BANK OF JAMAICA

QUARTERLY MONETARY POLICY REPORT

APRIL - JUNE 2001

Volume 2 No. 1

Quarterly Monetary Policy Report

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CONTENTS

PREFACE

This issue of Bank of Jamaica's Quarterly Monetary Policy Report reviews the main factors that influenced inflation and the role of monetary policy during the June quarter. It also presents the Bank's perspective on future economic trends and the path of monetary policy over the short to medium term. This edition also includes features on the recovery of the banking system, the most recent Article IV consultation by the International Monetary Fund and Jamaica's sovereign credit rating by Standard and Poor's.

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

OVERVIEW

During the June quarter, Bank of Jamaica maintained its policy of gradually easing monetary and credit conditions as the macroeconomic fundamentals continued to strengthen. Core inflation again averaged about 1.0 per cent for the quarter, the exchange rate remained stable while production indicators pointed to further recovery in the real sector. In this context, the Bank reduced its signal interest rate by 125 basis points during the quarter to 14.25 per cent and lowered the cash reserve requirement by 1.0 percentage point to 11.0 per cent. One development of note, however, was the impact of the 33.0 per cent adjustment to bus fares on 2 June that pushed headline inflation for the quarter to 2.9 per cent and which created an isolated shock to the steady downward trend in inflation. This adjustment is expected to have very limited second-round effects and does not constitute a basis for tightening monetary policy.

Broad macroeconomic policy for fiscal year 2001/02 was set against the background of steady improvement in the economy and a strong endorsement of the Government's policy direction by the International Monetary Fund (see feature in Box 3). This improved outlook was reinforced by the upgrade of Jamaica's sovereign debt ratings by Standard and Poor's in early May (Box 1).

The assessments by the international agencies facilitated the completion of Government's external borrowing programme early in the fiscal year and helped to ease conditions in the domestic financial markets.

A substantial portion of the funds raised abroad was sold to Bank of Jamaica and the proceeds used by Government to settle local debt instruments as they matured. The liquidity thus generated exerted some pressure on the exchange rate as there was a shortage of domestic instruments in the context of a net redemption of Government securities. The

Bank responded to the additional demand for foreign exchange through sales to the inter bank market which resulted in a relatively stable rate of exchange over the period. Concurrently, the Bank added Certificates of Deposit to its menu of open market instruments. These were made available to Primary Dealers in the same tenors as reverse repurchase agreements. The additional capacity to manage domestic liquidity allowed the Bank to meet the target for base money for the quarter while leading the reduction in interest rates. Broad money supply growth is also estimated to have been within the target range.

Rates in the money market fell during April and May in the context of relatively liquid market conditions. However, some institutions had heavy borrowing requirements in early June and when combined with the auction of several tranches of LRS, liquidity conditions generally tightened during the month. By the end of the quarter therefore, short term market conditions had pushed up the yields on new medium term instruments. These increases were not precipitated by a change in the economic fundamentals and are likely to be reversed in the September quarter.

It was estimated that there was positive real growth in all sectors of the economy during the review quarter. The agriculture and mining sectors accounted for most of the improvements seen in the goods producing sectors with the manufacturing and construction sectors recording marginal growth. Within the services sector the prominent sub-sectors were basic services, distribution and miscellaneous services. The basic services sector was driven primarily by developments in the transport, storage and communication industries. The prospects for stronger growth have been boosted by evidence of recovery in the financial sector (Box 2) where, for several years during the restructuring process, there had been a sharp reduction in bank-funded investments.

Economic activity was disrupted in some parts of the Island for two days in July. Given the limited impact on major sectors such as agriculture, mining, manufacturing and distribution, the earlier prospects for expansion in these areas remain. However, the wide international publicity could have an impact on tourism bookings although strong efforts are being made to counter this. Overall, the trend expansion in GDP observed over the past two quarters is expected to continue for the rest of the year.

Despite the higher inflation outturn in the June 2001 quarter, inflation has maintained its stable downward trend observed over the past three years. This is also reflected in the annual average inflation, which following the slight increase in the latter part of 2000, continues to fall. This trend in inflation is expected to continue into the September quarter.

Assuming that oil prices stabilize, other components of imported inflation remain moderate, and the exchange rate remains stable, inflation in the September quarter is expected to be 2.0 per cent (± 0.3 percentage points). This would bring the twelve-month inflation to 6.2 per cent at end September. The main inflationary impulses are expected to emanate from seasonal increases in food prices and education costs, in addition to adjustments in utility and postal rates.

The major challenge to economic policy remains strengthening the recovery in the real sector. Despite positive signals from the financial markets over the past year, private sector credit demand remains sluggish. This has been associated with the slow decline in lending rates and the more stringent lending criteria applied by commercial banks. Although higher levels of investment will be required over the medium term, a continuation of growth over the short-term will have to come from significant improvements in productivity. As such, there is urgent need for speedy implementation of the proposed labour market reforms.

In sum, macroeconomic indicators since the start of the fiscal year continue to be favourable despite the temporary shock to inflation. The economic recovery is expected to continue in spite of the adverse effects of recent disturbances. Monetary policy will remain committed to the programme targets in support of the growth process.

1. Monetary Policy and Financial Markets

Money and Credit

Base Money

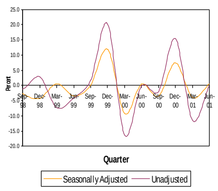
Base money growth in line with target.

The growth in the monetary base, the Bank's main operating target, has been in line with the macroeconomic programme. In this regard base money management continued to be a major factor in the containment of inflation during the quarter.

BOJ reduces cash reserve requirement and lowers signal rate.

The main monetary policy actions effected during the quarter were the reductions in the signal rate and the statutory reserve requirement. On 01 June, the Bank reduced the cash reserve requirement by one percentage point from 12.0 per cent to 11.0 per cent. Accordingly, the liquid asset requirement was also reduced by one percentage point to 29.0 per cent. The reduction in the cash reserve requirement contributed to increased levels of liquidity in the financial system. Against the background of increased liquidity and a stable foreign exchange market, the signal rate was reduced by 125 basis points to 14.25 per cent during the quarter.

Figure 1.1
Base Money
(Quarterly Change)



The financial system remained fairly liquid for most of the review quarter. This occurred in a context where funds raised on the international financial markets were used to finance a reduction in the outstanding stock of domestic debt, thereby facilitating a reduction in domestic interest rates. There was also a significant increase in the country's stock of official net international reserves (NIR). The increased levels of Jamaica Dollar liquidity was absorbed through the Bank's open market window, enabling base money to contract by 0.1 per cent and remain in line with target.

One of the major challenges faced by the Bank during the quarter was the sterilization of capital inflows generated from external borrowing by the Government. By the end of the quarter the Government had achieved the external commercial borrowing of US$400 million or approximately J$18 billion planned for the fiscal year.

The Bank added certificates of deposit (CDs) to its menu of open market instruments on 29 May 2001 in a bid to increase its open market capabilities. All the terms and conditions applicable to reverse repurchase transactions were made applicable to CDs, except for the underlying securities. This enabled the Bank to absorb $12.7 million in excess liquidity from the system through open market operations (**see Table 1.1**).

The stock of currency issued by the Bank of Jamaica contracted by 0.8 per cent over the period. This was expected however, since the quarter is normally characterized by relatively low currency demand. The currency to deposit ratio fell from 15.1 per cent at end March to 14.9 per cent at end June due to a faster growth in local deposits.

The declining trend in interest rates observed in the previous quarter continued throughout most of the June quarter. In the context of strong foreign inflows and relative stability in the foreign exchange market, the Bank effected a reduction in interest rates on the entire spectrum of its instruments towards the end of May and again at the beginning of June. The signal rate was first lowered from 15.5 per cent to 14.75 per cent and then to 14.5 and 14 .25 per cent. The increase in liquidity in the money market facilitated a decline in private money market rates, as well as those on Government instruments.

On 08 June, the rates on all tenors of reverse repurchases were reduced, except for those on the 270 and 365-day instruments. This occurred in a context of an increased preference for shorter term maturities by investors. The aim of the monetary authorities was to induce investors to move to the longer end by increasing the premium on the longer tenors.

Table 1.1

BOJ OPERATING TARGETS
June 2001
(Flows - J$mn)

	Actual	Target	Deviation
NIR	**11 694.1**	**2 300.5**	**9 393.6**
Net Dom. Assets	**-11 719.1**	**- 2 267.0**	**-9 452.1**
- Net Claims on Public Sector	303.0	8 450.2	-8 147.2
- Open Market Operations	-12 723.1	-11 841.5	-881.6
- Other	701.0	1 124.3	-423.3
Monetary Base	**-25.0**	33.5	-58.5
- Current Issue	-137.0	520.5	-657.5
- Cash Reserve	-77.9	-511.0	433.1
- Current Account	189.9	24.0	165.9
Growth (%)	-0.1	0.1	-0.2

Table 1.2

BOJ Signal Rate
(30-day Reverse REPO)

Date	**%**
Mar 31	15.50
May 21	14.75
June 08	14.50
June 25	14.25

Money supply growth slows relative to last quarter.

Money Supply[1]

The growth in all measures of domestic money supply slowed relative to the June 2000 quarter. The broad measure of money supply (M3J) increased by 2.3 per cent for the June 2001 quarter relative to the 2.1 per cent anticipated in the economic programme and the 4.1 per cent for the corresponding period last year. The twelve-month growth rate of 8.7 per cent as at end June 2001, compares favourably with the 15.7 per cent recorded in June 2000.

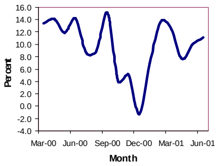
Table 1.3

M3J - Growth Rates			
		3 mths	**12 mths**
2000	Mar.	1.2	21.2
	June	4.1	15.7
	Sept.	1.4	9.0
	Dec.	4.1	10.9
2001	Mar.	0.6	10.7
	June	2.3	8.7

The increase in money supply was influenced by growth in savings, demand and other deposits, which was partially offset by a decline in time deposits. Deposits held by business firms and households drove the increase in demand deposits. However, savings deposits by business firms declined while savings accounts of individuals increased.

Demand deposits held by business firms have been increasing since the middle of the last fiscal year and could be an indication of an expansion in economic activity. On the other hand, there has been no clear trend in the holding of demand deposits by households. It should however be noted that retail outlets have been gradually discouraging the use of cheques in favour of debit and credit cards.

Figure 1.2
Currency in Circulation



12-month Growth

Currency with the public recorded marginal growth of 0.7 per cent relative to growth of 2.0 per cent for the June 2000 quarter. Annual growth rates in currency in circulation have exhibited a declining trend, due mainly to lower inflation and technological innovations in the payment system.

The major sources of the increase in money supply during the quarter were expansions in the NIR and banking system credit to the public sector (see **Table 6 in Appendix C**). During the quarter, the NIR was the major influence on the money supply in contrast to the corresponding June

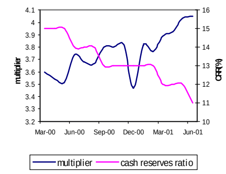
[1]Data on money and credit is provisional

2000 quarter where an expansion in credit to the public sector was the major influence.

Public sector credit exerts less influence on money supply.

Money supply including foreign currency deposits (M3*) is estimated to have grown by 2.2 per cent for the quarter relative to growth of 2.9 per cent for the corresponding period last year. The growth in the foreign currency component was reflected in demand and time deposits. Demand deposits denominated in foreign currency recorded strong growth of 21.0 per cent during the quarter relative to growth of 1.7 per cent during the June 2000 quarter.

Figure 1.3
Money Multiplier & Cash Reserves Ratio



Total foreign currency deposits increased by 1.8 per cent during the quarter as compared to an increase of 2.5 per cent in local currency deposits. There has therefore been no increase in the ratio of foreign currency deposits to total deposits, which has remained at approximately 24.0 per cent. This indicates that there has been no shift in the public's preference for foreign currency relative to Jamaica Dollars.

During the quarter the money multiplier increased to 4.06 following a further 1.0 percentage point reduction in the cash reserve ratio to 11.0 per cent. The currency to deposit ratio, although fluctuating, does not suggest any change in the public's preference for currency. The slight increase in the multiplier was therefore due to the decline in commercial banks reserves and not an increase in the currency to deposit ratio. The multiplier is expected to increase in the September quarter as the plan to further reduce the cash reserves ratio is effected.

