QUARTERLY MONETARY POLICY REPORT

APRIL - JUNE 2005

Volume 6 No. 1

Bank of Jamaica
Quarterly Monetary
Policy Report

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ISSN 0799 1037

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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 features a discussion on Credit Bureaux and financial market efficiency and an examination of trends in labour productivity.

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 2005 quarter was conducted in a fairly stable macroeconomic environment despite higher than projected domestic inflation. Against the background of a stable foreign exchange market, strong net international reserves (NIR) and fiscal stability, investor confidence remained strong throughout the quarter as evidenced by a lowering of the yields on successive issues of Government debt on the domestic market. Government's issue of a US$300.0 million 10-year Eurobond on 25 May, at a historically low coupon rate of 9.0 per cent, also confirmed confidence in the country's macroeconomic programme. This confidence was reinforced in the quarter by favourable reviews from the International Monetary Fund and other international financial agencies.

These positive developments enabled the Central Bank to ease its monetary policy stance on two occasions in May, commencing on the 16th with a 2- percentage point reduction in the Special Deposit Requirement for commercial banks and FIA licensees. Subsequently, on 26 May, the Bank lowered interest rates applicable to all of its open market instruments, in line with programme. These reductions ranged from 35 basis points on the shorter-term instruments to 90 basis points on the 365-day tenor. Despite the fall in interest rates, the Bank was successful in regulating Jamaica Dollar liquidity through open market operations in a context where foreign exchange receipts were buoyed by strong private capital inflows and increased receipts from mining and remittances. As a consequence, the Bank of Jamaica was able to purchase US$254.0 million (net) from the market, which contributed to a build up in the NIR to US$2 156.8 million at end June. The monetary base was managed within the programme parameters registering a decline of 3.8 per cent for the quarter, relative to a targeted decline of 3.0 per cent.

Reflecting relative balance in the foreign exchange market, the exchange rate depreciated by 0.5 per cent in the June quarter, following an appreciation of 0.6 per cent during the previous two quarters. The pass-through of exchange rate impulses has therefore been minimal since end September 2004. In this regard, the rise in domestic inflation largely reflected adverse supply shocks, imported inflation and the impact of administrative price adjustments. In the June 2005 quarter, the major impulse to inflation was higher domestic food prices, which accounted for approximately 74.0 per cent of inflation, the direct result of drought and bushfires on short-term crops. In addition, there was some impetus from fiscal measures, in particular the 1.5 percentage point increase in General Consumption Tax (GCT) that became effective 1 May, as well as, from rising international oil prices throughout the quarter. Accordingly, headline inflation for the June 2005 quarter was 5.7 per cent, relative to 1.4 per cent for the previous quarter and 1.9 per cent for the June 2004 quarter.

Core or underlying inflation was estimated at 1.7 per cent for the June 2005 quarter, 0.4 percentage points above the average of the previous five June quarters.

On a monthly basis, core inflation was relatively stable in the review quarter at 0.5 per cent in April, and 0.6 per cent in May and June.

The economy is estimated to have grown in the June 2005 quarter, albeit slower than earlier projected. The principal growth areas were *Construction & Installation*, *Financing & Insurance*, *Manufacturing* and *Distribution*. On the other hand, *Agriculture, Forestry and Fishing* is estimated to have declined during the quarter. The expansion in economic output was primarily driven by investment spending which was partly offset by a decline in consumption and net external demand. In respect of *Construction & Installation*, it is estimated that growth exceeded the average of 2.8 per cent recorded over the past three years and was driven by hotel construction, as well as continued work on Government's inner-city housing projects and Highway 2000. The anticipated turnaround in Agriculture following Hurricane Ivan was derailed by persistent drought and bushfires, which affected the supply of many short-term crops.

The macroeconomic outlook for the September 2005 quarter is one of cautious optimism. Economic growth should accelerate fuelled by improved credit conditions, increased private capital inflows and a generally stable domestic and external macroeconomic environment. All areas of the goods sector should continue to expand. In particular, *Mining* should benefit from further investment in efficiency and additional capacity in the bauxite/alumina sector, which could boost production by about 20.0 per cent. Concurrently, *Construction & Installation* will continue to expand in a context of the ongoing infrastructure projects as well as, the creation of additional hotel rooms, while within *Manufacturing* petroleum-refining should improve significantly relative to the corresponding quarter last year when output was affected by major maintenance work. Growth is also anticipated in the services sector, reflected in *Basic services* (in particular telecommunications), M*iscellaneous services* and *Distribution.*

In a context of adequate flows from mining, remittances and tourism, the foreign exchange market is therefore expected to remain stable, which should further boost the level of the NIR. The strength of the NIR as well as, Government's reaffirmed commitment to fiscal prudence should buoy investor confidence, which has been underscored by the positive performance of Jamaica's sovereign bonds on the secondary market and positive reviews from investor interests.

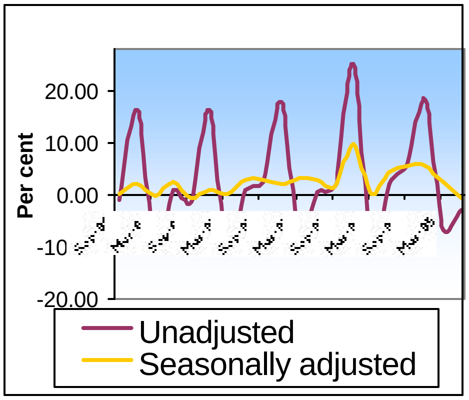
The outlook for the September 2005 quarter envisages a lower rate of inflation in a context where the impact of the increase in GCT would have largely dissipated. However, some inflationary impulses could emanate from seasonal price increases associated with back to school activities. Oil prices are also not expected to decline significantly and in fact could pose an upside risk to the inflation outturn for the fiscal year. Given the protracted period of foreign exchange market stability, there should however, be minimal inflationary impulses from exchange rate movements in the near to medium term. Against this background, and given indications that international interest rates will continue their upward trend, the Central Bank will remain cautious in its conduct of monetary policy in the quarter in order to preserve stability in the domestic money and foreign exchange markets.

It is also anticipated that with improved weather conditions in the latter part of the fiscal year, agriculture should recover sufficiently to halt the escalation of food prices and hence normalize inflation expectations. Further, current indicators point to an increase in foreign direct investment (FDI) inflows related to planned expansion in the mining and tourism sectors. These developments augur well for the maintenance of long-term foreign exchange market stability, further growth in the NIR and the achievement of the objectives of the financial programme.

This issue of the QMPR includes two boxes, which seek to explore issues related to the conduct of monetary, as well as the efficiency of the financial system. Box 1 examines the importance of credit bureaux to efficiency and the development of credit markets. Box 2 highlights trends in labour productivity given its importance to a low inflation environment and the sustainability of economic growth.

1. Monetary Policy and Financial Markets

Figure 1.3
Base Money
(Quarterly Change)



Money & Credit

Monetary Policy and Base Money Management

During the June 2005 quarter, monetary policy was relaxed at a more measured pace relative to the previous quarter notwithstanding a period of protracted stability in the financial markets. This was in a context of higher than anticipated non-monetary inflation impulses. Interest rates on the spectrum of BOJ open market instruments were reduced once, while there was a further lowering of the Special Deposit requirement. Due to the strong demand for BOJ OMO securities, the monetary base remained well within the programmed target for the quarter.

Strong preference for Jamaica Dollar assets influences monetary base contraction

Monetary policy in the June 2005 quarter was conducted in the context of continued stability in the foreign exchange and money markets, influenced by expectations of further improvements in the macroeconomic environment. These expectations were influenced in part by the positive outlook for the fiscal accounts and its impact on domestic interest rates. In this context, there was a strong demand for Jamaica Dollar denominated assets. However, the Bank remained conservative in its conduct of monetary policy due to higher than anticipated inflation (see **Inflation**)

On 16 May 2005, the Bank further reduced the Special Deposit requirement for commercial banks and institutions licensed under the Financial Institutions Act to 1.0 per cent from 3.0 per cent injecting approximately $2 800.0 million in the system.

Further reduction in the Special Deposit requirement

The funds released from the reduction in the Special Deposit requirement were immediately invested in the Bank's open market instruments. Amounts paid out as interest on maturing open market instruments, as well as funds from the sale of foreign exchange to the BOJ were also largely reinvested at the Bank during the quarter.

Table 1.1

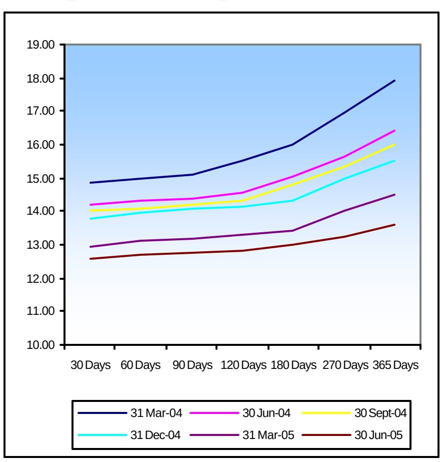
BOJ Reverse Repurchase Rates April – June 2005	31 Mar	26 May
30 Days	12.95	12.60
60 Days	13.10	12.70
90 Days	13.20	12.75
120 Days	13.30	12.85
180 Days	13.45	13.00
270 Days	14.00	13.25
365 Days	14.50	13.60

Interest rate reduction further normalizes the yield curve

The success of the Government in attracting overseas credit at 9.0 per cent also improved the outlook for domestic interest rates. In this context, the Bank further reduced rates on all its open market instruments on 26 May 2005 with the larger reduction on the longer tenors (see **Table 1.1).** The reduction in rates further normalized the yield curve (see **Figure 1.1)**. The rate on the 365-day instrument at end June was 13.60 per cent relative to 14.25 per cent at the start of FY 2005/06.

Figure 1.1

BOJ Open Market Operations Yield Curve



During the review quarter, the monetary base declined by $1 566.8 million or 3.8 per cent relative to the Intensified Surveillance Programme (ISP) programmed target of a decline of 3.0 per cent. This outturn reflected an absorption of $23 630.2 million through open market operations and an increase of $1 493.1 million in Government balances which contributed to a reduction in the net domestic assets of the BOJ. This more than offset the significant liquidity impulse arising from the accumulation in the NIR of US$255.2 million or J$15 821.8 million as well as interest payments on OMOs. (see **Figure 1.2**).

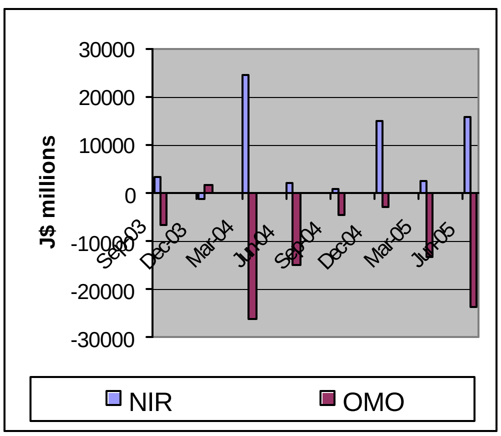
The increase in the foreign reserves was indicative of the strong preference for Jamaica Dollar liquidity and reflected market sales of over US$250.0 million to the BOJ. These foreign exchange inflows were observed

Table 1.1

Net International Reserves April – June 2005 Flows (US$MN)				
	April	**May**	**June**	**Total**
NIR	108.8	64.1	82.3	255.2

Figure 1.2

Effects of the NIR & OMO on liquidity*



*Absorption-negative, Injection-positive

mainly in April, but were evident throughout the quarter as the economy continued to show improved performance. (See **Table 1.1**) The Government raised US$300.0 million from a bond issued in June but this was used to amortize a maturing global bond as well as effecting interest payments (see **Bond and Foreign Exchange Market**).

The contraction in the monetary base was reflected in significant net redemption of currency during the quarter. The stock of currency issued by the Bank declined by $1 679.9 million or 5.9 per cent. This decline resulted mainly from the commercial banks reducing their vault cash holdings that had been built up at end March to meet the demand for holiday spending.

For the ensuing quarter, the Bank is anticipating that monetary policy will be conducted within a context of continued improvement in the macroeconomic environment. Market expectations are expected to be positive in light of the improved credibility of the fiscal authorities in meeting their targets. Improved coordination between the fiscal and monetary authorities will continue to enhance the conduct of monetary policy.

Figure 1.2
Money Supply
(Quarterly Growth rates)
June 2000 to June 2005

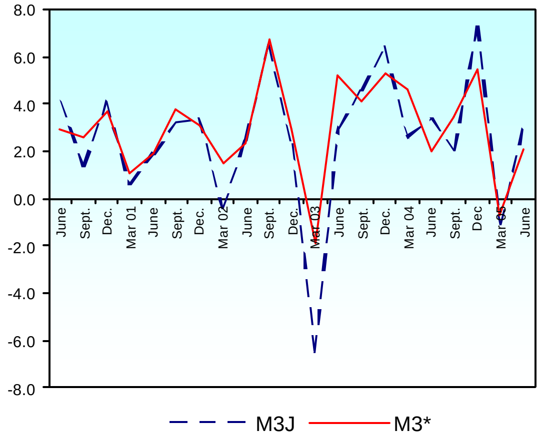


Table 1.1

Components of Money Supply June 2005 (Quarterly Growth)		
	Actual	Target
Currency in Circulation	-2.5	-6.8
Local Deposits	3.8	4.5
M3J	3.0	3.0

Table 1.2

Money Supply (12-month growth rates)		
MJ	**Jun-04**	**Jun-05**
M1J	25.0	13.8
M2J	16.8	10.8
M3J	18.1	11.7
M*		
M1*	22.3	9.0
M2*	15.9	9.7
M3*	17.0	10.5

Money Supply

For the June 2005 quarter, the growth in broad Jamaica Dollar money supply (M3J) was consistent with the programmed increase. This performance occurred in the context of the higher than programmed build-up in the NIR, which was moderated by a larger than anticipated increase in BOJ open market securities. The growth in M3J for the review quarter was solely reflected in local currency deposits, as there was a reduction in currency in circulation.

The broadest measure of money supply, M3, which includes foreign currency deposits recorded a slower rate of growth relative to M3J during the review quarter. This reflected a marginal decrease in foreign currency deposits. Against this background, the ratio of foreign currency deposits to total private sector deposits declined by 0.9 percentage points. This was consistent with the continued stability in the foreign exchange market.*

For the first quarter of FY 2005/06, broad Jamaica Dollar money supply (M3J) increased by 3.0 per cent, which coincided with the growth anticipated in the monetary programme. This expansion was relative to a 1.1 per cent reduction in the previous quarter and an increase of 3.4 per cent recorded in the June 2004 quarter (see **Figure 1.2**).

The main sources of monetary expansion during the review quarter were an increase in banking system credit of $18 671.1 million and the net build-up in the NIR of US$255.2 million, equivalent of J$15 788.6 million.

Table 1.3

INTEREST RATES IN THE DOMESTIC AND INTERNATIONAL MARKET

	Jun-04	Mar-05	Jun-05
COMMERCIAL BANK WEIGHTED AVERAGE DEPOSIT RATES			
Overall	**6.27**	**5.96**	**5.46**
Demand	3.44	3.11	3.07
Savings	5.84	5.63	4.92
Time	8.15	7.54	7.34
Foreign Currency	**3.33**	**3.26**	**3.32**
Demand	3.15	3.11	3.00
Savings	2.30	2.23	2.30
Time	5.27	5.15	5.04
6-MONTH TREASURY BILL RATE	**14.98**	**13.46**	**12.88**
BOJ 180-DAY REPURCHASE AGREEMENT RATE	**15.05**	**13.45**	**13.00**
PRIVATE MONEY MARKET RATE	**14.66**	**13.10**	**12.85**
6-MONTH US TREASURY RATE	**1.64**	**3.09**	**3.22**

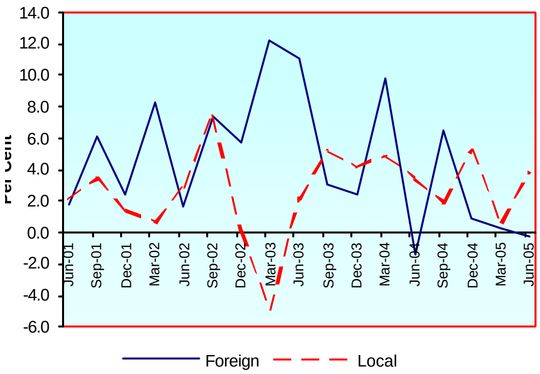
The increase in banking system credit was largely reflected in commercial bank loans to Central Government and other public sector entities. The NIR accumulation primarily reflected direct purchases by the BOJ from the market. This was in the context of buoyant capital inflows (see **Foreign Exchange Market**).

The liquidity that emanated from the expansion in M3J was moderated primarily by the build-up in BOJ open market securities. The strong demand for these instruments reflected sustained confidence in the economy and investors' expectation of continued stability in the foreign exchange market.

With respect to the liabilities of the banking system, local currency deposits grew by 3.8 per cent. This was lower than increases of 0.7 per cent in the previous quarter and 3.5 per cent in the June 2004 quarter. Within local currency deposits, 'other deposits', which largely comprises commercial banks' retained earnings grew by 6.7 per cent. Time deposits and savings deposits increased by 3.5 per cent and 2.4 per cent, respectively. This was relative to a decline of 3.5 per cent in time deposits and an increase of 4.2 per cent in savings deposits for the June 2004 quarter.

For the June 2005 quarter, there was a reduction in currency in circulation of 2.5 per cent, which translated into an annual point-to-point growth of 8.7 per cent, relative to the 12.6 per cent for the comparable period of 2004. Expressed in real terms, currency in circulation declined by 4.2 per cent during the review 12-month period relative to a decrease of 1.3 per cent for the comparable period of 2004. This could be reflective of technological innovations in banking payment systems.

Figure 1.3
Deposits in Commercial Banks
(Quarterly Growth rates)
June 2001 to 2005



There was a marginal increase in narrow money (M1J) of 0.6 per cent, relative to a reduction of 4.7 per cent in the previous quarter and an increase of 3.5 per cent in the June 2004 quarter. Of the growth in M1J during the review quarter, demand deposits increased by 3.1 per cent, relative to 1.9 per cent for the previous quarter and 4.2 per cent in the June 2004 quarter.

The broadest measure of money supply, M3*, which includes foreign currency deposits, grew by 2.1 per cent relative to a decline of 1.1 per cent in the previous quarter and an increase of 3.3 per cent for the June 2004 quarter. The slower rate of growth in M3* relative to M3J was largely attributed to a reduction in foreign currency deposits expressed in US dollars of 1.9 per cent. This was relative to an increase of 1.6 per cent in the previous quarter and a decrease of 0.8 per cent in the comparable quarter of 2004. For the 12-month period ended June 2005, the rate of growth in foreign currency deposits decelerated significantly relative to the June 2004 quarter. This slowdown reflected the lowest increase since June 1995 and was underpinned by the stability maintained in the foreign exchange market since the middle of FY 2003/04, in a context of buoyant foreign exchange flows. For the 12-month period ended June 2005, foreign currency deposits expressed in US dollars grew by 5.5 per cent, relative to an expansion of 10.8 per cent for the comparable period of 2004.

During the review quarter, the ratio of foreign currency deposits to total private sector deposits continued on the trend decline observed since May 2004 (see Figure 1.4). This ratio was 30.1 per cent at end June 2005, relative to 31.0 per cent at end March 2005 and was the lowest since the 29.9 per cent attained at end July 2003.

