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 emerging economic trends and the path of monetary policy over the short to medium term. This issue includes a discussion on the preservation of financial stability in the Jamaican economy, as well as the country's intention to participate in a Financial Sector Assessment programme and an IMF intensified surveillance.

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 2004 was conducted within a generally favourable macroeconomic context, characterised by a relatively stable exchange rate, moderate inflation, improvements in output and strong investor confidence. These factors, as well as Government's debt raising on the international capital market, provided a platform for a further easing of monetary conditions during the quarter. Accordingly, between April and May 2004, the Central Bank effected three interest rate reductions, while further normalising the yield curve of its open market instruments.

The stability observed in the foreign exchange market during the June quarter largely reflected continued strong foreign exchange receipts from mining, tourism and remittances. Notwithstanding this, there were brief episodes of volatility as investors sought to secure foreign exchange in an effort to restore their currency hedge in a context where the Government did not replace a maturing indexed bond in the latter part of May. In addition, given that returns from stock market trading were normalising and the real returns on Jamaica Dollar bonds were declining, investment in foreign currency assets were to many investors, an attractive option. Timely sales of foreign exchange by the Central Bank to augment supply, coupled with Government's subsequent issue of a 17 per cent fixed rate investment debenture were sufficient to dampen demand pressures in the foreign exchange market. Against this background, Jamaica's foreign exchange rate recorded its smallest quarterly movement since September 2001, depreciating by a mere 0.34 per cent relative to end March 2004.

Inflation fell sharply to 1.9 per cent in the June 2004 quarter, relative to 6.0 per cent for the comparable period in FY2003/04. Concurrently, the 12-month point-to-point rate declined to 12.2 per cent from 16.8 per cent at the end of March 2004. The outturn for the June quarter was lower than the average of the corresponding quarters for the last six years and affirmed the downward trend in inflation, which was underpinned by a tempering of underlying inflation. In this regard, core inflation was estimated at 1.1 per cent for the June quarter relative to 2.3 per cent for the corresponding 2003/04 period.

The Bank of Jamaica achieves its inflation objective through its management of the monetary base and in this regard, the institution was successful in containing the growth in base money for the June quarter to 1.2 per cent relative to a targeted increase of 2.7 per cent. This was achieved through a higher than targeted level of open market operations, in a context where the growth in the net international reserves (NIR) exceeded target by US$55.3 million. The monetary aggregates also performed in line with the targets of the monetary programme for the quarter. Broad Jamaica Dollar money supply (M3J) increased by 3.5 per cent, in line with target and compares favourably to a 4.0 per cent growth observed in the comparable period of FY 2003/04. The main impetus behind the growth in M3J during the June 2004 quarter was an increase in banking system credit to the public sector. However, the expansionary impact was significantly moderated by an increase in open market operations by the Bank of Jamaica.

Leading indicators of economic performance suggest that there was an expansion in Jamaica's real GDP during the June 2004 quarter, which exceeded the 2.2 per cent growth recorded in the June 2003 quarter. This growth was evident in both the goods producing and services sectors and was largely driven by significant expansion in *Mining, Manufacturing and Miscellaneous services*, which together, contributed 66.0 per cent to overall GDP growth in the review quarter. Of note, within the *Miscellaneous* category, tourism related services recorded growth in excess of 10.0 per cent, with a 7.5 per cent increase in visitor arrivals being the major contributing factor.

The estimated growth in the real sector during the June 2004 quarter was consistent with a 26.8 per cent increase in loans and advances to the private sector during the first six months of 2004. From the perspective of aggregate demand, the increase in economic activity partly reflected estimated real increases in consumption expenditure, which were driven by private spending, as there was a real decline in Government spending in the June quarter. Notably, the decline in Government expenditure which contributed to a better than budgeted position for the June 2004 quarter, was consistent with the Authorities' fiscal policy restraint aimed at ensuring the achievement of the deficit target for FY 2004/05.

Jamaica's medium term prospects are likely to be strengthened by a number of broad policy initiatives in the coming months. Accordingly, the International Monetary Fund (IMF) has been invited to participate in a programme of intensified surveillance of the Government's macroeconomic programme. In this regard, the main elements of the new monitoring relationship with the IMF is outlined in Box 3 of this issue of the QMPR. The second initiative, which is the implementation of a Financial Sector Assessment

Programme (FSAP) under the aegis of the IMF and World Bank, is explored in Box 2. Against this background, a discussion on the importance of financial stability has been presented in Box 1.

Outlook

The rate of inflation on a point-to-point basis is expected to continue its downward trend despite the seasonally higher inflation projected for the September 2004 quarter. Concurrently, the buoyancy observed in the foreign exchange market in the June 2004 quarter is expected to persist in the coming months largely driven by continued strong receipts from remittances, tourism and mining. These positive factors should further moderate inflation and dampen inflationary expectations.

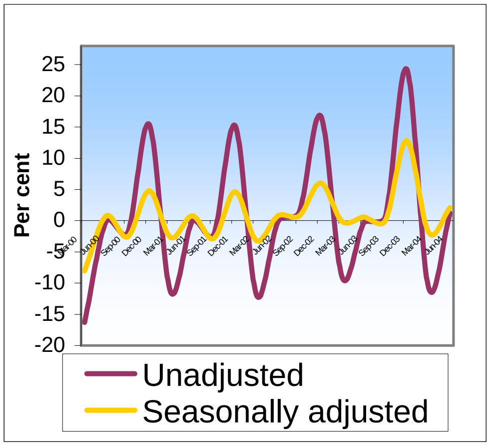
The Jamaican economy is also expected to continue on its growth path in the September 2004 quarter, with expansions in both the goods producing and services sectors. Increased investor confidence, fuelled by continued improvement in the fiscal accounts, coupled with higher levels of investment spending, are projected to be important drivers of economic growth in the quarter. These positive impulses should be supported by continued improvements in the world economy, dominated by increases in economic activity and international trade. These conditions augur well for the maintenance of monetary stability and a restriction of underlying inflation within the 3.0 - 4.0 per cent range for the fiscal year.

While the outlook for September quarter is positive, there are potential risks to the achievement of the inflation objective for FY2003/04. However, these are primarily external and relate to adverse movement in world commodity prices. In this regard, continued instability in the Middle East could fuel a sustained increase in oil prices, while, grain prices could be affected by a worsening of drought conditions in western USA. In addition, further increases in the US Federal Funds rate could raise the floor at which Government could raise debt in both the domestic and international capital markets and reduce the pace at which further interest rate reductions can take place, domestically. These negative influences are however, not expected to persist throughout the fiscal year.

1. Monetary Policy and Financial Markets

Money & Credit

Figure 1.1
Base Money
(Quarterly Change)



Base Money

During the June 2004 quarter, the monetary base expanded by 1.2 per cent relative to a programmed expansion of 2.7 per cent. The deviation from target reflected the adjustment of the monetary policy stance to the two distinct periods of monetary conditions during the quarter. The Bank was able to limit inflationary pressures given the strength of foreign reserves and sustained demand for its open market instruments. However, the overall conditions necessitated a slower pace of interest rate reductions during the quarter relative to the previous quarter.

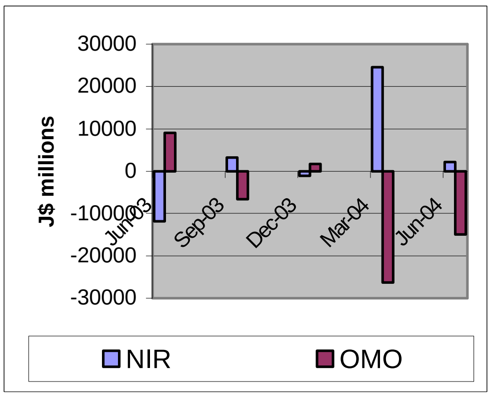
Base money expands less than programme target

During the June quarter, the monetary base increased by \$426.6 million or 1.2 per cent (see **Figure 1.1 and Appendix C3**). The outturn, however, belies the fact that there were two distinct periods during the quarter that required different monetary policy approaches. There was strong confidence in the domestic economy during the April to early-May period that facilitated stable financial market conditions and provided the loosening of monetary policy. This was carried out by way of reductions in interest rates on open market instruments. However, during the Mid-May to June period, there was increased demand for US Dollar assets, which destabilized the financial system. During this period, base money management involved augmenting the supply of these assets to restore stability, which invariably tightened monetary conditions. The divergent influences of the two periods resulted in a 2.7 per cent deviation of the monetary base from the targeted expansion of outlined in the monetary programme.

The deviation stemmed from the impact of the higher net international reserves (NIR) and the more absorptive open market operations (OMO) during the quarter. There was an increase of US$35.4 million in the NIR that was due largely to the receipt of US$125 million via the reopening of the Government's 2017 Eurobond on 30 April (see **Bond Market**), which had not been anticipated in the programme. Outflows for direct sales and debt payments during the quarter served to offset this bond inflow (see **Foreign Exchange Market**). The increase in the NIR was equivalent to a Jamaica Dollar injection of $2 158.3 million in the system. Given that the liquidity from the bond was unexpected, and occurred at a time when there was increased demand for Jamaica dollar assets, there were greater placements in the Bank's instruments. This greatly influenced the net OMO absorption of $14 940.4 million which was higher than targeted. Injections of $12 999 million, $2 036.1 million and $526.7 million from increases in net claims on the public sector, *Other*[1] and net credit to banks, respectively, countered some of the OMO absorption. Thus there was an absorption of $1 731.7 million through the net domestic assets (NDA), which was also more absorptive than the target (see **Figure 1.2**).

Figure 1.2

Effects of the NIR & OMO on liquidity*
****Absorption-negative, Injection-positive***



The positive economic conditions in the first half of the June quarter was due in part to the reaction of the market to the news of the fiscal outturn for FY 2003/04 and a targeted reduction in the fiscal deficit for FY 2004/05. In addition, there was sustained exchange rate stability, buoyant foreign currency inflows, and prospects for stronger economic growth, which were all conducive to

[1] This category represents local currency cash reserves of the institutions licensed under the Financial Institutions Act, and the local and foreign currency cash reserves of Building Societies.

BOJ cuts open market interest rates three times in June quarter.

the Bank attaining its inflation target for the quarter. Against this background, the Bank cut interest rates on its open market instruments on 2 April and again on 19 April (see **Bond Market**). In addition, the Government received the proceeds of the aforementioned Eurobond, which meant that there was less pressure on the domestic economy from the Government to meet its financing needs during this period. This underpinned stability of the financial markets and confidence in the economy and facilitated the Bank's third cut of open market interest rates on 5 May. The series of interest rate reductions were in line with the momentum of reductions in the previous quarter and reflected the continuation of economic conditions from the earlier period.

However, there was a turnaround in the economy in mid-May as the financial market became aware that the fiscal authorities would not re-issue an indexed bond that matured on 7 June (see **Bond Market** and **Appendix C8A**). This created demand pressures in the foreign exchange market as investors tried to maintain US Dollar positions in their portfolios. In addition, there was uncertainty about the escalation in oil prices and its implications for domestic inflation that also contributed to the instability in the foreign exchange market. In order to restore and maintain stability in the foreign exchange market and limit the pass-though effect of exchange rate to prices, the Bank increased the supply of foreign currency through direct sales to the market on several occasions during the remainder of the quarter.

The increase in the monetary base during the June quarter was reflected in an $839.5 million increase in the statutory cash reserves. This expansion was evidence of the increase in domestic currency deposits in commercial banks in the first half of the quarter consistent with the confidence in the Jamaican economy. There were net currency redemptions of $333.2 million, which resulted in a decline of 3.5 per cent in currency issue during the quarter. There was also a $79.8 million decline in the current account balances of the commercial banks during the quarter.

In the upcoming quarter, one significant challenge the Bank will face is how to reinforce orderly conditions in the financial markets as investors respond to Government's financing arrangements.

Table 1.1

Money Supply (3-month growth rates)			
		M3J	M3*
2000	Mar.	0.2	3.1
	June	4.1	2.9
	Sept.	1.4	2.6
	Dec.	4.1	3.7
2001	Mar.	0.6	1.1
	June	1.9	1.9
	Sept.	3.2	3.8
	Dec.	3.3	3.1
2002	Mar.	-0.4	1.5
	June	3.0	2.3
	Sept.	6.0	6.7
	Dec.	2.0	2.9
2003	Mar.	-6.3	-1.9
	June	3.0	5.2
	Sept.	4.6	4.1
	Dec.	6.5	5.3
2004	Mar.	2.6	4.6
	June	3.5	2.2

Broad Money growth in line with Programme

Money Supply

For the June 2004 quarter, broad Jamaica Dollar money supply, M3J, increased by 3.5 per cent. This was consistent with the growth anticipated in the monetary programme. An expansion in banking system credit to the public sector was the main source of growth in M3J. This impulse was moderated by an increase in BOJ open market instruments, as well as a significant decline in the net foreign assets of commercial banks. The broader measure of money supply, M3, which includes foreign currency deposits, grew by 2.2 per cent, largely reflecting a 3.6 per cent increase in local currency deposits. This was partly offset by a 0.8 per cent decrease in foreign currency deposits, which was the first quarterly reduction since June 2000.*

During the review quarter, broad Jamaica Dollar money supply (M3J) increased by $5 560.0 million or 3.5 per cent relative to the previous quarter. This was in line with the increase anticipated in the monetary programme and compares to the 3.0 per cent growth observed during the comparable quarter of FY 2003/04 (see **Table 1.1**).

A notable expansion of $20 480.3 million in banking system credit to the public sector provided the main impetus for growth in M3J during the June 2004 quarter. The increase in banking system credit to the public sector was in contrast to the $22 169.1 million reduction observed in the March 2004 quarter (see **Table 5 in Appendix C**).

Table 1.2

Money Supply (12-month growth rates)		
M1J	**Jun-03**	**Jun-04**
M1J	0.9	22.9
M2J	-0.4	15.0
M3J	4.9	17.0
M*		
M1*	8.1	22.3
M2*	10.8	16.1
M3*	13.3	17.2

Expansion in banking system credit propels growth in broad money supply

Table 1.3

INTEREST RATES IN THE DOMESTIC MARKET			
COMMERCIAL BANK WEIGHTED AVERAGE DEPOSIT RATES			
	May-03	**Mar-04**	**May-04**
Overall Average			
Weighted rate	**6.84**	**6.48**	**6.29**
Demand	3.54	3.36	3.44
Savings	6.41	6.11	5.86
Time	8.88	8.47	8.19
Foreign Currency Average			
Weighted rate	**3.32**	**3.24**	**3.33**
Demand	3.16	2.95	3.12
Savings	2.49	2.32	2.13
Time	5.46	5.16	5.23
6-MONTH TREASURY BILL RATE	**30.34**	**15.57**	**14.96**
BOJ 180-DAY REPURCHASE AGREEMENT RATE	**28.00**	**16.00**	**15.05**

During the review quarter, there was an expansion in net credit to Central Government of $8 326.9 million. This was relative to an increase of $13 018.9 million for the June 2003 quarter. The outturn for the June 2004 quarter reflects a lower domestic borrowing requirement, given the Government's success in raising funds on the international capital market (see **Bond Market**).

Another source of growth in M3J during the review quarter was an increase in credit to the private sector of $2 307.5 million. This was relative to an expansion of $4 087.7 million for the comparable quarter of 2003.

While banking system credit was the main source of increase in M3J, BOJ operations resulted in a net absorption of $5 271.4 million in liquidity from the system. On the one hand, the Bank made payments to the system of $7 510.7 million arising mainly from interest payments on its open markets liabilities. In addition, there was an increase of US$35.4 million or J$2 158.3 million in the NIR, while there was an absorption of liquidity from the system through a net build up of $14 940.4 million in BOJ's open market liabilities. The net build up in open market liabilities reflected a switch to domestic assets and occurred in a context of relative stability in the foreign exchange market, as well as investors' expectation of lower interest rates.

A reduction of $5 025.3 million in net foreign assets of commercial banks also moderated the growth in M3J. This reduction was largely due to a notable expansion in foreign currency borrowings from overseas banks and a significant reduction in foreign currency placements with overseas banks.

Growth in foreign currency due to overseas banks was primarily reflected in one large bank, and was mainly to facilitate the repayment of repo borrowings denominated in local currency in April 2004. The decline in foreign currency placements with overseas banks was solely reflected in another large bank. These funds were used to facilitate an expansion in foreign currency loans as well as a draw-down on Central Government deposits during the review quarter.

With regards to the components of M3J, "other deposits", narrow money (M1J) and quasi money increased by 6.1 per cent, 3.4 per cent and 2.3 per cent, respectively. The expansion in "other deposits" was largely due to increases of $770.6 million (21.9 per cent) and $752.5 million (4.7 per cent) in commercial banks' retained earnings and reserves, respectively.

Growth in M1J was reflected in increases of 4.2 per cent and 2.5 per cent in demand deposits and currency in circulation, respectively. For the June 2003 quarter, demand deposits increased by 12.2 per cent, while currency in circulation grew by 8.5 per cent.

Savings deposits continued steady growth

The expansion in quasi money reflected a 4.1 per cent increase in savings deposits, as time deposits decreased by 3.5 per cent. For the same period of 2003, there was an increase of 2.1 per cent in savings deposits, while time deposits declined by 11.6 per cent. The increase in Jamaica Dollar savings deposits for the review quarter was largely concentrated in April 2004 when these deposits increased by 3.1 per cent. This was the highest monthly increase since April 2000.

Figure 1.3
Local Currency Deposits in Commercial Banks
(12-month growth rates)
January 1998 to June 2004

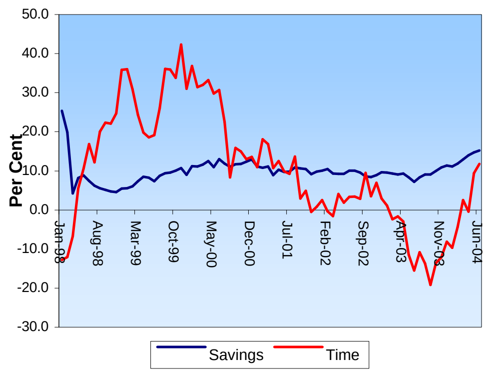
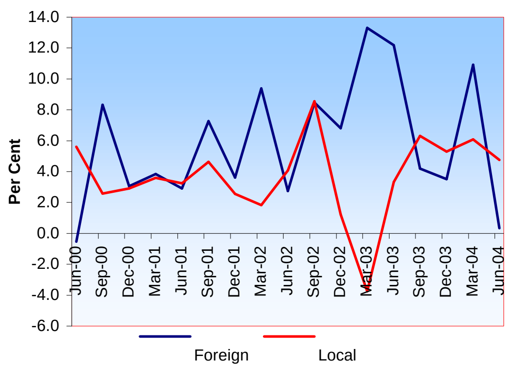


Figure 1.4
Deposits in Commercial Banks
(Quarterly Growth rates)
June 2000 to June 2004



With regards to time deposits, investors' preference for OMO and GOJ instruments, which yielded relatively more attractive rates of return, influenced the decline during the review quarter. This was in a context of stable domestic market conditions and a favourable outlook on the economy.

The expansion in Jamaica Dollar savings deposits during the review quarter brought the 12-month growth to 13.4 per cent at end June 2004. This represented the highest outturn since February 1998. At the same time, the 12-month increase in Jamaica Dollar time deposits was 10.0 per cent at end June 2004, which was the highest since August 2001 (see **Figure 1.3**). The trend in local currency deposits was consistent with an improvement in domestic market confidence and an increase in economic activity.

Growth in the broader measure of money supply, M3*, slowed for the second consecutive quarter (see **Table 1.1**). There was a 2.2 per cent expansion in M3* during the review quarter, relative to a 4.6 per cent and 5.2 per cent in the previous quarter and the comparable quarter of 2003, respectively. With regard to the currency composition of M3*, local currency deposits increased by 3.6 per cent relative to the previous quarter, while foreign currency deposits decreased by 0.8 per cent. For the corresponding period of 2003, local currency deposits and foreign currency deposits increased by 2.2 per cent and 11.0 per cent, respectively. The decline in foreign currency deposits for the review quarter represented the first quarterly reduction since June 2000 (see **Figure 1.4**). This was in line with the improvement in domestic market confidence evidenced since the middle of the last calendar year.

Figure 1.5
Foreign Currency Deposits to Total Deposits
June 2002 -2004

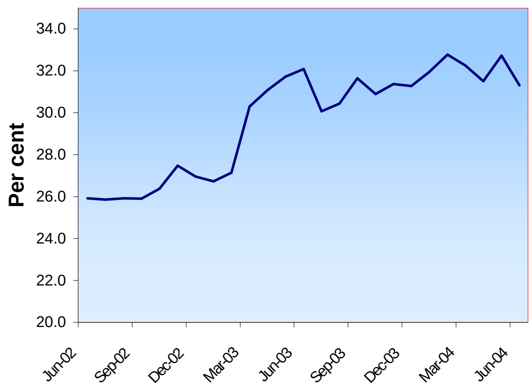
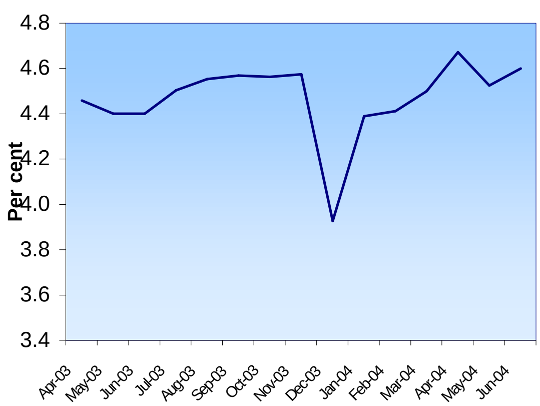


Figure 1.6
Money multiplier
(Monthly Trend)
April 2003 to June 2004



Against the background of the general improvement in domestic market confidence, the ratio of foreign currency deposits of the private sector to total deposits decreased to 31.1 per cent at end June 2004, from 32.0 per cent at end March 2004 and 31.9 per cent at end June 2003 (see **Figure 1.5**).

The money multiplier was 4.53 at end June 2004 relative to 4.43 at end March 2004 and 3.91 anticipated in the monetary programme. The outturn for the review quarter was also notably higher than the 4.33 at end June 2003 (see **Figure 1.6**). During the review quarter, the money multiplier was influenced by a decrease in the *reserves*[2] to deposits ratio from 11.2 per cent at end March 2004 to 10.7 per cent at end June 2004. This was solely reflected in the *excess reserves*[3] to deposits ratio, which decreased from 3.2 per cent at end March 2004 to 2.4 per cent at end June 2004. The reduction in the excess reserves to deposits ratio reflected a 19.8 per cent reduction in vault cash during the review quarter. At end June 2004, commercial banks' vault cash holdings amounted to $3 478.0 million.

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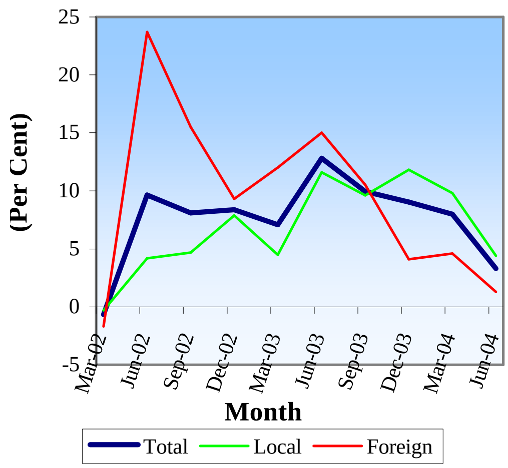
[2] Required Reserves + Excess Reserves
[3] Current Account + Vault Cash

Private Sector Credit

During the June 2004 quarter there was continued growth in private sector credit, albeit at a slower rate than that which had been observed, since the June 2002 quarter. Growth in credit decelerated to 3.3 per cent, from 8.0 per cent in the previous quarter, in a context of increased private capital inflows to finance real sector developments, particularly in the Tourism sector. Personal, Professional & Other Services and the Construction & Land Development sectors recorded the largest share of the increase in private sector credit. This expansion would have been facilitated by the continued reduction in the overall loan rate, which has been on a downward trajectory since the mid 1990s. During the review period, the quality of the loan portfolio continued to show improvement.

