[15].

Exchange Rates and Inflation in Jamaica

Figure 1 shows that there is a strong correlation between the variation in the exchange rate and trends in the inflation rate in Jamaica. With the introduction of a liberalized foreign exchange market, the Jamaican currency depreciated sharply against the U.S. dollar between late 1991 and early 1992.

Figure 1
Inflation and Exchange Rate Changes



Against this background, the inflation rate increased significantly in the period immediately following the sharp depreciation in the Jamaican currency. Relatively low inflation rates were achieved in the post 1995 period, with single digit inflation being recorded between 1997 and 2002. This relatively stable era reflects tighter monetary policy as well as increased competition.

[15]See for example, C. Kent (1995), Exchange Rate Pass-through: Testing the Small Country Assumption for Australia", Econometrics Paper.

Previous Studies on Exchange Rate Pass-through

Previous studies on Jamaica have found that the exchange rate pass-through to prices and wages is significant[16]. However, those analyses were conducted during a period of expansionary monetary policy. In recent years however, money supply growth has been contained, inflation has fallen significantly and the economy has become more competitive (see **Box 1**). Consequently, the degree and pattern of exchange rate pass-through may have shifted. The empirical investigation described below takes account of these recent developments in the economy[17].

Methodology

To estimate the degree of pass-through, an empirical analysis was conducted using monthly data, spanning January 1990 to December 2001[18]. The sample was split into two sub-periods, pre 1995 and post 1995, primarily to reflect the effect of tighter monetary policy in the latter period. The variables included were the inflation rate, the weighted average nominal exchange rate, a representative Treasury Bill rate and base money.

The transmission process assumes that liquidity conditions influence interest rates, which, through induced portfolio adjustments, affect the exchange rate. The exchange rate in turn influences the CPI via the direct channel (see **Chart 1**).

[16]See for example, W. Robinson (1996), "Forecasting Inflation using VAR analysis", Bank of Jamaica Research Paper.
[17]See L. McFarlane (2002), "Consumer Price Inflation and Exchange Rate Pass-Through in Jamaica", presented at CCMS XXXIV Annual Monetary Studies Conference,2002.
[18]Using Vector Autoregression (VAR) framework.

Results

Figure 2 reveals that the impact of a 1.0 per cent depreciation in the exchange rate is lower in the post-1995 period, compared to the pre-1995 period. The cumulative impact after a 1.0 per cent depreciation in the exchange rate, on consumer prices, is reflected in **Figure 3**. For the pre-1995 period, the pass-through becomes complete after 15 months. That is, a 1.0 per cent depreciation in the exchange rate, leads to a 1.0 per cent increase in consumer prices within 15 months. On the other hand, in the post-1995 period, the pass-through is approximately 50 per cent complete after 15 months. That is, a 1.0 per cent depreciation in the exchange rate, leads to a 0.5 per cent increase in consumer prices after 15 months.

Figure 2
Impact of 1% depreciation on consumer prices

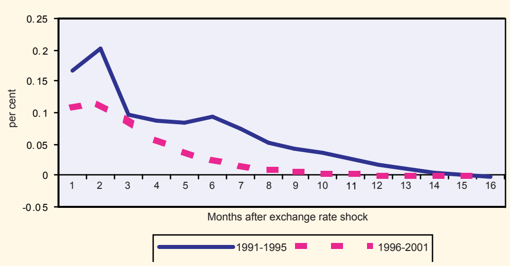


Figure 3
Cumulative Impact of a 1% depreciation on consumer prices

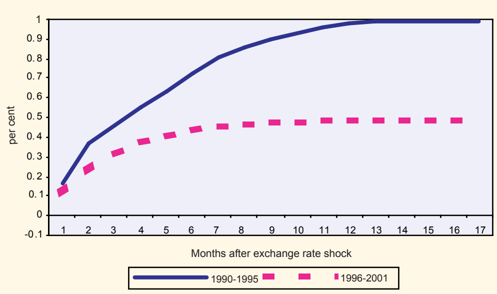


Table 1 summarizes the responses of the CPI to a 1.0 per cent depreciation in the nominal exchange rate after 3, and 12 months. In essence Table 1, figure 2 and figure 3 are indicating that the rate of pass-through has slowed since 1990.

Table 1

Cumulative Effects on CPI of 1% shock to the exchange rate

Sample	After 3 months	After 12 months
1990:01 - 2001:12	0.482	1.001
1990:01 - 1995:12	0.464	0.988
1996:01 - 2001:12	0.316	0.488

One plausible explanation for a reduction in the degree of pass-through over the two sub-periods is the influence of the macroeconomic environment. Relatively low and stable inflation observed in the post-1995 period, would tend to be associated with lower pass-through than the high inflation and more accommodative monetary policy that characterized 1990 to 1995. A low inflation regime would tend to lower the pass-through by weakening the expected future effect of the shocks.

Additionally, low inflation economies could be subjected to less variable monetary shocks, particularly in a context where tight monetary policy is being exercised.

Conclusion

The results indicate that the speed of the pass-through has slowed in the post-1995 period, when compared to the 1990 to 1995 period. This trend reflects the combined influence of monetary and exchange rate stability, and structural transformations in the Jamaican economy.

Despite the moderation in the pass-through, the results suggest that the influence of exchange rate movements is still significant for inflation. While the lower degree of pass-through allows for some flexibility in policy, continued emphasis has to be placed on moderating the pace of adjustments.

The exchange rate is an important nominal anchor for expectations. Rapid movements in the rate can therefore precipitate an expectations-driven wage/inflation spiral. Thus, the pass-through is likely to accelerate in an environment of increased exchange rate instability. This has been reflected in recent months, when rapid depreciation of the Jamaica dollar contributed to higher inflation rates (see **Inflation**).

4. Economic Outlook and Monetary Policy Perspectives

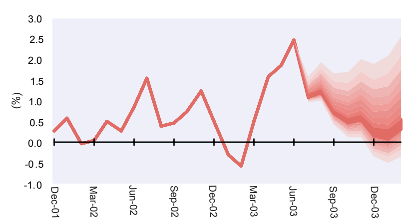
The economic prospects for the September quarter are positive, despite significant challenges. The growth momentum should be sustained by the improved outlook for major sectors such as tourism, bauxite/alumina and basic services. Although core inflation is expected to remain stable, headline inflation is likely to be above original projections. The major challenge for policy is the restoration of confidence in the economy, which depends critically on the preservation of stability in the foreign exchange market and continued positive fiscal performance. These would provide the basis for a sustained reduction in interest rates. Given the balance of risks, the Central Bank will adopt a cautious approach to the easing of monetary policy.

Table 4.1

Jamaica's Economic Performance Targets

	Projections for Sept. 03 quarter	Revised Projections for FY 03/04
Inflation	3.0% - 4.0%	10.0% -12.0%
GDP (12-mth change)	+ve	2.0% - 3.0%

Figure 4.1
Inflation Forecast



The fan chart depicts the probability distribution for the inflation forecast and reflects the Bank's assessment of the risks. The darkest band represents the central (single most likely) projection and covers 10% of the probability. The bands widen as the time horizon is extended, indicating increasing uncertainty about the inflation outcome.

Short-Term Outlook - September 2003 Quarter

The real expansion in the Jamaican economy observed over the past three quarters is expected to continue into the September 2003 quarter. Growth is anticipated in both the goods and services sectors, in particular *Agriculture, Construction, Manufacturing, Basic Services and Miscellaneous Services*. As was the case in the previous quarter, the agricultural sector is expected to grow relative to the decline in the corresponding quarter of last year. This expectation is predicated on improved weather conditions relative to last year.

The growth in *Construction* is expected to continue apace, buoyed by ongoing major road construction, as well as continued expansion in the alumina industry. The manufacturing sector is also expected to grow during the September quarter. The positive performance projected for the sector is primarily against the background of the return to normalcy of production at the island's oil refinery following maintenance work in the June 2003 quarter. Additionally, the expansion in the agro-processing and the beverage sectors should continue. This expectation is informed by trend performance as well as the higher agricultural output relative to last year.

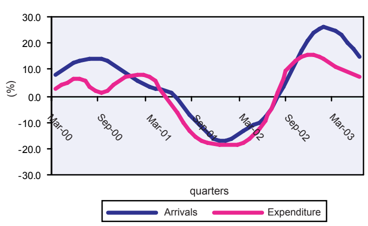
Within services, all sectors are expected to reflect positive performances during the September quarter. The growth trend in the *Basic* services sector is anticipated to continue and should reflect increases in *Electricity* and *Communications*.

Relative to the September 2002 quarter, the electricity subsector will be strengthened by increased generating capacity. The growth trend in the communications subsector is anticipated to continue against the background of the addition of new products and services in the market. The financial services sector should continue to grow over the quarter based on positive performance indicators in the banking and insurance industry.

Strong growth in Tourism to continue.

Recent growth trends in the indicators of the tourism sector have led to positive expectations about the prospects of the miscellaneous services sector (see **Figure 4.2**). The buoyancy in tourist arrivals is expected to continue in the ensuing quarters based on expectation of improvement in world travel. In particular, the concerns about security and health risks have abated. Further, although there are significant risks to the outlook, the general consensus is that US economic growth should accelerate in the second half of 2003. In addition, domestic initiatives such as the aggressive marketing campaign, including a renewed thrust in the European market, should provide additional stimulus to travel to the island. Further, the improved competitiveness of the Jamaican currency should enable the sector to maintain or improve market share in the region. Bank of Jamaica's projection suggests that growth for the travel sector for the quarter could be in the range 7.0 per cent to 8.0 per cent relative to the September 2002 quarter.

