Bank of Jamaica
Quarterly Monetary Policy Report

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Nethersole Place
Kingston
Jamaica

Telephone: (876) 922 0750-9
Fax: (876) 922 0854
E-mail: library@boj.org.jm
Website: www.boj.org.jm

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PREFACE

The Bank of Jamaica's Quarterly Monetary Policy Report reviews the conduct of monetary policy and the main factors that influenced inflation during the quarter. It also presents the Bank's perspective on emerging economic trends and the path of monetary policy over the short to medium term. This issue includes discussions on alternative measures of inflation as well as a feature on financial institutions and the range of instruments available to savers.

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 was substantially tightened during the March 2003 quarter in a context of accelerated depreciation in the foreign exchange market, a continued shift into United States dollar deposits in local banks and uncertainty regarding measures to address the fiscal disjuncture revealed in December. Faced with growing uncertainty in the external economy and weak prospects for any significant increase in foreign exchange inflows, the Bank opted to concentrate its efforts on managing Jamaica Dollar liquidity. Policy initiatives consequently involved interest rate increases, a special deposit requirement on commercial banks and merchant banks, as well as the offer of a new tenor in the range of BOJ instruments. The policy mix was aimed at preserving monetary and price stability, dampening expectations of further exchange rate depreciation, and thereby inspiring renewed confidence in the Jamaica Dollar.

Early in the quarter, a number of key macroeconomic indicators signaled the need for policy adjustment. The pace of exchange rate depreciation had accelerated from 0.95 per cent in November to 2.08 per cent in December. Depreciation in December was more significant in the second half of the month (1.98 per cent) after the widely publicized revelation of a deterioration in the fiscal accounts. Investor confidence was further eroded when the outlook on the rating of Jamaica's sovereign debt was downgraded by Standard and Poor's. In the wake of these developments, there was a fall of 3.80 per cent in the value of the Jamaica Dollar in January, significantly contributing to 9.4 per cent depreciation for the quarter.

The change in conditions in the foreign exchange market was reflected in the currency composition of deposits and securities. Private sector foreign currency deposits in commercial banks continued to accumulate during the quarter increasing by 1.6 per cent (US$ terms) while local currency deposits declined by 2.8 per cent. In the context of heightened global uncertainty, international market conditions were not conducive to accessing funds for Government debt obligations, and therefore, a part of the amount needed to settle a Eurobond that matured in February was purchased from the Bank's foreign reserves. These factors precipitated a decline of US$257.3 million in reserves for the quarter.

In an initial response to the sharp increase in demand for foreign currency in January, the Bank introduced a special deposit scheme for commercial banks and merchant banks that had the effect of withdrawing a large volume of liquidity from the system. The effect on market conditions was however not substantial, and in early February a 150-day instrument at 30.0 per cent was offered to the market for four days. Prior to the offer of this special instrument, the highest interest rate on BOJ open market tenors stood at 18.40 per cent. Liquidity was further tightened in March when interest rates on the entire spectrum of BOJ open market instruments were increased. By the end of the March, the 365-day open market instrument offered a rate 35.95 per cent, up from 14.50 per cent at the beginning of the quarter.

In the context of these transactions and exceptionally tight monetary conditions, there was a decline of 9.1 per cent in base money for the quarter. This put base money growth for the fiscal year below the targeted expansion, and provided support for the attainment of single digit inflation recorded for FY 2002/03. While the NIR declined by US$257.3 million, the net domestic assets expanded, reflecting a $6 500 million increase in the Bank's holdings of Government securities acquired in exchange for the sale of reserves for debt repayment, as well as a $4 000 million net use of public sector balances in the BOJ. There was also a decline of $3 777.5 million in open market liabilities.

Developments in the bond market were shaped by the aggressive stance of monetary policy. With the increasing attractiveness of the menu of BOJ open market instruments, there were increased placements in the 120-

day to 365-day tenors. This longer end range of instruments attracted roughly 58.0 per cent of placements for the quarter as against 55.0 per cent in the previous quarter. Higher yields in the longer end of the money market, and generally tight liquidity in the financial system put upward pressure on private money market interest rates. Inter bank rates peaked at 35.80 per cent in February, while overnight and 30 day rates peaked at 41.0 per cent and 28.0 per cent, respectively. Government raised debt during the quarter at higher yields. However, most of the $8.0 billion in incremental borrowing from the market was via US dollar indexed bonds at rates, which reflected the trend decline in the price of Government of Jamaica US dollar global bonds on the international capital market. The prices of these bonds in secondary market trading was influenced during the quarter by margin calls by a large international brokerage firm which led to increased demand for foreign exchange to cover exposures.

Competition among the various financial institutions heightened during the quarter and investors were faced with a wide range of attractive instruments. One characteristic of the period was the repositioning of the portfolios of savers and investors. In particular, some small savers shifted out of bank deposits into other financial instruments offered by a variety of institutions. In the interest of public information, Box 1 in this edition of the Quarterly Monetary Policy Report (QMPR) contains information on the characteristics of the types of financial intermediaries operating in Jamaica and a description of the range of instruments offered.

Increased yields in the money market moderated the gains in the stock market as investors sought to capitalise on attractive fixed income securities. However, stock market activity remained buoyant as investors adjusted to the changing financial environment. The number of units traded increased by 169.8 per cent over the December 2002 quarter and 92.0 per cent over the March 2002 quater. The listing of a company, and additional shares issued by three financial companies, enhanced market capitalization.

Price gains were concentrated in conglomerates and firms in the financial sector.

Bank of Jamaica estimates of economic performance during the March quarter indicate growth in all sectors except Manufacturing. The growth recorded in tourism was especially significant compared to the corresponding quarter in 2002 when Tourist arrivals, still strongly affected by the events of September 2001, were low. The economic expansion was driven by increased consumption demand. Increased sales tax receipts and an expansion in consumer good imports suggest higher private consumption. Public consumption, as measured by expenditure on Government programmes and wages, was 16.2 per cent higher in the review quarter compared to January - March 2002.

The headline inflation rate for the March 2003 quarter was -0.4 per cent. This disinflation reflected marked resurgence in agricultural supplies and consequent price reversals in January and February, notwithstanding the pass-through effects of exchange rate slippages. Although the Bank's research has suggested that the pass-through of exchange rate changes to prices has been slower since the late 1990s, a close analysis of the behaviour of consumer goods in the quarter shows a general increase in prices of most non-agricultural commodities within the CPI. The impulses from core inflation remained stable when compared to the December 2002 quarter. (Box 2 compares the usefulness of the CPI and the GDP deflator as measures of prices in the economy).

In relation to fiscal developments, provisional data indicate that for the quarter, Central Government operations resulted in a deficit of $1 407.4 million or 0.4 per cent of GDP, relative to a surplus of $1 500.0 million targeted under the IMF Staff Monitored Programme (SMP). The deviation was influenced by higher than targeted expenditure offsetting higher revenue flows. For FY 2003/04, a deficit of $34 925.5 million or 8.8 per cent of

GDP was generated (see footnote in Appendices, Fiscal Developments), significantly above the SMP target of $17 700.0 million or 4.4 per cent of GDP.

The near-term economic out-look for FY 2003/04 is conditioned by geopolitical concerns, especially those relating to the recent events in the Middle East and the continuing weakness in the US economy. The impact on the Jamaican economy from the recent conflict in Iraq will be evident in the balance of payments as it relates to fuel imports, visitor arrivals and aluminum prices. More importantly however, the state of domestic and financial markets and policy response will shape the performance of key macroeconomic variables.

The immediate challenge to monetary policy is the restoration of domestic and foreign investor confidence in the Jamaican economy. This hinges critically on the pace of execution of fiscal correction as outlined in the 2003/04 budget. Adherence to the fiscal programme will significantly contribute to inspiring confidence and market stability. This is a necessary condition for the gradual easing of the monetary policy stance of the Central bank.

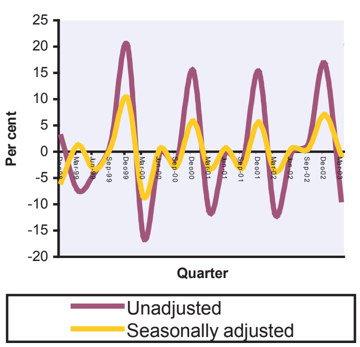
1. Monetary Policy and Financial Markets

Money and Credit

Base Money

Monetary policy was tightened in the March quarter consistent with maintaining price stability. An important element of this strategy was stabilizing the foreign exchange market. The volatility in the foreign exchange market that had emerged towards the end of the December quarter, largely in response to the announcement of the deterioration in the fiscal accounts, continued during the March quarter against a background of high Jamaica Dollar liquidity conditions. The absence of measures to address the deteriorating fiscal position coupled with the effects of adverse international conditions, also contributed to a decline in demand for the Jamaica Dollar. Consequently, monetary policy action was taken on four occasions during the quarter to restore orderly conditions in the foreign exchange market. This involved the implementation of a Special Deposit, the introduction of a new open market tenor at a high premium and two interest rate increases on Bank of Jamaica's open market instruments. The monetary base declined by $3 257.9 million or 9.1 per cent during the March quarter. Accordingly, base money growth for the fiscal year 2002/03 was 7.5 per cent relative to the targeted expansion of 8.2 per cent, thereby providing support for the attainment of single digit annual inflation.

Figure 1.1
Base Money
(quarterly change)



During the March quarter, there was a contraction of 9.1 per cent or $3 257.9 million in the monetary base (see **Figure 1.1)**. Following the seasonal increase in December, the currency stock declined by 14.9 per cent or $3 624.8 million for the review quarter to $20 729.7 million. Additionally, the current account balances of commercial banks declined by $44.6 million, while the statutory cash reserve increased by $411.5 million (see **Table 3 in the Appendix**).

NIR declined by US$257.3 million as Government settles maturing Euro-bond.

The main counterpart to the decline in the monetary base was a reduction in the Net International Reserves (NIR), which more than offset an injection from an increase in the Net Domestic Assets (NDA). The NIR declined by US$257.3 million absorbing J$13 140.8 million. This decline was due mainly to the sale of €200.0 million (200 million Euros) to the Government for the payment of the maturing 2003 Euro-bond. This was necessary as the Government did not refinance the maturing instrument due to unfavourable international financial market conditions. The decline in the NIR also reflected direct sales to the foreign exchange market in January and February.

BOJ implements 5.0% Special Deposit amounting to $6 363.7 million.

The expansion of $9 882.9 million in the NDA emanated mainly from a draw down of $4 475.7 million in Government deposits and a $6 500 million increase in the Bank's holding of Government securities. These securities were acquired in exchange for a portion of the Euros sold to the Government. In addition, the NDA expanded as there was a net unwinding of $3 777.5 million in open market instruments. These expansionary impulses were partly offset by the institution of the Special Deposit amounting to $6 363.7 million during the quarter. The Special Deposit, implemented by the Bank on 10 January, represents 5.0 per cent of the average prescribed domestic liabilities of commercial banks and institutions licensed under the Financial Institutions Act. The requirement was introduced to withdraw excess Jamaica Dollar liquidity from the system. The action provided temporary stability to the foreign exchange market.

Bank introduces 150-day open market instrument at 30.0 per cent for four days.

The re-emergence of instability in the foreign exchange market prompted the Bank to take further policy action. On 10 February, the Bank introduced a 150-day open market instrument at an interest rate of 30.0 per cent. The instrument absorbed $7 412.2 million over the four days of its implementation and influenced a rapid appreciation in the exchange rate. The recurrence of foreign exchange market instability subsequent to the withdrawal of the 150-day tenor, prompted the Bank to increase interest rates

Interest rates increased on the entire spectrum of BOJ instruments to stabilize the exchange rate.

on 19 March. Rates on the 180 day, 270 day and 365 day tenors were increased to 19.65 per cent, 21.5 per cent and 24.0 per cent, representing adjustments of 620 basis points, 765 basis points and 950 basis points, respectively. This was followed one week later by an increase in the rates on the entire spectrum of open market instruments. The new rates ranged from 15.00 per cent to 35.95 per cent on the 30-day and 365-day instrument, respectively. (see **Bond Market, Table 1.7**)

Base money growth contained within programme target.

With respect to the programme targets at end March, the NIR stock of US$1 339.7 million was US$60.3 million lower than the adjusted programme target[1] of US$1 400.0 million (see **Foreign Exchange Market**). The NDA outturn was lower than the programmed level due mainly to the absorption created by the Special Deposit requirement. As a result, the monetary base was $213.7 million or 0.7 per cent below the original target.

For the fiscal year 2002/03 the monetary base expanded by 7.5 per cent, consistent with the programme target of an 8.2 per cent expansion. The containment of base money growth within the target underpinned the attainment of single digit annual inflation.

Money Supply

For the final quarter of FY 2002/03, broad Jamaica Dollar money supply, M3J, contracted by 6.3 per cent. A reduction in the net international reserves of the BOJ and Other Items (net) were the main counterparts to the decline. These contractionary impulses were partially offset by an increase in banking system credit and a reduction in BOJ open market liabilities. The measure of money supply which includes foreign currency deposits, M3, declined by 1.9 per cent as there was strong growth in the foreign currency component of this aggregate.*

Table 1.1

Money Supply *(12-month growth)*		
M1J	**Mar-02**	**Mar-03**
	%	**%**
M1J	13.1	-9.0
M2J	7.3	-0.5
M3J	8.1	4.4
M*		
M1*	18.9	-7.2
M2*	10.4	7.5
M3*	10.6	10.2

[1]The SMP NIR target was adjusted to reflect the non-receipt of GOJ loan flows of US$200 million during the December quarter.

Table 1.2

Growth Rates - M3J			
		3 mths.	12 mths.
2000	Mar.	1.2	21.2
	June	4.1	15.7
	Sept.	1.1	9.0
	Dec.	4.1	10.9
2001	Mar.	0.6	10.7
	June	1.9	8.3
	Sept.	3.2	10.2
	Dec.	3.5	9.3
2002	Mar.	-0.5	8.1
	June	3.0	9.3
	Sept.	6.4	12.6
	Dec.	1.8	10.7
2003	Mar.	-6.3	4.4

Broad Jamaica Dollar money supply (M3J) contracted by 6.3 per cent for the March 2003 quarter, a faster rate of contraction than the 0.5 per cent that obtained for the corresponding quarter of the previous year. (see **Table 1.2**) Reductions of $13 140.9 million and $12 126.8 million in the NIR and Other Items (net), respectively, were the major sources of contraction in money supply during the March 2003 quarter. The decline in the NIR was due mainly to the sale of foreign exchange to the Government for the payment of a bond that matured in February. The decline also reflected direct sales to the foreign exchange market. The reduction in Other Items (net) reflected the withdrawal of liquidity from the financial system through the imposition of the Special Deposit. These contractionary impulses were partially countered by the Jamaica Dollar liquidity that emanated from an increase in banking system credit of $12 261.5 million and a decline of $3 777.5 million in the Bank's open market liabilities. Of the increase in loans from the banking system, credit to the public sector totaled $10 731.1 million. The expansion in credit was concentrated in February and was partially offset by the balances built up in the banking system during January and March.

Money supply contracts in response to monetary policy tightening.

The contraction in broad money supply for the March 2003 quarter compares to the 0.5 per cent growth outlined in the Staff Monitored Programme. The deviation from target was in response to the tightening of monetary policy during the review quarter, against the background of high Jamaica dollar liquidity conditions, which threatened to derail the attainment of the Bank's inflation objective. The outturn in M3J for the quarter brought growth in money supply for FY 2002/03 to 4.4 per cent relative to the programmed expansion of 9.1 per cent and an increase of 8.1 per cent in the 2001/02 fiscal year. The slower than programmed expansion reflected the tightening of monetary policy which was aimed at reducing investors' preference for holding foreign currency.

All components of broad Jamaica Dollar money supply declined for the final quarter of FY 2002/03. Narrow money, M1J, contracted by 24.5 per cent for the March 2003 quarter, relative to 4.8 per cent for the corresponding quarter in 2002. The contraction in M1J for the review quarter was consequent on reductions of 15.1 per cent and 32.4 per cent in currency in circulation and demand deposits, respectively. The decline in currency in circulation compares with a decline of 6.9 per cent in the comparable quarter of 2002. For the twelve-month period ending March 2003, currency in circulation declined by 7.0 per cent in real terms relative to real growth of 2.4 per cent for the year ending March 2002.

Quasi-money declined by 1.2 per cent, for the review quarter relative to an increase of 0.7 per cent in the corresponding quarter of 2002. The contraction in quasi-money reflected reductions of 0.1 per cent and 4.2 per cent in savings and time deposits, respectively. The decline in time deposits was related to the tightening of monetary policy that induced a switch to BOJ and GOJ instruments that offered higher yields.

The broader measure of money supply that includes foreign currency deposits (M3*) declined by 1.9 per cent during the March 2003 quarter relative to growth of 1.5 per cent for the March 2002 quarter. The decline largely reflected the reduction in local currency deposits and currency in circulation as foreign currency deposits increased by 12.2 per cent. Foreign currency deposits expressed in US Dollars increased by 1.6 per cent to US$920.3 million. The increase was reflected in growth in savings deposits of 12.3 per cent and was consistent with the heightened demand for foreign exchange during the quarter. Demand and time deposits declined by US$7.7 million (or 5.7 per cent) and US$42.3 million (or 17.4 per cent), respectively. The fall in time deposits largely reflected a switch from these deposits to GOJ foreign currency bonds.

The fiscal year growth rate of M3* was 10.2 per cent compared to 10.6 per cent in FY 2001/02. As a consequence of the faster rate of growth of foreign currency deposits in FY 2002/03 the ratio of foreign currency deposits to total deposits increased to 30.1 per cent at the end of March 2003 from 26.0 per cent at end-March 2002.

For March 2003 quarter the money multiplier was 4.2 per cent, slightly above the 4.1 per cent that obtained for the December 2002 quarter but was 0.1 percentage point below the rate that obtained for the March 2002 quarter. The increase in the money multiplier during the review quarter reflected the contraction in money supply in the context of an even greater decline in the monetary base. In addition, there was the usual seasonal reduction in the currency to deposit ratio, which declined from 16.3 per cent at end-December to 14.5 per cent at end-March 2003.

Private Sector Credit

Continued expansion in private sector credit.

Commercial bank credit to the private sector surpassed the target outlined in the monetary programme for the fourth consecutive quarter of fiscal year 2002/03.While the Personal Loans category recorded the largest share of the increase, the economic sectors of Construction & Land Development, Transport Storage & Communication and Tourism also recorded notable increases. The expansion in credit during the March 2003 quarter continued to reflect relatively strong demand for foreign currency loans. Along with the increase in loans, there was further improvement in the quality of the commercial banks' loan portfolio throughout the period.

The growth in commercial bank credit to the private sector, which was observed in the December quarter, continued into the March quarter. The stock at end-March 2003 was \$54 711.9 million, an expansion of \$3 623.4 million or 7.1 per cent for the review quarter. Of this increase, loans & advances accounted for 97.8 per cent.

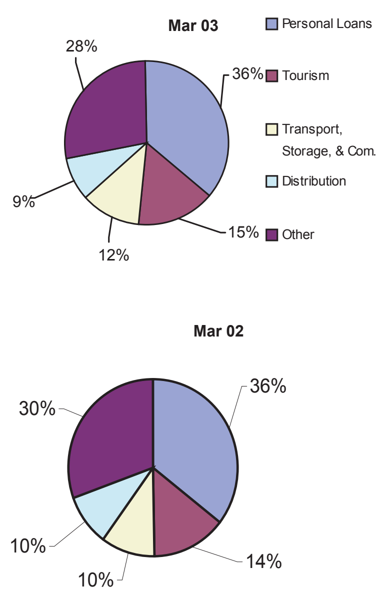
During the fiscal year 2002/03, the total expansion in the stock of private sector credit was \$14 391.8 million or 38.0 per cent, significantly exceeding the target of 14.6 per cent. The expansion in credit also surpassed the increase of \$5 819.2 million or 17.1 per cent that was recorded in the previous fiscal year.

