QUARTERLY MONETARY POLICY REPORT

July - September 2003
Volume 4 No. 2

Bank of Jamaica
Quarterly Monetary
Policy Report

JULY – SEPTEMBER 2003

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PREFACE

The Bank of Jamaica's Quarterly Monetary Policy Report reviews the conduct of monetary policy and the main factors that influenced inflation during the quarter. It also presents the Bank's perspective on emerging economic trends and the path of monetary policy over the short to medium term. This issue includes a discussion on the International Investment Position of a Country as well as, the outcome of the Fifth WTO Ministerial Conference and its implications for Future Trading Negotiations.

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

Bank of Jamaica's tightened liquidity management during the June quarter underpinned the stability that returned to the financial markets in the September 2003 quarter. The restrictive monetary policy resulted in lower levels of Jamaica Dollar liquidity that helped to restore relative calm to the foreign exchange market, improved investor confidence and allowed for some easing of monetary policy in the quarter. At relatively low interest rates, the Bank was able to absorb incremental liquidity from the system as investors exhibited an increased preference for Jamaica Dollar assets. In addition, investors converted some of their foreign currency holdings to satisfy Jamaica Dollar liquidity needs. As a result, market determined interest rates fell. Yields on successive offers of government six-month treasury bills fell to an average of 23.42 per cent in September from 28.46 per cent in June.

Underlying inflationary impulses seemed to have moderated in the review quarter reflecting the lagged effect of monetary tightening. This is reflected in the stabilization of core inflation at 2.3 per cent. Headline inflation, the main target of monetary policy, was 4.6 per cent for the September quarter, compared with 6.0 per cent in the June quarter. However, for the first half of fiscal year 2003/04, the inflation rate of 10.8 per cent was more than twice the 4.1 per cent recorded in the comparable period of fiscal year 2002/03. Price increases in the quarter were higher in the Kingston Metropolitan Area compared to the other regions, and reflected increased costs of transportation, seasonally lower agricultural supply and exchange rate depreciation, in addition to the seasonal increase in back-to-school expenses.

An improvement in investor confidence was manifested in a willingness to accept lower rates on government borrowing offers. This coincided with news of the over-performance in the fiscal accounts for the first quarter, lower liquidity and relative stability in the foreign exchange market. In that context, the Bank of Jamaica continued the process of interest rate reduction on its 90-day to 365-day open market instruments, while increasing the relative premium on the 180-day instrument.

Despite the adjustments in rates, open market instruments absorbed an incremental $6 573.9 million thereby facilitating the containment of the monetary base to a growth of 0.7 per cent. The liquidity absorbed had been generated through a decline in public sector balances at the BOJ and an increase in Bank of Jamaica's holdings of government securities. An accumulation of US$55.2 million in foreign reserves also contributed to increased Jamaica Dollar liquidity.

In the foreign exchange market, the average selling rate depreciated marginally by 1.2 per cent compared to an average quarterly depreciation of 7.5 per cent over the previous two quarters. Reduced demand pressure partly reflected an improvement in the economic outlook following the tightening of policy that was undertaken in the previous quarter. Liquidity in the foreign exchange market was buoyed by increases of $314.7 million in private capital and $10.3 million in tourism inflows relative to the September 2002 quarter. These increases reflect government borrowing in US dollars from the domestic market, as well as an increase in visitor expenditure. In addition, there were intermittent central bank sales to the market. This relative stability in the exchange rate resulted in a narrowing of the spread between US Dollar buying and selling rates to 0.48 per cent in the September quarter, from 0.66 per cent in the previous quarter.

Against the background of the slower rate of depreciation and the inflation out-turn, the Real Effective Exchange rate (REER) index increased by 4.3 per cent by end-September 2003, relative to end-June. This indicated a loss in competitiveness of Jamaica's exports against its major trading partners during the period. However, compared to end-September 2002, the REER declined by 12.1 per cent signaling a significant gain in competitiveness. Apart from the factors of inflation and exchange rate influencing the competitiveness of exports, it is imperative that Jamaican manufacturers continue to improve the efficiency of production and the quality of goods and services for export, to benefit from impending freer world trade arrangements. The process towards global trade liberalization through reciprocal bargaining is difficult. However, developing countries like Jamaica need to prepare for the inevitable removal of trade protection. Free trade discussions of a global nature continue through the auspices of the World Trade Organization (WTO). In Box 2 of this QMPR, the issues surrounding the recent staging of the Fifth WTO Ministerial Conference are discussed. Reliable cross-border information is also important in this trade regime. Jamaica will be taking steps to upgrade its macroeconomic data by compiling an International Investment Position (IIP) statistical statement. Box 1 provides details on the structure of an IIP.

Increased trading activity in the stock market reflected renewed investor optimism stimulated by the calm achieved in the domestic money and foreign exchange market. Strong performance was reflected in all three major indices, with impressive price gains occurring mainly in the financial services sector. The Jamaica Stock Exchange (JSE) main index advanced by 14.4 per cent in the quarter, relative to the 15.7 per cent recorded in the previous quarter. Following declines in the June quarter, the All Jamaica Composite Index, and the Jamaica Select Index advanced by 16.9 per cent and 17.2 per cent, respectively.

Coinciding with the buoyancy in the stock market, real activity increased in the September 2003 quarter in relation to the corresponding period of 2002. Bank of Jamaica's real sector indicators suggest relatively strong economic growth in the quarter associated with continued expansion in *Transport, Storage & Communication, Electricity & Water, Construction* and *Miscellaneous Services.* There was a rebound in the *Agriculture* and

Mining evidenced by estimated increases in the production of domestic crops, alumina and crude bauxite. The strong economic performance was supported by the continued expansion in commercial bank lending to the private sector. Loans to the private sector expanded by 10.7 per cent in the quarter, after a 13.9 percent increase in the previous quarter. The sectors of *Transport, Storage & Communication* and *Construction & Land Development* recorded the largest increases. Most of the lending to *Transport, Storage & Communication* was in foreign currency, in the context where the average interest rate on foreign currency loans declined to 8.73 per cent at end August 2003 from 11.87 per cent at end August 2002.

The growth momentum is expected to continue into the December quarter, based on a favourable outlook for Jamaica's tourism and continued increase in the level of investor confidence. Aggregate demand in the United States is expected to remain on an expansionary trend and this should boost external demand for Jamaica's goods and services. Growth is also anticipated in agriculture, construction, basic services and financial services. Headline inflation for the December quarter is projected to be **1.5 per cent to 2.5 per cent** and represents continued moderation in price increases. Inflationary impulses are expected to emanate from administered price increases, but these should be offset by seasonally lower price increases in agricultural commodities and relative stability in the foreign exchange rate.

The gradual easing of monetary policy will remain a primary consideration of the Central Bank in its daily assessment of market conditions. However, the size of public sector cash needs and the synchronization of Government debt raising with the level of liquidity in the financial system, will be crucial determinants of the level of interest rates during the quarter.

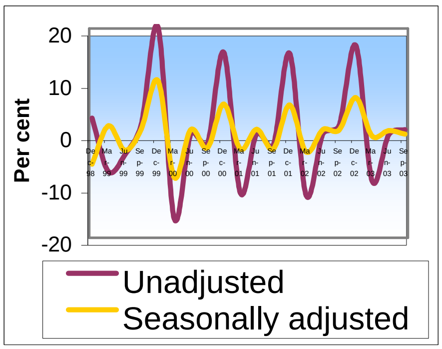
1. Monetary Policy and Financial Markets

Money & Credit

Base Money

In the September quarter, base money management was conducted within a framework of relatively low levels of Jamaica Dollar liquidity; a direct consequence of the monetary policy stance adopted in the two previous quarters. The liquidity conditions contributed to stability in the foreign exchange market. The Bank capitalized on the orderly behaviour in the foreign exchange market and the prospects of buoyant inflows by lowering interest rates on three occasions during the quarter. Notwithstanding the rate reductions, investors sold some of their foreign currency holdings to augment their Jamaica Dollar liquidity positions. There was incremental investment in the Bank's open market instruments during the quarter while the net international reserves increased. Against this background the monetary base expanded by 0.7 per cent in the September quarter.

Figure 1.1
Base Money
(Quarterly Change)



The Bank of Jamaica through its use of open market operations continued to maintain a relatively tight monetary policy stance during the September quarter, which facilitated stable foreign exchange market conditions. Local investors exhibited a greater preference for the Jamaica dollar over holdings of foreign currency as confidence in the domestic economy improved in the quarter. In addition, investors converted some of their foreign currency holdings to satisfy their Jamaica Dollar liquidity needs. This facilitated an increase in the net international reserves (NIR).

Base money management facilitates stability in the foreign exchange market

During the quarter the Bank absorbed most of the liquidity emanating from the higher NIR stock through the conduct of open market operations. Some of this absorption was offset by additional liquidity impulses from a decline in public sector balances at the Central Bank. As a result, the monetary base expanded by $217.7 million or 0.7 per cent for the quarter (see F**igure 1.1**).

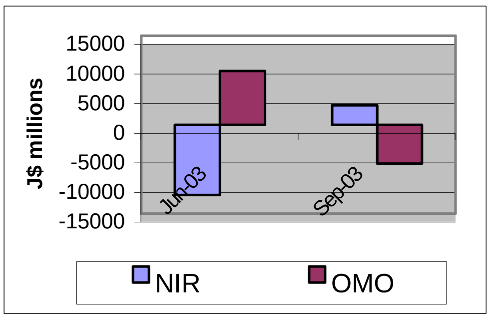
The expansion in the monetary base was reflected in increases in the stock of currency issued and the current account balances of commercial banks of $286.6 million and $79.9 million, respectively. The 1.4 per cent increase in the stock of currency in the September quarter was consistent with the increase of 1.5 per cent in the corresponding period of the previous year and was mainly influenced by the seasonal school expenditure. The statutory cash reserves declined by $148.8 million, influenced by a decline in local currency deposits during the first month of the quarter. The maintenance of relatively tight monetary policy over the first half of the fiscal year moderated inflationary impulses from the monetary base and as a consequence, core inflation remained at 2.3 per cent for the September quarter relative to the previous quarter.

Tight Monetary Policy Keeps Core Inflation stable

The structure of the BOJ yield curve in the two previous quarters contributed to the low levels of Jamaica Dollar liquidity in the review quarter. Over the period January to June 2003, interest rates were high on the 180-day to 365-day tenors of open market instruments which attracted deposits to these longer tenors. Consequently, the Bank's open market maturities were low and this facilitated orderly conditions in the foreign exchange market. Despite the Bank's intermittent sale of foreign

Stronger reliance on open market operations in the September quarter

Figure 1.2
Sources of Liquidity *



***Absorption-negative, Injection-Positive**

exchange to smooth the supply of foreign currency, the NIR increased by US$55.2 million injecting J$3 259.2 million during the quarter. This liquidity was offset by net absorption of $6 573.9 million through open market operations. However, additional liquidity emanated from a decline in public sector balances as the Government drew down on its balances to fulfill budgetary obligations. In addition, the Bank increased its holdings of Government securities during the quarter, as the Government was unable to source all its financing needs in the private money market. These factors contributed to Net Claims on the public sector increasing by $3 160.5 million.

Rates reduced on open market instruments three times during the quarter

The stability of the foreign exchange market and increased earnings from *Tourism* provided favorable conditions for the Bank to reduce the rates on its open market instruments on three occasions during the quarter. On 8 July, interest rates were reduced on the 270-day and 365-day maturities from 29.5 per cent and 30.0 per cent to 27.5 per cent and 28.0 per cent, respectively. By the end of the quarter, the 365-day tenor was reduced by 6 percentage points to 24.0 per cent while the 90-day tenor was reduced by 2 percentage points to 18.0 per cent. The 30-day and 60-day tenors remained unchanged (see **Bond Market**).

The challenge for base money management in the following December quarter is to limit the growth of the monetary base in a context where the Jamaica Dollar liquidity conditions may not be conducive to the borrowing needs of the Government.

The restriction of the growth in base money is especially necessary in the context of the relatively high inflation outturn for the first six months of the fiscal year. The continued stability of the foreign exchange market in the December quarter also hinges on the ability of the Central Bank to limit the growth in base money.

Money Supply

For the September 2003 quarter, broad Jamaica Dollar money supply, M3J, increased by 5.0 per cent, compared to the 3.8 per cent that obtained in the June 2003 quarter. The main sources of expansion were increases in banking system credit and the NIR. On the other hand, a notable increase in BOJ open market liabilities and a decline in the Net Foreign Assets of commercial banks moderated the growth in M3J. The broader measure of money supply inclusive of foreign currency deposits, (M3), recorded growth of 4.5 per cent, relative to the 5.8 per cent recorded in the previous quarter.*

Table 1.1

Money Supply (3-month growth rates)			
		M3J	M3*
2000	Mar.	1.2	3.1
	June	4.1	2.9
	Sept.	1.1	2.6
	Dec.	4.1	3.7
2001	Mar.	0.6	1.1
	June	1.9	1.9
	Sept.	3.2	3.8
	Dec.	3.5	3.1
2002	Mar.	-0.5	1.5
	June	2.5	2.3
	Sept.	6.4	6.7
	Dec.	1.8	2.9
2003	Mar.	-6.3	-1.9
	June	3.8	5.8
	Sept.	5.0	4.5

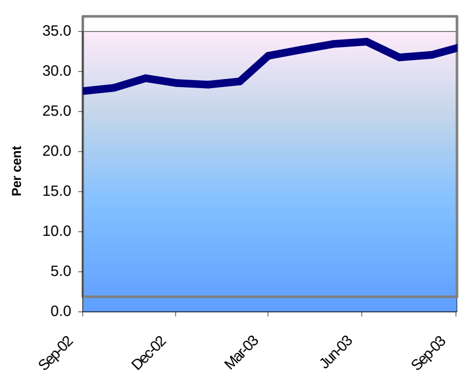
Growth in broad Jamaica Dollar money supply (M3J) slowed to 5.0 per cent during the second quarter of FY 2003/04, relative to 6.4 per cent for the corresponding quarter of FY 2002/03 (see **Table 1.1**), but was faster than the 2.1 per cent anticipated in the monetary programme. The growth in money supply during the review quarter was largely influenced by an expansion of \$7 819.1 million in banking system credit and a build up of \$3 259.2 million (or US\$ 55.2 million) in the NIR (see **Table 3 in Appendix C**).

The increase in banking system credit continued to be dominated by credit to the public sector, which accounted

Table 1.2

Money Supply (12-month growth rates)		
M1J	**Sep-02**	**Sep-03**
M1J	18.4	-5.8
M2J	10.9	-2.8
M3J	12.3	3.5
M*		
M1*	18.8	-0.9
M2*	13.4	7.6
M3*	14.2	10.9

Figure 1.3
Foreign currency Deposits to Total Deposits
September 2002 - 03



for $4 360.0 million or 55.8 per cent of the total expansion during the review quarter. However, this expansion in public sector credit was lower than the $14 882.7 million for the June 2003 quarter and the $10 208.5 million for the September 2002 quarter.

Growth in private sector credit slowed to $3 459.2 million (or 44.2 per cent of the total increase in banking system credit) during the September 2003 quarter relative to the $4 091.6 million for the June 2003 quarter. However, the outturn for the review quarter more than doubled the $1 390.3 million for the corresponding quarter of FY 2002/03 and exceeded the $2 161.5 million outlined in the monetary programme.

The growth in the NIR significantly contrasts with the $11 887.7 million decline that obtained in the June 2003 quarter and the $4 634.5 million reduction observed for the September 2002 quarter. The increase during the quarter was partly due to proceeds raised through government's debt raising activities and moderate demand for foreign currency in a context of improved domestic market confidence.

The liquidity which emanated from the increase in banking system credit and the build up in the NIR was partially countered by a $6 573.9 million increase in BOJ open market instruments and a $4 617.6 million reduction in the net foreign assets of commercial banks. The decline in the net foreign assets of commercial banks was reflected in a 7.7 per cent decrease in foreign assets and a 9.6 per cent increase in liabilities. This adjustment in the banks' portfolio would be consistent with a widening of the interest rate spread on domestic currency vis-à-vis foreign currency investments and relative stability in the foreign exchange market during the quarter.

With regard to the components of money supply for the review quarter, narrow money, M1J, grew by 7.1 per cent while quasi-money increased by 2.1 per cent. The expansion in narrow money reflected increases of 13.4 per cent and 0.8 per cent in demand deposits and currency in circulation, respectively. Growth in quasi-money reflected increases of 2.4 per cent and 2.0 per cent in time deposits and savings deposits respectively. For the comparable period of 2002, there was a 27.3 per cent increase in demand deposits and a marginal increase of 0.6 per cent in currency in circulation, while time deposits and savings deposits grew by 7.6 per cent and 0.2 per cent, respectively.

Table 1.3

Commercial Bank Weighted Average Deposit Rates			
	Aug-02	**Jun-03**	**Aug-03**
DOMESTIC CURRENCY			
Demand	3.34	3.49	3.35
Savings	6.48	6.40	6.41
Time	9.15	8.98	9.03
Overall Average			
Weighted rate	6.98	6.81	6.87
FOREIGN CURRENCY			
Demand	2.65	3.11	2.96
Savings	2.51	2.45	2.29
Time	4.89	5.34	5.38
Overall Average			
Weighted rate	3.14	3.40	3.32

The broader measure of money supply inclusive of foreign currency deposits (M3*), increased by 4.5 per cent during the review quarter. This was a slower rate of increase relative to the 5.8 per cent observed in the June 2003 quarter and the 6.7 per cent that obtained in the September 2002 quarter. The expansion in the review quarter largely reflected a 5.7 per cent increase in local currency deposits and a 3.1 per cent growth in foreign currency deposits. The increase in the latter stemmed from a 7.8 per cent growth in savings deposits as demand deposits and time deposits both declined by 3.6 per cent.

Foreign currency deposits of the private sector, expressed in United States dollars, increased by 1.6 per cent during the review quarter amounting to US$985.1 million at the end of September 2003. This growth was notably slower than the 5.3 per cent that obtained during the previous quarter. The outturn for the review quarter was largely reflected in a 6.3 per cent increase in savings deposits as demand deposits and time deposits both declined by

5.0 per cent. The reduction in time deposits could have been motivated by increased confidence in the Jamaican economy and comparatively higher rates of return on local deposits (see **Table 1.3**), and domestic securities. The weighted average rate on foreign currency time deposits increased marginally to 5.38 per cent at end August 2003, from 5.34 per cent at end June 2003. Simultaneously, there was an increase in the weighted average rate on domestic currency time deposits to 9.03 per cent at end August 2003 from 8.98 per cent at end June 2003.

Against this background, the ratio of foreign currency deposits of the private sector to total deposits fell to 31.3 per cent at end September 2003 from 31.9 per cent at end June 2003 but was higher than the 25.7 per cent observed at end September 2002.

For the first six months of FY 2003/04, M3J grew by 8.2 per cent, slightly lower than the 9.2 per cent that obtained for the comparable period of 2002. This reflected increases of 27.2 per cent, 9.3 per cent and 4.2 per cent in, demand deposits, currency in circulation and savings deposits, respectively, as time deposits declined by 9.0 per cent. For the comparable period of 2002, demand deposits, currency in circulation, savings deposits and time deposits increased by 26.1 per cent, 0.4 per cent, 4.1 per cent and 10.1 per cent, respectively. The growth in M3J during the first six-months of FY 2003/04 exceeded the 4.5 per cent anticipated in the monetary programme. This deviation was largely due to an increase of $26 793.4 million in banking system credit and a $2 503.5 million decline in BOJ open market liabilities, offset partially by a $1 375.3 million decline in the NIR

Table 1.4

Commercial Bank Distribution of Loans and Advances to the Private Sector (Flows J$MN)			
	Sep-02	**Jun-03**	**Sep-03**
Agriculture & Fishing	-42.6	22.7	24.1
Mining & Quarrying	4.6	-46.7	217.9
Manufacturing	199.4	377.8	-83.5
Construction & Land Dev.	426.9	530.4	1420.9
Transport, Storage, & Comm.	171.3	1160.6	959.8
Tourism	949.6	1972.0	830.4
Distribution	71.5	1071.5	495.8
Professional & Other services	121.4	538.1	65.6
Personal Loans	711.3	1882.6	2662.4
Electricity	457.6	-233.2	-179.2
Entertainment	34.7	2.3	-54.9
Overseas Residents	15.4	2.4	-4.8
TOTAL	**3121.1**	**7280.5**	**6354.5**

Private Sector Credit

Commercial bank credit to the private sector continued to reflect buoyant growth during the review quarter. Loans to the sector expanded by 10.7 per cent with Construction & Land Development, Transport Storage & Communication and Tourism recording the largest share of the increase in commercial credit. This expansion continued to reflect relatively strong demand for foreign currency loans. During the quarter, there was further improvement in the quality of the commercial banks' loan portfolio.