Table 1.4

COMMERCIAL BANKS' PRIVATE SECTOR CREDIT
March ' 01 - June ' 01

	Stocks (J$MN)		Flows (%)	
	Mar ' 01	Jun 00	Jun 01	12 mth
Local	**25 295.3**	**0.7**	**0.5**	**1.1**
Development Bank	1 897.8	-1.5	4.0	-3.3
Other Private	23 397.5	0.9	0.2	1.5
Foreign	**7 282.6**	**8.0**	**-2.9**	**9.8**
Total	**32 577.9**	**2.1**	**-0.2**	**2.9**

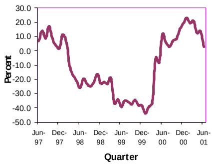
Private Sector Credit

The stock of commercial bank credit to the private sector declined marginally by 0.2 per cent during the quarter relative to a growth of 2.1 per cent for the corresponding quarter last year. This outturn was disappointing in light of the moderate growth of 1.2 per cent anticipated for the quarter and the improvements in the other economic variables. It was also hoped that the additional liquidity

Table 1.4

COMMERCIAL BANKS' LOANS AND ADVANCES J$MN	Jun 00	Mar 01	Jun 01
Agriculture	1 821	1 679	1 443
Mining	93	69	60
Manufacturing	2 830	2 837	2 824
Construction	1 853	2 132	1 715
Transport & Comm.	1 394	1 183	1 217
Tourism	4 791	4 672	4 561
Distribution	3 482	3 308	3 275
Professional	4 446	4 433	4 240
Personal	10 456	11 245	12 194
Electricity	79	848	783
Entertainment	288	126	97
Overseas	64	46	89
TOTAL	**31 597**	**32 578**	**32 498**

Figure 1.4
Loans to Business Sector
(12 month Growth)



injected through the redemption of some of the FINSAC securities would have also been used to boost private sector credit.

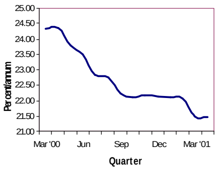
The reduction in credit was led by a decline of 2.9 per cent in foreign currency loans. This is in contrast to the strong growth of 8.0 per cent recorded during the June 2000 quarter. Conversely, there was an increase in local currency credit during the quarter. This was dominated by a 4.0 per cent increase in loans funded by the Development Bank of Jamaica as investors took advantage of the lower interest rates offered through this facility. During the quarter a total of $532.5 million was made available to the private sector through an agreement between the commercial banks and the Government whereby one half of the funds released from the reduction in the cash reserves ratio would be used to purchase Development Bonds from the Development Bank of Jamaica. This would create a pool of funds to be on-lent through the commercial banks at an interest rate of 8.0 per cent.

Among the traditional business sectors, Transport, Storage & Communication was the only sector to record an increased use of credit from the banking system. This sector grew by 2.9 per cent relative to a decline of 6.7 per cent for the corresponding period of the previous year and is expected to continue to show strong increase given the policy focus on the communications industry. Personal loans and loans to Overseas Residents also increased during the quarter. All other sectors recorded net repayments.

Within foreign currency loans, Agriculture & Fishing and Personal loans expanded by 7.6 per cent and 5.6 per cent respectively. The tourism and manufacturing sectors recorded net repayments during the quarter.

For the 12-month period ending June 2001, banking system credit to the private sector expanded by 2.9 per cent. Credit to the business sector expanded by 2.6 per cent over the twelve month period (**see Figure 1.4**). The twelve month

Figure 1.5
Commercial Bank Lending Rates
(Weighted Average)



growth in credit to the business sector has been positive since June 2000 and exceeded 12.0 per cent during the period November 2000 to May 2001. It should also be noted that having peaked at 22.9 per cent in January 2001, the growth rate has since shown a declining trend.

The weighted average lending rate was 21.41 per cent as at May 2001. This represented a decline of 2.39 percentage points relative to May 2000. The decline in commercial banks interest rates has been made possible through a lower cost of funds, improved efficiency in the commercial banks, declining rates on Government securities, increased competition and reductions in the cash reserve ratio.

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1 The Financial sector is comprised of banking, insurance and o non-deposit taking institution.

2 The Banking sector is comprised of commercial banks, institutions operating under the Financial Institutions Act and building societies

3 C. Barltrop and D. McNaughton (1992) ‘ Interpreting Financial Statements’ Banking Institutions in Developing Markets vol 2. World Bank

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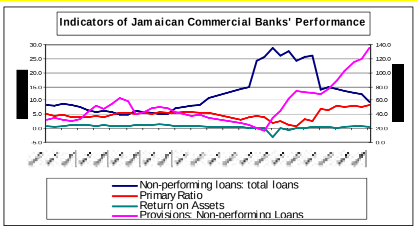

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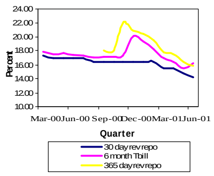
Prudential Indicators of Commercial Banks' Performance

	Dec-90	Dec-97	Dec-00	Jamaican Benchmark
Past due loans (3Mths& >): Total Loans (gross)[1]	8.2	28.9	9.5	<10.0
Provisions For loans Losses:				
Past due loans (3months & >)	32.2	34.4	136.5	
Capital Base: Total Assets[2]	4.2	1.9	8.4	6.0
Capital: Risk Weighted Assets	n.a.	1.5	21.9	10.0
Return on Average Assets	2.9	-3.2	2.6	0.6

1. The data as at March 1990 relates to past due loan 6 months and over
2. Total assets net of Provision for losses & Contingent Liabilities

Figure 1.6
Selected Interest Rates



Government's international bond offer oversubscribed.

Bond Market

The declining trend that was observed in interest rates for the March quarter continued into the quarter ending June 2001 (see **Figure 1.6**). The reduction in interest rates was made possible by the highly liquid money market conditions that existed for most of the period. There was however, a tightening of liquidity in the money market during the final month of the quarter, which led to a slight increase in interest rates.

Liquidity conditions were influenced mainly by the net redemption of Government's domestic debt during the quarter along with a one percentage point reduction in the Cash Reserve Ratio of financial institutions. The extent of the debt redemption was made possible through the Government's successful floating of a bond issue of US$400 million on the international capital market. With the receipt of these funds the Government's planned foreign commercial borrowing for the entire year was met within the first quarter. On 2 May, the Government approached the international capital market with the intention of borrowing US$150.0 million. However, the bond was oversubscribed allowing the take-up of US$275.0 million in the first tranche. Due to the high demand for the bond and favourable market conditions the bond was reopened to take-up an additional US$125.0 million.

This US$400 million issue (GOJ Global Bond 2011) was the Government's first 10-year Eurobond and its coupon rate was 11.75 per cent. This bond was also the longest tenor issued by the Government of Jamaica (GOJ) on the international capital market. The yield on the first tranche of this bond was 12.0 per cent while the second tranche was raised at a premium of 11.56 per cent. The relatively favourable rates were facilitated by Jamaica's improved economic conditions which were reflected in the upgrade on Jamaica's long term foreign currency debt from B to B+ by the international rating agency, Standard and Poor's (see Box 2).

The bond issue was successful despite uncertainty in some emerging markets such as Argentina. Following a downgrade of Argentina's sovereign debt at the end of March, Ecuadorian and Malaysian instruments were also downgraded in April prior to the issue of the bond by Jamaica. Unstable market conditions in the more advanced countries also made investors more cautious of speculative grade securities. The strong demand for the GOJ bond at the time therefore points to the improved outlook on Jamaica by international investors.

Table 1.6

GOJ Global Eurobond Yields (%)		
Maturities	**29 March 01**	**28 June 01**
2002	8.32	7.02
2003	8.88	7.84
2004	10.04	8.93
2005	10.45	9.63
2007	11.56	10.24
2011	-	10.78

Yields from the secondary trading of all outstanding GOJ Global bonds also declined during the June quarter relative to yields at the end of the previous quarter (see **Table 1.6**). The sharpest declines of 130 basis points and 132 basis points were on the eurobonds maturing in 2002 and 2007, respectively. The yield on the 2011 GOJ Eurobond that initially traded at 12.0 per cent fell to 10.78 per cent by 28 June.

Table 1.7

Treasury Bills Auctions June 2001 Quarter				
Issue Date	**Tenor (days)**	**Avg. Yield (%)**	**Allotment (J$MN)**	**Amount Maturing (J$MN)**
12 Apr	365	16.93	300	750
27-Apr	182	16.50	650	0
11-May	273	16.42	300	350
25-May	182	15.46	650	1100
22-Jun	84	15.75	350	0
22-Jun	182	16.20	650	0
Total			**2 900**	**2 200**

The Government's participation in the international capital market in the June quarter was in keeping with its plans to reduce debt raising on the local market in an effort to facilitate further reductions in interest rates. The plan also entailed the replacement of high cost domestic debt with lower cost foreign debt. Domestic debt instruments declined by $2.4 billion during the quarter (see **Table 1.8**).

The short-term debt raising activities of the Government during the quarter involved five Treasury Bill auctions (see **Table 1.7**) which raised a total of $2.9 billion. This represented incremental borrowing of $700.0 million and brought the stock of outstanding Treasury Bills to $6.9 billion relative to a ceiling of $12.0 billion.

On the first four auctions there was a decline in the yields relative to those prevailing at the end of the previous quarter, with the 182-day Treasury Bill yield declining to a low of 15.46 per cent, the lowest since 1991. However, the yield from the final auction of the 182-day tenor held on 22

Figure 1.7
Yield Curves - GOJ Treasury Bills

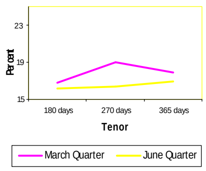


Figure 1.8
Yield Curves - GOJ Medium to Long-term Debt (June Quarter)

June increased by 74 basis points due to low levels of liquidity in the system at the time of the auction. Notwithstanding this increase, the yield of 16.20 per cent at the close of the quarter was 73 basis points below that of the same tenor at the end of the March quarter. Interest rates on the 365-day and 273-day tenors also declined relative to auctions of the same tenors in March and February, respectively. As a result of the decline in interest rates there was a downward shift in the Treasury bill yield curve (see **Figure 1.7**).

There were six offers of medium to long-term LRS instruments during the June quarter relative to two auctions in the previous quarter. Despite the increase in the number of issues, the GOJ was able to reduce the outstanding stock of LRS during the quarter by $1.6 billion. The total LRS issue was $11.2 billion replacing $12.8 billion in maturing instruments (see **Table 1.8**). The Government's LRS issues during the quarter included 3-year, 5-year, 7-year, 10-year and 12-year tenors. The 12-year tenor was the first auction of its kind in keeping with plans by the Government to extend the maturity of its debt.

In keeping with the trend in short-term interest rates, yields on GOJ medium to long-term instruments also declined (**see Appendix C, Table 1B**). At the close of the quarter, the yield on the ten-year instrument was 322 basis points less than the yield of 19.12 per cent at the end of the previous quarter. Yields on the 5-year and 7-year instruments declined by 265 and 296 basis points, respectively, relative to the last issue in the previous quarter. The yield on the 12-year tenor of 16.12 per cent was 186 basis points lower than the yield of its first issue on 24 April. Primary dealers have expressed a preference for the twelve-year instrument due to the strong demand on the secondary market from pension funds.

There was also a five-year fixed rate US dollar index-linked bond issued on 15 June, which offered an interest

Table 1.8

GOJ Domestic Debt Raising April - June 2001			
	Amount Allotted (J$MN)	**Amount Maturing** (J$MN)	**Net Redemption** (J$MN)
Treasury Bills	2 900.0	2 200.0	-700.0
LRS	11 200.0	12 789.0	1 589.0
Debenture	0.0	2 609.5	2 609.5
US$Index bonds	1 127.8	0	-1 127.8
TOTAL	**15 227.8**	**17 598.5**	**2 370.7**

Figure 1.9
Private Money Market Rates

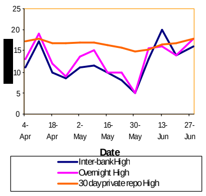
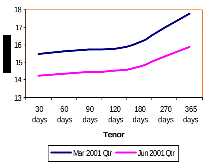


Figure 1.10
Yield Curve - BOJ Open Market Rates



rate of 12.0 per cent. The stock of outstanding debentures declined as the $2.6 billion in debentures that matured in May were not replaced (see **Table 1.8**).

On the private money market, overnight and inter-bank rates fluctuated significantly with liquidity conditions while the 30-day private repurchase rate was less volatile (see **Figure 1.9**). Overnight rates fluctuated between a high of 19.2 per cent to a low of 5.0 per cent while inter-bank rates fluctuated between 20.0 per cent and 5.0 per cent. Private 30-day repurchase rates varied between 14.85 per cent and 18.0 per cent. With liquidity tightening towards the end of June there was an observed upward movement in rates.

The reduced presence of the Government in the local market coupled with foreign exchange market stability and low inflation facilitated further cuts in interest rates across the entire range of BOJ open market instruments (see **Figure 1.10**). In this regard, the signal rate on the 30-day instrument of 14.25 per cent at the end of the June quarter was less than the rate anticipated. During the period, the premium on the longer tenors of BOJ instruments was also reduced.

During the quarter, the yield on 30 to 120 day instruments was reduced by 125 basis points, while those on the 180 and 270-day instruments were lowered by 140 basis points. The most significant reduction was effected on the 365-day instrument, which declined by 160 basis points.

The commitment of Government to reduce borrowing from the local market and the fact that it was able to source all its international debt financing requirements in the first quarter, augur well for continued reductions in interest rates.