Figure 4.2
Tourism Trends
Percentage Change Relative to the corresponding quarter



The economic prospects for the September quarter are also aided by the 15.0 per cent gain in external competitiveness since the start of the calendar year. This development should serve to enhance net external demand, particularly through the containment of the demand for imports. Production activities should also benefit from this gain in external competitiveness. Arising from this is an anticipated improvement in the country's balance of payments in the second half of the fiscal year.

The expansion in the economy is not expected to generate significant inflationary pressures. However, there are concerns emanating from the seasonal reduction in agricultural supplies, lagged and indirect effects of the recent revenue measures and an upturn in world oil prices. The pass-through effects from recent movements in the exchange rate are also anticipated to result in inflationary pressures in the quarter.

While the price of crude oil is expected to trend downward in the medium term, this price was higher than projected in the months of June and July. This increase was attributed to the delay in planned resumption of Iraqi oil production and export, as well as concerns about US inventory levels being lower relative to last year.

Another influence on prices over the quarter should arise from the seasonal demand associated with the holiday season as well as the upcoming start of the school year in September. In particular, the prices of school supplies, tuition, clothing and other personal expenses are expected to increase relative to the June quarter.

The restoration of relative stability in the financial markets will serve to curtail the influence of exchange rate movements on the inflation rate. However, given the significant adjustment that was experienced in the exchange rate in the June quarter, some pass-through to prices is expected to continue into the September quarter.

The expected increases in agricultural prices will be reflected in the *Starchy Foods* and the *Vegetables & Fruits* sub-categories of the *Food & Drinks* group. Indirect effects are also anticipated in the *Meals Away From Home* sub-group index. In this regard, the *Food & Drink* category is expected to account for over 70.0 per cent of the inflation in the September quarter. Noticeable increases are also anticipated in the *Miscellaneous Expenses, Healthcare & Personal Expenses* and the *Housing & Other Housing Expenses* sub-categories.

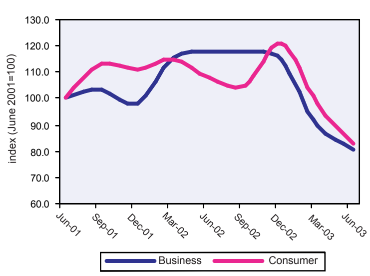
Likelihood of double digit inflation expected.

Against this background, headline inflation is projected to be in the range of 3.0 per cent to 4.0 per cent in the September quarter relative to the 6.0 per cent in the June quarter and 2.4 per cent in the September 2002 quarter. Consequently, the revised fiscal year inflation could be in the range of 10.0 per cent to 12.0 per cent. However, a potential risk to the projection for the rest of the fiscal year includes possible administered price adjustments such as increases in bus fares and the national minimum wage.

Monetary Policy

The main challenge to monetary policy will be the enhancement of confidence in the economy so as to effect a sustained reduction in interest rates. This is essential as in the absence of capital controls in Jamaica, domestic interest rates can only trend downwards towards the level of international rates if confidence improves i.e. as Jamaica's country risk and exchange rate risk decline.

Figure 4.3
Index of Confidence



Source: The Jamaica Conference Board's Survey of Business and Consumer Confidence June Quarter 2003. Summary Report. The indices measure consumers' and businesses' perception of the current economy and their expectations for the next year.

The Jamaica Conference Board's survey of confidence as at June 2003 reflected declines in both consumer and business expectations of economic performance over the next year (see **Figure 4.3**). The survey revealed that while "the worst of the declines may now be over", there are concerns about Government policies and exchange rate depreciation. Similar concerns were raised by the international rating agencies earlier this year particularly as it relates to Government debt. The improvement in confidence therefore hinges critically on a strong fiscal performance and associated with this, the preservation of stability in the financial markets.

The attainment of the fiscal targets in FY 2003/04, in particular a primary surplus of 12.6 per cent of GDP, would in the context of the macro targets in **Table 4.1**, imply that the Government's demand for financing could be accommodated without undue pressure on interest rates and recourse to inflationary financing. Further, achieving or surpassing the targets is necessary for improving the adverse debt dynamics, a key element of country risk.

The instability in the foreign exchange market played a significant role in influencing expectations of a return to generally higher inflation levels. Reversing such expectations requires maintaining the relative stability in the foreign exchange rate observed since June. This will be a critical objective of the Central Bank. The improving prospects for the major export industry - tourism services, the contractionary effect on demand of a more depreciated rate, as well as prudent fiscal management, provide the underpinnings for a stable market. In addition, the substantially reduced liquidity flows from BOJ's open market maturities expected over the most of the quarter, will assist in the management of the markets.

Given the Government's commitment to a balanced budget by FY 2005/06 and the continued improvement in key sectors such as tourism, the outlook is for interest rates to decline during the quarter. However, given the fragility of expectations at this time, a cautious approach to easing monetary policy will be maintained. Further, given the shocks to inflation, the focus of monetary policy will continue to be on constraining core inflation.

Summary

Inflation is expected to be lower in the September quarter relative to the June quarter. The main factors that are expected to affect prices are a tightening in agricultural supplies, the seasonal rise in consumer demand relating to the holidays and the new school year, and the potential effect of higher oil prices. The expansion of the Jamaican economy should continue in the September quarter with notable expansions projected in *Construction, Basic Services, Tourism and Agriculture*. The level of confidence is expected to improve provided that the fiscal performance remains positive and stability is sustained in the financial markets. Given the risks, the Central Bank will maintain its cautious approach to easing monetary policy.

A. Fiscal Developments: April - June 2003

As part of a comprehensive solution to reducing public debt and improving fiscal prudence, the Government has targeted an elimination of the fiscal deficit by fiscal year 2005/06. In this regard, the budget tabled in April 2003 targets a deficit of 6.0 per cent of GDP for fiscal year 2003/04 relative to 7.7[19] per cent in 2002/03. The improvement in the fiscal accounts in 2003/04 is expected to be achieved through strong growth in revenues supported by a tax package aimed at raising $13.8 billion.

For the June quarter, Central Government operations resulted in a deficit of $14 059.6 million or 3.2 per cent of GDP, as compared to the targeted $19 305.6 million or 4.4 per cent of GDP. The lower than budgeted fiscal deficit during the review quarter resulted from the containment in expenditure and strong revenue flows. Consequently, the primary surplus of 1.3 per cent of GDP was higher than the surplus of 0.6 per cent targeted for the quarter, reflecting the containment in non-interest expenditure as well as strong performance in revenue flows. Concurrently, the current deficit was 2.9 per cent relative to the targeted 3.9 per cent.

Total expenditure during the quarter fell below target by 8.4 per cent but was 20.3 per cent above that of the corresponding quarter of fiscal year 2002/03. The lower than targeted expenditure during the review period reflected containment in all categories. Interest payments were below target by 9.8 per cent and accounted for 66.5 per cent of the containment in recurrent expenditure. Consequently, interest payments were 4.6 per cent of GDP compared to the targeted 5.1 per cent.

Total revenues during the quarter exceeded target by $1 166.3 million, reflecting strong performance in all categories. Tax revenues, which accounted for much of the buoyancy, were influenced by strong performance in PAYE and tax on interest. The growth in PAYE flows could have been influenced by the payment of arrears as well as higher wage rates. Notably, revenue flows were 24.1 per cent higher than the corresponding period of the previous fiscal year.

During the quarter, Central Government financed its operations from domestic resources. However, in the context of significant restraint in the fiscal deficit, domestic financing was lower than targeted. Concurrently, net foreign amortization amounted to $2. 977.1 million.

[19]This includes $4 920.5 million in divestment proceeds treated as capital revenue. Treated as financing under the SMP this would yield a deficit of 8.8 per cent of GDP for fiscal year 2002/03.

Fiscal Performance
Comparative Analysis
J$ Million

	2002/03 Q1	Provisional 2003/04 Q1	2003/04 Q1 - Target	03/04 - 02/03 Change	Q1 03/04 - Q1 Target Variance
Revenue and Grants	**24 373.90**	**30 240.80**	**29 074.60**	**5 866.90**	**1 166.20**
Tax Revenue	23 000.90	27 994.06	27 096.50	4 993.16	897.60
Capital Revenue	162.60	191.10	216.80	28.50	-25.7
Other (incl. Non-tax)	1 210.40	2 055.60	1761.30	845.20	294.30
Expenditure	**36 812.5**	**44 451.34**	**48 380.20**	**7 487.92**	**-4 079.78**
Recurrent Expenditure*	34 183.10	42 476.22	45 715.10	8 293.12	-3 238.86
Capital Expenditure	2 364.80	1 559.60	2 446.00	-805.20	-886.40
IMF #1 Account	264.60	264.60	219.10	0.00	45.50
Unallocated	0.00	0.00	0.00	0.00	0.00
Overall Balance	**-12 438.60**	**-14 059.56**	**-19 305.60**	**-1 620.96**	**5 246.04**
Memo					
Current Balance	**-9 971.80**	**-12 426.56**	**-16 857.30**	**-2 454.76**	**4 430.74**
Primary Balance	**3 163.10**	**5 791.24**	**2 699.30**	**2 628.14**	**3 091.94**

Performance Indicators
(percentages of GDP)

	BR	CB	PB	IP	FSR
Q1 - 2003/04	3.23	-2.85	1.33	4.56	-1.46
Q1 - 2003/04 Target	4.43	-3.87	0.62	5.05	-1.66

Key
BR = Borrowing Requirement
CB = Current Balance = Current Revenue - Current Expenditure as a per cent of GDP
PB = Primary Balance = Total Revenues - Total Expenditures less Interest Payments (IP) as a per cent of GDP
IP = Interest Payments as a per cent of GDP
FSR = Fiscal Stability Ratio = (Overall Balance/Total Revenue) - 1

International Benchmarks

B. Monetary Policy Developments

27/04/2000	30-day Reverse Repurchase Rate was reduced from 17.30 per cent to 17.00 per cent.
01/06/2000	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-three per cent (33%) to thirty-two per cent (32%). Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from fifteen per cent (15%) to fourteen per cent (14%). The maximum liquid asset ratio for building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-two per cent (5% and 32%) for building societies. The maximum cash reserve ratio for building societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and fourteen per cent (1% and 14%) in respect of local and foreign currency deposits.
28/07/2000	30-day Reverse Repurchase Rate was reduced from 17.00 per cent to 16.75 per cent.
11/08/2000	30-day Reverse Repurchase Rate was reduced from 16.75 per cent to 16.45 per cent.
01/09/2000	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-two per cent (32%) to thirty-one per cent (31%). Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from fourteen per cent (14%) to thirteen per cent (13%). The maximum liquid asset ratio for building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-one per cent (5% and 31%) for building societies.

