Bank of Jamaica
Quarterly Monetary
Policy Report

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PREFACE

The Bank of Jamaica's Quarterly Monetary Policy Report reviews the conduct of monetary policy and the main factors that influenced inflation during the quarter. It also presents the Bank's perspective on emerging economic trends and the path of monetary policy over the short to medium term. This issue includes a discussion on the Bank of Jamaica's Macroeconomic Stress Testing Programme and Financial Stability as well as, an exploration of Foreign Reserve Adequacy.

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

Macroeconomic conditions remained generally favourable in the March 2005 quarter as evidenced by continued stability in the foreign exchange market, further moderation in inflationary pressures and close adherence of Central Government to its fiscal targets. In a context of buoyant flows from remittances, tourism and mining, the net international reserves (NIR) of the Bank of Jamaica increased by US$43.1 million during the quarter to US$1901.6 million at end March 2005 relative to a targeted decline of US$74.7 million. The NIR at end March 2005 was also US$332.9 million above the level at end March 2004, with gross reserves representing over 18 weeks of imports of goods and services.

Encouraged by the favourable economic environment and a positive macroeconomic outlook, the Bank adopted a less restrictive monetary policy stance by lowering interest rates in February and March and by reducing the Special Deposit Requirement for commercial banks and FIA licensees by 2.0 percentage points effective 1 March 2005. The interest rate reduction in March took interest rates to their lowest level since September 2002 with the rate on the 30-day tenor falling to 12.95 per cent and that on the 365-day tenor to14.5 per cent.

In a context where the growth in the NIR for the quarter was above programme, the monetary base contracted by 7.6 percent, less than the 10.7 per cent targeted for the quarter under the Intensified Surveillance Programme (ISP) with the International Monetary Fund.

This outturn primarily reflected lower than anticipated currency redemption in the quarter following the seasonal expansion in the December 2004 quarter. For the fiscal year, base money growth was 15.1 percent, faster than the 12.5 per cent targeted in the programme. Despite the less than favourable base money performance, the Bank was able to maintain stability in the foreign exchange market, which was reflected in a 0.1 per cent appreciation in the exchange rate for the quarter. For FY2004/05, the exchange rate depreciated by a mere 0.9 per cent relative to a 7.8 per cent depreciation for FY2003/04.

Headline inflation was 1.4 per cent for the March 2005 quarter, relative to 1.9 per cent for the March 2004 quarter and 6.4 per cent for the December 2004 quarter. While a sharper moderation in inflation was envisaged through a recovery of agricultural output, this did not materialise as drought conditions and bushfires affected supply. International commodity price increases and the upward adjustment in some domestic administered prices also provided inflationary impulses during the quarter. However, the appreciation of the exchange rate during the period contributed to a tempering of inflation. For FY2004/05, point-to-point inflation was 13.2 per cent, which compared favourably to 16.8 per cent for FY2003/04. The outturn for FY2004/05 primarily reflected, supply shocks associated with adverse weather conditions as well as, a persistent rise in crude oil prices in 2004.

Core inflation was estimated at 1.1 per cent for the March 2005 quarter, similar to that for the corresponding quarter of 2003/04 and below the 1.7

per cent estimated for the December 2004 quarter. The moderation in underlying inflation during the March 2005 quarter was consistent with the Bank's management of base money over the past six months. For FY 2004/05, core inflation was estimated at 5.3 per cent, which compares favourably with the 7.9 per cent estimated for FY2003/04.

Indicators of economic performance suggest a marginal growth in Gross Domestic Product (GDP) for the March 2005 quarter with all sectors except *Agriculture* recording increases. Notably, *Agriculture* (domestic and export) is estimated to have declined significantly in the quarter as drought conditions and bushfires stymied the post-Ivan recovery process. The major growth area was *Services*, in particular tourism, with *Construction* and *Mining & Quarrying* also recording notable expansions. Continued stability in the macroeconomic conditions provided a platform for modest growth in other sectors including *Manufacturing* and *Finance & Insurance*.

Inflation is expected to increase in the June 2005 quarter, relative to the March 2005 quarter. Inflation for the June quarter will be influenced by seasonal price increases in domestic agricultural commodities and international crude oil. Further impulses should emanate from the revenue measures announced in the FY2005/06 budget, in particular the increase in the General Consumption Tax (GCT). For the fiscal year as a whole, inflation should return to single digit. The main downside risks are a further rise in oil prices, adverse weather conditions and 'second round' effects from the fiscal measures.

The potential for further lowering of interest rates by the Central Bank will therefore hinge on a number of factors including the maintenance of a stable foreign exchange environment and the path of foreign interest rates. The foreign exchange market should continue to benefit from strong flows from remittances and tourist arrivals. Additional flows could emanate from the mining and manufacturing sectors. The maintenance of stability will also depend on other factors such as investor confidence in the macroeconomic programme and favourable external conditions.

Economic output is expected to expand in the June 2005 quarter, with significant contributions from *mining, manufacturing, construction, and financial and miscellaneous services. Mining* should continue to benefit from strong world demand for aluminium with the potential for increased supply influenced by increased capacity and efficiency gains in the industry. *Construction* should also record significant growth, maintaining the trend observed over the past three quarters when the sector expanded on average by 5.3 per cent. A decline in *Agriculture* is, however, anticipated for the June 2005 quarter consequent on a reduction in export agriculture and despite some recovery in domestic agriculture.

For FY2005/06, overall growth is projected in the range of **3.0 – 4.0 per cent**, significantly above the previous year, which was affected by natural disasters. This expansion is predicated on continued growth in the economies of Jamaica's trading partners, including the United States and China, which should provide an impetus for tourism, transportation and agriculture.

In accordance with its mandate of maintaining financial stability, the Bank of Jamaica undertakes stress testing to measure the broad impact of extreme but plausible shocks to key macroeconomic variables on the banking system. The essence of this technique is outlined in Box 1 entitled: The BOJ Macroeconomic Stress Testing Programme and Financial Stability.

Foreign exchange market stability and strong NIR are critical to investor confidence and overall economic performance. Jamaica's vulnerability to external shocks including natural disasters was underscored in recent months. Although foreign currency inflows were not significantly disrupted to warrant a call upon reserves, the strong level of the NIR was a significant factor in preserving investor confidence. Box 2 examines issues related to reserve adequacy, particularly for a country like Jamaica, with a managed exchange rate regime.

1. Monetary Policy and Financial Markets

Money & Credit

Monetary Policy and Base Money Management

During the March quarter, the Bank eased its monetary policy stance by lowering interest rates on the entire spectrum of its open market instruments as well as reducing the Special Deposit requirement. This was consistent with the stability in the macroeconomic environment and the improved inflation outlook. Base money remained within the programme target for most of the quarter. However, there was an abnormal demand for cash balances towards end-March, which influenced a higher than programmed base money outturn.

Table 1.1

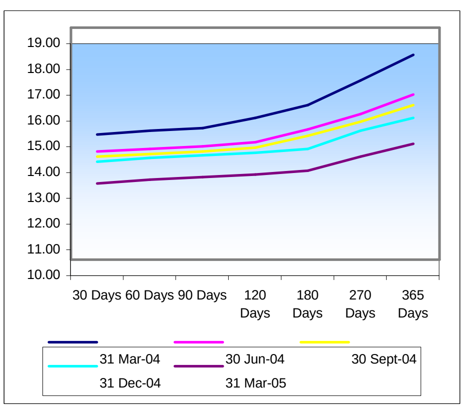
BOJ Reverse Repurchase Rates January – March 2005	31 Dec	7 Feb	7 Mar
30 Days	13.80	13.50	12.95
60 Days	13.95	13.65	13.10
90 Days	14.05	13.75	13.20
120 Days	14.15	13.85	13.30
180 Days	14.30	14.00	13.45
270 Days	15.00	14.50	14.00
365 Days	15.50	15.00	14.50

Further reductions on BOJ open market interest rates

Against a background of continued macroeconomic stability underpinned by the strong net international reserves (NIR), the Bank adopted a less restrictive monetary policy stance during the March 2005 quarter. Interest rates on open market instruments were reduced twice during the quarter. The first adjustment was made on 7 February and the other on 7 March, which resulted in cumulative declines of 85 basis points on the 30-day to 180-day tenors and 100 basis points on the 270-day and 365-day instruments, respectively (See **Table 1.1**). Consequently, the yield curve on BOJ's open market instruments was lowered to levels last recorded in August 2002 (see **Figure 1.1 & Appendix C7**). The Bank also reduced the Special Deposit requirement[1] from 5.0 per cent to 3.0 per cent in the March quarter.

Figure 1.1

BOJ Open Market Operations Yield Curve

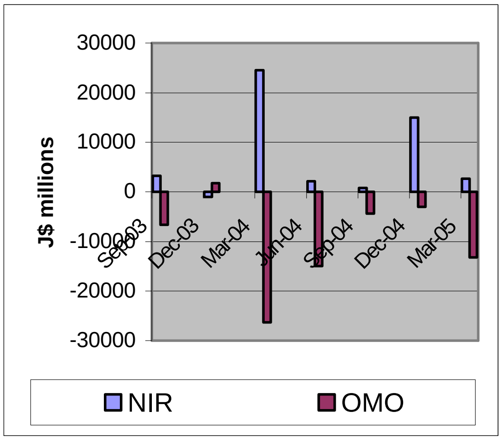


Special Deposit requirement reduced by 2.0 percentage points

[1] The Special Deposit Requirement was imposed on commercial banks and Financial Institutions Act licensees on 10 February 2003.

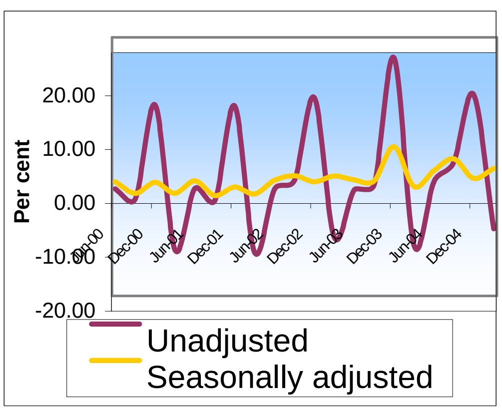
Figure 1.2

Effects of the NIR & OMO on liquidity*



***Absorption-negative, Injection-positive**

Figure 1.3
Base Money
(Quarterly Change)



Higher than normal currency demand in March.

The reduction in the requirement released over $2 800.0 million into the banking system, most of which was reabsorbed by open market operations (OMO).

There was net absorption of $13 162.7 million through the OMO window during the quarter which reflected a strong preference for Jamaica Dollar assets (see **Figure 1.2**). The main sources of liquidity during the quarter were the build-up in the net international reserves (NIR) of $2 671.6 million, interest payments of $4 120.8 million on OMO maturities, net currency redemption of $3 723.2 million and the refunds related to the reduction in the Special Deposit requirement. The build-up in the NIR primarily reflected the demand for Jamaica Dollar liquidity as investors converted some of their foreign currency holdings and earnings into domestic currency (see **Foreign Exchange Market**).

The conduct of monetary policy was supported by the surplus generated by fiscal operations during the quarter. Accordingly, the Government built up balances at the Bank relative to end December.

During the quarter, base money contracted by $3 408.8 million or 7.6 per cent, lower than the 10.7 percent set out in the monetary programme. The deviation primarily reflected higher currency issue than anticipated. Relative to a programmed decline of $5 074.6 million, currency issue only declined by $3 723.2 million. This slower decline resulted from higher than normal precautionary cash holdings by the commercial banks in the last two weeks of the quarter for the Easter holidays and the carnival season.

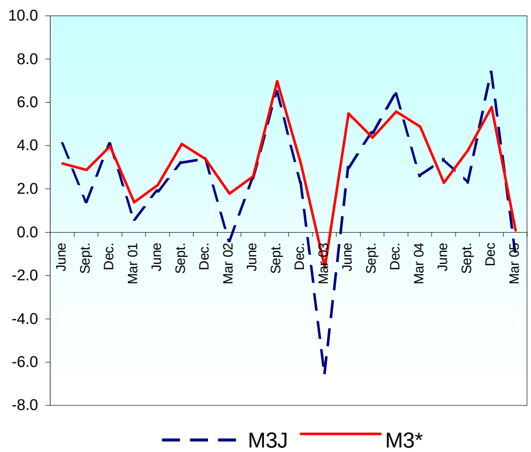
The local currency cash reserves were also higher than programme due to the strong demand for Jamaica Dollar assets in the quarter which led to a faster than anticipated growth in local currency deposits.

Growth in base money reflects higher NIR

For the fiscal year 2004/05, the monetary base expanded by 15.1 per cent, which was higher than the 12.5 per cent set out in the monetary programme. This outturn reflected a higher NIR stock, which was partly a result of significant purchases from the market in the last six months of the fiscal year. The accumulation of foreign reserves by the Bank necessitated a more absorptive OMO, but this was insufficient to completely offset the expansion in domestic liquidity (see **Appendix C3**).

Figure 1.2

Money Supply
(Quarterly Growth rates)
June 2000 to March 2005



Components of Money Supply March 2005 (Quarterly Growth)		
	Actual	**Target**
Currency in Circulation	-11.7	-20.1
Local Deposits	1.0	1.7
M3J	-0.9	-1.7

Money Supply (12-month growth rates)		
MJ	**Mar-04**	**Mar-05**
M1J	33.2	16.8
M2J	16.2	11.6
M3J	17.6	12.4
M*		
M1*	40.0	8.9
M2*	20.2	10.3
M3*	20.6	11.0

Table 1.2

Money Supply

Broad Jamaica Dollar money supply (M3J) was higher than programmed in the March 2005 quarter. The deviation from target reflected a higher than anticipated seasonal demand for currency. Local currency deposits, however, were lower than programmed, largely attributed to investors' preference for alternative domestic assets. Given the increase for the March 2005 quarter, the growth in M3J exceeded the target for FY 2004/05.

For the review quarter, there was a marginal decrease in the broadest measure of money supply, M3, which includes foreign currency deposits. This was despite a faster rate of growth in foreign currency deposits relative to the previous quarter.*

There was a 0.9 per cent reduction in M3J during the March 2005 quarter, relative to increases of 7.4 per cent for the previous quarter and 2.6 per cent for the comparable quarter of 2004 (see **Figure 1.2**). The decrease during the review quarter was much less than the 1.7 per cent contraction anticipated in the monetary programme. For FY 2004/05, M3J grew by 12.4 per cent relative to 17.6 per cent in FY 2003/04 (see **Table 1.2**), reflecting a slower rate of expansion in both currency in circulation and local currency deposits.

The main counterpart to the decline in money supply during the review quarter was the significant absorption of liquidity through BOJ operations (see **Monetary Policy and Base Money Management**). The liquidity

Figure 1.2
Stock of Commercial Banks' Private Repurchase Agreements

Table 1.3

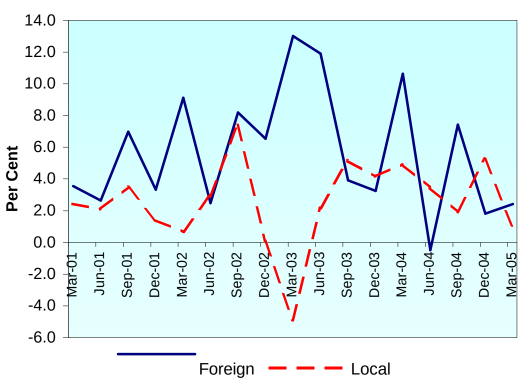
INTEREST RATES IN THE DOMESTIC MARKET	Feb-04	Dec-04	Feb-05
COMMERCIAL BANK WEIGHTED AVERAGE DEPOSIT RATES			
Overall	**6.59**	**6.04**	**6.02**
Demand	3.51	3.31	3.48
Savings	6.23	5.71	5.64
Time	8.57	7.78	7.62
Foreign Currency	**3.29**	**3.32**	**3.27**
Demand	3.09	3.27	3.13
Savings	2.27	2.27	2.25
Time	5.29	5.27	5.13
6-MONTH TREASURY BILL RATE	16.31	14.94	13.46
BOJ 180-DAY REPURCHASE AGREEMENT RATE	16.00	14.30	13.45
PRIVATE MONEY MARKET RATE	16.00	14.10	13.55

absorbed emanated primarily from the net unwinding of commercial banks' private repurchase agreements. Since October 2003, there has been a trend decline in private repurchase instruments (see **Figure 1.2**). In light of the reductions in interest rates on the underlying securities, commercial banks would have been inclined to substitute the repurchase agreements contracted at high yields with relatively cheaper sources of funding. During the March 2005 quarter, there was a decrease of $6 552.3 million in commercial banks' private repurchase agreements relative to a reduction of $2 099.4 million in the comparable quarter of 2004. An increase in banking system credit to the private sector, was another major source of liquidity expansion. This growth was the highest quarterly increase in FY2004/05, but was lower than the expansion for the March 2004 quarter.

With regard to changes in the components of money supply, currency in circulation declined by 11.7 per cent relative to a programmed reduction of 20.1 per cent. This was due to the higher than anticipated seasonal demand for currency associated with the Easter holidays and carnival celebrations. For the March 2004 quarter, currency in circulation fell by 11.0 per cent. The decrease during the March 2005 quarter brought the nominal growth for currency in circulation to 14.3 per cent for FY 2004/05, relative to 19.1 per cent for FY2003/04. Expressed in real terms, the growth in currency in circulation decelerated to 1.1 per cent in FY 2004/05, compared to 5.5 per cent for FY 200/04.