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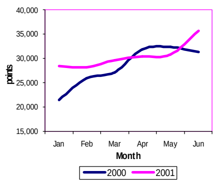
Category	Ratings assigned as at 14 Dec. 2000	Ratings assigned as at 22 June 2001
Long-term local currency credit	B+	BB-
Long-term foreign currency credit	B	B+
Short-term local currency credit	B	B
Short-term foreign currency credit	B	B
Rating Outlook	Positive	Stable

Stock Market

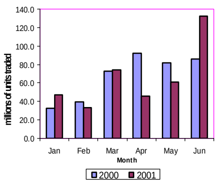
The stock market recorded a mixed performance for the review quarter. During April and May there was moderate trading on the market. However, during June there was an upsurge in activity as the market reacted to the continued lowering of interest rates. Further, a moderation in Government's domestic debt raising activities also supported activity in the stock market.

Figure 1.11
Movements in the JSE Index for 2000 and 2001



For the June quarter, average monthly trading volumes were 79.5 million units relative to 86.6 million units for the comparable quarter in 2000. In addition, the average monthly value traded declined to $394.6 million from $465.7 million. The average number of transactions also declined to 2382 from 2561 in the June 2000 quarter.

Figure 1.12
Volume Traded on JSE Index for 2000 and 2001



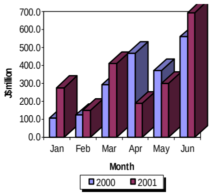
The monthly average volumes traded for April and May 2001 were 53.2 million units. However, during June there was a marked recovery in market volume with 132.2 million shares traded (see **Figure 1.12**). Similarly, **Figure 1.13** shows that the value traded increased significantly in June from relatively low levels for April and May 2001. During June, the value of shares traded on the stock market rose to $694.5 million from an average of $244.7 million for April and May.

Consequently, the stock market index advanced by 20.3 per cent between the end of March 2001 and the end of the June 2001. Further, at the end of June 2001 the JSE index was 35,723.5 points, an increase of 13.9 per cent relative to the 31,338.3 points recorded at the end of June 2000. Following on this trend, the All Jamaica Composite Index and the Jamaica Select Index also recorded advances. The All Jamaica Composite Index at the end of June 2001 was 37,419.27 points, a gain of 20.4 per cent relative to June 2000. The Jamaica Select Index also gained 19.3 per cent, closing at 1,163.8 points at the end of June 2001.

Lower interest rates influence market activity.

The surge in stock market activity in June was primarily attributable to the continued reduction in domestic interest

Figure 1.13
Value Traded for 2000 and 2001



rates. Positive expectations regarding the Central Bank's ability to sustain lower interest rates increased the attractiveness of equity investments. With lower domestic interest rates and relative exchange rate stability, the earnings differential between equity investments and other investment options such as government securities has widened.

Against this background the Government's debt raising strategy had a significant impact on the stock market. The net redemption of Government instruments aided in the lowering of interest rates but also contributed to a reduction in investment opportunities. Further, the Government extended the maturity profile of the securities offered to the market. For investors with a short to medium term outlook, these securities would be relatively less attractive. Accordingly, the viability of the stock market as an alternative form of investment was enhanced.

Table 1.9

Top Ten Performers for June 2000 - June 2001	Open (J$)	Close (J$)	Gain %
Other Services			
Palace Amusement	15.00	42.50	183.3
Financial Services			
Life of Jamaica	1.65	4.00	142.4
Trafalgar Dev. Bank	2.09	4.50	115.3
Dehring, Bunting & Golding	2.90	5.75	98.2
Dyoll	3.2	6.25	94.1
Pan Jam Investments	7.49	12.00	60.2
First Life	4.85	7.30	50.5
Manufacturing			
Berger Paints	3.05	5.00	63.9
Jamaica Broilers	1.55	2.50	61.2
Goodyear (Ja)	7.50	11.00	46.6

At the microeconomic level, the strong profit performance and recovery of many listed firms continued to drive the appreciation in stock prices and contributed to the positive performance of the stock market. **Table 1.9** shows the top ten performing stocks for the twelve-month period ending June 2001. Notably, Life of Jamaica (LOJ) has shown significant appreciation in its stock price. This is against the background of the completion of its capital restructuring agreement with FINSAC and the sale of the company to Barbados Mutual.[1] LOJ recorded strong growth in income, an improvement in sales performance and has continued to maintain a dominant share of the ordinary life, group health and pension market.

JSE adds three new brokerages.

At the institutional level, there was an expansion in the membership of the JSE with three new licences granted to operate stock brokerages, increasing the number of brokerage firms to nine. The increase in market activity as

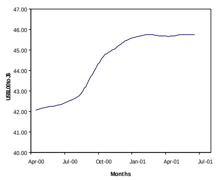
[1]LOJ was suspended in June 2000 due to the failure to meet an extended deadline for disclosure of financial performance. LOJ was reinstated on 18 June 2001.

evidenced by advances in the stock market index, as well as improvements in the operational efficiency of the JSE has contributed to the interest being shown by many financial firms in the stock market. The electronic trading system and the establishment of the Jamaica Central Securities Depository (JCSD) has increased the efficiency and speed of trades, as well as, lowered settlement risk. Further, for companies involved in the provision of asset management and financial advice services, the establishment of a stock brokerage allows for an expansion and greater synergy in their range of financial services. The increase in the number of market players is expected to add dynamism to the market by helping to generate greater investor interest in equities, thereby stimulating the primary market.

A positive performance of the stock market for the next quarter is contingent on the maintenance of low real interest rates and relative stability in the exchange rate. The growth in the economy will benefit listed firms by providing greater opportunities for profitability and business expansion.

Foreign Exchange Market

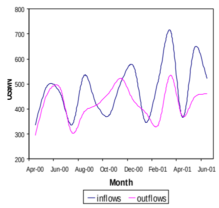
Figure 1.14
Weighted Average Selling Rate
(period average)



The foreign exchange market was relatively stable in the June 2001 quarter. The weighted average selling exchange rate moved from US$1.00 = J$45.68 at end-March 2001 to US$1.00 = J$45.82 at end-June 2001. This represented a depreciation of 0.31 per cent compared with the 0.33 per cent depreciation observed for the previous quarter. Similarly, the average of the daily selling rates during the review quarter depreciated marginally by 0.07 per cent, from US$1.00 = J$45.71 for the March quarter to an average of US$1.00 = J$45.74 for the June quarter. This compared favourably with the depreciation of 1.37 per cent realized for the previous quarter (**Figure 1.14**). Despite the overall moderation in the market, there was evidence of intra-quarter fluctuations, brought on by enhanced private capital outflows, related in part to demand for foreign exchange to facilitate trade and investment in the Government of Jamaica debt on the Eurobond market. The relative stability in the market was, however, achieved by the Bank of Jamaica augmenting supply to facilitate orderly trading.

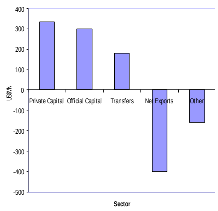
Bank of Jamaica's preliminary estimates of overall foreign exchange flows within the economy for the June quarter suggest that the supply of foreign exchange exceeded demand by US$254.2 million (**Figure 1.15**). Relative to the corresponding quarter in fiscal year 2000/01, total supply of foreign exchange was estimated to have increased by US$297.9 million to US$1610.6 million, while the estimated demand expanded by US$78.8 million to US$1356.4 million.

Figure 1.15
Foreign Exchange Cash Inflows & Outflows



The supply of foreign exchange to the economy was boosted by net official capital inflows amounting to approximately US$313.9 million, reflecting the receipt of approximately US$402.0 million from the Eurobond market. The flows from the Eurobond market were received in two tranches of US$275.0 million and US$126.9 million in May and June, respectively. In addition, the economy benefited from net inflows from transfers and private capital, the latter reflecting the remaining proceeds of US$35.0 million from the divestment of the Jamaica Public Service Company (JPSCo) (**Figure 1.16**).

Figure 1.16
Net Foreign Cash Inflows by Selected Sectors
(April - June 2001)



The Bank estimates that, in addition to the increased outflows associated with the Government of Jamaica debt raising on the Eurobond market, demand for visible trade and other services also increased relative to the corresponding quarter in 2000. Whilst increased demand was experienced for raw material and capital goods, the bulk of the growth in demand for foreign exchange to facilitate trade emanated from the demand for consumer goods, in particular, motorcars and cellular telephones. The growth in demand for foreign exchange to facilitate payments for other services ensued largely from increased net transportation payments.

Despite the improvement in foreign currency flows to the overall system, the operations of the authorized dealers and

Figure 1.17a
Foreign Exchange Cash Inflows by Institutions

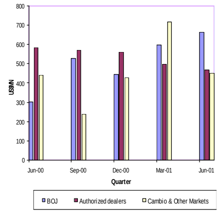
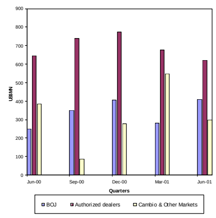


Figure 1.17b
Foreign Exchange Cash Outflows by Institutions



cambios reflected net outflows. Compared with total sales by the authorized dealers for the quarter of US$620.4 million, total purchases amounted to US$467.0 million (see **Figure 1.17a and 1.17b**). While outflows of foreign exchange over the review period approximated those for the corresponding quarter of the previous fiscal year, total purchases by the authorized dealers decreased by US$115.9 million. The decrease in purchases for the review quarter reflected lower services and private capital inflows. Total purchases by cambios, relative to the June 2000 quarter, declined by US$140.9 million to US$299.1 million. Concurrently, total sales declined by US$65.7 million to US$341.7 million.

While the foreign exchange market was relatively stable over the review period, there were intra-quarter fluctuations in the exchange rate, particularly in May. Demand pressures surfaced from as early as the middle of April, prompted by the anticipated availability of the first tranche of the Jamaican Government's Eurobond offer, which was floated in May. These pressures intensified following the re-opening of the offer towards the end of May. In response, the Bank of Jamaica sold foreign exchange to the market in May, which served to assuage the demand pressures in the opening week of June. While the exchange rate appreciated over the first half of June, increased end user demand to facilitate the purchase of imports surfaced towards the latter part of the month. In addition, some amount of market instability was associated with the Government's US dollar indexed bond offer on the domestic market in the middle of June.

Despite the relatively active posture of the Bank in the foreign exchange market, the net international reserves attained a new record level of US$1540.5 million at the end of June 2001. This represented an increase of US$254.2 million relative to the stock at the end of March 2001 and exceeded the target set in the IMF's Staff Monitored Programme (SMP) by US$204.2 million (**Table 1.10**).
As noted earlier, while this growth substantially reflected net official capital flows, the system also benefited from

Table 1.10

Net International Reserves (US$MN)		
	Stock	**Change**
Apr-00	744.0	
May-00	776.3	32.3
Jun-00	756.5	-19.8
Jul-00	788.7	32.2
Aug-00	935.4	146.7
Sep-00	935.5	0.1
Oct-00	845.7	-89.9
Nov-00	831.7	-14.0
Dec-00	969.5	137.8
Jan-01	931.2	-38.3
Feb-01	1 106.6	175.4
Mar-01	1 286.3	179.7
Apr-01	1 281.8	-4.5
May-01	1 480.6	198.8
Jun-01	1 540.5	59.9

net inflows from transfers and private capital. As a result of the overall positive supply of foreign exchange to the economy, the gross reserves at the end of June amounted to US$1612.5 million, representing 27.2 weeks of estimated goods imports or 18.7 weeks of estimated goods and services imports. The import cover compares favourably with the international benchmark of 12.0 weeks of estimated goods and services imports. Further, the NIR now covers 233.0 per cent of base money, up from 194.0 per cent at end March 2001.

2. Real Sector Developments

Table 1.10

Sectoral Contribution to Growth First Quarter 2001/02	Estimated Impact on Growth
1. GOODS	+ve
AGRICULTURE FORESTRY & FISHING	+ve
MINING & QUARRYING	+ve
MANUFACTURING	+ve
CONSTRUCTION & INSTALLATION	+ve
2. SERVICES	+ve
BASIC SERVICES	+ve
Electricity & Water	+ve
Transport Storage & Communication	+ve
OTHER SERVICES	+ve
Distributive Trade	+ve
Financing & Insurance Services	+ve
Real Estate & Business Services	+ve
Producers of Government Services	+ve
Miscellaneous Services	+ve
Households & Private Non-Profit Instit	+ve
TOTAL GDP	+ve

Overview

An assessment of the performance of the real sector for fiscal year 2000/01 suggests significant improvements relative to the previous fiscal year. The improved performance was due to the services sector, with partially offsetting contraction in the goods producing sector. The positives of 2000/01 are expected to continue into the current fiscal year, as conditions that had resulted in the contraction of the goods sector have ameliorated.

For the quarter under review, the preliminary assessment of real sector activities indicates that the economy grew relative to the corresponding quarter of the previous year. The improved performance is attributable to expansion in both the goods and services sectors of the economy.