The growth in commercial bank credit to the private sector, which was observed in the June quarter, continued into the September quarter. Credit to the private sector expanded by $5 848.5 million or 9.5 per cent, totaling $67 531.4 million as at end September 2003. This increase reflected an expansion in loans & advances of $6 354.5 million or 10.7 per cent which was partially, offset by declines in commercial banks' holdings of other investments and private sector debentures. The increase in credit to the private sector surpassed the target of 3.8 per cent outlined in the monetary programme for the second quarter of fiscal year 2003/04.

Loans to *Construction & Land Development* increased by $1 420.9 million, accounting for 22.4 per cent of the total increase. (see **Table 1.4**) The *Transport, Storage & Communication* and *Tourism* sectors also recorded significant increases of $959.8 million and $830.4 million in loans accounting for 15.1 per cent and 13.1 per cent respectively, of the growth in credit to the private sector (see **Table 1.4**). *Personal loans* continued to record significant growth, with an increase of $2 662.4 million.

Figure 1.4
Sectoral Distribution of Commercial Bank Credit to the Private Sector
Per Cent of Outstanding Stock

September 2002 and September 2003

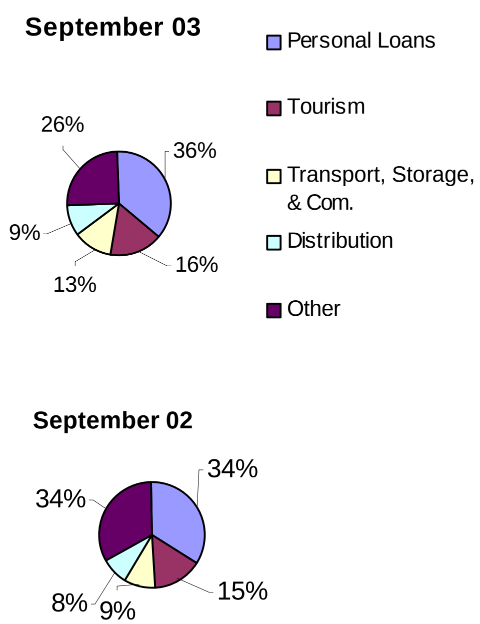


Table 1.5

Commercial Bank Distriubution of Foreign Currency Loans & Advances to the Private Sector (FlowsUS$MN)	Sep-02	Jun-03	Sep-03
Agriculture & Fishing	-0.3	-0.1	-0.1
Mining & Quarrying	-0.1	0.0	3.5
Manufacturing	0.4	-0.8	-0.7
Construction & Land Development	15.5	0.1	3.3
Transport Storage & Communication	2.3	-1.3	14.6
Electricity, Gas & Water	-1.8	-6.7	-0.3
Distribution	1.0	12.0	-8.8
Tourism	17.0	27.1	12.1
Entertainment	0.0	0.0	-0.8
Professional & Other Services	0.8	-2.2	-2.9
Personal Loans	3.4	4.9	3.3
Overseas Residents	0.0	0.0	0.0
TOTAL	**38.3**	**33.0**	**23.3**

The acceleration in the growth of *Personal Loans* was consistent with the aggressive marketing strategies undertaken by the commercial banks. With regard to credit granted to the economic sectors, this was consistent with the developments observed in the real sector (see ***Real Sector Developments***).

Despite a slower rate of expansion, the demand for foreign currency loans by the private sector remained relatively strong. During the September quarter, loans to the private sector denominated in United States Dollars expanded by US$23.3 million, which was lower than the US$33.0 million of the previous quarter and the US$38.3 million observed during the corresponding period of 2002. Of the net expansion of $23.3 million in foreign currency loans to the private sector, *Transport, Storage & Communication* and *Tourism* accounted for $14.6 million and $12.1 million, respectively while the other sectors either declined or remained flat. (see **Table 1.5**)

The overall weighted average loan rate increased to 19.7 per cent at end August 2003 from 19.2 per cent and 17.9 per cent at end June 2003 and August 2002, respectively. The lending rate to *Local Government & Other Public Entities* increased to 19.4 per cent at end August 2003 from 14.8 per cent at end August 2002 (see **Table 1.6**). Similarly, the weighted average rate on loans extended to *Central Government* increased to 28.2 per cent at end August 2003 from 15.2 per cent at end August 2002. (see **Table 1.6**). The overall weighted average interest rate on *Private Sector* loans increased to 18.7 per cent at end August 2003 from 14.9 per cent at end August 2002. (see **Table 1.6**). In terms of the rate charged on foreign currency loans, the overall weighted average rate declined to 8.73 per cent as at end August 2003 from 11.87 per cent as at end August 2002.

Figure 1.5
Commercial Banks' Weighted Average Loan Rate June 2002 to August 2003

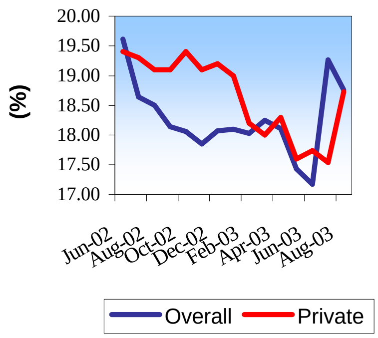
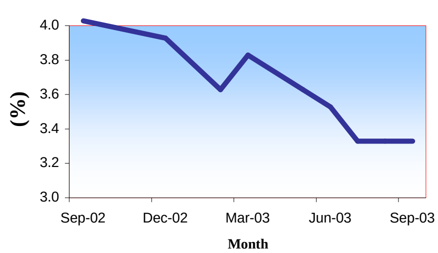


Table 1.6

Commercial Bank Domestic Currency Average Weighted Lending Rates by loan type	Aug-02	Jun-03	Aug-03
Instalment	25.1	24.4	23.9
Mortgage	19.2	19.0	21.6
Personal	26.6	27.8	27.2
Commercial	15.7	14.4	15.8
Local Government & Other Public Entities	14.8	21.6	19.4
Central Government	15.2	24.5	28.2
Weighted Average Rates			
Overall	**17.9**	**19.2**	**19.7**
Public Sector	19.1	22.4	21.9
Private Sector	14.9	17.2	18.7

Figure 1.6
Commercial Banks past due Loans Three Months and over to Total Loans September2002 to September2003



The declining average weighted rate on foreign currency loans would have facilitated the continued expansion in these loans, which accounted for 36.8 per cent of the stock of private sector credit at end August 2003 relative to the comparable period in 2002.

The quality of the loan portfolio of commercial banks continued to show improvement as reflected in the ratio of past due loans (over three months) to total loans that declined to 3.2 per cent at end September 2003 (see **Figure 1.6**) from the 3.9 per cent that obtained at end September 2002. The outturn compares favourably with the 10.0 per cent international benchmark. In addition, it represents the highest rating of the commercial banks' asset quality over the last five years and reflects the combined result of the thorough restructuring of the financial sector and the strict implementation of prudential guidelines by the central bank.

Bond Market

The yields on successive offers of Government instruments declined during the September quarter, influenced by the reduction in interest rates on Bank of Jamaica's reverse repurchase instruments, improved conditions in the foreign exchange market and the over-performance of the fiscal accounts during the June 2003 quarter. The decline in yields occurred despite relatively low Jamaica Dollar liquidity. In order to augment Jamaica Dollar liquidity positions, institutions converted a portion of their foreign currency holdings, in spite of the decline in interest rates. Government debt was financed through both Jamaica Dollar and US dollar denominated instruments issued in the domestic market. The debt issues included a US$176.9 million bond, which replaced a maturing US$99.6 million domestic bond in September. This provided most of the financing for the quarter. Interest rates in the private money market fluctuated with the liquidity conditions but recorded an overall decline for the quarter.

Developments in the bond market during the quarter were influenced by the relatively stable foreign exchange market, the better than programmed outturn in the fiscal accounts for the June quarter and the continued reduction in the interest rate on the longer tenors of the Central Bank's open market instruments. These factors jointly contributed to an improvement in the confidence level, which was manifested in the willingness of investors to accept lower rates on Government debt.

During the quarter, the Bank effected a series of reductions in interest rates in an effort to generate a more normal yield curve and a smoother maturity profile in its

Table 1.7

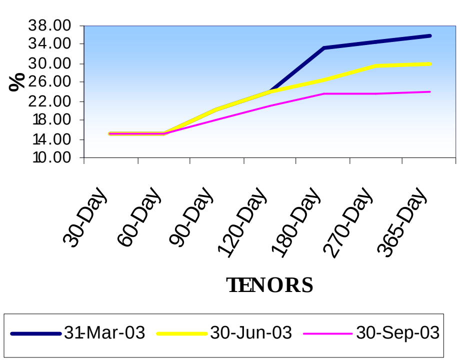
BOJ Reverse Repurchase Rates July – September 2003	30 Jun	08 July	04 Aug	09 Sept
30 Days	15.00	15.00	15.00	15.00
60 Days	15.30	15.30	15.30	15.30
90 Days	20.00	20.00	**18.00**	18.00
120 Days	24.00	24.00	**22.00**	**21.00**
180 Days	26.50	26.50	**25.00**	**23.50**
270 Days	29.50	**27.50**	**25.75**	**23.75**
365 Days	30.00	**28.00**	**26.00**	**24.00**

open market instruments. The reduction in interest rates was in response to continued improvement in tourism receipts and favourable liquidity conditions, which helped to underpin the stability in the foreign exchange market. The rates on the 30-day and 60-day tenors remained unchanged for the quarter. On 8 July, the 270-day and 365-day tenors were reduced by 200 basis points each to 27.5 per cent and 28.0 per cent, respectively. There were two subsequent adjustments to the rates on the other tenors. For the quarter, the 180-day tenor was reduced by 300 basis points to 23.5 per cent while the rate on the 365-day tenor was reduced by 600 basis points to 24.0 per cent. (see **Table 1.7**) The rate adjustments resulted in a less steep yield curve with a less pronounced kink at the 180-day tenor. (see **Figure 1.7**)

BOJ reduces slope of yield curve

Although the premium at the longer end of the yield curve was reduced, there was continued interest in the longer tenors. In this regard, placements in open market instruments were mainly concentrated in the 365-day and 180-day tenors, which accounted for 36.97 per cent and 18.49 per cent, respectively, of total take-up. These placements were mainly funded from maturities in the 150-day and 120-day-tenors, which accounted for 25.67 per cent and 21.80 per cent, respectively, of total placements. (see **Table 1.8**) The 150-day maturities reflected the redemption of securities from the special offer made in February 2003. This tenor was not re-issued. Notwithstanding the concentration in the 180-day and 365-day tenors, the placements were more widely distributed relative to the previous quarter when the 365-day tenor accounted for 60.21 per cent of placements.

Figure 1.7
BOJ OMO Yield Curve



It was also noticeable that despite the relatively low rate offered on the 30-day to 90-day tenors, these tenors together attracted total placements of 28.30 per cent as

Table 1.8

Placements and Maturities* in BOJ OMO Instruments July – September 2003		
	Maturities (%)	Placements (%)
30 Days	11.97	13.91
60 Days	6.19	6.55
90 Days	8.18	7.84
120 Days	21.80	7.81
150 Days	25.67	0.00
180 Days	9.89	18.49
270 Days	0.49	8.43
365 Days	15.81	36.97

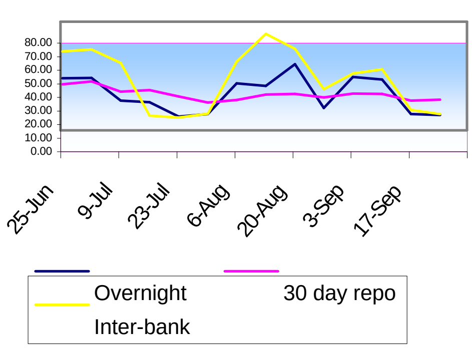
Table 1.9

Treasury Bill Auctions & Maturities July - September 2003				
Issue Date	**Tenor (days)**	**Avg. Yield (%)**	**Allotment (J$MN)**	**Amount Maturing (J$MN)**
31 July 03	183	26.31	500.0	500.0
29 Aug. 03	182	25.74	400.0	
12 Sept. 03	273	23.87	300.0	
26 Sept. 03	182	23.42	300.0	300.0
Total			**1500.0**	**800.0**

**Excludes overnight transactions during the period*

Figure 1.8

Private Money Market
Average Maximum Rates
July – September 2003



institutions positioned themselves to meet liquidity requirements in the December quarter.

Interest rates in the private money market fluctuated throughout the quarter, but recorded an overall decline. Rates in the overnight and interbank market were more responsive to the liquidity conditions in the market as well as, Government' financing needs. The average maximum rate in the interbank and overnight markets peaked at 71.00 per cent and 48.80 per cent, respectively, before declining to 15.00 per cent and 12.00 per cent, respectively. (see **Figure 1.8)** Interest rates in the 30-day market declined by approximately 11.0 percentage points and remained in line with BOJ's comparative 365-day interest rate.

In the context of the fiscal outturn for the June 2003 quarter and the improvement in confidence in the economy during the September quarter, the Government was able to reprice its variable rate debt at lower yields. (See **Table 1.9**) The yield on successive offers of Government's 6-month Treasury Bills declined by 504 basis points for the quarter. Yields on all other Government offers also declined during the quarter. It was however noteworthy that despite the declining trend in interest rates, over 25.00 per cent of the maturing debt was re-issued at higher rates than originally contracted. This was, as a result of the high financing needs of the Government during the quarter.

In addition to the public issues of local currency instruments, the Government's financing needs were met through a number of private placements, as well as the issue of a US dollar denominated instrument in the domestic market. The latter accounted for the majority of Government's funding and raised US$176.8 million to replace a maturing instrument of US$99.6 million during

GOJ US Dollar bond raised US$176.8 million at 11.75 per cent

Table 1.10

GOJ Public Domestic Debt Raising July - September 2003	Amount Allotted (J$MN)	Amount Maturing (J$MN)	Net Issue (J$MN)
Treasury Bills	1 500.0	800.0	700.0
LRS	1 500.0	15 864.3	-14 364.3
Debenture	6 041.1	0.0	6 041.1
US$ Indexed Bonds	1 136.9	0.0	1 136.9
Investment Bonds	3 937.0	0.0	3 937.0
Total J$	**14 115.0**	**16 664.3**	**-2 549.3**
US$ Bond	176.8	99.6	77.2
J$ equivalent	10 525.3	5 929.4	4 595.9
TOTAL	**24 640.3**	**22 593.7**	**2 046.6**

the quarter (see **Table 1.10**). The US dollar instrument was issued at a fixed rate of 11.75 per cent. In addition, there were net issues of all other instruments with the exception of the Local Registered Stock (LRS). All auctions were oversubscribed during the quarter. On 4 July, the Government issued two LRS, a 20-month and a 36-month instrument, that yielded 32.42 per cent and 31.81 per cent, respectively. (see **Appendix 8A)** Subsequently, a 31-month debenture was offered which had a subscription period of 10-16 July and a fixed rate of 28.50 per cent. In the previous quarter, the Government attracted subscriptions to a 19-month debenture during 18-25 June, at a rate of 33.50 per cent. Two investment bonds were also issued, a 43-month instrument in July and a 41-month instrument in August at initial rates of 28.50 and 26.31 per cent, respectively with quarterly repricing of 1.5 per cent above the 6-month Treasury Bill. The subscriptions to the instruments were within expectations, given the available liquidity.

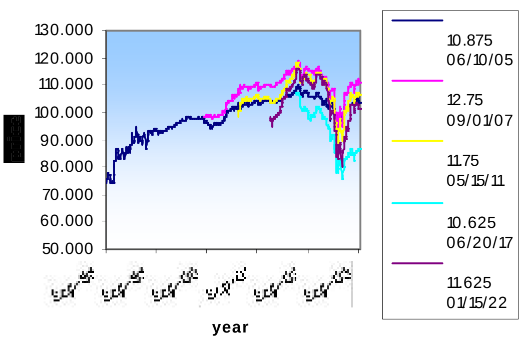
A US dollar indexed bond was issued in mid September at a fixed rate of 11.25 per cent. The bond was issued at an exchange rate of US$59.2742 = J$1 at a time when the exchange rate was US$59.5385 = J$1. A potential capital gain of less than 50 cents was relatively low compared to an average gain of J$1.00 on previous issues. (see **Table 1.10**). Investors therefore did not react favourably to the instrument.

Most of Government debt was contracted with a maturity period of 3 to 5 years. The relatively short-term nature of the debt indicated that, although there was an improvement in the confidence level, this was not restored to the levels obtained in previous years when the Government was able to issue debt with maturity in excess of 10 years.

GOJ debt contracted at lower rates than the June quarter

Jamaica's long-term domestic and foreign debt was downgraded on 28 July 2003 by the rating agency Standard and Poor's, against the background of the unfavourable fiscal performance in FY 2002/03. The rating on the long-term domestic debt was lowered to B+ from BB- while the rating on the foreign debt was lowered to B from B+. The new rating was based on the Government's increased debt burden and heightened fiscal pressures, despite the value added and other tax measures implemented at the beginning of FY 2003/04.

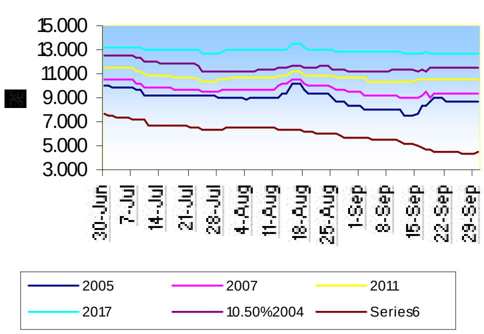
Figure 1.9
GOJ US Dollar-denominated Global Bond Prices June 98 – September 03



Yields on GOJ eurobonds decline despite downgrade by Standard and Poor's.

Despite the downgrade on Jamaica's debt, the prices of GOJ global bonds traded in the secondary market continued the upward trend observed since June 2003. The prices of the 2005 and 2022 eurobonds increased to 103.5 and 101.5 from 101.5 and 93.5, respectively. The 2017 eurobond (subject to withholding tax) traded at 87.00 on 30 September relative to 83.5 at end June 2003. (See **Figure 1.10**) The corresponding yields on the GOJ eurobonds showed that the yield on the 2005 eurobond declined by 1.4 percentage points to 8.594 per cent, while the yield on the 2022 eurobond fell by 1.10 percentage points to 11.423 per cent. The taxable eurobond traded at 12.637 per cent at 30 September, representing a decline of 0.609 percentage points relative to end June. This was the smallest decline in GOJ bond yields for the quarter. The Euro denominated bond traded at 4.482 per cent representing a decline of 3.103 percentage points for the quarter. (see **Figure 1.10**)

Figure 1.10
GOJ US Dollar-denominated Global Bond Yields July 03 – September 03

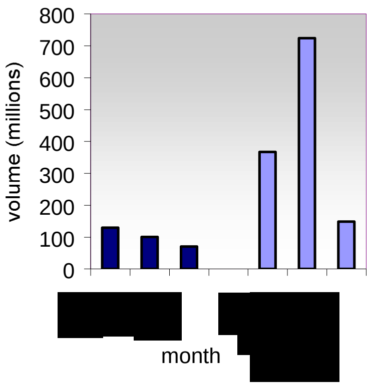


Stock Market

Interest rate reductions and stability in the foreign exchange market boosts stock prices

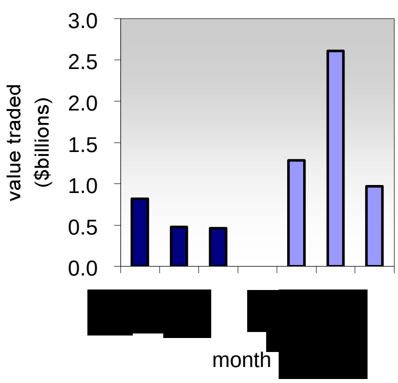
During the September 2003 quarter, there was buoyancy in the stock market, evidenced by stock price gains for listed entities in all sectors. These price gains reflected the continued existence of strong fundamentals at the firm level. In addition to strong micro-fundamentals, the maintenance of relative stability in the foreign exchange market, along with gradual reductions in interest rates, facilitated renewed investor optimism and increased trading activity.

