Bank of Jamaica Quarterly Monetary Policy Report

JULY - SEPTEMBER 2002

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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 future economic trends and the path of monetary policy over the short to medium term. This issue includes features on Building Societies, New Mortgage Loans for the period July 2001 to June 2002 and an overview of the CARICOM Single Market and Economy (CSME)

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

Jamaica's economic performance during the September 2002 quarter was influenced by a number of domestic and external factors. These included adverse weather conditions, perceptions of weak foreign exchange earnings, uncertainties associated with the General Elections, and weaker than forecasted recovery in the US economy, all of which contributed to instability in the foreign exchange market. Despite these factors, inflation was within projection, the pace of economic activity improved, and the Central Bank maintained reserves sufficient to cover approximately 19 weeks of estimated goods and service imports.

During the September quarter, unexpected flood rehabilitation and relief expenditure, wage related costs, as well as lower than anticipated revenues, resulted in a higher than budgeted Central Government deficit. Provisional data indicates that for the quarter, Central Government operations resulted in a deficit of $9.4 billion, 2.3 per cent of GDP, relative to the IMF Staff Monitored Programme (SMP) of $2.3 billion or 0.57 per cent of GDP. The deficit was financed mainly through borrowing from the domestic market and a drawdown in deposits at the Central Bank. The additional use of credit posed a major challenge to monetary policy as the liquidity impulses fueled demand in the foreign exchange market.

In spite of these challenges, the SMP target for Net International Reserves (NIR) was met at the end of the quarter, after adjusting for re-scheduled official inflows.

However, the net domestic assets of the BOJ exceeded the ceiling set in the SMP due in part to the increased credit to the public sector. This resulted in base money being approximately $1.0 billion higher than the end September target, reflecting the build-up of liquidity within the financial system.

There was gradual easing of monetary policy, through a reduction in interest rates on the Bank's open market instruments, at the beginning of the quarter in response to a moderation in inflation and relative stability in the foreign exchange market. However, with increased Jamaica dollar liquidity, in the context of seasonally lower foreign exchange inflows, increased demand for imports, and uncertainties associated with the general election, the exchange rate depreciated by 1.5 per cent. Most of the depreciation (81.3 per cent) was recorded in the months of August and September. This movement in the exchange rate created the potential for higher core inflation and threatened the Bank's inflation target of 6 per cent to 7 per cent for the full year. In response, the Bank raised interest rates on the 90-day tenor and 120-day tenor of its open market instruments.

The Bank's policy actions led to a general increase in interest rates paid on Government instruments. The average yield on the 182-day Treasury Bill offered at the auction on 27 September was 16.69 per cent, approximately 300 basis points above the equivalent yields at the auctions in July and August. The increase in interest rates were also transmitted to long-term instruments, as yields on LRS rose by 200 basis points during the quarter.

The inflation rate for the September 2002 quarter was 2.4 per cent, which was in line with the Bank's projections.

The management of the monetary base during the previous quarter contained core inflation to 0.76 per cent, which was lower than the 1.11 per cent estimated for the September 2001 quarter. Non-core factors, accounting for 67.2 per cent of the inflation over the quarter, included increases in school-related expenses, higher international crude oil and grain prices, and more significantly fluctuations in agricultural supply and prices. Inflation for the 2002/03 fiscal year to September slowed to 4.1 per cent relative to 5.7 per cent recorded for the 2001/02 period.

There was an expansion in economic activity in the September quarter, in spite of the impact of adverse weather conditions. Growth was estimated in both the goods and services sectors. In the goods sector, the value added in manufacturing and construction sectors was partially offset by the decline in agricultural sector. Growth in the services sector was mainly due to continued expansion in basic services, which include communications, electricity, water and transport. Increased economic activity in basic services is set against the background of expansions in commercial bank credit to transport, storage & communication and electricity of 4.1 per cent and 27.1 per cent, respectively, over the quarter.

The improvement in real sector activity was reflected in an increase in the profitability of some companies listed on the stock exchange. The strong performance in the stock market was influenced partly by the reduction in interest rates at the beginning of the quarter. Market activity was moderated only slightly towards the end of the quarter when interest rates increased. The bullish trend in trading has continued from the June quarter, and the Jamaica Stock Exchange (JSE) registered significant advances during the September 2002 quarter relative to the corresponding quarter in 2001.

Having reviewed the September 2002 quarter, the Bank will continue to monitor the liquidity situation and the potential threat to the inflation target during the December quarter. Monetary policy will be eased as far as conditions in the foreign exchange market and the state of public finances allow. A positive real sector performance is projected for the December quarter, led by a significant rebound in the mining sector. However, the slow recovery in the global economy will pose a risk to the earning potential of the mining and tourism sectors

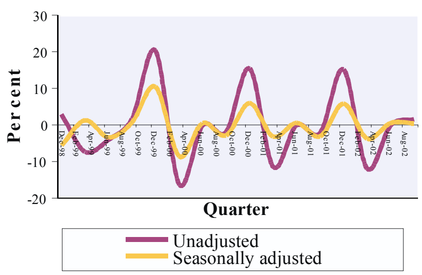
Two special topics, having a growing impact on economic activity, are discussed in this issue of the Quarterly Monetary Policy Report. Box 1 contains a discussion on Building Societies' New Mortgage Loans, which grew significantly during the period July 2001 - June 2002. An overview of the CARICOM Single Market and Economy (CSME), which has a potential impact on trade and economic development, is presented in the Box 2. This provides some details of the establishment of the CSME, along with the status of its implementation and implications for CARICOM states.

Money and Credit

Base Money

The monetary base expanded by 1.5 per cent or $440.7 million during the September quarter relative to a programme target of a 1.7 per cent reduction for the period. This occurred within the context of fairly liquid financial system conditions due to debt maturities and increased Government spending. The expansion of the monetary base did not conform to the historical pattern that shows contractions in the September quarter over the 6-year period 1996 to 2001, with the exception of 1999 (See **Figure 1.1**).

Figure 1.1
Base Money
(quarterly change)



High Jamaica Dollar liquidity conditions characterize September quarter.

The monetary base expansion for the September quarter was reflected in a 1.5 per cent increase in the currency stock to $19 554.2 million, which represented an 11.2 per cent increase in currency relative to end September 2001. The outturn for the quarter compares to a 0.3 per cent increase for the corresponding quarter in 2001. In addition to the normal seasonal demand for currency related to expenditure for holidays during the period and the re-opening of schools in September, there was unexpected demand due to the increased spending to cover real sector losses stemming from the flood relief expenditure. With respect to the other components of the monetary base, there were increases in both the current account balances of commercial banks and the Statutory Cash Reserve by $133.1 million and $27.8 million during the quarter, respectively.

The source of the increase in the monetary base was an injection of $5 075.3 million through the NDA. The liquidity impulses within the NDA emanated from the Government's drawdown of its balances held at the Bank and the net unwinding of open market instruments.

Bank of Jamaica increase rates on its 90-day and 120-day tenors to stabilize the foreign exchange market.

A decline of $4 634.5 million (US$95 million) in the NIR partially offset the expansion in the NDA. The reduction in the NIR was mainly related to planned debt payments as well as direct sales to the foreign exchange market.

At the end of the quarter, whereas the NIR stock was within the adjusted programme target , the NDA outturn was higher than the programmed level as Net Claims on the Public sector were higher than envisaged. Open market operations during the quarter were not sufficient to offset the liquidity impact of the increase in public sector claims resulting in a higher than programmed expansion in the level of the monetary base.

Given favourable market conditions at the start of the September quarter, the Bank reduced all rates on its open market instruments on 11 July, with the 30-day signal rate declining by 30 basis points to 12.95 per cent (see Bond Market). Within the context of relatively stable foreign exchange market conditions further reductions were effected to the premiums on the 270-day and 365-day instruments on 7 August, thereby continuing the normalization of the yield curve.

High Jamaica Dollar liquidity emerged towards the end of the quarter and created demand pressures in the foreign

[1] *The SMP NIR target was adjusted to reflect the non-receipt of GOJ loan flows.*

exchange market. The BOJ responded by increasing the premiums on the 90-day and 120-day tenors of its open-market instruments by 410 basis points and 380 basis points, respectively. The immediate objective was to remove the concentration of liquidity in short-term instruments and stabilize the foreign exchange market.

All other rates including the 30-day signal rate were left unchanged. Despite the increase in rates on the 90-day and 120-day tenors of open market instruments, significant liquidity remained in the short-end of the market particularly in overnight placements.

The Bank's subsequent increase of the rates on the 90-day and 120 day tenors in early October has reduced the liquidity overhang. This adjustment should provide for the attainment of operating targets within the parameters set out in the adjusted programme for the December quarter.

Table 1.1

Growth Rates - M3J

		3 mths	12 mths
2000	March	1.2	21.2
	June	4.1	15.7
	Sept.	1.1	9.0
	Dec.	4.1	10.9
2001	March	0.6	10.7
	June	1.9	8.3
	Sept.	3.2	10.2
	Dec.	3.5	9.3
2002	March	-0.5	8.1
	June	2.5	8.8
	Sept.	6.9	12.6

Money Supply

During the September 2002 quarter, all measures of money supply increased sharply, particularly towards the latter part of the quarter. This resulted in a marked increase in the twelve-month growth rate of money supply. A significant increase in banking system credit was the main source of expansion in the money supply, the effect of which was tempered by a decline in the NIR of the Bank. The higher rate of growth in the money supply in the context of a modest increase in the monetary base implied an increase in the money multiplier for the quarter.

Expansion in credit drives sharp increase in money supply in late September.

Broad Jamaica Dollar money supply, M3J, grew by 6.9 per cent during the review quarter, relative to expansions of 2.5 per cent and 3.2 per cent for the June 2002 quarter and the September 2001 quarter, respectively (see **Table 1.1**). The out-turn for the quarter also exceeded the 1.1 per cent growth in M3J outlined in the Staff Monitored Programme (SMP). The sharp increase in M3J was concentrated towards the end of September and was reflected in a significant increase in demand deposits. During September, M3J increased significantly by 5.8 per cent, following increases of 0.7 per cent and 0.2 per cent in July and August, respectively.

Table 1.2

3-Month Growth in Money Supply		
MJ	**Sept 01 %**	**Sept 02 %**
M1J	8.4	13.8
M2J	3.8	6.8
M3J	3.2	6.9
M*		
M1*	9.5	15.0
M2*	4.3	6.8
M3*	3.9	6.9

An increase in banking system credit, to both the public and private sectors, provided the main sources of growth in money supply during the September quarter. Credit to the public sector increased by $7 680.6 million while, credit to the private sector expanded by $1 273.5 million. Additional sources of expansion in M3J emanated from an increase of $3 070.4 million in the net foreign assets of the commercial banking system, and a decline in open market operations of $933.9 million. The liquidity impact from these sources was countered primarily by a decline of J$4 634.5 million (US$95.0 million) in the NIR of the BOJ.

Narrow Jamaica dollar money supply, M1J, increased by 15.0 per cent during the September 2002 quarter relative to an increase of 8.4 per cent during the corresponding quarter in 2001(see **Table 1.2**). The expansion in M1J was in a 28.1 per cent increase in demand deposits while, currency in circulation increased by 0.6 per cent.

Figure 1.2
Money Supply and Inflation
(12-mth growth)

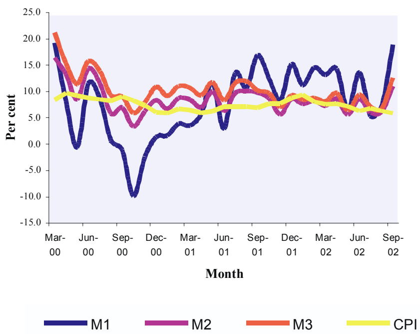
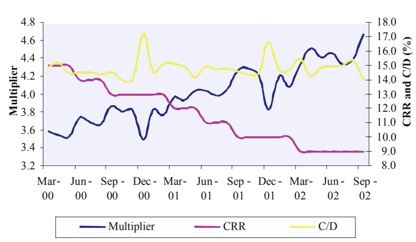


Figure 1.3
Money Multiplier & Cash Reserves Ratio
(March 00 - Sept. 02)



The measure of broad money supply which includes foreign currency deposits, M3*, increased by 6.9 per cent during the September 2002 quarter. This growth surpassed the expansions of 2.3 per cent in the June quarter and 3.9 per cent in the September 2001 quarter. Foreign currency deposits expressed in US dollars increased by 5.3 per cent reflected in growth in demand and savings deposits of10.3 per cent and 6.8 per cent, respectively. Time deposits declined by 0.4 per cent. During the corresponding quarter in 2001, foreign currency deposits increased by 5.1 per cent. The increase in the demand for foreign currency deposits since the start of the fiscal year has been concentrated in the savings deposits component, which recorded consistent expansion during the year.

At end September 2002, the ratio of foreign currency deposits to total deposits increased to 25.6 per cent from 24.4 per cent at end September 2001. The change in the ratio during the year reflected the faster increase in foreign currency deposits relative to total deposits.

The twelve-month growth in M3J at end September 2002 was 12.6 per cent relative to 10.2 per cent at end September 2001. Increases were also noted in the twelve-month growth rates of M1J and M2J, which were 18.9 per cent and 11.0 per cent respectively at end September 2002 compared to 16.9 per cent and 9.8 per cent, respectively, at end September 2001. The respective twelve-month growth rates of M1*, M2* and M3* at 30 September 2002 were 19.2 per cent, 13.5 per cent and 14.4 per cent relative to 15.9 per cent, 10.6 per cent and 10.8 per cent, respectively in 2001. The annual growth in M3J in real terms was 5.2 per cent at the end of the review quarter, which was faster than the 3.4 per cent real growth in M3J at 30 September 2001.

The significant expansion in money supply during the twelve months to 30 September 2002, and the relatively modest increase in the monetary base reflected an increase in the money multiplier. A one-percentage point reduction in the cash reserves ratio to 9.0 per cent on 1 March 2002 as well as, a decline in the currency to local deposits ratio to 13.97 per cent at 30 September 2002 from 14.56 per cent at 30 September 2001, generated the increase in the money multiplier. The money multiplier increased to 4.67 at end September 2002 from 4.27 at end September 2001.

Table 1.3

Commercial Banks' Distribution of Loans and Advances (Flows J$M)			
	Sept. 01	Jun. 02	Sep-02
Agriculture	93.6	-20.4	-42.6
Mining	-1.3	-5.1	4.6
Manufacturing	295.9	140.0	199.4
Construction	198.2	417.2	426.9
Transport & Comm.	1 640.2	874.0	171.3
Tourism	147.7	330.4	949.6
Distribution	-164.0	-241.6	71.5
Professional	-820.4	487.0	121.4
Personal	1 542.5	896.0	711.3
Electricity	-118.9	1 002.4	457.6
Entertainment	-5.7	11.9	34.7
Overseas	-1.9	-9.1	15.4
TOTAL	**2 810**	**3 721**	**3121**

Private Sector Credit

Credit to the private sector remained buoyant during the September 2002 quarter. Loan concentration was mainly in the economic sectors of Tourism, Electricity and Construction and Land Development, while Personal loans also recorded significant expansion (See **Table 1.3**). Simultaneously, the quality of the commercial banks' loan portfolio continued to show improvements.