Growth estimated in both goods and services sectors.

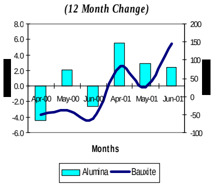
Aggregate Supply for June Quarter

For the review quarter, real growth was estimated in all sectors of the economy. The **agriculture** and **mining** sectors accounted for most of the improvements seen in the goods producing sectors with the **manufacturing** and **construction** sectors recording marginal growth. Within the services sector the prominent sub-sectors were **basic services**, **miscellaneous** and **distribution**.

Domestic crop production increases.

The estimated growth in the **agriculture** sector was derived from improvements in the production of domestic crops, which was partially offset by a decline in crops produced for the export market. The performance of domestic agriculture benefited from the favourable weather conditions that have continued from mid-2000. These conditions led to improvements in crop establishment and an increase in planting activities both facilitating a return to normal levels of production for short-term crops. The output of export agriculture was dominated by the poor performance of banana and citrus, which offset the expansion in sugar cane production. The increase in sugar cane production relative to the corresponding 2000 quarter was due to the late reaping of the crop in 2001. The decline in citrus exports was a result of the deadly tristeza virus, which has plagued the industry.

Figure 2.1
Crude Bauxite & Aluminium Production
(12 Month Change)



There was a continuation of the growth observed in the **mining** sector from the March 2001 quarter into the review quarter (see **Figure 2.1**). Bauxite production is estimated to have increased in the June 2001 quarter relative to the corresponding quarter of 2000. The increase in production was due to the full resumption of processing at the Gramercy alumina plant, which triggered full capacity utilization at the local Kaiser Bauxite Company. In addition to bauxite production, alumina production also increased in the quarter.

The **manufacturing** sector is estimated to have grown marginally in the review quarter, relative to the corresponding quarter of the previous year. This assessment is based on expansions in non-alcoholic and alcoholic beverage production and petroleum refining. However, an estimated decline in the value added of other industries had an adverse impact on the performance of the sector. Contractions in value added were observed in the sugar, molasses and rum, tobacco and tobacco products and textiles & apparel industries. Frequent power outages during the review quarter had a negative influence on overall production in the sector.

Significant growth in basic services.

The **basic services** sector, which comprises the electricity & water and transport, storage & communication industries, is estimated to have grown significantly in the quarter. The growth in the sector was driven primarily by developments in the transport, storage & communication sub-sectors. The expansion in the communication sector was observed with the entrance of a new cellular telephone service provider. Increased competition has also served to enhance the value added of the industry. The transportation sub-sector benefited from an increase in services offered as

Figure 2.2
Electricity Sales

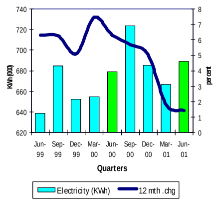
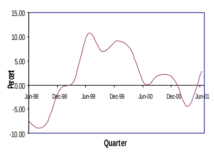


Figure 2.3
Consumption Tax
(12 month change)



additional buses were introduced in the urban transportation system.

Notwithstanding the problems in the electricity sub-sector in the review quarter, electricity production and sales are estimated to have increased relative to the corresponding quarter in fiscal year 2000/01. Furthermore, water 'production" is estimated to have grown based on improvements in rainfall in contrast to the drought conditions that existed in the corresponding quarter of the previous year.

Marginal growth is estimated for **distribution** sector in the review quarter relative to the corresponding period in fiscal year 2000/01. This growth is inferred partly from increases in merchandise imports and loans to the sector. The estimated growth in agriculture and manufacturing also served to enhance the vibrancy of this sector.

The **miscellaneous** sector, which includes the hotel, restaurant & club industry, is also estimated to have grown over the review period. The tourism industry, the primary indicator for the sector, was estimated to have performed well over the period as the positive trend seen in the industry over the previous year has continued. Visitor arrivals and expenditure for the first two months of the quarter were higher by 2.7 per cent and 3.6 per cent, respectively, relative to April and May 2000.

Aggregate Demand for June Quarter

For the June quarter, indicators suggest that real consumption spending increased relative to the corresponding quarter of the previous year (**Figure 2.3**). Of significance, was the growth in Government spending relative to the June 2000 quarter (**Figure 2.4**). The upward trend in private consumption is encouraging and is indicative of positive developments in the economy. However, if not managed carefully this development can have negative consequences for inflation and the balance of payments.

Figure 2.4
Government Consumption
(12 month change)

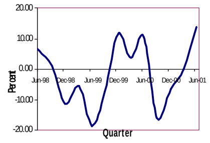


Figure 2.5
Government Capital Expenditure
(12 month change)

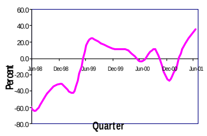
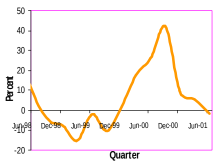


Figure 2.6
External Demand
(12 month change)



Indicators of investment in the June quarter suggest an increase when compared to the corresponding quarter of the previous year. Public investment as proxied by Government's capital expenditure increased relative to the corresponding quarter of last fiscal year. For private investment, an estimate of foreign direct investment indicates an expansion relative to June 2000 quarter (although this represents a decline relative to the previous quarter). The importation of raw materials and capital goods has also shown a marginal increase when compared to June 2000 quarter.

Net external demand declined relative to the corresponding quarter of the previous year (see **Figure 2.6**). This reflected mainly a fall in the external demand for goods and services, as there was a decline in exports.

The indicators suggest that overall aggregate demand expanded in the review quarter, as despite the decline in net external demand, both investment and consumption increased.

Figure 3.1
Quarterly Headline & Core Inflation

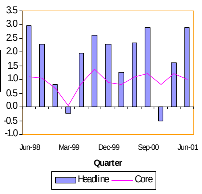
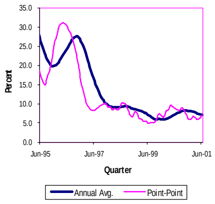


Figure 3.2
Annual Average & Point to Point Inflation



Headline Inflation

Inflation as measured by the Consumer Price Index (CPI) was 2.9 per cent for the June quarter. This outturn was 0.6 percentage point above the rate recorded for the corresponding quarter of the previous fiscal year (see **Figure 3.1**). However, the twelve month point to point inflation at the end of June 2001 of 7.06 per cent compares favourably with the 8.8 per cent recorded in June 2000. The annual average inflation at end June was 7.1 per cent, similar to the rate at June 2000 (see **Figure 3.2**). Over the quarter, price increases of 0.4, 0.8 and 1.7 per cent were recorded for April, May and June, respectively.

The higher than usual inflation for the quarter, and particularly for June, emanated from the 33.0 per cent increase in bus fares which took effect on 02 June. Accordingly, the Transportation sub-index expanded by 22.6 per cent and contributed 77.7 per cent to the overall inflation outturn for the month of June and approximately 50.0 per cent of the inflation outturn for the quarter.

Inflation for the quarter was 1.2 percentage points higher than projected[1]. The March 2001 Quarterly Monetary Policy Report (QMPR) had identified the possible escalation in the administered bus fares as a major risk factor in the inflation projection. A fare increase was imminent given surges in operating costs. When fares were last adjusted in the June 1998 quarter a barrel of West Texas Intermediate crude sold for US$12.72 compared to US$27.85 for the corresponding period of 2001.

[1]Inflation for the June quarter was projected at 1.4 to 2.0 per cent with a mid-point of 1.7 per cent - see QMPR, January - March 2001, pg. 33.

Figure 3.3
Inflation: All Group & Transportation

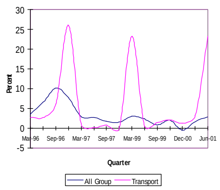


Figure 3.3 provides a comparison of the percentage change in the All Group inflation index with that for the Transportation sub-index since March 1996. The evidence supports three important conclusions. First, adjustments to bus fares tend to be large and discrete. Second, fare increases have resulted in noticeable increases in inflation during the quarter of introduction. Third, neither the bus fare increase in the March quarter 1996 nor that in the June quarter 1998 resulted in significant inflation in subsequent quarters.

Based on the historical evidence, the recent fare rise is expected to have very marginal second-round impact on inflation in subsequent quarters. This is predicated on the observation that operators of private transport services have moderated their fares in order to compete with the Jamaica Urban Transport Corporation (JUTC). Furthermore, there has been no change in macroeconomic policy, economic fundamentals or the anti-inflation stance of the Central Bank. Hence, there is no rationale for anticipating heightened inflationary expectations.

Despite the shock to the Transportation sub-index, several factors assisted in restraining inflation during the quarter. The most prominent domestic factor was the relative stability of the Jamaica Dollar against its United States counterpart. The external factors included stable international oil and imported food commodity prices.

Figure 3.4
Relative Exchange Rate Stability

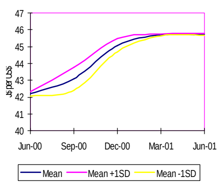


Figure 3.4 demonstrates that the exchange rate has become increasingly more stable since the September 2000 quarter, and particularly more stable since the March quarter. The improved stability was largely a consequence of strong foreign exchange inflows derived from Central Government external borrowing, transfers and private capital. Inflationary pressures arising from exchange rate movements were therefore negligible during the quarter.

Another moderating factor to domestic inflation during the review quarter was the marginal reduction in international

Figure 3.5
Average Price of West Texas Intermediate Crude

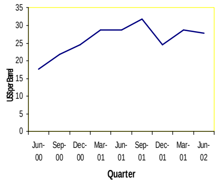


Table 3.1

International Prices of Selected Commodities (US$)			
Commodity	**Units**	**Apr - Jun 2000/01**	**Apr - Jun 2001/02**
Vegetable Oils			
Coconut oil	$/mt	489.3	302.7
Groundnut oil	$/mt	728.7	697.7
Soybean oil	$/mt	345.3	310.7
Grains			
Soybean Meal	$/mt	186.3	172.0
Soybean	$/mt	223.0	186.3
Maize	$/mt	92.0	85.1
Sorghum	$/mt	88.5	92.9
Wheat			
(Canada)	$/mt	148.0	152.4
Rice (A1)	$/mt	143.7	124.4
Exports			
Sugar (EU)	Cts/kg	56.18	53.12
Sugar (US)	Cts/kg	42.32	44.96
Sugar (World)	Cts/kg	15.65	20.15
Banana (EU)	$/mt	720.7	834.90

oil prices (see **Figure 3.5**). The average price per barrel of West Texas Intermediate (WTI) crude declined from US$28.80 in the March 2001 quarter to reach US$27.85 in the review quarter. Nevertheless, the average price for the June quarter was 13.3 per cent higher than the price attained during the December 2000 quarter.

Table 3.1 indicates that international prices of selected foods imported into Jamaica have recorded significant declines over the quarter. Consequently these commodities did not adversely influence the domestic CPI.

In terms of traditional commodity exports, **Table 3.1** reveals that raw sugar prices improved on the world and United States markets, but declined in the European Union (EU). Banana prices in the EU improved substantially but so did the competition for that lucrative market. Declining export prices for sugar and lower export volumes for bananas in the important EU market, coupled with market uncertainties have served to restrain wage demand in these two sub-sectors thereby contributing to lower wage push inflation.

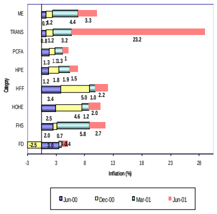
Contribution to Inflation

The contribution of each expenditure category to the inflation outturn over four quarters is summarized in **Figure 3.6**, with details for the review period presented in **Table 2** of **Appendix C**. **Figure 3.6** shows the extent to which each expenditure category influenced the CPI during different quarters.

The **Transportation** sub-index exerted the strongest influence on overall inflation during the review quarter. This sub-index grew by 23.2 per cent and contributed 50.6 per cent to overall inflation for the quarter. This is in stark contrast to the corresponding period last year when the sub-index expanded by 0.8 per cent and contributed 2.3 per cent to overall inflation.

The **Food & Drink** sub-index transmitted the second strongest inflationary impulse during the quarter,

Figure 3.6
Structure of Quarterly Inflation



FD=Food & Drink; FHS = Fuels & Other Household Supplies; HOHE = Housing & Other Housing Expenses; HFF = Household Furnishings & Furniture; HPE = Health Care & personal Expenses; PCFA = Personal Clothing Footwear & Accessories; TRANS = Transportation; ME = Miscellaneous Expenses.

advancing by 1.1 per cent and contributing 19.7 per cent to overall inflation. This was substantially lower than the corresponding period last year when the sub-index increased by 3.0 per cent and contributed 68.0 per cent to overall inflation. The components of the **Food & Drink** sub-index imparting the largest inflationary pressure were Starchy Foods (mainly yams, irish potatoes and dasheens), Vegetables & Fruits, Baked Products Cereals & Breakfast Drink and Other Foods & Beverages.