Figure 1.11
Monthly volume traded
Q2 and Q3 - 2003



Source: Jamaica Stock Exchange

Figure 1.12
Monthly value traded
Q2 and Q3 2003

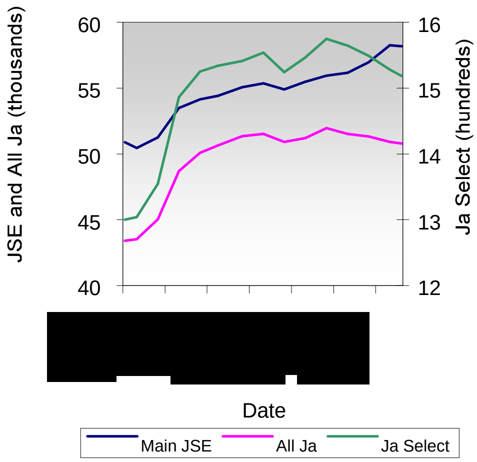


Source: Jamaica Stock Exchange

Growth in stock market activity was clearly evident in volume and value traded during the review quarter. A total of 1.2 billion units were traded at a value of $4.9 billion during the September 2003 quarter. In comparison, 300.1 million units were traded in the June 2003 quarter, valued at $1.8 billion, while in the September 2002 quarter, 396.9 million units were traded with a value of $2.3 billion. Much of the activity in the review period was concentrated in the financial services, telecommunications and manufacturing sectors accounting for 46.0 per cent, 27.5 per cent and 21.1 per cent, respectively, of total market activity. Trading in these sectors was particularly high in August, when 724.0 million units were traded at a value of $2.6 billion, relative to 367.0 million units traded in July and 149.0 million units traded in September at values of $1.3 billion and $1.0 billion, respectively (see **Figures 1.11** and **1.12**).

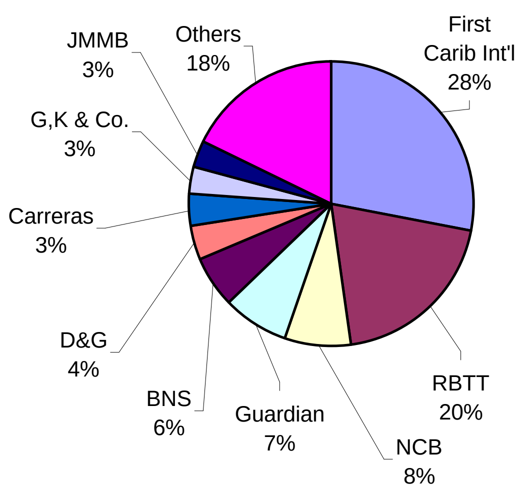
The relatively strong performance of the stock market during the review period was reflected in the movement in all three major indices (see **Figure 1.13**). For the September quarter, the main JSE Index advanced by 14.4 per cent to close at 57 769 points. This growth in the main

Figure 1.13
Stock market indices
September 2003 Quarter



Source: Jamaica Stock Exchange

Figure 1.14
Market capitalization
September 2003



Source: Jamaica Stock Exchange

JSE Index compared favourably with the 15.7 per cent increase attained in the September 2002 quarter, and the 7.4 per cent increase recorded in the June 2003 quarter[1]. Both the Jamaica Select Index and the All Jamaica Composite Index, which registered declines in the June 2003 quarter, advanced by 16.9 per cent and 17.2 per cent in the review period to 1 510 points and 50 386 points, respectively[2].

In addition to the upward movement in the major indices, growth in the stock market was also underpinned by an expansion in total market capitalization to $439.3 billion at end September 2003, from $383.0 billion at end June 2003[3]. The positive movement in the market was driven by 29 advancing stocks, as 3 stocks declined and 4 stocks traded firm. The large number of advancing stocks showed a significant improvement over the June 2003 quarter, when price gains were concentrated in cross-listed stocks. The extent of the price advances in the review quarter was reflective of the relative stability in the foreign exchange market.

The impressive price gains in the review period occurred mainly in the financial services sector, reflecting an increasing velocity of trading activity in that sector. As indicated in **Table 1.11**, financial sector entities recorded an average price gain of 25.5 per cent for the review period. Noticeably, the stock price of the Dyoll Group[4] grew by 62.5 per cent (see **Table 1.12**), and that of Capital and Credit Merchant Bank (CCMB) increased by 59.0 per cent. Growth in the stock price of the Dyoll Group may have

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[1] Macroeconomic conditions were also favourable in the September 2002 quarter.
[2] During the June 2003 quarter the All Jamaica Composite Index and the Jamaica Select Index declined by 3.6 per cent and 5.6 per cent, respectively. During the review period, these indices did not perform as well as they did in the September 2002 quarter, during which the All Jamaica Composite Index increased by 20.1 per cent and the Jamaica Select Index increased by 21.6 per cent.
[3] See **Figure 1.12** for a breakdown of market capitalization at end September 2003.
[4] The Board of Dyoll Group has signed a Memorandum of Understanding with FINSAC. This allows for the sale of 16, 144,254 ordinary shares presently held by FINSAC to be offered to Dyoll's existing ordinary shareholders.

Table 1.11
Average price change by sector/group (September 2003 quarter)

Sector/Group	Avg. price change
Financial Services	25.5
Telecommunications	21.2
Manufacturing	16.1
Distributive	13.4
Conglomerates	9.1
Other Services	6.2

Source: Jamaica Stock Exchange

Table 1.12
Top ten stock price change by sector – September 03

Sectors / Companies	Price at 30-Sept $	Qtr. Change %
Financial Services Sector		
Dyoll Group	9.75	62.5
CCMB	7.95	59.0
Pan Caribbean	6.20	37.8
First Life	13.00	34.0
BNS	17.00	33.3
DB&G	10.50	31.3
Manufacturing		
CMP	2.00	60.0
Carib Cement	2.75	51.9
Salada	17.25	43.8
Telecommunications		
Radio Jamaica	4.50	40.6

Source: Jamaica Stock Exchange

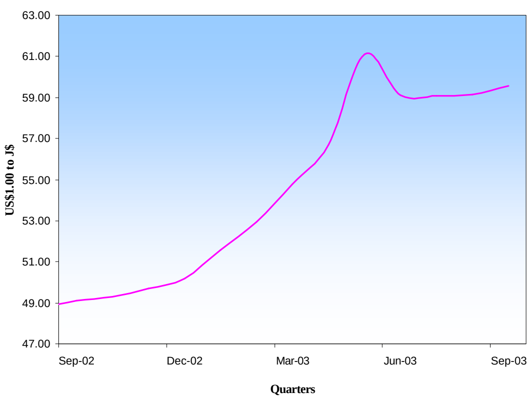
been buoyed by the anticipated sale of additional stocks to existing shareholders, while the gain in the stock price of CCMB coincided with their scheduled listing on the Trinidad and Tobago Stock Exchange (TTSE)[5]. It should also be highlighted that the announced merger with Manufacturers Investment Limited may have spurred the increase in the stock price of Pan Caribbean Financial Services Limited[6].

As noted earlier, the stock prices in the telecommunications and manufacturing sectors also increased, by averages of 21.2 per cent and 16.1 per cent, respectively. Notably, the average price change in the telecommunications sector was dominated by the 40.6 per cent stock price gain in Radio Jamaica Company Limited. The relative stability in the foreign exchange market directly influenced the performance of firms in the manufacturing sector. In particular, entities such as Caribbean Cement Company Limited and Salada Foods may have benefited from the relative stability in the Jamaica Dollar, which would have facilitated containment in import costs, thus boosting profitability and optimism (see **Table 1.12**).

Stock market developments in the December 2003 quarter will, to some extent, be dependent on trends in the foreign exchange market. Stable exchange rates would enable a continuation of interest rate reductions that will facilitate portfolio shifts towards equities and, hence, continued stock market growth.

[5] The Trinidad & Tobago Securities & Exchange Commission and the Trinidad & Tobago Stock Exchange approved the listing of CCMB on the TTSE on 1 October 2003.
[6] Manufacturers Investment Limited ("MIL") is the parent company of Manufacturers Sigma Merchant Bank Limited ("MSMB").

Figure 1.14
Weighted Average Selling Exchange Rate (period average)



Foreign Exchange Market

The foreign exchange market was relatively stable during the September 2003 quarter following the sharp depreciation in the exchange rate during the June 2003 quarter. This relative stability in the market signalled an improvement in investor confidence. The weighted average selling rate depreciated by 1.2 per cent, compared with an average depreciation of 7.5 per cent over the first two quarters of 2003. During the quarter, the relative stability observed in the market was mainly influenced by an apparent shift in market perception regarding the resolve of the monetary authority to maintain orderly conditions in the market. This was reinforced by low levels of Jamaica Dollar liquidity, as well as improved foreign exchange inflows.

The foreign exchange market was relatively stable during the September 2003 quarter, in contrast to some instability observed in the first half of 2003 (see **Figure 1.14**). The weighted average selling rate depreciated by 1.2 per cent to US$1.00 = J$59.71 at end-September 2003 from US$1.00 = J$59.01 at end-June 2003 (see **Figure 1.14**). In this context, an average daily increase (in the price of the US$ to J$) of J$0.01 was observed for the September quarter, significantly below averages of J$0.08 and J$0.04 observed for the March and June 2003 quarters, respectively.

The relative stability of the foreign exchange rate also resulted in a narrowing of the spread between the prices at which US dollars were bought and sold. The spread declined to 0.48 per cent of the buying rate during the September 2003 quarter from 0.66 per cent in the preceding quarter (see **Figure 1.14**). Notwithstanding this decline, the spread is still above levels observed in the December 2002 and March 2003 quarters. In the context

Figure 1.15
Foreign Exchange Spread as a Per Cent of Average Buying Rate

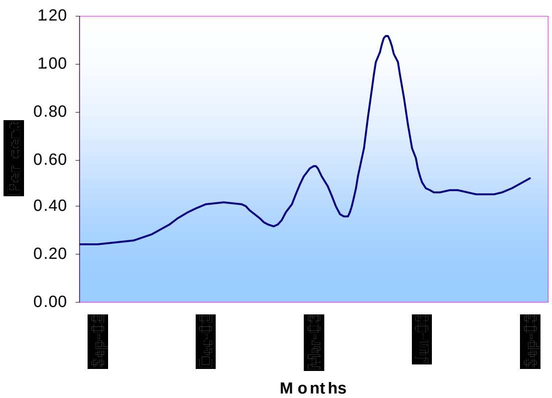
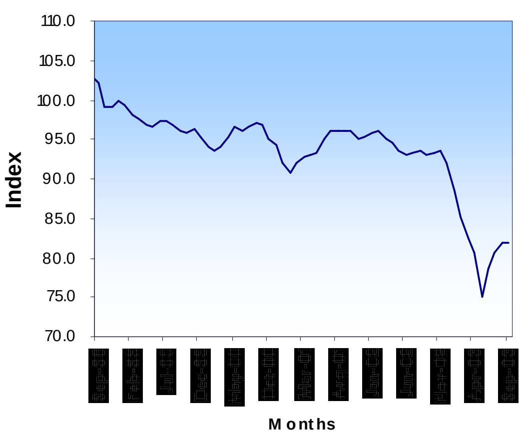


Figure 1.16
*Real Effective Exchange Rate Index***
(December 1998 = 100)



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

of the shocks to inflation (see **Inflation**) and the relatively slower rate of depreciation in the nominal exchange rate, the Real Effective Exchange Rate (REER)[7] index increased by 4.3 per cent by end-September 2003, relative to end-June 2003, indicating a loss in competitiveness (see **Figure 1.16**). However, the annual point-to-point movement in the REER as at September 2003 reflected a 12.1 per cent gain in competitiveness compared with a gain of 3.1 per cent at September 2002.

The loss in external competitiveness during the review quarter largely reflected the effect of a faster rate of growth in domestic prices, compared with exchange rate depreciation. Domestic prices increased by 4.6 per cent in the September 2003 quarter, compared with an average inflation of 0.7 per cent experienced by Jamaica's main trading partners. The loss in competitiveness was also influenced by the depreciation in the weighted exchange rate index of Jamaica's major trading partners vis-à-vis the US Dollar, partly offset by the depreciation in the weighted average buying and selling rate of the Jamaica Dollar.

Reduced pressures in the foreign exchange market in the review period largely reflected an improvement in the economic outlook, following the response of the authorities to the instability in the previous quarter. The rise in confidence was associated with the strong economic growth and a better than expected fiscal performance in the June 2003 quarter. In addition, the flow of Jamaica dollar liquidity was low (see **Bond Market**) and there were more favourable supplies of

[7] See Box 1 in Quarterly Monetary Report, April-June 2003, Volume 4 No.1 for more details on the real effective exchange rate and measures of competitiveness.

Figure 1.17a
Quarterly Foreign Exchange Cash Inflows & Outflows

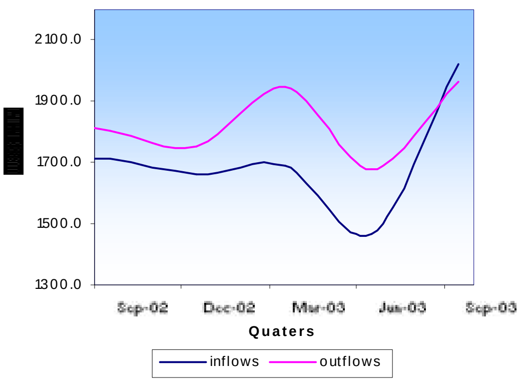


Figure 1.17b
Monthly Foreign Exchange Cash Inflows &

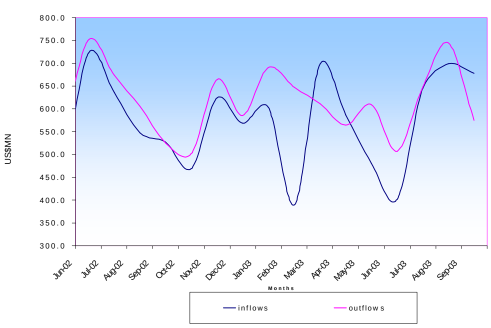
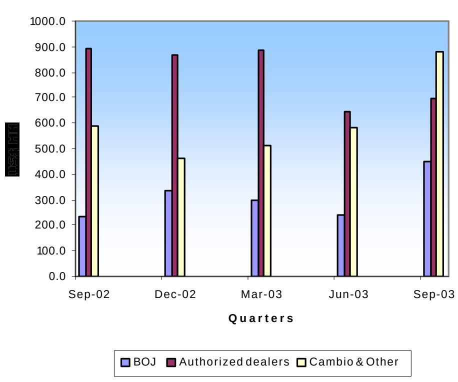


Figure 1.18a
Foreign Exchange Cash Inflows by



foreign exchange to the market in the September quarter.

Preliminary estimates of foreign exchange flows within the economy for the September 2003 quarter indicate that there was excess supply of foreign currency of US$55.3 million. This compares favourably with the excess demand of US$95.0 million observed for the corresponding quarter in 2002. Relative to the comparable quarter in 2002, the supply and demand of foreign exchange are estimated to have increased by US$312.5 million and US$162.3 million, respectively. Total inflows and outflows of foreign exchange for the quarter were estimated at US$2 022.5 million and US$1 967.2 million, respectively (see **Figures 1.17a & 1.17b**).

The increased supply of foreign exchange to the economy during the review quarter ensued principally from private capital and tourism inflows. Bank of Jamaica estimates for the September 2003 quarter suggest respective increases in private capital and tourism inflows of US$314.7 million and US$10.3 million, relative to the September 2002 quarter. While the growth in private capital receipts was associated with Government borrowing operations on the domestic market, the performance of tourism reflected a 11.3 per cent increase in visitor arrivals.

The estimated growth in demand for US Dollars in the review quarter largely reflected accelerated private capital outflows. However, the demand for imports and expenditure by Jamaican's travelling abroad, as well as Government of Jamaica (GOJ) external debt payments were lower relative to the comparable quarter of 2002.

Figure 1.18b
Foreign Exchange Cash Outflows by Institutions

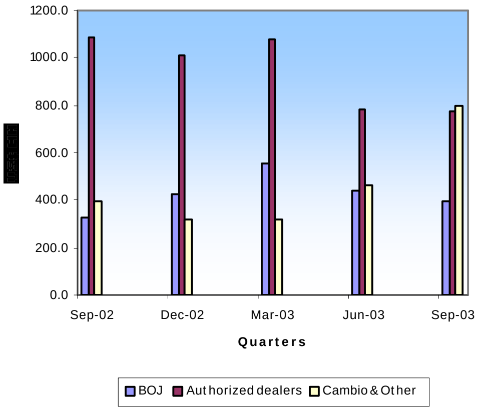


Table 1.13

Net International Reserves (US$MN)			
Month	**Stock**	**One Month Change**	**Three Month Change**
Oct-02	1655.2	-32.1	-88.7
Nov-02	1614.4	-40.8	-71.2
Dec-02	1597.0	-17.4	-90.3
Jan-03	1510.3	-86.7	-145.0
Feb-03	1252.9	-257.3	-361.5
Mar-03	1339.7	86.7	-257.3
Apr-03	1362.1	22.4	-148.2
May-03	1233.3	-128.8	-19.6
Jun-03	1127.4	-105.9	-212.3
Jul-03	1124.9	-2.5	-237.2
Aug-03	1080.1	-44.8	-153.2
Sep-03	1182.6	102.5	55.2

The operations of the authorized foreign exchange dealers resulted in net sales of US$80.2 million. This was US$113.7 million lower than the corresponding September 2002 quarter due to the improved supply conditions in the market. Total volumes purchased and sold declined by US$194.6 million and US$308.3 million, respectively, to US$695.4 million and US$775.6 million (see **Figures 1.18a & 1.18b**). The fall-off in supplies to this segment of the market principally reflected declines in private capital and current transfers inflows. The performance of private capital inflows may be associated with the uncertainties in the preceding quarter. The contraction in foreign exchange sales largely reflected reduced demand to pay for imports and other services.

The cambios recorded net purchases of US$78.9 million during the September 2003 quarter. Total purchases by the cambios, relative to the September 2002 quarter, declined by US$108.3 million to US$445.3 million. Concurrently, total sales declined by US$107.6 million to US$366.4 million.

The NIR increased to US$1 182.6 million at end-September 2003, compared with US$1 127.4 million at end-June (see **Table 1.13**). The growth in the NIR was primarily influenced by net purchases of US$42.6 million by the BOJ from the market during the review period. Against this background, the gross reserves of the BOJ at end-September 2003 were US$1 216.7 million, representing 12.6 weeks of projected goods and services imports.

Box 1: **International Investment Position**

Introduction

In 2004, Jamaica will commence compilation of an International Investment Position (IIP). The IIP is a statistical statement showing the stock of external financial assets and liabilities of the public and private sectors at a particular point in time. The difference between the stock of external assets and the stock of external liabilities indicates the net international investment position. When this is combined with the stock of an economy's non-financial assets and liabilities, the result is an estimate of the net worth of the economy. Together with the Balance of Payments (BOP), the IIP provides information that facilitates an assessment of the economy's relations with the rest of the world.

Importance of IIP Statistics

The concept of the IIP was mainly developed with the widespread liberalization of most financial markets in the early 1990s, which facilitated the free movement of capital across borders. As a result, countries became more exposed to the risk of a sudden and significant outflow of capital, which increased their vulnerability to external shocks. The IIP is viewed as an indicator of vulnerability as it measures a country's ability to meet its eternal obligations.

The IIP statistics are also an important requirement of the IMF's Special Data Dissemination Standard (SDDS). This standard was developed to assist member countries, which have or might seek access to international capital markets, in providing economic and financial data to the public. Although the SDDS prescribes disseminating annual IIP data, within two quarters of the reference period, it encourages quarterly frequency with a one-quarter lag for IIP statement dissemination.

The reporting of IIP statistics is relatively new and has therefore not yet been adopted by most countries. However, an outreach program by the IMF, which began in 2001, encourages countries that were not reporting IIP data to strengthen their efforts to do so and to encourage those countries reporting partial data to report more comprehensively. At present, the IMF's database contains IIP data for eighty-six countries.