Figure 1.7
Quarterly Growth of Private Sector Credit
March 2001 to June 2004



The stock of private sector credit at the end of June 2004 was $82 531.3 million representing an expansion of $2 647.5 million or 3.3 per cent for the review period. This outturn reflected a deceleration following a trend of robust growth since the June 2002 quarter (see **Figure 1.7**). Growth in credit during the review quarter was relative to expansions of $5 920.8 million or 8.0 per cent and $7 010.2 million or 12.8 per cent, recorded in the March 2004 quarter and the June 2003 quarter, respectively.

Table 1.4

Commercial Bank Distribution of Total Credit to the Private Sector (QuarterlyFlows)

	Jun-03	Mar-04	Jun-04
otal Private Sector Credit	7010.2	5920.8	2647.5
Loans & Advances	7280.6	4098.6	2156.8
Other Investments & Private Debentures	-270.4	1822.2	490.7

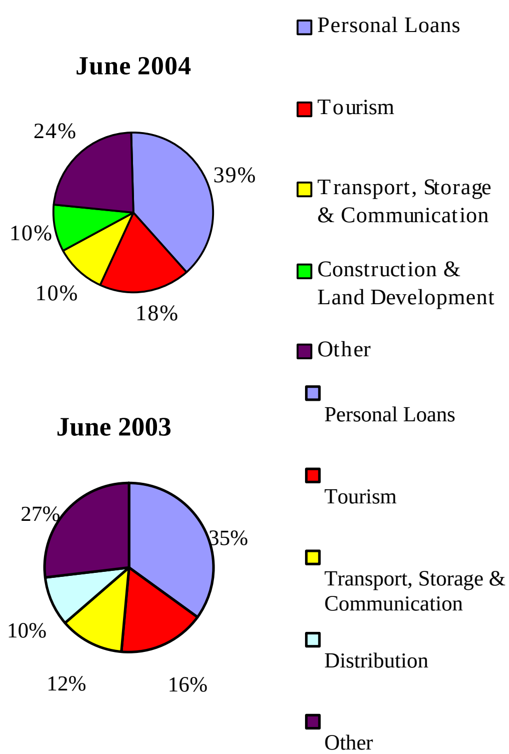
The increase in private sector credit for the review period reflected an expansion in *Loans & Advances* of $2 156.8 million or 2.9 per cent and increases in commercial banks holdings of *Other Investments & Private Debentures* of $490.7 million (see **Table 1.4**). The outturn for the

Table 1.5

Commercial Bank Distribution of Loans and Advances to the Private Sector (Quarterly Flows J$M)

	Jun-03	Mar-04	Jun-04
Agriculture & Fishing	22.8	368.7	-389.8
Mining & Quarrying	-46.7	-257.4	25.3
Manufacturing	377.8	-74.4	-362.2
Construction & Land Dev.	530.4	1 740.1	538.1
Transport Storage & Comm.	1 160.6	-907.6	-504.0
Tourism	1 972.0	1 561.7	236.5
Distribution	1071.5	-977.1	154.9
Professional & Other Services	538.1	560.1	549.8
Personal Loans	1 884.5	1 888.6	2 066.5
Electricity	-233.2	68.7	-126.9
Entertainment	2.3	127.3	-15.5
Overseas Residents	0.6	-0.1	-16.1
TOTAL	**7 280.6**	**4 098.6**	**2 156.8**

Figure 1.8
Sectoral Distribution of Commercial Bank credit to the Private Sector Per Cent of Outstanding Stock
June 2003 & June 2004



quarter ended June 2004 was significantly below the 10.8 per cent increase projected in the monetary programme reflecting slower growth in both local and foreign currency credit. Notwithstanding this, the growth in credit during the review quarter was largely concentrated in domestic currency loans, in contrast to the corresponding period of 2003 when the credit growth was dominated by foreign currency loans.

A sectoral distribution of the loans extended to the private sector revealed that the expansion in credit was mainly reflected in the *Personal Loans* category. This category increased by $2 066.5 million and was the main driver of the total increase during the review quarter. Of this increase, credit card receivables grew by $672.1 million or 11.0 per cent for the quarter. This category of loans expanded significantly by $2 003.0 million or 41.8 per cent since June 2003.

The *Professional Services* and the *Construction & Land Development* sectors experienced increases of $549.8 million or 25.5 per cent and $538.1 million or 25.0 per cent, respectively (see **Table 1.5**). These categories, along with *Personal Loans* accounted for the vast majority of the total increase in private sector credit. This was offset by significant net repayments by the *Transport, Storage & Communication*, *Agriculture & Fishing* and *Manufacturing* sectors.

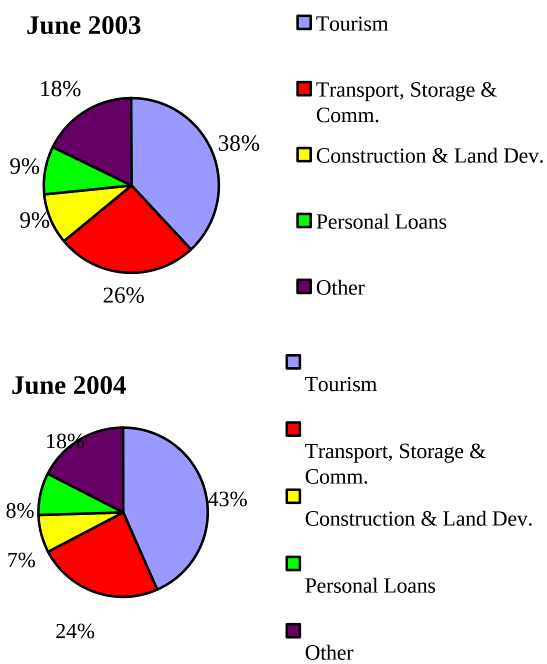
The stock of foreign currency loans expanded by US$5.9 million or 1.25 per cent for the quarter ended June 2004. This compares to the expansion of US$15.7 million or 3.4 per cent in the previous quarter and the increase of US$33.1 million or 8.9 per cent recorded during the June

Table 1.6

Commercial Bank Distribution of Foreign Currency Loans & Advances to the Private Sector (Quarterly Flows US$M)

	Jun-03	Mar-04	Jun-04
Agriculture & Fishing	-0.1	0.1	-0.2
Mining & Quarrying	0.0	-4.7	0.0
Manufacturing	-0.8	1.7	-2.7
Construction & Land Dev.	0.1	-4.8	-0.1
Transport, Storage & Comm.	-1.3	9.6	-7.5
Electricity, Gas & Water	-6.7	0.0	0.0
Distribution	12.0	4.8	3.0
Tourism	27.1	8.7	2.5
Entertainment	0.0	1.8	-0.1
Professional & Other Services	-2.2	-0.5	10.6
Personal Loans	4.9	-1.1	0.4
Overseas Residents	0.0	0.0	0.0
TOTAL	**33.1**	**15.7**	**5.9**

Figure 1.9
Sectoral Distribution of Foreign Currency Loans to the Private Sector
Per Cent of Outstanding Stock
June 2003 & June 2004



2003 quarter (see **Table 1.6**). Of the net expansion in foreign currency loans, the *Professional & Other Services* sector recorded the largest proportion of the increase accounting for US$10.6 million or 178.5 per cent.

Loans to the *Distribution* sectors increased by US$3.0 million representing a reduction when compared with the US$4.8 million recorded in the March 2004 quarter and the US$12.0 million recorded during the June 2003 quarter. Credit extended to the *Tourism* sector of US$2.5 million was notably lower than the growth of US$8.7 million that was recorded in the previous quarter and US$27.1 million recorded during the corresponding period of 2003. Although credit to the *Tourism* sector slowed during the review quarter, indications are that the growth in the industry is being financed by private capital inflows. Consequent upon the slowdown in growth of foreign currency credit, the proportion of foreign currency loans to total loans stood at 35.5 per cent as at end June 2004, compared to the 37.7 per cent observed at the end of the corresponding period of 2003.

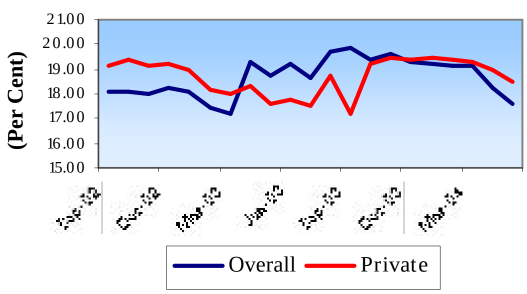
During the review quarter, there was a further reduction in the cost of foreign currency credit. The weighted average rate on foreign currency loans declined to 8.6 per cent at end May 2004 relative to 8.7 per cent at end March 2004 and 8.8 per cent in the comparable month of 2003. The weighted average loan rate on private sector credit in domestic currency decreased by 79 basis points to 18.51 per cent over the two months ended May 2004, but was 95 basis points higher than the 17.56 per cent observed at end May 2003. The weighted average rates on loans to the public sector declined faster than the private sector falling to 15.19 per cent representing 337 basis points for the two months ended

Table 1.7

Commercial Bank Domestic Currency Average Weighted Lending Rates by Loan Type

	May-03	Mar-04	May-04
Weighted Average Rates			
Overall	18.76	19.10	17.59
Public Sector	21.35	18.56	15.19
Private Sector	17.56	19.30	18.51
Instalment	24.67	24.23	24.14
Mortgage	19.82	20.88	20.89
Personal	27.20	29.89	28.13
Commercial	14.29	15.17	14.27
Local Govt. & Other Public Ent.	20.65	16.65	13.61
Central Government	23.00	22.07	18.53

Figure 1.10
Commercial Banks' Weighted Average Loan Rate (May 2000 to May 2004)



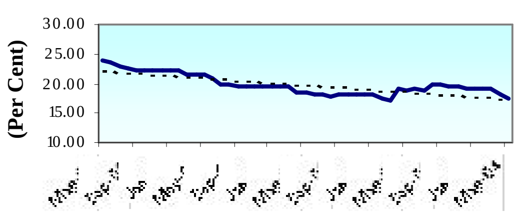
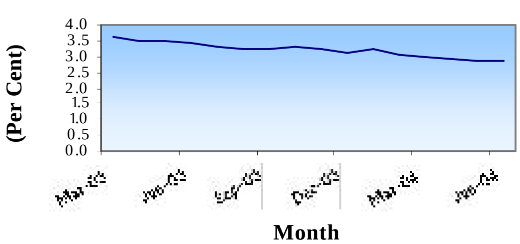


Figure 1.11
Commercial Banks Past due Loans (Three Months and Over) to Total Loans
March 2003 to June 2004



May 2004 and 616 basis points from that observed in May 2003 (see **Table 1.7**).

The overall weighted average loan rate on private sector and public sector loans continued along the downward trajectory observed since the mid 1990s. The rate declined by 151 basis points to 17.59 per cent during the two months ended May 2004 and has declined by 117 basis points since May 2003. The general reduction in the overall weighted average loan rate facilitated the continued expansion of loans extended to the private sector over the last four years (see **Figure 1.10**).

For the review period, the ratio of private sector credit to total assets increased to 25.4 per cent from the 24.3 per cent recorded at the end of the previous quarter and 21.2 per cent recorded at the end of June 2003. This suggests that commercial banks may be restructuring their portfolios towards loan financing.

The quality of the loan portfolio of commercial banks continued to show improvement as reflected in the ratio of past due loans (over three months) to total loans which declined to 2.9 per cent at end of June 2004. This represented a slight improvement from the 3.0 per cent observed at end March quarter 2004 and also the 3.5 per cent observed during the comparable period in 2003 (see **Figure 1.11**). Of the six banks in operation, two banks reflected ratios in excess of 2.9 per cent for the review period. However, the ratio of past due loans to total loans remained well within the international benchmark of 10.0 per cent.

***Box 1*: Preserving Financial Stability**

Introduction

Over the past decade, there has been a renewal of interest in financial system stability. This is because with increasing financial liberalization, the financial system plays an expanding role in the allocation of scarce economic resources. In addition, the significant number of financial system crises experienced by several countries in the 1980s and 1990s threatened the efficient functioning of national economies. Recent examples of costly financial system crises include that of Mexico in 1994/5, and the East Asian and Jamaican experiences of 1997/8.

A financial system is said to be stable when it is resilient to adverse developments such as panics, bank runs, asset price bubbles, excessive debt financing, and inadequate risk management. In other words,

> … financial stability is defined broadly to encompass not just the avoidance of bank failures that threaten payment systems and cause disruptions in economic activities … [but] encompasses the absence of large and persistent changes in financial market prices and flows that interfere with efficient financial intermediation.[4]

Financial system stability encompasses the development and maintenance of a robust institutional infrastructure, adequate and appropriate legal and regulatory framework, sound principles of prudential supervision, and effective monitoring of domestic and international financial systems. A sound macroeconomic framework is needed to support these structures so as to enhance financial system growth and maintain confidence in the system.

The remaining sections of this box will outline some of the financial stability initiatives and policy issues considered necessary to preserve financial system stability.

Financial Stability Initiatives

With the heightened focus on financial stability, a number of initiatives have been established in both domestic and international financial markets to address the issue and to develop techniques aimed at early identification of risks and vulnerabilities. The sharing of information regarding the various approaches to financial stability has also provided some valuable lessons for regulatory authorities.

Local Initiatives

In Jamaica, the initiatives have been consistent with world trends and standards of best practice. These have focused on the operations of the banking, insurance and securities markets, as well as the payment systems.[5] Particular attention is given to regulation and prudential oversight and accounting and prudential standards. The

[4] IMF Global Financial Stability Report, April 2004, available at Internet, URL: http://www.imf.org/External/Pubs/FT/GFSR/2004/01/pdf/chp1.pdf

[5] The term ‘payment systems’ as used in this Box is with specific reference to inter-bank settlements that are of systemic importance.

initiatives are focused on engendering a culture of risk management within financial entities to allow for timely and effective crisis prevention and resolution.

Among the reforms at the macro level were the establishment of the Jamaica Deposit Insurance Corporation (JDIC) and the Financial Services Commission (FSC). The JDIC is a statutory organisation that was created in 1998 to protect depositors and promote stability and confidence in the Jamaican financial sector. The FSC was established in 2001 as an integrated regulator and supervisor of non-deposit-taking financial entities.[6]

In order to foster greater collaboration among local regulatory authorities, the Financial Regulatory Council (FRC) was established in 2000. The FRC provides a forum to facilitate a deeper understanding of issues that have the potential to trigger instability, and a structured approach towards addressing them. This is achieved through the sharing of information between the Bank of Jamaica (BOJ) – regulator and supervisor of deposit-taking entities, cambios, and authorized foreign exchange dealers, the FSC, JDIC and the Ministry of Finance and Planning.

The BOJ, through its Financial Institutions Supervisory Division (FISD), seeks to protect the integrity of system through a comprehensive system of supervision for deposit-taking entities. The strengthening of the regulatory framework has been of paramount importance as evidenced in several legislative enhancements. The FISD employs a combination of well-established and internationally accepted supervisory techniques that take account of banking and its related risks. Similar to the BOJ, the FSC has instituted structural enhancements to improve risk management and to avert or mitigate instability. Other improvements by the FSC include amendments to the pensions legislation, revamping of supervision mechanisms and methodologies, and a systematic public education programme.

In recognition of the potential impact on stability from disruptions in the payment and settlement systems, the Payment Systems Department (PSD) was recently established within the Banking and Market Operations Division (BMOD) at the BOJ. The PSD is primarily concerned with reform and oversight of the payment systems in Jamaica and seeks to promote safe and efficient settlement arrangements. In addition, the Financial Stability Department (FSD) was also recently established in the Research and Economic Programming Division at the BOJ. The FSD focuses on predicting potential systemic disruptions to financial intermediation resulting from both microeconomic and macroeconomic shocks. The Department also seeks to identify, research, and analyse sources of systemic instability among and within financial entities.

International Initiatives

The Sveriges Riksbank of Sweden was the first central bank to adopt an open and systematic approach to addressing financial stability issues.

[6] These are entities in the securities, insurance, and pensions industries, as well as investment advisors, unit trusts, and mutual funds.

Many other central banks have followed its lead, including the Bank of England and Banco Central de Brasil. These institutions publicise their analyses and findings in a financial stability report.

In addition to these initiatives, there have been two notable regional initiatives in the form of the Financial Stability Forum (FSF) and the Financial Stability Institute (FSI). The FSF facilitates regular dialogue among national authorities responsible for financial stability in significant international financial centers and institutions. It seeks to promote international financial stability, improve the functioning of markets, and reduce systemic risk. The FSI is a product of the joint efforts of the Bank for International Settlements (BIS) and the Basel Committee on Banking Supervision (BCBS).[7] The primary objective of the FSI is "to assist supervisors around the world in improving and strengthening their financial systems."[8]

At the supranational level, the IMF publishes a quarterly Global Financial Stability Report to:

> … provide a more frequent assessment of global financial markets and to address emerging market financing in a global context. The report focuses on current conditions in global financial markets, highlighting issues of financial imbalances, and of a structural nature, that could pose a risk to financial market stability and sustained market access by emerging market borrowers.[9]

In addition a Financial Sector Assessment Programme (FSAP) was introduced jointly with the World Bank in 1999 in order to enhance the soundness of the financial system of member countries (see **Box 2**).

Financial Stability: A collective responsibility

The nature of risks in financial markets is such that the failure of one entity could have widespread consequences. This suggests that all stakeholders should work cooperatively to ensure the soundness of the system as a whole. In particular, efforts should be made to ensure that there is effective oversight through an appropriate and adequate market infrastructure that addresses issues relating to size, liquidity, and variety of instruments, among other things. In this regard, regulators, banks, institutional investors and customers have specific roles to play.

Regulators

The key challenge faced by regulatory and supervisory authorities of the financial system in their efforts to maintain orderly market conditions is effective collaboration. The regulation of the financial system in Jamaica is organized by sector. This necessitates a cooperative effort to reduce financial instability. In this regard, regulators and supervisors recognize the need to maintain

[7] The BIS is an international organization based in Switzerland that fosters international monetary and financial cooperation and serves as a bank for central banks. The BCBS was established by the central bank Governors of the Group of Ten countries. The Committee encourages convergence towards common approaches and common standards in supervisory techniques.

[8] http://www.bis.org/fsi/aboutfsi.htm

[9] http://www.imf.org/external/pubs/ft/gfsr/about.htm

dialogue, share information, and to monitor the various aspects of the activities of financial entities. This is particularly important for entities that are part of a large and diverse group consisting of both deposit-taking and non-deposit-taking entities. In these cases, it is important that all the entities in the group are monitored so as to avoid regulatory arbitrage.

In addition to the timing and extent of collaborative policy, the regulators' communication strategy is critical. Regulators and supervisors in the financial sector are especially aware of excessive risk exposures. Accordingly, regulators should provide information to the public in a timely manner and in the most suitable format so as to guide market expectations and to avoid misunderstandings that could contribute to market volatility and instability.

The responsibility for the stability of the financial system remains an integral function of the central bank even in countries where it is a separate and distinct entity from the regulator. This responsibility stems primarily from the central banks' roles as banker to commercial banks, lender of last resort and a safe settlement medium.

Banks

Banks represent the most significant financial intermediaries and exert the strongest impact on the financial system, particularly in developing and emerging economies. Therefore, any problems within banks can have severe and long-lasting repercussions on payment and settlement systems and on confidence in the wider financial system. Moreover, in executing their functions as financial intermediaries, banks engage in activities that are inherently risky. It therefore means that these risks must be properly managed if banks are to remain viable.

In recent years, contagion between the banking and non-banking sectors of the financial system has been identified as one of the most significant causes of financial system distress. This was the case with the Jamaican banking crisis of the mid-1990s. The increased concern regarding contagion has therefore placed a greater focus on banks, as well as their relationship with other types of financial entities. Accordingly, banks are required to demonstrate vigilance in their risk management activities.

Institutional Investors

Increasingly, institutional investors have been pivotal to the growth and development of capital markets in recent years. Institutional investors, such as pension funds and life insurance companies, are generally long-term investors and therefore enhance the stability of flows to the markets. Importantly, this pattern of institutional investment serves as a counterbalance to the trading pattern of other more frequent traders or speculative investors. However, since the value of the assets managed by institutional investors is usually quite large relative to the total market capitalization, these investors have the potential to exert disproportionate influence on the markets. Any small shock resulting from their activities or investment patterns could have exponential impact on the financial system. In Jamaica, institutional investors have become progressively more active and influential in the markets, particularly as the Government's debt raising activities increase. In this regard, there has been more stringent regulation and oversight by the FSC (discussed above), as well as monitoring to secure compliance.

Consumers

As markets grow and develop and as the pace of globalisation quickens, consumers should be assisted in making informed financial decisions. Financial institutions must provide information to investors regarding the risks associated with various products. Further, consumers must also assume responsibility for making informed investment decisions. They need to become more aware that they are responsible for the outcome of their financial decisions, and jointly responsible for the stability of the financial system.

Financial Stability: a continuing challenge

The key challenge for the authorities in Jamaica's financial sector is to maintain orderly market conditions that facilitate the smooth functioning of the financial system. Mechanisms are needed to aid in the continued strengthening of the measures to address the root causes of market instability to enable better functioning, safe, and efficient markets. An effective set of mechanisms will include the following:

- Improved risk management capabilities within supervised entities to support and complement the efforts of regulators and supervisors in focusing on financial safety and soundness issues.
- Observation of financial standards in order to support and harness prudential provisions.
- Compliance with disclosure requirements to enhance transparency, support market discipline, and engender a culture of risk management within organisations.
- Convergence between financial accounting and regulatory standards to assist entities in efficiently providing an accurate reflection of business reality and risk exposures.
- Timely and effective public education for investors and potential investors as a matter of priority.
- Continued implementation of strong economic and structural policies to enhance the growth potential and the resilience of the financial system. In this regard, steps to reduce the level of public debt and to further develop local capital markets are important reforms for strengthening market foundations.

Since weak financial systems can destabilise an economy, financial stability is critical to sustained economic growth. The costs of the recent banking crises across the world are reminders of the importance of addressing financial system instability. While it is understood that any adjustment resulting from global imbalances will take time, there is still much that can be done in the short term. Benign financial market conditions should be exploited to prepare systems and methodologies that will enhance resolution efforts in less favorable times. This will serve to reduce systemic vulnerabilities and improve the resilience of financial entities. It is also important to note that fluctuations in economic activity are more characteristic of a liberalized economy. As such, effective management of vulnerabilities requires continued close monitoring of the factors that link monetary stability and financial stability.

Bond Market

The Government of Jamaica (GOJ) raised US$125 million from international markets during the June quarter, through the re-opening of its 2017 Eurobond. The external borrowing lessened the Government's presence in the domestic market and facilitated further reductions in interest rates. There were three interest rate reductions on BOJ open market instruments during the quarter. In addition, yields on successive offers of Government short-term instruments recorded an overall decline. Improved investor confidence enabled the Government to lengthen the maturity profile of its debt, while lowering yields. Rates in the private money market were relatively stable during the quarter owing to fairly moderate liquidity conditions. Internationally, the performance of GOJ global bonds in secondary market trading was negatively affected in the latter half of the quarter by expectations of a hike in US interest rates.

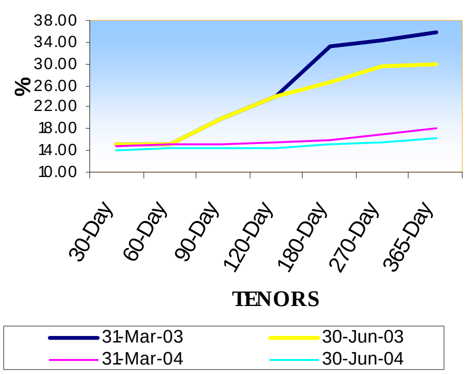
External factors influence developments in domestic bond market

The receipt of US$125 million through the re-opening of GOJ's 2017 Eurobond on 27 April 2004, constituted one of the main factors influencing developments in the domestic bond market during the June quarter. The inflow served to lessen the presence of the Government in the domestic market, and inspired investor confidence. The re-issue of the Eurobond came just ahead of heightened expectations of an imminent hike in US interest rates, which overshadowed developments in the latter half of the quarter. Nevertheless, relative stability in the foreign exchange market and strong demand for BOJ instruments facilitated declines in domestic interest rates.