During the quarter the **Housing & Other Housing Expenses** group was the third most important contributor to inflation. This expenditure group increased by 2.0 per cent while contributing 9.2 per cent to overall inflation. For the comparable period last year the **Housing and Other Housing Expenses** sub-index grew at a slightly faster pace, increasing by 2.5 per cent while contributing 10.3 per cent to overall inflation.

A disproportionate share of the growth in this sub-index was attributable to rental of residential units in the Kingston Metropolitan Area (KMA). However, the **Other Housing Expenses** sub-group exerted a modest countervailing influence. The first countervailing factor was the reduction in water rates resulting from removal of the charges designed to recover expenditure on equipment rehabilitation. The second mitigating factor resulted from lower electricity bills derived from a reduced fuel rate.

The **Miscellaneous Expenses** sub-index ranked fourth in terms of contribution to the inflation outturn over the quarter. This expenditure group expanded by 3.3 per cent and was responsible for 9.0 per cent of overall inflation. This contribution to inflation was substantially higher than the comparable period last year when it increased by 0.7 per cent and contributed 2.6 per cent to the inflation outturn. The main items contributing to the increase were magazines, tickets to plays and cinemas, writing materials and novels.

Table 3.2

Regional Inflation (%)	KMA	Other Towns	Rural
FOOD & DRINK	**0.45**	**1.95**	**1.54**
- Starchy Foods	2.11	5.75	4.58
- Vegetables & Fruits	-1.01	8.48	2.12
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.88**	**2.86**	**4.87**
- Fuels	1.35	4.56	8.09
HOUSING & OTHER HOUSING EXPENSES	**4.56**	**-1.76**	**-1.24**
- Rental	24.06	0.12	0.12
HOUSEHOLD FURNISHINGS & FURNITURE	**0.97**	**0.39**	**2.65**
- Furniture	-0.97	11.72	11.89
HEALTHCARE & PERSONAL EXPENSES	**1.30**	**1.61**	**1.63**
PERSONAL CLOTHING FOOTWEAR & ACC.	**1.23**	**0.65**	**1.02**
TRANSPORTATION	**42.16**	**5.81**	**9.08**
MISCELLANEOUS EXPENSES	**0.77**	**10.58**	**2.34**
ALL GROUPS	**3.43**	**2.96**	**2.19**

Table 3.2 shows that for the review quarter, inflation was highest in the KMA region followed by Other Towns and Rural Areas. However, the sub-indices exerting the strongest inflationary impulses varied across regions.

The **Transportation sub-index**, through the regulated bus fare increase exerted the strongest upward pressure on inflation in the KMA. On average, bus fares in the KMA increased by 75.0 per cent. In contrast, fares in Other Towns and Rural Areas rose by 19.0 per cent.

The second most important price pressure in the KMA originated within the **Housing & Other Housing Expenses** category, which was dominated by the Rental sub-group. The KMA recorded a 24.1 per cent increase in Rental. Price changes for this sub-group were insignificant in Other Towns and Rural Areas. The principal reason for increases in the KMA was the relatively high level of demand for one, two and three-bedroom units.

For the Other Towns the impetus came from the **Miscellaneous Expenses, Transportation, Household Furnishings & Furniture and Fuels & Other Household Supplies** sub-indices. The sub-groups furniture and fuels were responsible for most of the inflation. Furniture prices rose by almost 12 per cent in the Other Towns and Rural Areas but declined 2.6 per cent in the KMA. Kerosene was the main fuel recording price increases and that was in excess of 6.0 per cent. For the Rural Areas the cost of **Transportation, Fuel & Other Household Supplies** and Household Furnishing & Furniture were the dominant sources of inflation.

Core Inflation and Monetary Policy

Core inflation for the review quarter was 1.0 per cent compared to 1.1 per cent for the corresponding period of the previous year. Over the past seven quarters core inflation has been very stable lying within the 0.8 to 1.2 per cent range.

Figure 3.7
Base Money Growth & Core Inflation

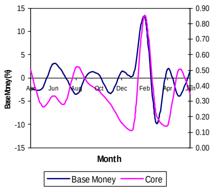


Figure 3.7 depicts the relationship between monthly core inflation and the two-month lagged percentage change in base money. In general, the observed relationship was consistent with policy expectations for most of the period. The management of base money has continued to be a critical element in containing inflation.

***Box 3*: Highlights of the IMF's May 2001 Article IV Consultations**

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Outlook

The positive economic performance observed in the last quarter of fiscal year 2000/01, has continued into the new fiscal year. Tight monetary and fiscal policies, particularly since the second half of fiscal year 2000/01 have tempered aggregate demand and monetary inflation. This has served to moderate somewhat, the recent shock to inflation. Further the policy stance has facilitated a gradual fall in money market interest rates, while preserving the stability in the foreign exchange market.

Recent disturbance should not impact major goods sectors.

The recent social disturbance in July is not expected to have a significant impact on major sectors such as agriculture, mining, manufacturing and distribution, given the brevity and localized nature of the disruption. However it is likely to have some impact on tourism in the short to medium term.

The positive trend in the goods sector is expected to continue, the main impetus being the recovery in agriculture and mining. Subject to favourable weather conditions, the recovery in agriculture is expected to continue with improved performance in domestic crop production and export crops such as banana and coffee. Activities within the mining sector will be enhanced by the planned expansion in capacity at Kaiser and an increase in the alumina export market of some 450 thousand tonnes over the next three years. Continued marginal growth is anticipated in the manufacturing sector, driven mainly by expansions in food processing, alcoholic and non-alcoholic beverages and petroleum refining.

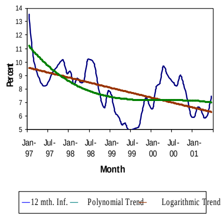
Services … the main engine of growth.

Services will continue to provide the main engine of growth within the economy. This will emanate primarily from the communication sub-sector, which is expected to expand by approximately 18.0 per cent over the fiscal year.

Transportation services, following the reforms within the sector, are also expected to expand. With improved balance sheets, increased efficiencies and competition, a full recovery is expected in the financial sector during the year.

Inflation has maintained the downward trend observed over the past three years, in spite of the higher inflation outturn in the June quarter (see **Figure 4.1**). This is also reflected in the annual average inflation, which following the slight increase in the latter part of 2000, continues to fall (see **Figure 3.2**). This trend in inflation is expected to continue, into the September 2001 quarter.

Figure 4.1
12-Month Inflation Trends



Over the past five years inflation in the September quarter tended to be about the same as the previous quarter. However in the context of the shock in June, inflation is expected to be lower in the September 2001 quarter. Traditionally, increases in agriculture prices and educational costs have been the main influences on inflation in this quarter. In addition to these seasonal impulses, adjustments in utility and postal rates are likely to drive inflation in the September 2001 quarter.

Assuming that oil prices stabilize, other components of imported inflation remain moderate, and the exchange rate remains stable, the Bank expects an inflation rate of approximately 2.0 per cent (± 0.3 percentage points) in the September 2001 quarter. This would yield a twelve-month inflation of 6.2 per cent (± 0.3 percentage points) at end September.

Given that the shock to the transportation sub-index is expected to be transitory, with strong seasonal countervailing movements in the prices of major commodities towards the end of the fiscal year, the deviation in the inflation rate relative to the target will be marginal.

Figure 4.3
Base Money Growth Target
(Year on Year)

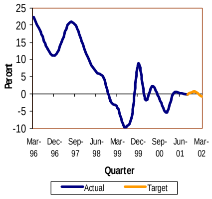


Figure 4.3
Broad Money (M3) Growth Target
(Year on Year)

Monetary Policy Perspectives

Although inflation in the first quarter of the fiscal year deviated from the desired path, a significant tightening of monetary policy is not envisaged at this time. As was previously noted, despite the deviation, underlying inflationary pressures so far are generally subdued. It continues to be the case that variations in inflation, particularly since the last fiscal year, have been due to discrete shocks to particular subcategories of the CPI, as against any general rise in prices across categories. The projections suggest that inflationary pressures over the short to medium term will emanate mainly from seasonal / structural factors. Against this background, monetary policy will continue to focus on containing underlying inflationary impulses and maintaining a financial environment conducive to the sustainable fall in interest rates necessary for real sector recovery.

Consistent with this stance, base money is targeted to decline by 2.3 per cent in the September 2001 quarter (0.2 per cent year on year) and by 0.8 per cent for the fiscal year 2001/02. The decline in the base will partly reflect the programmed one percentage point reduction in the cash reserves of the banking system.

Money supply growth is programmed to slow in the September quarter to 1.8 per cent resulting in a 10.0 per cent growth year on year, at end September. This growth although slightly higher than the previous year is below the seasonal average of the past five years. Recent trends in the multiplier noted in **Chapter 1** however, suggest that money supply growth may be slightly higher. However, the transactions demand for money is expected to increase over the next two quarters, relative to the first quarter, primarily due to seasonal expenditures associated with 'back to school' and Christmas activities. Overall, the policy path calls for a lower stable growth rate in monetary variables in this year relative to previous years.

Policy targets lower and stable monetary growth.

Over the past two quarters, the Central Bank has adopted a gradual approach to interest rate adjustment. There has been a positive response from the financial markets, as the favourable inflationary trends over the period have seen a steady reduction in interest rates. The Bank will continue to foster this development.

The immediate concern however, is that short term liquidity conditions in the money market have seen some upward pressure on interest rates towards the end of June, which could potentially reverse the downward expectations. In order to ensure that expectations remain favourable the Bank will continue to act to ensure stability in the financial markets, particularly the foreign exchange market. It should be noted that since the beginning of the fiscal year, liquidity management by the Bank has seen an absence of significant speculative pressures, even in instances when excess demand pressures have arisen.

Risks

There are a number of factors that could alter the policy outlook over the ensuing quarters.

The medium term outlook for international oil prices remains uncertain. In order to limit any decline in prices, arising from weaker demand, a cut in production by OPEC is probable. Such a cut would have an adverse implication for inflation if it results in a resumption of upward movements in oil prices. Apart from the direct impact on inflation, increases in oil prices would worsen Jamaica's terms of trade, as the slowing in the world economy has seen a fall in the prices of our major export commodities, particularly bauxite and alumina.

Cost pressures, particularly increased wage demand, arising out of the discrete adjustment in transportation prices could emerge. Given the fact that private sector margins have been significantly reduced in the wake of tight demand management over the past five years, there would be little scope to further absorb such costs.

Recent unrest will precipitate increased fiscal expenditure.

The recent social unrest, although having marginal effects on production in the short run, may adversely impact confidence. Also arising out of the brief disturbance will be the need for increased fiscal expenditure. Demand pressures from fiscal operations were not otherwise anticipated over the next two quarters as the fiscal budget envisaged a significant reduction in the deficit during the second and third quarters relative to the first, with a surplus in the last quarter of the fiscal year. Although revenues have exceeded budget, major reallocation of expenditure will be required if the programme targets are to be met.

The major challenge to economic policy is the strengthening of real sector performance. Despite positive signals from the financial markets, private sector credit flows have been less than desired. This is associated with the slow decline in lending rates, and more stringent lending practices by financial institutions. Although higher levels of investment will be required over the medium term, a continuation of growth over the short-term will have to come from significant improvements in productivity. As such there is urgent need for speedy implementation of the proposed labour market reforms.

Summary

Macroeconomic indicators since the start of the fiscal year continue to be favourable, despite the temporary shock to inflation and the adverse effects of recent disturbances. Monetary policy will remain committed to attaining the programme targets, in support of the recovery process. The main challenge for policy makers is to strengthen the economic recovery, which will require greater levels of investment and productivity improvements over the short to medium term.

A. Fiscal Developments: April 2001 - June 2001

Provisional data indicate that Central Government operations in Q1 FY2001/02, resulted in a deficit of $10958.1 million or 3.34 per cent of GDP, relative to an SMP targeted deficit of $10700.0 million or 3.26 per cent of GDP. The primary balance of 0.65 per cent of GDP relative to the target of 1.0 per cent under the SMP, reflected increases of 12.4 per cent and 29.1 per cent in recurrent and capital expenditures, respectively, although revenue flows exceeded target by 6.9 per cent. Given the strong revenue performance however, the fiscal stability ratio of 1.5 was consistent with target.

Tax revenues were fairly buoyant throughout the quarter exceeding the SMP target by 13.1 per cent and the comparable quarter of 2000/01, by 9.4 per cent, primarily reflecting strong receipts of GCT and SCT. However, the other items of revenues were below their SMP targets. The shortfall was largely explained by a rescheduling to September, of over $550.0 million in grant flows from the European Union and by shortfalls of $225.9 million and $114.0 million in bauxite levy receipts and capital revenues, respectively. Excluding tax revenues, all other revenue flows were also down relative to Q1 2000/01.