The IIP would serve to strengthen and complement Jamaica's BOP statistics. The extent and composition of the country's external financial liabilities need to be recorded and systematically updated as it will serve to inform policy as well as investment decisions. An assessment of the vulnerability of the Jamaican economy to external shocks and potential claims by nonresidents is a very valuable tool in the policy decision making process, particularly as it relates to the anticipation and timing of surges in demand pressures in the foreign exchange market. The country would also be able to assess the impact of expected inflows from foreign investments by Jamaican stakeholders.

Jamaica currently subscribes to the General Data Dissemination System, (GDDS) of the IMF with the intention of upgrading to the SDDS. This would require the reporting of the IIP statistics along with the other specified requirements. As a potential subscriber to the SDDS, Jamaica's reported IIP data would be accessible internationally with significant implications for the country's credit rating.

Structure of the IIP

Within the IIP, there are five functional types of investment: direct investment, portfolio investments, financial derivatives, other investments and reserve assets (See **Table 1**). For all investments, the distinction between assets and liabilities depends on whether non-residents or residents made the investment. The investments by residents abroad are external assets while non-resident investments locally are foreign liabilities. The estimates for each investment are derived from past transactions that are recorded in the financial account of the BOP and valued at current market prices.

Direct investment is defined as the acquisition of a long-term interest in a domestic enterprise by a non-resident entity, by which the investor has meaningful influence on the management of the domestic entity. According to the fifth edition of the BOP manual (BPM5), direct investment implies 10 per cent or more of the ordinary shares or voting power or the equivalent in the enterprise. Direct investment is disaggregated into three categories, equity capital, reinvested earnings and other capital (See **Table 1**).

Portfolio investment refers primarily to equity and debt securities that may be traded or are tradable in financial markets. Debt securities are disaggregated into bonds, notes and money market instruments. Portfolio investments imply less than 10 per cent of ordinary shares or voting power in an organisation.

A financial derivative, is a financial instrument that is linked to another specific financial instrument or commodity or indicator and through which specific risk (e.g. interest rate and foreign exchange) can, in their own right, be traded in financial markets. The IIP classification excludes financial derivatives that are reported as reserve assets from this category. Examples of financial derivatives include options and swaps. The category "other investment" is generally treated as a residual and includes trade credits, loans, currency deposits, and other assets and liabilities.

Reserve assets are external assets that are readily available to and controlled by the monetary authorities. These assets are further categorised into monetary gold, SDRs, reserve position with the International Monetary Fund (IMF), foreign exchange and other claims. The external liabilities of monetary authorities, which are in the form of debt securities, financial derivatives, loans, deposits, or other liabilities should be reflected in the relevant sections on the liabilities sides of the IIP as depicted in table1.

Sources of Information for Compiling Jamaica's IIP

The primary sources in establishing a database will be the banking system's external assets and liabilities, the Central Bank's foreign assets and liabilities, the public sector external debt, and BOP financial flows. The Central Bank will augment these data sources with the published financial statements of public and private sector enterprises. These statements provide an indicative estimate of the foreign assets and liabilities of these companies. In addition, the annual BOP surveys of companies will be expanded to take into consideration the data requirements of the IIP. The Bank for International Settlements (BIS) and the IMF are potential sources for foreign data.

Summary

The IIP is a very useful statistic as it provides an indicator of the vulnerability of an economy to external shocks. It also provides important information from which credit and loan agencies can access a country's external asset position. In addition, the IIP is a vital source of information for monetary and exchange rate policy design as well as for broader economic policies. Given its usefulness, it is important Jamaica adopts the IIP.

Table 1: International Investment Position: Main Components

A. ASSETS	B. LIABILITIES
1. Direct investment abroad	**1. Direct investment in reporting economy**
1.1 Equity capital and reinvested earnings	1.1 Equity capital and reinvested earnings
1.1.1 Claims on affiliated enterprises	1.1.1 Claims on direct investors
1.1.2 Liabilities to affiliated enterprises	1.1.2 Liabilities to direct investors
1.2 Other capital	1.2 Other capital
1.2.1 Claims on affiliated enterprises	1.2.1 Claims on direct investors
1.2.2 Liabilities to affiliated enterprises	1.2.2 Liabilities to direct investors
2. Portfolio investment	**2. Portfolio investment**
2.1 Equity securities	2.1 Equity securities
2.2 Debt securities	2.2 Debt securities
2.2.1 Bonds and notes	2.2.1 Bonds and notes
2.2.2 Money market instruments	2.2.2 Money market instruments
3. Financial derivatives	**3. Financial derivatives**
4. Other investment	**4. Other investment**
4.1 Trade credits	4.1 Trade credits
4.2 Loans	4.2 Loans
4.3 Currency and deposits	4.3 Currency and deposits
4.4 Other assets	4.4 Other liabilities
5. Reserve assets	
5.1 Monetary gold	
5.2 SDRs	
5.3 Reserve position in the Fund	
5.4 Foreign exchange	
5.4.1 Currency and deposits	
5.4.2. Securities	
5.4.3 Financial derivatives (net)	
5.5 Other claims	

2. Real Sector Developments

A preliminary assessment of real sector activities suggests that the economic performance of Jamaica for the September 2003 quarter was relatively strong, compared to growth of 1.5 per cent recorded in the corresponding period of 2002. Growth in the review quarter was associated with continued expansion in ***Electricity & Water****,* ***Transport, Storage & Communication****,* ***Construction*** *and* ***Miscellaneous Services*** *(see* ***Table 2.1****). In addition, there was a normalization of production in* ***Agriculture*** *and* ***Mining****. The overall growth in the review quarter was consistent with the expansion in credit to the private sector, which, in part, facilitated the recovery. From the perspective of aggregate demand, the expansion in economic activity reflected estimated increases in both private and public sector consumption, as well as investment, which were partially offset by a decline in net external demand.*

Table 2.1

Sectoral Contribution to Growth September Quarter	Estimated Impact on Growth
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 (Wholesale & Retail)	+ve
Financing & Insurance Services	+ve
Real Estate & Business Services	+ve
Producers of Government Services	+ve
Miscellaneous Services	+ve
Households & Private Non-Profit Instit	+ve
TOTAL GDP	+ve

Expansion in all sectors of the economy

Aggregate Supply

The Bank of Jamaica estimates indicate that growth was recorded in all sectors of the economy during the review period, relative to growth of 1.5 per cent in the September 2002 quarter. This estimated growth was consistent with the expansion in credit to the private sector (see **Money and Credit**). Expansion in the goods producing sectors was mainly reflected in *Agriculture* and *Mining*. With regard to services, growth was more pronounced in the *Miscellaneous* and *Basic* services.

The estimated growth in *Agriculture* was inferred from an expansion of 23.0 per cent in domestic crop production (see **Figure 2.1),** which was partially offset by a decline in crops produced for the export market. Similar to the

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

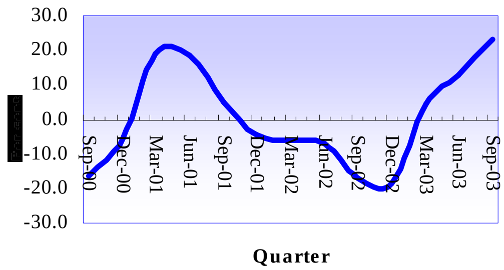


Figure 2.2
Sugar Cane Production
(12-Month change)

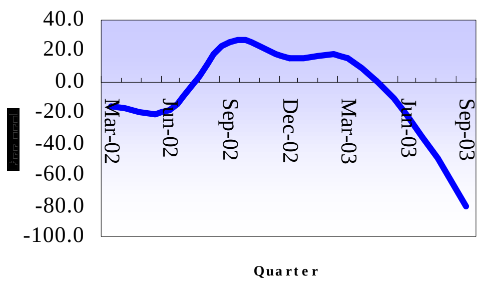
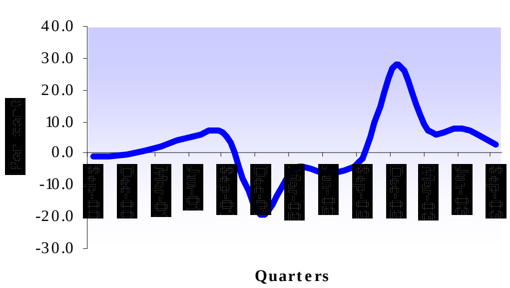


Figure 2.3
Trends in Alumina Production
(12-Month change)

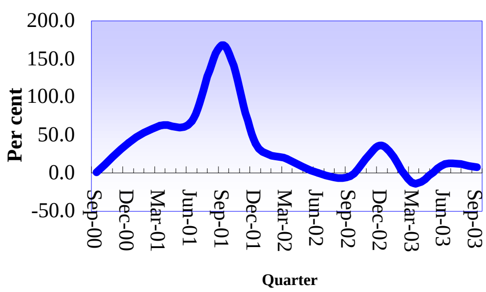


March and June 2003 quarters, the growth in domestic crop production in the review quarter reflected continued recovery, following depressed output levels in the corresponding quarters of 2002. With relatively favourable weather conditions since the beginning of 2003, there was an increase in planting activity and crop maintenance. In this context, the production of potatoes, fruits and vegetables was estimated to have increased by 30.0 per cent, 12.6 per cent and 12.0 per cent, respectively, in the review period, relative to reductions recorded in the September 2002 quarter.

The decline in export agriculture, was mainly attributed to a fall of 80.0 per cent in sugar cane production (see **Figure 2.2)**, which offset estimated expansions in the production of coffee, cocoa and pimento. The fall in sugar cane production in the review quarter was due to a delay in replanting in 2002. In addition, there was a lower level of replanting for the 2002/2003 crop year.

Value added in the *Mining* sector was estimated to have increased in the review quarter, relative to a decline in the corresponding period in 2002, albeit at a somewhat slower rate than what prevailed in the first two quarters of the calendar year. This growth was inferred from respective increases of 2.8 per cent and 8.1 per cent in the production of alumina and crude bauxite (see **Figures 2.3** & **2.4**). This came against the background of contractions of 1.5 per cent and 3.6 per cent in the same variables in the September 2002 quarter. The rebound reflected an increase in capacity utilisation in the sector to approximately 97.0 per cent in the review period from approximately 94.0 per cent in the September 2002 quarter. This improvement was due to significant expansions in capacity utilisation rates at two of the alumina refinery plants.

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

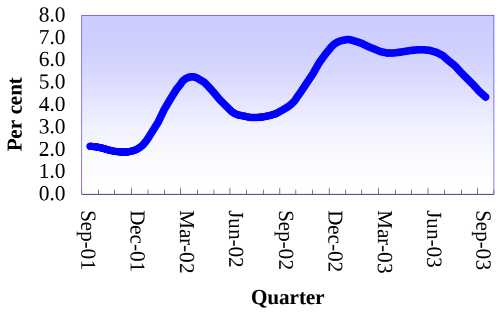


Marginal growth in manufacturing

The *Manufacturing* sector was estimated to have experienced negligible growth in the September 2003 quarter, relative to the similar period in 2002, despite the continued positive performance of the alcoholic beverages and non-alcoholic beverages industries. Growth in the manufacturing sector was constrained by a contraction in the sugar, molasses & rum sub-sector. This decline stemmed from the aforementioned reduction in sugar cane milled during the period. The improvement in the beverages industry was enhanced by the construction of a $75.0 million drink manufacturing plant in January 2003. The expansion in the industry was more pronounced given the fallout in production in the September 2002 quarter due to technical difficulties at one of the assembly plants. The ‘other manufacturing’ group also grew in the review period, in contrast to an average estimated decline of 2.6 per cent during the previous four quarters. This assessment was based primarily on expansions in petroleum refining and cement production during the quarter, which offset the decline in the value added of the textile industry.

It is estimated that growth in the *Construction & Installation* sector during the September 2003 quarter was in line with the estimated average growth over the four quarters ending June 2003. This estimated growth in the review quarter was, in part, inferred from a real expansion of approximately 48.0 per cent in loans to the sector between January and August 2003. In addition, the residential segment of the market benefited from an estimated growth of 4.0 per cent in housing starts by the National Housing Trust, relative to the September 2002 quarter. The expansion of the sector was further enhanced by the completion of construction on the first phase of Highway 2000, as well as continued work on the North Coast Highway project.

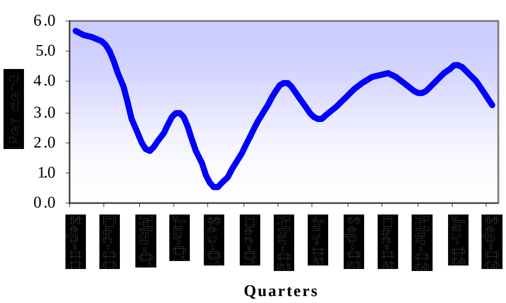
Figure 2.5
Electricity Generation



(12-Month change)

With respect to *Electricity & Water*, an expansion in real value added was reflected in an increase of 4.3 per cent and 3.3 per cent in total electricity generation and sales, respectively, relative to the comparable quarter in 2002 (see **Figures 2.5** and **2.6**). Additionally, water production grew by 2.0 per cent. The sale of electricity for industrial and residential purposes increased by 3.7 per cent and 2.0 per cent, respectively, relative to the September 2002 quarter. In particular, electricity generation was enhanced by the installation of 80 megawatts of capacity in late 2002. The sector has recorded a quarterly average growth rate of approximately 4.1 per cent since 2001. This buoyancy reflected the on going renovation and expansion exercises implemented by the main power company.

Figure 2.6
Electricity Sales
(12-Month change)



Continued growth in communication

In relation to *Transport, Storage & Communication*, growth in the transport sub-sector was inferred, in part, from a 12.8 per cent increase in visitor arrivals in the review quarter, relative to the corresponding period in 2002. Additionally, the number of ships calling at Jamaican ports increased by approximately 3.0 per cent during the quarter, relative to the corresponding period in 2002. With regard to communication, the total number of telephone lines in service (mobile and 'plain old telephones' (POTS)) was estimated to have grown by approximately 23.7 per cent for the quarter, relative to the September 2002 quarter. This growth was fuelled primarily by the expansion in mobile services as the volume of POTS lines was estimated to have grown marginally over the period. The aggressive competition amongst market participants has encouraged continuous investment in the sector and has sustained growth in this industry. Facilitating the overall performance of the sector was a real increase of 79.8 per cent in commercial bank loans to the industry, during the 12-month period

Figure 2.7
Stock of Real Loans to Distribution
(Aug 2002 – Aug 2003)

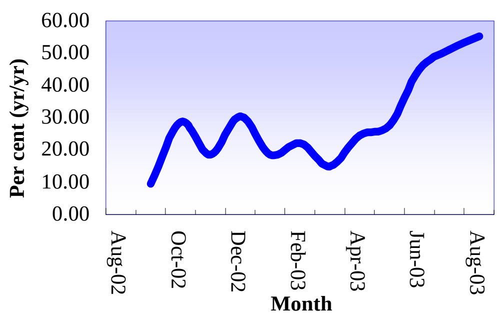


Figure 2.8
Visitor Arrivals
(12-Month change)

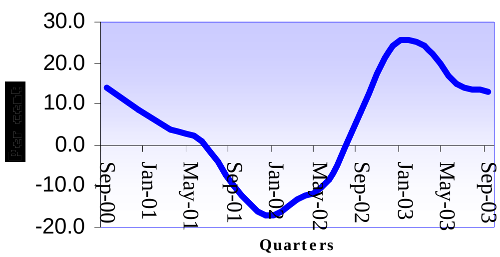
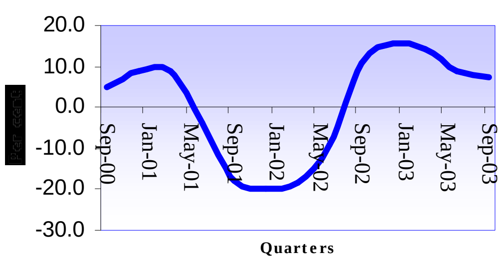


Figure 2.9
Visitor Expenditure
(12-Month change)



ending August 2003.

Distributive Trade was estimated to have registered marginal growth for the review quarter, relative to the corresponding period of 2002, representing a continuation of the relatively slow growth experienced over the previous four quarters. The growth in the quarter was inferred partly from a real increase in loans extended to the sector by commercial banks. Between January and August 2003, there was an real increase of approximately 26.0 per cent in loans, relative to an average growth of approximately 20.0 per cent over the previous four quarters (see **Figure 2.7)**.

There was continued growth in *Miscellaneous Services*, following a quarterly average growth rate of 6.4 per cent over the previous four quarters. This performance was attributed mainly to the tourism industry, the principal sub-sector within *Miscellaneous Services*. Visitor arrivals and expenditure for the quarter were higher by 11.3 per cent and 7.3 per cent, respectively, relative to the September 2002 quarter (see **Figures 2.8** and **2.9**). In relation to overall arrivals, cruise passenger arrivals expanded by 23.3 per cent, while stopovers expanded by 5.0 per cent.

Aggregate Demand

Indicators of aggregate demand point to an enhancement in real consumption spending (both private and public) as well as gross capital formation, during the review period, relative to the corresponding quarter of 2002. However, the estimate for net external demand (net export of goods and services) suggested a contraction.

Figure 2.10
Trends in Consumption Tax Receipts
(12-Month change)

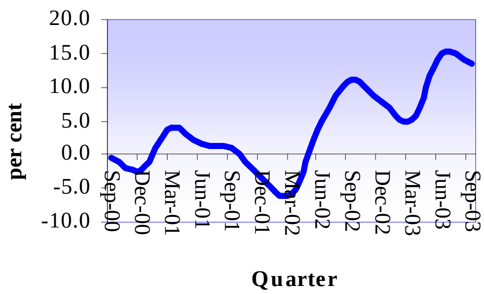


Figure 2.11
Trends in Total Imports
(12-Month change)

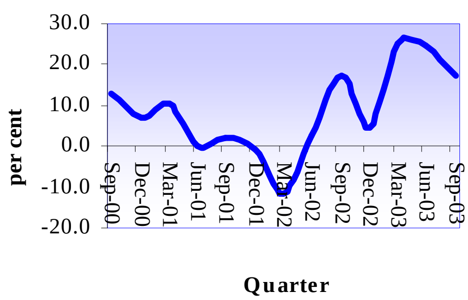
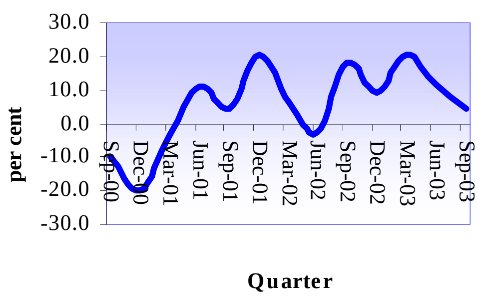


Figure 2.12
Trends in Government's Expenditure
(12-Month change)



The growth in private consumption spending was inferred from increases of 13.6 per cent and 17.0 per cent in Government's consumption tax receipts[8] and total estimated imports of goods and services, respectively, during the quarter (see **Figures 2.10** and **2.11**). Furthermore growth was deduced from the expansion in output from agriculture, selected manufacturing industries and basic services.

With respect to public consumption expenditure, expansion was reflected in an increase of 4.5 per cent in Government's non-debt expenditure[9], relative to the September 2002 quarter (see **Figure 2.12**). While spending on wages and salaries increased by 9.3 per cent, expenditure on programmes declined by 28.2 per cent.

Indicators of gross capital formation during the quarter suggested an improvement in investment spending. This growth was inferred from an increase of 10.3 per cent in capital goods imports during the quarter, relative to the corresponding period in 2002 (see **Figure 2.13**). The increase in investment activities during the quarter was attributed mainly to the expansion at the Kingston Wharves. Additionally, construction and road improvement activities augmented investment spending.

There was an estimated deterioration in net external demand during the review period, compared to the September 2002 quarter (see Figure 2.14). This deterioration reflected an estimated increase of 14.2 per cent in the importation of goods and services, which was partly offset by an estimated growth of 18.4 per cent in the export of goods and services. Exports of alumina,

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[8] General Consumption Tax (GCT) & Special Consumption Tax (SCT)
[9] Government expenditure minus interest payments.