The stock of commercial bank credit to the private sector at end September 2002 totalled $44 715.9 million, an expansion of $3 121.1 million or 7.5 per cent during the review quarter. The outturn surpassed the target of 3.0 per cent outlined in the monetary programme but was slower than the 8.3 per cent growth recorded during the corresponding quarter of 2001. During the first six months of fiscal year 2002/03, the total expansion in the stock of private sector credit was $6 841.8 million or 18.0 per cent, exceeding the target of 8.1 per cent. The expansion also

Table 1.4

Commercial Banks' Private Sector Credit July - Sept. 2002					
	Stocks (J$M)			Change (%)	
	Sept. 01	June 02	Sept. 02	Sept. 02	12 mth.
Local	**26247.0**	**29 801.0**	**28 773.2**	**3.5**	**9.6**
Dev. Bank	1860.4	3 127.6	2 629.4	-15.9	41.3
Other Private	24836.6	26 673.4	26 143.8	6.0	7.2
Foreign	**9061.7**	**13 798.8**	**15 942.6**	**15.5**	**75.9**
Total	**35308.7**	**41 594.8**	**44 715.9**	**7.5**	**26.6**

Table 1.5

Commercial Banks' Private Sector Credit (Flows J$M)			
	Sept ' 01	June 02	Sept ' 02
Local	**823.0**	**1 187.5**	**977.2**
Dev. Bank	-113.7	761.5	-498.2
Other Private	936.7	426.0	1475.3
Foreign	**1986.8**	**2 639.9**	**2143.9**
Total	**2809.8**	**3 720.8**	**3121.1**

surpassed the $2 976.9 million or 8.8 per cent that was recorded for the corresponding quarter of the previous fiscal year.

The expansion in the stock of private sector credit during the quarter, continued to reflect a relatively strong demand for foreign currency loans. Credit denominated in foreign currency expanded by $2 143.9 million or 15.5 per cent, while local currency denominated credit increased by $977.2 million or 3.5 per cent (See **Table 1.4**). During the comparable period of 2001, foreign currency credit expanded by $1 986.8 million or 28.1 per cent. As a consequence, the ratio of foreign currency credit to total credit increased to 35.6 per cent at the end of the review quarter from 25.7 per cent at the end of the corresponding quarter of the previous year.

Growth in private sector credit was mainly to the *Tourism* sector. Credit to this sector expanded by $949.6 million during the review quarter relative to the comparable quarter in 2001, and accounted for 30.0 per cent of the total increase in private sector credit. This expansion was attributed to the rebound in the tourism sector. Other economic sectors that were large beneficiaries of credit were *Electricity*, $457.6 million, and *Construction* and *Land Development*, $426.9 million. Personal loans expanded by $711.3 million, but this increase was lower than that which was recorded during the corresponding quarter of 2001. During the first half of fiscal year 2002/03, with the exception of *Agriculture*, *Mining & Quarrying* and *Distribution* all other sectors recorded increases in credit.

Figure 1.4
Commercial Banks' Loan Rates (weighted average)

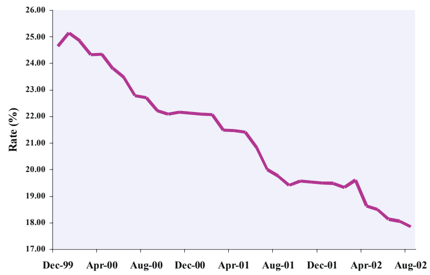
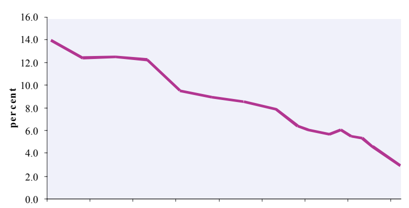


Table 1.6

Commercial Banks' Weighted Average Lending Rates (by loan type)	Mar 02	Jun 02	Sept. 02
Instalment Credit	26.75	25.4	25.1
Mortgage Credit	20.87	20.25	19.25
Personal Credit	23.83	26.85	26.63
Commercial Credit	16.67	15.94	15.69
Local Government & Other Public Entitites	11.29	14.51	14.8
Central Government	17.65	15.84	15.17
Overall Weighted Average Rate	**19.61**	**18.14**	**17.85**

Figure 1.5
Commercial Banks' Loans more than three months overdue to Total Loans December 1999 to September 2002



The growth in credit during the September quarter was driven by a $1 475.3 million or 6.0 per cent increase in credit from the commercial banks' own resources, as loans funded by the Development Bank of Jamaica (DBJ) declined by $498.2 million or 15.9 per cent (See **Table 1.5**). For the first half of fiscal year 2002/03, the loans financed by DBJ through commercial banks expanded by $263.4 million, compared to a contraction of $37.4 million during the first half of fiscal year 2001/02.

There was a decline in commercial banks' weighted average lending rate to 17.85 per cent at 31 August 2002 from 18.15 per cent at 30 June 2002 and 19.61 per cent at 31 March 2002 (See **Figure 1.4**). The reduction in the banks' weighted average lending rate for the first five months of 2002 was largely influenced by a decline of 248 basis points in the weighted loan rate of credit to Central Government. Concurrently, the weighted loan rate charged on Commercial Credit, which accounted for 47.5 per cent of total credit, reflected a marginal decline of 98 basis points to 15.67 per cent

There was an increase of 280 basis points in the interest rate charged on loans in the category Personal loans. Similarly, lending rates for Other Public Sector Entities increased by 351 basis points to 14.8 per cent.

The quality of the commercial banks' loan portfolio continued to show improvements as reflected in the ratio of past due loans to total loans which declined to 2.6 per cent at end September 2002 (See Figure 1.5). The lower ratio compares favourably to the 10.0 per cent international benchmark and the 7.9 per cent that obtained at end September 2001.

The steady growth in private sector credit during the quarter augurs well for increased real sector activity. It is envisaged that further expansion in lending activities will occur in an environment of increased competition among commercial banks.

Box 1: Building Societies' New Mortgage Loans July 2001 -June 2002

Introduction

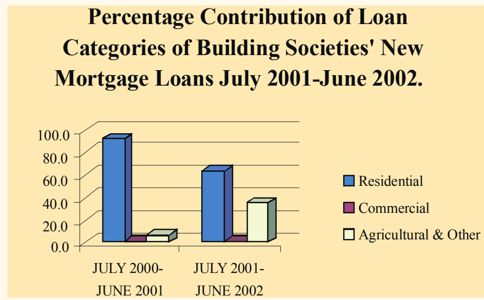
The restructuring of the financial system in Jamaica in the mid 1990s, brought about a reduction in the number of building societies to four in 2002 from ten in 1997 and fifteen in 1995. Of the four institutions, two have been in operation in Jamaica since the mid 1800s and are referred to as 'traditional' building societies. As at 30 June 2002, these building societies captured 90.4 per cent of the market's core business. The remaining two institutions were established in the 1990s and are referred to as the non-traditional building societies. Despite the reduction in the number of institutions in operation, the building societies sub-sector has continued to make a significant contribution to the provision of mortgage financing in Jamaica.

The industry recorded significant growth in mortgage lending during the period July 2001 - June 2002, with new mortgage loans totalling J$3 657.1 million. This represented an increase of J$1 336.2 million or 57.6 per cent increase relative to the corresponding period ending June 2001 (see **Table 1**). The traditional building societies accounted for nearly all of this increase, with the value of mortgages from these institutions increasing by 74.0 per cent.

The expansion in new mortgage loans for the industry was mainly in the residential category, which recorded an increase of J$990.2 million, 45.6 per cent higher than in the 2001 period (see **Figure 1**).

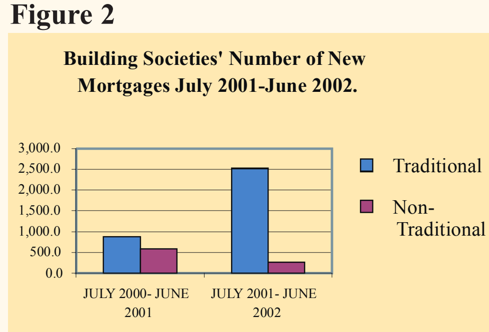
Mortgages in the Agricultural and Other category grew significantly, totalling J$410.8 million during the review period, 197.6 per cent higher relative to the corresponding period of 2001.

Figure 1



The number of new mortgages granted by building societies increased to 2 782 from 1 469 in the corresponding period of 2001(see **Figure 2**). Of this amount, the number of new mortgages granted by traditional building societies amounted to 2 516 or 90.4 per cent of total new mortgage accounts (see **Table 2**).

Figure 2



The expansion in new loan accounts could be attributed to the relatively lower cost of financing mortgage loans. At the end of June 2002, the weighted average interest rate on mortgage loans extended by building societies was 17.2 per cent, 140.0 basis points less than that which obtained at end June 2001.

For traditional building societies, interest rates on residential mortgage loans for first time homeowners were an average of 14.0 per cent during the review period. This was 81.0 basis points below the average interest rate charged by the other institutions.

The increase in the number of new mortgage accounts could also be attributed to increased access to funds from government lending agencies such as the National Housing Trust and the National Housing Development Corporation. These loan funds can be used by eligible borrowers to supplement loans received from building societies. As a consequence of this, the average size of mortgage loans extended by the industry declined to J$1.3 million from J$1.6 million in the corresponding period of 2001

Despite the increase in the number of new accounts, there was a reduction in the proportion of Building Societies savings fund that was allocated to mortgage loans. In this regard, the ratio declined to 41.5 per cent at 30 June 2002 from 42.7 per cent at 30 June 2001 (see **Table 3**).

The decline in this ratio implies that notwithstanding the observed expansion in new mortgage loans during the review period, the rate of expansion of savings grew faster than the expansion in mortgage loans. The institutions' assets were concentrated in relatively large holdings of investments. This was reflected in the gross investments to savings fund ratio, which increased to 76.3 per cent at 30 June 2002 from 74.1 per cent in the corresponding period.

The continued decline in mortgage rates augurs well for greater buoyancy in the building societies sub-sector. This decline should stimulate an increase in the effective demand for mortgages resulting in institutions returning to their core functions of mortgage lending. However, both supply and demand for mortgage loans will be dependent upon the rate of economic recovery.

TABLE 1

BUILDING SOCIETIES NEW MORTGAGE LOANS
JULY 2001-JUNE 2002

VALUE OF NEW ACCOUNTS J$'000

Loan Categories	JUN' 01	JUN' 02	CH	%CH
Residential	**2,170.6**	**3,160.8**	**990.2**	**45.6**
Traditional	1,601.3	2,535.8	934.5	58.4
Non-Traditional	569.3	625.0	55.7	9.8
Commercial	**12.3**	**85.4**	**73.1**	**596.5**
Traditional	9.5	83.4	73.9	779.0
Non-Traditional	2.8	2.0	-0.8	-29.0
Agricultural & Other	**138.0**	**410.8**	**272.8**	**197.6**
Traditional	134.9	400.0	265.1	196.5
Non-Traditional	3.1	10.9	7.8	247.6
Total	**2,320.9**	**3,657.1**	**1,336.2**	**57.6**
Traditional	1,735.2	3,019.2	1,284.0	74.0
Non-Traditional	585.7	637.8	52.1	8.9

TABLE 2

BUILDING SOCIETIES NEW MORTGAGE LOANS
JULY 2001-JUNE 2002

NUMBER OF NEW ACCOUNTS

Loan Categories	JUN' 01	JUN' 02	CH	%CH
Residential	**1,361**	**1,786**	**425**	**31**
Traditional	1,099	1,608	509	46
Non-Traditional	262	178	-84	-32
Commercial	**5**	**13**	**8**	**160**
Traditional	3	12	9	300
Non-Traditional	2	1	-1	-50
Agricultural & Other	**103**	**983**	**880**	**854**
Traditional	87	978	891	1,024
Non-Traditional	16	5	-11	-69
Total	**1,469**	**2,782**	**1,313**	**89**
Traditional	883	2,516	1,633	185
Non-Traditional	586	266	-320	-55

TABLE 3

BUILDING SOCIETIES NEW MORTGAGE LOANS
JULY 2001-JUNE 2002

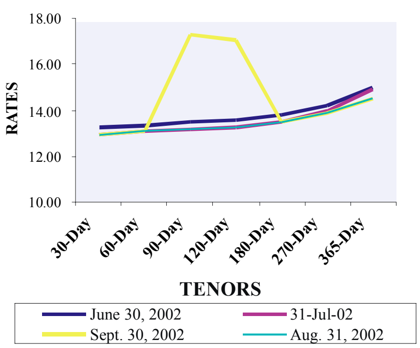
INDICATIVE RATIOS (%)

	JUN' 01	JUN' 02	CH
ADVANCE / SAVINGS FUND	**44.8**	**44.0**	**-0.8**
Traditional	43.1	43.3	0.2
Other	58.9	48.5	-10.4
MORTGAGE LOAN / SAVINGS FUND	**42.7**	**41.5**	**-1.2**
Traditional	40.8	40.5	-0.3
Other	58.9	48.5	-10.4
LIQUID ASSET / SAVINGS FUND	**30.0**	**25.7**	**-4.3**
Traditional	29.7	29.5	-0.2
Others	32.1	28.1	-4.0
current weighted mortgage%(market)	18.6	17.2	-1.4

Table 1.7

BOJ Repurchase Rates July - September 2002	10 July	11 July	07 Aug	09 Sep
30 Days	13.25	12.95	12.95	12.95
60 Days	13.35	13.05	13.05	13.05
90 Days	13.45	13.15	13.15	17.25
120 Days	13.55	13.25	13.25	17.05
180 Days	13.80	13.45	13.45	13.45
270 Days	14.20	14.00	13.85	13.85
365 Days	15.00	14.90	14.50	14.50

Figure 1.6
GOJ OMO Yield Curve



Bond Market

Conditions in the bond market were mixed during the September quarter. In the first half of the quarter, high liquidity and favourable foreign exchange market conditions allowed for a decline in money market rates. In keeping with this trend, the Central Bank reduced interest rates on two occasions during the first half of the quarter. However, towards the end of the quarter, the Bank effected an upward adjustment to selected rates in response to conditions that threatened to undermine the stability of the foreign exchange market and hence the inflation objective. The adjustment in the rates not only precipitated increases in private money market rates but also influenced a reduction in the price of Government instruments.

At the beginning of the review quarter, favourable trends in the financial markets and the moderation of inflation coupled with foreign exchange market stability facilitated a gradual easing of monetary policy. This was effected through a reduction in the entire spectrum of interest rates on 11 July 2002 and a further reduction in the 270-day and 365-day rates on 07 August (See **Table 1.7**). The latter policy action was geared at reducing the premium offered on the longer tenor in an effort to normalize the yield curve.

However, towards the end of the September quarter, a high concentration of Jamaica Dollar liquidity created an environment that threatened the stability of the exchange rate, and ultimately inflation. Consequently, the Bank increased interest rates on the 90-day and 120-day tenors by 410 basis points and 380 basis points respectively, while leaving the other tenors unchanged (See **Figure 1.6**).

Government offers first 30-year Bond

As a result, the stock of BOJ's 90-day instrument increased from 6.3 per cent at the end of the June quarter to 27.9 per cent at the end of the review quarter. Notwithstanding this increase, investments were mainly concentrated in the short-term 30-day tenor, although there was a decline by 17.7 percentage points over the previous quarter.