The impact of the contraction in currency in circulation on M3J during the March 2005 quarter was partly offset by an increase of 1.0 per cent in local currency deposits. This increase was relative to expansions of 5.5 per cent in the previous quarter and 4.9 per cent during the comparable quarter of 2004. The deceleration in the rate of growth in local currency deposits for the review quarter reflected investors' preference for alternative Jamaica Dollar assets, in particular, BOJ open market securities. The relative attractiveness of these securities was evidenced in a higher than programmed build up for FY2004/05. Against this background, the growth in local currency deposits during FY2004/05 decelerated to 12.1 per cent relative to 17.4 per cent for the comparable period of 2004.

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



Foreign currency deposits grew at a faster rate relative to the previous quarter but at a slower rate than that of the comparable quarter of 2004 (see **Figure 1.3**). The acceleration in the rate of growth during the review quarter was consistent with the trend observed for each March quarter of the last five years. As regards the previous March quarters, the increase in foreign currency deposits was associated with bouts of instability in the foreign exchange market, due to a waning of domestic market confidence prior to the budget presentation in April. During the review quarter, however, the stability maintained in the foreign exchange market resulted in the lowest quarterly growth in foreign currency deposits for a March quarter since 1998. The increase for the review quarter brought the growth to 7.8 per cent in FY2004/05 relative to 28.6 per cent during FY2003/04. As a result, the ratio of foreign currency deposits to total private sector deposits was 31.2 per cent at end March 2005, relative to 31.1 per cent at end December 2004 and 32.0 per cent at end March 2004 (see Figure 1.4). Despite the increase in foreign currency deposits, M3* declined by 0.2 per cent in the March 2005 quarter relative to increases of 5.4

Figure 1.4
Foreign Currency Deposits to Total Deposits
March 2003 to 2005

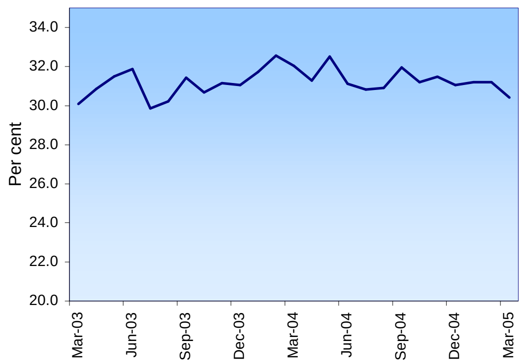


Figure 1.5
Money multiplier
(Annual Trend)
March 2000 to 2005

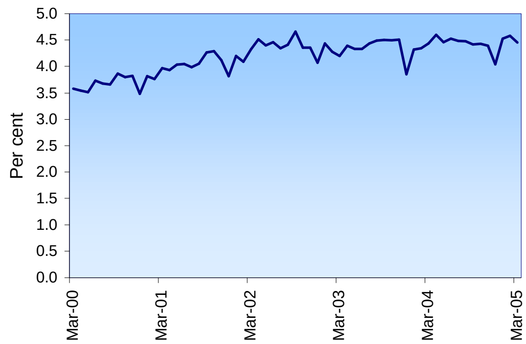


Table 1.4

COMPONENTS OF THE MONEY MULTIPLIER			
	Mar-04	**Dec-04**	**Mar-05**
	%	**%**	**%**
Currency to Deposits	14.73	17.17	15.02
Reserves to Deposits	11.15	11.86	11.56
Excess Reserves to Deposits	*3.22*	*3.93*	*3.46*
Cash Reserves to Deposits	*7.94*	*7.94*	*8.10*

per cent in the previous quarter and 4.6 per cent during the March 2004 quarter. The decrease during the review quarter was largely due to the significant slowdown in the growth of local currency deposits. For FY2004/05, M3* increased by 11.0 per cent relative to 20.6 per cent during FY2003/04. This was largely reflected in the significant deceleration in the growth in foreign currency deposits for the fiscal year.

The money multiplier was **4.33** at end March 2005, relative to **4.04** at end December 2004 and **4.43** at end March 2004 (see **Figure 1.5**). During the review quarter, the increase in the money multiplier was largely reflected in decreases in the currency to deposits ratio and the excess reserves to deposits ratio (see **Table 1.4**). The decline in the excess reserves to deposits ratio was lower than expected, largely due to commercial banks' maintenance of abnormally high vault cash holdings, particularly in the second half of March 2005. For FY2004/05, the trend in the money multiplier was a reflection of the Bank's ability to effectively control money supply given the maintenance of more stable domestic market conditions in the fiscal year relative to previous years.

Notwithstanding the lower than anticipated reduction in money supply for the review quarter, relative stability was maintained in the financial markets. This stability enhanced the Bank's ability to ease policy on two occasions during the quarter. Further, investors' expectation of lower interest rates in the June 2005 quarter bodes well for increased investor confidence for FY2005/06.

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

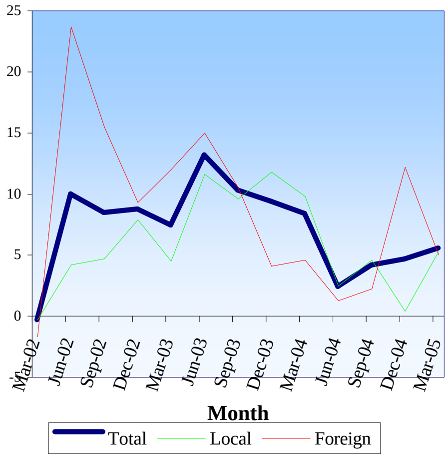


Table 1.5

Commercial Bank Distribution of Total Credit to the Private Sector (Quarterly Flows)			
	Mar-04	Prov. Dec-04	Prov. Mar-05
Total Private Sector Credit.	5 920.8	3 637.5	4 600.2
Loans and Advances	4 098.6	2 844.2	4 986.9
Other Investments and Private Debentures	1 822.2	793.3	-386.7

Private Sector Credit

During the March 2005 quarter, private sector credit expanded by 5.2 per cent surpassing the target outlined in the monetary programme. **Transport, Storage & Communication** and **Professional & Other Services** recorded the largest share of the increase. Loans denominated in local and foreign currency expanded by approximately the same rate during the review period, in contrast to the December 2004 quarter when the expansion in foreign currency loans outpaced its domestic counterpart. A decline in the overall weighted average loan rate was recorded in the review period. For FY2004/05, private sector credit recorded an overall growth rate of 16.3 per cent relative to 46.0 per cent in FY 2003/04.

Private sector credit continued to expand during the March 2005 quarter in the context of relative stability within the macro-economy and further reductions in interest rates. The stock of private sector credit at end March 2005 was $92 865.2 million, representing an expansion of 5.2 per cent for the review quarter, relative to the increase of 4.4 per cent in the previous quarter and 8.0 per cent during the March 2004 quarter. The increase in credit for the review quarter surpassed the 2.3 per cent target outlined in the monetary programme.

This outturn for the March 2005 quarter brought the increase in credit for FY2004/05 to 16.3 per cent which was higher than the targeted 11.9 per cent. This result was significantly lower than the extraordinary 46.5 per cent increase in credit for FY2003/04, when the expansion in credit was attributed to several large projects and was primarily reflected in **Personal Loans** and within the **Tourism** sub-sector.

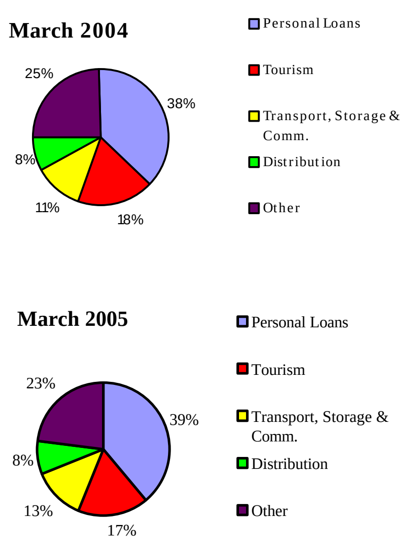
Table 1.6

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

	Mar-04	Dec-04	Mar-05
Agriculture & Fishing	368.7	-80.7	500.6
Mining & Quarrying	-257.4	26.6	-18.2
Manufacturing	-74.4	544.7	588.4
Construction & Land Development	1 740.1	-2 328.4	204.7
Transport, Storage & Comm.	-907.6	549.7	2 452.7
Tourism	1 561.7	1 924.0	-459.6
Distribution	-977.1	376.4	276.9
Professional & Other Services	560.1	99.6	765.5
Personal Loans	1 888.6	1 813.2	715.8
Electricity	68.7	22.5	-48.8
Entertainment	127.3	-100.0	10.0
Overseas Residents	-0.1	-3.6	-1.0
TOTAL	**4 098.6**	**2 844.2**	**4 986.9**

Figure 1.6

ectoral Distribution of Commercial Bank Loans & Advances to the Private Sector
Per Cent of Outstanding Stock
March 2004 & March 2005



The overall growth in private sector credit during the review quarter largely reflected loans denominated in local currency, which accounted for 66.4 per cent of the increase. This compares with a relatively slow rate of growth during the December 2004 quarter (see **Figure 1.5**). Simultaneously, growth in foreign currency lending decelerated to 5.0 per cent during the review period vis-à-vis a sharp increase of 12.2 per cent in the previous quarter.

Within private sector credit, the expansion of $4 986.9 million in loans and advances was largely concentrated in loans to **Transport, Storage & Communication.** Loans to this sector were largely foreign currency denominated and the expansion of 28.1 per cent for the review period was largely utilized by the main indigenous air carrier and a major telecommunications firm. **Professional & Other Services** also recorded significant growth during the review period expanding by 12.4 per cent (see **Table 1.6**). Despite a slowdown in growth in **Personal Loans** during the review quarter, this category continued to account for the largest proportion of outstanding loan balances (see **Figure 1.6**). **Tourism** recorded net repayments during the review period following significant credit growth in the previous quarter and comparable period of 2004.

Against the background of sustained foreign exchange market stability, foreign currency loans continued to record growth during the review quarter, albeit at a slower rate than the previous quarter. **Transport, Storage & Communication** was the chief recipient of foreign currency loans during the review quarter (see **Table 1.7**). This was closely followed by increases of 34.8 per cent and 13.9 per cent in **Professional & Other Services** and **Manufacturing**, respectively. Despite marginal growth recorded during the review quarter, **Tourism** continued to account for the largest proportion of outstanding foreign currency loans (see **Figure 1.7**). All other sectors recorded growth in credit or remained flat except for **Personal Loans** and **Electricity, Gas and Water** which recorded net repayments during the quarter. The proportion of foreign currency loans to total loans at end March 2005 was 35.5 per cent, the same share at end December 2004. However, this ratio was marginally higher than the 33.8 per cent outturn at end March 2004.

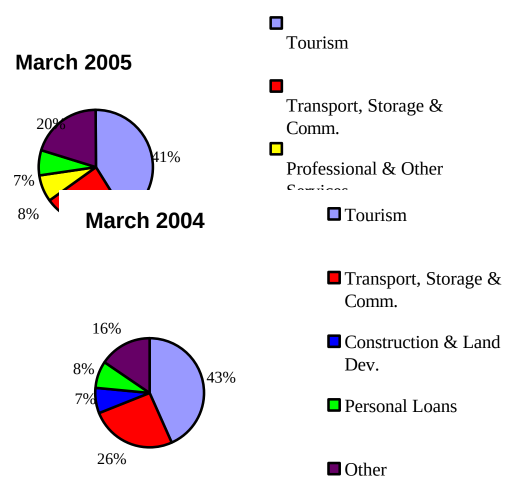
Table 1.7

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

	Mar-04	Dec-04	Mar-05
griculture & Fishing	0.1	-0.1	1.6
Iining & Quarrying	-4.7	0.0	0.0
Ianufacturing	1.7	10.1	4.0
onstruction & Land Dev.	-4.8	0.0	0.5
ransport, Storage & Comm.	9.6	7.9	12.1
lectricity, Gas & Water	0.0	0.0	-0.3
istribution	4.8	3.3	0.4
ourism	8.7	26.2	0.3
ntertainment	1.8	-0.1	0.0
rofessional & Other Services	-0.5	2.8	11.1
ersonal Loans	-1.1	5.5	-4.0
verseas Residents	0.0	0.0	0.0
OTAL	**15.7**	**55.7**	**25.7**

Figure 1.7

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



Interest Rates

The weighted average loan rate continued its downward trajectory in the context of favourable market conditions. At end February 2005, the overall weighted average loan rate on private and public sector loans was 17.56, representing a decline of 16 basis points relative to end December 2004 and 161 basis points when compared to the rate observed at end February 2004 (see **Table 1.8**). The decline in the weighted average rate during the review period was reflected in reductions in the rates on both public sector loans and private sector loans, which declined by 17 basis points and 11 basis points, respectively.

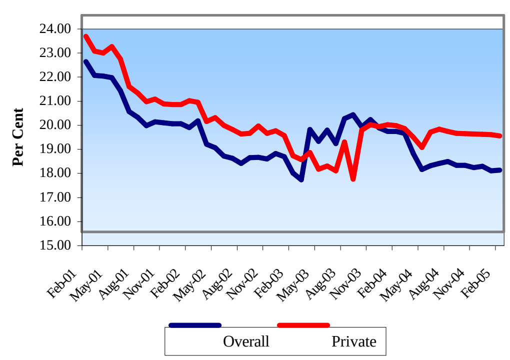
The reduction in the weighted average loan rate on public sector loans during the review period was reflected in a 81 basis points decrease in the rate charged on loans to **Central Government** as loans to **Local Government & Other Public Entities** increased slightly by 15 basis points. The rate observed at end February 2005 was 488 basis points below that observed at end February 2004, reflecting a decline in the rates on both **Central Government** and **Local Government & Other Public Entities** loans.

The weighted average rate charged on domestic currency loans to the private sector continued to decline during the

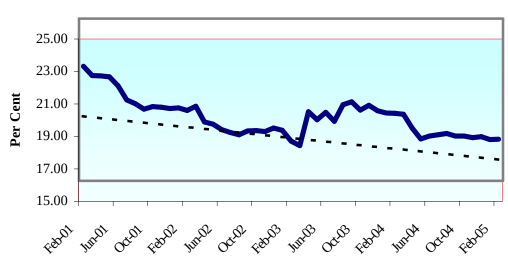
Table 1.8

Commercial Bank Domestic Currency Average Weighted Lending Rates by Loan Type Per Cent			
	Feb-04	**Dec-04**	**Feb-05**
Overall	**19.17**	**17.72**	**17.56**
Public Sector	18.54	13.83	13.66
Local Govt. & Other Public Ent.	16.20	11.63	11.78
Central Government	22.95	18.27	17.46
Private Sector	19.41	19.10	18.99
Instalment	24.15	23.86	24.00
Mortgage	21.09	20.16	19.91
Personal	30.03	30.19	30.29
Commercial	15.35	14.13	14.17

Figure 1.8
Commercial Banks' Weighted Average Loan



Rate
February 2001 to February 2005



review period. The decrease in the rate over the two-month period ended February 2005 was led by a 25 basis point reduction in the rate charged on **Mortgage** loans. There was a 42 basis point reduction for the 12 month period ended February 2005 which was reflected in reductions in the weighted average rates charged on all categories of loans except for **Personal Loans**.

The weighted average rate on foreign currency loans increased to 9.14 per cent at end February 2005 relative to 9.13 per cent at end December 2004 and 8.85 per cent at end February 2004. This increase vis-à-vis the comparable period of 2004 was reflected in the rates charged on **Personal Loans** and **Commercial Loans** which rose by 59 basis points and 53 basis points, respectively. This increase in the rate charged on foreign currency credit occurred in the context of rising US interest rates.

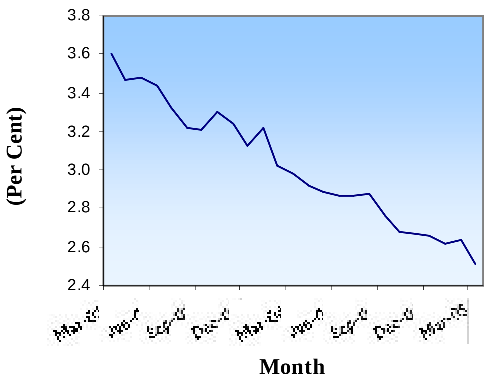
Performance Indicators

The assets of the commercial banks have increasingly shifted in favour of private sector credit. The ratio of private sector credit to total assets at end March 2005 increased to 27.1 per cent vis-à-vis a 25.9 per cent observed at end December and the 24.3 per cent at end March 2004.

There was further improvement in the quality of the banks' loan portfolio as reflected in the ratio of past due loans (over three months) to total loans. At end March 2005, this ratio was 2.5 per cent relative to 2.7 per cent at end December 2004 and 3.0 per cent at end March 2004 (see **Figure 1.9**). The outturn remains well within the 10.0 per cent international benchmark and positively reflects the risk management practices of these institutions.

Figure 1.9

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



Box 1. *The BOJ Macroeconomic Stress Testing Programme and Financial Stability*

Introduction

It has been well established that financial system soundness is critical to monetary stability and vice versa. This has led to the ongoing upgrade of mechanisms by central banks to monitor the linkages between the macro-economy and banking institutions. Against this background, the BOJ has formalised a consistent framework designed to perform forward-looking numerical and expert-judgement analyses of vulnerabilities within the banking system.

The maintenance of financial stability by the Bank concerns the smooth and efficient operation of the institutions that comprise the payment system *altogether*, rather than just *individual* financial institutions. The capacity of the banking system to withstand extreme macroeconomic downturns depends critically on its financial exposure to various risk factors such as interest rate, exchange rate and inflation rate. Ultimately, the capital base of the banking system provides the basic measure of its ability to absorb large shocks.

The principal aim of this Box is to introduce the concept of macroeconomic stress testing of the banking system, as well as to present a brief synopsis of the BOJ's macro stress-testing programme.