Figure 2.13
Trends in Capital Goods Imports
(12-Month change)

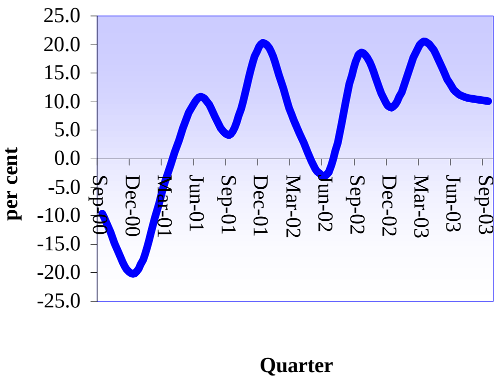
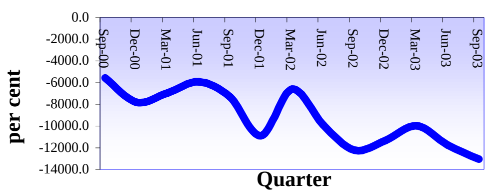


Figure 2.14
Trends in Net External Demand



banana and goods procured in ports increased by 11.5 per cent, 11.4 per cent and 6.7 per cent, respectively, relative to the corresponding period in 2002. With regard to the export of services, net travel earnings improved by 7.3 per cent during the period. The increase in imports was driven primarily by the importation of capital goods and a 4.2 per cent growth in transportation.

Summary

Estimates of economic performance for the September 2003 quarter have indicated that there was an expansion of economic activity. Notably, all sectors of the economy reflected growth in the review quarter. The major areas of growth were *Agriculture*, *Mining*, *Construction*, *Basic Services* and *Miscellaneous Services*. Growth was partly related to recovery in agriculture and mining as well as continued expansion in construction, basic and miscellaneous services. With regard to aggregate demand, consumption (both private and public) and gross capital formation activities showed expansion while there was a decline in net external demand.

Box 2: The Fifth WTO Ministerial Conference: Implications for Future Trading Negotiations

Overview

The Fifth Ministerial Conference[10] of the World Trade Organization (WTO) was held in Cancún, Mexico, between 10 and 14 September 2003. The main aim of the Cancún Ministerial was to assess the progress of the negotiations under the Doha Development Agenda and to provide negotiators with the necessary guidance to conclude such negotiations by 1 January 2005.

The main objectives of the Conference were to develop framework agreements for negotiations on agricultural trade, non-agricultural market access, and to decide on the possible launch of negotiations on the 'Singapore issues'[11]. The conference also sought to address a number of critical issues for developing countries, such as special and differential treatment and agricultural subsidies.

Issues at the Cancún Ministerial Conference

Agriculture emerged as one of the main agenda items at Cancún. The discussions and negotiations were focused on developing a framework for the removal of subsidies and tariffs, while addressing the special needs of developing countries. Member states, however, were divided on the modalities in furthering the negotiations. Developed countries advocated the further liberalization of trade in agriculture, pushing for the removal of tariffs and greater market access. Developing countries on the other hand, including Jamaica, argued that accelerated liberalisation would have revenue implications, and called for special and differential treatment provisions for agricultural trade and advocated the removal of farm subsidies in the developed countries.

The removal of cotton subsidies was another focal point of the talks surrounding agriculture. Countries from West and Central Africa (WCA)[12] proposed the phased elimination of cotton subsidies in developed countries in order to ensure the survival and development of their domestic cotton sectors. Developed countries, in particular the United States and the European Union, supported the need to eliminate subsidies and lower barriers to trade for both agricultural and industrial

[10] The Ministerial Conference is the top decision making body of the WTO.

[11] The Singapore issues first emerged in 1996 at the WTO Ministerial Conference in Singapore. Member states agreed to explore the relationship between trade and investment, trade and competition policy and examine transparency in government procurement and trade facilitation. The broad objectives behind this initiative were to ensure greater access of foreign nationals to investment opportunities in host countries, foster the interplay of market forces through the standardisation of competition rules, allow greater transparency in the channelling of government investments, and ensuring the establishment of institutions that facilitates enhanced free trade.

[12] Benin, Mali, Chad and Burkina Faso

goods. They, however, pointed out that the cotton industry was more adversely affected by the global economic downturn, increased competition from artificial fibres and improved harvests, than by the cotton subsidies.

The 'Singapore issues' was one of the most contentious items addressed at the Cancún trade talks. Since the 1996 Singapore Ministerial Conference, there has been disagreement between developed and developing countries as to whether negotiations should be launched on these issues.

The European Union, the main advocate for launch of the negotiations, noted that the Doha Ministerial Declaration had called for negotiations to be launched on these issues at the Fifth Ministerial Conference. Developing countries, however, including Jamaica, objected to the launch of negotiations on the 'Singapore issues', noting that further clarification on how negotiations would proceed should be undertaken. They noted that launching such negotiations would divert scarce human and negotiating resources from important areas such as agriculture and industrial products. It was proposed that the issues be "unbundled", with negotiations being launched on just trade facilitation and government procurement. However, this was rejected as some states were in favour of the launch of negotiations on all the issues or none at all, while others outrightly rejected the additional commitments.

Outcome of the Ministerial Conference

The Ministerial conference failed to achieve the objectives it had set out, as member states were unable to arrive at a consensus on the substantive issues and on the adoption of the draft ministerial declaration. Acute differences between the developed and developing countries on the 'Singapore issues' and agriculture were the main reasons behind the failure of the meeting.

The failure of the Cancún trade talks was also attributed to the lack of transparency and the non-participatory decision-making process involved in the drafting of the WTO Ministerial text. Strong objections were taken by developing countries to the Ministerial Declaration as it was widely felt that the text did not adequately address their main concerns regarding the "Singapore issues" and agricultural subsidies.

Despite the lack of consensus at the meeting, one of the positive developments was the unity that was exhibited by developing states. Of note was the alliance among more than 20 developing countries, led by Brazil, India, China and South Africa that demanded an end to trade-distorting agricultural subsidies. There was also an alliance of 23 developing countries, including Jamaica that was called "The Strategic Products and Special Safeguard Mechanism Alliance". They sought to highlight the vulnerability of small farmers worldwide and the need for special measures to ensure their viability.

Implications of the Collapse of the Cancún Talks

The failure of the trade talks to achieve its objectives has once again raised questions as to the viability of the WTO in overseeing trade negotiations involving so many states and the myriad of issues. It has highlighted the difficulty that the organization faces in advocating global trade liberalization through reciprocal bargaining.

In this context, the breakdown of the global trade talks will fuel the proliferation of regional trading blocs and bilateral trade arrangements between countries. The USA, in particular, has noted that it will be seeking bilateral trade arrangements with countries that are willing to grant greater market access. Bilateral trade arrangements will allow for greater flexibility in negotiating positions and mutually beneficial trade arrangements. This focus can, however, jeopardise potential benefits to Jamaican consumers and producers that could be secured in the context of more broad based agreements.

Further negotiations under the Doha Development Agenda will be coloured by the breakdown of the ministerial conference. Of concern are the divergent opinions of member states on a number of critical issues. The inability of trade ministers to find a common ground might mean that the 1 January 2005 deadline will be missed for concluding negotiations under the Development Agenda, which promised a significant dismantling of trade barriers.

Deadlines for the Free Trade Area of the Americas (FTAA) are also likely to be affected. Elements of the proposed FTAA (for example the "Singapore Issues") are currently being negotiated on the basis of the deadlines established under the Doha Development Agenda.

Concluding Remarks

The unity exhibited by developing states at the trade talks underscores the increasing strength of these states in multilateral trade negotiations. The stance adopted by these countries will ensure that despite a slow down in the decision making process decisions taken will more likely address the concerns of developing states. It is imperative, however, that developing countries such as Jamaica continue to implement the necessary policies to allow the economy to take advantage of a more liberalized trading system. Firms and sectors within the economy must still adjust to new trading rules and improve their competitiveness if they are to fully benefit from freer trade arrangements.

3. Inflation

Figure 3.1
Inflation Rate
(Jun & Sept Comparison)

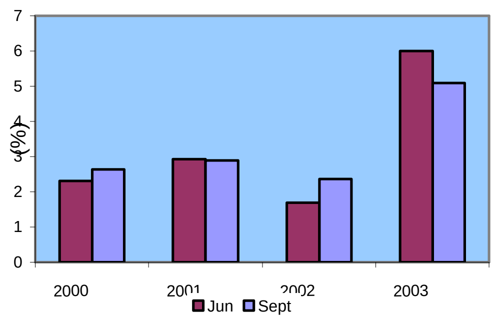


Table 3.1

Decomposition of Inflation Outturn Jul- Sep 2003/04		
	Inflation (%)	**Cont'btion**
Non-Core Shocks	**2.29**	**50.3%**
Food & Drink	**0.89**	**19.5%**
Meat, Poultry & Fish	0.34	7.5%
Dairy Products	0.28	6.1%
Veg'bles &Fruit	0.27	5.9%
Transportation	**0.81**	**17.9%**
Fuels & Oth H. Supp	**0.31**	**6.8%**
Miscellaneous Exp.	**0.28**	**6.1%**
Core	**2.26**	**49.7%**
TOTAL	**4.56**	**100.0%**

The inflation rate for the September 2003 quarter was 4.6 per cent. This was less than the rate in the preceding quarter but more than twice that of the corresponding quarter of 2002 (see Figure 3.1). Inflation in the quarter largely reflected adjustments in administered prices, higher utility rates and basic food prices, as well as the residual effects of the sharp exchange rate depreciation in May. The Consumer Price Index (CPI) increased by 1.5 per cent, 1.4 per cent and 1.6 per cent in July, August and September, respectively. Inflation was strongest in the Kingston Metropolitan Area (KMA) and weakest in the Rural Areas. Approximately 50.3 per cent of the inflation was due to non-core factors, largely reflected in the food and transportation sub-indices. Core inflation is estimated to have remained unchanged at 2.3 per cent relative to a similar estimate in the June quarter and 0.8 per cent for the corresponding quarter of 2002/03.

Prices increased by 4.6 per cent in the review quarter. Consequently, inflation for the first six months of fiscal year 2003/04 accelerated to 10.8 per cent relative to the 4.1 per cent recorded for the 2002/03 fiscal year. The higher inflation for the September quarter was mainly associated with increased bus fares, exchange rate depreciation in the previous quarter, and adverse international commodity price movements. Additionally, this period also saw higher wages for 'masons and carpenters' and telephone line rental rates, as well as the residual effects of recent revenue measures. There was also the seasonal increase in preparatory school fees and back-to-school expenses and the cyclical decline in agricultural supply. Coupled with the unusual inflation in the June quarter (see **QMPR Vol. 4, No. 1**), these developments resulted in an exceptional half-year

Figure 3.2
Core Inflation per Quarter

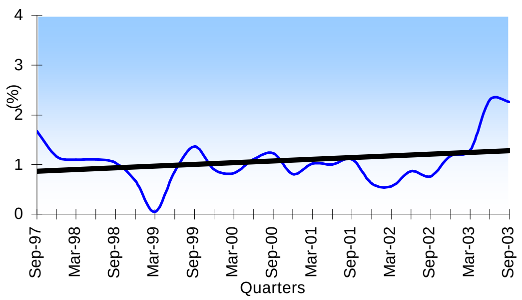


Figure 3.3
Lagged Base Money & Core Inflation

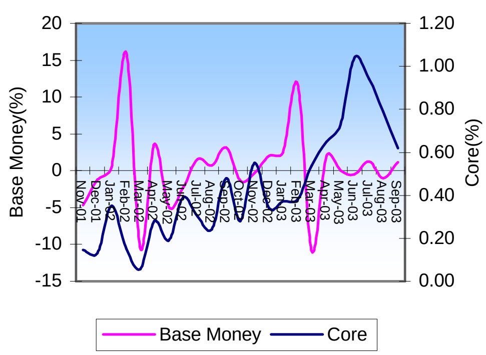
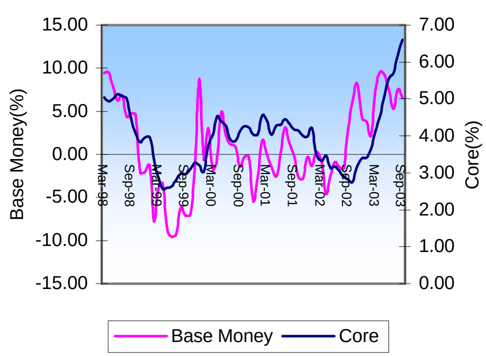


Figure 3.4
12 Month % Change Average Base Money and Core Inflation



inflation outturn, as this was the first time in eight years that inflation has exceeded single digits in the first six months of a fiscal year**.**

Monetary Policy and Inflation

A decomposition of headline inflation for the quarter indicated that factors that can be attributed to monetary policy accounted for 49.7 per cent of the outturn (see **Tabl 3.1**), relative to 32.8 per cent in the September 2002 quarter. Underlying inflationary impulses, however, have stabilized relative to the June quarter in response to tighter monetary policy in that quarter. For the review quarter, core/underlying inflation was 2.3 per cent, similar to the figure reported in the previous quarter but above the 0.8 per cent recorded in the September 2002 quarter. The monthly patterns showed that underlying inflation fell from 0.9 percent in July 2003 to 0.8 per cent in August and then fell again to 0.5 per cent in September.

Non-Core Factors

Non-core factors accounted for 50.3 per cent of inflation in the September quarter. The major factors influencing the non-core component of inflation during the period were an increase in bus fares in the urban areas, seasonal fluctuations in agriculture supply, higher artisans' wages and an increase in school-related expenses. The latter reflected the influence of an approximate 13.0 percent increase in preparatory school fees for the new school term, while the transportation increase represents an average of 40.0 per cent increase on all stages in the corporate area. The other major factors of note were increases in international commodity prices, such as grains, cereals, edible oils and crude oil.

Figure 3.5
Monthly changes in the CPI and CPI-A

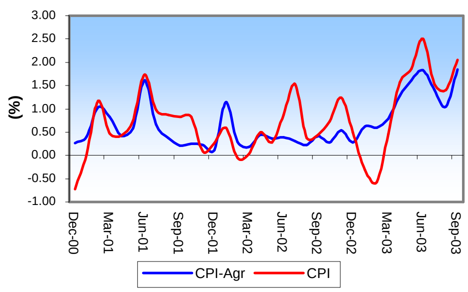
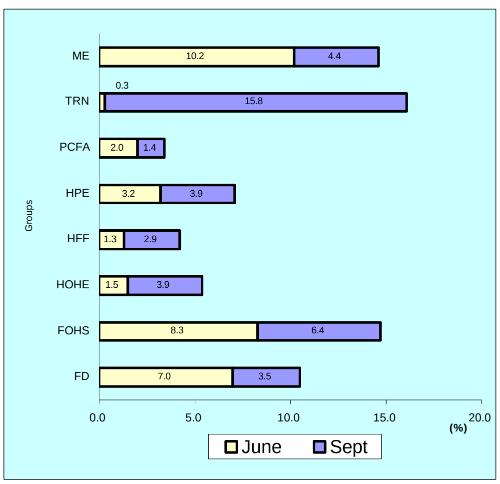


Figure 3.6
Inflation by Group
*(June & September quarters***)**



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

Contribution to Inflation

Seasonal impulses from agricultural supply were less pronounced in the September quarter than in recent years and in particular, for the starchy foods. This is consistent with trends in agricultural output (see **Real Sector**) that point to recovery from depressed output levels in the prior year. The major inflationary impulses emanated from increases in the international price of grains and oils. The increase in grain prices was transmitted to meat prices through the higher costs of animal feed. In this context, the main impetus in the *Food & Drink* group emanated from *Meat, Poultry. & Fish* and *Dairy Products, Oils & Fats* sub-groups that increased by 2.7 per cent and 5.2 per cent, respectively

While the *Starchy Foods* and *Vegetables & Fruits* sub-groups were not as dominant as usual in the *Food & Drink* sub-index, these sub-groups supported the main impulses with expansions of 0.7 per cent and 5.1 per cent, respectively. Together these sub-groups accounted for 18.6 per cent of the group's outturn of 3.5 per cent for the quarter (see **Figure 3.6** and **Table 2, Appendix C**).

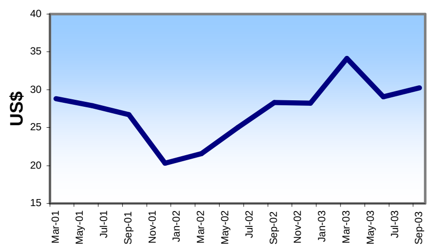
The significant role played by the non-agricultural commodity prices in Jamaica's inflation outturn in the September 2003 quarter and for the first half of the fiscal year, is reflected in the alternative measure of underlying inflation, the CPI without agriculture (CPI-A). For the quarter and fiscal year to date, the CPI-A has increased by 4.1 per cent and 9.1 per cent, respectively, compared to 4.6 per cent and 10.8 per cent for the CPI.

The *Transportation* group was the second most important contributor to the headline inflation rate, recording an increase of 15.8 per cent. This category was influenced by the administered increase in bus fares in the Kingston

Metropolitan Area (KMA), as well as increases in the prices of petrol and lubricants (see below). The fare for trips originating from Kingston to two major towns was increased by 50.0 per cent and 33.3 per cent, respectively. An increasein the price of kerosene was the chief impetus to the movement in the *Fuels & Other Household Supplies* sub-index. This sub-index grew by 6.7 per cent and was responsible for 8.0 per cent of the month's inflation outturn.

The *Miscellaneous Expenses* group was affected by the seasonal increase in preparatory school fees and school-related expenses. School fees increased by approximately 13.0 per cent, which was more than the previous year's increase but less than the average increase of the prior 5-year period. Largely as a result of the increase in preparatory school fees, the *Miscellaneous Expenses* group increased by 4.4 per cent during the quarter accounting for 7.7 per cent of the inflation outturn.

Figure 3.7
Average WTI Crude price (US$) per barrel



The *Housing & Other Housing Expenses* sub-index was mainly affected by higher artisans' wages and increased telephone line rental rates.

International Commodity Prices

During the September quarter there was a mild resurgence in oil prices (see **Figure 3.7**). Some of the main factors that led to this development were an Iraqi pipeline explosion and the persisting threat of sabotage to other pipelines, protests in Nigeria halting output at a major pumping station and continued reports of low inventory levels in the United States (US). The benchmark West Texas Intermediate (WTI) crude oil price rose by 4.6 per cent during the review quarter, relative to a 15.4 per cent decrease in the preceding

Table 3.2

Quarterly Percentage Changes in International Prices of Selected Commodities (%)

Commodity	Units	July - Sept 2002	Apr – Jun 2003	July – Sept 2003
Vegetable Oils				
Coconut Oil	$/mt	1.6	-6.5	-2.2
Groundnut oil	$/mt	1.1	27.8	10.5
Soybean Oil	$/mt	21.7	2.5	-0.7
Grains				
Soybean meal	$/mt	4.7	3.7	1.0
Soybean	$/mt	15.0	1.6	-1.2
Maize	$/mt	18.5	0.8	-5.9
Wheat US HRW	$/mt		-6.8	3.4
Wheat US SRW	$/mt		-0.6	7.9
Rice (A1)	$/mt	0.8	-0.3	4.5
Exports				
Sugar, EU	¢/kg	6.0	1.0	-0.4
Sugar, US	¢/kg	6.1	-1.7	-2.3
Sugar, World	¢/kg	5.2	-14.8	-9.2
Fertilizers				
TSP	$/mt	-0.2	7.6	3.5
Potassium Chlor.	$/mt	-0.0	0.0	0.0

Source: World Bank Pinksheets

quarter. The WTI crude oil price rose to an average of US$30.20 per barrel in the September quarter, from an average of US$28.86 per barrel in the June quarter. The average price per barrel for July, August and September was US$30.80, US$31.60 and US$28.30, respectively. The decline towards the end of the quarter was influenced by expectations of a rebuilding of U.S. inventories, consequent on falling fuel demand in the aftermath of the US's peak motoring season.

The increases in international oil prices in the quarter, affected the ex-refinery prices of the nation's only importer of oil, PETROJAM. During the first two months of the quarter, the ex-refinery prices of unleaded fuel rose by approximately 7.0 per cent. This development was an important contributor to the increase in the *Transportation* sub-index.

