Bank of Jamaica Quarterly Monetary Policy Report

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PREFACE

The Bank of Jamaica's Quarterly Monetary Policy Report reviews the conduct of monetary policy and the main factors that influenced inflation during the quarter. It also presents the Bank's perspective on future economic trends and the path of monetary policy over the short to medium term. This issue includes features on the Automated Clearing House and its implication for the payment system and the macroeconomic implications of cross-border capital flows for Jamaica. The report also highlights the performance of remittances in the Latin American and Caribbean region for the period 1997 to 2001.

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

Monetary policy in the June quarter was conducted in a challenging environment characterized by an episode of marked instability in the foreign exchange market. There were also inflationary pressures related to higher crude oil prices and weather-related shocks to agricultural supply. As a result of these factors, the inflation rate was 1.7 per cent for the quarter - slightly above the 1.4 per cent that was expected - and brought the half-year rate of increase in consumer prices to 2.2 per cent.

The instability in the foreign exchange market triggered a 1.9 per cent depreciation in the value of the Jamaica dollar, compared to the marginal fall of 0.4 per cent in the March quarter. Notwithstanding increased trading volumes of foreign exchange in the economy, there was increased demand by local investors to participate in a Government of Jamaica Eurobond issue. This contributed to a net outflow of US$159.4 million and was exacerbated by a fall-out in tourism receipts. In spite of sales to the market by the Bank to augment supply, gross reserves at the end of June were US$1 837.5 million representing 21.0 weeks of estimated goods and services in imports.

At the beginning of the fiscal year, a slower than anticipated recovery in the global economy and shocks to oil prices had been identified as the main risks to Jamaica's economic performance. These negative external factors were evident in the June quarter and, when added to the effect of the flood rains of May/June, would have weakened the growth in real activity in both the goods and services sectors. In these conditions of generally weaker than expected demand, and given the clearly temporary nature of the increased demand for foreign exchange, monetary policy actions focused on the sale of foreign exchange to the inter-bank market to restore orderly conditions, rather than on increases in the key BOJ interest rates.

The growth in the broad monetary aggregate M3J for the quarter was 3.1 per cent, relative to the 1.4 per cent increase projected in the monetary programme. The strong increase in M3J was related to an expansion in credit from the banking system - primarily to the public sector - and a decline in the holdings of BOJ open market instruments. The 9.6 per cent expansion in credit to the private sector surpassed the 5.1 per cent targeted growth in the monetary programme. Lending was primarily in foreign currency to the *Electricity* sector. Loan repayment in the *Agricultural* sector continued to outweigh disbursements. Expansions were recorded in domestic currency loans to *Transport Storage & Communication*, *Construction & Land Development*, *Tourism*, *Personal, Professional & Other Services* and *Manufacturing*. This pattern of borrowing is consistent with estimates of increased economic activity in *Basic Services* during the quarter.

The increase in banking system credit to various economic sectors was against the background of a decline in commercial bank average lending rates, and also declining rates on Government short-term instruments. Average lending rates on commercial bank loans declined by 37 basis points to 25.95 per cent in the June quarter. The trend decline augurs well for further increases in bank lending. The quality of the commercial bank loan portfolio continued to improve in the June quarter, with the ratio of past due loans to total loans declining to 5.3 per cent from 6.2 per cent the previous quarter.

The decline in short term rates on Government paper was reflected in the 182 day Treasury Bill rate falling by 49 basis points to 13.8 per cent. However, premiums on domestic currency instruments continued to exceed the average annualized rate of depreciation in the foreign exchange rate during the period.

The Government's domestic financing activities through public auctions resulted in a net issue of $1 221.8 million in domestic debt instruments. In addition, on 20 June 2002, the first 15-year eurobond, having a coupon rate of

10.625 per cent, was successfully launched. The instrument was highly demanded by both Jamaican and international investors although the initial strong interest by Jamaican investors waned somewhat after confirmation that interest earned on the bond would be taxed. By the end of the first day of secondary market trading, the yield declined to 9.726 per cent. Overall, the general demand for GOJ global bonds increased during the quarter resulting in lower yields on these instruments.

The extension of the declining trend in interest rates on securities widened the earning differential between fixed income investment and equities. This fueled the upward trend in the stock market index in the review quarter. However, the advance in the index was moderated in June by the relative instability in the foreign exchange market. Nonetheless, share prices continued to experience gains.

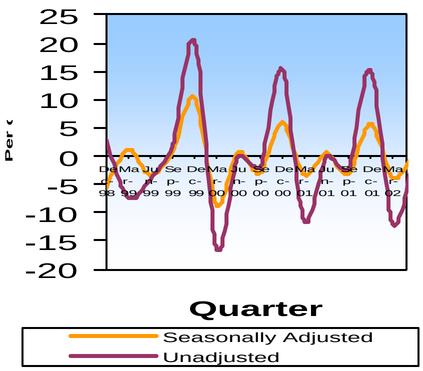
In the context of a decline in base money and lower growth in aggregate demand in the January to March period, core inflation was 0.86 per cent in the June quarter. A decline of 0.1 per cent in base money during the current quarter has reduced any monetary stimulus to inflation.

The short-term outlook and prospects outlined for the Jamaican economy needs to be assessed within the context of the recent shocks to agriculture, very moderate growth in the US economy and weaker than anticipated foreign exchange inflows from tourism. These developments have led to the modification of the Bank's forecasts and some programme targets. In particular, the Bank has revised its target for headline inflation to **6 per cent - 7 per cent** from the **5 per cent - 6 per cent** range. The forecast for the September quarter is 2.6 per cent, fuelled by price increases in the Food & Drink sub-sector. The expected impact of the flood rains will result in economic growth for 2002/03 being closer to the lower end of the **2 per cent - 4 per cent** programme range. Growth is expected in the September quarter, with continued expansion in B *asic Services*.

There are three special topics discussed in this issue of the QMPR. Box 1 gives an overview of the upgrading of Jamaica's payments system by the imminent establishment of an Automated Clearing House (ACH). The second box captures the main issues faced by the Central Bank in managing cross border capital inflows and which, to a considerable extent, has changed the structure of our balance sheet. With foreign remittance inflows becoming increasingly important to Jamaica's balance of payments, Box 3 provides a comparative overview of the performance of remittances in the Latin American and Caribbean Region.

1. Monetary Policy and Financial Markets

Figure 1.1
Base Money
(quarterly change)



Money and Credit

Base Money

The monetary base contracted by 0.1 per cent during the June quarter relative to a programme target of a 2.5 per cent reduction for the period (see **Figure 1.1**). The outturn for the quarter was achieved in the context of adverse foreign exchange market conditions and challenges posed by the Government's need for financing from the domestic market. As a result of demand pressures in the foreign exchange market, the BOJ did not effect any reductions in interest rates on its open-market instruments, but was able to manage Jamaican dollar liquidity through sales of foreign exchange facilitated by a strong NIR position. During the quarter, the 30-day signal rate remained unchanged at 13.25 per cent.

The reported decline in the monetary base was influenced by a US$159.4 million contraction in the NIR, which absorbed J$7 652.2 million in liquidity from the system. The contraction in the NIR was partially offset by a $7 615.0 million expansion in the NDA. The performance in the NIR was chiefly related to planned debt re-payments as well as direct sales to the foreign exchange market. The main liquidity impulse within the NDA was a $5 836.8 million increase in Net Claims on the Public Sector. There was also net unwinding of $2 189.0 million in open-market instruments as investors displayed greater interest in Government's debt offers (foreign and domestic) during the quarter.

The monetary base for the June quarter reflected a 0.89 per cent decline in the currency stock and a normalization in the current account balances of the commercial banks from $193.1 million at end March to $26.1 million. At the end of the quarter, the stock of currency issue amounted to $19 274.3 million, representing a 10.0 per cent increase in currency relative to end June 2001.

The growth of broad money was faster than programmed.

Money Supply

The stock of broad Jamaican dollar money supply (M3J) increased by 3.0 per cent during the June quarter relative to a programme target growth of 1.4 per cent. The expansion in M3J follows a 0.5 per cent contraction during the March 2002 quarter and compares to a 1.9 per cent increase during the June 2001 quarter (see **Table 1.1**).

Table 1.1

Growth Rates - M3J			
		3 mths	**12 mths**
2000	March	1.2	21.2
	June	4.1	15.7
	Sept.	1.1	9.0
	Dec.	4.1	10.9
2001	March	0.6	10.7
	June	1.9	8.3
	Sept.	3.2	10.2
	Dec.	3.5	9.3
2002	March	-0.5	8.1
	June	3.0	9.3

The growth in broad money during the review quarter was influenced largely by an expansion in credit from the banking system by $6 197.9 million and a net injection of $2 189.0 resulting from a decline in open market activity by the BOJ. There was also an increase of $3 188.8 million in commercial bank net credit to other financial institutions. The reduction in the NIR by $7 652.2 million partially offset the liquidity impetus from the aforementioned sources.

Narrow Jamaica Dollar money, M1J, increased by 1.0 per cent during the June quarter. This compares to a contraction of 5.8 per cent in M1J during the March quarter. This moderate growth in M1J was reflected in an increase in demand deposits of $389.9 million (2.0 per cent), which was partially offset by a reduction in currency in the hands of the public of $29.6 million (0.2 per cent). (see **Table 1.5, Appendix C**)

Table 1.2

3-Month Growth in Money Supply		
MJ	**June 01 %**	**June 02 %**
M1J	0.5	1.0
M2J	1.3	2.6
M3J	1.9	3.1
M*		
M1*	2.8	-0.3
M2*	1.4	2.3
M3*	1.9	2.7

During the review quarter M2J increased by 2.6 per cent relative to a decrease of 1.4 per cent during the quarter. Quasi-money increased by $2 433.3 million (3.4 per cent) relative to an increase of $482.7 million (0.7 per cent) during the preceding quarter. The growth in quasi-money during the June quarter was reflected in a $1 971.4 million (3.9 per cent) increase in saving deposits and a $461.9 million (2.3 per cent) increase in time deposits.

During the June quarter, saving accounts held by households continued to increase steadily and dominated the growth in quasi-money. An increase in business firms' time deposits was also significant in affecting growth in M2J.

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

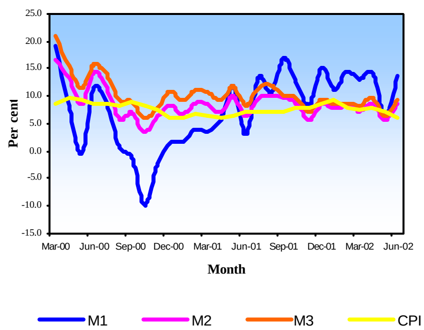


Figure 1.3
Money Multiplier & Cash Reserves Ratio
(March 00 - June 02)

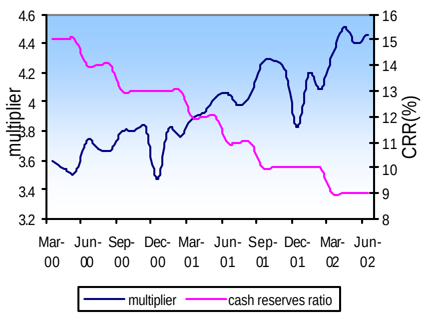


Table 1.3

Commercial Banks' Private Sector Credit April - June 2002	Stocks (J$M)		Change (%)	
	Mar. 02	June 02	June 02	12 mth.
Local	**28 613.2**	**29801.0**	**4.1**	**10.3**
Dev. Bank	2 366.0	3 127.6	32.2	58.4
Other Private	26 247.2	26 673.4	1.6	6.5
Foreign	**10 997.5**	**13 798.8**	**23.7**	**95.0**
Total	**39 610.7**	**43 599.8**	**9.6**	**27.9**

Money supply including foreign currency deposits, (M3*), increased by 2.7 per cent during the June quarter relative to an increase of 1.5 per cent during the March quarter. In contrast to the March quarter, however, foreign currency deposits had a less significant expansionary impact on the growth in M3* as foreign currency deposits increased by only 1.7 per cent relative to an increase of 8.2 per cent in the March quarter. The performance of foreign currency deposits was reflective of a decline in demand deposits as both saving and time deposits increased during the review quarter. Consequently, the ratio of foreign currency deposits to total deposit declined to 25.6 per cent from 26.0 per cent at end March due to the slower growth in foreign currency deposits.

The money multiplier continued to trend upwards during the review quarter. At end-June, the broad money multiplier was 4.46 relative to 4.32 at end-March (see **Figure 1.3**). The increase in the multiplier was influenced by the expansion in local deposits and the decline in currency. As a result, the currency to deposits ratio declined to 14.87 per cent at 30 June 2002 from 15.42 per cent at 31 March 2002.

Private Sector Credit

There was a resumption of growth in private sector credit in the June quarter against the background of a decline in credit for the previous quarter. The stock of commercial bank credit to the private sector increased by $3 827.4 million or 9.6 per cent during the June quarter. The expansion surpassed the 5.1 per cent growth outlined in the monetary programme for the three-month period.

Although there were increases in both foreign and local currency loans, the growth in credit was due primarily to an increase in foreign currency lending. Credit denominated in foreign currency increased by 23.7 per cent, while local currency credit grew by 4.1 per cent. Loans funded by the Development Bank of Jamaica also increased by 32.2 per cent and accounted for most of the increase in local currency credit during the review quarter (see **Tables 1.3 & 1.4**).

Table 1.4

Commercial Banks' Private Sector Credit (Flows J$M)			
	Dec 01	**March 02**	**June 02**
Local	**817.6**	**72.8**	**1 187.5**
Dev. Bank	352.4	153.2	761.5
Other Private	465.2	-226.0	426.0
Foreign	**2 294.1**	**-358.3**	**2 639.9**
Total	**3 111.7**	**-431.1**	**3 827.4**

Figure 1.4
Commercial Banks' Loan Rates
(weighted average)

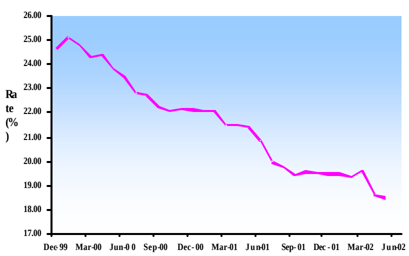


Table 1.5

Commercial Banks' Sectoral Distribution of Loans and Advances to the Private Sector (Flows J$M)				
	Sept. 01	**Dec. 01**	**Mar. 02**	**Jun. 02**
Agriculture	93.6	-57.2	-8.5	-20.4
Mining	-1.3	39.3	8.9	-5.1
Manufacturing	295.9	-0.9	201.6	140.0
Construction	198.2	426.3	-434.0	417.2
Transport & Comm.	1 640.2	1 552.7	-1 287.5	874.0
Tourism	147.7	457.5	208.6	330.4
Distribution	-164.0	114.0	569.9	-241.6
Professional	-820.4	132.7	91.7	487.0
Personal	1 542.5	14.3	-174.1	896.0
Electricity	-118.9	592.7	-43.5	1 002.4
Entertainment	-5.7	-2.2	10.0	11.9
Overseas	-1.9	-9.5	0.6	-9.1
TOTAL	**2 809.8**	**3 259.7**	**-856.2**	**3 882.4**

The sectoral distribution of loans and advances showed that for the review quarter, there was an increase in credit across most of the economic sectors. There was significant growth in credit to *Electricity* of 77.7 per cent or $1 002.4 million, which was mostly in foreign currency. Simultaneously, there was continued expansion in credit to *Transport Storage & Communication*. Other categories recording increases were *Personal loans*, *Construction & Land Development*, *Tourism*, *Manufacturing* and *Professional and Other Services*. There were significant net repayments from *Distribution* and *Agriculture* during the quarter (see **Table 1.5**).

The expansion in private sector credit occurred within the context of a reduction in the overall weighted average lending rate of commercial banks. The weighted average lending rate declined to 18.50 per cent at end May 2002, 111 basis points below the rate at end March 2002 (see **Figure 1.4**).

Interest rates on *Installment Credit and Commercial* loans declined by 107 basis points and 32 basis points to 25.7 per cent and 16.3 per cent respectively at end May 2002. Rates charged on credit to *Central Government* declined to 15.9 per cent, 180 basis points below rates at the end of March 2002. These reductions were the major influence on the decline in the weighted average lending rate (see **Table 1.6**).

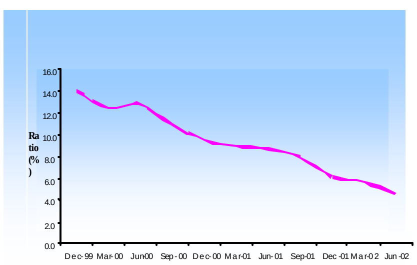
During the June quarter, the average lending rate of commercial banks declined to 25.92, 37 basis points below the rate at the end of March 2002. At the end of the review period loan rates offered by commercial banks on local currency credit ranged from 20.25 per cent to 31.75 per cent.

The loan portfolio of commercial banks continued to improve during the quarter, as reflected in the trend decline in the ratio of past due loans to total loans (see **Figure 1.5**). The ratio of past due loans to total loans declined to 4.6 per cent from 5.6 per cent in the previous quarter.

Table 1.6

Commercial Banks' Weighted Average Lending Rates (by loan type)	Dec. 01	Mar 02	May 02
Instalment Credit	26.858	26.75	25.68
Mortgage Credit	20.773	20.87	20.27
Personal Credit	27.91	23.83	27.20
Commercial Credit	16.912	16.67	16.35
Local Government & Other Public Entitites	15.39	11.29	14.94
Central Government	18.62	17.65	15.88
Overall Weighted Average Rate	**19.50**	**19.61**	**18.50**

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



It is anticipated that there will be continued growth in private sector credit for the remaining quarters of the fiscal year given the outlook for growth in real economic activity. In addition, the trend decline in lending rates augurs wells for further growth in private sector credit.