The maximum cash reserve ratio for building societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and thirteen per cent (1% and 13%) in respect of local and foreign currency deposits.

18/09/00 Bank of Jamaica introduces 270-day and 365-day reverse repurchase instruments at 17.6 and 18.0 per cent respectively.

04/10/00 Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.

23/10/00 Interest rates on the 270-day and 365-day instruments were reduced to 17.6 and 18.0 per cent respectively.

24/11/00 Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.

28/12/00 Interest rate on the 365-day instrument was reduced to 21 per cent.

14/02/01 Interest rates on the 365-day and 270-day instruments were reduced to 20.00 per cent and 19.25 per cent respectively.

20/02/01 Interest rates on the 365-day and 270-day instruments were reduced to 19.50 per cent, and 18.75 per cent respectively.

01/03/01 Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-one per cent (31%) to thirty per cent (30%).

Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from thirteen per cent (13%) to twelve per cent (12%).

The maximum liquid asset ratio for building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty per cent (5% and 30%) for building societies.

The maximum cash reserve ratio for building societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and twelve per cent (1% and 12%) in respect of local and foreign currency deposits.

08/03/01	Interest rates on the 365-day, 270-day, instruments were reduced to 19.00 per cent, 18.25 per cent respectively.
12/03/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 18.50 per cent, 17.75 per cent, 16.70 per cent, 16.40 per cent, 16.25 per cent, 16.15 per cent and 16.00 per cent respectively.
22/03/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 17.75 per cent, 17.00 per cent, 16.15 per cent, 15.80 per cent, 15.70 per cent, 15.60 per cent and 15.50 per cent respectively.
11/04/01	Interest rates on the 365-day and 270-day instruments were reduced to 17.50 per cent and 16.75 per cent respectively.
21/05/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.50 per cent, 15.70 per cent, 15.30 per cent, 15.05 per cent, 14.95 per cent, 14.85 per cent and 14.75 per cent respectively.
01/06/01	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from thirty per cent (30%) to twenty nine per cent (29%).
	Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from twelve per cent (12%) to eleven per cent (11%).
	The maximum liquid asset ratio for building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty nine per cent (5% and 29%) for building societies.
	The maximum cash reserve ratio for building societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and eleven per cent (1% and 11%) in respect of local and foreign currency deposits.
08/06/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.90 per cent, 15.35 per cent, 15.00 per cent, 14.80 per cent, 14.70 per cent, 14.60 per cent and 14.50 per cent respectively.

25/06/01	Interest rates on the 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 14.75 per cent, 14.55 per cent, 14.45 per cent, 14.35 per cent and 14.25 per cent respectively.
29/06/01	The Bank of Jamaica introduced Certificates of Deposits to the range of instruments used in open market operations. All the terms and conditions applicable to Reverse Repurchase transactions apply to Certificates of Deposits, with the exception that the latter are covered by the central bank's assets as against Government securities. 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.
01/09/01	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from twenty nine per cent (29%) to twenty eight per cent (28%). Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from eleven per cent (11%) to ten per cent (10%). The maximum liquid asset ratio for building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty eight per cent (5% and 28%) for building societies. The maximum cash reserve ratio for building societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and ten per cent (1% and 10%) in respect of local and foreign currency deposits.
30/10/01	Interest rates on the 365-day, 270-day, 180-day, 90-day and 60-day instruments were increased to 19.90 per cent, 19.45 per cent, 15.50 per cent, and 15.00 per cent, 14.75 per cent and 14.55 per cent, respectively.
28/12/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day and 60-day instruments were reduced to 18.90 per cent, 18.40 per cent, 15.00 per cent, and 14.55 per cent, 14.45 per cent and 14.35 per cent, respectively.
09/01/02	Interest rates on the 365-day and 270-day instruments were reduced to 17.90 per cent and 17.00 per cent, respectively.

06/02/02	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.70 per cent, 15.90 per cent, 14.70 per cent, 14.30 per cent, 14.20 per cent, 14.10 per cent and 14.00 per cent, respectively.
14/02/02	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.80 per cent, 15.00 per cent, 14.40 per cent, 14.05 per cent, 13.95 per cent, 13.85 per cent and 13.95 per cent, respectively.
01/03/02	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from twenty eight per cent (28%) to twenty seven per cent (27%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from ten per cent (10%) to nine per cent (9%).
11/03/02	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced from 13.75 per cent, 13.85 per cent, 13.95 per cent, 14.05 per cent, 14.40 per cent, 15.00 per cent and 15.80 per cent to 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent, respectively.
11/07/02	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day, and 365-day open market instruments were reduced from 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent to 12.95 per cent, 13.05 per cent, 13.15 per cent, 13.25 per cent, 13.45 per cent, 14.00 per cent, and 14.90 per cent, respectively.
07/08/02	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced from 14.00 per cent to 13.85 per cent and from 14.90 per cent to 14.50 per cent, respectively.
01/09/02	Liquid Assets ratio of commercial banks, FIA institutions and of building societies, in respect of local and foreign currency liabilities, were reduced from twenty seven per cent (27%) to twenty three per cent (23%).

09/09/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 13.15 per cent to 17.25 per cent and from 13.25 per cent to 17.05 per cent, respectively.
09/10/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 17.25 per cent to 19.25 per cent and from 17.05 per cent to 19.40 per cent, respectively.
28/10/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were reduced from 19.25 per cent to 18.25 per cent and from 19.40 per cent to 18.40 per cent, respectively.
01/11/02	The interest rate chargeable in respect of breaches by commercial banks, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was reduced from 69 per cent per annum to 45 per cent per annum. The interest rate chargeable in respect of breaches by building societies and institutions licensed under the Financial Institutions Act, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was adjusted from one-sixth of one per centum per day to 45 per cent per annum.
10/01/03	The Bank of Jamaica instituted a "Special Deposit" requirement for commercial banks and institutions licensed under the Financial Institutions Act. Each institution will be required to place cash deposits with the Central Bank equivalent to 5% of its Jamaica Dollar prescribed liabilities.
10/02/03	The Bank of Jamaica introduced a special five-month open market instrument which earned interest at 30% per annum. This instrument was introduced in a context of significant Jamaica dollar liquidity and protracted instability in the foreign exchange market.
14/02/03	The Bank of Jamaica withdrew the special five- month open market instrument which was introduced on 10 February 2003. The decision to remove this instrument came against the background of tight Jamaica dollar liquidity and the appreciation in the exchange rate over the previous four days. The removal was also in response to representations made to the Bank of Jamaica by financial institutions and understandings reached with respect to the development of foreign exchange market protocols.

19/03/03	Interest rates on Bank of Jamaica's 180-day, 270-day and 365-day open market instruments were increased to 19.65 per cent, 21.50 per cent and 24.0 per cent, respectively.
26/03/03	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were increased to 15.00 per cent, 15.30 per cent, 20.00 per cent, 24.00 per cent, 33.15 per cent, 34.50 per cent and 35.95 per cent, respectively.
25/04/03	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 28.00 per cent, 32.50 per cent and 33.00 per cent, respectively.
19/05/03	The interest rate applicable to overdrafts on accounts held with the Bank of Jamaica was increased to 65.0 per cent per annum.
24/06/03	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 26.50 per cent, 29.50 per cent and 30.00 per cent, respectively

C. Summary Tables

1

Inflation Rates (%)

	CPI Index (e.o.p)	Head-line (quarter)	Core (quarter)
1998/1999	**1 182.5**	**6.0**	**2.9**
1999/2000	**1 281.7**	**8.4**	**4.0**
June	1 205.9	2.0	0.9
September	1 237.6	2.6	1.4
December	1 265.9	2.3	0.9
March	1 281.7	1.3	0.8
2000/2001	**1 364.3**	**6.4**	**4.2**
June	1 311.4	2.3	1.1
September	1 349.3	2.9	1.2
December	1 342.6	-0.5	0.8
March	1 364.3	1.6	1.0
2001/2002	**1 468.5**	**7.6**	**3.3**
June	1 404.0	2.9	1.0
September	1 442.7	2.7	1.1
December	1 459.9	1.2	0.6
March	1 468.5	0.6	0.6
2002/2003	**1 558.4**	**6.1**	**4.2**
June	1 492.8	1.7	0.9
September	1 528.0	2.4	0.8
December	1 566.1	2.5	1.2
March	1 558.4	-0.4	1.3
2003/04			
June	1 653.1	6.0	2.4