As noted earlier, the influence of other international commodity prices on domestic inflation was evident in the September quarter. The prices of corn, soybean and wheat are major inputs in animal feed and consequently would have indirect effects on that sub-group with more direct impulses arising in other sub-groups of the *Food & Drink* sub-index. Drought conditions have affected key growing areas for these crops with the result of significantly reduced world supply and estimates of inventory. Additionally, the price of a crucial fertilizer ingredient (granular triple super phosphate) increased for a third consecutive quarter.

Regional Distribution of Inflation

During the review quarter, inflation was strongest in the Kingston Metropolitan Area (KMA). Within this region, the CPI increased by 6.2 per cent relative to 3.4 per cent in the Other Towns and 3.1 per cent in the Rural Areas (see **Table 2B, Appendix C**). This is in contrast to the previous quarter when the index of the KMA rose by 4.7 per cent, while the indices of the Other Towns and Rural Areas rose by 7.2 per cent and 7.0 per cent, respectively. The regional distribution of inflation in the September quarter primarily reflected the influence of the *Fuels & Other Household Supplies, Transportation* and *Housing & Other Housing Expenses* sub-indices. Within the *Fuels & Other Household Supplies* group, there was a 37.5 per cent increase in the price of kerosene in the KMA that was not replicated in the other regions. This price increase was similar to the result in the June quarter. The *Transportation* group was primarily affected by the increase in bus fares, which was confined to the KMA. The disparity in the *Housing & Other Housing Expenses* group was due to significantly higher increases in residential rental in the KMA.

The regional disparities noted over the subsequent quarters have resulted in the equalization of the regional half-year inflation rates. For the six months of the fiscal year to date, inflation in the KMA was 10.9 per cent, while that of the Other Towns and Rural Areas was 10.6 per cent and 10.1 per cent, respectively.

Summary

Administered bus fares and higher basic food and agricultural prices provided the most significant impetus to inflation during the quarter. Other notable factors included higher preparatory school fees, masons’ and carpenters’ wages, telephone line rental rates and international commodity prices. Exchange rate pass through remained an important factor but its influence was less than in the previous quarter. Core inflation was contained to 2.3 per cent for a second quarter in response to the tightening of monetary policy in the June quarter.

4. Economic Outlook and Monetary Policy Perspectives

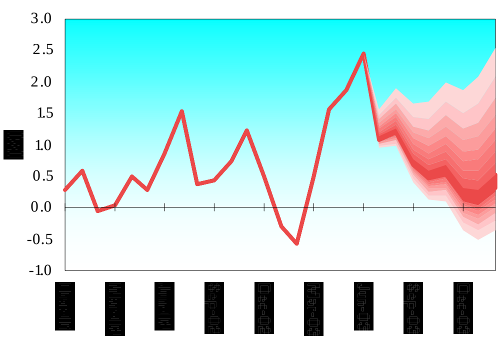
Table 4.1

Jamaica's Economic Performance Targets

	Projections for Dec'03 Quarter	Revised Projections for FY 03/04
Inflation	*3.0% -4.0%*	*[illegible].0%-13.0%*
(12-mth chg.)	*+ve*	*[illegible].0% –3.0%*

Economic growth is expected to continue in the December quarter against the background of the favourable outlook for tourism, a rebound in consumer and business confidence and greater optimism about the recovery in the US economy. Inflation is expected to moderate relative to the previous quarter reflecting seasonal patterns. The major challenge for monetary policy is to continue the lowering of interest rates while preserving stability in the foreign exchange market and containing core inflation.

Figure 4.1
Inflation Forecast



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

Short Term Outlook-December 2003 Quarter

The growth momentum in the Jamaican economy is expected to continue into the December 2003 quarter. This expectation comes against strong economic growth over the past four quarters. Additionally, relative stability in the financial markets, as well as further improvement in the level of confidence in the economy should promote further expansion in output. The continued recovery in the US economy should boost demand for local goods and services.

The expected positive performance in the Jamaican economy is anticipated in both the goods and services sectors. The main growth sectors are expected to be *Agriculture*, *Construction*, *Basic Services*, *Financial Services* and *Miscellaneous Services*. The agricultural sector is projected to rebound in the December 2003 quarter from the significant decline of 10.0 per cent in the corresponding quarter of the previous year, which was due to adverse weather conditions. It is anticipated that the relatively good weather conditions being experienced as well as rehabilitative efforts since the start of the calendar year will facilitate this recovery.

Positive economic performance in the construction sector should continue with the commencement of the Inner-city Housing Project and the continued expansion of the Highway 2000 roadway in the December 2003 quarter. Similarly, the recent growth trends in basic services should persist given the overall buoyancy of the economy. The growth momentum is expected to be sustained by increased capacity in the electricity subsector as well as the expanding and highly competitive communication sector. The financial services sector should continue to grow during the December quarter due mainly to competitive initiatives by both commercial and merchant banks to expand their businesses. It is anticipated that the present positive trend in loans and advances will continue in the quarter.

The miscellaneous services sector is projected to grow given the buoyancy of the tourism subsector. This sector has recorded substantial expansion since the December 2002 quarter with quarterly growth in visitor arrivals averaging over 15 per cent. The Jamaica Tourist Board has forecasted that arrivals for the September to December 2003 period should continue to expand. The expected growth in arrivals will be boosted by significant increase in cruise shipping. Forecasts of stronger world growth and increased world travel bodes well for the continued expansion of the sector.

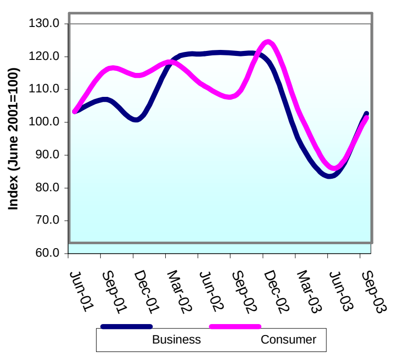
Inflation for the December quarter is expected to moderate relative to the previous two quarters. While important inflationary impulses are anticipated from administered prices, they are expected to be moderated by seasonally lower price increases in agriculture.

Accordingly, inflationary pressures are expected to emanate from adjustments in taxi and bus fares in the rural areas. Taxi fares were increased in October an average of 25.0 per cent while bus fares in the rural areas rose by 35.0 per cent. Inflation will also be affected by an adjustment of approximately 11.0 per cent in the national minimum wage that is to be effected on 01 November. Prices over the quarter are also expected to be adversely affected by second round effects of the recent adjustments in transportation and utility costs, as well as movements in the prices of international commodities such as oil. The moderating impact of lower agricultural prices is expected to emanate from a seasonal increase in supply expected towards the end of the quarter.

Given the factors noted above, inflation for the December quarter is expected to be reflected in the *Transportation* sub-category. Other anticipated inflationary impulses would be reflected in increases in the *Housing & Other Housing Expenses* and the *Fuels & Other Household Supplies* sub-categories. The former sub-category should reflect the adjustment in the minimum wage while the latter the impact of increases in the price of crude oil. Although significant increases are not anticipated in the *Starchy Foods* and the *Vegetables & Fruits* subgroups, the *Food & Drinks* sub-category will reflect increases in the other food groups due to recent adjustments in exchange rate, utilities and other costs.

Against this background, headline inflation is projected to be in the range of 1.5 per cent to 2.5 per cent in the December quarter relative to the 4.6 per cent in the September quarter and 2.5 per cent in the December 2002

Figure 4.2
Index of Confidence



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

quarter. Despite the moderation in inflation over the rest of the fiscal year, inflation for calendar year 2003 is likely to be in the range of 11.0 to 13.0 per cent. This outlook assumes continued relative stability in the exchange rate. Possible planned adjustments in water rates could affect the outlook as well as the magnitude of second-round effects from the recent adjustments to basic utility and transportation costs. Further, planned cuts in world oil supply by the OPEC countries remain an upside risk to the current projections for the rest of the year (see **Figure 4.1**). Non-OPEC members are being encouraged to support the reduction in supply. The impact, however, may be limited by the fact that fuel demand is expected to fall relative to the September quarter.

Monetary Policy

The immediate challenge to monetary policy in the December quarter continues to be the engendering of lower interest rates while maintaining orderly conditions in the foreign exchange market. The pace of adjustment will additionally be influenced by underlying inflation and public sector demand for financing.

Relative stability in Jamaican financial markets is anticipated given that the supply of foreign exchange in the market should be reasonable as tourism flows are expected to remain buoyant. Additionally, remittance flows are also expected to support favourable foreign exchange market conditions. Further, the tighter Jamaica dollar liquidity, particularly in November should assist in the maintenance of a relatively stable foreign exchange market throughout the quarter.

Concurrent with exchange rate stability is the need to contain core inflation, which had increased during the June quarter. Following the shock in that quarter the

Bank has remained proactive in restricting monetary impulses, which led to the stabilization of core inflation during the September quarter. It is expected that core inflation impulses will be tempered in the December quarter. In this context money supply is expected to grow by 5.2 per cent, which includes the seasonal end of year demand for currency.

The stance of monetary policy will, however, be influenced by fiscal performance. The pace at which interest rates are lowered will depend critically on the Government's ability to correct fiscal imbalances and lower it need for domestic financing. The importance of this correction is amplified given the low liquidity conditions expected in the December quarter.

The Government may therefore be challenged to raise non-inflationary financing, at progressively lower interest rates. Further improvement in fiscal management could reinforce the improvement in confidence as reflected in the latest Jamaica Conference Board survey and allow for a faster reduction in interest rates.

Summary

The growth observed since the September 2002 quarter is expected to continue in the December 2003 quarter. Indications are that all sectors will contribute to this expansion with the main growth impulses arising from the tourism, construction and agriculture sectors. Inflation in the December quarter is expected to moderate relative to the first half of the fiscal year. Continued stability in the financial markets could provide the basis for further lowering of interest rates. The pace and extent of reduction, however, depends on Government's financing needs.

Appendices

A. Fiscal Developments: July – September 2003

Provisional data for the September 2003 quarter indicate that Central Government operations resulted in a fiscal deficit of $7 904.8 million or 1.6 per cent of GDP, relative to the budgeted surplus of $508.6 million or 0.1 per cent of GDP. The reported deviation in performance relative to budget was influenced by higher than budgeted expenditure as well as a shortfall in revenue flows during the review quarter. Consequently, the current deficit was 1.5 per cent of GDP relative to a current surplus of 0.6 per cent outlined in the budget. Concurrently, the primary surplus of 2.5 per cent of GDP was below the targeted surplus of 3.5 per cent reflecting the shortfall in revenues in a context where there was containment of non-interest expenditure during the quarter.

Total expenditure during the September quarter was 12.6 per cent above budget and 13.2 per cent above that of the corresponding period of the previous fiscal year. The deviation in expenditure during the quarter was reportedly due to higher than budgeted recurrent expenditure, as there was significant containment in capital expenditure. In this regard, interest payments and wages & salaries exceeded budget by 35.4 per cent and 12.2 per cent, respectively. On the other hand, expenditure on programmes was 13.3 per cent below budget. During the quarter, the deficit as well as the net amortization of foreign debt was financed through higher than targeted domestic borrowing.

Total revenue flows fell below budget by 10.3 per cent, but were 23.2 per cent above that of the corresponding period of the previous fiscal year. The deviation in revenue flows during the review quarter was due largely to the underperformance of tax revenues which were 11.7 per cent below target. The shortfall in tax revenues reflected disappointing General Consumption Tax (GCT) flows associated with delays in finalising tax measures announced in the 2003/04 budget.

For the first half of fiscal year 2003/04, indications are that Central Government operations resulted in a deficit of $21 760.5 million (4.5 per cent of GDP), $2 963.4 million higher than the deficit of $18 797.1 million (4.3 per cent of GDP) targeted for the period. Concurrently, the primary surplus was 3.9 per cent of GDP relative to the targeted 4.2 per cent, while the current deficit was 4.0 per cent of GDP compared to the target of 3.3 per cent.

Total revenues for the first half of the fiscal year were reported to be 4.0 per cent below target reflecting a 5.1 per cent shortfall in tax revenues. However, relative to the corresponding 2002/03 period, revenue flows were 23.5 per cent higher due to a 20.9 per cent growth in tax revenues bolstered by the new measures. All other categories of revenue with the exception of grants exceeded collections recorded for the April - September 2002 period. Expenditure was relatively consistent with target for the April to September 2003 period, largely due to the restraint of capital expenditure as recurrent expenditure was above target. Throughout the six-month period, Central Government financed its operations mainly from domestic sources, as there was significant external debt amortization.

Fiscal Performance Comparative Analysis J$mn.

	Actual 2002/03 Q2	Provisional 2003/04 Q2	Change	Provisional 2003/04 Q2	Target 2003/04 Q2	Variance	Provisional 2003/04 Q1 - Q2	Target 2003/04 Q1 - Q2	Variance
Revenue and Grants	**26931.43**	**33171.94**	**6240.51**	**33171.94**	**36984.20**	**-3812.26**	**63386.44**	**66058.80**	**-2672.36**
Tax Revenue	25012.15	30070.40	5058.26	30070.40	34071.90	-4001.50	58062.20	61168.40	-3106.20
Capital Revenue	93.24	135.74	42.50	135.74	237.90	-102.16	296.94	454.70	-157.76
Other (incl. Non-tax)	1826.05	2965.80	1139.75	2965.80	2674.40	291.40	5027.30	4435.70	591.60
Expenditure	**36301.06**	**41076.70**	**4775.64**	**41076.70**	**36475.70**	**4601.00**	**85146.90**	**84855.90**	**291.00**
Recurrent Expenditure*	34482.42	40236.30	5753.88	40236.30	34236.80	5999.50	82482.30	79951.90	2530.40
Capital Expenditure	1644.94	614.50	-1030.44	614.50	2065.20	-1450.70	2174.10	4511.20	-2337.10
IMF # 1 Account	173.70	225.90	52.20	225.90	173.70	52.20	490.50	392.80	97.70
Unallocated	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Overall Balance	**-9369.63**	**-7904.76**	1464.87	**-7904.76**	**508.50**	**-8413.26**	**-21760.46**	**-18797.10**	**-2963.36**
Memo									
Current Balance	**-7644.23**	**-7200.10**	**444.13**	**-7200.10**	**2509.50**	**-9709.60**	**-19392.80**	**-14347.80**	**-5045.00**
Primary Balance	**5307.90**	**12287.34**	**6979.44**	**12287.34**	**15421.90**	**-3134.56**	**18282.48**	**18121.20**	**161.28**

Performance Indicators
(percentages of GDP)

	BR	CB	PB	IP	FSR
Q2 FY 2003/04	1.64	-1.49	2.54	4.18	-1.24
Q2 FY 2003/04 Target	-0.12	0.58	3.54	3.42	-0.99
Q1 - Q2 FY 2003/04	4.50	-4.01	3.78	8.28	-1.34
Q1 - Q2 FY 2003/04 Target	4.32	-3.29	4.16	8.48	-1.28

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.*

Source: Ministry of Finance and Planning

B. MONETARY POLICY DEVELOPMENTS

27/04/2000 30-day Reverse Repurchase Rate was reduced from 17.30 per cent to 17.00 per cent.

01/06/2000 Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-three per cent (33%) to thirty-two per cent (32%).

Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from fifteen per cent (15%) to fourteen per cent (14%).

The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-two per cent (5% and 32%) for Building Societies.

The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and fourteen per cent (1% and 14%) in respect of local and foreign currency deposits.

28/07/2000 30-day Reverse Repurchase Rate was reduced from 17.00 per cent to 16.75 per cent.

11/08/2000 30-day Reverse Repurchase Rate was reduced from 16.75 per cent to 16.45 per cent.

01/09/2000 Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-two per cent (32%) to thirty-one per cent (31%).

Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from fourteen per cent (14%) to thirteen per cent (13%).

The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-one per cent (5% and 31%) for Building Societies.

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

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

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

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

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

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

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

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

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

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

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

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

08/03/01 Interest rates on the 365-day, 270-day, instruments were reduced to 19.00 per cent, 18.25 per cent 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 percent, 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 percent, 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 percent, 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 were reduced from twenty eight per cent (28%) to twenty seven per cent (27%). Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from ten per cent (10%) to nine per cent (9%).
11/03/02	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced from 13.75 per cent, 13.85 per cent, 13.95 per cent, 14.05 per cent, 14.40 per cent, 15.00 per cent and 15.80 per cent to 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent, respectively.
11/07/02	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day, and 365-day open market instruments were reduced from 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent to 12.95 per cent, 13.05 per cent, 13.15 per cent, 13.25 per cent, 13.45 per cent, 14.00 per cent, and 14.90 per cent, respectively.
01/09/02	Liquid Assets ratio of commercial banks, FIA institutions and of building societies, in respect of local and foreign currency liabilities, were reduced from twenty seven percent (27%) to twenty three percent (23%).
07/08/02	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced from 14.00 per cent to 13.85 per cent and from 14.90 per cent to 14.50 per cent, respectively.
09/09/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 13.15 per cent to 17.25 per cent and from 13.25 per cent to 17.05 per cent, respectively.
09/10/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 17.25 per cent to 19.25 per cent and from 17.05 per cent to 19.40 per cent, respectively.
28/10/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were reduced from 19.25 per cent to 18.25 per cent and from 19.40 per cent to 18.40 per cent, respectively.

01/11/02 The interest rate chargeable in respect of breaches by commercial banks, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was reduced from 69 per cent per annum to 45 per cent per annum.

The interest rate chargeable in respect of breaches by building societies and institutions licensed under the Financial Institutions Act, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was adjusted from one-sixth of one per centum per day to 45 per cent per annum.

10/01/03 The Bank of Jamaica instituted a "Special Deposit" requirement for Commercial Banks and institutions licensed under the Financial Institutions Act. Each institution will be required to place cash deposits with the Central Bank equivalent to 5% of its Jamaican Dollar prescribed liabilities.

10/02/03 The Bank of Jamaica introduced a special five-month open market instrument which earned interest at 30% per annum. This instrument was introduced in a context of significant Jamaica dollar liquidity and protracted instability in the foreign exchange market.

14/02/03 The Bank of Jamaica withdrew the special five- month open market instrument which was introduced on 10 February 2003. The decision to remove this instrument came against the background of tight Jamaica dollar liquidity and the appreciation in the exchange rate over the previous four days. The removal was also in response to representations made to the Bank of Jamaica by financial institutions and understandings reached with respect to the development of foreign exchange market protocols.

19/03/03 Interest rates on Bank of Jamaica's 180-day, 270-day and 365-day open market instruments were increased to 19.65 per cent, 21.50 per cent and 24.0 per cent, respectively.

26/03/03 Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were increased to 15.00 per cent, 15.30 per cent, 20.00 per cent, 24.00 per cent, 33.15 per cent, 34.50 per cent and 35.95 per cent, respectively.

25/04/03 Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 28.00 per cent, 32.50 per cent and 33.00 per cent, respectively.

19/05/03 The interest rate applicable to overdrafts on accounts held with the Bank of Jamaica was increased to 65.0 per cent per annum.

24/06/03 Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 26.50 per cent, 29.50 per cent and 30.00 per cent, respectively.

08/07/03 Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 27.50 per cent and 28.00 per cent, respectively.

04/08/03 Interest rates on Bank of Jamaica 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 18.00 per cent, 22.00 per cent, 25.00 per cent, 25.75 per cent and 26.00 per cent, respectively.

09/09/03 Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 21.00 per cent, 23.50 per cent, 23.75 per cent and 24.00 per cent, respectively.