Box 1: The Automated Clearing House: Implications for the Payment System

Introduction

Payment systems are at the core of the financial infrastructure of any modern economy. These systems consist of the mechanisms - including payment instruments, institutions, procedures, and technologies - used to communicate information from payer to payee to settle payment obligations. Their specific design, in terms of safety and efficiency, plays an integral part in the smooth functioning of economic activity.

Aside from using cash, bank customers, as well as the banks themselves, may settle transactions by transferring funds from their bank account to accounts at other banks. This non-cash payment process comprises three stages:

1. *The transactions stage*. This involves the creation and authorization of a transfer order, or payment instruction, from the payer to his bank for the transfer of funds to the payee's bank account.
2. *The clearing stage*. This involves the actual transfer, reconciliation of net amounts, and in some cases, the confirmation of transfer orders for final settlement.
3. *The settlement stage*. This involves the discharge of financial claims between two or more banks. This final stage entails the irrevocable settlement through current accounts held at the "settlement agent" and the communication of settlement to the banks involved.

The payment process just described is essentially a myriad of informal bilateral arrangements between each bank with any other bank in the system. In practice, however, there is only one formal agreement between each bank and the settlement agent (in many cases, the central bank.) This relationship is what drives the efficiency of the payment system.

The forthcoming establishment of an Automated Clearing House (ACH) in Jamaica will convert critical manual components of the clearing stage into a completely electronic process. This will have significant implications for the further development of an efficient payment system.

Major Forms of Payment Systems

Payment systems differ within and across countries according to the method of settlement. The two most common forms of modern payment systems are the deferred net settlement (DNS) system and the real-time gross settlement (RTGS) system.

In a DNS system, the settlement of transfer orders are netted at designated times in order to economize on the number and value of transactions. As opposed to bilateral netting, whereby transfers are settled between pairs of counterparties, multilateral netting is typically undertaken in a DNS system, by calculating the net positions of each bank participating in the payment system vis-à-vis each other.

In the case of RTGS systems, transfers are settled continuously on a transaction-by-transaction basis at the time they are received (that is, in real-time) rather than at a later time. RTGS systems are advantageous for large-value transfer and involve minimal disruption to the system in the event of a bank's payment default. However, this system will require relatively large amounts of intra-day liquidity compared to a DNS system.

The clearing and settlement functions of the payment process may be carried out within a single institution. Alternatively, separate institutions may be used to carry out each function.

Bank of Jamaica Clearing House

Since May 1961, the Bank of Jamaica (BOJ) has functioned as the supervisor for the single Clearing House in the payment system, using the DNS system, as well as the only settlement agent. The rules of this Clearing House are set forth by the Association of Kingston Clearing Bankers, which includes a representative from all commercial banks in Jamaica, with the chairman being a representative from the BOJ.

In terms of operational procedures, the commercial banks hold current accounts with the BOJ in order to facilitate the DNS system. Clearing is a twice-daily manual process in both local and foreign currencies [1]. There is one Morning Clearing Exchange for all items at 8:30 a.m., as well as an Evening Clearing Exchange for large value items (over J$500,000) at 3:15 p.m. An extension of the Evening Clearing Exchange takes place off-site in Montego Bay at 2:30 p.m. This off-site manual process provides net settlement positions for large value items that would not have arrived in time for the Evening Clearing Exchange at the BOJ.

The recourse period for the return of payment instruments due to reasons authorised by the Association of Kingston Clearing Bankers is 5 days. In practice, however, the "hold" period before a customer's funds are cleared by a participating bank, ranges from 5 to 7 days after the transfer order is presented (that is, *T*+5 to *T*+7)[2], although the value is transferred between banks on the day of clearing. Banks also transfer local funds among themselves for final settlement by means of the BOJ's electronic Customer Inquiry and Funds Transfer System (CIFTS). Member accounts are then updated at the end of each day by the BOJ.

Importantly, the BOJ does not manage intra-day liquidity and does not impose net debit caps on the participating banks. The banks maintain collateral with the BOJ mainly in the form of physical Government securities to be realized in the event of a current account overdraft. The BOJ assumes all remaining local currency default risk for each participating bank. A penalty is charged by the BOJ for an overdraft by a participating bank. However, in the event of liquidity or insolvency problems, a bank's net settlement position cannot be unwound. That is, if a bank is unable to settle its net position and it cannot be settled through the collateral held at the BOJ, the individual transfer orders that led to the net settlement will not be reversed. If unwinding were allowed, then the net settlement positions of some remaining banks

[1] Foreign currency transactions are exchanged through bilateral net settlement in the Morning Clearing Exchange.

[2] "T" denotes the day the item is presented at the Clearing House.

would increase, potentially resulting in their unexpected inability to settle. To avoid a severe disruption in the payment system, the BOJ provides a defacto guarantee of settlement.

The Automated Clearing House (ACH)

In recent times, many countries have modernized their financial systems by introducing an ACH, which may operate outside of the realm of the central bank. This type of payment system was designed to replace the manual clearing system with a more efficient electronic clearing process.

A privately owned ACH will soon replace the manual operations of the BOJ Clearing House. However, the BOJ will continue its functions as the overseer of the clearing process and the settlement agent. The BOJ and representatives from all clearing banks have formulated the rules of this institution. The ACH will handle the clearing of cheques, direct debits and direct deposits. Current plans include automated processes such as cheque "truncation". This involves the creation and transmission of relevant encoded data from the physical cheque in electronic data format (EDF). Participating institutions will be inter-connected with the ACH Operator by automated funds transfer (AFT) terminals. Although, the net settlement positions will be computed electronically at the ACH, the physical transfer of cheques will still be required until changes are made in the legal system.

The ACH will initially accommodate a standardized three-day (*T*+3) hold (and recourse) period for banks, as opposed to the current *T*+5 to *T*+7 hold period. This will significantly improve the speed and efficiency in which transfer orders are collected and processed for banks and their customers.

Figure 1 depicts the efficiency gains from using the ACH compared with the manual clearing process. The Figure summarizes the life cycle of a cheque when a payee deposits it to his "collecting" bank (or Originating Depository Financial Institution-ODFI), which was received from a payer and thus, drawn on a "paying" bank (or Receiving Depository Financial Institution-RDFI).

Credit Bureau

Through its function as the central clearing facility, the ACH will be a repository of extensive credit information on individuals and firms in the economy. Participating institutions will be able to obtain valuable credit information from other banks, aside from the individual bank's information on their own counterparties. Furthermore, the potential exists for other non-participating institutions to access credit reports so as to reduce their default risk. Although this will significantly increase the stability of the financial system, as well as the economy, legal barriers will have to be overcome in the context of breaching bank-client privileges.

Role of the Regulator

The ACH will clearly provide scale economies in terms of payment information flow and settlement. However, if the ACH is improperly managed it could result in financial market failure. Specifically, the four major types of clearing facility risks that can lead to market failure encompass credit, liquidity, operational, and legal risks. Credit risk, is the exposure to the possibility of loss ensuing from a counterparty's failure to meet its financial obligation in full, when due or at any time in the future. Liquidity risk arises when a participant, due to insufficient funds, is unable to meet its financial obligations in the system at the time of settlement. Operational risk occurs from failures in the clearing facility arising from processing system problems or human error, resulting in unexpected losses. Legal risk surfaces when an inadequate legal or regulatory framework causes unexpected losses. These four fundamental sources of risk can each lead to a systemic failure in the ACH. This arises when the failure of one or more participants in the ACH, or a failure in the system itself, results in the inability of other participants to meet payment obligations. Thus, strong regulatory standards and proper oversight are essential to prevent systemic crises.

In line with international practices, the BOJ will oversee compliance of the ACH with the Core Principles for Systemically Important Payment Systems (CPSIPS). These principles were drafted by the Committee on Payment and Settlement Systems (CPSS) of the central banks of the Group of ten (G-10) [3] countries, in conjunction with a selection of other countries at various stages of economic development. The report on the CPSIPS recommends that the responsibilities of central banks include:

i. A clear definition of its payment system objectives and the public disclosure of its role and major policies with respect to SIPS.
ii. Ensuring that the systems it operates complies with the Core Principles.
iii. Overseeing compliance with the Core Principles by systems it does not operate and ensuring its ability to carry out this oversight.
iv. Cooperating with other central banks and with any other relevant domestic or foreign authorities in promoting payment system safety and efficiency through the Core Principles.

Concluding Remarks

The establishment of the ACH will undoubtedly lead to significant improvements in the efficient functioning of the payment systems in Jamaica. Notwithstanding, the critical issue of ensuring payment system safety will ultimately remain the responsibility of the regulators. As such, the Central Bank will continue to improve its important function of regulatory oversight in order to avoid any major disruptions to the payment system.

[3] The G-10 comprises 11 major industrialized countries including Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States.

Figure 1: Summary of Efficiency Gains with the ACH

Manual Process

Day 1

- ODFI receives and processes cheques
- Large value cheques are exchanged at Evening Clearing
- Evening settlement takes place at BOJ
- RDFI updates customers' accounts with "hold"

Day 2

- ODFI continues to receive and send physical cheques to BOJ Clearing House (twice daily)
- Exchange and settlement of cheques at Clearing House
- RDFI updates customers' accounts with "hold"

RECOURSE PERIOD

Day 5 to Day 7

- RDFI post Returns and removes "hold"

Automated Process

Day 1

- ODFI encodes cheques and uploads EDF files to ACH Operator
- RDFI downloads EDF files from ACH and updates customers' accounts with "hold"
- BOJ downloads settlement file from ACH and updates participants' accounts

Day 2

- RDFI continues to process and upload EDF files to ACH Operator by 12:30 a.m.
- RDFI and BOJ continue to download and process settlement file from ACH
- RDFI completes verification of physical cheques received from ACH and identifies any Returns

Day 3

- ODFI receives physical Returns from BOJ and sends EDF to ACH
- RDF receive Returns EDF from ACH
- Physical Returns sent to RDFI
- RDFI post Returns and removes "hold" at end of day

Government successfully launched 15-year eurobond.

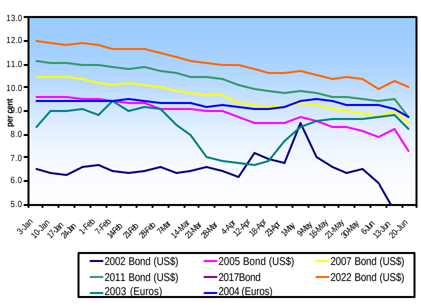
Bond Market

On 20 June 2002, the Government successfully launched its first 15-year eurobond. The issue had a coupon of 10.625 per cent and replaced a maturing 5-year eurobond of US$200.0 million at 9.625 per cent. The offer was heavily oversubscribed and hence the Government easily realized its objective of raising US$300.0 million. The tenor of the Bond was consistent with the Government's debt strategy of elongating the maturity profile.

Initially, there was strong interest in the bond offer, but local investors' demand waned following the confirmation of the taxable status of the bond to Jamaican investors. In spite of the reduced interest in the primary bond offer by Jamaican investors, the instrument was still attractive and highly demanded by international investors. This resulted in a 102.4 basis point decline in the average yield to 9.726 per cent at the end of trade on the first day of trading on the secondary market. The yield subsequently increased by 3.2 basis points to 9.758 per cent at the close of the quarter.

Investments in the other Government of Jamaica (GOJ) global bonds continued, as the general demand for these bonds on the secondary market increased during the quarter resulting in lower yields on these instruments (see **Figure 1.6**). In particular, investors gravitated towards the 2002 Bond in a bid to capitalize on the returns from the maturing instrument. In this regard, average yields on the 2002 Bond declined by 148 basis points to 4.675 per cent on the final day of trade on 13 June 2002.

Figure 1.6
GOJ Global Bond Yields



*indicates primary offer

The average interest rate differential between selected Jamaica Dollar denominated assets and the GOJ global bonds indicated that the premiums on the domestic currency instruments continued to exceed the average annualised rate of depreciation of the exchange rate. During the quarter, the average interest rate differential between the 270-day equivalent Treasury Bill and the 2003 eurobond was 2.41 percentage points. The differential between the 3-year Local Registered Stock (LRS) and the 2005 U. S. Bond and also the 5-year LRS and the 2007 U.S.

Figure 1.7
Interest Rate Differential
April - June 2002

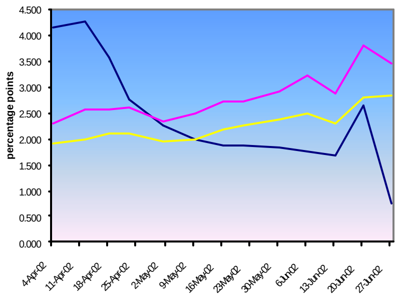


Table 1.7

GOJ Public Domestic Debt Raising April - June 2002			
	Amount Allotted (J$M)	**Amount Maturing (J$M)**	**Net Issue (J$M)**
Treasury Bills	2 050.00	1 750.00	300.00
LRS	5 400.00	3 910.17	1 489.83
Debenture	0	568.04	-568.04
US$ Bonds	0	0	0
TOTAL	**7 450.00**	**6 228.21**	**1 221.79**

Table 1.8

Treasury Bills Auctions April - June 2002				
Issue Date	**Tenor (days)**	**Avg.Yield (%)**	**Allotment (JS$M)**	**Amount Maturing (JS$M)**
12 April	91	13.43	300	300
26 April	182	13.84	500	400
24 May	182	13.79	300	300
14 June	364	14.77	400	400
21 June	182	13.81	550	350
Total			**2 050**	**1750**

Bond were 2.81 percentage points and 2.52 percentage points, respectively. This is in comparison to the average annualised rate of depreciation in the exchange rate of 1.71 per cent for the similar period (see **Figure 1.7**).

The Governments' debt management strategy of elongating the maturity profile was reflected in eight of the eleven offers of Local Registered Stock (LRS) having tenors of 7 years and over (see **Appendix 7B**). Of these tenors, four were offered for 12 years and one represented the first public issue of a 15-year LRS.

The Government's financing activities via public auctions resulted in a net issue of J$1 221.79 million in GOJ domestic debt instruments during the quarter (see **Table 1.7**). This reflected net issues of J$1 489.83 million and J$300.00 million in LRS and Treasury Bills respectively, as well as a net redemption of J$568.04 million in investment debentures. The stock of Treasury Bills outstanding as at 28 June 2002 was J$4 550.00 million relative to the statutory ceiling of J$12 000.00 million.

Rates on Government's short-term instruments recorded a downward trend during the quarter. The decline in interest rates was as a result of the prevailing liquidity conditions relative to the nominal amounts offered. The average yields on the 182-day Treasury Bills declined from 14.30 per cent on 28 March 2002 to 13.81 per cent on 21 June 2002 representing a decline of 49 basis points see **Table 1.8**).

Average yields on Government's longer-term LRS instruments were generally in the range of 14.74 per cent to 15.36 per cent during the quarter. However, the average yields increased to highs of 15.88 per cent towards the end of the quarter (see **Appendix 7B**).

Investors displayed a continued preference for holding BOJ's short-term instruments during the quarter. As such, placements in the 30-day instruments increased by 11.50 percentage points to 58.10 per cent of total placements in OMO instruments, over the previous quarter. Similarly,

Table 1.9

Placements in BOJ OMO Instruments
Percentage of Total Placements*
during March & June Quarters

	March Quarter (%)	June Quarter (%)
30 Days	46.6	58.1
60 Days	4.9	6.1
90 Days	7.7	6.3
120 Days	4.2	1.9
180 Days	5.4	5.9
270 Days	9.6	2.5
365 Days	21.5	19.2

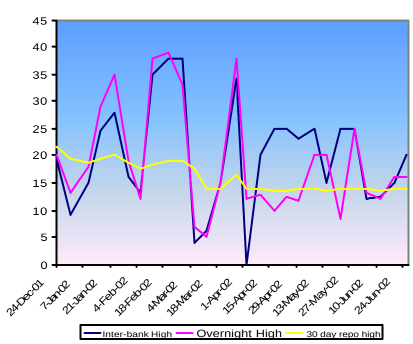
Table 1.10

Maturities for BOJ's OMO Instruments
Percentage of Total Maturities*
during March & June Quarters

	March Quarter (%)	June Quarter (%)
30 Days	32.3	63.2
60 Days	5.4	3.2
90 Days	8.9	5.8
120 Days	1.8	2.8
180 Days	4.9	1.4
270 Days	2.6	2.0
365 Days	44.1	21.6

*Not including overnight transactions during the period.

Figure 1.8
Private Money Market Rates



investments in the longer-term 365-day instrument declined by 2.3 percentage points to 19.20 per cent for the corresponding period (see **Table 1.9**).

Maturities in 30-day instruments were responsible for 63.20 per cent of the total maturities during the quarter, while maturing 365-day instruments were responsible for 21.6 per cent for the corresponding quarter. This is in comparison to the 30-day and 365-day maturities of 32.30 per cent and 44.10 per cent, respectively during the previous quarter (see **Table 1.10**).

The timing of Governments' debt raising efforts influenced liquidity conditions in the private money market during the quarter. This resulted in interest rates in the private money market declining relative to the previous quarter. Inter-bank and overnight rates both peaked at 25.0 per cent during the week ending 29 May 2002, while 30-day rates peaked at 14.0 per cent during the week ending 5 June 2002. This is in comparison to highs of 38.0 per cent, 39.0 per cent and 21.5 per cent for inter-bank, overnight and 30-day rates during the previous quarter (see **Figure 1.8**).