Figure 1.4

Foreign Currency Deposits to Total Deposits

June 2003 to 2005

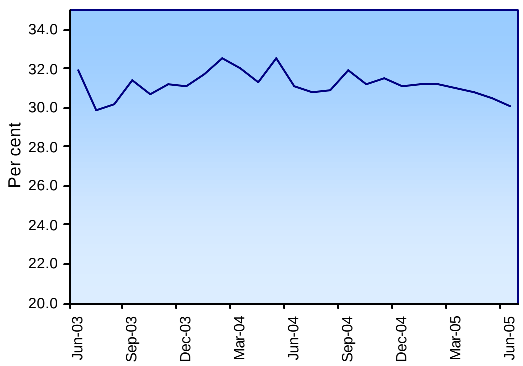


Figure 1.5

Money multiplier (Annual Trend)

June 2000 to 2005

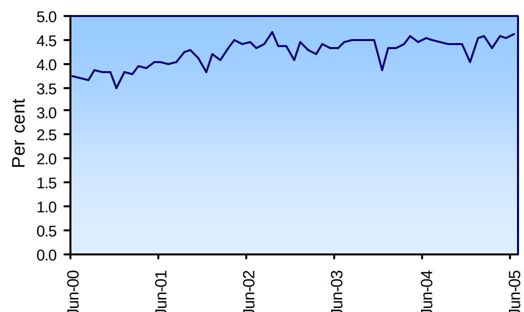


Table 1.4

COMPONENTS OF THE MONEY MULTIPLIER	Jun-04	Mar-05	Jun-05
	%	%	%
Currency to Deposits	14.60	15.06	14.16
Reserves to Deposits	10.71	11.60	10.56
Excess Reserves to Deposits	*2.46*	*3.47*	*2.57*
Cash Reserves to Deposits	*8.25*	*8.13*	*7.99*

At end June 2005, the money multiplier with respect to M3J was **4.62**, relative to **4.32** at end March 2005 and **4.53** at end June 2004 (see **Figure 1.5**). The increase in the money multiplier reflected decreases in the currency to deposits ratio and the reserves to deposits ratio (see **Table 1.4**). The decline in the currency to deposits ratio was largely reflected in currency in circulation, consistent with payment system innovations. The reduction in the reserves to deposits ratio reflected the maintenance of lower vault cash holdings by commercial banks relative to the previous quarter.

The Bank was able to contain money supply growth within the programme target, thereby underpinning continued stability in the financial markets. This was in a context of inflationary pressures related to increases in administered, agricultural and international oil prices. Further, the stability in the foreign exchange market bodes well for the continued improvement in investor confidence during the September 2005 quarter.

Figure 1.5
Quarterly Growth Rates of Private Sector Credit
March 2002 to June 2005

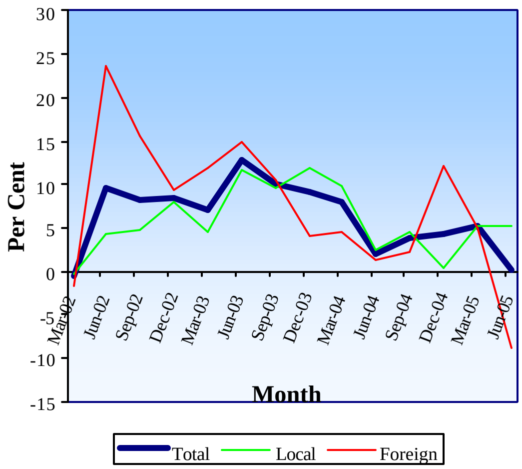


Table 1.5

Commercial Bank Distribution of Total Credit to the Private Sector (Quarterly Flows)			
	Jun-04	Prov. Mar-05	Prov. Jun-05
Total Private Sector Credit.	**1 645.9**	**3 831.8**	**160.1**
Loans and Advances	1 656.8	4 986.9	132.4
Other Investments and Private Debentures	-10.9	-1 155.1	27.7

Private Sector Credit

During the June 2005 quarter, growth in private sector credit decelerated to 0.2 per cent from 4.3 per cent in the previous quarter. The slower rate for the review quarter was influenced by the reclassification of a private sector company as a public sector entity. Notwithstanding this slowdown, notable growth was observed within **Personal Loans**, **Tourism** and **Distribution**. The overall weighted average loan rate continued to decline while the foreign currency weighted average loan rate recorded a slight increase for the two months ended May 2005.

The stock of commercial bank credit to the private sector at end June 2005 was $92 256.9 million, representing an expansion of $160.1 million or 0.2 per cent for the review quarter. This outturn was influenced by the reclassification of Air Jamaica Limited as a public sector entity, effective 30 June 2005, resulting in a downward adjustment of the stock of private sector loans. Abstracting from the adjustment, credit to the private sector would have grown by 5.4 per cent, relative to growth of 4.3 per cent in the March 2005 quarter and the 2.1 per cent expansion observed during the corresponding quarter of 2004. Also, the growth in private sector credit would have surpassed the 3.6 per cent target outlined in the monetary programme for the June 2005 quarter.

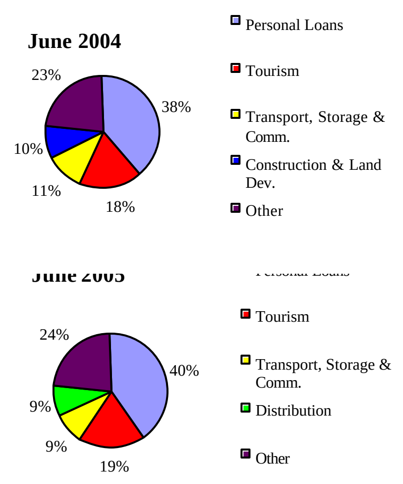
The growth in private sector credit was solely reflected in net expansions within domestic currency denominated loans, as the reclassification of loans to Air Jamaica Limited mainly affected foreign currency denominated loans (see **Figure 1.5**).

Table 1.6

Commercial Bank Distribution of Loans & Advances to the Private Sector (FLOWS J$M)

	Jun-04	Mar-05	Jun-05
Agriculture & Fishing	-389.8	500.6	-181.1
Mining & Quarrying	25.3	-18.2	32.8
Manufacturing	-362.2	588.4	413.6
Construction & Land Development	538.1	204.7	352.1
Transport, Storage & Comm.	-504.0	2 452.7	-3 597.9
Tourism	236.5	-459.6	1 063.9
Distribution	154.9	276.9	824.8
Professional & Other Services	99.8	765.5	-149.7
Personal Loans	2 016.5	715.8	1 386.3
Electricity	-126.9	-48.8	-13.8
Entertainment	-19.4	10.0	8.0
Overseas Residents	-16.1	-1.0	-6.5
TOTAL	**1 652.8**	**4 986.9**	**132.4**

Figure 1.6
Sectoral Distribution of Commercial Bank
Loans & Advances to the Private Sector
Per Cent of Outstanding Stock
June 2004 & June 2005



A sectoral distribution of credit revealed that the expansion of 4.1 per cent of **Personal Loans** was the main component of the increase in credit during the review quarter. This outturn was similar to that observed in the corresponding quarter of 2004 (see **Table 1.6**). This category continued to constitute the largest proportion of the outstanding stock of commercial banking credit to the private sector (see **Figure 1.6**) This expansion of personal loans is consistent with aggressive marketing efforts being employed by the major commercial banks, particularly in relation to the market rates charged on motor vehicle and home equity loans.

Loans to **Tourism** expanded by 7.0 per cent during the review period, in contrast to net repayments observed in the previous quarter. This increase mainly reflected a loan to a new international hotel chain. Loans to **Distribution** continued to grow, expanding by 11.7 per cent during the review quarter.

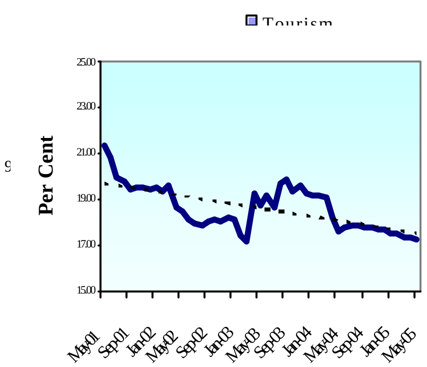
There was a significant falloff in loans within **Transport, Storage and Communication** consequent upon the reclassification of the national air carrier as a public sector entity effective 30 June 2005. This adjustment influenced the slowdown in private sector credit during the review period.

In the context of protracted stability in the market which reduced currency risk, foreign currency loans to Distribution, Tourism and Personal Loans recorded expansions in foreign currency credit of 89.4 per cent, 6.4 per cent and 9.4 per cent, respectively. Tourism continued to account for the largest proportion of total outstanding foreign currency loans (see Figure 1.7). All other categories of foreign currency loans either remained flat or recorded net repayments during the

Table 1.7

Commercial Bank Distribution of Foreign Currency Loans & Advances to the Private Sector (FLOWS US$M)			
	Jun-04	**Mar-05**	**Jun-05**
Agriculture & Fishing	-0.2	1.6	0.0
Mining & Quarrying	0.0	0.0	0.0
Manufacturing	-2.7	4.0	-3.2
Construction & Land Dev.	0.0	0.5	-3.1
Transport, Storage & Comm.	-7.5	12.1	-59.7
Electricity, Gas & Water	0.0	-0.3	-10.0
Distribution	3.0	0.4	28.1
Tourism	2.5	0.3	14.9
Entertainment	-0.1	0.0	0.1
Professional & Other Services	10.6	11.1	-18.4
Personal Loans	0.4	-4.0	3.9
Overseas Residents	0.0	0.0	0.0
TOTAL	**5.9**	**25.7**	**-47.5**

Figure 1.7
Sectoral Distribution of Foreign Currency Loans & Advances to the Private Sector
Per Cent of Outstanding Stock
June 2004 & June 2005



quarter (see **Table 1.7**). The decline in loans to **Transport, Storage and Communication** reflected the reclassification of Air Jamaica Limited. **Professional & Other Services** and **Electricity, Gas & Water** recorded significant net repayments during the review quarter.

Consequent upon the reclassification of Air Jamaica Limited, the ratio of foreign currency loans to total loans was adjusted to 32.5 per cent at end June 2005 from 35.7 per cent recorded at end March 2005 and 33.5 per cent observed at end June 2004.

Interest Rates

During the June 2005 quarter, the overall weighted average loan rate on private and public sector loans declined, continuing the general downward trend observed over the last four years (see **Figure 1.8)**. This rate declined by 12 basis points over the two-month period ended May 2005 and was 36 basis points than a year earlier.

During the two months ended May 2005, the weighted average rate on public sector loans continued to decline and by end May 2005 was 23 basis points lower than the rate at end March 2005. The rate of at end May 2005 was 217 basis point lower than end May 2004.

The weighted average rate charged on domestic currency loans to the private sector decreased to 18.61 per cent at end May 2005 from 18.79 per cent at end March 2005. The 18 basis point reduction in the rate over the two-month period reflected a decrease in the rates charged on all categories of private sector credit (see **Table 1.8)**.

However, there was a 10 basis point increase in the rate for the twelve-month period ended May 2005, due primarily to a 140 basis point jump in the rate charged on **Personal Loans**

At end May 2005, the weighted average rate charged on foreign currency loans was 9.28 per cent, 7 basis points higher than the rate at end March 2005 and the 8.57 per cent rate observed at end May 2004. The increase for the twelve-month period ended May 2005 was reflected mainly in a 345 basis point jump in the rate charged on **Personal Loans** and to a lesser extent, increases in the rates charged on loans to Commercial entities and Local Government and Other Public enterprises. This occurred in a context of increases in US interest rates.

Performance Indicators

At end June 2005, the ratio of private sector credit to total assets remained at the 26.9 per cent rate recorded at end March 2005. However, there was a significant increase in this ratio vis-à-vis the 25.1 per cent observed at end June 2004. This reflected the deliberate strategy of the commercial banks towards a stronger focus on private sector lending.

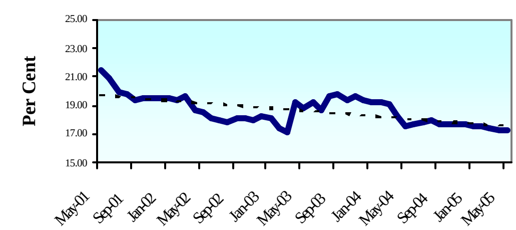
The quality of the banks' loan portfolio continued to improve as evidenced by a further decline in the ratio of past due loans (over three months) to total loans. This ratio fell to 2.4 per cent at end June 2005 relative to 2.5 per cent ratio at end March 2005 and 2.9 per cent ratio at end June 2004 (see **Figure 1.9**).

Table 1.8

Commercial Bank
Domestic Currency Average Weighted
Lending Rates by Loan Type
Per Cent

	May-04	Mar-05	May-05
Overall	**17.59**	**17.35**	**17.23**
Public Sector	15.19	13.25	13.02
Local Govt. & Other Public Ent.	13.61	11.45	11.24
Central Government	18.53	16.92	16.60
Private Sector	18.51	18.79	18.61
Instalment	24.14	23.65	23.53
Mortgage	20.89	19.83	19.57
Personal	28.13	29.92	29.53
Commercial	14.27	14.01	13.99

Figure 1.8
Commercial Banks' Weighted Average Loan Rate
May 2001 to May 2005



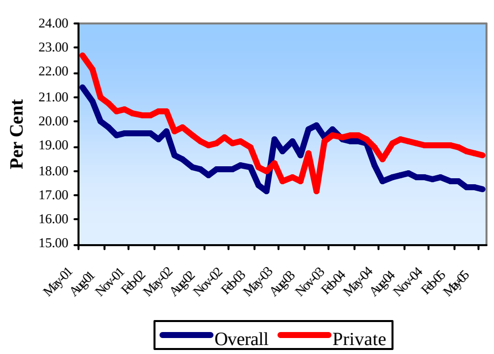
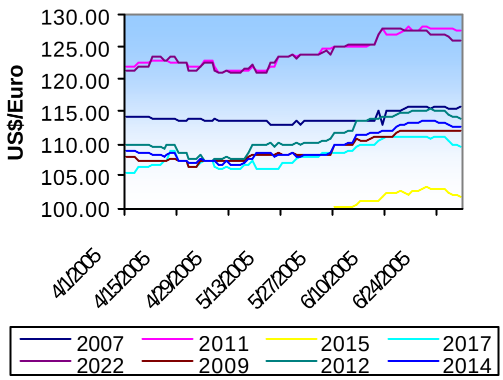


Figure 1.9

Commercial Banks Past due Loans Three Months and over to Total Loans June 2003 to June 2005



Box 1. *Credit Bureaux and Financial Market Efficiency*

Introduction

The efficiency and development of credit markets depend critically on the quality of information available to lenders as this determines their ability to assess repayment risk. In practice, lenders have limited historical information on the risk profile of potential borrowers (asymmetric information), which has adverse implications for both lenders and borrowers. In the absence of adequate information, less risky borrowers could be denied loans or face higher borrowing costs than is warranted by their risk profile. Alternatively, high-risk borrowers, who are less likely to repay, could gain access to the limited pool of loanable funds.

Credit Bureaux Around the Globe

Formal information exchanges, as occur through private credit bureaux or public credit registries help lenders to identify good borrowers.[1] By collecting information on past payment behaviour of potential borrowers for distribution to lenders these institutions reduce the incidence of adverse selection. Globally, credit bureaux are emerging as being critical to well-functioning credit markets. For example, the deepening of credit markets in Italy, France, Spain, Portugal and Belgium, was found to be attributable to the fact that banks operating in those countries were able to monitor the overall indebtedness of their clients.[2] Additionally, a World Bank survey published in 2003 indicated that 84.0 per cent of 43 financial institutions in 17 Latin American countries relied on data from a credit registry for evaluating consumer loans and 93.0 per cent used registry data for evaluating commercial loans. All institutions surveyed valued credit registry information over collateral or the borrower's history with the bank.[3]

The Benefits of Credit Bureaux

Many empirical studies on existing credit bureaux have cited the positive impact of these institutions on reducing default rates, improving access to credit, and enhancing the efficiency of on-site supervision of financial institutions.[4] Additionally, by using information contained in credit registries,

[1] Public credit registers are databases created by public authorities and managed by central banks. Private credit bureaux, on the other hand, typically operate on the principle of reciprocity. They collect, file and distribute the information supplied voluntarily by their members. Private credit bureaux have tended to evolve from profit-driven motives or cooperative arrangements between agents with mutual interests.

[2] Jappelli, Tullio & Pagano, Marco, (2000), "Information Sharing, Lending and Defaults: Cross-Country Evidence," CEPR Discussion Paper No. 2184, CEPR. Discussion Papers.

[3] Miller M. (2003): "Credit Reporting around the Globe", in M.J. Miller (ed.), Credit Reporting Systems and the International Economy, Boston: MIT Press.

[4] However, empirical studies regarding the impact of credit sharing information systems on interest rates remains ambiguous.

lending institutions are able to institute drastic cuts in the costs of, and time involved in, loan preparation. For example, a 2001–2002 survey of bankers in 34 countries with credit registries showed that banks made significant gains when they had access to information from credit registries. More than half the respondents said that when they used credit history they were able to cut loan processing time, costs, and defaults by more than 25.0 per cent.[5]

Credit Bureaux: The Jamaican Context

The banking sector in Jamaica has expressed an interest in, and has taken steps to establish, a private credit bureau that would operate in accordance with international best practice standards. In Jamaica, collateral has traditionally been used as a method of mitigating repayment risk. Unfortunately, this has also served to reduce the pool of potentially viable borrowers who may have safe projects but lack sufficient collateral. By addressing the adverse selection challenges of lenders, information obtained from credit bureaux would allow for enhanced channelling and pricing of domestic loanable funds in Jamaica. Also, access to credit information can increase borrowers' incentive to repay because good 'reputational collateral' could be used instead of financial collateral to secure competitive loan rates.

All credit bureaux need to protect the privacy rights of individuals and firms while ensuring that appropriate information is channelled efficiently to potential lenders. As such, new legislation is often needed to facilitate the transmission of private information to bureaux on the one hand, and to protect the privacy rights of individuals and agencies on the other. Best practice standards suggest that legislation should allow borrowers to access their own credit reports and define a clear and efficient process to challenge incorrect information. Additionally, credit bureaux are generally prohibited from sharing information without written consent from the borrower. However, overly restrictive information sharing laws, for example, those that have complicated and expensive conflict resolution procedures, may discourage firms from entering the credit reporting business. This could increase the cost of credit reports, which would be passed on to borrowers through higher lending rates.

Summary

In summary, the use of credit bureau data represents an important tool for credit risk management by lenders. They contribute to the reduction of spreads offered by financial institutions and to a deepening of credit markets, as information sharing about potential borrowers is generally an efficient and effective mechanism to reduce repayment losses.

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[5] Op.cit. Miller (2003)

Bond Market

Activity in the domestic bond market for the June quarter was characterised by portfolio switching from foreign currency to Jamaica Dollar instruments. Interest was largely in BOJ securities for which net placements in the 30-day to 365-day tenors amounted to $27 435.3 million, compared to $12 803.5 million in the previous quarter. With respect to Government borrowing, the GOJ sourced US$300.0 million on the international capital market at an interest rate of 9.0 per cent. The offer was to replace a maturing Eurobond of US$250.0 million. In addition, positive reports on Jamaica from international financial institutions and credit rating agencies aided strong performance of existing GOJ global bonds. Domestic interest rates continued to decline in the context of adequate liquidity, the Government's external borrowing and foreign exchange market stability. This downward trend was reflected in the reduction in interest rates offered on BOJ instruments, the Government issuing new debt at lower yields, as well as relatively low and stable interest rates in the private money market.

Investors switch from foreign currency to Jamaica Dollar instruments.

Developments in the domestic bond market for the June quarter were influenced by the improved confidence in the Jamaican economy, as evidenced by increased volumes of foreign currency inflows (see **Foreign Exchange Market**) and the switching from foreign currency to Jamaica Dollar instruments. The conversion of excess foreign currency flows into Jamaican currency, as well as unwinding of foreign exchange positions by local financial institutions, provided adequate liquidity for subscriptions to local debt instruments.