C. Summary Tables

1

INFLATION RATES (%)

	CPI Index (e.o.p)	Head-line (Quarter)	Core (Quarter)
1998/1999	**1182.5**	**6.0**	**2.9**
1999/2000	**1281.7**	**8.4**	**4.0**
June	1205.9	2.0	0.9
September	1237.6	2.6	1.4
December	1265.9	2.3	0.9
March	1281.7	1.3	0.8
2000/2001	**1364.3**	**6.4**	**4.2**
June	1311.4	2.3	1.1
September	1349.3	2.9	1.2
December	1342.6	-0.5	0.8
March	1364.3	1.6	1.0
2001/2002	**1468.5**	**7.6**	**3.3**
June	1404.0	2.9	1.0
September	1442.7	2.7	1.1
December	1459.9	1.2	0.6
March	1468.5	0.6	0.6
2002/2003			
June	1492.8	1.7	0.9
September	1528.0	2.4	0.8
December	1566.1	2.5	1.2
March	1558.4	-0.4	1.3
2003/04			
June	1653.1	6.0	2.3
September	1728.3	4.6	2.3

2A

COMPONENT CONTRIBUTION TO INFLATION All Jamaica July - September 2003			
Groups and Sub-groups	**Weight in CPI**	**Inflation (%) Q1**	**Contribution**
FOOD & DRINK	**0.5563**	**3.5**	**44.2**
- Meals Away From Home	0.0741	4.4	7.3
- Meat Poultry & Fish	0.1613	2.7	9.6
- Dairy Products Oils & Fats	0.0668	5.2	7.8
- Baked Products Cereals &Breakfast Drinks	0.0864	3.1	5.9
- Starchy Foods	0.0525	0.7	0.8
- Vegetables & Fruits	0.0650	5.1	7.4
- Other Food & Beverages	0.0502	4.7	5.3
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**6.4**	**8.7**
- Household Supplies	0.0482	3.5	3.8
- Fuels	0.0253	8.6	4.9
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**3.9**	**7.2**
- Rental	0.0209	6.7	3.1
- Other Housing Expenses	0.0577	3.2	4.1
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**2.9**	**1.8**
- Furniture	0.0068	3.9	0.6
- Furnishings	0.0215	2.4	1.2
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**3.9**	**6.1**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**1.4**	**1.6**
- Clothing Materials	0.0055	0.3	0.0
- Readymade Clothing & Accessories	0.0242	1.2	0.6
- Footwear	0.0159	1.4	0.5
- Making & Repairs	0.0051	2.7	0.3
TRANSPORTATION	**0.0644**	**15.8**	**22.8**
MISCELLANEOUS EXPENSES	**0.0785**	**4.4**	**7.7**
ALL GROUPS	**1.0000**	**4.6**	**100.0**

2B

REGIONAL INFLATION
Quarterly
July - September 2003

Groups and Sub-groups	KMA (%)	Other Towns (%)	Rural Areas (%)
FOOD & DRINK	**3.6**	**4.0**	**3.2**
- Meals Away From Home	5.9	3.3	2.4
- Meat Poultry & Fish	2.7	3.1	3.4
- Dairy Products Oils & Fats	6.2	4.6	4.5
- Baked Products Cereals &Breakfast Drinks	2.7	3.1	3.4
- Starchy Foods	-1.2	4.6	0.4
- Vegetables & Fruits	1.0	8.6	7.9
- Other Food & Beverages	5.3	2.9	5.1
FUELS & OTHER HOUSEHOLD SUPPLIES	**11.4**	**1.9**	**2.1**
- Household Supplies	3.4	3.1	4.0
- Fuels	17.5	1.0	0.6
HOUSING & OTHER HOUSING EXPENSES	**4.7**	**2.6**	**2.9**
- Rental	8.4	0.1	0.1
- Other Housing Expenses	3.3	2.9	3.2
HOUSEHOLD FURNISHINGS & FURNITURE	**1.3**	**3.8**	**3.8**
- Furniture	-0.4	6.0	5.9
- Furnishings	1.9	2.7	2.8
HEALTHCARE & PERSONAL EXPENSES	**3.6**	**3.5**	**4.6**
PERSONAL CLOTHING FOOTWEAR & ACC.	**1.4**	**1.8**	**1.1**
- Clothing Materials	0.0	0.0	0.9
- Readymade Clothing & Accessories	1.1	2.3	0.6
- Footwear	1.7	1.5	1.1
- Making & Repairs	2.3	1.4	3.9
TRANSPORTATION	**28.4**	**3.3**	**1.9**
MISCELLANEOUS EXPENSES	**5.3**	**3.1**	**4.0**
ALL GROUPS	**6.2**	**3.4**	**3.1**

3

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

	Jun–02	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03
Net International Reserves (US$)	**1 782.3**	**1 687.3**	**1 597.0**	**1 339.7**	**1 127.4**	**1 182.6**
Net International Reserves ($J)	**86 973.8**	**82 339.3**	**81 557.8**	**75 021.5**	**63 133.8**	**69 775.2**
- Assets	89 671.5	84 842.7	83 911.1	77 400.4	65 251.2	71 782.9
- Liabilities	-2 697.7	-2 503.4	-2 353.3	-2 378.9	-2 117.4	-2 007.8
Net Domestic Assets	**-56 789.6**	**-51 714.3**	**-45 799.9**	**-42 521.6**	**-30 728.9**	**-37 152.6**
- Net Claims on the Public Sector	42 779.3	47 135.8	50 873.5	63 988.5	67 611.0	70 771.5
- Net Credit to Banks	-4 910.0	-5 044.5	-5 200.4	-12 481.5	-13 125.1	-12 814.6
- Open Market Operations	-97 006.3	-96 072.3	-89 981.3	-86 203.8	-77 126.4	-83 700.3
- Other	2 347.4	2 266.7	-1 491.7	-7 824.7	-8 088.4	-11 409.2
Monetary Base	**30 184.2**	**30 625.0**	**35 757.9**	**32 500.0**	**32 404.9**	**32 622.6**
- Currency Issue *	19 274.3	19 554.2	24 354.5	20 729.7	21 259.1	21 545.7
- Cash Reserve	10 883.8	10 911.6	10 839.2	11 250.7	10 960.0	10 811.2
- Current Account	26.1	159.2	564.2	519.5	185.8	265.7
% change Monetary Base (F-Y-T-D)	**-0.1**	**1.3**	**18.3**	**7.5**	**-0.3**	**0.4**

** Excludes BOJ's teller cash*

4

MONETARY AGGREGATES (End-of-Period) (J$MN)

	M1J	M1*	M2J	M2*	M3J	M3*
1999/2000	**31 686.8**	**37 311.4**	**92 865.8**	**122 905.4**	**109 123.2**	**139 162.8**
2000/2001						
June	32 017.2	37 737.7	95 966.4	125 498.3	113 634.3	143 166.2
September	30 527.0	35 897.9	96 419.1	128 067.1	115 248.5	146 896.6
December	33 831.3	38 111.4	100 746.3	132 997.8	119 962.1	152 226.0
March	32 783.8	36 970.0	100 673.4	133 790.6	120 789.7	153 906.9
2001/2002						
June	32 951.4	38 015.3	102 002.8	135 708.9	123 100.6	156 806.8
September	35 690.9	41 620.6	105 818.0	141 583.6	127 000.0	162 765.5
December	38 964.5	45 310.1	109 419.3	146 061.6	131 161.0	167 803.4
March	37 083.8	43 946.8	107 834.2	147 683.6	130 622.7	170 285.0
2002/2003						
June	36 864.8	43 248.6	110 235.4	150 532.0	133 902.1	174 198.5
September	42 475.0	49 450.6	117 345.1	160 591.3	142 633.2	185 879.3
December	44 704.0	51 486.7	119 330.6	165 026.0	145 583.9	191 279.3
March [r]	33 733.5	40 791.3	107 472.2	158 719.5	136 368.0	187 615.2
2003/04						
June [r]	37 201.6	46754.7	109 846.5	166750.9	140 414.9	197319.3
September [p]	39 838.8	49 028.9	114 121.9	172 760.3	147 577.9	206 216.4

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

5

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

	Mar-02	Jun-02	Sep-02	Dec-02 [r]	Mar-03 [r]	Jun-03 [r]	Sept-03 [p]
M2J	**-1 585.1**	**2 401.2**	**7 109.7**	**1 985.5**	**-11 858.5**	**2 374.4**	**4 275.4**
Currency	-1 295.6	-29.5	104.4	2 842.1	-3075.1	1 467.4	149.1
Demand Deposits	-585.1	-189.5	5 305.8	-413.1	-7 895.4	2 000.7	2 488.0
Savings Deposits	239.9	1 971.4	132.1	1 615.6	-40.8	1 125.5	1 140.0
Time Deposits	55.7	648.8	1 567.4	-2 059.1	-847.2	-2 219.2	498.3
OTHER DEPOSITS	**1 046.8**	**878.2**	**1 621.4**	**965.3**	**2 642.5**	**1 672.5**	**2 887.6**
TOTAL (M3J)	**-538.3**	**3 279.4**	**8 731.1**	**2 950.8**	**-9 216.0**	**4 046.9**	**7 163.0**

SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY

N.I.R. of B.O.J.	**4 794.1**	**-7 779.7**	**-4 634.5**	**-4 406.7**	**-13 140.9**	**-11 887.7**	**3 259.2**
M&LTFL of B.O.J	**14.0**	**7.9**	**15.5**	**8.6**	**18.1**	**10.3**	**0.0**
Banking System Credit	**235.3**	**7 924.3**	**11 598.8**	**3 336.9**	**12 261.5**	**18 891.6**	**7 901.7**
Public Sector	307.8	6 736.9	10 208.5	1 962.5	10 731.1	14 760.9	4 481.7
Private Sector	-72.5	1 187.4	1 390.3	1 374.4	1 530.4	4 130.7	3 420.0
Open Market Operations	**-13 566.9**	**2 188.9**	**933.9**	**6 091.1**	**3 777.5**	**9 077.4**	**-6 573.9**
Other	**7 985.2**	**938.0**	**817.4**	**-2 079.1**	**-12 132.2**	**-12 044.7**	**2 576.0**
TOTAL	**-538.3**	**3 279.4**	**8 731.1**	**2 950.8**	**-9 216.0**	**4 046.9**	**7 163.0**
Memo:							
Foreign Currency Deposits	3 020.0	666.2	2 949.7	2 449.3	5 552.4	5 685.6	1 734.1
Foreign Currency Loans	-197.0	2 639.9	2 143.9	1 394.0	2 093.0	2 879.4	2 389.3

p- preliminary

r-revised

6A

SELECTED INTEREST RATES (%) End-of-Period)							
	Fixed Deposits * 3-6 months	Fixed Deposits * 6-12 months	Savings Deposits (Average)	Loan Rate (Average)	Fixed Deposits Rate (Weighted Average)	Loan Rate (Weighted Average)	Inter-bank Lending Rate (Average)
2000/2001							
June	10.00 - 17.50	10.00 –16.50	10.11	33.00	12.74	23.48	19.30
September	10.00 - 17.05	10.00 – 17.05	9.96	31.50	12.59	22.23	19.30
December	10.00 - 17.05	10.00 – 17.60	9.86	31.67	12.21	22.12	19.34
March	10.00 - 17.00	10.00 – 16.75	9.84	31.33	12.13	21.49	19.34
2001/2002							
June	8.75 - 17.00	8.75- 15.00	9.45	30.67	11.11	20.86	19.54
September	8.75 - 17.00	8.75- 15.00	9.08	26.96	10.52	19.41	18.39
December	7.75 - 15.00	7.75 – 15.00	9.08	26.79	10.13	19.46	18.39
March	7.75 - 15.00	7.75 - 15.00	9.36	26.29	9.86	19.60	18.99
2002/2003							
June	7.75 – 13.25	7.75 – 13.25	9.00	25.92	9.28	18.15	14.68
September	7.75 – 13.25	7.75 – 13.25	8.86	26.25	8.98	18.08	13.88
December	7.75 – 13.25	7.75 – 13.25	8.96	25.04	8.92	18.26	11.50
March	8.50-13.15	8.50 - 13.15	8.22	24.73	8.87	17.23	21.90
2003/04							
June	8.50 – 13.15	8.50-13.15	8.22	25.18	8.98	19.23	38.40
September	8.50-13.25	8.50-13.50	8.94	25.60	n.a.	n.a.	17.01

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

6B

GOJ TREASURY BILL YIELDS (End of Period)				
	3-month	*6-month*	*9-month*	*12-month*
2000/2001				
June	17.68	17.47	17.88	18.10
September	16.62	17.13	16.91	16.94
December		20.16	19.67	20.98
March		16.88		17.86
2001/2002				
June	23.48	16.20		
September	22.23	15.10	15.50	
December	22.12	17.03		
March	21.49	14.30		14.96
2002/2003				
June		13.81		14.77
September		16.69	16.98	
December		17.01		
March		33.47		
2003/04				
June		28.46		
September		23.42	23.87	

7

BANK OF JAMAICA OPEN MARKET INTEREST RATES
(End Period)

	Tenors of Instruments						
End Period	**30 days**	**60 days**	**90 days**	**120 days**	**180 days**	**270 days**	**365 days**
1999/2000							
June	18.85		19.70		20.85		
September	18.35		19.25		19.95		
December	18.35		19.25		19.95		
March	17.30	17.95	18.10	18.20	18.55		
2000/2001							
June	17.00	17.65	17.80	17.90	18.25		
September	16.45	16.60	16.70	16.80	17.05	17.60	18.00
December	16.45	16.60	16.70	16.80	17.05	20.00	21.00
March	15.50	15.60	15.70	15.80	16.15	17.00	17.75
2001/2002							
June	14.25	14.35	14.45	14.55	14.75	15.35	15.90
September	14.25	14.35	14.45	14.55	14.75	15.35	15.90
December	14.25	14.35	14.45	14.55	15.00	18.40	18.90
March	13.25	13.35	13.45	13.55	13.80	14.20	15.00
2002/2003							
June	13.25	13.35	13.45	13.55	13.80	14.20	15.00
September	12.95	13.05	17.25	17.05	13.45	13.85	14.50
December	12.95	13.05	18.25	18.40	13.45	13.85	14.50
March	15.00	15.30	20.00	24.00	33.15	34.50	35.95
2003/04							
June	15.00	15.30	20.00	24.00	26.50	29.50	30.00
September	15.00	15.30	18.00	21.00	23.50	23.75	24.00

8A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
July - September 2003

Maturity Date	Stock Name	Amount J$mn	Applicable Interest Rate b/	Features
14 July	VR LRS 2003 G TBD	1 000		Payment to private institution
15 July	LRS 2011 B TRB	46.8	15.00	
22 July	VR LRS 2003E	4 014.6	32.84	
	VR LRS 1998-2003	197.5	20.01	
	VR LRS 1998-2003	1 817.3		Payment to BOJ
30 July	BOJ Special Issue	1 535.8		Payment to BOJ
15 August	VR LRS 2003 C	2 333.5	21.95	
17 August	FR LRS 2003 AE	42.7	16.85	
17 August	FR LRS 2003 AE	757.3	16.85	
23 August	FR 17.875 LRS 2003 Tr.	250.0	17.875	
24 August	VR LRS 2003F	539.7	31.92	
28 August	VR LRS 2003/04Q Tr A	344.4	19.95	
1 September	VR LRS 2003/2004 M	95.0	18.45	
9 September	VR LRS 2022/23 D TBD	500.0		Payment to private institution
11 September	VR LRS 2003 G	1 607.6	29.96	
20 September	VR LRS 2003/2004R Tr. 3	182.1	18.95	
20 September	FR LRS 2003 AF	560.6	16.25	
21 September	FR LRS 2003 AF	39.4	16.25	
3 September	FR US$ Promissory Note	US$ US$99.6		Payment to private institution

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 May 1, 2000.

c/ A/Y- Average Yield

d/ FR – Fixed Rate

e/VR-Variable Rate

Source: Debt Management Unit, Ministry of Finance & Planning

8B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Domestic Market Issues
July - September 2003

Issue Date	Stock Name	Features	Amount Raised J$mn
4 July	FR LRS 2005 AP	Tenor of 20-months. Applicable interest rate of 32.42	1 000.0
	FR LRS 2006 AG	Tenor of 36-months. Applicable interest rate of 31.81	500.0
10 – 16 July	Investment Debenture 28.50% 2006 Series "Ab"	Tenor of 31-months. Interest rate fixed at 28.50 per cent. Principal paid in two installments, October 16 and at maturity February 16. Interest payable 3-months after issue. Thereafter quarterly interest payments	6 041.1
22 – 24 July	VR Investment Bond 2006/07 (Series A)	Tenor of 43 months. Rate fixed at 28.50 for first 6 months. Thereafter quarterly payments of 1.5% above Treasury Bill.	2 650.9
14 –18 August	VR Investment Bond 2006/07 (Series B)	Tenor of 41 months. Rate fixed at 26.31 for first 6 months. Thereafter quarterly payments of 1.5% above Treasury Bill.	1 286.1
18 – 23 September	FR US$ Indexed Bond 11.25%	Tenor of 26-months. Rate fixed at 11.25%. First interest payment on 23 March 2003. Thereafter interest paid semiannually. Conversion rate of J$59.2742 = US$1.	1 136.9
2 – 5 September	FR 11.75% US$ denominated local bond 2006	Tenor of 3-years. Option to extend maturity to 5 October 2008. Rate fixed at 11.75%. First interest due 5 March 2004. Thereafter half yearly interest payments.	US$176.8

Notes:
a/ The withholding tax of 25% on interest income has been in effect since May 1, 2000.
Source: Debt Management Unit, Ministry of Finance & Planning

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
999/2000	**49.1**	**664.6**	**103.5**	**26.6**	**68.9**	**346.9**	**290.9**	**1 550.5**
June	20.3	145.5	54.6	7.6	15.2	88.9	71.3	403.4
September	7.6	166.0	5.5	7.5	19.8	92.4	80.5	379.3
December	8.1	182.0	0.0	6.3	16.6	84.9	71.6	369.5
March	13.1	171.1	43.4	5.2	17.3	80.7	67.5	398.3
2000/2001	**56.1**	**670.6**	**69.4**	**22.3**	**74.8**	**330.9**	**285.0**	**1 509.1**
June	10.4	167.9	33.6	5.5	20.5	90.6	76.6	405.1
September	8.2	163.8	6.2	6.2	18.3	81.7	80.7	365.1
December	13.9	181.4	0.0	6.1	17.0	91.3	76.4	386.1
March	23.6	157.5	29.6	4.5	19.0	67.3	57.8	359.3
2001/2002 r								
June	23.5	182.0	34.9	5.0	18.9	66.0	69.2	399.5
September	25.5	174.3	6.1	4.0	18.5	73.5	72.1	374.0
December	20.7	122.4	0.0	4.4	15.7	93.4	63.9	320.5
March	28.0	150.8	27.5	4.5	18.9	58.2	41.9	329.8
2002/2003								
June	22.9	138.9	30.6	4.5	20.9	51.3	56.2	325.3
September	25.4	147.1	8.0	4.4	20.5	60.3	67.9	333.6
December	29.9	167.0	0.0	4.1	14.2	59.3	46.0	320.5
March	20.9	161.3	25.9	4.7	18.8	56.9	34.9	323.4

r-revised

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

	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					
June r	241.0	444.1	127.7	61.3	874.1
September	238.4	431.1	156.6	47.5	873.6
December	279.9	475.2	133.9	35.4	924.4
March	240.9	405.9	147.1	25.6	819.5
2002/2003					
June	265.4	410.9	176.2	40.9	893.4
September	271.6	539.3	167.2	39.1	1 017.2
December	316.5	442.6	180.5	25.6	965.2
March	260.4	527.4	150.3	23.3	961.4

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BALANCE OF PAYMENTS SUMMARY
(Flows - US$MN)