2

Component Contribution to Inflation
All Jamaica
April - June 2003

Groups and Sub-groups	Weight in CPI	Inflation (%) Q1	Contribution
FOOD & DRINK	**0.5563**	**7.0**	**68.0**
- Meals Away from Home	0.0741	6.2	8.3
- Meat Poultry & Fish	0.1613	5.0	14.4
- Dairy Products Oils & Fats	0.0668	8.0	9.6
- Baked Products Cereals & Breakfast Drinks	0.0864	9.4	14.7
- Starchy Foods	0.0525	9.3	8.8
- Vegetables & Fruits	0.0650	4.2	4.9
- Other Food & Beverages	0.0502	8.1	7.3
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**8.3**	**8.7**
- Household Supplies	0.0482	3.7	3.2
- Fuels	0.0253	12.1	5.5
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**1.5**	**2.0**
- Rental	0.0209	0.1	0.0
- Other Housing Expenses	0.0577	1.9	2.0
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**1.3**	**0.7**
- Furniture	0.0068	1.5	0.2
- Furnishings	0.0215	1.2	0.5
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**3.2**	**4.0**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**2.0**	**1.8**
- Clothing Materials	0.0055	0.2	0.0
- Readymade Clothing & Accessories	0.0242	1.7	0.7
- Footwear	0.0159	3.0	0.9
- Making & Repairs	0.0051	2.0	0.2
TRANSPORTATION	**0.0644**	**0.3**	**0.3**
MISCELLANEOUS EXPENSES	**0.0785**	**10.2**	**14.4**
ALL GROUPS	**1.0000**	**6.00**	**100.0**

2B

Regional Inflation
Quarterly
April - June 2003

Groups and Sub-groups	KMA (%)	Other Towns (%)	Rural Areas (%)
FOOD & DRINK			
- Meals Away from Home	**4.7**	**8.8**	**8.6**
- Meat Poultry & Fish	4.6	9.4	6.8
- Dairy Products Oils & Fats	4.0	4.1	6.6
- Baked Products Cereals	5.0	11.7	9.4
& Breakfast Drinks	8.5	11.7	9.4
- Starchy Foods	3.7	12.7	11.0
- Vegetables & Fruits	1.7	5.5	6.5
- Other Food & Beverages	4.1	11.6	11.0
FUELS & OTHER HOUSEHOLD SUPPLIES	**13.2**	**6.9**	**2.9**
- Household Supplies	2.3	6.9	4.1
- Fuels	23.1	6.9	2.0
HOUSING & OTHER HOUSING EXPENSES	**1.5**	**1.7**	**1.6**
- Rental	0.0	0.4	0.4
- Other Housing Expenses	2.0	1.9	1.7
HOUSEHOLD FURNISHINGS & FURNITURE	**0.9**	**1.8**	**1.3**
- Furniture	-0.5	2.4	2.6
- Furnishings	1.5	1.5	0.7
HEALTHCARE & PERSONAL EXPENSES	**2.5**	**5.3**	**3.2**
PERSONAL CLOTHING FOOTWEAR & ACC.	**2.3**	**1.3**	**2.1**
- Clothing Materials	0.0	0.8	0.3
- Readymade Clothing & Accessories	1.8	1.4	1.7
- Footwear	4.3	0.7	3.1
- Making & Repairs	0.9	3.8	2.5
TRANSPORTATION	**0.3**	**0.4**	**0.1**
MISCELLANEOUS EXPENSES	**7.8**	**12.2**	**13.1**
ALL GROUPS	**4.7**	**7.2**	**7.0**

3

BANK OF JAMAICA OPERATING TARGETS
FY 2002/2003 & FY 2003/2004

	Mar-02	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03
Net International Reserves (US$)	**1 941.7**	**1 782.3**	**1 687.3**	**1 597.0**	**1 339.7**	**1 127.4**
Net International Reserves ($J)	**93 200.2**	**86 973.8**	**82 339.3**	**81 557.8**	**75 021.5**	**63 133.8**
Assets	9 6015.8	89 671.5	84 842.7	83 911.1	77 400.4	65 251.2
Liabilities	-2 815.6	-2 697.7	-2 503.4	-2 353.3	-2 378.9	-2 117.4
Net Domestic Assets	**-62 978.8**	**-56 789.6**	**-51 714.3**	**-45 799.9**	**-42 521.6**	**-30 728.9**
Net Claims on the Public Sector	36 942.5	42 779.3	47 135.8	50 873.5	63 988.5	67 611.0
Net Credit to Banks	-4 400.6	-4 910.0	-5 044.5	-5 200.4	-12 481.5	-13 125.1
Open Market Operations	-99 195.3	-97 006.3	-96 072.3	-89 981.3	-86 203.8	-77 126.4
Other	3 674.6	2 347.4	2 266.7	-1 491.7	-7 824.7	-8 088.4
Monetary Base	**30 221.4**	**30 184.2**	**30 625.0**	**35 757.9**	**32 500.0**	**32 404.9**
Currency Issue*	19 447.1	19 274.3	19 554.2	24 354.5	20 729.7	21 259.1
Cash Reserve	10 581.2	10 883.8	10 911.6	10 839.2	11 250.7	10 960.0
Current Account	193.1	26.1	159.2	564.2	519.5	185.8
% change Monetary Base (F-Y-T-D)	**-0.8**	**-0.1**	**1.3**	**18.3**	**7.5**	**-0.3**

** Excludes BOJ's teller cash*

4

Monetary Aggregates
(End-of-Period - J$M)

	M1J	M1*	M2J	M2*	M3J	M3*
1999/2000	**31 686.8**	**37 311.4**	**92 865.8**	**122 905.4**	**109 123.2**	**139 162.8**
2000/2001						
June	32 017.2	37 737.7	95 966.4	125 498.3	113 634.3	143 166.2
September	30 527.0	35 897.9	96 419.1	128 067.1	115 248.5	146 896.6
December	33 831.3	38 111.4	100 746.3	132 997.8	119 962.1	152 226.0
March	32 783.8	36 970.0	100 673.4	133 790.6	120 789.7	153 906.9
2001/2002						
June	32 951.4	38 015.3	102 002.8	135 708.9	123 100.6	156 806.8
September	35 690.9	41 620.6	105 818.0	141 583.6	127 000.0	162 765.5
December	38 964.5	45 310.1	109 419.3	146 061.6	131 161.0	167 803.4
March	37 083.8	43 946.8	107 834.2	147 683.6	130 622.7	170 285.0
2002/2003						
June	36 864.8	43 248.6	110 235.4	150 532.0	133 902.1	174 198.5
September	42 475.1	49 450.7	117 345.3	160 591.4	142 633.2	185 879.3
December	44 704.0	51 486.7	119 330.6	165 026.0	145 583.9	191 279.3
March	36 255.7	40 791.3	109 994.4	158 719.5	136 368.0	187 615.2
2003/04						
June[p]	37 919.4	47 475.6	110 626.1	167 559.5	141 506.2	198 439.6

J - Includes local currency liabilities only
** - Includes local and foreign currency liabilities*
p - preliminary

5

COMPONENTS OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY
2001/02 - 2003/04 (Quarterly Flows - J$M)

	Dec-01	Mar-02	Jun-02	Sep-02	Dec-02 r	Mar-03 p	Jun-03 p
M2J	**3 601.3**	**-1 585.1**	**2 214.2**	**7 109.8**	**1 985.5**	**-11 853.1**	**3 154.5**
Currency	2 598.7	-1 295.6	-29.6	104.4	2 842.1	-3075.1	1 467.4
Demand Deposits	674.9	-585.1	-189.6	5 305.9	-413.1	-7 890.1	2 719.1
Savings Deposits	1 030.2	239.9	1 971.4	132.1	1 615.6	-41.0	1 104.5
Time Deposits	-702.5	55.7	461.9	1 567.3	-2 059.1	-847.0	-2 136.5
OTHER DEPOSITS	**555.7**	**1 046.8**	**1 065.2**	**1 621.4**	**965.3**	**2 642.5**	**1 984.3**
TOTAL(M3J)	**4 157.0**	**-538.3**	**3 279.4**	**8 731.1**	**2 950.8**	**-9 210.6**	**5 138.8**

SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY

	Dec-01	Mar-02	Jun-02	Sep-02	Dec-02 r	Mar-03 p	Jun-03 p
N.I.R. of B.O.J.	**14 441.9**	**4 794.1**	**-7 779.7**	**-4 634.5**	**-4 406.7**	**-13 140.9**	**-11 887.7**
M & LTFL of B.O.J.	**7.6**	**14.0**	**7.9**	**15.5**	**8.6**	**18.1**	**10.3**
Banking System Credit	**9 445.6**	**235.3**	**7 924.3**	**11 598.8**	**3 336.9**	**12 261.5**	**21 007.4**
Public Sector	8 628.0	307.8	6 736.9	10 208.5	1 962.5	10 731.1	16 634.3
Private Sector	817.6	-72.5	1 187.4	1 390.3	1 374.4	1 530.4	4 373.1
Open Market Operations	**-8 102.8**	**-13 566.9**	**2 188.9**	**933.9**	**6 091.1**	**3 777.5**	**9 077.4**
Other	**635.3**	**7 985.2**	**938.0**	**817.4**	**-2 079.1**	**-12 126.8**	**-13 068.6**
TOTAL	**4 157.0**	**-538.3**	**3 279.4**	**8 731.1**	**2 950.8**	**-9 210.6**	**5 138.8**
Memo:							
Foreign Currency Deposits	880.9	3 020.0	666.2	2 949.7	2 449.3	5 552.4	5 685.6
Foreign Currency Loans	2 294.1	-197.0	2 639.9	2 143.9	1 394.0	2 093.0	2 879.4

p - preliminary
r - revised

6A

SELECTED INTEREST RATES (%)
(End-of-Period)