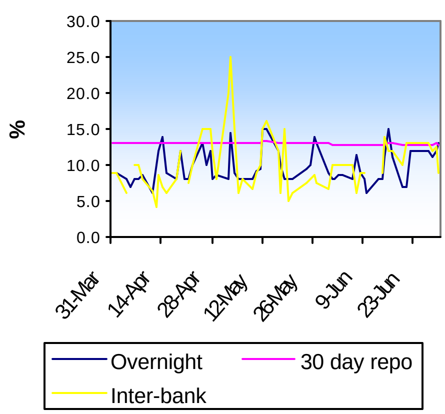
Table 1.8

Placements and Maturities* in BOJ OMO Instruments April-June 2005

	Maturities (%)	Placements (%)
30 Days	48.6	40.8
60 Days	2.0	2.1
90 Days	6.8	7.3
120 Days	2.2	2.9
180 Days	5.0	8.6
270 Days	1.8	2.1
365 Days	33.6	36.2

**Excludes overnight transactions during the period*

Figure 1.13
Private Money Market
Maximum Interest Rates
April- June 2005



Given the context of fewer GOJ offers, a bearish stock market and stability in the foreign exchange market, investment in BOJ securities dominated bond market activity for the quarter. There were net issues of $27 435.3 million on the 30-day to 365-day open-market instruments. This represented more than twice the amount of net issues over the previous quarter. BOJ securities continued to prove attractive to investors even with an interest rate reduction on these instruments in the middle of the quarter.

Placements in open-market instruments remained concentrated in the 30-day and 365-day tenors, accounting for 40.8 per cent and 36.2 per cent, respectively, of total subscriptions (see **Table 1.8**). The high demand for the 365-day tenor could be attributed to investors' attempt to take advantage of current rates given the prevailing downward trend in interest rates. Significant placements in the 30-day tenor were reflective of investor cash flow management.

The adequate liquidity conditions resulted in relatively low interest rates in the private money market for most of the quarter. The 30-day private repurchase rate averaged 13.1 per cent for the June quarter, compared to 13.6 per cent in the March quarter. Rates in the overnight and inter-bank markets were fairly stable in the quarter, except for a spike in the inter-bank rate on 3 May. This was as a result of a temporary liquidity crunch in one financial institution (see **Figure 1.13**).

Table 1.9

GOJ Public Domestic Debt Raising April - June 2005	Amount Allotted (J$MN)	Amount Maturing (J$MN)	Net Issue (J$MN)
Treasury Bills	1 750.0	1 750.0	0.0
LRS	400.0	9 038.3	-8 638.3
Investment Debenture	3 594.1	6 297.3	-2 703.2
Investment Bonds	13 039.3	0.0	13 039.3
Promissory Notes	0.0	74.6	-74.6
US$ Indexed Bonds	0.0	905.2	-905.2
US$ Denom. Bonds	0.0	33.5	-33.5
Total	**18 783.4**	**18 098.9**	**684.5**

Government debt offers heavily oversubscribed forcing early closure of some issues.

Table 1.10

Treasury Bill Auctions & Maturities April - June 2005				
Issue Date	Tenor (days)	Avg. Yield (%)	Allotment (J$MN)	Amount Maturing (J$MN)
29 Apr. 05	182	13.43	400.0	400.0
20 May 05	91	13.19	300.0	300.0
27 May 05	182	13.43	400.0	400.0
24 Jun. 05	91	12.85	250.0	250.0
24 Jun. 05	182	12.88	400.0	400.0
Total			**1 750.0**	**1 750.0**

Within the context of favourable liquidity conditions, Government offers to the market were oversubscribed, necessitating the early closure of offers on two occasions. Accordingly, total subscriptions of $18 783.4 million for the quarter were funded by maturing GOJ securities of $18 098.9 million, in addition to proceeds from foreign currency sales (see **Table 1.9**).

The positive outlook for the Jamaican economy, coupled with prevailing liquidity conditions, allowed the Government to continue its strategy of issuing new debt at longer maturities and lower yields. In this regard, the Government successfully issued a 48-month instrument fixed at a lower coupon rate of 13.875 per cent in June, relative to a similar issue of 14.625 per cent in April (see **Appendix 8B**). Concurrently, the tenor on three successive variable rate investment bonds was lengthened from 30 months in May to 78 months in June. Overall, the average tenor of new issues during the quarter was extended to five and a half years from four and a half in the previous quarter.

Treasury Bill yields also trended down over the review quarter. The average yield on the 182-day instrument decreased by 58 basis points to 12.88 per cent at the last Treasury Bill auction in June (see **Table 1.10**). This rate was 12 basis points below the comparable BOJ rate. The willingness of market investors to accept lower interest rates could be suggestive of lower inflation expectations given current confidence in the Jamaican economy.

Figure 1.14
GOJ Global Bond Prices
April - June 2005

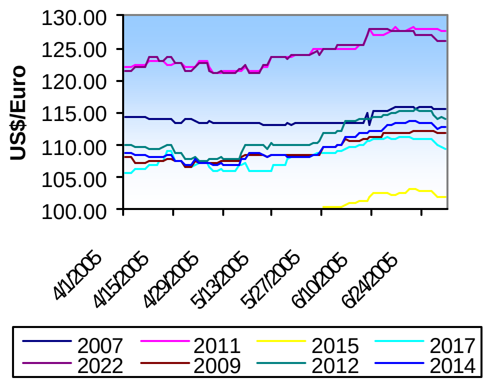


Figure 1.15
GOJ Global Bond Yields
April - June 2005

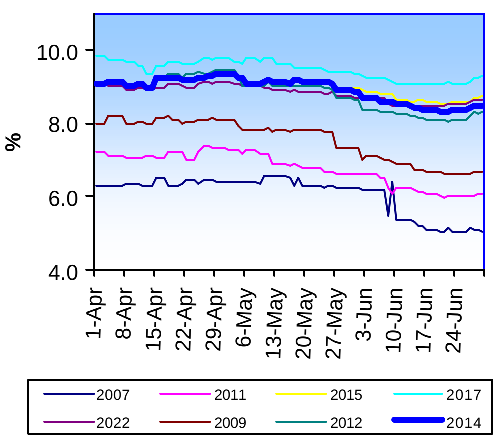
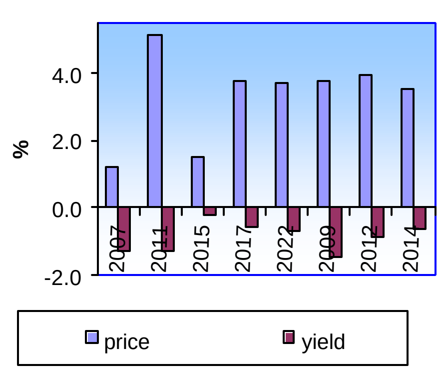


Figure 1.16
Quarterly Change in
GOJ Global Bond Prices & Yields
April - June 2005



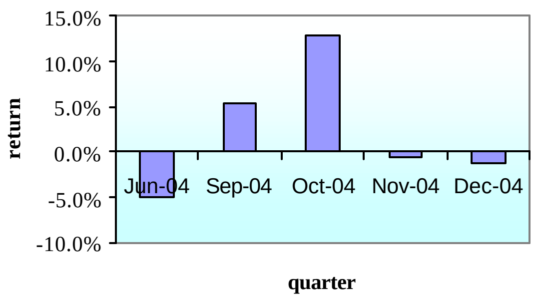
On 2 June 2005, the Government sourced US$300.0 million on the international capital market through the issue of a 10-year Eurobond. This security replaced a maturing Eurobond of US$250.0 million (principal). The new offer had a coupon rate of 9.0 per cent, which was the lowest rate at which the GOJ had ever issued a bond in the international capital market. The instrument was heavily oversubscribed by investors.

Towards the end of the quarter, on 28 June 2005, the national airline issued a Government-guaranteed Eurobond of US$200.0 million. This bond also had a tenor of 10 years, but carried a fixed coupon of 9.375 per cent. The slightly higher premium was due to the increased risk profile of the airline. The bond received a credit rating of B1 from Moody's and B from Standard & Poor's.

The favourable report on Jamaica by the International Monetary Fund, as well as positive endorsements of the country's macroeconomic performance by credit rating agencies, was reflected in strong performance of GOJ global bonds. Secondary market trading revealed overall price increases on all Eurobonds with those maturing in 2011, 2012 and 2017 increasing by 5.15 per cent, 3.95 per cent and 3.70 per cent, respectively (see **Figure 1.14** and **Figure 1.16**). In terms of corresponding yields however, the biggest declines were on the shorter maturities with the Eurobonds maturing in 2009, 2011 and 2007 declining by 149 basis points, 131 basis points and 126 basis points, respectively (see **Figure 1.15** and **Figure 1.16**). After only a month of trading, the price on the most recently issued Eurobond due to mature in 2015 had increased by 1.50 per cent, resulting in a yield of 8.73 per cent.

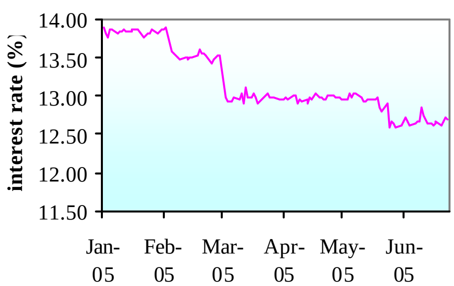
Figure 1.18
Quarterly Growth of the Main JSE Index

June 2004- June 2005



Source: Jamaica Stock Exchange

Figure 1.19
30- Day Private Repo Rate
January 2005- June 2005



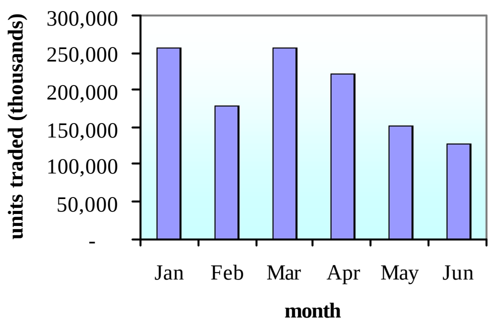
Stock Market

For the June 2005 quarter, the stock market recorded its second consecutive quarterly decline. This occurred against the background of mixed earnings reports from listed companies. The downturn also took place despite further declines in interest rates and an Initial Public Offer (IPO) during the quarter. However, for the September 2005 quarter., continued macroeconomic stability coupled with an improvement in the earnings of listed companies, could lead to a positive performance of the market.

The stock market declined moderately during the June 2005 quarter despite an accommodating macroeconomic environment characterized by stability in the foreign exchange and money markets, as well as declining interest rates (see **Figure 1.19**). The Main Jamaica Stock Exchange (JSE) Index declined by 1.2 per cent to close the quarter at 110 621.88 points. Additionally, the All Jamaica Index and the Jamaica Select Index declined over the review quarter by 4.9 per cent and 5.4 per cent to 115 434.23 points and 3 054.24 points, respectively. This decline in the Main JSE Index for the review quarter was larger than the decline of 0.6 per cent recorded in the March 2005 quarter, but was less than the decline of 4.9 per cent in the June 2004 quarter (see **Figure 1.18**).

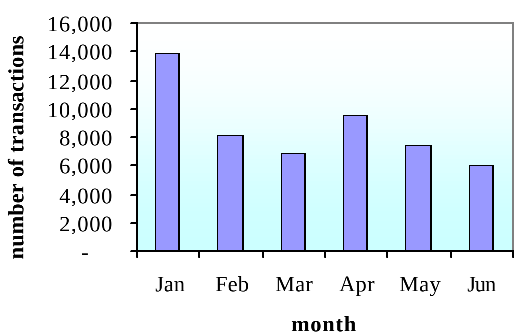
The decline in the indices reflected the overall moderation in demand for stocks as the total number of transactions and the volume of shares traded declined during the quarter. The total volume of shares traded during the June 2005 quarter declined by 27.4 per cent compared to the increase of 30.7 per cent in the March 2005 quarter and

Figure 1.20
Monthly Units Traded
January – June 2005



Source: Jamaica Stock Exchange

Monthly Transactions
January – June 2005



Source: Jamaica Stock Exchange

consequently, market capitalization declined by 31.4 per cent to J$7 275 million. The number of transactions declined by 20.7 per cent compared to an increase of 52.0 per cent in the previous quarter.

Although there was an overall decline for the quarter, all three indices increased in April. Favourable earnings reports by some of the listed companies and relatively low stock prices across the market contributed to the strong price gains for the month. [6] Trading activity was also supported by the Initial Public Offer (IPO) of Mayberry Investments Ltd., which helped to increase the average daily volumes traded as well as market capitalization towards the end of the month.[7]. The Main JSE Index, the All Jamaica Index and the Jamaica Select Index increased by 6.5 per cent, 6.0 per cent and 4.3 per cent, respectively, for the month.

In May, equity prices fell as a result of profit-taking, given the large price gains of the previous month, as well as earnings reports from listed companies that were somewhat below expectations. The total number of shares traded declined by 32.0 per cent to 151.7 million units and the number of transactions declined by 22.7 per cent to 7 395 (see **Figures 1.20 & 1.21**). Consequently, the Main JSE Index, the All Jamaica Index and the Jamaica Select Index declined by 4.2 per cent, 7.7 per cent and 6.9 per cent, respectively.

[6] The monthly price changes for each stock averaged 10.0 per cent in April compared to -6.0 per cent and -2.6 per cent in May and June, respectively. Thirteen listed companies released their earnings reports to the market in April with ten of these reflecting an increase in profits.

[7] During the period between Mayberry's IPO on 21 April 2005 and the last day of trading for the month on 29 April 2005, the total volume of shares traded for the month increased by 100.8 per cent. The shares of Mayberry Investments Ltd represented 54.1 per cent of shares traded during this period.

Table 1.12
Top Ten of the 15 Price Gains
June 2005 Quarter

Sectors / Companies	Price at 31-June-05 $	Qtr. Change %
Trinidad Cement Ltd.	115.05	42.7
Desnoes & Geddes Co. Ltd.	9.50	15.9
Carreras Group Ltd.	34.75	8.6
Financial		
Mayberry Investments Ltd	6.45	27.7
Banking		
First Caribbean Int'l Bank (Ja.)	17.49	20.6
Other Services		
Kingston Wharves Ltd.	5.55	23.6
Tourism		
Montego Freeport Ltd.	2.30	11.7
Media		
Gleaner Company Ltd.	3.35	23.2
Radio Jamaica	6.50	8.3
Insurance		
Guardian Holdings Ltd.	430.10	4.9

Source: Jamaica Stock Exchange

All indices declined further during June despite a downward adjustment in interest rates by the BOJ.[8] The number of transactions decreased by 19.2 per cent to 5 977 relative to May (see **Figure 1.21**). The Main JSE Index, the All Jamaica Index and the Jamaica Select Index declined by 3.1 per cent, 2.8 per cent and 2.5 per cent, respectively.

For the June 2005 quarter, 15 stocks recorded price gains while 17 experienced declines. This compares with the 21 stocks that had recorded gains and the 14 that declined in the March 2005 quarter.[9] The stocks from the manufacturing, media and other services sectors dominated the top ten stock price performers in the June 2005 quarter (see **Table 1.12**). However, the price declines of other manufacturing, financial and banking stocks were the main contributors to the decline in the stock market (see **Table 13**). Together, the declining stocks from these and other sectors represented 56.5 per cent of total market capitalization.

Regionally, the main stock market indices of the Trinidad & Tobago Stock Exchange and the Barbados Stock Exchange recorded increases during the June 2005 quarter. The Composite Index in Trinidad & Tobago increased by 1.9 per cent and the Local Index in Barbados increased by 2.1 per cent (see **Figure 1.22**).[10]

[8] The BOJ reduced the interest rates across all tenors of its OMO instruments on 26 May 2005.

[9] The decline in trading during the quarter may have been affected by equity investors' anticipation of the private placement of Supreme Ventures Ltd. in July 2005. The private placement, which is a precursor to its IPO in the fourth quarter of 2005, was expected to raise $1..8 billion.

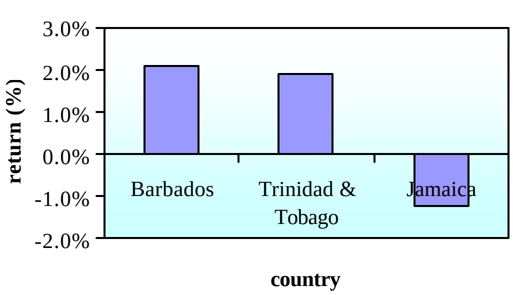
[10] The price changes of the Trinidad & Tobago and Barbadian stocks listed on the JSE have a large influence on this index. As at 26 April 2005, the market share of these stocks represented a combined 48.0 per cent of the total market capitalization of the JSE.

Table 1.13
Top Ten of the 17 Declining Stocks
June 2005 Quarter

Sectors / Companies	Price at 31-June-05 $	Qtr. Change %
Manufacturing		
Berger Paints (Ja.) Ltd.	4.44	-20.0
Jamaica Producers Group Ltd.	33.51	-16.8
Jamaica Broilers Group Ltd.	4.96	-8.1
Seprod Ltd.	14.40	-5.6
Financial		
Capital & Credit Merchant Bank Ltd.	22.95	-15.3
Pan Caribbean Fin. Services	32.90	-9.6
Jamaica Money Market Brokers	15.75	-7.4
Banking		
Bank of Nova Scotia (Ja.) Ltd.	23.00	-22.0
Conglomerates		
Pan Jam Investment Trust Ltd.	61.50	-8.8
Insurance		
Life of Jamaica Ltd.	10.50	-6.2

Source: Jamaica Stock Exchange

Figure 1.22
Stock Market Returns on the Major Regional Stock Markets



Sources: Jamaica Stock Exchange, Trinidad & Tobago Stock Exchange, Barbados Stock Exchange

Continued macroeconomic stability and improved earnings reports by listed companies should provide a favourable environment for a better performance of the stock market in the upcoming quarter. However, the actual outturn for the September quarter, which has traditionally been the strongest, on average, over the last decade, could be impinged by equity investors' anticipation of the IPO of Supreme Ventures Ltd. in the December quarter.

Figure 1.23
Percentage Change in Weighted Average Selling Exchange Rate (end of period) (J$1.00= US$)

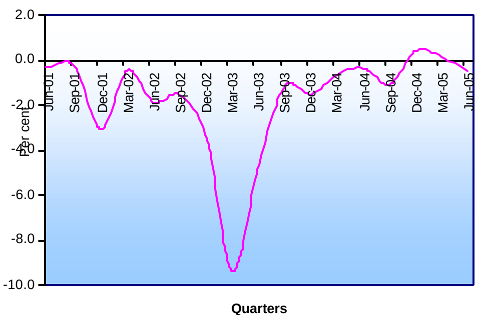
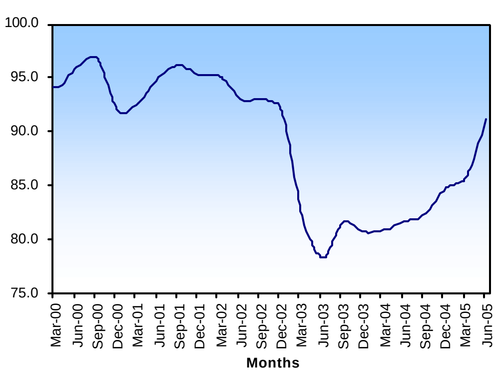


Figure 1.24
Real Effective Exchange Rate Index* (December 1998 = 100)



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

Foreign Exchange Market

The exchange rate appreciated by 0.2 per cent during the June 2005 quarter, following a marginal cumulative depreciation of 0.04 per cent over the three preceding quarters. The continued stability in the foreign exchange market during the June 2005 quarter was underpinned by buoyant capital inflows, attributed in part to changes in the desired currency composition of investor portfolios in favour of Jamaica Dollar denominated assets. These portfolio shifts were evident among the Authorized Dealers who reduced their long positions in foreign currency denominated assets and were a major source of the Bank of Jamaica's net purchase of US$229.1 million from the market over the quarter. The Bank's gross reserves at end-June stood at US$2 179.3 million, representing 19.3 weeks of estimated goods and services imports. This was well above the international norm of 12 weeks.

The foreign exchange market displayed relative stability over the quarter. The local currency price of the US dollar averaged J$61.69 in the June 2005 quarter compared with an average of J$61.79 in the March 2005. On average therefore, there was an appreciation of 0.2 per cent in the weighted average selling rate of the US dollar vis-à-vis the Jamaica Dollar June 2005 quarter, following a cumulative marginal depreciation of 0.04 per cent over the preceding three quarters (see Figure 1.23).