Table 1.3

Commercial Banks' Distribution of Loans and Advances (Flows J$M)

	Mar-02	Dec-02	Mar-03
Agriculture & Fishing	-8.5	329.7	-148.5
Mining & Quarrying	8.9	-4.1	48.7
Manufacturing	201.6	-482.2	261.3
Construction & Land Dev.	-434.0	576.9	862.0
Transport, Storage & Comm.	-1 287.5	1 275.6	703.3
Tourism	208.6	386.1	695.1
Distribution	569.9	887.8	115.9
Professional & Other Services	91.7	-10.7	-124.7
Personal Loans	-174.1	1 862.7	1 911.0
Electricity	118.2	-847.1	-719.4
Entertainment	10.0	45.8	-46.4
Overseas Residents	0.6	-7.2	-15.6
TOTAL	**-694.6**	**4 013.3**	**3 542.7**

Figure 1.2
Sectoral Distribution of Commercial Bank Credit to the Private Sector March 2002 and March 2003



The expansion in credit was mainly reflected in the *Personal* loans category, which increased by $1 911.0 million, accounting for 53.1 per cent of the total increase. The *Construction & Land Development* and *Transport Storage & Communication* and *Tourism* sectors also recorded significant increases in loans (see **Table 1.3**). Credit extended to *Construction & Land Development* grew by $862.0 million during the review quarter relative to a decline of $434.0 million during the corresponding quarter of 2002. At end-March 2003, credit to the *Personal Loans* category along with the *economic sectors of Tourism* and *Transport Storage & Communication* continued to dominate commercial banks' stock of loans outstanding, collectively accounting for 76.0 per cent of the total loan balance. (See **Figure 1.2**).

There continued to be a relatively strong demand for foreign currency loans during the March quarter. Credit denominated in United States Dollars expanded by $6.6 million or 1.9 per cent during the review quarter relative to a reduction of $5.7 million in the corresponding quarter of the previous fiscal year.

The commercial banks overall weighted average loan rate continued the trend decline, observed since the start of the fiscal year. This rate declined to 17.4 per cent at end-February 2003 from 19.61 per cent at end-March 2002. (see **Figure 1.3**). This movement reflected a decline in the lending rate on Commercial Loans, which was 14.5 per cent at end-February 2003 relative to 16.6 per cent at end-March 2002 (see **Table 1.4**). Despite the trend decline in weighted average rates, the average market lending rates increased to 24.7 per cent in February 2003 from 23.9 per cent in January 2003 reflecting the monetary policy actions that were effected during the period. The rate remained unchanged at the end of the quarter. Similarly the weighted average rate on loans extended to Central Government

Figure 1.3
Commercial Banks' Loan Rates
Weighted Average
March 2002 to February 2003

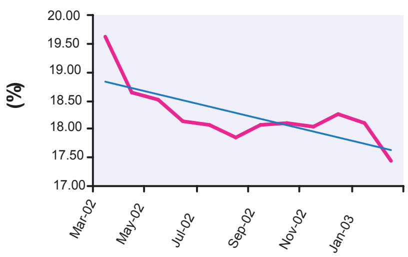
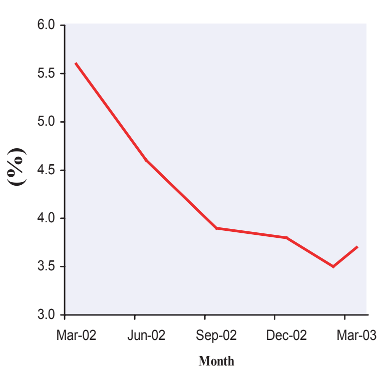


Table 1.4

Commercial Banks' Weighted Average Lending Rates (by loan type)	Mar-02	Dec-02	Feb-03
Instalment	26.75	25.66	25.40
Mortgage	20.87	19.02	19.06
Personal	23.83	27.32	27.53
Commercial	16.67	15.92	14.49
Local Government & Other Public Entities	11.29	15.69	15.00
Central Government	17.65	17.79	18.27
Overall Weighted Average Rate	**19.61**	**18.25**	**17.44**

Figure 1.4
Commercial Banks' Loans More than Three Months Overdue to Total Loans
March 2002 to March 2003



recorded an increase to 18.3 per cent at end-February 2003 from 17.6 per cent at end March 2002. (see **Table 1.4**).

The quality of the loan portfolio of commercial banks continued to show improvement as reflected in the ratio of past due loans to total loans that declined to 3.7 per cent at end-March 2003 (see **Figure 1.4**). This ratio compares with the 5.6 per cent that obtained at end-March 2002 and the 10.0 per cent international benchmark.

Box 1: Opportunities for Savings and Investment in Jamaica: Financial intermediaries and financial instruments

Introduction

Since 1836, banks have served as the primary storehouse for the savings of the Jamaican public. With the commencement of financial liberalisation in the mid-1980s, there was a mushrooming of other financial intermediaries. Continued financial liberalisation and increasing globalisation in the early 1990s have led to the emergence of a modern and active financial sector and the establishment of other entities that have since offered alternatives to the public. There has also been increased financial activity in recent times, facilitated by the vibrant financial markets, the various avenues available for savings and investment and the number and variety of financial instruments.

The financial sector in Jamaica is diverse, comprising several entities that serve as financial intermediaries. This means that they act as negotiator between persons in need of funds and those with funds in excess of their immediate needs. These intermediaries are commercial banks, merchant banks, trust companies, building societies, credit unions, insurance companies, unit trusts, and securities dealers. Other participants in the financial sector include the Bank of Jamaica (BOJ - the Central Bank) and the Financial Services Commission (FSC) that are regulators, as well as development banks, and the Stock Exchange.[2] All commercial banks, along with select merchant banks and the two largest building societies are designated authorised foreign exchange dealers. This means that they are authorised to buy and sell foreign currency, grant loans and take deposits in foreign currency, and make international payments.

The primary purpose of this box is to deepen the reader's understanding of various opportunities available for financial saving and investment in Jamaica, by providing information on the basic characteristic features of the major intermediaries, the major financial instruments and financial markets.

Financial Intermediaries in Jamaica

Commercial Banks

The landscape of the Jamaican financial sector is dominated by a network of over 100 branches of the six commercial banks spread across the island. As at December 2002, commercial banks accounted for just over 50.0 per cent of total financial sector assets. These entities specialise in the provision of retail banking services to the public. Commercial banks are distinguished by their ability to accept interest-free current account deposits and relatively low interest-bearing savings account deposits in Jamaica Dollar as well as three other major currencies.[3]

Merchant Banks

Sometimes referred to as 'near banks,' merchant banks are formally referred to as Licensees under the Financial Institutions Act (FIA). They were established primarily to develop the local capital markets, and focus on the provision of 'wholesale' services,

[2] The BOJ also plays a central role in the payments/settlements system.

[3] All references to the 'major currencies' are to the US Dollar, Great Britain Pound and Canadian Dollar.

accept medium- and long-term deposits and provide medium- and long-term loans to the public.

Building Societies

The primary purpose of building societies is to make credit available for home ownership. Different types of interest-bearing share/savings accounts are offered that are geared towards encouraging savings towards the purchase of a home, while offering ownership in the Society. Qualified savers are able to obtain preferential rates on mortgages. Building societies also offer deposit accounts in the major currencies.

Credit Unions

Credit unions are non-profit cooperative associations of people (usually with a common bond such as an employer or labour union) that is owned and controlled by its members. The ownership investment is in the form of shares 'bought' by saving in the cooperative. Owners share in the profits in the form of lower loan rates and competitive returns on savings. Deposit and loan facilities are for members only.

Life insurance companies

Some life insurance companies offer policies that provide an investment element while the insured is alive, in addition to insurance benefit for beneficiaries on the event of the death of the insured. The savings accumulated in this way can be recouped by encashing the policy. Some companies also offer the opportunity to save for retirement in a similar way to pension funds.[4]

[4] Although private pension funds do not qualify as intermediaries in the strict sense, they offer employees the option to make additional voluntary pension contributions. Voluntary contributions provide a tax-benefit, and the income earned is tax-free. Contributions are made into a fund by automatic deduction by the employer and the total contribution plus interest are available to the employee on termination.

Mutual Funds and Unit Trusts

Unit trusts are a specific type of investment company called a "mutual fund." Funds are invested in the unit trust through the purchase of shares (units) by investors who are given a share of ownership in return. The funds of the unit trust are usually invested in a portfolio of corporate stocks, which offer the potential of significant capital gains, as well as long-term government securities. The value of the fund's shares is determined by the value of its assets and therefore on the financial expertise of the fund managers. The shares (units) of the fund can be bought and sold at the discretion of the investor. Mutual fund type investment portfolios are also offered by some insurance companies and securities dealers.

Securities Dealers

There is a network of securities brokers/dealers that are typically involved in investment management on behalf of customers. Investment management services spread along a continuum and involve the provision of a range of investment products, as well as the purchase and sale of securities for customers. At one end of the continuum are those dealers that are engaged primarily in "funds management" - they accept funds for investment from investors who give them the authority and autonomy to make investment decisions. Some dealers act primarily as brokers - acting solely on the instructions of investors. Still other dealers engage in trading: they buy and sell financial instruments and their profit is earned mainly from the spread between interest earned and interest paid. Some of these securities dealers were established as primary dealers for Government of Jamaica (GOJ) and BOJ securities: they trade in securities directly with the ultimate borrower of funds.

Some of the dealers were specialised departments of commercial or merchant banks, but based on guidelines issued by the BOJ, intermediaries that accept deposits from the public should not also be involved in investment management. Dealers participate in the primary market, and resell to start the process in the secondary market.

Financial Markets

The Securities Market

The sale of new securities occurs in the 'primary market.' 'Secondary market' transactions involve the resale of securities that were previously issued. The secondary market therefore allows the investor to make portfolio changes at any time.

Many securities dealers offer money market investment portfolios. The money market is the financial market in which short-term instruments (usually maturing within one year) are traded. The money market therefore serves an important function of facilitating desired short-term changes in liquidity position by investors. Instruments traded in the money market include: Treasury Bills (T-Bills), commercial paper and repurchase agreements (repos). The "money market" is distinguished from what is called the "capital market" by the maturity profile of the securities traded: capital market instruments are usually long-term (usually maturing after one year). Capital market instruments include long-term government securities (such as Local Registered Stock - LRS), bonds, and corporate stocks that have no definite maturity.

Stock Market

An investor who wishes to invest in a corporate enterprise will trade on the stock market, where the shares of listed companies are bought and sold. The stock market is a primary market when it is utilised by companies to raise capital. However, much of the activity on the market is between investors holding stocks already issued: secondary transactions. Some merchant banks provide non-insured trust account services for clients - much of which is invested in the stock market. Similarly, many pension funds invest in stocks to achieve capital growth.

Regulation and investor protection

In the financial markets, the intermediaries are regulated. The BOJ supervises and regulates banks, buildings societies and credit unions[5]. Securities dealers, insurance companies, pension funds and unit trusts are regulated and supervised by the FSC. The stock market is regulated by the Council of the Jamaica Stock Exchange (JSE).

Deposits with intermediaries that are designated as "authorised deposit-taking entities" - all commercial banks, licensees under the FIA and building societies - are insured with the Jamaica Deposit Insurance Corporation (JDIC). This means that only customers with deposits in these intermediaries will be covered in the event of the failure of an entity. The maximum coverage in any one intermediary is $300, 000 per person. Investments with non-deposit-taking entities such as securities dealers are not insured with the JDIC.

Making investment decisions

One of the most significant factors to consider when making an investment decision is the level of risk that can be tolerated relative to

[5]Since 1999, credit unions have been designated “specified financial institutions” to be supervised by the BOJ. Preparatory work and discussions with the Jamaica Cooperative Credit Union League continue.

the desired return. Risk averse investors favour low risk investments, even if it means sacrificing a higher level of return. On the other hand, some investors are indifferent to risk and focus more on the possibility of high returns; such investors will invest in risky instruments that may result in large profits, though they are also exposed to the probability of large losses. An investor can reduce his risk or increase his return by holding a portfolio of diversified investments. A small saver can enjoy the benefits of diversification by pooling with other small savers. Investing in a mutual fund is one way of obtaining this benefit.

Notably, there are some risks that are inherent in the financial markets and are equally applicable to all types of investments. These risks include inflation risk (the risk that the real return will be eroded due to inflation), exchange rate risk (a fall in the value of the investment relative to a particular currency), and money-rate risk (variations in market prices of fixed income securities due to changes in yields).[6] It is noteworthy also, that other risks may become relevant or intensify in times of excessive financial instability or crisis.

Financial Instruments

Investment decisions are also based on the funds available, the time horizon, the liquidity preference of the investor and the relative attractiveness of alternatives. Table 1 provides a summary of the characteristics of the major financial instruments available in Jamaica. Some of these are discussed below.

Deposits

For the investor who prefers high liquidity and low risk, deposit accounts are available from all banks and building societies in the major currencies. Some of the most attractive characteristics of deposits are that they are available on demand (or on short notice), they require a relatively small initial investment and they are insured (see above). The return on deposit accounts is usually moderate due to the relatively low risk. A special deposit instrument called a "Long-term Savings Account" (LSA) is also available. The LSA offers tax-free income for deposits unbroken up to five years.[7]

Government Securities

In order to finance its budgetary requirements, the Government issues a variety of instruments often utilising the services of the BOJ as its agent. Government securities are generally regarded as risk-free. The servicing of Government debt is guaranteed by the Jamaican Constitution. In the case of foreign currency denominated instruments, liquidation is supported by the pool of official reserves at the Central Bank and by government's continued interface with international financial markets. Offerings of T-Bills and LRS are usually sold at a discount by auction periodically. The physical security of T-Bills is a key issue because as bearer instruments (not registered to a specific investor) they can be negotiated at any time by anyone in possession of them.

[6] Notably, foreign currency indexed bonds (see later) would provide an effective hedge against foreign exchange risk.

[7] These savings are similar to voluntary contributions in pension funds in that they are intended to encourage long-term saving and possibly supplement retirement income.

Competitive bids (where a bid price is specified) are submitted by dealers for investments over $5,000 for T-Bills or over $20,000 for LRS. Non-competitive bids (where no price is specified) are submitted directly to the BOJ for investments below these amounts. In non-competitive bids, the small investor commits to paying the average price of accepted competitive bids; the risk of bidding too high or too low is therefore avoided. The Government may also issue debentures, US Dollar-indexed bonds and eurobonds. With US Dollar-indexed bonds, principal and interest payments are linked to the value of the US Dollar. These bonds are traded on the local market and are usually offered at a discount, providing an immediate capital gain for the investor. Eurobonds are bonds denominated in a currency other than that of the borrowing country. Eurobond trading is part of an international market and may involve local and foreign dealers. Investors may on-sell the security in the secondary market through a dealer.

Repurchase Agreements

Repurchase agreements (repos) involve a sale of securities from a dealer to an investor whereby the dealer agrees to repurchase the securities either on call or at a specified date, and at a predetermined price. Repos offer the advantage of flexibility in tenor, so that investors can determine the most suitable investment periods. In a repo transaction, legal title to the collateral (security) is not usually transferred to the lender (investor). If the investor wishes to on-sell the repo (repayment before maturity), then an arrangement may be made with the dealer but this may attract a penalty for early encashment. Under normal circumstances, these instruments are virtually risk-free if the ultimate borrower (issuer of the security) is the GOJ or the BOJ. Where the underlying instrument for a repo originates with a private corporation then, like commercial paper, the level of risk is dependent on the financial strength of that entity.

Commercial Paper

Commercial paper refers to short-term, negotiable promissory notes issued by corporate entities. Some of these corporate issues are guaranteed by a financial intermediary, thereby reducing the associated level of risk. Offers of commercial paper are available through the companies themselves or through dealers. Like T-Bills and LRS, these are normally offered at a discount. However, there is no ready secondary market for commercial paper - possibly due to the higher risk of default on payment. As such, investors usually demand a higher return.

Stocks

An investor wishing to invest in corporate stocks may do so by instructing a stockbroker selected from among the network of stockbrokers registered with the JSE. A commission is payable for the service and is dependent on the value of the final transaction. The investor may choose to bid a price, or to accept the market-determined price. No physical certificate is transferred to the investor for the shares allocated. Instead, a statement is provided by the Jamaica Central Securities Depository (JCSD) advising of the number of the shares allocated and the price.

The stock market offers the investor the opportunity for large returns through increases in share prices as well as income in the form of dividend payments that are not subject to tax. However, share prices are volatile and may fall sharply and dividends are not guaranteed.

Concluding Remarks

There is a range of financial instruments available to satisfy the preferences of various types of investors. The particular instrument(s) selected will depend on the funds available for investment, and on the investor's risk and liquidity preferences and investment time horizon.

In order to secure and maximise the return on his investment the investor should ensure that he understands the nature of the instrument in which there is an interest and the risk associated with the instrument. Specifically, the investor should seek to know the details of the collateral, the maturity date of the instrument, the party responsible for payment on maturity, the ultimate borrower of the funds invested and the role of the intermediary in the event of a problem.

Table 1

Characteristics of Major Financial Instruments

Instrument	Minimum Required	Tenor	Risk	Source	Taxable
DEPOSIT					
Call	J$10,000	Investor decides	Over $300, 000 per person per entity not insured	CB, MB, BS	Yes
Savings	J$500	LT		CB, MB, BS	Yes
Term	J$10,000	30 to 365 days		CB, MB, BS	Yes
Long-term Savings a/c	J$25,000	5 years[8]	Risk free[9]	CB, MB, BS, SD, Unit trusts, Ins. Co.	No
GOJ SECURITIES					
Treasury Bill	J$5,000	3 to 12 mths	Risk free[10]	SD, MB, BOJ	Yes
Local Registered Stock	J$5,000	LT			
Foreign Currency Indexed Bonds	US$100 equivalent	ST to MT			
Eurobonds	US$100 equivalent	MT to LT			
Debentures	J$1,000	MT to LT			
BOJ SECURITIES					
Repurchase Agreement	J$10,000	30 to 365 days	Risk free	SD, MB	Yes
PRIVATE SECTOR					
Commercial Paper	J$10,000	30 to 365 days	Based on strength of company	SD, MB, company	Yes
Repurchase Agreement	J$10,000				
STOCK MARKET					
Shares	n/a	Investor decides	Fall in share price, delisting of stock, stock market crash	Stock broker, SD	No
MANAGED ACCOUNTS	J$1,000,000	MT to LT (Investor decides)	Depends on investor's choice of instruments	SD, Unit trusts	Depends on instruments

[8] If deposit is broken within 5 years, then tax becomes payable on all income earned since the date of placement.
Note: ST, MT & LT = short term, medium term and long term, respectively, CB, MB, BS, SD = commercial bank, merchant bank, building society, securities dealer, respectively.

[9] Investment is risk free insofar as funds are invested in GOJ Securities.

[10] See comments on foreign currency securities noted above.

