BANK OF JAMAICA
NETHERSOLE PLACE
KINGSTON

30 March 2001

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

Dear Minister:

In accordance with Section 44 (1) of the Bank of Jamaica Act, 1960, I have the honour of transmitting herewith the Bank's Report for the year 2000 and a copy of the Statement of the Bank's Accounts at 31 December 2000 duly certified by the Auditors.

Yours sincerely,

Derick Latibeaudiere
Governor

Board of Directors

Derick Latibeaudiere
Governor & Chairman

Christopher Bicknell

Colin Bullock

Carlton Davis

Jeffrey Hall

Kenneth Hall

Patricia Hayle

Keith Senior

Shirley Tyndall

Principal Officers

GOVERNOR & SUPERVISOR OF BANKS	
Derick Latibeaudiere	
DEPUTY GOVERNORS	
Audrey Anderson	Financial Institutions Supervisory Division
Colin Bullock	Research & Economic Programming Division Banking & Market Operations Division
GENERAL COUNSEL	
Rudolph Muir	Secretary's Division
DIVISION CHIEFS	
Myrtle Halsall	Research & Economic Programming Division
Gayon Hosin	Financial Institutions Supervisory Division
Livingstone Morrison	Finance & Technology
Kenloy Peart	Administration & Technical Services Office
Faith Stewart	Banking & Market Operations Division
SENIOR LEGAL COUNSEL	
Randolph Dandy	Legal Department
CHIEF INTERNAL AUDITOR	
Evadnie Sterling	Internal Audit Department
SENIOR ADVISOR	
Oswald Tie	Protective Services

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Overview

Bank of Jamaica's policy focus on monetary stability and financial system soundness bore encouraging results in 2000. Inflation fell to a new low of 6.1 per cent continuing the steady drop from 9.2 per cent in 1997, 7.9 per cent in 1998 and 6.8 per cent in 1999. The context of the improvement was particularly heartening as it included the re-emergence of real growth in GDP, gains in external competitiveness and a near doubling of the net international reserves (NIR). In the financial system, all the indicators of soundness and efficiency improved, including a resurgence of lending to the private sector under more prudent practices and careful regulation.

The out-turn for inflation in 2000 reflected the extent to which improvements in domestic agriculture supply conditions moderated the impact of a rise in the prices of imported goods. Chief among the commodity price hikes was oil and petroleum products which, in response to OPEC management of supply, increased by 70 per cent over the first three quarters and only softened in the December quarter. The exchange rate also moved by 9.0 per cent in 2000 adding directly to the cost of all imports. The combined effect of these price changes was mitigated by an apparent narrowing of the margins taken by local distributors and the delay in the full pass through to administered prices such as bus fares. In the latter part of the year, the normalization of weather conditions generated a significant increase in the supply of domestic agricultural products such that prices for locally grown fruits and vegetables fell sharply in the December quarter, reversing some of the increase in prices that had been recorded up to September. The overall result was a fall in the 12-month rate of inflation to 6.1 per cent and a rate of 4.8 per cent for the nine months of the fiscal year to December.

Core inflation was estimated at 4.0 per cent for the year due largely to the continuing close management of base money by the Central Bank. For 2000, base money declined by 5.4 per cent with liquidity levels in the banking system being managed by variations in the terms and intensity of open market operations. For the year as a whole, there was an easing of monetary policy conveyed through successive reductions in the cash reserve requirements of deposit-taking institutions and the reduction of the Bank's benchmark interest rate. By August the 30-day "signal" rate was reduced to 16.45 per cent from the 17.35 that prevailed at the beginning of the year. In the latter part of the year, an increase in the demand for foreign currency disturbed the relatively stable monetary conditions and delayed further reductions in benchmark interest rates. Indeed, on two occasions - in October and November

- Bank of Jamaica (BOJ increased the rate applicable to its longer term instruments to restore order to the foreign exchange market.

Nonetheless, the 14.9 per cent growth in the deposits of banks and other financial institutions created the basis for an expansion of credit to both the private and public sector at lower interest rates than in the previous year. Credit to the private sector was concentrated in the tourism, distribution and utilities sectors and represented a substantial upturn relative to recent years. The public sector's use of credit was seasonal and varied with the timing of the receipt of foreign loans. On average, commercial banks' lending rates fell by 2.5 percentage points to 22.1 per cent reflecting the general improvement in liquidity and the prevailing rates on competing money market instruments. The difference between the average rate charged on commercial bank loans and the average rate offered on deposits fell to 9.9 percentage points at December 2000, compared to 11.3 percentage points in December 1999.

The growth in loans was only one of many positive indicators in the financial system. As a group, the measures of profitability, liquidity and capital adequacy improved for commercial banks, merchant banks and building societies. The share of non-performing loans in the system fell from 12.8 per cent in 1999 to 9.6 per cent at December 2000. For past due accounts three months and over, the level of provisioning exceeded 116 per cent thus posing no threat to near-term profitability. Institutional consolidation through mergers and rationalization continued in the industry with the number of licensees falling by 3, to 22 . Significant progress was made towards the divestment of state-owned banks with the restructuring of the ownership of National Commercial Bank (NCB) and the undertaking of a formal agreement to sell Union Bank. For deposit-taking institutions as a whole, there has been general compliance with prudential standards. New regulations that have been drafted will further enhance the ability of the supervisory bodies in the financial sector to enforce the best prudential standards in the industry.

The international economy was buoyant in 2000 as the continuing strength of the United States (US) economy was supported by improvements in the economies of Jamaica's trading partners in Europe, East Asia and Latin America. Against this background, earnings from exports, tourism and other services expanded. Total merchandise exports which grew by a modest 3 per cent was retarded by a 23 per cent fall in bauxite shipments as these continued to be affected by the loss of processing capacity for most of the year. The volume of sugar and banana exports also fell as these commodities were affected by price reductions of 43.6 per cent and 29.4 per cent, respectively. The overall growth in exports was mainly attributable to sharply improved earnings from alumina (9 per cent or US$56 m.) which benefited from a rebound in its price, coffee (34 per cent), gypsum (87.6 per cent) and re-exports. These gains were more than offset, however, by the US$278 million increase in the cost of imports

such that the trade deficit deteriorated by US$213 million to US$1346 million. An increase of US$214 million in the value of fuel imports accounted for most of the change in the value of imports.

Growth of US$99 million in net earnings from travel dominated the improvement in the balance on services. Visitor arrivals rose by 10.7 per cent over 1999 to reach over 2.2 million persons. Cruise passenger arrivals expanded by 18.7 per cent with more vessels calling at all the major north coast ports. Estimated expenditure rose by 6.3 per cent to a record US$1360 million. While increased interest payments and the repatriation of profits worsened the income account by US$60 million, the sale of licenses for cellular telephones and an increase in remittances buoyed current inflows and moderated the decline in the current account deficit to US$285 million or an estimated 4.0 per cent of GDP from US$252 million or 3.5 per cent of GDP in 1999.

Private investment inflows amounted to over US$400 million in 2000 which, when added to net official borrowing of US$378 million, were more than sufficient to finance the current account deficit. As a consequence, the NIR of the BOJ grew by US$519 million to end the year at a record high of US$969.5 million.

Despite an increase in foreign exchange earnings and the heavy inflow of financial investments, the foreign exchange market exhibited a period of intense demand pressure between late August and October. Much of the additional demand was related to the desire of local investors to subscribe to a Government of Jamaica (GOJ) Eurobond that was floated in August at a relatively attractive yield. The Bank responded to this by selling foreign exchange to the inter-bank market and later, by introducing 9-month and 12-month Jamaica dollar instruments on which it added an attractive premium. By mid-December, normality had returned to the markets and the Bank began reducing the premium on its long-term rates late in the month. For the year as a whole, however, the Jamaica dollar depreciated by 9 per cent against the United States dollar. With the difference in inflation between the two countries being about 3 per cent, the 12-month change in the exchange rate implied a substantial gain in external competitiveness.

The indicators of output showed an overall upturn in 2000, led by an expansion in services, construction and manufacturing. Goods production as a whole is estimated to have fallen under the weight of a significant decline in the weather-sensitive agriculture sector for most of the year as well as the temporary cutback in mining activity. On the other hand, basic services - electricity, water and transportation- tourism and financial services are estimated to have grown in 2000.

On current trend, the growth prospects in all of these areas seem even more favourable for 2001. Basic services should continue to reflect growth particularly with the recent privatization of the electricity company and the anticipated investments and greater efficiencies expected in

power generation and distribution. The output of the communication sector should also be boosted with two new telecommunication companies becoming operational. Government's commitment to facilitate and promote new investment in information technology also holds out the promise of expansion in this sector. Among the other services sectors, developments in tourism and financial services are expected to be positive given the proposed level of public investment in infrastructure and marketing as well as the expansion in rooms and attractions already underway. Further, planned development in port facilities in Port Antonio should help to bolster the cruise shipping industry and marine based tourism.

Growth in the goods producing sector of the economy is expected to resume in 2001. The resurgence in agriculture which began in the fourth quarter of 2000 is expected to extend through 2001. A similar path would apply to the mining sector with the normalization of operations at the Kaiser refinery at Gramercy, Louisiana in the United States. The outlook for the world aluminium industry remains positive as it continued to show growth even in the face of a slowdown in the United States economy towards the end of 2000. This growth continues to be spurred by the strong recovery in Asian economies and greater momentum in Europe. With the Bank's continued emphasis on stability in prices and in financial markets, the outlook for each of the main sectors of the economy in 2001 point to faster overall growth.

The Bank celebrated its 40th anniversary in 2000 and marked the occasion with religious, social and educational events. Bank of Jamaica is the oldest central bank in the Caribbean and all the regional central banks joined in the celebration of this milestone. As the head of the financial system, the Bank also began to place more emphasis on public education by adding to its regular publications a series of pamphlets which explain various aspects of its work. These pamphlets are aimed at the general public. A collection of staff research papers was also launched in October with the objective of sharing internal policy based research with other institutions and with academia. In the same vein, the first of a new series, the Quarterly Monetary Policy Report was published in February, 2001. The Bank intends to publish a book in 2001 covering the 40 years of its existence as a permanent record of its stewardship since May, 1961.

The Financial System

Base Money Management

Introduction

Monetary policy decisions during 2000 remained focused on engendering a stable environment that would support the Bank's broader objective of price stability. In this regard, liquidity impulses emanating from a build-up in foreign reserves and the reduction in the cash reserve requirement were more than offset by the Bank's open market operations and therefore did not undermine the established low inflation path.

Developments and Challenges

As shown in Table 1, the monetary base recorded an overall decline of $1 972.9 million, a reduction of 5.4 per cent, during 2000. This reduction was consistent with the targets outlined in the IMF Staff Monitored Programme (SMP). The Bank's foreign reserve position was significantly boosted by foreign currency flows from various sources including GOJ Eurobonds, multilateral loans and a relatively buoyant foreign exchange market. In this regard, the NIR of the BOJ increased by US$519.4 million during the period to US$969.5 million, a record high for Jamaica.

TABLE 1

BANK OF JAMAICA - SUMMARY FLOWS (J$M)

	Total 1999	Jan-Mar	Apr-Jun	Jul-Sept	Oct-Dec	Total 2000
NET INTERNATIONAL RESERVES (US$)	**-131.8**	**253.3**	**53.0**	**179.0**	**34.1**	**519.4**
NET INTERNATIONAL RESERVES (J$)	**-2 626.9**	**10 640.3**	**2 251.3**	**7 607.9**	**1 531.3**	**22 030.8**
NET DOMESTIC ASSETS	**5 553.3**	**-16 578.3**	**-2 292.3**	**-8 201.0**	**3 067.9**	**-24 003.7**
Net Claims on Public Sector	**3 926.6**	**-6 674.8**	**4 120.9**	**-1 360.5**	**228.9**	**-3 685.5**
- Central Government Deposits	-1 760.5	-2 098.7	2 744.0	-81.3	-2 136.4	-1 572.5
- Government Securities	1 375.8	-5 053.3	2 597.7	-1 395.5	844.8	-3 006.3
- FINSAC Securities	4 552.7	2 339.2	-1 635.3	1 151.3	1 128.9	2 984.2
- Other	538.9	-382.2	-59.1	897.4	758.9	1 215.1
- Other Public Sector	-780.2	-1 480.0	473.6	-1 932.4	-367.3	-3 306.1
Net Credit to Banks	**974.1**	**-1 044.6**	**-82.5**	**88.2**	**2 647.0**	**1 608.1**
Open Market Operations	**2 346.7**	**-10 204.0**	**-5 575.3**	**-6 819.4**	**84.7**	**-22 514.0**
Other	**-1 692.3**	**1 345.2**	**-755.4**	**-109.4**	**107.3**	**587.7**
Monetary Base	**2 926.4**	**-5 938.0**	**-41.1**	**-593.1**	**4 599.2**	**-1 972.9**
- Currency Issue	5 623.3	-5 321.2	127.0	390.1	4 564.8	-239.3
- Cash Reserve	-2 684.8	-688.4	-270.0	-907.1	-11.0	-1 876.5
- Current Account	-12.1	71.6	102.0	-76.2	45.4	142.9
NIR Stock (US$M) eop	450.2	703.5	756.5	935.5	969.5	969.5
Growth Monetary Base	8.7	-16.3	-0.1	-2.0	15.4	-5.4
Inflation	6.8	1.2	2.3	2.9	-0.5	6.1

The growth in the NIR represented the primary source of Jamaica dollar liquidity, which required intense open market operations for sterilization. The resulting decline in the Net Domestic Assets (NDA) was more than sufficient to offset the liquidity emanating from the net accumulation in foreign reserves thereby limiting the impact on the monetary base. In addition, Government operations were broadly supportive of the Bank's operations with net claims on the public sector declining by $3 685.5 million during the year.

Money and foreign exchange market conditions remained relatively stable up to end-July and facilitated a reduction in the BOJ's signal rate. However, after July pressures in the foreign exchange market constrained any further reductions in this rate and necessitated the introduction of longer tenors to assist in liquidity management.

i. January to June 2000

For the first two quarters of the year, the monetary base declined by 17.3 per cent, with a contraction of 16.3 per cent occurring during January to March 2000. The sharp contraction was dominated by the net currency reflows from the financial system following the abnormally high currency issue in December 1999[1]. Additional liquidity was generated by BOJ's accumulation of foreign reserves during the period. In this regard, liquidity injection of $12 891.6 million reflected BOJ purchases of the proceeds from the GOJ Eurobond 2002 and direct market purchases. The impact on the base from these two liquidity sources was limited by the extent to which the Bank engaged in open market activity. Within this context the BOJ absorbed $15 779.3 million (net) through regular open market operations and $2 455.6 million through the outright sale of securities.

The Bank's liquidity management was supported by commercial banks' reduced reliance on direct credit from the BOJ. With most of the liquidity and solvency issues of the banking system addressed by the Government through the Financial Sector Adjustment Company (FINSAC), credit to banks fell by $1 281 million during the six-month period.

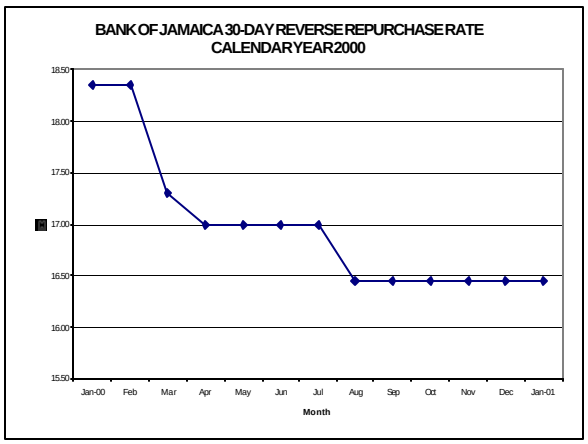
Liquidity management was therefore conducted in a relatively stable monetary and financial environment, which allowed the Central Bank to progressively reduce its signal 30-day reverse repurchase rate. The interest rate declined by 1.9 percentage points from 18.35 per cent in December 1999 to 16.45 per cent by end July 2000 (See Chart 1). Interest rates on the other existing tenors of 60-day, 90-day, 120-day, and 180-day instruments were also reduced.

ii. July to December 2000

Following relative stability during the first six months of the year, conditions in the money and foreign exchange markets changed by September.

[1] *The abnormal growth in currency issue during December 1999 related to commercial banks increasing holdings to cover year 2000 demands.*

CHART 1



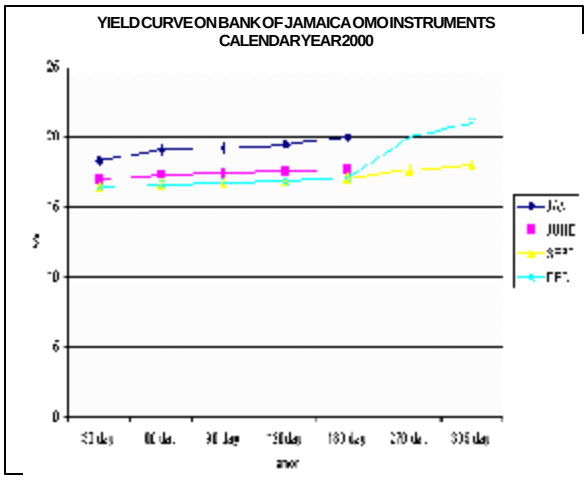
The management of the monetary base during the period required a more aggressive policy stance to restore foreign exchange market stability and limit the impact on inflation. The offer of the GOJ Eurobond in the latter part of July spurred increased demand for foreign currency in the domestic market during the second half of the year as investors sought to secure placements in this instrument. In addition, the reduction in the cash reserve ratio from 14 per cent to 13 per cent in September added liquidity to the financial system. However the expected demand for credit did not materialize.

Against the background of these developments, the demand for foreign currency instruments relative to Jamaica dollar denominated assets increased significantly in September as the differential in interest rates narrowed. This presented a challenge for the Bank's ability to absorb liquidity via its open market window given the existing interest rate structure. It therefore became necessary to adjust the range of instruments offered and the interest rate structure with a view to restoring stability to the foreign exchange market and ultimately maintaining price stability. In this regard, new 270-day and 365-day tenors on open market instruments were introduced on 18 September at premium rates of 17.6 per cent and 18.0 per cent respectively, relative to the shorter-term rates.

In light of a resurgence of instability in the foreign exchange market, the Bank tightened its monetary policy by increasing interest rates on the 270-day and 365-day instruments to 20.0 per cent and 22.0 per cent, respectively, on 4 October 2000. This measure proved to be effective as evidenced by a speedy return to stability in the foreign exchange market.

On 23 October 2000 the Bank loosened monetary policy by returning the rates on the longer tenors to their original levels of 17.6 per cent and 18.0 per cent on the 270-day and 365-day tenors, respectively, in the context of a normalization of foreign exchange inflows. Pressures soon re-emerged in the foreign exchange market however, and the exchange rate depreciated despite the BOJ's intervention. The Bank therefore responded by returning the rates on the longer tenors to 20 per cent and 22 per cent on 24 November 2000, which resulted in a tightening of liquidity, an increase in short-term interest rates and a reduced demand for foreign currency. The resulting yield curve on open market instruments became steeper (See Chart 2).

CHART 2



for July to December the NIR increased by US$213 million buoyed by the proceeds from government loans and increased surrenders from the market. The liquidity impetus of over $9 000 million emanating from the growth in the NIR was partially countered by a reduction in the NDA. In addition, credit to banks was particularly high during the period contributing a further liquidity impetus of $2 735.2 million. Of this, the Central Bank absorbed $6 734.7 million through open market operations during the period. The base money expansion for the six-month period was 13.2 per cent, with most of this expansion occurring in the December quarter to coincide with the seasonal demand for currency. The 22 per cent growth in currency issue relative to December 1999 was greater than expected, and may have resulted from over-stocking by banks during the festive season. In this context it was not deemed prudent to totally remove the premium on the longer tenors. Accordingly, the rate on the 365-day instrument was cut by 1.0 percentage point to 21.0 per cent on 28 December 2000.

Headline inflation for the year was 6.1 per cent with core inflation estimated at 4.0 per cent. The developments during the last quarter have continued into 2001, albeit at a more subdued rate. The immediate challenge for the Bank is restoration of the downward path in interest rates, which is conditional on sustained foreign exchange market stability.

Monetary Survey

During 2000 money supply[1], expanded by 10.6 per cent relative to an increase of 17.3 per cent in 1999. This 10.6 per cent increase reflected a 2.4 per cent decline in M1 and a 16.9 per cent increase in quasi money.

The fall in M1 reflected declines in both currency with the public and demand deposits. Although currency with the public stood at $17.6 billion at the end of December 2000, this represented a decline of 1.3 per cent below the record high of $17.8 billion, which obtained in 1999 as a result of the Y2K contingency plans. The relatively high level of currency at end December 2000 occurred because of the seasonal demand for currency coupled with the fact that commercial banks ordered precautionary currency stocks for ATMs in anticipation of the long holiday weekend. The excess currency issue was however subsequently redeemed by the Bank in January 2001.

[1] *Includes local and foreign currency liabilities*

TABLE 2

COMPONENTS OF MONEY SUPPLY
(DOMESTIC AND FOREIGN CURRENCY)
FLOWS (J$M)

	Dec '99	Dec 00	Dec'99	Dec 00
Money Supply (M2)	**17 728.4**	**12 739.0**	**17.3**	**10.6**
Money Supply (M1)	**8 892.2**	**-956.9**	**29.5**	**-2.4**
Currency with the public	4 315.3	-227.0	32.0	-1.3
Demand Deposits	4 576.9	-729.9	27.4	-3.4
Quasi Money	**8 836.2**	**13 695.9**	**12.2**	**16.9**
Savings Deposits	5 305.1	7 481.8	10.1	12.9
Time Deposits	3 531.1	6 214.1	18.0	26.9
	SOURCES OF MONEY SUPPLY			
Net Foreign Assets	**2 083.0**	**24 026.4**	**9.2**	**96.7**
Bank of Jamaica	-2 626.8	22030.8	-12.2	116.5
Commercial Banks	4 709.8	1 995.6	386.3	33.7
Loans and Advances to Private Sector	**-5 511.1**	**3 055.0**	**-15.0**	**9.8**
Net Claims on Public Sector	**17 756.7**	**4 406.6**	**21.3**	**4.4**
Net Claims on Financial Institutions	**7 370.9**	**-1 163.3**	**-38.4**	**9.8**
BOJ Open Market Operations	**2 349.7**	**-22 514.0**	**-7.4**	**76.9**
Other Items (Net)	**-6 317.8**	**4 928.3**	**-60.2**	**118.0**
TOTAL	**17 728.4**	**12 739.0**	**17.3**	**10.6**

An increase in the net foreign assets (NFA) of the banking system was the major source of the expansion in money supply for the period. This was due mainly to the increase in the NIR of the BOJ which doubled during the year by J$22 030.8 million or the equivalent of US$519.4 million compared to a decline of $2 626.9 million or the equivalent of US$131.9 million during 1999. However, the increase in the NFA of the banking system was sterilized by $22 514.0 million in open market operations, thus neutralizing the monetary impact of the expansion in the NIR.

Money supply expanded by 2.2 per cent for the March quarter. During the quarter, the NIR was bolstered by proceeds from GOJ bonds, along with net purchases of foreign exchange from the market. This had a potential expansionary impact of over $10.6 billion in money supply but was almost completely sterilized by $10.2 billion in open market operations. Because of its relatively strong cash flow during the quarter, there was no need for Government to increase its borrowing from the banking system. As a result, net credit to the public sector had a contractionary impact of $11.9 billion during that quarter.

During the June quarter, money supply increased by 2.1 per cent but unlike the March quarter, the major expansionary impulse to the increase emanated from the expansion in credit to the public sector. The Government embarked on a

programme to borrow less from the domestic money market during the quarter, which would make more resources available to the private sector. However, foreign commercial borrowing was postponed to the September quarter due to unfavourable conditions on the international market and hence, the Government resorted to the banking system to fulfil its budgetary needs. Banking system credit to the public sector expanded by $12.9 billion during the quarter. The NIR accumulation was marginal in this period and resulted mainly from net purchases from the market. The increase in open market operations, along with other contractionary impulses, was not sufficient to offset these expansions.

Money supply grew by 2.1 per cent during the September quarter. The NIR benefited from significant build-up due to the planned financing in foreign currency from both the domestic and foreign capital markets. This build-up was subsequently moderated as the BOJ intervened by selling foreign exchange to maintain stability in the foreign exchange market. The receipt of foreign financing enhanced cash flow for Government operations and hence Government operations had a contractionary impact on the money supply. Open market operations, though severely challenged due to the demand for foreign assets, managed to absorb a significant portion of the impulse to money supply expansion.

During the December quarter, money supply expanded by 3.9 per cent and mainly reflected the usual high seasonal demand for currency. Among the major sources of the increase was the expansion in banking system credit to both the public and private sectors. The high demand for foreign assets which began in late August, led the BOJ to increase the rates on the longer tenors of its reverse repurchase instruments in October. These rates were subsequently reduced but following a resurgence of instability in the foreign exchange market, the Central Bank again responded by increasing these rates in November. In this regard, the Government thought it more prudent to borrow from the banking system while limiting its borrowing from the domestic money market. Although there were demand pressures in the foreign exchange market up to early December, the quarter recorded a build-up in the NIR as there were net purchases of foreign currency in the latter half of December. The expansion in the stock of reverse repurchase instruments during the quarter was almost sufficient to sterilize the flows from the unwinding of Central Bank deposits which was used to fund currency payments.

Overall, the BOJ was fairly successful in containing money supply during the year and this should have significant influence on future inflation. It should be noted that while the expansion in public sector credit slowed significantly during 2000 to 4.4 per cent, private sector credit rebounded, with credit denominated in local currency recording an increase of $3 055 million or 9.8 per cent for the year. This increase in local currency private sector credit compares to a 15 per cent decline in 1999 and can be viewed in the context of a more favourable financial environment during 2000.

Commercial Banks

There were six (6) commercial banks operating in Jamaica on 31 December 2000, which remained unchanged since April 1999, when the number of banks was reduced from nine to six, as part of the financial system restructuring exercise. During the year FINSAC moved closer to completing the restructuring of the banking system by reorganizing the ownership structure of the largest bank and by purchasing additional non-performing loans in another bank. As a whole, the sector grew at a faster rate than in 1999 and this performance included an expansion in loans and an overall improvement in liquidity.

Assets and Liabilities

Total assets and liabilities of the commercial banking system stood at $216.6 billion at December 2000, a growth of $28.3 billion or 15.1 per cent. Within the assets, growth of $14.7 billion or 17.4 per cent in the investment portfolio resulted in its share of total assets changing slightly from 45 to 46 per cent. Despite the overall increase in investments, year-on-year holdings of Jamaica Government Securities contracted by 10.9 per cent compared to an expansion of 17.3 per cent in the previous year. The decline in holdings of LRS and other GOJ securities was more than offset by the 28.9 per cent or $15

TABLE 3

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

	Stock 1999	2000	Flows 1999	2000	% 1999	% 2000
ASSETS	**188 278.3**	**216 618.9**	**23 238.7**	**28 340.6**	**14.1**	**15.1**
Cash and Bank Balances	45681.8	53782.9	2 115.9	8 101.2	4.9	17.7
Investments	84321.6	99000.3	18801.2	14678.7	28.7	17.4
Domestic Currency	76406.1	89366.0	16498.8	12959.8	27.5	17.0
Jamaica Government Securities	23679.5	21100.0	3 486.5	-2 579.5	17.3	-10.9
Other Public Sector	51965.0	66991.3	13748.3	15026.3	36.0	28.9
Other Local	761.7	1 274.7	-736.0	513.0	-49.1	67.3
Foreign Currency	7 918.8	9 637.7	1 933.5	1 718.9	32.3	21.7
Securities Purchased for resale	5 035.3	11357.9	3 201.7	6 322.5	174.6	125.6
Loans (Net of provisioning)	32192.1	35436.9	-2 926.7	3 244.8	-8.3	10.1
Accounts Receivable	12468.7	8 235.0	4 921.6	-4 233.7	65.2	-34.0
Fixed Assets	4 693.1	4 738.5	-213.2	45.4	-4.3	1.0
Other Assets	3 885.8	4 067.6	-2 661.9	181.7	-40.7	4.7
LIABILITIES	**188 278.3**	**216 536.6**	**23 238.7**	**28 258.3**	**14.1**	**15.1**
Deposits	126813.9	149666.8	12722.9	22852.9	11.2	18.0
Domestic	94698.4	109739.9	9 195.4	15041.5	10.8	15.9
Foreign	32115.5	39926.8	3 527.6	7 811.3	12.3	24.3
Due to Bank of Jamaica	1 526.5	3 043.9	1 425.8	1 517.4	1 415.9	99.4
Due to Commercial Banks	3 063.6	3 084.9	-616.8	21.3	-16.8	0.7
Due to Specialised Institutions	9 564.0	9 502.7	-2 335.9	-61.3	-19.6	-0.6
Securities sold under Repurchase Agreements	18650.9	16905.4	4 393.4	-1 745.5	30.8	-9.4
Other Liabilities	10651.0	13343.3	-2 895.3	2 692	-21.4	25.3
Capital Account	18008.4	20989.6	10544.5	2 981.2	141.3	16.6

Data account for provisioning

billion increase in 'Other Public Sector' securities, which itself is partly explained by the capitalization of interest on the holdings of FINSAC notes. Total credit extended by the commercial banks grew by 10.1 per cent to $35.4 billion relative to the contraction of $2.9 billion or 8.3 per cent in 1999. Concurrently, accounts receivable fell by $4.2 billion or 34.0 per cent, which helped to accommodate the increase in interest-bearing assets.

On the liabilities side of the balance sheet, total deposits rose by 18.0 per cent relative to growth of 11.2 per cent in the previous year. Domestic currency denominated deposits increased by $15 billion or 15.9 per cent to $109.7 billion at the end of December 2000. Foreign currency deposits also registered a significant increase of 24.3 per cent, which exceeded the growth recorded in the previous year. Expressed in US dollars, using end-December exchange rates for corresponding years, the increases in foreign currency deposits were US$67.3 million or 11.6 per cent in 1999 and US$68.1 million or 10.5 per cent in 2000. This indicates that the exchange rate movement accounted for more than half of the increase in foreign currency deposits as expressed in local currency.