Table 1.8

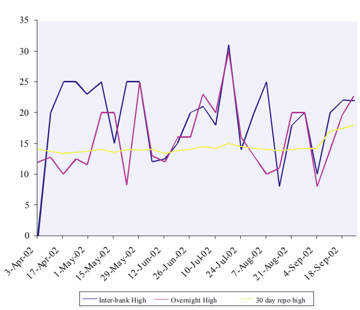
Placements in BOJ OMO Instruments Percentage of Total Placements* during June & Sept. Quarters		
	June Quarter (%)	Sept. Quarter (%)
30 Days	58.1	40.4
60 Days	6.1	7.4
90 Days	6.3	27.9
120 Days	1.9	4.6
180 Days	5.9	4.6
270 Days	2.5	1.7
365 Days	19.2	13.4

Sept. Quarters
** Excludes overnight transactions during the period.*

Table 1.9

Treasury Bills Auctions July - September 2002				
Issue Date	Tenor (days)	Avg.Yield (%)	Allotment (JS$M)	Amount Maturing (JS$M)
12 July	91	13.95	300	300
26 July	182	13.79	550	550
23 Aug	182	13.78	500	800
20 Sept	273	16.98	300	0.0
27 Sept	182	16.69	300	500
Total			**1950**	**2150**

Figure 1.7
Private Money Market Rates



Similarly, placements in the long-term 365-day tenor declined by 5.8 percentage points to 13.4 per cent as investors adjusted their portfolio to take advantage of the higher interest rate, particularly on the 90-day tenor (See **Table 1.8**).

During the quarter, the Banks' interest rate adjustments precipitated the downward movement in market rates in July and August and signalled higher rates in September. This was reflected in the average yield on the 182-day (equivalent of the 91-day) Treasury bill offered on 12 July declining from 14.19 per cent to 13.78 per cent at the auction on 23 August 2002. Subsequently, the average yields on the 182-day Treasury bill, however, increased by over 291 basis points to 16.69 per cent at the auction on 27 September (See **Table 1.9**).

Interest rates on Local Registered Stock (LRS) also increased towards the end of the quarter. In this regard, the average yield on 2-year LRS increased from 15.13 per cent at the auction on 5 July 2002 to 16.42 per cent at the auction on 13 September 2002, an increase of 129 basis points (See **Appendix 7B**).

In keeping with the Governments' debt management strategy of elongating the maturity profile of its instruments, there were two 30-year LRS instruments issued during the September quarter. These instruments had fixed coupon rates of 15.00 per cent and average yields of16.90 per cent and 17.18 per cent at the respective auctions on 30 August and 06 September 2002. There were six additional public LRS offers, which had maturities of seven years and more. Of these, three were for 7 years, two were for 12 years and one was for 15 years (See **Appendix 7B**)

The liquidity impact associated with the timing of these Government issues resulted in interest rates in the inter-bank, overnight and 30-day markets peaking at 31.00 per cent, 30.00 per cent and 15.00 per cent, respectively during the week ending 17 July 2002 (See **Figure 1.7**).

Government offers first 30-year Bond.

Concurrently, the offer of a private issue by the Government during this period, contributed significantly to the increase in short-term rates in the private money market. These rates, however, declined to 10.00 per cent, 8.00 per cent and 14.25 per cent during the week ending 4 September, but subsequently increased towards the end of the quarter.

Table 1.10

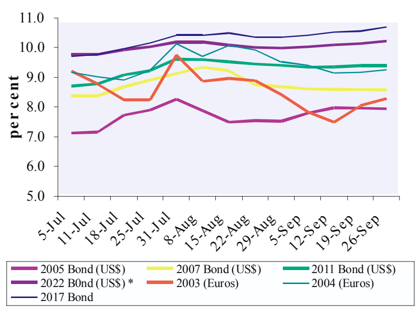
GOJ Public Domestic Debt Raising July - Sept. 2002

	Amount Allotted (J$M)	Amount Maturing (J$M)	Net Issue (J$M)
Treasury Bills	1 950.0	2 150.0	-200.0
LRS	5 700.0	9 120.8	-3 420.8
Debenture	4 223.9	6 853.3	-2 629.4
US$ Bonds	6 961.3	0.0	6 961.3
TOTAL	**18 835.2**	**18 124.1**	**711.1**

The Governments' financing activities via public auctions resulted in a net issue of J$711.1 million in Government of Jamaica (GOJ) domestic debt instruments (See **Table 1.10**). This reflected an issue of J$6 961.3 million in a US$ index bond, while there were net redemptions of J$3 420.8 million, J$2 629.4 million and J$200.0 million in LRS, Investment Debentures and Treasury Bills, respectively. The stock of Treasury Bills outstanding as at 30 September 2002 was J$4 350.0 million relative to the statutory ceiling of J$12 000.0 million.

During the quarter, there was a reversal of the decline in the yield on GOJ sovereign global bonds that was observed in the two previous quarters. This occurred within the context of the adverse developments in the emerging markets of Latin America especially the threat of debt default of over US$260.0 billion in Brazil.

Figure 1.8
GOJ Global Bond Yields

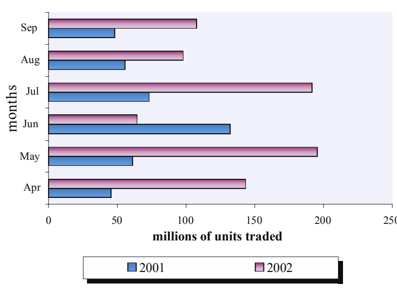


Consequently, the yields on all emerging market debt rose. However, investors demand for the GOJ global bonds on the secondary market was not as significantly affected, as the increase in average yields attracted local investors (See **Figure 1.8**). However, the eurobond instrument that was issued on 20 June 2002 was significantly affected by higher yields on emerging market debt, with an increase in average yield of over 99 basis points to close the quarter at 10.69 per cent.

Table 1.11

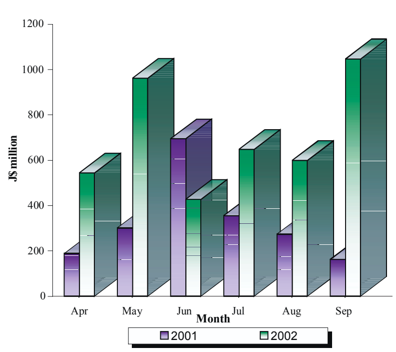
Top Ten Performers September 2001/September 2002	Open (J$)	Close (J$)	Change %
Manufacturing			
Montego Bay Ice	3.10	10.0	222.5
Desnoes & Geddes	3.93	7.50	90.8
Seprod	4.32	7.70	70.2
Other Services			
Palace Amusement	1.08	3.03	180.6
Pegasus Hotel	45.00	96.00	113.3
Kingston Wharves	1.15	2.10	82.6
Communications			
Radio Jamaica	1.10	3.25	195.5
Distributive Trade			
Courts	1.44	2.75	91.0
Conglomerates			
Grace, Kennedy & Co	21.63	40.00	84.9
Jamaica Producers	5.20	9.15	76.0

Figure 1.9
Average Volume Traded on the JSE for fiscal year 2002/2003 and 2001/2002



Source: Jamaica Stock Exchange

Figure 1.10
Average Value of Shares Traded on the JSE for fiscal Year 2002/03 and 2001/2002



Source: Jamaica Stock Exchange

Stock Market

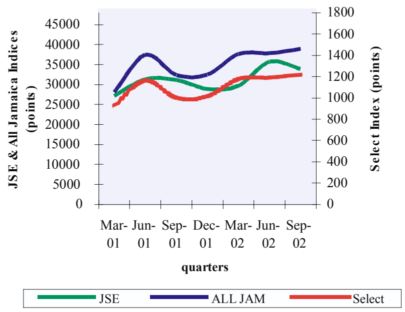
The Jamaica Stock Exchange (JSE) registered significant advances during the September 2002 quarter relative to the corresponding quarter in 2001. This strong performance was reflected in the positive trend of all indicators of market activity. The outturn for the September quarter was influenced by favourable liquidity conditions in the money market and a decline in real domestic interest rates, particularly at the beginning of the quarter. Gains in the share price of many listed firms also signalled positively to equity investors and supported an increase in trading activity.

On the other hand, market activity was moderated slightly by the upward adjustment in interest rates in September. However, this adjustment in interest rates was not sufficient to reverse the gains of the market during the early part of the quarter.

For the review quarter, the buoyancy in the stock market relative to the corresponding quarter of the previous year was reflected in a significant increase in trading activity. Average monthly volume traded more than doubled, increasing to 132.3 million units from 58.9 million units (see **Figure 1.9**). Correspondingly, average monthly value traded during the review quarter was $764.4 million, an increase of 190.2 per cent, from $263.4 million for the September 2001 quarter (see **Figure 1.10**). This performance in the review quarter is a continuation of the bullish trend in market activity observed from the June quarter. Relative to the June quarter, average monthly value traded increased by 18.7 per cent while average monthly volume traded remained unchanged.

As a consequence of increased market activity, the JSE Index at the end of the review quarter was 39 219.3 points, which represents a significant gain of 15.7 per cent relative to September 2001. Relative to the similar quarter in the previous year, the All Jamaica Composite Index and Jamaica Select Index advanced by 20.1 per cent and 21.6

Figure 1.11
Movements in the Jamaican Stock Indices in 2001 and 2002



Source: Jamaica Stock Exchange

per cent, to close at 38 933.1 points and 1219.06 points, respectively (see **Figure 1.11**).

The buoyancy in stock market activity was positively influenced by relatively liquid conditions in the domestic money market, particularly in the months of July and August. These favourable conditions, coupled with a moderation in the inflation outturn and relative stability in the foreign exchange market, facilitated the Central Bank's reduction of interest rates on certain tenors of its open market instruments (see **Bond Market**). The subsequent lowering of market interest rates on Government instruments provided an additional fillip to trading activity on the stock market. However, lower domestic interest rates were not sustained to the end of the quarter, as the Central Bank adjusted the rate on short-term open market instruments to smooth out burgeoning pressures in the foreign exchange market. These higher interest rates served to moderate trading activity towards the end of September. Nonetheless, the stock market outturn for the overall quarter remained generally strong and was supported by the positive momentum built up in the earlier months of the quarter.

The appreciation in the per cent for the review quarter, which compares favourably to 27.3 per cent for September 2001. Further, as shown in **Table 1.11** the top ten performing stocks realised price gains ranging from 70.2 per cent to 222.5 per cent for the review quarter relative to the corresponding period in 2001. Significant increases were recorded in the share price of listed firms in the manufacturing and communications sectors and conglomerates, such as Seprod, Radio Jamaica and Grace Kennedy. Increased financial strength as a result of improvements in earnings and efficiency, as well as, aggressive corporate growth strategies have contributed to greater interest in these firms. For example, Seprod has posted higher operating profits as a result of a reduction in administrative expenses and cost of sales.

Figure 1.12
Weighted Average Selling Exchange Rate (period average)

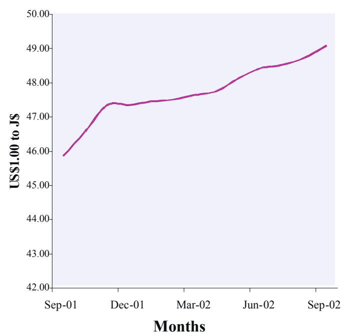


Figure 1.13a
Monthly Foreign Exchange Cash Inflows & Outflows

For the December quarter, the buoyant trend in the Jamaican stock market will face challenges from any increases in real domestic interest rates, which may result from pressures in the foreign exchange market. In this context, the debt raising activities of Government will be of paramount interest given its impact on liquidity in the financial markets.

Foreign Exchange Market

The relative instability that characterized the foreign exchange market in the June 2002 quarter continued into the September quarter (see **Figure 1.12**). The weighted average selling rate moved to US$1.00=J$49.27 at end-September from US$1.00=J$48.51 at end-June. This represented a depreciation of 1.5 per cent, compared with the depreciation of 1.9 per cent observed in the June 2002 quarter. Most of the depreciation took place in August and September, and accounted for 81.3 per cent of the depreciation during the quarter.

The instability in the foreign exchange market was influenced by a number of factors. Primary among these was the availability of higher than programmed Jamaica Dollar liquidity in a context of seasonally lower foreign exchange inflows (see Base Money). In addition, uncertainties associated with the General Elections, combined with the seasonal demand by importers, precipitated the exchange rate movement during the quarter.

In response to the pressures in the market, the Bank of Jamaica initially sold foreign exchange to ensure adequate US Dollar liquidity. However, the sharp movement in the exchange rate towards the end of the quarter led the Bank to tighten monetary policy in support of programmed inflation.

Preliminary balance of payments estimates for the review period showed that total outflows of foreign exchange from the economy exceeded total inflows by US$95.0 million (see **Figures 1.13a & 1.13b**). Relative to the corresponding

Figure 1.13b
Quarterly Foreign Exchange Cash Inflows and Ouflows

Figure 1.14a
Foreign Exchange Cash Inflows by Institutions

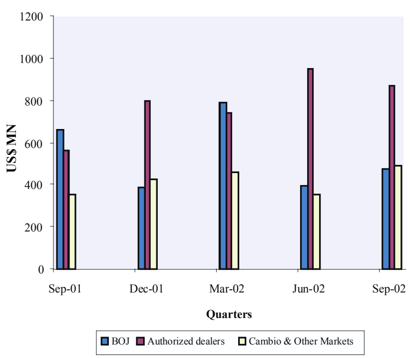
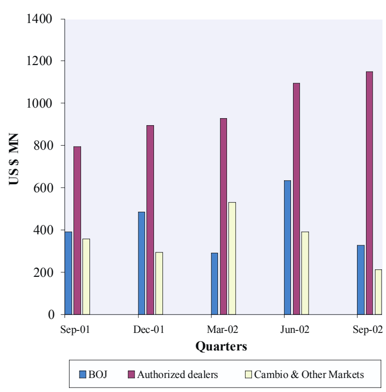


Figure 1.14b
Foreign Exchange Cash Outflows by Institutions



quarter in 2001, total outflows and inflows in the review quarter were estimated to have expanded by US$146.4 million and US$55.2 million to US$1 690.4 million and US$1 595.4 million, respectively.

The excess demand for foreign exchange in the review quarter emanated from higher end-user demand to facilitate imports, increased private capital outflows, as well as higher interest payments on Government debt, relative to the corresponding quarter in 2001. Although inflows improved during the review quarter largely reflective of a significant increase in private transfer inflows and an estimated 8.6 per cent growth in gross receipts from tourism, these inflows were not sufficient to counter the outflows of foreign exchange during the quarter.

Coinciding with the excess demand in the foreign exchange market, the authorized foreign exchange dealers (as distinct from Cambios) recorded net sales of US$277.0 million during the review period. Relative to the September 2001 quarter, total purchases increased by US$153.8 million to US$872.6 million, while total sales grew by US$355.2 million to US$1149.6 million (see **Figures 1.14a & 1.14b**). The growth in foreign exchange sales during the review quarter largely reflected increased end user demand to facilitate payments for imports and private capital transactions.

The Cambios recorded net inflows of US$79.6 million during the September 2002 quarter. This reflected respective increases in both purchases and sales of US$185.1 million and US$134.5 million to US$569.6 million and 490.1 million, respectively, relative to the comparable quarter of 2001.

The instability in the foreign exchange market was most pronounced in August and September, reflected in respective depreciation of 0.4 per cent and 0.7 per cent in the weighted average selling rate for the two months. For August, additional demand for foreign exchange was fuelled by excess Jamaican dollar liquidity in the system in the context of a perceived seasonal imbalance between the demand and supply for US Dollars. For September, pressures in the market emerged towards the end of the month, following a general appreciation in the exchange rate. This instability appears to have been related to the uncertainties surrounding the General Elections, the usual seasonal increase in end user demand, as well as the persistence of excess liquidity in the money market. In this context, inter dealer transactions increased by more than US$60.0 million for September, relative to August, exceeding the increase of approximately US$40.0 million in sales to end users.