Table 1.8

BOJ Reverse Repurchase Rates April – June 2004				
	31 Mar	**02 Apr**	**19 Apr**	**5 May**
30 Days	14.85	14.60	14.40	14.20
60 Days	15.00	14.70	14.50	14.30
90 Days	15.10	14.80	14.60	14.40
120 Days	15.50	15.10	14.85	14.55
180 Days	16.00	15.60	15.30	15.05
270 Days	16.95	16.50	16.00	15.65
365 Days	17.95	17.40	16.90	16.40

Figure 1.13
BOJ OMO Yield Curve



The BOJ reduced interest rates on its open market instruments on three occasions during the quarter (See **Table 1.8**). The reductions on the 30-day and 60-day instruments constituted the largest declines on these short tenors since March 2003. The 30-day interest rate fell by 65 basis points to close the quarter at 14.20 per cent, while the 60-day rate fell by 70 basis points to 14.30 per cent. This compares to declines of 15.0 and 30.0 basis points, respectively, in the previous quarter. Reductions on longer tenors ranged from 70 basis points to 155.0 basis points, with the largest reduction effected on the 365-day instrument. The significant reduction in interest rates on all tenors represents not only further normalisation, but also a downward shift in the yield curve on BOJ's open market instruments (See **Figure 1.13**).

All three interest rate reductions were conducted from April to early May 2004. Further reductions were constrained by the anticipated increase in US interest rates, coupled with temporary disturbances in the local foreign exchange market towards the end of the quarter.

Placements in BOJ's open market instruments reflected a shift from the concentration in long-term tenors that had obtained in the March quarter, when investors tried to hedge against anticipated interest rate reductions. With a slower pace of interest rate reduction relative to the March quarter, investors focused more on smoothing the maturity profile of their portfolios, demanding both short- and long-term instruments. Consequently, placements in the 30-day and 365-day instruments were almost equal, accounting for 37.0 per cent and 35.0 per cent of total placements, respectively. The 180-day instrument also received more than 11.0 per cent of issues (See **Table 1.9**).

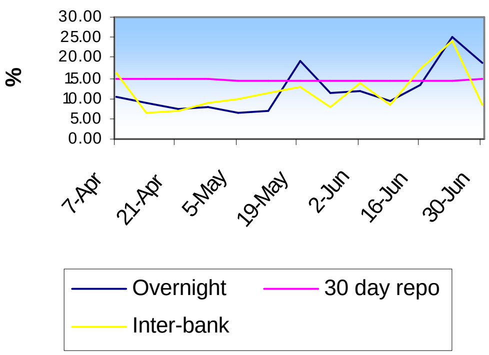
Table 1.9

Placements and Maturities* in BOJ OMO Instruments April – June 2004

	Maturities (%)	Placements (%)
30 Days	40.77	36.80
60 Days	4.03	2.58
90 Days	4.02	8.24
120 Days	3.38	3.05
180 Days	7.39	11.22
270 Days	3.61	3.46
365 Days	36.79	34.66

**Excludes overnight transactions during the period*

Figure 1.14
Private Money Market
Average Maximum Rates
April – June 2004



Government net amortises debt of $8 604.8 million.

Interest rate movements in the private money market were reflective of investor cash flow management and the extent to which the Government stayed out of the domestic market. The average maximum interest rate on the 30-day private reverse repurchase instrument, the benchmark for the private market, remained within a band of 14.0 per cent to 15.0 per cent. Average maximum rates in the interbank and overnight markets tended to be below the 30-day rate except when there were Government offers to the market. In the week ending 23 June 2004, average rates in both the overnight and interbank markets peaked at 25.0 per cent and 24.0 per cent, before declining to close the quarter at 18.8 per cent and 8.6 per cent, respectively. The peaks were due to investors trying to source funds to invest in the very attractively priced 17.0 per cent fixed rate Government investment debenture (See **Figure 1.14**).

Government cash needs for the fiscal year are typically most demanding in the June quarter. Hence, in spite of raising funds externally, the Government also raised a total of $30 852.5 million in the domestic bond market, representing net amortisation of $8 604.8 million (See **Table 1.10**). A significant part of this was due to the non-reissuance of a US dollar-indexed bond that matured on 7 June 2004. This decision not to re-issue a similar instrument caused some disruption in the foreign exchange market in the latter part of the quarter.[10]

The largest portion of public financing during the quarter was sourced through three investment debentures which raised a total of $24 443.4 million (See **Table 1.10**). The first two debentures, issued 20-27 April and 15-18 June, received subscriptions of $13 334.2 million and $9 458.4

[10] Local institutions, needing to retain a hedge against their foreign currency liabilities, sought US dollars to purchase replacement assets.

Table 1.10

GOJ Public Domestic Debt Raising April - June 2004			
	Amount Allotted (J$MN)	**Amount Maturing (J$MN)**	**Net Issue (J$MN)**
Treasury Bills	1 850.0	1 650.0	200.0
LRS	1 500.0	12 732.2	-11 232.2
Debenture	24 443.4	16 399.1	8 044.3
Investment Bonds	3 059.1	0.0	3 059.1
US$ Denominated Bonds	0.0	571.8	-571.8
US$ Indexed Bonds	0.0	8 104.2	-8 104.2
Total	**30 852.5**	**39 457.3**	**-8 604.8**

million, respectively. Both instruments offered a fixed rate of 17.0 per cent with tenors of 24 months and 16 months. The third debenture was issued 25-29 June, at a similar rate for 21 months. This debenture attracted only $1 650.8 million as it came at a time when the market was more desirous of a US dollar-denominated instrument.

In the context of declining rates, the Government was able to issue a variable rate investment bond at a lower rate and longer tenor in mid May. The bond was issued for 39 months at an initial rate of 15.05 per cent for the first six months, with refinancing of 1.50 percentage points above the weighted average yield on the 6-month Treasury Bill tender. The bond attracted funding of $1 596.6 million.

Government extends the maturity profile of its debt.

In late May, the Government tendered $1 500 million in Local Registered Stocks (LRS) for tenors of 24 months, 42 months and 60 months, with respective coupons of 14.50 per cent, 14.85 per cent and 15.25 per cent. All tranches were oversubscribed but the 60-month tender received subscriptions of more than four times the offer amount.

The overwhelming response to the 60-month LRS indicated a willingness by investors to loan funds to the Government for longer periods. This prompted the release of two long-term registered bonds with tenors of 6 years and 10 1/3 years, fixed at 17.125 per cent and 17.00 per cent, respectively. The instruments received subscriptions totalling $1 462.5 million. Offered during 3-7 June 2004, the bonds came at a time when the US dollar-indexed bond was due to mature, and investors wanted a similar instrument to replace it in their portfolios.

Table 1.11

Treasury Bill Auctions & Maturities April – June 2004

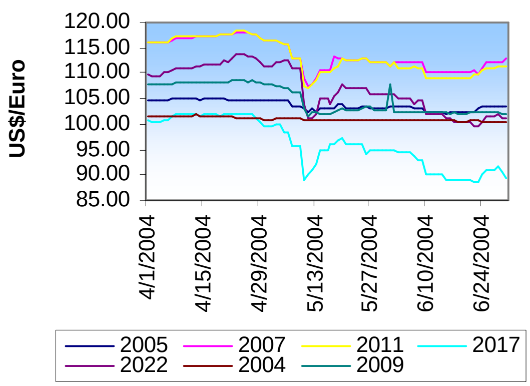
Issue Date	Tenor (days)	Avg. Yield (%)	Allotment (J$MN)	Amount Maturing (J$MN)
30 Apr. 04	182	15.09	500	400
28 May. 04	182	14.96	400	400
11 Jun. 04	273	15.18	300	300
25 Jun. 04	182	14.98	400	300
25 Jun. 04	91	15.04	250	250
Total			**1 850.0**	**1 650.0**

With respect to short-term instruments, the Government issued $1 850 million in Treasury Bills between April and June 2004, increasing the stock by $200.0 million. In addition to the 182-day tenor, the Government also tendered a 273- and a 91-day instrument. The average yield on successive tenders of the 182-day Treasury Bill recorded an overall decline of 59 basis points for the quarter, to close at 14.98 per cent (See **Table 1.11**).

Government re-opens 2017 Eurobond for an additional US$125 million.

On international markets, the Government sourced US$125 million on 27 April 2004 through the re-opening of its 2017 Eurobond. The bond had been initially issued for $300 million on 20 June 2002. The incremental amount was priced at 100.50 to give a yield of 10.55 per cent, 14 basis points above the secondary market yield levels at that time. The re-opening was against the background of improvements in Jamaica's macroeconomic performance, particularly the better than projected fiscal performance for FY 2003/04.

Figure 1.15
GOJ Global Bond Prices
April – June 2004



The performance of GOJ global bonds in the June quarter was affected by expectations of an increase in US interest rates.[11] In the first half of the quarter, the prices at which GOJ global bonds traded in the secondary market had been steadily increasing (See **Figure 1.15**). Between 31 March and 23 April 2004, prices on most tenors had increased by between 0.63 and 4.4 cents on the dollar. However, in mid May, prices plunged due to panic selling of emerging market bonds as the anticipated interest rate hike became more imminent. Jamaican global bonds were less affected by the panic selling, as these bonds are reportedly substantially held by Jamaican interests.

[11] US interest rates, which had been at a four-decade low, were expected to be increased in the face of rising inflation in the US economy. The highly anticipated rise was announced on 30 June 2004 when the Federal Reserve increased the benchmark rate by 0.25 of a per cent.

Figure 1.16
GOJ Global Bond Yields
April – June 2004

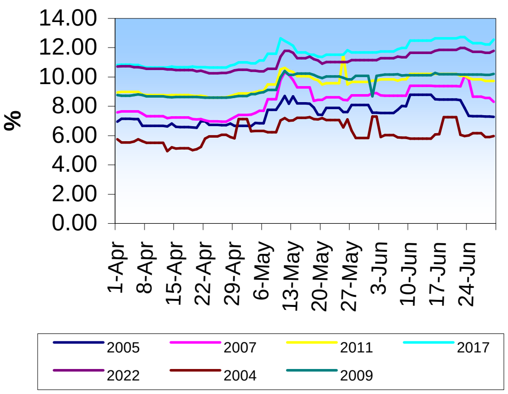
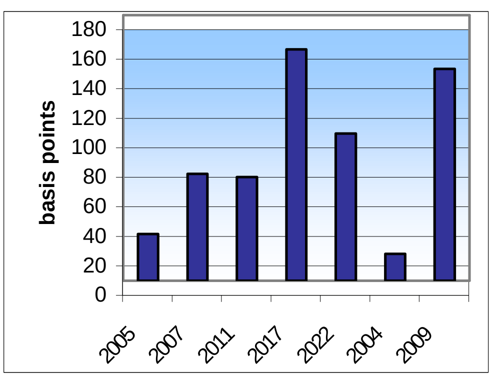


Figure 1.17
Quarterly Change
GOJ Global Bond Yields
April-June 2004



Nevertheless, the fallout was significant as prices on all global bonds dipped in the week of 10-14 May 2004. The price on the re-opened 2017 fell from 100.50 (re-issue price) to 89.00 in two weeks.

Prices on GOJ global bonds have experienced a slow recovery since mid May. The performance for the June quarter indicates overall price decreases on all bonds, with the 2017 and 2022 displaying the sharpest declines of 10.0 per cent and 7.3 per cent, respectively. Consequently, yields have trended up over the quarter, with the change on the 2017, 2009 and 2022 being the most significant. Between end March and end June 2004, the yields on these bonds increased by 157 basis points, 144 basis points and 100 basis points, to close the quarter at 12.26 per cent, 9.92 per cent and 11.49 per cent, respectively (See **Figures 1.16 and 1.17**).

The increase in the US Federal Reserve had a minimal impact on Jamaican global bonds, as investors had already adjusted for the increase during the weeks leading up to the announcement. What remains an issue of concern is the speed at which the Federal Reserve intends to raise US interest rates. This may have implications for the pace of future reductions in Jamaica's domestic interest rates.

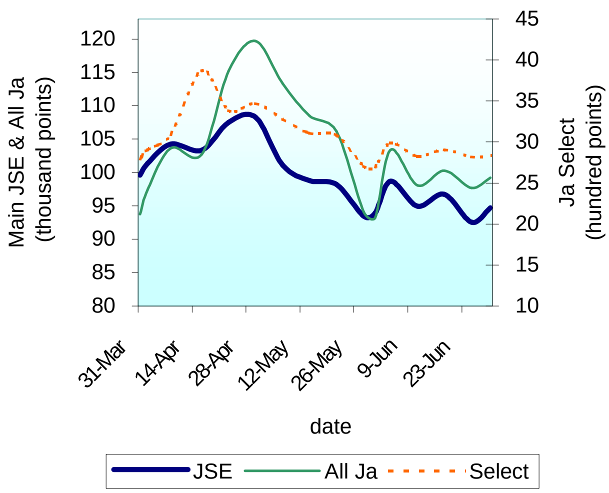
Stock Market

Stock market activity in the June quarter was largely consistent with developments in the other domestic asset markets. Sharp gains in stock prices during the month of April were reversed in May, due partially to exogenous impulses. However, the generally favourable macroeconomic conditions, along with news of positive performance for listed entities facilitated some degree of market recovery in the June quarter. The outturn for the quarter indicates that relative stability in the foreign exchange market, as well as the maintenance of low interest rates, could facilitate increased stock market returns in the near term.

Interruption of the stock market 'bull run' observed in the June quarter

The buoyancy observed in the stock market in the previous three quarters was interrupted in the June 2004 quarter. This was evidenced in the relatively weak performance of the three major stock price indices (see **Figure 1.18**). For the period, the main Jamaica Stock Exchange (JSE) Index recorded a 4.9 per cent decline while the All Jamaica Composite and Jamaica Select indices recorded gains of 5.8 per cent and 1.4 per cent, respectively. This compares to average gains over the last three quarters of 26.3 per cent, 32.1 per cent and 31.3 per cent for the main JSE, the All Jamaica Composite and the Jamaica Select indices, respectively. Notwithstanding the significant $9.4 billion in units traded and gains in 21 of the 38 stocks traded during the quarter (see **Table 1.12**), the decrease in the stock price of highly capitalised entities[12] resulted in a 4.8 per cent decline in market capitalisation (see **Figure 1.19**).

Figure 1.18
JSE Indices
June 2004 Quarter



Source: Jamaica Stock Exchange

12 These include RBTT and Guardian Holdings Company Limited.

Table 1.12

Top Ten of the 21 Price Gains

June 2004 Quarter

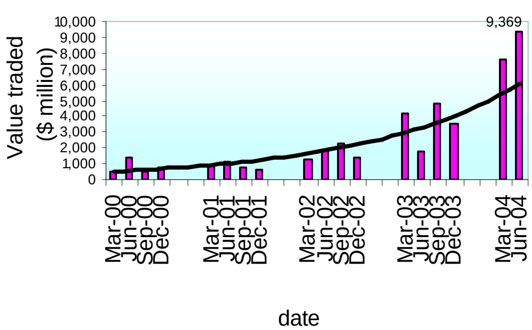
Sectors / Companies	Price at 30-Jun-04 $	Qtr. Change %
Financial		
CCMB	18.21	114.2
FirstCarib Ja.	26.00	96.1
NCB	25.01	22.0
Pan Carib	19.00	64.4
Dyoll	29.00	59.3
Manufacturing		
Salada Foods	30.00	53.9
Distributive		
H&L	20.00	62.6
Other Services		
Kingston Wharves	3.60	56.5
Montego Freeport	4.50	32.4
Pegasus	11.00	22.2

Source: Jamaica Stock Exchange

Figure 1.19

Total Quarterly Value of Units Traded on the JSE

March 2000 to June 2004



Source: Jamaica Stock Exchange

Stock prices moderated in early April, largely due to profit taking by some investors. However, for the remainder of the month, equity prices regained positive momentum, similar to that observed in the March 2004 quarter[13]. Within a context of fairly strong Jamaica Dollar liquidity, relative foreign exchange rate stability and an improving fiscal outlook, 365.3 million units were traded at a value of $4.3 billion during the month of April[14]. This relatively high level of market activity resulted in increases of 8.7 per cent, 27.6 per cent and 24.1 per cent in the main JSE, the All Jamaica Composite and the Jamaica Select indices, respectively (see **Figure 1.19**).

During May, there was some degree of investor concern related to oil price increases and the expected rise in the US Federal Funds rate (see **Bond Market**). These considerations generated an intensified round of profit-taking, which influenced price declines in 33 of the 38 stocks traded in May. These declines, which occurred in a context of reduced stock market activity, contributed to a 13.2 per cent decrease in the main JSE Index and more pronounced reductions of 22.1 per cent and 22.3 per cent in the All Jamaica Composite and Jamaica Select indices[15], respectively.

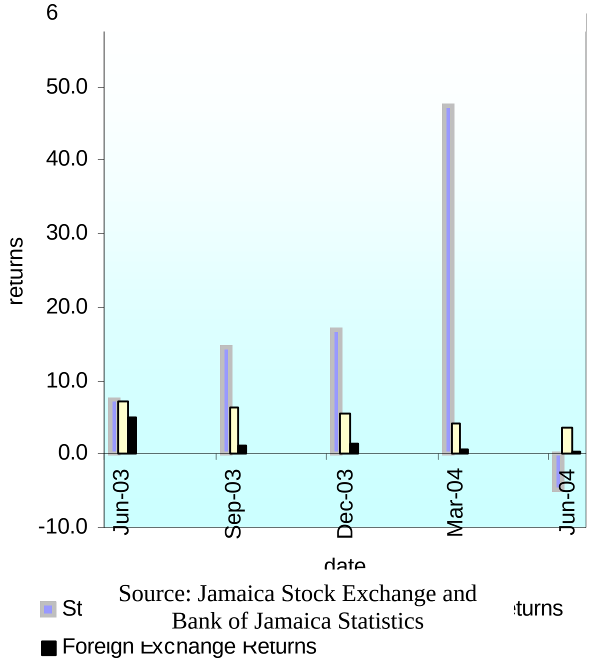
The poor market performance observed in May was, to some extent, corrected in June when 25 of the 38 traded stocks attained moderate price gains, resulting in the

[13] During the March 2004 quarter, the main JSE Index, the All Jamaica Composite Index and the Jamaica Select Index increased by 15.8 per cent, 22.9 per cent and 21.5 per cent, respectively.

[14] During the December 2003 and March 2004 quarters, the average monthly volume and value traded were 326.6 million units and $1.8 billion, respectively.

[15] 262.7 million units were traded at a value of $3.4 billion in the month of May.

Figure 1.20
Quarterly Domestic Market Returns
June 2003 to June 2004



Source: Jamaica Stock Exchange and Bank of Jamaica Statistics

growth of all three stock market indices[16]. Moreover, reduced volatility in the indices during the last two weeks of June suggested some degree of normalisation in stock price movements[17].

Despite the sharp decline in equity returns for the review quarter, investor outlook is expected to remain positive. This is predicated on the continuation of financial system and macroeconomic stability and strong financial entity performance, which should restore some degree of the relative stock market attractiveness observed in previous quarters (see **Figure 1.20**).

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[16] During the period, the main JSE, the All Jamaica Composite and the Jamaica Select indices increased by 0.8 per cent, 6.4 per cent and 5.1 per cent, respectively. For June, 9 stocks declined and 4 traded firm.

[17] The five-day moving standard deviation is used to measure the degree of volatility in the stock market indices. A reduction in the measured volatility is indicative of stock price normalization.

Figure 1.21
Percentage Change in Weighted Average Selling Exchange Rate (period average, US$1.00=J$)

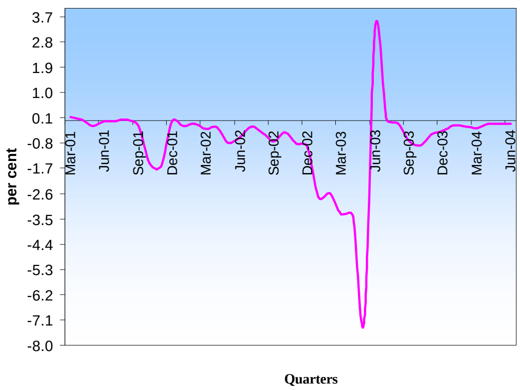
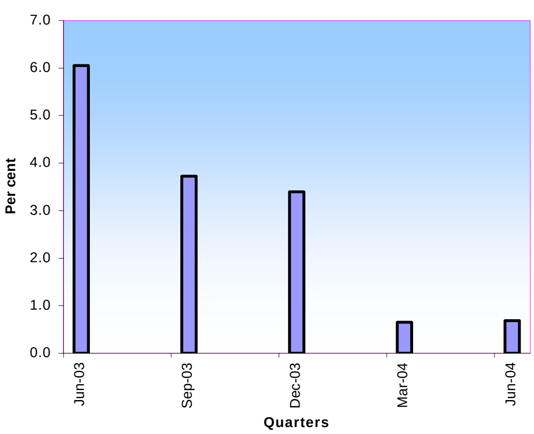


Figure 1.22
Inflation Differential



Foreign Exchange Market

The foreign exchange market was generally stable throughout most of the June 2004 quarter. Notwithstanding, there was some amount of intra-quarter volatility. The appreciation of the exchange rate in the first half of the quarter was reversed in the second half. Overall, there was a marginal depreciation of 0.34 per cent in the exchange rate in the review period, the smallest quarterly change since the September 2001 quarter. The currency appreciation in the first half of the quarter, reflected strong demand for Jamaican Dollar assets and improved confidence in the macroeconomy. The depreciation that emerged mid-way in the quarter was associated, in part, with Government domestic borrowing activity.

The weighted average selling rate of the local currency vis-à-vis the United States dollar depreciated by a marginal 0.34 per cent, the smallest quarterly movement since the September 2001 quarter (see **Figure 1.21)**. The exchange rate moved to US$1.00=J$61.22 at end-June 2004 from US$1.00=J$60.02 at end-March 2004. The exchange rate depreciated on average by 2.0 per cent over the four quarters preceding the review period.

The relative stability in the exchange rate coupled with the strengthening of the US dollar vis-à-vis the currencies of Jamaica's main trading partners[18] had a small negative effect on Jamaica's external competitiveness. This was in spite of a narrowing of the inflation differential [19] (see **Figure 1.22** and

[18]The performance of the US dollar was largely attributed to depreciations of 2.7 per cent and 4.0 per cent in the Canadian dollar and the Japanese yen, respectively.

[19] The inflation differential is the difference between domestic consumer price index (CPI) and the USA CPI. A decline in the inflation differential is indicative of a convergence in Jamaican and USA consumer prices.

Figure 1.23
Real Effective Exchange Rate Index**
(December 1998 = 100)

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

Inflation). The Real Effective Exchange Rate (REER) index at the end of the June 2004 was higher than the index at end-March 2004 by 1.4 per cent, reflecting a loss in external competitiveness (see Figure 1.23). Similarly, the twelve- month point-to-point movement in the index as at June 2004 reflected a 4.8 per cent loss in competitiveness.

Relative stability influenced by broad-based confidence in the local economy

The relative stability in the foreign exchange market in the review quarter was associated with the broad-based confidence in the Jamaican economy given improvements in the fiscal and external accounts during FY2003/04 (see Appendices A and C). Favourable foreign currency supplies influenced stability in the market during the review quarter. In addition, investors' reaction to the budget presentation on 15 April 2004 and the better than targeted fiscal deficit for FY2003/04 were favourable. This macroeconomic environment supported the successful raising of an additional US$125.0 million by the Government from the international capital market (see Bond Market).

Improved confidence in the economic prospects, particularly in the first half of the quarter, resulted in a decline in yields on GOJ global bonds, lowering of market interest rates, and a buoyant stock market. This served to increase demand for Jamaican Dollar assets (see Base Money). Market perception in the June 2004 quarter was also influenced by announcements of strong medium-term growth prospects driven by significant foreign direct investments.