As depicted in Table 4, Government deposits grew sharply in 2000. Despite this, however, the 18 per cent ($22.8 billion) growth in total deposits was dominated by the $13 billion increase in private sector deposits. Growth in private sector deposits was reflected in time and savings deposits, as demand deposits fell, relative to December 1999. Other depositors, including churches and NGOs increased their holdings with commercial banks by $1.6 billion or 15 per cent.

A breakdown of private sector deposits by currency reveals that both local and foreign currency deposits increased for the calendar year ended December 2000 (See Table 5). In both cases, however, the increases were below that recorded in 1999. The ratio of foreign currency

TABLE 4

COMMERCIAL BANKS'
LOCAL AND FOREIGN CURRENCY DEPOSITS (J$M)

	Stock 1999	2000	Flows 1999	2000	% 1999	% 2000
Deposit	**126 813.9**	**149 666.8**	**12 722.9**	**22 852.9**	**11.2**	**18.0**
Private Sector	102 673.4	115 629.5	13 736.1	12 956.1	15.4	12.6
Demand	21 482.5	20 743.1	4 899.6	-739.4	29.5	-3.4
Savings	58 059.5	65 541.3	5 305.0	7 481.8	10.1	12.9
Time	23 131.3	29 345.1	3 531.5	6 213.7	18.0	26.9
Government	13 657.8	21 984.1	2 769.2	8 326.2	25.4	61.0
Other	10 482.7	12 053.2	-3 782.4	1 570.5	-26.5	15.0

Other Deposits include Financial Institutions and Overseas Residents

deposits increased marginally from 24.8 per cent in 1998 to 26.6 per cent and 27.9 per cent in 1999 and 2000, respectively. The private sector's holding of foreign currency deposits in commercial banks was US$716.8 million as at 31 December 2000 and US$661.5 million at the end of 1999.

Liquidity

In 2000, the statutory cash reserve ratio for local and foreign currency prescribed liabilities was reduced by three percentage points, over three successive quarters, and as at 31 December 2000 stood at 13 per cent. The statutory liquid assets requirement declined in line with the cash reserve ratio moving from 34 per cent at December 1999 to 31 per cent at December 2000. The reduction in the statutory requirement has continued a programme, which began in 1998, when the cash reserve ratio was 25 per cent and was expected to facilitate a decline in the interest rate structure. Despite the reduction in the liquid assets ratio however, commercial banks' average liquidity holdings at December 2000 remained high at 46.9 per cent despite a fall from 50 per cent at

TABLE 5

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

	Stock 1999	2000	Flows 1999	2000	% 1999	% 2000
Private Sector Deposits	**102 450.1**	**115 415.4**	**13 413.6**	**12 965.2**	**15.1**	**12.7**
Local Currency	75 208.0	83 163.9	8 261.7	7 955.8	12.3	10.6
Foreign Currency	27 242.1	32 251.5	5 151.9	5 009.4	23.3	18.4

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

TABLE 6

COMMERCIAL BANKS'
STATUTORY LIQUIDITY AS AT 31 DECEMBER

	1998	1999	2000			
			Mar	Jun	Sep	Dec
Statutory Liquidity (%)						
Cash Reserve Ratio	21.0	16.0	15.0	14.0	13.0	13.0
Liquidity Ratio	43.0	34.0	33.0	32.0	31.0	31.0
Average Liquidity Holdings						
Liquidity Holding (%)	50.1	50.0	50.6	49.7	50.3	46.9
Excess Reserves (J$BN)	6.1	13.0	17.4	18.5	19.0	15.3

December 1999. Excess liquid assets reserves approximated $15.4 billion at December 2000 relative to $13 billion in December 1999.

Interest Rates and Spreads

Interest rates continued on the general downward path which was observed, in spite of countervailing pressures during the year. One such manifestation of pressure occurred in the December 2000 quarter when turbulence in the foreign exchange market prompted policy action by the Central Bank. The trend of falling interest rates was interrupted following temporary increases in the 270-day and the 365-day reverse repurchase rates in an effort to divert Jamaica dollar liquidity away from the foreign exchange market into longer-term domestic instruments. As a result, money market rates, and consequently commercial banking system rates, which follow these rates, did not decline as fast as anticipated. However, commercial banks have not been as quick to adjust loan rates upwards suggesting that average loan rates will continue to decline.

The 30-day reverse repurchase rate, a key policy variable of the BOJ, maintained the downward trend of the previous year with a consecutive December year-on-year decline of 190 basis points to 16.45 per cent. This decline in the signal rate was less than that of 1999 when the rate fell by 365 basis points. The yield on the 180-day Treasury bill was 20.2 per cent at December 2000, relative to the end December 1999 yield of 22 per cent.

Table 7 shows that the weighted average deposit rate declined by 110 basis points to 12.2 per cent during 2000. Time deposits held over one month but less than three months offered the highest average rate of 14.25 per cent compared to 3-month and 1-year average time deposit rates of 12.98 per cent and 12.35, respectively. Over the year weighted average loan rates fell by 244 basis points to 22.12 per cent. As a result of the

TABLE 7

INTEREST RATES (%)

	1998	1999	2000			
			Mar	Jun	Sep	Dec
Reverse Repurchases						
30-day	22.0	18.35	17.30	17.00	16.45	16.45
180-day	24.0	19.95	18.55	17.65	17.05	17.05
Treasury Bill Yield (180-day)	23.5	22.0	18.0	17.5	17.1	20.2
Commercial Banks						
Average Deposti Rates						
- 1 Month	17.02	13.89	13.75	13.32	13.21	12.98
- 3 Month	15.86	14.98	14.77	14.58	14.52	14.25
- 1 Year	10.66	13.41	13.48	12.34	12.07	12.35
Weighted Average Loan Rates	33.0	24.6	24.3	23.5	22.2	22.1
Weighted Average Deposit Rates	15.5	13.3	13.0	12.7	12.6	12.2

decline in loan rates of commercial banks, the simple computed interest rates spread contracted from 11.29 per cent at December 1999 to 9.91 per cent at December 2000.

Loans and Advances

The stock of commercial bank loans and advances expanded by $3.8 billion or 10.5 per cent for 2000. This is in contrast to the $6.4 billion or 14.8 per cent contraction in the preceding year, which was mainly attributable to the purchase of non-performing loans by FINSAC. Of the overall increase in loans, the private sector benefited from $2.6 billion, representing growth of 8.4 per cent in local and foreign currency loans to this sector while loans to the public sector increased by $1.8 billion or 36.8 per cent for the period.

Sectoral analysis of private sector loans by currency denomination reveals that domestic currency loans to the sub-sectors Tourism, Distribution and Electricity had the highest growth rates during the twelve-month period. Other sectors such as Transport, Storage & Communication and Manufacturing also recorded growth. For the year, Personal Loans, and loans to Mining and Agriculture & Fishing, declined.

Foreign currency loans to the private sector increased by US$6.8 million or 3.5 per cent for 2000 relative to the US$45.6 million or 19 per cent decline in 1999. Tourism and Electricity, and to a lesser extent Manufacturing, accounted for the bulk of loan receipts in 2000 while Distribution, Professional & Other Services and Construction & Land Development recorded contractions. As in the case with local currency loans, the concentration of foreign currency loans was in the Professional & Other Services, and Tourism sub-sectors as well as the Personal Loans category.

TABLE 8

COMMERCIAL BANKS' LOANS AND ADVANCES (J$M)

	Stock 1999	2000	Flows 1999	2000	% 1999	% 2000
Public Sector	4 894.0	6 696.8	177.7	1 802.8	3.8	36.8
Financial Institutions	1 260.9	747.3	-1 377.7	-513.6	-52.2	-40.7
Private Sector	30564.1	33123.4	-5 164.8	2 559.2	-14.5	8.4
Agriculture and Fishing	1 589.1	1 557.2	-387.9	-31.9	-19.6	-2.0
Mining	98.7	87.2	-92.3	-11.5	-48.3	-11.7
Manufacturing	2 992.4	3 046.8	-1 009.6	54.4	-25.2	1.8
Construction & Land Development	2 029.0	2 026.1	-511.2	-2.9	-20.1	-0.1
Transport, Storage & Communication	1 445.9	1 525.7	-455.3	79.9	-23.9	5.5
Tourism	3 560.7	4 747.7	-699.8	1 187.0	-16.4	33.3
Distribution	2 833.1	3 563.9	-777.4	730.8	-21.5	25.8
Professional & Other Services	4 507.3	4 723.7	-1 920.3	216.4	-29.9	4.8
Personal Loans	11225.0	10882.8	681.5	-342.2	6.5	-3.0
Electricity	66.5	773.9	-1.7	707.4	-2.5	1 063.1
Entertainment	151.3	137.5	26.4	-13.8	21.1	-9.1
Overseas Residents	65.1	50.8	-17.2	-14.3	-20.8	-22.0
TOTAL	**36 719.1**	**40 567.4**	**-6 364.8**	**3 848.4**	**-14.8**	**10.5**

With respect to non-performing loans, the ratio of loans more than three months past due to total loans has declined from 14.0 per cent at the end-1999 to 9.5 per cent at the end of 2000. This was below the international benchmark ceiling of 10 per cent.

Outlook

The improvement that has been observed in the commercial banking sector is expected to continue into the medium term. The sale of the merged bank should significantly improve the overall performance of the sector as the new owners are expected to recapitalise the institution and return it to a profitable position in the near term. Profitability and liquidity should be enhanced once FINSAC paper is converted to LRS in 2001. From all indications credit activity is gaining momentum and should continue on this path supported by a reduction in borrowing costs as interest rates continue to fall. Also, the strengthening of legislation, which has enhanced the Central Bank's supervisory authority, should go a far way in preventing a recurrence of the problems that arose in the last few years. The future of the commercial banking sector therefore appears positive.

Other Financial Intermediaries

Financial Institutions Act Licensees (FIAs)

The number of institutions operating under the Financial Institutions Act stood at 11 at the end December 2000 relative to 14 at the beginning of the year. The merger of the operations of two licensees, the merger of another institution with a commercial bank and the winding up of an institution during the first half of the year accounted for the contraction in the number of licensees. The slowdown in the exit of firms from the sub-sector in the latter half of the year would suggest that the consolidation process is near completion.

As indicated in Table 9, total assets declined by $2 515.7 million over the twelve-month period, marking the fifth consecutive year that the consolidated balance sheet has contracted. The reduction in assets can be attributed to the exit of the two firms from the sub-sector during 2000, one of which was the largest institution with assets of $2 235.0 million. Excluding the impact of these two institutions, the asset base of the sub-sector would have grown by approximately $1 264.7 million.

The contraction in the balance sheet reflects the reduction in deposits and "other liabilities". During the twelve-month period to December, there was a net reduction of $750.4 million in deposits and $2 395.6 million in "other liabilities". Only one of the licensees that departed the sub-sector had deposit liabilities as the deposits of the other institutions were previously transferred to a commercial bank by FINSAC. The remaining institutions were able to garner just under $400 million in additional deposits.

As a result of the exit of the FINSAC-operated merchant banks from the sector, the activities of FINSAC within the sub-sector tapered off during

2000. This was reflected in the elimination of the holdings of FINSAC securities by near banks, which declined by $1131.7 million. Thus, at the end of December 2000, the line item which comprised mainly FINSAC securities represented 4.2 per cent of total government securities held by these FIA institutions, relative to 55 per cent of government securities as at December 1999. Capital and reserves of the entire sector declined by $361.9 million during 2000. However the capital base of the 11 institutions now comprising the sub-sector has improved significantly during the twelve-month period to December.

Sectoral Distribution of loans

The reduction in the number of FIA licensees and the subsequent contraction in the deposit base of the financial sub-sector translated into a reduction in total loans extended by these institutions.

The sectoral distribution of loans and advances by FIAs in Table 10 shows that outstanding loans to the private sector fell from $2 877.8 million to $2 454.9 million, with most sub-sectors in this category experiencing a significant reduction in total loans. The Distribution and Manufacturing sub-sectors were the only ones that recorded any noteworthy increase in loans, with marginal growth recorded by a few of the other sub-sectors. The majority of the fall-off in credit from FIA licensees occurred towards the beginning of the year when the large FIAs exited the sector. Since April 2000, there has actually been an increase in credit.

TABLE 9

ASSETS AND LIABILITIES OF THE INSTITUTIONS LICENSED UNDER THE FINANCIAL INSTITUTIONS ACT AT THE END OF 2000 WITH ANNUAL CHANGE DURING 2000 (J$M)

	December 1998	December 1999	December 2000 ***	Annual Change 1999-2000
Liabilities				
Deposits	5 759.1	4 937.6	4 187.2	-750.4
Balances due to Commercial Banks	866.4	0.0	628.4	628.4
Balances due to Other Financial Institutions	215.8	0.0	226.1	0.0
Foreign Liabilities	220.0	211.6	349.2	226.1
Capital & Reserve	2 312.4	2 383.5	2 021.6	137.6
- Foreign Capital	23.0	19.2	19.2	-361.9
Other Liabilities	2 449.7	3 311.3	915.8	0.0
TOTAL	**11 823.4**	**10 844.0**	**8 328.3**	**-2 395.5**
Assets				
Cash and Balances with other Commercial Banks	951.6	323.8	164.4	-2 515.7
Balances with Other Financial Institutions	259.9	241.8	189.3	-159.4
Balances with Bank of Jamaica	1 287.8	740.2	431.5	-52.5
Foreign Assets	491.9	1 392.6	1 718.2	-308.7
Government Securities	3 088.0	2 109.7	1 066.3	325.6
of which FINSAC and other Bonds	1 875.3	1 176.3	44.6	-1 043.4
Other Local Investments*	2 055.3	162.5	123.1	-1 131.7
Loans and Advances*	3 066.0	2 909.0	2 611.2	-39.4
Other Assets	622.9	2 964.4	2 024.3	-297.8
TOTAL	**11 823.4**	**10 844.0**	**8 328.3**	**-940.1**
Number of Licensees	18	14	11	-2 515.7

* *Includes Provision for Loan Losses*

Construction and Land Development, Agriculture, and Tourism were the sub-sectors that accounted for most of the contraction in credit. Loans to Professional and Other Services, although recording a net reduction of $9.8 million, remained the largest category with loans valued at $772.1 million, accounting for 29.1 per cent of total loans disbursed in 2000. There was a $303.2 million reduction in the stock of loans to 'Construction and Land Development', as most of these loans were on the books of one institution that exited the sub-sector. The share of loans going to the Tourism sector was 8.2 per cent of total credit, 5 percentage-points below the share at the end of 1999. Loans to the public sector continued to account for a relatively small proportion of loans extended by the FIAs.

The strengthening of the capital base and the expansion in deposits and loans of the institutions that are currently in operation, though relatively small, are positive signs which emerged during 2000 and point to the restoration of some amount of health to the sub-sector. The relative success of the consolidation process and strengthening of the regulatory and supervisory framework augur well for the future performance of the sub-sector.

Building Societies

At the end of December 2000 there were five institutions operating under the Building Societies Act, the same number that obtained at the beginning of the year. Table 11 which shows the assets and liabilities of the building societies at the end of December 2000, highlights significant growth in the sub-sector, with assets close to levels that existed in 1998. There was a resurgence of growth in mortgage loans and the

TABLE 10

SECTORAL DISTRIBUTION OF LOANS AND ADVANCES OF INSTITUTIONS LICENSED UNDER THE FINANCIAL INSTITUTIONS ACT AT DECEMBER 1999 AND 2000 (J$M)

	1999 Share of Total (%)	Stock	2000** Share of Total (%)	Stock *	Annual Change in stock
Public Sector	**0.8**	**24.6**	**6.0**	**155.9**	**131.3**
Financial Institutions	**0.2**	**6.6**	**0.0**	**0.4**	**-6.2**
Private Sector	**99.0**	**2 877.6**	**94.0**	**2 492.8**	**-384.8**
Agriculture	4.5	131.4	2.5	65.7	-65.7
Manufacturing	17.8	518.7	22.8	604.5	85.8
Construction & Land Development	13.8	399.6	3.6	96.4	-303.2
Mining & Quarrying	0.3	9.7	0.4	13.4	3.7
Transport, Storage & Communication	1.8	52.9	1.3	34.8	-18.1
Tourism	13.2	384.1	8.2	216.4	-167.7
Distribution	8.6	248.5	11.6	307.2	58.7
Professional & Other Services	26.9	781.9	29.1	772.1	-9.8
Personal Non-Business Loans to Individuals	9.7	282.1	11.1	294.4	12.3
Electricity	1.7	47.5	2.3	59.9	12.4
Entertainment	0.7	20.1	1.1	28.0	7.9
Overseas Residents	0.0	1.1	0.0	0.0	-1.1
TOTAL	**100.0**	**2 908.8**	**100.0**	**2 649.1**	**-259.7**

savings fund over the twelve-month period to December when viewed against the background of the contraction that took place during 1999.

During the twelve-month period the assets of building societies grew by 10.5 per cent. This compares with commercial banks which had asset growth of 15.1 per cent. During 2000 building societies grew at rates comparable to those that existed prior to the restructuring of the financial sector.

The liabilities of building societies increased by $4 195.3 million or 10.5 per cent over the twelve-month period, reflecting mainly $2 619.6 million increase in the savings fund. The increase in the savings fund is important in light of the contraction that took place in 1999 as depositors moved their funds in search of better rates of interest due to the implementation of the withholding tax at source. Growth of 8.2 per cent in the shareholder's component was the main contributor to the expansion in the savings fund.

The increase in the savings fund facilitated an expansion of $896.5 million in loans and advances to $15 573.9 million primarily through mortgage loans. There was an expansion of $1 070.1 million or 7.8 per cent in mortgage loans in 2000. Even as loans and advances increased, most of the growth in the savings fund of building societies went towards the acquisition of 'other assets', which grew by $2 719.2 million, to $10 534.6 million at end-December 2000. The growth in 'other assets' represented an increase in holdings of BOJ's reverse repurchase instruments.

During 2000 the capital base of the sub-sector was bolstered through a $559.2 million increase in capital and reserves. At the end of December 2000 capital and reserves amounted to $4 029.6 million or 9.1 per cent of total assets.

At the end of 2000 provisions remained in place for building societies to hold cash reserves as low as 1 per cent of deposits, if they held at least 40 per cent of their qualifying assets as residential mortgages. If this requirement was not met then the cash reserve ratio applicable to other financial institutions would also apply to building societies. As at 31 December 2000 all five building societies qualified for preferential cash reserve requirement of 1 per cent.

The lower panel of Table 11 shows selected indicative ratios of building societies. The indicators show that building societies became less liquid over the twelve-month review period reflecting policy-induced reductions in their statutory liquidity requirements. The ratio of liquid assets to total assets fell from 30.1 per cent to 27.2 per cent in the course of the year resulting in a contraction in the ratio of liquid assets to savings fund to 34.2 per cent. This was 2.8 percentage points below the ratio at end of 1999. There was also a marginal decline in the advance to deposit ratio reflecting the slower growth in loans and advances relative to that of the savings fund.

Over the twelve-month period 388 new mortgage loans were extended by building societies relative to 591 new loans in 1999. This

fall-off was due mainly to a reduction in Agricultural and Other loans extended by one building society, 206 in 1999 to 15 in 2000. Although the number of additional mortgage loans extended during 2000 was significantly below that in 1999, the average size of loans in 2000 was about 22.1 per cent larger than in 1999. Thus, despite the reduction in the number of new loans there was an increase in the value of new mortgage loans.

While there has been no change in the overall weighted interest rate on mortgage loans over the review period, special facilities have been put in place by at least one building society to encourage additional mortgages. Particular attention has also been paid to attracting first-time borrowers to these facilities.

Credit Unions

During 2000, the credit union movement was characterised by continued expansion in its

TABLE 11

ASSETS AND LIABILITIES OF THE INSTITUTIONS LICENSED UNDER THE BUILDING SOCIETIES ACT AT THE END OF 2000 WITH ANNUAL CHANGE DURING 2000 (J$M)

	December 1998	December 1999	December 2000 ***	Annual Change 1999-2000
Liabilities				
Savings Fund	34 545.8	32 576.8	35 196.4	2 619.6
Balances due to the Bank of Jamaica	114.3	0.0	0.0	0.0
Balances due to Commercial Banks	817.0	0.0	0.3	0.3
Balances due to Other Financial Institutions	1 527.0	1 455.4	1 519.8	64.4
Foreign Liabilities	26.0	26.7	0.0	-26.7
Capital & Reserve	3 606.2	3 470.4	4 029.6	559.2
Other Liabilities	4 692.8	2 593.7	3 572.2	978.5
TOTAL	45 329.1	40 123.0	44 318.3	4 195.3
Assets				
Cash and Balances with other Commercial Banks	3 516.8	640.3	662.3	22.0
Balances with Other Financial Institutions	163.2	0.0	0.0	0.0
Balances with Bank of Jamaica	1 348.7	818.3	771.2	-47.1
Foreign Assets	4 489.7	5 537.4	6 159.5	592.1
Government Securities	7 601.9	9 750.8	9 684.6	-66.2
Other Local Investments*	5 070.0	853.4	932.2	78.8
Loans and Advances*	15 758.4	14 677.4	15 573.9	896.5
- of which Mortgages	13 640.3	13 712.4	14 782.5	1 070.1
Other Assets	7 380.4	7 815.4	10 534.6	2 719.2
TOTAL	45 329.1	40 123.0	44 318.3	4 195.3
	INDICATIVE RATIOS (%)			
Liquid Assets: Total Assets	39.0	30.1	27.2	
Advance: Savings Fund	45.6	45.1	44.2	
Mortgage Loan: Savings Fund	39.5	42.1	42.0	
Liquid Assets: Savings Fund	51.2	37.0	34.2	
Number of Licensees	8	5	5	
Number of Licensees qualifying for preferential reserve requirements	6	4	5	

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

activities and facilities as it sought to provide financial service to its increasing membership. Developments in the legislative and regulatory framework, aimed at establishing BOJ as the supervisory authority, made progress in 2000. The Jamaica Cooperative Credit Union League (JACCUL) sought to prepare its members for the new supervisory and monitoring arrangements which are expected to be implemented in 2001.

Total membership within the movement continued to expand, moving from 572 074 at the end of 1999 to 606 286 at the end of 2000, an increase of 6 per cent or approximately the same rate of increase recorded in 1999. This growth in membership may be partly attributable to strong marketing activities on the part of the individual institutions in an effort to compete effectively in the wider financial environment. The expansion and upgrading of services by the credit unions also assisted in the drive towards mobilizing savings and reinforcing public confidence.

Measures by the League aimed at strengthening the movement were further reinforced in 2000 following the establishment of an examination unit in 1999, to monitor credit unions' progress in attaining required prudential and operational standards. In an effort to meet the higher standards under the programme, a number of mergers and liquidations occurred in 2000. This consolidation resulted in the existing number of credit unions in the league falling to 61 at the end of 2000 from 65 at the end of 1999.

The assets and liabilities of the members of the credit union league amounted to $14 397.6 million at the end of 2000. This represented an increase of $2 298.8 million or 19.0 per cent over the position at the end of 1999, and compares with growth of $2 651.8 million or 28.1 per cent during 1999.

Total savings increased by $1 811.1 million or 18 per cent following growth of $2 271.5 million or 29.4 per cent in 1999. This growth in savings in 2000 was accompanied by an increase of $1 134.0 million or 17 per cent in loans during 2000 which compares with a 1999 loan increase of $1 133.4 million or 20.4 per cent. The loans to

TABLE 12

JAMAICA CO-OPERATIVE CREDIT UNION LEAGUE ACTIVITIES ASSETS AND LIABILITIES

End of Year	No. of Credit Union	Membership	Total Savings (J$M)	Loans Outstanding (J$M)	Loans/Savings Ratio	Assets & Liabilities
1995	80	477 131	3 444.2	2 723.5	79.1	4 097.5
1996	77	502 090	4 728.7	3 578.1	75.7	5 832.6
1997	73	514 103	6 206.4	4 489.2	72.3	7 621.6
1998	67	539 194	7 724.1	5 549.2	71.8	9 447.0
1999 +	65	572 074	9 995.6	6 682.6	66.9	12 098.8
2000	61	606 286	11 806.7	7 816.6	66.2	14 397.6

\+ *Revised*

savings ratio which stood at 66.9 per cent at the end of 1999 fell slightly to 66.2 per cent at the end of 2000.

Development Banks

Development Bank of Jamaica

The publicly owned development banks, Agricultural Credit Bank (ACB) and National Development Bank (NDB) merged to form the Development Bank of Jamaica (DBJ) in April 2000. This was done in an effort to enhance the level of efficiency of the development banking sector.

Table 13 delineates the balance sheet of the newly formed DBJ.

With DBJ assuming the liabilities of ACB and NDB, the Caribbean Development Bank (CDB) remained the major source of financing, accounting for over 50 per cent of the financial support received from overseas institutions. Other such sources of long term overseas funding included the European Investment Bank (EIB) and the World Bank.

During the year, 50 per cent of the liquidity generated from the reduction in the cash reserves requirement for commercial banks and FIAs was channeled into the Development Bond 2000. These funds were earmarked for on-lending to various sectors including tourism, agriculture and manufacturing. As at 31 December 2000 the two issues of the Development Bond 2000 had yielded a total amount of $840.9 million of which $100 million was on-lent to the National Export-Import Bank of Jamaica (EX-IM BANK).

TABLE 13

DEVELOPMENT BANK OF JAMAICA
ASSETS AND LIABILITIES (J$M)
DECEMBER 2000

Assets	
Cash and Bank Balances	342.2
Receivables and Prepayments	2 199.2
Investments	85.8
Loans to Financial Institutions	8 618.5
- Loans to People's Co-operative Banks	829.1
- Loans to A.F.I.	3 537.0
- Other Loans	4 252.4
Fixed Assets	116.0
Other Assets	1 574.5
Less Current Liabilities	1 508.5
TOTAL ASSETS	**11 427.7**
LIABILITIES AND SHAREHOLDER'S EQUITY	
Shareholder's Equity	2 423.4
Long Term Liabilities	7 886.3
- From Overseas Institutions	4 173.4
- From Government of Jamaica	1 742.6
- Other Loans	1 970.3
Short Term Liabilities	1 118.0
TOTAL LIABILITIES	**11 427.7**

The Bank continued to lend through financial institutions such as People's Co-operative (PC) Banks and Approved Financial Institutions (AFI) as its predecessors did. In this regard loans to PC Banks and AFIs amounted to $4 366.1 million while other loans totaled $4 252.4 million. In the 'Other Loans' category 44 per cent of loans went to the agricultural sector. The Bank aims to further restrict direct lending and promote on-lending through the relevant financial institutions.

Trafalgar Development Bank

Table 14 summarizes the consolidated assets and liabilities of the Trafalgar Development Bank (TDB).

The assets and liabilities of TDB increased by $505.1 million or 17.6 per cent to $3 378 million in the course of the year.

TDB accessed local and foreign funding amounting to $J45.2 million and US$823.6 million, respectively, through the DBJ. In addition, the Jamaica Exporters' Association (JEA) also provided foreign financing of US$55 000 to the Bank.

Total loan disbursements amounted to $93.6 million. Of this amount, the manufacturing and tourism sectors received $42.1 million (45 per cent) and $43.2 million (46.1 per cent), respectively, while a further $8.3 million (8.9 per cent) was disbursed to the services sector.

During the year 2000 TDB made arrangements for the sale of its 51 per cent interest in the Trafalgar Commercial Bank (TCB) and the purchase of 100 per cent of Pan Caribbean Merchant Bank (PCMB). It is expected that significant cost-benefit as well as further enhancement in productivity will be generated from the consolidation of PCMB and TDB.

TABLE 14

TRAFALGAR DEVELOPMENT BANK
ASSETS AND LIABILITIES (J$M)

	Stock	2000	Change	% Change
Assets				
Cash Resources	673.6	636.1	-37.5	-5.9
Investments	300.5	946.8	646.3	68.3
Loans and Leases	1 539.3	1 461.6	-77.7	-5.3
Other Assets	359.4	333.5	-25.9	-7.8
TOTAL ASSETS	**2 872.9**	**3 378.0**	**505.1**	**15.0**
Liabilities and Shareholder's Equity				
Customer's Deposits	592.8	471.6	-121.2	-25.7
Long Term Loans	1 290.9	1 228.5	-62.3	-5.1
Other Liabilities	430.7	1 150.8	720.1	62.6
Minority interest	36.2	40.8	4.6	11.3
Stockholders' Equity	522.3	486.3	-36.0	-7.4
TOTAL LIABILITIES	**2 872.9**	**3 378.0**	**505.1**	**15.0**

National Export-Import Bank of Jamaica

During the year 2000, the National Export-Import Bank of Jamaica (Ex-Im) continued to fulfil its mission by providing financing and Export Credit Insurance to the Jamaican productive sector, in keeping with Government's strategic objective to stimulate and expand non-traditional exports.

The Bank was again challenged to devise innovative financing programmes to stimulate growth in the productive sector, particularly the non-traditional exporting sector. Within this context, two new programmes were introduced during the year. These were the Factoring of Export Receivables and the Co-Pack Facility through export trading houses.

During the first quarter of 2000, the Bank finalised and launched its Factoring of Export Receivables Programme. This programme is aimed at providing continuous working capital, from Ex-Im to exporters, against the presentation of export receivables to a factoring house overseas. In terms of utilisation levels and market demand, the programme has not yet met the Bank's expectations but continuous analysis of the negative factors that have hindered this demand and possible solutions, are being undertaken by the Bank.

The Co-Pack Facility through export trading houses was introduced during the final quarter of the

year. This facility provides working capital loans to backward linked agro-processing companies, which produce under contractual arrangements with export trading houses. The Agro-Processing sub-sector has displayed a high level of interest in the facility and disbursements are expected to commence early in 2001.

During the review period the Bank also carried out a comprehensive review of its total loan portfolio. To facilitate greater utilisation, the traditional loan programmes were modified and enhanced. As a result some uniformity in the interest rate structure was achieved. The interest rates charged on medium term facilities were reduced from 18 per cent to 12 per cent and collateral requirements were modified to include a mix of securities. These changes not only brought these facilities in line with short-term facilities but also stimulated increased usage by small to medium sized companies in need of capital injection and modernisation.