The relative stability in the foreign exchange market was principally influenced by an estimated increase of US$311.0 million in net private capital flows during the June 2005 quarter, compared with the March 2005 quarter. This increase may have been associated with foreign direct investment projects, which were planned for this fiscal year, as well as changes in the currency composition of

Foreign exchange market activity dominated by private capital flows…

investors' portfolios. With respect to the latter source of inflows, investors unwound US dollar positions over the quarter to participate in relatively more attractive Jamaica Dollar assets. The available data indicate that the Authorised Dealers, for example, reduced their long foreign currency portfolio positions by approximately US$91.2 million during the quarter. These portfolio adjustments were consistent with the protracted stability in the foreign exchange market, which implied a lower level of exchange rate risk. In addition, the positive performance of the domestic fiscal accounts and favourable reviews about the economy by major commentators in the international arena would have contributed to an increase in investor confidence about the future.

Significant increases in crude oil prices increased net outflows from current transactions…

The Bank of Jamaica's estimates suggest that for the June quarter, net demand through the current account of the balance of payments rose by approximately US$90.0 million, relative to the March quarter. The net demand reflected a fall of US$34.0 million in inflows, principally associated with seasonally lower remittance flows, and a growth of approximately US$58.0 million in payments. The additional demand for foreign currency was influenced mainly by a higher fuel bill, in the context of an increase of 6.9 per cent in the average price of crude oil[11] for the quarter, relative to the March 2005 quarter.

Consistent with the increase in net demand from current account transactions, the Authorized Dealers net sold US$244.6 million to the market in the review period, compared with net sales of US$109.5 million in the March 2005 quarter. This increase reflected respective growth of US$23.4 million and US$158.5 million in their purchases and sales over the quarter.

[11] As measured by the West Texas Intermediate index.

Figure 1.27
Authorised Dealers Foreign Currency Transactions

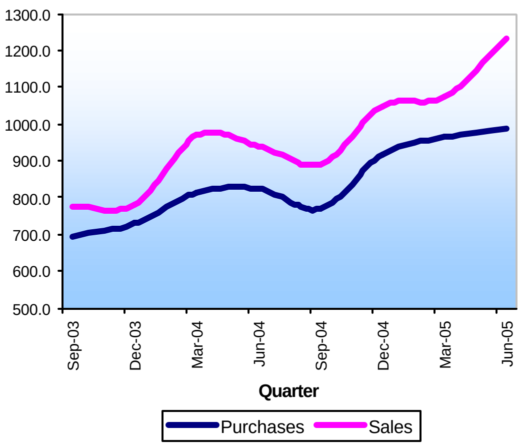


Table 1.11

Net International Reserves (US$MN)			
Month	Stock	One Month Change	Three Month Change
Jun-04	1604.1	-111.6	35.4
Jul-04	1594.7	-9.4	-146.9
Aug-04	1643.5	48.8	-72.2
Sep-04	1616.5	-26.9	12.4
Oct-04	1826.6	210.1	231.9
Nov-04	1816.0	-10.6	172.6
Dec-04	1858.5	42.5	242.0
Jan-05	1847.5	-11.0	20.9
Feb-05	1831.0	-16.5	15.0
Mar-05	1901.6	70.5	43.1
Apr-05	2010.4	108.9	162.9
May-05	2074.5	64.1	243.5
Jun-05	2156.8	82.3	255.2

The Bank mitigated the liquidity effects arising from increased net private capital inflows by making net purchasing of **US$229.1 million** from the system (excluding surrenders and regular mining related purchases). This level of net purchase from the market was relatively large, and contrasts with the average quarterly net sales of approximately US$14.5 million during FY2004/05. In this context, the NIR rose by US$255.2 million, relative to the stock at end-March 2005 (see **Table 1.11**). The Bank's gross reserves at end-June stood at US$2 179.3 million, representing 19.3 weeks of estimated goods and services imports, well above the international norm of 12 weeks.

With regard to international competitiveness, Jamaica's Real Effective Exchange Rate (REER) index appreciated by 6.4 per cent in the June 2005 quarter, representing a loss in external competitiveness (see **Figure 1.24**). The twelve-month point-to-point change in the REER as at June 2005 also reflected an 11.7 per cent loss in competitiveness. The deterioration in the REER during the quarter largely reflected an increase in relative prices, given a relatively high level of domestic inflation over the quarter (see **Inflation**). In addition, the appreciation in the REER was influenced by the weakening of the weighted exchange rate index of Jamaica's main trading partners, relative to the US dollar, led by respective depreciations of 0.4 per cent and 0.2 per cent in the Euro and Great Britain Pound (GBP).

2. Real Sector Developments

Table 2.1

SECTORAL CONTRIBUTION TO GROWTH June 2005 Quarter	Estimated Impact on Growth
1.GOODS	+ve
AGRICULTURE FORESTRY & FISHING	-ve
MINING & QUARRYING	+ve
MANUFACTURING	+ve
CONSTRUCTION & INSTALLATION	+ve
2.SERVICES	+ve
BASIC SERVICES	+ve
Electricity & Water	+ve
Transport Storage & Communication	+ve
OTHER SERVICES	+ve
Distributive Trade	+ve
Financing & Insurance Services	+ve
Real Estate & Business Services	+ve
Producers of Government Services	-ve
Miscellaneous Services	-ve
Households & Private Non-Profit Inst.	+ve
TOTAL GDP	+ve

Adverse weather conditions moderated overall real sector performance

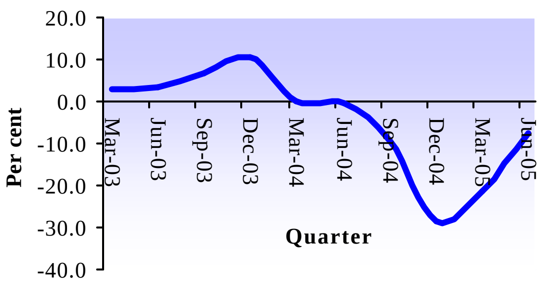
Estimates of economic performance indicate moderate expansion in the June 2005 quarter. Economic activity during the review quarter was tempered by adverse weather conditions which affected the main tradable sectors. For the review quarter, growth emanated primarily from services, as the performance of the goods producing sector was constrained by declines in agriculture and miscellaneous services (see ***Table 2.1****).*

The expansion in the economy was largely driven by investment spending, which was partially offset by declines in private and public consumption as well as net external demand.

Aggregate Supply

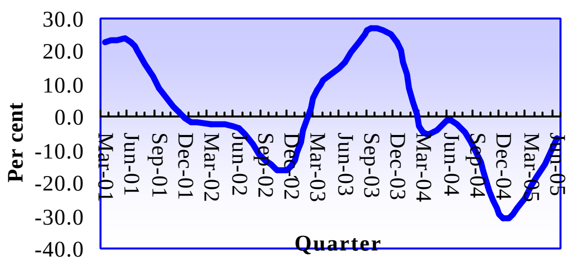
Leading indicators of economic performance suggest a moderate expansion in Gross Domestic Product (GDP) for the June 2005 quarter. There were notable expansions in ***Construction & Installation***, ***Financing & Insurance***, and to a lesser extent ***Manufacturing*** and ***Distributive Trade.*** This performance, particularly in ***Construction & Installation*** was largely driven by private and public investment. Further, the stable macroeconomic conditions facilitated continued growth in ***Real Estate & Business Services***, ***Transport, Storage & Communication*** and ***Electricity & Water***. The growth in these sectors, however, was largely offset by declines in ***Agriculture Forestry & Fishing*** and ***Miscellaneous Services***.

Figure 2.1
Agriculture: Quarterly Growth Rate
(12-Month change)



Source: STATIN, Bank of Jamaica

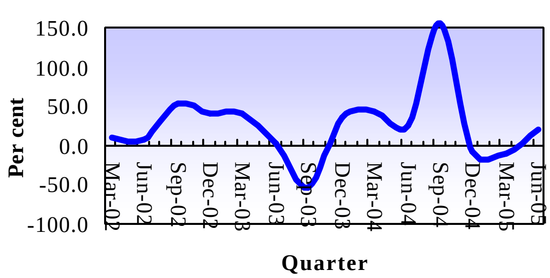
Figure 2.2
Trends in Domestic Crop Production
(12-Month change)



Source: Ministry of Agriculture, Bank of Jamaica

Figure 2.3
Trends in Sugar Cane Milled

(12-Month change)



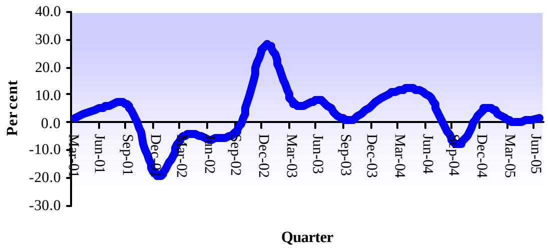
Source: Sugar Corporation of Jamaica

Agriculture, Forestry & Fishing continued to decline in the June 2005 quarter, albeit at a slower rate than the average quarterly decline of 12.9 per cent between March 2004 and March 2005 (see **Figure 2.1**). The continued reduction in the output of this sector reflected the severe drought conditions in the previous quarter and heavy rains in the latter part of the review quarter. These weather conditions have significantly retarded the post-Hurricane Ivan recovery process.

Domestic agriculture is estimated to have contracted by 10.0 per cent, driven primarily by the decline in the production of vegetables and fruits (see **Figure 2.2**). There was also an appreciable fall in export agriculture. Sugar cane production, in particular, declined by 6.4 per cent, partly reflecting the impact of Hurricane Ivan and the late completion of refurbishing work at one of the factories, which delayed the sugar cane harvest (see **Figure 2.3**). There was, however, an improvement in export agriculture when compared to the previous quarter, due to partial recoveries in banana and citrus.

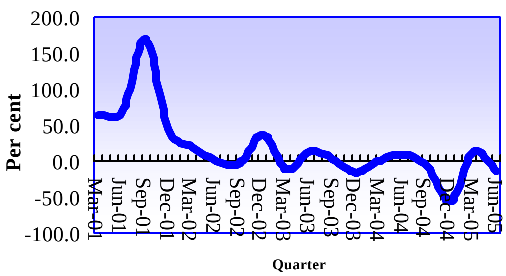
Mining & Quarrying is estimated to have increased marginally during the review quarter, below the trend quarterly growth of 4.1 for the previous three years. The increase of 1.5 per cent in alumina production was partially offset by the decline of 3.5 per cent in total bauxite production (see **Figure 2.4**). The reduction in bauxite output reflected a significant fall of 14.5 per cent in crude bauxite mined for export (see **Figure 2.5**). Capacity utilisation in bauxite mining declined to 76.2 per cent, relative to 96.8 per cent and 95.7 per cent in the March 2005 and June 2004 quarters, respectively. This was attributable to the loss in man-hours arising from a labour dispute at the bauxite company. The marginal growth in alumina since the start of 2005 reflected the

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



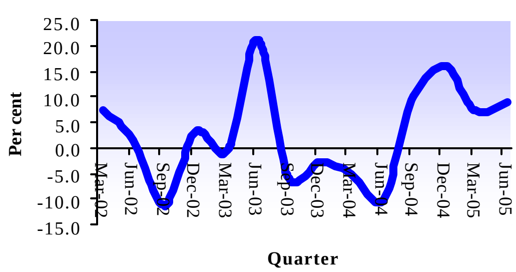
Source: Jamaica Bauxite Institute

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



Source: Jamaica Bauxite Institute

Figure 2.6
Trends in Beverage Production
(12-Month change)



Source: PIOJ

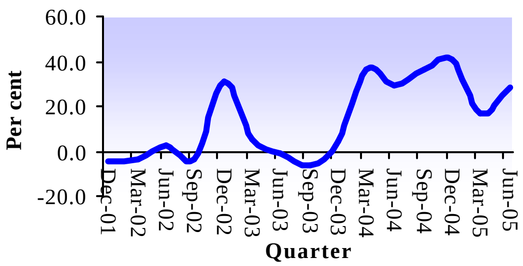
near capacity utilization at the refineries.

The estimated expansion in ***Manufacturing*** was driven primarily by growth in beverage production (see **Figure 2.6)**. The beverage industry has been growing at an average rate of 3.5 per cent since the September 2004 quarter, underpinned by the retooling undertaken in the last two years, as well as improved labour productivity (see **Box 2: Trends in Labour Productivity**). These developments, by enhancing competitiveness, have allowed the industry to expand its export market.

O*ther Manufacturing* is estimated to have registered marginal growth in the quarter. The lower growth, relative to trend, within this sub-sector was linked to the closure of the oil refinery for most of the quarter. This largely offset the increase in the non-metallic mineral product industry, which was driven primarily by increased cement production since the March 2004 quarter. The expansion in cement production was in response to higher domestic demand, in the context of significant investments in infrastructure, housing and hotels and a decline in cement imports.

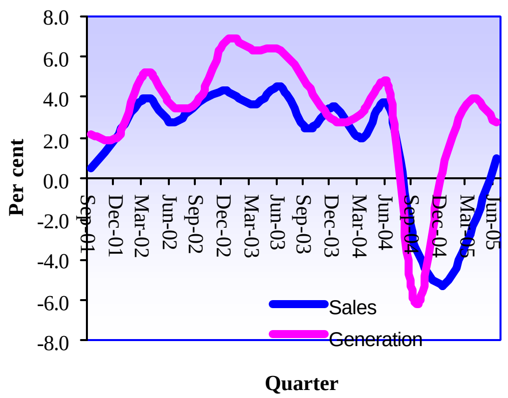
Indicators of ***Construction & Installation*** imply an expansion for the review period, which was above the average growth of 2.8 per cent recorded over the previous three years. Cement production and the importation of construction material, the main indicators of activities in this sector, are estimated to have increased by 25.8 per cent and 14.0 per cent, respectively, relative to the similar quarter of 2004 (see **Figure 2.7**). The sizeable expansion was influenced by construction work on three hotels

Figure 2.7
Trends in Cement Production
(12-Month change)



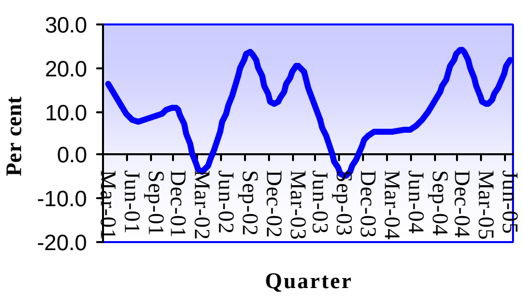
Source: Carib Cement Company, Bank of Jamaica

Figure 2.8
Electricity Generation & Sales
(12-Month change)



Source: JPS & Bank of Jamaica

Figure 2.9
Merchandise Imports
12-Month change)



Source: STATIN; Bank of Jamaica

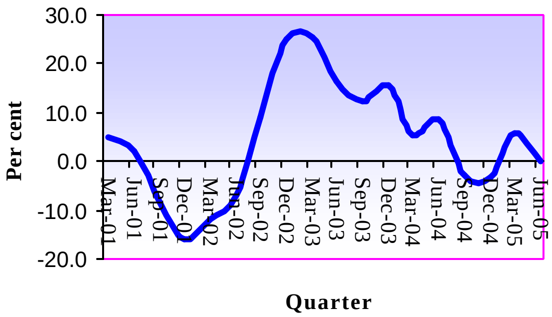
during the review quarter, as well as continued work on the Government's Inner-City Housing project and Phase 1A of Highway 2000.

Following an average contraction of 1.9 per cent in the previous three quarters ***Electricity & Water*** is estimated to have approached its long run growth rate in the June 2005 quarter. This expansion reflected estimated increases of 2.8 per cent and 1.0 per cent in electricity generation and sales, respectively (see **Figure 2.8**).

Marginal growth is estimated for ***Transport, Storage & Communication***, lower than the average growth of 3.5 per cent recorded over the last twelve quarters. The below trend performance was attributed to a marginal decline in the transport sub-sector, which partly offset the growth emanating from communication. The decline in air transportation stemmed primarily from the fallout of approximately 2.0 per cent and 1.3 per cent in air cargo and visitor arrivals, respectively in the June 2005 quarter. In regard to water transportation, domestic cargo movement declined by an estimated 2.5 per cent in the quarter, relative to the similar period of 2004.

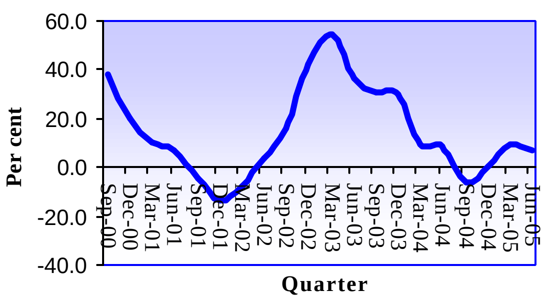
Distributive Trade is estimated to have continued to grow in the June 2005 quarter. Growth in this sector was inferred from an estimated real expansion of 17.0 per cent in merchandise imports (see **Figure 2.9**). However, the estimated expansion in the sector was moderate as there was an estimated decline of 8.2 per cent in consumption tax receipts.

Figure 2.10
Visitor Arrivals
(12-Month change)



Source: Jamaica Tourist Board; Bank of Jamaica

Figure 2.11
Cruise Passenger Arrivals
(12-Month change)



Source: Jamaica Tourist Board; Bank of Jamaica

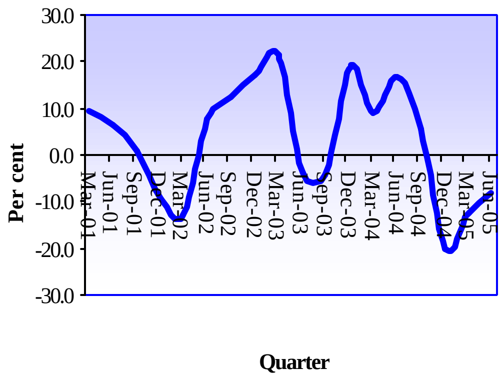
The estimated performance of ***Miscellaneous Services*** was weaker than anticipated during the review quarter. This performance was influenced primarily by the marginal decline in *Hotel, Restaurant & Clubs* that accounts for approximately 80.0 per cent of the activities within this sector. This was partly offset by the growth emanating from *Personal & Household Services*, as well as *Private Education*. The tourism industry was affected by the closure of two hotels in the quarter due to renovation activities, as well as a reduction in airlift capacity. Against this background, total visitor arrivals declined by 1.1 per cent, with stopover arrivals and cruise passenger arrivals declining by 1.7 per cent and 0.1 per cent, respectively (see **Figure 2.10** and **Figure 2.11**). In that context, a marginal increase of 0.3 per cent in visitor expenditure was estimated in the review quarter relative to the corresponding quarter in the previous year.

Aggregate Demand

Indicators of demand for the June 2005 quarter suggest moderate expansion in investment spending, as well as declines in ***Private*** and ***Public Consumption*** and ***Net External Demand***. Against this background, there was a moderate increase in aggregate demand during the review period relative to the similar period of 2004.

For the review quarter, the expansion in ***Gross Fixed Capital Formation*** is estimated to have been moderate, relative to the corresponding period of 2004. Investment-spending activities was inferred partly from an estimated increase of 15.1 per cent in foreign direct investments. During the review quarter construction activities intensified with the building of three large hotels, as well as continued work on the Highway 2000 and the North Coast Highway projects.