Table 1.5

BOJ Reverse Repurchase Rates January - March 2003

	01 Jan.	10 Feb.	14 Feb.	19 Mar.	26 Mar.
30 Days	12.95	12.95	12.95	12.95	15.00
60 Days	13.05	13.05	13.05	13.05	15.30
90 Days	18.25	18.25	18.25	18.25	20.00
120 Days	18.40	18.40	18.40	18.40	24.00
150 Days	N/A	30.00	N/A	N/A	N/A
180 Days	13.45	13.45	13.45	19.65	33.15
270 Days	13.85	13.85	13.85	21.50	34.50
365 Days	14.50	14.50	14.50	24.00	35.95

Figure 1.5
BOJ OMO Yield Curve

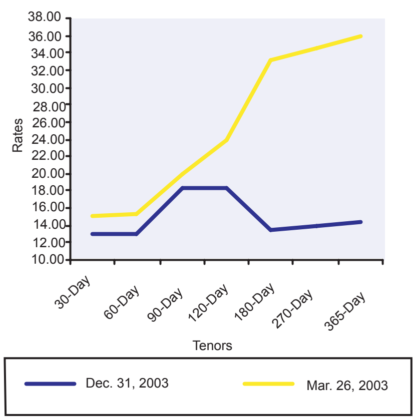


Table 1.6

Placements and Maturities* in BOJ OMO instruments during the March 2003 Quarter

	Maturities %	Placements %
30 Days	7.17	8.95
60 Days	0.41	2.54
90 Days	29.14	20.96
120 Days	41.13	25.70
150 Days	N/A	13.18
180 Days	5.44	3.65
270 Days	1.55	3.27
365 Days	15.16	21.75

*Excludes overnight transactions during the period.

Bond Market

The activities in the bond market during the quarter were strongly influenced by the news of the deterioration in the fiscal accounts. Investors displayed a strong demand for holding US Dollars as the confidence in the economy waned. In response, the BOJ hiked interest rates resulting in a sharp increase in rates in the private money market. Rates on Government debt, both local and foreign, also increased sharply as investors demanded a higher return. A fixed rate debenture was offered early in the quarter but in light of the high interest rates the major source of Government's financing from the bond market emanated from the offer of three indexed bonds. The Euro-denominated bond, which matured in February, was not rolled due to unfavourable international financial market conditions.

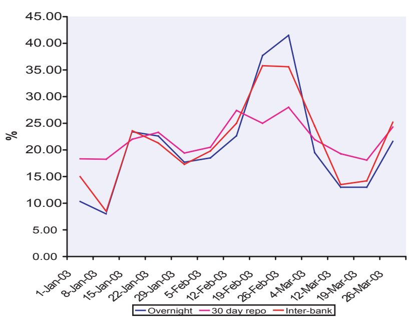
The development in the bond market during the quarter occurred within a context of the depreciating trend in the exchange rate and the Central Bank's monetary policy response (see **Base Money**). Interest rate increases by the Bank resulted in a steep yield curve, which reflected a premium at the longer end of the curve (see **Figure 1.5**). At the end of the quarter, the curve reflected a rate of 35.95 per cent and 15.00 per cent on the 365-day and 30-day tenor of open market instruments, respectively (see **Table 1.5**).

The placement and maturity profile of open market securities continued to reflect the desire of investors to take advantage of the premiums offered by the Bank. Open market maturities including net interest payments, for the quarter, were mainly concentrated in the 120-day and 90-day tenors, which accounted for 41.13 per cent and 29.14 per cent of total maturities (see **Table 1.6**). This was as a result of the high placements made in these tenors in the December quarter due to the attractiveness of the rates offered on them. While a large portion of the maturities during the March 2003 quarter were reinvested in the 120-day and 90-day tenors, investors were also drawn to 150-

day and 365-day tenors due to the interest rates offered on them. This resulted in a less skewed placement profile relative to maturities.

Placements in open market instruments were mainly concentrated in the 120-day and 365-day tenors, which accounted for 25.70 per cent and 21.75 per cent, respectively, of total take-up. The proportion invested in the 365-day tenor was primarily done in March in response to the sharp increase in the rate on this tenor. Investments in the 90-day tenor accounted for 20.96 per cent of total placements while the 150-day instrument, which was offered for four days in February, accounted for 13.18 per cent of total placements. The placement profile for the quarter should contribute to a smoother maturity profile of open market instruments for the year.

Figure 1.6
Private Money Market Rates
Maximum Average Rates



Average interest rates in the private money market displayed volatility during the quarter while reflecting a trend increase that was in keeping with BOJ reverse repurchase rates. The average rate in the interbank market peaked at 35.80 per cent during the week ending 19 February while average rates in the overnight and 30 day markets peaked at 41.0 per cent and 28.00 per cent, respectively, during the week of 26 February (see **Figure 1.6**). The sharp increase during that period resulted from the tightness in liquidity created from the investment in the BOJ 150-day instrument.

Table 1.7

Treasury Bills Auctions & Maturities
January - March 2003

Issue Date	Tenor (days)	Avg. Yield (%)	Allotment (J$M)	Amount Maturing (J$M)
31 Jan 03	181	18.45	500	850
21 Feb 02	182	13.78	N/A	500
14 Mar 02	365	14.96	N/A	350
28 Mar 03	182	33.47	300	300
Total			**800**	**2 000**

Interest rates on Government's short-term instruments also responded to the series of adjustments in the Bank's interest rates. The average yield emerging from the Treasury Bill auction held in January increased by 144 basis points to 18.45 per cent (see **Table 1.7**). The Treasury Bills maturing on 21 February and 14 March 2003 were not reissued. However, given that the 182-day Treasury Bill is used for the re-pricing of Government variable rate instruments, there was an auction of these bills on 28 March and the yield increased by 1 502 basis points to 33.47 per cent. This reflected the increase in BOJ rates, which were effected on the same day of the auction. The

Table 1.8

GOJ Public Domestic Debt Raising January - March 2003	Amount Allotted (J$M)	Amount Maturing (J$M)	Net Issue (J$M)
Treasury Bills	800.0	2 000.0	-1 200.0
LRS	0.0	1 007.1	-1 007.1
Debenture	6 300.3	6 609.3	-309.0
US$ Bonds	0.0	12.5	-12.5
US$ Indexed Bonds	10 782.80	0.0	10 782.8
Total	**17 883.1**	**9 628.9**	**8 254.2**

Figure 1.7
GOJ US Dollar-denominated Global Bond Yields

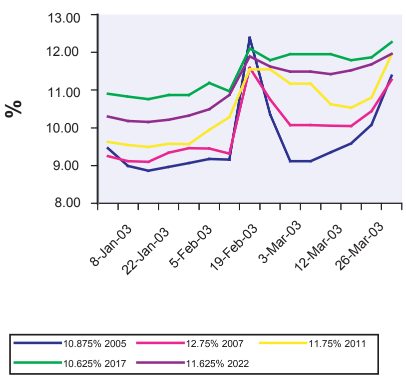
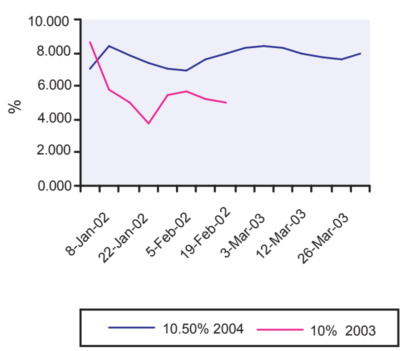


Figure 1.8
GOJ Euro-denominated Global Bond Yields



period of 22 to 24 January 2002. The debenture had a fixed rate of 18.625 per cent and a tenor of 3 years. The rate compares to a fixed rate of 19.75 per cent on the debenture offered on October 22 (see **Appendix 8A**).

The Government's financing activities via public auctions resulted in a net issue of J$8 254.2 million in domestic debt instruments during the March quarter (see **Table 1.8**). Most of this was done via US Dollar indexed bonds. Three such instruments were offered during the quarter amounting to $10 782.8 million. There were net redemption of Treasury Bills, and LRS of $1 200 million and $1 007.1 million, respectively. There was also net redemption of debentures and US Dollar Bonds.

The price of US Dollar GOJ global bonds traded in the secondary market fluctuated during the quarter but recorded an overall trend decline as reflected in the higher yields. The yields increased sharply on 19 February following the Government's decision to withdraw a Eurobond offer of □200 million to refinance a maturing instrument of a similar amount (See **Figure 1.7**). While all yields increased, this was mainly reflected in the yields on the 2005 and 2007 global bonds, which increased by 252 bp and 189 bp, respectively, to 12.39 per cent and 11.59 per cent. Although there was a tendency for a decline in yields subsequent to the payment of the maturing Eurobond, the yields reverted to a trend increase during the last week in March.

The yield on the maturing 2003 Euro denominated global bond declined sharply at the start of the quarter as investors tried to capitalize on the maturing bond (See **Figure 1.8**). However, demand for this instrument also waned for a short period of time due to the uncertainty regarding its refinancing. The instrument traded at 8.46 per cent on 2 January, relative to a yield of 5.02 per cent at maturity on 24 February. Similar to the US Dollar-denominated GOJ global bonds, the yield on the 2004 Euro-denominated bond exhibited a trend increase for the quarter although the movement was less noticeable. The yield increased to 7.96 at end-March relative to 7.01 per cent at the beginning of the quarter.

The stock market grew in spite of high interest rates and foreign exchange rate instability during the March quarter.

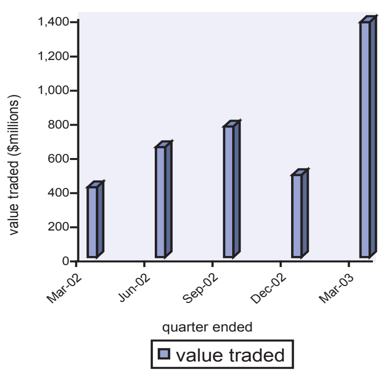
Stock Market

Positive momentum established in 2002, supported by generally favourable liquidity conditions and dividend declarations, contributed to the growth in the stock market during the March 2003 quarter. However, the performance of the market during the quarter was strongly influenced by the prevailing macroeconomic environment. Protracted excess demand in the foreign exchange market resulted in a series of monetary policy initiatives aimed at curtailing the depreciation in the Jamaica Dollar. These policy initiatives moderated the gains in the stock market.

The stock market posted a nominal gain for the quarter and a creditable performance for the fiscal year 2002/3. The gain during the quarter was attained despite the tightened monetary policy stance (see **Base Money**). The contraction in liquidity reduced the availability of funds for stock market investment. In addition, there were portfolio shifts away from equity, as investors sought to capitalise on attractively priced Government securities and BOJ open market instruments (see **Bond Market**).

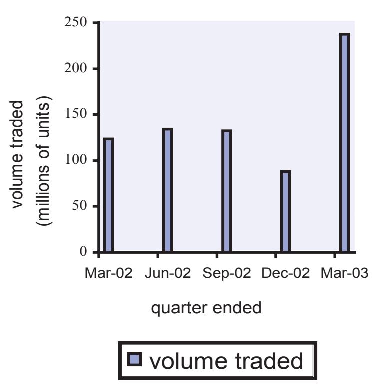
During the March quarter, stock market activity remained high as investors continually sought to adjust to changes in the macroeconomic environment. The surge in activity was evident in the average monthly value traded of $1.4 billion during the review quarter (see **Figure 1.9**). This amount represents a 186.2 per cent increase over the average monthly value of stocks traded during the December 2002 quarter and a 236.5 per cent increase over the average monthly value traded in the quarter ended March 2002. Similarly, the monthly average of 237 million units traded (see **Figure 1.10**) represents an increase of 169.8 per cent and 92.0 per cent, respectively, over the December 2002 and March 2002 quarters. Correspondingly, the number of transactions increased by 79.0 per cent and 69.8 per cent over December 2002 and March 2002, respectively.

Figure 1.9
Average Value of Shares Traded on the JSE
March 2002 to March 2003



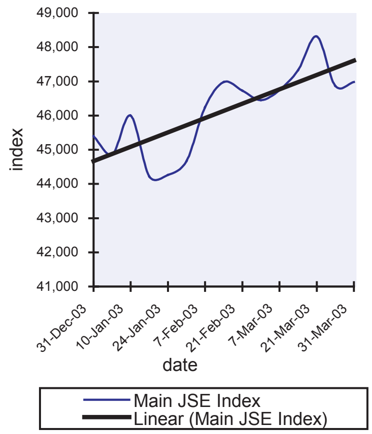
Source: Jamaica Stock Exchange

Figure 1.10
Average Volume Traded on the JSE
March 2002 to March 2003



Source: Jamaica Stock Exchange

Figure 1.11
Movements in the main JSE Index
January to March 2003



Source: Jamaica Stock Exchange

At the end of the review quarter, the main JSE Index registered 46 981.96 points, a gain of 3.5 per cent for the quarter (see **Figure 1.11**). This advance was much slower than the 10.7 per cent increase registered for the quarter ended December 2002 and the 15.7 per cent gain attained in the March 2002 quarter. However, it must be noted that the outturn for the review quarter would have been tempered by periodic declines in the index due to monetary policy tightening. Nevertheless, the main JSE Index grew by 25.5 per cent for the fiscal year. For the same period, the All Jamaica Composite and the Jamaica Select indices increased by 18.7 per cent and 16.2 per cent, respectively.

Market capitalisation at the end of the review quarter was approximately $355.0 billion, representing a 21.6 per cent increase over December 2002. The expansion in market capitalisation was partially due to the listing of the Jamaica Money Market Brokers (JMMB) and additional share issues by FirstCaribbean International Bank, Island Life Insurance Company Limited (Island Life) and life of Jamaica Company Limited (LOJ).[11]

During the quarter, 13 stocks advanced, 21 declined and 5 traded firm. In the previous quarter 23 stocks advanced, 13 declined and 2 traded firm. In the quarter ended March 2002, 31 stocks advanced, 5 declined and 1 traded firm. During the review quarter, conglomerates and firms in the financial sector attained average price gains of 10.5 per cent and 1.9 per cent, respectively, while there were price declines for firms in the manufacturing, distributive, telecommunications and other services sectors. JMMB attained the best price gain for the quarter, realizing an increase of 51.8 per cent (see **Table 1.9**) after making an initial public offer (IPO) on 2 January 2003.

Table 1.9

Top 10 price performers
January to March 2003

Category	March 03 price ($)	Jan-Mar 03 (%) change
Conglomerates		
Grace Kennedy	42.30	11.3
Jamaica Producers	27.00	28.6
Financial		
FirstCarib. Int'l (Ja.)	7.90	5.3
Guardian Holdings	188.00	10.6
JMMB	6.30	51.8
Life of Jamaica	2.89	7.0
RBTT Fin. Holdings	170.00	13.3
Manufacturing		
CMP Industries	2.40	20.0
Trinidad Cement	49.97	11.4
Other Services		
Pegasus Hotel	2.40	20.0

Source: Jamaica Stock Exchange

Amidst investor shifts towards high yielding fixed income securities, the stock price increases of some companies

[11]On 2 January 2003, JMMB was listed on the Jamaica Stock Exchange. 1.5 billion shares were issued at $4.15 per unit. During the quarter, FirstCaribbean International issued 910 million shares, Island Life issued 51 million shares and Life of Jamaica issued 520 million shares.

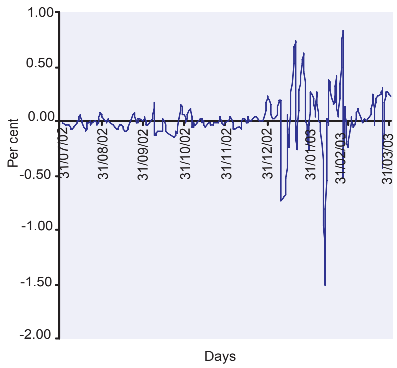
listed on the Stock Exchange was influenced by continued profitability and reorganisation, and the declaration of dividends during the quarter. Specifically, dividends proposed by companies such as Guardian Holdings and Trinidad Cement during the quarter boosted investor confidence and influenced stock price increases. In addition, the consolidation of the operations of LOJ with Island Life to improve efficiency could have been a source of optimism for potential LOJ investors. Continued optimism towards the stock market will be influenced by the budget for the fiscal year 2003/4. The listing of Capital and Credit Merchant Bank and the continued profitability of companies listed on the Exchange should assist the market to remain buoyant.[12]

Foreign Exchange Market

The instability that characterized the foreign exchange market in the latter part of the December 2002 quarter intensified in the March 2003 quarter. The weighted average selling rate depreciated by 9.4 per cent for the quarter, compared with a depreciation of 15.3 per cent for the fiscal year 2002/03. The movement in the exchange rate during the review quarter was mainly influenced by a fall in market confidence triggered by deterioration in the balance of payments and fiscal accounts, and the related downgrade of the outlook on Jamaica's sovereign debt by Standard and Poor's (S&P). In addition, the foreign exchange market was affected by high levels of Jamaican Dollar liquidity in the money market. In order to address the macroeconomic imbalances in the economy and to ensure orderly adjustments in the exchange rate, the Bank of Jamaica tightened monetary policy at different points over the review period, as well as augmented supply to the foreign exchange market.

[12] Capital and Credit Merchant Bank is expected to offer 30.0 per cent of its ordinary shares in an initial public offer in April 2003.

Figure 1.12
Exchange Rate Volatility[(*)]



(*) Volatility is calculated as the daily standard deviation of the daily logarithmic returns.

Figure 1.13
Weighted Average Selling Exchange Rate (period average)

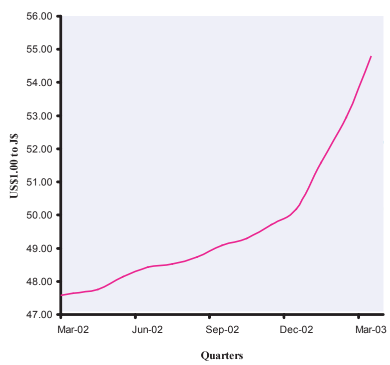
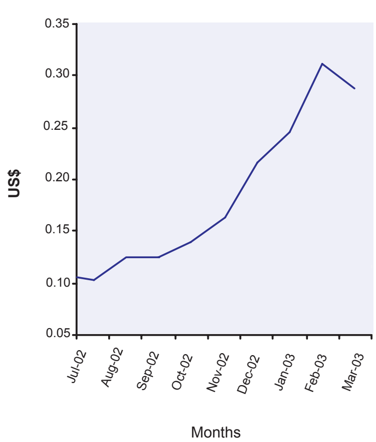


Figure 1.14
Monthly Foreign Exchange Spread



The foreign exchange market was characterized by marked depreciation during the March 2003 quarter (see **Figure 1.12**). The weighted average selling rate increased to US$1.00 = J$56.24 at end-March 2003 from US$1.00 = J$50.97 at end-December 2002, a depreciation of 9.4 percent (see **Figure 1.13**). The pressures in the market were more pronounced in January and March, with the average selling rate increasing by 3.8 per cent and 4.4 per cent, respectively. In addition, average daily depreciation of J$0.09 and J$0.12 were observed for January and March, respectively, significantly above the average daily depreciation of J$0.04 over the September and December 2002 quarters. The unsettled state of the foreign exchange market was also reflected in the accelerated widening of the spread between the prices at which US dollars were sold and purchased. Relative to the average monthly spread of J$0.15 on foreign exchange transactions over the previous two quarters, the average spread increased to J$0.28 in the March 2003 quarter (see **Figure 1.14**).

As a consequence of the depreciation in the nominal exchange rate, the Real Effective Exchange Rate (REER) index for Jamaica[13] declined by 10.7 per cent in the March 2003 quarter, relative to the index for December 2002, representing an improvement in competitiveness (see **Figure 1.15**). The fall in the REER in the review quarter represented the largest three-month contraction since the decline recorded in the December 1991 quarter.

The trends in the foreign exchange markets reflected waning economic confidence against the background of revelation of the deteriorated state of the fiscal accounts the and the downgrade of the outlook on Jamaica's sovereign debt by S&P in December 2002. Market

[13]The REER index is calculated by multiplying the nominal effective exchange rate (NEER) index by a relative price index. The nominal effective exchange rate index is the ratio of the domestic exchange rate (expressed as the quantity of US Dollars per unit of local currency) to a trade weighted average of the exchange rates of Jamaica's main trading partners. Similarly, the relative price index is the ratio of the consumer price index (CPI) to a trade weighted CPI index of the country's main trading partners.