Efforts to promote the Cuban line of credit continued throughout the year. This facility offers Jamaican exporters the unique opportunity to supply goods to the Cuban market and receive immediate payment from the Ex-Im Bank. Disbursements are funded through a Can$5 million Line of Credit. Under the auspices of the Bank there was a joint public/private sector delegation to Cuba, whilst dialogue continued with potential Jamaican exporters wishing to enter the Cuban market.

The Printing and Packaging sub-sector, which was earmarked for special funding under the Modernisation Fund for exporters, did not utilise the facility as anticipated. However, the Bank continues to promote the programme as it is considered vital for export promotion.

In keeping with the Government's stated intention of urging commercial banks and other financial institutions to channel to the productive sector some of the funds released by the two percentage points reduction in the Cash Reserves Ratio (CRR) of these institutions, the Bank accessed J$100 million from the DBJ for on-lending. This was extended at a preferred rate of interest of 9.5 per cent and on-lent through the Pre and Post Shipment financing schemes which provide working capital support to the exporting sector.

For the upcoming year, the Bank recognises the need to further diversify its product base and to redefine non-traditional exports to include and put more emphasis on the Services Sector. In this regard the Bank has been conducting fact-finding exercises to establish relevant loan programmes to assist the Information Technology Sector, which together with Ornamental Fish Farming has been identified as new growth areas with vast export potential.

As in previous years the Bank has remained a profitable institution. For the 9-month period, April to December 2000 the Bank recorded an

unaudited net profit of approximately J$122.3 million compared with a profit of J$117.11 million for the corresponding 9-month period, April to December 1999.

Local Currency Disbursements

During 2000, total local currency loans disbursed was approximately J$1 878.65 million (See Table 15). While this achievement was encouraging given the current economic environment, it fell below the level of business achieved in the previous year. The overall decline of approximately J$120 million was mostly attributed to reduced demand for the Apparel and Modernisation Fund for Exporters Schemes. In terms of the Apparel sub sector, factors contributing to this situation were the closure and/or contraction of some companies due to increased competition in the international marketplace.

Despite the downturn, the Bank is encouraged by the performance of the Small Business and EX-BED facilities which offer financing to the small/medium sized business sectors. EX-BED is a loan scheme funded by the Ex-Im Bank for the purpose of assisting small exporters to finance their working capital requirements as they seek to expand their export markets. The scheme is administered by the JEA. Eligible users can borrow up to J$1.0 million on a short term basis at a concessionary rate of 12 per cent per annum. Borrowers are not required to provide a bank guarantee but should demonstrate their credit-worthiness and ability to service the loan. Due mainly to increased marketing and enhancements to the loan programmes to include the acceptance of a mix of securities, usage of the Small Business Facility increased by 65 per cent over last year, while the JEA/Ex-Bed facility increased by J$20 million relative to J$2.5 million utilized in 1999.

TABLE 15

LOCAL CURRENCY DISBURSEMENTS (J$M)

Facilities	Jan-Dec 1999	Jan-Dec 2000	Change	%
Bankers Export Credit Facility	1 179.8	1 044.0	(135.8)	(11.5)
Export Credit Facility	483	566.4	83.4	17.3
Insurance Policy Discounting Facility	61.0	50.9	(10.1)	(16.5)
Pre-Shipment Facility	4.3	28.5	24.2	562.8
Apparel Sector Financing	146.7	78.3	(68.3)	(46.6)
Modernization Fund for Exporters	94.5	43.9	(50.6)	(53.6)
Small Business Facility	26.6	44.1	17.4	65.5
JEA/Ex-Bed	2.5	22.6	20.1	802.8
TOTAL	**1 998.4**	**1 878.7**	**(119.7)**	**(6.0)**

Approved Local Currency Loans by Industry

Table 16 indicates that the Food and Beverage sector continued to be the primary beneficiary of the Bank's funding in 2000. Utilisation of J$1 061.7 million represents a J$47.4 million increase over the previous year. The Agro-Processing Industry also made a reasonable contribution to the year's disbursement figure.

TABLE 16

APPROVED LOANS BY INDUSTRIES (J$M)				
	Jan-Dec 1999		Jan-Dec 2000	
		%		%
Industries				
Agro-Processing	418.1	20.9	439.1	23.4
Food & Beverage	1 014.3	50.8	1 061.7	56.4
Textile & Apparel	339.2	17.0	114.5	6.1
Other Manufacturing	112.6	5.6	167.7	8.9
Distribution Services	114.1	5.7	95.8	5.1
TOTAL	**1 998.3**	**100**	**1 878.8**	**100**

Foreign Currency Disbursements

During 2000, foreign currency loans remained consistent with levels achieved in 1999. Loans approved through the lines of credit facility were mainly in favour of the public sector as Government continued to upgrade the Health and Transportation sectors. Due to the closure of some manufacturing companies and other factors stemming somewhat from developments in international trade, demand for the Export Factoring and Bankers Export Credit Facilities was minimal. (See Tables 17 and 18).

Export Credit Insurance

In addition to the financing schemes, the Ex-Im Bank continued to offer its Export Credit Insurance Scheme. The Bank continued to be the only institution in Jamaica that offers this facility. Through this facility policyholders are insured against commercial and political risks, which include non-acceptance by the buyers or non-payment due to political instability in the buyers' country.

TABLE 17

FOREIGN CURRENCY DISBURSEMENTS (J$M)				
	1999	2000	Change	%
Facilities				
Lines of Credit	13.5	14.1	0.6	4.4
Export Development Fund				
Foreign currency Loans	0.8			
Factoring of Receivables				
Programme	-	0.0	-	-
Bankers Export Credit Facility	0.6	0.6	-	-
TOTAL	**14.9**	**14.7**		

TABLE 18

UTILISATION OF FOREIGN CURRENCY BY ECONOMIC SECTORS (J$M)				
	Jan-Dec 1999		Jan-Dec 2000	
		%		%
Sectors				
Private	11.3	76.3	4.1	27.7
Public	3.5	23.7	10.6	72.3
TOTAL	**14.8**	**100**	**14.7**	**100**

In recent years, the performance of the portfolio has been severely affected by the general contraction in business and the decline in non-traditional exports, in particular. In spite of these challenges, the Bank recognised that this product is necessary for export expansion into new areas and continued to market and explore new ways to make the product more attractive to prospective clients.

The Bank maintained its membership in the International Union of Credit and Investment Insurers (Berne Union) which, through regular meetings and workshops keeps its members abreast of current underwriting practices in international export credit insurance.

The Bank also continued to have a portion of its insurance portfolio underwritten in the United Kingdom under a Quota Share Reinsurance Treaty.

In its endeavour to stimulate growth in the productive sector during the year the Bank implemented new loan facilities aimed at the non-traditional exporting sector. The demand for these facilities was not fully realised. However, it is expected that in 2001 there will be greater utilisation and the Bank will also be doing some restructuring on these programmes. The greater loan utilisation by small to medium sized companies was attributed to uniformity in the interest rate structure resulting from the modifications and enhancements on the Bank's loan portfolio. Ex-Im is looking at several new growth areas for which it could develop new loan programmes and has identified the Services Sector as an area on which it intends to place more emphasis particularly with respect to the Information Technology Sector.

New Developments

As part of its continuing efforts to deepen and enhance the efficiency of the money and foreign exchange markets, the BOJ took steps to upgrade the underlying information and reporting structure by implementing a new electronic front-end system in November 2000. The system is called e-Gate, an acronym for Electronic Gateway for Auctions, Trade and Foreign Exchange Management.

The new system has automated the interface between the BOJ and its clients, allowing primary dealers, authorised dealers, cambios and banks to trade with, and report to the Central Bank electronically. The e-Gate has facilitated:

- the reporting of foreign exchange transactions by both authorised dealers and cambios and
- the electronic processing of all primary issues of Government securities by auction or otherwise.

With the implementation of e-Gate, cambios are now required to report their foreign exchange activity to the BOJ on a daily basis. This information is included in the daily Foreign Exchange Trading Summary, and the published and official data now reflect the transactions of both cambios and authorised dealers. Prior to this, foreign exchange transactions of cambios were excluded from the computation of the daily weighted average exchange rate. The reporting of consolidated trading information for the two groups is an important step towards creating a more efficient and unified spot market.

With the implementation of e-Gate, all bids/ applications for GOJ securities are keyed and processed electronically, whether the application is made through a broker or at the BOJ. The e-Gate has significantly enhanced the efficiency of the auction process, allowing for the prompt notification of auction results to brokers and the prompt publication of results to the media.

Money Market Developments

Bank of Jamaica Operations

The BOJ continued to utilise primary dealers and commercial banks as its main means for the conduct of open-market operations in 2000[1]. In its implementation of monetary policy the Bank sought to maintain liquidity conditions consistent with low inflation and stability in the foreign exchange market. The major thrust throughout the year was the absorption of liquidity through reverse repurchase arrangements and to a lesser extent, the outright sale of securities by the Central

[1] *As a result of the merger of the operations of two Primary Dealers, their number declined from 16 at the end of 1999 to 15 at the end of 2000.*

Bank. For the year, the Bank absorbed a net amount of $18.62 billion from the system, with the bulk of this absorption occurring in the first quarter. The significant absorption, which resulted in the stock of open-market instruments increasing by $22.4 billion, was largely in response to the liquidity impetus of NIR accumulation over the year.

TABLE 19

BANK OF JAMAICA OPEN-MARKET OPERATIONS - 2000 (J$M)

	Q1	Q2	Q3	Q4	Total
A. Net Outright Sales (+)/ Purchases (-)	2 969.01	(533.94)	-	(875.06)	1 560.01
B. Net Rev. Repo	8 850.06	4 473.20	5 271.68	(1 536.13)	17 058.81
C. Net Absorption (+)/ Injection (-)	11 819.07	3 939.26	5 271.68	(2 411.19)	18 618.82

Government Activities

Throughout the year, the Government continued its efforts to lengthen the maturity structure of its debt so as to manage its annual debt service requirement. The stock of Treasury Bills was reduced by $3.05 billion, from $10.65 billion at the end of 1999 to $7.60 billion at the end of 2000. Simultaneously, the Government increased its stock of medium and long-term instruments, with maturities ranging from one year to ten years. The total stock of domestic debt increased by $10.8 billion in the review year while the Government successfully extended the maturity profile of its LRS to include instruments with maturities of 5-years, 7-years and 10-years. The success of these issues via the auction mechanism and at progressively lower yields reflected and reinforced the general perception of stable macroeconomic conditions and the expectation of further reductions in domestic interest rates.

Throughout the year the BOJ continued and expanded its fiscal agency function with respect to primary issues of Government securities. Having executed 38 debt issues in 1999, the BOJ administered a total of 60 debt issues on behalf of the Government in 2000, an increase of (58) per cent. The Bank conducted 33 auctions of Treasury Bills and 21 auctions of LRS. During 2000 the Central Bank also administered three issues each of fixed rate Debentures and US dollar Indexed Bonds.

In addition to those issues of primary securities handled by the BOJ, the Government also issued US dollar denominated instruments in the local market, raising US$105 million and US$77.85 million in March and July, respectively. In February, the Government accessed the European capital market for its first euro-denominated debt. A total of 200 million euros was raised on a three- year instrument. In August, the Government floated a seven-year, 12.75 per cent US$225 million bond which received overwhelming support from both local and international investors.

Interest Rates

In the context of some demand pressure on the foreign exchange market for most of the first quarter of the year, there were no adjustments

in BOJ interest rates until the middle of March. Thereafter, improving macroeconomic conditions enabled successive reductions in the Bank's 30-day reverse repurchase (signal) rate between mid-March and August 2000. Beginning the year at 18.35 per cent, the 30-day reverse repurchase rate was reduced twice in March, ending that month at 17.3 per cent. Gradual reductions between March and August took the signal rate to 16.45 per cent where it remained for the rest of the year.

Up to August, domestic investors had shown a preference for instruments of longer maturity with fixed coupon rates. This changed when the GOJ floated its US$225 million Eurobond with a coupon rate of 12.75 per cent at the end of August. The initial yield of 13.125 per cent on this instrument represented an attractive alternative to local investors and the demand for the bond fuelled pressure on the foreign exchange market. The tax-free status of these bonds pushed their effective yield close to that of domestic instruments and coupled with this the bonds carried no foreign exchange risk.

The Bank responded to the demand pressures by intervening to augment the supply of foreign exchange in the inter-bank market. For a short period in October and more effectively during November and December, the Bank tightened monetary policy by sharply increasing interest rates on its own 9-month and 12-month instruments, from 17.6 and 18 per cent per annum to 20 and 22 per cent per annum, respectively. As conditions eased, the 12-month reverse repurchase rate was reduced at the end of December.

The movement in the Central Bank's signal rate was consistent with the trend in money market rates throughout most of the year. The reduction in the six-month Treasury Bill rate also mirrored the expectations of declining rates which prevailed up to August. After falling shrply from 22.03 per cent at the beginning of the year to 17.96 per cent in March, rates declined more gradually to 17.04 per cent at the end of August. An increase in the Treasury Bill rate during the fourth quarter from 17.13 per cent in September to 20.16 per cent in December reflected the market's response to the liquidity tightening effect of the higher rates on BOJ's longer term instruments.

TABLE 20

SIX-MONTH TREASURY BILL AVERAGE YIELD (%)
2000 - (END OF PERIOD)

January	20.54
February	20.05
March	17.96
April	17.58
May	17.64
June	17.47
July	17.32
August	17.04
September	17.13
October*	17.13
November	17.28
December	20.16

* *There was no six-month Treasury Bill auction in October*

Supervision of Financial Institutions

Introduction

Pursuant to The Bank of Jamaica Act, the Bank of Jamaica has supervisory responsibility for deposit-taking financial institutions licensed under financial legislation administered by the Central Bank. These are commercial banks (governed by The Banking Act), institutions licensed under The Financial Institutions Act (e.g. merchant banks) and building societies (governed by The Building Societies Act and related Regulations)[1]. The Central Bank has also recently been assigned formal regulatory responsibility for credit unions by virtue of their designation by the Minister of Finance, as specified financial institutions. The Bank is currently formulating an appropriate legal and regulatory framework to encompass the activities of these institutions.

Supervisory responsibilities involve the continuous assessment of the quality of licensees' operations and financial condition and ensuring that each licensee possesses an appropriate level of technical, financial and personnel resources at its disposal to ensure efficient, prudent, sound and profitable operations on an ongoing basis. Discharge of these responsibilities is achieved using a combination of established supervisory techniques, including regular on-site examinations and ongoing off-site monitoring of institutions with the aim of ensuring sound and prudent practice in their individual operations and overall stability in the deposit-taking sector.

The Supervised Environment

The contraction in the banking system, resulting from the Regulatory Authorities' continuing programme of restructuring and consolidation, which has been ongoing since 1997, continued during 2000. Contraction resulted from a combination of mergers and closures, facilitated partially through FINSAC rehabilitation and financial assistance programmes and partially through the merger of smaller merchant banks. This was supported by the continued tightening of prudential capital requirements, a cross-sector reserve equalization programme as well as a programme for overall reduction of liquidity reserve requirements which commenced in 1998. FINSAC support continues to be informed by an assessment of the specific circumstances of each entity intervened, and may include any one or a combination of recapitalization, liquidity support and bad assets purchase.

As at the end of December 2000, the BOJ supervised population was 22, down from 25 at the end of 1999 as outlined:

[1] *The Central Bank also has supervisory responsibility for Authorised Industrial & Provident Societies under the Bank of Jamaica (Industrial & Provident Societies) Regulations, 1995. As at the end of 2000, no approval had been granted by the Minister of Finance for any Industrial & Provident Society to conduct deposit-taking business.*

TABLE 21

INSTITUTIONS SUPERVISED BY THE BANK OF JAMAICA

	1997	1998	1999	2000
Commercial banks	9	9	6	6
FIA licensees	27	18	14	11
Building societies	10	8	5	5
	46	**35**	**25**	**22**

During January 2000, the designated business of NCB Trust and Merchant Bank Limited was transferred to National Commercial Bank Limited (NCB) under a Scheme of Arrangement and Amalgamation dated 7 December 1999. Under a separate Scheme of Arrangement, FINSAC increased its shareholding in NCB from 67 per cent to 76 per cent during November 2000. This resulted in the conversion[1] of:

(a) the shareholdings of the minority interests of NCB Group into shares in NCB; and

(b) $5.3 billion FINSAC preference shares in NCB to 940,151,975 ordinary shares.

NCB Group was subsequently restructured and delisted from the Jamaica Stock Exchange (JSE) and is now a wholly-owned subsidiary of FINSAC as well as a repository of all non-core assets of the former group of companies. NCB has since been listed on the JSE and is now the holding company for NCB (Investments) Limited, OMNI Insurance Services Limited, Edward Gayle & Company Limited, West Indies Trust Company Limited, Data-Cap Processing Limited and N.C.B. Jamaica (Nominees) Limited (all former subsidiaries of NCB Group).

During the year, FINSAC, the principal shareholder of Union Bank of Jamaica Limited (UBJ), commenced negotiations with the Royal Bank of Trinidad and Tobago Holdings Limited (RBTT) for the sale of UBJ to RBTT. This resulted in a 30 June 2000 signing of a Memorandum of Understanding (MOU) between FINSAC and RBTT for the sale of FINSAC's shares in UBJ. At the end of 2000, negotiations for the sale of UBJ were well advanced.

In February 2000, Eagle Merchant Bank of Jamaica Limited ceased its deposit-taking business in accordance with the Financial Institutions Act and surrendered its licence to the BOJ. On 6 April 2000, First Life Insurance Company Limited acquired the ordinary issued shares of Knutsford Capital Merchant Bank Limited (KCMB). The Minister of Finance subsequently granted approval for the amalgamation of KCMB and Pan Caribbean Merchant Bank Limited (PCMB) following which the licence of KCMB was surrendered.

Policy Developments

For the year 2000, the Bank of Jamaica achieved significant progress in its efforts to have finalized by the relevant agencies, the introduction of several pieces of subsidiary Legislation which will codify the regulatory approach on specific areas of banking practice. These include:

[1] *Conversion was based on a factor which resulted in a FINSAC/NCB Group minority shareholders ownership split of 76% : 24%.*

- Capital Adequacy Regulations for commercial banks, merchant banks and building societies;

- Credit Classification, Provisioning and Non-Accrual Regulations for the above named sub-sectors; and

- Regulations to introduce the collection of licensing fees from merchant banks and to revamp existing Regulations for commercial banks and building societies, to ensure equity across all three sectors as well as c onsistency in the calculation and payment of fees due.

Progress was also achieved in efforts to finalize the draft regulations relating to the Qualification of Auditors who conduct external audits of commercial banks, merchant banks and building societies. Feedback has been received from licensees, their external auditors and the Institute of Chartered Accountants of Jamaica (ICAJ) and final discussions on all significant areas with all relevant parties are in the process of being held. On completion, the necessary interactions will be undertaken with the Offices of the Attorney General and the Chief Parliamentary Counsel whose input is required to complete the legal process in order to bring the regulations into operation.

In 1999 credit unions were designated as "specified financial institutions" under the Bank of Jamaica Act, by the Minister of Finance and Planning. This represented a preliminary step to Government's stated intention of initiating broader legislative changes through the modernization of the Co-operative Societies Act with particular reference to credit unions. Development of both the legislative and regulatory framework for the supervision of these institutions progressed smoothly during 2000. Regulations that will form the legal basis for their supervision and govern their activities were drafted, disseminated and discussed with the credit union movement through consultations and dialogue with the JCCUL[1]. Arising from this feedback, the draft regulations are presently being modified, prior to final discussions with the JCCUL and the commencement of the legal enactment process. A preliminary reporting framework is already in place and the structural and administrative arrangements and operational plan that will govern the ongoing monitoring and supervision of individual credit unions are in the process of being finalized.

As part of a programme to strengthen coordination between the BOJ and supervisory agencies of non-banking financial institutions, an inter-agency "Financial Regulatory Council" (the Council) was established during the year. The Council, which has the Supervisor of Banks (Central Bank Governor) as its Chairperson, comprises the Bank of Jamaica, the Jamaica Deposit Insurance

[1] *The JCCUL is a long established cooperative set up by the credit union movement to, inter alia encourage prudential financial practice among its members*

Corporation, (JDIC) the Financial Services Commission[2] (the soon to be established non-bank supervisory entity) and the Financial Secretary. Its mandate includes the development of policies and strategies to facilitate greater coordination and information sharing between the various supervisory agencies operating in the Jamaican financial industry. A Memorandum of Understanding (MOU) addressing such issues as information sharing, lead regulator and the conduct of coordinated examinations for dually licensed entities has been signed by the above agency heads and meetings of the Council have commenced.

Capital Adequacy Regulations

Regulations, which have previously been disseminated to and discussed with all deposit-taking financial institutions, are currently awaiting the completion of the legal enactment process to bring them into full legal operation. These Regulations, which are based on the Basel Capital Accord, address minimum risk-based capital standards for licensees. The Capital Adequacy Regulations introduce the concept of Tier 1 and Tier 2 capital[3], define eligible capital components and provide the framework for assigning risk weights to on-and off-balance sheet items, in some cases on an even more stringent basis than the minimum presently required under the Basel Accord. Once approved by the Minister, supervised entities will be legally required to maintain an overall minimum capital in relation to risk assets of 10 per cent[4]. The legal enactment process is well advanced and at 31 December 2000, all supervised institutions were in compliance with the proposed Regulations.

Credit Classification, Provisioning and Non-Accrual Regulations

Regulations which provide specific legal guidelines for credit classification, provisioning and related matters (e.g. credit renegotiations and income write back) are currently awaiting the completion of the legal enactment process to bring them into full operation. These Regulations which, *inter alia*, codify the Central Bank's approach to classifying credits into defined loan categories and also stipulate specific provisioning levels, have already been disseminated and discussed with supervised entities. All commercial banks, licensees under the FIA and building societies have been requested by the BOJ to implement measures to ensure fullest possible compliance with the requirements by the date of final promulgation. Already most are in full compliance.

Qualification of Auditors Regulations

The Regulations drafted by the BOJ have already benefited from feedback from the licensees and

2 *The Securities Commission and Superintendent of Insurance will have proxy membership until the Financial Services Commission is fully constitued.*

3 *Capital that is fully paid-up in cash and realized profits, which cannot be withdrawn, repaid, or used for any purpose except as a cushion to absorb losses so that the interest of depositors is always protected.*

4 *This compares to the 8% Basel minimum and is in addition to the present statutory gearing ratios (deposits and borrowings to capital) of 25:1 and 20:1 (banks and merchant banks, respectively) and primary ratio (capital to total assets) of 6 per cent.*

their existing external auditors as well as the ICAJ. Among other requirements, these Regulations specify the qualifying standards for auditors undertaking an external audit of a deposit-taking financial institution and require prior notification to the Central Bank of proposed appointments. Final discussions with all relevant parties on all significant areas is expected to be completed early 2001, following which, the legal enactment process to bring them into full operation will commence.

Bank of Jamaica (Credit Unions) Regulations

Regulations that prescribe prudential criteria and minimum solvency standards covering *inter alia*, essential areas such as capital, reserves, liquid assets, loan loss provisioning, submission of prudential returns and audited financial statements and remedial action by the supervisory authorities in respect of problem credit unions have been drafted. Consultations with the JCCUL in respect of the content, impact and implementation of these regulations are well advanced and the legal enactment process to bring them into operation is to commence shortly.

Prudential Developments

Basel Core Principles

The Bank of Jamaica has conducted a self-assessment of Jamaica's compliance with the Basel Core Principles[1] with respect to deposit-taking financial institutions using the Basel Core Principles Methodology (the Methodology)[2]. Arising from this self-assessment, a specific programme is being implemented to further strengthen the existing legislative and regulatory framework in the areas of market risk, complex financial groups and mixed conglomerates. Consistent with the Methodology, a follow up independent assessment is scheduled to be conducted during the second quarter of 2001.

Performance Targets

The programme of quarterly performance targets that was implemented during 1999 continued in 2000. The programme is aimed at ensuring that all supervised entities maintain certain minimum prudential and regulatory standards consistent with international practices and norms. This involves the setting of quarterly targets with each institution in certain key operational areas, including capital adequacy in relation to risk management, asset quality, earnings and liquidity.

Where institutions already operate above the required minimum industry standards, their respective managements are requested to maintain the higher standards in order to preserve the financial soundness and integrity of their operations. In some instances however, where justified by an individual institution's specific business strategy, such ratios may be lowered,

[1] *The twenty-five principles on Banking Supervision that have become the most important global standard for prudential regulation and supervision.*

[2] *A harmonised assessment methodology developed in order to ensure consistency in assessing effective implementation of the Basel Core Principles.*

provided that the minimum industry standards are not violated. The BOJ assesses each institution's adherence to the prescribed targets on an ongoing basis through both on-site and off-site monitoring. (See Table 24 Assessment of Performance of Supervised Institutions against Prudential Targets as at 31 December 2000.)

Legislative Developments

Proposed Amendments to Legislation Governing Deposit-taking Institutions

Consequent on the self-assessment of Jamaica's implementation of the Basel Core Principles, the Minister of Finance has agreed that certain proposals be made to Parliament requiring amendments to various pieces of legislation governing deposit-taking institutions during 2001. The proposed amendments are intended to either transfer certain powers now resting with the Minister of Finance to the BOJ or grant to the BOJ, additional powers which do not now exist. These include:

- Transferring from the Minister of Finance and vesting in the BOJ, certain powers of intervention including the power to assume temporary management of a licensee.

- Empowering the BOJ to assess monetary fines for particular breaches of regulatory statutes in accordance with a pre-established schedule.

- Transferring certain other powers and responsibilities of a technical nature from the Minister of Finance to the BOJ.

- Empowering the BOJ with the authority to require the shareholders of licensees to reorganize their group structure by establishing a sufficiently capitalised holding company to be the parent company of the licensee in keeping with international norms. This is in recognition of the potential threat which may be posed to a licensee by the existence of a certain corporate group structuring and assumes particular importance where a mixed conglomerate poses a strong likelihood of contagion to the operations of the licensee.

- Empowering the BOJ with the authority to issue Regulations, as currently exists for the Securities Commission under the Securities Act.

- Amending or clarifying the Bank's secrecy provisions in the existing law to allow for information exchange with supervisory authorities of non-bank financial institutions, in keeping with the signed MOU on the establishment of the Financial Regulatory Council.

Other Notable Developments

Year 2000 (Y2K) Compliance

No disruptions resulting from the Century Date Change (CDC) were detected by commercial banks and other deposit-taking financial intermediaries during 2000 or in the rollover of

systems from 2000 to 2001. This is consistent with expectations arising from the structured nature of the Y2K readiness programmes that were pursued by these entities and the ongoing oversight and monitoring by the BOJ.

Money Laundering

Arising from the 1999 amendments to the money laundering legislation, the specific Anti-Money Laundering Guidance Notes[1] previously issued to supervised entities were reviewed, revised, expanded and reissued during July 2000. Reviews of licensees' policies, procedures and controls relating to money laundering prevention and detection form part of the BOJ's Financial Institutions Supervisory Division's normal supervisory functions. These reviews are guided by specific internally developed supervisory guidelines and a comprehensive examination worksheet that take account of statute and internationally recognised anti-money laundering standards and methodology.

International Conference of Banking Supervisors

The bi-annual International Conference of Banking Supervisors (ICBS) which has been held since 1979 was designed to promote cooperation among national supervisory authorities, and to enable senior representatives from a large number countries to exchange views on a range of current issues of common concern.

The 11th biennial ICBS was held at the Bank for International Settlements (BIS) in Basel Switzerland, in September 2000, and hosted jointly by the BIS, the Swiss National Bank and the Swiss Federal Banking Commission.

The two main themes of the conference were the new Capital Accord and the financial industry in the 21st century and related consequences for banking supervision. The Bank of Jamaica was honoured to have the Deputy Supervisor of Banks invited to chair the workshop on the "Supervisory Treatment of Insolvent Banks" at the conference.

System Review

The on-going monitoring of licensed deposit-taking financial institutions entails assessing the safety and soundness of the entities, providing feedback on a timely basis to management, policy makers and the investing public and requiring corrective action, where necessary. This is achieved by, among other things, evaluating risk management processes, compliance with applicable laws and regulations and assessing the financial condition of the individual institutions as well as the supervised financial system as a whole.

In general, the three supervised financial sub-systems operated soundly during the year. The

[1] *Represent minimum standard requirements necessary to give effect to the provisions of anti-money laundering legislation.*

prudential indicators that are used to measure the performance of individual licensees as well as the consolidated supervised financial system reflected significant improvements, primarily in the areas of asset quality and earnings. As regards liquidity, the supervised insstitutions, seen in their entirety, maintained lower, but still satisfactory liquidity levels. System-wide, capital was adequate to support operational activities inclusive of off-balance sheet contingent liabilities, and at year-end, all institutions were in compliance with capital adequacy requirements and reported positive net worth positions with regard to their respective on-balance sheet operations.

Combined assets of commercial banks, building societies and licensees under the FIA (net of provisions for losses and contingent liabilities) increased by 12.2 per cent to total $268.0 billion relative to 8.0 per cent and 12.8 per cent in 1999 and 1998, respectively). Total combined assets of the three sub-systems as a percentage of GDP (as currently measured) increased from 93.0 per cent as at 31 December 1999 to 104.4 per cent at the end of the year.

As at 31 December 2000, the commercial banking sector controlled 81 per cent of the asset base of the BOJ supervised financial system and accounted for 97 per cent of incremental assets. Bank of Nova Scotia (BNS), NCB and UBJ controlled, in total, 74 per cent of total assets, 57 per cent of loans and advances and 69 per cent of aggregated system deposit liabilities. The asset profile of the combined balance sheets showed, for the second consecutive year, the greatest concentration of funds in investments (in the main, FINSAC securities). The increase in this asset category was occasioned by the capitalization of interest payments due on FINSAC securities held primarily by two FINSAC intervened/ assisted entities. Such securities represented 28.3 per cent of total system assets and 56.3 per cent of total investments. There were also notable increases in cash and bank balances which related primarily to balances held with BOJ (Central Bank Deposits) and foreign currency placements with financial institutions.