Macroeconomic Stress Testing

Macroeconomic stress testing involves the implementation of a variety of analytical techniques to measure the broad impact of extreme but plausible shocks to key macroeconomic variables on the banking system. 'Macro' stress tests typically involve quantifying the impact of a significant movement in a single risk factor or a set of factors on the aggregate system asset-liability portfolio. Stress tests may reflect either adverse historical or hypothetical ('worst case') events, depending on the specific objective of the stress tester. For example, the stress tester may be interested in assessing the impact of 10.0 per cent depreciation of the Jamaica Dollar against the US dollar on the financial health of the banking system. This shock would increase the foreign exchange exposure (expressed in Jamaica dollars) of a bank's balance sheet if it has a negative US dollar net open position. Aside from this direct depreciation effect, potential 'indirect effects' from an increase in non-performing loans to non-US dollar earners is also taken into account.

A practical approach to assessing the banking system's ability to withstand large shocks is to compute the impact on the aggregate capital adequacy ratio (CAR). According to Banking (Capital Adequacy) Regulations (2004), a bank must maintain a minimum CAR, defined as capital base to risk-weighted assets (RWA), of 10.0 per cent. Hence, using appropriate assumptions, the stress tester must compute the quantitative impact from the depreciation on the aggregate capital of the banking system, as well as its RWA. The post-shock assessment of the re-valued aggregate system RWA relative to the systems' newly computed capital base provides an indication of the possible response of the banking system to large shocks.

The risk-bearing capacity of the banking system, in terms of capital exposure, also depends critically on the degree of inter-bank financial exposure. Hence, the application of system-wide stress tests may conceal individual bank fragilities when only aggregate data is used. As a result, macro stress testing must incorporate an assessment of the contagious influence from the potential insolvency of a single bank on its counter-party banks. The transmission of shocks from individual banks to the rest of the banking system, or 'second round' effects, occur mainly through inadequately collateralised interbank loans. In this context, macro contagion stress tests are commonly used in the second stage of the banking system macroeconomic stress testing exercise. A matrix of bilateral interbank exposures (see **Table 1**) is constructed to provide information on the exposure of each bank to every other bank in the banking system. This matrix is then used in a contagion model to compute the impact of the failure of the bank with the greatest risk of insolvency, as determined by the macro stress test (for example, bank A), on the CAR of each of the other banks.

	Bank A	Bank B	Bank C
Bank A	...	$ exposure of bank A to bank B	$ exposure of bank A to bank C
Bank B	$ exposure of bank B to bank A	...	$ exposure of bank B to bank C
Bank C	$ exposure of bank C to bank A	$ exposure of bank C to bank B	...

Table 1. Matrix of Interbank Exposures

If other banks become insolvent as a result of bank A being unable to repay its interbank debts, then another round of computation is done to determine the impact on the CARs of the remaining solvent banks, and so on.

The BOJ Macro-Financial Model

The use of a macroeconomic model is essential to provide an internally consistent and forward-looking assessment of banking system stability. Changes in macroeconomic risk factors are typically correlated. As a result, shocks to various risk factors are generally assessed altogether in a single 'scenario' stress test. For instance, a sharp depreciation in the exchange rate can trigger a corresponding increase in interest rates, which would provide an additional channel for the exchange rate shock on the banks' balance sheets. In contrast to a single factor stress test, the use of a model that captures the interrelation among different risk factors allows for the computation of scenarios based on this simultaneous movement in risk factors.

To conduct effective multi-factor analyses, the BOJ constructed the Macro-Financial Model to provide quantitative baseline forecasts, as well as to estimate the impact of alternative 'scenarios' on banking system soundness. The baseline forecasts depend on assumptions about future movements in key macroeconomic variables (ie. risk factors) that are linked directly to the quarterly quantitative targets from the Bank's Macroeconomic Programme. These key variables include real GDP, six-month real Treasury Bill rate, inflation rate, monetary base, exchange rate, NIR, current account of the balance of payments and the fiscal balance. Model parameters are derived using historical macroeconomic and financial statement data, which includes episodes of banking system stress. The Model generates four-quarter-ahead projections of key prudential ratios at the beginning of each fiscal year and is updated on a quarterly basis.

In contrast to the forecasts, the macroeconomic stress test 'scenarios' are informed by the stress-tester's judgement regarding possible extreme macroeconomic events that could occur within one year. In the first stage of the macroeconomic stress test, the set of scenario outcomes is juxtaposed with the Model's baseline forecasts to assess the extent of the deviation. The main indicator of stability is the ability of the banks' capital to cover losses consequent on the scenario-based shocks, while still fulfilling the current 10.0 per cent minimum prudential CAR.

Limitations of Macroeconomic Stress Testing

An obvious limitation of macroeconomic stress testing is that the choice of scenarios, assumptions and framework are dependent on subjective, albeit expert, judgement. Given this element of subjectivity, macroeconomic stress testing procedures can only provide a rough assessment of the probable responses of banks to the stress test scenario. In other words, stress test scenarios will only contribute to estimating the magnitude of the losses and not their probability of occurring. As a consequence, the results from macroeconomic stress testing must be interpreted with caution.

Conclusion

Banks are encouraged to incorporate macroeconomic stress testing into their risk management framework. Given that individual banks possess the most accurate knowledge of their operations, they will have more confidence in stress test results if they conduct the stress tests themselves. Consequently, banks should make more informed decisions regarding their special risk exposure to potential macroeconomic developments. This will facilitate greater preparation if the particular macroeconomic shock used in the stress test occurs.

Bond Market

Generally favourable conditions in the Jamaican economy continued to support declining interest rates in the domestic bond market. During the quarter, the BOJ reduced interest rates on its open-market instruments on two occasions. Similarly, the Government was able to strategically issue new debt of longer maturity and at lower interest rates. In the private money market, highly concentrated liquidity led to instances of significant interest rate volatility, particularly in interbank lending. Internationally, GOJ global bonds performed well in secondary market trading for most of the quarter.

Domestic interest rates continue to decline.

During the March quarter, the domestic bond market continued to benefit from positive developments in the Jamaican economy. Adequate supply of foreign currency inflows and improving macroeconomic conditions engendered stability in the foreign exchange markets. These factors facilitated the continued downward trend in domestic interest rates during the quarter, as evidenced by the BOJ's two rate reductions on its open-market instruments and the Government's aggressive pricing of new offers to the market. In addition, there was a noticeable shift towards long-term instruments as improved confidence in the economy, coupled with anticipation of further declines in interest rates, prompted investors to lock in at current rates.

Table 1.8

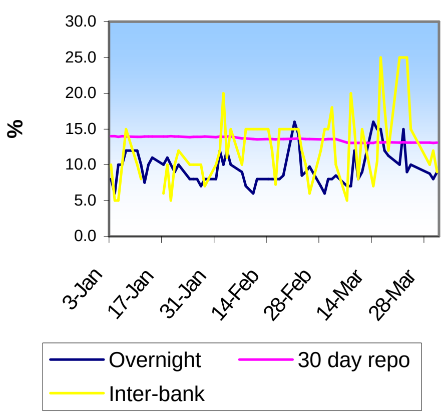
Placements and Maturities* in BOJ OMO Instruments January – March 2005

	Maturities (%)	Placements (%)
30 Days	47.1	39.4
60 Days	6.1	2.3
90 Days	9.0	7.0
120 Days	2.5	2.4
180 Days	4.3	4.5
270 Days	3.6	6.0
365 Days	27.4	38.4

**Excludes overnight transactions during the period*

Buoyant Jamaica Dollar liquidity during the quarter led to strong placements in the BOJ's open-market instruments, net absorbing $12 805.5 million. Most net issues occurred in January and reflected re-absorption of liquidity arising from seasonal currency issues during December. Placements during the quarter were concentrated at the two ends of the spectrum, with investments in the 30-day and 365-day instruments each accounting for approximately 40.0 per cent of total subscriptions. In contrast, there were maturities in these tenors of 47.1 per cent and 27.4 per cent, respectively (See **Table 1.8**). This outturn was reflective of an overall shift towards longer maturities, underscoring growing investor confidence and the expectation of further reductions in interest rates.

Figure 1.13
Private Money Market
Maximum Interest Rates
January – March 2005



Private money market rates fluctuated widely, in contrast to the relative stability which had been observed in previous quarters. The overnight rate ranged between 6.0 per cent and 16.0 per cent, while the range in the interbank market was even wider at 5.0 to 25.0 per cent (See **Figure 1.13**). The volatility in rates reflected the liquidity effect of both Government offers to the market in February and the high demand for Jamaican Dollar liquidity to settle tax obligations in March. Consequently, interbank and overnight rates trended up in the latter half of the quarter, but normalised to 9.0 per cent by the end of March. The 30-day private repo rate, in contrast, experienced a steady decline, losing 100 basis points to close the quarter at 13.1 per cent. The change was in line with the reductions made on the Bank's OMO rates.

Table 1.9

GOJ Public Domestic Debt Raising January – March 2005

	Amount Allotted (J$MN)	Amount Maturing (J$MN)	Net Issue (J$MN)
Treasury Bills	2 150.0	1 850.0	300.0
LRS	800.0	5 245.0	-4 445.0
Investment Debenture	7 427.2	7 456.0	-28.8
Investment Bonds	8 386.9	0.0	8 386.9
US$ Indexed Bonds	0.0	2 632.6	-2 632.6
US$ Denom. Bonds	0.0	1 240.0	-1 240.0
Total	**18 764.1**	**18 423.6**	**340.5**

Investors demand long-term Government instruments.

Table 1.10

Treasury Bill Auctions & Maturities January – March 2005

Issue Date	Tenor (days)	Avg. Yield (%)	Allotment (J$MN)	Amount Maturing (J$MN)
28 Jan. 05	182	14.40	500.0	500.0
18 Feb. 05	91	13.83	300.0	
25 Feb. 05	182	13.95	400.0	400.0
11 Mar. 05	273	14.00	300.0	300.0
24 Mar. 05	183	13.46	400.0	650.0
24 Mar. 05	92	13.21	250.0	
Total			**2 150.0**	**1 850.0**

Government incremental public borrowing for the quarter amounted to $340.5 million (See **Table 1.9**). This compared favourably with net issues of $4 463.2 million in the previous quarter. The reduced presence of the Government in the domestic bond market, coupled with adequate liquidity from maturing securities, facilitated issues at progressively lower coupon rates. Hence, a fixed rate of 16.125 per cent offered on a Registered Bond in early February, was later reduced by 125 basis points to 14.875 per cent on a bond of similar terms in March (See **Appendix 8B**). Additionally, the growing confidence in the economy allowed the Government to extend the average maturity of new issues. Thus, the average tenor on offers was between four and five years, compared to an average of two years in the previous quarter.

Complementing the shift to longer-term instruments, the Government did not re-issue maturing US dollar indexed bonds and US dollar denominated bonds. This was a deliberate part of its debt strategy to reduce the foreign currency component of its domestic debt.

The stock of Treasury Bills outstanding increased by $300.0 million over the review quarter. This was attributable to the new issue of a 91-day instrument in mid-February to meet short-term financing needs (See **Table 1.10**). The paper had an average yield of 13.83 per cent, 8.0 basis points above the comparable BOJ open-market instrument at that time. The average yield on the similar tenor in the subsequent March auction declined to 13.21 per cent, in line with the BOJ rate. Interest rates on the 182-day Treasury Bill declined steadily from 14.94 per cent in December 2004 to 13.46 per cent at end March 2005. This represented an overall decline of 148 basis points for the quarter. The March auction of a 273-day Treasury Bill resulted in an average yield of 14.00 per cent, compared to

Figure 1.14
GOJ Global Bond Prices
January – March 2005

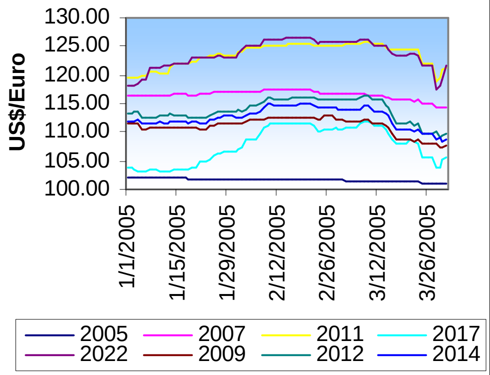


Figure 1.15
GOJ Global Bond Yields
January – March 2005

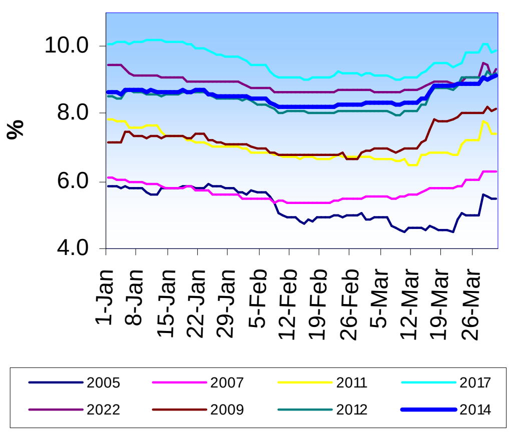
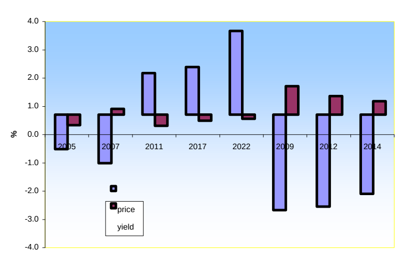


Figure 1.16
Quarterly Change



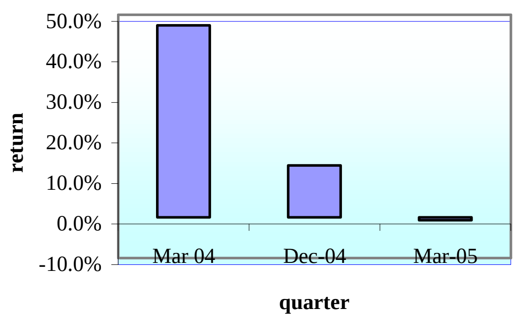
15.18 per cent on the previous 273-day auction in June 2004.

Having already satisfied its external financing requirements for the fiscal year, the Government did not approach the international capital market during the March quarter. Existing GOJ global bonds experienced strong demand in the first two months of the quarter, with prices rising as much as 7.0 per cent by the second week in February (See **Figure 1.14**). However, a general sell-off of emerging market bonds in the latter half of March precipitated a fall in prices, causing yields to rise (See **Figure 1.15**). The sell-off was prompted by international investors' fear that a continued rise in world oil prices would aggravate inflation in the United States, causing the Federal Reserve to raise interest rates at a faster pace.

For the quarter, all Euro-denominated GOJ bonds[2] experienced overall price declines of between 2.8 per cent and 3.4 per cent. The longer-term US dollar-denominated global bonds registered a small overall increase of between 1.5 per cent and 3.0 per cent (See **Figure 1.16**). With the subsequent halt in the off-loading of emerging market bonds, prices resumed their upward trend at the end of the quarter.

[2] The euro-denominated GOJ bonds are the 2009, 2012 and 2014.

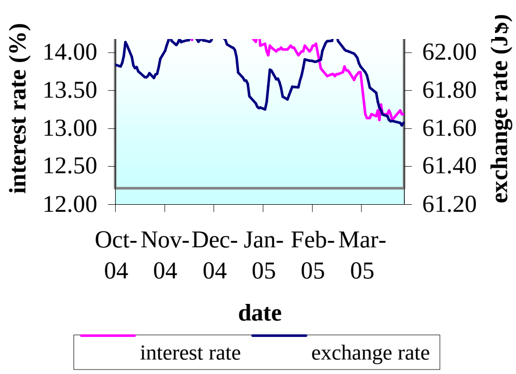
Figure 1.18
Quarterly Growth of the Main JSE Index March 2004, September 2004 and March 2005 quarters



Source: Jamaica Stock Exchange

Figure 1.19

30- Day Private Repo Rate and Exchange Rate- October 2004- March 2005



Source: Jamaica Stock Exchange

Stock Market

The stock market declined during the March 2005 quarter, despite the strong performance in January. A favourable macroeconomic environment had facilitated the gains in the market at the start of the quarter, but disappointing earnings results and lower investor confidence later in the quarter, resulted in a downturn in overall market activity.

The performance of the market in the March 2005 quarter was weaker in relation to the gains in the March and December 2004 quarters (see **Figure 1.18**). Favourable macro conditions led to robust gains in January but disappointing earnings results and the suspension of trading in the shares of Dyoll[3], led to declines in all three indices for the months of February and March. The main Jamaica Stock Exchange (JSE) Index recorded a marginal decline of 0.6 per cent while the All Jamaica Composite Index and the Jamaica Select Index increased by 4.4 per cent and 1.6 per cent, respectively.

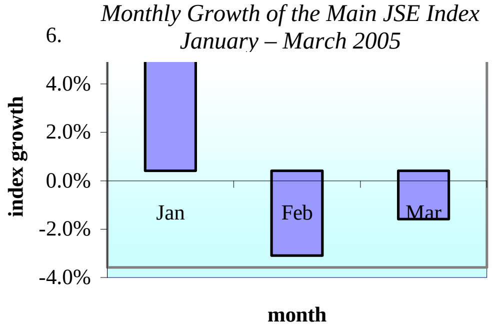
Buoyed by lower interest rates, a stable foreign exchange market (see **Figure 1.19**) as well as the opportunity presented by a number of undervalued stocks, the market began the year with very strong gains for all three indices.

[3] Speculative behaviour by equity investors in Dyoll influenced a sharp decline in the price of the stock on the JSE in February. This was triggered by rumours about the company's inability to handle the insurance claims made by its clients in Cayman for damage caused by hurricane Ivan in 2004. Trading in Dyoll's shares was suspended on February 15, 2005 because of its failure to provide material information to the JSE about the company's financial position.