However, nominal Treasury Bill rates continued on a downward trajectory moving from 14.44 per cent at the end of the previous quarter to 13.81 per cent at the end of the June quarter. Similarly, real after tax rates moved from 3.12 per cent to 2.56 per cent for the corresponding quarters. This represented a 56 basis point reduction, which had a positive impact on the stock market.

Stock Market

During the June quarter, the Jamaica Stock Exchange (JSE) registered a stronger performance than that of the corresponding period in the previous year. The performance of the JSE Index was influenced by positive trends in key macroeconomic variables such as the decline in real interest rates and growth in GDP for 2001. In addition, the favourable investment opportunities presented by the relatively low price/earnings ratio of many listed firms also augured well for equity investments during the quarter. In particular, the stock market outturn

Figure 1.9
Average Volume Traded on the JSE for 2001 and 2002

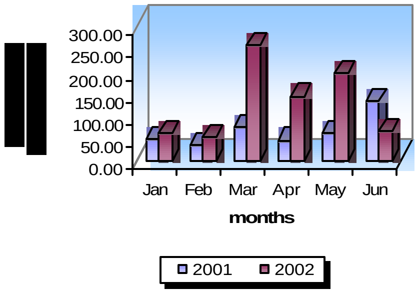


Figure 1.10
Average Value of Shares Traded for 2001 and 2002

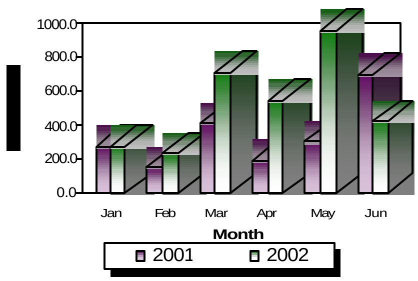


Figure 1.11
Movements in the JSE Index in 2001 and 2002

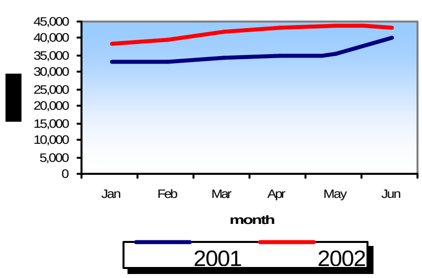
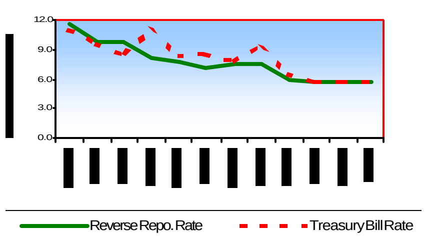


Figure 1.12
Real Interest Rates on Reverse Repurchase and Treasury Bills (6-month tenors)



for the months of April and May was most notable with a heightening of trading activity. However, the advance in the JSE index, particularly in June was influenced by the instability in the foreign exchange market during that month.

For the review quarter, average monthly volume traded grew to 134.3 million units from 79.5 million units for the corresponding quarter in 2001 (see **Figure 1.9**). Correspondingly, average monthly value traded was $644.0 million, an increase of 63.2 per cent, (see **Figure 1.10**). Further, relative to the March quarter, market activity continued to be buoyant, with an increase of 8.7 per cent and 5.6 per cent in trading volumes and value, respectively.

A disaggregation of market activity for the quarter showed that trading was most buoyant in April and May. For these months, the average monthly volumes were 169.4 million units with average monthly value traded of $752.6 million. However, in June there was a moderation in market volumes, with 64.2 million units traded, valued at $427.0 million.

For the months of April and May, the JSE Index[4] advanced by an average 26.0 per cent relative to the comparable months in 2001. This was reflective of the higher trading activity. At the end of the quarter, the JSE Index was 38 606.7, which represented a more moderate gain of 8.1 per cent relative to June 2001 (see **Figure 1.11**). The All Jamaica Composite Index and the Jamaica Select Index had advanced by 1.2 per cent and 2.2 per cent, respectively.

The positive stock market outturn for the review quarter occurred in the context of low real interest rates and reported growth in the economy for the previous year. Further, as shown in **Figure 1.12**, real interest rates on investment securities have continued to decline. Relative to the corresponding quarter in 2001, the rates on the six-month reverse repurchase agreement and Treasury Bill fell

[4] The JSE Index peaked at an all time historic high of 40 959.37 points on 16 May 2002.

Table 1.11

Top Ten Performers June 2002/June 2001	Open (J$)	Close (J$)	Change %
Other Services			
Palace Amusement	42.50	100.0	135.29
Pegasus Hotel	1.06	2.00	88.7
Financial Services			
Dehring, Bunting & Golding	5.75	8.70	51.3
Dyoll Life	6.25	8.50	36.0
First Life	7.30	11.00	50.7
Manufacturing			
Salada Foods	8.10	19.00	134.6
Desnoes & Geddes	4.21	7.06	67.7
Jamaica Broilers	1.88	3.10	64.9
Montego Bay Ice	3.50	5.85	67.1
Communications			
Radio Jamaica	1.20	2.50	108.3

by 134 basis points and 268 basis points, respectively. The reduction in these rates has translated into a widening of the earnings differential in favour of equities over fixed income investments. Given these strong macro-fundamentals, expectations for continued recovery and growth in many listed firms increased and positively affected the stock market.

The significant gain in share prices that continued from the previous quarter, would have acted as a positive signal, spurring further investment in the stock market. As shown in **Table 1.11**, the best performing stocks realised price gains between 36.0 per cent and 135.2 per cent for the review quarter relative to the same period in 2001. The manufacturing and financial services sector continued to experience share price appreciation.

Index in June reacts to pressures in foreign exchange market.

Whilst the performance of the stock market over the review quarter was generally positive, persistent foreign exchange market pressures (see **Foreign Exchange Market**) resulted in a moderation of market activity, particularly in the month of June. In the context of these pressures coupled with market expectations of an attractive yield on the GOJ Euro bond, there was a lowering of trading volumes in June.

For the September quarter, the debt raising activities of the Government will continue to be a salient factor affecting the continued buoyancy of the stock market. However, the Central Bank's demonstrated commitment to maintaining low interest rates, even in the face of foreign exchange market pressures, augurs well for the performance of stock prices.

Figure 1.13
Weighted Average Selling Exchange Rate (period average)

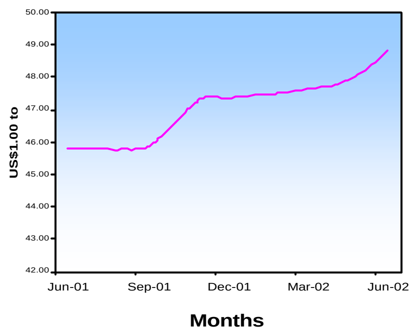
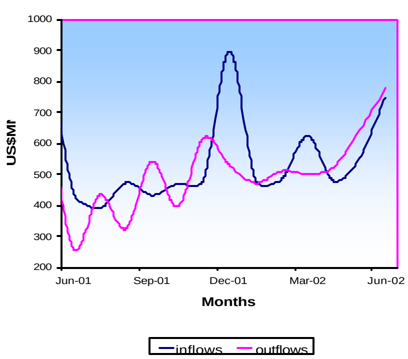


Figure 1.14
Foreign Exchange Cash Inflows and Ouflows



Foreign Exchange Market

The foreign exchange market was characterised by instability during the June 2002 quarter, in contrast to the relative stability observed in the preceding quarter (see **Figure 1.13**). The weighted average selling rate moved from US$1.00=J$47.61 at end-March to US$1.00=J$48.51 at end-June. This represented a depreciation of 1.9 per cent compared with the 0.4 per cent depreciation observed in the March 2002 quarter. The movement in the exchange rate was underpinned by significant demand pressures associated mainly with the Government eurobond offer. There was also increased end-user demand arising from higher merchandise imports.

Notwithstanding the depreciating pressures on the exchange rate in the June quarter, there was an increase in the volumes traded. BOJ's preliminary estimates indicate that total outflows of foreign exchange from the economy exceeded total inflows by US$159.4 million (see **Figure 1.14**). Relative to the June 2001 quarter, total inflows and outflows were estimated to have expanded by US$89.5 million and US$503.2 million, respectively, to US$1 784.5 million and US$1 943.9 million.

The excess demand for foreign exchange in the review quarter emanated primarily from portfolio adjustment by local investors who were positioning themselves to participate in the Government of Jamaica eurobond issue in June. This was compounded by the fall-off in receipts from tourism during the quarter.

Notwithstanding the excess demand for foreign exchange, higher receipts from private capital transactions and private transfers, relative to the comparable June 2001 quarter, boosted supply in the review quarter. Supply was further enhanced towards the end of the quarter with the receipt of US$300.0 million from the eurobond issue. However, there was only a net inflow of US$100.00 million from this sovereign issue as US$200.0 million of the proceeds were used to finance a maturing eurobond.

Figure 1.15a
Foreign Exchange Cash Inflows by Institutions

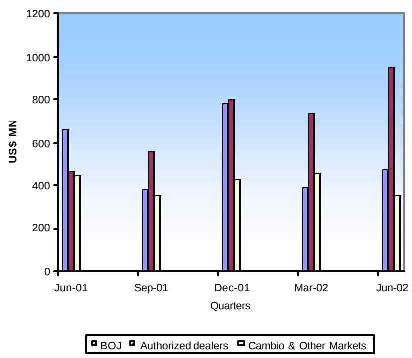
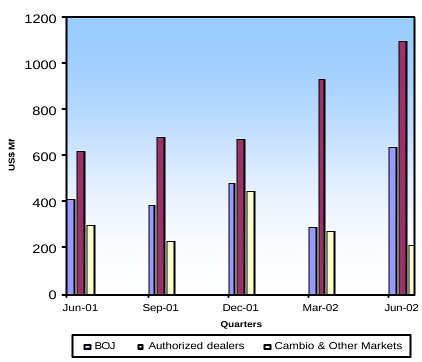


Figure 1.15b
Foreign Exchange Cash Outflows by Institutions



Improved US dollar liquidity conditions during this period also reflected the impact of local investors taking advantage of opportunities for arbitrage that emerged on the international market as a result of the strengthening of the British Pound vis-à-vis the US dollar.

The authorized foreign exchange dealers (as distinct from Cambios) recorded net sales of US$143.5 million over the review period. Relative to the June 2001 quarter, total purchases increased by US$309.4 million to US$953.3 million, while total sales rose sharply by US$339.4 million to US$1 096.8 million (see **Figure 1.15a and Figure 1.15b**). The net outflow of foreign exchange from this segment of the market largely reflected increased end user demand to facilitate external trade and private capital transactions.

The Cambios recorded net inflows of US$74.4 million during the June 2002 quarter. While total sales remained relatively flat when compared with the US$341.0 million observed in the June 2001 quarter, total purchases of foreign exchange increased by US$115.6 million to US$414.7 million.

At the beginning of the quarter, there were some price pressures influenced by strong inter-dealer demand. However, towards end-April, there was an acceleration in the pace of depreciation as the market reacted to the news of a proposed GOJ eurobond offer in June 2002. The sale of foreign exchange by the Central Bank moderated these pressures in the market.

In spite of the general depreciating trend in the exchange rate over the review period, there was some appreciation towards the end of the quarter, in particular between 10 and 24 June. This was associated with tight Jamaica Dollar liquidity conditions due to significant Government borrowing on the local market, prior to and during this interval. The impact of this on the system was further bolstered by waning local interest in the eurobond due to the confirmation of the taxable status of this instrument (see **Bond Market**). Subsequent to 24 June, the exchange rate depreciated marginally.

Consistent with the relatively active posture of the BOJ in the foreign exchange market, coupled with planned Government debt re-payments during the quarter, the NIR declined by US$159.4 million to US$1 782.3 million at end-June 2002 (see **Table 1.12**). As a result of these developments, gross reserves at end-June 2002 amounted to US$1 837.5 million, representing 21.0 weeks of estimated goods and services imports, compared with the international benchmark of 12.0 weeks.

Table 1.12

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

Box 2: Macroeconomic Implications of Cross-border Capital Flows: Some Scenarios

Introduction

Since the removal of capital controls in 1990, Jamaica has been the recipient of significant cross border flows. Between 2000 and 2001, approximately US$1.0 billion in official capital inflows (net of amortisation) flowed into the economy. In addition, net private capital inflows amounted to approximately US$1.2 billion. Some of these inflows were purchased by the Bank of Jamaica and the monetary effects of the accumulation in the net international reserves (NIR) were sterilised. In this context, the NIR grew to US$1 840.7 million at the end of 2001, from US$450.2 million at the end of 1999, while the Central Bank's monetary base remained in line with the programmed path. The sterilisation of the liquidity effects of the capital flows by the Central Bank has given rise to quasi-fiscal costs.

This box briefly looks at the main issues faced by the Central Bank in managing capital flows. In particular, it assesses the implications for the macroeconomy of two alternative policy options to the current stance of sterilised intervention. These alternative options are: (1) allow the market to absorb the flows or (2) non-sterilised intervention i.e. the bank purchases the flows but does not sterilise the liquidity impact.

The Impact of Cross Border Capital flows

Monetary policy may adopt one of three stances in response to a surge in capital inflows. Perhaps the most traditional is to maintain a given domestic currency liquidity profile by offsetting the accumulation in the NIR with changes in the central bank's net domestic assets (NDA).

In the final case, the policy of sterilised intervention has the dual benefit of insulating the economy from increased volatility in the nominal exchange rate, as well as the effects of increased money supply. It therefore serves to preserve the "fundamentals" of the macroeconomy.

This policy orientation is however associated with quasi-fiscal costs. When the central bank uses market-based tools to absorb the liquidity effects of NIR accumulation at interest rates that are higher than the rates earned on its foreign assets, it will incur a loss, reflected in the difference between interest earnings on its foreign assets and interest expenses on open market operations.

The second stance, which we shall denote as scenario two, is one in which the capital inflows are intermediated through the domestic financial sector (banks and near banks). The excess foreign exchange supply within the market will result in an appreciation of the nominal exchange rate. Given the appreciation in the nominal exchange rate, the appreciation of the real exchange rate may undermine the current account balance as the prices of imported goods and services fall.

This scenario assumes that the financial market has sufficient domestic liquidity to purchase the foreign exchange at the point in time. However, this may be unlikely on occasions where there are large bloc-inflows, as would arise whenever the Government borrows heavily abroad. If the market does not have sufficient liquid assets, recourse to Central Bank repurchase agreements represents the only other source of acquiring additional liquidity.

When capital flows are the result of a debt strategy that entails a switch in the currency composition of Government debt through lumpy foreign borrowing, the second stance will result in unofficial dollarisation of the economy. The implications of dollarisation include an impairment of the effectiveness of monetary policy and increased exposure of the banking system to foreign exchange risk.

The third possibility (scenario 3) permits the monetary base to increase in line with the NIR. Nominal interest rates may initially decline and, in the context of a highly open capital account, could foster capital outflows. If the central bank is intolerant of sharp adjustments in the nominal exchange rate, its newly acquired reserves will be eroded. If not, the exchange rate will depreciate, which in turn will trigger cost-push inflation. Another possibility is that the monetary expansion will engender demand-led inflation, first in asset markets such as real estate, but ultimately in the goods markets.

In any event, it seems unlikely that the reduced differential between domestic and foreign interest rates can be sustained for any long period, given that there are no restrictions on the capital account. Beyond this, the effects of the growth in the money stock on inflation would alter inflationary expectations, thereby requiring upward adjustments in interest rates.

It is noteworthy that the central bank's cost of open market operations would be lower relative to what prevailed in the first option. This stems from the fact that it would not have had to sterilise the liquidity from reserve build-up.

Some Tentative Results

In order to quantify the likely outcome of the alternative scenarios (2 and 3) discussed above, it is necessary to estimate the parameters that govern the behaviour of the principal variables. This section sets out some of the results of these simulations for calendar years 2000 and 2001.

Scenario 2: Foreign Exchange Inflows Intermediated by the Banking System

The principal variables under consideration in this scenario are the nominal exchange rate and by extension, the real exchange rate. It was necessary to use a simple econometric model to establish the relationship between the exchange rate and foreign exchange flows over the period and to derive the results of the simulation.

For the two-year period, net sales by the authorised dealers to the market amounted to US$395.4 million at an average rate per quarter of US$49.4 million. In this scenario, net sales to the market over the period would have increased to US$1 338.2 million at an average rate per quarter of US$173.5 million. Given the enhanced flows to the market, the exchange rate in 2000 would have appreciated within the range 5.0 per cent to 10 per cent. In

2001, the appreciation in the exchange rate would have accelerated to between 8.5 per cent and 14.0 per cent.

If it is assumed that the appreciation of the nominal exchange rate does not result in a significant moderation of inflationary impulses, the real effective exchange rate (REER) would have appreciated by between 12.0 per cent and 17.0 per cent in 2000, and between 15.0 per cent and 20.0 per cent in 2001. It is worth reiterating that this significant appreciation in the REER would have had adverse implications for the current account of the balance of payments as people increase their purchases of imported consumption items, possibly at the cost of locally produced goods and services. The fallout in real incomes and employment would therefore have been significant.

The path of the NIR would have been different under this scenario, because the Bank would not have purchased the capital flows, and at the same time would not have sold US dollars to the market over the period. There would have been no need to sell funds to the market given the superfluity of resources that would have been available when the Government sold its holdings of US Dollars.

Scenario 3: The Liquidity Impact is not Sterilised by the Bank of Jamaica

The Liquidity Impact

The capital flows under scenario three would affect the NDA of the Central Bank and the monetary base. The monetary base would have expanded by 97.4 per cent and 89.9 per cent in 2000 and 2001, respectively, compared with actual reductions of 5.4 per cent and 0.3 per cent in the two years. Approximately J$102.0 billion in liquidity would have been generated on a cumulative basis over the two years, implying that the Bank's stock of OMO liabilities would have been significantly smaller, relative to the stock at December 2001.