In respect of expenditures, the categories, programmes, wages and salaries and capital exceeded the SMP target by $1398.5 million (24.6 per cent), $423.7 million (4.7 per cent) and $922.9 million (29.1 per cent), respectively. The increase in programmes relative to target partly reflects earlier than planned expenditure while, wages and salaries included higher than projected retroactive payments. Interest payments were $1020.4 million (7.2 per cent) lower than target partly reflecting timing factors.

Fiscal Performance
Comparitive Analysis
J$ Million

	2000/01 Q1	2001/02 Q1	Change	2001/02 Q1	SMP Q1	Variance
Revenue and Grants	**24 371.70**	**22 933.20**	**-1 438.50**	**22 933.20**	**21 455.70**	**1 477.50**
Tax Revenue	19 787.50	21 638.50	1 851.00	21 638.50	19 133.80	2 504.70
Capital Revenue	436.40	116.40	-320.00	116.40	230.50	-114.10
Other (incl. Non-tax)	4 147.80	1 178.30	-2 969.50	1 178.30	2 091.40	-913.10
Expenditure	**28 280.30**	**33 891.30**	**5 611.00**	**33 891.30**	**32 155.70**	**1 735.60**
Recurrent Expenditu *	26 351.50	29 543.40	3 191.90	29 543.40	28 741.60	801.80
Capital Expenditure	2 197.40	4 095.70	1 898.30	4 095.70	3 172.80	922.90
IMF #1 Account	241.30	252.20	10.90	252.20	241.30	10.90
Unallocated	-509.90	0.00	509.90	0.00	0.00	0.00
Overall Balance	**-3 908.60**	**-10 958.10**	**-7 049.50**	**-10 958.10**	**-10 700.00**	**-258.10**
Current Balance	**-2 416.20**	**-6 726.60**	**-4 310.40**	**-6 726.60**	**-7 516.40**	**789.80**
Primary Balance	**8 617.30**	**2 123.10**	**-6 494.20**	**2 123.10**	**3 401.70**	**-1 278.60**

Performance Indicators
(percentages of GDP)

	BR	BR	PB	IP	FSR
Q1 - 2001/02	3.34	-2.05	0.65	3.99	-1.48
Q1 - 2001/02 SMP	3.26	-2.29	1.04	4.30	-1.50

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

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

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

B. Monetary Policy Developments: April 2000 to June 2001

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

	The Maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and thirteen per cent (1% and 13%) in respect of local and foreign currency deposits.
18/09/2000	Bank of Jamaica introduces 270-day and 365-day reverse repurchase instruments at 17.6 and 18.0 per cent respectively.
04/10/2000	Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.
23/10/2000	Interest rates on the 270-day and 365-day instruments were reduced to 17.6 and 18.0 per cent respectively.
24/11/2000	Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.
28/12/2000	Interest rate on the 365-day instrument was reduced to 21 per cent.
14/02/2001	Interest rates on the 365-day and 270-day instruments were reduced to 20.00 per cent and 19.25 per cent respectively.
20/02/2001	Interest rates on the 365-day and 270-day instruments were reduced to 19.50 per cent, and 18.75 per cent respectively.
01/03/2001	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-one per cent (31%) to thirty per cent (30%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirteen per cent (13%) to twelve per cent (12%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty per cent (5% and 30%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and twelve per cent (1% and 12%) in respect of local and foreign currency deposits.

08/03/2001	Interest rates on the 365-day, 270-day, instruments were reduced to 19.00 per cent, 18.25 per cent respectively.
12/03/2001	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 18.50 per cent, 17.75 per cent, 16.70 per cent, 16.40 per cent, 16.25 per cent, 16.15 per cent and 16.00 per cent respectively.
22/03/2001	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 17.75 per cent, 17.00 per cent, 16.15 per cent, 15.80 per cent, 15.70 per cent, 15.60 per cent and 15.50 per cent respectively.
11/04/2001	Interest rates on the 365-day and 270-day instruments were reduced to 17.50 per cent and 16.75 per cent respectively.
21/05/2001	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.50 per cent, 15.70 per cent, 15.30 per cent, 15.05 per cent, 14.95 per cent, 14.85 per cent and 14.75 per cent respectively.
01/06/2001	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty per cent (30%) to twenty nine per cent (29%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from twelve per cent (12%) to eleven per cent (11%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty nine per cent (5% and 29%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and eleven per cent (1% and 11%) in respect of local and foreign currency deposits.
08/06/2001	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.90 per cent, 15.35 per cent, 15.00 per cent, 14.80 per cent, 14.70 per cent, 14.60 per cent and 14.50 per cent respectively.

25/06/2001	Interest rates on the 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 14.75 per cent, 14.55 per cent, 14.45 per cent, 14.35 per cent and 14.25 per cent respectively.
29/06/2001	The Bank of Jamaica introduced Certificates of Deposit to the range of instruments used in open market operations. All the terms and conditions applicable to Reverse Repurchase transactions apply to Certificates of Deposit, with the exception that the latter is covered by the central bank's assets as against Government securities. Central Bank deposits which are maintained in statement form (i.e. no physical certificate is issued) will continue to be used for placements of seven (7) days or less.

C. Summary Tables

1A

LOCAL BOND MARKET
GOJ Maturities April - June 2001

Maturity Date	Stock Name	Amount J$MN	Applicable Interest Rate	After-tax return [b/]	Features
03 Apr 2001	VR LRS 2001	1 543.8	20.28%	15.21%	Variable rate repricing at 3.0 pp above Treasury Bill rate[a/]
15 May 2001	GOJ Inv Deb 2001A Ser K	1 169.4	19.13%	14.35%	Variable rate repricing at 2.0 pp above Treasury Bill rate[a/]
15 May 2001	VR LRS:				
	2001B	204.4	18.13%	13.60%	Variable rate repricing at 1.0 pp and Treasury Bill rate[a/]
	2001C	1 154.4	18.63%	13.97%	Variable rate repricing at 1.5 pp above Treasury Bill rate[a/]
	2001D	3 033.8	19.63%	14.72%	Variable rate repricing at 2.5 pp above Treasury Bill rate[a/]
30 May 2001	VR LRS 2001G	4 822.4	21.02%	15.77%	Variable rate 2.75 pp above Treasury Bill rate[a/]
31 May 2001	GOJ Inv Deb 2001 Ser A	1 440.1	21.03%	15.77%	Variable rate 3.75 pp above Treasury Bill rate[a/]
20 Jun 2001	FR LRS 2001/2002	2 000	19.5%	14.63%	Non-Market Security
30 Jun 2001	VR LRS 99/2008(F)	2.4	22.16%	16.62%	Non-Market Security

Source: Debt Management Unit, Ministry of Finance & Planning

Notes:
a/ Rate above Treasury is the 6-month Treasury bill rate in effect at the beginning of the interest period.
b/ The withholding tax of 25% on interest income has been in effect since 01 May 2000.

1B

LOCAL BOND MARKET
GOJ Issues April - June 2001

Issue Date	Stock Name	Features	Amount Raised J$MN
05 Apr 2001	Local Registered Stocks: 2006AB, 2008AB, 2011AB	Auctioned Instruments having taxable average yields of 18.54%, 18.86%, and 18.80% respectively.	1 297.52
26 Apr 2001	Local Registered Stocks: 2006AC, 2008AC, 2013AA	Auctioned Instruments having taxable average yields of 18.10%, 18.27% and 17.98% respectively. The 12-year tenor was being offered for the first time.	1 256.6
17 May 2001	Local Registered Stocks: 2006AD, 2008AD, 2013AB	Auctioned Instruments having taxable average yields of 17.40%, 17.53% and 17.18% respectively.	1 824.43
31 May 2001	Local Registered Stocks: 2006AE, 2008AE, 2013AC	Auctioned Instruments having taxable average yields of 16.22%, 16.35% and 16.20% respectively.	1 963.87
07 Jun 2001	Local Registered Stocks: 2004AA, 2008AF, 2011AC	Auctioned Instruments having taxable average yields of 15.94%, 16.01% and 15.99% respectively.	1 981.85
15 Jun 2001	US$ Indexed Bond 12% 2006	Fixed interest rate of 12%, paid semi-annually, and is s.t. withholding tax. Rate of exchange for payment is the 10-day moving average selling rate times a factor of 1.005. All principal and interest to be made in Jamaica dollars.	1 127.78
21 Jun 2001	Local Registered Stocks: 2006AF, 2008AG, 2013AD	Auctioned Instruments having taxable average yields of 16.16%, 16.42% and 16.12% respectively.	1 918.10

Source: Debt Management Unit, Ministry of Finance & Planning

Notes:
a/ The withholding tax of 25% on interest income has been in effect since 01 May 2000.

2

Component Contribution to Inflation
All Jamaica
April - June 2001

Groups and Sub-groups	Weight in CPI	Inflation (%)	Contribution (%)
FOOD & DRINK	**0.5563**	**1.1**	**19.7**
- Meals Away from Home	0.0741	1.3	3.2
- Meat Poultry & Fish	0.1613	0.0	-0.1
- Dairy Products Oils & Fats	0.0668	0.5	1.2
- Baked Products Cereals & Breakfast Drinks	0.0864	0.9	2.7
- Starchy Foods	0.0525	4.1	7.3
- Vegetables & Fruits	0.0650	1.9	4.1
- Other Food & Beverages	0.0502	0.9	1.5
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**2.7**	**4.8**
- Household Supplies	0.0482	0.6	1.0
- Fuels	0.0253	4.4	3.8
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**2.0**	**9.2**
- Rental	0.0209	18.3	12.9
- Other Housing Expenses	0.0577	-1.9	-3.8
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**2.2**	**1.9**
- Furniture	0.0068	7.0	1.6
- Furnishings	0.0215	0.4	0.3
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**1.5**	**3.4**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**1.0**	**1.7**
- Clothing Materials	0.0055	0.4	0.1
- Readymade Clothing & Accessories	0.0242	0.9	0.8
- Footwear	0.0159	1.5	0.8
- Making & Repairs	0.0051	0.5	0.1
TRANSPORTATION	**0.0644**	**23.2**	**50.6**
MISCELLANEOUS EXPENSES	**0.0785**	**3.3**	**8.7**
ALL GROUPS	**1.0000**	**2.91**	**100.0**

3

Inflation Rates (%)

	CPI Index (e.o.p.)	Head-line (quarter)	Core (quarter)
1997/1988	**1 115.9**	**8.8**	**5.0**
1998/1999	**1 182.5**	**6.0**	**2.9**
1999/2000	**1 281.7**	**8.4**	**4.0**
June	1 205.9	2.0	0.9
September	1 237.6	2.6	1.4
December	1 265.9	2.3	0.9
March	1 281.7	1.3	0.8
2000/2001	**1 364.3**	**6.4**	**4.2**
June	1 311.4	2.3	1.1
September	1 349.3	2.9	1.2
December	1 342.6	-0.5	0.8
March	1 364.3	1.6	1.0
2001/2002			
June	1 404.0	2.9	1.0

4

Monetary Aggregates (End of Period - J$MN)

	M1J	M1*	M2J	M2*	M3J	M3*
1997/1998	**22 687.6**	**25 790.6**	**71 272.7**	**92 957.2**	**82 459.3**	**104 138.2**
1998/1999	**26 564.6**	**30 306.5**	**79 732.5**	**103 612.3**	**90 474.3**	**114 354.2**
1999/2000						
June	28 690.0	32 037.2	83 888.0	107 934.1	98 152.3	122 198.5
September	30 881.5	35 690.7	90 181.6	117 317.4	105 712.4	132 848.5
December	33 545.8	39 069.2	93 678.1	120 260.0	108 882.5	136 124.5
March	31 686.8	37 311.4	92 865.8	122 905.4	109 123.2	139 162.8
2000/2001						
June	32 017.2	37 737.7	95 966.4	125 498.3	113 634.3	143 166.2
September	30 527.0	35 897.9	96 419.1	128 067.1	115 248.5	146 896.6
December[r]	33 832.3	38 111.4	100 747.1	132 997.8	119 962.1	152 226.0
March[r]	32 783.8	36 970.0	100 746.3	133 790.6	120 789.7	153 906.9
2001/2002						
June[p]	32 951.4	38 015.3	102 002.8	135 709.0	123 560.7	157 266.9

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

5

COMPONENTS OF CHANGE IN MONEY SUPPLY
2000/01 (Flows - J$MN)

	1997/98	1998/99	1999/00	Jun-00	Sept-00	Dec-00*	Mar-01*	Jun -01*
M2J	**4 610.9**	**8 454.4**	**13 112.0**	**3 122.7**	**452.5**	**4 327.4**	**-72.8**	**1 329.4**
Currency	2 267.7	1 811.3	1 663.5	281.0	207.5	3 000.2	-1 724.4	115.6
Demand Deposits	682.2	2 065.8	3 436.7	71.5	-1 697.8	304.2	677.0	52.0
Savings Deposits	3 988.0	2 064.7	3 870.4	1 951.1	347.9	1 305.9	417.5	1 522.0
Time Deposits	-2 327.0	2 512.6	4 141.4	819.1	1 594.9	-282.9	557.1	-360.2
OTHER DEPOSITS	**3 130.6**	**10.5**	**6 026.6**	**1 388.2**	**1 161.7**	**438.7**	**848.1**	**1 441.6**
TOTAL(M3J)	**7 741.5**	**8 464.9**	**19 138.6**	**4 511.0**	**1 614.3**	**4 766.0**	**775.2**	**2 771.0**