The stronger demand in the market, which was supported by higher levels of liquidity, pushed the main JSE Index to 118 379.43, a gain of 5.1 per cent for the month of January (see **Figure 1.20**). The All Jamaican Composite Index and the Jamaica Select Index posted even stronger gains of 17.0 per cent and 14.7 per cent, respectively. The total number of transactions that supported this performance was 13 900, an increase of 101.0 per cent from 6 914 in the December 2004 quarter. The transactions in January represented 48.1 per cent of the total transactions that took place during the March 2005 quarter.

Figure 1.20

Monthly Growth of the Main JSE Index
January – March 2005

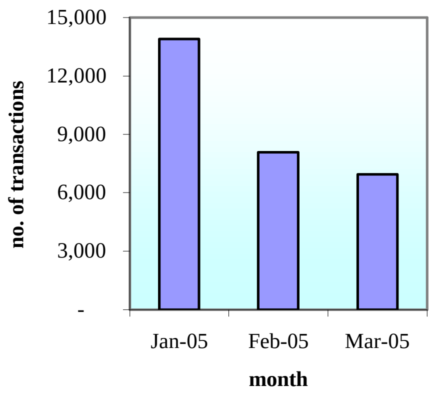


Source: Jamaica Stock Exchange

The strong gains recorded for January were not sustained in February. The release of disappointing financial results for some companies, the uncertainty that surrounded the financial health of Dyoll as well as, allegations of insider trading in this stock, adversely affected the trading activity throughout the market. The lower activity was reflected in the declines on all three indices. This took place despite another series of interest rate cuts by the BOJ.

The downward trend in equity prices continued in the last month of the quarter as only four stocks recorded price gains. Consequently, all three stock market indices declined. The performance in March was influenced by equity investors' reaction to the release of disappointing earnings results for some of the listed companies. The anticipation of the Mayberry Investments Limited Initial Public Offering (IPO) in April, also led to increased profit taking which was evidenced by the decline in the number of transactions to 6 936 in March (see **Figure 1.21**). By the end of the quarter, 21 stocks had appreciated, with the manufacturing sector dominating the list of the top ten stocks (see **Table 1.12**).

Figure 1.21
Monthly Transactions
January – March 2005



Source: Jamaica Stock Exchange

Table 1.12
Top Ten of the 21 Price Gains
March 2005 Quarter

Sectors/ Companies	Price at 31-Mar-05 $	Qtr. Change %
Conglomerates		
Lascelles	318.0	57.4
Manufacturing		
Jamaica Broilers Group	5.4	28.6
Seprod	15.25	25.5
Carib Cement	14.6	13.2
Salada	22.0	10.0
Financial		
Pan Jam	67.4	27.2
First Life	52.5	15.4
Other Services		
CMP	2.87	14.8
Ciboney	0.09	12.5
Telecommunications		
Radio Jamaica	6.00	13.2

The main stock market indices in Trinidad & Tobago and Barbados outperformed the main JSE Index. In Trinidad & Tobago, the Composite Index increased by 6.9 per cent and in Barbados, the Local Index recorded a gain of 4.1 per cent over the quarter.

The speculation surrounding the financial status of Dyoll as well as the expectation of the Mayberry Investments Limited IPO, dampened the overall activity in the stock market during the March quarter. However, these influences are anticipated to be short-lived. Once confidence in the equity market strengthens and the IPO is listed, normal trading patterns should return to the market in the June 2005 quarter, supported once more by continued macroeconomic stability.

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

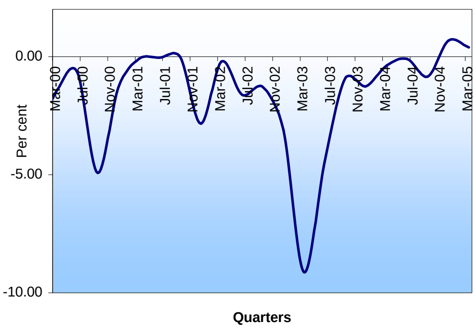
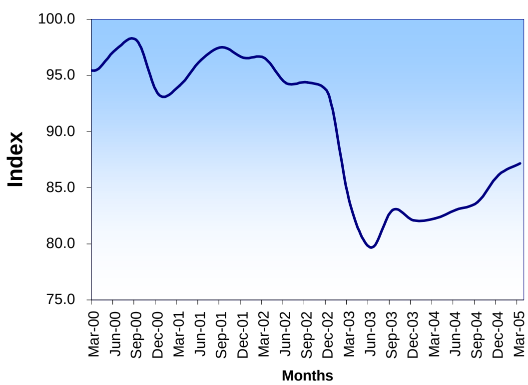


Figure 1.24
Real Effective Exchange Rate Index ***(December 1998 = 100)***



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

Foreign Exchange Market

The stability observed in the December quarter continued in the March 2005 quarter. The exchange rate appreciated by 0.1 per cent during the March 2005 quarter, relative to 0.4 per cent in the December 2004 quarter. Market conditions were influenced by strong US dollar supply, as well as increased investor confidence in macroeconomic prospects. In addition to robust growth from traditional sources, the foreign exchange market was positively affected by changes in the composition of portfolio flows associated with the re-emergence of arbitrage opportunities.

The weighted average selling rate of the US dollar vis-à-vis the Jamaica Dollar appreciated by 0.1 per cent in the March 2005 quarter, following an appreciation of 0.4 per cent in the preceding quarter (see **Figure 1.23)**. As a result, the local currency price of the US dollar was J$61.54 at end-March 2005 versus J$61.63 at end-December 2004. The movement in the exchange rate during the review quarter resulted in a depreciation of 0.9 per cent for FY2004/05, which compares favourably with respective depreciations of 7.8 per cent and 15.3 per cent recorded for FY2003/04 and FY2002/03.

Jamaica's Real Effective Exchange Rate (REER) index at March 2005 was 1.0 per cent higher than the level at December 2004, representing a marginal loss in external competitiveness (see Figure 1.24). The twelve-month point-to-point change in the REER as at March 2005 reflected a 6.1 per cent loss in competitiveness. The movement in the REER during the review quarter was influenced primarily by the combined effects of the appreciation in the local currency and an overall weakening of the US dollar against the currencies of Jamaica's main trading partners. For example, the US dollar depreciated by approximately 1.1 per cent and 1.4 per cent against the GBP

Figure 1.25
US$/Pound Sterling & USD/Euro

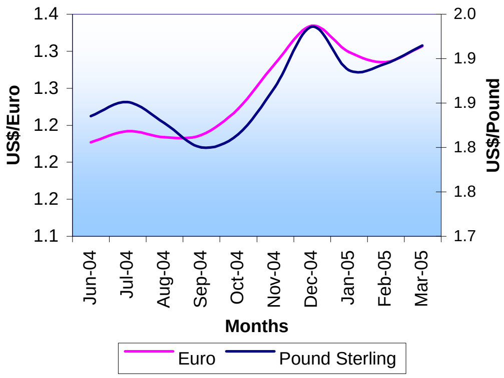
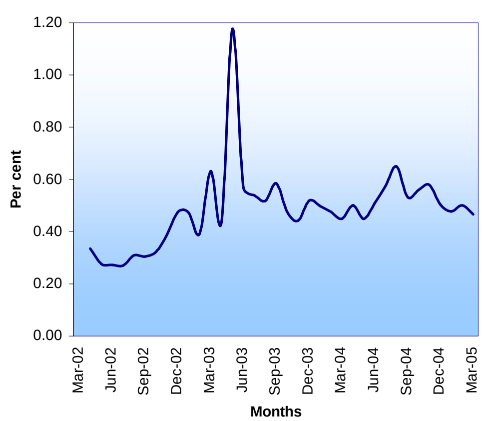


Figure 1.26
Foreign Exchange Spread as a Per Cent of Average Buying Rate

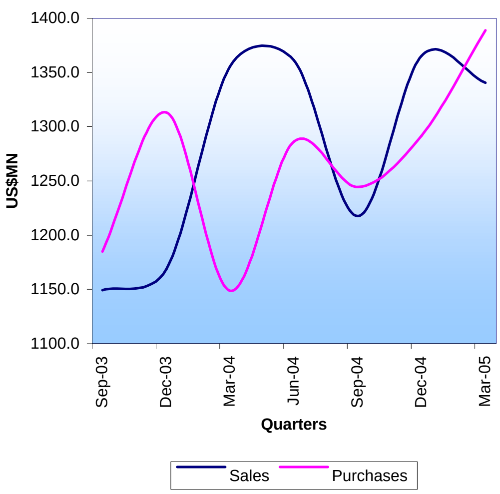


and the Euro, respectively, relative to the average rate for the previous quarter (see **Figure 1.25**).The effects of shocks to domestic inflation during the quarter were partly negated by higher prices in the economies of Jamaica's main trading partners.

Foreign exchange flows to the economy were bolstered by higher earnings from traditional sources during the March 2005 quarter, relative to the March and December 2004 quarters. Receipts from remittances and tourism were estimated to have expanded by US$46.1 million and US$33.4 million, respectively, relative to the March 2004 quarter. When compared with the December 2004 quarter, respective increases of US$61.9 million, US$43.0 million and US$2.1 million in tourism, merchandise exports and remittances were recorded. Notwithstanding the growth in inflows, the demand for foreign currency was also estimated to have increased in the review period, influenced primarily by increases of US$60.3 million and US$49.0 million in fuel imports, relative to March and December 2004 quarters, respectively.

The continued appreciation in the nominal exchange rate during the March 2005 quarter was influenced by a faster rate of growth in foreign currency supply to the market relative to demand. Total purchases of all currencies by Authorized Dealers and Cambios (excluding Central Bank intervention and inter-dealer trades) grew by 7.6 per cent, while sales declined by 1.8 per cent, relative to the December 2004 quarter. The growth in volumes purchased in the review quarter was partly underpinned by portfolio shifts associated with investors taking advantage of possible arbitrage opportunities arising from the depreciation in the US dollar against the Euro and the GBP. In this context, there was an estimated average increase of US$100.0 million in foreign currency assets of the commercial banks during the review quarter, relative to the March 2004 quarter. However, total foreign currency assets of

Figure 1.27
Foreign Currency Volumes Traded



commercial banks were marginally lower than the December 2004 quarter. The liabilities of these entities, though relatively flat when compared with the December 2004 quarter, increased by an estimated US$125.0 million in the March 2005 quarter, relative to the similar period of 2005.

The appreciation in the exchange rate was also influenced by increased business confidence, partly reflected in a slower build-up in foreign currency assets held by commercial banks, relative to liabilities. There was also a decline in the spread on foreign exchange transactions. The spread as a proportion of the buying rate declined to an average of 0.4 per cent for the March 2005 quarter from 0.5 per cent during the preceding quarter (see **Figure 1.26**).

In the context of the increased foreign exchange inflows, total volumes[4] of all currencies traded by market participants expanded to US$2 714.9 million, representing increases of 9.0 per cent and 2.7 per cent over the March and December 2004 quarters, respectively. Volumes purchased expanded by US$240.0 million to US$1 381.6 million, while volumes sold declined by a marginal US$15.2 million to US$1 333.3 million, relative to the comparable March 2004 quarter (see **Figure 1.27**). The increase in overall market activity was reflected in the operations of the *Authorized Dealers*. Total volumes traded in this segment of the market grew by 12.9 per cent to US$2 013.7 million, relative to the March 2004 quarter. This outturn reflected increases in the total volumes purchased and sold of US$125.8 million and US$104.2 million, respectively, to US$940.2 million and US$1 073.5 million in the review period. In this context, the Authorized Dealer's segment of the market net sold US$133.3 million in the review period. In contrast, activity in the *Cambio* market declined by 23.7 per

[4] Total volumes traded represent the sum of purchases and sales by market participants.

cent, as total volumes traded amounted to US$640.7 million during the period. Total volumes purchased and sold amounted to US$378.4million and US$263.3 million, respectively, relative to US456.7 million and US$383.4 million and US$356.2 million recorded for the comparable March 2004 quarter.

Given the stability in the foreign exchange market during the review quarter, BOJ's purchases from the market exceeded volumes sold by US$32.6 million. This was US$96.0 million lower than what obtained in the March 2004 quarter. Purchases[5] by the Bank amounted to US$58.5 million, US$99.2 million lower than the comparable period of 2004. BOJ sales to the market amounted to US$25.9 million, marginally below the US$28.1 million recorded in the March 2004 quarter. The NIR at end-March 2004 was US$1 901.6 million, US$43.1 million above end-December 2004 (see **Table 1.11**). This outturn compared favourably with the ISP target for March of US$1 670.0 million (see **Base Money**). Gross reserves of the BOJ stood at US$1 924.1 million at end-March, representing 17.2 weeks of estimated goods and services imports.

Table 1.11

Net International Reserves (US$MN)			
Month	Stock	One Month Change	Three Month Change
Mar-04	1568.7	94.7	403.7
Apr-04	1741.6	173.0	522.0
May-04	1715.7	-26.0	241.7
Jun-04	1604.1	-111.6	35.4
Jul-04	1594.7	-9.4	-146.9
Aug-04	1643.5	48.8	-72.2
Sep-04	1616.5	-26.9	12.4
Oct-04	1826.6	210.1	231.9
Nov-04	1816.0	-10.6	172.6
Dec-04	1858.5	42.5	242.0
Jan-05	1847.5	-11.0	20.9
Feb-05	1831.0	-16.5	15.0
Mar-05	1901.6	70.5	43.1

[5] Market purchases exclude surrenders and Government loan proceeds.

Box 2. *Foreign Exchange Reserve Adequacy: Concept & Indicators*

Introduction

Some emerging market economies, particularly those in south East Asia, have experienced fairly strong foreign exchange reserve accumulation following the financial crises of the late 1990s. This occurred in a context of significant improvements in the current account positions of the constituent countries as well as a return to normalcy of capital flows in the wake of the crisis[6]. It also reflected the view of the authorities that reserves should be adequate to meet unexpected eventualities. The experience of some Latin American countries also point to the necessity to hold adequate reserves to mitigate the impact of shocks. Moreover, holdings of foreign exchange reserves have become a very important signalling device in the context of the debt crisis and the increased use of commercial financing by developing countries over the last decade. More recently, Jamaica has been subject to various economic and natural shocks and has become increasingly exposed to the international financial markets, which has pointed to the need for some reserve buffer. Against this background, this box aims to explore the factors that are usually taken into account in determining what constitutes an adequate level of foreign exchange reserves for a country at any point in time.

Foreign Exchange Reserves – Definition and Rationale

Foreign exchange reserves consist of external assets that are readily available to and controlled by the monetary authorities of a country[7]. They are usually composed of foreign exchange assets (currency, deposits and investment securities), monetary gold, SDR's, a country's reserve position at the IMF, among other things.

Central banks hold foreign currency reserves for a variety of purposes, chief among which is to finance payment imbalances between the domestic economy and the rest of the world. This motive can be translated into more specific purposes such as the management of the foreign exchange system, to engender investor confidence and to safeguard against the effects of economic shocks. In respect of the management of the foreign exchange system, countries that operate a fixed exchange rate regime require reserves to ensure that the central bank can maintain the prescribed exchange rate. Countries that operate a managed float often use their reserves to

[6] For a discussion of these developments see Robert Flood and Nancy Marion, "Holding international reserves in an era of high capital mobility" IMF Working Paper No. 02/62, April 1, 2002.

[7] IMF Balance of Payments Manual, Fifth edition.

facilitate orderly adjustments in the exchange rate[8]. The presence of an adequate level of foreign reserves engenders investor confidence, given that it underpins a country's ability to repay its foreign currency obligations when they become due. In addition, when a country's access to external borrowing or its foreign exchange earning capability is impaired, reserves can be used as a temporary source of foreign exchange liquidity.

Despite the benefit of holding foreign exchange reserves, the acquisition and maintenance of reserves imposes a cost on the economy. For each dollar of reserve asset that is acquired by the central bank, it must decide whether it will re-absorb the liquidity that it creates when it pays for the reserves, or allow an increase in money supply that, in turn, will ultimately lead to a rise in inflation. Both of these options are costly for the economy. In the case where the Bank has reabsorb the liquidity, the cost of reserve accumulation is higher, the higher are interest rates on the central bank's liabilities, relative to the interest rates earned on its reserve holdings.

Factors Underpinning Reserve Adequacy

Foreign exchange reserves can be likened to the amount of insurance cover that a country may wish to have, given that it is really a safe guard against eventualities. The cost of holding reserves may therefore be likened to an insurance premium. Given the costs associated with accumulating and holding reserves, the Central Bank must then determine the amount of insurance that the country must have, subject to this amount being affordable.

What then defines an adequate level of reserves? In its simplest form, the "adequate" level of reserves is that which the public, including the international financial community, believes to be sufficient at a point in time. Central banks, however, consider a range of factors when determining an appropriate level of reserves. In the first place, reserves should be sufficient to finance the purchase of necessary imports of goods and services and to maintain financial market stability in the event of a natural disaster. *A relevant measure of reserve adequacy in this context is the import cover benchmark, which considers an adequate level of reserves to be equivalent to 12 weeks of projected imports of goods and services.* Despite its simplistic nature, the import cover criterion has become a standard international guide for determining reserve adequacy.

It is also prudent for the central bank to maintain reserves sufficient to cover short-term external debt as well as, long-term external debt that will mature in the near term. This is to ensure that adequate foreign exchange is available for sale to the economy in the event

[8] Theoretically, there is no need for a country to hold reserves if the exchange rate system is purely market determined -- "*free float*". Any disequilibrium between demand and supply will precipitate a change in the exchange rate, which, in theory, will then restore balance between the two.

that agents, including the government, are unable to refinance their maturing debt on the international capital market. *A reserve level equivalent to one year's debt payments is generally considered adequate, and this is captured by a desired ratio of reserves to external debt (short-term and currently maturing long term) of unity*.