Total loans and advances (gross) of the three sub-sectors grew by $4.4 billion or 8.2 per cent bringing the stock of outstanding credit to $58.7 billion as at 31 December 2000. Foreign currency loans which offered a cheaper alternative to domestic currency credit increased by US$24.0 million or $2.0 billion to total US$322.0 million or J$14.4 billion. Main beneficiaries in terms of economic sub-sectors were tourism, distribution, electricity, gas and water and loans to selected public entities.

It should be noted that growth in the Jamaica dollar equivalent of foreign currency loan balances was occasioned in part by foreign currency revaluation, concomitant with the depreciation in the value of the exchange rate.

Deposit liabilities, which continued as the principal source of funding, increased by $24.5 billion or 14.9 per cent to total $188.8 billion. Foreign currency deposits accounted for 30 per cent of

new system deposits and one commercial bank was responsible for 47 per cent of total domestic and foreign currency inflows into the system. Other less notable funding sources were internally generated capital, clearing items and borrowings from BOJ (the latter was largely confined to one bank).

Although the commercial banks' interest rate structures favoured time funds, savings and demand accounts benefited from notable inflows of $8.8 billion and $8.1 billion, respectively. Time funds increased by a lower $5.9 billion and were largely short-term maturities.

TABLE 22

MARKET SHARE OF FINANCIAL SUBSECTORS (ASSETS)*

	December 1998		December 1999		December 2000	
	J$BN	%	J$BN	%	J$BN	%
Commercial Banks	165.0	75	188.3	79	216.6	81
Building Societies	44.3	20	39.8	17	43.1	16
FIA Licensees	11.8	5	10.8	4	8.3	3
TOTAL	**221.1**	**100**	**238.9**	**100**	**268.0**	**100**

** Assets net of contingent liabilities and provisions for losses.*

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

Based on the data submitted by FIA licensees and commercial banks at the end of December 2000, funds under management and Repos for on-trading to clients increased by $4.5 billion and $6.0 billion, to total $23.0 billion and $41.0 billion, respectively. These funds are garnered principally by FIA licensees and are reported as off-balance sheet transactions, and therefore not included in the system figures shown above.

Asset Quality

Total past due loans (3 months and over) contracted by $1.3 billion to total $5.6 billion. This represented 9.6 per cent of the system's total loan stock, as against 12.8 per cent and 22.9 per cent at the end of 1999 and 1998, respectively. 13 of the 22 supervised institutions were responsible for the decline in total past due loans (3 months and over). The reduction in delinquent facilities resulted from aggressive debt collection drives, sale of pledged assets to recover debts, loan write-offs, loan sale as well as from significant strengthening of credit risk mitigation techniques in a number of institutions (for example, ensuring that loans were made on a sound and collectible basis) to reduce the risk of problem credits.

Notwithstanding the contraction in the system ratio, some institutions exhibited levels of arrears which surpassed the prudential benchmark of 10 per cent of total loan portfolio. These institutions are being monitored by the Central Bank to ensure that effective loan review systems that treat asset quality problems expeditiously, are implemented.

Despite the contraction in past due loans (3 months and over), there was further evaluation of provisioning levels resulting in an appreciable rise in both general and specific provisions by $1.0 billion or 19.2 per cent, to total $6.5 billion as at 31 December 2000. This offered full coverage of 116.6 per cent against potential losses on the system's total non-performing loans (3 months

and over) as against 79.2 per cent a year earlier. Increased provisioning levels have largely been in keeping with the Credit Classification and Provisioning Regulations which are still awaiting the completion of the legal enactment process. Where institutions report inadequate levels of loan loss provisions and the evaluation process is deemed insufficient or is based on an unreliable internal review, corrective action is enforced by the BOJ.

Liquidity

Supervised financial institutions, in general, maintained adequate, albeit lower, levels of domestic currency liquid assets during 2000. While lower system-wide liquidity levels may have been attributable to the reduction in the statutory Cash Reserve and Liquid Asset ratios by three percentage points during the year, there were some institutions which maintained comfortable bands of liquidity throughout the year. One bank, however, experienced liquidity tightness and received liquidity support from the Central Bank as well as borrowed on the inter-bank and Repo market to fund its operations.

On a consolidated basis, the three supervised sub-sectors reflected average domestic currency liquid reserves of 41.3 per cent in respect of the month of December 2000. Additionally, the commercial banking and building societies sub-systems reported excess liquid asset reserves of $15.3 billion and $5.7 billion, respectively, whilst FIA licensees exhibited a much lower level of $836.1 million. Excess reserves chiefly comprised Central Bank Deposits, assets purchased with a view to resale and GOJ investment debenture notes eligible for treatment as statutory liquid assets.

The minimum cash reserve ratio was breached on a few occasions. However, the deficiencies identified were not symptomatic of liquidity constraints, but arose as a result of late lodgements/transfers of funds to respective cash reserve accounts, and in a few instances, calculation errors. Institutions which operated below the minimum statutory requirements incurred interest penalties in accordance with Sections 14 and 15 of The Banking and FIA Acts and in the case of building societies, Regulations 35 and 42 of the BOJ (Building Societies) Regulations. During December 2000, all licensees were in compliance with both the statutory domestic and foreign currency cash reserve and liquid asset ratios of 13 per cent and 31 per cent of average prescribed liabilities, respectively.

Capital

The financial system's overall net worth and statutory capital base increased by J$2.8 billion and $2.2 billion to total $28.8 billion and $23.9 billion, respectively. Statutory capital was generated largely by way of share premium resulting from the issuance of shares to FINSAC by two commercial banks and to a lesser extent by transfers of internally generated capital to the Statutory Reserve Fund and the discretionary Retained Earnings Reserve Account. The increase in statutory capital was also due to the reduction

in impairment by net losses which moved from $3 billion as at 31 December 1999 to $2 billion at the end of 2000.

With the faster growth in assets, the system reflected a slight reduction in the primary capital ratio from 9.1 per cent to 9.0 per cent which still exceeds the international benchmark of 6 per cent. As at 31 December 2000, the system as a whole had adequate statutory capital to cover deposits and other borrowing activities and all commercial banks and FIA licensees operated within the respective deposit taking limits of 25:1 and 20:1.

With regard to the minimum risk-based capital ratio of 10 per cent (the ratio of capital base to risk adjusted assets), all institutions were in compliance at year-end.

Profitability

The aggregate of the three sub-systems' unaudited quarterly data reflected superior profit margin which moved from 9.7 per cent in respect of 1999 to 16.0 per cent for 2000. Improved rates of return were also evident on average asset utilization of 2.6 per cent (1.8 per cent previously) and on equity employed of 26.2 per cent (previously 16.7 per cent).

Income profile remained unchanged and for the calendar year, investment income (predominantly interest income on FINSAC securities) accounted for 54 per cent of total income (55 per cent previously) whilst interest differential business (loan income) contributed 25 per cent resulting from interest spreads (in some cases in excess of 800 basis points, occasioned by a slower fall in loan rates as against rates paid on deposit liabilities). Despite the trend toward lower rates on securities, the supervised industry continued to benefit from attractive rates of return especially during the second half of 2000 as measures aimed at, inter alia, maintaining the stability of the exchange rate were implemented. Additionally, bottom lines for the supervised industry as a whole benefited from the reversal of provisions for losses on non-performing loans sold and or recovered through the sale of collateral.

The main expense items were deposit costs, 40.6 per cent of total expense, (previously 50.2 per cent), borrowing expenses, 14.6 per cent, (15.5 per cent during 1999), staff expenses and provisions for loan losses, 20.6 per cent and 6.2 per cent, respectively, (17.9 per cent and 7.6 per cent in the corresponding year).

All supervised institutions, with the exception of one building society, reported positive operational results for the 2000 calendar year.

TABLE 23

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

	Commercial Banks			FIA Licensees			Building Societies			System Total (Consolidation of all 3 sectors)		
	Dec '98	Dec '99	Dec '00	Dec '98	Dec '99	Dec '00	Dec '98	Dec '99	Dec '00	Dec '98	Dec '99	Dec '00
Overall Structure												
Number of institutions in operation	9	6	6	18	14	11	8	5	5	35	25	22
Total Assets (incl contingent liabilities) (J$M)	172 871	194 957	222 048	13 559	12 008	9 192	44 315	39 838	43 122	230 745	246 803	274 362
Total Assets (excl contingent liabilities)	165 040	188 278	216 629	11 823	10 803	8 324	44 315	39 838	43 122	221 178	238 919	268 075
Total Deposits (J$M)	114 091	126 814	149 667	5 759	4 938	3 966	34 546	32 577	35 196	154 396	164 329	188 829
Total Loans (gross) (J$M)	43 084	36 719	40 567	3 066	2 909	2 611	15 758	14 677	15 574	61 908	54 305	58 752
Total Loans (net of prov.) (J$M)	35 119	32 192	35 319	2 292	2 545	2 453	15 001	14 072	14 430	52 412	48 809	52 202
Past Due Loans (PDL) (3 Mths & >) (J$M)	11 056	5 131	3 849	1 140	577	198	1 967	1 232	1 572	14 163	6 940	5 619
Provision for Loan Losses (J$M)	7 965	4 527	5 248	774	364	158	758	605	1 144	9 497	5 496	6 550
Investments (inc. Sec. Purchased) (not of prov.) (J$M)	67 354	89 357	110 507	4 708	3 100	3 030	17 327	18 586	21 373	89 389	111 043	134 910
Capital Base	5 219	14 742	18 125	2 384	3 620	1 867	1 493	3 300	3 875	9 096	21 662	23 867
Contingent Liabilities	7 831	6 679	5 419	1 736	1 205	868	0	0	0	9 567	7 884	6 287
(Acceptances LC's & Guarantees)	n.a.	50	50	17 973	18 505	22 958	0	0	0	17 973	18 555	23 008
Fund Under Management	n.a.	460	586	25 156	34 391	40 174	0	0	0	25 156	34 851	40 760
Repos on behalf or for on-trading to clients												
Rate of Asset Growth (%)	15.9%	14.1%	15.1%	-25.7%	-8.6%	-22.9%	17.6%	-10.1%	8.2%	12.8%	8.0%	12.2%
Rate of Deposit Growth (%)	4.4%	11.2%	18.0%	-16.1%	-14.3%	-19.7%	11.7%	-5.7%	8.0%	4.9%	6.4%	14.9%
Rate of Loan Growth (gross) (%)	-27.4%	-14.8%	10.5%	-44.5%	-5.1%	-10.2%	-2.5%	-6.9%	6.1%	-23.6%	-12.3%	8.2%
Rate of Capital Base Growth	93.9%	182.5%	22.9%	206.8%	51.8%	-48.4%	-0.6%	121.0%	17.4%	83.0%	138.1%	10.2%
Rate of PDL (3 mths & >) Growth (%)	-35.5%	-53.6%	-25.0%	-57.7%	-49.4%	-65.7%	-9.8%	-37.4%	27.6%	-35.6%	-51.0%	-19.0%
Investments: Total Assets	40.8%	47.5%	51.0%	39.8%	28.7%	36.4%	39.1%	46.7%	49.6%	40.4%	46.5%	50.3%
Fixed Assets: Total Assets	3.0%	2.5%	2.2%	3.2%	2.7%	3.2%	2.8%	3.0%	2.9%	2.9%	2.6%	2.3%
Loans (net of prov) Total Assets	21.3%	17.1%	16.3%	19.4%	23.6	29.5%	33.9%	35.3%	33.5%	23.7%	20.4%	19.5%
Loans (gross): Deposits	37.8%	29.0%	27.1%	53.2%	58.9%	65.8%	45.6%	45.1%	44.2%	40.1%	33.0%	31.1%
Liquidity												
Average Domestic Currency Cash Reserves: Average Prescribed Liabilities	21.0%	15.8%	13.0%	18.3%	16.5%	13.1%	4.1%	1.0%	1.0%	16.7%	12.6%	10.3%
Average Domestic Currency Liquid Assets Average Prescribed Liabilities	55.8%	48.3%	45.6%	50.1%	58.9%	85.5%	21.8%	19.2%	23.9%	47.1%	42.1%	41.3%
Asset Quality												
Prov. for Loan Losses: total Loans (gross)	18.5%	12.3%	12.9%	25.2%	12.5%	6.1%	4.8%	4.1%	7.3%	15.3%	10.1%	11.1%
Prov. for Loan Losses: PDL (3 mths & >)	72.0%	88.2%	136.3%	67.9%	63.1%	79.8.%	38.5%	49.1%	72.8%	67.1%	79.2%	116.6%
PDL (3 mths & >): Total Loans (gross)	25.7%	14.0%	9.5%	37.2%	19.8%	7.6%	12.5%	8.4%	10.1%	22.9%	12.8%	9.6%
PDL (3 mths & >): Total Assets + Provision for Loan Losses	6.4%	2.7%	1.7%	9.0%	5.2%	2.3%	4.4%	3.0%	3.6%	6.1%	2.8%	2.0%
Capital Adequacy												
Deposits + Borrowings: Capital Base (:1)	28.5	11.0	10.1%	3.3	1.6	2.6	27.6	10.5	9.7	21.8	9.3	9.5
Capital Base: Total Assets	3.2%	7.8%	8.4%	20.2%	33.5%	22.4%	3.4%	8.3%	9.0%	4.1%	9.1%	8.9%
Risk Asset Ratio (RAR) (estimated)	5.2%	18.5%	21.9%	17.3%	49.8%	34.1%	3.6%	13.4%	15.3%	5.8%	19.8%	21.2%
PDL (3 mths & >): (Capital Base + Provision for Loan Losses)	83.9%	26.6%	16.5%	36.1%	14.5%	9.8%	87.4%	31.5%	31.3%	76.2%	25.6%	18.5%
Profitability												
Pre-Tax Profit Margin (for the calendar year)	-2.8%	7.4%	15.5%	3.3%	24.2%	30.2%	-0.3%	12.0%	13.3%	-1.7%	9.7%	16.0%
Return on Average Assets (for the calendar year)	-0.5%	1.3%	2.6%	1.1%	8.6%	10.5%	-0.1%	2.2%	2.4%	-0.3%	1.8%	2.8%
Income Assets/Expense Liabilities (as at 31 Dec)	80.7%	89.1%	97.5%	91.5%	128.2%	137.5%	90.7%	101.1%	100.3%	83.2%	92.2%	98.8%

[redacted]

TABLE 24

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

	International Benchmark	Jamaican Prudential Benchmark	Dec '99		Dec '00	
			Actual	Variance	Actual	Variance
Risk Assets Ratio (RAR)	8.00%	> 10.00%	19.8%	9.8%	21.2%	11.2%
Capital Base: Total Assets	6.00%	> 6.00%	9.1%	3.1%	8.9%	2.9%
PDL: Capital Base + Prov.	n/a	< 20.00%	25.6%	5.6%	18.5%	1.5%
PDL: Total Loans	10.00%	< 10.00%	12.8%	2.8%	9.6%	0.4%
Prov. For Loan Losses: PDL*	-	-	79.2%	-	116.6%	-
Prov. For Loan Losses: Total Loans*	-	-	10.1%	-	11.1%	-
Income Assets: Expense Liabilities	n/a	>100.00%	92.2%	7.8%	98.8%	1.2%
Return on Average Assets**	n/a	> 0.60%	1.8%	1.2%	2.8%	2.2%

Notes:

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

External Sector Developments

International Economic Developments

During 2000, there was a further expansion in global economic activity, following the rebound in 1999. The continued improvement in output growth was influenced mainly by the continued buoyancy of the US economy, the strengthening of the economies in the euro area and also the sustained improvement in a number of emerging market economies in East Asia and Latin America. Among the primary contributory factors to the increase in economic output was the commitment to economic stability on the part of policy makers in these economies, coupled with continued structural reforms. This was supported by increased earnings from exports, despite the strong presence of price volatility in the commodity markets during the year.

Industrial Countries

The major industrial economies showed some improvement in economic activity in 2000. This emanated from the protracted robust performance of the US economy in the first half of the year, supported by the upswing in economic activity in the euro area, during the latter part of the review period. The US economy registered an expansion in real GDP estimated at 3.5 per cent compared with 4.2 per cent in 1999. The performance of the US economy, which was in its tenth consecutive year of growth was attributable mainly to a rapid increase in investment in the technology sector, following the phenomenal gain in asset prices in 1999. Strong business confidence also helped to mitigate a weakening of economic activity, which had been anticipated to commence from as early as the first quarter of 2000.

The concern about an economic slowdown was underpinned by the Federal Reserve Board's commitment to a restrictive monetary path during 2000, following the initiation of a series of rate hikes in 1999. Between June 1999 and May 2000, the Federal Reserve increased its overnight lending rate by 125 basis points to 6.5 per cent, and this remained in effect until the end of the year. The increase in interest rates was engendered by the threat of inflationary pressures as the leading economic indicators pointed to a narrowing of the US output gap. In light of these developments, the economy began to exhibit signs of a slowdown in the latter half of the year, with the projected 1.4 per cent growth rate in the last quarter being the lowest in over a decade. This unimpressive fourth quarter out-turn mirrored a dampening in corporate confidence as companies began issuing profit warnings. When compared with the rapid asset market gains in 1999, the fall-off in company earnings for 2000 had a negative effect on consumer wealth during the year. Moderation in asset

market performance coupled with the threat of widespread lay-offs led to a partial erosion of consumer confidence, which underpinned a notable decline in private demand in the latter months of the year. Despite the concern for job security, labour markets in the US remained tight throughout the year, as the unemployment rate fell to 4.0 per cent in 2000, from 4.2 per cent in 1999, possibly reflecting the lagged effect of monetary policy adjustments. To allay fears of an imminent technical recession, the Federal Reserve initiated two interest rate cuts of 50 basis points each in January 2001, bringing the federal funds rate to 5.5 per cent at the time of writing.

For 2000, the inflation rate in the US, as measured by the rate of change in the consumer price index (CPI), increased to 3.4 per cent, from 2.2 per cent in 1999. The highly competitive interest rate path pursued by the Fed in 2000 facilitated a strengthening of the dollar against the other major currencies. The appreciation of the dollar was partly responsible for a further deterioration of the goods balance during the period under review. Based on available data to November, 2000, the US trade deficit widened to US$441.7 billion, from US$335.7 billion in the same period of 1999.

In Canada, economic growth is expected to have increased moderately to 4.7 per cent in 2000, from 4.5 per cent in 1999. This improved performance resulted mainly from an increase in exports and higher investment spending. These factors contributed to an expansion in employment opportunities as the rate of unemployment contracted to 6.8 per cent in 2000, from 7.6 per cent in 1999. In light of the increased capacity utilisation, inflationary pressures intensified in the latter half of the year, leading to an acceleration in the inflation rate to 3.2 per cent in 2000, from 1.7 per cent in 1999. To stave off mounting inflationary expectations, the Bank of Canada maintained a restrictive monetary stance throughout the year. This culminated in a 50 basis points increase in the Bank's benchmark rate, to 6 per cent in mid-May of 2000. By November 2000, Canada's trade surplus had widened to approximately US$33.6 billion, relative to a surplus of US$21.8 billion in November 1999. The expansion in the trade surplus resulted primarily from an increase in exports to its partners in the North American Free Trade Agreement (NAFTA).

For 2000, the United Kingdom (UK) recorded 2.4 per cent economic growth, up from 2.1 per cent in 1999. This emanated from a general increase in private demand and a narrowing of the trade deficit. Based on available data to September 2000, the unemployment rate declined to 5.3 per cent from 5.9 per cent in the comparable period of 1999. Fuelled by the strength of consumer spending, inflationary pressures developed in the latter half of the year, resulting in an inflation rate of 2.9 per cent in 2000, up from 2.3 per cent in 1999. Monetary policy remained restrictive throughout the year, in an attempt to lean against the inflationary pressures. However, the Bank of England announced a 50 basis points rate cut in February 2001, an attempt at maintaining momentum in the economy. It is

estimated that the UK trade deficit had narrowed to US$42.4 billion by November, 2000, from US$42.9 billion in November, 1999.

Economic growth in the euro area is projected to have accelerated to 3.5 per cent in 2000, from 2.4 per cent in 1999. This stronger growth was exhibited in all of the major economies in the region. The main contributors to this improved performance were the recovery in business and consumer confidence, the increased competitiveness of the euro and the ongoing robustness in the global economy, as reflected in increased earnings from exports. Consistent with the resurgence in economic activity in the euro area was a further narrowing of the unemployment gap. For 2000 the unemployment rate declined to 8.7 per cent, from 9.6 per cent in 1999. Emanating from the tightening labour market were higher wage claims, which, coupled with increased global oil prices, resulted in the rate of inflation climbing to 2.6 per cent in 2000 from 1.2 per cent in 1999. This doubling of the inflation rate was well in excess of the 2 per cent benchmark rate set by the European Central Bank (ECB). To contain the destabilizing effects of rising inflation and also to ease the downward pressure on the euro, the ECB continued to pursue a series of 25 basis points interest rate increases, which began in the last quarter of 1999. At the end of 2000, the ECB's repo rate had risen to 4.75 per cent, up from 3 per cent at the end of 1999. For its part, the trade surplus in the euro area narrowed to US$13.5 billion in 2000 from US$64 billion in 1999.

In Japan, economic growth is expected to have inched up to 1.4 per cent in 2000, from 0.2 per cent in 1999. This outturn came against the background of a strengthening in economic activity in the first two quarters. However, there was a marked slowdown in economic momentum in the fourth quarter of 2000. This improvement was an exhibition of the Bank of Japan's commitment to a steady recovery of the Japanese economy as reflected in its almost zero interest rate policy. Structural reforms in the banking sector also provided a basis for the modest strengthening of the economy. For its part, the technology sector remained the major facilitator of growth within the economy as reflected in rising corporate profits and investments in the sector. Among the challenges that continue to affect growth prospects in the economy is the depression in corporate and consumer confidence, accompanied by the persistence of structural weaknesses. In the foreign exchange market, the *yen* experienced a high degree of volatility during the year, depreciating to 114.20 yen to the US dollar at end 2000, from 102.36 yen to the US dollar at end 1999.

Emerging Market Economies

The pace of recovery in emerging market economies accelerated during 2000. It is projected that output in these economies as a whole increased by 5.6 per cent, compared with 3.8 per cent in 1999. While all the regions in this group are expected to have experienced economic growth, the most significant increase is likely to be in the Latin American and Caribbean region.

Economic activity in the Latin American and the Caribbean region is expected to have increased by 4.3 per cent in 2000, compared with 0.2 per cent in 1999. This remarkable outturn is expected to result from increasing investor confidence arising from the stabilization measures that were implemented in a number of these economies and also the prolonged expansion in the US economy.

Brazil maintained its position as the leader of the Latin American countries, with economic growth accelerating to 6.5 per cent in 2000, from 1 per cent in 1999. The primary impetus to growth in Brazil was the depreciation of its currency, the *real*, which occurred in the wake of the 1999 crisis. This provided a boost to the export sector, which facilitated an increase in domestic consumer demand and a rapid expansion in industrial output. By the end of December 2000, Brazil's unemployment rate declined to 5.6 per cent, from 7.1 per cent at the end of 1999.

It is estimated that the Mexican economy grew by 6.5 per cent in 2000, up from 3.5 per cent in 1999. This was attributable primarily to increased private demand due to more favourable export prices, especially oil, and the continued buoyancy of economic growth in its NAFTA partners. The increase in exports was not sufficient to compensate for the growth in imports, which resulted in a widening of the trade deficit to US$8.0 billion in 2000, from US$5.2 billion in 1999. Inflationary impulses were less pronounced during the year. There was a significant reduction in the inflation rate to 9 per cent in 2000, from 16.6 per cent in 1999, reflective of the central bank's pursuit of a restrictive monetary path.

Economic growth in the other major economies in Latin America is estimated to range between 0.5 per cent and 6 per cent in 2000, compared with a range of negative 7.3 per cent and 3.8 per cent in 1999 (see Table 26). Higher exports, partly arising from a weakening of some of the major currencies in this group contributed to the strengthening of these economies. With the exception of Ecuador, the acceleration in economic growth was not accompanied by higher inflation, as some economies were still operating well below their potential output. The inflation rate in Ecuador which increased to 96.6 per cent in 2000, from 52.2 per cent in 1999, was engendered by a substantial devaluation of the *sucre* during the year.

In Trinidad & Tobago, provisional data indicate that the economy expanded by 7.9 per cent in 2000, compared with 7 per cent in 1999. This positive growth was attributable mainly to a marked increase in the level of investments in the manufacturing and service sectors (financial, real estate, distribution, transport and communications). The trade account registered a surplus of US$540.5 million for the first six months of 2000, compared with a deficit of US$131.2 million in the comparable period of 1999. Consumer price inflation increased to 3.6 per cent in 2000 from 3.4 per cent in 1999.

Preliminary data for Guyana reflect economic output increasing by 3 per cent in 2000, the same growth rate as in 1999. The primary source of growth was in the mining sector, which recorded increased investments in the diamond and bauxite industries. For 2000, the inflation rate

declined to 4.8 per cent, from 8.6 per cent in 1999. This was a direct result of the central bank's restrictive monetary stance and also the relative calm in the foreign exchange market.

Preliminary data from Barbados indicate that for the first nine months of 2000, the economy grew by 3 per cent, compared with a growth rate of 2.5 per cent in the corresponding period of 1999. The expansion in economic output was reflective of the reversal of the slowdown in tourism inflows during the year. There was evidence of a transmission of the increased output to consumer prices as the inflation rate for 2000 declined to 1.8 per cent, from 2.6 per cent in 1999.

For the East Asia region, it is estimated that the annual economic growth rates ranged between 3.9 per cent and 8.8 per cent in 2000 compared with a range of 0.3 per cent and 7.1 per cent in 1999 (see Table 26). The stronger performance of these economies is ascribable to the continuation of stabilization measures that were implemented following the crisis in 1997, and to strong growth in exports. Despite the continued presence of some degree of structural weakness within the region, there has been a further strengthening of the financial system and the accumulation of foreign reserves. There are indications that the rate of change in consumer prices within the region has been adversely affected by the strong expansion in output (see Table 26).

Increased demand for electronic devices from East Asia remained the primary source of growth in export earnings during the review period. The bulk of these exports went to the US market as consumer demand in the Japanese economy remained sluggish during 2000. The increase in exports was not sufficient to offset the expansion in imports resulting in a further widening of the trade gap for the region.

Commodity Markets

The recovery in global commodity prices intensified at the beginning of the year, but lost its momentum following the gradual slowdown in consumer demand in the larger export markets during the latter part of 2000. Accordingly, the US Dollar all items index indicated a 17.31 per cent reduction in commodity prices for 2000. Among the major commodities affected were oil, base metals and food.

Based on the benchmark Brent crude oil index, international oil prices declined to US$22.39 per barrel at end 2000, from US$25.27 per barrel at end 1999. During 2000, oil prices exhibited bouts of instability, climbing to US$36.15 per barrel in September, the highest level since the Gulf War in 1991. The volatility experienced in the oil market emanated from the continuation of a series of daily production cuts led by the Organization of Petroleum Exporting Countries (OPEC) which began in March 1999. However, amidst rising international pressure and slowing consumer spending, OPEC agreed to restrain the rise in oil prices by introducing a more realistic price setting mechanism, which resulted in the gradual lowering of oil prices in the latter part of the year.

During 2000, the prices for base metals fell by an approximate 7.2 per cent, also reflective of the decelerated pace of global economic activity. This was due in part to a reduction in automobile sales, which has a high metal content. Of particular interest was a marked reduction in aluminium prices which declined to US$1567.50 at end 2000, from US$1 624.50 at end 1999.

Food prices continued to decline as growth in output outstripped the growth in demand, leading to a 19.4 per cent reduction in the US-based food index for 2000. The most significant decline was in coffee prices, which fell to US$46.91 per pound in 2000, from US$88.55 per pound in 1999. On the other hand, there was an increase in wheat prices, which climbed to US$2.72 per 60 pound bushel in 2000 from US$2.46 per 60 pound bushel in 1999.

Other Developments

During 2000, the issue of currency substitution became quite topical as a number of countries grappled with weakening currencies following the financial crisis, which developed in 1997. Chief among these economies was Ecuador, which experienced severe economic instability from 1999 into 2000, resulting in a significant devaluation of the *sucre* and the subsequent adoption of the US dollar as the official medium of exchange. The successful launch of the euro also gave credence to the debate as a number of non-European Union (EU) countries in Europe are now seeking to gain membership in the euro area. In addition, the birth of the euro has also provided an alternate source of external financing as a number of emerging market economies including Jamaica were able to issue euro-denominated bonds at relatively more competitive interest rates.

Arising out of the discussions that ensued in 1999 between the EU and the African, Caribbean and Pacific (ACP) countries was the signing of the Cotonou Agreement in 2000. Among the signatories to this agreement was Jamaica. The primary objectives of the agreement are 'poverty reduction and ultimately its eradication, sustainable development and the progressive integration of ACP countries into the world economy'. This agreement encompasses the establishment of new trading arrangements under the Lome 1V Convention, with a scheduled implementation date for 2008. A major condition under which the Cotonou Agreement was established is that it should be compatible with the World Trade Organisation's (WTO) guidelines.

Prospects for 2001

Global economic and financial conditions are expected to continue improving in 2001, albeit at a slower pace than in 2000. With growth in the US economy projected to slow in 2001, this positive outlook is posited on a stronger growth in Europe and the emerging markets. As the US economy appears to be approaching the end of its business cycle, it is expected that the commencement of a series of interest rate cuts, initiated by the Federal Reserve in January 2001,

will facilitate some recovery in consumer confidence and therefore stave off a possible recession in 2001.

The prospect for the euro area reflects the supportive role of the present macroeconomic measures, and also ongoing structural reform in the labour markets within the region. According to the World Economic Outlook, economic growth in the region is expected to rise to 3.4 per cent in 2001 out-pacing that of the US economy. One of the major challenges for the year is the containment of inflation within the European Central Bank's (ECB) target of 2 per cent per annum.