Figure 1.15
Real Effective Exchange Rate Index (December 1998 = 100)

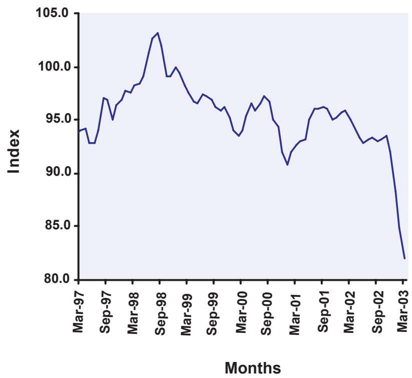


Figure 1.16a
Monthly Foreign Exchange Cash Inflows & Outflows

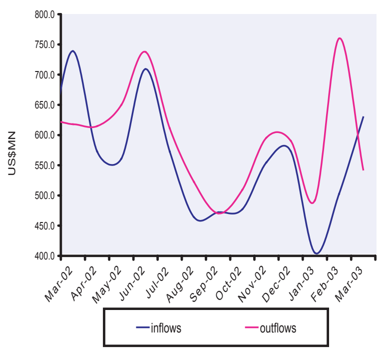
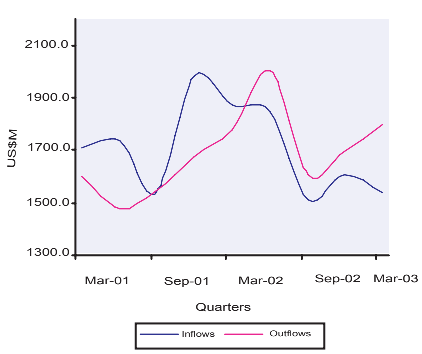


Figure 1.16b
Foreign Exchange Cash flows



pressures intensified towards the end of February 2003 following the Government's withdrawal from international financial market during the review quarter,opting instead to purchase foreign exchange from the BOJ to repay a maturing Eurobond. The withdrawal from the international market contributed to a sharp reduction in the price at which GOJ bonds were traded. This ultimately triggered a margin call[14] on some domestic financial institutions by a large international brokerage house in March 2003, resulting in an increase demand for foreign exchange. The increased demand for US dollars in the March 2003 quarter was facilitated by significant Jamaica Dollar liquidity in the money market (see **Bond Market**).

In this context, preliminary estimates of total foreign exchange flows within the economy for the March 2003 quarter indicated that there was an excess demand for foreign currency of US$257.3 million, compared with excess supply of US$100.9 million for the comparable quarter in 2002. Relative to the corresponding quarter in 2002, the demand for foreign exchange is estimated to have increased by US$8.5 million, while supply declined by US$366.7 million. Total inflows and outflows of foreign exchange for the review quarter were estimated at US$1 515.9 million and US$1 773.2 million, respectively (see **Figures 1.16a & 1.16b**).

With regard to the estimates of foreign exchange supplies to the market, receipts from tourism and private remittances grew appreciably in the review quarter, relative to the comparable period of 2002. This was offset by a significant fall-off in private capital inflows due primarily to exceptional divestment inflow in 2002. The increased demand for US dollars in the March 2003 quarter partly reflected higher payments for fuel imports.

[14]A margin call is a demand by a lender that an investor deposit additional money or securities to bring the balance in a margin account up to some prescribed level. A margin account is typically used as collateral for loans extended by international brokerage houses to investors for the purpose of acquiring bonds or securities.

Figure 1.17a
Foreign Exchange Cash Inflows by Institutions

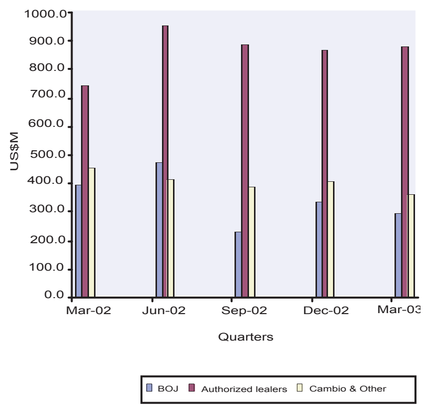


Figure 1.17b
Foreign Exchange Cash Outflows by Institutions

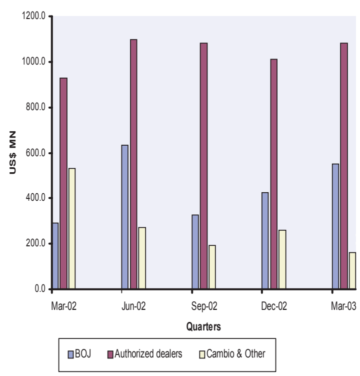


Table 1.10

Net International Reserves (US$M)			
Month	**Stock**	**One Month Change**	**Three Month Change**
Mar-02	1 941.7	120.8	101.0
Apr-02	1 899.8	-41.9	51.1
May-02	1 810.6	-89.1	-10.3
Jun-02	1 782.3	-28.4	-159.4
Jul-02	1 743.9	-38.3	-155.9
Aug-02	1 685.6	-58.3	-125.0
Sep-02	1 687.3	1.7	-95.0
Oct-02	1 655.2	-32.1	-88.7
Nov-02	1 614.4	-40.8	-71.2
Dec-02	1 597.0	-17.4	-90.3
Jan-03	1 510.3	-86.7	-145.0
Feb-03	1 252.9	-257.3	-361.5
Mar-03	1 339.7	86.7	-257.3

Expenditure on fuel imports is estimated to have increased by 82.8 per cent, relative to the March 2002 quarter, reflecting significant increases in the average price per barrel of fuel. For example, the benchmark West Texas Intermediate crude oil price increased by 64.8 per cent to an average of US$35.40 for the March 2003 quarter from US$21.48 for the March 2002 quarter. Increased demand for foreign exchange also ensued from accelerated private capital outflows.

Authorized foreign exchange dealers reported net sales of US$196.6 million during the review quarter. Total sales grew by US$150.9 million to US$1 080.1 million, relative to the comparable March quarter of 2002, while total purchases increased by US$141.3 million to US$883.5 million (see **Figures 1.17a & 1.17b**). While the growth in foreign exchange outflows largely reflected increased payments for imports and private capital outflows, the increase in total inflows arose from strong growth in private remittances and tourism receipts. The performance of tourism is associated with a recovery of the travel industry, following the events of 11 September 2001 (see **Real Sector Developments**).

Despite the pressures in the foreign exchange market, the cambios recorded net inflows of US$11.8 million during the March 2003 quarter. This reflected respective increases of US$170.8 million and US$120.8 million in sales and purchases to US$509.2 million and US$521.0 million, relative to the comparable quarter of 2002.

In order to address the macroeconomic imbalances in the economy and to ensure orderly adjustments in the exchange rate, the Bank of Jamaica effected four monetary policy adjustments (see **Base Money**), three of which resulted in sharp but relatively short-lived appreciation in the exchange rate. In addition to monetary policy action, the Bank net sold foreign currency to augment supply in the first two months of the quarter. The NIR was US$1 339.7 million at end-March 2003, (see **Table 1.10**) relative to the adjusted SMP target of US$1 400.0 million[15]. The deviation from the adjusted target reflects the non-receipt of programmed flows from IDB and CDB, the non-materialization of the sale of an additional cellular licence and the sale of foreign exchange to the Government to finance Eurobond payment. In this context, the gross reserves at end-December 2002 was US$1 382.2 million, representing 14.9 weeks of estimated goods and services imports compared with the international benchmark of 12.0 weeks.

[15]The SMP NIR target was adjusted to reflect the non-receipt of GOJ loan flows of US$200 million during the December quarter.

Table 2.1

Sectoral Contribution to Growth March 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 (Wholesale & Retail)	+ve
Financing & Insurance Services	+ve
Real Estate & Business Services	+ve
Producers of Government Services	+ve
Miscellaneous Services	+ve
Households & Private Non-Profit Instit	+ve
TOTAL GDP	+ve

Table 2.2

Sectoral Contribution to Growth Fiscal Year 2002/2003	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 (Wholesale & Retail)	+ve
Financing & Insurance Services	+ve
Real Estate & Business Services	+ve
Producers of Government Services	+ve
Miscellaneous Services	+ve
Households & Private Non-Profit Instit	+ve
TOTAL GDP	+ve

*Leading indicators of economic performance suggest an expansion in real GDP during the March 2003 quarter, much stronger than the growth of 0.7 per cent recorded in the March 2002 quarter. Economic growth was estimated to have occurred in both the goods producing sectors and services (see **Table 2.1**). The estimated expansion in the goods producing sectors reflected improvements in mining and construction. Growth in services was driven by the performances of utilities and the tourism industry. The overall growth in the review quarter was consistent with the trends in credit demand. From the perspective of aggregate demand, the expansion in economic activity reflected estimated increases in both private and public sector consumption, which were partially offset by declines in public and private sector investment, as well as net external demand.*

The estimated expansion in the March 2003 quarter, combined with growth of 1.1 per cent for the period April to December 2002, imply an expansion for fiscal year 2002/03 of 1.2 to 1.8 per cent. This estimated growth emanated primarily from services and, to a lesser extent, the goods producing sectors. With respect to services, growth resulted mainly from the electricity & water, transport, storage & communication and tourism. The estimated marginal improvement for the goods producing sectors came largely from the mining and construction sectors. However, the expansion in real GDP during the fiscal year was moderated by the impact of the May 2002 rains.

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

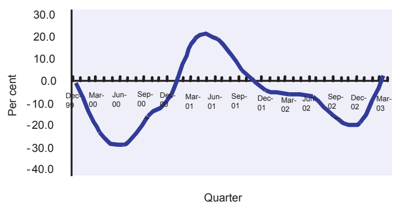


Figure 2.2
Export Agriculture
(Change over corresponding quarter)

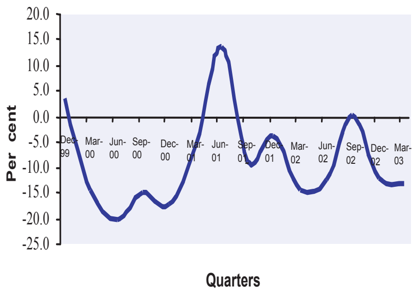
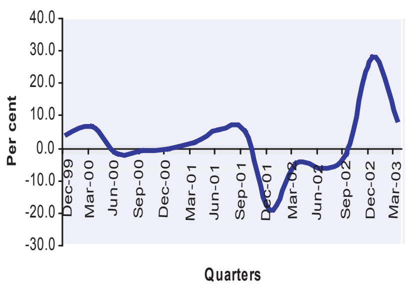


Figure 2.3
Trends in Alumina Production
(12-Month change)



Aggregate Supply

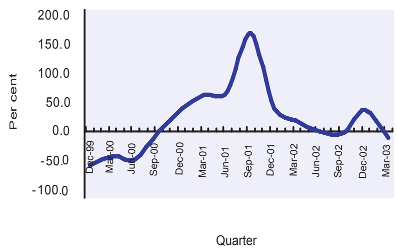
An assessment of the performance of the real sector for the March 2003 quarter suggests an expansion in overall economic activity, relative to the March 2002 quarter. Both the goods and services producing sectors grew for the review quarter. The estimated expansion in goods reflected growth in *Mining* and *Construction*, partly offset by a decline in the value added of the *Manufacturing* sector.

The estimated growth in *Agriculture* was inferred, in part, from an increase in the production of domestic crops (see **Figure 2.1**). This facilitated the substantial correction in the prices of agricultural products during the quarter (see **Inflation**). The recovery in agricultural production was attributable to the relatively favourable weather conditions in the last quarter of 2002, which facilitated replanting, in particular of short-term crops. The production of vegetables and fruits is estimated to have grown significantly in the review period.

The estimated growth in *Agriculture* was, however, partially offset by the reduction in the output of export crops (see **Figure 2.2**). The performance of the export sub-sector was largely reflective of declines in banana, coffee and cocoa production relative to the March 2002 quarter. The volumes of banana, coffee and cocoa exports, indicators of production, are estimated to have declined by 17.7 per cent, 10.3 per cent and 7.9 per cent, respectively, for the quarter relative to the March 2002 quarter. The decline in these export crops occurred in the context of flood rains in May and September 2002. However, the decline in the sub-sector was partially offset by an increase of 13.5 per cent in the production of sugar cane during the quarter relative to the March 2002 quarter.

Value added in the Mining sector is estimated to have increased in the March 2003 quarter, relative to the corresponding quarter in 2002. This growth was primarily attributable to the production of alumina, which grew by 7.0 per cent (see **Figure 2.3**). This was, however, partially offset by a decline of 12.8 per cent in the production

Figure 2.4
Trends in Crude Bauxite Production (12-Month change)



of crude bauxite (see **Figure 2.4**). Notwithstanding the contraction in crude bauxite, the level of production was approximately 10.0 per cent higher than the average production level between 1995 and 2002. The growth recorded in alumina production partly reflects reduced output at one of the alumina processing plants in the March 2002 quarter.

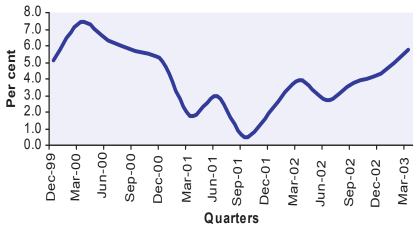
Decline in manufacturing driven primarily by the food-processing sub-sector.

The *Manufacturing* sector is estimated to have declined marginally in the March 2003 quarter. This assessment is based, in part, on respective contractions of 4.0 per cent, 1.3 per cent and 1.0 per cent in the alcoholic beverage, tobacco and food processing industries. The decline in food processing was related mainly to the fall in the production of condensed milk, reflecting the cessation of exports of the commodity. In relation to tobacco production, the decline reflects the relocation of the sole cigar factory from Jamaica to take advantage of cheaper labour overseas. Growth of 4.0 per cent and 2.5 per cent was, however, estimated for the non-alcoholic beverage and sugar, molasses & rum sub-sectors.

Buoyant growth estimated in constructing activities.

It is estimated that growth in the *Construction & Installation* sector during the March 2003 quarter was more robust than the trend observed over the previous four quarters. This was inferred in part from an estimated increase of 3.5 per cent in cement sales during the review period. In addition, there has been real expansion of 17.4 per cent in commercial bank loans to the sector between July and December 2002. Asphalt sales and production, other indicators of the performance of the sector, were estimated to have grown by 30.1 per cent and 29.1 per cent, respectively, in the quarter, relative to the corresponding quarter of 2002. Growth in the sector also reflected the continuation of work on the Highway 2000 and North Coast Highway projects.

Figure 2.5
Electricity Sale
(Change over corresponding quarter)

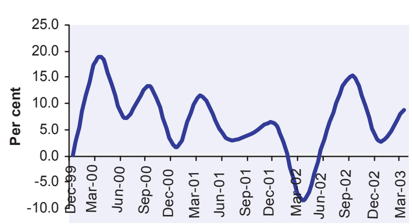


With respect to the *Electricity & Water* sector, an expansion was inferred from an increase of 5.7 per cent in total electricity sales, relative to the comparable quarter in 2002 (see **Figure 2.5**). In this context, the sale of electricity for industrial and residential purposes increased by 5.6 per cent and 5.9 per cent in the quarter, respectively, relative to the comparable period in 2002. In addition, water production is estimated to have grown by 1.9 per cent.

Continued expansion in the mobile telephone market.

In relation to *Transport, Storage & Communication,* growth in the transport sub-sector was inferred, in part, from a 24.3 per cent increase in visitor arrivals in the review quarter, relative to the corresponding period in 2002. For the storage sub-sector, growth was estimated from reported expansions of 7.7 per cent and 5.2 per cent, in domestic cargo movement and the number of ships calling at Jamaican ports, respectively. The total number of telephone lines in service mobile and 'plain old telephones' (POTS) is estimated to have grown by approximately 23.4 per cent for the quarter, relative to the corresponding period in 2002. This growth was fuelled primarily by the expansion in mobile services as the volume of POTS lines is estimated to have declined over the period. The heightened competition, which encouraged continuous investments in the sector, has sustained growth in this industry. Facilitating the overall performance of the sector was a real increase of 36.3 per cent in loans extended to the sector by commercial banks, particularly to the communications industry, during the 12-month period ending March 2003.

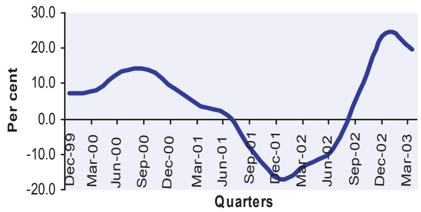
Figure 2.6
Merchandise Imports
(Change over corresponding quarter)



The *Distribution* sector is estimated to have registered marginal growth during the review quarter, relative to the corresponding period in 2002. This was partly inferred from an estimated increase of 8.0 per cent in merchandise imports (see **Figure 2.6**) in the review period, relative to the March 2002 quarter. In addition, loans extended to the sector increased by 155.7 per cent for FY 2002/03.

The growth recorded in the *Miscellaneous* sector in the December 2002 quarter continued into the March 2003

Figure 2.7
Visitor Arrivals
(Change over corresponding quarter)



quarter. This improved performance is within a context of depressed output levels in the March 2002 quarter, following the events of 11 September 2001, which hampered the performance of hotels, restaurants and clubs. Relative to the March 2002 quarter, there were estimated expansions of 24.3 per cent and 7.0 per cent, respectively, in visitor arrivals (see **Figure 2.7**) and expenditure during the review period. Cruise arrivals increased by 46.9 per cent while stopovers expanded by 6.9 per cent. The growth in cruise arrivals is due to larger vessels calling at the ports, relative to the March 2002 quarter. Additionally, two new vessels called at the Jamaican ports in the March 2003 quarter.

Real GDP expands by 1.2 - 1.8 per cent for FY 2002/03.

Given the growth in the March 2003 quarter, real GDP growth of between 1.2 per cent and 1.8 per cent was estimated for fiscal year 2002/03. The major areas of growth in the fiscal period emanated from the *Mining*, *Utilities*, *Construction* and *Tourism* industries. The growth in the *Mining* sector reflected the relatively large increase in alumina production during the period, due to the normalization of output in the context of the negative shocks that occurred in the December 2001 quarter. In relation to the *Electricity & Water* sector, growth was driven primarily by increased electricity generation, which was facilitated by the retooling undertaken by the power company. With regard to the transportation sub-sector, the growth in value added was inferred, in part, from a 11.8 per cent increase in visitor arrivals during the fiscal year, when compared to fiscal year 2001/02. In addition, there was an estimated increase in water-based transportation during the period. In relation to the communication sub-sector, the total number of telephone lines in service during fiscal year 2002/03 is estimated to have grown by over 20.0 per cent[16], when compared to fiscal year 2001/02. Of note, there was substantial growth in the number of mobile telephones, indicative of the demand for telephone services and extensive investment in the mobile telephone market by the major players in the industry.

[16]Actual data from the major service providers are unavailable. This report uses data reported in the media to inform the estimates.