The economy continued to benefit from strong foreign exchange inflows. In particular, receipts from merchandise exports, remittances and tourism were estimated to have increased by US$66.5 million (22.4 per cent), US$48.6 million (15.4 per cent) and US$45.2 million (12.3 per cent),

Figure 1.24
Foreign Currency Volumes Traded
(Intervention Purchases and Sales Excluded)

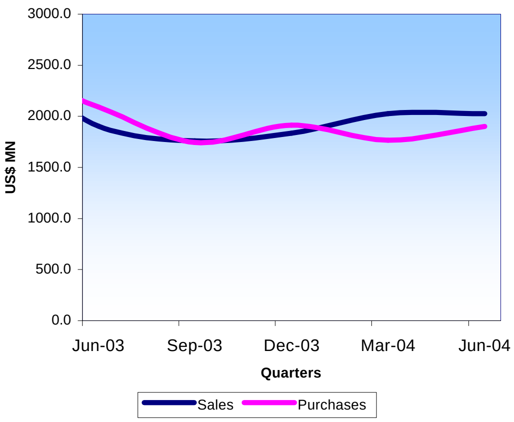
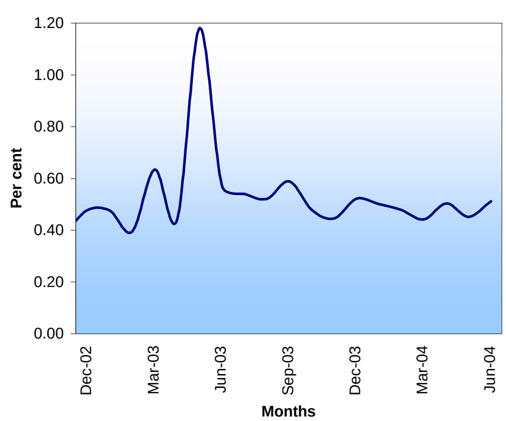


Figure 1.25
Foreign Exchange Spread as a PerCent of Average Buying Rate

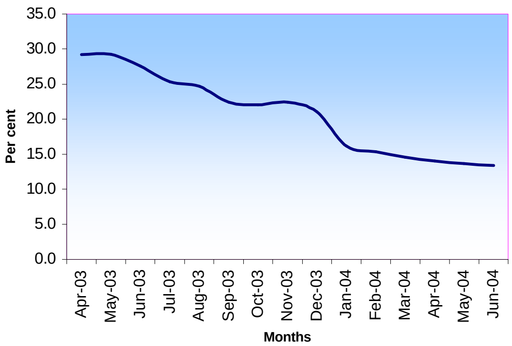


respectively, relative to the comparable period of 2003. Increased export earnings largely reflected positive contributions from sugar and alumina exports. The estimated growth in earnings from tourism reflected expansions of 12.3 per cent and 11.7 per cent in stopover and cruise visitor arrivals, respectively. The most significant outflow was an estimated increase of US$45.2 million (23.4 per cent) in the fuel bill, primarily associated with higher oil prices in the quarter.

During the review quarter, total volumes traded, excluding intervention, amounted to US$3 923.9 million, a decline of 1.8 per cent, relative to the June 2003 quarter. Total volumes purchased contracted to US$1 899.3 million from US$2 090.6 million, while total sales increased to US$2 024.7 million from US$1 903.5 million (see **Figure 1.24**). The operations of the *Authorized Dealers* reflected net sales of US$116.1 million, US$19.2 million lower than the corresponding June 2003 quarter. Activity in this segment of the market resulted in total volumes purchased and sold increasing by US$177.5 million and US$158.3 million, respectively, to US$824.7 million and US$940.8 million. *Cambios* recorded net purchases of US$64.2 million during the June 2004 quarter. Total purchases by *Cambios* declined by US$16.5 million to US$410.4 million relative to the June 2003 quarter. Concurrently, total sales declined by US$17.4 million to US$346.2 million.

There was some amount of intra-quarter volatility in the exchange rate over the review period. Concurrently, there was a marginal increase in the spread on foreign exchange transactions to an average of 0.42 per cent for the June 2004 quarter, relative to an average of 0.40 per cent in the

Figure 1.26
Six-Month Interest Rate Differential**



**This is the difference between interest rate on local six-month Treasury bills and the comparable USA Treasury instrument.

Table 1.13

Net International Reserves (US$MN)			
Month	**Stock**	**One Month Change**	**Three Month Change**
Apr-03	1362.1	22.4	-148.2
May-03	1233.3	-128.8	-19.6
Jun-03	1127.4	-105.9	-212.3
Jul-03	1124.9	-2.5	-237.2
Aug-03	1080.1	-44.8	-153.2
Sep-03	1182.6	102.5	55.2
Oct-03	1131.1	-51.5	6.2
Nov-03	1103.3	-27.8	23.2
Dec-03	1165.0	61.7	-17.6
Jan-04	1219.6	54.6	88.5
Feb-04	1474.0	254.3	370.7
Mar-04	1568.7	94.7	403.7
Apr-04	1741.6	173.0	522.0
May-04	1715.7	-26.0	241.7
Jun-04	1604.1	-111.6	35.4

preceding quarter (see **Figure 1.25**). The exchange rate appreciated by 0.41 per cent in April, while the rate depreciated by 0.26 per cent and 0.46 per cent in May and June, respectively.

The appreciation in the exchange rate in April largely reflected strong foreign currency supplies, as well as, strong investor interest in the stock market (see **Stock Market**). However, during the last two months of the quarter, the depreciation in the exchange rate was influenced primarily by efforts by investors to maintain their portfolio balances leading up to and following the redemption of a GOJ US dollar indexed bond[20]. In addition, there was strong end-user demand to finance imports, particularly oil. The gradual narrowing of the differential between domestic interest rates and those on the US market since 2003, as well as, expectations of a possible increase in the Federal Funds rates could also have influenced investor behaviour during May and June (see **Figure 1.26**).

In the context of the pressures that emerged in the final two months of the quarter, the Bank sold a total of US$116.4 million to the market. However, BOJ purchases, excluding surrenders and proceeds from the Eurobond, totalled US$152.2 million for the quarter, marginally above the comparable period of 2003. As a result of the increase in foreign exchange supply to the economy and net purchases from the market, the NIR at end-June 2004 was US$1 604.1 million, relative to a target of US$1 550.0 million. The stock was also US$35.4 million higher than that at end-March 2004 (see **Table 1.13**). Gross reserves of the BOJ stood at US$1 630.3 million at end-June, representing 16.9 weeks of projected goods and services imports.

[20] This is consistent with the increased activities of Authorized Dealers in the review period.

Box 2: Financial Sector Assessment Programme (FSAP)

Introduction

Over the last two decades 75 per cent of the member countries of the International Monetary Fund (IMF) have experienced a financial sector crisis. Against this background, a global effort to preserve financial stability and maintain orderly international financial conditions emerged. Consequent upon this, the Financial Sector Assessment Programme (FSAP) was designed to provide comprehensive analysis of a country's financial system. The FSAP was intended to reduce the likelihood of the occurrence of a financial sector crisis.

Launched in May 1999 on a trial basis, the FSAP initially involved 12 countries, which were at varying stages of financial system development. Subsequently, the programme has engendered strong support in IMF member countries. As at June 2004, 62 countries had completed an FSAP, 28 countries had an FSAP under way, 18 countries had confirmed participation, and 15 countries had FSAP updates near completion.

Upon Jamaica's recently concluded Article IV consultation it was announced that in conjunction with an intensified surveillance (see **Box 3**) of its macroeconomic programme, Jamaica would participate in an FSAP in early 2005. This is against the background of the Government of Jamaica's intention to assess the strengths and vulnerabilities of the financial system.

The findings of the FSAP inform policymaking by providing a comprehensive framework for financial sector stability. Beyond this, the Programme assists the World Bank (IBRD) and the IMF, and more broadly, the international community in designing appropriate assistance for member countries. In addition to its technical aspect, the Programme examines the financial sector's legislative underpinnings, including anti-money laundering practices. The impact of the implementation or amendment of laws related to the financial system is also assessed.

The FSAP focuses on three main areas of a financial system:

1. The linkages between the performance of macroprudential indicators and financial sector soundness;
2. The observance of relevant financial sector standards and good practices; and
3. The reform and development needs of a country's financial system. It also provides a detailed evaluation of the monetary and fiscal implications of these actions.

The Programme utilizes staff members of the IMF and the IBRD, as well as outside experts from a range of cooperating central banks, national supervisory agencies, and international standard-setting bodies.

Methodology and Tools

The assessment process incorporates various tests and models. These vary according to the structure and characteristics of a particular country's financial system as well as, the availability of data. The three main analytical tools are macroprudential analysis, stress tests and scenario analyses, and standards assessments.

Macro-prudential Analysis involves the scrutiny of aggregated microprudential indicators[21] and macroeconomic indicators[22]. The health of the financial system can be assessed by examining trends in microprudential indicators. These indicators have been found to be either contemporaneous or lagging indicators of financial sector soundness. Macroeconomic indicators on the other hand, signal imbalances that affect financial systems as a whole and tend to be leading indicators of financial sector soundness.

Stress Tests & Scenario Analyses assesses the impact of macroeconomic shocks, structural changes and financial sector innovations on the profitability and solvency of financial institutions.

Standards Assessments involve an evaluation of a country's observance and implementation of relevant financial sector standards and codes. It identifies gaps in financial sector regulation and transparency practices. At least three months before the 1st FSAP mission, all relevant data on the country's financial system are collected and reviewed by the FSAP team. Subsequently, questionnaires, background information and self-assessments pertaining to Reports on the Observance of Standards and Codes (ROSCs)[23] are submitted to the authorities for completion. The FSAP team then schedules missions (at most two for initial assessment and one for follow-up purposes). During the mission, findings are compiled and an *aide-mémoire* is prepared by the team to be discussed with the authorities at the conclusion of the mission(s).

The IMF reviews the aide-mémoire and sends it back to the country between one month and three months after the final FSAP mission for approval. If there are no adjustments to the aide-mémoire, the Technical Notes, Detailed Assessments and FSAP survey are sent back to the authorities.

Relevance of Findings

The FSAP findings help the IMF and the IBRD fulfill some core responsibilities to its member countries. In the case of the IMF, the results of the FSAP form the basis for the preparation of a Financial System Stability Assessment (FSSA). The FSSAs focus on strengths, risks, and vulnerabilities in the financial system in a broader macroeconomic and macroprudential context. They are passed to the IMF's Executive Board as part of the documentation for the

[21] For example, capital Adequacy Ratios
[22] For example debt to GDP Ratios

[23] ROSCs summarize the extent to which countries observe certain internationally recognized standards and codes. For example, Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT)

Article IV consultations. The FSSA also assists with the design of technical assistance and other follow-up assessments.

From the IBRD's perspective, the FSAP provides a comprehensive assessment of a country's financial sector, which serves as the basis for the World Bank's country assistance strategy (provision of technical and financial assistance). In addition, the IBRD prepares a Financial Sector Assessment (FSA), which highlights any development and reform needs a country's financial system may require.

The findings of the FSAP are beneficial to a country in several ways. It informs policymaking by providing a comprehensive framework for financial sector stability. It encourages the authorities to evaluate their system against international benchmarks and to conduct self-assessment of their financial system. In addition, a country's participation in the FSAP is viewed positively by international investors and rating agencies.

Countries may elect to publish individual FSAP Technical Notes and Detailed Assessments by obtaining permission from the IMF and the IBRD management. FSSA and FSA reports have the same degree of confidentiality as Article IV consultation staff reports. Therefore, the policy on publication and distribution of these reports are similar to the policy on the publication of Article IV staff reports.

Summary and Conclusions

The FSAP has helped to ensure that financial sector analysis becomes part of the core of economic policymaking. It also provides a strategic framework for strengthening and developing a country's financial system. In many cases, an FSAP has highlighted the need to reinforce banking supervision, improve financial sector legislation, reduce risks in payment and securities settlement systems, and strengthen sovereign debt management. Follow-up assistance has been provided, for example, with regard to the design of deposit insurance and the development of credit registries.

It is important to note that the FSAP will not, by itself, protect countries against all financial crises. Macroprudential indicators, stress tests, and standards assessments can identify vulnerabilities, but are not foolproof. Nonetheless, over time, the FSAP can reduce the incidence of crises by providing the authorities with a thorough and objective review of their financial sectors, identifying weaknesses at an earlier stage, and by suggesting effective and timely policy responses.

2. Real Sector Developments

Table 2.1

Sectoral Contribution to June Quarter	Estimated Impact on Growth
GOODS	+ve
Agriculture, Forestry & Fishing	+ve
Mining & Quarrying	+ve
Manufacturing	+ve
Construction & Installation	+ve
SERVICES	+ve
BASIC SERVICES	+ve
Electricity & Water	+ve
Transport Storage & Communication	+ve
OTHER SERVICES	+ve
Distributive Trade (Wholesale & Retail)	+ve
Financing & Insurance Services	+ve
Real Estate & Business Services	+ve
Producers of Government Services	-ve
Miscellaneous Services	+ve
Households & Private Non-Profit Instit	+ve
TOTAL GDP	+ve

Leading indicators of economic performance for Jamaica suggest an expansion in real Gross Domestic Product (GDP) during the June 2004 quarter, that is expected to be slightly higher than the 2.4 per cent recorded in the comparable quarter of 2003. The major export sectors were the main drivers of growth. With the exception of ***Government****, economic growth was estimated to have occurred in all sectors of the economy. This growth was reflected in* ***Mining, Tourism*** *and* ***Manufacturing****, which together contributed 64.0 per cent to the growth in the review quarter. In addition, there was continued growth in the* ***Electricity & Water, Construction*** *and* ***Transport, Storage & Communication*** *sectors (see* ***Table 2.1****). Output growth was underpinned by the stable macroeconomic environment and enhanced by earlier gains in the country's external competitiveness.*

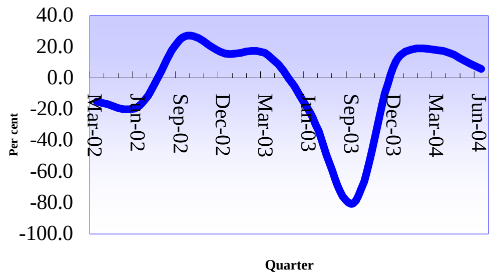
From the perspective of aggregate demand, the expansion in economic activity in the review quarter partly reflected estimated real increases in overall ***Consumption*** *expenditure. Private spending exclusively drove this increase as real government spending declined in the period. The estimated improvement in spending was, however, partially offset by the decline in* ***Gross Capital Formation*** *and* ***Net External Demand.***

Aggregate Supply

Expansion in both the goods producing sectors and services

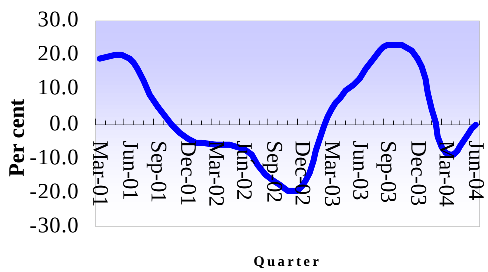
Leading indicators of economic performance for Jamaica suggest an expansion in real GDP during the June 2004 quarter, evident in both the goods producing sectors and services.

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



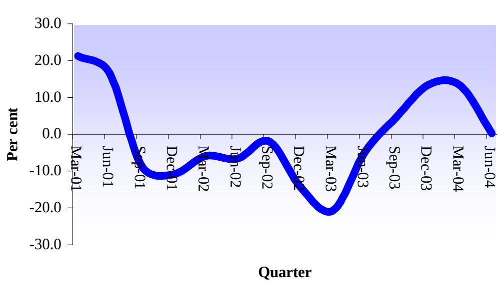
Source: Ministry of Agriculture

Figure 2.2
Trends in Sugar Cane Milled
(12-Month change)



Source: Sugar Corporation of Jamaica

Figure 2.3
Trends in Banana
(12-Month change)

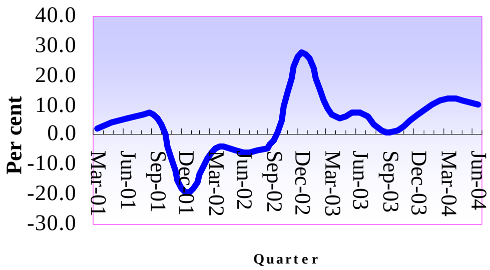


Source: Banana Export Company

This growth was faster than the growth of 2.4 per cent recorded in the June 2003 quarter. Among the goods producing sectors, significant growth was recorded in *Mining*, *Construction* and *Manufacturing*. For services, relatively strong growth was registered in tourism and more moderate expansion in basic services. The estimated growth in the real sector was consistent with a real increase of 26.8 per cent in loans and advances to the private sector during the first half of 2004. Notably, the major export sectors were the main drivers of growth. This was underpinned by the stable macroeconomic environment and further enhanced by the earlier gains in the country's external competitiveness.

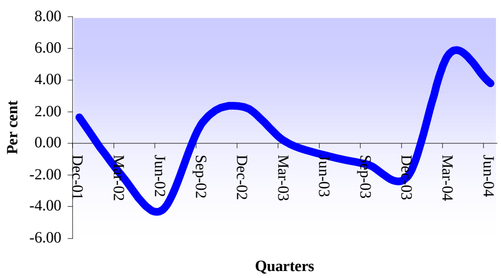
The *Agriculture* sector is estimated to have registered marginal growth in the review period. The output of the domestic sub-sector declined in the quarter associated with a continuation of the fall out in the production of root crops. This was partly offset by improvements in the livestock & hunting and fishing industries (see **Figure 2.1**). Root crops were adversely affected by drought conditions in the major farming areas in the December 2003 and March 2004 quarters. In particular, potatoes, fruits and yams are estimated to have declined by 8.0 per cent, 5.4 per cent and 1.4 per cent, respectively. These contractions were partly offset by estimated increases of 7.2 per cent, 2.0 per cent and 2.0 per cent in the production of condiments, vegetables and legumes, respectively. The increased output from livestock & hunting and fishing reflected growth in poultry and fish farming, respectively.

Figure 2.4
Trends in Alumina Production
(12-Month change)



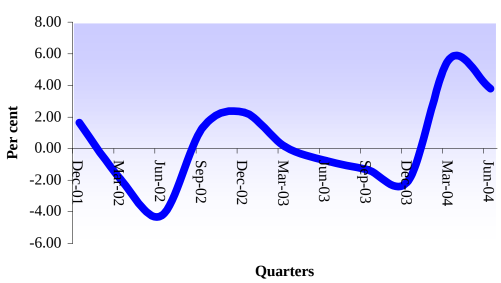
Source: Jamaica Bauxite Institute

Figure 2.5
Trends in Crude Bauxite Production
(12-Month change)



Source: Jamaica Bauxite Institute

Figure 2.6
Manufacturing: Quarterly Growth Rate
(12-Month change)



Higher output from the export agriculture sub-sector during the period was largely driven by the expansion of 6.0 per cent in the production of sugar cane (see **Figure 2.2**). Citrus and coffee production also increased by 5.0 per cent and 2.0 per cent, respectively. The growth in sugar cane production is attributed to the recent initiatives by the Sugar Corporation of Jamaica (SCJ) to rejuvenate the sector. In the process the SCJ upgraded its processing plants for increased efficiency. The minimal growth of 0.3 per cent in banana was attributed to the impact of the Moko disease on the industry, which emerged at the end of 2003 (see **Figure 2.3**). Approximately 20 acres of bananas from nine farms were destroyed in April 2004 in an attempt to eradicate the disease.

The growth observed in the *Mining* sector over the past two quarters, continued in the review quarter. This growth was notably above trend and reflected increases of 10.3 per cent and 7.8 per cent in the production of alumina and crude bauxite, respectively (see **Figures 2.4 & 2.5**). The expansion recorded in mining activities was in the context of increases of 19.0 per cent and 6.5 per cent in refining capacity at two alumina plants, which resulted in an overall increase of 7.8 per cent in the industry's capacity.

Indicators for the *Manufacturing* sector suggest strong growth in the review period, the second successive increase since the start of the year (see **Figure 2.6**). The expansion in value added stemmed from the *food, beverages & tobacco* industries, as well as the '*other manufacturing*' group.

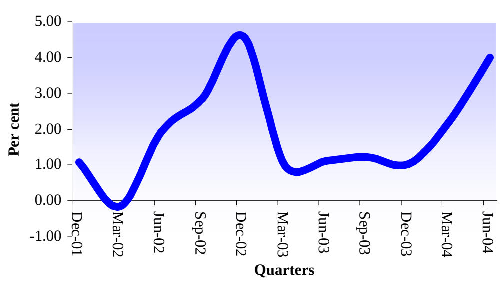
Manufacturing activities improved during the quarter

With regard to *food, beverages & tobacco*, all the associated industries grew during the quarter, with significant growth emanating from the sugar, molasses & rum and tobacco industries. Moderate growth was estimated for the food processing, alcoholic and non-alcoholic beverages industries. The increase in sugar, molasses & rum stemmed from the abovementioned upturn in the sugar cane crop. In addition, there was improved efficiency at some of the Island's sugar factories resulting in a better industry TC/TS (tonnes cane to tonnes sugar) ratio of 10.9 in the quarter compared to an average ratio of 13.1 between March 2003 and March 2004. In this context, sugar production increased by 17.6 per cent in the quarter, relative to the corresponding period of 2003. The improvement in tobacco production is associated with the normalisation of activities in that industry against the significant fallout in 2003, due to the closure of a major company in the previous year.

In relation to the 'other manufacturing' sub-sector, petroleum refining represented the main source of growth in the quarter. The estimated significant expansion in refining activities represented a normalisation of processing, relative to the decline registered in the corresponding period of 2003. The fall in refining activity in the June 2003 quarter was due to the closure of the Petrojam Refinery for maintenance purposes.

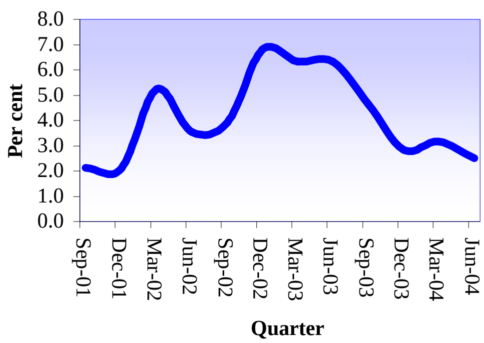
Figure 2.7

Construction: Quarterly Growth Rate (12-Month change)



There was continued growth in the *Construction & Installation* sector in the June 2004 quarter, commensurate with an intensification of hotel construction and continued roadworks (see **Figure 2.7**).

Figure 2.8
Electricity Generation
(12-Month change)



Source: Jamaica Public Service Company

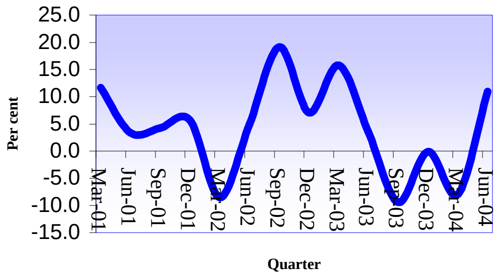
The expansion in hotel construction is primarily associated with the significant investments being undertaken by Spanish hotel chains. The ongoing construction of Highway 2000 and the North Coast Highway projects are the main roadwork projects in the quarter. Additionally, the modernization of the seaports and the Norman Manley International Airport also influenced the improvement in construction activities in the review period. The estimated growth in the sector for the review quarter was also partly inferred from a real expansion of approximately 43.4 per cent in loans to the sector for the 12-month period ending March 2004. The residential segment of the market benefited from an increase of 177.4 per cent in housing completions by the National Housing Trust (NHT), relative to the June 2003 quarter.

An expansion in real value added in *Electricity & Water* reflected an increase of 2.5 per cent in total electricity generation, relative to the comparable quarter in 2003 (see **Figure 2.8**). This was lower than the quarterly average growth rate of approximately 4.5 per cent between the March 2002 and March 2004 quarters. Against the background of drought conditions that occurred during the first half of the year, water production grew marginally by an estimated 1.0 per cent in the quarter, relative to growth of 7.6 per cent the June 2003 quarter.