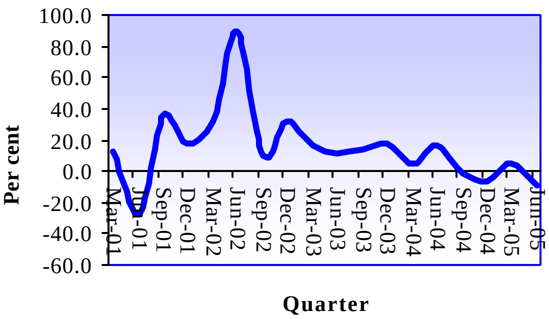
Figure 2.12
Trends in Consumption Taxes
(12-Month change)



Source: MOF; Bank of Jamaica

Figure 2.13
Trends in Government's Wage Expenditure

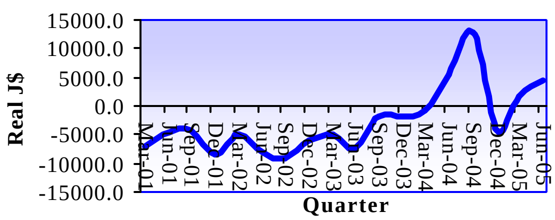
(12-Month change)



Source: MOF; Bank of Jamaica

Figure 2.14
Trends in Net External Demand

(12-Month change)



Source: Bank of Jamaica

The decline in ***Private Consumption*** for the review period was inferred from a reduction of 8.2 per cent in local consumption taxes (see **Figure 2.12**). In addition, during the period commercial bank personal non-business loans to individuals declined by 32.9 per cent, relative to loans extended in the similar period of 2004. Domestic credit card receivables improved marginally during the quarter.

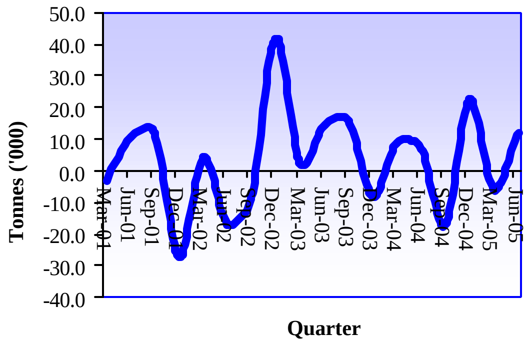
Consistent with the Memorandum of Understanding (MOU) between public sector workers and the Government, the declining trend in ***Public Consumption*** observed since September 2004, continued into the June 2005 quarter. In this regard, Government's expenditure on wages and salaries declined by 17.2 per cent, relative to an increase of 7.3 per cent in the similar period of 2004 (see **Figure 2.13**). Partly offsetting this was an increase of 7.0 per cent in spending on programmes (See **Appendix A: Fiscal Developments**).

Net External Demand declined during the review period, compared to the corresponding quarter of 2004 (see **Figure 2.14**). Export of goods and services was estimated to have contracted, which was augmented by a marginal increase in imports of goods and services. The performance of exports was affected partially by free zone activities, which declined by 30.0 per cent in the quarter due to the closure of a garment factory in January 2005. In addition, the declining trend in sugar and banana exports continued into the quarter. Notwithstanding, there were partially offsetting increases in alumina and non-traditional exports in the quarter (see **Figure 2.15**). The growth in imports was primarily influenced by an expansion in raw material imports.

Figure 2.15
Trends in Alumina Export

(12-Month change)

Source: Jamaica Bauxite Institute



Box 2. *Trends in Labour Productivity*

Introduction

The Jamaican economy recorded relatively moderate annual growth rates over the past five years. However, the rate of economic expansion is set to accelerate over the next three years, driven by significant foreign direct investments in bauxite and tourism. Sustaining this growth will depend critically on improvements in total factor productivity. The issue of factor productivity is also of direct importance to monetary policy as increased levels of efficiency reduce production costs and consequently inflation.

Factor productivity is the relationship between the output of goods and services and labour (L) and capital (K) inputs as well as technological improvements (referred to as total factor productivity (TFP)). Given data limitations this box will focus on changes in labour productivity over the period 1996 to 2003.

Changes in labour productivity reflect both changes in TFP and changes in the capital/labour ratio (i.e. capital depth)[12]. TFP refers to the change that ensues from improvements in technology and the efficiency with which capital and labour are combined.

Measurement

Labour input may be measured in terms of the average annual number of workers employed or by the total number of hours worked in a year. However, the latter is a better measure of labour effort. Neither measure, however, accounts for changes in the quality of labour, which can affect productivity.

An estimate of annual hours worked per employee was constructed from the annual labour force survey (LFS), which captures labour input in the form of a frequency distribution of hours worked. The LFS provides estimates of the number of employees who work a specified range of hours per week, with the size of each range corresponding to an eight-hour block. If the mid point of each range is taken as an estimate of the typical work time for that range, then an estimate of the total number of hours worked per week for all employees can be derived using the following:

$$TWH = \sum_j h_j * EMP_j$$

where *TWH* is the total hours worked per week for all employees, h_j is the mid point of the jth class and EMP_j is the number of employees in the jth class.

[12] The production function can be expressed as:

$$GDP = TFP\ L^a K^{1-a}$$

labour productivity is then given by

$$GDP/L = TFP\ L^a K^{1-a}/L$$

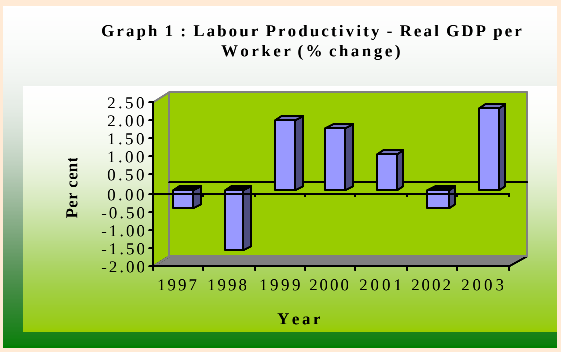
or

$$GDP/L = TFP\ (K/L)^{1-a}$$

Therefore, for a given ratio of capital to labour, changes in TFP are directly reflected in labour productivity.

Recent Trends in Productivity in Jamaica

Labour productivity, measured in terms of real GDP per worker increased marginally by 0.6 per cent between 1996 and 2003 (see **Graph 1**). The marginal expansion in Jamaica's productivity reflected average real GDP growth of 0.6 per cent in a context where the employed labour force grew by an approximate 0.01 per cent per year between 1996 and 2003.



Source: International Financial Statistic, STATIN, BOJ

The improvement in labour productivity lagged behind that of Jamaica's major trading partners, which recorded growth of at least 2.0 per cent over the period (see **Table 1**). Moreover, the growth in real wages in Jamaica outstripped productivity gains. During this period real wages in Jamaica increased on average by 2.7 per cent.

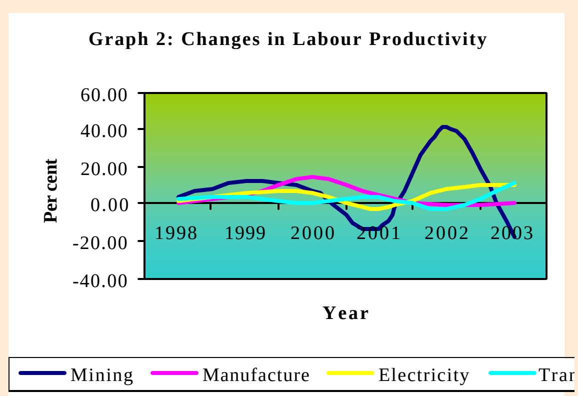
Table 1: Average Labour Productivity per Worker (US$) (1996 -2003)

	Average Productivity	Percentage Change
Jamaica	***5,365.72***	***0.69***
Costa Rica	3,323.78	-0.14
Barbados	3,839.83	-0.09
Trinidad	15,432.15	5.63
Canada	44,416.95	2.00
USA	71,460.41	1.98

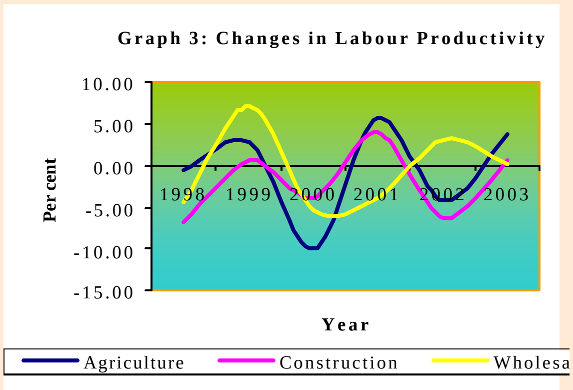
A similar trend in productivity was obtained using real GDP per hour worked. Between 1996 and 2003, labour productivity grew on average by 0.9 per cent. The country's highest productivity level was recorded in 2000. Over the review period real GDP grew marginally, on average, while hours worked increased on average by 0.1 per cent.

Sectoral Productivity Trends

During the review period labour productivity in the mining & quarrying, electricity & water and manufacturing sectors improved on average by 5.7 per cent, 4.9 per cent and 4.0 per cent, respectively, (see **Graph 2**). Transport, storage & communication and financing and business services also improved over the period. On the other hand, the labour intensive sectors, namely, construction, wholesale & retail and agriculture



registered declining labour productivity of 2.0 per cent, 0.5 per cent and 0.4 per cent, respectively (**see Graph 3**).



The performance within the mining sector reflected capacity expansion of approximately 2.6 per cent[13] during the sample period, concurrent with an average decline of 0.4 per cent in the employed labour force. The sector recorded an annual improvement of approximately 8.0 per cent in labour productivity between 1998 and 2000, declined in 2001 and then improving significantly in 2002. The improvement in labour productivity in 2002 reflected real GDP growth of 3.3 per cent against a decline of 26.9 per cent in employment. This was consistent with the mining industry becoming more capital intensive.

The improvement in electricity & water reflected a contraction of 0.9 per cent in the employed labour force that sector. This was accompanied by a refurbishing of some electricity generating plants, as well as an expansion of generating capacity. The electricity company also invested in its transmission and distribution systems in an attempt to increase the efficiency of its service. These developments would have increased the capital/labour ratio as well as efficiency.

Within manufacturing, there were consistent increases in labour productivity for the first four years, after which productivity declined negligibly in 2002 but recovered in the following year. Efficiency gains were most evident in the beverage industry, which underwent significant expansion and modernisation during the review period. New markets found in Australia and Europe, as well as greater export demand from CARICOM, drove this expansion.

With the exception of 2002, labour productivity in the transport, storage & communication sector increased consistently, recording substantial growth in 2003. The buoyant increase in 2003 stemmed from the liberalisation of the telecommunication market in the previous year, which initiated significant investment in the sector by new and existing market players.

Summary

There was a marginal improvement in labour productivity between 1996 and 2003, measured by real GDP per worker and real GDP per hour worked. This improvement, however, lagged

[13] The sector received approximately US$423.8 million in direct investment between 2000 and 2003

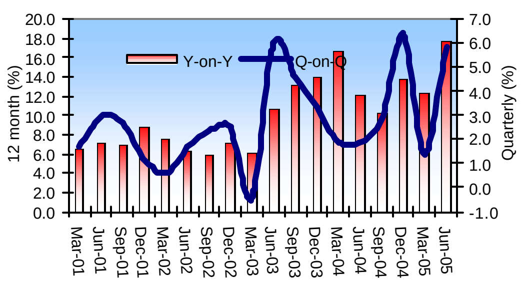
behind those of Jamaica's major trading partners and was outstripped by the expansion in real wages.

There were, however, notable improvements in mining, manufacturing, and electricity & water. These performances were influenced by significant capital investment, accompanied by some retrenchment in the employed labour force. Consequently, the capital depth would have improved. Given the anticipated foreign direct investments, which are expected to average approximately 11.0 per cent of GDP over the next three years and the thrust towards greater use of technology, further improvements in labour productivity are likely.

3. Inflation

Headline inflation for the June 2005 quarter was 5.7 per cent, 2.7 percentage points above the seasonal average of the past five years. Core inflation, however, was estimated at 1.7 per cent, relative to 1.1 per cent in the previous quarter and 1.3 per cent in the corresponding quarter of FY2004/05. The larger than anticipated increase in the Consumer Price Index (CPI) mainly reflected higher than expected agricultural and international commodity price inflation and the impact of Central Government's revenue measures. Inflation was stronger in the Other Towns and Rural Areas than in the Kingston Metropolitan Area (KMA).

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



Influenced largely by exogenous factors, headline inflation of 5.7 per cent for the June quarter was significantly higher than the average of 3.0 per cent for the previous five June quarters. Inflation in April was 1.9 per cent but increased to 2.2 per cent in May before moderating to 1.5 per cent in June. The primary influences on inflation in the June quarter were the lagged impact of the drought and bushfires in the March quarter (which exacerbated seasonally low agriculture supply), the taxation package of the Central Government, as well as higher international commodity prices.

Monetary Policy and Inflation

Core or underlying inflation, as measured by the trimmed mean index was 1.7 per cent for the review quarter, relative to 1.1 per cent for the previous quarter and 1.3 per cent for the corresponding quarter of FY2004/05. The monthly core inflation rate was largely stable during the quarter, at 0.5 per cent in April and 0.6 per cent in both May and June.

Figure 3.2
Core Inflation per Quarter

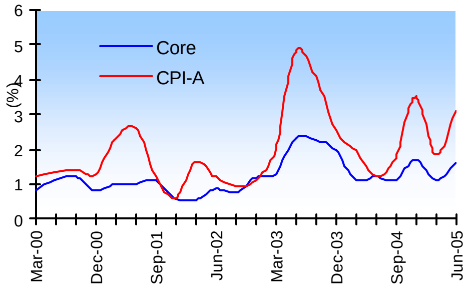


Figure 3.3
12- Mth % Change in Average Base Money & Annual Average Core

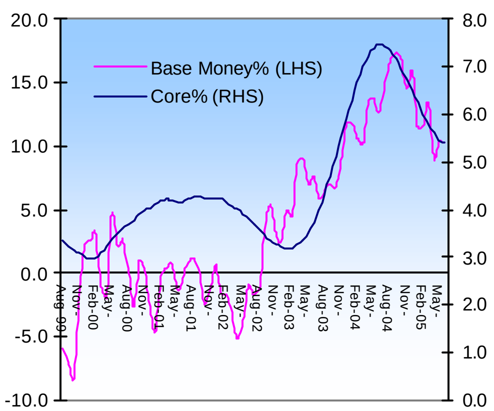


Table 3.1

Decomposition of Inflation Outturn Apr-Jun 2005/06		
	Inflation (%)	**Cont. (%)**
Non-Core Factors	**4.03**	**70.9**
Agriculture	2.26	39.7
GCT/SCT	1.30	22.8
Other	0.47	8.4
Core	**1.66**	**29.1**
TOTAL	**5.69**	**100.0**

For the review quarter, core inflation was above the average of the previous 5 June quarters of 1.3 per cent. The higher core inflation for the quarter was influenced by the impact of non-monetary factors, even though the growth rate of average base money has been trending down since peaking in the September 2004 (see **Figure 3.3**). Importantly, the trimmed mean method used to estimate core inflation includes some non-monetary factors and would not have fully eliminated the impact of the increase in the consumption tax rate.

Non-Monetary Factors

Non-monetary factors accounted for 70.9 per cent of inflation in the June 2005 quarter (see **Table 3.1**). The main non-monetary impulses to inflation were related to lower agricultural supply, exacerbated by adverse weather conditions, increases in the rate of General and Special Consumption Taxes and an increase in international crude oil prices.

Supply Conditions

The June quarter was marked by continued sluggishness in agricultural output, particularly relating to tubers (see **Real Sector**), consequent on the after-effects of hurricanes and droughts in the December and March quarters, respectively, and seasonal supply downturns. Extreme drought conditions in the March quarter reduced yields and acreage under cultivation. During the quarter, the Starchy

Figure 3.4a
Food & Non-Food Inflation (Quarterly)

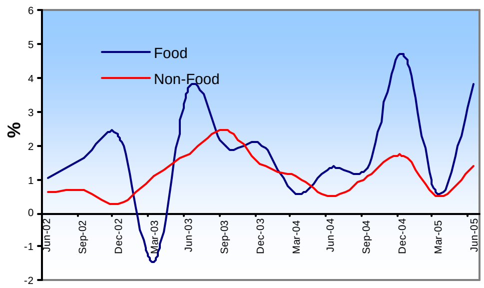


Figure 3.4b
Food & Non-Food Inflation
(Annual)

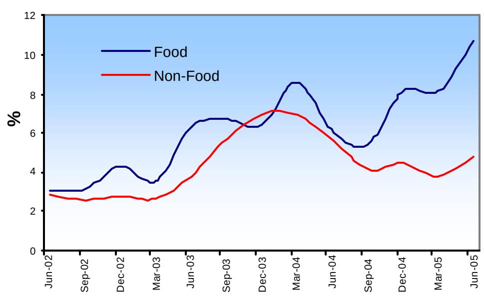
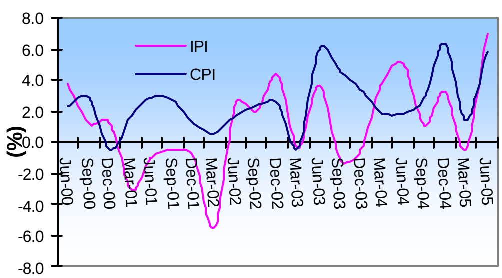


Figure 3.5
Lagged Import Price Index & Inflation
(Quarterly)



Foods and Vegetables & Fruits sub-groups increased by 17.8 per cent and 22.8 per cent, respectively. The Starchy Foods sub-index increased by 57.8 per cent since September 2004 compared to 12.9 per cent in the nine months from September 2003 to June 2004. For the comparable periods, Vegetables & Fruits increased by 28.6 per cent relative to 9.8 per cent. Due to the shorter production cycle of vegetables, production of these crops partially recovered and as a consequence, the Vegetables & Fruits sub-group had declined 17.5 per cent in the March quarter.

Consequent on the increase in agriculture prices, overall food price inflation was 3.8 per cent for the review period, while a non-food index rose by 1.4 per cent (see **Figure 3.4a**). On an annual basis, food price inflation was 10.8 per cent, relative to 4.8 per cent for non-food commodities (see **Figure 3.4b**).

Abstracting from the impact of agriculture prices, inflation for the June quarter was 2.9 per cent, relative to 1.8 per cent for the March quarter (see **Figure 3.2)**. The acceleration in the review quarter therefore reflected the additional impulses of higher oil prices and Government's revenue measures**.**

Input Costs

Imported costs, as measured by the Bank's import price index, increased by 1.4 per cent in the June quarter relative to an increase of 7.1 per cent in the March 2005 quarter, primarily reflecting the strong increase in oil prices as the domestic exchange rate has remained relatively stable since end-2004.

The benchmark West Texas Intermediate (WTI) crude oil price rose to an average of US$53.12 per barrel in the

Figure 3.6

Quarterly Chg. in Fuel Index & WTI

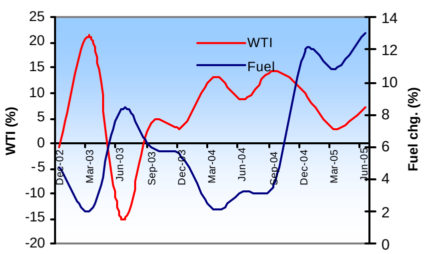


Figure 3.7

Quarterly Average Oil Prices (US) per barrel

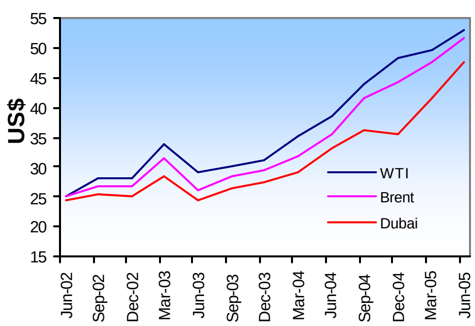
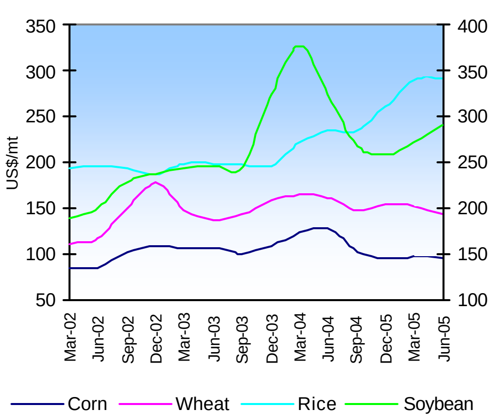


Figure 3.8

Grains Price Movements



June quarter, from an average of US$49.65 per barrel in the March quarter (see **Figure 3.6, 3.7**). The average prices per barrel for April, May and June were US$53.04, US$49.83 and US$56.50 respectively. A new record for oil prices of US$60.54 per barrel was set in June. The movement in the WTI price was reflected in the Bank's Fuel Index, which increased by 13.1 per cent for the review quarter relative to 10.8 per cent in the March quarter (see **Figure 3.6**).