For the economies in Latin America, economic growth is projected to increase to 4.5 per cent in 2001, from 4.3 per cent in 2000. The emerging market economies in East Asia are expected to register a marginal deceleration in economic activity to 6.6 per cent in 2001, from 6.7 per cent in 2000. The relatively modest outlook for Asia reflects the relative fragility of these economies in their continuing susceptibility to external shocks.

The favourable outlook for the emerging market economies as a whole is predicated on the strengthening of business confidence in the financial markets within these economies. This comes against the background of a commitment by the authorities in some of these economies to maintain and further implement macroeconomic measures geared towards sustaining economic growth. In addition, with interest rates in the US economy on the decline, this will facilitate a reduction in the level of interest rates on the international capital markets and also domestic markets.

TABLE 25

ADVANCED ECONOMIES
Real GDP, Consumer Prices, Unemployment Rates and Trade Balance
(Annual percentage change and per cent of labour force)

	GDP		Unemployment Rate		Inflation Rate		Trade Balance US$BN	
Country	1999	2000	1999	2000	1999	2000	1999	2000
US	4.2	3.5	4.2	4.0	2.2	3.4	-335.7	-441.7
UK	2.1	2.4	5.9	5.3	2.3	2.9	-42.9	-42.4
Euro area	2.4	3.5	9.6	8.7	1.2	2.6	64.0	13.5
Canada	4.5	4.7	7.6	6.8	1.7	3.2	21.8	33.6
Japan	0.2	1.4	4.7	4.8	-0.3	-0.2	123.5	117.0

Source: The Economist, the World Economic Outlook and Bloomberg Markets Report.

* *As at November 1999 and 2000.*

TABLE 26

SELECTED ECONOMIC INDICATORS - SELECTED DEVELOPING COUNTRIES
Real GDP, Consumer Prices and Trade Balance
(Annual percentage change)

	GDP		Inflation Rate		Trade Balance US$BN	
Country	1999	2000	1999	2000	1999	2000
Barbados	2.5	3.0	2.6	1.8	-0.4*	-0.4*
Guyana	3.0	3.0	8.6	4.8	-0.01*	0.01*
Trinidad and Tobago	7.0	7.9	3.4	3.6	-0.1*	0.5*
Argentina	-3.1	1.7	-1.2	-0.7	-2.2	1.1
Brazil	1.0	6.5	4.9	5.3	-1.2	-0.7
Chile	-1.1	6.0	3.3	4.5	1.7	1.5
Colombia	-4.5	3.0	10.9	8.8	1.3	2..
Ecuador	-7.3	0.5	52.2	96.6	1.4	1.4
Mexico	3.5	6.5	16.6	9.0	-5.2	-8.0
Peru	3.8	4.0	3.7	4.0	-0.5	-0.2
Venezuela	-7.2	2.5	23.6	13.4	5.0*	14.1*
China	7.1	7.5	-1.4	1.5	29.1	24.1
Hong Kong	6.1	8.0	-4.0	-1.8	-5.6	-10.9
Indonesia	0.3	4.8	20.8	9.4	24.7	28.3
Malaysia	5.6	6.0	2.8	1.4	19.0	16.0
Philipines	3.3	3.9	6.7	1.4	4.5	5.7
Singapore	3.5	7.9	1.4	6.6	3.6	4.0
South Korea	6.3	8.8	1.4	3.2	24.8	12.1
Taiwan	2.9	6.0	0.1	1.7	11.0	8.4
Thailand	4.2	5.0	0.3	1.3	8.9	5.6

Source: The Economist, the World Economic Outlook, the Central Banks of Barbados. Guyana and Trinidad and Tobago and the Bloomberg Markets Reports.

* *Jan - Jun*

Balance of Payments

Preliminary estimates on the balance of payments for 2000 compared with revised data for 1999 and 1998 are provided in Table 27.

The current account recorded a deficit of US$337.9 million in 2000. This was US$64.4 million above the deficit recorded in 1999. The 2000 outcome was influenced mainly by a US$219.8 million expansion in the level of net payments on the goods account, which was countered primarily by a US$160.8 million increase in net reciepts from current transfers.

The capital and financial accounts recorded respective surpluses of US$2.2 million and US$335.7 million in 2000, US$13.1 million and US$51.3 million larger than surpluses recorded on the two accounts in 1999. Within the financial account, net private investment inflows of US$462.9 million complemented a net inflow of

US$395.8 million for official investments. The surpluses on the capital and financial accounts were more than sufficient to finance the current account deficit. As a consequence, the NIR of Jamaica grew by US$523.0 million in 2000.

TABLE 27

BALANCE OF PAYMENTS SUMMARY
(US$M)

	1998 1/	1999 1/	2000 2/
CURRENT ACCOUNT	**-305.8**	**-273.5**	**-337.9**
A. GOODS BALANCE	**-1 130.5**	**-1 133.7**	**-1 353.5**
Exports (f.o.b.)	1 613.4	1 500.7	1 554.6
Imports (f.o.b.)	2 743.9	2 634.4	2 908.1
B. SERVICES BALANCE	**501.1**	**540.5**	**538.6**
Transportation	-278.4	-229.5	-247.2
Travel	998.9	1 052.4	1 123.9
Other Services	-219.4	-282.4	-338.1
GOODS & SERVICES BALANCE	**-629.4**	**-593.2**	**-814.9**
C. INCOME	**-308.1**	**-332.5**	**-336.0**
Compensation of employee	66.1	70.3	67.4
Investment income	-374.2	-402.8	-403.4
D. CURRENT TRANSFERS	**631.7**	**652.2**	**813.0**
Official	45.7	45.8	147.9
Private	586.0	606.4	665.1
2. CAPITAL & FINANCIAL A/C	**305.8**	**273.5**	**337.9**
A. CAPITAL ACCOUNT	**15.5**	**-10.9**	**2.2**
Capital transfers	15.5	-10.9	2.2
Official	4.2	4.1	15.6
Private	11.3	-15.0	-13.4
Acq./disposal of non-prod. non-fin'l assets	0.0	0.0	0.0
B. FINANCIAL ACCOUNT	**290.3**	**284.4**	**335.7**
Other Official Investment	-41.3	-331.4	395.8
Other Private Investments 3/	370.9	482.2	462.9
Reserves	-39.3	133.6	-523.0

1/ Revised
2/ Provisional
3/ Includes Errors & Omissions

Merchandise Trade

Exports

During 2000, Jamaica's total export earnings amounted to US$1 554.6 million. Of this, earnings from *general merchandise exports* amounted to US$1 293.1 million, while freezone exports and goods procured in Jamaican ports by foreign carriers totalled US$223.6 million and US$37.9 million, respectively. A breakdown of export earnings by the major commodity groups for 2000, compared with 1999, is provided in Table 28.

TABLE 28

TRADITIONAL & NON-TRADITIONAL EXPORTS
(US$M)

	1999 1/	2000 2/	Change	% Change
TOTAL GENERAL EXPORTS	**1 247.3**	**1 293.1**	**45.8**	**3.7**
Major Traditional Exports	**809.1**	**836.0**	**26.9**	**3.3**
Bauxite	56.0	45.5	-10.5	-18.7
Alumina	628.0	684.3	56.3	9.0
Sugar	95.3	83.3	-12.0	-12.6
Bananas	29.8	22.9	-6.9	-23.2
Other Traditional Exports	**65.5**	**73.0**	**7.5**	**11.5**
Citrus	4.4	4.6	0.2	5.1
Cocoa	2.7	2.3	-0.4	-14.3
Coffee	24.7	33.1	8.4	34.0
Pimento	4.9	4.4	-0.5	-11.0
Rum	27.6	26.4	-1.2	-4.2
Gypsum	1.2	2.2	1.0	87.6
Non Traditional Exports	**338.2**	**344.3**	**6.1**	**1.8**
RE-EXPORTS	**34.5**	**39.8**	**5.3**	**15.3**
FREEZONE	**223.9**	**224.0**	**0.1**	**0.0**
GOODS PROCURED IN PORTS	**29.5**	**37.9**	**8.4**	**28.5**
GRAND TOTAL	**1 500.7**	**1 554.6**	**53.9**	**3.6**

1/ Revised
2/ Provisional

Compared with 1999, total export earnings in 2000 increased by US$53.9 million, or 3.6 per cent. The value of general merchandise exports and goods procured in Jamaican ports by foreign carriers expanded by US$45.8 million and US$8.4 million, respectively, while earnings from freezone exports remained relatively stable. Within the general merchandise group of exports, respective expansions of US$26.9 million, US$7.5 million, US$6.1 million and US$5.3 million were recorded for major traditional exports, other traditional exports, non-traditional exports and re-exports.

The performance of the *major traditional* group of exports in 2000 was influenced principally by a 9 per cent growth in earnings from alumina exports. In contrast, earnings from bauxite exports went down by US$10.5 million, or 18.8 per cent, while the value of sugar and banana exports fell by US$12 million, or 12.6 per cent, and US$6.9 million, or 23.2 per cent, respectively.

The expansion in the value of alumina exports implied an increase of 8.9 per cent in the price of alumina, given the marginal growth in export volumes. For the year, alumina prices averaged US$191.10 per tonne, relative to the average price per tonne of US$175.50 that was realised in 1999. The strongest growth in prices occurred in the first two quarters of the year. During the first quarter, alumina price averaged US$194.90 per tonne, 21 per cent higher than the average price per tonne that was realised in the first quarter of 1999, and represented the highest level of prices attained in four years. For the second quarter, prices averaged US$191.00 per tonne, 16.4 per cent above the average price per tonne in the second quarter of 1999. While prices remained relatively stable for the remaining two quarters of the review year, there was evidence of a retreat in the last quarter relative to the average price realised in the third quarter of 2000, as well as relative to prices in the last quarter of 1999.

The behaviour of alumina prices in the first half of the year was set against the background of the explosion at the Kaiser refinery at Gramercy, Louisiana in July 1999, the effects of which persisted for the remainder of 1999 and into 2000. The supply constraints created by the closure of the refinery, as well as increased world demand for metal arising from the economic performance of some developed countries, affected prices positively.

For 2000, the export volume of alumina expanded marginally by 3.3 thousand tonnes, or 0.1 per cent, to approximately 3.58 million tonnes, representing the fifth consecutive year of growth. The higher export volume occurred in the context of the initiatives and progress made under the Memorandum of Understanding signed in early 1998 by the GOJ, the Bauxite/Alumina Companies and the Trade Unions. The slowdown in growth is, however, an indication that the plants are operating at almost full capacity, suggesting that, outside of further capacity expansions within the industry, there is little leeway for incremental improvements in output.

The decline in the value of bauxite exports for 2000 also reflected the impact of the explosion at the Kaiser alumina refinery. Bauxite export volumes in 2000 amounted to approximately 2.2 million tonnes, 0.6 million tonnes or 23 per cent below the levels recorded for 1999. In response to the fallout in the demand from the Gramercy plant for crude bauxite, the Government secured an alternative market from the Ukraine to purchase 250 thousand tonnes of bauxite. Partly as a consequence of this initiative, export of crude bauxite for the first and second quarters of the year amounted to 654 thousand and 519 thousand tonnes, respectively. With the partial re-opening of the Gramercy plant in the last quarter of the year, bauxite exports amounted to approximately 573 thousand tonnes for that quarter.

Relative to 1999, the average price of crude bauxite was adjusted upwards by US$1.10 per tonne, to US$21.15 per tonne. This upward adjustment occurred because of a change in Kaiser's pricing formula, aimed at facilitating greater transparency in the pricing arrangement for crude bauxite exports.

The prospects for further growth of the domestic bauxite/alumina industry for 2001 are favourable as, with the full resumption of the Gramercy processing plant in the early part of the year, bauxite exports are expected to surpass 4 million tonnes for the year. On the domestic supply side, incremental growth in capacity and output is likely in the context of planned increases in capital expenditure by some of the companies. For example, as part of the 1998 Memorandum of Understanding, Alpart has embarked on an expansion programme to increase its output from 1.6 million to 1.8 million tonnes of alumina per year by the year 2003. The proposed transfer of the Alcan plant to a new owner at the end of the first quarter of 2001 is not expected to significantly affect the local industry. Despite lower projected growth in the world economy, and in the US in particular, reduced world supply as a result of cutbacks by major producers, as well as the constricted supply conditions in the US Pacific Northwest, should serve to buoy prices around the levels attained in 2000.

Earnings from sugar exports amounted to US$83.3 million in 2000, US$12.0 million less than the level of earnings recorded in 1999. Export volumes contracted by 5 per cent to approximately 169 thousand tonnes, while the average price per tonne of sugar realised in 2000 fell by approximately 8 per cent. The fall-off in export volume resulted entirely from the non-shipment of sugar to the US, the consequence of an oversupply of sugar on that market, necessitating a temporary suspension of the country's import quota. The industry was however compensated for the suspension. On the European market, the export volume under the regular protocol agreement, and under the Special Preferential Sugar (SPS) access arrangement, expanded by 1.6 per cent, with Jamaica surpassing its export quota for the UK by approximately 13 thousand tonnes. Notwithstanding this performance, the average price of sugar on the European market fell by

approximately 9 per cent to US$492.80 per tonne. This decline occurred in the context of a 10 per cent depreciation in the average exchange rate for the Euro *vis-à-vis* the US dollar, over the crop year, relative to the same period in 1999. The crop year ran from November 1999 to July 2000.

It is noteworthy that despite the decline in export volume, sugar production in 2000 was maintained at the levels realised in 1999. This performance was facilitated by favourable harvesting conditions, which served to enhance the sucrose content of the crop, as well as by improved factory efficiency, brought about by significant investments in the industry by both private and public sector interests in 1999. In this context, an improvement in the tonnes of cane to tonnes of sugar ratio (TC/TS) from 11.3 in 1999 to 9.3 in 2000 was achieved.

The medium-term prospects for the sugar industry will be determined by the outcome of trade agreements that are currently being re-negotiated, and the ability of the domestic industry to improve its efficiency. In June 2000, Jamaica signed the ACP/EC partnership agreement entitled the Cotonou Agreement which extended the country's non-reciprocal trade preferences applied under the Lomé IV convention until 2008. However, new initiatives in the wake of the Cotonou Agreement threaten to negate the benefits that are anticipated by the ACP countries from the new agreement, particularly where the eight-year preparatory period for liberalisation of the European market is concerned. On the domestic side, producers in the industry are optimistic of the sector's ability to reduce cost from the present US$0.30 per pound of sugar to US$0.20 per pound by 2004. Beyond this, investments in the industry in 1999 in terms of new equipment, improved farm roads, and accelerated and improved planting schedules imply that the industry is poised to significantly increase its production and export volumes over the medium term. In the short run, however, the industry's production and exports are expected to be adversely affected by drought that affected the island during the planting season in 2000.

Export earnings from banana amounted to US$22.9 million in 2000, which was US$6.9 million or 23.2 per cent below the 1999 level. The lower earnings from banana in 2000 stemmed from reductions in both export price and volume. The average price per tonne of banana in 2000 was US$549.20, US$29.50, or 5.1 per cent below the average price in 1999. Prices were affected by the depreciation of the Euro vis-à-vis the US dollar. The export volume of bananas in 2000 amounted to 41.7 thousand tonnes, which was approximately 9 800 tonnes, or 19 per cent below the level exported in 1999. In addition to the effects of adverse weather conditions, inclusive of drought and wind damage, the contraction in the export volume of banana continued to reflect the impact of praedial larceny and the transitional effects of continuing removal of inefficient and unproductive fields from cultivation. Notwithstanding the decline in export price and volumes, there was marked improvement in the quality of exportable fruits as indicated by the

Percentage Units Weights Specification (P.U.W.S.), and hence the spot price per tonne of fruit exported. This improvement in the spot price served to offset some of the adverse effects of the depreciation of the Euro vis-à-vis the US dollar.

During the year, there was a continuation of the process started in the previous year to restructure and rationalise operations in the banana industry, in order to promote greater all-round efficiency and productivity. These adjustments came against the background of the WTO's ruling in favour of the US and against the EU, in relation to the existing banana regime, which gives preferences to former British and French colonies. The banana industry also received a pledge of Euro 26.5 million over the next five years, provided under the EU Banana Support Programme (EUBSP), to spur development in the industry.

The value of the other traditional category of exports expanded by US$7.5 million or 11.5 per cent to US$73.0 million in 2000. This growth principally reflected increased earnings from coffee exports, which expanded by US$8.4 million or 34 per cent to US$33.1 million. Improvements were registered in both export volumes and the average price of coffee. Compared with 1999, total coffee exports grew by 268 tonnes, or 18.3 per cent, to 1 733 tonnes, reflecting increased demand from Japan. Similarly, the average price per tonne of coffee rose by 13.2 per cent, as the export quality/grade of the coffee improved relative to 1999. Also reflecting significant improvements were citrus and gypsum exports, which recorded increased earnings of US$0.2 million, or 5.1 per cent, and US$1 million, or 87.6 per cent in 2000 relative to 1999, respectively. While export volumes for citrus fell relative to 1999, the price per tonne exported rose by 11.8 per cent in 2000. In conjunction with an increase in price, gypsum exports rose significantly by 75.6 per cent to approximately 275.7 thousand tonnes in 2000. The value of rum exports declined by 4.2 per cent in 2000, in the context of respective contractions of 0.2 per cent and 4 per cent in price and volume exported.

Earnings from the non-traditional export group rose by US$6.1 million, or 1.8 per cent, to US$344.3 million in 2000. Respective expansions of US$19.4 million and US$3.9 million in chemical and manufactured exports largely accounted for this increase. Partly countering this growth were contractions of US$12.2 million and US$15.8 million in miscellaneous manufactured exports and food exports, respectively. The growth in chemical exports reflected increased exports of ethanol and aluminum hydroxide, while manufactured goods exports benefited from increased sale of glass, doors and windows. The decline in miscellaneous manufactured exports was largely influenced by the garment sector as local operators continued to either scale down activities or withdraw from the sector. In the case of food exports, the drought, as well as export restrictions on selected food items, particularly yams, were the principal factors affecting sales.

Re-exports of US$39.8 million in 2000 were US$5.3 million more than in 1999. The data includes the re-export of machinery & equipment

by garment operators, who had terminated operations in Jamaica.

There was relative stability in the operations within the three freezones in 2000. Export earnings totalled approximately US$224 million for the year, similar to the estimated earnings of the industry in 1999. In conjunction with government initiatives aimed at stabilising the sector, the passing of the Caribbean Basin Initiative (CBI) Enhancement Bill by the US Congress may have served to defer the decision by some companies to pull out of the country in favour of lower cost jurisdictions. The Bill, which will ensure duty-free and quota-free access for apparel made in CBI countries from US-formed fabrics and US yarn, means that the Caribbean will enjoy access to the US apparel market similar to that enjoyed by Mexico under NAFTA.

Bunker supplies and other items procured in Jamaican ports by foreign carriers were valued at US$37.9 million in 2000, US$8.4 million higher than in 1999. The increase in 2000 largely reflected a higher value for fuel sold to foreign carriers, stemming from increases in fuel prices.

Imports

For 2000, total imports (c.i.f.) were valued at US$3 380.7 million, of which general merchandise imports amounted to US$3 200.1 million, while freezone imports and goods procured in foreign ports by the domestic carrier amounted to US$142.3 million and US$38.3 million, respectively. The out-turn for total imports represented an expansion of US$293.6 million or 9.5 per cent relative to 1999, reflecting increases of US$296.4 million and US$15.9 million in expenditure for general merchandise imports and bunker supplies, respectively. The growth in these two subcategories was partially offset by a decline of US$18.7 million in spending on freezone imports. Table 29 provides details on imports by economic functions for 2000 compared with 1999.

TABLE 29

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

	1999 1/	2000 2/	Change	% Change
TOTAL GENERAL EXPORTS	**2 903.7**	**3 200.1**	**296.4**	**10.2**
CONSUMER GOODS	**963.5**	**975.9**	**12.5**	**1.3**
Food	274.1	264.7	-9.4	-3.4
Other Non-Durables	313.4	324.6	11.1	3.6
Durables	375.9	386.6	10.7	2.9
(Of which motor car)	133.9	138.6	4.6	3.5
RAW MATERIAL	**1 471.0**	**1 713.2**	**242.2**	**16.5**
Fuels	379.8	593.6	213.8	56.3
Other Raw Material	1 091.1	1 119.5	28.4	2.6
CAPITAL GOODS	**469.3**	**511.0**	**41.7**	**8.9**
Transport & Equipment	86.6	111.4	24.8	28.6
(of which motor car)	3.6	8.3	4.7	129.6
Construction Materials	156.4	144.4	-11.9	-7.6
Other Machinery & Eqp.	220.0	245.5	25.5	11.6
Other Capital	6.3	9.7	3.4	54.2
FREEZONE	**161.0**	**142.3**	**-18.7**	**-11.6**
BUNKER SUPPLIES	**22.4**	**38.3**	**15.9**	**71.0**
GRAND TOTAL	**3 087.1**	**3 380.7**	**293.6**	**9.5**

1/ Revised
2/ Provisional

The expansion in the general merchandise imports category in 2000 was concentrated in the raw material category, which grew by US$242.2

million. Increased spending on consumer and capital goods imports of US$12.5 million and US$41.7 million, respectively, was also recorded for the year. As a consequence of these changes, the share of general merchandise imports accounted for by raw material imports increased to 53.5 per cent from 50.7 per cent, while the shares attributable to consumer and capital goods declined to 30.5 per cent and 16 per cent, respectively, from 33.2 per cent and 16.2 per cent in the previous year.

The growth in the value of raw material imports was largely influenced by a US$213.8 million or 56.3 per cent expansion in the value of fuel imports. The sharp rise in the fuel bill in 2000 was attributable to steep increases in international fuel prices relative to the previous year. The benchmark West Texas Intermediate (WTI) measure of oil prices averaged US$30.10 per barrel in 2000, representing an increase of approximately 56.3 per cent relative to the same measure recorded for 1999. The increase in fuel prices followed from the decision made by OPEC in 1999, to reduce supplies to the market, the effects of which persisted into 2000. In the context of the increase in oil prices over the year, the volume of fuel imported into the island is estimated to have fallen by 1.7 per cent in 2000, reflecting reduced demand for mining-related activities. Notwithstanding this reduction, it should be noted that non-mining related demand for fuel is estimated to have grown by 9.3 per cent.

Other raw material imports also grew by US$28.4 million or 3.2 per cent. Within this category, respective expansions of US$2.6 million, US$2.2 million and US$21.5 million were recorded in spending on imports of foods, industrial supplies and parts and accessories. A wide range of items comprised the increase in food imports, with the major elements being corn, cereals, cheese, wheat, and soybeans. This increase was, however, partially offset by a substantial reduction in the value of white rice imports which mirrored a fall in world prices for the staple in 2000, the second successive year of such a contraction. For industrial supplies, notable increases were recorded in, among others, imports of cement, steel bars, selected lubricants, garments and optical cables. The principal element affecting the expansion in parts and accessories was a growth in the value of imports of transmission equipment and radio receivers. The increased spending on selected imported building materials is an encouraging sign for the domestic construction sector in 2000, while the upturn in imports of telecommunications related items highlights the rapid development taking place in the communication sector.

Expenditure on imported consumer goods in 2000, valued at approximately US$975.9 million, reflected respective increases of US$11.2 m illion and US$10.7 million in the non-durable and durable subgroups, and was partially offset by a contraction of US$9.4 million in food imports. The growth in non-durable consumer goods mainly reflected increased imports of medicines, books and other pharmaceuticals, which was partially offset by reduced imports by the Informal

Commercial Importers (ICI's). The increase in the durables component was partly accounted for by an expansion in the value of motorcar imports.

The value of capital goods imports grew by US$41.7 million or 8.9 per cent to US$511 million in 2000. This growth was due to expansions of US$24.8 million in transport & equipment, and US$28.9 million in other machinery & equipment, However, aggregate imports of construction materials fell by US$112 million in 2000. Public sector capital projects, particularly in the area of road repair and construction, transportation, and security services, were the main factors underpinning the growth in spending on transport & equipment. In this context, very strong expansion was recorded in the value of heavy equipment, presumably for the purpose of the road projects that were undertaken in 2000. Beyond this, a large number of police cars and motor buses for the public transportation system were imported during the year. The main item accounting for the decline in imports of construction materials was prefabricated buildings, with partial offsetting increases in the value of cement and PVC pipe imports being recorded. Increased activity within the telecommunication sector was largely responsible for the expansion of imports of other machinery & equipment, reflected as increased spending on facsimile machines, cellular telephones, and other telephone and telegraphic equipment.

CARICOM

Jamaica's trade with the CARICOM region for 2000 compared with 1999 is presented in Table 30.

TABLE 30

CARICOM TRADE BY COUNTRY
(US$MN)

	1999 1/			2000 2/		
	Exports	Imports	Trade Balance	Exports	Imports	Trade Balance
Trinidad & Tobago	15.5	288.9	-273.4	21.5	322.9	-301.4
Guyana	3.1	29.1	-26.1	3.0	33.2	-30.2
Barbados	8.2	17.2	-9.0	7.8	16.5	-8.7
Dominica	1.6	13.9	-12.4	1.9	14.0	-12.1
Belize	2.8	5.9	-3.1	3.5	6.0	-2.4
Suriname	1.1	7.9	-6.8	1.0	6.7	-5.7
St. Vincent	1.2	2.0	-0.8	1.2	1.8	-0.6
Antigua	2.5	0.2	2.3	2.7	0.0	2.7
St. Lucia	2.9	0.1	2.8	2.5	0.0	2.5
Grenada	1.1	1.0	0.1	1.7	0.5	1.2
St. Kitts	1.9	0.0	1.9	1.5	0.0	1.5
Montserrat	0.2	0.0	0.2	0.4	0.0	0.4
TOTAL	**42.0**	**366.4**	**-324.4**	**48.6**	**401.6**	**-353.0**

1/ Revised

2/ Provisional

During 2000, total merchandise trade with the CARICOM region increased by US$41.8 million to US$450.2 million. As a consequence, the region's share of Jamaica's total trade increased to 9.2 per cent in 2000, from 8.9 per cent in 1999. The value of total exports to the region grew by US$6.6 million, or 15.7 per cent, to US$48.6 million, while total imports expanded by US$35.2 million, or 9.6 per cent, to US$401.6 million. Consequently, Jamaica's trade deficit with the region widened by US$28.6 million to US$353 million in 2000.

Trinidad and Tobago continued to be Jamaica's major regional trading partner in 2000. During the year, the Twin Island Republic consumed 44.2 per cent of Jamaica's total exports to the region, 7.3 percentage points more than in 1999, and supplied 80.4 per cent of its total imports from the region, up from the 78.9 per cent recorded in 1999. As a consequence, Jamaica's trade deficit with Trinidad and Tobago increased by US$28 million to US$301.4 million. Imports expanded by US$34 million to US$322.9 million, while exports grew by US$6 million to US$21.5 million. The expansion in imports was largely attributable to an increase of US$33.9 million, or 18 per cent, in the fuel bill, associated with the increases in international oil prices.

Guyana remained Jamaica's second largest trading partner in CARICOM in 2000, absorbing US$3 million or 6.1 per cent of Jamaica's total exports to the region, while supplying US$33.2 million or 8.3 per cent of its import demand. Exports to that country declined by US$0.1 million relative to 1999, but imports, which consisted mainly of shrimps and rice, increased by US$4 million. As a consequence, Jamaica's trade deficit with Guyana increased by US$4.1 million to US$30.2 million.

Although ranking third in terms of Jamaica's total regional trade, Barbados remained the second largest market for Jamaican exports in 2000. During the year, exports to Barbados, which declined by US$0.4 million to US$7.8 million, accounted for 16.0 per cent of total exports to the region. Imports from that country registered a larger decline of US$0.7 million to US$16.5 million, and were responsible for 4.1 per cent of Jamaica's total imports from the region. Consequently, Jamaica's trade deficit with Barbados narrowed by US$0.3 million to US$8.7 million in 2000.

Jamaica's trade deficit with Belize, Suriname, St. Vincent and Dominica also narrowed, while higher trade surpluses were recorded with Grenada, Montserrat and Antigua. The surpluses with St. Lucia and St. Kitts contracted in 2000. The major imports from these countries consisted of manufactured household products such as soaps, edible oils, as well as fish and shrimp, while the main export commodities to these markets include manufactured foods, drinks and household items.

Services

During 2000, net earnings from services of US$538.6 million was US$1.9 million below the figure recorded in the previous year. The marginal

deterioration in net earnings from services was influenced by respective expansions of US$55.7 million and US$17 million in net payments for other services and transportation, which was almost offset by a US$71.5 million increase in net reciepts from travel.

Transportation

The transportation sub-account recorded a net outflow of US$247.2 million in 2000 relative to US$229.5 million in 1999. An expansion of US$28.4 million to US$328.7 million in gross earnings from transportation services was more than offset by a US$46.1 million growth, to US$575.9 million, in gross transportation payments. The increase in gross transportation inflows stemmed from higher passenger fare receipts by the domestic carrier, while the higher payments resulted from an increase in freight and other transportation payments, with the former reflecting the increased volume of imports into the island over the year.

Travel

Net earnings from the travel sector amounted to US$1.12 billion in 2000 compared with US$1.05 billion in 1999. The gross spending of US$1.3 billion by visitors to Jamaica was US$53.0 million higher than the expenditures recorded in 1999, while gross payments as a result of Jamaicans travelling overseas, including expenditure by seasonal workers abroad (e.g., farm workers), fell by US$18.5 million to US$208.7 million in 2000.

The increase in gross earnings from tourism activities in 2000, relative to 1999, reflected a 10.7 per cent expansion in total visitor arrivals. This was, however, counteracted by a marginal decline in the average length of stay of visitors in the stop-over category. For 2000, approximately 2.2 million people visited the island, 216 495 more than the number that visited in 1999. The cruise passenger category, which grew by 18.5 per cent to 909 075, accounted for 40.7 per cent of total arrivals, while stop-over arrivals increased by 6 per cent to approximately 1.3 million, and accounted for 59.3 per cent of total arrivals.