Continued growth in Transport, Storage and Communication

The *Transport, Storage & Communication* sector is estimated to have improved in the review period. Growth in the transport sub-sector for the quarter was derived, in part, from a 12.0 per cent increase in visitor arrivals, relative to the corresponding period in 2003. Additionally, cargo movements over the Island's main seaports increased by approximately 10.6 per cent. However, the number of ships calling at Jamaican ports, declined by 1.6 per cent, relative to the corresponding quarter in 2003. With regard to the communication sub-sector, the total number of telephone "lines" in service was estimated to have grown by approximately 18.7 per cent for the quarter, relative to the June 2003 quarter. Much of the buoyancy in the sector has been fuelled by intense competition between the mobile service providers. Facilitating the overall performance of the sector was a real increase of 29.0 per cent in commercial bank loans to the industry over the 12-month period ending March 2004.

Figure 2.9
Merchandise Imports
(12-Month change)

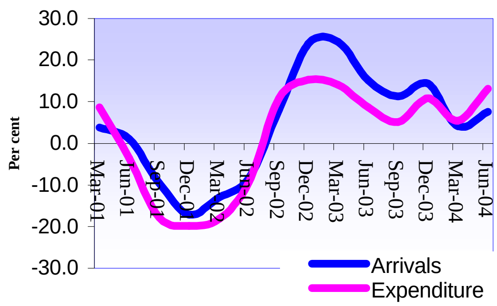


The *Distributive Trade* sector registered average growth of approximately 1.2 per cent over the previous five quarters. This trend continued into the June 2004 quarter, with the sector registering growth of 1.5 per cent. This growth was partly inferred from estimated real increases of 10.9 per cent and 18.3 per cent in merchandise imports and consumption tax receipts, respectively, relative to the June 2003 quarter (see **Figures 2.9 & 2.11**). In addition, the real stock of loans extended to the sector increased by 19.9 per cent for the twelve-month period ending March 2004.

Buoyancy in the Tourism Industry

Miscellaneous Services continued to grow strongly during the review period, registering an estimated increase of over 7.0 per cent, following quarterly average growth rates of 5.0 per cent over the previous four quarters. This performance was attributed mainly to the buoyancy in the tourism industry (*hotels, restaurants and clubs*), which recorded growth in excess of 7.0 per cent in the review quarter. The major factor contributing to this enhancement was an increase of 7.5 per cent in

Figure 2.10
Visitor Arrivals & Expenditure
(12-Month change)



Source: Jamaica Tourist Board

tourist arrivals, of which total stop overs and cruise passenger arrivals increased by 12.3 per cent and 0.8 per cent, respectively. Visitor expenditure also increased by 11.9 per cent in the quarter, relative to the June 2003 quarter (**see Figure 2.10**). The growth in tourist arrivals was within the context of the aggressive marketing efforts by the Jamaica Tourist Board (JTB) and other market participants throughout the first half of the year, which has resulted in an increase in airline flights to Jamaica[24]. This increase in arrivals is complemented by the additional rooms in the industry attributed primarily to the Spanish hotel chains[25]. In addition, high economic growth, coupled with lower unemployment and higher consumer confidence in the USA, had a positive impact on tourism. The depreciation of the US Dollar vis-à-vis the Euro and the Pound Sterling in the previous quarter, would also have made the product more cost competitive. Tourism also benefited from the relative attractiveness of the Caribbean islands, given unrest in the Middle East.

Aggregate Demand

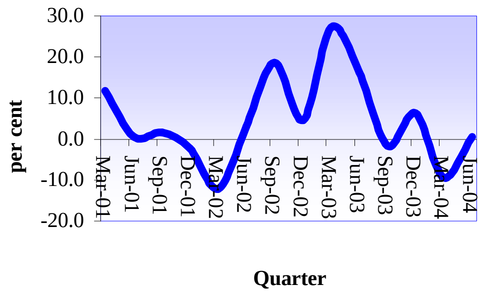
Overall improvement in aggregate demand

Indicators of demand in the June 2004 quarter suggest that growth was driven primarily by private consumption spending. Government spending, investment and net external demand deteriorated during the period.

The growth in private consumption spending was inferred from a real increase of 18.3 per cent in General Consumption Tax (GCT) & Special Consumption Tax (SCT) receipts (**see Figure 2.11**). Total estimated imports

[24] For example, US Airways currently has 30 flights per week into the main tourist resort, Montego Bay, and one-weekly flight out of Europe.
[25] Of note, one of the Spanish chain opened its door during the quarter adding approximately 480 rooms in the industry.

Figure 2.11
Trends in Consumption Tax Receipts
(12-Month change)



Source: Ministry of Finance

Figure 2.12
Trends in Total Imports
(12-Month change)

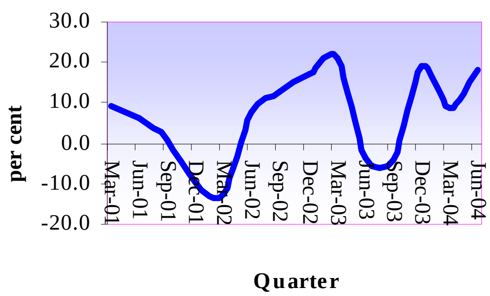
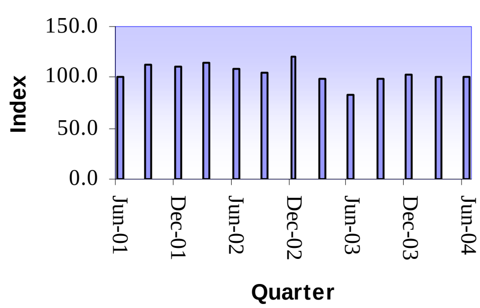


Figure 2.13
Index of Consumer Confidence
(June 2001 – June 2004)



Source: Jamaica Conference Board

of goods and services also grew marginally in real terms by 0.8 per cent during the quarter (**see Figure 2.12**). Furthermore, growth in consumption expenditure was deduced from the aforementioned expansions in basic services.

The improvement in private consumption spending is supported by the survey of consumer confidence, conducted by the Jamaica Conference Board, which indicated an increase of 20.7 per cent in confidence in the June 2004 quarter, relative to the corresponding period in 2003 (**see Figure 2.13**)[26].

With respect to public consumption expenditure, the contraction was reflected in real declines of 6.5 per cent and 12.0 per cent in Government's wages and programmes spending, relative to the June 2003 quarter (see **Figure 2.14**) (**See Appendix A: Fiscal Developments**). The reduction in Government's spending is consistent with plan to achieve a balanced budget by fiscal year 2005/06.

Indicators of gross capital formation during the quarter suggested a deterioration in investment spending. This contraction was inferred from a decline of 21.0 per cent in estimated capital goods imports during the quarter, relative to the corresponding period in 2003 (**see Figure 2.15**). The decline in investment activities represented a normalisation against significant investment spending in the June 2003 quarter.

[26] Based on the results from the survey, home and vehicle buying and vacation plans were reported by 11 per cent, 16.0 per cent and 24.0 per cent of the sample population, respectively, relative to 6.0 per cent, 10.0 per cent and 21.0 per cent in the June 2003 quarter.

Figure 2.14
Trends in Government's Wage Expenditure
(12-Month change)

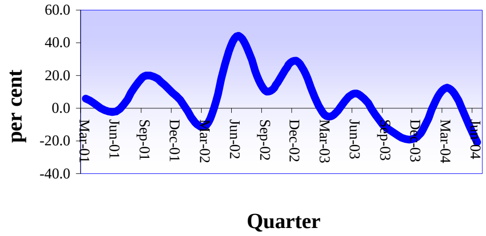


Figure 2.15
Trends in Capital Goods Imports
(12-Month change)

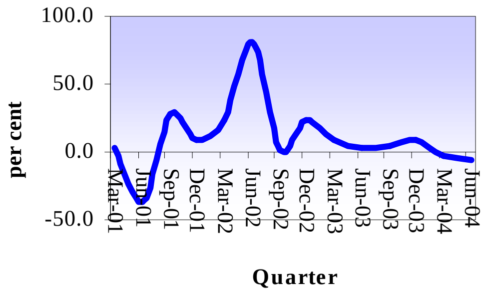
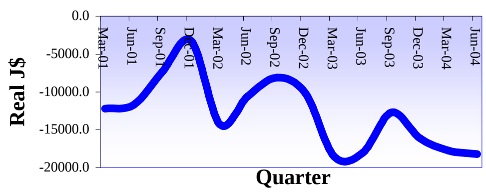


Figure 2.16
Trends in Net External Demand



With respect to net external demand, there was an estimated deterioration during the review period, compared to the June 2003 quarter (**see Figure 2.16**). This decline reflected an estimated real contraction of 15.0 per cent in the export of goods and services, which was partly offset by a 3.2 per cent fall in the volume of imported goods and services. Freezone exports drove the decline in the period.

Summary

In summary, growth in aggregate supply in the June 2004 quarter is estimated to have been relatively strong in comparison to the average growth over the four proceeding quarters. The major areas of growth were *Mining*, *Manufacturing*, *Construction* and *Tourism*. This growth is predicated partly on increased output in *Mining* and Tourism and continued expansion in the other sectors. The estimated growth was, however, dampened by lower output in *Government*, owing to the fiscal restraint policy adopted by the Government. The expansion in domestic consumption was the main factor underlying the corresponding growth in expenditure.

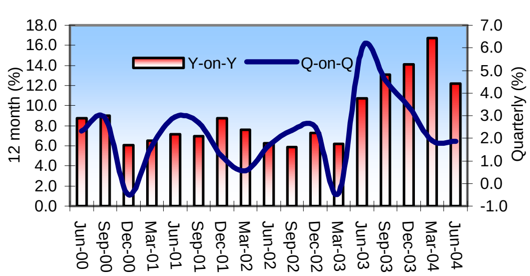
3. Inflation

Inflation for the June 2004 quarter was 1.9 per cent, which was lower than anticipated. The outturn affirms the downward trend in inflation, which was underpinned by a tempering of underlying inflation. As such, the main factors behind the price increases in the June quarter were domestic agriculture supply shortages and higher international commodity prices. Core inflation for the quarter was estimated at 1.1 per cent, similar to that of the March quarter and comparing favourably with the 2.3 per cent for the corresponding quarter of 2003.

Underlying inflation eased during the quarter…

Headline inflation for the June quarter was 1.9 per cent, with price increases largely emanating from agricultural supply shortages, and from external factors related to unfavourable developments in the prices of some international commodities. The outturn was lower than the average of the corresponding quarters of the past six years, even after excluding the exceptional 6.0 per cent inflation recorded in the June 2003 quarter. The Consumer Price Index (CPI) increased by 0.4 per cent, 0.6 per cent and 0.8 per cent in April, May and June, respectively, reflecting increasing seasonal impulses.

Figure 3.1
Inflation Rate
(12 Month Pt-to-Pt & Quarterly Comparison)



During the quarter, the 12-month point-to-point inflation declined from 16.8 per cent at March to 12.2 per cent at June, affirming the steady decline in overall inflation since June 2003 (see **Figure 3.1**). Inflation for the calendar year-to-date was 3.8 per cent, relative to the 5.6 per cent recorded in the corresponding period of 2003. The previous year's calendar year-to-date outturn was extraordinary due to the significant tax measures and the sharp exchange rate depreciation that occurred in the period.

Figure 3.2
Core Inflation per Quarter

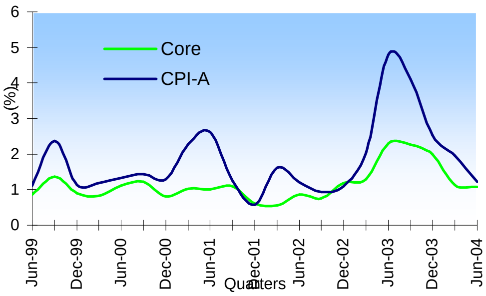


Figure 3.3
Lagged Base Money % Change & Core Inflation

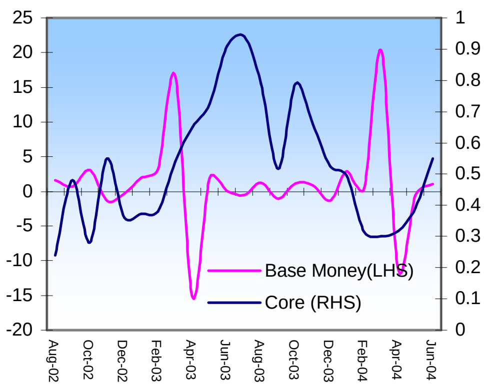
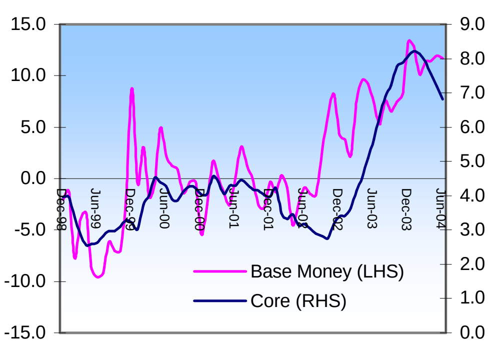


Figure 3.4
12 Month % Change Average Base Money and Core Inflation



Monetary Policy and Inflation

Core or underlying inflation, as measured by the trimmed mean, was stable during the quarter. Core inflation was 1.1 per cent for the quarter, and remained unchanged relative to the previous quarter. Further, core inflation for the review quarter remained well below the 2.3 per cent estimated for the corresponding quarter of 2003. Additionally, core inflation is also lower than the average of the corresponding quarters of the previous six years of 1.2 per cent.

The 12-month point-to-point core inflation rate at June was 6.6 per cent, relative to 7.9 per cent at end March. Additionally, after increasing continuously during 2003, the 12-month point-to-point core inflation declined consistently since January 2004. As a consequence, the medium term trajectory remains consistent with the objective of underlying inflation of approximately 4.0 per cent to 5.0 per cent per year.

Another measure of underlying inflation, the CPI without Agriculture (CPI-A), reflected a slower rate of increase over the quarter. The CPI-A index increased by 1.2 per cent in the June quarter relative to a 2.0 per cent increase in the previous quarter (see **Figure 3.2**).

The decline in underlying inflation is consistent with the stable monetary conditions that have been evident since December 2003. In particular, base money growth in the preceding quarter was contained within projections in the context of the measured easing of monetary policy since January. The favourable macroeconomic environment underpinned stability in the foreign exchange market in the March quarter, evidenced by the 0.6 per cent depreciation in the exchange rate. This stability would have dampened underlying inflation as well as tempered the impact of higher imported prices. The effect of the milder depreciation was

Figure 3.5
3 Mth% changes in Durables and Non-Durables Indices

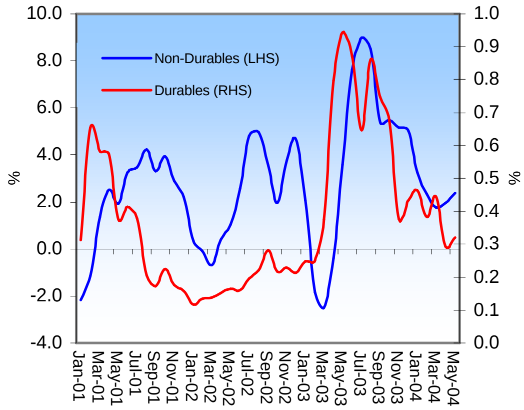


Figure 3.6
Food & Non Food Inflation (Annual)

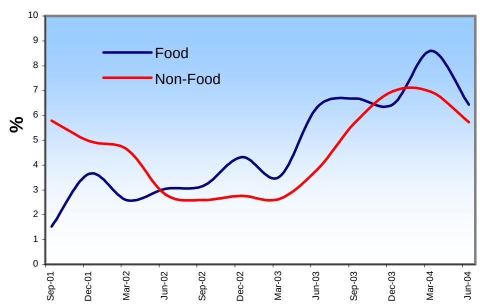
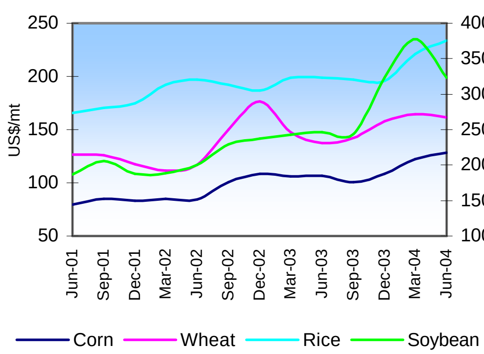


Figure 3.7
Grains Price Movements



reflected in the slower rate of growth of the index of durable goods prices which have a high import content (see **Figure 3.5**).

Non-Core Factors

The major factors influencing the non-core component of inflation during the period were supply-side issues related to domestic and international commodities. Price movements in domestic starchy foods as well as increases in international commodity prices, particularly grains, were the most significant impulses to inflation. Drought conditions in early 2004 precipitated a fallout in the output of tubers and root crops. Additionally, seasonal contraction in production of these crops exacerbated price pressures. Despite their prices declining towards the end of the quarter, international food commodities had lagged impacts on inflation as residual impulses affected critical sub-groups of the CPI.

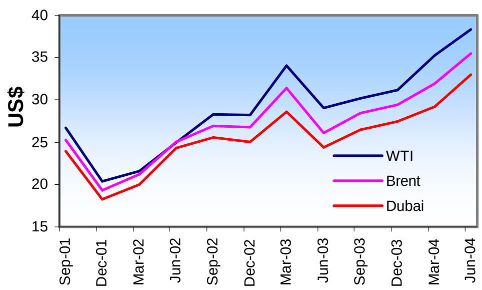
Another domestic factor of significance was the increase in the prices of baked products emanating from new monitoring costs that have been imposed by health and safety authorities on the baking industry.

These factors led to a higher contribution from food price inflation in the review period, evidenced by an increase of 6.4 per cent in a food-based index relative to 5.7 per cent for non-food commodities within the basket (see **Figure 3.6**).

Oil Prices

The price of oil continued to be an important external influence, rising on the international commodity markets in response to concerns regarding violence in the Middle East and industrial and political unrest in a number of oil producing countries. The rate of oil price increases in the

Figure 3.8
Oil Price Movements



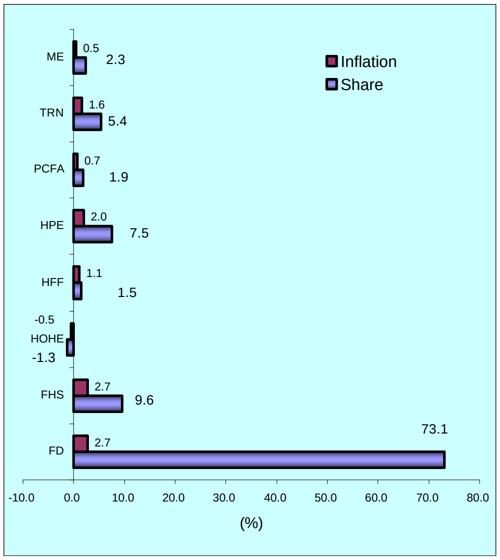
June quarter slowed, however, relative to that of the March quarter. The price of the benchmark West Texas Intermediate (WTI) crude oil rose by 8.8 per cent during the June quarter relative to a 13.0 per cent increase in the preceding quarter. Similar movements were observed in the price of representative crude oils such as the North Sea Brent and Dubai Light (see Figure 3.8). The WTI crude oil price rose to an average of US$38.34 per barrel in the June quarter, from US$35.23 per barrel in the March quarter. The monthly averages for April, May and June were US$36.71 per barrel, US$40.28 per barrel and US$38.03 per barrel, respectively. The decline in June reflected the impact of the announcement by the Organisation of Petroleum Exporting Countries (OPEC) on 3 June of an impending output boost effective 1 July with a further increase of 500,000 barrels expected in August.

Some of the factors underpinning the movements in oil prices include growing demand for the commodity in Asia, unrest and violence in the Middle East and industrial and political conflict in Norway and Nigeria, respectively. Additionally, early in the quarter, there were also concerns about fuel supply levels in the USA in anticipation of the summer motoring season, which began at the end of May.

Component Contribution to Inflation

Given the aforementioned factors, price increases were strongest in the Food & Drink, Fuels & Other Household Supplies, Healthcare & Personal Expenses and Transportation sub-indices. These groups collectively contributed approximately 96.0 per cent of the period's inflation with the Food & Drink group accounting for 73.1 per cent.

Figure 3.9
Inflation by Group



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

Within the Food & Drink group, the key impulses were from expansions of 11.2 per cent and 2.1 per cent in the Starchy Foods and Meat, Poultry & Fish sub-groups, respectively. The movement in the Starchy Foods sub-group stemmed primarily from increases in the prices of tubers such as yellow yam, sweet and irish potatoes and dasheen. With regard to the Meat, Poultry & Fish sub-group, the use of grains as a key protein input in animal feeds continued to impact the cost of meat giving upward impetus to prices (see **Figure 3.9** and **Table 2, Appendix C**).

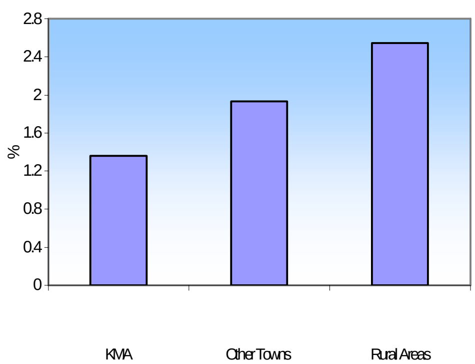
Increases in energy-related commodities such as cooking gas and kerosene affected the movements in the Fuels & Other Household Supplies group. These movements stemmed from the adverse developments with regard to international oil prices, which filtered through to domestic prices.

The Healthcare & Personal Expenses group was affected by sharp increases in opticians' and dentists' fees over the quarter. Other factors that affected this group include the increases in the prices of personal care products and the cost of personal grooming.

The expansion in the Transportation sub-index was primarily due to increases in the cost of petrol, lubricants and air travel. In particular, the cost of automotive fuel and air travel increased by approximately 16.0 per cent and 5.8 per cent, respectively, over the quarter.

Of note, countervailing impulses were observed in the Housing & Other Housing Expenses group. This emanated from a combination of factors with regard to electricity rates that resulted in a decline of 3.0 per cent in the representative electricity bill over the quarter. Despite rising oil prices, the JPSCo was able to effect one-off reductions to fuel rates consequent on savings from its energy efficient plants and higher than projected revenue on its estimated value of electricity sold. The relationship of electricity to water rates also allowed some cost reductions in this utility as well.

Figure 3.10
Regional Inflation



Regional Distribution of Inflation

During the review quarter, inflation was highest in the Rural Areas and Other Towns. Within these regions, the CPI increased by 2.5 per cent and 1.9 per cent, respectively. This compared to a 1.4 per cent increase in the Kingston Metropolitan Area (KMA) (see **Table 2B, Appendix C**). The regional distribution of inflation in the quarter primarily reflected the influence of the *Fuels & Other Household Supplies* and *Healthcare & Personal Expenses* sub-indices. Within the *Fuels & Other Household Supplies* group there was a sharp increase in the Fuels sub-group, which was confined to the Other Towns. The disparity in the *Healthcare & Personal Expenses* group stemmed from increases in medical practitioners' fees in the Rural Areas far in excess of those that occurred in the other regions.

Box 3: Jamaica's Current Relationship with the International Monetary Fund

Since the completion of Jamaica's last borrowing arrangement with the International Monetary Fund (IMF) in 1996, consultation with the IMF has largely consisted of routine annual reviews of the economy that the institution conducts with all its members. During the period 2001- 2003, at Jamaica's invitation, the IMF agreed to participate in a Staff Monitored Programme (SMP), which involved more frequent reviews of the country's economic programme and publication of the findings. This arrangement did not involve any borrowing from the IMF.

Staff reports under the SMP carried the advantage of technical credibility derived from the IMF's professional reputation and the intimate familiarity of their economists with the country's policies and programmes. In reviewing these types of special arrangements in 2003, however, the IMF Board decided to discontinue those SMPs that were being pursued solely to obtain the IMF's "stamp of approval". The limited involvement by the Board, it was felt, did not constitute full-scale endorsement by the institution. The Government of Jamaica, therefore sought an alternative 'official' arrangement that would perform the signaling role that had been played by the SMP, would be subject to IMF's Board approval but which would not include the use of IMF resources.