In response to the pressures in the foreign exchange market, the Bank of Jamaica sold foreign exchange, as well as increased interest rates. Consistent with the relatively active posture of the Bank in the foreign exchange market during the review quarter, the NIR declined by US$95.0 million to US$1 687.3 million at end-September 2002 (See **Table 1.12**). As a result, gross reserves at end-September 2002 amounted to US$1 738.6 million, representing 19.4 weeks of estimated goods and services imports, compared with the international benchmark of 12.0 weeks.

Table 1.12

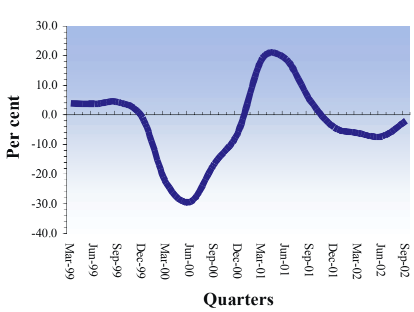
Net International Reserves (US$M)		
	Stock	**Change**
Jun-01	1 540.5	59.9
Jul-01	1 526.2	-14.4
Aug-01	1 599.0	72.8
Sept-01	1 536.7	-62.3
Oct-01	1 477.5	-59.2
Nov-01	1 477.0	-0.4
Dec-01	1 840.7	363.7
Jan-02	1 848.7	7.9
Feb-02	1 820.9	-27.8
Mar-02	1 941.7	120.8
Apr-02	1 899.8	-41.9
May-02	1 810.6	-89.1
Jun-02	1 782.3	-28.4

Growth accelerates in September 2002 quarter.

Table 2.1

SECTORIAL CONTRIBUTION TO GROWTH Jul - Sept 2002	
SECTOR	**Estimated Direction of Change**
GOODS	+ve
Agriculture Forestry & Fishing	-ve
Mining & Quarrying	-ve
Manufacturing	+ve
Construction & Installation	+ve
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 Institutions	+ve
TOTAL GDP	+ve

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



Economic growth accelerated in the review quarter, relative to the first half of the calendar year. This occurred in spite of the adverse impact of flood rains in the last week of September. Growth was estimated in both the goods and services sectors (see **Table 2.1**). In the goods sector, growth was largely reflected in the construction sector and to a lesser extent, in the manufacturing sector. The services sector grew appreciably due to continued expansion in the transport storage and communication sub-sector, and some recovery in tourism. The growth in economic activity reflected estimated increases in private and public sector consumption, as well as investments, which was partially offset by a deterioration in net external demand.

Aggregate Supply for the September Quarter

In the goods producing sector, growth was recorded in the manufacturing and construction sectors, while the agricultural and mining sectors experienced contractions.

The estimated contraction in agriculture reflected a reduction in domestic agriculture (see **Figure 2.1**), which was partially offset by an expansion in export agriculture (see **Figure 2.2**). The decline in domestic agriculture reflected the compounded impact of two tropical systems in September 2002, as well as the lagged effects of the rains in May 2002. Preliminary information from the Rural Agricultural Development Agency (RADA) indicated that approximately 2 417 hectares of crops were damaged and approximately 12044 farmers were affected as a result of the flood rains during September. The crops that were most significantly affected were vegetables and ground provisions, with losses estimated at J$286.4 million.

The marginal growth in export agriculture was largely reflective of the performance of the sugar industry. Due to the late reaping of the 2002 crop, the volume of sugar cane produced increased by 25.8 per cent in the quarter, relative to the September 2001 quarter. Banana cultivation on the

Figure 2.2
Export Agriculture
(Change over corresponding quarter)

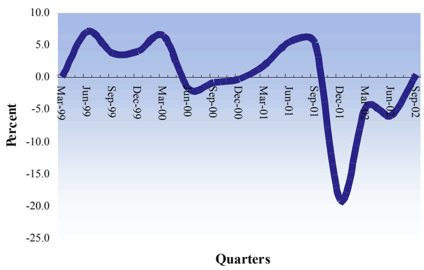


Figure 2.3
Trends in Alumina Production
(12-Month change)

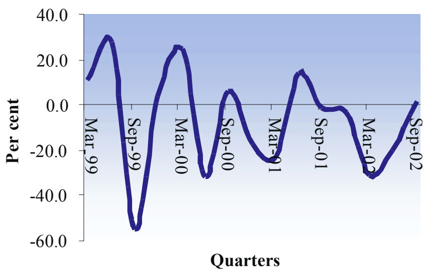


Figure 2.4
Trends in Crude Bauxite Production
(12-Month change)

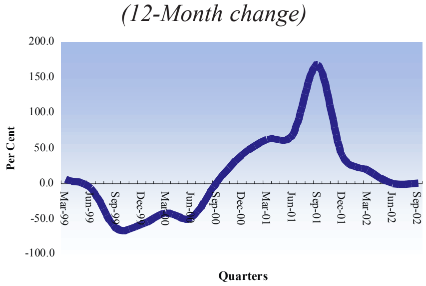
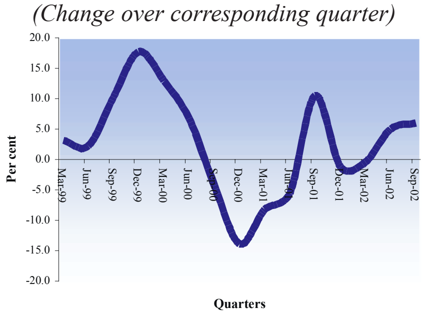


Figure 2.5
Cement Sales
(Change over corresponding quarter)



other hand was adversely affected by the weather conditions. In particular, it is estimated that small and medium sized producers lost approximately 20 per cent of their crops. Coffee exports were also reportedly affected by the September 2002 rains. Within the livestock sub-sector, preliminary estimates indicate losses of approximately $18.0 million, primarily from poultry.

Value added in the mining sector is estimated to have fallen in the September 2002 quarter, relative to the September 2001 quarter. This contraction was inferred from declines of 3.6 per cent and 1.5 per cent in crude bauxite and alumina production, respectively, relative to the September 2001 quarter (see **Figures 2.3 & 2.4**). The rains hampered production in some of the plants, albeit for no more than one or two days.

The manufacturing sector is estimated to have grown marginally in the review quarter, relative to the corresponding quarter of the previous year. This assessment is based on an estimated growth in the petroleum refinery, food processing and the sugar molasses & rum sub-sectors, respectively. However, an estimated decline in the textile & wearing apparel, alcoholic and non-alcoholic beverages industries partly offset the performance of the sector. Notwithstanding the overall growth in the food-processing group, production in this industry was adversely affected by the September rains.

There was continued growth in the construction & installation sector in the September 2002 quarter. There was an expansion of 35.7 per cent in real loans to the sector, relative to end September 2001. In addition, the National Works Agency (NWA) continued to repair roads that were damaged by the flood rains in May 2002.

The basic services sector, which comprises electricity & water and transport, storage & communication sub-sectors, is estimated to have grown in the review quarter. For the electricity & water sector, an expansion was inferred from an estimated increase of 2.8 per cent in total electricity sales, relative to the comparable quarter in 2001 (see **Figure 2.6**).

Figure 2.6
Electricity Sales
(Change over corresponding quarter)

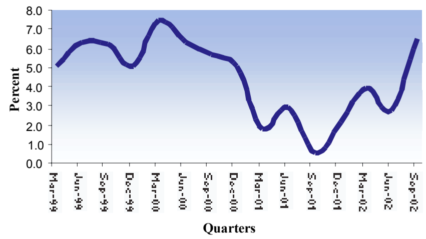


Figure 2.7
Merchandise Imports
(Change over corresponding quarter)

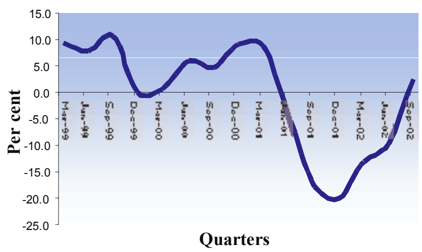
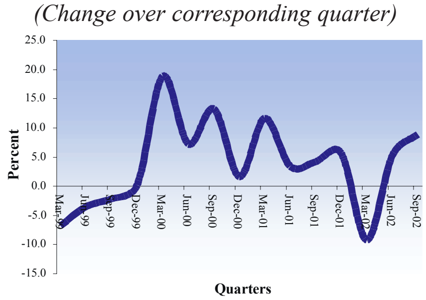


Figure 2.8
Visitors Expenditure
(Change over corresponding quarter)



In relation to the transport, storage & communication sub-sector, there was an increase in value added during the review quarter, primarily due to growth in the communication sub-sector. The increased activity reflects the continuation of investments in the products and services offered by the major companies in the industry.

Economic activity in the distribution sector during the review quarter is estimated to have grown marginally, relative to the September 2001 quarter. The performance of the sector was dampened by the contraction in the agricultural sector, in conjunction with the damage to the road infrastructure. On the positive side, the real stock of loans to the sector increased by 9.6 per cent, relative to the growth of 2.1 per cent recorded in the June 2002 quarter, suggesting an improved outlook for the sector (see **Figure 2.7**).

The miscellaneous sector, which includes hotels, restaurants and clubs, is estimated to have expanded in the review quarter, relative to the similar quarter in 2001. Growth in the hotels, restaurants and clubs sub-sector is inferred from estimated increases of 7.9 per cent and 8.6 per cent in visitor arrivals and expenditure, respectively, relative to the same quarter of the previous year (see **Figure2.8**). Among visitor arrivals, foreign nationals and non-resident Jamaicans expanded by 7.8 per cent and 5.2 per cent, respectively. Additionally, preliminary data indicate that cruise passenger arrivals grew by 8.5 per cent in the quarter, relative to the September 2001 quarter. The improvement in the travel sub-sector contrast with the depressed performance of the sector in the September 2001 quarter in the context of the July social disturbance, the events of 11 September, and the general retardation in world growth.

Aggregate Demand for the September Quarter

Preliminary estimates of aggregate demand suggest that there was an expansion in real consumption spending during the September 2002 quarter, relative to the corresponding quarter last year. This expansion was evident in both private and public consumption, as

Figure 2.9
Trends in GCT Intake
(Change over corresponding quarter)

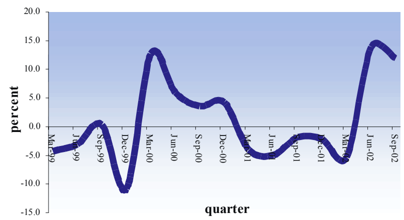


Figure 2.10
Trends in Public Consumption
(Change over corresponding quarter)

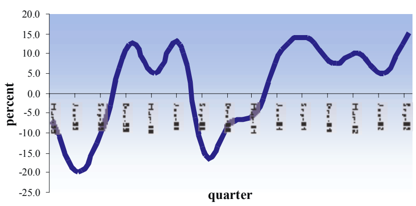


Figure 2.11
Trends in Private Investment
(Change over corresponding quarter)

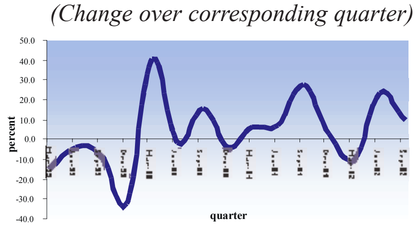


Figure 2.12
Trends in Public Investment
(Change over corresponding quarter)

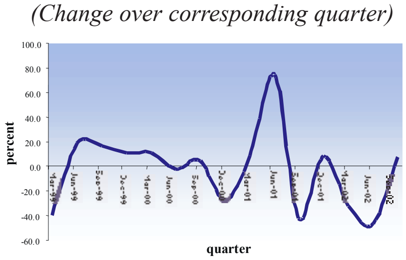
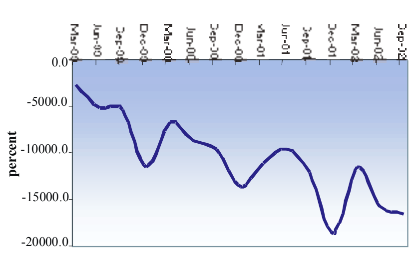


Figure 2.13
Trends in Net External Demand



reflected in Central Government's General Consumption Tax (GCT) revenues and expenditure on wages, salaries and programmes. The GCT intake is estimated to have increased in real terms by approximately 12.0 per cent in the review quarter (see **Figure 2.9**). This growth represents a significant departure from the trend growth rate in GCT revenues, and might be related in part to increased compliance. With respect to public consumption (see **Figure 2.10**), an expansion in the September 2002 quarter was indicated by an increase of 19.9 per cent in real Government spending on programmes and wages & salaries.

Indicators of real investment demand during the quarter suggest an expansion in private investment expenditure, relative to the corresponding period of fiscal year 2001/02 (see **Figures 2.11 and 2.12**). Public capital expenditure increased in real terms by approximately 8.0 per cent in the review quarter. This estimate however, excludes the public sector projects initiated through the private sector.

There was an estimated decline in net external demand during the review quarter when compared to the September 2001 quarter (see **Figure 2.13**). This decline is predicated on higher estimated imports in conjunction with an estimated decline in the value of exports during the quarter. The expansion in imports reflected an increase in raw material imports for construction-related purposes, as well as an expansion in the value of fuel imports, while the decline in exports was largely due to a fall in the value of alumina exports. However, this was partially offset by an increase in net travel receipts due to a mild recovery of the tourism sector from the effects of events of 11 September 2001.

In summary, there was an appreciable expansion in economic activity in the September 2002 quarter, despite the impact of adverse weather conditions during the period. The growth in economic activity reflected estimated increases in both private and public sector consumption, as well as investments, which was partially offset by a deterioration in net external demand.

Figure 3.1
Inflation rate
(June & Sept Comparison)

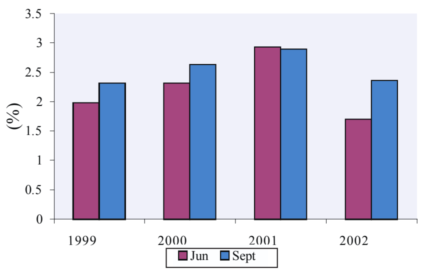


Table 3.1

Decomposition of Inflation Outturn July - Sept 2002/03	Inflation (%)	Contribution (%)
Non-Core Shocks	**1.59**	**67.2%**
Other Housing Expenses	0.27	11.4%
Food & Drink	1.20	51.0%
Starchy Foods	0.41	17.3%
Vegetables & Fruits	0.79	33.7%
Other	0.11	4.8%
Core	0.76	32.8%
TOTAL	**2.36**	**100.0%**

The inflation rate for the September 2002 quarter was 2.4 per cent, marginally below the Bank's projections[3]. Although this rate exceeded the inflation rate in the preceding quarter, largely reflecting seasonal patterns it was less than that of the corresponding quarter of 2001 (see **Figure 3.1**). The Consumer Price Index (CPI) increased by 1.5 per cent, 0.4 per cent and 0.4 per cent in July, August and September, respectively. Inflation was strongest in the Rural Areas and weakest in the Kingston Metropolitan Area (KMA). Approximately 67 per cent of the inflation experienced during the quarter was due to non-core factors, largely food and drink. Core inflation is estimated to have fallen to 0.76 per cent from 0.86 per cent estimated for the June quarter and 1.11 per cent for the corresponding quarter of 2001/02.

Inflation for the first six months of the 2002/03 fiscal year slowed to 4.1 per cent relative to the 5.7 per cent recorded for the 2001/02 period. The lower inflation for the first half of this fiscal year was mainly associated with a lower than customary June quarter consequent on the delayed recovery of agriculture following the November 2001 rains. This delay shifted agricultural production from the December quarter into the March quarter, thereby sustaining favourable agriculture price movements into the middle of the June quarter. This resulted in an overall dampening of inflation as agriculture commodities account for the largest portion of the CPI basket (11.75 per cent) outside of Meat, Poultry and Fish. The impact of these favourable supply conditions on prices was reinforced by lower monetary impulses.