Figure 2.8
Trends in GCT & SCT Intake
(Change over corresponding quarter)

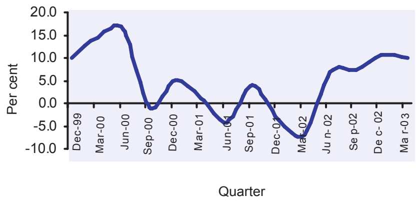


Figure 2.9
Trends in Public Consumption
(Change over corresponding quarter)

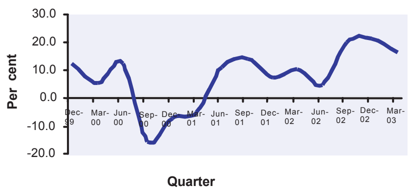


Figure 2.10
Trends in Public Investment
(Change over corresponding quarter)

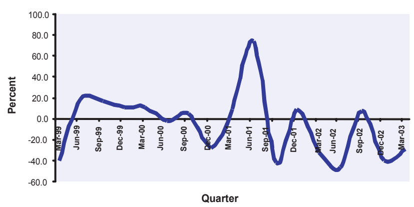
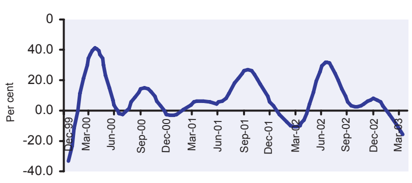


Figure 2.11
Trends in Private Investment
(Change over corresponding quarter)



Growth in the Construction sector was driven by the number of public sector infrastructure projects, as well as work undertaken by the light and power company. The latter includes work on distribution, transmission lines, general plant construction and maintenance and sub-station rehabilitation. Additionally, the continued expansion of mobile telephone network infrastructure served to enhance the growth in the installation sub-sector.

Aggregate Demand

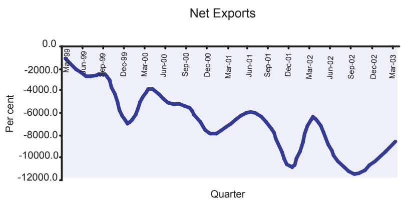
The overall assessment of aggregate demand for the quarter suggests improvement, relative to the corresponding quarter of 2002. Indicators of aggregate demand suggest that, during the March 2003 quarter, real consumption spending increased, relative to the corresponding quarter last year. This expansion was evident in both private and public Consumption, as reflected in Government's consumption tax receipts (General Consumption Tax (GCT) and Special Consumption Tax (SCT)) and expenditure on wages, salaries and programmes, respectively. Consumption tax receipts[17] are estimated to have increased in real terms by approximately 10.0 per cent in the review quarter (see **Figure 2.8**) partly due to a higher level of compliance, relative to the March 2002 quarter. Merchandise imports, another proxy for private consumption, was estimated to have grown by 14.3 per cent in real terms. With respect to public consumption expenditure, spending on Government programmes and wages & salaries was 16.2 per cent higher during the review quarter, compared to the corresponding quarter in 2002 (see **Figure 2.9**). The increase in Government spending was associated with new wage contracts signed in 2002.

Indicators of real investment demand during the quarter suggest a decline in both public and private investment spending, relative to the corresponding period of 2002 (see **Figures 2.10** and **2.11**). Public investment spending, proxied by Government's capital expenditure, declined by 28.8 per cent in the review quarter, relative to the March 2002 quarter, reflecting the effort of the Government at

[17]Adjusted for timing of receipts relative to actual expenditure.

containing spending. With regard to private investment spending, the contraction was partly inferred from a decline of 15.3 per cent in real capital goods imports. The contraction reflected lower levels of capital goods imports for the communication industry, relative to the March 2002 quarter.

Figure 2.12
Trends in Net External Demand



There was an estimated deterioration in net external demand during the review quarter, compared to the March 2002 quarter (see **Figure 2.12**). The deterioration occurred despite improvements in the export of services, in particular travel. There was an estimated increase in the value of goods imported, which outweighed the increase in the value of merchandise exports. The estimated expansion in imports primarily reflected increases in the value of fuel imports.

The economic expansion for the fiscal year 2002/03, was reflected in increases in consumption and to a lesser extent investment. The indicators for consumption spending suggested an increase in both private and public consumption expenditure. GCT and SCT intake, the proxy for private consumption, increased by 8.7 per cent in real terms, when compared to fiscal year 2001/02. Similarly, the indicator for public consumption suggests a real increase of approximately 15.4 per cent. This increase is associated with the new Government wage contracts that were signed in 2002.

Marginal growth in investment spending.

Investment indicators showed marginal improvements for fiscal year 2002/03, relative to fiscal year 2001/02. This growth was driven primarily by an estimated expansion of 5.8 per cent in private investment spending. Investment during the period included the expansion of the Carib Cement Company, the construction of the Hermosa Cottage and Riu II hotels. Partly offsetting the growth in investment spending was a reduction of 33.7 per cent in public investment spending, as proxied by Government's capital expenditure.

There was an estimated decline in net external demand during the fiscal year 2002/03, compared to fiscal year 2001/02. The decline in net external demand is predicated on higher estimated imports of goods and services during the quarter. The expansion in imports reflected primarily estimated increases in the value of fuel, as well as raw material imports.

Improved economy performance in the March 2003 quarter and fiscal year 2002/03.

Summary

Estimates of economic performance for the March 2003 quarter and fiscal year 2002/03 have indicated increased growth. For the quarter, all the goods producing sectors reflected growth, with the exception of manufacturing. Similarly, services increased, with notable growth being recorded in the miscellaneous sector. Consumption demand was the main factor underlying growth in the quarter. For the fiscal year, all sectors of the economy, with the exception of agriculture and manufacturing increased, with strong growth emanating from services. Consumption and investment demand were the drivers of this growth.

Box 2: The CPI and the GDP Deflator: Concepts and Applications

Introduction

Inflation in Jamaica is generally measured by the changes in the Consumer Price Index (CPI). This is one of the most important and closely watched statistics. It is the target for monetary policy and is also used to guide adjustments in financial contracts e.g. wages and rent and many government social relief programs. As a general measure of prices, however, it is only generally indicative in that it specifically seeks to measure only the prices of goods and services in consumption.

Another measure of price movements is the changes in the Gross Domestic Product (GDP) deflator. The composition and determination of the GDP deflator differ from that of the CPI in that it captures all prices of goods and services produced in the economy.

This box highlights the essential conceptual features of both indices, noting important distinctions, commonalities and possible applications.

Statisticians regard the following as desirable features of price indices:

- Broad coverage;
- Comparability across countries or regions;
- Timeliness;
- Reliability;
- Objectivity and reproducibility;
- Simplicity.

CPI

Consistent with most countries, Jamaica's CPI is essentially a fixed-weight Laspeyres index[18] of retail prices. The general formula for a fixed-weight price index is:

$$P_t = \frac{\sum p_t q_b}{\sum p_b q_b}$$

where P_t is the price index in period t, the summation sign represents the summation over all commodities covered by the index, p_t is the price of a specific item in period t, and q_b is the quantity of a specific item in the representative base year consumption basket[19]. The index is calculated relative to a base year and therefore facilitates analysis of price movements between periods. The strength of an overall price change is determined by the relative importance of items given by the weights. The weight of an item is the percentage share of expenditure on the item in the base year relative to the consumer's total expenditure.

The accuracy of the CPI, as an indicator of the cost of living, is affected by its inability to capture the savings that households enjoy when they change their spending in response to relative price changes of goods and services *(substitution bias)*. In other words, the index overstates inflation by not considering consumers substituting away from goods and services, which have become relatively more expensive.

[18] This is an index that measures the change in cost of purchasing the same basket of goods and services in the current period as was purchased in a specified base period.
[19] The basket represents the pattern of consumption of a typical consumer in the base year.

Further, since the basket does not reflect the change in purchasing power brought about by the introduction of *new products*, it does not fully capture welfare gains. New products result in greater variety, which in turn makes each dollar more valuable.

Also, in recent years, the growth of *discount stores* has helped consumers lower their expenditures by offering high-volume purchases at reduced prices. This is extremely difficult to capture because of the discrepancy between advertised prices and actual prices paid.

Laspeyres indices like the CPI tend to overstate the level of inflation in the economy. This stems largely from the *substitution* and *new product* biases, which are basically reflective of the fixed basket.

Some Characteristics of the Jamaican CPI

The CPI is calculated by the Statistical Institute of Jamaica (STATIN) monthly. The weights are taken from a 1984 Household Expenditure Survey (HES)[20] and the base period for the index is January 1988. The CPI represents the spending habits of 85.0 per cent of Jamaica's households who had a total expenditure of J$24,000 per annum or less in 1984. There are approximately 288 items in the basket. Prices for the CPI are collected during the first full week of each month and include inputs from specified retail outlets throughout the island[21].

Implicit GDP Deflator

The GDP Deflator (hereafter referred to as the deflator) reflects the average prices of all goods and services produced domestically, and which are defined in the system of national accounts (SNA). It is a ratio of the nominal value of the country's output to the real value at the same point in time. The change in the deflator from one period to the next therefore gives an indication of the change in the price of the country's current output. The general formula for a deflator is:

$$D_t = \frac{\sum p_t q_t}{\sum p_b q_t}$$

where D_t is the price index in period t, the summation sign represents the summation over all commodities covered by the GDP, p_t is the price of a specific commodity in period t, q_t is the current quantity of the specific item consumed and p_b is the price of a specific item in the base period. An implicit price deflator is a therefore a current-weight or Paasche price index[22]. That is, it is a weighted average of prices with the weights being current quantities.

It is important to note that the deflator measures the average price of output while the CPI measures the average price of consumption. Use of the changes in the deflator as a measure of domestic inflation has certain disadvantages.

Exports represent an important portion of domestic production and hence the deflator. The inclusion of export prices, which are not directly relevant for the calculation of the general domestic price level, imparts a bias in the use of the changes in the deflator as a measure of domestic inflation.

[20] Activities are underway to revise the HES.

[21] See Bank of Jamaica Pamphlet #2 for more information on the construction of the CPI.

[22] The Paasche index compares the change in cost of purchasing a current basket of goods and services with the cost of purchasing the same basket in an earlier period.

There is also an issue of the timeliness and periodicity of the deflator. In Jamaica, the deflator is based on annual GDP data and is available approximately three months after the end of each year.[23]

Given that the deflator is a Paasche price index, changes in this measure tend to underestimate the level of inflation in the economy. This relates to a reverse form of *substitution bias,* in that the current weights approximate a rapid adjustment in consumption that is not probable because of uneven information flow.

Some Characteristics of the Jamaican Deflator

STATIN derives the deflator implicitly, from the ratio of GDP at current prices to GDP at constant prices. The computation of constant GDP entails the use of volume indices, price indices or a combination of both depending on the product group in question. The deflators for the various sectors are derived at a disaggregated level and a variety of indices are used. The price indices used may be based on a wage index, production prices, export prices, import prices or even the CPI. Some of the price indices used are based on Laspeyres computation. This limits the problem of underestimation in the use of the Paasche index. As the deflator is a current-weight index, the group of goods and services used in the computation changes over time as the composition of output changes.

In practice, the two measures tend to be correlated over time. Figure 1 shows that in Jamaica changes in both series are highly correlated. A similar result obtains in the United Kingdom (see **Figure 2**). Consequently, issues about the appropriateness of an index depend on the intended purpose. In the words of Hill (1996), "Whatever index is preferred, however, it must be stressed that there remains a need for a range of other price indices to meet more specific analytic and policy purposes. A general index of inflation should not drive out other indices."[24] Price indices like a Producer Price Index or a Wholesale Price index show how costs have moved for the productive sector and can signal imminent price pressures for the wider economy.

Figure 1
Changes in the CPI & GDP Deflator for Jamaica

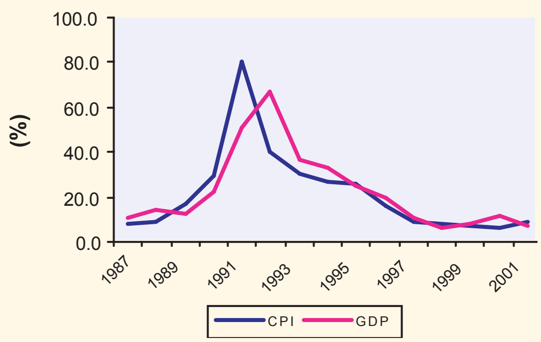


Table 1

Key Characteristics of the Jamaican CPI and GDP Deflator		
Characteristics	**CPI**	**Deflator**
Periodicity	Monthly	Annually
Coverage	Basket of 288 items	All goods and services
Weighting	Fixed-weight index	Current-weight index
Comparability	Most popular measure of inflation	Alternate measure

[23]A quarterly deflator is in the process of being developed.

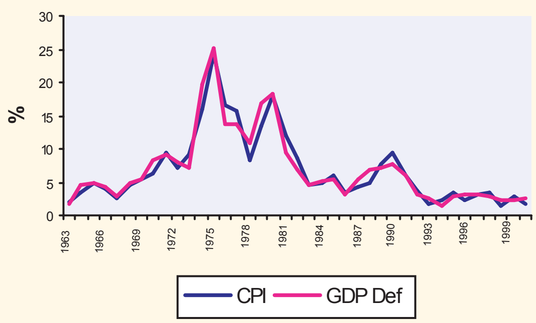
[24]Peter Hill, *Inflation Accounting: A Manual on National Accounting under Conditions of High Inflation,* Paris, 1996, OECD.

Summary

Jamaica uses the changes in the CPI as the primary measure of inflation, which is the target for monetary policy. This does not preclude the need for other complementary statistics. However, the periodicity and lags in the availability of the GDP data limits the usefulness of the deflator in important ways. Additionally, the use of the CPI in the computation of segments of the deflator introduces some correlation into their relationship. Nonetheless, there are many different price indices in existence with varying and specific uses, which can enhance and complement analyses once their definitions are clearly understood.

Figure 2

Measures of Inflation in the UK



The headline inflation rate for the March 2003 quarter was -0.4 per cent. This outturn was below the inflation rate in the preceding quarter and that of the corresponding quarter of 2002. The deflation during the quarter reflected the recovery of domestic agricultural supplies, notwithstanding strong impulses from increased prices of international commodities. Core inflation remained stable at 1.3 per cent in relation to the December quarter. Inflation for the fiscal year was 6.2 per cent, 1.4 percentage points below the rate recorded in fiscal year 2001/02. This represents the first time in three decades that seven consecutive fiscal years of single digit inflation have been recorded. Core inflation is estimated to have risen to 4.1 per cent in fiscal year 2002/03 relative to 3.3 per cent estimated for the previous fiscal year.

Figure 3.1
Inflation rate
(3-yr Average & 2002/03 Comparison)

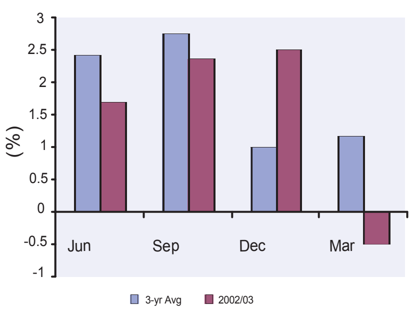
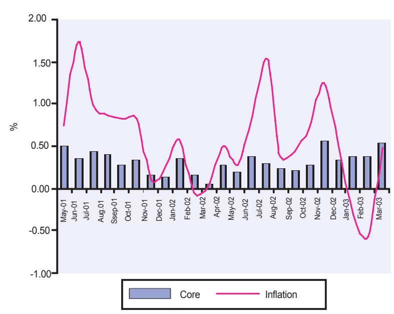


Figure 3.2
Monthly Headline Inflation & Core



The All Jamaica Consumer Price Index (CPI) declined by 0.4 per cent in the review quarter. This change was significantly lower than the seasonal average of a 1.2 per cent increase for the previous 3 years (see **Figure 3.1**). The CPI decreased by 0.3 per cent and 0.6 per cent in January and February, respectively, but rose by 0.5 per cent in March. Largely as a result of the deflation during the quarter, inflation for the fiscal year was contained to 6.2 per cent, 1.4 percentage points below the outturn for fiscal year 2001/02. Similarly, the mean annual inflation rate was 6.5 per cent, relative to the 7.5 per cent recorded for fiscal year 2001/02. The marked difference in the rates of inflation was due to the absence of increases in administered prices, which characterised 2001/02, coupled with more significant countervailing movements from agricultural commodities in 2002/03.

Monetary Policy and Inflation

Underlying or core inflationary impulses have remained consistent with the usual seasonal pattern in response to higher growth in the monetary base in the December

Figure 3.3
Core Inflation per Quarter

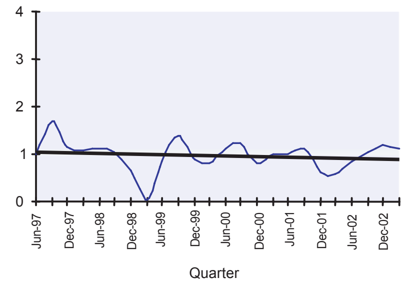
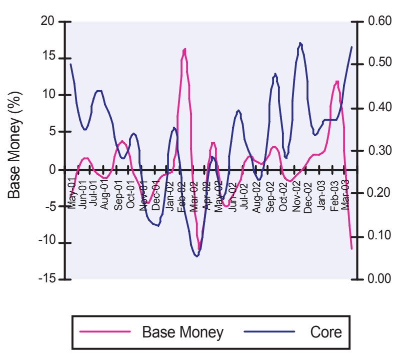


Figure 3.4
Lagged Base Money & Core Inflation



quarter associated with the seasonal demand for currency. Over the previous three years, core inflation in the March quarter has averaged 1.0 per cent, relative to an average of 0.8 per cent for the December quarter.

Core inflation for the quarter was 1.3 per cent, representing a slight increase relative to the 1.2 per cent recorded in the December 2002 quarter. In January and February, underlying inflation, as measured by the trimmed mean index was approximately 0.4 per cent. However, core inflation was marginally higher at approximately 0.5 per cent in March. For the fiscal year 2002/03, the core index increased by 4.1 per cent, relative to 3.3 per cent in the prior fiscal period. For the period since January 1997, the average twelve month point-to-point core inflation has been 4.2 per cent, ranging from a high of 9.3 per cent to a low of 2.6 per cent.

Non-Core Factors

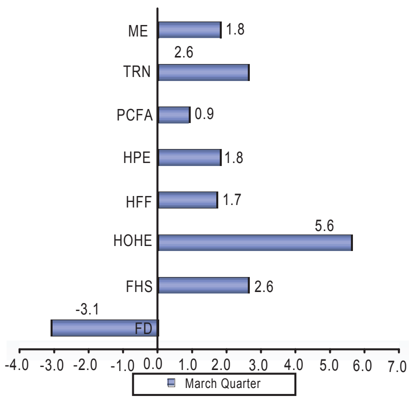
The influence of non-core factors was proportionately less during the review period. This was due to the impact of countervailing changes in the prices of the heavily weighted agricultural commodities. The impulse from this factor, however, was partially offset by a combination of exchange rate and oil price movements.

With the exception of the Food & Drink sub-category, which declined by 3.1 per cent, all the other sub-categories increased. Apart from the Personal Clothing, Footwear & Accessories sub-category, the increases in the other sub-categories were all in excess of 1.7 per cent.

Domestic Agriculture

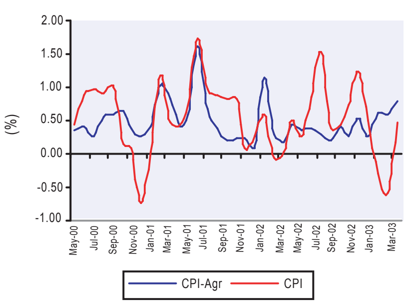
The sole factor influencing the overall decline in the CPI during the period was the recovery in agricultural supply. This influenced a sharp reversal of the price increases in agricultural commodities observed in the September and December quarters. The prices of starchy foods, vegetables and fruits fell sharply as a consequence of buoyant supply due to the recovery after the flood rains. The supply of the

Figure 3.5
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

Figure 3.6
Monthly changes in the CPI and CPI-A



less resilient vegetables and fruits was more severely affected by the September floods and, as a result, these prices had risen more steeply in its aftermath. Consequently, production in domestic agriculture in the December 2002 quarter declined by 14.2 per cent, relative to the September 2002 quarter (see **QMPR vol. 3, no. 3**). Over the second half of 2002, the indices of the Starchy Foods and Vegetables & Fruits increased by 16.1 per cent and 33.1 per cent, respectively. As a result, price declines in these respective sub-groups in the March quarter were more pronounced as supplies recovered (see **Real Sector**). During the March quarter, there were contractions of 12.6 per cent and 23.4 per cent in prices for Starchy Foods and Vegetables & Fruits, respectively, which led to a 3.1 per cent decline in the Food & Drink sub-index.