Sources of Change in Money Supply

	1997/98	1998/99	1999/00	Jun-00	Sept-00	Dec-00*	Mar-01*	Jun -01*
N.I.R. of B.O.J.	**-3 824.1**	**-512.5**	**5 372.3**	**2 251.2**	**7 608.0**	**1 531.4**	**14 254.7**	**11 846.7**
M & LTFL of B.O.J.	**161.7**	**159.6**	**77.3**	**8.0**	**26.0**	**111.7**	**14.6**	**0.0**
Banking System Credit	**29 260.7**	**20 330.7**	**4 846.5**	**12 873.4**	**-3 543.5**	**8 623.6**	**-7 509.6**	**6 290.7**
Public Sector	30 515.8	23 403.0	9 422.2	12 900.7	-3 407.9	6 566.9	-6 610.7	6 075.9
Private Sector	-1 255.1	-3 072.3	-4 575.7	-27.3	-135.6	2 056.7	-898.9	214.8
Open Market Operations	**-4 726.5**	**-5 805.1**	**-1 417.1**	**-5 575.3**	**-6 819.4**	**84.7**	**-9 640.5**	**-12 723.1**
Other	**-13 130.3**	**-5 707.8**	**10 259.6**	**-5 046.2**	**4 343.2**	**-5 585.5**	**3 656.0**	**-2 643.3**
TOTAL	**7 741.5**	**8 464.9**	**19 138.6**	**4 511.1**	**1 614.3**	**4 765.9**	**775.2**	**2 771.0**
Memo:								
Foreign Currency Depos	3 780.3	2 201.0	6 158.9	-507.7	2 116.2	603.4	865.6	589.1
Foreign Currency Loans	-2 030.9	2 527.3	-547.9	476.0	529.8	-62.5	375.3	-209.1

* *Provisional*

6A

SELECTED INTEREST RATES (%)
(End of Period)

	Fixed Deposit* 3-6 months	6-12 months	Savings Deposits (Average)	Loan Rate (Average)	Fixed Deposit Rate (WeightedAverage)	Loan Rate (Weighted Average)
1997/1998	**12.00 - 30.00**	**12.00 - 25.00**	**13.02**	**44.17**	**17.04**	**32.09**
1998/1999	**10.50 - 18.75**	**9.50 - 18.75**	**12.09**	**38.60**	**14.63**	**29.65**
1999/2000	**11.00 - 17.50**	**11.50 - 16.50**	**11.38**	**33.92**	**12.99**	**24.32**
June	10.00 - 17.50	10.00 - 17.00	11.96	37.89	14.08	27.12
September	10.00 - 17.50	10.00 - 17.00	11.50	35.92	13.47	26.16
December	11.00 - 17.50	11.50 -16.50	11.38	33.92	13.27	24.64
March	11.00 -17.50	11.50 - 16.50	11.38	33.92	12.99	24.32
2000/2001						
June	10.00 - 17.50	10.00 - 16.50	10.11	33.00	12.74	23.48
September	10.00 - 17.05	10.00 - 17.05	9.96	31.50	12.59	22.23
December	10.00 - 17.05	10.00 - 17.60	9.86	31.67	12.21	22.12
March	10.00 - 17.00	10.00 - 16.75	9.84	31.33	12.13	21.49
2001/2002						
June	8.75 - 17.00	8.75 - 15.00	9.45	30.67	n.a.	n.a.

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

6B

GOJ TREASURY BILL YIELDS
(End of Period)

	3-month	6-month	9-month	12-month	BOJ 30-day Reverse Repurchases
1997/1998	**27.75**	**27.99**			**29.00**
1998/1999				**21.67**	**20.75**
1999/2000	**17.82**	**17.96**	**18.30**	**18.37**	**17.30**
June	20.24	20.16	20.45	20.05	18.85
September	18.63	19.21		20.20	18.35
December	19.92	22.03	21.43	22.00	18.35
March	17.82	17.96	18.30	18.37	17.30
2000/2001					
June	17.68	17.47	17.88	18.10	17.00
September	16.62	17.13	16.91	16.94	16.45
December		20.16	19.67	20.98	16.45
March		16.88		17.86	15.50
2001/2002					
June		16.20			14.25

7

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Export
1997/1998	**71.7**	**657.4**	**81.1**	**44.1**	**67.6**	**416.8**	**364.2**	**1 702.9**
1998/1999	**82.7**	**587.9**	**98.3**	**33.1**	**57.8**	**371.7**	**321.7**	**1 552.3**
1999/2000	**49.2**	**666.6**	**103.5**	**26.5**	**68.9**	**346.9**	**289.4**	**1 550.8**
June	20.3	145.5	54.6	7.6	15.2	88.9	71.6	403.7
September	7.6	166.0	5.5	7.5	19.8	92.4	80.5	379.3
December	8.1	182.0	0.0	6.3	16.6	84.9	71.6	369.5
March	13.1	171.1	43.4	5.2	17.3	80.7	67.6	398.3
2000/2001	**56.1**	**670.6**	**69.4**	**22.3**	**74.8**	**330.9**	**284.9**	**1 509.0**
June	10.4	167.9	33.6	5.5	20.5	90.6	76.7	405.2
September	8.2	163.8	6.2	6.2	18.3	81.7	81.0	365.4
December	13.9	181.4	0.0	6.1	17.0	91.3	76.4	386.1
March	23.6	157.5	29.6	4.5	19.0	67.3	50.8	352.3

8

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

	Consumer Goods	Raw Materials	Capital Goods	Other	Total Imports
1997/1998	**932.8**	**1 587.5**	**623.2**	**204.0**	**3 347.5**
1998/1999	**923.6**	**1 505.0**	**553.3**	**191.4**	**3 173.3**
1999/2000	**965.0**	**1 614.0**	**508.4**	**180.7**	**3 268.2**
June	220.4	395.5	123.6	47.1	786.6
September	227.5	385.7	104.8	50.9	768.9
December	298.0	410.5	130.1	42.0	880.6
March	219.1	422.3	149.9	40.8	832.1
2000/2001	**982.5**	**1 745.8**	**519.1**	**167.6**	**3 415.0**
June	228.5	442.2	119.2	42.4	832.3
September	245.8	422.6	120.2	43.5	832.1
December	282.5	426.1	121.8	53.9	884.3
March	225.7	454.9	157.9	27.8	866.3

9

BALANCE OF PAYMENTS SUMMARY
(Flows - US$MN)

	1998/99	1999/00	2000/01	Jun-00	Sept-00	Dec-00	Mar-01
1. Current Account	**-252.6**	**-372.8**	**-369.4**	**-44.3**	**-85.8**	**-105.2**	**-134.1**
A. Goods Balance	**-1 142.4**	**-1 251.3**	**-1 426.6**	**-313.3**	**-350.4**	**-372.1**	**-390.8**
Exports (f.o.b.)	1 552.3	1 550.6	1 508.5	405.1	365.1	386.0	352.3
Imports (f.o.b.)	2 694.7	2 801.9	2 935.1	718.4	715.5	758.1	743.1
B. Services Balance	**536.2**	**553.2**	**617.9**	**153.3**	**157.8**	**133.9**	**172.9**
Transportation	-261.5	-241.6	-229.4	-55.3	-58.7	-64.0	-51.4
Travel	1 026.3	1 058.3	1 136.2	272.9	293.7	264.4	305.2
Other Services	-228.6	-263.5	-288.9	-64.3	-77.2	-66.5	-80.9
Goods & Services Balance	**-606.2**	**-698.1**	**-808.7**	**-160.0**	**-192.6**	**-238.2**	**-217.9**
C. Income	**-282.5**	**-369.1**	**-383.3**	**-107.3**	**-62.1**	**-84.1**	**-129.8**
Compensation of Employees	61.9	67.3	67.3	6.1	23.2	32.5	5.5
Investment Income	-344.4	-436.4	-450.6	-113.4	-85.3	-116.6	-135.3
D. Current Transfers	**636.1**	**694.6**	**822.6**	**223.0**	**168.9**	**217.1**	**213.6**
General Government	46.9	72.8	131.8	67.3	10.2	34.0	20.3
Other Sectors	589.2	621.6	690.8	155.7	158.7	183.1	193.3
2. Capital & Financial Account	**252.6**	**372.8**	**369.4**	**44.3**	**85.8**	**105.2**	**134.1**
A. Capital Account	**18.3**	**17.7**	**17.9**	**5.0**	**3.8**	**5.7**	**3.4**
Capital Transfers	18.3	17.7	17.9	5.0	3.8	5.7	3.4
General Government	6.2	9.0	10.8	3.2	2.1	3.0	2.5
Other Sectors	12.1	8.7	7.1	1.8	1.7	2.7	0.9
B. Financial Account	**234.3**	**355.1**	**351.5**	**39.3**	**82.0**	**99.5**	**130.7**
Direct Investment	352.8	358.1	355.1	60.0	38.8	39.7	216.6
Other Official Investment	-89.6	-123.2	353.4	-52.7	176.0	115.8	114.3
Other Private Investment (including net errors & omissions	-42.5	242.2	225.8	85.0	46.2	-22.0	116.6
Reserves (minus = increase)	13.6	-122.0	-582.8	-53.0	-179.0	-34.0	-316.8

10

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

	Gross Foreign Assets	Gross Foreign Liabilities	International Reserves (Net)	Weeks of Imports	
				Goods	Goods & Services
1997/1998	**729.7**	**135.6**	**594.1**	**13.3**	**9.3**
1998/1999	**700.1**	**120.8**	**579.3**	**13.5**	**9.2**
1999/2000					
June	701.9	111.3	590.6	13.3	9.0
September	633.8	112.8	521.0	12.0	8.1
December	552.2	105.9	446.3	10.5	7.1
March	801.3	100.5	700.8	15.2	10.3
2000/2001					
June	848.3	91.9	756.5	15.0	10.2
September	1 022.1	86.7	935.5	17.9	12.3
December	1 048.8	79.3	969.5	18.3	12.6
March	1 361.9	75.6	1 286.3	24.0	16.4
2001/2002					
June	1 612.5	71.9	1 540.5	27.3	18.6

11

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

	US$	Can$	UK£
1997/1998	**36.51**	**26.40**	**60.20**
1998/1999	**38.28**	**24.64**	**59.64**
1999/2000			
June	38.97	25.65	59.29
September	40.00	26.72	63.79
December	41.42	27.80	65.80
March	42.14	29.01	66.65
2000/2001			
June	42.51	28.17	62.73
September	44.83	29.25	64.15
December	45.53	29.51	66.78
March	45.68	29.17	64.11
2001/2002			
June	45.82	29.80	63.94

12

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

End Period	Local Registered Stocks	Treasury Bills	Bonds*	FINSAC Bonds	BOJ Reverse Repurchases
1997/1998	**75 873.2**	**11 650.0**	**9 769.7**	**37 982.8**	**29 266.4**
1998/1999	**105 121.4**	**10 450.0**	**17 873.4**	**49 873.1**	**30 264.4**
1999/2000	**486 435.3**	**40 300.0**	**125 545.5**		**114 004.3**
June	112 513.0	10 200.0	25 603.0		30 571.9
September	116 959.5	9 900.0	31 266.7		26 643.9
December	130 939.9	10 650.0	32 165.4		27 371.6
March	126 022.9	9 550.0	36 510.4		29 416.9
2000/2001	**546 842.5**	**34 150.0**	**163 086.3**		**154 812.8**
June	131 477.8	9 750.0	37 268.0		30 067.3
September	132 589.8	9 850.0	38 789.9		32 945.8
December	134 896.5	7 600.0	41 920.6		42 156.5
March[r]	159 734.8	6 950.0	45 107.7		49 643.2
2001/2002					
June	110 870.3	6 900.0	31 548.0		56 168.3

** Local Issues*
r Revised

13

STOCK MARKET ACTIVITIES
(End of Period)

	Index	Volume Traded (MN)	Value of Stocks Traded (J$MN)
1997/1998	**20 463.5**	**878.7**	**4 194.5**
1998/1999	**19 127.1**	**613.4**	**2 139.7**
1999/2000	**27 165.6**	**610.7**	**2 393.2**
June	19 687.7	165.4	712.6
September	20 677.7	96.8	549.4
December	21 892.6	166.6	534.8
March	27 165.6	181.9	596.4
2000/2001	**29 701.9**	**669.4**	**3 683.0**
June	31 338.3	300.9	1 480.3
September	31 152.7	95.6	591.4
December	28 893.2	116.5	773.0
March	29 701.9	156.4	838.3
2001/2002			
June	35 723.6	2 315.0*	3 584.2