Monetary Policy and Inflation

A decomposition of headline inflation for the quarter indicated that factors, which can be attributed to monetary policy accounted for approximately 32.8 per cent of the outturn (see **Table 3.1**). Underlying inflationary impulses

[3] *See June edition of the Quarterly Monetary Policy Report*

Figure 3.2
Core Inflation per Quarter

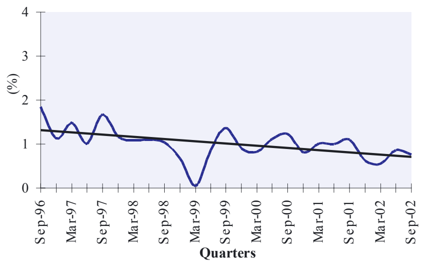


Figure 3.3
Lagged Base Money & Core Inflation

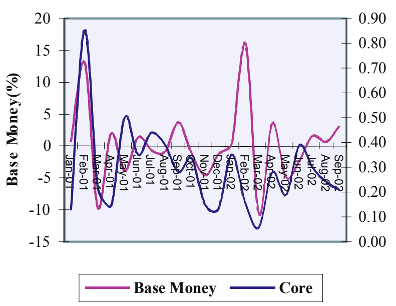
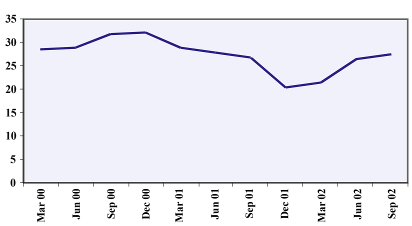


Figure 3.4
Average WTI Crude price (US$) per barrel



continued to be moderated by lower growth in the monetary base. In particular, the contraction in the monetary base during the June quarter facilitated the relatively low core inflation in the review quarter.

Underlying inflation in August fell to 0.24 per cent from 0.30 per cent in July and fell even further to 0.21 per cent in September, reflecting the tightened monetary conditions in the June quarter. For the review quarter, core inflation was 0.76 per cent, below the estimate of 1.11 per cent recorded in the September 2001 quarter. This containment of underlying inflation partly explains the stable headline inflation relative to September 2001, despite the adverse supply shocks.

Other Factors

Non-core factors accounted for 67.2 per cent of inflation in the September quarter. The major factors influencing the non-core component of inflation during the period were seasonally generated fluctuations in agriculture supply and increases in school-related expenses. The latter reflected the influence of an approximate 11.0 percent increase in preparatory school fees for the new school term. The other major factors of note relate to the trends in international commodity prices such as crude oil and grains.

The significant role played by the agricultural components in Jamaica's inflation outturn in the September 2002 quarter and for the first half of the fiscal year, underscores a susceptibility to the vagaries of nature and the volatility of agricultural prices. For the quarter and fiscal year to date, the CPI without agriculture has increased by 0.9 per cent and 2.1 per cent, respectively. For the same periods, the core index has increased by 0.8 per cent and 1.6 per cent. This suggests that minimizing agricultural supply volatility would enable the attainment of headline inflation rates more convergent with the Bank's measure of underlying inflation.

Inflation is generally highest in the September quarter, reflecting the production cycle of major agriculture

Figure 3.5
Exchange Rate Movements

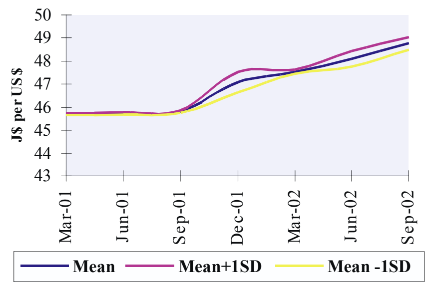
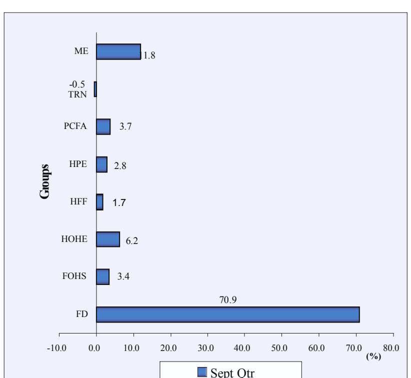


Figure 3.6
Contribution to Inflation



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

commodities such as tubers and vegetables. The effects of extensive rainfall in May and June exacerbated this pattern, as its adverse impact on agriculture prices extended into the first two months of the review quarter, albeit to a lesser degree.

Consequently during the quarter, the Food & Drink group was the main impulse to prices wherein there were expansions of 8.8 per cent and 13.3 per cent in the Starchy Foods and Vegetables & Fruits sub-groups. While the Food & Drink sub-index accounted for approximately 71 per cent of the inflation outturn for the quarter, these two sub-groups accounted for more than three quarters of this (see **Figure 3.6 and Table 2, Appendix C**).

Also of significance in the Food & Drink group were the Meat, Poultry & Fish and Baked Products, Cereals & Breakfast Drinks sub-groups, which were influenced by increases in the international price of grains. The impact on meat prices arose chiefly from the use of grains as inputs in animal feeds.

The second most important influence on prices over the quarter was seasonally higher school fees and related expenses as each year since 1994, school fees have increased significantly in the month of September. However, the 11.0 per cent increase in tuition fees was less than the seasonal pattern established in the last eight years. This is consistent with declining inflation expectations and a more competitive environment.

Furthermore, in an increasingly competitive environment, it can be expected that price increases will occur by and large on items with low price elasticities of demand.

Largely as a result of the increase in preparatory school fees the Miscellaneous Expenses group increased by 3.4 per cent during the quarter accounting for 11.8 per cent of the inflation outturn for the quarter. The influence of international commodity prices on domestic inflation was noticeable in the September quarter, in contrast to the first

Table 3.2

International Prices of Selected Commodities (US$) Quarterly Averages				
Commodity	Units	July -Sept 2001	Apr Jun 2002	July Sept 2002
Vegetable Oils				
Coconut Oil	$/mt	347.7	425.7	432.7
Groundnut oil	$/mt	665.7	648.0	655.3
Soybean Oil	$/mt	404.3	401.7	489.0
Grains				
Soybean meal	$/mt	184.3	169.0	177.0
Soybean	$/mt	207.3	197.3	227.0
Maize	$/mt	91.7	90.5	107.3
Sorghum	$/mt	94.7	89.2	110.5
Wheat Canada	$/mt	148.0	143.7	190.1
Rice (A1)	$/mt	142.1	148.6	149.8
Exports				
Sugar, EU	¢/kg	52.57	53.42	56.61
Sugar, US	¢/kg	46.78	43.74	46.41
Sugar, World	¢/kg	17.96	13.72	14.43
Fertilizers				
TSP	$/mt	124.4	132.3	132.1
Potassium Chlor.	$/mt	117.5	112.9	112.5

Table 3.3

Regional Distribution of Inflation July - Sept 2002			
Groups/Subgroups	KMA (%)	Other Towns (%)	Rural (%)
FOOD & DRINK	**2.0**	**3.4**	**3.9**
- Meals Away	0.9	0.8	1.5
- Baked Products	0.4	0.8	0.8
- Starchy Foods	1.0	9.2	12.7
- Vegetables & Fruits	13.9	16.8	10.9
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.9**	**0.7**	**1.0**
- Household Supplies	0.0	0.5	1.2
HOUSING & OTHER HOUSING EXPENSES	**1.7**	**2.1**	**2.0**
- Other Housing Expenses	1.9	2.1	2.0
HOUSEHOLD FURNISHINGS & FURNITURE	**1.8**	**0.8**	**1.5**
- Furnishings	0.8	2.9	3.1
HEALTHCARE & PERSONAL EXPENSES	**1.2**	**0.5**	**0.6**
PERSONAL CLOTHING FOOTWEAR & ACC.	**2.8**	**1.7**	**0.4**
TRANSPORTATION	**-0.3**	**0.1**	**-0.2**
MISCELLANEOUS EXPENSES	**3.4**	**2.1**	**4.8**
ALL GROUPS	**1.9**	**2.4**	**3.0**

half of 2002. Although there was stability in some commodity prices, most experienced increases (see **Table 3.2**).

International oil prices increased by 7.8 per cent during the September quarter relative to 22.5 per cent in the preceding June quarter. The increase was mainly influenced by the oscillating political tensions in the Middle East. Simultaneously, in this sensitive environment, the market has responded to variations in output by OPEC and promises to bolster the supply of oil in the event of war. The benchmark West Texas Intermediate (WTI) crude oil price rose to an average of US$28.33 per barrel in the September quarter, from an average of US$26.27 per barrel in the June quarter. In the September 2001 quarter the average price of WTI crude oil was US$26.60 per barrel, declining from US$27.84 per barrel in the June quarter.

These increases in international oil prices, as well as the movements in the exchange rate, affected the variable components of electricity bills, which were the main factors behind the increase in the Housing & Other Expenses sub- index. Largely as a consequence of this, the Housing & Other Expenses sub-index increased by 1.8 per cent and was responsible for 6.2 per cent of the inflation outturn for the quarter. The billed fuel rate of the JPSCo, which relates directly to the price of oil on the international market, increased by 7.2 per cent over the quarter and accounted for more than 71.0 per cent of the higher electricity bills faced by the Residential consumer.

Regional Distribution of Inflation

During the review quarter, inflation was strongest in the Rural Areas. Within this region, the CPI increased by 3.0 per cent relative to 1.9 per cent in the Kingston Metropolitan Area (KMA) and 2.4 per cent in the Other Towns (see Table 3.3). In the previous quarter, the CPI increased by 1.4 per cent in the KMA, 2.1 per cent in the Other Towns and 1.7 per cent in the Rural Areas.

Regional Distribution of Inflation

The regional distribution of inflation in the September quarter primarily reflects the influence of the *Food & Drink* and *Miscellaneous Expenses* sub-indices. Within the Food & Drink group, the *Meals Away from Home* and the *Starchy Foods* sub-groups explained the pattern exhibited by the group. For the *Meals Away from Home* category, there were increases in the prices of certain pastries in the Rural Areas that was not replicated in the other regions. For the Starchy Foods sub-group, the price increases in the Rural Areas were greater than those observed in the Other Towns and the KMA. For the *Miscellaneous Expenses* group, the inequality noted was due to higher increases in the cost of cigarettes and legal services in the Rural Areas.

Summary

Higher agricultural prices provided the most significant impetus to inflation during the quarter. This resulted from excessive rainfall which compounded the lower seasonal output associated with this quarter. Despite the seasonally higher headline inflation rate for the review quarter, core inflation remains within a stable range of less than 1.0 per cent per quarter. This trend reflects the continued efforts of the Central Bank to maintain stable monetary conditions.

Box 2: An Overview of the CARICOM Single Market and Economy (CSME)

The proposed CARICOM Single Market and Economy (CSME) is an integration arrangement that allows for the unrestricted flow of goods, services, capital and CARICOM Nationals across national borders within the Caribbean region, as well as the harmonization of fiscal, trade, monetary and exchange rate policies among CARICOM states. It entails the creation of a more unified Caribbean economy and market that is expected to provide the necessary support mechanism for CARICOM states to compete in a changing global economic environment.

The main objective of the CSME is to foster the growth and development of CARICOM states, through greater cooperation in the production and distribution of goods and services. The CSME will also facilitate an increase in market size and promote economies of scale. In this context, it is expected to facilitate greater specialization in the production of goods for the world market and further enhance productivity in the supply of services within the Community. The CSME is expected to provide access to a market of approximately 6.1 million people, with land area of approximately 421,000 km² and an estimated gross domestic product of US$14.8 billion (in 1996).

Renewed interest in the CSME was sparked when, at the Heads of Government meeting in Belize in February 2002, the decision was taken to advance the pace of its implementation. The objective is to establish the single market and economy ahead of the creation of the Free Trade Area of the Americas (FTAA) in 2005. The thirteen member states are currently working to implement the key elements of this agreement, while the private sector in some countries appear to have embraced the accelerated effort at regional economic integration.

The CSME will be legally established through amendments to the Treaty of Chaguaramas by way of nine protocols. The revised treaty covers provisions for new institutional arrangements, right of establishment, provision of services, the movement of capital and labour, industrial, trade, agriculture and transportation policies. In addition, the treaty makes provisions for disadvantaged countries, regions and sectors, competition, consumer protection, and dispute settlement.

The Protocols[4]

1. Antigua & Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname & Trinidad & Tobago. The Bahamas and Haiti are members of Caribbean Community but are not a part of the CSME.

2 The Treaty of Chaguaramas is the Treaty that established the Caribbean Community (CARICOM). It was signed at Chaguaramas, Trinidad, on 4 July 1973.

3 The Treaty of Chaguaramas defines disadvantaged countries as Less Developed Countries (OECS states and Belize); or member states that require special support measures by reason of: impairment of resources resulting from natural disasters; temporary low levels of economic development; Highly Indebted Poor Countries; and the adverse impact of the operation of the CSME.

4 For further information, please see CARICOM. Working Document for the Second Special Consultation on the CARICOM Single Market and Economy. November 2000.
Establishment of the CARICOM Single Market and Economy (CSME). Ministry Paper No.51, 1999.

Protocol I of the revised treaty establishes the institutional framework for the governance of the single market and economy. The CSME is headed by the Conference of the Heads of Government. The Conference is supported by a Community Council of Ministers and four specialized Ministerial Councils responsible for trade and economic development (COTED), finance and planning (COFAP), foreign and community relations (COFCOR) and human and social development (COHSOD). Complementing this ministerial structure are subsidiary technical bodies that are responsible for legal affairs, budgetary matters and economic and monetary union.

The right of establishment, provision of services and the movement of capital are the key issues addressed in *Protocol II* of the revised Treaty. This Protocol is one of the defining features of the CSME and represents a significant departure from the provisions of the original treaty. It provides for the removal of restrictions on the movement of capital and services within CARICOM and allows CARICOM nationals the right of establishment of businesses, agencies, branches and subsidiaries within the Community.

Protocol III addresses issues pertaining to the Community's industrial policy, which promotes the integration of production processes across member states. The aim is to optimize the use of the region's resources, thereby enhancing its international competitiveness in the production of goods and services. One of the defining features of Protocol III is the establishment of the CARICOM Regional Organization for Standards and Quality (CROSQ). This organization is responsible for the development of standards within the region and will participate in negotiations on standards at the international level.

Protocol IV addresses CARICOM's regional trade policy. It aims to further liberalize the trade in goods among CARICOM member states. This Protocol also incorporates previous provisions regarding the movement of goods, rules of origin to determine eligibility for Community treatment and the policy with respect to third states.

The Agricultural Policy of the Caribbean Community is addressed in Protocol V, while *Protocol VI* seeks to provide adequate, safe and internationally competitive transport services for the CSME. *Protocol VII* outlines the support facilities for disadvantaged countries, regions, sectors and industries that may be affected by the operation of the CSME. It is envisioned that such support mechanisms will include transitional arrangements, financial assistance and investment programmes, among others.

Protocol VIII addresses issues relating to competition policy, consumer protection, dumping and subsidies. It establishes the rules of competition within the common market to ensure that the benefits intended by the CSME are not eroded by unfair business practices. The Protocol also sets out the rules for the protection of the consumers in the

CSME, and outlines the procedures to address unfair trading practices.