	Fixed Deposits*		Savings Deposits (Average)	Loan Rate (Average)	Fixed Deposits Rate (Weighted Average)	Loan Rate (Weighted Average)
	3-6 months	6-12 months				
2000/2001						
June	10.00 - 17.50	10.00 - 16.50	10.11	33.00	12.74	23.48
September	10.00 - 17.05	10.00 - 17.05	9.96	31.50	12.59	22.23
December	10.00 - 17.05	10.00 - 17.60	9.86	31.67	12.21	22.12
March	10.00 - 17.00	10.00 - 16.75	9.84	31.33	12.13	21.49
2001/2002						
June	8.75 - 17.00	8.75 - 15.00	9.45	30.67	11.11	20.86
September	8.75 - 17.00	8.75 - 15.00	9.08	26.96	10.52	19.41
December	7.75 - 15.00	7.75 - 15.00	9.08	26.79	10.13	19.46
March	7.75 - 15.00	7.75 - 15.00	9.36	26.29	9.86	19.60
2002/2003						
June	7.75 - 13.25	7.75 - 13.25	9.00	25.92	9.28	18.15
September	7.75 - 13.25	7.75 - 13.25	8.86	26.25	8.98	18.08
December	7.75 - 13.25	7.75 - 13.25	8.96	25.04	8.92	18.26
March	8.50 - 13.15	8.50 - 13.15	8.22	24.73	8.87	17.17
2003/2004						
June	8.50 - 13.15	8.50 - 13.15	8.22	25.18	8.98	19.23

** - Relate to deposits of $100 000 and over*

6B

GOJ TREASURY BILL YIELDS
(End-of-Period)

	3-month	6-month	9-month	12-month
2000/2001				
June	17.68	17.47	17.88	18.10
September	16.62	17.13	16.91	16.94
December		20.16	19.67	20.98
March		16.88		17.86
2001/2002				
June		16.20		
September		15.10	15.50	
December		17.03		
March		14.30		14.96
2002/2003				
June		13.81		14.77
September		16.69	16.98	
December		17.01		
March		33.47		
2003/2004				
June		28.46		

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BANK OF JAMAICA OPEN MARKET INTEREST RATES
(End Period)

End Period	30 days	60 days	90 days	120 days	180 days	270 days	365 days
1999/2000							
June	18.85		19.70		20.85		
September	18.35		19.25		19.95		
December	18.35		19.25		19.95		
March	17.30	17.95	18.10	18.20	18.55		
2000/2001							
June	17.00	17.65	17.80	17.90	18.25		
September	16.45	16.60	16.70	16.80	17.05	17.60	18.00
December	16.45	16.60	16.70	16.80	17.05	20.00	21.00
March	15.50	15.60	15.70	15.80	16.15	17.00	17.75
2001/2002							
June	14.25	14.35	14.45	14.55	14.75	15.35	15.90
September	14.25	14.35	14.45	14.55	14.75	15.35	15.90
December	14.25	14.35	14.45	14.55	15.00	18.40	18.90
March	13.25	13.35	13.45	13.55	13.80	14.20	15.00
2002/2003							
June	13.25	13.35	13.45	13.55	13.80	14.20	15.00
September	12.95	13.05	17.25	17.05	13.45	13.85	14.50
December	12.95	13.05	18.25	18.40	13.45	13.85	14.50
March	15.00	15.30	20.00	24.00	33.15	34.50	35.95
2003/04							
June	15.00	15.30	20.00	24.00	26.50	29.50	30.00

8A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
(End Period)

Maturity Date	Stock Name	Amount J$M	Applicable Interest Rate b/	Features
3 Apr 2003	VR LRS 2003 A'	1 335.4	19.39	
17 Apr 2003	FR LRS 2003 AA	649.9	17.00	
24 Apr 2003	GOJ INV. DEB. 2004 Series 'X'	5 080.4	19.75	Interest Rate fixed at 19.75%
29 Apr. 2003	VR LRS 2003 B	1 326.1	21.95	
30 Apr. 2003	VR LRS 2003 K	170.5	17.69	
5 May 2003	FR LRS 2003AB	850.0	17.00	
6 June 2003	FR LRS 2003 AC	850.0	17.00	
15 June	VR LRS 2003 H	1 627.0	20.58	
	GOJ INV DEB Series 'W'	3 140.8	14.50	
	FR LRS 2003 AD	600.0	17.00	
22 June	VR LRS 99/2008	2 400.0	19.07	

Notes:
a/ - Rate above Treasury is the 6-month Treasury Bill rate in effect at the beginning of the interest period.
b/ - The withholding tax of 25% on interest income has been in effect since 01 May 2000.
c/A/Y - Average Yield
d/FR - Fixed Rate
Source: Debt Management Unit, Ministry of Finance & Planning

8B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Domestic Market Issues
April - June 2003

Issue Date	Stock Name	Features	Amount Raised J$M
02 - 04 April 2003	FR US$ Indexed Bond 11.625% 2005	Instrument having maturity profile of 21 months. First payment on November 2003. Thereafter semi-annual interest payments.	2 531.4
23 - 25 April 2003	GOJ Investment Debenture Series 'Z'	Instrument having fixed rate of 36.25% and tenor of 19 months. First interest payable on 25 August 2003. Thereafter quarterly interest payments.	12 336.9
14 May 2003	GOJ LRS 29.45% FR 2005 AM	Instrument having average yield of 34.21% and tenor of 21 months	1 000.0
22 May 2003	FR US$ Indexed Bond 12.00% 2005	Instrument having maturity profile of 21 months. First payment on November 2003. Thereafter semi-annual interest payments.	2 444.1
4 June 2003	FR LRS 29.25% 2005 AN FR LRS 27.75% 2008 AL	Instruments having tenors of 3 and 5 years with yields of 33.58% and 34.72%, respectively.	1 000.0 389.5
18-23 June 2003	GOJ Investment Debenture Series 'Aa'	Instrument having fixed rate of 33.50% and tenor of 19 months. First interest payable on 17 September 2003. Thereafter quarterly interest payments	7 863.1

Notes:
a/ The withholding tax of 25% on interest income has been in effect since 01 May 2000.
Source: Debt Management Unit, Ministry of Finance & Planning.

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EXTERNAL TRADE - GOODS EXPORTS (f.o.b) (Flows - US$M)

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
1998/1999	**82.7**	**587.9**	**98.3**	**33.1**	**57.8**	**371.7**	**321.7**	**1 552.3**
1999/2000	**49.1**	**664.6**	**103.5**	**26.6**	**68.9**	**346.9**	**290.9**	**1 550.5**
June	20.3	145.5	54.6	7.6	15.2	88.9	71.3	403.4
September	7.6	166.0	5.5	7.5	19.8	92.4	80.5	379.3
December	8.1	182.0	0.0	6.3	16.6	84.9	71.6	369.5
March	13.1	171.1	43.4	5.2	17.3	80.7	67.5	398.3
2000/2001	**56.1**	**670.6**	**69.4**	**22.3**	**74.8**	**330.9**	**285.0**	**1 509.1**
June	10.4	167.9	33.6	5.5	20.5	90.6	76.6	405.1
September	8.2	163.8	6.2	6.2	18.3	81.7	80.7	365.1
December	13.9	181.4	0.0	6.1	17.0	91.3	76.4	386.1
March	23.6	157.5	29.6	4.5	19.0	67.3	57.8	359.3
2001/2002 r	**97.4**	**629.5**	**59.3**	**17.9**	**72.0**	**291.0**	**264.2**	**1 431.3**
June	23.5	182.0	34.9	5.0	18.9	66.0	69.2	399.5
September	25.5	174.3	6.1	4.0	18.5	73.5	72.1	374.0
December	20.7	122.4	0.0	4.4	15.7	93.4	63.9	320.5
March	27.7	150.8	18.3	4.5	18.9	58.1	59.0	337.3
2002/2003								
June	22.9	138.9	30.6	4.5	20.9	51.3	56.2	325.3
September	25.4	147.1	8.0	4.4	20.5	60.3	67.9	333.6
December	29.9	166.9	0.0	4.1	14.2	59.3	46.1	320.5

r - revised

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EXTERNAL TRADE - GOODS IMPORTS (c.i.f) (Flows - US$M)

	Consumer Goods	Raw Materials	Capital Goods	Other	Total Imports
1999/2000	**965.0**	**1 614.0**	**508.4**	**180.7**	**3 268.2**
June	220.4	395.5	123.6	47.1	786.6
September	227.5	385.7	104.8	50.9	768.9
December	298.0	410.5	130.1	42.0	880.6
March	219.1	422.3	149.9	40.8	832.1
2000/2001	**982.0**	**1 761.2**	**519.1**	**167.6**	**3 429.9**
June	228.5	442.2	119.2	42.3	832.2
September	245.8	422.6	120.2	43.5	832.1
December	282.5	426.1	121.8	53.9	884.3
March	225.2	470.3	157.9	27.9	881.3
2001/2002	**1 000.2**	**1 753.3**	**565.3**	**169.8**	**3 491.6**
June r	241.0	444.1	127.7	61.3	874.1
September	238.4	431.1	156.6	47.5	873.6
December	279.9	475.2	133.9	35.4	924.4
March	240.9	405.9	147.1	25.6	819.5
2000/2001					
June	265.4	410.9	176.2	40.9	893.4
September	271.6	539.3	167.2	39.1	1 017.2
December	316.5	442.6	180.5	25.6	965.2

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BALANCE OF PAYMENTS SUMMARY
(Flows - US$M)