These developments occurred despite a record level of oil production during the June quarter by the Organization of Petroleum Exporting Countries (OPEC). Prices rose in response to concerns that existing refining capacity would be unable to match the growing demand, reduced inventory levels in the US and a shortage of lighter, easier-to-process, crude oil. The upward pressure on oil prices also emanated from reports of unrest in Nigeria and Norway, nervousness regarding an anticipated active hurricane season and continued speculation on the international commodity markets.

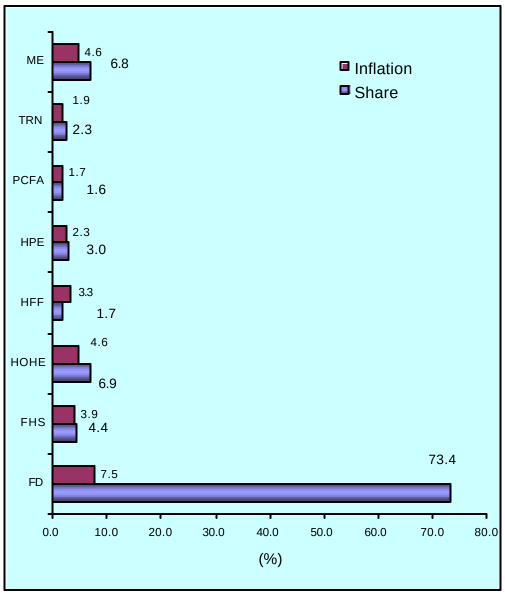
Tax Measures

Effective 1 May 2005, the standard General Consumption Tax (GCT) rate was increased to 16.5 per cent from 15.0 per cent. This revised rate was also made applicable to basic construction materials, such as cement and steel, which previously attracted a GCT rate of 12.5 per cent. There was also a 49.3 per cent increase in the Special Consumption Tax (SCT)[14] on cigarettes, effective 15

[14] The Special Consumption Tax is made up of a specific tax and an ad valorem rate. The specific tax was increased to $1920 per thousand cigarettes while the ad valorem rate of 39.9% would be applied to the excess over the floor price of $4338.13.

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

April. Additionally, consumer goods previously classified as *zero-rated*, were changed to the status of *exempt*[15]. The increase in the GCT rate directly affected the price of all the products in the CPI, except basic food items such as meats, flour, rice, cornmeal and some other non-taxable items. The direct impact of these measures on the inflation for the quarter was estimated at 1.3 percentage points, but there would have been an impact from the removal of zero-rated status, as well as second round effects.

Component Contribution to Inflation

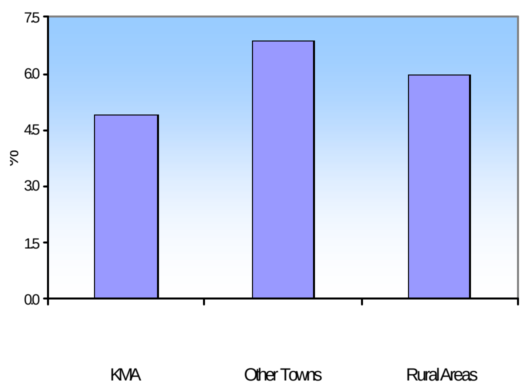
Given the dominant influence of agricultural supply, the taxation package and international oil prices, **Food & Drink, Miscellaneous Expenses** and **Housing & Other Housing Expenses** together accounted for approximately 87.0 per cent of the inflation in the review period (see **Figure 3.9**), compared to a combined weight in the basket of 71.3 per cent. Other inflationary impulses of note were manifested in **Healthcare & Personal Expenses** and **Fuels & Other Household Supplies.**

Within **Food & Drink,** *Vegetables & Fruits, Starchy Foods* and *Meat, Poultry & Fish* contributed 27.7 per cent, 17.5 per cent and 13.7 per cent, respectively, to overall inflation. An examination of price movements for *Starchy Foods* revealed that this index had increased 13 times over the last 14 months, reflecting the disruption produced by the unfavorable weather. **Food & Drink** was also affected by the tax measures but to a lesser extent than other groups due to the prevalence of basic food items within the group. The movement in *Vegetables & Fruits* and *Starchy Foods* was mainly due to the slow

[15] Input tax credit can be claimed from the Government in respect of zero-rated items in the form of a tax credit but this credit cannot be claimed for exempt items.

Figure 3.10

Regional Inflation



recovery in agricultural production caused by the lagged impact of dry conditions that reduced yields and halted planting activities for some crops. The combination of seasonal shortages and the adverse weather conditions resulted in unusually high prices for yellow and lucea yam, ripe bananas and tomatoes.

The 17.5 per cent contribution of *Meat, Poultry & Fish* mainly reflected higher beef prices. There has been a trend decline in the local beef industry due to a combination of reduced profitability, shifting tastes and rural/urban migration. Against the backdrop of rising demand there have been increases in the prices of substitute meats such as mutton and pork.

The increase in **Miscellaneous Expenses** primarily reflected the impact of the 49.3 per cent adjustment to the SCT on cigarettes. This alone accounted for 0.5 percentage points of the increase in the group and approximately 43.0 per cent of the 1.3 percentage points of additional inflation emanating from the direct impulses of revenue enhancement measures. **Housing & Other Housing Expenses** reflected the 4.0 percentage point increase in GCT on building materials, higher utility rates emanating from the rise in oil prices and a combination of half yearly adjustments in rental rates and increases in property taxes. **Healthcare & Personal Expenses** mainly reflected increases in medical practitioners' fees and the cost of medicaments.

The impetus in **Fuels & Other Household Supplies** largely emanated from the impact of higher international crude oil prices that affected the prices of household fuels. In particular, kerosene and cooking gas prices rose by approximately 7.0 per cent and 5.0 per cent, respectively, across the regions.

Regional Inflation

For the quarter, **Other Towns** and **Rural Areas** recorded inflation of 6.9 per cent and 6.0 per cent, respectively, while the **Kingston Metropolitan Area (KMA)** experienced a 4.9 per cent increase in prices (see **Figure 3.10** and **Table 2B** in **Appendix C**). The disparity between regions was most evident in **Food & Drink, Miscellaneous Expenses** and **Fuels & Other Household Supplies**. Within **Food & Drink**, there were stronger price increases in agricultural commodities in the **Other Towns** and **Rural Areas.** It is possible that greater access to imported agriculture produce in the **KMA** may have moderated price impulses in this region. For **Miscellaneous Expenses**, the impact of the adjustment to the SCT on tobacco products was more pronounced outside the KMA due to significantly higher weights for cigarettes in **Other Towns** and **Rural Areas.** Within **Fuels & Other Household Supplies**, **Fuels** experienced larger movements in **Other Towns** and **Rural Areas** due to sharper increases in and the larger weights of these commodities in these areas.

4. Economic Outlook and Monetary Policy Perspectives

It is expected that the macroeconomic environment will continue to be stable. Inflation in the September 2005 quarter is expected to moderate relative to the outturn for the June quarter. However, there are non-monetary risks to inflation. The pace of economic growth is expected to improve in the September 2005 quarter influenced in part by recovery and continued investments in key sectors. However, the pace of recovery will be moderated by the impact of the two recent hurricanes. Given the risk to inflation, the Central Bank will maintain its conservative monetary policy stance.

Table 4.1

Jamaica: Selected Economic Indicators

	ISP Targets for Sep'05 Quarter	*ISP Target for FY05/06*
Inflation (% change)		9.0 – 10.0
Base Money (% change)	2.7	14.0
NIR End Period (US$mn)	1962.1	2102.3
GDP (12-mth % chg.)		3.0 – 4.0

Short Term Outlook-September 2005 Quarter

Real Sector

During the September quarter, the economy is expected to regain some of the momentum that existed prior to the adverse shock in September 2004. However, the recovery will be moderated by the impact of recent adverse weather conditions. Significant investments over the past year, improving credit conditions, and a general improvement in the domestic and external macroeconomic environment, will be the major factors underlying the growth impetus.

The outlook is also supported by indications of continued confidence in the economy by both local and overseas investors. This optimism is underscored by the positive performance of Jamaica's sovereign bonds on the international market, as well as the positive reviews by international financial institutions. A recent survey of businesses suggests that the high level of confidence that had been evident in the March quarter had not abated. The result of the survey conducted by the Jamaica Conference Board highlights the expected continuation of economic growth, maintenance of a favourable investment climate and good financial prospects as some of the reasons for the strong performance of the index.

Economic growth is expected in both the goods and the services sectors. With the exception of agriculture, all areas of the goods sector are expected to expand. Growth in ***manufacturing*** should be led by petroleum refining. The expected growth in petroleum refining is against the background of lower production in the September 2004 quarter due to major maintenance.

The expansion in ***mining*** will be primarily due to recovery and continued investments in technology and additional capacity in the bauxite/alumina sector. Projections for bauxite and alumina production envisage expansion of approximately 20.0 per cent relative to a decline of 7.0 per cent in the September 2004 quarter due to the impact of Hurricane Ivan.

Construction will continue to expand on the basis of several ongoing projects including Highway 2000 and major housing construction in the inner-city. Construction activities associated with the expansion in the mining sector, as well as installation work in the water and telecommunication sectors are expected to contribute to the buoyancy in the sector. With respect to mining, the expansion at the JAMALCO alumina refining is expected to commence in the September quarter.

Agriculture is anticipated to decline relative to the similar period last year. This expectation is predicated on the adverse impact of Hurricanes Dennis and Emily on the sector, which had not fully recovered from adverse weather conditions since Hurricane Ivan.

Within ***services***, the main areas of growth are anticipated to be basic services, distribution and miscellaneous services, which include tourism. Normalcy in the provision of utilities relative to the corresponding period of last year should be reflected in an expansion in basic services for the September 2005 quarter. Additionally, this outlook for basic services also reflects continued but moderate expansions in telecommunication services and a projected increase in port services.

The projected expansion in economic activity, particularly in the goods sector, should allow for growth in ***distribution***. This is likely as the improvement in output is associated with increased port activities and distribution of raw materials and finished goods.

The growth in ***miscellaneous services*** is predicated on a rebound in tourism in the September 2005 quarter relative to the slowdown in the September 2004 quarter due to the adverse effect of the passage of hurricanes Charley and Ivan. However, there are concerns about the impact of expectations of a more active hurricane season on tourist bookings and arrivals.

Inflation

The main influences on inflation are expected to emanate from higher domestic agricultural commodity prices, the upward trend in international crude oil prices, increased consumption demand associated with the summer holiday period and the preparation for the new school year, as well as the lagged but moderated impact of revenue measures.

The production of agricultural commodities, which was slowly recovering from the impact of Hurricane Ivan and drought in the March quarter, was recently disrupted by two hurricanes. As such, it is anticipated that the prices of these items will continue to increase. It is also anticipated that meat prices, in particular the price for beef products will continue to trend upward due to local supply constraints and recent concerns about imported beef.

Adverse supply and demand conditions in the international market for crude oil will continue to affect domestic inflation. Supply concerns are influenced by the forecast of an active hurricane season in the Gulf of Mexico, geo-political concerns in the Middle East and limited spare capacity for refining in the USA. Demand concerns are related to the prospect of increased travel during the summer holiday period in the USA, the largest consumer of crude oil. Additionally, global demand in 2005 is projected to be higher than initially expected, although lower than the previous year.

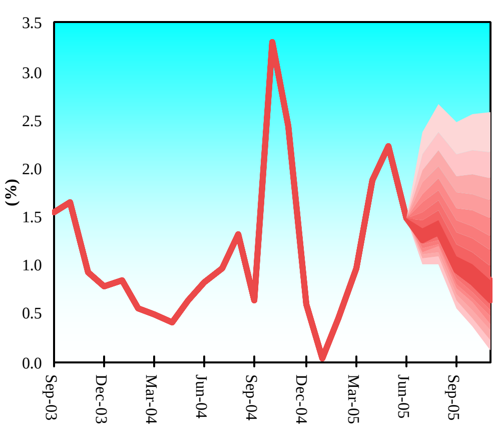
The relative stability in the foreign exchange market is expected to persist in the September 2005 quarter. The stability in the exchange rate has implied that the transmission of exchange rate changes to domestic prices has not been significant. Further, the continued adherence to monetary and fiscal policies in line with the ISP target is expected to moderate underlying inflation and aggregate demand.

Risks

The main risk to the expected expansion in the economy and inflation in the September 2005 quarter arises from the possibility of further severe adverse weather conditions. While most sectors of the economy would be affected, the most devastating effect would be felt in the agriculture sector. Another risk of note is the continuing uncertainty in the global market for crude oil. Greater than expected

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.



increases in the price of this important commodity would have consequences for inflation and the country's balance of payments position.

Monetary Policy

The Central Bank will continue to maintain a conservative policy stance in the near term in a context where there is an upside risk to inflation and inflation expectations. Although inflation will be above the original target, the Bank will adhere to the financial targets agreed under the ISP. The Bank views the factors behind the deviation in inflation as temporary and already dissipating. Government's commitment to a balanced budget is also an important anchor for the stabilization of domestic demand pressures. As such, a return to the medium to longer-term trajectory of single digit inflation rate and an acceleration in economic activity remain feasible.

Despite continued upward adjustment in international interest rates, it is anticipated that the domestic financial markets will continue to remain calm. The relatively stable conditions in the foreign exchange market are bolstered by the assurance of a strong reserve position and inflows of foreign exchange from export earnings, remittance flows and private capital.

Appendices

A. Fiscal Developments: April to June 2005

Provisional data for the June 2005 quarter indicate that Central Government incurred a deficit of $11 301.8 million or 1.8 per cent of GDP, compared to the targeted deficit of $12 102.4 million or 1.9 per cent of GDP. The performance for the quarter was influenced by containment in expenditure, as there was a 1.8 per cent shortfall in revenues flows relative to target. Consequently, the current deficit of 1.1 per cent of GDP and the primary surplus of 1.7 per cent were virtually consistent with target.

Total expenditure was 2.9 per cent below budget, largely reflecting lower wages and salaries and interest payments during the quarter. The lower than anticipated interest payments was influenced by a less depreciated exchange rate relative to programme[16], the non-utilization of contingency funds, as well as the rescheduling of some domestic obligations. Salary payments were below the budgeted level for the quarter, partly due to timing factors with respect to the settlement of retroactive salaries. Notably, expenditure for the June 2005 quarter was 4.4 per cent below than that for the corresponding quarter of F/Y 2004/05, reflecting lower domestic interest payments, consequent on lower rates.

Total revenue flows during the June 2005 quarter reflected a 3.6 per cent shortfall in tax revenues. The lower than anticipated tax revenue flows reflected deviations in flows from *International Trade* as well as *Production & Consumption*, the impact of which was partially negated by relatively strong flows from non-tax and *Income & Profits*. Tax revenues for the review period, were only 2.3 per cent higher than the corresponding period in F/Y 2004/05 given that measures implemented on 1 May 2005 are not expected to fully impact revenue until subsequent quarters. Non-tax revenue flows for the period were boosted by strong flows from the customs user fee on imports and strong departmental revenues.

During the June quarter Government financed the deficit and amortized debt through domestic and foreign sources. As planned, there was a greater reliance on domestic sources, through the issue of securities. In June, the Government successfully raised US$300 million on the international capital market. Notably, the coupon of 9.0 per cent on the bond was relatively low given the prevailing

[16] This relates to interest payments on US$ Indexed Bonds, US$ Denominated Bonds as well as External debt

rates on emerging market debt, as well as, the rates at which Jamaica had previously issued debt. The funds raised were used to amortize a maturing US$250 million Eurobond.

Fiscal Performance
Comparative Analysis
J$ Million

	Q1	Revised Budget Q1	Variance	FY 2004/05 Q1	Change
Revenue and Grants	**41492.9**	**42257.2**	**-764.3**	**39697.9**	**1795.0**
Tax Revenue	37700.2	39117.8	-1417.6	36839.4	860.8
Non-tax Revenue	2352.4	1864.5	487.9	1869.3	483.1
Bauxite Levy	777.3	722.0	55.3	652.5	124.8
Capital Revenue	281.7	141.1	140.6	257.8	23.9
Grants	381.4	411.8	-30.4	78.9	302.5
Expenditure	**52794.7**	**54359.7**	**-1565.0**	**55212.9**	**-2418.2**
Recurrent Expenditure*	48297.2	49457.1	-1159.9	52889.8	-4592.6
Capital Expenditure	4497.5	4902.6	-405.1	2205.8	2291.7
IMF # 1 Account	0.0	0.0	0.0	117.3	-117.3
Overall Balance	**-11301.8**	**-12102.5**	**800.7**	**-15515.0**	**4213.2**
Memo					
Current Balance	**-7086.0**	**-7340.9**	**254.9**	**-13449.7**	**6363.8**
Primary Balance	**10695.4**	**10736.8**	**-41.4**	**12703.5**	**-2008.1**

Performance Indicators
(percentages of GDP)

	BR	CB	PB	IP	FSR
FY 2005/06	1.76	-1.10	1.66	3.42	-1.27
FY 2005/06 Budget	1.88	-1.14	1.67	3.55	-1.29
FY 2004/05	2.80	-2.43	2.29	5.09	-1.39
FY 2004/05 Budget	2.65	-2.38	2.44	5.09	-1.36

Key
BR = Borrowing Requirement
CB= Current Balance = Current Revenue-Current Expenditure
PB= Primary Balance = Total Revenues-Total Expenditures less Interest Payments (IP)
IP= Interest Payments
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.
03/09/04	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 14.00 per cent, 14.10 per cent, 14.20 per cent, 14.35 per cent, 14.80 per cent, 15.35 per cent and 16.00 per cent, respectively.
28/12/04	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 13.80 per cent, 13.95 per cent, 14.05 per cent, 14.15 per cent, 14.30 per cent, 15.00 per cent and 15.50 per cent, resp ectively.

07/02/05	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 13.50 per cent, 13.65 per cent, 13.75 per cent, 13.85 per cent, 14.00 per cent, 14.50 per cent and 15.00 per cent, respectively.
07/02/05	The Bank of Jamaica reduced the Special Deposit holdings for commercial banks and FIA licensees by two (2) percentage points. Accordingly, these institutions, until further notified, are required to maintain with the Bank of Jamaica as a Special Deposit, an amount wholly in the form of cash, representing three (3) percent of their prescribed liabilities.
07/03/05	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 12.95 per cent, 13.10 per cent, 13.20 per cent, 13.30 per cent, 13.45 per cent, 14.00 per cent and 14.50 per cent, respectively. These rate adjustments were underpinned by continued stability in the exchange rate, reflecting buoyant foreign exchange inflows from tourism and remittances. Also, the Bank's net international reserves remained around US$1.8 billion, a level that was more than adequate to underwrite near term stability. In addition, inflation in the first quarter of 2005 was expected to continue on a downward trend engendering a return to single digit inflation in the forthcoming fiscal year.
16/05/05	The Bank of Jamaica reduced the Special Deposit holdings for commercial banks and FIA licensees by two (2) percentage points. Accordingly, these institutions, until further notified, are required to maintain with the Bank of Jamaica as a Special Deposit, an amount wholly in the form of cash, representing one (1) percent of their prescribed liabilities.
26/05/05	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 12.60 per cent, 12.70 per cent, 12.75 per cent, 12.85 per cent, 13.00 per cent, 13.25 per cent and 13.60 per cent, respectively. The adjustments were consistent with the steady improvement in Jamaica's economic environment as reflected in buoyant foreign exchange inflows, stability in the money and foreign exchange markets and a strong international reserve position. Furthermore, the near-term prospects for production and prices continued to be very favourable with strong recovery expected in domestic agriculture as well as ongoing expansion in tourism and mining activities. In addition, it was expected that the normalization of food supplies and continued stability in the foreign exchange market would help to contain inflation during the 2005/2006 fiscal year.