Abstracting from the influence of agricultural commodity prices, inflation in the March quarter, measured by the changes in the CPI-A[25] index, was 2.0 per cent relative to 1.1 per cent in the previous quarter and 1.6 per cent that was attained in the March 2002 quarter. This increase was due mainly to higher utility and energy costs largely related to the impact of oil price movements and exchange rate changes. For fiscal year 2002/03 the CPI-A increased by 5.4 per cent relative to an increase of 6.2 per cent in fiscal year 2001/02.

Exchange Rate

The recent depreciation in the exchange rate was important in the inflation outcome for the March 2003 quarter. Over the period November 2002 to February 2003, the exchange rate depreciated by approximately 8.0 per cent. This development contributed to a general increase in most commodities within the CPI, since the start of the calendar year.

[25]CPI-A is calculated by removing agriculture prices from the CPI.

Figure 3.7
3 Month Pt-to-Pt Changes in the Durables Index & the Exchange Rate

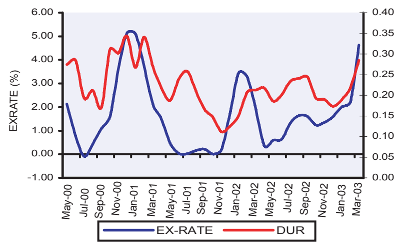
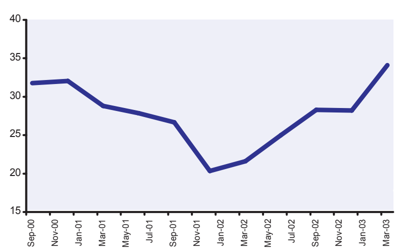


Table 3.1

Effects on CPI of a 1% shock to the exchange rate		
Sample	**After 3 months**	**After 12 months**
1990:01 - 2001:12	0.482	1.001
1990:01 - 1995:12	0.464	0.988
1996:01 - 2001:12	0.316	0.488

Source: "Consumer Price Inflation and Exchange Rate Pass Through in Jamaica", L. McFarlane, mimeo, Bank of Jamaica, 2002.

Figure 3.8
Average WTI Crude price (US$) per barrel



The relationship between the changes in the exchange rate and an estimated Durable Index[26] (see **Figure 3.7**) revealed a noticeable co-movement. Most of the durables present in the consumer basket have a fairly high import content and the index of prices has been trending upwards, though at a slower rate relative to the movement in the exchange rate. This is indicating a relatively small pass-through[27] to prices relative to the period of the early 1990's. Research[28] has indicated that for the period 1990 to 1995, exchange rate pass through was 98.8 per cent complete, one year after an initial change in the exchange rate. On the other hand, in the late 1990's to early 2000's, the exchange rate pass through has been slower, reflecting a 48.8 per cent level of completion one year after an initial change in the exchange rate. However, 31.6 per cent of the pass through occurs after the first three months following the shock.

International Commodity Prices

Anxiety about the war in Iraq, loss in supply from Venezuela, political problems in Nigeria, and winter demand in North America all influenced a trend increase in oil prices during the quarter. The uncertainties about the impact of the conflict in Iraq on supplies added a war premium of US$5.00 to US$7.00/bbl to oil prices. The benchmark West Texas Intermediate (WTI) crude oil price rose by 21.2 per cent during the March quarter relative to a 0.6 per cent decline in the preceding quarter. The WTI crude oil price increased to an average US$34.12 per barrel in the March 2003 quarter, from US$28.15 per barrel in the December 2002 quarter (see **Figure 3.8**). The monthly average price per barrel for January, February and March was US$32.90, US$35.90 and US$33.50, respectively. This occurred despite OPEC's agreement to raise production quotas by 2.8 million barrels per day.

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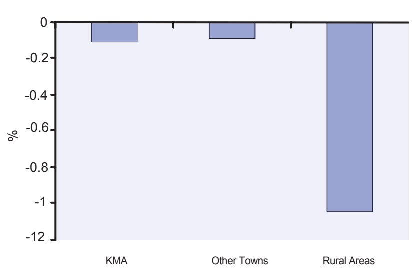
[26] The Durable Index is calculated by extracting the groups with high import content. These are Household Furniture & Furnishings, Personal Clothing, Footwear & Accessories, Healthcare & Personal Expenses and Fuels & Other Household Supplies.
[27] Pass through is generally used to refer to the effect of exchange rate changes on one of the following: a) import and export prices, b) consumer prices, c) investments and d) trade volumes. The chapter is primarily concerned with the effect on consumer prices.
[28] "Consumer Price Inflation and Exchange Rate Pass Through in Jamaica", L. McFarlane, mimeo, Bank of Jamaica, 2002.

Table 3.2

Quarterly Percentage Changes in International Prices of Selected Commodities

Commodity	Units US$)	Jan-Mar 2002	Oct - Dec 2002	Jan - Mar 2003
Vegetable Oils				
Coconut Oil	$/mt	13.1	5.8	2.8
Groundnut oil	$/mt	0.0	18.7	31.5
Soybean Oil	$/mt	-5.7	14.4	-6.9
Grains				
Soybean meal	$/mt	-4.0	3.0	3.5
Soybean	$/mt	0.2	4.7	2.1
Maize	$/mt	1.7	1.1	-2.4
Sorghum	$/mt	-2.0	3.2	4.6
Wheat US(HRW)	$/mt	0.0	6.4	-16.6
Rice (5%)	$/mt	10.0	-3.0	6.6
Exports				
Sugar, EU	¢/kg	-1.2	1.5	2.0
Sugar, US	¢/kg	-2.5	4.8	0.5
Sugar, World	¢/kg	-5.9	22.8	9.2
Fertilizers				
TSP	$/mt	5.6	0.1	2.9
Potassium Chlor.	$/mt	-1.4	0.0	0.0

Figure 3.9
Geographical Distribution of Inflation



As a consequence of the higher oil prices and the lagged effect of exchange rate movements, the Housing & Other Housing Expenses sub-index reflected the most significant increase of 5.6 per cent over the quarter (see **Table 2, Appendix C and Figure 3.5**). This accounted for 21.1 per cent of the non-agriculture inflation. The main item influencing this movement was electricity rates. These adjust automatically to movements in international oil prices and the exchange rate. Against this background, there was a cumulative increase in the cost of electricity of approximately 17.0 per cent over the review period. The increases in electricity rates had a direct impact on other utilities, particularly water rates, which increased by 3.3 per cent for the review period. There was a less discernible second round impact on other commodity prices.

The movements in oil prices also affected the Transportation and Fuels & Other Household Supplies sub-indices. These movements were manifested chiefly in the prices of petrol, lubricants and household fuels. Petrol, liquid petroleum gas (LPG) and kerosene prices rose by 21.9 per cent, 11.1 per cent and 2.5 per cent, respectively, over the quarter. As a consequence of the above, the Transportation and Fuels & Other Household Supplies indices each increased by 2.6 per cent.

Other commodity prices also contributed to price impulses. Although there were some declines in commodity prices, notably wheat, most reflected increases (See **Table 3.2**).

Regional Inflation

There were significant disparities between the inflation outturn across the three regions. While the indices of the Kingston Metropolitan Area (KMA) and Other Towns fell by 0.1 per cent, the index of the Rural Areas fell by 1.0 per cent. This disparity was largely as a result of the movements recorded in the Food & Drink sub-category. For the March quarter, the sub-category declined by 3.9 per cent in the Rural Areas, while the KMA and Other Towns had respective declines of 2.6 and 2.7 per cent. The disparity was influenced in part by a more significant decline in the prices of agricultural products, which have relatively greater weights in the rural areas.

Table 3.3

Decomposition of Inflation Outturn FY 2002/03

	Inflation (%)	Contribution (%)
Non-Core Factors	**2.2**	**35.4**
Other Housing Expenses	0.6	9.4
Food & Drink	1.4	22.5
Vegetables & Fruit	0.1	0.9
Meals Away	0.2	2.5
Baked Products	0.6	9.1
Meat, Poultry	0.6	10.0
Other	0.2	3.4
Core	**4.0**	**64.6**
TOTAL	**6.2**	**100.0**

Fiscal Year 2002/03

For the fiscal year, core inflation accounted for 64.6 per cent of headline inflation (see **Table 3.3**). Consistent with the historical pattern, the primary impulses to inflation emanated from the *Food & Drink, Housing & Other Housing Expenses* and the *Miscellaneous Expenses* sub-indices. Within the *Food & Drink* sub-index, the *Meat, Poultry & Fish* and *Baked Products, Cereals & Breakfast Drinks* sub-groups were the main drivers reflecting the impact of increased prices of key inputs. For the *Meat, Poultry & Fish* sub-group, some key inputs were affected by movements in prices of grain on the international market, which influenced price increases in feeds. The prices of baked products were affected by increased energy and transportation costs.

The *Housing & Other Housing Expenses* group was largely influenced by movements in the price of oil on the international market and the 15.3 per cent exchange rate depreciation that ensued over the fiscal year. These factors strongly affected the cost of utilities. Within the *Miscellaneous Expenses* group, increases in tuition fees in September and cinema fares in January were the significant impulses to inflation for the fiscal year.

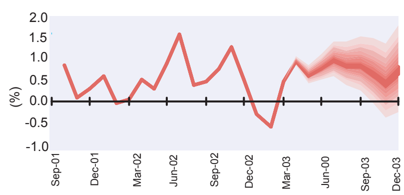
Summary

The deflation during the quarter emanated from the lower cost of agricultural commodities, which resulted from strong recovery in the agricultural sector following the flooding in October/November. Headline inflation, at 6.2 per cent over the past fiscal year, was slightly lower than the previous year reflecting the impact of the increased agricultural supply on food prices. Despite the deflation of 0.4 per cent over the quarter, underlying impulses increased marginally with a core inflation rate of 1.3 per cent.

Table 4.1

Jamaica's Economic Performance Targets	Projections for Jun'03 Quarter	Original Projections for FY 03/04
Inflation	2.3 ± 0.3 %	7 - 8%
GDP (12-mth change)	+ve	1.5 -2.5%

Figure 4.1
Inflation Forecast



The fan chart depicts the probability distribution for the inflation forecast and reflects the Bank's assessment of the risks. The darkest band 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.

The outlook for fiscal year 2003/04 is set against the background of recent external and internal developments, which will significantly affect the pace of economic recovery. In the external environment, the weak global economy could adversely affect domestic growth prospects, worsen Jamaica's net external position and raise inflation expectations. With respect to the domestic economy, recent slippages in the fiscal accounts in fiscal year 2002/03 have affected confidence, resulting in heightened instability in the money and foreign exchange markets. The restoration of confidence requires a credible fiscal budget with appropriate measures for the attainment of the target. Despite the current macroeconomic challenges, growth is expected in the June quarter and for the fiscal year 2003/04.

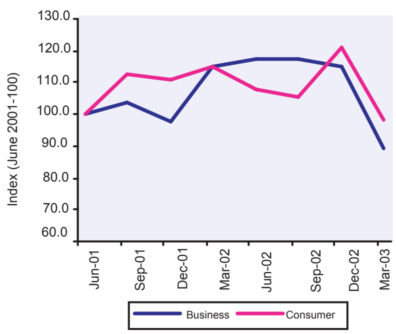
Jamaica's economic performance in fiscal year 2003/04 will depend significantly on developments in the global and domestic environment, as well as domestic policy initiatives. While the fragile recovery in the global economy is expected to continue, there is a strong likelihood that the outlook for some important economic indicators could worsen. This expectation is driven by major geopolitical concerns, which has been exacerbated by the recent conflict in the Middle East and the weakness in the US economy. In this context, the International Monetary Fund (IMF) has revised the projection for the growth in world output for 2003 to 3.2 per cent relative to the previous forecast of 3.7 per cent and estimated growth of 3.0 per cent for 2002. This revision reflects a projected slow down in industrial production, global trade and consumption. World inflation is not anticipated to accelerate significantly in 2003, given the possibility of weaker global demand relative to 2002, and a continuation of the current downward trend in oil prices.

Oil prices are expected to trend downwards following the cessation of the conflict in Iraq, as the prospect of increased supply has already led to many producers dumping reserves on the market in fear of a further slump in price. Additionally, Venezuela and Nigeria have resumed production following the resolution of their respective political tensions. Furthermore, it is anticipated that Iraq could resume oil production within a very short time. This scenario is expected to depress the price of oil over much of the June and September quarters. However, this outlook is balanced by a possible cut in production by OPEC and by the fact that US crude oil reserves at the beginning of April 2003 were approximately 16.0 per cent lower than the corresponding period of 2002.

The non-oil commodities, which directly affect the Jamaican economy, are expected to reflect lower prices relative to 2002. In particular, prices for grains are anticipated to be lower in the coming year. Wheat prices are forecasted to decline given the relatively weak demand and the projected increased production for the upcoming crop year. It is also anticipated that the average price of rice will trend downwards given declining demand, as well as the increasing availability of cheaper Vietnamese rice. Corn and soybean prices are expected to decline in the coming months, as supplies are adequate. In addition, improved weather conditions in the USA are also expected to facilitate a downward trend in the price of corn.

The rate of expansion in the Jamaican economy observed over the past two years is expected to continue in fiscal year 2003/04, despite the macroeconomic challenges. Economic growth is projected in the range 1.5 per cent to 2.5 per cent. This growth is projected to emanate mainly from the non-tradable sectors such as construction and some basic services, as well as mining, agriculture and miscellaneous services. The positive outlook for the year, however, is tempered by concerns for the transportation and travel sector in the short run given the slow growth in incomes in the US economy. There is also the increasing likelihood that the prevention and management of the

Figure 4.2
Index of Confidence



Source: The Jamaica Conference Board's Survey of Business and Consumer Confidence First Quarter 2003 Summary Report. The indices measure consumers' and businesses' perception of the current economy and their expectations for the next year.

spread of Severe Acute Respiratory Syndrome (SARS) could include restriction on travel to and from some destinations.

Inflation for the fiscal year 2003/04 is projected at 7.0 per cent to 8.0 per cent. This is higher than the 6.2 per cent recorded for 2002/03 and is expected to be driven primarily by the pass-through from the depreciation in the exchange rate and the likely impact of the recent revenue measures. The main inflationary impulses are projected to affect the Transportation, Housing & Other Housing Expenses and the heavily weighted Food & Drink sub-categories.

Short-Term Outlook - June 2003 Quarter

The economic outlook for the June quarter will be influenced by the impact of the war in Iraq, the state of the financial markets and confidence in general. The Jamaica Conference Board's survey of confidence at March 2003 has reflected declines in both consumers' and businesses' expectations for the remainder of the year (See **Figure 4.2**). The fall in confidence follows revelations in the December 2002 quarter about the deterioration in the fiscal accounts. Against this background the prospects for the short-term depend critically on the implementation of corrective fiscal measures.

The increases in oil prices prior to the war in March, lagged impact of the exchange rate depreciation during the March quarter and tax adjustments are expected to be the main factors influencing price increases in the June quarter. The main inflationary impulses are expected to be reflected in higher domestic fuel prices, increased costs of transportation and utilities. Additionally, recent revenue measures could directly affect items in the CPI basket such as cigarettes. The Food & Drink sub-category, in which prices fell in the March quarter, is expected to reflect moderate inflationary impulses given the normalization of agricultural supplies in the quarter.

Against this background, headline inflation is projected to be in the range of 2.5 per cent to 3.5 per cent in the June quarter relative to negative 0.4 per cent in the March quarter and 1.7 per cent in the June 2002 quarter. Consequently, the twelve month point-to-point rate at June will be in the range of 7.1 per cent to 7.8 per cent relative to the 6.3 per cent for the twelve months to June 2002.

Economic growth is expected to continue in the June 2003 quarter. Growth is anticipated in both the goods and services sectors. The main areas of growth are expected to emanate from the *Agriculture, Mining, Construction,* and *Basic Services* sectors. Improved weather conditions over the past two quarters have facilitated increased planting and other agricultural activities. This development should lead to a better output for the *Agriculture* sector in the June quarter relative to the corresponding period of FY 2002/03, which was severely impacted by flood rains.

The *Mining sector* should reflect significant growth given the tendency towards full capacity utilization. Capacity utilization in the alumina industry has increased steadily from 76.7 per cent in the December 2001 quarter to near capacity of 97.0 per cent in the March 2003 quarter. It is anticipated that this level of production intensity will be maintained in the June quarter. The increased performance for the quarter is also set against lower than normal production for the corresponding period of the previous year due to heavy rains. The *Construction* sector is expected to be buoyed by the continuing infrastructure projects such as Highway 2000 and an increase in housing projects relative to the previous year. Continued expansion in the bauxite/alumina industry should also influence the level of construction activity.

Within services, all sectors are expected to reflect positive performances during the June quarter. Growth in *Basic* services is anticipated to continue and should reflect strong increases in *Electricity* and *Communications*. *Distribution* activities are expected to grow against positive expectations for the goods producing sectors. The

Financial Services sector is expected to continue the positive performance of the last four quarters based on the increasing recent trend in credit and the improving profit performance of the Central Bank.

A positive outturn is expected for the *Miscellaneous* sector in the June quarter due mainly to projected growth in the *Tourism* sector. While the *Tourism* sector could be adversely affected by the projected downturn in world travel, the adverse impact would be short-lived given the early resolution of the Middle East conflict. Additionally, the perception of the Caribbean as a relatively safe region could result in a diversion of business to the Caribbean from Europe and Asia. Furthermore, visitor arrivals should be boosted by the resumption of advertising by the Jamaica Tourist Board in the main markets.

Monetary Policy

The immediate challenge to macroeconomic policy is the restoration of confidence by investors in the Jamaican economy. This will require the presentation of a credible budget, which must include clearly defined targets and appropriate policy measures for their attainment. This is against the background that the loss in confidence is directly related to the sharp deterioration in the fiscal accounts in FY 2002/03. In the absence of these policy measures, further loss in confidence could precipitate an acceleration in the demand for foreign currency.

In the economic environment at the end of the first quarter of 2003, monetary policy alone would be unable to bear the weight of the stabilization imperative. Consequently, fiscal correction will have to be the main focus of economic policy. The Government's medium-term policy envisages a balanced budget by FY 2005/06. This entails the attainment of a deficit equivalent to 5.0 per cent to 6.0 per cent of GDP in FY 2003/04, followed by sharper contractions in FY 2004/05 and FY 2005/06. Underlying this trajectory, is a projected increase in the primary surplus to at least 12.0 per cent of GDP by end FY 2003/04. Concurrently, with a manageable external debt service ratio, modest improvements are expected in the debt to GDP ratio over the medium-term.

Adherence to the fiscal programme should inspire confidence and engender stability in the financial markets. This is necessary for a gradual easing of the monetary policy stance of the Central Bank. These adjustments in the macroeconomic policy mix would be expected to facilitate the attainment of the medium term growth targets of 3.0 - 5.0 per cent per annum.

The recent depreciation in the exchange rate will enhance price competitiveness provided that domestic cost pressures are contained. External competitiveness as measured by a real exchange rate index revealed that the country gained approximately 11.0 per cent for the March 2003 quarter resulting in an overall gain of approximately 14.0 per cent for FY 2002/03. This represents a resumption of the trends observed between 1998/99 and 2000/01, when there was a steady improvement in external competitiveness.

The Central Bank, however, has to maintain its vigilance against heightened instability in the foreign exchange market, given the implication for inflation and inflation expectations, which could erode the gains in competitiveness. The rate of pass through from exchange rate depreciation to inflation has slowed in recent years. However, this has occurred in a context of increased competition and importantly, a stable economic environment. There is the risk that a return to protracted foreign exchange market instability could result in a return to an acceleration in the rate of pass-through. The Central Bank will therefore maintain its posture of ensuring orderly adjustments in the exchange rate while avoiding a real appreciation.