A potential drain on a country's reserves is capital flight. If an adverse event occurs that erodes confidence, investors may opt to convert their domestic currency assets into foreign currency assets. Foreign currency assets held in domestic banks may also be shifted to external banks. Beyond the impact of isolated events, the risk of capital flight grows if the general environment within a country is perceived negatively. Environmental risks include the level of external debt, extent of macroeconomic stability, the strength of the domestic banking sector, political and institutional factors which may inhibit access to financing markets, a country's susceptibility to external shocks and its need for external financing. The ratings of international agencies can also have a significant impact on investors' actions.

Given the possibility of capital flight from both domestic and foreign currency denominated assets, reserves should also be held to finance the possible demand for foreign exchange arising from this flight. In the case of capital flight from the domestic currency, the level of reserves required to cope with such an eventuality should be equal to the proportion of the domestic money supply that is likely to be mobilised in the short term. For foreign currency capital flight from domestic banks, the need for reserves is related to the extent that banks hold liquid foreign currency assets, relative to their foreign currency deposits. The more liquid are banks' foreign currency assets, the less need there will be for official reserves.

There is currently no accepted international benchmark for holding reserves against the risk of capital flight. In practice, however, central banks compute the risk of capital flight as a fraction of some measure of broad money supply, including foreign currency deposits. This fraction is usually determined by appealing to historical information as well as factoring in a measure of country risk.

Finally, it should be noted that given the importance of investors' perception in determining reserve adequacy, a level of reserves that may be considered adequate or excessive during a period of stability, may be considered inadequate during periods of instability in the economy.

2. Real Sector Developments

Table 2.1

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

Leading indicators of economic performance suggest a marginal expansion in Gross Domestic Product (GDP) for the March 2005 quarter as drought conditions hampered the recovery process in agriculture. As such, there was a decline in the goods producing sectors despite a substantial increase in construction activities (see ***Table 2.1****). Services continued to drive growth within the economy led primarily by the tourist industry.*

With respect to aggregate demand, the expansion in the economy reflected increases in ***Net External Demand*** *and* ***Private Consumption*** *partially offset by declines in* ***Public Consumption*** and ***Gross Capital Formation***.

Aggregate Supply

It is estimated that the Jamaican economy grew marginally during the March 2005 quarter. There were notable expansions in the ***Miscellaneous Services***, ***Construction*** and to a lesser extent ***Mining & Quarrying***, largely driven by investments and favourable external demand. Further, the stable macroeconomic conditions facilitated continued growth in ***Manufacturing***, ***Financing & Insurance***, ***Real Estate & Business Services,*** as well as ***Distributive Trade***. The impact, however, was largely offset by a significant decline in ***Agriculture*** as the drought conditions retarded the post Hurricane Ivan recovery process.

Marginal growth due to severe drought conditions

Agriculture is estimated to have registered a significant decline in the review quarter. The impact of the drought conditions on the sector was exacerbated by bushfires

Figure 2.1
Trends in Domestic Crop Production
(12-Month change)
Source: Ministry of Agriculture, Bank of Jamaica

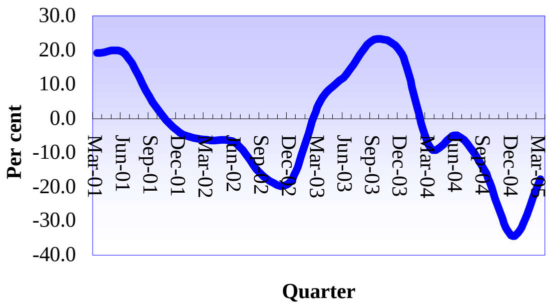
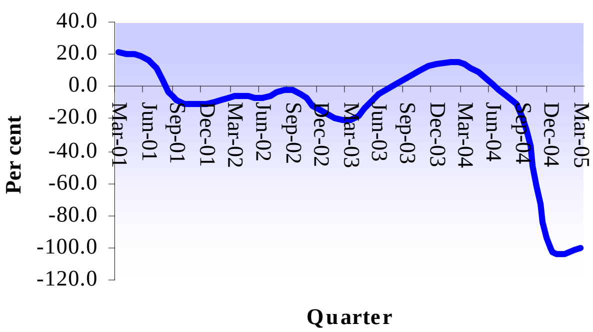


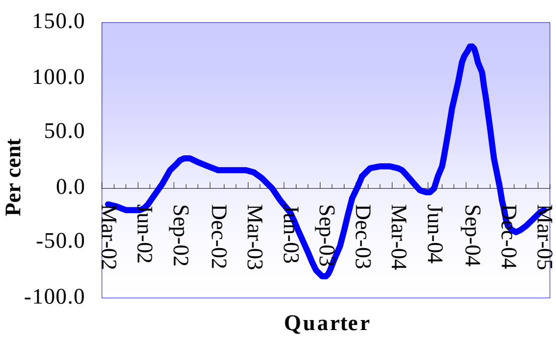
Figure 2.2
Trends in Banana Exports
(12-Month change)



Source: Banana Export Company

Figure 2.3
Trends in Sugar Cane Milled

(12-Month change)



Source: Sugar Corporation of Jamaica

that occurred in St. Elizabeth, which affected approximately 17.1 per cent of total production[9] or 880.0 hectares of agricultural land.

For the quarter, domestic agriculture is estimated to have declined by 25.0 per cent (see **Figure 2.1**). This estimated decline is twice the contraction recorded in the comparable period of 2004. Similar to domestic agriculture, export agriculture is estimated to have contracted during the review quarter. The major exports crops such as banana (see **Figure 2.2**), citrus and coffee did not fully recover from the impact of Hurricane Ivan. A decline in sugar cane production of approximately 31.9 per cent partially reflected the impact of an industrial dispute that occurred during the harvesting period (see **Figure 2.3**).

Mining is estimated to have grown below trend for the review quarter. With the exception of the decline in the September 2004 quarter due to the negative impact of Hurricane Ivan, there has been continued growth within the sector. Both crude bauxite and alumina production are estimated to have increased by 12.2 per cent and 0.5 per cent, respectively, relative to the corresponding quarter of 2004 (see **Figure 2.4** and **Figure 2.5**). Notably, capacity utilisation increased in the bauxite industry to 96.8 per cent, relative to a capacity utilisation of 85.6 per cent in the March 2004 quarter.

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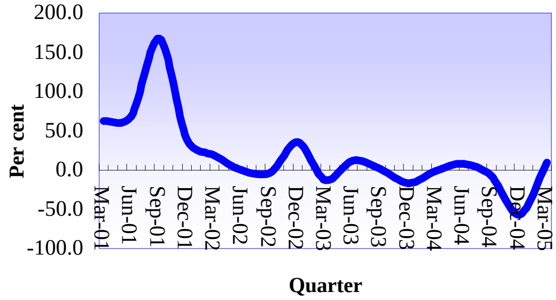
[9] Based on data at the December 2004 from the Rural Agriculture Development Agency

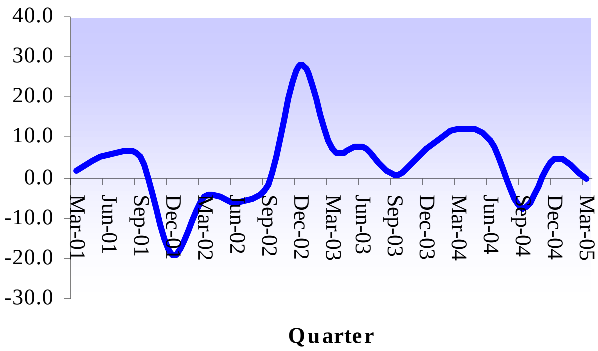
Figure 2.4
Trends in Crude Bauxite Production



(12-Month change)

Source: Jamaica Bauxite Institute

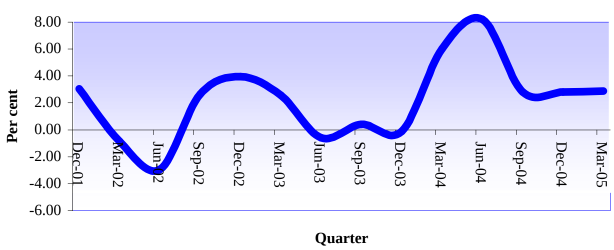
Figure 2.5
Trends in Alumina Production



(12-Month change)

Source: Jamaica Bauxite Institute

Figure 2.6



Manufacturing: Quarterly Growth Rate
(12-Month change)
Source: STATIN, Bank of Jamaica

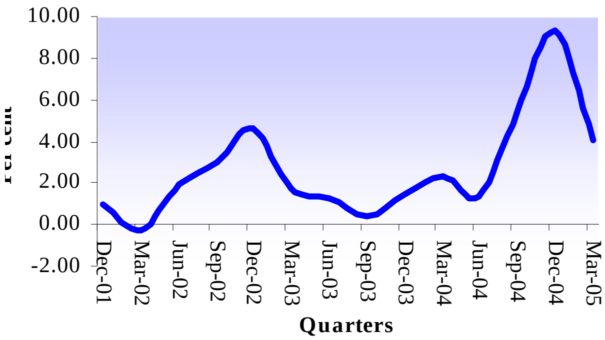
Indicators for ***Manufacturing*** imply an expansion for the review period, representing a continuation of the growth trend that began in the first quarter of 2004 (see **Figure 2.6**). This improvement emanated from the *food, beverages & tobacco* as *'other manufacturing'* is estimated to have contracted marginally. The lower growth within the sector relative to the comparable quarter of 2004 was associated with the closure of the oil refinery in the quarter and the decline in the textiles industry.

For the review period, it is estimated that expansion in ***Construction & Installation*** was above the average growth of 2.1 per cent for the June 2002 to December 2004 period (see **Figure 2.7**). The main indicators of activities in the sector, cement sales and production increased by 8.6 per cent and 8.5 per cent, respectively. The importation of construction material is also estimated to have expanded by 57.0 per cent. This expansion is consistent with roadwork and hotel construction.

Electricity & Water is estimated to have expanded marginally during the review period. This expansion was influenced by an estimated increase of 2.4 per cent in electricity generation (see **Figure 2.8**). However, for the quarter electricity sales declined by 2.8 per cent influenced by lower demand from some industrial customers.

The marginal growth estimated for ***Transport, Storage & Communication*** was in line with the average growth of 0.8 per cent for the March 2004 to December 2004 quarter. Expansion in *storage* and *communication* were the main drivers of growth, as economic activity within *transport* remained flat.

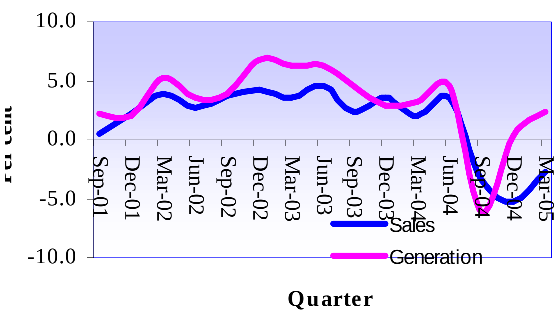
Figure 2.7



Construction: Quarterly Growth Rate
(12-Month change)

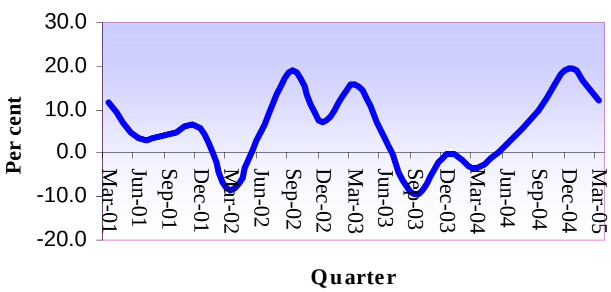
Source: STATIN, Bank of Jamaica

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



Source: JPS & Bank of Jamaica

Figure 2.9



Merchandise Imports
12-Month change)

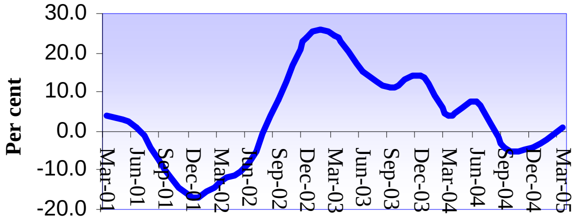
Source: STATIN; Bank of Jamaica

Distributive Trade, which accounts for approximately 22.0 per cent of GDP is estimated to have grown in line with the average growth of 1.0 per cent for the June 2002 to December 2004 period. Growth in this sector was inferred from a real estimated expansion of 12.1 per cent in merchandise imports (see **Figure 2.9**). However, an estimated decline of 12.4 per cent in consumption tax receipts suggested that the expansion in the sector could have been tempered.

Indicators of activities in ***Miscellaneous Services*** suggest strong growth in the sector relative to the similar period of 2004. This expansion was attributable to increased activity in the tourist industry. There was an increase of 7.3 per cent in visitor arrivals influenced by Spring Break, local celebrations, as well as international meetings that were held during the quarter. Additionally, the depreciation of the US dollar vis-à-vis the Euro and the Pound Sterling during the quarter enhanced the price competitiveness of the product. In that context, an increase of 7.7 per cent in visitor expenditure was estimated in the review quarter relative to the similar period last year. There was however a decline of 5.8 per cent in cruise passenger arrivals for the quarter, which resulted in an overall increase of 0.8 per cent in total visitor arrivals for the quarter (**see Figure 2.10** and **Figure 2.11**).

Figure 2.10

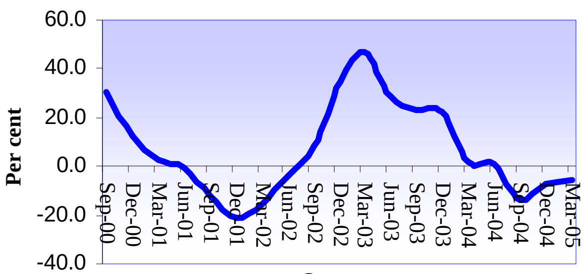
Visitor Arrivals
(12-Month change)



Source: Jamaica Tourist Board; Bank of Jamaica

Figure 2.11

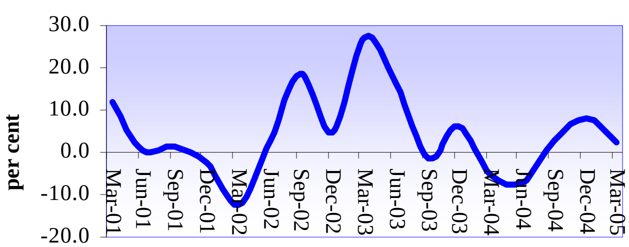
Cruise Passenger Arrivals
(12-Month change)



Source: Jamaica Tourist Board; Bank of Jamaica

Figure 2.12

Trends in Total Imports
(12-Month change)



Source: STATIN; Bank of Jamaica

Aggregate Demand

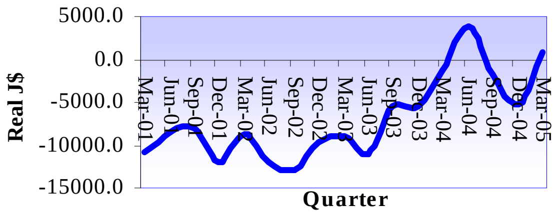
Indicators of demand for the March 2005 quarter suggest that ***Private Consumption, Gross Capital Formation*** and ***Net External Demand*** increased during the review period. Offsetting influences during the quarter came from ***Public Consumption***.

The growth in ***private consumption*** for the review period was inferred from an estimated expansion of 68.9 per cent in domestic credit card receivables and a 2.2 per cent increase in imports of goods and services (see **Figure 2.12**). Supporting the expansion in private consumption was the improvement in consumer confidence reported during the quarter. Information from the Jamaica Conference Board indicated that there was a 9.3 per cent increase in consumer confidence relative to the corresponding period of 2004. Notwithstanding, there was a decline of 12.4 per cent in the local General Consumption Tax (GCT) & Special Consumption Tax (SCT) receipts.

With respect to ***Net External Demand***, there was an estimated increase during the review period, compared to the corresponding quarter of 2004 (**see Figure 2.13**). Export of goods and services was estimated to have improved by 2.4 per cent in real terms, which was complemented by a decline of 2.6 per cent in imports of goods and services. The expansion in net services during the review period was due primarily to travel services.

For the March 2005 quarter, ***Gross Fixed Capital Formation*** is estimated to have grown relative to the corresponding period of 2004. This expansion was inferred from increases of 306.4 per cent and 9.7 per cent

Figure 2.13
Trends in Net External Demand



Source: STATIN; Bank of Jamaica

Figure 2.14
Trends in Capital Goods Imports
(12-Month change)
Source: STATIN; Bank of Jamaica

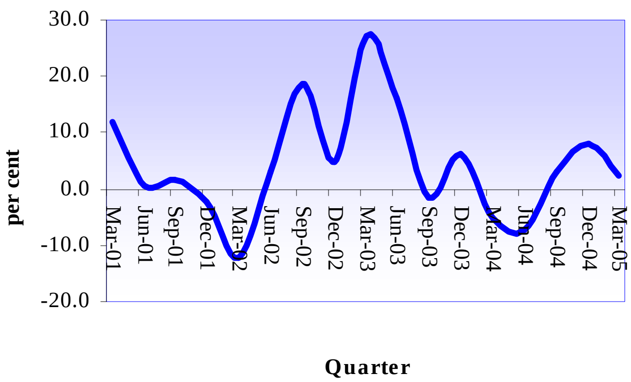


Figure 2.15
Trends in Government's Wage Expenditure

(12-Month change)

Source: STATIN; Bank of Jamaica

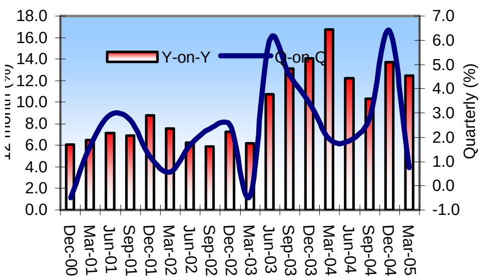
in Government's capital expenditure and production and consumption tax, respectively. However, the estimate of strong growth in investment spending was not supported by the estimated decline in capital goods imports during the quarter (see **Figure 2.14**).