	Mar-01	Jun-01[r]	Sept-01	Dec-01	Mar-02[r]	Jun-02[r]	Sep-02[r]	Dec-02[p]
1. Current Account	**-156.1**	**-140.4**	**-179.5**	**-288.6**	**-168.6**	**-263.2**	**-343.6**	**-343.6**
A. Goods Balance	**-417.6**	**-354.5**	**-375.7**	**-469.8**	**-377.3**	**-440.7**	**-545.0**	**-507.5**
Exports (f.o.b.)	359.3	399.5	374.0	320.5	329.7	325.3	333.6	320.5
Imports (f.o.b.)	776.9	754.0	749.7	790.3	707.0	766.0	878.6	828.0
B. Services Balance	**185.4**	**114.0**	**82.7**	**31.4**	**93.9**	**50.9**	**64.0**	**62.3**
Transportation	-53.4	-58.7	-67.5	-78.7	-48.8	-62.7	-70.3	-63.8
Travel	305.5	270.3	239.9	197.4	248.0	220.1	244.3	238.6
Other Services	-66.7	-97.6	-89.7	-87.3	-105.3	-106.5	-110.0	-112.5
Goods & Services Balance	**-232.2**	**-240.5**	**-293.0**	**-438.4**	**-283.4**	**-389.8**	**-481.0**	**-445.2**
C. Income	**-139.1**	**-107.4**	**-102.6**	**-101.3**	**-146.3**	**-150.7**	**-145.0**	**-163.5**
Compensation of Employees	5.1	10.5	27.2	32.7	**3.0**	13.9	32.4	32.8
Investment Income	-144.2	-117.9	-129.8	-134.0	**-149.3**	-164.6	-177.4	-196.3
D. Current Transfers	**215.2**	**207.5**	**216.1**	**251.1**	**261.1**	277.3	**282.4**	**265.1**
General Government	21.6	20.2	10.8	37.8	25.2	24.9	33.6	23.9
Other Sectors	193.6	187.3	205.3	213.3	235.9	252.4	248.8	241.2
2. Capital & Financial Account	**156.1**	**140.4**	**179.5**	**288.6**	**168.6**	**263.2**	**343.6**	**343.6**
A. Capital Account	**-2.7**	**-7.0**	**-5.9**	**-4.3**	**-5.6**	**-4.7**	**-3.6**	**-3.0**
Capital Transfers	-2.7	-7.0	-5.9	-4.3	-5.6	-4.7	-3.6	-3.0
General Government	1.8	0.2	0.1	1.4	0.1	0.1	0.0	0.0
Other Sectors	-4.5	-7.2	-6.0	-5.7	-5.7	-4.8	-3.6	-3.0
B. Financial Account	**158.8**	**147.4**	**185.4**	**292.9**	**174.2**	**267.9**	**347.2**	**346.6**
Direct Investment	221.2	110.1	77.1	121.7	145.4	74.4	73.8	111.3
Other Official Investment	115.0	333.0	-63.3	268.7	52.1	21.0	-52.9	56.9
Other Private Investment (including net errors & omissions)	139.4	-41.5	167.8	206.6	77.6	13.1	231.4	88.1
Reserves	-316.8	-254.2	3.8	-304.1	-100.9	159.4	94.9	90.3

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PRIVATE SECTOR QUARTERLY REMITTANCE FLOWS
(US$M)

	Commercial Banks	Remittance Companies	Post Offices	Building Societies	Other	Total
2000/2001	**180.9**	**479.0**	**1.2**	**156.8**	**25.7**	**843.6**
June	40.3	109.5	0.3	37.0	6.0	193.1
September	28.6	120.8	0.3	36.9	6.3	192.9
December	50.6	125.4	0.3	39.3	6.5	222.1
March	61.4	123.3	0.3	43.6	6.9	235.5
2001/2002	**170.2**	**595.3**	**1.2**	**202.4**	**27.3**	**996.4**
June	43.1	136.2	0.3	43.5	6.9	230.0
September	46.9	143.0	0.3	50.4	6.9	247.5
December	25.6	163.7	0.3	58.0	6.9	254.5
March	54.6	152.4	0.3	50.5	6.6	264.4
2002/2003	**294.4**	**620.0**	**1.4**	**252.6**	**43.2**	**1 211.4**
June	73.4	157.2	0.3	58.8	6.6	296.3
September	74.1	150.3	0.3	65.6	6.6	296.9
December	66.5	159.7	0.3	65.8	6.6	298.9
March	80.4	152.8	0.3	62.4	23.4	319.3
2003/2004						
June	63.7	168.1	0.3	63.2	23.4	318.7

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BANK OF JAMAICA: NET INTERNATIONAL RESERVES (End-of-Period)

	Gross Foreign Assets	Gross Foreign Liabilities	International Reserves (Net)	Weeks of Imports	
				Goods	Goods & Services
2000/2001					
June	848.3	91.9	756.5	15.0	10.2
September	1 022.1	86.7	935.5	17.9	12.3
December	1 048.8	79.3	969.5	18.3	12.6
March	1 361.9	75.6	1 286.3	24.0	16.4
2001/2002					
June	1 612.5	71.9	1 540.5	27.3	18.6
September	1 605.9	69.2	1 536.7	27.1	18.6
December	1 903.3	62.6	1 840.7	33.2	22.5
March	2 000.3	58.7	1 941.6	34.9	23.6
2002/2003					
June	1 837.5	55.2	1 782.3	31.2	20.6
September	1 738.6	51.3	1 687.3	29.5	19.5
December	1 643.1	46.1	1 597.0	27.9	18.4
March	1 382.2	42.5	1 339.7	22.1	14.8
2003/2004					
June	1 165.2	37.8	1 127.4	18.3	12.0

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FOREIGN EXCHANGE SELLING RATES (J$ per unit of foreign currency-end period)

	US$	Can$	UK£
1998/1999	**38.28**	**24.64**	**59.64**
1999/2000			
June	38.97	25.65	59.29
September	40.00	26.72	63.79
December	41.42	27.80	65.80
March	42.14	29.01	66.65
2000/2001			
June	42.51	28.17	62.73
September	44.83	29.25	64.15
December	45.53	29.51	66.78
March	45.68	29.17	64.11
2001/2002			
June	45.82	29.80	63.94
September	45.94	29.00	66.74
December	47.40	29.45	67.94
March	47.61	29.88	67.14
2002/2003			
June	48.51	31.95	72.98
September	49.27	31.11	76.60
December	50.97	32.09	80.97
March	56.24	37.48	87.41
2003/2004			
June	59.01	43.69	96.79

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PUBLIC SECTOR DOMESTIC SECURITIES
Government of Jamaica Outstanding Stocks
(J$M)

End Period	Local Registered Stocks	Treasury Bills	Bonds	BOJ Open Market Operations Securities
1999/2000				
June	112 513.0	10 200.0	25 603.0	38 469.9
September	116 959.5	9 900.0	31 266.7	36 703.9
December	130 939.9	10 650.0	32 165.4	29 286.9
March	126 022.9	9 550.0	36 510.4	39 490.9
2000/2001				
June	131 477.8	9 750.0	37 268.0	45 066.2
September	132 589.8	9 850.0	38 789.9	51 885.6
December	134 896.5	7 600.0	41 920.6	51 800.9
March	159 734.8	6 950.0	45 107.7	61 441.4
2001/2002				
June	226 655.6	6 900.0	48 981.5	74 164.5
September	230 172.6	5 450.0	53 437.6	77 525.5
December	217 361.8	3 900.0	71 004.0	85 628.3
March	212 110.0	4 250.0	79 151.0	99 195.3
2002/2003				
June	219 738.5	4 350.0	80 516.1	97 006.3
September	232 873.9	4 350.0	88 274.7	96 072.3
December	240 843.3	4 150.0	99 432.9	89 981.3
March	240 923.0	2 950.0	114 542.1	-86 203.8
2003/2003				
June		2 000.0		77 126.4

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STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	Volume Traded (M)	Value of Stocks Traded (J$M)
2000/2001	**29 701.9**	**669.4**	**3 683.0**
June	31 338.3	300.9	1 480.3
September	31 152.7	95.6	591.4
December	28 893.2	116.5	773.0
March	29 701.9	156.4	838.3
2001/2002	**140 897.6**	**3 086.8**	**6 549.0**
June	35 723.6	2 315.0*	3 584.2
September	33 892.4	182.8	840.4
December	33 835.6	171.3	704.9
March	37 446.0	417.7	1 419.5
2002/2003	**170 204.5**	**2 409.0**	**13 372.9**
June	38 606.7	404.9	1 935.9
September	39 219.6	401.1	2 332.1
December	45 396.2	380.9	1 949.4
March	46 982.0	1 222.1	7 155.5
2003/2004			
June	50 478.9	352.4	2 077.7

* *Both volume and value reflect ordinary and block transactions*
* *Includes a large block transaction arising from the de-listing of Union Bank of Jamaica*

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PRODUCTION OF SELECTED COMMODITIES
(flows - 000' tonnes)

	Bauxite	Alumina	Sugar	Bananas*
2000/2001	**2 420.4**	**3 617.8**	**185.4**	**44.1**
June	527.8	893.8	78.2	9.7
September	372.3	897.9	1.6	10.8
December	587.1	911.4	3.5	12.2
March	933.1	914.7	102.1	11.3
2001/2002	**3 808.4**	**3 493.7**	**184.8**	**42.3**
June	888.5	943.4	91.5	11.0
September	997.2	946.3	7.3	9.9
December	816.1	738.0	4.2	10.8
March	1 106.6	866.0	81.8	10.6
2002/2003	**2 960.0**	**3 698.7**	**186.1**	**37.7**
June	888.1	887.3	76.8	10.3
September	961.2	932.0	11.8	9.7
December	1 110.8	945.2	4.7	9.3
March	964.4	934.2	92.8	8.4
2003/2004				
June	992.9	957.0	53.7	9.9

* *Exports*

D. BANK OF JAMAICA BALANCE SHEET

ASSETS AND LIABILITIES
(End-of-Period - J$M)