During 2000, the cruise-shipping sector benefited from increased efforts at containing the negative effects of visitor harassment in the major ports of call. In addition, six cruise ships with 15.5 thousand passengers made unexpected calls to the port of Ocho Rios in August, due to the threat of a hurricane in the Eastern Caribbean. Within the stop-over group, the number of foreign nationals increased by 6.3 per cent to 1.22 million, with the number of long-stay visitors increasing by 6.2 per cent to 1.15 million, and the number of short-stay visitors growing by 8.1 per cent to 67 629. Non-resident Jamaican stop-overs increased by 2.1 per cent to 103 379 in 2000. Table 31 provides a breakdown of visitor arrivals and expenditures for 2000 compared with 1999.

For 2000, the total number of stop-over visitors from the US increased by 9.3 per cent. This market continued to be the largest source of tourists to Jamaica, accounting for approximately 71 per

cent of total stop-over visitors in 2000. Stop-over arrivals from the UK, Jamaica's second largest tourist market, increased by 7.1 per cent and accounted for 10.6 per cent of total stop-over visitors, relative to its 10.5 percentage market share in the previous year. Canada, which is Jamaica's third largest visitor source, also registered growth of 7.5 per cent in stop-over arrivals in 2000 and had a market share of 8 per cent relative to 7.9 per cent in 1999. However, visitor arrivals from Germany and other European countries, comprising Italy, France and Spain, fell by 49.7 per cent in 2000, causing the share of the market accounted for by these sources to shrink to 5.2 per cent from 7.3 per cent in 1999. Arrivals from Japan showed a decline of 7.7 per cent, albeit a much slower rate when compared with the 28.5 per cent fall-off recorded in 1999.

TABLE 31

VISITOR ARRIVAL STATISTICS

	1999 1/	2000 2/	% Change
Total Stop-overs	**1 248 397**	**1 322 690**	**6.0**
Foreign National Stop-overs	1 147 135	1 219 311	6.3
Long-stay	1 084 553	1 551 682	6.2
Short-stay	62 582	67 629	8.1
Non-resident Jamaican stop-overs	101 262	103 379	2.1
Cruise Passengers	**764 341**	**909 075**	**18.5**
Total Tourists	**2 012 738**	**2 230 301**	**10.8**
Armed Forces	**2 532**	**0**	**-100.0**
Total Visitors	**2 015 270**	**2 231 765**	**10.7**
Gross Estimated Expenditure (US$M)	**1 279.6**	**1 332.6**	**4.1**

1/ Revised
2/ Provisional
Source: Jamaica Tourist Baord

The tourism sector continued to be affected by variable perceptions of the Jamaican product in 2000. Additionally, concerns about the potential effect of the Y2K problem and the consequent limitations placed on vacations had a lagged effect on international travel in the first quarter of the year. Jamaica, however, benefited from the combined aggressive marketing efforts of the private and public sectors to promote the tourism product and new accommodation facilities that came on stream during the year. In addition, new gateways and additional flights by the national carrier, a successful Spring Break season, holding of the JAPEX trade show in Kingston, and the continued economic growth in the main source markets boosted arrivals to the country.

Other Services

The other services sub-account recorded a deficit of US$338.1 million in 2000, which was US$55.7 million higher than the deficit in 1999. Although there was an expansion of US$19.4 million to US$288.2 million in gross inflows, this was negated by an increase of US$75.1 million in gross payments to US$626.3 million.

The main improvement in inflows came from the government sector, which saw an expansion of US$8.4 million in earnings to US$37.6 million. Marginal improvements were also recorded in earnings for all other services, the primary ones being financial services and personal, cultural, and

recreational services. Earnings from the communication sector continued to account for the largest source of inflows in the other services sub-account, representing 51.5 per cent of total earnings in the year, relative to 50.8 per cent in 1999. On the payments side, while increases were recorded for all the components except insurance and government services, more significant expansions were recorded in payments for financial services, and other business services, which include travel commissions. The US$14 million increase in payments for financial services was partly attributable to financial charges on GOJ Eurobond issues.

Income

During 2000, the income account recorded a deficit of US$336.0 million, compared with a deficit of US$332.5 million in 1999. Net inflows for compensation to employees fell by US$2.9 million to US$67.4 million, while a slight increase of US$0.6 million to US$403.4 million in net investment income payments was recorded.

Inflows representing compensation to Jamaicans for work performed on behalf of foreigners while abroad declined by US$5.8 million to US$88.2 million. Payments to non-residents for work performed while staying in Jamaica also declined by US$2.9 million to US$20.8 million for the period.

The slight deterioration in the investment income sub-account was attributable to an expansion of US$33.3 million in gross payments to US$507.9 million, which exceeded the improvement of US$32.7 million in gross inflows. The improvement in gross income inflows partly reflected growth in interest earnings on foreign assets held by the BOJ and private sector, which occurred in the context of a substantial increase in these foreign assets in 2000. On the payment side, the higher level of spending was due to an improvement of US$47.6 million in the imputed profit position of the foreign owned companies, particularly those in the mining sector. As noted earlier, price increases during the year improved the profitability of the mining sector. Partly countering the effect of this increase in investment income outflows was a US$13.5 million contraction in other payments, reflecting a reduction of US$16.6 million in central government's interest payment on its foreign debt.

Current Transfers

Net inflows of current transfers increased to US$813.0 million in 2000, from US$652.7 million in the previous year. This was due to respective expansions of US$102.1 million and US$58.7 million in net inflows to the public and private sectors. Table 32 shows a breakdown of the current transfers inflows and outflows by sector for 2000 compared with 1999.

Gross inflows to the private sector increased by US$97.2 million to US$806.5 million, partly offset by an increase of US$38.5 million to US$141.4 million in gross private sector outflows. The remittance companies continued to account for the largest share of inflows in 2000, acting as a conduit for 55.4 per cent of inward bound

TABLE 32

CURRENT TRANSFERS
(US$M)

	1999 1/	2000 2/	Change
Total Receipts	**762.8**	**961.6**	**198.8**
General Government	53.5	155.1	101.6
Private Sector	709.3	806.5	97.2
Postal System	1.2	1.2	0.0
Financial System	326.2	334.5	8.3
Remittance Companies	358.5	446.0	87.5
Other	23.4	24.8	1.4
Total Payments	**110.6**	**148.6**	**38.0**
General Government	7.7	7.2	-0.5
Private Sector	102.9	141.4	38.5
Financial System	95.8	131.2	35.4
Other	7.1	10.2	3.1
Net Current Transfers	**652.2**	**813.0**	**160.8**

1/ Revised
2/ Provisional
Source: Jamaica Tourist Baord

remittances, compared with financial institutions' share of 41.5 per cent and 3.1 per cent for other sources. For the previous year, approximately 50.1 per cent of total inflows were channelled through the remittance companies, while 46.4 per cent and 3.5 per cent were channelled through the financial system and other sources, respectively. Inflows through the remittance companies during 2000 amounted to US$446 million, representing a growth of US$87.5 million. In comparison, the financial system facilitated inflows of US$334.5 million, which reflected growth of US$8.3 million for the year.

The level of inflows to the government sector grew by US$101.6 million to US$155.1 million in 2000, while outflows of US$7.2 million, were US$0.5 million below the 1999 figure. The large expansion in inflows reflected the receipt of payments for two licences to operate mobile telephone services in Jamaica.

Capital and Financial

The capital and financial accounts recorded respective surpluses of US$2.2 million and US$335.7 million in 2000. The balance on the capital account represented an increase of US$13.1 million when compared with the 1999 out-turn, and was ascribable to higher capital grant inflows for the government. The performance on the financial account represented an increase of US$51.3 million when compared with the previous year, influenced by a substantial increase in the net inflows on official investment transactions.

Within the financial account, other official investments recorded net inflows of US$395.8 million relative to net outflows of US$331.4 million in the previous year. Gross investment inflows to the sector grew by US$631.7 million in 2000 to US$679.8 million, while gross official payments of US$284 million were US$95.5 million lower than in 1999. The higher level of gross inflows in 2000 relative to 1999 reflected the government's receipt of US$162.5 million in loans from multilateral lending agencies, and US$425 million from Euro-bond placements. Loans from the multilateral agencies represented the first tranche of assistance aimed at resuscitating the financial sector, and was comprised of US$75 million from the World Bank, US$75 million from the Inter-

TABLE 33

OTHER OFFICIAL INVESTMENT FLOWS US$M	1999 1/	2000 2/	Change
Gross Official Inflows	**48.1**	**679.8**	**631.7**
Donor Countries	0.0	0.0	0.0
Multilateral Institutions	0.0	162.5	162.5
Other Assistance	0.0	455.5	455.5
Project Loan	48.1	61.8	13.7
Gross Official Outflows	**379.5**	**284.0**	**-95.5**
Government Direct	370.4	280.5	-89.9
Bank of Jamaica	9.1	3.5	-5.6
Net Official Investments	**-331.4**	**395.8**	**727.2**

1/ Revised
2/ Provisional

American Development Bank (IDB), and US$12.5 million from the CDB. Project loans during 2000 were US$13.7 million more than in 1999. Table 33 gives a breakdown of other official investments for 2000 compared with 1999.

The level of net private financial investments fell by US$19.3 million to US$462.9 million in 2000. The private sector surplus, taken in conjunction with the other surpluses recorded in the capital and financial accounts, was more than sufficient to cover the current account deficit. Consequently, the NIR of the country grew by US$523.0 million to US$974.0 million at the end of 2000.

Table 34 provides information on the country's foreign reserves at the end of 2000 compared with the end of 1999.

The increase in the NIR reflected an expansion of US$500 million in BOJ's gross foreign holdings. In addition, the increase was facilitated by a reduction of US$23.1 million to US$82.8 million in the country's gross foreign liabilities. At the end of December 2000, the level of gross reserves stood at US$1 056.8 million, representing approximately 19.0 weeks of goods imports, or 12.7 weeks of imports of goods and services.

TABLE 34

FOREIGN EXCHANGE RESERVES US$M	1999 1/	2000 2/	Change
Gross foreign Assets	**556.9**	**1 038.7**	**481.8**
Bank of Jamaica	552.2	1 034.8	482.6
Central Government	1.5	0.8	-0.7
Other official Institutions	3.2	3.1	-0.1
Gross Foreign Liabilities	**105.9**	**82.8**	**-23.1**
Net International Reserves	**451.0**	**955.9**	**504.9**

1/ Revised
2/ Provisional

Foreign Exchange Management

Foreign Exchange Receipts and Payments

For 2000, total foreign exchange inflows to the BOJ were US$1 828.8 million, an increase of US$848.8 million over the 1999 inflows. Table 35 provides a breakdown by source.

BOJ's purchase of the GOJ loan proceeds represented the single largest item of inflow during 2000. This amounted to US$793.6 million, an increase of US$749.0 million over 1999 and reflects the strong presence of the Government in both the local and international capital markets

TABLE 35

SOURCES OF FOREIGN EXCHANGE
US$M

	1999 1/	2000	Change
Exports & Services	**628.6**	**778.4**	**149.8**
Bauxite Receipts	263.5	245.4	-18.1
Direct Purchases	365.1	533.0	168.0
- authorised dealers	91.4	118.1	26.7
- exchange bureaux	85.1	228.4	143.3
- other	188.6	186.5	-2.1
Prudential Reserves	**41.9**	**29.4**	**-12.5**
Purchase of GOJ Loan Proceeds	**44.6**	**793.6**	**749.0**
- bond	41.6	596.2	554.6
- other loans	3.1	197.4	194.3
Divestment	**48.5**	**19.3**	**-29.3**
Bauxite Prepayment	**99.7**	**0**	**-99.7**
Sale of Cellular licences	**0.0**	**92.6**	**92.6**
Other Receipts	**116.8**	**115.6**	**-1.2**
Total Cash Inflow	**980.1**	**1 828.8**	**848.8**

1/ Revised

during the year. The GOJ had not accessed the international capital market since mid-1998.

The bond proceeds of US$596.2 million in the review year reflected the GOJ's successful issue of five bonds; two internationally and three locally. In February 2000, Jamaica became the first Caribbean nation to sell bonds denominated in Europe's single currency, the euro. The GOJ issued a three-year 200 million euro bond with a 10 per cent coupon rate.

In August 2000, taking advantage of a lull in foreign currency issues by emerging market borrowers, the GOJ returned to the international bond market and issued a US$225 million seven-year bond with a coupon of 12.75 per cent. Additionally, the GOJ also tapped the domestic bond market where three US dollar-denominated bonds were placed through Citibank N.A. The first two, in March 2000, raised US$105 million and the proceeds from the third, in July grossed US$77.9 million. Among the loans received by the Government during the year were US$12.5 million from the CDB and US$75 million each from the IDB and the World Bank. These loans were for the purpose of repaying FINSAC debt.

The Central Bank purchased US$168 million more from the market in 2000 than in 1999. A total of US$228.4 million was purchased from cambios, US$143.3 million more than the previous year. The increase in Cambio purchases not only reflected the buoyancy of the foreign exchange market, but also the fact that in November 1999 the upper limit for sales by this group to BOJ was removed. Purchases from authorised dealers in 2000 totalled US$118.1 million, US$26.7 million more than in 1999.

Inflows to the BOJ from the bauxite sector in the form of production levy, royalties and funds to cover local costs declined by US$18.1 million or 6.9 per cent over 1999. The US dollar requirement to run the operations of the bauxite companies, declined in the context of a 9 per cent depreciation in the Jamaica dollar *vis-à-vis* the US dollar over the review year.

Inflows in respect of prudential reserves requirement were lower by US$12.5 million in 2000 as a result of the gradual reduction of the cash reserve ratio from 16 per cent at end-1999 to 13 per cent by September 2000.

TABLE 36

USES OF FOREIGN EXCHANGE US$M	1999 1/	2000	Change
Public Debt	675.2	689.0	13.8
Direct Sales	273.9	472.3	198.4
Other Payments	185.8	170.5	-15.3
Total Cash Outflow	**1 134.9**	**1 331.8**	**196.9**
Change in Gross Foreign Assets	**-154.8**	**497.0**	

1/ Revised

Table 36 provides a breakdown of the use of BOJ's foreign exchange during 1999 and 2000. Total cash outflows amounted to US$1 331.8 million, US$196.9 million or 17.4 per cent more than in 1999. The major part of this increase in outflows was due to higher sales to the market by the BOJ of US$472.3 million. This amount represented an increase of US$198.4 million over 1999 and was reflective of the increased demand pressures throughout the review year.

Bank of Jamaica International Reserves

The BOJ's NIR increased significantly by US$519.3 million to US$969.5 million in 2000. The overall change in the NIR resulted from the combination of a large increase in gross foreign assets of US$497 million and a reduction in foreign liabilities of US$22.3 million.

The NIR increased by US$253.3 million, US$53.0 million, US$179.0 million and US$34.0 million in Q1 to Q4, respectively. The significant increases in Q1 and Q3 reflect the Bank's purchase of the

TABLE 37

NET INTERNATIONAL RESERVES (NIR) US$M	1999 Dec	2000 Mar	June	Sept	Dec	Annual Change
NR	450.2	703.5	756.5	935.5	969.5	519.3
Foreign Assets	551.8	801.3	848.4	1 022.1	1 048.8	497.0
Foreign Liabilities	101.6	97.8	91.9	86.7	79.3	-22.3

Government's global bond proceeds from its debt issues in February and August.

Gross foreign assets (GFA) for the year were maintained at an average level of US$870 million, and at the end of August 2000, exceeded US$1 billion for the first time. GFA declined over the ensuing months but, with inflows from the GOJ bond proceeds and significant purchases from the foreign exchange market in December, foreign assets once again surpassed the US$1 billion mark, reaching US$1 048.8 million at the end of the review year.

The reduction in foreign liabilities in 2000 was due largely to scheduled quarterly repayments of obligations to the IMF and to a lesser extent, a revaluation of these obligations to reflect movements in Special Drawing Rights (SDR) rates. SDR rates moved from SDR1.00=US$1.37609 at the end of 1999 to SDR1.00=US$1.30291 at end-December 2000.

Reserve Management
Foreign Assets

The BOJ's total foreign assets amounted to US$1 048.8 million at the end of 2000 as against

US$551.8 million at the end of 1999, an increase of US$497.0 million (90.1 per cent).

During the first and third quarters the level of GFA was augmented with inflows of funds from both the GOJ's Eurobond issues and other loan flows. This set the pace for a steady build up of assets which continued to the fourth quarter, notwithstanding intervention sales of US$472.3 million in the foreign exchange market by the BOJ over the period.

Asset Composition

During 2000 the sustained strength of the US economy influenced the maintenance of a substantial position in United States dollar investments. With the issue of GOJ euro denominated bonds in February and positive growth outlook for the Eurozone, the BOJ diversified its currency holdings by increasing the level of euros held in reserve. Table 38 provides a comparison of the distribution of total foreign assets by currency, at 31 December 1999 and 2000.

TABLE 38

BANK OF JAMAICA
COMPOSITION OF FOREIGN ASSETS
AT 31 DECEMBER

	AMOUNT		US$EQUIV		% SHARE	
	1999	2000	1999	2000	1999	2000
US$	522.12	951.28	522.12	951.28	94.62	90.70
Euro	10.85	93.47	10.93	87.75	1.98	8.37
British Pound	4.86	2.27	7.82	3.39	1.42	0.32
Canadian $	3.44	3.75	2.39	2.50	0.43	0.24
Yen	208.41	161.98	2.04	1.42	0.37	0.14
Other	-	-	6.50	2.45	1.18	0.23
Total Foreign Assets			**551.80**	**1 048.79**	**100.00**	**100.00**

Investment Activities

The BOJ's reserve management strategy is formulated against its stated objectives of adequate levels of liquidity, capital preservation, maintenance of high asset quality and returns. Investments were concentrated in US dollar denominated instruments which reflected the strength of the US dollar throughout the year. Investment instruments such as US Agency Bonds and Eurodollar deposits were predominantly utilised.

During 2000 investments were structured to maximise on interest rate movements and the consequent effect on the level and shape of the US Treasury yield curve. An inverted yield curve throughout most of the year dictated a disproportionately high short-term position in order to reap the benefits of the higher short-term interest rates. Thus, the decision taken in the previous year to shorten the portfolio's duration, was maintained throughout 2000.

The one-month Euro LIBID rate increased by approximately 85 basis points during the review period closing at 6.51 per cent per annum compared to the three-month LIBID which closed at 6.28 per cent per annum, rising only 37 basis points.

Table 39 provides a comparison of the distribution by asset class of the country's total foreign assets at 31 December 1999 and 2000.

TABLE 39

TOTAL FOREIGN ASSETS BY ASSET CLASS AT 31 DECEMBER				
	1999		2000	
Holdings	**US$M**	**%**	**US$M**	**%**
Eurodollar Deposits	181.2	32.8	538.7	51.40
US Agency Bond	193.7	35.1	187.9	17.9
Multi-Currency Fund	35.3	6.4	36.2	3.4
Cash (Federal Reserve Bank)	102.7	18.6	254.9	24.3
Other Balances Held Abroad	38.9	7.1	31.1	3.0
Total	**551.8**	**100.0**	**1 048.8**	**100.0**

Foreign Investment Income

BOJ's foreign investment income detailed according to earnings by asset class is provided in Table 40. Federal Funds interest rates in 2000 of approximately 100 basis points above comparable 1999 levels, combined with a 90.1 per cent point-to-point increase in total foreign assets resulted in a 21.9 per cent increase in income.

Income earned in 2000 amounted to US$47.8 million, an increase of US$14.7 million compared to income of US$ 33.1 million earned in 1999.

TABLE 40

FOREIGN INVESTMENT INCOME AS AT 31 DECEMBER				
	1999		2000	
Holdings	**US$M**	**%**	**US$M**	**%**
Eurodollar Deposits	16.5	49.8	25.9	54.2
US Government Agency Bonds	10.3	31.1	11.3	23.6
Mortgage Backed Securities	0.3	0.9	-	-
Multi-Currency Fund	2.3	6.9	2.2	4.6
Other	3.7	11.3	8.4	17.6
Total	**33.1**	**100.0**	**47.8**	**100.0**

The Foreign Exchange Market

The BOJ remained committed to maintaining stable conditions in the foreign exchange market throughout 2000. Despite the buoyant flows as evidenced by the significantly higher volumes traded during each quarter, foreign exchange market pressures were sustained in the last quarter of the year, necessitating sales by the Bank. At 31 December 2000, the weighted average selling rate of US$1.00 = J$45.53 represented a point-to-point depreciation of 9.03 per cent when compared to US$1.00 = J$41.42 as at 31 December 1999. For 1999, the weighted average selling rate had depreciated by 10.3 per cent.

Foreign exchange purchases and sales reported by authorised foreign exchange dealers in 2000 were significantly higher than in 1999, with purchases reflecting an increase of 27.1 per cent and sales an increase of 26.6 per cent. Increased sales by the BOJ contributed to the higher volumes reported in the review year. However, volumes traded, exclusive of BOJ's interventionary sales, showed increases of 20.5 per cent and 20.1 per cent for purchases and sales respectively, reflective of the increased market activity during the period.

The major factors contributing to market pressures were:

- The public's misperception that the IMF Staff Monitored Programme (SMP) constrained the Bank from intervening in

the foreign exchange market and that a sharp depreciation of the local currency was imminent.

- The strong and sustained demand for US dollars in order to access the GOJ's several issues of hard currency instruments, in particular the GOJ Eurobond offer which closed on 31 August. Local investor demand for the Eurobond fuelled aggressive secondary market trading and because the bond was so attractively priced it allowed multiple levels of profit-taking while still giving the final investor a competitive yield.

Strong investor demand for the Eurobond influenced a 5.2 per cent depreciation during the third quarter from US$1.00 = J$42.51 to US$1.00 = J$44.83 and contributed to a further 1.5 per cent depreciation in the exchange rate in the fourth quarter.

Purchases and sales for 2000 and comparative data for 1999 are presented in Table 41.

TABLE 41

PURCHASES AND SALES OF FOREIGN EXCHANGE 1/

Quarter	Purchases		Sales	
Q	1999	2000	1999	2000
1	493.1	662.7	490.5	676.8
2	509.0	645.0	535.3	645.8
3	580.5	737.0	593.9	738.3
4*	588.1	990.8	587.6	1 006.2
Total	**2 170.7**	**3 035.5**	**2 207.3**	**3 067.1**

1/ Includes BOJ Intervention

** Fourth quarter volumes for 2000 include cambio transactions.*

The BOJ implemented its new electronic front-end system, e-Gate, for the reporting of foreign currency information on 27 November 2000. The transactions of both cambios and authorised dealers are now reported daily, whereas previously the published data reflected the transactions of authorised dealers only. Purchases and sales for the fourth quarter, if restated to exclude cambio trades, were US$713.2 million and US$732.5 million, respectively.

Cambios

In the year 2000, the single most important development affecting cambio operations was the implementation of e-Gate. Previously, cambios reported transactions to the Central Bank on a weekly basis through the submission of written summary reports. The official foreign exchange trading data which the BOJ publishes now reflect the transactions of both cambios and authorised dealers, on a daily basis.

Throughout the year, the Central Bank continued to supervise cambios through its semi-annual on-site inspections and in-house monitoring system in order to ensure compliance with the Bank's operating guidelines. In the wake of significant amendments to the Money Laundering Act in 1999, the Central Bank in its regulatory capacity issued Guidance Notes on Money Laundering to all its licensees inclusive of cambios, in July 2000. The Guidance Notes served to formally advise the Bank's licensees on the minimum standards and requirements necessary to give effect to the provision of the Money Laundering legislation.

During the year, processing of applicants under the enhanced fit and proper criteria continued. A 'Fit and Proper Assessment' is conducted for directors, shareholders with a holding of 10 per cent or more and managers of the respective cambios. This is an on-going process that is conducted when new cambios are approved or when there is a change in the relevant personnel or status of an existing licensee. The Bank's internal committee assessed a total of 60 persons during 2000.

Status of Cambio Licences

The number of cambios increased from 128 at 31 December 1999 to 138 at 31 December 2000. However, the number of entities moved from 74 at the end of 1999 to 73 at the end of 2000. During the year, 15 new cambios were approved, 2 ceased operations temporarily and 5 were closed permanently. The basis on which approvals are granted to new cambios was amended during the year. Two cambios were closed temporarily due to relocation exercises in one instance and upgrading of facilities in the other. Of the five cambios closed during the year, three were voluntary closures, while the licences of the other two were revoked due to failure to comply with the Bank's operating guidelines.

Table 42 provides comparative data on the status of Cambio licenses.

TABLE 42

STATUS OF CAMBIO LICENCES
AS AT 31 DECEMBER

	1999	2000
Applications Received	21	45
Applications Approved	4	15
Applications Pending	8	8
Cambios Closed	6	5
Cambios not in operation	0	2
Cambios resuming operation	7	0
Cambios in operation	128	136
Total Cambios Licensed	128	138
Number of Entities	74	73

Production and Prices

Production

TABLE 43

SECTORAL CONTRIBUTION TO GROWTH
CALENDAR YEAR 2000

	Estimated Impact on Growth
1. GOODS	negative
Agriculture Forestry & Fishing	negative
Mining & Quarrying	negative
Manufacturing	positive
Construction & Installation	positive
2. SERVICES	positive
Basic Services	positive
Electricity & Water	positive
Transport Storage & Communication	positive
Other Services	positive
Distributive Trade (Wholesale & Retail)	positive
Financing & Insurance Services	positive
Real Estate & Business Services	positive
Producers of Government Services	negative
Miscellaneous Services	positive
Households & Private Non-Profit Instit.	negative
3. IMPUTED SERVICE CHARGES	positive
TOTAL GDP	positive

The Jamaican economy grew by 0.8 per cent in 2000. Sectorally, growth is estimated in the manufacturing and construction sectors while the mining and quarrying and agriculture sectors declined over the review period. Although the estimated growth in manufacturing was stronger than previously expected, the overall output of the goods producing sector is estimated to have declined. This was influenced primarily by a significant decline in agriculture and a modest contraction in the mining and quarrying sector. Within the services sector, basic services which is comprised of the electricity, water and transportation sub-sectors, grew by 6.7 percent in 2000. In addition, the tourism sector is estimated to have grown, given significant movements in its indicators relative to 1999. The financial services sector continued to perform well over the period as the sector benefited from continued restructuring and consolidation.

The agricultural sector contracted by 11.2 percent in 2000. This was due to the effects of adverse weather conditions experienced in the island over the last two years. Flooding in some parishes in late 1999 followed by severe drought conditions in the first half of 2000 year constrained the output of the sector. This contributed to a lower rate of replanting, which was aggravated by the increased costs of planting materials.

The Planning Institute of Jamaica's (PIOJ) Agricultural Production Index (API) decreased by 11.8 per cent during the year compared with an increase of 2.9 per cent in 1999. The index suggests declines in the sector for the first three quarters of the year with the largest decline of 24.9 per cent recorded in the second quarter. The index grew marginally in the fourth quarter to 0.1 per cent, reflecting noticeable amelioration of the adverse weather conditions.

In terms of the components of the API, domestic agriculture, the largest sub-sector, recorded a significant contraction of 16.5 per cent for the year with the most significant contraction registered in the second quarter. Subsequent quarters showed a deceleration in the rate of decline.

An analysis of the main food groups within domestic agriculture all revealed a decline in production relative to the previous year. The Ministry of Agriculture's comparative estimates of domestic crop production showed that there were declines in yams, legumes, other tubers and vegetables of 24.5 per cent, 23.5 per cent, 23.8 per cent and 12.9 per cent, respectively. Other food groups such as fruits, condiments and cereals had respective reductions of 11.8 per cent, 11.1 per cent and 17.7 per cent.

The export agriculture sub-sector also showed an overall decline for the year. Within the API, the export agriculture index fell by 4.2 per cent, largely reflected in reductions of 37.6 per cent and 24.7 per cent in the second and third quarters, respectively. The major contributors to the estimated decline for the year were respective contractions of 5.0 per cent, 19.2 per cent and 12.4 per cent in the export volumes of sugar, banana and citrus. Partly offsetting these declines was a significant increase of 26.5 per cent in the volume of coffee exported relative to the previous year.

For sugar, total exports in 2000 amounted to 169 thousand tonnes, a 4.9 per cent decrease compared to the 177.7 thousand tonnes exported in 1999. This was due mainly to the fact that less sugar was exported to the United States. Sugar production of 210.4 thousand tonnes in 2000 was almost in line with the 211 thousand tonnes produced in 1999. This production level was achieved despite a decline in the volume of sugarcane reaped as the amount of cane used to produce one tonne of sugar had declined. The improvement in production resulted from improved efficiency at the factories and the relatively dry conditions which provided favourable harvesting conditions which enhanced the sucrose content of the cane.

The volume of bananas exported fell by 8.5 thousand tonnes to 43 thousand tonnes in 2000. The contraction in the volume of bananas exported reflected in part adverse weather conditions from the combined effect of severe wind damage in the first quarter of the year and drought conditions. Total output was also affected by the closure of two large farms as the industry continued to adjust to the changing external environment.

The mining sector is estimated to have declined in 2000 by 1.6 per cent. Despite record production of alumina, bauxite production continued to be depressed. During the year alumina production increased to 3.60 million tonnes, an increase of 0.9 per cent when compared with the 3.57 million tonnes recorded in 1999. Export volumes also increased marginally by 1.3 per cent to 3.64 million tonnes in 2000. The record level of production of alumina occurred as the industry continued to raise productivity through increased

efficiency, stability at the workplace and increases in capacity.

Total bauxite production declined by 4.9 per cent while export volumes decreased by 26.2 per cent. The sector continued to suffer from a loss of processing capacity for Jamaican bauxite, due to a major accident at the Gramercy refinery in the United States in 1999. This refinery usually takes approximately 60 per cent of the country's bauxite exports. However, with the partial reopening of the refinery and the resumption of shipment to the facility in October 2000, bauxite exports for the fourth quarter of the year increased by 40.9 per cent.

Following on five consecutive years of decline, some of the leading indicators of the manufacturing sector suggest some recovery performance in 2000. Manufacturing exports expanded by an estimated 22 per cent relative to 1999. Another indicator, non-fuel raw material imports, expanded by 4 per cent. An examination of some of the major categories of manufacturing as captured by the PIOJ's preliminary production survey for 2000, indicated growth in Petroleum Products (66.1 per cent), Food Processing (0.8 per cent) and Beverages and Tobacco (4.4 per cent). Partly offsetting these increases were reductions in Chemical and Chemical Products (4.7 per cent) and Non-Mineral Materials (0.4 per cent).