Summary

Economic growth is expected to continue in the June quarter despite current challenges. These challenges are influenced by developments in the external and domestic environment, which have affected confidence and raised uncertainty. Inflation in the June quarter will accelerate relative to the March quarter, driven primarily by recent exchange rate movements, adjustments in excise taxes and seasonally higher prices for agricultural produce. Sustaining economic growth with stable inflation, however, depends critically on correcting the imbalances in the fiscal and external accounts.

A. Fiscal Developments: January - March 2003

Provisional data indicate that for the March quarter Central Government operations resulted in a deficit of $1 407.4 million or 0.4 per cent of GDP, relative to a surplus of $1 500.0 million targeted under the Staff Monitored Programme (SMP). The deviation in fiscal performance was largely influenced by higher than targeted expenditure which outweighed buoyant revenue flows. Divestment proceeds and domestic borrowing facilitated the financing of the deficit as well as a net amortization of foreign debt. Notably, the amortization of external debt exceeded target in a context where the €200.0 million Eurobond which matured during the quarter was not rolled.

Central Government operations for fiscal year 2002/03 generated a deficit of $34 925.5 million or 8.8[29] per cent of GDP, significantly above the SMP target of $17 700.0 million or 4.4 per cent of GDP. This performance was mainly influenced by higher than targeted recurrent expenditure as well as lower than targeted revenue flows. The primary surplus was 6.9 per cent of GDP relative to the targeted surplus of 10.3 per cent. Concurrently, the current deficit of 7.8 per cent was greater than the anticipated deficit of 2.2 per cent.

The shortfall in revenues of $3 218.9 million during the fiscal year reflected deviations in tax revenues and non-tax revenues, the impact of which was partly offset by strong capital revenue flows. While tax revenues were 3.6 per cent below the fiscal year 2002/03 target, they exceeded the outturn of fiscal year 2001/02 by 13.6 per cent. The deviation in tax revenues emanated from shortfalls in tax on interest and receipts from international trade due mainly to the delay in the enactment of legislation aimed at improving compliance and broadening the tax base. Non-tax revenue flows were below target, as the sale of a cellular license planned for the fiscal year did not materialise.

Total expenditure was $14 006.6 million or 10.4 per cent above the SMP target and $25 225.3 million or 20.4 per cent higher than that of the previous fiscal year. This outturn was driven by an excess of $15 968.9 million in recurrent expenditure, which was partially offset by a $2 003.5 million containment in capital expenditure. Expenditure on programmes was responsible for 43.9 per cent of the deviation in recurrent expenditure primarily as a result of higher health and pension benefits as well as higher utility costs, unanticipated flood related expenses, and increased subvention to cover the cost of street lighting and solid waste management in a context where property tax flows earmarked to finance this expenditure were lower than expected. Wages & salaries, which accounted for 40.2 per cent of the deviation, reflected the impact of salary increases and retroactive salary payments. In addition, the variance in interest payments, which accounted for

[29]This outturn does not include divestment proceeds totalling $4 290.5 million received during the year as under the SMP divestment is treated as financing. Treated as revenues, these flows would yield a deficit of 7.7 per cent of GDP for fiscal year 2002/03.

15.9 per cent of the deviation in recurrent expenditure, was due mainly to greater than anticipated use of domestic financing throughout the year.

The deficit generated by Central Government during the fiscal year was financed mainly from domestic sources. While reliance on domestic financing was anticipated, it was higher than targeted. Concurrently, the amortization of foreign debt was higher than the level programmed under the SMP.

Additionally, proceeds from the divestment of Government assets also contributed to financing the fiscal deficit. During the fiscal year, Central Government received divestment flows amounting to \$4 290.5 million. These included proceeds related to the sale of Union Bank (now RBTT Jamaica Ltd) and National Commercial Bank negotiated in fiscal year 2000/01 and fiscal year 2001/02, respectively, and the sale of Government's remaining holdings of Cable and Wireless shares.

Fiscal Performance
Comparative Analysis
J$ Million

	Provisional 2002/03 Q4	SMP Q4	Change	Provisional FY 2002/03	2001/02	Change	Provisional FY 2002/03	SMP FY 2002/03
Revenue and Grants	**35 022.72**	**31 246.40**	**3 776.32**	**114 103.45**	**102 587.90**	**11 515.55**	**114 103.45**	**117 322.30**
Tax Revenue	29 148.26	28 994.10	154.16	102 929.11	90 568.20	12 360.91	102 929.11	106 785.94
Capital Revenue	3 283.00	341.20	2 941.80	3 723.64	2 843.70	879.94	3 723.64	1 236.71
Other (incl. Non-tax)	2 591.46	1 911.10	680.36	7 450.71	9 176.00	-1 725.29	7 450.71	9 299.65
Expenditure	**36 430.10**	**29 746.40**	**6 683.70**	**149 028.90**	**123 803.60**	**25 225.30**	**149 028.90**	**135 022.34**
Recurrent Expenditure*	34 649.90	27 880.90	6 769.00	141 080.26	113 677.50	27 402.76	141 080.26	125 111.40
Capital Expenditure	1 606.50	1 700.00	-93.50	7 072.04	9 290.70	-2 218.66	7 072.04	9 075.54
IMF #1 Account	173.70	165.50	8.20	876.60	835.40	41.20	876.60	835.40
Unallocated	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Overall Balance	**-1 407.38**	**1 500.00**	**-2 907.38**	**-34 925.45**	**-21 215.70**	**-13 709.75**	**-34 925.45**	**-17 700.04**
Memo								
Current Balance	**-2 910.18**	**3 024.30**	**-5 934.48**	**-30 700.45**	**-13 933.30**	**-16 767.15**	**-30 700.45**	**-9 025.81**
Primary Balance	**13 261.32**	**14 440.50**	**-1 179.18**	**27 194.95**	**29 794.50**	**-2 599.55**	**27 194.95**	**41 879.66**

Performance Indicators
(percentages of GDP)

	BR	CB	PB	IP
Q4 - FY 2002/03	0.36	-0.73	3.35	3.70
Q4 - FY 2002/03 SMP	-0.37	0.75	3.56	3.19
FY 2002/03	8.82	-7.75	6.87	15.68
FY 2002/03 SMP	4.36	-2.22	10.32	14.68

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

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

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

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

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 per cent, 14.55 per cent, 14.45 per cent, 14.35 per cent and 14.25 per cent respectively.

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

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

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

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

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

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

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

09/01/02	Interest rates on the 365-day and 270-day instruments were reduced to 17.90 per cent and 17.00 per 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.
01/08/02	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 per cent (27%) to twenty three per cent (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.

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

2

COMPONENT CONTRIBUTION TO INFLATION
All Jamaica
January - March 2003

Groups and Sub-groups	Weight in CPI	Inflation (%) Q4
FOOD & DRINK	**0.5563**	**-3.1**
- Meals Away from Home	0.0741	2.3
- Meat Poultry & Fish	0.1613	1.9
- Dairy Products Oils & Fats	0.0668	2.5
- Baked Products Cereals & Breakfast Drinks	0.0864	2.3
- Starchy Foods	0.0525	-12.6
- Vegetables & Fruits	0.0650	-23.4
- Other Food & Beverages	0.0502	1.4
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**2.6**
- Household Supplies	0.0482	1.3
- Fuels	0.0253	3.7
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**5.6**
- Rental	0.0209	2.1
- Other Housing Expenses	0.0577	6.6
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**1.7**
- Furniture	0.0068	2.5
- Furnishings	0.0215	1.4
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**1.8**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**0.9**
- Clothing Materials	0.0055	0.0
- Readymade Clothing & Accessories	0.0242	0.9
- Footwear	0.0159	1.0
- Making & Repairs	0.0051	1.6
TRANSPORTATION	**0.0644**	**2.6**
MISCELLANEOUS EXPENSES	**0.0785**	**1.8**
ALL GROUPS	**1.0000**	**-0.42**

3

BANK OF JAMAICA OPERATING TARGETS
FY 2001/2002 & FY 2002/03

	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02	Mar-03
Net International Reserves (US$)	**1 840.7**	**1 941.7**	**1 782.3**	**1 687.3**	**1 597.0**	**1 339.7**
Net International Reserves ($J)	**87 435.2**	**93 200.2**	**86 973.8**	**82 339.3**	**81 557.8**	**68 416.9**
Assets	90 406.3	96 015.8	89 671.5	84 842.7	83 911.1	70 586.4
Liabilities	-2 971.1	-2 815.6	-2 697.7	-2 503.4	-2 353.3	-2 169.5
Net Domestic Assets	**-53 125.4**	**-62 978.8**	**-56 789.6**	**-51 714.3**	**-45 799.9**	**-35 917.0**
Net Claims on the Public Sector	33 964.1	36 942.5	42 779.3	47 135.8	50 873.5	63 988.5
Net Credit to Banks	-6 154	-4 400.6	-4 910.0	-5 044.5	-5 200.4	-12 481.5
Open Market Operations	-85 628.3	-99 195.3	-97 006.3	-96 072.3	-89 981.3	-86 203.8
Other	4 692.7	3 674.6	2 347.4	2 266.7	-1 491.7	-1 220.1
Monetary Base	**34 309.8**	**30 221.4**	**30 184.2**	**30 625.0**	**35 757.9**	**32 500.0**
Currency Issue*	22 340.5	19 447.1	19 274.3	19 554.2	24 354.5	20 729.7
Cash Reserve	11 474.4	10 581.2	10 883.8	10 911.6	10 839.2	11 250.7
Current Account	494.9	193.1	26.1	159.2	564.2	519.5
% change Monetary Base (F-Y-T-D)	**12.6**	**-0.8**	**-0.1**	**1.3**	**18.3**	**7.5**

** Excludes BOJ's teller cash*

4

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

	M1J	M1*	M2J	M2*	M3J	M3*
1998/1999	**26 564.6**	**30 306.5**	**79 732.5**	**103 612.3**	**90 474.3**	**114 354.2**
1999/2000	**31 686.8**	**37 311.4**	**92 865.8**	**122 905.4**	**109 123.2**	**139 162.8**
2000/2001						
June	32 017.2	37 737.7	95 966.4	125 498.3	113 634.3	143 166.2
September	30 527.0	35 897.9	96 419.1	128 067.1	115 248.5	146 896.6
December	33 831.3	38 111.4	100 746.3	132 997.8	119 962.1	152 226.0
March	32 783.8	36 970.0	100 673.4	133 790.6	120 789.7	153 906.9
2001/2002						
June	32 951.4	38 015.3	102 002.8	135 708.9	123 100.6	156 806.8
September	35 690.9	41 620.6	105 818.0	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	42 475.1	49 450.7	117 345.3	160 591.4	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[p]	36 255.7	43 314.1	109 994.4	161 242.2	138 999.4	190 247.2

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

5

COMPONENTS OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY
2000/01 - 2002/03 (Quarterly Flows - J$M)

	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02 r	Mar-03 p
M2J	**3 815.2**	**3 601.3**	**-1 585.1**	**2 214.2**	**7 109.8**	**1 985.5**	**-11 853.1**
Currency	171.3	2 598.7	-1 295.6	-29.6	104.4	2 842.1	-3 075.1
Demand Deposits	2 568.2	674.9	-585.1	-189.6	5 305.9	-413.1	-7 890.1
Savings Deposits	770.2	1 030.2	239.9	1 971.4	132.1	1 615.6	-41.0
Time Deposits	305.5	-702.5	55.7	461.9	1 567.3	-2 059.1	-847.0
OTHER DEPOSITS	**82.6**	**555.7**	**1 046.8**	**1 065.2**	**1 621.4**	**965.3**	**2 642.5**
TOTAL(M3J)	**3 897.8**	**4 157.0**	**-538.3**	**3 279.4**	**8 731.1**	**2 950.8**	**-9 210.6**

SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY

	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02 r	Mar-03 p
N.I.R. of B.O.J.	**-130.1**	**14 441.9**	**4 794.1**	**-7 779.7**	**-4 634.5**	**-4 406.7**	**-13 140.9**
M & LTFL of B.O.J.	**15.2**	**7.6**	**14.0**	**7.9**	**15.5**	**8.6**	**18.1**
Banking System Credit	**7 289.9**	**9 445.6**	**235.3**	**7 924.3**	**11 598.8**	**3 336.9**	**12 261.5**
Public Sector	6 444.6	8 628.0	307.8	6 736.9	10 208.5	1 962.5	10 731.1
Private Sector	845.3	817.6	-72.5	1 187.4	1 390.3	1 374.4	1 530.4
Open Market Operations	**-3 361.0**	**-8 102.8**	**-13 566.9**	**2 188.9**	**933.9**	**6 091.1**	**3 777.5**
Other	**83.8**	**-11 635.3**	**7 985.2**	**938.0**	**817.4**	**-2 079.1**	**-12 126.8**
TOTAL	**3 897.8**	**4 157.0**	**-538.3**	**3 279.4**	**8 731.1**	**2 950.8**	**-9 210.6**
Memo:							
Foreign Currency Deposits	2 061.0	880.9	3 020.0	666.2	2 949.7	2 449.3	5 552.4
Foreign Currency Loans	1 986.6	2 294.1	-197.0	2 639.9	2 143.9	1 394.0	2 093.0

p - preliminary
r - revised

6A

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

	Fixed Deposit* 3-6months	Fixed Deposit* 6-12 months	Savings Deposits (Average)	Loan Rate (Average)	Fixed Deposit Rate (Weighted Average)	Loan Rate (Weighted Average)
1999/2000	**11.00 - 17.50**	**11.50 - 16.50**	**11.38**	**33.92**	**12.99**	**24.32**
June	10.00 - 17.50	10.00 - 17.00	11.96	37.89	14.08	27.12
September	10.00 - 17.50	10.00 - 17.00	11.50	35.92	13.47	26.16
December	11.00 - 17.50	11.50 - 16.50	11.38	33.92	13.27	24.64
March	11.00 - 17.50	11.50 - 16.50	11.38	33.92	12.99	24.32
2000/2001						
June	10.00 - 17.50	10.00 - 16.50	10.11	33.00	12.74	23.48
September	10.00 - 17.05	10.00 - 17.05	9.96	31.50	12.59	22.23
December	10.00 - 17.05	10.00 - 17.60	9.86	31.67	12.21	22.12
March	10.00 - 17.00	10.00 - 16.75	9.84	31.33	12.13	21.49
2001/2002						
June	8.75 - 17.00	8.75 - 15.00	9.45	30.67	11.11	20.86
September	8.75 - 17.00	8.75 - 15.00	9.08	26.96	10.52	19.41
December	7.75 - 15.00	7.75 - 15.00	9.08	26.79	10.13	19.46
March	7.75 - 15.00	7.75 - 15.00	9.36	26.29	9.86	19.60
2002/2003						
June	7.75 - 13.25	7.75 - 13.25	9.00	25.92	9.28	18.15
September	7.75 - 13.25	7.75 - 13.25	8.86	26.25	8.98	18.08
December	7.75 - 13.25	7.75 - 13.25	8.96	25.04	8.92	18.26
March	8.50 - 13.15	8.5 - 13.15	8.22	24.73	n.a.	n.a.

** - relate to deposits of $100 000 and over*

6B

GOJ TREASURY BILL YIELDS
(End-of-Period)

	3-month	6-month	9-month	12-month
1999/2000	**17.82**	**17.96**	**18.30**	**18.37**
June	20.24	20.16	20.45	20.05
September	18.63	19.21		20.20
December	19.92	22.03	21.43	22.00
March	17.82	17.96	18.30	18.37
2000/2001				
June	17.68	17.47	17.88	18.10
September	16.62	17.13	16.91	16.94
December		20.16	19.67	20.98
March		16.88		17.86
2001/2002				
June		16.20		
September		15.10	15.50	
December		17.03		
March		14.30		14.96
2002/2003				
June		13.81		14.77
September		16.69	16.98	
December		17.01		
March		33.47		

7

BANK OF JAMAICA OPEN MARKET INTEREST RATES
(End Period)

End Period	30 days	60 days	90 days	120 days	180 days	270 days	365 days
1999/2000							
June	18.85		19.70		20.85		
September	18.35		19.25		19.95		
December	18.35		19.25		19.95		
March	17.30	17.95	18.10	18.20	18.55		
2000/2001							
June	17.00	17.65	17.80	17.90	18.25		
September	16.45	16.60	16.70	16.80	17.05	17.60	18.00
December	16.45	16.60	16.70	16.80	17.05	20.00	21.00
March	15.50	15.60	15.70	15.80	16.15	17.00	17.75
2001/2002							
June	14.25	14.35	14.45	14.55	14.75	15.35	15.90
September	14.25	14.35	14.45	14.55	14.75	15.35	15.90
December	14.25	14.35	14.45	14.55	15.00	18.40	18.90
March	13.25	13.35	13.45	13.55	13.80	14.20	15.00
2002/2003							
June	13.25	13.35	13.45	13.55	13.80	14.20	15.00
September	12.95	13.05	17.25	17.05	13.45	13.85	14.50
December	12.95	13.05	18.25	18.40	13.45	13.85	14.50
March	15.00	15.30	20.00	24.00	33.15	34.50	35.95

8A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
January - March 2003

Maturity Date	Stock Name	Amount J$M	Applicable Interest Rate b/	Features
20 Jan 2003	GOJ INV DEB. 2004 Series 'S'	6609.29	18.00	Interest rate fixed at 18.00%
07 Feb 2003	VR LRS 2003/2005 (TR. A)	500.00	21.04	
28 Feb 2003	FR US$25.0 mn Bd. 2004 Tr 1	12.50	11.25	Interest rate fixed at 11.25%
14 Man 2003	VR LRS 2003 D	211.49	15.03	
20 Mar 2003	VR LRS 2003/2004R Tr.2	182.05	14.28	
31 Mar 2003	VR LRS 2001/2006R Trs.H	325.00	16.69	

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

8B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Domestic Market Issues
January - March 2003

Issue Date	Stock Name	Features	Amount Raised J$M
16 Jan 2003	FR US$ Indexed Bond 10.125% 2010	Instrument having maturity profile of 7 years	2 770.9
24 Jan 2003	GOJ Investment Debenture Series 'Y'	Instrument having taxable fixed rate of 18.625% and maturity profile of 3-years	6 300.28
31 Jan 2003	FR US$ Indexed Bond 10.125% 2009	Instrument having maturity profile of 6 years 10 months	2 315.72
6 Mar 2003	FR US$ Indexed Bond 10.150% 2004	Instrument having maturity profile of 15 months	5 696.05