Protocol IX addresses issues relating to the settlement of disputes within the Caribbean Community. It provides for the settlement of disputes through mediation, consultations, conciliation, arbitration and adjudication. One of the key elements of the Protocol is the establishment of the Caribbean Court of Justice (CCJ), which has compulsory and exclusive jurisdiction to hear and adjudicate disputes concerning the interpretation and application of the Treaty.

Status of Implementation of CSME

Member states are currently working to implement the key elements of the CSME. The majority of member states (12) have signed the Revised Treaty of Chaguaramas, the Agreement Establishing the CCJ and the Agreement Establishing CROSQ.

As it relates to the free movement of goods, the majority of member states (10) have implemented the Rules of Origin and the revised Common External Tariff (CET)[5] . In addition, member states are currently reviewing all import duties and licensing requirements, with a view to eliminating them.

In terms of the free movement of services and capital, all member states with the exception of Montserrat have agreed to schedules of commitments for the removal of restrictions. Work is also under way in the area of capital market integration, with Jamaica, Barbados and Trinidad and Tobago allowing cross listing and trading on their stock exchanges. With regard to the free movement of persons, eleven (11) member states have implemented the CARICOM Skilled National Bill, while five (5) have explicit legal provisions for free movement of university graduates, media workers, artistes, musicians and sports persons (see **Table 1**).

Jamaica is significantly advanced in implementing the key elements of the CSME. From as early as 1997, Jamaica waived the work permit requirements for skilled CARICOM professionals. With the exception of Haiti, CARICOM citizens are also allowed entry without visa requirements. The liberalisation of the capital account in 1990 and the subsequent adoption of the floating exchange rate system essentially removed all restrictions on capital flows in Jamaica. The financial sector has been progressively liberalised from as early as 1986. Subject to prudential requirements, foreigners, including CARICOM nationals, are free to establish and/or operate banking institutions in the country. While the treaty of Chaguaramas has been signed, Jamaica is yet to ratify its provisions in parliament.

The pace of implementation of the CSME may be slowed, however, by a recognition of the potential costs associated with the single

5 Heads of Government agreed in 1992 to establish a rate structure of 0-20 percent by 1 January 1998, through a phased reduction of the CET.

market and economy. The most significant are those related to the synchronisation of economic policies and the heterogeneous nature of the economies of member states. Given differing policy needs among regional economies, the overall policy framework may not satisfy all members simultaneously. None-the-less, the prospects of enhanced regional economic stability and growth far outweigh the possible costs of the CSME. As the process towards implementation of the CSME is accelerated, on-going discussions between the private sector and governments are essential to ensuring its success.

Table 1

ELEMENTS	STATUS	Jamaica's Readiness Y=compliant N=non-compliant
TREATY REVISIONS		
Signature of Revised Treaty of Chaguaramas	12 Member States have signed Revised Treaty	Y
Ratification and accession	St. Vincent & the Grenadines is the only state to ratify Revised Treaty	N
Enact Treaty into Domestic Law	No Member State has enact Treaty into Domestic Law	N
Free Movement of Goods		
Implementation of Rules of Origin structured on 1996 HS	10 Member States have implemented Rules of Origin	Y
Implementation of Revised Structure of CET	10 Member States have implemented Revised CET	Y
Free Movement of Capital and Services		
Programme for the Removal of Restrictions on the Provisions of Capital and Services	Member States have agreed to Schedules of Commitment for the removal of restrictions	Y
Implementation of Skills Legislation	11 Member States have implemented CARICOM Skilled National Bill	Y
Free Movement of Persons		
Legislative arrangements for the free movement of university graduates, media workers, artistes, musicians and sports persons	6 Member states have explicit legal provisions for free movement of university graduates, media workers, artistes, musicians and sports persons	Y
Elimination of Intra-CARICOM visa requirements	12 Member States do not require visas from CARICOM Nationals. St. Kitts & Nevis require visa for Suriname nationals	Y

4. Economic Outlook and Monetary Policy Perspectives

The near term prospects for the economy will depend critically on the pace at which expectations of depreciation in the exchange rate subside, and the rate of contraction in public sector demand. The latter, to a large extent, will be determined by the strength of recovery in the real sector. Notwithstanding, sectoral performance in the second half of the fiscal year is likely to be stronger than in the first half. This will be reflected mainly in the mining and the miscellaneous services sectors of the economy. Monetary policy over the quarter will focus on maintaining a stable economic environment, in particular the containment of inflation.

Table 4.1

Jamaica's Economic Performance Targets		
	Dec 2002	**FY02/03**
Inflation		
Base Money Growth	1.8 ± 0.3 %	6 - 7%
NIR End Period (US$mn)	18 - 19%#	8 - 10%
GDP	1800.0*	1600.0
(12-mth chg.)	+ve	2 - 4%

Adjustable for official flows.
 # Due to seasonal currency demand.

Growth projected for December quarter.

Real sector performance in the December 2002 quarter is expected to improve against the background of the weak performance in the December 2001 quarter. The growth will be influenced mainly by the mining, construction, basic services and miscellaneous sectors.

The performance of the agriculture sector is expected to be constrained by the impact of adverse weather conditions in the latter part of the September quarter. The widespread flooding has resulted in damage to domestic agriculture such as, vegetables and certain root crops in addition to the farming infrastructure. While output is anticipated to be relatively low in the early part of the December quarter, rehabilitation and replanting activities during this period should result in some recovery by the end of the quarter.

Significant rebound expected in mining sector.

Production from the mining sector should reflect a significant increase over the corresponding quarter of 2001. This expectation for growth is formed against the background of the significant decline in alumina production caused by unrest and a subsequent closure of the Jamalco refinery for maintenance in the December 2001quarter.

Marginal growth for manufacturing sector

The forecast for the *manufacturing sector* points to a marginal growth in the December 2002 quarter. Positive performance is anticipated in areas such as petroleum refining and the production of beverages. Output from the petroleum refinery should increase relative to the corresponding quarter when the plant was closed for maintenance. The positive trend in beverage production should continue due to significant investments in the sub-sector. The recent addition of a new state-of-the-art bottling plant by a major brewing company is expected to increase production capability by 60 per cent.

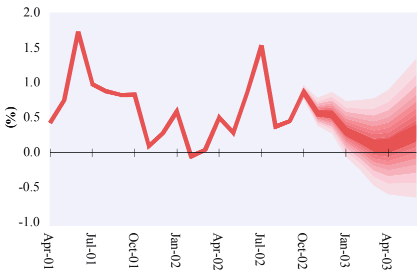
Prospects for the *manufacturing sector* over the next twelve months are positive. This is particularly against the background of the trend increase in loans to the sector. However, the sector will continue to be challenged by low competitiveness particularly in the production of basic materials such as paper, textiles and leather. In the near term, the recent natural disasters will have a dampening effect on the output of the agro-processing sub-sector.

Tourism services expected to grow in December quarter.

In the area of *construction*, a positive outturn is anticipated in the December quarter. Existing road construction and maintenance projects coupled with the need for repairs due to infrastructural damage caused by the floods should allow the sector to retain its buoyancy. Further, the recent reduction in interest rates by the National Housing Trust should also stimulate new interest in housing construction.

The *miscellaneous services* sector should exhibit growth in the December quarter through an expansion in its major component, hotels, restaurants and clubs. This is based on the expected positive performance of tourism services relative to last year when the sector was adversely affected by the events of 11 September. While there was higher than projected growth in the September quarter, the expectation for the December quarter represents a normalization relative to the December 2000 quarter.

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 includes 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.

The main *risks* to real sector expansion for the remainder of the fiscal year relate to the uncertainty in the international economy. The slow recovery in the global economy remains a constraint to earning potential in exports such as alumina and tourism. This is compounded by recent positive shocks to global oil prices following the geo-political tensions in the Middle East. Furthermore, the problems of the emerging economies such as Argentina and Brazil are also of concern. While the country has not been significantly affected by the fallout in these economies, Jamaica's propensity to attract new investments, as well as the Government's ability to secure financing could be severely challenged.

Inflation for the December quarter is expected to moderate relative to the seasonally higher September quarter. Headline inflation is projected to approximate 1.8 per cent (± 0.3 percentage points) relative to 2.4 per cent in the September 2002 quarter and 1.2 per cent in the December 2001 quarter. The projected 12-month point-to-point inflation rate at December 2002 is forecasted at 6.7 per cent relative to the 5.9 per cent at end September quarter and 8.8 per cent for the December 2001 quarter.

As was the case in the previous quarter, the main inflationary impulse is expected to emanate from increases in the prices of the heavily weighted agricultural commodities. This expectation comes against the background of extensive damage to crops caused by two tropical storms in August and September. However, the anticipated recovery in output towards the latter part of the quarter should moderate price increases by end December.

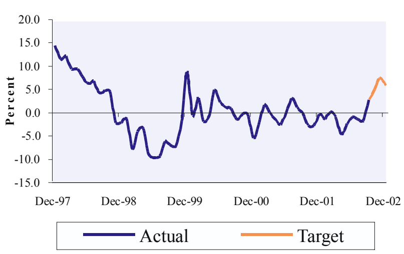
Developments in the world commodity markets should also continue to influence domestic prices in the December quarter. Increases in the prices of grains and cereals such as wheat, barley, soyabean and rice in the United States, should impact the prices of certain basic food items. The market for crude oil continues to be uncertain as the possibility of a war in the Middle East could adversely affect world supply.

Already the average daily West Texas Intermediate crude price for September was approximately US$30 per barrel, outside of the range of the Bank's initial forecast of US$26 to US$28 per barrel. It should be noted however, that the pass-through to domestic prices to date has been below the Bank's projections.

Movements in the exchange rate in the previous quarter are also projected to influence the inflation outturn for the December quarter. However, expectations are that the pass through effect of exchange rate to prices will be moderated by competition. Despite this, underlying core inflationary pressures, emerging from the higher than programmed expansion in the monetary base in the September quarter is expected to account for a higher than usual portion of the headline inflation in the December quarter.

Given the factors noted above, inflation for the December quarter is anticipated to emanate mainly from the *food & drink* sub-category, which is forecasted to contribute over half of the projected outturn. Within this sub-category, noticeable price increases are projected in the starchy food, vegetables & fruits, meat poultry & fish, baked products cereal & breakfast drinks and the dairy product oil & fats sub-groups.

Figure 4.2
Broad Money (M3) Growth (12-month)

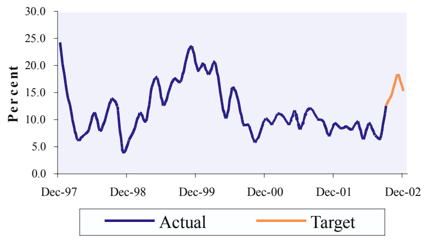


Other anticipated inflationary impulses of note are likely from the *housing & other housing expenses* and the *transportation* sub-categories. The former sub-category should reflect upward adjustments in the cost of utilities, while the fuel and transportation sub-group should be affected by movements in the global price for crude oil.

Monetary Policy

The major concerns for monetary policy are the recent trends in the main macroeconomic indicators relative to the SMP. In this context the short-term challenge to monetary policy is to maintain orderly conditions in the foreign

Figure 4.3
Base Money Growth (12-month)



exchange market, and moderate the liquidity overhang within the system. To this end the Bank will have to maintain its dominant posture in the financial markets during the December quarter.

The tight monetary stance will be relaxed as more buoyant foreign exchange flows and further improvements in economic activity are realized in the latter half of the fiscal year. Over the medium term however, macroeconomic stability, which would facilitate a sustained reduction in interest rates, can only be secured through the containment of excess demand, particularly public sector demand.

Summary

The recovery within the economy is surmised to have gathered momentum in the September quarter, despite exogenous shocks to agriculture. However, emerging excess liquidity within the banking system, in an environment of uncertainty precipitated marked instability in the foreign exchange market towards the end of the quarter. The liquidity conditions, which were due in part to a deviation of public sector demand from programme, was reflected in a higher than targeted monetary base. Given the implication for inflation in the next two quarters, monetary policy has adopted and will maintain a more aggressive posture during the December quarter, with subsequent relaxation in the fourth quarter as the foreign exchange flows improve.

Appendices

A. Fiscal Developments: July - September 2002

Provisional data indicate that for the September 2002 quarter Central Government operations resulted in a **deficit** of $9.4 billion or 2.31 per cent of GDP relative to the Staff Monitored Programme (SMP) target of $2.3 billion, 0.57 per cent of GDP. The **primary balance** to GDP ratio of 1.3 per cent was lower than the SMP target of 2.72 per cent of GDP, reflecting the inadequacy of lower than targeted revenues to support increased non-interest expenditures. Concurrently, the current balance ratio was minus 1.90 per cent of GDP relative the SMP target of minus 0.08 per cent of GDP (see table).

Tax revenues, which were $1.7 billion below the SMP target, accounted for 68.6 per cent of the deviation in total revenues. This was due mainly to higher than budgeted tax on interest refunds paid out by the Central Government during the quarter. The fall out in tax revenues also resulted from delays in the implementation of legislation, which was expected to increase compliance and broaden the tax base. All other categories of revenue with the exception of grants were below their SMP targets for the quarter. Notably, tax revenues were 13.3 per cent higher than flows in the September 2001 quarter while flows from the other categories of revenue were below that of the comparable quarter of the previous fiscal year.

The 12.6 per cent increase in total expenditure relative to the SMP target was influenced by higher than targeted recurrent expenditure in which programmes and domestic interest payments were the major areas of deviation. This was partially offset by the containment of capital expenditure. Central Government financed its deficit and amortized its foreign debt mainly through borrowing from the domestic market during the review quarter.

For the first half of the fiscal year, Central Government recorded an estimated **deficit** of $21.8 billion or 5.38 per cent of GDP. This outturn was well above the SMP targeted deficit of $15.4 billion or 3.79 per cent of GDP.

Revenues for the first half of the fiscal year were below the SMP target for the period owing to shortfalls in all categories of revenues. Tax revenues during the first six months of the fiscal year fell short of the SMP target by 6.2 per cent but were 9.8 per cent above the comparable six-month period in 2001/02. Other categories of revenue reflected declines relative to levels attained during April to September 2001. Expenditure was above target for the April to September 2002 period reflecting an increase in recurrent expenditure, which was partly offset by the containment of capital expenditure.

The deviation in fiscal outturn relative to target for the first half of the fiscal year was reflected in the performance of the major fiscal indicators. The primary balance for the first two quarters of the fiscal year was 2.08 per cent of GDP compared to the targeted 3.89 per cent of GDP. The deviation was reflective of the lower than targeted revenues. The disappointing performance of revenues was also manifested in the current balance ratio of minus 4.36 per cent of GDP relative to the SMP target of minus 2.62 per cent. The fiscal stability ratio of minus 1.43 per cent was 0.16 percentage points below the target.

Fiscal Performance Comparative Analysis J$mn.