The significant increase in petroleum products was influenced by the strong growth in the first quarter reflecting a full resumption of production as the refinery had instituted a cutback in production in the corresponding period of 1999 to facilitate plant maintenance and inventory management. Production in the second and third quarters also registered strong growth over the corresponding period of 1999 while marginal growth was estimated in the fourth quarter.

The food processing sector is estimated to have grown by 2.2 per cent in the first half of the year but this was almost offset by a 1.7 per cent decline in the second half of the year. Among the items that increased were sugar, poultry meat and animal feeds, while items such as edible fats, condensed milk and molasses reflected a decline relative to the previous year.

The growth in the beverage and tobacco sub-sector was influenced by a significant increase in the production of non-alcoholic beverages. This increase followed extensive retooling and re-engineering by the major non-alcoholic beverage producers. In particular, the on-going renovation at the Desnoes & Geddes plant in terms of upgrading production and packaging lines, contributed significantly to the estimated growth in the non-alcoholic beverages category. The production of alcoholic beverages was also estimated to have increased in 2000 relative to 1999. Partly offsetting these expansions were declines in rum and alcohol and cigarette and cigars.

The non-metallic sub-sector was assessed to have recorded a positive out-turn in 2000, based primarily on the gain in the production of cement,

which expanded by 3.5 per cent relative to 1999. This occurred despite a decline of 18.2 per cent in the second quarter. This was due to scheduled maintenance at the plant followed by an unplanned stoppage due to mechanical failure of a kiln.

The construction sector grew by a marginal 0.2 per cent in 2000. This occurred in the context of mixed signals in the movements of key indicators of the construction sector in 2000. Whereas cement sales increased by 7.8 per cent, importation of construction materials is estimated to have declined by 4.4 per cent relative to 1999. Despite the fall in other construction imports, the importation of cement, a major item in the sector, registered an increase. In addition, asphalt production is estimated to have improved considerably, while sales declined relative to 1999. Significant investments by the public sector within the construction and installation sector should also have contributed to growth in the sector in 2000. Several Government infrastructural projects as well as various installations by the public utilities were undertaken in 2000 and therefore provided a growth impetus for the sector.

The services sector which grew by 4.4 per cent contributed to the positive out-turn in 2000. In the area of basic services, estimates suggest that there was a continuation of the buoyancy that has been exhibited in the sector over recent years. The electricity and water sub-sector grew by 3.3 per cent in 2000, a slower rate of growth than recorded in the past four years. This was due to growth of 6.7 per cent in the electricity, light and power sub-sector being partly offset by a decline of 9.8 per cent in the production of water. The decline in water services occurred in the context of the drought experienced in the year. The transport storage and communication sub-sector is also estimated to have grown, given expansion in some of the main indicators. Within the communication sub-sector, Cable & Wireless Jamaica Limited embarked on an extensive renovation programme to upgrade and increase the volume of services and range of products offered to compete effectively with new entrants expected in 2001. For the distribution sector, an estimated increase of 7.6 per cent in merchandise imports indicated an expansion in the sector.

As indicated by the performance of the tourism sub-sector, the miscellaneous services sector is estimated to have grown by 5.3 per cent in 2000. Visitor arrivals and expenditure increased by 10.8 per cent and 6.3 per cent, respectively, when compared to 1999. An increase in average spending per person accounted for the higher level of expenditure in 2000, as there was a decrease in the average length of stay of visitors. The growth in visitors arrivals was spread across all categories with a noticeable increase in cruise passengers. Cruise passenger arrivals expanded in light of larger and additional vessels making calls at Jamaican ports. The country also benefited from an unanticipated diversion of ships from the Eastern Caribbean to Jamaica due to poor weather conditions in that region.

In the area of financial services, the sector expanded by over 10 per cent in 2000 relative to 1999. This occurred in the context of the continued restructuring of the intervened financial institutions, coupled with improvements in the indicators of asset quality, capital adequacy and profitability of the commercial bank sub-sector. The insurance sub-sector is estimated to have grown given the injection of new capital and the internal restructuring of a number of companies. Countering this positive outlook for the financial sector however, was a decline in the contribution of merchant banks and building societies. The out-turn for the merchant banks and building societies was against the background of declining income from investments coupled with slow growth in loan demand and the closure of some merchant banks.

Outlook

The maintenance of macroeconomic stability that engenders low inflation and a stable currency, supported by continued fiscal restraints augurs well for sustained reduction in interest rates. This environment should enhance growth in 2001. In addition, the improvement in the country's outlook by Standard and Poor's should enable the government to borrow on the international capital market at attractive rates, thereby reducing reliance on the domestic market. This would help to attain a lowering in the cost of credit to the private sector thereby enhancing the feasibility of more investment projects.

On a sectoral assessment, positive performances are expected in basic services, agriculture, mining, distribution and the financial sectors in 2001. The basic services sector should continue to reflect growth particularly with the recent privatisation of the electricity industry. It is expected that new investments and greater efficiencies will be made in the area of power generation and distribution. The output of the communication sub-sector should also be boosted with the two new telecommunication companies becoming fully operational. In addition, the Government has pledged its commitment to create the environment necessary to facilitate new investments in information technology which would provide a range of new services.

In the goods producing sector, though not returning to the level that existed two years ago, the agricultural sector is expected to grow in 2001. Evidence of a resurgence in the sector was apparent in the fourth quarter of 2000, when improvements in domestic agriculture resulted in a decline in the prices of some agricultural products.

The mining sector should also be returning to a position of growth in 2001. This is predicated on the bauxite sub-sector returning to full production with the normalisation of operations at the Gramercy plant in the United States. The alumina sub-sector is also projected to record another year of increased output despite the imminent sale of the Alcan refinery. In addition, the Alpart refinery is expected to begin an expansion programme in 2001 which should result in

increased production over the next three to five years. The outlook for the world aluminium industry remains strongly positive as it continued to grow even in the face of a slowdown in the US economy towards the end of 2000. This growth has been spurred by strong recovery in the Asian economies and greater momentum in European economies.

Within the other services sectors developments in tourism and financial services are expected to be positive. The tourism industry will be given additional attention through proposed governmental and private sector investments under the tourism master plan which is geared primarily to enhance the sustainability of the industry. The tourism sub-sector should also benefit from additional rooms and from efforts aimed at countering harassment, as well as increased stridency in marketing the destination in relatively new areas such as culture and eco-tourism. Furthermore, planned development in port facilities in Port Antonio should help to bolster the cruise shipping industry and other marine based tourism.

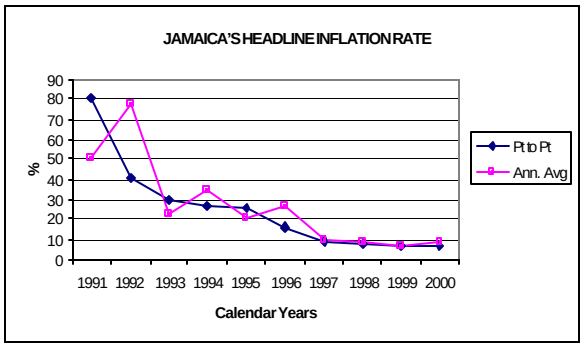
The out-turn of the banking and financial sector will depend largely on the injection of new capital to continue the ongoing restructuring process. The successful acquisition of external financing to assist in the write-down of some FINSAC liabilities and guarantee interest payments should contribute to the strengthening of the sector. Specifically, the proposed sale of Union Bank and the payment of cash on FINSAC instruments should help the industry. In addition, the positive outlook for new investments in the economy created by the relatively stable environment should lead to an increase in loan demand. This expected buoyancy in economic activity should also augur well for the distribution sector.

Overall developments within the Jamaican economy point to the prospect of achieving enhanced growth in 2001. More broadly, the continuance of macroeconomic stability as well as sustained reductions in interest rates should provide incentives to growth in the ensuing year.

Prices

The 12-month point-to-point headline inflation rate at December 2000 was 6.1 per cent, compared with 6.8 per cent at December 1999. This out-turn reflected a continuation of the ten-year declining trend in annual inflation being recorded since 1991 (Chart 3). It also marks the first time in the last three decades that Jamaica has attained four consecutive years of single digit inflation.

CHART 3



The favourable out-turn in inflation occurred despite significant external and internal shocks

that threatened to derail the inflation target. The major shocks to inflation were the increases in oil price, exchange rate depreciation and increases in domestic food prices in the first half of the year. Overall, for the WTI measure of crude, prices were 56 per cent higher in 2000 compared to 1999. Prices rose steadily in 1999, but displayed more volatility in 2000, peaking at US$37.20 in September. The average price for WTI crude for the quarter ending December 1999 was US$24.57 compared with US$31.75 for the corresponding quarter in 2000. The average price for the September 2000 quarter was US$31.60 compared to US$28.93 and US$28.86 for the June and March quarters, respectively. These quarterly price changes are significant when viewed against average prices of US$21.73, US$17.66 and US$13.15 per barrel for the corresponding periods in 1999.

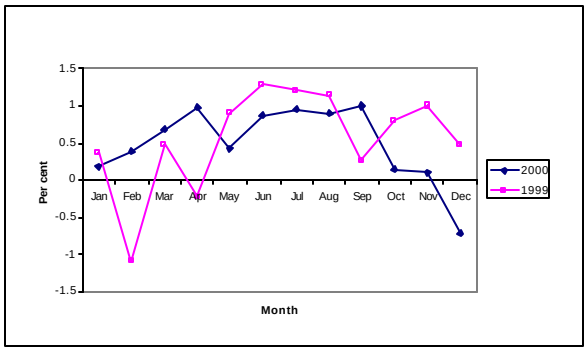
Over the course of the year the Jamaica dollar price of the US dollar , measured by the selling rate, increased by 9.9 per cent compared to 11.5 per cent in 1999. The largest increase of 5.4 per cent occurred in the September quarter. Neither the high rates of increase in September nor October appeared to have had a significant impact on the inflation out-turn for the December quarter.

Notwithstanding the oil price increases and exchange rate depreciations, several impulses were conducive to curtailing inflation. Although agricultural prices increased for the first half of the year, a late resurgence in agricultural supply consequent on the break in the lingering drought conditions, helped to moderate domestic food crop prices. Secondly, the absence of an increase in the administered price of public transportation negated an avenue through which rising fuel costs would have had an impact on the CPI. Thirdly, tight base money management was maintained by the Central Bank throughout the year. In this regard, base money declined by 5.4 per cent in 2000, in contrast to an increase of 8.8 per cent in 1999, and contributed to the overall containment of inflationary pressures.

The monthly inflation rates for 1999 and 2000 as illustrated in Chart 4, show that monthly inflation rates from January to April were on average higher than for the comparable months of 1999. Between May and December, with the exception of September, monthly inflation was lower than the corresponding period of 1999. For the first half of year there was an overall increase in prices of 3.5 per cent relative to 1.7 per cent for the similar period of 1999. In contrast, between July and December 2000 the level of inflation was 2.4 per cent comparing favourably with the 5.0 per cent that was registered in the corresponding period of 1999.

The expansion in prices during the first half of the year coincided with the persistence of the drought conditions from the previous year, as well as international oil price shocks. Slower growth in the price level during the second half of 2000 resulted primarily from the moderation and reversal of the prices of items in the Food and Drink category. This was the result of the return of more favourable weather conditions, which led

CHART 4



to an increase in the supply of short-term agricultural products. The slow down was particularly evident in the inflation rates of 0.1 per cent in both October and November and negative 0.7 per cent in December.

The inflation out-turn in 2000 was largely due to increases in the Food & Drink, Housing & Other Housing Expenses and Miscellaneous Expenses group. These three sub-indices expanded by 4.4,

CHART 5

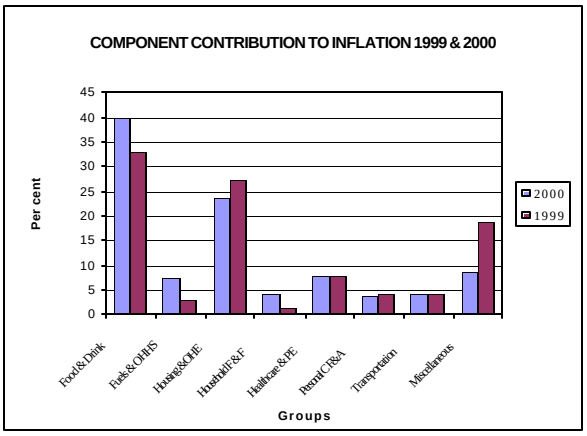


TABLE 44

JAMAICA: COMPONENT CONTRIBUTION TO INFLATION IN 2000

	Group Weights	Price Inflation (%)		Contribution to Inflation (%)	
		1999	2000	1999	2000
fOOD & DRINK	**0.5563**	**3.9**	**4.4**	**33.0**	**39.7**
- Meals Away From Home	0.0741	3.4	5.6	3.8	7.1
- Meat Poultry & Fish	0.1613	1.8	2.7	4.3	7.4
- Dairy Products Oils & Fats	0.0668	2.0	4.2	2.0	4.8
- Baked Products Cereals & Breakfast Drinks	0.0864	1.2	5.9	1.5	8.7
- Starchy Foods	0.0525	7.3	8.9	5.8	8.0
- Vegetables & Fruits	0.0650	8.6	-0.1	8.4	-0.1
- Other Food & Beverages	0.0502	9.6	4.6	7.2	3.9
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**2.9**	**7.6**	**2.9**	**7.7**
- Household Supplies	0.0482	2.0	2.6	1.4	2.2
- Fuels	0.0253	3.9	12.8	1.5	5.5
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**24.4**	**17.5**	**27.4**	**23.6**
- Rental	0.0209	9.1	18.5	2.8	6.6
- Furnishings	0.0577	28.5	17.3	24.5	17.0
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**3.5**	**8.9**	**1.4**	**4.4**
- Furniture	0.0068	6.8	6.0	0.7	0.7
- Furnishings	0.0215	2.2	10.1	0.7	3.7
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**7.6**	**6.7**	**7.9**	**7.9**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**5.6**	**4.5**	**4.3**	**3.8**
- Clothing Materials	0.0055	5.8	0.6	0.5	0.1
- Readymade Clothing & Accessories	0.0242	3.6	3.2	1.3	1.3
- Footwear	0.0159	5.7	7.1	1.4	1.9
- Making & Repairs	0.0051	15.5	5.5	1.2	0.5
TRANSPORTATION	**0.0644**	**4.3**	**3.9**	**4.2**	**4.3**
MISCELLANEOUSEXPENSES	**0.0785**	**16.2**	**6.3**	**18.9**	**8.5**
ALL GROUPS	**1.0000**	**6.8**	**6.1**	**100.0**	**100.0**

17.5, and 6.3 per cent, respectively, and contributed 39.7, 23.6, and 8.5 per cent to the total inflation out turn. This was similar to the pattern observed in 1999 as shown in Chart 5. The relative magnitude of their contribution to inflation has however varied.

Food & Drink is the most heavily weighted group in the CPI and exhibits a high degree of sensitivity to weather conditions, primarily because of its Starchy Foods and Vegetable & Fruits sub-groups. This group is also heavily influenced by imported inflation, which affects Baked Products, Cereals & Breakfast Drinks and Meat, Poultry and Fish. Both of these factors were important to the inflation out-turn in 2000. Prices of Meat, Poultry and Fish contributed 7.4 per cent to overall inflation and was dominated by an increase in the price of chicken which in turn influenced the 7.1 per cent contribution of Meals Away From Home to the inflation out-turn.

The main contributors to inflation in the Starchy Foods sub-group were yam, sweet potatoes and dasheen, as these prices varied with weather conditions. The fall in the prices of these food items in the last quarter of the year was sufficiently sharp to have a negative impact on the level of price increases.

The Housing & Other Housing Expenses group, was mainly influenced by the escalation in utility charges. Over the course of the year electricity, water and telephone charges increased by approximately 34, 20 and 17 per cent, respectively. In addition, the Rental sub-group rose by 18.5 per cent. In general, the continued increases recorded in this sub-group might be due to excess demand for the available rental housing stock.

Components of the Miscellaneous Expenses group increased by 8.5 per cent in 2000 relative to 18.9 per cent in 1999. The chief contributors to the rate of inflation in this group were very demand inelastic and included cigarettes, preparatory school fees, CXC examination fees and school books.

Regional Inflation 2000

At the regional level, inflation was higher in the Kingston Metropolitan Area (KMA) compared with the Other Towns and Rural Areas. Over the year, the index for the KMA increased by 7.5 per cent, while the indices for the Other Towns and the Rural Areas increased by 5.4 per cent and 4.6 per cent, respectively. Compared with 1999, inflation was slightly lower in the Other Towns and Rural Areas in 2000, while price increases in the KMA were roughly the same for the two periods.

Regional differences in inflation were most pronounced in the Fuels & Other Household Supplies, Household Furnishings & Furniture and Personal Clothing Footwear & Accessories groups. In particular, inflation in the Fuel sub-group was 21.5, 10.8 and 3.4 per cent for the KMA, Other Towns and Rural Areas, respectively. In general, prices of kerosene, liquid petroleum gas (LPG) and charcoal increased by a larger percentage in KMA relative to Other Towns and Rural Areas.

The other wide variations were found in the Furniture, Furnishings and the Footwear sub-

TABLE 45

REGIONAL INFLATION 2000

	Weight in CPI	KMA (%)	Other Town (%)	Rural (%)
fOOD & DRINK	**0.5563**	**5.1**	**4.0**	**4.0**
- Meals Away From Home	0.0741	6.6	4.6	4.3
- Meat Poultry & Fish	0.1613	3.3	2.3	2.1
- Dairy Products Oils & Fats	0.0668	4.9	4.1	3.5
- Baked Products Cereals & Breakfast Drinks	0.0864	6.6	5.7	5.2
- Starchy Foods	0.0525	8.2	10.9	8.6
- Vegetables & Fruits	0.0650	3.0	-3.9	-1.6
- Other Food & Beverages	0.0502	3.5	5.6	5.4
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**11.8**	**6.9**	**2.7**
- Household Supplies	0.0482	3.4	2.1	1.9
- Fuels	0.0253	21.5	10.8	3.4
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**18.2**	**17.0**	**16.0**
- Rental	0.0209	19.1	16.8	16.8
- Other Housing Expenses	0.0577	18.0	17.1	15.9
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**20.4**	**3.4**	**2.7**
- Furniture	0.0068	15.9	1.8	0.7
- Furnishings	0.0215	22.3	4.0	3.5
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**7.3**	**4.8**	**6.6**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**7.5**	**1.2**	**3.5**
- Clothing Materials	0.0055	0.2	1.3	0.8
- Readymade Clothing & Accessories	0.0242	6.2	1.5	1.8
- Footwear	0.0159	11.3	-0.1	7.4
- Making & Repairs	0.0051	8.2	4.4	3.0
TRANSPORTATION	**0.0644**	**4.8**	**4.7**	**2.2**
MISCELLANEOUSEXPENSES	**0.0785**	**7.1**	**5.6**	**5.4**
ALL GROUPS	**1.0000**	**7.5**	**5.4**	**4.6**

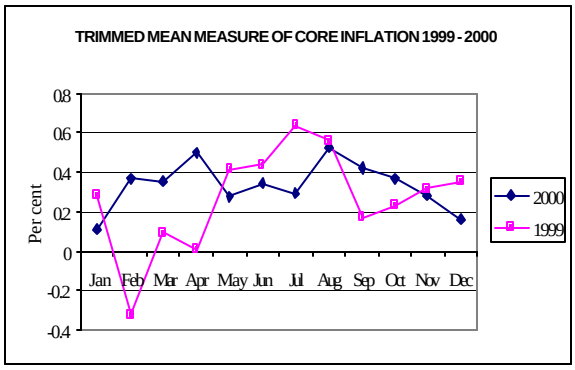
groups. There were substantial disparities between KMA and the other two areas with regards to increases recorded for dinette sets, double beds, refrigerators, stoves, and sheets.

In the Rural Areas the prices of dinette sets, double beds and refrigerators were initially higher than in the KMA. However, during the course of the year, prices in the KMA had caught up with and eventually exceeded those in the Rural Areas. In the case of footwear, price increases were higher in KMA for working men's boots and school shoes, relative to the other two areas.

Core Inflation

At December 2000, the twelve-month increase in the Trimmed Mean index, representative of core, was 4 per cent, or 0.8 percentage points above the rate achieved for the previous year. Core and headline inflation displayed similar patterns throughout the year. Core inflation was relatively low in the context of significant exchange rate depreciation and shocks from international oil prices that were experienced over the period.

CHART6



Banking and Currency Operations

Banking

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

The Bank provides cheque clearing and settlement facilities for the local banking system and plays a supervisory and policy framing role in this regard. The BOJ's oversight role is facilitated through the Bank of Jamaica Act, the Banking Act, the Financial Institutions Act and the Currency Issue and Redemption Statutes. In addition, the Clearing House Rules codify the arrangements between member banks (including the BOJ) with respect to the local clearing of both Jamaica and US dollar instruments.

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

New Developments

The Clearing Process

Over the last three years, the Jamaican banking industry has taken steps towards modernising the domestic payment system through the establishment of an automated clearing house facility. The project is being undertaken through the collaborative efforts of the commercial banking sector and the BOJ. Investments have been made in technology and equipment and for most banks, certain components of the clearing process (pre-and post-clearing phases) have already been automated. However, the clearing process itself remains manual.

The Funds Transfer System

The BOJ also operates a network system, Customer Information Funds Transfer System (CIFTS). CIFTS is a Deferred Gross Settlement (DGS) System (on-line, not real time) that allows the electronic transfer of funds between the accounts of primary dealers, commercial banks, the Jamaica Central Securities Depository (JCSD) and its broker members. Since June 2000 commercial banks have expanded the use of CIFTS to provide inter-bank wire transfer services to their commercial clients.

New Treasury System

In order to enhance the efficiency of its operations the Bank installed and commissioned its new computerised treasury management system, Thomson Vision, during the year. The new system, which integrates with the Bank's main accounting system, the International Comprehensive Banking System (ICBS), has allowed the Bank to streamline its foreign exchange, money market and securities trading operations and more effectively manage the risks associated with its financial market activities.

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

Currency

The BOJ is charged with the responsibility to furnish notes that are well-protected from counterfeiting and to manage the supply of banknotes and coins to the public as economically as possible. During the year 2000 the Bank took the following steps to enhance its currency structure and achieve these objectives:

- a new high security $1000 banknote was introduced;
- the $20 banknote, which at the time was the nation's lowest value banknote, was withdrawn from circulation and replaced with a $20 coin; and
- the security features of the $50 and $100 banknotes were upgraded.

$1000 Banknote

The $1000 banknote, issued on 26 April 2000 was well received by the public. The note features the portrait of the late former Prime Minister, the Honourable Michael Manley on the front and on the reverse a view of Jamaica House, where the offices of Jamaican Prime Ministers are located.

The introduction of this note became necessary as the $500 note, which until then was the highest denomination, was overworked. The $500 note accounted for 86.57 per cent of the total value of notes in circulation at the start of the year, a level far exceeding the international benchmark of 60 per cent. By year-end the new note was well established with 9.8 million pieces in circulation with a value of $9.85 billion.

The $1000 note represented approximately half of the value of banknotes in circulation at year-end. The introduction of this high-value denomination caused a sharp decline in the demand for $500 banknotes and reduced its share of the value of total circulation from 86.57 per cent to 38.34 per cent by year-end.

$20 Coin

As with most low value denominations, the useful life of the $20 denomination declined over time

to an average of only 8.6 months by the end of 1999. This short, useful life and high replacement rate translated into high issue expenses for the Bank and rendered the note uneconomical. As a result, a $20 coin was issued and the $20 banknote withdrawn from circulation in July 2000. The new coin has an expected useful life of more than 20 years.

By year-end approximately 75.85 million pieces had been issued to the public while 31.92 million pieces were redeemed, a clear indication of the coin's acceptance.

The $20 banknote remains legal tender. More than 27.8 million pieces or 82 per cent of the $20 notes in circulation were redeemed by year-end, effectively removing the note from active circulation.

Upgraded $50 and $100 Banknotes

During the year the Bank issued upgraded versions of the $50 and $100 banknotes. While the overall design of these banknotes did not change, as the portraits of National Hero, Sam Sharpe and the late former Prime Minister, Sir Donald Sangster were retained the following new security features were incorporated into the designs:

- a wide-windowed security thread which glows under ultra-violet light and on which is printed "BOJ $50 and BOJ $100" for the respective notes.
- a new design watermark of the swallowtail humming bird (doctor bird) with a flower highlight which replaced the pineapple watermark.

The old design $50 and $100 banknotes remain legal tender and continue to circulate alongside the new notes.

Clean Note Policy

The Bank maintained its clean note policy as a major plank in its anti-counterfeit strategy. Currency authorities throughout the world agree that dirty circulation stock facilitates the introduction of counterfeits and the best guarantee of banknote security is a public that readily recognises the security features of banknotes.

Of the 117.6 million pieces of notes issued to the public during the year 2000, 86.45 million pieces or 74 per cent were new, with the remainder being notes of ATM quality. The Bank sorted 139.3 million pieces of used notes valued at $32.975 billion during the year. Of this amount 108.5 million pieces (valued at $18.5 billion) were destroyed. The remainder was re-issued to the public.

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

Financial Legislation

For the year 2000, no item of Financial Legislation impacting on the Bank was passed in Parliament.

However, during the year, the following items of legislation were drafted by the Office of Parliamentary Counsel in accordance with drafting instructions received from the Ministry of Finance:

1. The Financial Services Commission Act, 2000

2. The Unit Trusts (Amendment) Act, 2000

3. The Securities (Amendment) Act, 2000

4. The Bank of Jamaica (Amendment) Act, 2000

The above-mentioned items of draft legislation are intended to bring about reforms in the regulation of non-deposit-taking financial entities, viz: insurance companies, pension funds, securities dealers and unit trusts. One of the major areas of reform involves the provision for the sharing of information among the various regulators, which is to be facilitated by a Memorandum of Understanding entered into among the regulators, including the Bank of Jamaica.

Administration

During 2000, the Bank continued to redefine its work processes aimed at ensuring efficient and effective management. Accordingly, the Bank's technology infrastructure was further enhanced through the upgrading of its main frame and the introduction of an improved data communication system that facilitated greater external data interchange and telecommuting. The internal communication system was also enhanced with the introduction of the Bank's Corporate Intranet.

As at 31 December 2000, the staff complement was four hundred and nineteen (419), comprising four hundred and eight (408) permanent employees and eleven (11) contract staff. In keeping with the Bank's mandate to recruit and retain a cadre of highly trained staff with relevant qualification, skills and competencies, nineteen (19) persons were recruited at the professional level, of which fifteen (15) persons had postgraduate qualifications. In addition, eleven (11) persons were recruited into the clerical and technical support level. As in prior years, the level of staff turnover remained at a relatively stable rate of 7.6 per cent.

Importantly, the year 2000 marked the establishment of the Bank of Jamaica Training Institute. The principal objective of the Institute is the provision of training in the technical and managerial aspects of Central Banking. Training is available to the Bank staff as well as to members of the local and regional financial community. In this regard two programmes of major importance were conducted during the year with participants from the local public and private sectors and the Caribbean Region. The first was a seminar on the Basel Core Principles for Effective Banking Supervision, with presenters from the Financial Stability Institute (FSI) and the Bank for International Settlement (BIS). The second was a five-day course on Treasury Control within Banks, conducted by Crown Agents Financial Services Limited, London. For the period under review, 41 members of staff participated in 38 overseas training programmes while 271 staff members attended 57 training programmes locally.

With respect to health and safety issues, the Training Institute in collaboration with the Bank's Staff Clinic, continued a series of education programmes aimed at raising the health and safety awareness of employees. These included various health-related screenings, seminars and quarterly bulletins on preventative medicine, and other relevant topics, as well as, techniques on coping in the event of natural disasters.

During 2000, the industrial relations climate in the organisation remained calm as management and staff continued to build a productive partnership

to facilitate high performance and job fulfilment. Accordingly, the Performance Management System was further revised with the aim of increasing accountability. In addition, leave entitlement was rationalised consistent with developments in the labour market. As at January 2001, the maximum leave entitlement of the Bank's staff is 40 days, comprising 30 days vacation and 10 days sick. The two-year Labour/ Management Salary and Benefits Agreement expired on 31 March 2000. At year-end, discussions continued between the Bank's Management and the Bustamante Industrial Trade Union (BITU) which represents the unionised staff, with respect to the 2000/2002 Salary and Benefits Contract.

Throughout the year, the Bank continued its refurbishing programme aimed at ensuring the preservation of the institution's infrastructure, and the maintenance of a work environment that is safe and conducive to productive activity. Accordingly, the Technical and Office Services Department which is charged with the responsibility of providing a safe, aesthetic and ergonomic work environment undertook maintenance and upgrading projects including the Bank's domestic water supply, offices and work areas and the telecommunication infrastructure.

The Bank Celebrates 40 Years

In October 2000, the Bank of Jamaica celebrated its fortieth anniversary. Established as the country's central bank on 1 October 1960, by the Bank of Jamaica Law 1960, the Bank commenced full operations in May 1961. In this relatively short period of time, the Bank of Jamaica has come to be accepted as the most important institution in the financial and monetary structure of the country. The editorial in The Daily Gleaner of 2 May 1961, the day after the Bank was officially opened, stated, "… The country is expecting much from the BOJ which, by virtue of its responsibility must play a major part in directing the local economy". The Bank has indeed lived up to expectations as it has provided economic and financial leadership and guidance to the country and a greater understanding of the mysteries of central banking.