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
September	1909.2	2.9	1.2
December	2032.1	6.4	1.7
March	2061.5	1.4	1.1
2005/2006			
June	2178.9	5.7	1.7

2A

COMPONENT CONTRIBUTION TO INFLATION
All Jamaica
April – June 2005

Groups and Sub-groups	Weight in CPI	Inflation (%)	Contribution
FOOD & DRINK	**0.5563**	**7.5**	**73.4**
- Meals Away From Home	0.0741	2.5	3.57
- Meat Poultry & Fish	0.1613	4.5	13.7
- Dairy Products Oils & Fats	0.0668	3.0	3.7
- Baked Products Cereals &Breakfast Drinks	0.0864	2.2	3.6
- Starchy Foods	0.0525	17.8	17.5
- Vegetables & Fruits	0.0650	22.8	27.7
- Other Food & Beverages	0.0502	4.0	3.7
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**3.9**	**4.4**
- Household Supplies	0.0482	2.3	2.1
- Fuels	0.0253	4.9	2.3
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**4.6**	**6.9**
- Rental	0.0209	5.0	2.0
- Other Housing Expenses	0.0577	4.5	4.9
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**3.3**	**1.7**
- Furniture	0.0068	5.3	0.7
- Furnishings	0.0215	2.5	1.0
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**2.3**	**3.0**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**1.7**	**1.6**
- Clothing Materials	0.0055	0.8	0.1
- Readymade Clothing & Accessories	0.0242	1.1	0.5
- Footwear	0.0159	2.9	0.9
- Making & Repairs	0.0051	1.2	0.1
TRANSPORTATION	**0.0644**	**1.9**	**2.3**
MISCELLANEOUS EXPENSES	**0.0785**	**4.6**	**6.8**
ALL GROUPS	**1.0000**	**5.7**	**100.0**

2B

REGIONAL INFLATION
Quarterly
April – June 2005

Groups and Sub-groups	KMA (%)	Other Towns (%)	Rural Areas (%)
FOOD & DRINK	**6.8**	**9.0**	**7.6**
- Meals Away From Home	1.4	4.8	2.7
- Meat Poultry & Fish	3.9	5.6	4.6
- Dairy Products Oils & Fats	2.2	2.8	3.9
- Baked Products Cereals &Breakfast Drinks	1.5	2.6	2.9
- Starchy Foods	23.7	21.2	13.9
- Vegetables & Fruits	22.4	29.0	20.2
- Other Food & Beverages	4.7	3.1	3.6
FUELS & OTHER HOUSEHOLD SUPPLIES	**2.6**	**6.6**	**4.2**
- Household Supplies	1.5	4.3	2.3
- Fuels	3.3	8.1	5.4
HOUSING & OTHER HOUSING EXPENSES	**5.3**	**3.8**	**3.6**
- Rental	5.8	1.6	1.6
- Other Housing Expenses	5.1	4.0	3.8
HOUSEHOLD FURNISHINGS & FURNITURE	**1.0**	**4.7**	**4.8**
- Furniture	0.3	7.5	8.1
- Furnishings	1.3	3.4	3.1
HEALTHCARE & PERSONAL EXPENSES	**1.8**	**3.7**	**2.1**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.8**	**2.6**	**2.1**
- Clothing Materials	0.0	3.5	0.8
- Readymade Clothing & Accessories	1.2	1.7	0.7
- Footwear	0.6	3.6	4.8
- Making & Repairs	0.4	2.5	1.5
TRANSPORTATION	**1.7**	**2.5**	**1.7**
MISCELLANEOUS EXPENSES	**3.5**	**6.2**	**5.3**
ALL GROUPS	**4.9**	**6.9**	**6.0**

2C

COMPONENT CONTRIBUTION Quarterly April – June 2005			
Groups and Sub-groups	**Inflation (%)**	**Weighted Inf. (%)**	**Contribution (%)**
FOOD & DRINK	**7.5**	**3.93**	**73.4**
- Meals Away From Home	2.5	0.19	3.5
- Meat Poultry & Fish	4.5	0.73	13.7
- Dairy Products Oils & Fats	3.0	0.20	3.7
- Baked Products Cereals &Breakfast Drinks	2.2	0.19	3.6
- Starchy Foods	17.8	0.93	17.5
- Vegetables & Fruits	22.8	1.48	27.7
- Other Food & Beverages	4.0	0.20	3.7
FUELS & OTHER HOUSEHOLD SUPPLIES	**3.9**	**0.24**	**4.4**
- Household Supplies	2.3	0.11	2.1
- Fuels	4.9	0.12	2.3
HOUSING & OTHER HOUSING EXPENSES	**4.6**	**0.37**	**6.9**
- Rental	5.0	0.10	2.0
- Other Housing Expenses	4.5	0.26	4.9
HOUSEHOLD FURNISHINGS & FURNITURE	**3.3**	**0.09**	**1.7**
- Furniture	5.3		
- Furnishings			
HEALTHCARE & PERSONAL EXPENSES			
PERSONAL CLOTHING FOOTWEAR & ACC.			
- Clothing Materials			
- Readymade Clothing & Accessories			
- Footwear			
- Making & Repairs			
TRANSPORTATION			
MISCELLANEOUS EXPENSES			

3

BANK OF JAMAICA OPERATING TARGETS

	Dec-03	Mar 04	Jun-04	Sept-04	Dec-04	Mar-05	Jun-05
Net International Reserves (US$)	**1 165.0**	**1 568.7**	**1 604.1**	**1 616.5**	**1 858.5**	**1 901.6**	**2 156.8**
Net International Reserves ($J)	**68 733.8**	**95 531.4**	**99 454.2**	**100 224.2**	**115 228.2**	**117 899.8**	**133 721.6**
- Assets	70 583.5	97 250.0	101 079.2	101 725.2	116 679.7	119 294.8	135 116.6
- Liabilities	-1 849.7	-1 718.6	- 1 625.0	- 1 501.0	-1 451.4	-1395.0	-1 395.0
Net Domestic Assets	**-28 207.5**	**-59 345.0**	**-62 841.2**	**-61 833.3**	**-70 172.6**	**-76 253.0**	**-93 641.6**
-Net Claims on the Public Sector	78 657.1	76 292.8	89 291.8	97 291.3	91 476.2	96 076.3	99 507.6
- Net Credit to Banks	-13 345.9	-13 654.5	-13 127.9	-14 713.0	-15 078.8	-12 629.7	-9 784.6
- Open Market Operations	-81 969.4	-108 281.7	-123 222.1	-127 629.3	-130 692.1	-143 854.8	-167 485.1
- Other	-11 549.3	-13 701.6	-15 783.0	-16 782.3	-15 877.9	-15 844.8	-15 879.5
Monetary Base	**40 526.3**	**36 186.4**	**36 613.0**	**38 390.9**	**45 055.6**	**41 646.8**	**40 080.0**
- Currency Issue *	29 426.5	24 930.6	24 597.4	26 215.9	32 398.1	28 674.9	26 995.0
- Cash Reserve	10 928.2	11 096.6	11 936.2	12 042.0	12 316.2	12 696.2	12 957.2
- Current Account	171.7	159.2	79.4	133.0	341.3	275.7	127.8
% change Monetary Base (F-Y-T-D)	**24.7**	**11.3**	**1.2**	**6.1**	**24.5**	**15.1**	**-3.8**

** Excludes BOJ's teller cash*

4

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

	M1J	M1*	M2J	M2*	M3J	M3*
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
2003/2004						
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	44 942.9	57 124.2	124 892.6	190 784.0	160 403.2	226 294.7
2004/2005						
June	46 496.4	57 161.6	128 294.6	193 296.0	165 766.6	230 768.0
September	48 959.1	60 090.6	130 416.1	199 673.9	169 273.8	238 532.8
December [r]	55 258.0	67 724.6	141 539.8	211 468.2	182 029.6	251 723.8
March [r]	52 605.9	62 309.4	139 480.6	209 583.2	179 769.4	249 872.0
2005/2006						
June [p]	52 935.5	62 303.9	142 104.3	212 025.6	185 083.2	255 004.5

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

COMPONENTS OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY
2003/04 – 2004/05
(Quarterly Flows - J$MN)

	Sep-03	Dec-03	Mar 04	Jun-04	Sep-04	Dec-04 [r]	Mar-05 [r]	Jun-05 [p]
M2J	**4 275.4**	**8 968.3**	**1 802.3**	**3 402.1**	**2 120.4**	**11 124.8**	**-2 059.2**	**2 623.8**
Currency	149.1	4 237.9	-2 550.7	524.6	1 041.0	4 483.3	-3 108.7	-581.0
Demand Deposits	2 488.0	1 144.3	2 272.8	1 028.8	1 422.1	1 815.1	456.8	910.4
Savings Deposits	1 140.0	3 002.8	804.8	2 516.2	696.9	2 739.5	-105.1	1 579.0
Time Deposits	498.3	583.3	1 275.4	-667.5	-1 039.6	2 086.9	697.8	715.4
OTHER DEPOSITS	**2 154.3**	**574.1**	**2 213.9**	**1 961.3**	**1 386.9**	**1 631.0**	**-201.1**	**2 690.0**
TOTAL (M3J)	**6 429.7**	**9 542.5**	**4 016.2**	**5 363.4**	**3 507.3**	**12 755.8**	**-2 260.3**	**5 313.8**

SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY

	Sep-03	Dec-03	Mar 04	Jun-04	Sep-04	Dec-04 [r]	Mar-05 [r]	Jun-05 [p]
N.I.R. of B.O.J.	**3 259.1**	**-1 041.3**	**24 584.1**	**2 158.3**	**775.1**	**15 100.7**	**2 666.0**	**15 788.6**
M&LTFL of B.O.J	**20.9**	**11.4**	**0.0**	**0.0**	**21.7**	**12.0**	**0.0**	**0.0**
Banking System Credit	**8 339.5**	**19 677.6**	**-17 447.3**	**22 552.0**	**6 749.4**	**-10 580.7**	**913.5**	**18 671.1**
Public Sector	4 556.1	14 585.8	-22 169.1	21246.0	4 260.7	-11 009.8	-1 164.3	15 611.1
Private Sector	3 783.5	5 091.8	4 721.8	1 306.0	2 488.7	429.1	2 077.8	3060.0
Open Market Operations	**-6 573.9**	**1 730.9**	**-26 312.3**	**-14 940.4**	**-4 407.2**	**-3 062.8**	**-13 162.8**	**-23 658.2**
Other	**1 384.1**	**-10 836.1**	**23 191.7**	**-4 418.2**	**368.3**	**11 286.6**	**7 323.0**	**-5 487.7**
TOTAL	**6 429.7**	**9 542.5**	**4 016.2**	**5 363.4**	**3 507.3**	**12 755.8**	**- 2 260.3**	**5 313.8**
Memo:								
Foreign Currency Deposits (Private Sector)	1 734.1	1 388.8	5 864.3	-890.1	4 257.6	633.6	210.1	-181.8
Foreign Currency Loans (Private Sector)	2 346.2	1 019.5	1 199.1	339.9	608.9	3 367.5	1 594.9	-2 899.9

p- preliminary

r-revised

6A

SELECTED INTEREST RATES (%) End-of-Period)							
	Fixed Deposits *		Savings Deposits (Average) [r]	Demand Loan Rate (Average)	Fixed Deposits Rate (Weighted Average)	Loan Rate (Weighted Average)	Inter-bank Lending Rate (Average)
	3-6 months	6-12 months					
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	7.24	25.60	8.68.	19.32	24.08
March	8.50 – 13.25	8.50-13.50	6.78	25.40	8.47	19.01	17.16
2004/2005							
June	8.50 – 13.25	8.50-13.50	6.61	25.02	8.15	17.75	15.75
September	8.50 - 13.25	8.50-13.50	6.61	24.95	7.99	17.76	8.38
December	3.00 – 14.10	3.50 – 14.30	6.48	24.89	7.78	17.72	12.95
March	3.00 – 14.10	3.50 – 14.30	6.36	24.89	7.54	17.35	12.58
2005/2006							
June	3.00 – 14.10	3.50-14.30	5.52	24.70	n.a.	n.a.	10.00

**Relate to deposits of $100 000 and over.*
r - revised
n.a: Not Available

6B

GOJ TREASURY BILL YIELDS (End of Period)				
	3-month	*6-month*	*9-month*	*12-month*
2000/2001				
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		
2004/05				
June	15.04	14.98	15.18	
September	14.41	14.80		16.36
December	14.41	14.94		
March	13.21	13.46	14.00	
2005/2006				
June	12.85	12.88		

7

7A

BANK OF JAMAICA OPEN MARKET INTEREST RATES
(End Period)

Tenor of Instruments

End Period	30 days	60 days	90 days	120 days	180 days	270 days	365 days
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
2004/2005							
June	14.20	14.30	14.40	14.55	15.05	15.65	16.40
September	14.00	14.10	14.20	14.35	14.80	15.35	16.00
December	13.80	13.95	14.05	14.15	14.30	15.00	15.50
March	12.95	13.10	13.20	13.30	13.45	14.00	14.50
2005/2006							
June	12.60	12.70	12.75	12.85	13.00	13.25	13.60

8A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
April – June 2005

Maturity Date		Amount J$M	Applicable Interest Rate [b/]
01 April	GOJ US$ VR Local Bond Issue 2005	US$ 0.065	3.75
01 April	FR LRS 2005 AQ	800.0	23.25
01 April	VR LRS 2005 A	104.2	8.75
01 April	10.0% FR LRS 2007 E Tr. B	28.1	10.00
06 April	FR LRS 2005 AN	1 000.0	29.25
19 April	FR LRS 2005 AA	360.0	16.75
19 April	FR LRS 2005 AA	40.0	16.75
25 April	VR Prom. Note 2005/2006 Tr.1	74.6	16.15
27 April	GOJ Inv. Deb. 2006 Ser. "Ac"	6 297.3	24.625
05 May	FR LRS 2005 AB	580.0	16.75
05 May	FR LRS 2005 AB	70.0	16.75
19 May	FR US$ Ind. Bond 2005	US$ 14.6	11.0
30 May	FR LRS 2005 AH	400.0	13.875
30 May	34.25% FR LRS 2005	500.0	34.25
30 May	VR LRS 2005/2006 K	100.0	16.4
01 June	VR LRS 2005/2006	1 843.6	16.9
01 June	VR LRS 2005/2006	206.9	16.9
01 June	VR LRS 2005/2006	206.9	16.9
01 June	VR LRS 2005/2006	206.9	16.9
02 June	VR LRS 2003-2009 Trs. A	200.0	16.65
08 June	FR LRS 2005 AC	36.7	16.75
08 June	FR LRS 2005 AC	613.3	16.75
10 June	34.25% FR LRS 2005 A	565.0	34.25
13 June	33.5% FR LRS 2005	100.0	33.5
15 June	VR LRS 2005/2006 A	108.0	16.9
17 June	16.50% FR LRS 2006 Tr.1	300.0	16.5
22 June	FR LRS 2005 AD	409.4	16.75
22 June	FR LRS 2005 AD	40.6	16.75
28 June	VR LRS 2004/2008	116.1	14.96
30 June	VR LRS 99/2008 (P)	2.4	16.94
30 June	VR LRS 2005/2006 D	60.2	14.94
30 June	FR US$0.476mn Bond 2005	US$ 0.476	9.625
30 June	VR 2001/2006 Tr. D	40.0	15.94

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 2005

Issue Date	Stock Name	Features	Amount Raised J$M
26-29 April	FR 14.625% Investment Debenture 2009 Series "At"	Tenor of 48 months. Interest rate fixed 14.625%. Interest paid quarterly.	3 594.13
10-13 May[a]	VR Investment Bond 2007/2008 Series "M"	Tenor of 30 months. Coupon rate fixed at 13.45% for first six months. Thereafter, quarterly interest payments of 1.50% above applicable Treasury Bill rate.	2 959.92
25-27 May[b]	VR Investment Bond 2011/2012 Series "N"	Tenor of 72 months. Coupon rate fixed at 13.45% for first six months. Thereafter, quarterly interest payments of 1.50% above applicable Treasury Bill rate.	4 767.15
14-16 June	VR Investment Bond 2011/2012 Series "P"	Tenor of 78 months. Coupon rate fixed at 13.40% for first six months. Thereafter, semi-annual interest payments of 1.50% above applicable Treasury Bill rate.	5 312.21
30 June	FR LRS 2009 AL	Tenor of 4 years. Coupon rate fixed at 13.875%. Interest paid semi-annually. Average yield of 14.13 %.	400.0

Notes:
a/ Closed early on 12 May instead of 13 May.
b/ Closed early on 26 may instead of 27 May.
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
2001/2002	**97.7**	**629.5**	**68.5**	**17.9**	**72.0**	**291.1**	**247.0**	**1 423.7**
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	41.8	329.7
2002/2003	**99.9**	**615.6**	**64.5**	**17.7**	**74.4**	**227.8**	**213.7**	**1 313.6**
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	21.7	162.6	25.9	4.7	18.8	56.9	43.6	334.2
2003/2004 r	**92.0**	**737.4**	**82.9**	**18.6**	**65.7**	**250.9**	**230.9**	**1 478.4**
June	24.2	166.0	28.9	5.0	17.6	52.4	51.9	346.0
September	23.1	183.2	10.4	4.4	18.5	66.0	60.2	365.8
December	21.0	176.7	1.1	4.6	12.6	60.4	63.2	339.6
March	23.7	211.5	42.5	4.6	17.0	72.1	55.6	427.0
2004/2005 p	**78.1**	**821.9**	**101.1**	**6.8**	**74.2**	**265.8**	**205.0**	**1 552.9**
June	21.8	210.3	62.0	2.9	19.2	69.5	44.5	430.2
September	21.9	175.2	7.7	3.9	20.3	59.9	66.8	355.7
December	8.6	235.1	0.0	0.0	19.6	74.1	58.1	395.5
March	25.8	201.3	31.4	0.0	15.1	62.3	35.6	371.5

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
2001/2002	**1 000.2**	**1 762.6**	**565.4**	**170.3**	**3 498.5**
June	241.0	444.1	127.7	61.3	874.1
September	238.4	431.1	156.7	47.4	873.6
December	279.9	475.2	133.9	35.4	924.4
March r	240.9	412.2	147.1	26.2	826.4
2002/2003	**1 113.9**	**1 951.9**	**674.2**	**128.3**	**3 868.3**
June	265.4	410.9	176.2	40.9	893.4
September	271.6	539.3	167.2	39.1	1 017.2
December	316.5	442.6	180.5	25.6	965.2
March r	260.4	559.1	150.3	22.7	992.5
2003/2004	**1 054.5**	**1 963.8**	**545.6**	**140.5**	**3 704.4**
June	244.7	499.6	138.5	50.9	933.7
September	252.8	490.4	144.3	33.5	921.0
December	310.4	503.3	125.1	26.6	965.4
March	246.6	470.5	137.7	29.5	884.3

Note: No data available from STATIN for period after March 2004

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BALANCE OF PAYMENTS SUMMARY
(Quarterly Flows – US$M)