** Includes a large block transaction arising from the de-listing of UBJ*

14

PRODUCTION OF SELECTED COMMODITIES
(flows - 000' tonnes))

	Bauxite	Alumina	Sugar	Bananas*
1997/1998	**3 598.4**	**3 418.0**	**173.2**	**75.8**
1998/1999	**4 087.0**	**3 441.0**	**212.1**	**59.3**
1999/2000	**2 385.9**	**3 624.5**	**237.4**	**48.0**
June	1 022.8	909.3	101.2	12.5
September	369.0	904.7	-	12.8
December	419.4	913.6	-	13.4
March	574.7	896.9	136.1	9.3
2000/2001	**2 420.4**	**3 617.8**	**185.4**	**44.1**
June	527.8	893.8	78.2	9.7
September	372.3	897.9	1.6	10.8
December	587.1	911.4	3.5	12.2
March	933.2	914.7	102.1	11.3
2001/2002				
June	888.5	943.4	91.5	11.0

** Exports*

D. BANK OF JAMAICA BALANCE SHEET

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

	1998/99	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	June-01
Assets	**101 113.8**	**105 350.7**	**110 200.6**	**117 132.0**	**122 042.5**	**136 282.7**	**148 059.3**
Foreign	26 593.7	33 653.3	35 845.1	45 063.4	47 693.0	62 139.6	73 743.7
Current Account & Foreign Curren							
Balances	3 346.9	5 088.6	5 639.2	7 921.0	11 888.2	18 223.4	3 738.0
Time Deposits & Securities	20 115.6	27 058.6	28 711.4	35 519.8	34 087.6	42 150.5	68 290.4
Holdings of Special Drawing Right	15.3	26.2	9.6	70.4	69.4	103.7	15.6
Other	3 115.9	1 479.9	1 484.9	1 552.2	1 647.8	1 662.0	1 699.7
Local	74 520.1	71 697.4	74 355.5	72 068.6	74 349.5	74 143.1	74 315.6
Public Sector Securities	53 331.9	52 215.0	53 927.4	52 933.0	54 905.5	56 896.9	56 462.8
Other Assets	21 188.2	19 482.4	20 428.1	19 135.6	19 444.0	17 246.2	17 852.8
Liabilities	**101 113.8**	**105 350.7**	**110 200.6**	**117 132.0**	**122 042.5**	**136 282.7**	**148 059.3**
Foreign	1 212.7	858.8	815.0	695.0	673.1	607.0	582.8
Local	99 901.1	104 491.9	109 385.6	116 437.0	121 369.4	135 675.7	147 476.5
Currency in Circulation	13 924.6	15 557.9	15 691.1	16 080.6	20 644.0	17 685.1	17 565.7
Deposits	81 821.0	85 134.4	88 152.4	93 447.8	92 734.6	111 191.0	121 228.6
Bankers	31 664.8	32 497.5	38 028.3	40 119.8	28 243.0	32 173.3	30 092.9
Government	17 008.0	18 479.3	15 815.0	15 553.0	16 687.3	12 644.7	4 053.7
Other	33 148.2	34 157.6	34 309.1	37 775.0	47 804.3	66 373.0	87 082.0
Allocation of Special Drawing Righ	1 991.9	2 102.3	2 246.0	2 246.0	2 246.0	2 246.0	2 347.0
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Other Reserves	73.5	84.4	819.7	873.2	873.5	873.5	939.6
Other Liabilities	2 066.1	1 588.9	2 452.4	3 765.4	4 847.3	3 656.1	5 371.6

E. COMMERCIAL BANKS' BALANCE SHEET

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

	1998/99	1999/00	Jun-00	Sept-00	Dec-00	Mar-01
Assets	**186 027.2**	**208 218.9**	**206 204.3**	**215 197.0**	**221 705.2**	**224 936.4**
Cash	1 481.6	1 442.7	1 288.7	1 471.3	3 036.0	1 800.5
Balances with BOJ	30 058.9	31 257.9	36 098.8	38 002.6	29 199.7	27 992.5
Foreign Assets	21 375.7	28 656.0	26 227.8	26 877.0	29 339.1	31 217.1
Loans & Advances	44 624.7	38 260.8	38 754.9	39 390.8	40 573.7	41 378.8
Private Sector	39 122.5	32 985.5	33 356.1	33 481.4	33 876.9	33 321.9
Public Sector	5 502.2	5 275.3	5 398.8	5 909.4	6 696.8	8 056.9
Public Sector Securities	61 088.9	77 454.3	80 708.3	86 135.1	88 119.3	87 888.6
Cheques in the Process of Collection	4 701.9	6 488.4	3 142.7	3 503.8	2 936.5	4 912.4
Other Assets	22 695.5	24 658.8	19 983.1	19 816.4	28 500.9	29 746.5
Liabilities	**186 027.2**	**208 218.9**	**206 204.3**	**215 197.0**	**221 705.2**	**224 936.4**
Deposits	122 462.7	139 766.2	137 631.0	150 876.1	149 666.8	154 942.9
Foreign Liabilities	6 619.2	7 653.5	5 174.3	4 956.8	6 592.4	7 777.4
Discounts & Advances from BOJ	2 047.4	276.3	175.0	74.7	3 043.9	69.0
Loans/Advances from Other Instituti	12 812.7	9 749.0	9 556.1	9 519.8	9 653.1	8 847.7
Cheques in the Process of Payment	2 710.1	3 810.9	3 514.1	2 101.2	2 560.3	2 649.6
Other Liabilities	39 375.1	46 963.0	50 153.8	47 668.4	50 188.7	50 649.8

F. INTERNATIONAL INDICATORS

1

LONDON INTERBANK OFFER RATE -LIBOR
(End of Period)

	1 Month	3 Months	6 Months	12 Months
1997/1998	**5.6875**	**5.6875**	**5.7500**	**5.8750**
1998/1999	**4.9375**	**5.0000**	**5.0625**	**5.2500**
1999/2000	**5.4063**	**6.0000**	**6.1250**	**6.5000**
2000/2001				
June	6.6563	6.8125	7.0000	7.2188
September	6.6250	6.8125	6.7500	6.8125
December	6.5625	6.4063	6.2188	5.9688
March	5.0938	4.8750	4.7188	4.6563
2001/2002				
June	3.7900	3.7300	3.7300	3.9400

2

LONDON MONEY RATES - INTERBANK STERLING
(End of Period)

	1 Month	3 Months	6 Months	12 Months
1997/1998	**7 3/8 - 7 1/2**	**7 7/2 - 7 5/8**	**7 7/2 - 7 5/8**	**7 7/2 - 7 5/8**
1998/1999	**5 5/16 - 5 3/8**	**5 7/32 - 5 1/4**	**5 1/8 - 5 3/16**	**5 1/8 - 5 3/16**
1999/2000	**5 27/32 -5 31/32**	**6 1/8 - 6 1/4**	**6 5/16 - 6 7/16**	**6 21/32 - 6 25/32**
2000/2001				
June	5 7/8 -6	6 1/16- 6 3/16	6 3/16- 6 5/16	6 3/8- 6 1/2
September	6 - 6 1/8	6 1/8- 6 1/4	6 3/16- 6 5/16	6 1/4- 6 3/8
December	5 11/16- 5 7/8	5 3/4- 5 29/32	5 3/4- 6 7/8	5 11/16 - 513/16
March	5 9/16- 5 11/16	5 3/8- 5 1/2	5 3/16- 5 5/16	5 5/32- 5 9/32
2001/2002				
June	5 - 51/8	5 1/8- 5 1/4	5 1/4- 5 3/8	5 1/2- 5 5/8

3

PRIME LENDING RATES
(End of Period)

	EURO-ZONE	UNITED STATES			UK
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Prime Rate
1997/1998					
1998/1999	**4.50**	**5.69**	**5.00**	**8.50**	**7.25**
1999/2000	**3.00**	**4.81**	**4.50**	**7.75**	**5.50**
	3.50	**6.31**	**5.50**	**9.00**	**6.00**
2000/2001					
June	4.25	7.00	6.00	9.50	6.00
September	4.50	6.50	6.00	9.50	6.00
December	4.75	6.50	6.00	9.50	6.00
March	4.75	5.00	4.50	8.00	5.75
2001/2002					
June	4.50	3.75	3.25	6.75	5.25

4A

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

	1998/99	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	June-01
US$ vs Sterling	0.6178	0.6268	0.6605	0.6764	0.6694	0.7034	0.7085
US$ vs Canadian $	1.5123	1.4518	1.4817	1.5046	1.5020	1.5746	1.5272
US$ vs Yen	119.71	102.57	105.81	108.06	114.20	125.32	124.36
US$ vs Deutsche Mark	1.8250	2.044	1.0404	2.2164	2.0833	2.2125	2.2892
US$ vs French Franc	6.1208	6.8551	6.8433	7.7334	6.9869	7.4203	7.6774

4B

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

	1998/99	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	June-01
Sterling vs US$	1.6186	1.5953	1.5139	1.4785	1.4938	1.4217	1.4113
Sterling vs Canadian $	2.4480	2.3161	2.2431	2.2246	2.2440	2.2386	2.1553
Sterling vs Yen	193.80	163.62	160.17	159.77	170.60	178.16	175.50
Sterling vs Deutsche Mark	2.9540	3.2607	3.0889	3.2769	3.1120	3.1454	3.2306
Sterling vs French Franc	9.9070	10.936	10.360	10.990	10.440	10.549	10.835

4C

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
June 2001

	DM	GBP	C$	US$	Yen	Ecu
Germany	1.00	0.310	0.667	0.437	54.32	0.511
U.K.	3.230	1.000	2.155	1.411	175.5	1.652
Canada	1.499	0.464	1.000	0.655	81.43	0.766
U.S.	2.289	0.709	1.527	1.00	124.4	1.170
Japan	1.841	0.570	1.228	0.804	100	0.941
Euro-zone	1.956	0.606	1.305	0.854	106.2	1.000

5A

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

	1998/99	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	Jun-01
UAE' s Dubai Light	13.7 -13.88	23.93-24.00	27.67-27.79	28.08-28.28	19.20-19.90	22.50-22.70	24.09-24.19
North Sea Brent	14.42 -14.46	23.73-23.78	31.57-31.61	28.70-28.76	22.31-22.39	23.73-23.77	26.71-26.77
West Texas Intermediate	16.16-16.22	26.48-26.52	30.60-30.64	30.65-30.70	26.17-26.21	26.25-26.27	26.45-26.50
Nymex-unleaded Gasoline (cents per gallon) Futures	50.80-51.60	88.15-90	105.00-103.20	85.20-85.25	74.75-75.90	90.90-92.75	76.50-78.25

5B

WORLD COMMODITY PRICES
ALUMINIUM
(US$ per tonne)

	1998/99	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	Jun-01
Spot (Cash)	1 220.5-1 221.5	1 524.0-1 525.0	1 558.5-1 559.5	1 578.0-1 579.01	1 565.5-1 567.5	1 477.0-1 478.0	1 453.5-1 554.5
3 Month	1 245.0-1 245.5	1 551.0-1 551.5	1 579.0-1 580.0	1 594.5-1 595.0	1 560.0-1 562.0	1 466.5-1 467.5	1 476.0-1 477.0

5C

WORLD COMMODITY PRICES
FOOD

	1998/99	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	Jun-01
Wheat Futures							
(US cents/60lb bushed)	286.50	254.75	259.50	265.00	271.75	255.00	251.00
Coffee (USc/lb)							
Daily Composite	92.64	73.16	62.51	53.03	46.91	48.21	46.21
15-day Avg.	89.00	73.38	63.92	57.40	48.02	47.90	46.96

6

WORLD COMMODITY PRICES
FOOD

	1998/99	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	Jun-01
Tokyo							
Nikkei Index	16 008.8	20 337.3	17 411.1	15 747.3	13 785.7	12 999.7	12 829.0
New York							
Dow Jones Industrials	10 006.8	10 921.9	10 447.9	10 650.9	10 787.9	9 878.8	10 434.8
S&P Composite	1 310.2	1 498.6	1 454.6	1 436.5	1 320.3	1 160.3	1 211.1
London							
Financial times-SE 100	6 252.9	6 540.2	6 312.7	6 294.2	6 225.3	5 633.7	5 607.9
Frankfurt							
Dax Index	4 876.9	7 599.4	6 898.2	6 798.1	6 433.6	5 830.0	5 833.1
Zurich							
SMI Index	7 086.3	7 428.1	7 761.6	7 889.9	8 135.4	7 167.8	6 997.4

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

M1: Notes and coins in circulation = Demand Deposits

M2: M1 + Time and savings deposits

M3: M2 + Other Deposits.

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

Monetary Base: See Base Money

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

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

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

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

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

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

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

Reserve Requirement: The portion of deposit liabilities that financial institutions must retain either as liquid assets or on deposit at the Bank of Jamaica.

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

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

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

Statutory Cash Reserves: That portion of deposit liabilities of deposit-taking institutions, which must be held as interest free deposits at the Central Bank.

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