Interest Rates

The shocks to the money supply would have induced an initial marked reduction in interest rates, relative to its actual trajectory. The new interest rate path however would be more volatile, which would have had significant implications for the risks associated with financing costs in both the public and private sectors. The reduction in interest rates would not be sustained however, as the rise in inflation and inflationary expectations from the expansion in the money supply would precipitate an eventual increase in rates. In this context, it is estimated that nominal yields on Treasury Bills would increase to between 35.0 - 40.0 per cent for 2002, relative to the low rates currently prevailing in the market.

The Exchange Rate

In the context of the shocks to the money supply and the initial reduction in the interest rate that this occasioned, the average exchange rate would have depreciated by between 15.0 per cent and 25.0 per cent in 2000, and 8.0 and 15.0 per cent in 2001, compared with the actual respective depreciation of 9.5 per cent and 4.0 per cent.

The CPI

Given the new path for the money supply, interest rates and the exchange rate, inflation on a 12-month point to point basis in 2000 would have been approximately 20.0 - 25.0 percentage points above actual inflation (of 6.1 per cent), whilst the inflation out-turn for 2001 would have been higher-than-actual by between 12.0 - 18.0 percentage points (the inflation out-turn for 2001 was 8.8 per cent). In terms of the inflation outlook for 2002, a monetary overhang in December 2001, in conjunction with a build up in inflationary expectations, suggest that inflation for the year would have been within the range of 20.0 per cent to 25.0 per cent. The monetary overhang would have ensued from the receipt of exceptional capital inflows in December, inclusive of approximately US$250.0 million in commercial loan inflows, US$75.0 million in multilateral loan inflows as well as divestment proceeds of approximately US$40.0 million. These flows would have implied a 12.0 per cent growth in M3J for the month.

Conclusion

The management of capital flows in small, open economies is a challenge to monetary policy. This has been of particular significance in the Jamaican case, where over the past two years there have been lumpy capital inflows.

If the banking system had intermediated the inflows, the nominal exchange rate would have appreciated, leading to significant real appreciation in the two years. If the monetary effects of the inflows had not been sterilised, interest rates would have fallen temporarily, but this would have also fostered interest rate volatility. The nominal exchange rate would have also depreciated, precipitating higher inflation.

In an attempt to avoid the macroeconomic costs of the two alternatives, the BOJ opted to smooth the flows in the financial markets by direct purchase of the inflows and sterilization of the liquidity effects.

Box 3: Performances of Remittances in the Latin American and Caribbean Region: 1997 - 2001

Introduction

Remittances have become a major source of foreign currency for Latin American and the Caribbean (LAC) countries. The migration of these nationals to Europe and North America, particularly since the 1950s, has led to high levels of remittances to the home countries. These funds now rival and have even surpassed some of the traditional sources of foreign currency.

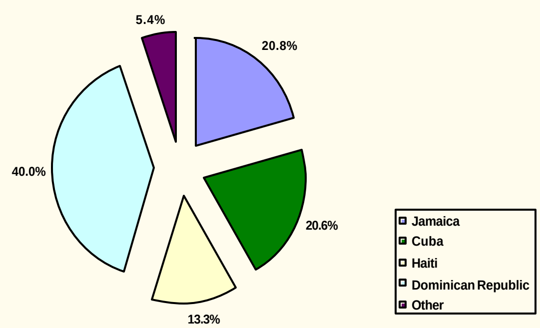
The phenomenal growth in the level of remittances has attracted national and international attention. Consequently, a growing body of research has been undertaken on the remittance market. In particular, research has been focusing on ways to maximize the level of remittances to the recipients, as well as, the potential role of remittances in economic development.[1]

Trends in Remittance Flows

An examination of data for 31 LAC countries revealed that in 2001, remittances to the LAC region were estimated at US$23.6 billion, an increase of 80.1 per cent over the US$13.1 billion in 1997. The LA countries received US$19.1 billion in 2001, an increase of 87.4 per cent over 1997. The Caribbean countries benefited from US$4.5 billion in 2001, or an increase of 57.8 per cent over the period.

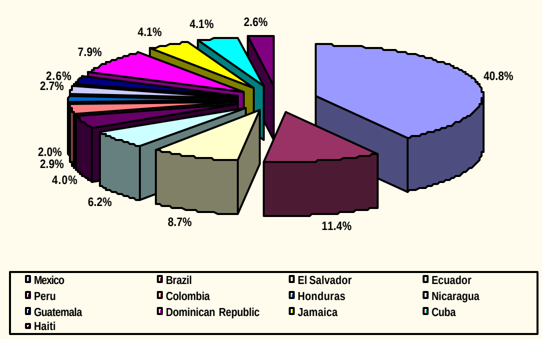
In 1997, the LA countries received 78.0 per cent of the flows and by 2001, their market share increased to 80.8 per cent. In contrast, the Caribbean's share fell from 22.0 per cent in 1997 to 19.2 per cent in 2001. Of the Caribbean countries, the Dominican Republic, Jamaica, Cuba and Haiti dominated the market in 2001, receiving 40.0, 20.8, 20.6, and 13.3 per cent, respectively (see **Chart 1**).

Chart 1
Share of Remittances in Caribbean in 2001



In 2001, approximately 96.0 per cent of the remittances to LAC were received by thirteen of these countries. Of these, the three largest remittance-receiving countries in 2001 were Mexico, Brazil and El Salvador, accounting for 40.8, 11.4, and 8.7 per cent, respectively. Jamaica benefited from 4.1 per cent. (see **Chart 2**).

Chart 2
Share of Remittances to LAC Region in 2001



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[1] Multilateral Investment Fund, Inter-American Development Bank, "Round Table on Remittances as a Development Tool: The Mexican Case," 26 February 2002.

The strongest growth in remittances over the period occurred in Nicaragua, followed by Ecuador, Honduras, Haiti, Brazil and Mexico. Jamaica recorded the ninth strongest growth in the LAC region and the third highest in the Caribbean. (see **Table 1**).

Table 1

Remittances to the LAC Region US$M

Country	1997	2001	% Change
Mexico	4 865	9 273	90.6
Brazil	1 324	2 600	96.4
El Salvador	1 200	1 972	64.4
Ecuador	406	1 400	244.8
Peru	636	905	42.3
Colombia	658	670	1.8
Honduras	160	460	187.5
Nicaragua	150	610	306.7
Guatemala	408	584	43.1
Dominican Republic	1 089	1 807	65.9
Jamaica	642	940	46.4
Cuba	670	930	38.8
Haiti	256	600	134.4
TOTAL	**12 463.6**	**22 750.9**	**82.5**

Major Factors Influencing Remittances in the Region

The growth in remittances in the LAC region has been influenced mainly by the acceleration in labour migration, increased competition in the remittance business, the introduction of advanced electronic money transfer networks, and strong growth and low unemployment in the remittance-sending countries.

The U.S. population census conducted in 2000 showed that approximately 15 million people of the U.S. population were born in LAC countries. This represents an increase of 8.2 per cent over the 13.3 million recorded in the 1998 Census. Of the 15 million people, approximately 12 million were from Latin American and 3 million from the Caribbean. Immigrants from Mexico constitute the majority of the Latin Americans in the U.S., and this explains why Mexico has been the largest recipient of remittances in the LAC region. The 1996 Census of Canada estimated that about half-million people of LAC origin lived in Canada.

In recent years, a growing number of highly skilled LAC nationals, with greater earning potential have joined the immigrant population and this has influenced the level of remittances to their home countries. The U.S. population survey of 1998 shows that 11.3 per cent of the employed people of LAC origin were in the "Executive, Administrative, Managerial and Professional Speciality" category and by 2000 this category grew to 12.1 per cent. In addition, 9.1 per cent of the LAC nationals were employed in the "Sales, Technical, and Related Support" grouping in 1998 moving to 9.2 per cent in 2000. The Surveys also showed that 10.8 per cent of the employed LAC nationals were in the high income range of US$35,000 and over in 1998 increasing to 19.3 per cent in 2000.

Almost 80.0 per cent of the remittances to the LAC region originate from the U.S., and Europe (particularly Spain, Italy and Portugal). Japan, and Canada are also important sources.[2]

Remittance services have emerged as a lucrative industry. Profits are earned from transactions fees and exchange rate premiums. The provision of these services has become

[2] Multilateral Investment Fund, "Remittances to Latin America and the Caribbean," February 2002.

extremely competitive and this has helped to considerably reduce costs over the past three years. Information from Western Union revealed that the cost of wire transfer to Mexico, for example, has been reduced by 50.0 per cent over the past two years[3].

Some banks and credit unions have begun to open up money transfer franchises that offer lower transaction charges[4]. For example, three Salvadoran banks have established offices in the U.S. that offer remittance transfer at lower rates than the traditional remittance companies[5]. In addition, a growing number of companies have begun to offer money transfers in foreign currency rather than in the currency of the recipient economy[6].

The established money transfer companies have also significantly expanded their branch network and introduced new services. Money Gram, for example, has strengthened its marketing effort to Mexico[7]. This includes inter-alia, the addition of 1500 'Bancomer' locations in Mexico, and the 'new Cambi Plus pricing', which allows customers to send any amount of money to Mexico for a flat fee of US$15.00. This addition makes the Money Gram agent network one of the largest in Mexico[8].

[3]The Miami Herald, Andres Oppenheimer, "Transnational citizens will change U.S.- Latin relations," 27 May 2001.
[4]See 2
[5]See 4
[6]Inter-American Dialogue, Manuel Orozco, "Family Remittances to Latin America: the market place and its changing dynamics." 17 - 18 May 2001.
[7]www.temgweb.com
[8]The Bancomer payment network includes 1141 Bancomer bank branches, 162 pharmacies and 197 Singer stores. Bancomer has offices in London and Grand Cayman, agencies in New York, Los Angeles and Brazil.

The introduction of advanced electronic money transfer technology has spread widely and has resulted in faster and more secure ways to transfer funds. In Mexico, for example, electronic transfers increased from 43.0 per cent in 1994 to 70.0 per cent in 2000[9]. In Jamaica, it is estimated that over 60.0 per cent of total remittance inflows were transferred electronically in 2001 relative to approximately 40.0 per cent in 1997.

Over the review period the major source countries for remittance to the LAC region recorded declining unemployment rates as well as relatively strong growth rates. These positive developments had implications for the employment status of the countries migrant population as well as their capacity to remit funds. Unemployment in the US fell to 4.9 per cent in 2001 from 5.0 per cent in 1997. In the UK and Canada, the rates fell to 5.2 and 7.3 per cent from 7.1 and 9.1 per cent, respectively in 1997. On average the economies of Canada, US and UK grew by 3.0 per cent, 3.6 per cent and 2.7 per cent, respectively over the period 1997 to 2001. Although, growth in the US economy has slowed particularly since the event of 11 September 2001, remittance flows continued to record strong growth of 29.0 per cent in 2001. All available data suggests that these flows will remain buoyant in 2002.

Economic Impact of Remittances on the Region

Remittances have had a tremendous impact on the economies of the LAC region. In a number of these countries, remittances are as important as export earnings, foreign direct

[9]See 4

investment inflows (FDI) and the earnings from tourism. They are also significant relative to the countries gross domestic product (GDP).

For the period 1997-2000, average remittances were over 10.0 per cent of the average GDP of Haiti, Nicaragua and El Salvador. For Jamaica, remittances were 9.9 per cent of GDP while in Ecuador, the Dominican Republic and Honduras, they were between 5.2 to 8.2 per cent (see **Table 2**). The size of remittances relative to GDP in the other four countries was much lower, and ranged between 1.0 to 3.0 per cent, with the exception of Brazil and Colombia which were 0.2 per cent and 0.8 per cent, respectively. As shown in **Table 2**, remittances to nine of the LAC countries were more significant to their economies than the value of FDI inflows. At the high-end, remittances accounted for 2 614.2 per cent of FDI in Haiti, while at the low-end it accounted for only 4.1 per cent in Brazil.

Remittances exceeded tourism earnings in six of the countries studied and were in excess of 25.0 per cent of the exports in six of the countries. For Haiti, remittances were 503.2 per cent of its tourism earnings and 119.8 percent of its export earnings. In the more export-oriented economies of Brazil and Mexico, remittances were estimated at only 2.2 per cent and 4.3 per cent of exports, respectively and 80.1 per cent and 74.1 per cent of their tourism earnings respectively. For Jamaica, remittances amounted to 43.4 per cent of exports and 56.0 per cent of tourism earnings (see **Table 2**).

Table 2

Remittances in Comparison to Key Economic Indicators*

	In per cent of			
Country	**Exports**	**Tourism**	**FDI**	**GDP**
Mexico	4.3	74.1	46.6	1.2
Brazil	2.2	80.1	4.1	0.2
El Salvador	54.4	712.1	358.5	11.6
Dominican Republic	27.5	58.6	164.8	8.2
Ecuador	18.6	267.2	122.9	5.2
Jamaica	43.4	56.0	178.3	9.9
Cuba	44.4	43.7	235.5	2.9
Peru	10.4	77.2	39.6	1.2
Colombia	6.4	80.4	25.8	0.8
Haiti	119.8	503.2	2 614.2	10.2
Nicaragua	41.0	223.7	106.5	11.2
Guatemala	16.7	141.9	166.2	2.5
Honduras	14.4	139.5	150.0	5.2

* Averages of 1997-2000

On a per-capita basis, Jamaica received the highest value of remittances in the region, followed by El Salvador, the Dominican Republic, Nicaragua, Ecuador and Mexico. Colombia and Brazil received the lowest.

Outlook

Remittances to the LAC region have grown significantly over the past five years and this has attracted wide interest. A significant influence on the level of remittances has been the growing migrant population. It is envisaged that international migration will continue to be strong in the future. Against this background and given the other influences on remittances, it is expected that flows to the region will continue to grow significantly in the future. At current growth rates of about 7.0 per cent annually, the projected cumulative remittances for the current decade (2001-2010) will reach over US$300 billion [10]. This will have a profound impact on the economies of LAC, as it translates into stronger balance of payments support, improved standard of living of the migrants' families, and increased capacity to generate economic development.

[10] See 4

2. Real Sector Developments

Overview

A preliminary assessment of real sector activities suggests that economic performance for the review quarter was relatively weak. The anticipated recovery in the quarter was adversely affected by flood rains in May, weak economic recovery in the United States, and continued downturn in world travel. While the services sectors grew marginally, this expansion was offset by a contraction in the goods producing sectors of the economy (see **Table 2.1**). The improved performance of the services sectors was influenced primarily by expansions in basic services, which outweighed the decline in the **miscellaneous** sector. The performance of the goods sector reflected the adverse impact of the May rains on the **agricultural** sector and a slow down in the **manufacturing** sector. However, there was an estimated improvement in the **construction** sector.

Table 2.1

Sectoral Contribution to Growth April - June 2002	Estimated Direction of Change
1. GOODS	-ve
Agriculture Forestry & Fishing	-ve
Mining & Quarrying	-ve
Manufacturing	-ve
Construction & Installation	+ve
2. SERVICES	+ve
BASIC SERVICES	+ve
Electricity & Water	+ve
Transport Storage & Communication	+ve
OTHER SERVICES	-ve
Distributive Trade	+ve
Financing & Insurance Services	+ve
Real Estate & Business Services	+ve
Producers of Government Services	+ve
Miscellaneous Services	-ve
Households & Private Non-Profit Instit	+ve
TOTAL GDP	+ve

With respect to aggregate demand, there were noted improvements in overall consumption and private investment expenditures during the period. Notwithstanding the above, net external demand and public investment weakened, relative to the same quarter in 2001.

Aggregate Supply for the June Quarter

Goods production affected by the flood rains in May.

Within the goods producing sectors, growth was recorded in the **construction** sector, while the **agriculture**, **manufacturing** and **mining** sectors contracted. The estimated decline in the agricultural sector reflected reductions in both domestic and export agriculture, attributable to the impact of the May 2002 flood rains on agricultural produce and livestock (see **Figure 2.1 and 2.2**).

For domestic agriculture, the Rural Agricultural Development Agency (RADA) indicated that approximately 5.1 per cent of total acreage with crops was

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

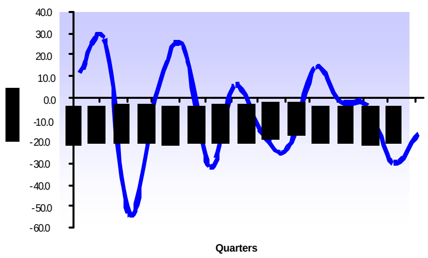


Figure 2.2
Export Agriculture
(change over corresponding quarter)

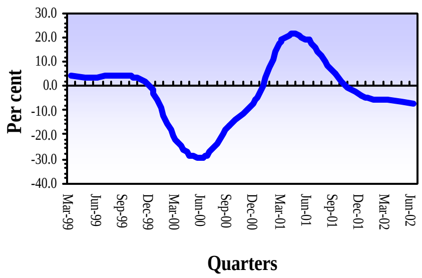
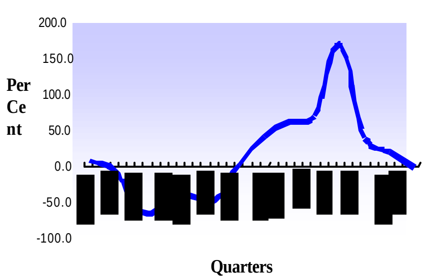


Figure 2.3
Trends in Crude Bauxite Production
(12-month change)



damaged as a result of the flood rains during the period. The crops that were most significantly affected were vegetables and ground provisions, with losses estimated at J$252.0 million. The estimated decline in the sector for the quarter was supported by the movements of prices. The Starchy Foods, Vegetable and Fruits sub-indices of the Consumer Price Index for the rural areas increased on a twelve month point-to-point basis by 12.5 per cent and 7.8 per cent, respectively, relative to a decline of 8.1 per cent for the former category as at June 2001, and an increase of 3.3 per cent for the latter.