The contraction in ***public consumption*** expenditure was influenced by an estimated real decline of approximately 3.1 per cent in Government's expenditure on wages and salaries (see **Figure 2.15**). The decline in spending on wages & salaries was against the background of the Memorandum of Understanding between public sector workers and the Government. There was a partially offsetting increase in programmes, which reflected higher recurrent expenses as well as expenditures that were postponed earlier in the year (**See Appendix A: Fiscal Developments**).

3. Inflation

The inflation rate for the March 2005 quarter was 1.4 per cent, in line with expectations of a normalization relative to the December quarter. Nevertheless, the outturn was above the Bank's forecast. The increase in the Consumer Price Index (CPI) in the quarter largely reflected higher that anticipated international commodity and agricultural prices, as well as, administrative price adjustments. The CPI was flat in January but increased by 0.4 per cent and 1.0 per cent in February and March, respectively. On a regional basis, the Other Towns and Rural Areas experienced higher rates of inflation relative to the rate in the Kingston Metropolitan Area (KMA). Core inflation in the quarter was estimated at 1.1 per cent, similar to the corresponding quarter of 2003/04. For the fiscal year, headline inflation was 13.2 per cent, 3.6 percentage points below the rate recorded in 2003/04, while Core inflation was estimated at 5.2 per cent for FY 2004/05, relative to 7.9 per cent for 2003/04.

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



All indicators of domestic price movements in the March quarter moderated relative to the December quarter. Headline inflation reflected the sharpest adjustment followed by Core inflation and CPI without Agriculture, the main measures of underlying inflation. Despite the tempering, the inflation outturn for the quarter was 1.4 per cent, higher than the average of 1.0 per cent for the previous five March quarters. Drought conditions, bushfires, administrative price adjustments, as well as higher international commodity prices were the primary influences on inflation in the March quarter. The CPI was unchanged in January but increased by 0.4 per cent and 1.0 per cent in February and March, respectively. On the basis of seasonal trends, it was anticipated that the quarter would have reflected a sharper decline relative to the December quarter. However, this expectation did not materialize due to the adverse weather conditions on agriculture.

Figure 3.2
Core Inflation per Quarter

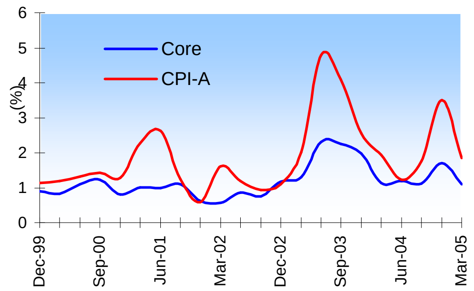


Figure 3.3
2- Mth lagged Base Money & Core

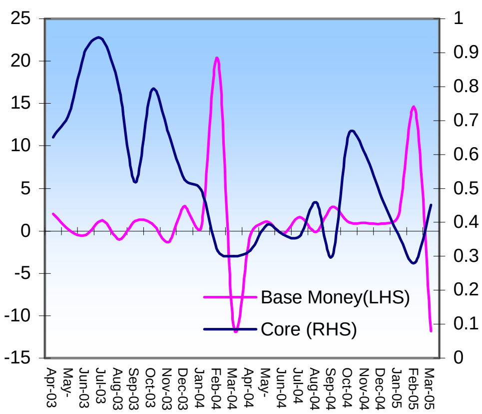
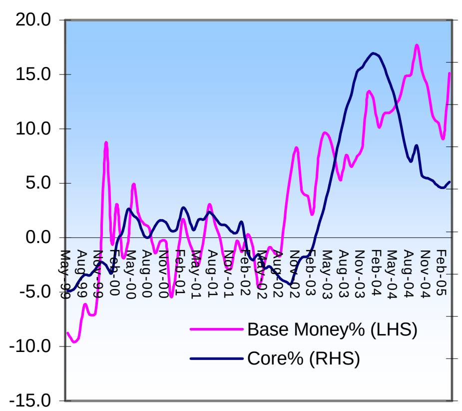


Figure 3.4
12- Mth % Change in Average Base Money and Core Inflation



Inflation for the fiscal year was 13.2 per cent, 3.6 percentage points below the FY 2003/04. Most of the fiscal year inflation was concentrated in the December quarter due to the impact of Hurricane Ivan. Prior to the hurricane, annual point-to-point inflation was on a trajectory to attain single digit having fallen from 16.8 per cent at end-March to 10.5 per cent at end-September. The quarterly inflation rates in FY 2004/05 were 1.9 per cent for the June quarter, 2.9 per cent for the September quarter, 6.4 per cent for the December quarter and 1.4 per cent for the March quarter.

Monetary Policy and Inflation

Core or underlying inflation, as measured by the trimmed mean index, was 1.1 per cent for the review quarter, relative to 1.7 per cent for the previous quarter and 1.1 per cent for the corresponding quarter of FY2003/04. For January, underlying inflation was estimated at 0.4 per cent, moderated to 0.3 per cent for February, but rose to 0.5 per cent for March. The normalization in core inflation for the quarter follows the temporary increase during the previous quarter.

Another measure of underlying inflation, the CPI without Agriculture (CPI-A), also reflected moderation. The CPI-A index increased by 1.8 per cent for the March quarter relative to 3.5 per cent for the December 2004 quarter (see **Figure 3.2**).

The moderation in underlying inflation was consistent with the Bank's management of base money in the previous quarter. At end-December 2004, the monetary base increased by 11.2 per cent, on a point-to-point basis, relative to 17.7 per cent for September 2004 and 13.3 per cent for December 2003, suggesting that abstracting from the seasonal upturn, underlying monetary conditions were normal. The strong influence of the lagged impact of base money on core inflation is depicted in Figure 3.4. Additionally, the reduction in core inflation is consistent with the

Figure 3.5a
Food & Non-Food Inflation (Quarterly)

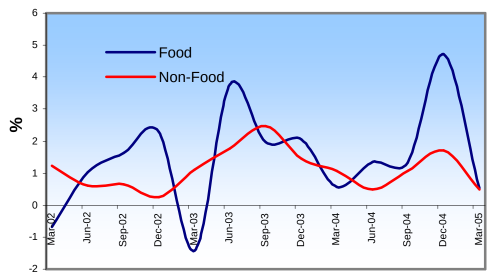


Figure 3.5b
Food & Non-Food Inflation (Annual)

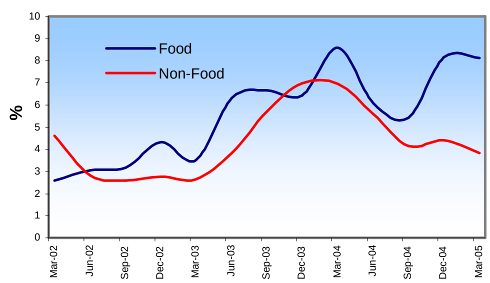
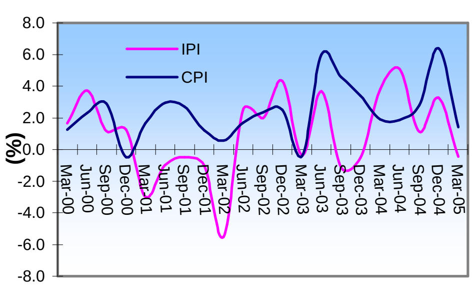


Figure 3.6
Lagged Import Price Index & Inflation (Quarterly)



stability in the foreign exchange market in the preceding quarter (see **Foreign Exchange Market**).

Non-Monetary Factors

The main non-monetary impulses to inflation were largely related to shocks in agricultural supply exacerbated by weather conditions, supply constraints for some domestic food items and increases in international commodity prices.

Supply Conditions

Agricultural production did not rebound in the March quarter as was anticipated (see **Real Sector),** as supplies were affected by the worsening drought conditions. A comparison of average price movements for the past five March quarters revealed that the average decline for the **Starchy Foods *and* Vegetables & Fruits** sub-groups was 5.1 per cent and 6.0 per cent, respectively. Starchy Foods prices, however, increased over the review quarter by 7.3 per cent while vegetables and fruits prices declined by 17.5 per cent. Consequently, the rate of increase of both food and non-food indices on a quarterly basis were similar (see Figure 3.5a). On an annual basis, however, inflation from food was 8.1 per cent, relative to 3.8 per cent for non-food commodities **(**see **Figure 3.5b).**

Input Costs

Despite increases in oil production during the quarter by the Organization of Petroleum Exporting Countries (OPEC), the price rose on the international commodity markets. This increase was in response to concerns about the ability of OPEC to increase production even further given continuing high demand from China and India. Colder-than-expected weather in the Northern Hemisphere and some speculation on the international commodity markets also added positive impetus to oil prices.

Figure 3.7
Quarterly Chg. in Fuel Index & WTI

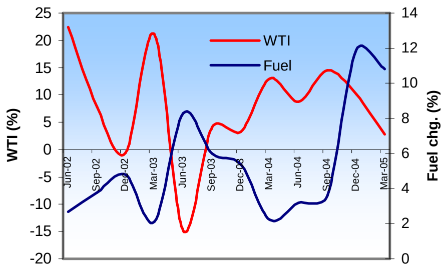


Figure 3.8
Average Oil Price Movements (US) per barrel

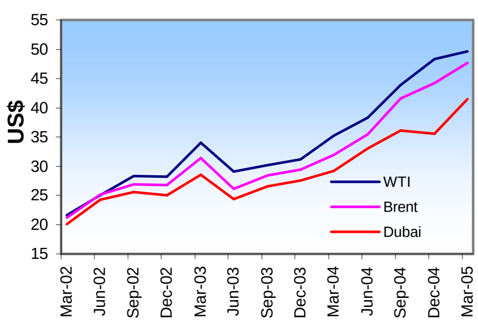
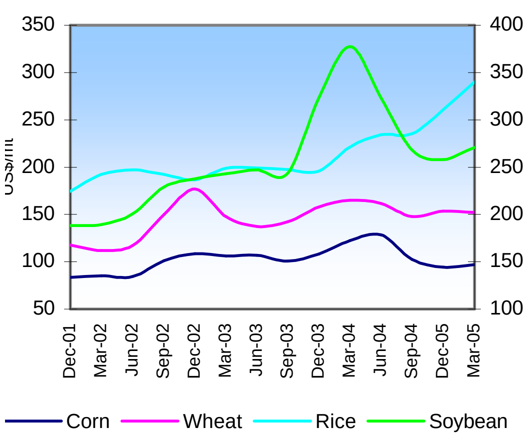


Figure 3.9
Grains Price Movements

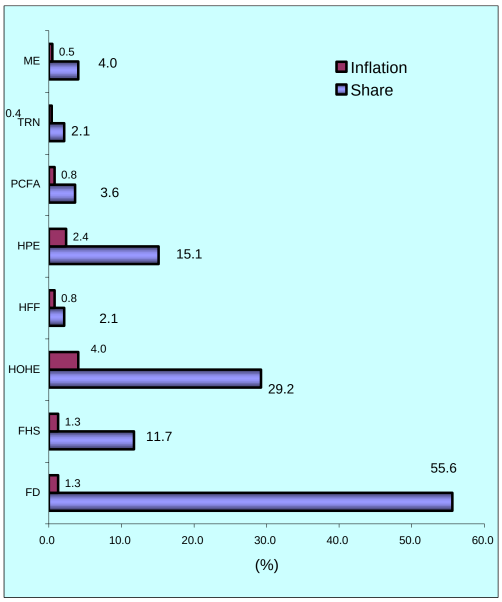


The benchmark West Texas Intermediate (WTI) crude oil price rose to an average of US$49.65 per barrel for the March quarter, from an average of US$48.31 per barrel for the December quarter. The average prices per barrel for January, February and March were US$46.82, US$47.96 and US$54.17, respectively. A new nominal record for oil prices of US$58.28 per barrel was set in March. The WTI crude oil price rose by 10.1 per cent during the review quarter, relative to 14.5 per cent for the preceding quarter (see **Figure 3.7**). The movement in the WTI was reflected in the Bank's Fuel Index, which increased by 10.8 per cent for the March 2005 quarter (see **Figure 3.6**).

International grains and edible oil prices strengthened in the March quarter on the world market with a noticeable impact on domestic inflation. Mixed movements in grains prices in the previous quarter became more clear-cut with all the major grains prices reflecting upward movements. Most noticeable were rice and soybean prices, which increased 11.3 per cent and 5.0 per cent, respectively (see **Figure 3.8**). Corn and wheat prices reflected respective increases of 2.7 per cent and 1.0 per cent. Edible oils such as coconut, groundnut and palm kernel oils registered price increases of 2.4 per cent, 2.0 per cent and 1.4 per cent, respectively, and added impetus to the Dairy Products, Oils & Fats sub-group.

The slow down in domestic price increases in the March quarter partly reflected lower imported inflation in the December quarter. Imported prices as measured by an import index, declined by 0.4 per cent in the December quarter, relative to an increase of 3.3 per cent in the September quarter, primarily reflecting the stronger increase in oil prices.

Figure 3.10
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

Component Contribution to Inflation

Given the dominant influence of agricultural supply and international oil prices, **Food & Drink**, and **Housing & Other Housing Expenses** together accounted for 84.8 per cent of the inflation in the review period (see Figure 3.9), compared to a combined weight in the basket of 63.5 per cent. Other significant inflationary impulses were manifested in **Healthcare & Personal Expenses** and **Fuels & Other Household Supplies**.

Within **Food & Drink,** the main impulses emanated from expansions of 3.9 per cent, 7.3 per cent and 3.3 per cent in *Meat, Poultry & Fish*, *Starchy Foods* and *Dairy Products, Oils & Fats*, respectively. The movement in *Meat, Poultry & Fish* was mainly due to increases in the prices of beef and beef products, stemming from increased prices on the international market and shortages locally. In particular, local merchants were faced with increasing prices from their Argentinean and Brazilian suppliers. This is corroborated by international beef prices, which increased steadily during the quarter. There was also increased demand from the tourism sector as this sector has recorded strong growth over the previous year.

The *Starchy Foods* sub-group, which increased by 7.3 per cent during the quarter, was affected by the drought, as the production of crops was on track for significant recovery by March. In particular, the index of starchy foods prices declined in February, but rose again in March, impacted by the dry conditions which reduced yields and output.

The sub-index **Housing & Other Housing Expenses** primarily reflected the impact of international energy price increases, which fed into the fuel charges of the Jamaica Public Service Company. Additionally, the sub-index was influenced by the 20.0 per cent increase in the minimum wage level. Increased energy prices also affected the water rate. In addition, there was an upward water rate adjustment to take account of increases in the CPI, which were deferred for a year. **Healthcare & Personal Expenses** mainly reflected increases in medical practitioners' fees, hospital fees and the cost of medicaments.

The impetus in **Fuels & Other Household Supplies** was largely from the impact of higher international oil prices, which affected the prices of fuels such as kerosene and liquid petroleum gas (LPG). There was however, some normalization in *Household Supplies* subsequent to the adverse impact of the hurricane. Chief amongst these was the reduction in the price of a block of ice by approximately 56.0 per cent over the quarter.

Figure 3.11
Regional Inflation

Regional Inflation

The strongest price impulse was observed in **Rural Areas,** which was twice that of **Kingston Metropolitan Area** (**KMA). Other Towns** and **Rural Areas** recorded inflation of 1.6 per cent and 2.0 per cent (see **Table 2B in Appendix C**). The dominant factors were most evident in **Food & Drink** and **Fuels**. **Food & Drink** reflected generally stronger impulses for **Other Towns** and **Rural Areas**, while **Fuels** experienced a 10.1 per cent increase in the **Rural Areas** related to increases of 11.5 per cent and 7.4 per cent in the price of kerosene and charcoal, respectively. The outturn for the regions in the March quarter reflected a pattern observed over the last three quarters. For the fiscal year, prices increased by 16.0 per cent for **Rural Areas**, 14.2 per cent for **Other Towns** and 11.5 per cent for **KMA.**

4. Economic Outlook and Monetary Policy Perspectives

Table 4.1

Jamaica: Selected Economic Indicators

	Target for FY05/06
Inflation (% change)	9.0 – 10.0
Base Money (% change)	14.0
NIR End Period (US$mn)	1930.0
GDP (12-mth % chg.)	3.0 – 4.0

Economic prospects for FY2005/06 are favourablegivent the background of declining inflation, lower interest rates, stable financial markets, strong foreign reserves and heightened investor confidence. However, critical to the outlook for the year is the achievement of balanced fiscal budget and a return to single digit inflation. Increasing international interest rates and uncertainty in the global market for crude oil also pose additional risks.

For the June 2005 quarter, economic growth is expected to strengthen. Inflation is expected to be seasonally higher than the March quarter, influenced predominantly by lower food supplies, higher crude oil prices and Government's revenue measures. However, the current environment of relative exchange rate stability should serve to moderate any additional impulses.

The economy is expected to expand at a faster pace in FY2005/06 relative to the previous year when growth was affected by natural disasters. As such, growth will be influenced by economic recovery as well as, significant foreign direct investment underpinned by macroeconomic stability and favourable external demand.