	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02	Mar-03	Jun-03
Assets	**148 672.9**	**165 421.1**	**173 579.0**	**166 610.3**	**152 220.5**	**151 282.4**	**152 765.6**	**149 552.0**
Foreign	73 650.3	89 754.1	95 228.9	88 833.0	85 369.6	83 071.5	77 202.2	68 606.6
Current Account & Foreign Currency Balances	3 618.0	13 926.8	7 769.8	5 025.5	5 048.1	6 880.4	9 318.5	5 105.0
Time Deposits & Securities	68 283.1	73 899.6	85 539.9	81 873.3	78 281.9	74 108.9	65 607.9	60 573.9
Holdings of Special Drawing Rights	20.4	68.9	42.0	18.4	63.8	39.9	20.2	6.5
Other	1 728.8	1 858.8	1 877.2	1 915.8	1 975.8	2 042.3	2 255.6	2 921.2
Local	75 022.6	75 667.0	78 350.1	77 777.3	66 850.9	68 210.9	75 563.4	80945.4
Public Sector Securities	56 103.7	56 000.2	56 109.5	52 802.2	56 752.1	57 237.4	54 975.0	66 907.0
Other Assets	18 918.9	19 666.8	22 240.6	24 975.1	10 098.8	10 973.5	20 588.4	14 038.4
Liabilities	**148 672.9**	**165 421.1**	**173 579.0**	**166 610.3**	**152 220.5**	**151 282.4**	**152 765.6**	**149 552.0**
Foreign	545.9	450.4	411.5	442.6	405.8	434.6	484.6	467.9
Local	148 127.0	164 970.7	173 167.5	166 167.8	151 814.7	150 847.8	152 281.0	149 084.1
Currency in Circulation	17 607.3	22 378.7	19 481.9	19 318.5	19 587.3	24 387.3	20 772.3	21 309.9
Deposits	120 498.5	134 014.7	145 003.5	137 793.2	121 123.3	118 055.4	117 110.0	110 145.7
Bankers	18 911.8	19 232.8	16 225.9	16 925.7	17 264.9	17 729.8	25 401.0	25 474.3
Government	4 370.6	5 529.4	7 591.3	6 933.6	3 916.6	4 484.3	1 760.2	3 280.1
Open Market Operations	77 525.5	85 628.3	99 195.3	97 006.3	96 072.3	89 981.3	86 203.8	77 126.4
Other	19 690.6	23 624.2	21 991.0	16 927.6	3 869.5	5 860.0	3 745.0	4 264.9
Allocation of Special Drawing Rights	2 347.0	2 347.0	2 347.0	2 462.0	2 462.0	2 462.0	2 462.0	3 203.0
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	24.0	24.0	4.0
Other Reserves	939.5	939.6	1 174.8	1 195.8	1 195.8	1 944.2	1 944.2	1 640.8
Other Liabilities	6 710.7	5 266.7	5 136.3	5 374.2	7 422.3	3 974.9	9 968.5	12 780.7

E. COMMERCIAL BANKS' BALANCE SHEET

ASSETS AND LIABILITIES
(End-of-Period - J$M)

	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02[r]	Dec-02[r]	Mar-03[p]	Jun-03[p]
Assets	**242 006.2**	**239 087.8**	**252 908.2**	**251 817.0**	**259 213.3**	**262 577.9**	**285 881.7**	**296 235.7**
Cash	1 434.1	3 595.7	1 997.9	1 854.6	2 030.1	3 988.3	3 438.6	2 500.6
Balances with BOJ	32 234.1	36 782.2	44 646.1	43 993.1	41 726.7	40 111.1	41 414.8	37 150.0
Foreign Assets	38 233.5	40 495.4	44 923.5	44 285.3	46 039.2	47 540.2	62 782.3	59 582.0
Loans & Advances	42 981.6	49 035.1	51 354.7	58 100.8	67 046.0	73 943.3	79 685.4	87 067.4
Private Sector	35 829.3	38 746.9	37 932.9	42 306.9	46 261.6	50 882.0	52 897.6	60 215.8
Public Sector	7 152.3	10 288.2	13 421.8	15 793.9	20 784.4	23 061.3	26 787.8	26 851.6
Public Sector Securities	89 564.7	79 603.7	76 010.5	74 677.2	72 564.8	68 829.3	66 143.2	78 572.0
Cheques in the Process of Collection	5 515.4	2 917.6	6 175.9	4 487.6	3 949.2	3 794.0	4 024.4	4 706.8
Other Assets	32 042.8	26 658.1	27 799.6	24 418.4	25 857.3	24 371.7	28 393.0	26 656.9
Liabilities	**242 006.2**	**239 087.8**	**252 908.2**	**251 817.0**	**259 213.3**	**262 498.7**	**290 161.4**	**296 235.7**
Deposits	163 056.9	158 918.1	165 541.3	169 908.3	177 801.9	178 979.5	188 441.5	190 050.4
Foreign Liabilities	13 857.9	13 265.5	14 863.8	14 758.0	13 237.4	12 691.1	14 085.8	15 098.1
Discounts & Advances from BOJ	24.3	83.0	43.9	60.2	61.2	134.9	187.1	235.7
Loans/Advances from Other Institutions	9 017.1	9 177.7	9 017.9	6 377.4	6 729.3	7 309.4	7 632.5	7 748.7
Cheques in the Process of Payment	2 114.2	2 026.9	3 324.6	2 369.6	2 614.2	2 565.0	2 150.6	2 974.6
Other Liabilities	53 935.8	55 616.6	60 116.7	58 343.5	58 769.3	60 898.0	73 384.2	80 128.2

p - preliminary
r - revised

F. INTERNATIONAL INDICATORS
1

LONDON INTERBANK OFFER RATE -LIBOR
(End-of-Period)

	1 Month	3 Months	6 Months	12 Months
2000/2001				
June	6.6563	6.8125	7.0000	7.2188
September	6.6250	6.8125	6.7500	6.8125
December	6.5625	6.4063	6.2188	5.9688
March	5.0938	4.8750	4.7188	4.6563
2001/2002				
June	3.7900	3.7300	3.7300	3.9400
September	2.6300	2.5900	2.5225	2.6425
December	1.8738	1.8813	1.9813	2.4425
March	1.8788	2.0300	2.3300	3.0025
2002/2003				
June	1.8387	1.8600	1.9562	2.2862
September	1.8113	1.7900	1.7100	1.7250
December	1.3820	1.3830	1.3830	1.4470
March	1.3000	1.2787	1.2312	1.2800
2003/2004				
June	1.1620	1.1225	1.0815	1.0944

2

LONDON MONEY RATES - INTERBANK STERLING
(End-of-Period)

	1 Month	3 Months	6 Months	12 Months
2000/2001				
June	5 7/8 - 6	6 1/16 - 6 3/16	6 3/16 - 6 5/16	6 3/8 - 6 1/2
September	6 - 6 1/8	6 1/8 - 6 1/4	6 3/16 - 6 5/16	6 1/4 - 6 3/8
December	5 11/16 -5 7/8	5 3/4 - 5 29/32	5 3/4 - 6 7/8	5 11/16 - 5 13/16
March	5 9/16 -5 11/16	5 3/8 - 5 1/2	5 3/16 - 5 5/16	5 5/32 - 5 9/32
2001/2002		5 1/8 - 5 1/4	5 1/4 - 5 3/8	5 1/2 - 5 5/8
June	5- 5 1/8	4 13/32 - 4 7/32	4 3/8 - 4 1/2	4 13/32 - 4 7/32
September	4 9/16 - 4 11/16	4 - 4 1/8	4 1/32 - 4 5/32	4 3/8 - 4 17/32
December	4 1/32 - 4 5/32	3 29/32 - 4 1/32	4 5/16- 4 7/16	4 23/32 - 4 7/32
March	3 29/32 - 4 1/32			
2002/2003				
June	4 - 3 29/32	4 1/8 - 4 1/32	4 9/32 - 4 3/16	4 21/32 - 4 9/16
September	3 15/16 - 3 27/32	3 29/32 - 3 3/16	3 7/8 - 3 25/32	3 7/8 - 3 25/32
December	4 1/16 - 3 15/16	4 1/32 - 3 29/32	4 - 3 7/8	4 - 3 7/8
March	3 21/32 - 3 19/32	3 21/32 - 3 9/16	3 9/16 - 3 1/2	3 9/16 - 3 7/16
2003/2004				
June	3 11/16 - 3 9/16	3 19/32 - 3 17/32	3 17/32 - 3 15/32	3 17/32 - 3 7/16

3

PRIME LENDING RATES
(End-of-Period)

	EURO-ZONE	UNITED STATES			UK
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Prime Rate
2000/2001					
June	4.25	7.00	6.00	9.50	6.00
September	4.50	6.50	6.00	9.50	6.00
December	4.75	6.50	6.00	9.50	6.00
March	4.75	5.00	4.50	8.00	5.75
2001/2002					
June	4.50	3.75	3.25	6.75	5.25
September	3.75	3.00	2.50	6.00	4.75
December	3.25	1.75	1.25	4.75	4.00
March	3.25	1.75		4.75	4.00
2002/2003					
June	3.25	1.75	1.25	4.75	4.00
September	3.25	1.75	1.25	4.75	4.00
December	2.75	1.25	0.75	4.25	4.00
March	2.50	1.25	2.25	4.25	3.75
2003/2004					
June	2.00	1.00	2.00	4.00	3.75

4A

INTERNATIONAL EXCHANGE RATE US$ VS OTHER MAJOR CURRENCIES (currency/US$) (End-of-Period)	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02	Mar-03	Jun-03
US$ vs Sterling	0.6804	0.6871	0.8753	0.6560	0.6369	0.6306	0.6327	0.6050
US$ vs Canadian $	1.5797	1.5963	1.5954	1.5209	1.5858	1.5593	1.4711	1.3553
US$ vs Yen	119.13	131.06	132.55	119.86	121.73	121.98	118.58	119.86
US$ vs Euro	2.1476	2.1966	0.8724	1.0126	1.0123	0.9820	0.9164	0.8693