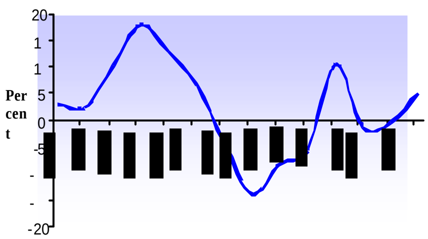
With respect to export agriculture, approximately 88 hectares of banana cultivation were damaged during the period, which implied that approximately 1.0 per cent of the cultivated banana lands were affected. Sugar production was lower by approximately 11.0 per cent, relative to the June 2001 quarter, reflecting delays in reaping as a result of the rains, as well as, low cane production and mechanical problems at some of the factories. Additionally, coffee exports, which had also been affected by the flooding in November 2001, were further hampered by the May rains. Livestock valuing approximately $4.6 million was lost as a result of the rains, implying that the **livestock and hunting** sub-sector recorded a decline for the quarter.

Value added in the **mining** sector is estimated to have declined substantially in the June 2002 quarter relative to the June 2001 quarter. This fall out was inferred from declines of 3.5 per cent and 5.2 per cent in crude bauxite and alumina production, respectively, relative to the June 2001 quarter (see **Figure 2.3**). Production was adversely affected by the rains as damage to the railways hampered the movement of raw materials and the timely shipment of crude bauxite and alumina. This fallout is expected to be temporary, as production and exports will normalise in the September quarter.

Indicators for the manufacturing sector suggest a contraction in the review quarter relative to the corresponding quarter of 2001. The contraction in value added reflected declines of 11.8 per cent, 10.9 per cent and 10.0 per cent in food processing, petroleum refinery and in the production of sugar, molasses & rum, respectively. These declines were partially offset by increased production in the non-metallic mineral, non-alcoholic and chemical products industries.

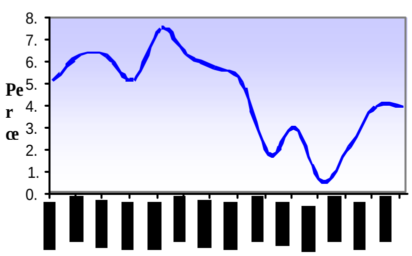
Indicators of activity in the **construction & installation** sector indicate that there was an appreciable expansion in the June 2002 quarter relative to the June 2001 quarter. This growth was inferred in part from an estimated increase of 5.0 per cent in cement sales, as well as, an expansion in loans to the sector (see **Figure 2.4**). Loans extended to the sector increased in nominal terms by 1.5 per cent for the calendar year to May 2002 relative to a 13.0 per cent decline registered in the same period in 2001. The road repairs in the aftermath of the floods as well as other Government road construction projects served to enhance the performance of the sector.

Figure 2.4
Cement Sales
(change over corresponding quarter)



For the **basic services** sectors, the indicators suggest that there was an increase in the value-added of both the **electricity & water** and **transport**, **storage & communication** sectors. The expansion in the electricity & water sector was inferred from an increase of 4.0 per cent in total electricity sales during the quarter, relative to the comparable quarter in 2001, reflecting a 5.0 per cent expansion in electricity generation during the quarter (see **Figure 2.5**).

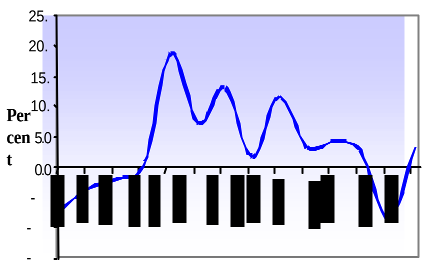
Figure 2.5
Electricity Sales
(change over corresponding quarter)



Of note, the flow of loans to the sector grew substantially by 12.0 per cent between January 2002 and May 2002, relative to the same period in 2001. Growth in the transport, storage & communication sector was driven primarily by the storage and communication sub-sector. With respect to communication, the flow of loans to the sector increased in nominal terms by approximately 1.0 per cent for the calendar year to May 2002, relative to the flowin the same period of 2001. Continuous investments in the products and services offered by the industry have sustained growth in the sector.

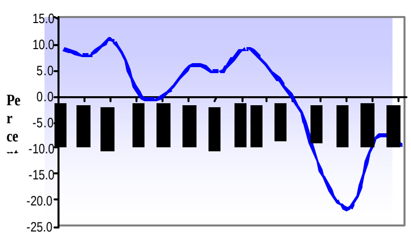
Marginal growth is estimated for the distribution sector in the review quarter, relative to the corresponding period in 2001. This was partly inferred from an increase in nominal terms of 13.5 per cent in the flow of loans to the sector for the year to May 2002, compared with a decline of 11.5 per cent recorded in the same period in 2001. In addition, merchandise imports is estimated to have grown by approximately 3.0 per cent in the review quarter (see **Figure 2.6**).

Figure 2.6
Merchandise Imports
(change over corresponding quarter)



The value added from the miscellaneous sector is estimated to have declined in the review quarter, relative to the same period in 2001. For **hotels**, **restaurants** and **clubs**, the major sub-sector within the miscellaneous sector, visitor arrivals and expenditure are estimated to have declined by 3.2 per cent and 9.3 per cent, respectively, relative to the same quarter of the previous year (see **Figure 2.7**). Among visitor arrivals, foreign nationals and non-resident Jamaicans declined by 9.3 per cent and 13.6 per cent, respectively. Notwithstanding, cruise passenger arrivals grew by an estimated 8.4 per cent in the quarter relative to the June 2001 quarter. The decline in the travel sub-sector continued to reflect the decline in world travel consequent on the events of 11 September 2001 and the slowdown in the USA economy.

Figure 2.7
Visitors Expenditure
(change over corresponding quarter)



In summary, economic activity in the June 2002 quarter was relatively weak. The major sources of growth were in construction and basic services. Growth in construction was driven partly by the numerous road construction and repair works during the period. Continued improvements in the storage and communication sub-sectors led the growth in basic services. Of note, loans extended to the transport, storage & communication, electricity & water, construction and distribution sectors increased appreciably between January and May 2002. The estimated quarterly growth was, however, dampened by lower output in the agricultural, mining, miscellaneous and financial sectors, relative to the June 2001 quarter.

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

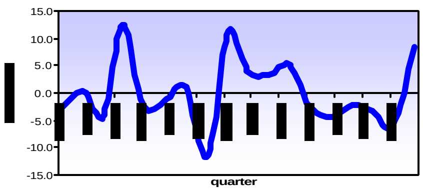


Figure 2.9
Trends in Public Consumption
(change over corresponding quarter)

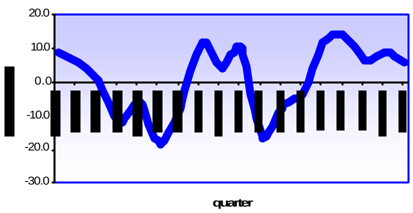


Figure 2.10
Trends in Private Investment
(change over corresponding quarter)

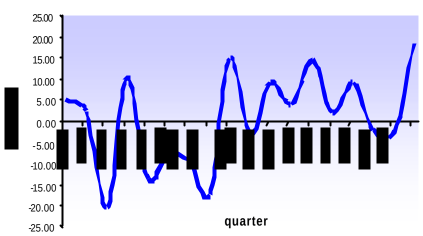
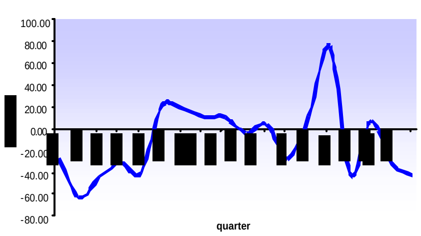


Figure 2.11
Trends in Public Investment
(change over corresponding quarter)



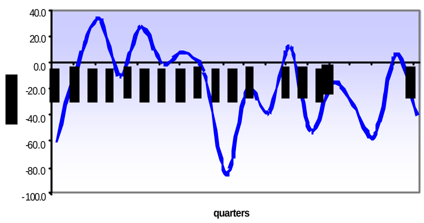
Aggregate Demand for the June Quarter

Indicators of aggregate demand suggest that there was an expansion in real consumption spending during the June 2002 quarter, relative to the corresponding quarter last year. This expansion was evident in both **private** and **public consumption**, as reflected in Central Government's General Consumption Tax (GCT) revenues and wages and salaries. The GCT intake is estimated to have increased in real terms by approximately 8.2 per cent in the review quarter (see **Figure 2.8**). With respect to public consumption (see **Figure 2.9**), an expansion in the June 2002 quarter was indicated by an increase of 5.5 per cent in real Government spending on programmes and wages & salaries. Notwithstanding, spending on programmes declined during the quarter. The reduction in expenditure on programmes highlights the continued restraint in spending in the context of less than buoyant revenue flows.

Indicators of real **investment demand** during the quarter suggest an expansion in private investment and a decline in public investment, relative to the corresponding period of fiscal year 2001/02 (see **Figures 2.10** and **2.11**). Public capital expenditure declined in real terms by over 45.0 per cent in the review quarter. This estimate however, excludes the public sector projects initiated through the private sector. With respect to private investment, the estimated expansion was partly inferred from a 17.5 per cent increase in real capital goods imports. During the quarter, there were substantial investments in the Port Antonio Marina Project and the continued dredging of the Kingston Terminal, and continued investment in the communication and tourism sectors.

There was an estimated decline in **net external demand** during the review quarter when compared to the June 2001 quarter (see **Figure 2.12**). This decline is predicated on higher estimated imports in conjunction with an estimated decline in the value of exports during the quarter. The expansion in imports reflected an increase in raw material imports for construction-related purposes, while the decline in exports was due to a fall in the value of alumina

Figure 2.12
Trends in External Demand
(change over corresponding quarter)



exports. Additionally, there was a fall in net travel receipts due to lagged effects of events of 11 September 2001 and lower confidence in consumer spending among the consumers in the U.S.A.

In summary, the stability in economic activity reflected growth in both private and public sector consumption. The deterioration in net external demand largely reflects economic shocks outside of Jamaica and highlighted the extent to which the economy is vulnerable to external developments.

Figure 3.1
Inflation rate
(March & June Comparison)

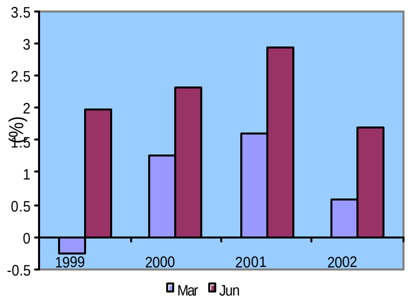


Table 3.1

Decomposition of Inflation Outturn April - June 2002/03	Inflation (%)	Contribution (%)
Non-Core Shocks	**0.79**	**48.1**
Other Housing Expenses	0.24	14.7
Food & Drink	0.45	27.1
Starchy Foods	0.23	13.9
Vegetables & Fruits	0.22	13.2
Other	0.10	6.3
Core	0.86	51.9
TOTAL	**1.65**	**100.0**

Headline Inflation

For the June 2002 quarter, the inflation rate was 1.7 per cent, representing an increase over the March quarter but compares favourably with the 2.9 per cent recorded in the June 2001 quarter. As **Figure 3.1** shows, inflation in the June quarter is typically higher than that of the March quarter. The Consumer Price Index (CPI) increased by 0.5 per cent, 0.3 per cent and 0.9 per cent in April, May and June, respectively.

Inflation for the quarter exceeded projections by approximately 0.3 percentage points. This deviation was due primarily to a higher than anticipated increase in electricity rates. Notwithstanding this, inflation for the first six months of the 2002 calendar year slowed to 2.2 per cent. With the exception of 1999, this was the lowest outturn for the period since 1988. The low inflation for the first half of the year was mainly associated with the delay in the recovery of agriculture following the November 2001 rains. This delay in recovery shifted agricultural production from the seasonally high December quarter into the March quarter, and had the effect of sustaining favourable agriculture price movements into the middle of the June quarter.

Monetary Policy and Inflation

A decomposition of headline inflation for the quarter indicated that core factors accounted for approximately 52.0 per cent (see **Table 3.1**). Underlying/core inflationary impulses continued to be moderated by relatively lower growth in the monetary base. In particular, the contraction in the monetary base during the March quarter facilitated the relatively low core inflation in the first two months of the review quarter.

Figure 3.2
Core Inflation
(quarter)

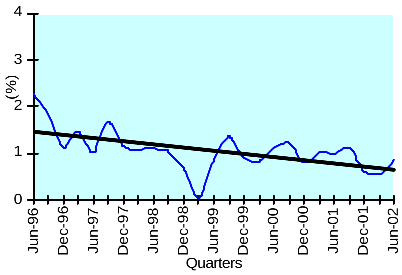
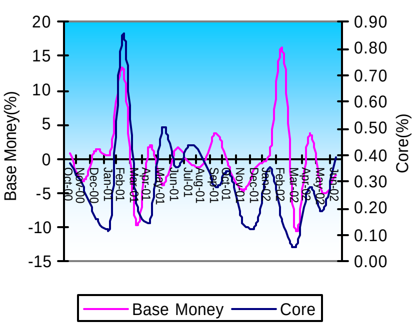


Figure 3.3
Lagged Base Money & Core Inflation



Underlying inflation in May fell to 0.19 per cent from 0.28 per cent in April. However, there was a moderate increase in June, to 0.39 per cent, reflecting some seasonality. For the quarter, core inflation was 0.86 per cent [1], representing an increase relative to the 0.56 per cent recorded in the March quarter, but is below the estimate of 1.0 per cent recorded in the June 2001 quarter (see **Figure 3.2**).

Other Factors

Non-core factors accounted for 48.1 per cent of inflation in the June quarter. The major factors influencing the non-core component of inflation during the period were higher oil prices and fluctuations in agriculture supply. The latter reflected the influence of the change in weather patterns and hence reaping cycles.

International oil prices increased by 22.5 per cent during the June quarter relative to 5.1 per cent in the preceding quarter. The increase was influenced by the continued political conflicts in the Middle East as well as supply cuts by Iraq and OPEC. However, oil prices remained close to the midpoint of OPEC's reference range of US$22.00 to US$28.00 per barrel. The benchmark West Texas Intermediate crude oil price rose to an average US$26.27 per barrel in the June quarter, from an average US$21.45 per barrel in the March quarter. This increase accounted for most of the movement in the Jamaica Public Service Company's (JPSCo) rates during the quarter.

Agricultural supply was affected by the rains in November 2001 resulting in the postponement of agricultural recovery into the June quarter. Consequently, in May, strong declines were observed in the prices of some items in the Starchy Foods sub-group and marginal reductions in the Vegetables & Fruits sub-group. However, towards the end of May, extensive rains disrupted supplies and reversed the price decline. Consequently, there were expansions of 4.9 and 3.0

[1] When account is taken of the discrete adjustment in the tariff structure of electricity rates, however, underlying inflation for the quarter is estimated at 0.78 per cent. This estimate is derived from the use of an exemption clause for energy rates.

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

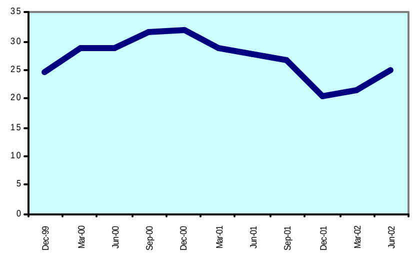
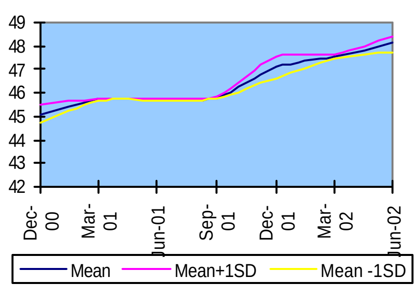


Table 3.2

International Prices of Selected Commodities (US$) Quarterly Averages				
Commodity	**Units**	**April - June 2001**	**Jan. - March 2002**	**April - June 2002**
Vegetable Oils				
Coconut oil	$/mt	301.7	368.0	425.7
Groundnut oil	$/mt	697.7	667.0	648.0
Soybean oil	$/mt	310.3	366.7	401.7
Grains				
Soybean meal	$/mt	171.7	171.7	169.0
Soybean	$/mt	186.0	188.7	197.3
Maize	$/mt	85.1	90.8	90.5
Sorghum	$/mt	92.9	93.3	89.2
Wheat Canada	$/mt	152.4	147.4	143.7
Rice (A1)	$/mt	124.4	145.8	148.6
Exports				
Sugar (EU)	¢/kg	53.12	52.14	53.42
Sugar (US)	¢/kg	46.96	45.78	43.74
Sugar (World)	¢/kg	20.15	15.42	13.72
Fertilizers				
TSP	$/mt	125.7	135.7	132.3
Potassium Chlor.	$/mt	117.5	115.3	112.9

Figure 3.5
Exchange Rate Movements



per cent in the Starchy Foods and Vegetables & Fruits sub-groups, respectively, in June.

Other factors of note relate to global commodity prices, international inflation rates and exchange rate movements. The influence of other global commodity prices on domestic inflation was marginal. Although there were some increases in commodity prices, most were either stable or declining (see **Table 3.2**). Domestic consumer prices continued to benefit from the low inflation rates of our major trading partners. The 12-month point-to-point inflation rate for the United States fell to 1.2 per cent as at May 2002, from 3.6 per cent in May 2001.