	Actual 2001/02 Q2	Provisional 2002/03 Q2	Change	Provisional 2002/03 Q2	SMP Q2	Change	Provisional 2002/03 Q1 - Q2	SMP Q1 - Q2	Change
Revenue and Grants	**25444.00**	**26911.78**	**1467.78**	**26911.78**	**29438.30**	**-2526.52**	**51285.68**	**56108.80**	**-4823.12**
Tax Revenue	22055.20	24994.14	2938.94	24994.14	26728.50	-1734.36	47995.04	51179.30	-3184.26
Capital Revenue	830.00	143.80	-686.20	143.80	322.90	-179.10	306.40	508.90	-202.50
Other (incl. Non-tax)	2558.80	1773.84	-784.96	1773.84	2386.90	-613.06	2984.24	4420.60	-1436.36
Expenditure	**27996.40**	**36301.20**	**8304.80**	**36301.20**	**31738.34**	**4562.86**	**73113.70**	**71508.84**	**1604.86**
Recurrent Expenditure*	26412.80	34482.50	8069.70	34482.50	29472.80	5009.70	68665.60	66250.10	2415.50
Capital Expenditure	1418.10	1645.00	226.90	1645.00	2100.04	-455.04	4009.80	4841.04	-831.24
IMF # 1 Account	165.50	173.70	8.20	173.70	165.50	8.20	438.30	417.70	20.60
Unallocated	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Overall Balance	**-2552.40**	**-9389.42**	**-6837.02**	**-9389.42**	**-2300.04**	**-7089.38**	**-21828.02**	**-15400.04**	**-6427.98**
Memo									
Current Balance	**-1798.80**	**-7714.52**	**-5915.72**	**-7714.52**	**-357.40**	**-7357.12**	**-17686.32**	**-10650.20**	**-7036.12**
Primary Balance	**8720.20**	**5288.18**	**-3432.02**	**5288.18**	**11020.66**	**-5732.48**	**8451.28**	**15774.16**	**-7322.88**

Performance Indicators
(percentages of GDP)

	BR	CB	PB	IP	FSR
Q2 - 2002/03	2.31	-1.90	1.30	3.62	-1.35
Q2 - 2002/03 SMP	0.57	-0.09	2.72	3.28	-1.08
Q1 - Q2 2002/03	5.38	-4.36	2.08	7.46	-1.43
Q1 - Q2 2002/03 SMP	3.79	-2.62	3.89	7.68	-1.27

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

International Benchmarks

BR greater than **3% of GDP** often indicates serious fiscal imbalance
FSR closer to zero indicates more stable government finances
Negative CB ratio of less than 1% indicates dissaving or a need for fiscal adjustment as the public sector is borrowing for consumption
PB ratio above zero indicates major fiscal adjustment to cover interest on past obligations

** Recurrent Expenditure includes programmes, wages and salaries and interest payments.*

B. Monetary Policy Development: July - September 2002

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 17.00per 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 the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.00 per cent, 14.20 per cent, 13.80 per cent, 13.55 per cent, 13.45 per cent, 13.35 per cent and 13.25 per cent, respectively.
11/07/02	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day, and 30-day instruments were reduced to 14.90 per cent, 14.00 per cent, 13.45 per cent, 13.25 per cent, 13.15 per cent, 13.05 per cent, and 12.95 per cent, respectively.
07/08/02	Interest rates on the 365-day and 270-day instruments were reduced to 14.50 per cent and 13.85 per cent, respectively.
09/09/02	Interest rates on the 120-day and 90-day instruments were increased to 17.05 per cent and 17.25 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			
June	1 492.8	1.7	0.9
September	1 528.0	2.4	0.8

2

Component Contribution to Inflation
All Jamaica
July - September 2002

Groups and Sub-groups	Weight in CPI	Inflation (%) Q1	Contribution (%) Q1
FOOD & DRINK	**0.5563**	**3.0**	**70.9**
- Meals Away from Home	0.0741	1.0	3.3
- Meat Poultry & Fish	0.1613	0.5	3.5
- Dairy Products Oils & Fats	0.0668	0.6	1.8
- Baked Products Cereals & Breakfast Drinks	0.0864	1.0	3.8
- Starchy Foods	0.0525	8.8	20.3
- Vegetables & Fruits	0.0650	13.3	37.9
- Other Food & Beverages	0.0502	0.2	0.3
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**0.9**	**3.4**
- Household Supplies	0.0482	1.3	2.8
- Fuels	0.0253	0.5	0.6
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**1.8**	**6.2**
- Rental	0.0209	1.3	1.6
- Other Housing Expenses	0.0577	2.0	5.0
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**1.4**	**1.7**
- Furniture	0.0068	2.3	0.7
- Furnishings	0.0215	1.1	1.0
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**0.9**	**2.8**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**1.6**	**3.7**
- Clothing Materials	0.0055	3.1	0.7
- Readymade Clothing & Accessories	0.0242	0.2	0.3
- Footwear	0.0159	1.8	1.3
- Making & Repairs	0.0051	6.3	1.4
TRANSPORTATION	**0.0644**	**-0.2**	**-0.5**
MISCELLANEOUS EXPENSES	**0.0785**	**3.4**	**11.8**
ALL GROUPS	**1.0000**	**2.4**	**100.0**

3

BANK OF JAMAICA OPERATING TARGETS
FY 2001/2002 & FY 2002/2003

	Sep-01	Dec-01	Mar-02	Jun-02	Sep-02
Net International Reserves (US$)	**1 536.7**	**1 840.7**	**1 941.7**	**1 782.3**	**1687.3**
Net International Reserves ($J)	**70 688.2**	**87 435.2**	**93 200.2**	**86 973.8**	**82339.3**
Assets	73 871.4	90 406.3	96 015.8	89 671.5	84842.7
Liabilities	-3 183.2	-2 971.1	-2 815.6	-2 697.7	-2503.4
Net Domestic Assets	**-40 960.3**	**-53 125.4**	**-62 978.8**	**-56 789.6**	**-51714.3**
Net Claims on the Public Sector	35 328.3	33 964.1	36 942.5	42 779.3	47135.8
Net Credit to Banks	-5 681.1	-6 154	-4 400.6	-4 910.0	-5044.5
Open Market Operations	-77 525.5	-85 628.3	-99 195.3	-97 006.3	-96072.3
Other	6 918.1	4 692.7	3 674.6	2 347.4	2266.7
Monetary Base	**29 772.5**	**34 309.8**	**30 221.4**	**30 184.2**	**30625.0**
Currency Issue	17 580.1	22 340.5	19 447.1	19 274.3	19554.2
Cash Reserve	11 723.9	1 474.4	10 581.2	10 883.8	10911.6
Current Account	468.5	494.9	193.1	26.1	159.2
% change Monetary Base (F-Y-T-D)	**-2.3**	**12.6**	**-0.8**	**-0.1**	**1.3**

4

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

	M1J	M1*	M2J	M2*	M3J	M3*
1998/1999	**26 564.6**	**30 306.5**	**79 732.5**	**103 612.3**	**90 474.3**	**114 354.2**
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	33 832.3	38 111.4	100 747.1	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	105 818.1	141 583.6	127 000.0	162 765.5
December	38 964.5	45 310.0	109 419.3	146 061.6	131 161.0	167 803.4
March r	37 083.8	43 946.9	108 021.3	147 683.7	130 622.7	170 285.0
2002/2003						
June r	36 864.8	43 828.1	110 815.0	151 143.6	134 573.5	174 902.1
September p	42 439.8	49 615.4	117 510.0	160 756.1	142 959.1	186 205.3

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

5

COMPONENTS OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY
2000/01 - 2002/03 (Quarterly Flows - J$M)

	Mar-01	Jun-01	Sep-01	Dec-01 p	Mar-02	Jun-02r	Sep-02p
M2J	**-72.8**	**1 335.0**	**3 815.2**	**3 601.3**	**-1 585.1**	**2 401.2**	**7 274.4**
Currency	-1 724.4	115.6	171.2	2 598.7	-1 295.6	-29.5	104.4
Demand Deposits	677.0	51.4	2 568.2	674.9	-585.1	189.9	5 470.6
Savings Deposits	417.5	1 525.8	770.2	1 030.2	239.9	1 971.4	132.1
Time Deposits	557.1	-357.8	305.5	-702.5	55.7	648.8	1 567.3
OTHER DEPOSITS	**848.0**	**981.6**	**82.6**	**555.7**	**1 046.8**	**878.2**	**1 782.6**
TOTAL(M3J)	**775.2**	**2 316.6**	**3 897.8**	**4 157.0**	**-538.3**	**3279.4**	**9 057.0**

Sources of Change in Local Currency Money Supply

	Mar-01	Jun-01	Sep-01	Dec-01 p	Mar-02	Jun-02r	Sep-02p
N.I.R. of B.O.J.	**14 254.7**	**11 643.3**	**-130.1**	**14 441.9**	**4794.1**	**-7 779.7**	**-4634.5**
M & LTFL of B.O.J.	**14.6**	**7.8**	**15.2**	**7.6**	**14.0**	**7.9**	**15.5**
Banking System Credit	**-7 509.6**	**5 552.5**	**7 289.9**	**9 445.6**	**235.3**	**7924.3**	**8954.1**
Public Sector	-6 610.7	5 199.9	6 444.6	8 628.0	307.8	6736.9	7680.6
Private Sector	-898.9	352.6	845.3	817.6	-72.5	1 187.4	1273.5
Open Market Operations	**-9 640.5**	**-12 723.1**	**-3 361.0**	**-8 102.8**	**-13566.9**	**2 188.9**	**933.9**
Other	**3 656.0**	**-2 163.9**	**83.8**	**-11 635.3**	**7985.2**	**938.0**	**3788.0**
TOTAL	**775.2**	**2 316.6**	**3 897.8**	**4 157.0**	**-538.3**	**3279.4**	**9057.0**
Memo:							
Foreign Currency Deposits	865.6	583.3	2 061.0	880.9	3 020.0	666.2	2949.7
Foreign Currency Loans	375.3	-207.7	1 986.6	2 294.1	-197.0	2 639.9	2143.9

p- preliminary
r-revised

6A

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

	Fixed Deposit* 3-6 months	6-12 months	Savings Deposits (Average)	Loan Rate (Average)	Fixed Deposit Rate (Weighted Average)	Loan Rate (Weighted Average)
1998/1999	**10.50 - 18.75**	**9.50 - 18.75**	**12.09**	**38.60**	**14.63**	**29.65**
1999/2000	**11.00 - 17.50**	**11.50 - 16.50**	**11.38**	**33.92**	**12.99**	**24.32**
June	10.00 - 17.50	10.00 - 17.00	11.96	37.89	14.08	27.12
September	10.00 - 17.50	10.00 - 17.00	11.50	35.92	13.47	26.16
December	11.00 - 17.50	11.50 - 16.50	11.38	33.92	13.27	24.64
March	11.00 - 17.50	11.50 - 16.50	11.38	33.92	12.99	24.32
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
2001/2002						
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	n.a.	n.a.

* *Relate to deposits of $100 000 and over*
n.a. - not available

6B

GOJ TREASURY BILL YIELDS
(End-of-Period)

	3-month	6-month	9-month	12-month	BOJ 30-day Open Market Rate
1998/1999				**21.67**	**20.75**
1999/2000	**17.82**	**17.96**	**18.30**	**18.37**	**17.30**
June	20.24	20.16	20.45	20.05	18.85
September	18.63	19.21		20.20	18.35
December	19.92	22.03	21.43	22.00	18.35
March	17.82	17.96	18.30	18.37	17.30
2000/2001					
June	17.68	17.47	17.88	18.10	17.00
September	16.62	17.13	16.91	16.94	16.45
December		20.16	19.67	20.98	16.45
March		16.88		17.86	15.50
2001/2002					
June		16.20			14.25
September		15.10	15.50		14.25
December		17.03			14.25
March		14.30		14.96	13.25
2002/2003					
June		13.81		14.77	13.25
September		16.69	16.98		12.95

7A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
July - September 2002

Maturity Date	Stock Name	Amount J$M	Applicable Interest Rate	After-tax return b/	Features
15 July 2002	VR LRS 2002K	2197.24	16.80	12.60	Initial interest rate of 27.00%, reset semi annually at 2.50pp above Treasury Bill rate[a/]
15 July 2002	FR 14.50% 2002 DEB. SER.V	1055.16	14.50	10.88	Interest rate fixed at 14.50% per annum
19 July 2002	GOJ INV DEB. 2002/03 Series 'P'	5798.12	21.00	15.75	Interest rate fixed at 21.00% per annum
23 July 2002	17.25% LRS 2002	1000.00	17.25	12.94	Initial interest rate of 22.75%, reset semi annually at 3.50pp above Treasury Bill rate[a/]
31 July 2002	VR LRS 2002B	1048.85	17.34	13.01	Initial interest rate of 43.00%, reset semi annually at 2.00pp above Treasury Bill rate[a/]
23 August 2002	FR17.875%LRS 2003 Tr. A	250.00	17.875	13.41	Interest rate fixed at 17.875% per annum
15 Sept. 2002	V/R 2002H	3636.19	15.79	11.84	Initial interest rate of 26.00%, reset semi annually at 2.00pp above Treasury Bill rate[a/]
15 Sept. 2002	V/R 2002L	346.39	16.31	12.23	Initial interest rate of 25.25%, reset semi annually at 2.50pp above Treasury Bill rate[a/]
30 Sept. 2002	VR LRS 2002E	642.08	15.81	11.86	Initial interest rate of 17.50%, reset semi annually at 2.00pp above Treasury Bill rate[a/]

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
Source: Debt Management Unit, Ministry of Finance & Planning

7B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Issues
July - September 2002

Issue Date	Stock Name	Features	Amount Raised J$M
5 July 2002	FR LRS 2004AC	Auctioned instrument having taxable fixed rate of 14.125%, A/Y 15.13	300.00
2 Aug 2002	FR LRS 2009AF LRS 2017AB	Auctioned instrument having taxable fixed rate of 14.25%, A/Y 15.90; Auctioned instrument having taxable fixed rate of 14.50%, A/Y 16.39	1 000.00
30 Aug. 2002	FR LRS 2009AG LRS 2032AA	Auctioned instrument having taxable fixed rate of 14.25%, A/Y 16.16; Auctioned instrument having taxable fixed rate of 15.00%, A/Y 16.90	800.00
6 Sept. 2002	FR LRS 2005AH LRS 2014AFFR LRS 2032AB	Auctioned instrument having taxable fixed rate of 13.875%, A/Y 14.95; Auctioned instrument having taxable fixed rate of 14.375%, A/Y 16.17; Auctioned instrument having taxable fixed rate of 15.00%, A/Y 17.18	1 000.00
13 Sept. 2002	FR LRS 2004AD LRS 2009AHFR LRS 2014AG	Auctioned instrument having taxable fixed rate of 13.75%, A/Y 16.42; Auctioned instrument having taxable fixed rate of 14.25%, A/Y 17.24; Auctioned instrument having taxable fixed rate of 14.375%, A/Y 17.21	1 600.00
30 Sept. 2002	FR LRS 2005AK LRS 2008AK	Auctioned instrument having taxable fixed rate of 13.875%, A/Y 16.96; Auctioned instrument having taxable fixed rate of 14.125%, A/Y 17.21	1 000.00

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

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EXTERNAL TRADE - GOODS IMPORTS (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**	**26.5**	**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**	**1509.1**
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	**97.4**	**629.5**	**64.3**	**17.9**	**71.9**	**291.0**	**252.8**	**1420.0**
June	23.5	182.0	34.9	5.0	18.8	66.0	69.2	401.9
September	25.5	174.3	6.1	4.0	18.7	73.5	72.2	377.7
December	20.7	122.4	0.0	4.4	15.5	93.4	63.9	314.6
March	27.7	150.8	18.3	4.5	18.9	58.1	47.5	325.8
2002/2003								
June								

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EXTERNAL TRADE - GOODS EXPORTS (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	**1 004.2**	**1 724.6**	**555.3**	**165.7**	**3 449.8**
June[r]	242.6	444.0	125.7	59.9	872.2
September	237.6	432.8	153.9	46.1	870.4
December	283.1	441.9	128.6	34.1	887.7
March	240.9	405.9	147.1	25.6	819.5
2002/2003					
June					

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BALANCE OF PAYMENTS SUMMARY
(Flows - US$M)