In the global economy, while growth for 2005 is forecasted to moderate relative to 2004, the IMF projection of 4.3 per cent[10] is still significantly above the historical trend. Among the industrialized countries, the anticipated expansion will continue to be led by the United States, Jamaica's main trading partner,

[10] IMF World Economic Outlook, April 2005

Table 4.2

International Prices of Selected Commodities**		2004	2005	%chge*
Export Commodities				
Cocoa	c/kg	155.0	162.0	4.5
Coffee arabica	c/kg	177.4	198.4	11.8
Coffee, robusta	c/kg	79.3	88.2	11.2
Bananas	$/mt	524.6	460.0	-12.3
Sugar, world	c/kg	15.8	19.0	20.3
Aluminum	$/mt	1715.5	1990.0	16.0
Import Commodities				
Coconut oil	$/mt	660.8	600.0	-9.2
Soybean oil	$/mt	616.0	525.0	-14.8
Maize	$/mt	111.8	100.0	-10.6
Rice, Thailand, 5%	$/mt	237.7	250.0	5.2
Soybeans	$/mt	306.5	240.0	-21.7
Sorghum	$/mt	109.8	100.0	-8.9
Wheat, US, HRW	$/mt	156.9	145.0	-7.6
Raw materials index		105.8	104.3	-1.4

*** Source: World Bank Commodity Forecast*

which is expected to grow at or above trend, driven by strong domestic demand. For the emerging market economies, China's economic momentum remains very strong despite attempts to slow the economy.

Continued buoyancy in the world economy augurs well for an expansion in Jamaica's export sectors. It is expected that the strong economic growth in China will keep metal demand strong, which is beneficial to Jamaica's bauxite/alumina industry. In addition, growth among the industrialized economies, particularly the United States, bodes well for tourism, transportation and non-traditional exports. The expected expansion in the global economy should also raise the prices of some of Jamaica's main exports such as bauxite, alumina and coffee (**See Table 4.2**).

Overshadowing this global growth outlook however, are concerns about the impact of further increases in the price of crude oil and the trade and fiscal deficits in the USA. Concerns about the trend in oil prices were heightened after the significant inflation outturn in the United States and the United Kingdom in the March 2005 quarter. The global economy is also faced with an expected rise in international interest rates. These developments could affect global growth prospects by dampening demand.

The projection for non-oil commodities in 2005 is for a moderation in prices relative to 2004. In particular, grain prices, with the exception of rice, are anticipated to fall. The world price of rice continues to be affected by intervention by the Thai government to maintain high prices for the commodity. Adequate global supplies given record harvests in the USA and Europe are expected to influence lower corn and wheat prices.

In the domestic economy, growth is expected to be driven by expansion in five main areas: mining, tourism, construction, communications and distribution. The prospects are enhanced by the continued relative stability in the financial markets, characterized by a relatively stable exchange rate and lower interest rates. These developments, as well as continued fiscal prudence should sustain investor confidence. Against this background, growth for the fiscal year is projected in the range of **3.0 per cent to 4.0 percent**.

The inflation target for FY2005/06 is in the range of **9.0 to 10.0 per cent**. This projection is underpinned primarily by the expectation of continued stability in the foreign exchange market, an important anchor for inflationary expectations in a small open economy such as Jamaica. The moderation in the world prices of non-oil commodities should aid in the easing of domestic inflation given that these commodities are inputs for consumer food items which form an important part of the CPI basket. The programmed reduction in the growth of the monetary base should contain core inflation in the range of **4.0 to 5.0 per cent** for the year.

The attainment of the inflation target is not without risk given the continuing uncertainty surrounding crude oil prices on the world market. However, expectations are that oil prices will not increase as much in 2005. Average oil prices for the year as measured by the West Texas Intermediate prices are expected to increase by 17.3 per cent relative to the 43.4 per cent increase in fiscal year 2004/05.

Short-Term Outlook – June 2005 Quarter

Growth in the June 2005 quarter is anticipated in both the goods and services sectors. With the exception of agriculture, all sub-sectors are projected to expand, with significant contribution from ***mining, manufacturing, construction* and *financial*** and ***miscellaneous services***. Improvement in *mining* continues to be buoyed by strong world demand for aluminium while the potential for increased supply is influenced by capacity expansion and efficiency gains in the bauxite/alumina industry. Projections for the production of bauxite and alumina are for respective increases of approximately 10.0 per cent and 1.0 per cent relative to June 2004 quarter.

Construction is expected to continue the remarkable growth trend established over the past three quarters when the sector expanded on average by 5.3 per cent. The sector's performance will depend primarily on the continuation of the Highway 2000 and the Innercity Housing projects, as well as the expansion of the cement company and the commencement of infrastructure works associated with Cricket World Cup 2007. ***Manufacturing*** is anticipated to achieve its sixth consecutive quarter of growth emanating primarily from expansion in alcoholic and non-alcoholic beverages, as well as the production of sugar and cement.

Distribution is anticipated to expand against the background of projected growth in the good producing sectors of the economy, particularly, manufacturing and construction. ***Financial services*** should expand relative to the corresponding quarter of 2004 when the sector declined by 1.6 per cent. The optimism for growth is also supported by the increases in private credit and the recent trend in interest rates.

A positive outturn is anticipated in miscellaneous services on account of the expectations for the tourism sector. The rate of growth for the sector, however, is expected to be significantly lower than the 8.8 per cent recorded in the June 2004 quarter. This lower growth is anticipated due in part to lower expectation for the tourism subsector against the background of the shifting in the Easter Holidays into the March 2005 quarter. However, growth is predicated mainly on recent trend in visitor arrivals which may be influenced by higher incomes in the main source markets. Additionally, indications based on forward bookings for May and June suggests an increase over the corresponding period in 2004.

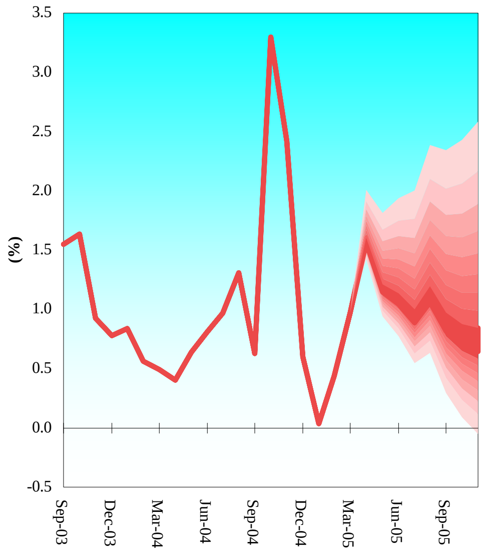
Agriculture is expected to decline in the June 2005 quarter due mainly to the reduction in the export agriculture subsector. With the exception of sugar cane production, the export agricultural sector continues to suffer from the devastation caused by Hurricane Ivan. The domestic agriculture component is expected to reflect some recovery relative to the June 2004 quarter despite recent drought conditions and fires in some agricultural areas.

Inflation

Inflation in the June 2005 quarter is projected to increase relative to the previous quarter and the June 2004 quarter. The higher inflation will be driven primarily by higher domestic agricultural commodity prices, increases in crude oil prices and impulses arising from revenue measures from the recent budget presentation. Seasonally lower agricultural supplies, as well as the recent drought experienced in critical sections of the Island should adversely affect domestic agricultural commodity prices. Additionally, the reported destruction of crops by fire will continue to exert upward pressure on prices. The expected lower agricultural supplies should adversely affect the *Food & Drinks* subcategory, particularly *Vegetables & Fruits*, *Starchy Foods* and *Meals Away From Home*.

Figure 4.1

Monthly Inflation Forecast



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

The situation in the global crude oil market remains uncertain. With the winter in the northern hemisphere officially over, movement in crude oil prices will be influenced by expectations about gasoline inventories in the USA ahead of the summer driving period. While inventory levels in the USA at end-March 2005 were approximately 6.0 per cent higher than levels recorded at the corresponding date in 2004, there are still lingering concerns regarding adequate supply. The near-term outlook is for oil prices to remain relatively high, ranging between an average of US$52.00 to US$55.00 per barrel. The impact of oil price movement should be reflected in a rise in the indexes of *Fuels, Transportation* and *Housing & Other Housing Expenses*.

Revenue measures announced in April will provide some impulses to inflation in the June 2005 quarter. Adjustment in the Special Consumption Tax (SCT) will result higher cigarette prices reflected in an increase in the *Miscellaneous Expenses* subcategory. Additionally, adjustment in the General Consumption Tax (GCT), particularly on construction material, will impact the *Housing & Other Housing Expenses* subcategory.

The relative stability in the foreign exchange market is expected to continue in the June 2005 quarter. Given the relative stability in the market over the past two quarters, the transmission of exchange rate changes to domestic prices is not expected to be significant. As such the main challenges will emanate from the adjustment in the tax regime, the uncertainty in crude oil prices and the extended period of reduced agriculture supply. This implies that the risk to the forecast is on the upside **(**see **Figure 4.1**).

Monetary Policy

For fiscal year 2005/06 much of the challenge will continue to be aimed at continued reduction in inflation and interest rates. Continued inflows from export earnings, foreign direct investment and private transfers are anticipated to provide sufficient resources to maintain a relatively stable foreign exchange market. Most importantly, this will induce confidence in the economy and the local currency and reduce speculative activities.

In such an environment the Bank will remain committed to the medium term objectives of monetary stability, which will foster further economic growth and an easing of the public debt burden. Monetary policy will continue to operate through the management of the monetary base given its proven efficiency in limiting inflationary impulses. For FY2005/06, monetary programme envisages growth in base money of 14.0 per cent, which represents a deceleration relative to the 15.1 per cent, recorded in the previous year. This target assumes a stable income velocity of money and multiplier and real growth within a range of 3 to 4 per cent. This should be supported by a contraction in government demand. However, some risk may arise from an increase in international interest rates and concerns about the narrowing of spreads currently enjoyed by holders of Jamaica dollar financial assets.

Appendices

A. Fiscal Developments: January to March 2005

Central Government operations in the March 2005 quarter generated a surplus of $2 433.0 million, 0.4 per cent of GDP, relative to the revised target of $4 706.3 million, 0.9 per cent of GDP. The deviation from target was due to higher than programmed expenditure as well as, lower than programmed revenues. Consequently, the *current surplus* was 0.8 per cent of GDP, which was lower than the target of 1.4 per cent. Concurrently, the *primary surplus* of 4.0 per cent of GDP was below the target of 4.6 per cent, reflecting higher than programmed non-interest expenditure as well as, the shortfall in revenues.

Total revenues were 2.1 per cent below target reflecting the underperformance of grants and tax revenues, which were partly offset by buoyant non-tax and capital revenues. The shortfall in grant flows during the quarter reflected the early receipt of funds from the European Union (EU) in December and the non-receipt of other flows from various donors anticipated in the March quarter. The underperformance of tax revenues during the quarter was largely influenced by significant deviation in receipts from tax on interest income. Non-tax revenues were generally buoyant despite the fact that receipts from the Customs User Fee were marginally below target. Capital revenues were influenced by the receipt of extraordinary flows, which included loan repayments from the Development Bank of Jamaica.

Total expenditure was 2.0 per cent above budget for the March 2005 quarter reflecting higher than targeted capital expenditure, which was partially offset by the containment of recurrent expenditure. The 45.2 per cent increase in capital expenditure relative to target was driven by unprogrammed allocations, including post-hurricane rehabilitation, the provision of support to Air Jamaica as well as, a contribution to the cost associated with hosting World Cup 2007. The containment of recurrent expenditure was driven by lower than budgeted interest payments.

For FY 2004/05, Central Government incurred a deficit (excluding divestment) of $28 147.6 million, 5.1 per cent of GDP, somewhat above the targeted deficit of $26 332.2 million (4.7 per cent of GDP). The deviation from the target reflects a shortfall in revenues, which declined following Hurricane Ivan in September. However, expenditure was marginally below target. Consequently, the *current deficit* of 3.9 per cent of GDP was above the target of 3.3 per cent. Concurrently, the *primary surplus* of 11.7 per cent of GDP was below the target of 12.2 per cent, reflecting the underperformance in revenue as well as, higher than budgeted non-interest expenditure.

Total revenue for the fiscal year was 0.6 per cent below the target but was 15.0 per cent above the FY 2003/04 level. The deviation in revenues relative to target reflected shortfalls in all categories except capital and non-tax revenues. Grants were 29.4 per cent below budget, reflecting the non-receipt of flows programmed for the March quarter. Tax revenues were slightly below target but were 14.8 per cent above that of the previous fiscal year. Non-tax revenues were above target by 20.0 per cent, largely due to the performance during the March quarter.

Expenditure was consistent with target reflecting containment in recurrent expenditure, which was partially offset by higher than targeted capital expenditure. The containment of recurrent expenditure was largely due to below budget spending on domestic and foreign interest payments. Lower interest payment on foreign debt could be attributed to a less than anticipated depreciation of the Jamaica Dollar as well as lower than projected interest rates. The containment of domestic interest expenditure was due to lower than projected domestic borrowing in a context of Government's acquisition of funds on the international financial market being above budget. Expenditure was 11.7 per cent higher than that for FY 2003/04, reflecting increases in all categories.

During the fiscal year, Government secured financing through the public offer of securities as well as, private arrangements with financial institutions, consistent with its debt strategy. With respect to foreign financing, the Government raised US$555.0 million on the international capital market, which was supplemented by project loans. Divestment proceeds amounting to $1 259.4 million also assisted the Government in meeting its financing needs during the fiscal year. These included proceeds from the sale of Government's remaining holdings in the Renaissance Jamaica Grande Hotel and Island Life Insurance Company.

Fiscal Performance
Comparative Analysis
J$ Million

	Q4	Revised Budget Q4	Variance	FY 2004/05	Revised Budget FY 2004/05	Variance
Revenue and Grants	**50302.80**	**51381.60**	**-1078.80**	**171340.20**	**173503.33**	**-2163.13**
Tax Revenue	43253.20	44803.90	-1550.70	150481.60	153398.16	-2916.56
Non-tax Revenue	3169.30	2512.40	656.90	9824.50	9498.00	326.50
Bauxite Levy	577.40	729.30	-151.90	2479.10	2650.17	-171.07
Capital Revenue	3246.50	655.80	2590.70	4533.80 **	2262.50	2271.30
Grants	56.40	2680.20	-2623.80	4021.20	5694.50	-1673.30
Expenditure	**47869.80**	**46675.30**	**1194.50**	**199487.80**	**199835.48**	**-347.68**
Recurrent Expenditure*	42892.10	43119.40	-227.30	188382.00	189567.28	-1185.28
Capital Expenditure	4926.40	3504.60	1421.80	10765.80	9928.20	837.60
IMF # 1 Account	51.30	51.30	0.00	340.00	340.00	0.00
Overall Balance	**2433.00**	**4706.30**	**-2273.30**	**-28147.60**	**-26332.15**	**-1815.45**
Memo						
Current Balance	**4164.20**	**7606.40**	**-3442.20**	**-21575.60**	**-18326.45**	**-3249.15**
Primary Balance	**22039.00**	**25529.60**	**-3490.60**	**64636.60**	**68542.65**	**-3906.05**

Performance Indicators
(percentages of GDP)

	BR	CB	PB	IP	FSR
FY 2004/05 Q4	-0.44	0.75	3.98	3.54	-0.95
FY 2004/05 Q4 Budget	-0.84	1.35	4.55	3.71	-0.91
FY 2004/05	5.08	-3.89	11.67	16.75	-1.16
FY 2004/05 Budget	4.69	-3.26	12.20	16.89	-1.15

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

International Benchmarks

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

** Recurrent Expenditure includes programmes, wages and salaries and interest payments.*
*** Capital revenue does not include $1 259.4 million in divestment flows. Treated as revenues these flows would yield a deficit of $26 888.2 million or 4.8 per cent of GDP.*

Source: Ministry of Finance and Planning

B. MONETARY POLICY DEVELOPMENTS

27/04/2000	30-day Reverse Repurchase Rate was reduced from 17.30 per cent to 17.00 per cent.
01/06/2000	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-three per cent (33%) to thirty-two per cent (32%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from fifteen per cent (15%) to fourteen per cent (14%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-two per cent (5% and 32%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and fourteen per cent (1% and 14%) in respect of local and foreign currency deposits.
28/07/2000	30-day Reverse Repurchase Rate was reduced from 17.00 per cent to 16.75 per cent.
11/08/2000	30-day Reverse Repurchase Rate was reduced from 16.75 per cent to 16.45 per cent.
01/09/2000	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-two per cent (32%) to thirty-one per cent (31%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from fourteen per cent (14%) to thirteen per cent (13%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-one per cent (5% and 31%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and thirteen per cent (1% and 13%) in respect of local and foreign currency deposits.
18/09/00	Bank of Jamaica introduces 270-day and 365-day reverse repurchase instruments at 17.6 and 18.0 per cent respectively.
04/10/00	Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.
23/10/00	Interest rates on the 270-day and 365-day instruments were reduced to 17.6 and 18.0 per cent respectively.
24/11/00	Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.
28/12/00	Interest rate on the 365-day instrument was reduced to 21 per cent.
14/02/01	Interest rates on the 365-day and 270-day instruments were reduced to 20.00 per cent and 19.25 per cent respectively.
20/02/01	Interest rates on the 365-day and 270-day instruments were reduced to 19.50 per cent, and 18.75 per cent respectively.
01/03/01	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-one per cent (31%) to thirty per cent (30%).

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

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

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

08/03/01 Interest rates on the 365-day, 270-day, instruments were reduced to 19.00 per cent, 18.25 per cent per cent respectively.

12/03/01 Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 18.50 per cent, 17.75 per cent, 16.70 percent, 16.40 per cent, 16.25 per cent, 16.15 per cent and 16.00 per cent respectively.