Similarly, inflation rates for the U.K. and Canada fell to 1.1 per cent and 1.0 per cent from 2.1 and 3.9 per cent, respectively. These low rates are, in part, reflective of lower global economic growth and demand relative to the previous year.

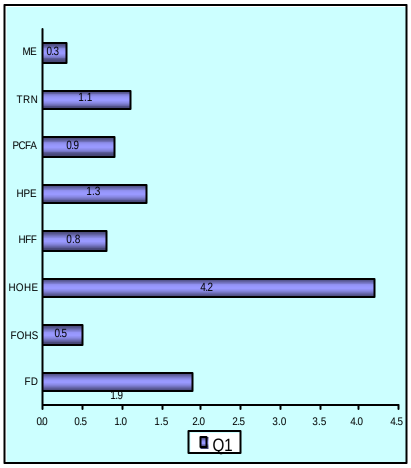
The movements in the exchange rate in the June quarter (see **Foreign Exchange Market**) provided an additional source of increase in electricity rates. However, most of the pass-through of the depreciation in the exchange rate from the June quarter should be reflected in prices in the September quarter (see **Figure 3.5**).

Component Contribution to Inflation

The primary impulse to prices during the review quarter, originated within the *Food & Drink*, *Housing & Other Housing Expenses* and *Healthcare & Personal Expenses* sub-indices. These sub-indices expanded by 1.9 per cent, 4.2 per cent and 1.3 per cent, contributing 62.7 per cent, 19.0 per cent and 5.4 per cent, respectively, to the outturn (see **Figure 3.6** and **Table 2, Appendix C**).

The *Food & Drink* group was driven primarily by the *Starchy Foods* and *Vegetables & Fruits* sub-groups, which together accounted for approximately 27.0 per cent of the inflation during the quarter. Sharp increases in the prices of fruits and tubers affected the sub-groups, particularly in

Figure 3.6
Sub-group Inflation



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

Table 3.3

Changes in the Billing Structure of Electricty

	March 02	June 02	% change
Billed Fuel Rate ($ per kWh)	2.066	2.956	43.6
Energy Rate ($ per kWh)			
first 100 kWh	3.57	3.83	7.3
above 100 kWh	5.05	5.41	7.1
Billing Exchange Rate	47.51	48.34	1.7

June. These increases were due chiefly to the impact of the flood rains on supply. Apart from the excessive moisture, which would have hindered harvesting, the damage to the road infrastructure affected transportation and hence interrupted supplies to the various markets. Also of significance was the *Baked Products, Cereals & Breakfast Drinks* sub-group, which was influenced by increases in the price of flour and, subsequently, in the prices of baked products.

Within the Housing & Other Housing Expenses group, the impact of three consecutive adjustments in the monthly electricity rates was the primary impetus to inflation during the quarter. Cumulatively, there was a 13.0 per cent increase in the cost of electricity, which was the single most influential item in the outturn for the June quarter. The increases in international oil prices noted previously, significantly affected the billed fuel rates, which rose by 43.6 per cent over the quarter (see **Table 3.3**). The Healthcare & Personal Expenses sub-index was influenced by increases in the cost of medical practitioners' fees.

Regional Distribution of Inflation

During the review quarter, the CPI increased by 1.4 per cent in the KMA, 2.1 per cent in the Other Towns and 1.7 per cent in the Rural Areas (see **Table 3.4**). In the previous quarter, the CPI increased by 1.1 per cent in the KMA, and by 0.1 per cent in both the Other Towns and in the Rural Areas. The pattern in the June quarter was primarily due to the influence of the Food & Drink and Healthcare & Personal Expenses sub-indices. Within the Food & Drink group, the Meals Away from Home and the Starchy Foods sub-groups drove the pattern exhibited by the group. For the Meals Away from Home category, there were increases in the prices of rum and some meals in Other Towns that did not occur in the other regions. For the Starchy Foods sub-group, price increases were manifested in the Other Towns and Rural Areas while declines were observed in the KMA. The disparity noted in the Healthcare and Personal Expenses sub-group was due to higher increases in some medical fees in the Other Towns and Rural Areas.

Table 3.4

Regional Distribution of Inflation

Groups/Subgroups	KMA (%)	Other Towns (%)	Rural (%)
FOOD & DRINK	**1.4**	**2.8**	**2.0**
- Meals Away	0.8	3.5	1.2
- Baked Products	2.9	2.4	2.4
- Starchy Foods	1.9	11.7	3.4
- Vegetables & Fruits	2.3	2.9	4.8
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.4**	**0.8**	**0.4**
- Household Supplies	0.9	1.4	0.7
HOUSING & OTHER HOUSING EXPENSES	**3.9**	**4.7**	**4.6**
- Other Housing Expenses	5.6	5.3	5.1
HOUSEHOLD FURNISHINGS & FURNITURE	**1.3**	**1.5**	**1.6**
- Furnishings	0.4	0.7	0.8
HEALTHCARE & PERSONAL EXPENSES	**1.0**	**1.8**	**1.4**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.6**	**0.3**	**1.5**
TRANSPORTATION	**1.6**	**0.7**	**0.5**
MISCELLANEOUS EXPENSES	**0.2**	**0.4**	**0.4**
ALL GROUPS	**1.4**	**2.1**	**1.7**

Summary

Higher energy cost provided significant impetus to inflation during the quarter. Domestic agriculture prices, which for the first two months of the quarter were relatively stable, increased during June reflecting the initial impact of the May flood rains. Despite the seasonally higher rate for the review quarter, core inflation continues to trend downwards reflecting the relatively stable monetary trends.

Overview

The inflation outturn of 1.7 per cent in the June 2002 quarter was higher than the Bank's projections of 1.4 per cent. However, core inflation for the quarter was 0.86 per cent. This inflation outturn was achieved in a context where the adherence to the monetary targets during the March quarter contained underlying inflationary pressures despite significant adjustment in the cost of electricity and precipitous movement in the global price of crude. However, the supply shocks will translate into higher prices in the September quarter and will temper the growth prospects for the fiscal year. This has occasioned some modification to the Bank's forecast and programme targets for the 2002/03 fiscal year. In particular, the Bank has revised its target range for headline inflation between 6.0 per cent and 7.0 per cent (see **Table 4.1**).

Table 4.1

Jamaica's Economic Performance Targets FY 2002/03

	Targets	
	Original	***Revised***
Inflation	5 - 6%	6 - 7%
Base Money Growth	8 - 10%	8 - 10%
NIR End March 2003 (US$mn)	1 600.0	1 600.0
Fiscal Balance (% GDP)	-4.4%	-4.4%
Primary Balance (% GDP)	10.4%	10.4%
GDP (12-mth change)	2 - 4%	2 - 4%

Revised fiscal year inflation target of 6 - 7 per cent.

Outlook

A preliminary impact assessment of the flood rains indicates that economic growth will be lower for FY2002/03. This disruption to agriculture, in addition to the decline in the mining sector and weak tourism performance in the June quarter may result in economic growth for the fiscal year being closer to the lower end of the 2.0 per cent to 4.0 per cent programme range.

Growth expected for the September quarter.

Against the background of continued growth in basic services and increased construction activities, a positive economic performance is anticipated for the September 2002 quarter in both the goods and the services sectors. With the exception of the agricultural sector, all the goods producing sectors are expected to grow over the September 2002 quarter relative to the corresponding quarter of 2001. The rehabilitation of infrastructure and housing will influence the rate of expansion in the construction sector. Marginal growth in the manufacturing sector is expected, led by beverages and agro-processing, while the production plans of the major companies in the bauxite and alumina industry point to some expansion in the mining sector during the quarter. The agricultural sector is expected to decline consequent on the destruction of large acreage of crops caused by the flood rains. However, some recovery is expected in the poultry industry towards the latter part of the quarter.

Continued expansion is projected for basic services.

Whilst growth is projected for all sub-sectors, the expected expansion in the services sector will be due primarily to basic services such as electricity, water and communication. Arising from the higher rainfall, the production of potable water is projected to increase in the September 2002 quarter in contrast to the seasonal declines of previous years. With the continued lagged impact of the events of 11 September 2001, a weak performance is anticipated in the tourism sector.

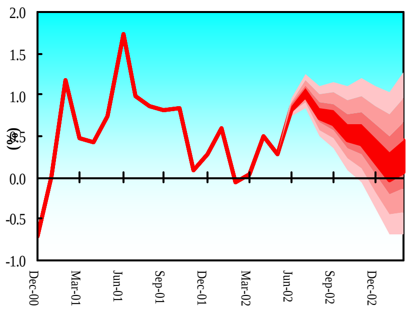
Visitor arrivals are expected to increase in July against the background of the hosting of the World Junior Games and lower visitor arrivals in the corresponding quarter of 2001 due to the adverse impact of the social disturbance in July. However, the performance of the tourism sector continues to be constrained by security concerns in the major markets, which have led to the increased tendency by tourists to vacation closer to home.

Inflation for the September quarter is expected to show the seasonal strengthening relative to the June quarter. Headline inflation is projected to approximate 2.6 per cent (± 0.3 percentage points) relative to 1.7 per cent in the June 2002 quarter and 2.9 per cent in the September 2001 quarter[1].

However, the projected 12-month point-to-point inflation rate at September 2002 is 6.2 per cent relative to the 6.3 per cent recorded in June quarter. For the first half of the fiscal

[1] Inflation in the September 2001 quarter was impacted significantly by increases in postal rates and preparatory school expenses in the miscellaneous expenses sub-category.

Figure 4.1
Inflation Forecast



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

year, inflation is projected at 4.4 per cent relative to the 5.7 per cent for the comparable period of the previous fiscal year.

The main inflationary impulse is expected to emanate from increases in the prices of the heavily weighted agricultural commodities. This expectation is against the background of the May-June floods, which did extensive damage to vegetables and tubers. Additionally, this quarter will be seasonally affected by lower agricultural supply due to the crop cycle. Movements in the exchange rate in the months of May and June are also expected to influence the outturn for the September quarter. However expectations are that the pass through effect of exchange rate to prices will be moderated by competition.

The increases in agricultural prices resulting from the floods will facilitate an expansion in the starchy food and vegetables & fruits sub-categories. Indirect effects of this expansion are also anticipated in the meals away from home sub-group index. In this regard, the food & drink sub-sector is expected to account for over 70.0 per cent of the inflation in the quarter.

Inflation will be drived by the adverse shock to agricultural prices.

Other anticipated inflationary impulses of note are from the miscellaneous expenses and the housing & other housing expenses sub-categories. Price impulses in the miscellaneous expenses sub-index are expected to emanate from expenses associated with the new school year, while for the housing and other housing expenses sub-index, increases are expected from the second round effects of recent adjustments in electricity rates.

The pace of growth in the world economy is expected to improve for the remainder of the year. This momentum is expected to be led by the U.S. economy based on the Federal Reserve Board's revision in its 2002 growth forecast to a range of approximately 3.5 to 3.75 per cent. This forecast is above the initial forecast of between 2.5 per cent to 3.0 per cent given in February due to the strengthening economic fundamentals. Industrial

Figure 4.2
Base Money Growth
(12-month)

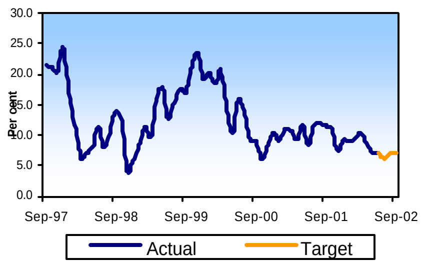
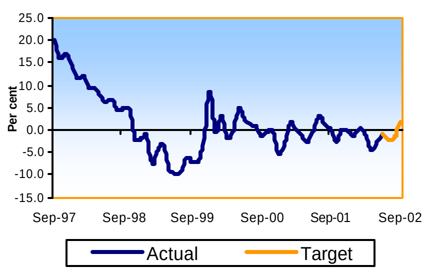


Figure 4.3
Broad Money Growth
(12-month)



production rose 0.8 per cent in June, which is the highest increase since October 1999. In the short to medium term however economic performance may be adversely affected by the uncertainties generated by issues relating to corporate governance and national security.

Another development of note is the level of uncertainty surrounding the global market for oil. This uncertainty results in part from the volatility in the price of crude oil associated with the continued political conflicts in the Middle East. While the situation remains unstable, the over-production of oil by some members and non-members of OPEC countries as well as higher inventories should moderate price increases over the medium term.

Monetary Policy

Within the context of the recent adverse shock to agriculture and the uncertainty in the global oil market, the Bank of Jamaica has revised its inflation and growth target for the fiscal year 2002/03. Headline inflation has been revised upwards to the range of 6 per cent - 7 per cent from the 5 per cent - 6 per cent range while, the growth target has been revised towards the lower end of the 2 per cent - 4 per cent programme range. The monetary base is expected to remain within the targeted range of 8.0 per cent to 10.0 per cent for the fiscal year. For the September quarter, the monetary base is projected to decline by 1.7 per cent, consistent with the need to constrain underlying inflation in the face of the shocks to agriculture prices.

There will be an adjustment to the liquid assets reserve requirement of the commercial banks and FIA licensees (non-banks) effective 01 August 2002. The non-cash portion will be reduced by 4 percentage points to 14.0 per cent of prescribed liabilities. This will bring the total liquid asset ratio to 23.0 per cent with the cash reserve requirements remaining at 9.0 per cent. This reduction in the non-cash portion of the liquid assets ratio is not expected to affect Jamaica Dollar liquidity, as banks currently hold reserves in excess of the requirement.

In light of the shocks to the economy, the Bank will closely monitor demand pressures during the September quarter. A moderation in demand, an acceleration in economic activity and the continuation of buoyant liquidity in the foreign exchange market, would provide the opportunity for continuing lowering of the Bank's interest rates.

Summary

Economic growth has slowed primarily due to the shocks to agriculture, weaker than anticipated tourism outturn and higher inflation during the June quarter. In light of the shock to inflation and lower growth prospects for the fiscal year, the macroeconomic targets have been modified. The medium-term prospect however is encouraging, given the upward revision in the economic outlook for the US, our main trading partner. In this regard, the maintenance of a stable macroeconomic environment characterized by low inflation, stable financial markets and lower interest rates, remains the central focus of monetary policy.

A. Fiscal Developments: April - June 2002

Preliminary data indicate that during the June quarter, Central Government achieved a deficit of $12 357.5 million or 3.0 per cent of GDP which was below the targeted deficit of $13 088.6 million or 3.2 per cent of GDP. This outturn occurred in the context of lower than budgeted revenue flows, which were offset by a reduction in expenditures relative to target. The primary balance was 0.8 per cent of GDP relative to the targeted 1.2 per cent of GDP as the decline in revenues was only marginally countered by a negligible reduction in non-interest expenditure. However, the current balance to GDP ratio was minus 2.4 per cent relative to the target of minus 2.5 per cent, as the curtailment in recurrent expenditure was sufficient to offset the shortfall in current revenues during the quarter.

The shortfall in revenues of $2 215.5 million during the June quarter was reflected in all categories. In particular, tax revenues accounted for $1 344.5 million or 61.0 per cent of the deviation in total tax revenues and grants. The under-performance of tax revenues was reflected in the Income and Profits and International Trade sub-categories. Within the Income and Profits sub-category, tax on interest reflected the most significant deviation. The performance of the International Trade sub-category was largely influenced by lower than projected receipts from special consumption tax (SCT) on imports, which coincided with reduced imports of refined petroleum during the period. Concurrently, grant flows were below target for the quarter due to the delay in receipt of programmed flows of US$12.0 million from the European Union. Relative to the June 2001 quarter however, total revenues and grants were 6.3 per cent higher, driven primarily by the growth in tax revenues in the current period.

The $2 946.7 million reduction in overall expenditures in the June quarter was reflective of lower than planned recurrent and capital expenditures, which were 7.0 per cent and 13.7 per cent below budget, respectively. The reduction in recurrent expenditure reflected lower than budgeted interest payments, which was partly offset by a 2.5 per cent increase in wages & salaries relative to budget.

During the June quarter, Central Government financed its deficit by relying heavily on domestic financing. The use of domestic financing was higher than programmed as overseas borrowing only occurred at the end of June. The major source of foreign financing was a US$300.0 million eurobond which replaced a maturing eurobond of US$200.0 million.