Under the theme, "The Bank of Jamaica – 40 Years of Service – A Journey Towards Excellence", the Bank's fortieth anniversary was celebrated with a number of events. These commenced in October 2000 and are expected to continue to May 2001. The activities included a Service of Thanksgiving and Praise held in the auditorium on 1 November 2000 and a gala dinner on 3 November 2000 at which the Prime Minister, the Rt. Hon. P. J. Patterson, was the guest speaker. The Bank's hosting of the XXXII Annual Monetary Studies Conference, (30 October – 02 November 2000), in association with the Caribbean Centre for Monetary Studies (CCMS) was also arranged to coincide with the celebrations. Essay and poster competitions for students at primary and secondary schools were also sponsored by the Bank, in the first half of 2001.

Compensation of Executive Management

		2000
Salary Range of Executive Management		$3 625 234 - $6 629 258
Allowances of Executive Management		
(a)	Governor	$1 281 985
(b)	Range for Deputy Governors	$654 988 - $1 119 332

Notes

Executive Management includes the Governor and four (4) Deputy Governors. In the case of the Governor, a maintained residence and an official car are provided, as is customary for Governors of the Bank of Jamaica. For Deputy Governors a fully maintained motor vehicle is provided. Each member of the Executive Management is eligible for benefits including a non-contributory pension plan, health insurance, life insurance, staff loans and assisted passage.

Calendar of Monetary Developments

January - December 2000

2000 03 01 Commercial banks' cash reserve ratio for local and foreign currency liabilities reduced from 16 per cent to 15 per cent.

Commercial banks' liquid assets ratio for local and foreign currency liabilities reduced from 34 per cent to 33 per cent.

Liquid assets ratio of FIA institutions in respect of local and foreign currency liabilities reduced from 34 per cent to 33 per cent.

Cash reserve ratio of FIA institutions in respect of local and foreign currency liabilities reduced from 16 per cent to 15 per cent.

Dual cash reserve ratios of 1 and 15 per cent for building societies.

Dual foreign currency cash reserve ratios of 1 and 15 per cent for building societies.

Dual liquid asset ratios of 5 and 33 per cent for building societies.

Dual liquid asset ratios of 5 and 33 per cent in respect of foreign currency denominated liabilities of building societies.

2000 03 10 The 30-day Reverse Repurchase Rate reduced from 18.35 per cent to 17.5 per cent.

2000 03 28 The 30-day Reverse Repurchase Rate reduced from 17.5 per cent to 17.3 per cent.

2000 04 26 One thousand dollar ($1000) note introduced.

2000 04 27 The 30-day Reverse Repurchase Rate reduced from 17.3 per cent to 17 per cent.

2000 06 01 Commercial banks' liquid assets ratio for local and foreign currency liabilities reduced from 33 per cent to 32 per cent.

Commercial banks' cash reserve ratio for local and foreign currency liabilities reduced from 15 per cent to 14 per cent.

Liquid assets ratio of FIA institutions in respect of local and foreign currency liabilities reduced from 33 per cent to to 32 per cent.

Cash reserve ratio of FIA institutions in respect of local and foreign currency liabilities reduced from 15 per cent to 14 per cent.

Dual cash reserve ratios of 1 and 14 per cent for building societies.

Dual foreign currency cash reserve ratios of 1 and 14 per cent for building societies.

Dual liquid asset ratios of 5 and 32 per cent for building societies.

Dual liquid asset ratios of 5 and 32 per cent in respect of foreign currency denominated liabilities of building societies.

2000 07 28 The 30-day Reverse Repurchase Rate reduced from 17 per cent to 16.75 per cent.

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

2000 09 01 Commercial banks' liquid assets ratio for local and foreign currency liabilities reduced from 32 per cent to 31 per cent.

Commercial banks' cash reserve ratio for local and foreign currency liabilities reduced from 14 per cent to 13 per cent.

Liquid assets ratio of FIA institutions in respect of local and foreign currency liabilities reduced from 32 per cent to 31 per cent.

Cash reserve ratio of FIA institutions in respect of local and foreign currency liabilities reduced from 14 per cent to 13 per cent.

Dual cash reserve ratios of 1 and 13 per cent for building societies in respect of local and foreign currency liabilities.

Dual liquid asset ratios of 5 and 31 per cent for building societies in respect of local and foreign currency liabilities.

2000 09 18 New 270-day and 365-day tenor in BOJ Reverse Repurchase instruments introduced at premium rates of 17.6 per cent and 18 per cent, respectively.

2000 10 04	The 270-day Reverse Repurchase Rate increased from 17.6 per cent to 20 per cent. The 365-day Reverse Repurchase Rate increased from 18 per cent to 22 per cent.
2000 10 23	The 270-day Reverse Repurchase Rate reduced from 20 per cent to 17.6 per cent. The 365-day Reverse Repurchase Rate reduced from 22 per cent to 18 per cent.
2000 11 24	The 270-day Reverse Repurchase Rate increased from 17.6 per cent to 20 per cent. The 365-day Reverse Repurchase Rate increased from 18 per cent to 22 per cent.
2000 12 28	The 365-day Reverse Repurchase Rate reduced from 22 per cent to 21 per cent.

Auditors' Report

TO BANK OF JAMAICA

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

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

In our opinion, proper accounting records have been maintained and the financial statements, which are in agreement therewith and have been prepared in accordance with generally accepted accounting principles in Jamaica, give a true and fair view of the state of affairs of the Bank as at 31 December 2000 and of the results of its operations and its cash flows for the year then ended and, except for the matters referred to in notes 2(j) and 9, comply with the provisions of the Bank of Jamaica Act.

Without qualifying our opinion, we draw attention to note 5(b), which discloses the following:

(a) Of the approximately J$29.2 billion (1999: J$27.1 billion) of non-marketable securities, J$26.96 billion (1999:J$24 billion) comprise notes issued to the Bank by Finsac Limited, of which $13.3 billion (1999: J$13.3 billion) is guaranteed by Government of Jamaica.

(b) The interest earned on the Finsac notes comprise 26% (1999: 19.6%) of the Bank's interest revenue. However, all the interest earned on the Finsac notes up to and since the balance sheet date has been settled by the issue of additional notes.

28 March 2001

BALANCE SHEET 31 December 2000

	Notes	2000 J$'000	1999 J$'000
ASSETS			
Foreign assets			
Notes and coins		6 167	63 016
Cash resources	3	36 375 433	13 221 245
Interest in funds managed by agents		1 677 111	1 455 572
Foreign currency denominated securities	4	9 810 160	8 024 426
International Monetary Fund -			
Holding of Special Drawing Rights		3 822	27 325
		47 872 693	22 791 584
Local assets			
Notes and coins		25 496	11 767
Securities purchased under resale agreements	14	-	118 000
Securities - marketable	5(a)	27 930 619	32 288 845
- non-marketable	5(b)	29 164 474	27 058 953
Advances to banks and other financial institutions	6	2 921 425	779 302
International Monetary Fund - Quota Subscription	7	1 721 258	1 611 150
Investments in financial institutions	8	145 245	251 998
Due from Government and Government Agencies	9	8 556 035	11 046 407
Fixed assets	10	1 150 083	1 117 080
Other	11	2 683 376	2 738 171
		74 298 011	77 021 673
		122 170 704	99 813 257

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

BALANCE SHEET (Cont'd) 31 December 2000

	Notes	2000 J$'000	1999 J$'000
LIABILITIES, CAPITAL AND RESERVES			
Liabilities			
Notes and coins in circulation	12	20 572 228	20 809 460
Deposits and other demand liabilities	13	53 803 473	47 044 232
Securities sold under repurchase agreements	14	42 156 477	27 371 614
International Monetary Fund -			
Allocation of Special Drawing Rights	15	2 245 959	2 102 285
Foreign liabilities	16	378 697	439 525
Other	17	2 047 333	1 172 575
		121 204 167	98 939 691
Capital and reserves			
Capital		4 000	4 000
General Reserve Fund		20 000	20 000
Other Reserves		942 537	849 566
		966 537	873 566
		122 170 704	99 813 257

_____ Governor

D.M. Latibeaudiere

_____ Senior Director, Finance and Technology

L.B. Morrison

_____ Advisor, Finance and Technology

H.A. Hylton

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

STATEMENT OF INCOME AND EXPENSES Year ended 31 December 2000

	Notes	2000 J$'000	1999 J$'000
Operating income			
Interest		11 698 207	12 129 514
Foreign exchange gain, net	18	1 714 599	1 340 158
Other		56 021	99 860
Total		13 468 827	13 569 532
Operating expenses			
Interest		9 110 152	8 758 522
Salaries, pension scheme contributions, and staff and post retirement benefits		688 890	770 305
Currency expenses		176 465	253 132
Property expenses, including depreciation		210 832	149 397
Other operating expenses		308 739	123 650
Total	19	10 495 078	10 055 006
Net operating income		2 973 749	3 514 526
Other gains/(losses)			
Bad debt recovery, net		(24)	-
Gain/(loss) on revaluation of securities		98 213	(305 460)
Gain on disposal of fixed assets		5 988	2 766
Loss on disposal of investment in financial institutions		(100 000)	-
Expenditure on behalf of Government of Jamaica not reimbursed	9	(248 164)	(214 461)
Net income for year		2 729 762	2 997 371
Transferred to General Reserve Fund		(2 729 762)	(2 997 371)

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

STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2000

	Share Capital J$'000	General Reserve Fund J$'000	Securities Revaluation Reserve J$'000	Special Stabilization Account J$'000	Fixed Assets Revaluation Reserve J$'000	Total J$'000
Balance at 31 December 1998	4 000	20 000	18 604	121 338	-	163 942
Total recognised gains and losses	-	2 997 371	(18 604)	-	667 628	3 646 395
Transfer from coins in circulation	-	-	-	60 600	-	60 600
Due to consolidated fund (see note 2 below)	-	(2 997 371)	-	-	-	(2 997 371)
Balance at 31 December 1999	4 000	20 000	-	181 938	667 628	873 566
Total recognised gains and losses	-	2 729 762	24 159	-	(2 990)	2 750 931
Transfer from coins in circulation	-	-	-	71 802	-	71 802
Due to consolidated fund (see note 2 below)	-	(2 729 762)	-	-	-	(2 729 762)
Balance at 31 December 2000	4 000	20 000	24 159	253 740	664 638	966 537

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

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

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

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

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

STATEMENT OF CASH FLOWS 31 December 2000

	2000 J$'000	1999 J$'000
Cash provided by operating activities:		
Net income for year	2 729 762	2 997 371
Adjustments to reconcile net income for year to net cash provided by operating activities:		
Depreciation	109 402	64 691
Gain on disposal of fixed assets	(5 988)	(2 766)
Loss on disposal of investments in financial institutions	100 000	-
Unrealised exchange gain/(loss) on overseas securities	24 159	(18 604)
Transfer from coins in circulation	71 802	60 600
Unrealised exchange gain on International Monetary Fund - Quota subscription	(110 108)	(84 599)
Unrealised exchange loss on International Monetary Fund - Allocation of SDR's	143 674	110 388
Net cash provided by operating activities	3 062 703	3 127 081
Cash flows from investing activities:		
International Monetary Fund - Holding of Special Drawing Rights	23 503	(4 590)
Interest in funds managed by agents	(221 539)	285 264
Foreign currency denominated securities	(1 785 734)	(1 272 380)
Securities purchased under resale agreements	118 000	(118 000)
Securities - marketable	4 358 226	(1 375 606)
- non-marketable	(2 105 521)	(4 526 661)
Advances to banks and other financial institutions	(2 142 123)	(779 302)
Due from Government and Government Agencies	(239 391)	77 399
Additions to fixed assets	(148 845)	(128 115)
Repayment of investment in promissory notes	6 753	-
Proceeds of disposal of fixed assets	9 439	12 622
Other assets	54 795	(899 705)
Net cash used by investing activites	(2 072 437)	(8 729 074)
Cash flows from financing activities:		
Notes and coins in circulation	(237 232)	5 574 730
Deposits and other demand liabilities	6 759 241	(4 749 072)
Securities sold under repurchase agreements	14 784 863	711 626
Foreign liabilities	(60 828)	(215 744)
Other liabilities	874 758	(86 955)
Net cash provided by financing activities	22 120 802	1 234 585
Net increase/(decrease) in cash	23 111 068	(4 367 408)
Cash at beginning of year	13 296 028	17 663 436
Cash at end of year	36 407 096	13 296 028
Foreign notes and coins	6 167	63 016
Foreign currency cash resources	36 375 433	13 221 245
Local notes and coins	25 496	11 767
	36 407 096	13 296 028

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

1. Identification

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

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

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

2. Basis of preparation and significant accounting policies

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

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

The significant accounting policies are as follows:

(a) Accounting convention:

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

(b) Foreign currencies:

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

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

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

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

(c) Investment securities:

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

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

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

(d) Investments in financial institutions:

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

(e) Fixed assets:

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

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

(f) Notes and coins in circulation:

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

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

(g) Repurchase and resale agreements:

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

(h) Taxation:

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

(i) Cost of retirement benefits:

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

(j) Statutory transfer of profits and losses:

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

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

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

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

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

3. Cash resources

	2000 J$'000	1999 J$'000
Current accounts and money at call with foreign banks	12 674 250	5 511 368
Short term deposits with foreign banks	23 483 212	7 474 526
Current accounts with local banks	217 971	235 351
	36 375 433	13 221 245

4. Foreign currency denominated securities

	2000		1999	
	Cost J$'000	Market J$'000	Cost J$'000	Market J$'000
Jamaica Government				
US$ debenture	-	-	30 946	30 946
US Government bonds	9 760 181	9 787 541	8 211 446	7 993 480
Barbados Government bond	22 619	22 619	-	-
	9 782 800	9 810 160	8 242 392	8 024 426

Remaining term to maturity from the balance sheet date:

	Within 3 months J$'000	Three to 12 months J$'000	One to 5 years J$'000	Over 5 years J$'000	Carrying Values 2000 J$'000	Carrying Values 1999 J$'000
Jamaica Government		-	-	-	-	30 946
US$ debenture	-	1 121 488	7 012 828	1 653 225	9 787 541	7 993 480
US Government bonds	-	-	-	22 619	22 619	-
Barbados Government bond	-					
	-	1 121 488	7 012 828	1 675 844	9 810 160	8 024 426

5. Jamaica dollar denominated securities

	2000		1999	
	Cost J$'000	Market J$'000	Cost J$'000	Market J$'000
(a) Marketable:				
Jamaica Government Securities:				
Local registered stock	27 605 307	27 585 998	31 851 564	31 851 963
Treasury bills	8 857	8 828	57 905	59 104
Investment debentures	336 161	335 793	377 778	377 778
	27 950 325	27 930 619	32 287 247	32 288 845

Remaining term to maturity from the balance sheet date:

	Within 3 months J$'000	Three to 12 months J$'000	One to 5 years J$'000	Over 5 years J$'000	Carrying Values 2000 J$'000	Carrying Values 1999 J$'000
Jamaica Government Securities:						
Local registered stock	-	2 763 876	15 613 328	9 208 794	27 585 998	31 851 963
Treasury bills	547	8 281	-	-	8 828	59 104
Investment debentures	40 415	292 378	3 000	-	335 793	377 778
Total	40 962	3 064 535	15 616 328	9 208 794	27 930 619	32 288 845

	Cost	
(b) Non-marketable:	2000	1999
Jamaica Government Securities:	J$'000	J$'000
Local registered stock -		
Interest bearing (i)	-	878 635
Non-interest bearing (ii)	2 209 346	2 209 346
	2 209 346	3 087 981
Other - Finsac bonds (iii)	26 955 128	23 970 972
	29 164 474	27 058 953

Remaining term to maturity from the balance sheet date:

	Within 3 months J$'000	Three to 12 months J$'000	One to 5 years J$'000	Over 5 years J$'000	Carrying Values 2000 J$'000	Carrying Values 1999 J$'000
Jamaica Government Securities:						
Local registered stock						
Interest bearing	-	-	-	-	-	878 635
Non-interest bearing	-	-	245 950	1 963 396	2 209 346	2 209 346
	-	-	245 950	1 963 396	2 209 346	3 087 981
Other - Finsac bonds	-	-	5 417 531	21 537 597	26 955 128	23 970 972
Total	-	-	5 663 481	23 500 993	29 164 474	27 058 953

(i) Some of these stocks bear interest at a rate of 11% and others at 11 1/2%.

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

(iii) Of the $26 955 128 000 of Finsac bonds, Government of Jamaica has issued to the Bank a guarantee covering principal and all interest accruing, amounting to $13 306 321 000 at 31 December 1998, and undertook to issue a guarantee for the balance, together with all interest accruing thereon, amounting to approximately $6 119 937 000. Neither a guarantee nor an undertaking to issue a guarantee has been received in respect of the additional principal notes received or the interest thereon since 31 December 1998.

Interest on these notes is being settled by the issue to the Bank of additional notes bearing interest at the same rates as the respective principal notes.

Interest of J$3 043 845 087 (1999: J$2 385 282 609) being 26% (1999: 19.6%) of the Bank's interest income, represents interest on Finsac notes.

Interest has been settled by issue of additional notes as follows:

	2000 J$'000	1999 J$'000
Prior years	4 108 681	1 916 390
Current year	2 983 918	2 192 291
Accumulated amount since principal notes were first issued	7 092 599	4 108 681

6. Advances to banks and other financial institutions

During the year, the Bank made certain advances for the purpose of facilitating stability in the financial system.

7. International Monetary Fund - Quota Subscription

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

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

	SDR'000	2000 J$'000	1999 J$'000
Amount subscribed (net of reserve tranche of J$Nil):			
At beginning of year	31 125	1 611 150	1 526 551
Effect of exchange rate fluctuation	-	110 108	84 599
At end of year	31 125	1 721 258	1 611 150

8. Investments in financial institutions

	2000 (cost/wdv*) J$'000	1999 (cost/wdv*) J$'000	Equity holding %	Latest audited financial Statements	Retained earnings/ (deficit) J$'000
Subsidiary companies:					
Jamaica Export Credit Insurance Corporation Ltd. (in voluntary liquidation)	3 200	3 200	100.00	31.12.96	45 106
National Export-Import Bank of Jamaica Ltd. - Shares	-	50 000	- (1999: 50.00)	31.03.00	421 517
- Advance for shares	-	50 000			
- Promissory notes	141 885	148 638			
Associated company:					
Jamaica Export Trading Company Ltd.	150	150	50.00	31.03.99	(29 255)
Other:					
Jamaica Development Bank	10*	10*	17.35	31.03.97	(263 614)
	145 245	251 998			

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

During the year, the Bank sold all its shares in National Export-Import Bank of Jamaica Limited to the Government of Jamaica for one dollar.

9. Due from Government and Government Agencies

		Movement during the year			
	31 Dec 1999 J$'000	Advances/ Losses J$'000	Profit/ Settlements J$'000	Charged to expenses J$'000	31 Dec 2000 J$'000
Expenditure on behalf of Government:					
Payment of interest on certificates of deposit	1 686 875	-	-	-	1 686 875
Payment of exchange losses and interest on foreign liabilities [see (b) below]	4 937 184	248 164	(1 833)	(248 164)	4 935 351
Other expenditure on behalf of Government	187 335	-	(60 769)	(121 102)	5 464
Uncollected interest on Government securities and advances	5 230 937	730 283	-	-	5 961 220
Accrued interest on Government securities	936 306	707 962	(936 306)	-	707 962
Overdrafts - Government and Government Agencies	234 079	-	(78 845)	-	155 234
Net profit payable to Consolidated Fund [see (c) below]	(2 166 309)	-	(2 729 762)	-	(4 896 071)
	11 046 407	1 686 409	(3 807 515)	(369 266)	8 556 035

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

Advances made to the Government during the Bank's financial year ended 31 December 2000 amounted to J$730 283 000 (1999: J$179 589 000) which was 0.7266% (1999: 0.2156%) of the estimated revenue of Jamaica for the year of J$100.5 billion (1999: J$83.3 billion).

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

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

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

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

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

10. Fixed assets

	Freehold land and buildings J$'000	Leasehold property J$'000	Furniture, plant and equipment J$'000	Motor vehicles J$'000	Work-in-progress J$'000	Total J$'000
At cost or valuation:						
31 December 1999	881 066	962	467 608	22 929	35 787	1 408 352
Additions	29 778	187	66 549	24 169	28 162	148 845
Transferred during the year	9 617	-	26 170	-	(35 787)	-
Disposals/write-offs	(3 355)	-	(36 832)	(9 915)	-	(50 102)
31 December 2000	917 106	1 149	523 495	37 183	28 162	1 507 095
At cost	84 806	1 149	523 495	37 183	28 162	674 795
At valuation	832 300	-	-	-	-	832 300
	917 106	1 149	523 495	37 183	28 162	1 507 095
Depreciation:						
31 December 1999	49 194	333	228 649	13 096	-	291 272
Charge for the year	49 541	109	50 964	8 788	-	109 402
Eliminated on disposals/write-offs	-	-	(36 070)	(7 592)	-	(43 662)
31 December 2000	98 735	442	243 543	14 292	-	357 012
Net book values:						
31 December 2000	818 371	707	279 952	22 891	28 162	1 150 083
31 December 1999	831 872	629	238 959	9 833	35 787	1 117 080

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

11. Other assets

	2000 J$'000	1999 J$'000
Items in process of collection	457 340	572 047
Overdrafts	9 977	88 010
Staff and ex-staff loans	657 625	649 598
Stock of unissued notes and coins	279 944	302 635
Accrued interest receivable other than on GOJ securities and staff and ex-staff loans	1 152 052	1 026 334
Other	126 438	99 547
	2 683 376	2 738 171

12. Notes and coins in circulation

	2000 J$'000	1999 J$'000
Notes	19 811 008	20 263 645
Coins	761 220	545 815
	20 572 228	20 809 460

Section 21 of the Act requires the Bank to hold assets of an amount in value sufficient to cover the value of the total amount of notes and coins in circulation as defined in that section. The assets held shall include, *inter alia,* (a) gold; (b) "hard currency" cash, bank balances or securities issued by a foreign government or international financial institution of which Jamaica is a member; or (c) Special Drawing Rights. Specified assets held by the Bank as at 31 December 2000 were 2.33 (1999: 1.10) times the value of notes and coins in circulation at that date.

13. Deposits and other demand liabilities

	Payment on demand J$'000	Payable after notice J$'000	Payable on a fixed date J$'000	2000 J$'000	1999 J$'000
Government and Government agencies	85 274	17 600 000	-	17 685 274	17 732 768
Commercial banks and specified financial institutions	217 807	19 870 064	11 076 559	31 164 430	25 754 234
International Monetary Fund	-	-	58 828	58 828	58 828
Others	4 892 178	-	2 763	4 894 941	3 498 402
	5 195 259	37 470 064	11 138 150	53 803 473	47 044 232
Jamaica dollar equivalent of foreign currency deposits	1 621 511	6 080 535	1 432 159	9 134 205	8 952 383
Jamaica dollar deposits	3 573 748	31 389 529	9 705 991	44 669 268	38 091 849
	5 195 259	37 470 064	11 138 150	53 803 473	47 044 232

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

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

At the balance sheet date, the following obtained:

	2000 J$'000	1999 J$'000
Amounts included in deposit liabilities of the Bank, representing statutory reserves	21 302 675	23 648 546

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

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

At the balance sheet date the following securities were received as reverse repos:

	2000 J$'000	1999 J$'000
US$ certificate of deposits	-	118 000

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

	2000 J$'000	1999 J$'000
Jamaica Government Securities:		
Local registered stock	26 921 868	27 083 962
Investment debentures	270 526	287 654
Finsac bonds	14 964 083	-
	42 156 477	27 371 616

15. International Monetary Fund - Allocation of Special Drawing Rights

This represents the Bank's obligation for SDRs allocated to it. This allocation does not change unless there are cancellations or further allocations. There have been no further allocations or cancellations during the year (1999: nil) and, accordingly, the changes arise from exchange rate fluctuations.

	SDR'000	2000 J$'000	1999 J$'000
At beginning of year	40 613	2 102 285	1 991 898
Effect of exchange rate fluctuation	-	143 674	110 387
At end of year	40 613	2 245 959	2 102 285

16. Foreign liabilities

	2000 J$'000	1999 J$'000
Borrowings - Principal	358 818	417 922
- Interest	9 025	9 353
Unsettled balances on bilateral accounts for Caricom trade	10 854	12 250
	378 697	439 525

17. Other liabilities

	2000 J$'000	1999 J$'000
Interest payable	1 852 935	985 024
Staff and staff-related expenses	121 054	103 587
Other	73 344	83 964
	2 047 333	1 172 575

18. Foreign exchange gain

	2000 J$'000	1999 J$'000
Net unrealised gain on translation of foreign currency assets and liabilities and realised gain on settlement of foreign assets and foreign liabilities	1 712 799	1 338 568
Exchange gain on over the counter purchases and sales of foreign currency	1 800	1 590
	1 714 599	1 340 158

19. Operating expenses

	2000 J$'000	1999 J$'000
Operating expenses include the following charges:		
Depreciation	109 402	64 691
Auditors' remuneration	3 800	3 800
Payment for redundancies	6 254	12 114

20. Employee retirement benefits

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

(b) A preliminary report on the latest actuarial valuation of the scheme, carried out as of 31 December 1998, disclosed that, after taking credit for the scheme's net assets available for benefits at that date and for the Bank's normal annual contributions of 10% of members' salary, there was a surplus at the valuation date of J$400 200 000 in respect of past services. This surplus would allow the Bank to reduce its contribution by 9.2% to 5.4% per annum of the pensionable salaries of existing members throughout their expected future membership.

(c) In 1991, 1993, and 1994, the Bank granted increases to pensioners as a supplement to the pensions paid by the scheme. The preliminary actuarial valuation referred to in paragraph 20(b) also disclosed that for the scheme to take over these supplemental payments currently being paid by the Bank, a special contribution of J$19 464 000 would be required from the Bank as of the valuation date. No provision for this lump sum amount is included in the financial statements, and none was made in prior years, as the Bank has decided not to fund the scheme for this purpose but to bear the cost of supplemental payments when made.

In addition, the bank granted a further supplement to pensioners in 1997, 1998, 1999 and 2000. These suplemental pension payments amounted to J$24 720 292 for the year (1999: J$23 122 809), all of which have been included in post-retirement benefits in the Statement of Income and Expenses.

Contributions by the Bank to the pension scheme for the year were J$44 907 304 (1999: J$59 682 008).

21. Number of employees

The number of employees at the end of the year was 421 (1999: 421).

22. Capital commitments

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

	2000 J$'000	1999 J$'000
Authorised and contracted	14 130	28 260
Authorised but not contracted	8 030	28 690
	22 160	56 950

23. Contingent liabilities

At 31 December 2000, the Bank was a defendant in various relatively minor suits claiming damages. TheBank is of the view that the claims are generally without merit and will not result in any significant losses to the Bank.

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

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

In one of the cases which went to trial, in which US$3 million was being claimed from the Bank, the Jamaica Supreme Court and Court of Appeal found against the plaintiff. However, the matter is now the subject of final appeal before the Privy Council.

24. Financial instruments

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

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

(a) Fair value

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

Determination of fair value:

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

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

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

(b) Foreign currency risk

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

	2000 J$'000	1999 J$'000
Foreign currency assets	47 938 316	22 791 584
Foreign currency liabilities	(11 758 861)	(11 494 193)
Net foreign currency assets	36 179 455	11 297 391

(c) Interest rate risk

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

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

	2000						
	Within 3 months J$'000	12 months J$'000	Three to 12 months J$'000	Payable after notice J$'000	Non-rate sensitive J$'000	Total J$'000	Weighted average Interest rate %
Assets							
Notes and coins	-	-	-	-	31 663	31 663	-
Cash resources	23 483 212	-	-	-	12 892 221	36 375 433	6.54
Interest in managed funds	-	-	-	1 677 111	-	1 677 111	5.25
Foreign currency denominated securities	-	1 121 488	8 688 672	-	-	9 810 160	6.22
International Monetary Fund - Holding of Special Drawing Rights	-	-	-	-	3 822	3 822	-
Securities - marketable	40 962	3 064 535	24 825 122	-	-	27 930 619	20.38
Securities - non-marketable	-	-	26 955 128	-	2 209 346	29 164 474	11.79
Advances to banks and other financial institutions	2 921 425	-	-	-	-	2 921 425	47.95
International Monetary Fund - Quota Subscription	-	-	-	-	1 721 258	1 721 258	-
Investments in financial instituions	-	-	-	141 885	3 360	145 245	10.00
Due from Government and Government agencies	-	-	-	-	8 556 035	8 556 035	-
Fixed assets	-	-	-	-	1 150 083	1 150 083	-
Other assets	-	-	-	-	2 683 376	2 683 376	-
Total assets	26 445 599	4 186 023	60 468 922	1 818 996	29 251 164	122 170 704	13.47
Liabilities							
Notes and coins in circulation	-	-	-	-	20 572 228	20 572 228	-
Deposits and other demand liabilities:							
Jamaica dollar equivalent of foreign currency deposits	1 266 681	165 478	-	7 702 046	-	9 134 205	5.49
Jamaica dollar deposits	9 664 639	3 615 100	-	16 128 067	15 261 462	44 669 268	7.24
Securities sold under repurchase agreements	15 353 995	26 802 482	-	-	-	42 156 477	19.88
International Monetary Fund - Allocation of Special Drawing Rights	-	-	-	-	2 245 959	2 245 959	-
Foreign liabilities	-	-	358 818	-	19 879	378 697	8.31
Other liabilities	-	-	-	-	2 047 333	2 047 333	-
Capital and reserves	-	-	-	-	966 537	966 537	-
Total liabilities	26 285 315	30 583 060	358 818	23 830 113	41 113 398	122 170 704	14.93
On-balance sheet gap	160 284	(26 397 037)	60 110 104	(22 011 117)	(11 862 234)	-	
Off-balance sheet gap	-	-	-	-	-	-	
Total interest rate sensitivity gap	160 284	(26 397 037)	60 110 104	(22 011 117)	(11 862 234)	-	
Cumulative gap	160 284	(26 236 753)	33 873 351	11 862 234	-	-	

(d) Credit risk

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

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

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

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

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

	2000 J$'000	1999 J$'000
Jamaica	71 392 010	74 329 224
USA and other industrialised countries	45 897 034	20 796 471
Barbados	22 619	-
Multilateral Institutions	1 725 080	1 638 475
Other	1 952 215	1 857 224
Total financial assets	120 988 958	98 621 394

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