On August 2, 2004 the Executive Board of the IMF endorsed Jamaica's request for intensified surveillance of the Jamaican economy and of progress in implementing the economic strategy. Intensified surveillance entails greater dialogue with the IMF on Jamaica's economic programme. A detailed assessment of the state of the macro-economy will be undertaken during the IMF's regular annual visit at the start of the fiscal year. Projections of the main economic accounts – production, fiscal, monetary and balance of payments – are then made based on current policies. The Fund staff would indicate any potential gaps between revenue and expenditure, between foreign exchange earnings and commitments, or between projected savings and investment, and discuss policies that would bring them in line with the government's programme objectives. The staff report presented to the Executive Board of the IMF for discussion will describe in detail the government's financial programme and give a candid assessment of Jamaica's economic strategy. The report, as well as the views of the Board (with the concurrence of the Government of Jamaica) are then disseminated by the IMF to the general public.

The following tables summarize Jamaica's main macroeconomic targets for 2004/05 and for the medium term. For the current fiscal year, the monitoring targets have been set at semi-annual intervals – September and March. An IMF staff visit and an interim report for the information of the IMF Board will be used to monitor performance relative to these targets.

Table 1
Specific Performance Targets for FY 2004/05
Expressed as cumulative flows from April 1, 2004

	September 2004	March 2005
NIR (US million)	-288.6	-168.6
Net Domestic Assets of BOJ (J$bn)	20.4	16.0
Primary Balance (J$bn)	27.6	74.2
Fiscal balance (J$bn)	21.9	22.0

Table 2
Medium Term Macroeconomic Targets

	2004/05	2005/06	2006/07	2007/08
GDP Growth	2.5%	2.5%	2.8%	3.3%
12- month CPI Inflation	8% - 9%	7%	6%	6%
Net Intl Reserves (US mn)	1425	1450	1700	2200
Fiscal Balance/GDP	-3.5%	0.0%	0.5%	0.7%
Debt/GDP	134.5%	125.7%	118.4%	111.1%

A period of sustained growth is projected over the medium term, propelled initially by strong investment in mining, tourism and infrastructure. Inflation in this context is expected to fall to about 6.0 per cent per annum by 2006/07. Private capital inflows related to new investment as well as, a trend improvement in the current account of the balance of payments will help to sustain international reserve coverage of payments obligations at comfortable levels. A critical component of the improvements in the macroeconomy is the ongoing fiscal reform effort that is expected to lead to an elimination of the deficit in 2005/06 and generate small surpluses thereafter. These savings will permit a reduction in the public debt stock and, in the context of the sustained expansion in GDP, should see an appreciable reduction in Jamaica's debt/GDP ratio by 2007/08.

4. Economic Outlook and Monetary Policy Perspectives

Table 4.1

Jamaica's Economic Performance Targets

	Projections for Sep'04 Quarter	Targets for FY04/05
Inflation	*3 - 4 %*	*9%*
Base Money Growth	*4.2%*	*15.2%*
NIR End Period (US$mn)	*1281.8*	*1401.9*
GDP (12-mth chg.)	*+ve*	*2 – 4%*

Short Term Outlook-September 2004 Quarter

For the September 2004 quarter, growth is expected in both the goods and services sectors of the economy. This outlook is underpinned by world growth, an improving domestic macroeconomic environment and evidence of increased investors' confidence. Seasonally higher inflation is expected in the September quarter, influenced by increases in agricultural prices due to lower supply, and greater consumer demand associated with the holidays and preparations for the new school year. The increased demand for crude oil, as well as geopolitical uncertainties which has clouded the provision of adequate and consistent oil supply, could also affect domestic prices. Higher energy prices would have led to heightened inflation expectations. In this context, the imperative for monetary policy is to constrain monetary growth in order to keep underlying inflation within target.

Real Sector

Economic growth to continue in the September quarter

The expansion in the Jamaican economy over the past eight quarters is expected to continue in the September 2004 quarter. This view is informed by positive developments in the international economy since the third quarter of 2003. The improving world economy, marked by expanding economic activity and international trade, is expected to have a positive impact on the Jamaican economy. Domestically, increased investor confidence and higher levels of investment spending continuing from the previous quarters should support stronger economic growth.

The expansion in the economy is expected across all sectors except government services. Growth should be strongest in the mining, construction, manufacturing, basic services and miscellaneous services sectors.

Mining buoyed by positive demand and supply conditions

The September 2004 quarter is expected to be another positive period for the mining sector. With continued high world demand for alumina and greater production capacity and efficiency relative to September 2003, bauxite and alumina are projected to increase by approximately 7.0 per cent and 9.5 per cent, respectively. The construction sector will continue to be buoyed by the building of new hotels as well as roads and bridges associated with the highway development.

Growth in the manufacturing sector will be led by increases in petroleum refining and agro-processing. The projected expansion in petroleum is likely to result from a normalisation in production relative to the reduced activity in the similar period of last year. The expansion in agro-processing will result from a continuation of the trend in food, beverage and tobacco production. This expected growth contrasts with the decline of 4.1 per cent in the September 2003 quarter.

Growth trend in basic services to continue

The provision of basic services in the economy is anticipated to reflect growth in both the Electricity & Water and the Transport, Storage & Communications subsectors. The buoyancy of basic services continues to reflect increasing demand in the context of a growing economy. The demand for services such as transportation is also anticipated to be strengthened by an expected increase in visitor arrivals. The miscellaneous services sector is expected to expand due primarily to the projected expansion in the tourism sector. For the quarter, arrivals are projected to be approximately 8.0 to 9.0 per cent above arrivals for the corresponding quarter of 2003.

The outlook for the sector is influenced by increased advertising in the June quarter as well as, increased number of flights to the Island relative to the corresponding period in 2003.

Output in the economy for the quarter is expected to be below potential and is not expected to generate any inflationary pressures. While growth in agriculture is anticipated relative to the corresponding quarter, the expectation is for a deterioration in agricultural supplies in the September quarter relative to the previous quarter.

Inflation

Seasonal demand, adverse domestic agriculture supply…

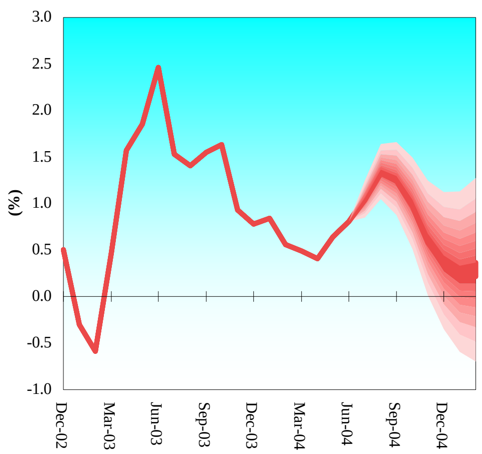
A seasonal increase in headline inflation is expected in the September 2004 quarter relative to the previous quarter. The higher inflation will be associated primarily with higher agricultural commodity prices, increased demand emanating from the summer holidays and the new school year expenses, and a hike in electricity cost due to an adjustment in tariff rates. Impulses are also expected from movements in world crude oil prices.

… and shocks to electricity cost will influence inflation in the quarter

Inflation in the September quarter will be largely driven by the seasonal contraction in domestic agricultural supplies. This will provide impulses to the agriculture related subcategories of the *Food & Drink* group. Electricity tariff rates are expected to increase by approximately 25.0 per cent for household consumption during the quarter. This will mainly reflect the adjustment in the non-fuel rate of the Jamaica Public Service Company (JPSCo). Related but smaller adjustment in commercial rates will affect the prices of consumer goods and services in the economy. The increases in the electricity rates should have an upward effect on the *Housing & Other Housing Expenses* subcategory.

The upward movement in world oil prices reflects both supply concerns, as well as higher demand. This is related to greater

Figure 4.1
Monthly Inflation Forecast



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

world growth, increased travel associated with the summer holidays and the heightened geopolitics of the Middle East.

This increase in prices is expected to translate into higher energy and transportation cost. This development is expected to influence inflation primarily in the *Housing & Other Housing Expenses, Fuels* and *Transportation* sub-categories.

Another anticipated influence on prices over the quarter should arise from the seasonal demand associated with the holiday season as well as the upcoming start of the school year in September. In particular, the prices of school supplies, tuition, clothing and other personal expenses are expected to increase relative to the June 2004 quarter. These impulses will be primarily reflected in the *Miscellaneous Expenses, Healthcare & Personal Expenses* and the *Personal Clothing Footwear & Accessories* sub-categories.

Continued movements in the prices of baked products are also anticipated (See **Inflation**). However, this development may be countered by recent price declines in world grains during May and June.

Exchange rate changes over the past two quarters would have its greatest impact on inflation in the September 2004 quarter. However, against the background of relatively stable foreign exchange market over the past two quarters, price impulses arising from exchange rate pass through are not expected to be significant to the outcome for the September 2004 quarter.

The achievement of a lower than expected fiscal deficit in the June quarter should also serve to enhance the level of confidence in the economy. However, given the uneven patterns of issues and redemption of Government debt, attempts by investors to rebalance their portfolio may lead to short term pressures in the foreign exchange and money market.

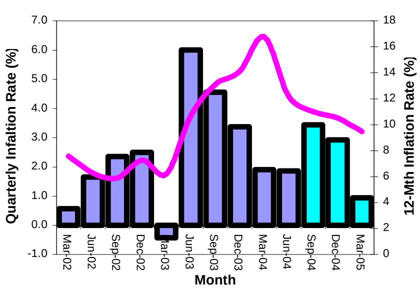
12-month inflation to decline further

Headline inflation for the September 2004 quarter is expected to be in the range of 3.0 per cent to 4.0 per cent. This projection, while higher than the outturn for the June quarter, is less than the 4.6 per cent realized in the corresponding quarter of the previous year. Despite the higher inflation relative to the previous quarter, the 12-month annual inflation measure is expected to continue to decline from 12.2 per cent at June to approximately 11.0 per cent as at September 2004 (**Figure 4.2**). This outlook assumes continued relative stability in the exchange rate and the macroeconomy.

Uncertainty in crude oil market remains a risk

The persistent uncertainty in the global crude oil market poses an element of risk to the forecast and the fiscal year inflation target. Oil prices in early June had signalled a downward trend on news of a commitment of increased supplies by OPEC. However, adverse developments have subsequently led to an increase in oil prices in July due to concerns regarding inventory levels in the USA at the onset of the holiday travel season. Oil prices also rose on concerns that violence, labor unrest and political disputes may disrupt crude oil shipments from Africa, the Middle East and Asia.

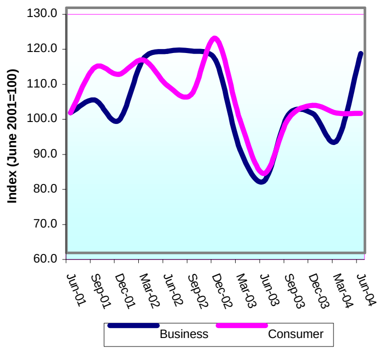
Figure 4.2
Quarterly and 12-mth Inflation Rate



Another risk for inflation relates to the price of grains on the world market. While the prices have declined in May and June, that trend, may be reversed if drought conditions in the Mid-West areas of the USA worsen. This situation would affect world supply and hence could trigger increases in the prices of corn, soyabean and wheat towards the end of the quarter and also the rest of the fiscal year.

The higher projected world growth has also led to increased demand, particularly from China, for many other products which have resulted in a rise in their prices. The strong demand persists despite efforts at moderating the growth in China's economy. These commodities include raw materials such as metals, chemicals and lumber. With this increasing demand, global inflationary pressures may increase, and consequently, this may adversely affect domestic inflation due to the high import quotient of local consumer commodities.

Figure 4.3
Index of Confidence



Source: The Jamaica Conference Board's Survey of Business and Consumer Confidence Second Quarter 2004 Summary Report. The indices measure consumers' and businesses' perception of the current economy and their expectations for the next year.

Monetary Policy

Since the start of the calendar year there has been an easing of monetary policy with a consistent reduction in the Bank's interest rates. This was facilitated by a relatively stable foreign exchange market, lower inflation, improvements in the fiscal and the balance of payments positions and continued economic growth. The prospects for further easing of policy are fairly balanced. The economy is expected to continue its growth momentum. There is also the expectation that fiscal operations will continue to improve and that the performance in the balance of payments will continue to recover relative to the corresponding period of last year. The successful raising of the Eurobond by the Government will serve to lower domestic financing needs and improve investors' confidence.

Business confidence soars

Business confidence has shown a marked improvement in the June 2004 quarter relative to the previous quarter (See **Figure 4.3**). The Jamaica Conference Board's Survey of Business and Consumer Confidence attributed the boost in confidence to higher returns on investments reported by firms, as well as improving economic condition. This improvement in confidence was also fueled by continued stability in the macroeconomic environment which augurs well for further growth in private sector investments. Consumer confidence for the June quarter declined marginally. Although evaluations of current economic conditions were slightly higher, expectations for future economic conditions showed slight deterioration relative to the previous survey.

A risk to the outlook continues to emanate from the world crude oil market and the effect this could have on inflation. In this context the Central Bank will continue to manage base money growth in line with its target. This will limit any inflationary pressures in the economy which could arise from an increase in core inflation. For the September quarter, the monetary base is programmed to increase by 4.2 per cent. This increase is consistent with the anticipated real expansion in the economy and the projected inflation path. For the fiscal year, the economy is programmed to grow by 2.0 per cent to 3.0 per cent and inflation is expected to return to single digit.

Appendices

A. Fiscal Developments: April – June 2004

Provisional data for the June quarter indicate that Government operations resulted in a deficit of $14 947.7 million,[27] 2.7 per cent of GDP, relative to the target of $17 445.8 million, 3.1 per cent of GDP. The lower deficit generated during the quarter emanated from the strong revenue performance as well as, below budget expenditure. Consequently, the current deficit was 2.3 per cent of GDP for the June quarter compared with the budgeted deficit of 2.7 per cent of GDP. Concurrently, the primary surplus was 2.4 per cent of GDP compared to the targeted surplus of 2.0 per cent of GDP, reflecting strong revenue flows and below budget non-interest expenditure.

Total revenue flows were 2.9 per cent above budget as all items, with the exception of non-tax revenues and grants, were above target for the quarter. Tax revenue, which accounted for much of the growth in total revenue, was influenced by higher than expected receipts from PAYE and withholding tax on interest as well as, lower than anticipated tax refunds. Grant flows fell short of expectations due to the non-receipt of flows from the European Union under the Support to Economic Reform Programme[28] (SERP) II. The below budget performance of non-tax revenues reflected lower than anticipated flows from customs user fees which is consistent with a lower level of imports. Total revenue flows were, however, 33.0 per cent higher than the level attained in the corresponding quarter of the previous fiscal year, largely influenced by a 32.0 per cent growth in tax revenues. Tax flows reflected the influence of the tax package implemented in 2003/04, which did not take full effect until later in the fiscal year.

Total expenditure was $1 359.3 million or 2.4 per cent below budget reflecting the containment of recurrent and capital expenditure. However, total expenditure was 25.0 per cent higher than that of the corresponding period of the previous fiscal year due to higher wages and interest payments. Notably, in the review quarter, foreign interest payments were below budget reflecting lower than anticipated exchange rates.

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[27] This excludes divestment proceeds amounting to $652.5 million that, according to international convention, are treated as financing. Treated as revenues, this would result in a deficit of $14 295.3 million.
[28] Under this programme, the EU provides support to the Government's budget.

Central Government financed its operations from domestic and foreign sources, with relatively greater reliance on domestic financing consistent with the budgeted financing mix. However, the use of domestic resources was below target owing to the lower than budgeted deficit attained during the quarter. The use of foreign financing was in line with target and consisted of US$125 million garnered from the reopening of the 2017 Eurobond in April.

The fiscal authorities targeted a reduction in the deficit from the 5.9 per cent[29] of GDP attained in FY 2003/04 to 4.0 per cent of GDP in this fiscal year. The lower deficit in fiscal year 2004/05 is expected to result from strong growth in revenues, particularly tax revenues, in a context of improved economic activity and tax administration. These will be supported by the impact of measures implemented late in 2003/04, as well as, the containment of expenditure, mainly wages and salaries. In this regard, the Memorandum of Understanding with the labour unions, aimed at restricting the growth in the wage bill, is an integral element of the Government's medium term programme.

[29] Excludes divestment proceeds totalling $ 1532.8 million received during the year. Treated as revenues, this would result in a deficit of 5.6 per cent of GDP.

Table 1

Fiscal Performance
Comparative Analysis
J$ Million

	Q1	Budget Q1	Variance	FY 2003/04 Q1	Change
Revenue and Grants	**40265.17**	**39126.40**	**1138.77**	**30214.50**	**10050.67**
Tax Revenue	36858.40	35450.20	1408.20	27991.80	8866.60
Capital Revenue	270.60	164.70	105.90	161.20	109.40
Other (incl. Non-tax)	3136.17	3511.50	-375.33	2061.50	1074.67
Expenditure	**55212.90**	**56572.22**	**-1359.32**	**44272.60**	**10940.30**
Recurrent Expenditure*	52889.80	54155.20	-1265.40	42448.40	10441.40
Capital Expenditure	2205.80	2311.86	-106.06	1539.10	666.70
IMF # 1 Account	117.30	105.16	12.14	285.10	-167.80
Overall Balance	**-14947.73**	**-17445.82**	**2498.09**	**-14058.10**	**-889.63**
Memo					
Current Balance	**-12895.23**	**-15193.50**	**2298.27**	**-12395.10**	**-500.13**
Primary Balance	**13270.77**	**11258.68**	**2012.09**	**5995.14**	**7275.63**

Performance Indicators
(percentages of GDP)

	BR	CB	PB	IP	FSR
Q1 FY 2004/05	2.67	-2.30	2.37	5.03	-1.37
Q1 FY 2004/05 Budget	3.11	-2.71	2.01	5.12	-1.45
Q1 FY 2003/04	2.89	-2.55	1.23	4.12	-1.47
Q1 FY 2003/04 Target	3.96	-3.46	0.55	4.52	-1.66

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

International Benchmarks

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

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

Source: Ministry of Finance and Planning

B. MONETARY POLICY DEVELOPMENTS

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

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

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

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

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

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

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

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

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

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

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

18/09/00	Bank of Jamaica introduces 270-day and 365-day reverse repurchase instruments at 17.6 and 18.0 per cent respectively.
04/10/00	Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.
23/10/00	Interest rates on the 270-day and 365-day instruments were reduced to 17.6 and 18.0 per cent respectively.
24/11/00	Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.
28/12/00	Interest rate on the 365-day instrument was reduced to 21 per cent.
14/02/01	Interest rates on the 365-day and 270-day instruments were reduced to 20.00 per cent and 19.25 per cent respectively.
20/02/01	Interest rates on the 365-day and 270-day instruments were reduced to 19.50 per cent, and 18.75 per cent respectively.
01/03/01	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-one per cent (31%) to thirty per cent (30%). Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirteen per cent (13%) to twelve per cent (12%). The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty per cent (5% and 30%) for Building Societies. The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and twelve per cent (1% and 12%) in respect of local and foreign currency deposits.
08/03/01	Interest rates on the 365-day, 270-day, instruments were reduced to 19.00 per cent, 18.25 per cent per cent respectively.
12/03/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 18.50 per cent, 17.75 per cent, 16.70 percent, 16.40 per cent, 16.25 per cent, 16.15 per cent and 16.00 per cent respectively.

22/03/01 Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 17.75 per cent, 17.00 per cent, 16.15 per cent, 15.80 per cent, 15.70 per cent, 15.60 per cent and 15.50 per cent respectively.

11/04/01 Interest rates on the 365-day and 270-day instruments were reduced to 17.50 per cent and 16.75 per cent respectively.

21/05/01 Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.50 per cent, 15.70 per cent, 15.30 per cent, 15.05 per cent, 14.95 per cent, 14.85 per cent and 14.75 per cent respectively.

01/06/01 Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty per cent (30%) to twenty nine per cent (29%).

Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from twelve per cent (12%) to eleven per cent (11%).

The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty nine per cent (5% and 29%) for Building Societies.

The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and eleven per cent (1% and 11%) in respect of local and foreign currency deposits.

08/06/01 Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.90 per cent, 15.35 per cent, 15.00 percent, 14.80 per cent, 14.70 per cent, 14.60 per cent and 14.50 per cent respectively.

25/06/01 Interest rates on the 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 14.75 percent, 14.55 per cent, 14.45 per cent, 14.35 per cent and 14.25 per cent respectively.

29/06/01 The Bank of Jamaica introduced Certificates of Deposits to the range of instruments used in open market operations. All the terms and conditions applicable to Reverse Repurchase transactions apply to Certificates of Deposits, with the exception that the latter are covered by the central bank's assets as against Government securities. Central Bank deposits which are maintained in statement form (i.e. no physical certificate is issued) will continue to be used for placements of seven (7) days or less.

01/09/01 Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from twenty nine per cent (29%) to twenty eight per cent (28%).

Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from eleven per cent (11%) to ten per cent (10%).

The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty eight per cent (5% and 28%) for Building Societies.

The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and ten per cent (1% and 10%) in respect of local and foreign currency deposits.

30/10/01 Interest rates on the 365-day, 270-day, 180-day, 90-day and 60-day instruments were increased to 19.90 per cent, 19.45 per cent, 15.50 per cent, and 15.00 per cent, 14.75 per cent and 14.55 per cent, respectively

28/12/01 Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day and 60-day instruments were reduced to 18.90 per cent, 18.40 per cent, 15.00 per cent, and 14.55 per cent, 14.45 per cent and 14.35 per cent, respectively.

09/01/02 Interest rates on the 365-day and 270-day instruments were reduced to 17.90 per cent and 17.00per cent, respectively.

06/02/02 Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.70 per cent, 15.90 per cent, 14.70 per cent, 14.30 per cent, 14.20 per cent, 14.10 per cent and 14.00 per cent, respectively.

14/02/02 Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.80 per cent, 15.00 per cent, 14.40 per cent, 14.05 per cent, 13.95 per cent, 13.85 per cent and 13.95 per cent, respectively.

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

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

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

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

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

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

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

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

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

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

24/06/03	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 26.50 per cent, 29.50 per cent and 30.00 per cent, respectively.
08/07/03	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 27.50 per cent and 28.00 per cent, respectively.
04/08/03	Interest rates on Bank of Jamaica 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 18.00 per cent, 22.00 per cent, 25.00 per cent, 25.75 per cent and 26.00 per cent, respectively.
09/09/03	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 21.00 per cent, 23.50 per cent, 23.75 per cent and 24.00 per cent, respectively.
17/10/03	Bank of Jamaica withdrew its 270-day and 365-day instruments from open market trading.
29/10/03	Bank of Jamaica returned its 270-day and 365-day instruments to open market trading at 23.75 per cent and 24.00 per cent respectively.
10/12/03	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 17.00 per cent, 20.00 per cent, 21.00 per cent, 22.00 per cent and 23.00 per cent, respectively.
09/01/04	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 18.00 per cent, 19.50 per cent, 21.00 per cent and 22.00 per cent, respectively.
21/01/04	Interest rates on Bank of Jamaica 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 15.20 per cent, 15.50 per cent, 17.00 per cent, 18.25 per cent, 20.00 per cent and 21.00 per cent respectively.
26/01/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.85 per cent, 15.00 per cent, 15.10 per cent, 16.00 per cent, 17.25 per cent, 18.75 per cent and 20.00 per cent, respectively.
16/02/04	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 15.50 per cent, 16.25 per cent, 17.75 per cent and 19.00 per cent, respectively.

27/02/04	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 17.25 per cent and 18.50 per cent, respectively.
10/03/04	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 16.95 per cent and 17.95 per cent, respectively.
10/03/04	Pursuant to Section 15 (2) (h) of the Banking Act and the Financial Institutions Act, and Regulation 38 (h) of the Bank of Jamaica (Building Societies) Regulation, the Minister of Finance determined that all debt securities or instruments issued by the Government of Jamaica, whether denominated in Jamaican dollars or in a foreign currency and irrespective of their original maturity terms, shall, within nine months of their maturity date be designated Liquid Assets.
02/04/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.60 per cent, 14.70 per cent, 14.80 per cent, 15.10 per cent, 15.60 per cent, 16.50 per cent and 17.40 per cent, respectively.
19/04/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.40 per cent, 14.50 per cent, 14.60 per cent, 14.85 per cent, 15.30 per cent, 16.00 per cent and 16.90 per cent, respectively.
05/05/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.20 per cent, 14.30 per cent, 14.40 per cent, 14.55 per cent, 15.05 per cent, 15.65 per cent and 16.40 per cent, respectively.