Fiscal Performance
Comparitive Analysis
J$ Million

	2002/03 Q1	SMP Q1	Change	2001/02 Q1	Change
Revenue and Grants	**24 455.00**	**26 670.50**	**-2 215.50**	**23 004.00**	**1 451.00**
Tax Revenue	23 106.30	24 450.80	-1 344.50	21 645.00	1 461.30
Capital Revenue	170.20	186.00	-15.80	116.50	53.70
Other (incl. Non-tax)	1 178.50	2 033.70	-855.20	1 242.50	-64.00
Expenditure	**36 812.50**	**39 759.10**	**-2 946.60**	**33 891.20**	**2 921.30**
Recurrent Expenditure*	34 183.10	36 765.90	-2 582.80	29 543.30	4 639.80
Capital Expenditure	2 364.80	2 741.00	-376.20	4 095.70	-1 730.90
IMF #1 Account	264.60	252.20	12.40	252.20	12.40
Unallocated	0.00	0.00	0.00	0.00	0.00
Overall Balance	**-12 357.50**	**-13 088.60**	**731.10**	**-10 887.20**	**-1 470.30**
Memo					
Current Balance	**-9 898.30**	**-10 281.40**	**383.10**	**-6 655.80**	**-3 242.50**
Primary Balance	**3 244.20**	**4 753.50**	**-1 509.30**	**2 193.90**	**1 050.30**

Performance Indicators
(percentages of GDP)

	BR	CB	PB	IP	FSR
Q1 - 2001/02	2.93	-1.79	0.59	3.52	-1.47
Q1 - 2001/02 SMP	3.04	-1.86	0.61	3.66	-1.47
Q4 - 2002/03	3.04	-2.44	0.80	3.84	-1.51
Q1 - 2002/03 SMP	3.22	-2.53	1.17	4.40	-1.49

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 percentage of GDP
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 borrowing for consumption
PB ratio above zero indicates major fiscal adjustment to cover interest on past obligations

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

B. Monetary Policy Developments: April 2000 to June 2003

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

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

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

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

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

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

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

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

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

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

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

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

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

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

25/06/01	Interest rates on the 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 14.75 per cent, 14.55 per cent, 14.45 per cent, 14.35 per cent and 14.25 per cent respectively.
29/06/01	The Bank of Jamaica introduced Certificates of Deposits to the range of instruments used in open market operations. All the terms and conditions applicable to Reverse Repurchase transactions apply to Certificates of Deposits, with the exception that the latter are covered by the central bank's assets as against Government securities. Central Bank deposits which are maintained in statement form (i.e. no physical certificate is issued) will continue to be used for placements of seven (7) days or less.
01/09/01	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from twenty nine per cent (29%) to twenty eight per cent (28%). Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from eleven per cent (11%) to ten per cent (10%). The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty eight per cent (5% and 28%) for Building Societies. The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and ten per cent (1% and 10%) in respect of local and foreign currency deposits.
30/10/01	Interest rates on the 365-day, 270-day, 180-day, 90-day and 60-day instruments were increased to 19.90 per cent, 19.45 per cent, 15.50 per cent, and 15.00 per cent, 14.75 per cent and 14.55 per cent, respectively.
28/12/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day and 60-day instruments were reduced to 18.90 per cent, 18.40 per cent, 15.00 per cent, and 14.55 per cent, 14.45 per cent and 14.35 per cent, respectively.
09/01/02	Interest rates on the 365-day and 270-day instruments were reduced to 17.90 per cent and 17.00per cent, respectively.

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

C. Summary Tables

1

Inflation Rates
(%)

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

2

Component Contribution to Inflation
All Jamaica
April - June 2002

Groups and Sub-groups	Weight in CPI	Inflation (%) Q1	Contribution (%) Q1
FOOD & DRINK	**0.5563**	**1.9**	**62.7**
- Meals Away from Home	0.0741	1.5	6.7
- Meat Poultry & Fish	0.1613	1.0	9.5
- Dairy Products Oils & Fats	0.0668	1.0	4.1
- Baked Products Cereals & Breakfast Drinks	0.0864	2.6	13.5
- Starchy Foods	0.0525	4.4	13.9
- Vegetables & Fruits	0.0650	3.4	13.2
- Other Food & Beverages	0.0502	0.6	1.8
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**0.5**	**2.9**
- Household Supplies	0.0482	0.9	2.6
- Fuels	0.0253	0.2	0.3
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**4.2**	**19.0**
- Rental	0.0209	0.1	0.1
- Other Housing Expenses	0.0577	5.4	19.0
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**0.8**	**1.4**
- Furniture	0.0068	1.3	0.5
- Furnishings	0.0215	0.6	0.8
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**1.3**	**5.4**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**0.9**	**2.8**
- Clothing Materials	0.0055	2.3	0.8
- Readymade Clothing & Accessories	0.0242	0.5	0.8
- Footwear	0.0159	0.5	0.5
- Making & Repairs	0.0051	2.7	0.8
TRANSPORTATION	**0.0644**	**1.1**	**4.3**
MISCELLANEOUS EXPENSES	**0.0785**	**0.3**	**1.5**
ALL GROUPS	**1.0000**	**1.7**	**100.0**

3

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

	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02
Net International Reserves (US$)	**1 540.5**	**1 536.7**	**1 840.7**	**1 941.7**	**1 782.3**
Net International Reserves ($J)	**70 863.5**	**70 688.2**	**87 435.2**	**93 200.2**	**86 973.8**
Assets	74 174.1	73 871.4	90 406.3	96 015.8	89 671.5
Liabilities	-3 310.6	-3 183.2	-2 971.1	-2 815.6	-2 697.7
Net Domestic Assets	**-40 409.0**	**-40 960.3**	**-53 125.4**	**-62 978.8**	**-56 789.6**
Net Claims on the Public Sector	32 703.5	35 328.3	33 964.1	36 942.5	42 779.3
Net Credit to Banks	-5 988.1	-5 681.1	-6 154	-4 400.6	-4 910.0
Open Market Operations	-74 164.5	-77 525.5	-85 628.3	-99 195.3	-97 006.3
Other	7 040.0	6 918.1	4 692.7	3 674.6	2 347.4
Monetary Base	**30 454.4**	**29 772.5**	**34 309.8**	**30 221.4**	**30 184.2**
Currency Issue	17 522.7	17 580.1	22 340.5	19 447.1	19 274.3
Cash Reserve	12 685.8	11 723.9	1 474.4	10 581.2	10 883.8
Current Account	245.9	468.5	494.9	193.1	26.1
% change Monetary Base (F-Y-T-D)	**-0.1**	**-2.3**	**12.6**	**-0.8**	**-0.1**

4

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

	M1J	M1*	M2J	M2*	M3J	M3*
1998/1999	**26 564.6**	**30 306.5**	**79 732.5**	**103 612.3**	**90 474.3**	**114 354.2**
1999/2000	**31 686.8**	**37 311.4**	**92 865.8**	**122 905.4**	**109 123.2**	**139 162.8**
2000/2001						
June	32 017.2	37 737.7	95 966.4	125 498.3	113 634.3	143 166.2
September	30 527.0	35 897.9	96 419.1	128 067.1	115 248.5	146 896.6
December	33 832.3	38 111.4	100 747.1	132 997.8	119 962.1	152 226.0
March	32 783.8	36 970.0	100 673.4	133 790.6	120 789.7	153 906.9
2001/2002						
June	32 951.4	38 015.3	102 002.8	135 708.9	123 100.6	156 806.8
September	35 690.9	41 620.6	105 818.1	141 583.6	127 000.0	162 765.5
December	38 964.5	45 310.0	109 419.3	146 061.6	131 161.0	167 803.4
March [r]	37 083.9	43 946.9	108 021.3	147 683.7	130 622.7	170 285.0
2002/2003						
June [p]	37 444.2	43 828.1	110 815.0	151 143.6	134 573.5	174 902.1

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

5

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

	Sep-00	Dec-00	Mar-01	Jun-01	Sep-01p	Dec-01 p	Mar-02p	Jun-02p
M2J	**452.5**	**4 327.4**	**-72.8**	**1 335.0**	**3 813.6**	**3 597.1**	**-1 397.9**	**2 793.6**
Currency	207.5	3 000.2	-1 724.4	115.6	171.2	2 598.8	-1 295.5	-29.6
Demand Deposits	-1 697.8	304.2	677.0	51.4	2 571.9	671.8	-585.1	389.9
Savings Deposits	347.9	1 305.9	417.5	1 525.8	766.2	1 028.4	241.8	1 971.4
Time Deposits	1 594.9	-282.9	557.1	-357.8	304.3	-701.9	240.9	461.9
OTHER DEPOSITS	**1 161.8**	**438.6**	**848.0**	**981.6**	**84.2**	**559.9**	**859.6**	**1 253.5**
TOTAL(M3J)	**1 614.3**	**4 766.0**	**775.2**	**2 316.6**	**3 897.8**	**4 157.0**	**-538.3**	**4 047.1**

Sources of Change in Money Supply

	Sep-00	Dec-00	Mar-01	Jun-01	Sep-01p	Dec-01 p	Mar-02p	Jun-02p
N.I.R. of B.O.J.	**7 608.0**	**1 531.4**	**14 254.7**	**11 643.3**	**-130.1**	**14 441.9**	**4 794.1**	**-7 267.3**
M & LTFL of B.O.J.	**26.0**	**111.7**	**14.6**	**7.8**	**15.2**	**7.6**	**14.0**	**7.9**
Banking System Credit	**-3 543.5**	**8 623.6**	**-7 509.6**	**5 552.5**	**7 289.9**	**9 445.6**	**235.3**	**5 062.2**
Public Sector	-3 407.9	6 566.9	-6 610.7	5 199.9	6 444.6	8 628.0	307.8	3 874.7
Private Sector	-135.6	2 056.7	-898.9	352.6	845.3	817.6	-72.5	1 187.5
Open Market Operations	**-6 819.4**	**84.7**	**-9 640.5**	**-12 723.1**	**-3 361.0**	**-8 102.8**	**-13 566.9**	**2 188.9**
Other	**4 343.2**	**-5 585.5**	**3 656.0**	**-2 163.9**	**83.8**	**-11 635.3**	**7 985.2**	**4 055.4**
TOTAL	**1 614.3**	**4 766.0**	**775.2**	**2 316.6**	**3 897.8**	**4 157.0**	**-538.3**	**4 047.1**
Memo:								
Foreign Currency Deposits	2 116.2	603.4	865.6	583.3	2 061.0	880.9	3 020.0	666.2
Foreign Currency Loans	529.8	-62.5	375.3	-207.7	1 986.6	2 294.1	-197.0	2 639.9

* *preliminary*

6A

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

	Fixed Deposit* 3-6 months	6-12 months	Savings Deposits (Average)	Loan Rate (Average)	Fixed Deposit Rate (Weighted Average)	Loan Rate (Weighted Average)
1998/1999	**10.50 - 18.75**	**9.50 - 18.75**	**12.09**	**38.60**	**14.63**	**29.65**
1999/2000	**11.00 - 17.50**	**11.50 - 16.50**	**11.38**	**33.92**	**12.99**	**24.32**
June	10.00 - 17.50	10.00 - 17.00	11.96	37.89	14.08	27.12
September	10.00 - 17.50	10.00 - 17.00	11.50	35.92	13.47	26.16
December	11.00 - 17.50	11.50 - 16.50	11.38	33.92	13.27	24.64
March	11.00 - 17.50	11.50 - 16.50	11.38	33.92	12.99	24.32
2000/2001						
June	10.00 - 17.50	10.00 - 16.50	10.11	33.00	12.74	23.48
September	10.00 - 17.05	10.00 - 17.05	9.96	31.50	12.59	22.23
December	10.00 - 17.05	10.00 - 17.60	9.86	31.67	12.21	22.12
March	10.00 - 17.00	10.00 - 16.75	9.84	31.33	12.13	21.49
2001/2002						
June	8.75 - 17.00	8.75 - 15.00	9.45	30.67	11.11	20.86
September	8.75 - 17.00	8.75 - 15.00	9.08	26.96	10.52	19.41
December	7.75 - 15.00	7.75 - 15.00	9.08	26.79	10.13	19.46
March	7.75 - 15.00	7.75 - 15.00	9.36	26.29	9.86	19.61
2001/2002						n.a.
June	7.75 - 13.25	7.75 - 12.25	9.00	25.92	n.a.	

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

6B

GOJ TREASURY BILL YIELDS
(End-of-Period)

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

7A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
April - June 2002

Maturity Date	Stock Name	Amount J$MN	Applicable Interest Rate	After-tax return b/	Features
12 April 2002	VR LRS 2002N	106.1	18.04	13.53	Initial interest rate of 22.00%, reset semi annually at 2.00pp above Treasury Bill rate[a/]
19 April 2002	FR LRS 2002AC	750.0	17.50	13.13	Interest rate fixed at 17.50% per annum
23 May 2002	GOJ INV DEB. 2002/03 Series 'N'	568.0	18.00	13.50	Interest rate fixed at 18.00% per annum
29 May 2002	VR LRS 2002P	2 304.0	19.82	14.87	Initial interest rate of 22.75%, reset semi annually at 2.00pp above Treasury Bill rate[a/]
21 June 2002	FR LRS 2002AD	748.5	18.5	13.88	Interest rate fixed at 18.50% per annum

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

7B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Issues
April - June 2002

Issue Date	Stock Name	Features	Amount Raised J$MN
19 April 2002	FR LRS 2009AC FR LRS 2014AB	Auctioned instrument having taxable fixed rate of 14.875%, A/Y 15.20; Auctioned instrument having taxable fixed rate of 14.625%, A/Y 15.23	1 174.01
3 May 2002	FR LRS 2007AF FR LRS 2014AC	Auctioned instrument having taxable fixed rate of 14.50%, A/Y 14.99; Auctioned instrument having taxable fixed rate of 14.375%, A/Y 15.36	961.25
30 May 2002	FR LRS 2005AH FR LRS 2009AD FR LRS 2014AD	Auctioned instrument having taxable fixed rate of 13.875%, A/Y 14.74; Auctioned instrument having taxable fixed rate of 14.25%, A/Y 15.22; Auctioned instrument having taxable fixed rate of 14.375%, A/Y 15.23	1 538.62
28 June 2002	FR LRS 2009AE FR LRS 2014AE FR LRS 2017AA	Auctioned instrument having taxable fixed rate of 14.25%, A/Y 15.69; Auctioned instrument having taxable fixed rate of 14.375%, A/Y 15.83; Auctioned instrument having taxable fixed rate of 14.50%, A/Y 15.88	1 488.31

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

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
1998/1999	**82.7**	**587.9**	**98.3**	**33.1**	**57.8**	**371.7**	**321.7**	**1 552.3**
1999/2000	**49.1**	**664.6**	**103.5**	**26.5**	**69.2**	**353.7**	**291.3**	**1 557.9**
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	19.9	92.4	80.4	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	5.1	17.5	87.5	67.7	405.4
2000/2001	**56.4**	**677.0**	**69.4**	**22.6**	**75.4**	**328.8**	**288.3**	**1 517.9**
June	10.4	167.9	33.6	5.5	20.5	90.5	76.8	405.2
September	8.1	163.8	6.2	6.2	18.8	81.5	81.1	365.7
December	13.9	181.4	0.0	6.1	17.0	89.8	78.4	386.6
March	24.0	163.9	29.6	4.8	19.1	67.0	52.0	360.4
2001/2002	**97.4**	**629.5**	**59.2**	**17.9**	**72.0**	**291.0**	**252.8**	**1 419.8**
June	23.5	182.0	34.9	5.0	18.9	66.0	69.2	399.5
September	25.5	174.3	6.0	4.0	18.5	73.5	72.1	373.9
December	20.7	122.4	0.0	4.4	15.7	93.4	63.9	320.5
March	27.7	150.8	18.3	4.5	18.9	58.1	47.6	325.9

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

	Consumer Goods	Raw Materials	Capital Goods	Other	Total Imports
1999/2000	**967.3**	**1 623.6**	**504.8**	**180.8**	**3 276.4**
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	221.4	431.9	146.3	40.8	840.3
2000/2001	**975.3**	**1 876.4**	**530.7**	**169.4**	**3 551.9**
June	227.9	475.0	119.3	42.4	864.8
September	240.9	445.9	119.9	43.5	850.2
December	280.9	468.2	129.7	53.9	932.6
March	225.6	487.3	161.8	29.6	904.3
2001/2002	**1 000.2**	**1 756.2**	**565.3**	**169.9**	**3 941.6**
June[r]	241.0	444.0	127.7	61.4	874.1
September	238.4	431.1	156.6	47.5	873.6
December	279.9	475.2	133.9	35.5	924.5
March	240.9	405.9	147.1	25.5	819.4

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BALANCE OF PAYMENTS SUMMARY
(Flows - US$M)

	Jun-00	Sep-00	Dec-00	Mar-01	Jun-01[r]	Sep-01[r]	Dec-01[r]	Mar-02
1. Current Account	**-47.7**	**-90.0**	**-114.8**	**-156.1**	**-128.4**	**-174.1**	**-274.4**	**-147.5**
A. Goods Balance	**-313.5**	**-350.5**	**-371.9**	**-417.6**	**-343.1**	**-370.3**	**-457.2**	**-374.6**
Exports (f.o.b.)	405.1	365.1	386.1	359.3	401.9	377.7	314.6	325.8
Imports (f.o.b.)	718.6	715.6	758.0	776.9	745.0	748.0	771.8	700.4
B. Services Balance	**148.8**	**152.5**	**122.0**	**185.4**	**114.6**	**82.7**	**33.0**	**114.6**
Transportation	-60.3	-63.7	-69.4	-53.4	-58.2	-67.5	-77.4	-55.2
Travel	272.9	293.7	264.4	305.5	270.3	239.9	197.4	266.9
Other Services	-63.8	-77.5	-73.0	-66.7	-97.5	-89.7	-87.0	-97.1
Goods & Services Balance	**-164.7**	**-198.0**	**-249.9**	**-232.2**	**-228.5**	**-287.6**	**-424.2**	**-260.0**
C. Income	**-107.8**	**-63.2**	**-84.9**	**-139.1**	**-107.4**	**-102.6**	**-101.3**	**-119.7**
Compensation of Employees	6.4	23.7	33.1	5.1	10.5	27.2	32.7	2.6
Investment Income	-114..2	-86.9	-118.0	-144.2	-117.9	-129.8	-134.0	-122.3
D. Current Transfers	**225.0**	**171.2**	**220.0**	**215.2**	**207.5**	**216.1**	**274.4**	**232.2**
General Government	67.6	10. 8	34.7	21.6	20.2	10.8	37.8	10.7
Other Sectors	157.2	160.4	185.3	193.6	187.3	205.3	213.3	221.5
2. Capital & Financial Account	**47.7**	**90.0**	**114.8**	**156.1**	**128.4**	**174.1**	**274.4**	**147.5**
A. Capital Account	**-0.4**	**-1.6**	**0.3**	**-2.7**	**-7.0**	**-5.9**	**-4.3**	**-5.2**
Capital Transfers	-0.4	-1.6	0.3	-2.7	-7.0	-5.9	-4.3	-5.2
General Government	3.2	2.1	3.0	1.8	0.2	0.1	1.4	1.9
Other Sectors	-3.6	-3.7	-2.7	-4.5	-7.2	-6.0	-5.7	-7.1
B. Financial Account	**48.1**	**91.6**	**114.5**	**158.8**	**135.4**	**180.0**	**278.7**	**152.7**
Direct Investment	85.4	112.0	105.2	221.2	110.1	77.1	121.7	127.5
Other Official Investment	-52.7	178.7	101.0	115.0	333.0	-63.3	268.7	52.1
Other Private Investment (including net errors & omissions)	68.4	-20.1	-57.7	139.4	-53.5	162.4	192.4	74.0
Reserves	-53.0	-179.0	-34.0	-316.8	-254.2	3.8	-304.1	-100.9

r - Revised

11

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

	Gross Foreign Assets	Gross Foreign Liabilities	International Reserves (Net)	Weeks of Imports Goods	Weeks of Imports Goods & Services
1998/1999	**700.1**	**120.8**	**579.3**	**13.5**	**9.2**
1999/2000					
June	701.9	111.3	590.6	13.3	9.0
September	633.8	112.8	521.0	12.0	8.1
December	552.2	105.9	446.3	10.5	7.1
March	801.3	100.5	700.8	15.2	10.3
2000/2001					
June	848.3	91.9	756.5	15.0	10.2
September	1 022.1	86.7	935.5	17.9	12.3
December	1 048.8	79.3	969.5	18.3	12.6
March	1 361.9	75.6	1 286.3	24.0	16.4
2001/2002					
June	1 612.5	71.9	1 540.5	27.3	18.6
September	1 605.9	69.2	1 536.7	27.1	18.6
December	1 903.3	62.6	1 840.7	33.2	22.5
March	2 000.3	58.7	1 941.6	34.9	23.6
2002/2003					
June	1 837.5	55.2	1 782.3	31.2	21.1