4B

INTERNATIONAL EXCHANGE RATES STERLING VS OTHER MAJOR CURRENCIES (End-of-Period))	Dec-01	Mar-02	June-02	Sept-02	Dec-02	Mar-03	Jun-03
Sterling vs US$	1.4554	1.4240	1.5243	1.5701	1.5859	1.5805	1.6529
Sterling vs Canadian $	2.3230	2.2719	2.3183	2.4899	2.4730	2.3251	2.2402
Sterling vs Yen	188.73	182.70	191.13	193.42	191.16	188.39	198.12
Sterling vs Euro[1/]	3.1970	0.8724	1.5434	1.5895	1.5572	1.4484	1.4369

4C

INTERNATIONAL EXCHANGE RATES EXCHANGE CROSS RATES (June 2003)	GBP	C$	US$	Yen	Euro
U.K.	1	2.242	1.650	198.1	1.437
Canada	0.446	1	0.736	88.37	0.641
U.S.	0.606	1.359	1	120.1	0.871
Japan	0.505	1.132	0.833	100	0.725
Euro-zone	0.696	1.560	1.148	137.9	1

5A

WORLD COMMODITY PRICES
KEY CRUDE OIL PRICES (US$/barrel - f.o.b.)
(End-of-Period)

	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02	Mar-03	Jun-03
UAE's Dubai Light	18.46	24.23	29.18	27.51	26.21	23.29	25.50
North Sea Brent	18.6	23.69	24.13	28.34	28.52	30.34	27.55
West Texas Intermediate	19.31	22.38	25.51	29.67	29.44	33.32	30.71

5B

WORLD COMMODITY PRICES
ALUMINIUM
(US$ per tonne)
(End-of-Period)

	Mar-02	Jun-02	Sept-02	Dec-02	Mar-03	Jun-03
Spot (Cash)	1 386.0	1 364.5	1 280.5	1 344.5	1 330.0	1 389.0
3 Month	1 401.5	1 383.5	1 297.0	1 348.0	1 345.0	1 366.0

5C

WORLD COMMODITY PRICES
FOOD
(End-of-Period)

	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02	Mar-03	Jun-03
Wheats (US$/mt)	123.7	125.7	125.7	166.1	176.7	147.4	131.4
Coffee (USc/kg arabica brand)	126.4	133.6	136.2	126.0	146.8	142.4	137.3

6

MAJOR STOCK MARKET INDICES
(End-of-Period)

	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02	Mar-03	Jun-03
Tokyo							
Nikkei Index	10 542.6	11 024.94	10 621.84	9 383.29	8 578.95	7972.71	9083.11
New York							
Dow Jones Industrials	10 021.5	10 426.91	9 243.26	7 591.93	8 341.63	7992.13	8985.44
S&P Composite	1 148.1	1 144.58	1 122.78	945.28	879.82	848.12	974.50
London							
Financial Times-SE 100	5 217.4	5 271.8	4 656.4	3 721.80	3 940.40	3613.30	4031.20
Frankfurt							
Dax Index	5 160.1	5 397.29	4 382.56	2 769.03	2423.87	2423.87	3220.58
Zurich							
SMI Index	6 417.8	6 655.2	5 979.7	4 783.00	4 085.60	4085.60	4813.70

Amortization: The repayment of a loan in installments over an agreed period of time.

Base Money: The sum of notes and coins held by the public and the cash reserves of commercial banks (including both their holding of cash and their deposits at the central bank). The money base is the operating target used in the BOJ monetary policy framework and can be controlled trough open market operations.

Bond Market: The domestic bond market primarily captures debt instruments offered by the Central Government to fund its budgetary needs.

Cash Reserve Requirement: The requirement by law that a percentage of deposit liabilities of deposit-taking institutions must be held as interest free deposits at the Central Bank.

Jamaica Central Securities Depository (JCSD): The Principal function of the JCSD is to provide for relatively risk-free settlement of share transactions. It accomplishes this by employing an electronic, book-entry system for registering changes of ownership of securities which eliminates the need for physical certificates. The JCSD also provides vaulting facilities for the safekeeping of certificates.

Core Inflation: also called *Underlying Inflation.* It is that part of overall inflation that can be attributed to changes in base money. Central Banks typically try to control core inflation because there are some parts of inflation that are outside of their control. One example of this is the effect of changes in oil prices.

Credit*:* Loans extended by banks, building societies and other financial institutions.

Exchange rate (nominal): The number of units of one currency offered in exchange for another. For example a Jamaica dollar/United States dollar exchange rate of 'forty two dollars to one' indicates that forty-two Jamaican dollars are needed to obtain one United States dollar.

Foreign exchange cash demand/supply: The amount of foreign exchange purchased by market participants from the authorized dealers and cambios, while ***cash supply/inflows*** is the amount sold to the Bank of Jamaica, authorized dealers and cambios by market participants, private institutions and multilateral agencies.

Financial Programme: An integrated system of macroeconomic accounts and behavioural relationships defining the set of monetary, fiscal and exchange rate policy measures designed to achieve specified macroeconomic targets.

Financial Asset: An instrument issued by an institution (e.g. BOJ) that provides economic benefits, by (1) generating interest income or net profits and (2) acting as a store of value. These benefits are created through a formal/informal borrowing/lending relationship. Most common types of financial assets are money and credit.

Fiscal deficit: The excess of the Government's expenditure over its revenue for a given period of time.

Fiscal Year: The twelve months beginning in April. Thus fiscal year 2000/2001 refers to the period April 2000 to March 2001.

Government Securities: Debt instruments issued by the Ministry of Finance either to bridge timing gaps between revenue and expenditure or to cover any excess of expenditure over revenue. These securities include short-term instruments such as Treasury Bills and more long term ones like Local Registered Stock, or Debentures.

Gross Domestic Product (GDP): This is the total value of all goods and services produced within an economy over a particular time period - either a year or three month.

Inflation: Refers to the change in the general price level. In Jamaica, this is derived as the change in the Consumer Price Index (CPI) calculated and published by the Statistical Institute of Jamaica.

Intermediate Target: An intermediate target of policy. e.g. the money supply or the exchange rate, has three main characteristics.

- It is not directly determined by the Central Bank,
- It responds, however, to a stimulus that the Central Bank can vary, and
- Its behaviour should to be closely related to the ultimate target-inflation.

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Liquid Asset: an asset is considered liquid if it can be easily and with little or no loss coverted to cash. The liquid assets of commercial banks in Jamaica include notes and coins, short-term deposits at the Bank of Jamaica, GOJ Treasury Bills, Local Registered Stock maturing within 270 days and any GOJ security designated by the Ministry of Finance.

Money: Anything that is generally accepted in exchange for goods and services and for the payment of debt. (e.g. example, notes and coins). Hence money is said to be a medium of exchange. Money also serves as a means of storing wealth as well as a standard of and unit of accounting for financial values and flows.

Money Supply**:** This is the stock of instruments or assets formally designated as money in a particular economy. There are alternative measures of money supply both within and between countries. In Jamaica, the measurements of money that are calculated and published are:

M1: Notes and coins in circulation + Demand Deposits

M2: M1 + Time and savings deposits M3: M2 + Other Deposits.

A 'J' indicates that the components are Jamaican dollar liabilities only and an '*' indicates that the components also include foreign currency liabilities of the banking system.

Monetary Base: See Base Money

Monetary policy framework: This defines the transmission process through which policy actions taken by the Central Bank make an impact on the final target - inflation. The components of a monetary policy framework are policy instruments, operating targets, intermediate targets, and the ultimate goal/objective.

Monetary Policy Instruments: These are instruments used by the Central Bank to influence the money supply and credit. They include open market operations and the reserve requirement ratio.

Open Market Operations (OMO): Money market trading between the Bank of Jamaica and authorized dealers with the intention of influencing money and credit in the financial system. OMO involves the sale or purchase of GOJ securities from the stock of securities held by BOJ, in the form of repurchase or reverse repurchase agreement, along with the issue of certificates of deposit.

Operating Target: An operating target of policy e.g. the monetary base and interest rates, is influenced directly by the Central Bank and is adjusted by the Bank in order to bring about the desired impact on its policy target.

Primary Dealer (PD): The set of intermediaries through which BOJ conducts open market operations. In developed country markets, PD's underwrite government issues as well as participate in block transactions with the central bank.

Quasi-Fiscal Costs: The cost to the central bank of sterilizing the liquidity effects of capital inflows.

Quasi-money: Savings Deposits plus Time Deposits.

Real interest rate: This represents the rate of return on assets after accounting for the effects of inflation on the purchasing power of the return. It is calculated by adjusting the nominal interest rate by the inflation rate.

Repurchase Agreement (repo): The purchase of a security from a primary dealer who agrees to repurchase the same at a specified rate and an agreed future date.

Reserve Requirement: refers to the portion of deposit liabilities that financial institutions may not lend and have to retain either as liquid assets or on deposit at the Bank of Jamaica.

Reverse Repurchase Agreements: An agreement whereby the Central Bank sells a security that it owns and agrees to buy back same at a specified rate at an agreed future date.

Securities: Legal documents giving title to property, or claim on income e.g. bonds and stocks.

Signal Rate: Interest rate on Bank of Jamaica's thirty-day reverse repurchase agreements. This rate provides a benchmark for the pricing of all open market instruments negotiated between the BOJ and Primary Dealers.

Statutory Cash Reserves: That portion of deposit liabilities of deposit-taking institution, which by a statutorily based stipulation, must be held as interest free deposits at the Central Bank.

Sterilization: The use of open market operations to prevent intervention in the foreign exchange market from changing the monetary base. With sterilization, any purchase of foreign exchange is accompanied by an equal-value sale of domestic bonds and vice versa.

Time deposit: A bank account based on a contractual arrangement between the deposit taking institution and the depositor where both parties agree to a pre-determined interest rate and maturity date, on which deposits earn interest and premature withdrawals from which require advance notice.

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