	Jun-01 r	Sep-01	Dec-01	Mar-02	Jun-02 r	Sep-02 r	Dec-02 r	Mar-03 p
1. Current Account	**-140.4**	**-179.5**	**-288.6**	**-168.6**	**-262.8**	**-343.0**	**-343.1**	**-232.6**
A. Goods Balance	**-354.5**	**-375.7**	**-469.8**	**-377.3**	**-440.7**	**-545.0**	**-507.5**	**-505.2**
Exports (f.o.b.)	399.5	374.0	320.5	329.7	325.3	333.6	320.5	323.4
Imports (f.o.b.)	754.0	749.7	790.3	707.0	766.0	878.6	828.0	828.6
B. Services Balance	**114.0**	**82.7**	**31.4**	**93.9**	**50.9**	**64.0**	**62.3**	**167.1**
Transportation	-58.7	-67.5	-78.7	-48.8	-62.7	-70.3	-63.8	-44.4
Travel	270.3	239.9	197.4	248.0	220.1	244.3	238.6	320.8
Other Services	-97.6	-89.7	-87.3	-105.3	-106.5	-110.0	-112.5	-109.3
Goods & Services Balance	**-240.5**	**-293.0**	**-438.4**	**-283.4**	**-389.8**	**-481.0**	**-445.2**	**-338.1**
C. Income	**-107.4**	**-102.6**	**-101.3**	**-146.3**	**-150.7**	**-145.0**	**-163.5**	**-165.8**
Compensation of Employees	10.5	27.2	32.7	3.0	13.9	32.4	32.8	4.9
Investment Income	-117.9	-129.8	-134.0	-149.3	-164.6	-177.4	-196.3	-170.7
D. Current Transfers	**207.5**	**216.1**	**251.1**	**261.1**	**277.7**	**283.0**	**265.6**	**271.3**
General Government	20.2	10.8	37.8	25.2	24.9	33.6	23.9	21.7
Other Sectors	187.3	205.3	213.3	235.9	252.8	249.4	241.7	249.6
2. Capital & Financial Account	**140.4**	**179.5**	**288.6**	**168.6**	**262.8**	**343.0**	**343.1**	**232.6**
A. Capital Account	**-7.0**	**-5.9**	**-4.3**	**-5.6**	**-4.7**	**-3.6**	**-3.0**	**-5.0**
Capital Transfers	-7.0	-5.9	-4.3	-5.6	-4.7	-3.6	-3.0	-5.0
General Government	0.2	0.1	1.4	0.1	0.1	0.0	0.0	0.1
Other Sectors	-7.2	-6.0	-5.7	-5.7	-4.8	-3.6	-3.0	-5.1
B. Financial Account	**147.4**	**185.4**	**292.9**	**174.2**	**267.5**	**346.6**	**346.1**	**237.6**
Direct Investment	110.1	77.1	121.7	145.4	74.4	73.8	111.3	87.2
Other Official Investment	333.0	-63.3	268.7	52.1	21.0	-52.9	56.9	-251.5
Other Private Investment (including net errors & omissions)	-41.5	167.8	206.6	77.6	12.7	230.8	87.6	144.6
Reserves	-254.2	3.8	-304.1	-100.9	159.4	94.9	90.3	257.3

r-revised

p-provisional

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PRIVATE SECTOR QUARTERLY REMITTANCE FLOWS (US$MN)

	Commercial Banks	Remittance Companies	Post Offices	Building Societies	Other	Total
2000/2001	**180.9**	**479.0**	**1.2**	**156.8**	**25.7**	**843.6**
June	40.3	109.5	0.3	37.0	6.0	193.1
September	28.6	120.8	0.3	36.9	6.3	192.9
December	50.6	125.4	0.3	39.3	6.5	222.1
March	61.4	123.3	0.3	43.6	6.9	235.5
2001/2002	**170.2**	**595.3**	**1.2**	**202.4**	**27.3**	**996.4**
June	43.1	136.2	0.3	43.5	6.9	230.0
September	46.9	143.0	0.3	50.4	6.9	247.5
December	25.6	163.7	0.3	58.0	6.9	254.5
March	54.6	152.4	0.3	50.5	6.6	264.4
2002/2003	**293.5**	**621.1**	**1.2**	**252.6**	**43.2**	**1 211.6**
June	73.4	157.2	0.3	58.8	6.6	296.3
September	74.1	150.3	0.3	65.6	6.6	296.9
December	66.5	159.7	0.3	65.8	6.6	298.9
March	79.5	153.9	0.3	62.4	23.4	319.5
2003/2004						
June	58.8	169.8	0.3	63.2	23.4	315.5
September	74.8	168.3	0.3	71.7	23.4	338.5

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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
2000/2001					
June	848.3	91.9	756.5	15.0	10.2
September	1022.1	86.7	935.5	17.9	12.3
December	1048.8	79.3	969.5	18.3	12.6
March	1361.9	75.6	1286.3	24.0	16.4
2001/2002					
June	1612.5	71.9	1540.5	27.3	18.6
September	1605.9	69.2	1536.7	27.1	18.6
December	1903.3	62.6	1840.7	33.2	22.5
March	2000.3	58.7	1941.6	34.9	23.6
2002/2003					
June	1837.5	55.2	1782.3	31.2	20.6
September	1738.6	51.3	1687.3	29.5	19.5
December	1643.1	46.1	1597.0	27.9	18.4
March	1382.2	42.5	1339.7	22.1	14.8
2003/2004					
June	1 165.2	37.8	1 127.4	18.3	12.0
September	1216.6	34.0	1182.6	19.0	12.8

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

	US$	Can$	UK£
1999/2000			
June	38.97	25.65	59.29
September	40.00	26.72	63.79
December	41.42	27.80	65.80
March	42.14	29.01	66.65
2000/2001			
June	42.51	28.17	62.73
September	44.83	29.25	64.15
December	45.53	29.51	66.78
March	45.68	29.17	64.11
2001/2002			
June	45.82	29.80	63.94
September	45.94	29.00	66.74
December	47.40	29.45	67.94
March	47.61	29.88	67.14
2002/2003			
June	48.51	31.95	72.98
September	49.27	31.11	76.60
December	50.97	32.09	80.97
March	56.24	37.48	87.41
2003/2004			
June	59.01	43.69	96.79
September	59.71	43.92	98.54

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

End Period	Local Registered Stocks	Treasury Bills	Bonds	BOJ Open Market Operations Securities
1999/2000				
June	112 513.0	10200.0	25 603.0	38 469.9
September	116 959.5	9 900.0	31 266.7	36 703.9
December	130 939.9	10 650.0	32 165.4	29 286.9
March	126 022.9	9 550.0	36 510.4	39 490.9
2000/2001				
June	131 477.8	9 750.0	37 268.0	45 066.2
September	132 589.8	9 850.0	38 789.9	51 885.6
December	134 896.5	7 600.0	41 920.6	51 800.9
March	159 734.8	6 950.0	45 107.7	61 441.4
2001/2002				
June	226 655.6	6 900.0	48 981.5	74 164.5
September	230 172.6	5 450.0	53 437.6	77 525.5
December	217 361.8	3 900.0	71 004.0	85 628.3
March	212 110.0	4 250.0	79 151.0	99 195.3
2002/2003				
June	219 738.5.	4 350.0	80 516.1.	97 006.3
September	232 873.9	4 350.0	88 274.7	96 072.3
December	240 843.3	4 150.0	99 432.9	89 981.3
March	240 923.0	2 950.0	114 524.1	-86 203.8
2003/2004				
June	241,163.2	2 000.0	137,960.0	77 126.4
September	n.a.	2 400.0	n.a.	83 700.3

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STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	Volume Traded (M.)	Value of Stocks Traded (J$M.)
2000/2001	**29,701.9**	**669.4**	**3,683.0**
June	31,338.3	300.9	1,480.3
September	31,152.7	95.6	591.4
December	28,893.2	116.5	773.0
March	29,701.9	156.4	838.3
2001/2002			
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, 19.5
2002/2003			
June	38,606.7	404.9	1 35.9
September	39,219.6	401.1	2 32.1
December	45,396.2	380.9	1 49.4
March	46,982.0	1 240.1	7 155.5
2003/2004			
June	50 478.9	352.4	2 077.7
September	57 769.1	2 167.4	11 321.3

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

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PRODUCTION OF SELECTED COMMODITIES
(Flows- 000' tonnes)

	Bauxite	Alumina	Sugar	Bananas*
2000/2001	**2 420.4**	**3 617.8**	**185.4**	**44.1**
June	527.8	893.8	78.2	9.7
September	372.3	897.9	1.6	10.8
December	587.1	911.4	3.5	12.2
March	933.1	914.7	102.1	11.3
2001/2002	**3 808.4**	**3 493.7**	**184.8**	**42.3**
June	888.5	943.4	91.5	11.0
September	997.2	946.3	7.3	9.9
December	816.1	738.0	4.2	10.8
March	1 106.6	866.0	81.8	10.6
2002/2003	3917.5	3698.7	186.1	37.7
June	888.1	887.3	76.8	10.3
September	961.2	932.0	11.8	9.7
December	1 110.8	945.2	4.7	9.3
March	964.4	934.2	92.8	8.4
2003/2004				
June	992.9	957.0	54.0	9.9
September	975.3	939.8	1.3	10.2

** Exports*

D. BANK OF JAMAICA BALANCE SHEET

ASSETS AND LIABILITIES
(End of Period)
J$MN

	Dec-01	Mar-02	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03
Liabilities	**165 421.1**	**173 579.0**	**166 610.3**	**152 220.5**	**151 282.4**	**152 765.6**	**149 552.0**	**156 818.4**
Foreign	450.4	411.5	442.6	405.8	434.6	484.6	467.9	459.2
Local	164 970.7	173 167.5	166 167.8	151 814.7	150 847.8	152 281.0	149 084.1	156 359.1
Currency in Circulation	22 378.7	19 481.9	19 318.5	19 587.3	24 387.3	20 772.3	21 309.9	21 587.9
Deposits	134 014.7	145 003.5	137 793.2	121 123.3	118 055.4	117 110.0	110 145.7	115 342.8
Bankers	19 232.8	16 225.9	16 925.7	17 264.9	17 729.8	25 401.0	25 474.3	25 022.0
Government	5 529.4	7 591.3	6 933.6	3 916.6	4 484.3	1 760.2	3 280.1	2 000.8
Open Market Operations	85 628.3	99 195.3	97 006.3	96 072.3	89 981.3	86 203.8	77 126.4	83 700.3
Other	23 624.2	21 991.0	16 927.6	3 869.5	5 860.0	3 745.0	4 264.9	4 619.7
Allocation of Special Drawing Rights	2 347.0	2 347.0	2 462.0	2 462.0	2 462.0	2 462.0	3 203.0	3 203.0
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	24.0	4.0	4.0
Other Reserves	939.6	1 174.8	1 195.8	1 195.8	1 944.2	1 944.2	1 640.8	1 628.8
Other Liabilities	5 266.7	5 136.3	5 374.2	7 422.3	3 974.9	9 968.5	12 780.7	14 592.7
Assets	**165 421.1**	**173 579.0**	**166 610.3**	**152 220.5**	**151 282.4**	**152 765.6**	**149 552.0**	**156 818.4**
Foreign	89 754.1	95 228.9	88 833.0	85 369.6	83 071.5	77 202.2	68 606.6	72 298.2
Current Account & Foreign Currency Balances	13 926.8	7 769.8	5 025.5	5 048.1	6 880.4	9 318.5	5 105.0	11 163.0
Time Deposits & Securities	73 899.6	85 539.9	81 873.3	78 281.9	74 108.9	65 607.9	60 573.9	54 278.5
Holdings of Special Drawing Rights	68.9	42.0	18.4	63.8	39.9	20.2	6.5	19.7
Other	1 858.8	1 877.2	1 915.8	1 975.8	2 042.3	2 255.6	2 921.2	6 837.0
Local	75 667.0	78 350.1	77 777.3	66 850.9	68 210.9	75 563.4	80945.4	84 520.2
Public Sector Securities	56 000.2	56 109.5	52 802.2	56 752.1	57 237.4	54 975.0	66 907.0	68 465.9
Other Assets	19 666.8	22 240.6	24 975.1	10 098.8	10 973.5	20 588.4	14 038.4	16 054.3

E. COMMERCIAL BANKS' BALANCE SHEET

	Dec-01	Mar-02	Jun-02	Sep-02	Dec-0 2	Mar-03	Jun-03[r]	Sept-03 [p]
Assets	**239 087.8**	**252 908.2**	**251 817.0**	**259 213.3**	**262 577.9**	**285 881.7**	**295 233.2**	**307 568.8**
Cash	3 595.7	1 997.9	1 854.6	2 030.1	3 988.3	3 438.6	2 500.6	2 638.1
Balances with BOJ	36 782.2	44 646.1	43 993.1	41 726.7	40 111.1	41 414.8	37 224.0	40 947.6
Foreign Assets	40 495.4	44 923.5	44 285.3	46 039.2	47 540.2	62 782.3	58 847.3	57 259.6
Loans & Advances	49 035.1	51 354.7	58 100.8	67 046.0	73 943.3	79 685.4	87 067.4	91 254.9
Private Sector	38 746.9	37 932.9	42 306.9	46 261.6	50 882.0	52 897.6	60 255.0	66 396.8
Public Sector	10 288.2	13 421.8	15 793.9	20 784.4	23 061.3	26 787.8	26 812.4	24 858.1
Public Sector Securities	79 603.7	76 010.5	74 677.2	72 564.8	68 829.3	66 143.2	78 275.4	79 851.1
Cheques in the Process of Collection	2 917.6	6 175.9	4 487.6	3 949.2	3 794.0	4 024.4	4 627.7	3 023.1
Other Assets	26 658.1	27 799.6	24 418.4	25 857.3	24 371.7	28 393.0	26 690.8	32 594.4
Liabilities	**239 087.8**	**252 908.2**	**251 817.0**	**259 213.3**	**262 577.9**	**285 881.7**	**295233.2**	**307 568.8**
Deposits	158 918.1	165 541.3	169 908.3	177 801.9	178 979.5	188 441.5	190 050.4	194 580.3
Foreign Liabilities	13 265.5	14 863.8	14 758.0	13 237.4	12 691.1	14 085.8	14 734.1	16 838.9
Discounts & Advances from BOJ	83.0	43.9	60.2	61.2	134.9	187.1	235.7	95.6
Loans/Advances from Other Institutions	9 177.7	9 017.9	6 377.4	6 729.3	7 309.4	7 632.5	7 748.7	8 881.7
Cheques in the Process of Payment	2 026.9	3 324.6	2 369.6	2 614.2	2 565.0	2 150.6	2 969.4	2 161.0
Other Liabilities	55 616.6	60 116.7	58 343.5	58 769.3	60 898.0	73 384.2	79 494.9	85 011.3

P = preliminary
r = revised

F. INTERNATIONAL INDICATORS

1

LONDON INTERBANK OFFER RATE–LIBOR (End- of-Period)	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2000/2001				
June	6.6563	6.8125	7.0000	7.2188
September	6.6250	6.8125	6.7500	6.8125
December	6.5625	6.4063	6.2188	5.9688
March	5.0938	4.8750	4.7188	4.6563
2001/2002				
June	3.7900	3.7300	3.7300	3.9400
September	2.6300	2.5900	2.5225	2.6425
December	1.8738	1.8813	1.9813	2.4425
March	1.8788	2.0300	2.3300	3.0025
2002/2003				
June	1.8387	1.8600	1.9562	2.2862
September	1.8113	1.7900	1.7100	1.7250
December	1.3820	1.3830	1.3830	1.4470
March	1.3000	1.2787	1.2312	1.2800
2003/2004				
June	1.1620	1.1225	1.0815	1.0944
September	1.1200	1.4246	1.1856	1.3525

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 7/32	4 3/8 – 4 1/2	4 13/32 – 4 7/32
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 7/32
2002/2003				
June	4 - 3 29/32	4 1/8 - 4 1/32	4 9/32 - 4 3/16	4 21/32 - 4 9/16
September	3 15/16 – 3 27/32	3 29/32 – 3 3/16	3 7/8 – 3 25/32	3 7/8 – 3 25/32
December	4 1/16 – 3 15/16	4 1/32 – 3 29/32	4 – 3 7/8	4 – 3 7/8
March	3 21/32 – 3 19/32	3 21/32 – 3 9/16	3 9/16 – 3 1/2	3 9/16 – 3 7/16
2003/2004				
June	3 11/16 – 3 9/16	3 19/32 – 3 17/32	3 17/32 – 3 15/32	3 17/32 – 3 7/16
September	3 5/8 – 3 17/32	3 11/16 – 3 19/32	3 25/32 – 3 11/16	3 31/32 – 3 7/8

3

PRIME LENDING RATES (End- of-Period)					
	EURO-ZONE	UNITED STATES			UK
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Prime Rate
2000/2001					
June	4.25	7.00	6.00	9.50	6.00
September	4.50	6.50	6.00	9.50	6.00
December	4.75	6.50	6.00	9.50	6.00
March	4.75	5.00	4.50	8.00	5.75
2001/2002					
June	4.50	3.75	3.25	6.75	5.25
September	3.75	3.00	2.50	6.00	4.75
December	3.25	1.75	1.25	4.75	4.00
March	3.25	1.75		4.75	4.00
2002/2003					
June	3.25	1.75	1.25	4.75	4.00
September	3.25	1.75	1.25	4.75	4.00
December	2.75	1.25	0.75	4.25	4. 00
March	2.50	1.25	2.25	4.25	3.75
2003/2004					
June	2.00	1.00	2.00	4.00	3.75
September	2.00	1.00	2.00	4.00	3.50

4A

INTERNATIONAL EXCHANGE RATES US$ vs. OTHER MAJOR CURRENCIES (currency/US$) (End- of-Period)								
	Dec-01	Mar-02	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03
US$ vs. Sterling	0.6871	0.8753	0.6560	0.6369	0.6306	0.6327	0.6050	0.6192
US$ vs. Canadian $	1.5963	1.5954	1.5209	1.5858	1.5593	1.4711	1.3553	1.3632
US$ vs. Yen	131.06	132.55	119.86	121.73	121.98	118.58	119.86	114.79
US$ vs. Euro	2.1966	0.8724	1.0126	1.0123	0.9820	0.9164	0.8693	0.8878

4B

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
(September 2003)

	GBP	C$	US$	Yen	Euro
U.K.	1	2.245	1.668	184.5	1.424
Canada	0.445	1	0.743	82.19	0.634
U.S.	0.600	1.346	1	110.7	0.854
Japan	0.542	1.217	0.904	100	0.771
Euro	0.702	1.577	1.171	129.6	1

4C

INTERNATIONAL EXCHANGE RATES
STERLING vs OTHER MAJOR CURRENCIES
(End of Period)

	Mar-02	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03
Sterling vs. US$	1.4240	1.5243	1.5701	1.5859	1.5805	1.6529	1.6157
Sterling vs Canadian $	2.2719	2.3183	2.4899	2.4730	2.3251	2.2402	2.2022
Sterling vs Yen	191.13	193.42	191.16	188.39	198.12	196.52	185.40
Sterling vs Euro 1/	0.8724	1.5434	1.5895	1.5572	1.4484	1.4369	1.4338

5A

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

	Mar-02	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03
UAE's Dubai Light	24.23	29.18	27.51	26.21	23.29	23.685	24.87
North Sea Brent	23.69	24.13	28.34	28.52	30.34	27.55	26.85
West Texas Intermediate	22.38	25.51	29.67	29.44	33.32	30.71	28.3

5B

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

	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03
Spot (Cash)	1364.5	1280.5	1344.5	1330.0	1389.0	1475.89
3 Month	1383.5	1297.0	1348.0	1345.0	1366.0	1423.5

5C

WORLD COMMODITY PRICES
FOOD
(End- of-Period)

	Mar-02	Jun-0:	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03
Wheat s **(US$/mt)**	125.7	125.7	166.1	176.7	147.4	137.3	145.6
Coffee (USc/kg arabica brand)	133.6	136.2	126.0	146.8	142.4	131.4	146.4

6

MAJOR STOCK MARKET INDICES
(End- of-Period)

	Mar-02	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03
TOKYO							
Nikkei Index	11024.94	10621.84	9383.29	8578.95	7972.71	9083.11	10219.05
NEW YORK							
Dow Jones Industrials	10426.91	9243.26	7591.93	8341.63	7992.13	8985.44	9275.06
S & P Composite	1144.58	1122.78	945.28	879.82	848.12	974.50	995.97
LONDON							
Financial Times SE 100	5271.80	4656.40	3721.80	3940.40	3613.30	4031.20	4091.3
FRANKFURT							
Dax Index	5397.29	4382.56	2769.03	2423.87	2423.87	3220.58	3256.78
ZURICH							
SMI Index	6655.20	5979.70	4783.00	4085.60	4085.60	4813.70	5043.5

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 monetary base is the operating target used in the BOJ monetary policy framework and can be controlled through 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.

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.

Exchange rate pass-through: The effect of exchange rate changes on one or more of the following: import and export prices, consumer prices, investments and trade volumes.

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.

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.

Liquid Asset*:* An asset is considered liquid if it can be easily and with little or no loss converted 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 outright sale or purchase of GOJ securities from the stock of securities held by BOJ, and/or repurchase and reverse repurchase transactions.

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 Appreciation: An increase in the volume of foreign goods that can be bought with a unit of domestic currency; alternatively it is a decrease in the volume of domestic goods that can be purchased with a unit of foreign currency. Thus, a real appreciation makes exports less attractive and imports relatively cheaper. This may ensue from a nominal appreciation, which is the rise in the unit price of the currency, or a greater increase in domestic prices relative to foreign prices, or both.

***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 institution, which by a statutorily based stipulation, must be held as interest free deposits at the Central Bank.

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

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

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

Quasi-money: Savings Deposits plus Time Deposits.

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