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

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

13

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

End Period	Local Registered Stocks	Treasury Bills	Bonds*	FINSAC Bonds	BOJ Open Market Operations Securities
1998/1999	**105 121.4**	**10 450.0**	**17,873.4**	**49 873.1**	**38 073.8**
1999/2000					
1999/2000					
June	112 513.0	10 200.0	25 603.0		38 469.9
September	116 959.5	9 900.0	31 266.7		36 703.9
December	130 939.9	10 650.0	32 165.4		29 286.9
March	126 022.9	9 550.0	36 510.4		39 490.9
2000/2001					
June	131 477.8	9 750.0	37 268.0		45 066.2
September	132 589.8	9 850.0	38 789.9		51 885.6
December	134 896.5	7 600.0	41 920.6		51 800.9
March	159 734.8	6 950.0	45 107.7		61 441.4
2001/2002[r]					
June	226 655.6	6 900.0	48 981.5		74 164.5
September	230 172.6	5 450.0	53 437.6		77 525.5
December	217 361.8	3 900.0	71 004.0		85 628.3
March	212 110.0	4 250.0	79 151.0		99 195.3
2002/2003					
June	n.a.	4 550.0	n.a.		97 006.3

14

STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	Volume Traded (M)	Value of Stocks Traded (J$M)
1999/2000	**27 165.6**	**610.7**	**2 393.2**
June	19 687.7	165.4	712.6
September	20 677.7	96.8	549.4
December	21 892.6	166.6	534.8
March	27 165.6	181.9	596.4
2000/2001	**29 701.9**	**669.4**	**3 683.0**
June	31 338.3	300.9	1 480.3
September	31 152.7	95.6	591.4
December	28 893.2	116.5	773.0
March	29 701.9	156.4	838.3
2001/2002			
June	35 723.6	2 315.0	3 584.2
September	33 892.4	182.8	840.4
December	33 835.6	171.3	704.9
March	37 446.0	417.7	1 419.5
2002/2003			
June	38 606.7	404.9	1 935.9

15

PRODUCTION OF SELECTED COMMODITIES
(flows - 000' tonnes)

	Bauxite	Alumina	Sugar	Bananas*
1999/2000	**2 385.9**	**3 624.5**	**252.3**	**48.0**
June	1 022.8	909.3	101.3	12.5
September	369.0	904.7	5.4	12.8
December	419.4	913.6	9.5	13.4
March	574.7	896.9	136.1	9.3
2000/2001	**2 420.4**	**3 617.8**	**185.4**	**44.1**
June	527.8	893.8	78.2	9.7
September	372.3	897.9	1.6	10.8
December	587.1	911.4	3.5	12.2
March	933.1	914.7	102.1	11.3
2001/2002	**3 808.4**	**3 493.7**	**184.8**	**42.3**
June	888.5	943.4	91.5	11.0
September	997.2	946.3	7.3	9.9
December	816.1	738.0	4.2	10.8
March	1 106.6	866.0	81.8	10.6
2002/2003				
June	888.1	887.3	76.8	10.3

D. BANK OF JAMAICA BALANCE SHEET

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

	Sep-00	Dec-00	Mar-01	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02
Assets	**117 132.0**	**122 042.5**	**136 282.7**	**148 059.3**	**148 672.9**	**165 421.1**	**173 579.0**	**166 610.3**
Foreign	45 063.4	47 693.0	62 139.6	73 743.7	73 650.3	89 754.1	95 228.9	88 833.0
Current Account & Foreign Currency Balances	7 921.0	11 888.2	18 223.4	3 738.0	3 618.0	13 926.8	7 769.8	5 025.5
Time Deposits & Securities	35 519.8	34 087.6	42 150.5	68 290.4	68 283.1	73 899.6	85 539.9	81 873.3
Holdings of Special Drawing Rights	70.4	69.4	103.7	15.6	20.4	68.9	42.0	18.4
Other	1 552.2	1 647.8	1 662.0	1 699.7	1 728.8	1 858.8	1 877.2	1 915.8
Local	72 068.6	74 349.5	74 143.1	74 315.6	75 022.6	75 667.0	78 350.1	77 777.3
Public Sector Securities	52 933.0	54 905.5	56 896.9	56 462.8	56 103.7	56 000.2	56 109.5	52 802.2
Other Assets	19 135.6	19 444.0	17 246.2	17 852.8	18 918.9	19 666.8	22 240.6	24 975.1
Liabilities	**117 132.0**	**122 042.5**	**136 282.7**	**148 059.3**	**148 672.9**	**165 421.1**	**173 579.0**	**166 610.3**
Foreign	695.0	673.1	607.0	582.8	545.9	450.4	411.5	442.6
Local	116 437.0	121 369.4	128 876.1	138 794.3	148 127.0	164 970.7	173 167.5	166 167.8
Currency in Circulation	16 080.6	20 644.0	17 685.1	17 565.7	17 607.3	22 378.7	19 481.9	19 318.5
Deposits	93 447.8	92 734.6	111 191.0	121 228.6	120 498.5	134 014.7	145 003.5	137 793.2
Bankers	21 180.0	18 598.6	20 375.1	19 922.3	18 911.8	19 232.8	16 225.9	16 925.7
Government	15 553.0	16 687.3	12 644.7	4 053.7	4 370.6	5 529.4	7 591.3	6 933.6
Open Market Operations	51 885.6	51 800.9	61 441.4	74 164.5	77 525.5	85 628.3	99 195.3	97 006.3
Other	4 829.2	5 647.8	16 729.8	23 088.1	19 690.6	23 624.2	21 991.0	16 927.6
Allocation of Special Drawing Rights	2 246.0	2 246.0	2 246.0	2 347.0	2 347.0	2 347.0	2 347.0	2 462.0
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Other Reserves	873.2	873.5	873.5	939.6	939.5	939.6	1 174.8	1 195.8
Other Liabilities	3 765.4	4 847.3	3 656.1	5 371.6	6 710.7	5 266.7	5 136.3	5 374.2

E. COMMERCIAL BANKS' BALANCE SHEET

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

	Sep-00	Dec-00	Mar-01	Jun-01	Sep-01	Dec-01	Mar-02[r]	Jun-02[p]
Assets	**215 197.0**	**221 705.2**	**224 936.4**	**220 655.6**	**242 006.2**	**239 087.8**	**252 908.2**	**252 068.5**
Cash	1 471.3	3 036.0	1 800.5	1 547.9	1 434.1	3 595.7	1 997.9	1 854.6
Balances with BOJ	38 002.6	29 199.7	27 992.5	28 745.0	32 234.1	36 782.2	44 646.1	43 359.1
Foreign Assets	26 877.0	29 339.1	31 217.1	30 737.8	38 233.5	40 495.4	44 923.5	43 789.4
Loans & Advances	39 390.8	40 573.7	41 378.8	41 883.2	4 2981.6	49 035.1	51 354.7	58 100.8
Private Sector	33 481.4	33 876.9	33 321.9	33 131.4	35 829.3	38 746.9	37 932.9	42 306.9
Public Sector	5 909.4	6 696.8	8 056.9	8 751.8	7 152.3	10 288.2	13 421.8	15 793.9
Public Sector Securities	86 135.1	88 119.3	87 888.6	87 181.4	89 564.7	79 603.7	76 010.5	75 311.2
Cheques in the Process of Collection	3 503.8	2 936.5	4 912.4	3 211.8	5 515.4	2 917.6	6 175.9	5 248.1
Other Assets	19 816.4	28 500.9	29 746.5	27 348.5	32 042.8	26 658.1	27 799.6	24 405.3
Liabilities	**215 197.0**	**221 705.2**	**224 936.4**	**220 655.6**	**242 006.2**	**239 087.8**	**252 908.2**	**252 068.5**
Deposits	150 876.1	149 666.8	154 942.9	150 950.1	163 056.9	158 918.1	165 541.3	169 940.4
Foreign Liabilities	4 956.8	6 592.4	7 777.4	6 004.5	13 857.9	13 265.5	14 863.8	14 389.1
Discounts & Advances from BOJ	74.7	3 043.9	69.0	82.6	24.3	83.0	43.9	60.2
Loans/Advances from Other Institutions	9 519.8	9 653.1	8 847.7	8 830.5	9 017.1	9 177.7	9 017.9	6 377.4
Cheques in the Process of Payment	2 101.2	2 560.3	2 649.6	2 509.7	2 114.2	2 026.9	3 324.6	3 007.2
Other Liabilities	47 668.4	50 188.7	50 649.8	52 278.2	53 935.8	55 616.6	60 116.7	58 294.2

P = Preliminary

F. INTERNATIONAL INDICATORS

1

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

	1 Month	3 Months	6 Months	12 Months
1999/2000	**5.4063**	**6.0000**	**6.1250**	**6.5000**
2000/2001				
June	6.6563	6.8125	7.0000	7.2188
September	6.6250	6.8125	6.7500	6.8125
December	6.5625	6.4063	6.2188	5.9688
March	5.0938	4.8750	4.7188	4.6563
2001/2002				
June	3.7900	3.7300	3.7300	3.9400
September	2.6300	2.5900	2.5225	2.6425
December	1.8738	1.8813	1.9813	2.4425
March	1.8788	2.0300	2.3300	3.0025
2002/2003				
June	1.8387	1.8600	1.9562	2.2862

2

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

	1 Month	3 Months	6 Months	12 Months
2000/2001				
June	5 7/8 - 6	6 1/16 - 6 3/16	6 3/16 - 6 5/16	6 3/8 - 6 1/2
September	6 - 6 1/8	6 1/8 - 6 1/4	6 3/16 - 6 5/16	6 1/4 - 6 3/8
December	5 11/16 - 5 7/8	5 3/4 - 5 29/32	5 3/4 - 6 7/8	5 11/16 - 5 13/16
March	5 9/16 - 5 11/16	5 3/8 - 5 1/2	5 3/16 - 5 5/16	5 5/32 - 5 9/32
2001/2002				
June	5-51/8	5 1/8 - 5 1/4	5 1/4 - 5 3/8	5 1/2 - 5 5/8
September	4 9/16 - 4 11/16	4 13/32 - 4 17/32	4 3/8 - 4 1/2	4 13/32 - 4 17/32
December	4 1/32 - 4 5/32	4 - 4 1/8	4 1/32 - 4 5/32	4 3/8 - 4 17/32
March	3 29/32 - 4 1/32	3 29/32 - 4 1/32	4 5/16- 4 7/16	4 23/32 - 4 27/32
2002/2003				
June	4 - 3 29/32	4 1/8 - 4 1/32	4 9/32 - 4 3/16	4 21/32 - 4 9/16

3

PRIME LENDING RATES (End-of-Period)

	EURO-ZONE	UNITED STATES			UK
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Prime Rate
1999/2000	**3.50**	**6.31**	**5.50**	**9.00**	**6.00**
2000/2001					
June	4.25	7.00	6.00	9.50	6.00
September	4.50	6.50	6.00	9.50	6.00
December	4.75	6.50	6.00	9.50	6.00
March	4.75	5.00	4.50	8.00	5.75
2001/2002					
June	4.50	3.75	3.25	6.75	5.25
September	3.75	3.00	2.50	6.00	4.75
December	3.25	1.75	1.25	4.75	4.00
March	3.25	1.75		4.75	4.00
2002/2003					
June	3.25	1.75	1.25	4.75	4.00

4A

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

	Sep-00	Dec-00	Mar-01	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02
US$ vs Sterling	0.6764	0.6694	0.7034	0.7085	0.6804	0.6871	0.8753	0.6560
US$ vs Canadian $	1.5046	1.5020	1.5746	1.5272	1.5797	1.5963	1.5954	1.5209
US$ vs Yen	108.06	114.20	125.32	124.36	119.13	131.06	132.55	119.86
US$ vs Euro	2.2164	2.0833	2.2125	2.2892	2.1476	2.1966	0.8724	1.0126

4B

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

	Dec-00	Mar-01	Jun-01	Sept-01	Dec-01	Mar-02	June-02
Sterling vs US$	1.4938	1.4217	1.4113	1.4697	1.4554	1.4240	1.5243
Sterling vs Canadian $	2.2440	2.2386	2.1553	2.3217	2.3230	2.2719	2.3183
Sterling vs Yen	170.60	178.16	175.50	175.09	190.70	188.73	182.70
Sterling vs Euro[1/]	3.1120	3.1454	3.2306	3.1564	3.1970	0.8724	1.5434

4C

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
June 2002

	GBP	C$	US$	Yen	Euro
U.K.	1	2.303	1.523	182.4	1.548
Canada	0.434	1	0.661	79.23	0.672
U.S.	0.657	1.512	1	119.8	1.016
Japan	0.548	1.262	0.835	100	0.848
Euro-zone	0.646	1.488	0.984	117.9	1

5A

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

	Dec-00	Mar-01	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02
UAE's Dubai Light	19.20 - 19.90	22.50 - 22.70	24.09 - 24.19	21.35 - 21.45	18.36 - 18.46	24.13-24.23	24.57 - 29.18
North Sea Brent	22.31 - 22.39	23.73 - 23.77	26.71 - 26.77	21.72 - 21.78	19.31 - 19.41	25.30-25.36	25.58 - 31.22
West Texas Intermediate	26.17 - 26.21	26.25 - 26.27	26.45 - 26.50	23.25 - 23.29	19.85 - 19.96	26.01-26.09	26.68 - 33.38
Nymex-unleaded Gasoline Futures (US cents/gallon)	74.75 - 75.90	90.90 - 92.75	76.50 - 78.25	64.00 - 68.80	56.50 - 58.60	80.80-83.00	79.38 - 79.39

5B

WORLD COMMODITY PRICES
ALUMINIUM
(US$ per tonne)

	Mar-01	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02
Spot (Cash)	1 477.0 - 1 478.0	1 453.5 - 1 554.5	1 319 - 1 319.5	1 334.5 - 1 335.0	1 385.0 -1 386.0	1 364.0 - 1 364.5
3 Month	1 466.5 - 1 467.5	1 476.0 - 1 477.0	1 338.5 -1 339	1 350.0 - 1 351.0	1 401.0 - 1 401.5	1 383.0 - 1 383.5

5C

WORLD COMMODITY PRICES
FOOD

	Mar-01	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02
Wheat Futures						
(US cents/60lb bushel)	255.00	251.00	270.75	289.00	285.0	307.00
Coffee (USc/lb)						
Daily Composite	48.21	46.21	40.81	43.75	50.87	45.06

1/ Since Jan 2002, the Euro has replaced all currencies in the Euro Area. The data is for 01 April 2002

6

MAJOR STOCK MARKET INDICES

	Dec-00	Mar-01	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02
Tokyo							
Nikkei Index	13 785.7	12 999.7	12 829.0	9 774.68	10 542.6	11 024.94	10 621.84
New York							
Dow Jones Industrials	10 787.9	9 878.8	10 434.8	8 847.56	10 021.5	10 426.91	9 243.26
S&P Composite	1 320.3	1 160.3	1 211.1	1 194.60	1 148.1	1 144.58	1 122.78
London							
Financial Times-SE 100	6 225.3	5 633.7	5 607.9	4 903.4	5 217.4	5 271.8	4 656.4
Frankfurt							
Dax Index	6 433.6	5 830.0	5 833.1	4 308.15	5 160.1	5 397.29	4 382.56
Zurich							
SMI Index	8 135.4	7 167.8	6 997.4	6 014.2	6 417.8	6 655.2	5 979.7

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

M1: Notes and coins in circulation + Demand Deposits

M2: M1 + Time and savings deposits

M3: M2 + Other Deposits.

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

Monetary Base: See Base Money

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Quasi-money: Savings Deposits plus Time Deposits.