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

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
1998/1999	**82.7**	**587.9**	**98.3**	**33.1**	**57.8**	**371.7**	**321.7**	**1 552.3**
1999/2000	**49.1**	**664.6**	**103.5**	**26.6**	**68.9**	**346.9**	**290.9**	**1 550.5**
June	20.3	145.5	54.6	7.6	15.2	88.9	71.3	403.4
September	7.6	166.0	5.5	7.5	19.8	92.4	80.5	379.3
December	8.1	182.0	0.0	6.3	16.6	84.9	71.6	369.5
March	13.1	171.1	43.4	5.2	17.3	80.7	67.5	398.3
2000/2001	**56.1**	**670.6**	**69.4**	**22.3**	**74.8**	**330.9**	**285.0**	**1 509.1**
June	10.4	167.9	33.6	5.5	20.5	90.6	76.6	405.1
September	8.2	163.8	6.2	6.2	18.3	81.7	80.7	365.1
December	13.9	181.4	0.0	6.1	17.0	91.3	76.4	386.1
March	23.6	157.5	29.6	4.5	19.0	67.3	57.8	359.3
2001/2002 r								
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	27.7	150.8	18.3	4.5	18.9	58.1	59.0	337.3
2002/2003								
June	22.8	136.2	30.6	4.5	20.9	51.3	56.8	323.1
September	25.4	146.5	8.0	4.4	20.4	60.4	65.6	330.7

r - revised

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

	Consumer Goods	Raw Materials	Capital Goods	Other	Total Imports
1999/2000	**965.0**	**1 614.0**	**508.4**	**180.7**	**3 268.2**
June	220.4	395.5	123.6	47.1	786.6
September	227.5	385.7	104.8	50.9	768.9
December	298.0	410.5	130.1	42.0	880.6
March	219.1	422.3	149.9	40.8	832.1
2000/2001	**982.0**	**1 761.2**	**519.1**	**167.6**	**3 429.9**
June	228.5	442.2	119.2	42.3	832.2
September	245.8	422.6	120.2	43.5	832.1
December	282.5	426.1	121.8	53.9	884.3
March	225.2	470.3	157.9	27.9	881.3
2001/2002					
June[r]	241.0	444.1	127.7	61.3	874.1
September	238.4	431.1	156.6	47.5	873.6
December	279.9	475.2	133.9	35.4	924.4
March	240.9	405.9	147.1	25.6	819.5
2000/2001					
June	265.4	409.8	176.2	42.7	894.1
September	271.6	507.0	167.2	39.1	984.9

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BALANCE OF PAYMENTS SUMMARY (Flows - US$M)

	Dec-00	Mar-01	Jun-01[r]	Sept-01	Dec-01	Mar-02	Jun-02[p]	Sept-02[r]
1. Current Account	**-114.8**	**-156.1**	**-140.4**	**-179.5**	**-288.6**	**-143.9**	**-247.9**	**-315.9**
A. Goods Balance	**-371.9**	**-417.6**	**-354.5**	**-375.7**	**-469.8**	**-368.7**	**-443.8**	**-517.0**
Exports (f.o.b.)	386.1	359.3	399.5	374.0	320.5	337.3	323.1	330.7
Imports (f.o.b.)	758.0	776.9	754.0	749.7	790.3	706.0	766.9	847.7
B. Services Balance	**122.0**	**185.4**	**114.0**	**82.7**	**31.4**	**114.1**	**60.9**	**64.0**
Transportation	-69.4	-53.4	-58.7	-67.5	-78.7	-55.6	-69.0	-75.5
Travel	264.4	305.5	270.3	239.9	197.4	266.9	212.6	226.7
Other Services	-73.0	-66.7	-97.6	-89.7	-87.3	-97.2	-82.7	-87.2
Goods & Services Balance	**-249.9**	**-232.2**	**-240.5**	**-293.0**	**-438.4**	**-254.6**	**-382.9**	**-453.0**
C. Income	**-84.9**	**-139.1**	**-107.4**	**-102.6**	**-101.3**	**-121.5**	**-113.2**	**-109.0**
Compensation of Employees	33.1	5.1	10.5	27.2	32.7	2.6	13.4	31.8
Investment Income	-118.0	-144.2	-117.9	-129.8	-134.0	-124.1	-126.6	-140.8
D. Current Transfers	**220.0**	**215.2**	**207.5**	**216.1**	**251.1**	**232.2**	**248.2**	**246.1**
General Government	34.7	21.6	20.2	10.8	37.8	10.7	10.3	18.9
Other Sectors	185.3	193.6	187.3	205.3	213.3	221.5	237.9	227.2
2. Capital & Financial Account	**114.8**	**156.1**	**140.4**	**179.5**	**288.6**	**143.9**	**247.9**	**315.9**
A. Capital Account	**0.3**	**-2.7**	**-7.0**	**-5.9**	**-4.3**	**-7.0**	**-6.2**	**-5.0**
Capital Transfers	0.3	-2.7	-7.0	-5.9	-4.3	-7.0	-6.2	-5.0
General Government	3.0	1.8	0.2	0.1	1.4	0.1	0.1	0.0
Other Sectors	-2.7	-4.5	-7.2	-6.0	-5.7	-7.1	-6.3	-5.0
B. Financial Account	**114.5**	**158.8**	**147.4**	**185.4**	**292.9**	**150.9**	**254.1**	**320.9**
Direct Investment	105.2	221.2	110.1	77.1	121.7	134.0	73.8	77.7
Other Official Investment	101.0	115.0	333.0	-63.3	268.7	52.1	21.0	-52.9
Other Private Investment (including net errors & omissions)	-57.7	139.4	-41.5	167.8	206.6	65.7	-0.1	201.2
Reserves	-34.0	-316.8	-254.2	3.8	-304.1	-100.9	159.4	94.9

r - revised
p - provisional

12

PRIVATE SECTOR QUARTERLY REMITTANCE FLOWS (US$M)

	Commercial Banks	Remittance Companies	Post Offices	Building Societies	Other	Total
2000/2001	**180.9**	**479.0**	**1.2**	**156.8**	**25.7**	**843.6**
June	40.3	109.5	0.3	37.0	6.0	193.1
September	28.6	120.8	0.3	36.9	6.3	192.9
December	50.6	125.4	0.3	39.3	6.5	222.1
March	61.4	123.3	0.3	43.6	6.9	235.5
2001/2002	**170.2**	**595.3**	**1.2**	**202.4**	**27.3**	**996.4**
June	43.1	136.2	0.3	43.5	6.9	230.0
September	46.9	143.0	0.3	50.4	6.9	247.5
December	25.6	163.7	0.3	58.0	6.9	254.5
March	54.6	152.4	0.3	50.5	6.6	264.4
2002/2003						
June	73.4	157.2	0.3	58.8	6.6	296.3
September	74.1	150.3	0.3	65.6	6.6	296.9
December	66.5	159.7	0.3	65.8	6.6	298.9
March*	56.1	96.4	0.2	39.8	4.4	196.9

** January & February data only*

13

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

	Gross Foreign Assets	Gross Foreign Liabilities	International Reserves (Net)	Weeks of Imports	
				Goods	Goods & Services
1998/1999	**700.1**	**120.8**	**579.3**	**13.5**	**9.2**
1999/2000					
June	701.9	111.3	590.6	13.3	9.0
September	633.8	112.8	521.0	12.0	8.1
December	552.2	105.9	446.3	10.5	7.1
March	801.3	100.5	700.8	15.2	10.3
2000/2001					
June	848.3	91.9	756.5	15.0	10.2
September	1 022.1	86.7	935.5	17.9	12.3
December	1 048.8	79.3	969.5	18.3	12.6
March	1 361.9	75.6	1 286.3	24.0	16.4
2001/2002					
June	1 612.5	71.9	1 540.5	27.3	18.6
September	1 605.9	69.2	1 536.7	27.1	18.6
December	1 903.3	62.6	1 840.7	33.2	22.5
March	2 000.3	58.7	1 941.6	34.9	23.6
2002/2003					
June	1 837.5	55.2	1 782.3	31.2	20.6
September	1 738.6	51.3	1 687.3	29.5	19.5
December	1 643.1	46.1	1 597.0	27.9	18.4
March	1 382.2	42.5	1 339.7	22.4	15.0

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

	US$	Can$	UK£
1998/1999	**38.28**	**24.64**	**59.64**
1999/2000			
June	38.97	25.65	59.29
September	40.00	26.72	63.79
December	41.42	27.80	65.80
March	42.14	29.01	66.65
2000/2001			
June	42.51	28.17	62.73
September	44.83	29.25	64.15
December	45.53	29.51	66.78
March	45.68	29.17	64.11
2001/2002			
June	45.82	29.80	63.94
September	45.94	29.00	66.74
December	47.40	29.45	67.94
March	47.61	29.88	67.14
2002/2003			
June	48.51	31.95	72.98
September	49.27	31.11	76.60
December	50.97	32.09	80.97
March	56.24	37.48	87.41

15

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

End Period	Local Registered Stocks	Treasury Bills	Bonds	BOJ Open Market Operations Securities
1998/1999	**105 121.4**	**10 450.0**	**17,873.4**	**38 073.8**
1999/2000				
June	112 513.0	10 200.0	25 603.0	38 469.9
September	116 959.5	9 900.0	31 266.7	36 703.9
December	130 939.9	10 650.0	32 165.4	29 286.9
March	126 022.9	9 550.0	36 510.4	39 490.9
2000/2001				
June	131 477.8	9 750.0	37 268.0	45 066.2
September	132 589.8	9 850.0	38 789.9	51 885.6
December	134 896.5	7 600.0	41 920.6	51 800.9
March	159 734.8	6 950.0	45 107.7	61 441.4
2001/2002				
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	n.a.	2 950.0	n.a.	86 203.8

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STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	Volume Traded (M)	Value of Stocks Traded (J$M)
1999/2000	**27 165.6**	**610.7**	**2 393.2**
June	19 687.7	165.4	712.6
September	20 677.7	96.8	549.4
December	21 892.6	166.6	534.8
March	27 165.6	181.9	596.4
2000/2001	**29 701.9**	**669.4**	**3 683.0**
June	31 338.3	300.9	1 480.3
September	31 152.7	95.6	591.4
December	28 893.2	116.5	773.0
March	29 701.9	156.4	838.3
2001/2002	**37 446.0**	**3 086.8**	**6 549.0**
June	35 723.6	2 315.0*	3 584.2
September	33 892.4	182.8	840.4
December	33 835.6	171.3	704.9
March	37 446.0	417.7	1 419.5
2002/2003	**46 982.0**	**2 409.0**	**13 372.9**
June	38 606.7	404.9	1 935.9
September	39 219.6	401.1	2 332.1
December	45 396.2	380.9	1 949.4
March	46 982.0	1 222.1	7 155.5

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

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PRODUCTION OF SELECTED COMMODITIES
(flows - 000' tonnes)

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

* *Exports*

D. BANK OF JAMAICA BALANCE SHEET

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

	Jun-01	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02	Mar-03
Assets	**148 059.3**	**148 672.9**	**165 421.1**	**173 579.0**	**166 610.3**	**152 220.5**	**151 282.4**	**152 765.6**
Foreign	73 743.7	73 650.3	89 754.1	95 228.9	88 833.0	85 369.6	83 071.5	77 202.2
Current Account & Foreign Currency Balances	3 738.0	3 618.0	13 926.8	7 769.8	5 025.5	5 048.1	6 880.4	9 318.5
Time Deposits & Securities	68 290.4	68 283.1	73 899.6	85 539.9	81 873.3	78 281.9	74 108.9	65 607.9
Holdings of Special Drawing Rights	15.6	20.4	68.9	42.0	18.4	63.8	39.9	20.2
Other	1 699.7	1 728.8	1 858.8	1 877.2	1 915.8	1 975.8	2 042.3	2 255.6
Local	74 315.6	75 022.6	75 667.0	78 350.1	77 777.3	66 850.9	68 210.9	75 563.4
Public Sector Securities	56 462.8	56 103.7	56 000.2	56 109.5	52 802.2	56 752.1	57 237.4	54975.0
Other Assets	17 852.8	18 918.9	19 666.8	22 240.6	24 975.1	10 098.8	10 973.5	20 588.4
Liabilities	**148 059.3**	**148 672.9**	**165 421.1**	**173 579.0**	**166 610.3**	**152 220.5**	**151 282.4**	**152 765.6**
Foreign	582.8	545.9	450.4	411.5	442.6	405.8	434.6	484.6
Local	138 794.3	148 127.0	164 970.7	173 167.5	166 167.8	151 814.7	150 847.8	152 281.0
Currency in Circulation	17 565.7	17 607.3	22 378.7	19 481.9	19 318.5	19 587.3	24 387.3	20 772.3
Deposits	121 228.6	120 498.5	134 014.7	145 003.5	137 793.2	121 123.3	118 055.4	117 110.0
Bankers	19 922.3	18 911.8	19 232.8	16 225.9	16 925.7	17 264.9	17 729.8	25 401.0
Government	4 053.7	4 370.6	5 529.4	7 591.3	6 933.6	3 916.6	4 484.3	1 760.2
Open Market Operations	74 164.5	77 525.5	85 628.3	99 195.3	97 006.3	96 072.3	89 981.3	86 203.8
Other	23 088.1	19 690.6	23 624.2	21 991.0	16 927.6	3 869.5	5 860.0	3 745.0
Allocation of Special Drawing Rights	2 347.0	2 347.0	2 347.0	2 347.0	2 462.0	2 462.0	2 462.0	2 462.0
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Other Reserves	939.6	939.5	939.6	1 174.8	1 195.8	1 195.8	1 944.2	1 944.2
Other Liabilities	5 371.6	6 710.7	5 266.7	5 136.3	5 374.2	7 422.3	3 974.9	9 968.5

E. COMMERCIAL BANKS' BALANCE SHEET

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

	Jun-01	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02 r	Dec-02 r	Mar-01 p
Assets	**220 655.6**	**242 006.2**	**239 087.8**	**252 908.2**	**251 817.0**	**259 119.7**	**262 498.7**	**290 161.4**
Cash	1 547.9	1 434.1	3 595.7	1 997.9	1 854.6	2 030.1	3 988.3	3 438.6
Balances with BOJ	28 745.0	32 234.1	36 782.2	44 646.1	43 993.1	41 726.7	40 111.1	41 414.8
Foreign Assets	30 737.8	38 233.5	40 495.4	44 923.5	44 285.3	46 076.8	47 501.2	62 479.6
Loans & Advances	41 883.2	42 981.6	49 035.1	51 354.7	58 100.8	67 046.0	73 943.3	80 896.9
Private Sector	33 131.4	35 829.3	38 746.9	37 932.9	42 306.9	46 261.6	50 887.9	54 109.1
Public Sector	8 751.8	7 152.3	10 288.2	13 421.8	15 793.9	20 784.4	23 055.4	26 787.8
Public Sector Securities	87 181.4	89 564.7	79 603.7	76 010.5	74 677.2	72 564.8	68 829.3	66 143.2
Cheques in the Process of Collection	3 211.8	5 515.4	2 917.6	6 175.9	4 487.6	3 959.6	3 794.0	4 024.4
Other Assets	27 348.5	32 042.8	26 658.1	27 799.6	24 418.4	25 715.7	24 331.5	31 763.9
Liabilities	**220 655.6**	**242 006.2**	**239 087.8**	**252 908.2**	**251 817.0**	**259 119.7**	**262 498.7**	**290 161.4**
Deposits	150 950.1	163 056.9	158 918.1	165 541.3	169 908.3	177 801.9	178 979.5	192 641.6
Foreign Liabilities	6 004.5	13 857.9	13 265.5	14 863.8	14 758.0	13 214.9	12 691.1	13 632.6
Discounts & Advances from BOJ	82.6	24.3	83.0	43.9	60.2	61.2	134.9	187.1
Loans/Advances from Other Institutions	8 830.5	9 017.1	9 177.7	9 017.9	6 377.4	6 729.3	7 309.4	7 632.5
Cheques in the Process of Payment	2 509.7	2 114.2	2 026.9	3 324.6	2 369.6	2 614.2	2 565.0	2 150.6
Other Liabilities	52 278.2	53 935.8	55 616.6	60 116.7	58 343.5	58 768.6	60 898.8	73 917.0

p - preliminary
r - revised

F. INTERNATIONAL INDICATORS

1

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

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

2

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

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

3

PRIME LENDING RATES (End-of-Period)

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

4A

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

(End-of-Period)

	Jun-01	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02	Mar-03
US$ vs Sterling	0.7085	0.6804	0.6871	0.8753	0.6560	0.6369	0.6306	0.6327
US$ vs Canadian $	1.5272	1.5797	1.5963	1.5954	1.5209	1.5858	1.5593	1.4711
US$ vs Yen	124.36	119.13	131.06	132.55	119.86	121.73	121.98	118.58
US$ vs Euro	2.2892	2.1476	2.1966	0.8724	1.0126	1.0123	0.9820	0.9164

4B

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

(End-of-Period)

	Sept-01	Dec-01	Mar-02	June-02	Sept-02	Dec-02	Mar-03
Sterling vs US$	1.4697	1.4554	1.4240	1.5243	1.5701	1.5859	1.5805
Sterling vs Canadian $	2.3217	2.3230	2.2719	2.3183	2.4899	2.4730	2.3251
Sterling vs Yen	175.09	190.70	188.73	182.70	191.13	193.42	187.42
Sterling vs Euro/	3.1564	3.1970	0.8724	1.5434	1.5895	1.5572	1.4484

4C

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
(End-of-Period)

	GBP	C$	US$	Yen	Euro
U.K.	1	2.325	1.581	187.4	1.449
Canada	0.430	1	0.680	80.61	0.623
U.S.	0.633	1.471	1	118.6	0.916
Japan	0.534	1.241	0.843	100	0.773
Euro-zone	0.690	1.605	1.091	129.5	1

5A

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

	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02	Mar-03
UAE's Dubai Light	21.35 - 21.45	18.36 - 18.46	24.13 - 24.23	24.57 - 29.18	27.41 - 27.51	26.01 - 26.21	23.19 - 23.29
North Sea Brent	21.72 - 21.78	19.31 - 19.41	25.30 - 25.36	25.58 - 31.22	28.96 - 29.02	30.03 - 30.09	24.88 - 24.99
West Texas Intermediate	23.25 - 23.29	19.85 - 19.96	26.01 - 26.09	26.68 - 33.38	30.51 - 30.59	31.12 - 31.18	28.07 - 28.13
Nymex-unleaded Gasoline							
Futures (US cents/gallon)	64.00 - 68.80	56.50 - 58.60	80.80 - 83.00	79.38 - 79.39	82.15 - 82.87	86.48 - 87.92	84.25 - 81.47

5B

WORLD COMMODITY PRICES
ALUMINIUM
(US$ per tonne)

	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02	Mar-03
Spot (Cash)	1 334.5 - 1 335.0	1 385.0 -1 386.0	1 364.0 - 1 364.5	1 280 -1 280.5	1 344 - 1 344.5	1 329.0 - 1 330.0
3 Month	1 350.0 - 1 351.0	1 401.0 - 1 401.5	1 383.0 - 1 383.5	1 296.5 - 1 297.0	1 347 - 1 348	1 344.0 - 1 345.0

5C

WORLD COMMODITY PRICES
FOOD
(End-of-Period)

	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02	Mar-03
Wheats (US$/mt)	122.6	123.7	125.7	125.7	166.1	176.7	147.4
Coffee (USc/kg arabica brand)	129.7	126.4	133.6	136.2	126.0	146.8	142.4

6

MAJOR STOCK MARKET INDICES
(End-of-Period)

	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02	Mar-03
Tokyo							
Nikkei Index	9 774.68	10 542.6	11 024.94	10 621.84	9 383.29	8 578.95	7 972.71
New York							
Dow Jones Industrials	8 847.56	10 021.5	10 426.91	9 243.26	7 591.93	8 341.63	7 992.13
S&P Composite	1 194.60	1 148.1	1 144.58	1 122.78	945.28	879.82	848.12
London							
Financial Times-SE 100	4 903.4	5 217.4	5 271.8	4 656.4	3 721.8	3 940.4	3 613.3
Frankfurt							
Dax Index	4 308.15	5 160.1	5 397.29	4 382.56	2 769.03	2 892.63	2 423.87
Zurich							
SMI Index	6 014.2	6 417.8	6 655.2	5 979.7	4 783.0	4 630.8	4 085.6

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquid Asset: An asset is considered liquid if it can be easily and with little or no loss 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 publised 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.

List of Boxes in the Quarterly Monetary Report

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January - March 2001	5. Core Inflation in Jamaica - Concept & Measurement 6. Highlights of the IMF 2001 Article IV Consultation
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July - September 2002 ***Volume 3 No. 2***	23. Building Societies' New Mortgage Loans: July 2001 - June 2002 24. An Overview of the CARICOM Single Market and Economy (CSME)
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