C. Summary Tables

1

INFLATION RATES (%)	CPI Index (e.o.p)	Head-line (Quarter)	Core (Quarter)
1998/1999	**1182.5**	**6.0**	**2.9**
1999/2000	**1281.7**	**8.4**	**4.0**
June	1205.9	2.0	0.9
September	1237.6	2.6	1.4
December	1265.9	2.3	0.9
March	1281.7	1.3	0.8
2000/2001	**1364.3**	**6.4**	**4.2**
June	1311.4	2.3	1.1
September	1349.3	2.9	1.2
December	1342.6	-0.5	0.8
March	1364.3	1.6	1.0
2001/2002	**1468.5**	**7.6**	**3.3**
June	1404.0	2.9	1.0
September	1442.7	2.7	1.1
December	1459.9	1.2	0.6
March	1468.5	0.6	0.6
2002/2003			
June	1492.8	1.7	0.9
September	1528.0	2.4	0.8
December	1566.1	2.5	1.2
March	1558.4	-0.4	1.3
2003/2004			
June	1653.1	6.0	2.3
September	1728.4	4.6	2.3
December	1786.8	3.4	2.0
March	1820.8	1.9	1.1
2004/2005			
June	1854.8	1.9	1.1

2A

COMPONENT CONTRIBUTION TO INFLATION
All Jamaica
April – June 2004

Groups and Sub-groups	Weight in CPI	Inflation (%) Q1	Contribution
FOOD & DRINK	**0.5563**	**2.7**	**73.1**
- Meals Away From Home	0.0741	0.8	3.2
- Meat Poultry & Fish	0.1613	2.1	17.8
- Dairy Products Oils & Fats	0.0668	1.8	6.6
- Baked Products Cereals &Breakfast Drinks	0.0864	1.5	6.8
- Starchy Foods	0.0525	11.1	31.3
- Vegetables & Fruits	0.0650	0.6	2.0
- Other Food & Beverages	0.0502	2.0	5.3
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**2.7**	**9.6**
- Household Supplies	0.0482	2.1	5.4
- Fuels	0.0253	3.1	4.2
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**-0.5**	**-1.3**
- Rental	0.0209	2.1	2.3
- Other Housing Expenses	0.0577	-1.2	-3.7
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**1.1**	**1.5**
- Furniture	0.0068	1.4	0.5
- Furnishings	0.0215	0.9	1.0
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**2.0**	**7.5**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**0.7**	**1.9**
- Clothing Materials	0.0055	0.1	0.0
- Readymade Clothing & Accessories	0.0242	0.4	0.5
- Footwear	0.0159	1.0	0.9
- Making & Repairs	0.0051	1.3	0.4
TRANSPORTATION	**0.0644**	**1.6**	**5.4**
MISCELLANEOUS EXPENSES	**0.0785**	**0.5**	**2.3**
ALL GROUPS	**1.0000**	**1.9**	**100.0**

2B

REGIONAL INFLATION Quarterly April – June 2004			
Groups and Sub-groups	**KMA (%)**	**Other Towns (%)**	**Rural Areas (%)**
FOOD & DRINK	**1.9**	**2.9**	**3.4**
- Meals Away From Home	0.6	1.2	0.9
- Meat Poultry & Fish	1.6	1.8	2.7
- Dairy Products Oils & Fats	1.4	2.2	2.1
- Baked Products Cereals &Breakfast Drinks	1.2	1.8	1.6
- Starchy Foods	13.0	16.0	8.8
- Vegetables & Fruits	-0.7	-1.9	3.2
- Other Food & Beverages	1.5	2.2	2.4
FUELS & OTHER HOUSEHOLD SUPPLIES	**1.7**	**3.8**	**3.4**
- Household Supplies	2.4	1.5	2.0
- Fuels	1.2	5.4	4.5
HOUSING & OTHER HOUSING EXPENSES	**-0.3**	**-1.0**	**-0.7**
- Rental	2.6	0.1	0.1
- Other Housing Expenses	-1.4	-1.1	-0.8
HOUSEHOLD FURNISHINGS & FURNITURE	**1.8**	**0.4**	**0.8**
- Furniture	4.5	0.0	-0.2
- Furnishings	0.7	0.5	1.4
HEALTHCARE & PERSONAL EXPENSES	**1.7**	**1.7**	**2.8**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.9**	**0.9**	**0.4**
- Clothing Materials	0.0	0.5	0.0
- Readymade Clothing & Accessories	0.3	0.4	0.4
- Footwear	1.2	1.8	0.5
- Making & Repairs	2.5	0.4	0.3
TRANSPORTATION	**1.3**	**1.6**	**2.1**
MISCELLANEOUS EXPENSES	**0.6**	**0.5**	**0.6**
ALL GROUPS	**1.4**	**1.9**	**2.5**

3

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

	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03	Mar 04	Jun-04
Net International Reserves (US$)	**1 597.0**	**1 339.7**	**1 127.4**	**1 182.6**	**1 165.0**	**1 568.7**	**1 604.1**
Net International Reserves ($J)	**81 557.8**	**75 021.5**	**63 133.8**	**69 775.2**	**68 733.8**	**95 531.4**	**97 689.7**
- Assets	83 911.1	77 400.4	65 251.2	71 782.9	70 583.5	97 250.0	99 285.9
- Liabilities	-2 353.3	-2 378.9	-2 117.4	-2 007.8	-1 849.7	-1 718.6	- 1 596.2
Net Domestic Assets	**-45 799.9**	**-42 521.6**	**-30 728.9**	**-37 152.6**	**-28 207.5**	**-59 345.0**	**-61 076.7**
Net Claims on the Public Sector	50 873.5	63 988.5	67 611.0	70 771.5	78 657.1	76 292.8	89 291.8
- Net Credit to Banks	-5 200.4	-12 481.5	-13 125.1	-12 814.6	-13 345.9	-13 654.5	-13 127.9
- Open Market Operations	-89 981.3	-86 203.8	-77 126.4	-83 700.3	-81 969.4	-108 281.7	-123 222.1
- Other	-1 491.7	-7 824.7	-8 088.4	-11 409.2	-11 549.3	-13 701.6	-14 018.5
Monetary Base	**35 757.9**	**32 500.0**	**32 404.9**	**32 622.6**	**40 526.3**	**36 186.4**	**36 613.0**
- Currency Issue *	24 354.5	20 729.7	21 259.1	21 545.7	29 426.5	24 930.6	24 597.4
- Cash Reserve	10 839.2	11 250.7	10 960.0	10 811.2	10 928.2	11 096.6	11 936.2
- Current Account	564.2	519.5	185.8	265.7	171.7	159.2	79.4
% change Monetary Base (F-Y-T-D)	**18.3**	**7.5**	**-0.3**	**0.4**	**24.7**	**11.3**	**1.2**

** Excludes BOJ's teller cash*

4

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

	M1J	M1*	M2J	M2*	M3J	M3*
1999/2000	**31 686.8**	**37 311.4**	**92 865.8**	**122 905.4**	**109 123.2**	**139 162.8**
2000/2001						
2001/2002						
June	32 951.4	38 015.3	102 002.8	135 708.9	123 100.6	156 806.8
September	35 690.9	41 620.6	105 818.0	141 583.6	127 000.0	162 765.5
December	38 964.5	45 310.1	109 419.3	146 061.6	131 161.0	167 803.4
March	37 083.8	43 946.8	107 834.2	147 683.6	130 622.7	170 285.0
2002/2003						
June	36 864.8	43 248.6	110 235.4	150 532.0	133 902.1	174 198.5
September	42 475.0	49 450.6	117 345.1	160 591.3	142 633.2	185 879.3
December	44 704.0	51 486.7	119 330.6	165 026.0	145 583.9	191 279.3
March	33 733.5	40 791.3	107 472.2	158 719.5	136 368.0	187 615.2
2003/04						
June	37 201.6	46754.7	109 847.2	166750.9	140 414.9	197319.3
September	39 838.8	49 028.9	114 121.8	172 760.3	146 844.5	205 483.0
December	45 220.9	55 237.5	123 090.2	183 117.4	156 387.0	216 414.2
March [r]	44 942.9	57 124.2	124 892.6	190 784.0	160 403.2	226 294.7
June [p]	46 496.4	57 161.6	128 294.6	193 656.4	165 963.2	231 325.1

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

5

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

	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03 [r]	Dec-03 [p]	Mar 04	Jun-04
M2J	**7 109.7**	**1 985.4**	**-11 859.0**	**2 374.8**	**4 275.4**	**8 968.3**	**1 802.3**	**3 402.1**
Currency	104.4	2 842.0	-3075.1	1 467.4	149.1	4 237.9	-2 550.7	524.6
Demand Deposits	5 305.8	-413.1	-7 896.0	2 001.3	2 488.0	1 144.3	2 272.8	1 028.8
Savings Deposits	132.1	1 615.5	-40.9	1 125.6	1 140.0	3 002.8	804.8	2 516.2
Time Deposits	1 567.4	-2 059.0	-847.0	-2 219.5	498.3	583.3	1 275.4	-667.5
OTHER DEPOSITS	**1 621.4**	**965.3**	**2 642.5**	**1 672.7**	**2 154.3**	**574.1**	**2 213.9**	**2 157.9**
TOTAL (M3J)	**8 731.1**	**2 950.7**	**-9 216.5**	**4 047.5**	**6 429.7**	**9 542.5**	**4 016.2**	**5 560.0**

SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY

	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03 [r]	Dec-03 [p]	Mar 04	Jun-04
N.I.R. of B.O.J.	**-4 634.5**	**-4 406.7**	**-13 140.9**	**-11 887.7**	**3 259.1**	**-1 041.3**	**24 584.1**	**2 158.3**
M&LTFL of B.O.J	**15.5**	**8.6**	**18.1**	**10.3**	**20.9**	**11.4**	**0.0**	**0.0**
Banking System Credit	**11 598.8**	**6 369.8**	**12 252.3**	**18 848.7**	**8 339.5**	**19 677.6**	**-17 447.3**	**22 787.8**
Public Sector	10 208.5	3 901.7	10 722.0	14 761.0	4 556.1	14 585.8	-22 169.1	20 480.3
Private Sector	1 390.3	2 468.1	1 530.3	4 087.7	3 783.5	5 091.8	4 721.8	2 307.5
Open Market Operations	**933.9**	**6 091.0**	**3 777.5**	**9 077.4**	**-6 573.9**	**1 730.9**	**-26 312.3**	**-14 940.4**
Other	**817.4**	**-5 112.0**	**-12 123.5**	**-12 001.2**	**1 384.1**	**-10 836.1**	**23 191.7**	**-4 445.7**
TOTAL	**8 731.1**	**2 950.7**	**-9 216.5**	**4 047.5**	**6 429.7**	**9 542.5**	**4 016.2**	**5 560.0**
Memo:								
Foreign Currency Deposits (Private Sector)	2 949.7	2 449.3	5 552.4	5 685.6	1 734.1	1 388.8	5 864.3	-529.7
Foreign Currency Loans (Private Sector)	2 143.9	1 486.6	2 093.0	2 922.5	2 346.2	1 019.5	1 199.1	339.9

p- preliminary

r-revised

6A

SELECTED INTEREST RATES (%) End-of-Period)							
	Fixed Deposits *		Savings Deposits (Average)	Demand Loan Rate (Average)	Fixed Deposits Rate (Weighted Average)	Loan Rate (Weighted Average)	Inter-bank Lending Rate (Average)
	3-6 months	6-12 months					
2001/2002							
June	8.75 - 17.00	8.75- 15.00	9.45	30.67	11.11	20.86	19.54
September	8.75 - 17.00	8.75- 15.00	9.08	26.96	10.52	19.41	18.39
December	7.75 - 15.00	7.75 – 15.00	9.08	26.79	10.13	19.46	18.39
March	7.75 - 15.00	7.75 - 15.00	9.36	26.29	9.86	19.60	18.99
2002/2003							
June	7.75 – 13.25	7.75 – 13.25	9.00	25.92	9.28	18.15	14.68
September	7.75 – 13.25	7.75 – 13.25	8.86	26.25	8.98	18.08	13.88
December	7.75 – 13.25	7.75 – 13.25	8.96	25.04	8.92	18.26	11.50
March	8.50-13.15	8.50 - 13.15	8.22	24.73	8.87	17.23	21.90
2003/2004							
June	8.50 – 13.15	8.50-13.15	8.22	25.18	8.98	19.23	38.40
September	8.50-13.25	8.50-13.50	8.43	25.60	9.02	19.87	17.01
December	8.50-13.25	8.50-13.50	8.43	25.60	8.68.	19.32	24.08
March	8.50 – 13.25	8.50-13.50	8.30	25.40	8.47	19.01	17.16
June	8.50 – 13.25	8.50-13.50	8.06	25.02	8.15	17.75	15.75

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

6B

GOJ TREASURY BILL YIELDS (End of Period)				
	3-month	***6-month***	***9-month***	***12-month***
2000/2001				
June	17.68	17.47	17.88	18.10
September	16.62	17.13	16.91	16.94
December		20.16	19.67	20.98
March		16.88		17.86
2001/2002				
June	23.48	16.20		
September	22.23	15.10	15.50	
December	22.12	17.03		
March	21.49	14.30		14.96
2002/2003				
June		13.81		14.77
September		16.69	16.98	
December		17.01		
March		33.47		
2003/04				
June		28.46		
September		23.42	23.87	
December		22.05		
March	15.23	15.57		
June	15.04	14.98	15.18	

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BANK OF JAMAICA OPEN MARKET INTEREST RATES
(End Period)

Tenors of Instruments

End Period	30 days	60 days	90 days	120 days	180 days	270 days	365 days
2000/2001							
June	17.00	17.65	17.80	17.90	18.25		
September	16.45	16.60	16.70	16.80	17.05	17.60	18.00
December	16.45	16.60	16.70	16.80	17.05	20.00	21.00
March	15.50	15.60	15.70	15.80	16.15	17.00	17.75
2001/2002							
June	14.25	14.35	14.45	14.55	14.75	15.35	15.90
September	14.25	14.35	14.45	14.55	14.75	15.35	15.90
December	14.25	14.35	14.45	14.55	15.00	18.40	18.90
March	13.25	13.35	13.45	13.55	13.80	14.20	15.00
2002/2003							
June	13.25	13.35	13.45	13.55	13.80	14.20	15.00
September	12.95	13.05	17.25	17.05	13.45	13.85	14.50
December	12.95	13.05	18.25	18.40	13.45	13.85	14.50
March	15.00	15.30	20.00	24.00	33.15	34.50	35.95
2003/2004							
June	15.00	15.30	20.00	24.00	26.50	29.50	30.00
September	15.00	15.30	18.00	21.00	23.50	23.75	24.00
December	15.00	15.30	17.00	20.00	21.00	22.00	23.00
March	14.85	15.00	15.10	15.50	16.00	16.95	17.95
June	14.20	14.30	14.40	14.55	15.05	15.65	16.40

8A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
April - June 2004

Maturity Date	Stock Name	Amount J$M	Applicable Interest Rate b/	Features
01 April	GOJ US$ VR L. Bond Iss. 2004	US$ 0.29	3.75	
	VR LRS 2004 F	2 106.0	10.25	
08 April	VR LRS2004 D	932.5	26.21	
20 April	GOJ Inv. Deb. 2004 Series “S”	6 609.3	18.0	
23 April	GOJ Inv. Deb. 2004 Series “X”	5 080.4	19.75	
30 April	VR LRS 2004 B	3 489.2	28.24	
21 May	24.875% LRS 2004 Tr.A	800.0	24.875	
	VR LRS 2004 E	1 108.8	15.0	
28 May	FR US$ Ind. Bond 2004	US$ 24.5	11.625	
31 May	FR 22.5% LRS 2004 A	1 255.0	22.5	
07 June	FR LRS 2004 AA	700.0	14.75	
	FR US$ Ind. Bond 2004	US$ 108.8	10.5	
17 June	GOJ Inv. Deb. 2005 Series “Aa”	4 709.5	33.5	
28June	VR LRS 2004/2008 Tr.A	116.1	17.07	
29 June	23.8% LRS 2004	633.6	23.8	
30 June	VR LRS 99/2008 (N)	2.4	24.05	
	VR LRS 2004/2005	100.0	23.05	
	FR US$ Den. Bond 2004	US$ 9.05	9.625	
	VR 2001/2006 Tr. B	1 488.5	23.05	

Notes:

a/ Rate above Treasury is the 6-month Treasury bill rate in effect at the beginning of the interest period.

b/ The withholding tax of 25% on interest income has been in effect since May 1, 2000.

c/ A/Y- Average Yield

d/ FR – Fixed Rate

e/VR-Variable Rate

Source: Debt Management Unit, Ministry of Finance & Planning

8B

JAMAICA: GOVERNMENT BOND MARKET GOJ Domestic Market Issues April – June 2004			
Issue Date	**Stock Name**	**Features**	**Amount Raised J$M**
20-27 April	FR 17%Investment Debenture 2006 Series “Af”	Tenor of 24 months. Interest rate fixed at 17%. Interest paid quarterly.	13 334.2
12-14 May	VR Investment Bond 2007/2008 Series “G”	Tenor of 39 months. Interest rate fixed at 15.05% for first 6 months. Thereafter, quarterly interest payments of 1.50% above Treasury Bill rate.	1 596.6
27-31 May	FR LRS 2006AJ	Tenor of 24 months. Coupon rate 14.5%. Average yield outturn 17.25%.	700.0
	FR LRS 2007AJ	Tenor of 42 months. Coupon rate 14.875%. Average yield outturn 17.45%.	500.0
	FR LRS 2009AJ	Tenor of 60 months. Coupon rate 15.25%. Average yield outturn 17.26%.	300.0
3-7 June	FR 17.125% Registered Bond 2010 Series “A”	Tenor of 6 years.Interest rate fixed at 17.125%. Half-yearly interest payments.	865.0
	FR 17% Registered Bond 2014 Series “B”	Tenor of 10 1/3 years. Interest rate fixed at 17%. Interest paid quarterly.	597.5
15-18 June	FR 17%Investment Debenture 2005 Series “Ag”	Tenor of 16 months. Interest rate fixed at 17%. Interest paid quarterly.	9 458.4
25-29 June	FR 17%Investment Debenture 2006 Series “Ah”	Tenor of 21 months. Interest rate fixed at 17%. Interest paid quarterly.	1 650.8

Notes:
a/
Source: Debt Management Unit, Ministry of Finance & Planning

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
2000/2001	**56.1**	**670.6**	**69.4**	**22.3**	**74.8**	**330.9**	**291.5**	**1 515.6**
June	10.4	167.9	33.6	5.5	20.5	90.6	76.6	405.1
September	8.2	163.8	6.2	6.2	18.3	81.7	80.7	365.1
December	13.9	181.4	0.0	6.1	17.0	91.3	76.4	386.1
March	23.6	157.5	29.6	4.5	19.0	67.3	57.8	359.3
2001/2002 r	**97.7**	**629.5**	**68.5**	**17.9**	**72.0**	**291.1**	**247.1**	**1 423.8**
June	23.5	182.0	34.9	5.0	18.9	66.0	69.2	399.5
September	25.5	174.3	6.1	4.0	18.5	73.5	72.1	374.0
December	20.7	122.4	0.0	4.4	15.7	93.4	63.9	320.5
March	28.0	150.8	27.5	4.5	18.9	58.2	41.9	329.8
2002/2003	**99.1**	**614.4**	**64.5**	**17.7**	**74.4**	**227.8**	**204.9**	**1 302.8**
June	22.9	138.9	30.6	4.5	20.9	51.3	56.2	325.3
September	25.4	147.1	8.0	4.4	20.5	60.3	67.9	333.6
December	29.9	167.0	0.0	4.1	14.2	59.3	46.0	320.5
March	20.9	161.4	25.9	4.7	18.8	56.9	34.8	323.4
2003/2004								
June r	24.2	166.0	28.9	5.0	17.6	52.4	44.4	338.5
September	23.1	183.2	10.4	4.4	18.5	66.0	53.9	359.5
December p	21.0	176.7	1.1	4.6	12.6	60.4	54.4	330.8

r-revised

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

	Consumer Goods	*Raw* Materials	Capital Goods	Other	Total Imports
2000/2001	**982.0**	**1 761.2**	**519.1**	**167.6**	**3 429.9**
June	228.5	442.2	119.2	42.3	832.2
September	245.8	422.6	120.2	43.5	832.1
December	282.5	426.1	121.8	53.9	884.3
March	225.2	470.3	157.9	27.9	881.3
2001/2002					
June	241.0	444.1	127.7	61.3	874.1
September	238.4	431.1	156.6	47.5	873.6
ecember	279.9	475.2	133.9	35.4	924.4
March	240.9	405.9	147.1	25.6	819.5
2/2003					
June	265.4	410.9	176.2	40.9	893.4
eptember	271.6	539.3	167.2	39.1	1 017.2
ecember	316.5	442.6	180.5	25.6	965.2
March	260.4	558.1	150.3	23.2	992.0
3/2004					
June r	244.7	499.6	138.5	50.9	933.7
ptember r	252.8	490.4	144.3	33.5	921.0
cember p	310.4	503.3	125.1	26.6	965.4

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BALANCE OF PAYMENTS SUMMARY
(Flows – US$M)

	Sep-02	Dec-02	Mar-03[r]	Jun-03[r]	Sep-03[r]	Dec-03[r]	Mar-04
1. Current Account	**-343.0**	**-343.1**	**-294.2**	**-219.8**	**-182.5**	**-237.8**	**-92.1**
A. Goods Balance	**-545.0**	**-507.5**	**-528.0**	**-465.1**	**-433.6**	**-498.3**	**-394.4**
Exports (f.o.b.)	333.6	320.5	329.7	341.5	361.3	335.1	404.1
Imports (f.o.b.)	878.6	828.0	857.7	806.6	794.9	833.4	798.5
B. Services Balance	**64.0**	**62.3**	**128.3**	**107.1**	**116.8**	**118.8**	**150.9**
Transportation	-70.3	-63.8	-46.1	-53.7	-52.8	-48.1	-34.9
Travel	244.3	238.6	283.4	265.2	279.5	274.6	300.9
Other Services	-110.0	-112.5	-109.0	-104.4	-109.9	-107.7	-115.1
Goods & Services Balance	**-481.0**	**-445.2**	**-399.7**	**-358.0**	**-316.8**	**-379.5**	**-243.5**
C. Income	**-145.0**	**-163.5**	**-165.1**	**-128.7**	**-144.3**	**-178.4**	**-164.2**
Compensation of Employees	32.4	32.8	4.9	8.2	27.7	34.7	**9.1**
Investment Income	-177.4	-196.3	-170.0	-136.9	-172.0	-213.1	-173.3
D. Current Transfers	**283.0**	**265.6**	**270.6**	**266.9**	**278.6**	**320.1**	**315.6**
General Government	33.6	23.9	21.7	20.9	21.6	20.5	21.7
Other Sectors	249.4	241.7	248.9	246.0	257.0	299.6	293.9
2. Capital & Financial Account	**343.0**	**343.1**	**294.2**	**219.8**	**182.5**	**-237**	
A. Capital Account	**-3.6**	**-3.0**	**-5.0**	**-4.7**	**-4.4**	**-3.0**	**-4.3**
Capital Transfers	-3.6	-3.0	-5.0	-4.7	-4.4	-3.0	-4.3
General Government	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Other Sectors	-3.6	-3.0	-5.1	-4.7	-4.4	-3.0	-4.4
B. Financial Account	**346.6**	**346.1**	**299.2**	**224.5**	**186.9**	**240.8**	**96.4**
Direct Investment	73.8	111.3	87.2	94.5	90.5	96.1	66.3
Other Official Investment	-52.9	56.9	-251.5	-50.8	-36.8	-24.7	252.3
Other Private Investment (including net errors & omissions)	230.8	87.6	206.2	-31.5	188.4	151.7	181.5
Reserves	94.9	90.3	257.3	212.3	-55.2	17.7	-403.7

r-revised

p-provisional

12

PRIVATE SECTOR QUARTERLY REMITTANCE INFLOWS
(US$MN)