	Sep-00	Dec-00	Mar-01	Jun-01[r]	Sep-01[r]	Dec-01[r]	Mar-02
1. Current Account	**-90.0**	**-114.8**	**-156.1**	**-128.4**	**-174.1**	**-274.4**	**-147.5**
A. Goods Balance	**-350.5**	**-371.9**	**-417.6**	**-343.1**	**-370.3**	**-457.2**	**-374.6**
Exports (f.o.b.)	365.1	386.1	359.3	401.9	377.7	314.6	325.8
Imports (f.o.b.)	715.6	758.0	776.9	745.0	748.0	771.8	700.4
B. Services Balance	**152.5**	**122.0**	**185.4**	**114.6**	**82.7**	**33.0**	**114.6**
Transportation	-63.7	-69.4	-53.4	-58.2	-67.5	-77.4	-55.2
Travel	293.7	264.4	305.5	270.3	239.9	197.4	266.9
Other Services	-77.5	-73.0	-66.7	-97.5	-89.7	-87.0	-97.1
Goods & Services Balance	**-198.0**	**-249.9**	**-232.2**	**-228.5**	**-287.6**	**-424.2**	**-260.0**
C. Income	**-63.2**	**-84.9**	**-139.1**	**-107.4**	**-102.6**	**-101.3**	**-119.7**
Compensation of Employees	23.7	33.1	5.1	10.5	27.2	32.7	2.6
Investment Income	-86.9	-118.0	-144.2	-117.9	-129.8	-134.0	-122.3
D. Current Transfers	**171.2**	**220.0**	**215.2**	**207.5**	**216.1**	**274.4**	**232.2**
General Government	10. 8	34.7	21.6	20.2	10.8	37.8	10.7
Other Sectors	160.4	185.3	193.6	187.3	205.3	213.3	221.5
2. Capital & Financial Account	**90.0**	**114.8**	**156.1**	**128.4**	**174.1**	**274.4**	**147.5**
A. Capital Account	**-1.6**	**0.3**	**-2.7**	**-7.0**	**-5.9**	**-4.3**	**-5.2**
Capital Transfers	-1.6	0.3	-2.7	-7.0	-5.9	-4.3	-5.2
General Government	2.1	3.0	1.8	0.2	0.1	1.4	1.9
Other Sectors	-3.7	-2.7	-4.5	-7.2	-6.0	-5.7	-7.1
B. Financial Account	**91.6**	**114.5**	**158.8**	**135.4**	**180.0**	**278.7**	**152.7**
Direct Investment	112.0	105.2	221.2	110.1	77.1	121.7	127.5
Other Official Investment	178.7	101.0	115.0	333.0	-63.3	268.7	52.1
Other Private Investment (including net errors & omissions)	-20.1	-57.7	139.4	-53.5	162.4	192.4	74.0
Reserves	-179.0	-34.0	-316.8	-254.2	3.8	-304.1	-100.9

r - Revised

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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	Weeks of Imports Goods & Services
1998/1999	**700.1**	**120.8**	**579.3**	**13.5**	**9.2**
1999/2000					
June	701.9	111.3	590.6	13.3	9.0
September	633.8	112.8	521.0	12.0	8.1
December	552.2	105.9	446.3	10.5	7.1
March	801.3	100.5	700.8	15.2	10.3
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	21.1
September	1 738.6	51.3	1 687.3	28.8	19.2

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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

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

End Period	Local Registered Stocks	Treasury Bills	Bonds*	FINSAC Bonds	BOJ Open Market Operations Securities
1998/1999	**105 121.4**	**10 450.0**	**17,873.4**	**49 873.1**	**38 073.8**
1999/2000					
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 *r*					
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	4 550.0	80 516.1		97 006.3
September	n.a.	4 350.0	n.a.		96 072.3

n.a. - not available

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STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	Volume Traded (M)	Value of Stocks Traded (J$M)
1999/2000	**27 165.6**	**610.7**	**2 393.2**
June	19 687.7	165.4	712.6
September	20 677.7	96.8	549.4
December	21 892.6	166.6	534.8
March	27 165.6	181.9	596.4
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			
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			
June	38 606.7	404.9	1 935.9
September	39 219.6	401.1	2 332.1

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PRODUCTION OF SELECTED COMMODITIES
(flows - 000' tonnes)

	Bauxite	Alumina	Sugar	Bananas*
1999/2000	**2 385.9**	**3 624.5**	**252.3**	**48.0**
June	1 022.8	909.3	101.3	12.5
September	369.0	904.7	5.4	12.8
December	419.4	913.6	9.5	13.4
March	574.7	896.9	136.1	9.3
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				
June	888.1	887.3	76.8	10.3
September	961.2	932.0	11.8	9.7

D. BANK OF JAMAICA BALANCE SHEET

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

	Dec-00	Mar-01	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02	Sep-02
Assets	**122 042.5**	**136 282.7**	**148 059.3**	**148 672.9**	**165 421.1**	**173 579.0**	**166 610.3**	**152 220.5**
Foreign	47 693.0	62 139.6	73 743.7	73 650.3	89 754.1	95 228.9	88 833.0	85 369.6
Current Account & Foreign Currency Balances	11 888.2	18 223.4	3 738.0	3 618.0	13 926.8	7 769.8	5 025.5	5 048.1
Time Deposits & Securities	34 087.6	42 150.5	68 290.4	68 283.1	73 899.6	85 539.9	81 873.3	78 281.9
Holdings of Special Drawing Rights	69.4	103.7	15.6	20.4	68.9	42.0	18.4	63.8
Other	1 647.8	1 662.0	1 699.7	1 728.8	1 858.8	1 877.2	1 915.8	1 975.8
Local	74 349.5	74 143.1	74 315.6	75 022.6	75 667.0	78 350.1	77 777.3	66 850.9
Public Sector Securities	54 905.5	56 896.9	56 462.8	56 103.7	56 000.2	56 109.5	52 802.2	56 752.1
Other Assets	19 444.0	17 246.2	17 852.8	18 918.9	19 666.8	22 240.6	24 975.1	10 098.8
Liabilities	**122 042.5**	**136 282.7**	**148 059.3**	**148 672.9**	**165 421.1**	**173 579.0**	**166 610.3**	**152 220.5**
Foreign	673.1	607.0	582.8	545.9	450.4	411.5	442.6	405.8
Local	121 369.4	128 876.1	138 794.3	148 127.0	164 970.7	173 167.5	166 167.8	151 814.7
Currency in Circulation	20 644.0	17 685.1	17 565.7	17 607.3	22 378.7	19 481.9	19 318.5	19 587.3
Deposits	92 734.6	111 191.0	121 228.6	120 498.5	134 014.7	145 003.5	137 793.2	121 123.3
Bankers	18 598.6	20 375.1	19 922.3	18 911.8	19 232.8	16 225.9	16 925.7	17 264.9
Government	16 687.3	12 644.7	4 053.7	4 370.6	5 529.4	7 591.3	6 933.6	3 916.6
Open Market Operations	51 800.9	61 441.4	74 164.5	77 525.5	85 628.3	99 195.3	97 006.3	96 072.3
Other	5 647.8	16 729.8	23 088.1	19 690.6	23 624.2	21 991.0	16 927.6	3 869.5
Allocation of Special Drawing Rights	2 246.0	2 246.0	2 347.0	2 347.0	2 347.0	2 347.0	2 462.0	2 462.0
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Other Reserves	873.5	873.5	939.6	939.5	939.6	1 174.8	1 195.8	1 195.8
Other Liabilities	4 847.3	3 656.1	5 371.6	6 710.7	5 266.7	5 136.3	5 374.2	7 422.3

E. COMMERCIAL BANKS' BALANCE SHEET

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

	Dec-00	Mar-01	Jun-01	Sep-01	Dec-01	Mar-02[r]	Jun-02[r]	Sep-02[p]
Assets	**221 705.2**	**224 936.4**	**220 655.6**	**242 006.2**	**239 087.8**	**252 908.2**	**251 817.0**	**259 119.7**
Cash	3 036.0	1 800.5	1 547.9	1 434.1	3 595.7	1 997.9	1 854.6	2 030.1
Balances with BOJ	29 199.7	27 992.5	28 745.0	32 234.1	36 782.2	44 646.1	43 993.1	41 726.7
Foreign Assets	29 339.1	31 217.1	30 737.8	38 233.5	40 495.4	44 923.5	44 285.3	46 076.8
Loans & Advances	40 573.7	41 378.8	41 883.2	4 2981.6	49 035.1	51 354.7	58 100.8	67 046.0
Private Sector	33 876.9	33 321.9	33 131.4	35 829.3	38 746.9	37 932.9	42 306.9	46 261.6
Public Sector	6 696.8	8 056.9	8 751.8	7 152.3	10 288.2	13 421.8	15 793.9	20 784.4
Public Sector Securities	88 119.3	87 888.6	87 181.4	89 564.7	79 603.7	76 010.5	74 677.2	72 564.8
Cheques in the Process of Collection	2 936.5	4 912.4	3 211.8	5 515.4	2 917.6	6 175.9	4 487.6	3 959.6
Other Assets	28 500.9	29 746.5	27 348.5	32 042.8	26 658.1	27 799.6	24 418.4	25 715.7
Liabilities	**221 705.2**	**224 936.4**	**220 655.6**	**242 006.2**	**239 087.8**	**252 908.2**	**251 817.0**	**259 119.7**
Deposits	149 666.8	154 942.9	150 950.1	163 056.9	158 918.1	165 541.3	169 908.3	177 801.9
Foreign Liabilities	6 592.4	7 777.4	6 004.5	13 857.9	13 265.5	14 863.8	14 758.0	13 214.9
Discounts & Advances from BOJ	3 043.9	69.0	82.6	24.3	83.0	43.9	60.2	61.2
Loans/Advances from Other Institutions	9 653.1	8 847.7	8 830.5	9 017.1	9 177.7	9 017.9	6 377.4	6 729.3
Cheques in the Process of Payment	2 560.3	2 649.6	2 509.7	2 114.2	2 026.9	3 324.6	2 369.6	2 613.8
Other Liabilities	50 188.7	50 649.8	52 278.2	53 935.8	55 616.6	60 116.7	58 343.5	58 698.6

P = Preliminary
r = revised

F. INTERNATIONAL INDICATORS

1

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

	1 Month	3 Months	6 Months	12 Months
1999/2000	**5.4063**	**6.0000**	**6.1250**	**6.5000**
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

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				
June	5-51/8	5 1/8 - 5 1/4	5 1/4 - 5 3/8	5 1/2 - 5 5/8
September	4 9/16 - 4 11/16	4 13/32 - 4 17/32	4 3/8 - 4 1/2	4 13/32 - 4 17/32
December	4 1/32 - 4 5/32	4 - 4 1/8	4 1/32 - 4 5/32	4 3/8 - 4 17/32
March	3 29/32 - 4 1/32	3 29/32 - 4 1/32	4 5/16- 4 7/16	4 23/32 - 4 27/32
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 13/16	3 7/8 - 3 25/32	3 7/8 - 3 25/32

3

PRIME LENDING RATES
(End-of-Period)

	EURO-ZONE	UNITED STATES			UK
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Prime Rate
1999/2000	**3.50**	**6.31**	**5.50**	**9.00**	**6.00**
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

4A

**INTERNATIONAL EXCHANGE RATE
US$ VS OTHER MAJOR CURRENCIES
(currency/US$)**

	Dec-00	Mar-01	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02	Sep-02
US$ vs Sterling	0.6694	0.7034	0.7085	0.6804	0.6871	0.8753	0.6560	0.6369
US$ vs Canadian $	1.5020	1.5746	1.5272	1.5797	1.5963	1.5954	1.5209	1.5858
US$ vs Yen	114.20	125.32	124.36	119.13	131.06	132.55	119.86	121.73
US$ vs Euro	2.0833	2.2125	2.2892	2.1476	2.1966	0.8724	1.0126	1.0123

4B

**INTERNATIONAL EXCHANGE RATES
STERLING VS OTHER MAJOR CURRENCIES
(currency/£)**

	Mar-01	Jun-01	Sept-01	Dec-01	Mar-02	June-02	Sept-02
Sterling vs US$	1.4217	1.4113	1.4697	1.4554	1.4240	1.5243	1.5701
Sterling vs Canadian $	2.2386	2.1553	2.3217	2.3230	2.2719	2.3183	2.4899
Sterling vs Yen	178.16	175.50	175.09	190.70	188.73	182.70	191.13
Sterling vs Euro[1/]	3.1454	3.2306	3.1564	3.1970	0.8724	1.5434	1.5895

4C

**INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
September 2002**

	GBP	C$	US$	Yen	Euro
U.K.	1	2.494	1.573	191.4	1.591
Canada	0.401	1	0.630	76.75	0.638
U.S.	0.636	1.586	1	121.7	1.012
Japan	0.522	1.303	0.821	100	0.831
Euro-zone	0.629	1.568	0.988	120.3	1

5A

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

	Mar-01	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02	Sept-02
UAE's Dubai Light	22.50 - 22.70	24.09 - 24.19	21.35 - 21.45	18.36 - 18.46	24.13-24.23	24.57 - 29.18	27.41 - 27.51
North Sea Brent	23.73 - 23.77	26.71 - 26.77	21.72 - 21.78	19.31 - 19.41	25.30-25.36	25.58 - 31.22	28.96 - 29.02
West Texas Intermediate	26.25 - 26.27	26.45 - 26.50	23.25 - 23.29	19.85 - 19.96	26.01-26.09	26.68 - 33.38	30.51 - 30.59
Nymex-unleaded Gasoline Futures (US cents/gallon)	90.90 - 92.75	76.50 - 78.25	64.00 - 68.80	56.50 - 58.60	80.80-83.00	79.38 - 79.39	82.15 - 82.87

5B

WORLD COMMODITY PRICES
ALUMINIUM
(US$ per tonne)

	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02	Sept-02
Spot (Cash)	1 453.5 - 1 554.5	1 319 - 1 319.5	1 334.5 - 1 335.0	1 385.0 -1 386.0	1 364.0 - 1 364.5	1 280 - 1 280.5
3 Month	1 476.0 - 1 477.0	1 338.5 -1 339	1 350.0 - 1 351.0	1 401.0 - 1 401.5	1 383.0 - 1 383.5	1 296.5 - 1 297.0

5C

WORLD COMMODITY PRICES
FOOD

	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02	Sept-02
Wheats (US$/mt)	130.6	122.6	123.7	125.7	125.7	166.1
Coffee (USc/kg arabica brand)	146.4	129.7	126.4	133.6	136.2	126.0

6

MAJOR STOCK MARKET INDICES

	Mar-01	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02	Sept-02
Tokyo							
Nikkei Index	12 999.7	12 829.0	9 774.68	10 542.6	11 024.94	10 621.84	9 383.29
New York							
Dow Jones Industrials	9 878.8	10 434.8	8 847.56	10 021.5	10 426.91	9 243.26	7 591.93
S&P Composite	1 160.3	1 211.1	1 194.60	1 148.1	1 144.58	1 122.78	945.280
London							
Financial Times-SE 100	5 633.7	5 607.9	4 903.4	5 217.4	5 271.8	4 656.4	3 721.8
Frankfurt							
Dax Index	5 830.0	5 833.1	4 308.15	5 160.1	5 397.29	4 382.56	2 769.03
Zurich							
SMI Index	7 167.8	6 997.4	6 014.2	6 417.8	6 655.2	5 979.7	4 783.0

Glossary

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.

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.

Real Exchange Rate: The price of one country's currency in terms of another, adjusted for the inflation differential between the countries.

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 institutions, which by a statutorily based stipulation, must be held 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 withdrawls from which require advance notice

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

Quasi-money: Savings Deposits plus Time Deposits.