	Sep-03[r]	Dec-03[r]	Mar-04[r]	Jun-04[r]	Sep-04[r]	Dec-04[r]	Mar-05[p]
1. Current Account	**-143.5**	**-202.4**	**-23.4**	**-57.4**	**-223.5**	**-191.8**	**-58.5**
A. Goods Balance	**-437.8**	**-502.5**	**-410.9**	**-396.5**	**-530.0**	**-600.3**	**-549.6**
Exports (f.o.b.)	365.8	339.6	427.0	430.2	355.7	395.5	371.5
Imports (f.o.b.)	803.6	842.1	837.9	826.7	885.7	995.8	921.1
B. Services Balance	**135.2**	**133.8**	**202.2**	**162.2**	**102.9**	**110.9**	**246.0**
Transportation	-39.9	-33.5	-14.1	-29.1	-48.6	-58.5	-22.9
Travel	279.5	274.6	325.2	297.7	252.2	276.4	369.3
Other Services	-104.4	-107.3	-108.9	-106.4	-100.7	-107.0	-100.4
Goods & Services Balance	**-302.6**	**-368.7**	**-208.7**	**-234.3**	**-427.1**	**-489.4**	**-303.6**
C. Income	**-133.0**	**-167.2**	**-148.3**	**-153.0**	**-131.5**	**-149.9**	**-148.9**
Compensation of Employees	26.5	33.5	4.8	11.1	32.0	36.6	6.7
Investment Income	-159.5	-200.7	-153.1	-164.1	-163.5	-186.5	-155.6
D. Current Transfers	**292.1**	**333.5**	**333.6**	**329.9**	**335.1**	**447.5**	**394.0**
General Government	27.0	25.8	27.5	27.0	40.8	64.6	38.3
Other Sectors	265.1	307.7	306.1	302.9	294.3	382.9	355.7
2. Capital & Financial Account	**143.5**	**202.4**	**23.4**	**57.4**	**223.5**	**191.8**	**58.5**
A. Capital Account	**-0.2**	**1.2**	**-0.4**	**0.8**	**0.2**	**1.6**	**-3.0**
Capital Transfers	-0.2	1.2	-0.4	0.8	0.2	1.6	-3.0
General Government	0.0	0.0	3.4	3.5	3.4	3.5	-3.0
Other Sectors	-0.2	1.2	-3.8	-2.7	-3.2	-1.9	0.1
Acq./disp. Of non-produced non-fin. assets	0.0	0.0	0.0	0.0	0.0	0.0	-3.1
B. Financial Account	**143.7**	**201.2**	**23.8**	**56.6**	**223.3**	**190.2**	**61.5**
Direct Investment	152.0	154.2	132.7	137.7	133.5	137.7	133.2
Other Official Investment	-37.9	-22.3	253.5	73.9	32.9	118.9	-48.4
Other Private Investment (including net errors & omissions)	84.8	51.6	41.3	-119.6	69.4	175.6	18.8
Reserves	-55.2	17.7	-403.7	-35.4	-12.5	-242.0	-42.1

r-revised

p-provisional

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PRIVATE SECTOR QUARTERLY CURRENT GROSS TRANSFERS
(INCLUDING REMITTANCE INFLOWS)
(US$MN)

	Commercial Banks	Remittance Companies	Post Offices	Building Societies	Total Remit. Inflows	Other Current Transfers	Total
2002/2003	**293.0**	**622.8**	**0.8**	**252.6**	**1 169.2**	**105.4**	**1 274.6**
June	73.2	157.6	0.1	58.8	289.7	23.1	312.8
September	74.0	150.9	0.2	65.6	290.7	23.1	313.8
December	66.3	160.2	0.2	65.8	292.5	23.2	315.7
March	79.5	154.1	0.3	62.4	296.3	36.0	332.3
2003/2004	**330.7**	**697.8**	**1.2**	**298.1**	**1 327.8**	**144.0**	**1 471.8**
June	58.8	170.1	0.3	63.2	292.4	36.0	328.4
September	74.5	169.4	0.3	71.6	315.8	36.0	351.8
December	100.8	183.4	0.3	80.4	364.9	36.0	400.9
March	96.6	174.9	0.3	82.9	354.7	36.0	390.7
2004/2005	**387.3**	**789.6**	**1.2**	**330.6**	**1 508.7**	**150.0**	**1 658.7**
June	96.9	185.6	0.3	83.3	366.1	36.0	402.1
September	70.2	186.4	0.3	84.8	341.7	37.2	378.9
December	97.5	216.5	0.3	88.8	403.1	38.0	441.1
March	122.7	201.1	0.3	73.7	397.8	38.8	436.6

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

	US$	Can$	GB£
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
September	61.89	49.05	111.62
December	61.63	50.66	117.92
March	61.54	50.61	115.35
2005/2006			
June	61.84	50.52	110.52

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

	Gross Foreign Assets (US$MN)	Gross Foreign Liabilities (US$MN)	International Reserves (Net) (US$MN)	*Weeks of Imports* Goods	*Weeks of Imports* Goods & Services
2001/2002					
June	1 612.5	71.9	1 540.5	27.3	18.6
September	1 605.9	69.2	1 536.7	27.1	18.6
December	1 903.3	62.6	1 840.7	33.2	22.5
March	2 000.3	58.7	1 941.6	34.9	23.6
2002/2003					
June	1837.5	55.2	1 782.3	31.2	20.6
September	1738.6	51.3	1 687.3	29.5	19.5
December	1643.1	46.1	1 597.0	27.9	18.4
March	1382.2	42.5	1 339.7	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
2004/2005					
June	1630.3	26.2	1604.1	22.5	15.3
September	1 640.7	24.2	1 616.5	23.5	16.0
December	1 881.9	23.4	1 858.5	27.5	18.7
March	1 924.1	22.5	1901.6	27.5	18.8
2004/2005					
June	2 179.3	22.5	2 156.8	28.1	19.5

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STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	Volume Traded (M.)	Value of Stocks Traded (J$M.)
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
September	99 819.8	391.1	4 920.4
December	112 655.5	532.0	7 144.9
March	111 931.2	920.4	18 029.3
2005/2006			
June	110 621.9	866 .8	14 136.8

Note: Both volume and value reflect ordinary and block quarterly transactions

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

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PUBLIC SECTOR DOMESTIC SECURITIES
Government of Jamaica
Outstanding Stocks

(J$MN)

End Period	Local Registered Stocks	Treasury Bills	Bonds	BOJ Open Market Operations Securities
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
March	240 923.0	2 950.0	114 524.1	86 203.8
2004/2005				
June	222 372.2	3 950.0	187 932.0	123 222.1
September	222 522.4	3 750.0	197 847.6.	127 629.3
December	220 290.5	3 750.0	210 300.0.	130 692.1
March	218 412.6	4 050.0	214 565.6	143 854.8
2005/2006				
June	n.a.	4 050.0	n.a.	167 485.1

n.a: Not Available

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PRODUCTION OF SELECTED COMMODITIES
(Flows- 000' tonnes)

	Bauxite	Alumina	Sugar	Bananas*
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	**3 451.4**	**4 028.5**	**142.0**	**18.1**
June	1 071.2	1 046.4	60.0	9.9
September	907.1	866.7	3.7	8.2
December	398.5	1 062.6	3.6	0.0
March	1 074.6	1 052.8	74.7	0.0
2005/2006				
June	916.0	1 061.8	51.6	4.5

** Exports*

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GROSS DOMESTIC PRODUCT BY INDUSTRY IN PRODUCER'S VALUES
AT CONSTANT (1996) PRICES
June 2003 - March 2005 (Seasonally Adjusted)

Percentage Change over Preceding Quarter

	Jun-03	Sep-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05
Total Gross Domestic Product	-0.1	0.7	0.5	1.3	0.0	-1.8	-0.4	2.1
Agriculture, Forestry & Fishing	-3.2	2.2	2.8	0.4	-5.8	-5.5	-20.1	-0.3
Export Agriculture	-14.1	15.2	13.8	14.1	-26.1	2.9	-44.7	4.0
Domestic Agriculture, Livestock, Forestry & Fishing	-0.9	-0.2	0.4	-3.0	0.1	-7.2	-14.3	-1.0
Mining & Quarrying	2.6	-1.9	5.9	3.3	0.4	-16.1	15.0	4.1
Manufacturing	-2.8	6.3	-3.1	5.4	-1.6	-0.4	-3.4	2.1
Food, Beverages & Tobacco	1.8	0.9	-2.7	7.2	0.3	-3.7	-0.3	-0.2
Other Manufacturing	-8.4	13.5	-3.6	3.3	-4.1	3.8	-7.2	5.1
Electricity & Water	3.0	0.3	-1.2	1.3	2.5	-8.3	4.6	2.1
Construction & Installation	3.5	-1.3	0.0	0.7	1.7	3.6	3.5	2.0
Distributive Trade	0.5	0.1	0.6	0.3	0.2	0.6	-0.2	1.3
Transport, Storage & Communication	-0.3	-0.5	1.4	0.9	1.6	-4.2	0.8	3.9
Finance & Insurance Services	-0.4	-2.3	0.2	1.0	-1.4	0.5	1.0	-0.7
Real Estate & Business Services	0.5	-0.2	0.3	1.6	0.3	0.3	-0.6	1.8
Producers of Government Services	0.2	0.2	0.0	-0.3	0.3	0.0	0.4	-0.1
Misc. Services Hholds. and Private Non-Profit Institns.	0.2	2.8	2.6	0.1	2.8	-3.2	0.3	5.6
Hotels, Restaurants & Clubs	0.0	3.5	3.0	0.1	3.6	-4.5	0.1	7.8
Less Imputed Bank Service Charge	3.3	1.2	1.6	1.8	1.8	-2.9	2.9	0.4

D. BANK OF JAMAICA BALANCE SHEET

ASSETS AND LIABILITIES
(End of Period)
J$MN

	Jun-03	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05
Assets	**149 552.0**	**156 818.4**	**165 318.2**	**186 811.5**	**191 018.4**	**196 888.5**	**210 619.0**	**222 399.7**	**240 192.4**
Foreign	68 606.6	72 298.2	72 134.5	97 232.2	99 458.8	101 367.1	113 727.7	118 206.1	134 085.9
Current Account & Foreign Currency Balances	5 105.0	11 163.0	6 091.0	6 881.8	9 162.7	9 824.6	12 036.4	14 005.1	16 263.7
Time Deposits & Securities	60 573.9	54 278.5	60 805.0	84 931.4	84 922.5	86 121.4	96 047.5	98 606.1	108 978.7
Holdings of Special Drawing Rights	6.5	19.7	3.2	4.8	23.8	6.0	4.4	10.5	2.6
Other	2 921.2	6 837.0	5 235.3	5 414.2	5 349.8	5 415.1	5 639.4	5 584.4	8 840.9
Local	80945.4	84 520.2	93 183.7	89 579.3	91 559.6	95 521.4	96 891.3	104 193.6	106 106.5
Public Sector Securities	66 907.0	68 465.9	78 147.1	77 836.0	76 989.0	85 125.6	85 131.1	85 139.9	85 125.9
Other Assets	14 038.4	16 054.3	15 036.6	11 743.3	14 570.6	10 395.8	11 760.2	19 053.7	20 980.6
Liabilities	**149 552.0**	**156 818.4**	**165 318.2**	**186 811.5**	**191 018.4**	**196 888.5**	**210 619.0**	**222 399.7**	**240 192.4**
Foreign	467.9	459.2	479.3	459.8	427.0	401.4	424.3	370.7	395.2
Local	149 084.1	156 359.1	164 839.0	186 351.7	190 591.4	196 487.1	210 194.7	222 028.9	239 797.2
Currency in Circulation	21 309.9	21 587.9	29 467.0	24 978.0	24 634.4	26 261.3	32 438.3	28 711.7	27 049.7
Deposits	110 145.7	115 342.8	112 076.8	146 088.2	155 259.4	159 435.8	165 535.6	179 817.5	201 790.1
Bankers	25 474.3	25 022.0	25 659.9	26 197.7	26 499.4	28 278.6	29 186.6	27 086.5	24 396.5
Government	3 280.1	2 000.8	1 235.2	5 045.7	3 098.7	656.5	3 482.6	4 739.6	6 774.8
Open Market Operations	77 126.4	83 700.3	81 969.4	108 281.7	123 222.1	127 629.3	130 692.1	143 854.8	167 485.1
Other	4 264.9	4 619.7	3 212.3	6 563.1	2 439.2	2 871.4	2 174.3	4 136.6	3 133.7
Allocation of Special Drawing Rights	3 203.0	3 203.0	3 203.0	3 203.0	3 573.6	3 573.6	3 573.6	3 573.6	3 792.7
Capital & Reserves	4.0	4.0	4.0	24.0	24.0	24.0	24.0	24.0	24.0
Other Reserves	1 640.8	1 628.8	990.3	1 270.4	2 311.1	2 283.6	2 285.9	2 282.3	2 983.3
Other Liabilities	12 780.7	14 592.7	19 097.8	10 788.1	4 788.9	4 908.8	6 337.3	7 619.9	4 157.4

E. COMMERCIAL BANKS' BALANCE SHEET

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

	Jun-03	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04 [r]	Mar-05 [r]	Jun-05 [p]
Assets	**295 647.2**	**306 632.7**	**313 516.6**	**331 710.5**	**327 721.8**	**341 427.1**	**344 378.6**	**343 452.0**	**346 397.6**
Cash	2 500.6	2 638.1	6 281.0	4 335.8	3 478.0	4 055.5	5 754.4	5 139.9	4 041.0
Balances with BOJ	37 224.0	40 947.6	40 249.2	50 545.4	53 281.4	52 877.8	55 896.7	59 775.8	60 452.3
Foreign Assets	58 847.3	56 953.0	59 938.9	62 394.6	61 318.4	71 803.7	73 289.8	67 327.2	60 432.0
Loans & Advances	87 067.4	91 254.9	99 150.0	102 504.2	106 169.9	108 989.0	113 368.8	118 444.9	125 513.2
Private Sector	60 255.0	66 396.8	71 638.4	75 699.2	77451.2	80 687.3	83 558.3	88 548.4	88 829.5
Public Sector	26 812.4	24 858.1	27 511.6	26 805.0	28 718.7	28 301.7	29 810.5	29 896.5	36 683.7
Public Sector Securities	78 275.4	79 905.7	74 852.1	66 686.3	65 707.7	62 695.7	56 455.4	52 434.0	58 576.8
Cheques in the Process of Collection	5 041.7	3 023.1	2 584.2	6 310.9	2 658.7	5 381.2	4 040.6	6 330.6	3 360.9
Other Assets	26 690.8	31 910.3	30 461.2	38 933.3	35 107.7	35 624.2	35 572.9	33 999.6	34 021.4
Liabilities	**295 647.2**	**306 632.7**	**313 516.6**	**331 710.5**	**327 721.8**	**341 427.1**	**344 378.6**	**343 452.0**	**346 397.6**
Deposits	189 816.3	194 580.3	198 774.8	216 777.3	214 596.2	223 188.9	228 190.5	234 117.3	233 407.8
Local Currency	118 040.1	120 691.9	122 976.1	134 730.5	132 670.0	135 475.1	139 515.4	145 325.4	
Foreign Currency	71 776.2	73 888.4	75 798.7	82 046.8	81 926.2	87 713.8	88 675.1	88 791.9	
Foreign Liabilities	14 903.7	16 771.1	15 900.5	15 860.8	18 655.6	22 932.1	26 374.9	25 834.0	30 192.3
Discounts & Advances from BOJ	235.7	95.6	167.7	276.7	1 607.3	199.6	229.9	117.5	144.1
Loans/Advances from Other Institutions	7 813.2	8 674.7	9 431.7	7 741.2	7 805.5	7 806.5	7 762.3	8 236.7	5 042.9
Cheques in the Process of Payment	3 383.4	2 161.0	2 112.4	3 279.7	2 218.9	3 172.3	2 498.5	3 056.5	2 828.2
Other Liabilities	79 494.9	84350.0	87 129.5	87 774.8	82 838.3	84 127.7	79 322.5	72 090.0	74 782.3

P = preliminary
r = revised

F. INTERNATION AL INDICATORS

1

LONDON INTERBANK OFFER RATE–LIBOR (End- of-Period)	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
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
2004/2005				
June	1.3687	1.6100	1.9400	2.4625
September	1.8400	2.0200	2.1963	2.4825
December	2.3890	2.4959	2.7069	3.0109
March	2.6464	2.8335	3.0700	3.4237
2005/2006				
June	3.2498	3.4263	3.6131	3.8135

2

LONDON MONEY RATES – INTERBANK STERLING (End- of-Period)	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
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
2004/2005				
June	4 5/8 – 4 1/2	4 7/8 – 4 3/14	5 1/16 – 4 15/16	5 ¼ - 5 1/8
September	4 27/32-4 23/32	4 15/16-4 13/16	5-4 7/8	5 1/8-5
December	4 7/8 – 4 3/4	4 29/32 – 4 25/32	4 15/16 – 4 13/16	4 31/32 4 27/32
March	4 27/32 – 4 3/4	4 31/32 – 4 7/8	5 1/32 – 4 15/16	5 1/8 – 5 1/32
2005/2006				
June	4 27/32 – 4 11/16	4 25/32 – 4 5/8	4 23/32 – 4 9/16	4 19/32 – 4 13/32

3

ME LENDING RATES
d- of-Period)

	EURO-ZONE	UNITED STATES			UNITED KINGDOM
	Repo rate	**Fed Funds Rate**	**Discount Rate**	**Prime Rate**	**Repo rate**
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	3.25L.	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
2004/2005					
June	2.00	1.25	2.01	4.00	4.50
September	2.00	1.75	2.58	4.75	4.75
December	2.00	2.25	3.15	5.25	4.75
March	2.00	2.75	3.58	5.50	4.75
2005/2006					
June	2.00	3.25	4.01	6.00	4.75

4A

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

	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05
US$ vs. Sterling	0.6192	0.5603	0.5476	0.55167	0.55279	0.5188	0.5248	0.5502
US$ vs. Canadian $	1.3632	1.2924	1.3284	1.3404	1.2417	1.2191	1.2161	1.2402
US$ vs. Yen	114.79	107.11	108.51	109.38	110.20	103.90	105.23	108.7532
US$ vs. Euro	0.8878	0.7939	0.8155	0.82097	0.80535	0.7472	0.7580	0.8227

4B

INTERNATIONAL EXCHANGE RATES EXCHANGE CROSS RATES (June 2005)	GBP	CAN$	US$	Yen	Euro
GBP	1.000	2.254	1.818	197.673	1.495
CAN$	0.444	1.000	0.806	87.699	0.663
US$	0.550	1.240	1.000	108.753	0.823
Yen	0.005	0.011	0.009	100.000	0.008
Euro	0.669	1.508	1.216	132.191	1.000

4C

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

	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05
Sterling vs. US$	1.7847	1.8263	1.8127	1.8090	1.9278	1.9058	1.8177
Sterling vs. Canadian $	2.3066	2.4259	2.4297	2.2853	2.3502	2.3177	2.2543
Sterling vs. Yen	198.26	198.12	199.41	197.50	200.29	200.52	197.67
Sterling vs. Euro 1/	1.4168	1.4893	1.4881	1.4875	1.4404	1.4445	1.4954

5A

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

	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05
Spot (Cash)	1688.5	1698.5	1823.0	1849.55	1982.40	1731.30
3 Month	1707.5	1704.5	1812.0	1851.55	1962.50	1748.18

5B

WORLD COMMODITY PRICES
FOOD
(End- of-Period)

	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05
Wheat **(US$/mt)**	165.6	166.3	153.0	151	153.9	151.0	141.9
Coffee (USc/kg arabica brand)	141.0	170.5	172.4	177.4	228.82	297.1	267.4

5C

MAJOR STOCK MARKET INDICES
(End- of-Period)

	Dec-03	Mar-04	June-04	Sep-04	Dec-04	Mar-05	Jun-05
TOKYO							
Nikkei Index	9083.11	11715.39	11858.87	10823.57	11488.76	11668.95	11584.01
NEW YORK							
Dow Jones Industrials	8985.44	10357.70	10435.48	10080.27	10783.01	10525.26	10274.97
S & P Composite	974.50	1126.21	1140.75	1114.58	1211.92	1183.00	1191.33
LONDON							
Financial Times SE 100	4031.20	4385.70	4464.10	4570.80	4814.30	4894.40	5113.20
FRANKFURT							
Dax Index	4095.71	3856.70	4052.73	3892.90	4256.08	4348.77	4586.28
ZURICH							
SMI Index	5768.20	5618.60	5619.10	5465.30	5693.20	5929.70	6253.08

6

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

	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05
UAE's Dubai Light	23.69	30.46	33.40	35.48	34.26	45.58	50.97
North Sea Brent	30.15	32.41	33.04	43.38	39.64	53.08	54.31
West Texas Intermediate	32.55	35.78	37.05	45.93	43.23	54.17	56.39

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**.**