	Commercial Banks	Remittance Companies	Post Offices	Building Societies	Other	Total
2000/2001	**180.9**	**479.0**	**1.2**	**156.8**	**25.7**	**843.6**
June	40.3	109.5	0.3	37.0	6.0	193.1
September	28.6	120.8	0.3	36.9	6.3	192.9
December	50.6	125.4	0.3	39.3	6.5	222.1
March	61.4	123.3	0.3	43.6	6.9	235.5
2001/2002	**170.2**	**595.3**	**1.2**	**202.4**	**27.3**	**996.4**
June	43.1	136.2	0.3	43.5	6.9	230.0
September	46.9	143.0	0.3	50.4	6.9	247.5
December	25.6	163.7	0.3	58.0	6.9	254.5
March	54.6	152.4	0.3	50.5	6.6	264.4
2002/2003	**293.5**	**621.1**	**1.2**	**252.6**	**43.2**	**1 211.6**
June	73.4	157.2	0.3	58.8	6.6	296.3
September	74.1	150.3	0.3	65.6	6.6	296.9
December	66.5	159.7	0.3	65.8	6.6	298.9
March	79.5	153.9	0.3	62.4	23.4	319.5
2003/2004	**330.8**	**696.8**	**1.2**	**297.8**	**93.6**	**1 420.2**
June	58.8	169.8	0.3	63.2	23.4	315.5
September	74.5	169.1	0.3	71.7	23.4	339.0
December	100.8	183.0	0.3	80.4	23.4	387.9
March[r]	96.7	174.9	0.3	83.0	23.4	378.3
2004/2005						
June	96.9	185.5	0.3	83.3	23.4	389.4

13

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

	Gross Foreign Assets	Gross Foreign Liabilities	International Reserves (Net)	*Weeks of Imports* Goods	Goods & Services
2000/2001					
June	848.3	91.9	756.5	15.0	10.2
September	1022.1	86.7	935.5	17.9	12.3
December	1048.8	79.3	969.5	18.3	12.6
March	1361.9	75.6	1286.3	24.0	16.4
2001/2002					
June	1612.5	71.9	1540.5	27.3	18.6
September	1605.9	69.2	1536.7	27.1	18.6
December	1903.3	62.6	1840.7	33.2	22.5
March	2000.3	58.7	1941.6	34.9	23.6
2002/2003					
June	1837.5	55.2	1782.3	31.2	20.6
September	1738.6	51.3	1687.3	29.5	19.5
December	1643.1	46.1	1597.0	27.9	18.4
March	1382.2	42.5	1339.7	22.1	14.8
2003/2004					
June	1 165.2	37.8	1 127.4	18.3	12.0
September	1216.6	34.0	1182.6	19.0	12.8
December	1 196.3	31.4	1 164.9	18.3	12.5
March	1 596.9	28.2	1 568.7	25.0	16.6
June	1630.3	26.2	1604.1	22.5	15.3

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

	US$	Can$	UK£
2000/2001			
June	42.51	28.17	62.73
September	44.83	29.25	64.15
December	45.53	29.51	66.78
March	45.68	29.17	64.11
2001/2002			
June	45.82	29.80	63.94
September	45.94	29.00	66.74
December	47.40	29.45	67.94
March	47.61	29.88	67.14
2002/2003			
June	48.51	31.95	72.98
September	49.27	31.11	76.60
December	50.97	32.09	80.97
March	56.24	37.48	87.41
2003/2004			
June	59.01	43.69	96.79
September	59.71	43.92	98.54
December	60.62	46.59	107.45
March	61.01	46.46	111.34
2004/2005			
June	61.22	45.65	102.39

15

PUBLIC SECTOR DOMESTIC SECURITIES
Government of Jamaica
Outstanding Stocks

(J$MN)

End Period	Local Registered Stocks	Treasury Bills	Bonds	BOJ Open Market Operations Securities
2000/2001				
June	131 477.8	9 750.0	37 268.0	45 066.2
September	132 589.8	9 850.0	38 789.9	51 885.6
December	134 896.5	7 600.0	41 920.6	51 800.9
March	159 734.8	6 950.0	45 107.7	61 441.4
2001/2002				
June	226 655.6	6 900.0	48 981.5	74 164.5
September	230 172.6	5 450.0	53 437.6	77 525.5
December	217 361.8	3 900.0	71 004.0	85 628.3
March	212 110.0	4 250.0	79 151.0	99 195.3
2002/2003				
June	219 738.5.	4 350.0	80 516.1.	97 006.3
September	232 873.9	4 350.0	88 274.7	96 072.3
December	240 843.3	4 150.0	99 432.9	89 981.3
March	240 923.0	2 950.0	114 524.1	86 203.8
2003/2004				
June	241,163.2	2 000.0	137,960.0	77 126.4
September	232 914.5	2 400.0	160 594.3	83 700.3
December	228 509.3	4 400.0	178 308.3	81 969.4
March	220 819.2	3 750.0	184 219.0	108 281.7
2004/2005				
June		3 950.0		123 222.1

16

STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	*Volume Traded (M.)*	*Value of Stocks Traded (J$M.)*
2000/2001			
June	31,338.3	300.9	1,480.3
September	31,152.7	95.6	591.4
December	28,893.2	116.5	773.0
March	29,701.9	156.4	838.3
2001/2002			
June	35,723.6	2 315.0*	3 584.2
September	33,892.4	182.8	840.4
December	33,835.6	171.3	704.9
March	37,446.0	417.7	1, 19.5
2002/2003			
June	38,606.7	404.9	1 35.9
September	39,219.6	401.1	2 32.1
December	45,396.2	380.9	1 49.4
March	46,982.0	1 240.1	7 155.5
2003/2004			
June	50 478.9	352.4	2 077.7
September	57 769.1	2 167.4	11 321.3
December	67 586.7	530.5	3 682.9
March	99 630.2	3 380.8	14 533.7
2004/2005			
June	94 718.4	665.7	9 395.7

*Both volume and value reflect ordinary and block transactions

** Includes a large block of transaction arising from the de-listing of Union Bank of Jamaica*

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PRODUCTION OF SELECTED COMMODITIES
(Flows- 000' tonnes)

	Bauxite	Alumina	Sugar	Bananas*
2000/2001	**2 420.4**	**3 617.8**	**185.4**	**44.1**
June	527.8	893.8	78.2	9.7
September	372.3	897.9	1.6	10.8
December	587.1	911.4	3.5	12.2
March	933.1	914.7	102.1	11.3
2001/2002	**3 808.4**	**3 493.7**	**184.8**	**42.3**
June	888.5	943.4	91.5	11.0
September	997.2	946.3	7.3	9.9
December	816.1	738.0	4.2	10.8
March	1 106.6	866.0	81.8	10.6
2002/2003	**3 917.5**	**3 698.7**	**186.1**	**37.7**
June	888.1	887.3	76.8	10.3
September	961.2	932.0	11.8	9.7
December	1 110.8	945.2	4.7	9.3
March	964.4	934.2	92.8	8.4
2003/2004	**3 842.4**	**3 956.4**	**174.7**	**40.1**
June	992.9	957.0	53.7	9.9
September	975.3	939.8	1.3	10.2
December	916.7	1 012.6	5.9	10.5
March	957.5	1 047.0	113.8	9.5
2004/2005				
June	1 071.2	1 046.4	60.0	9.9

** Exports*

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GROSS DOMESTIC PRODUCT BY INDUSTRY IN PRODUCER'S VALUES, AT CONSTANT (1996) PRICES June 2002 - March 2004 (Seasonally Unadjusted) Year over Year % Change	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03	Dec-03	Mar-04
Total Gross Domestic Product	-0.39	1.69	3.48	3.57	2.40	1.08	1.97	2.53
Agriculture, Forestry & Fishing	-5.94	-6.68	-10.19	2.10	2.44	5.78	9.35	-0.88
Export Agriculture	-6.17	8.23	2.08	3.85	-15.12	-17.80	1.61	13.42
Domestic Agriculture, Livestock,								
Forestry & Fishing	-5.86	-8.66	-12.03	1.60	8.19	9.49	10.69	-5.01
Mining & Quarrying	-4.46	-0.97	24.94	6.38	8.07	1.01	4.19	10.84
Manufacturing	-4.35	1.23	2.53	1.15	-2.01	-1.00	-1.54	4.44
Food, Beverages & Tobacco	-4.72	5.25	0.26	0.23	2.16	-4.09	-5.15	4.85
Other Manufacturing	-3.88	-3.26	5.17	2.39	-7.37	2.75	2.44	3.90
Electricity & Water	5.96	3.60	6.16	5.50	5.77	4.88	2.80	3.55
Construction & Installation	1.95	3.03	4.67	1.71	1.24	0.36	1.44	2.36
Distributive Trade	0.18	0.31	0.35	0.75	0.83	1.04	1.51	1.53
Transport, Storage & Communication	3.38	6.16	9.20	7.53	5.63	0.59	1.24	1.69
Finance & Insurance Services	9.32	8.94	6.87	11.29	6.07	0.85	0.73	-1.56
Real Estate & Business Services	-0.09	0.93	0.95	1.93	2.47	1.97	0.78	1.71
Producers of Government Services	0.66	0.24	-0.13	-0.12	-0.15	0.38	0.85	0.26
Miscellaneous Services Household and Private Non-Profit In	-4.96	4.98	9.47	5.11	4.69	3.55	5.94	5.53
Hotels, Restaurants & Clubs	-7.20	6.28	13.04	6.24	5.65	3.97	6.40	6.48
Less Imputed Bank Service Charge	4.81	9.07	9.95	-0.02	2.97	3.12	0.49	-0.38

D. BANK OF JAMAICA BALANCE SHEET

ASSETS AND LIABILITIES
(End of Period)
J$MN

	Mar-02	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04	Jun-03
Assets	**173 579.0**	**166 610.3**	**152 220.5**	**151 282.4**	**152 765.6**	**149 552.0**	**156 818.4**	**165 318.2**	**186 811.5**	**191 018.4**
Foreign	95 228.9	88 833.0	85 369.6	83 071.5	77 202.2	68 606.6	72 298.2	72 134.5	97 232.2	99 458.8
Current Account & Foreign Currency Balances	7 769.8	5 025.5	5 048.1	6 880.4	9 318.5	5 105.0	11 163.0	6 091.0	6 881.8	9 162.7
Time Deposits & Securities	85 539.9	81 873.3	78 281.9	74 108.9	65 607.9	60 573.9	54 278.5	60 805.0	84 931.4	84 922.5
Holdings of Special Drawing Rights	42.0	18.4	63.8	39.9	20.2	6.5	19.7	3.2	4.8	23.8
Other	1 877.2	1 915.8	1 975.8	2 042.3	2 255.6	2 921.2	6 837.0	5 235.3	5 414.2	5 349.8
Local	78 350.1	77 777.3	66 850.9	68 210.9	75 563.4	80945.4	84 520.2	93 183.7	89 579.3	91 559.6
Public Sector Securities	56 109.5	52 802.2	56 752.1	57 237.4	54 975.0	66 907.0	68 465.9	78 147.1	77 836.0	76 989.0
Other Assets	22 240.6	24 975.1	10 098.8	10 973.5	20 588.4	14 038.4	16 054.3	15 036.6	11 743.3	14 570.6
Liabilities	**173 579.0**	**166 610.3**	**152 220.5**	**151 282.4**	**152 765.6**	**149 552.0**	**156 818.4**	**165 318.2**	**186 811.5**	**191 018.4**
Foreign	411.5	442.6	405.8	434.6	484.6	467.9	459.2	479.3	459.8	427.0
Local	173 167.5	166 167.8	151 814.7	150 847.8	152 281.0	149 084.1	156 359.1	164 839.0	186 351.7	190 591.4
Currency in Circulation	19 481.9	19 318.5	19 587.3	24 387.3	20 772.3	21 309.9	21 587.9	29 467.0	24 978.0	24 634.4
Deposits	145 003.5	137 793.2	121 123.3	118 055.4	117 110.0	110 145.7	115 342.8	112 076.8	146 088.2	155 259.4
Bankers	16 225.9	16 925.7	17 264.9	17 729.8	25 401.0	25 474.3	25 022.0	25 659.9	26 197.7	26 499.4
Government	7 591.3	6 933.6	3 916.6	4 484.3	1 760.2	3 280.1	2 000.8	1 235.2	5 045.7	3 098.7
Open Market Operations	99 195.3	97 006.3	96 072.3	89 981.3	86 203.8	77 126.4	83 700.3	81 969.4	108 281.7	123 222.1
Other	21 991.0	16 927.6	3 869.5	5 860.0	3 745.0	4 264.9	4 619.7	3 212.3	6 563.1	2 439.2
Allocation of Special Drawing Rights	2 347.0	2 462.0	2 462.0	2 462.0	2 462.0	3 203.0	3 203.0	3 203.0	3 203.0	3 573.6
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	4.0	4.0	4.0	24.0	24.0
Other Reserves	1 174.8	1 195.8	1 195.8	1 944.2	1 944.2	1 640.8	1 628.8	990.3	1 270.4	2 311.1
Other Liabilities	5 136.3	5 374.2	7 422.3	3 974.9	9 968.5	12 780.7	14 592.7	19 097.8	10 788.1	4 788.9

E. COMMERCIAL BANKS' BALANCE SHEET

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

	Jun-02	Sep-02	Dec-0 2	Mar-03	Jun-03	Sept-03	Dec-03	Mar-03 [r]	Jun-03 [p]
Assets	**251 817.0**	**259 213.3**	**262 577.9**	**285 881.7**	**295 647.2**	**306 632.7**	**313 516.6**	**331 710.5**	**327 831.3**
Cash	1 854.6	2 030.1	3 988.3	3 438.6	2 500.6	2 638.1	6 281.0	4 335.8	3 478.0
Balances with BOJ	43 993.1	41 726.7	40 111.1	41 414.8	37 224.0	40 947.6	40 249.2	50 545.4	53 283.8
Foreign Assets	44 285.3	46 039.2	47 540.2	62 782.3	58 847.3	56 953.0	59 938.9	62 394.6	61 138.5
Loans & Advances	58 100.8	67 046.0	73 943.3	79 685.4	87 067.4	91 254.9	99 150.0	102 504.2	106 169.9
Private Sector	42 306.9	46 261.6	50 882.0	52 897.6	60 255.0	66 396.8	71 638.4	75 699.2	78 351.2
Public Sector	15 793.9	20 784.4	23 061.3	26 787.8	26 812.4	24 858.1	27 511.6	26 805.0	27 818.7
Public Sector Securities	74 677.2	72 564.8	68 829.3	66 143.2	78 275.4	79 905.7	74 852.1	66 686.3	65 681.3
Cheques in the Process of Collection	4 487.6	3 949.2	3 794.0	4 024.4	5 041.7	3 023.1	2 584.2	6 310.9	2 658.7
Other Assets	24 418.4	25 857.3	24 371.7	28 393.0	26 690.8	31 910.3	30 461.2	38 933.3	35 421.0
Liabilities	**251 817.0**	**259 213.3**	**262 577.9**	**285 881.7**	**295 647.2**	**306 632.7**	**313 516.6**	**331 710.5**	**327831.3**
Deposits	169 908.3	177 801.9	178 979.5	188 441.5	189 816.3	194 580.3	198 774.8	216 777.3	214 596.2
Local Currency	120 895.5	125 406.5	124 875.9	121 373.8	118 040.1	120 691.9	122 976.1	134 730.5	132 670.0
Foreign Currency	49 012.8	52 395.4	54 103.6	67 067.7	71 776.2	73 888.4	75 798.7	82 046.8	81 926.2
Foreign Liabilities	14 758.0	13 237.4	12 691.1	14 085.8	14 903.7	16 771.1	15 900.5	15 860.8	18 654.8
Discounts & Advances from BOJ	60.2	61.2	134.9	187.1	235.7	95.6	167.7	276.7	1 607.3
Loans/Advances from Other Institutions	6 377.4	6 729.3	7 309.4	7 632.5	7 813.2	8 674.7	9 431.7	7 741.2	7 805.5
Cheques in the Process of Payment	2 369.6	2 614.2	2 565.0	2 150.6	3 383.4	2 161.0	2 112.4	3 279.7	2 218.9
Other Liabilities	58 343.5	58 769.3	60 898.0	73 384.2	79 494.9	84350.0	87 129.5	87 774.8	82 948.6

P = preliminary
r = revised

F. INTERNATIONAL INDICATORS

1

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

	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2000/2001				
June	6.6563	6.8125	7.0000	7.2188
September	6.6250	6.8125	6.7500	6.8125
December	6.5625	6.4063	6.2188	5.9688
March	5.0938	4.8750	4.7188	4.6563
2001/2002				
June	3.7900	3.7300	3.7300	3.9400
September	2.6300	2.5900	2.5225	2.6425
December	1.8738	1.8813	1.9813	2.4425
March	1.8788	2.0300	2.3300	3.0025
2002/2003				
June	1.8387	1.8600	1.9562	2.2862
September	1.8113	1.7900	1.7100	1.7250
December	1.3820	1.3830	1.3830	1.4470
March	1.3000	1.2787	1.2312	1.2800
2003/2004				
June	1.1620	1.1225	1.0815	1.0944
September	1.1200	1.4246	1.1856	1.3525
December	1.1326	1.1670	1.2274	1.4688
March	1.0923	1.1122	1.1585	1.3251

2

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

	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2000/2001				
June	5 7/8 - 6	6 1/16 - 6 3/16	6 3/16 - 6 5/16	6 3/8 – 6 1/2
September	6 - 6 1/8	6 1/8 - 6 1/4	6 3/16 - 6 5/16	6 1/4 – 6 3/8
December	5 11/16 - 5 7/8	5 3/4 - 5 29/32	5 3/4 - 6 7/8	5 11/16 – 5 13/16
March	5 9/16 – 5 11/16	5 3/8 – 5 1/2	5 3/16 – 5 5/16	5 5/32 – 5 9/32
2001/2002				
June	5 – 51/8	5 1/8 – 5 1/4	5 1/4 - 5 3/8	5 1/2 – 5 5/8
September	4 9/16 – 4 11/16	4 13/32 – 4 7/32	4 3/8 – 4 1/2	4 13/32 – 4 7/32
December	4 1/32 – 4 5/32	4 –4 1/8	4 1/32 – 4 5/32	4 3/8 – 4 17/32
March	3 29/32 – 4 1/32	3 29/32 – 4 1/32	4 5/16 – 4 7/16	4 23/32 – 4 7/32
2002/2003				
June	4 - 3 29/32	4 1/8 - 4 1/32	4 9/32 - 4 3/16	4 21/32 - 4 9/16
September	3 15/16 – 3 27/32	3 29/32 – 3 3/16	3 7/8 – 3 25/32	3 7/8 – 3 25/32
December	4 1/16 – 3 15/16	4 1/32 – 3 29/32	4 – 3 7/8	4 – 3 7/8
March	3 21/32 – 3 19/32	3 21/32 – 3 9/16	3 9/16 – 3 1/2	3 9/16 – 3 7/16
2003/2004				
June	3 11/16 – 3 9/16	3 19/32 – 3 17/32	3 17/32 – 3 15/32	3 17/32 – 3 7/16
September	3 5/8 – 3 17/32	3 11/16 – 3 19/32	3 25/32 – 3 11/16	3 31/32 – 3 7/8
December	4 6/7 – 3 6/8	4-3 7/8	4 5/16 – 4 3/16	4 19/32 – 4 15/32
March	4 3/16 – 4 1/16	4 3/8 – 4 1/4	4 9/16 – 4 7/16	4 3/4 - 4 5/8

3

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

4A

INTERNATIONAL EXCHANGE RATES
US$ vs. OTHER MAJOR CURRENCIES
(currency/US$)
(End- of-Period)

	Jun-02	**Sep-02**	**Dec-02**	**Mar-03**	**Jun-03**	**Sept-03**	**Dec-03**	**Mar-04**
US$ vs. Sterling	0.6560	0.6369	0.6306	0.6327	0.6050	0.6192	0.5603	0.5476
US$ vs. Canadian $	1.5209	1.5858	1.5593	1.4711	1.3553	1.3632	1.2924	1.3284
US$ vs. Yen	119.86	121.73	121.98	118.58	119.86	114.79	107.11	108.51
US$ vs. Euro	1.0126	1.0123	0.9820	0.9164	0.8693	0.8878	0.7939	0.8155

4B

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
(March 2004)

	GBP	C$	US$	Yen	Euro
U.K.	1	2.415	1.838	191.2	1.496
Canada	0.414	1	0.761	79.16	0.619
U.S.	0.544	1.314	1	104.0	0.814
Japan	0.523	1.263	0.961	100	0.782
Euro	0.669	1.615	1.229	127.8	1

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

	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04
Sterling vs. US$	1.5701	1.5859	1.5805	1.6529	1.6157	1.7847	1.8263
Sterling vs Canadian $	2.4899	2.4730	2.3251	2.2402	2.2022	2.3066	2.4259
Sterling vs Yen	198.12	196.52	185.40	196.52	191.17	196.52	198.12
Sterling vs Euro 1/	1.5895	1.5572	1.4484	1.4369	1.4338	1.4168	1.4893

4C

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

	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04
UAE's Dubai Light	24.23	29.18	27.51	26.21	23.29	23.69	30.46
North Sea Brent	23.69	24.13	28.34	28.52	30.34	27.55	33.80
West Texas Intermediate	22.38	25.51	25.51	25.51	29.67	29.44	36.73

5A

5B

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

	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04
Spot (Cash)	1344.5	1330.0	1389.0	1475.89	1512.3	1688.5
3 Month	1348.0	1345.0	1366.0	1423.5	1567.8	1707.5

5C

WORLD COMMODITY PRICES
FOOD
(End- of-Period)

	Sep-02	Dec-0	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04
Wheats **(US$/mt)**	166.1	176.7	147.4	137.3	145.6	165.6	166.3
Coffee (USc/kg arabica brand)	126.0	146.8	142.4	131.4	146.4	143.0	172.1

6

MAJOR STOCK MARKET INDICES
(End- of-Period)

	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04
TOKYO							
Nikkei Index	11024.94	10621.84	9383.29	8578.95	7972.71	9083.11	11715.39
NEW YORK							
Dow Jones Industrials	10426.91	9243.26	7591.93	8341.63	7992.13	8985.44	10357.70
S & P Composite	1144.58	1122.78	945.28	879.82	848.12	974.50	1126.21
LONDON							
Financial Times SE 100	5271.80	4656.40	3721.80	3940.40	3613.30	4031.20	4385.70
FRANKFURT							
Dax Index	2769.03	2423.87	2423.87	3220.58	3256.78	4095.71	3856.70
ZURICH							
SMI Index	4783.00	4085.60	4085.60	4813.70	5043.5	5768.2	5618.60

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Intermediate Target: An intermediate target of policy. e.g. the money supply or the exchange rate, has three main characteristics.
It is not directly determined by the Central Bank,
It responds, however, to a stimulus that the Central Bank can vary, and
Its behaviour should to be closely related to the ultimate target-inflation.

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

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

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

Money Supply**:** This is the stock of instruments or assets formally designated as money in a particular economy. There are alternative measures of money supply both within and between countries. In Jamaica, the measurements of money that are calculated and published are:
M1: Notes and coins in circulation + Demand Deposits
M2: M1+ Time and savings deposits
M3: M2 + Other Deposits.
A 'J' indicates that the components are Jamaican dollar liabilities only and an '*' indicates that the components also include foreign currency liabilities of the banking system.

Monetary Base**: See *Base Money***

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

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

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

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

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

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

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

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

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

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

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

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

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

Statutory Cash Reserves**:** That portion of deposit liabilities of deposit-taking institution, which by a statutorily based stipulation, must be held as interest free deposits at the Central Bank.

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

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

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

Quasi-money: Savings Deposits plus Time Deposits.

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