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

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

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

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

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

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

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

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

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

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

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

	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from eleven per cent (11%) to ten per cent (10%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty eight per cent (5% and 28%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and ten per cent (1% and 10%) in respect of local and foreign currency deposits.
30/10/01	Interest rates on the 365-day, 270-day, 180-day, 90-day and 60-day instruments were increased to 19.90 per cent, 19.45 per cent, 15.50 per cent, and 15.00 per cent, 14.75 per cent and 14.55 per cent, respectively
28/12/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day and 60-day instruments were reduced to 18.90 per cent, 18.40 per cent, 15.00 per cent, and 14.55 per cent, 14.45 per cent and 14.35 per cent, respectively.
09/01/02	Interest rates on the 365-day and 270-day instruments were reduced to 17.90 per cent and 17.00per cent, respectively.
06/02/02	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.70 per cent, 15.90 per cent, 14.70 per cent, 14.30 per cent, 14.20 per cent, 14.10 per cent and 14.00 per cent, respectively.
14/02/02	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.80 per cent, 15.00 per cent, 14.40 per cent, 14.05 per cent, 13.95 per cent, 13.85 per cent and 13.95 per cent, respectively.
01/03/02	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities were reduced from twenty eight per cent (28%) to twenty seven per cent (27%).
	Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from ten per cent (10%) to nine per cent (9%).
11/03/02	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced from 13.75 per cent, 13.85 per cent, 13.95 per cent, 14.05 per cent, 14.40 per cent, 15.00 per cent and 15.80 per cent to 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent, respectively.
11/07/02	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day, and 365-day open market instruments were reduced from 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent to 12.95 per cent, 13.05 per cent, 13.15 per cent, 13.25 per cent, 13.45 per cent, 14.00 per cent, and 14.90 per cent, respectively.
01/09/02	Liquid Assets ratio of commercial banks, FIA institutions and of building societies, in respect of local and foreign currency liabilities were reduced from twenty seven percent (27%) to twenty three percent (23%).
07/08/02	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced from 14.00 per cent to 13.85 per cent and from 14.90 per cent to 14.50 per cent, respectively.

09/09/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 13.15 per cent to 17.25 per cent and from 13.25 per cent to 17.05 per cent, respectively.
09/10/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 17.25 per cent to 19.25 per cent and from 17.05 per cent to 19.40 per cent, respectively.
28/10/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were reduced from 19.25 per cent to 18.25 per cent and from 19.40 per cent to 18.40 per cent, respectively.
01/11/02	The interest rate chargeable in respect of breaches by commercial banks, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was reduced from 69 per cent per annum to 45 per cent per annum.
	The interest rate chargeable in respect of breaches by building societies and institutions licensed under the Financial Institutions Act, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was adjusted from one-sixth of one per centum per day to 45 per cent per annum.
10/01/03	The Bank of Jamaica instituted a "Special Deposit" requirement for Commercial Banks and institutions licensed under the Financial Institutions Act. Each institution will be required to place cash deposits with the Central Bank equivalent to 5% of its Jamaican Dollar prescribed liabilities.
10/02/03	The Bank of Jamaica introduced a special five-month open market instrument which earned interest at 30% per annum. This instrument was introduced in a context of significant Jamaica dollar liquidity and protracted instability in the foreign exchange market.
14/02/03	The Bank of Jamaica withdrew the special five- month open market instrument which was introduced on 10 February 2003. The decision to remove this instrument came against the background of tight Jamaica dollar liquidity and the appreciation in the exchange rate over the previous four days. The removal was also in response to representations made to the Bank of Jamaica by financial institutions and understandings reached with respect to the development of foreign exchange market protocols.
19/03/03	Interest rates on Bank of Jamaica's 180-day, 270-day and 365-day open market instruments were increased to 19.65 per cent, 21.50 per cent and 24.0 per cent, respectively.
26/03/03	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were increased to 15.00 per cent, 15.30 per cent, 20.00 per cent, 24.00 per cent, 33.15 per cent, 34.50 per cent and 35.95 per cent, respectively.
25/04/03	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 28.00 per cent, 32.50 per cent and 33.00 per cent, respectively.
19/05/03	The interest rate applicable to overdrafts on accounts held with the Bank of Jamaica was increased to 65.0 per cent per annum.
24/06/03	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 26.50 per cent, 29.50 per cent and 30.00 per cent, respectively.
08/07/03	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 27.50 per cent and 28.00 per cent, respectively.
04/08/03	Interest rates on Bank of Jamaica 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 18.00 per cent, 22.00 per cent, 25.00 per cent, 25.75 per cent and 26.00 per cent, respectively.
09/09/03	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 21.00 per cent, 23.50 per cent, 23.75 per cent and 24.00 per cent, respectively.
17/10/03	Bank of Jamaica withdrew its 270-day and 365-day instruments from open market trading.

29/10/03	Bank of Jamaica returned its 270-day and 365-day instruments to open market trading at 23.75 per cent and 24.00 per cent respectively.
10/12/03	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 17.00 per cent, 20.00 per cent, 21.00 per cent, 22.00 per cent and 23.00 per cent, respectively.
09/01/04	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 18.00 per cent, 19.50 per cent, 21.00 per cent and 22.00 per cent, respectively.
21/01/04	Interest rates on Bank of Jamaica 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 15.20 per cent, 15.50 per cent, 17.00 per cent, 18.25 per cent, 20.00 per cent and 21.00 per cent respectively.
26/01/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.85 per cent, 15.00 per cent, 15.10 per cent, 16.00 per cent, 17.25 per cent, 18.75 per cent and 20.00 per cent, respectively.
16/02/04	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 15.50 per cent, 16.25 per cent, 17.75 per cent and 19.00 per cent, respectively.
27/02/04	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 17.25 per cent and 18.50 per cent, respectively.
10/03/04	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 16.95 per cent and 17.95 per cent, respectively.
10/03/04	Pursuant to Section 15 (2) (h) of the Banking Act and the Financial Institutions Act, and Regulation 38 (h) of the Bank of Jamaica (Building Societies) Regulation, the Minister of Finance determined that all debt securities or instruments issued by the Government of Jamaica, whether denominated in Jamaican dollars or in a foreign currency and irrespective of their original maturity terms, shall, within nine months of their maturity date be designated Liquid Assets.
02/04/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.60 per cent, 14.70 per cent, 14.80 per cent, 15.10 per cent, 15.60 per cent, 16.50 per cent and 17.40 per cent, respectively.
19/04/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.40 per cent, 14.50 per cent, 14.60 per cent, 14.85 per cent, 15.30 per cent, 16.00 per cent and 16.90 per cent, respectively.
05/05/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.20 per cent, 14.30 per cent, 14.40 per cent, 14.55 per cent, 15.05 per cent, 15.65 per cent and 16.40 per cent, respectively.
03/09/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.00 per cent, 14.10 per cent, 14.20 per cent, 14.35 per cent, 14.80 per cent, 15.35 per cent and 16.00 per cent, respectively.
28/12/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 13.80 per cent, 13.95 per cent, 14.05 per cent, 14.15 per cent, 14.30 per cent, 15.00 per cent and 15.50 per cent, respectively.

07/02/05	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 13.50 per cent, 13.65 per cent, 13.75 per cent, 13.85 per cent, 14.00 per cent, 14.50 per cent and 15.00 per cent, respectively.
07/02/05	The Bank of Jamaica reduced the Special Deposit holdings for commercial banks and FIA licensees by two (2) percentage points. Accordingly, these institutions, until further notified, are required to maintain with the Bank of Jamaica as a Special Deposit, an amount wholly in the form of cash, representing three (3) percent of their prescribed liabilities.
07/03/05	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 12.95 per cent, 13.10 per cent, 13.20 per cent, 13.30 per cent, 13.45 per cent, 14.00 per cent and 14.50 per cent, respectively. These rate adjustments was underpinned by continued stability in the exchange rate, reflecting buoyant foreign exchange inflows from tourism and remittances. Also, the Bank's net international reserves remained around US$1.8 billion, a level that was more than adequate to underwrite near term stability. In addition, inflation in the first quarter of 2005 was expected to continue on a downward trend engendering a return to single digit inflation in the forthcoming fiscal year.

C. Summary Tables

C:1

INFLATION RATES (%)	CPI Index (e.o.p)	Head-line (Quarter)	Core (Quarter)
1998/1999	**1182.5**	**6.0**	**2.9**
1999/2000	**1281.7**	**8.4**	**4.0**
June	1205.9	2.0	0.9
September	1237.6	2.6	1.4
December	1265.9	2.3	0.9
March	1281.7	1.3	0.8
2000/2001	**1364.3**	**6.4**	**4.2**
June	1311.4	2.3	1.1
September	1349.3	2.9	1.2
December	1342.6	-0.5	0.8
March	1364.3	1.6	1.0
2001/2002	**1468.5**	**7.6**	**3.3**
June	1404.0	2.9	1.0
September	1442.7	2.7	1.1
December	1459.9	1.2	0.6
March	1468.5	0.6	0.6
2002/2003			
June	1492.8	1.7	0.9
September	1528.0	2.4	0.8
December	1566.1	2.5	1.2
March	1558.4	-0.4	1.3
2003/2004			
June	1653.1	6.0	2.3
September	1728.4	4.6	2.3
December	1786.8	3.4	2.0
March	1820.8	1.9	1.1
2004/2005			
June	1854.8	1.9	1.1
September	1909.2	2.9	1.2
December	2032.1	6.4	1.7
March	2061.5	1.4	1.1

C:2A

COMPONENT CONTRIBUTION TO INFLATION
All Jamaica
January – March 2005

Groups and Sub-groups	Weight in CPI	Inflation (%)	Contribution
FOOD & DRINK	**0.5563**	**1.3**	**55.6**
- Meals Away From Home	0.0741	2.5	16.7
- Meat Poultry & Fish	0.1613	3.9	56.9
- Dairy Products Oils & Fats	0.0668	3.3	20.3
- Baked Products Cereals &Breakfast Drinks	0.0864	2.1	16.6
- Starchy Foods	0.0525	7.3	35.1
- Vegetables & Fruits	0.0650	-17.5	-104.2
- Other Food & Beverages	0.0502	3.1	14.1
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**1.3**	**-11.7**
- Household Supplies	0.0482	-6.1	-26.9
- Fuels	0.0253	6.6	15.2
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**4.0**	**29.2**
- Rental	0.0209	4.5	8.7
- Other Housing Expenses	0.0577	3.9	20.6
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**0.8**	**2.1**
- Furniture	0.0068	0.4	0.2
- Furnishings	0.0215	1.0	1.9
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**2.4**	**15.1**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**0.8**	**3.6**
- Clothing Materials	0.0055	0.4	0.2
- Readymade Clothing & Accessories	0.0242	0.6	1.4
- Footwear	0.0159	0.8	1.2
- Making & Repairs	0.0051	1.3	0.6
TRANSPORTATION	**0.0644**	**0.4**	**2.1**
MISCELLANEOUS EXPENSES	**0.0785**	**0.5**	**4.0**
ALL GROUPS	**1.0000**	**1.4**	**100.0**

C:2B

REGIONAL INFLATION
Quarterly
January – March 2005

Groups and Sub-groups	KMA (%)	Other Towns (%)	Rural Areas (%)
FOOD & DRINK	**0.8**	**1.6**	**1.8**
- Meals Away From Home	3.0	2.2	1.7
- Meat Poultry & Fish	3.2	3.6	4.7
- Dairy Products Oils & Fats	3.0	3.4	3.6
- Baked Products Cereals &Breakfast Drinks	2.0	1.8	2.4
- Starchy Foods	10.7	9.5	5.0
- Vegetables & Fruits	-19.8	-18.2	-14.4
- Other Food & Beverages	2.9	3.1	3.3
FUELS & OTHER HOUSEHOLD SUPPLIES	**-2.9**	**2.6**	**6.8**
- Household Supplies	-14.3	2.7	2.1
- Fuels	6.0	2.5	10.1
HOUSING & OTHER HOUSING EXPENSES	**4.3**	**3.1**	**4.1**
- Rental	5.7	0.2	0.2
- Other Housing Expenses	3.8	3.4	4.5
HOUSEHOLD FURNISHINGS & FURNITURE	**0.2**	**0.9**	**1.3**
- Furniture	0.4	0.4	0.3
- Furnishings	0.0	1.2	1.8
HEALTHCARE & PERSONAL EXPENSES	**2.6**	**2.6**	**1.8**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.6**	**1.1**	**0.8**
- Clothing Materials	0.2	1.2	0.2
- Readymade Clothing & Accessories	0.6	0.9	0.5
- Footwear	0.8	1.2	0.7
- Making & Repairs	0.2	2.0	2.4
TRANSPORTATION	**-0.1**	**1.1**	**0.8**
MISCELLANEOUS EXPENSES	**0.9**	**0.3**	**0.2**
ALL GROUPS	**1.0**	**1.6**	**2.0**

C:3

BANK OF JAMAICA OPERATING TARGETS

	Sept-03	Dec-03	Mar 04	Jun-04	Sept-04	Dec-04	Mar-05
Net International Reserves (US$)	**1 182.6**	**1 165.0**	**1 568.7**	**1 604.1**	**1 616.5**	**1 858.5**	**1 901.6**
Net International Reserves ($J)	**69 775.2**	**68 733.8**	**95 531.4**	**99 454.2**	**100 224.2**	**115 228.2**	**117 899.8**
- Assets	71 782.9	70 583.5	97 250.0	101 079.2	101 725.2	116 679.7	119 294.8
- Liabilities	-2 007.8	-1 849.7	-1 718.6	- 1 625.0	- 1 501.0	-1 451.4	-1395.0
Net Domestic Assets	**-37 152.6**	**-28 207.5**	**-59 345.0**	**-62 841.2**	**-61 833.3**	**-70 172.6**	**-76 253.0**
-Net Claims on the Public Sector	70 771.5	78 657.1	76 292.8	89 291.8	97 291.3	91 476.2	96 076.3
- Net Credit to Banks	-12 814.6	-13 345.9	-13 654.5	-13 127.9	-14 713.0	-15 078.8	-12 629.7
- Open Market Operations	-83 700.3	-81 969.4	-108 281.7	-123 222.1	-127 629.3	-130 692.1	-143 854.8
- Other	-11 409.2	-11 549.3	-13 701.6	-15 783.0	-16 782.3	-15 877.9	-15 844.8
Monetary Base	**32 622.6**	**40 526.3**	**36 186.4**	**36 613.0**	**38 390.9**	**45 055.6**	**41 646.8**
- Currency Issue *	21 545.7	29 426.5	24 930.6	24 597.4	26 215.9	32 398.1	28 674.9
- Cash Reserve	10 811.2	10 928.2	11 096.6	11 936.2	12 042.0	12 316.2	12 696.2
- Current Account	265.7	171.7	159.2	79.4	133.0	341.3	275.7
% change Monetary Base (F-Y-T-D)	**0.4**	**24.7**	**11.3**	**1.2**	**6.1**	**24.5**	**15.1**

** Excludes BOJ's teller cash*

C:4

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

	M1J	M1*	M2J	M2*	M3J	M3*
2001/2002						
June	32 951.4	38 015.3	102 002.8	135 708.9	123 100.6	156 806.8
September	35 690.9	41 620.6	105 818.0	141 583.6	127 000.0	162 765.5
December	38 964.5	45 310.1	109 419.3	146 061.6	131 161.0	167 803.4
March	37 083.8	43 946.8	107 834.2	147 683.6	130 622.7	170 285.0
2002/2003						
June	36 864.8	43 248.6	110 235.4	150 532.0	133 902.1	174 198.5
September	42 475.0	49 450.6	117 345.1	160 591.3	142 633.2	185 879.3
December	44 704.0	51 486.7	119 330.6	165 026.0	145 583.9	191 279.3
March	33 733.5	40 791.3	107 472.2	158 719.5	136 368.0	187 615.2
2003/04						
June	37 201.6	46754.7	109 847.2	166750.9	140 414.9	197319.3
September	39 838.8	49 028.9	114 121.8	172 760.3	146 844.5	205 483.0
December	45 220.9	55 237.5	123 090.2	183 117.4	156 387.0	216 414.2
March	44 942.9	57 124.2	124 892.6	190 784.0	160 403.2	226 294.7
2004/2005						
June	46 496.4	57 161.6	128 294.6	193 296.0	165 766.6	230 768.0
September	48 959.1	60 090.6	130 416.1	199 673.9	169 273.8	238 532.8
December [r]	55 179.9	67 730.8	141 325.2	211 241.7	181 837.3	251 753.8
March [p]	52 497.3	62 199.4	139 370.6	210 372.5	180 253.4	251 255.2

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

C:5

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

	Jun-03	Sep-03	Dec-03	Mar 04	Jun-04	Sep-04	Dec-04 r	Mar-05 p
M2J	**2 374.8**	**4 275.4**	**8 968.3**	**1 802.3**	**3 402.1**	**2 120.4**	**10 910.2**	**-1 954.5**
Currency	1 467.4	149.1	4 237.9	-2 550.7	524.6	1 041.0	4 482.7	-3 108.0
Demand Deposits	2 001.3	2 488.0	1 144.3	2 272.8	1 028.8	1 422.1	1 737.7	425.4
Savings Deposits	1 125.6	1 140.0	3 002.8	804.8	2 516.2	696.9	2 609.6	40.7
Time Deposits	-2 219.5	498.3	583.3	1 275.4	-667.5	-1 039.6	2 080.2	687.4
OTHER DEPOSITS	**1 672.7**	**2 154.3**	**574.1**	**2 213.9**	**1 961.3**	**1 386.9**	**1 653.3**	**370.5**
TOTAL (M3J)	**4 047.5**	**6 429.7**	**9 542.5**	**4 016.2**	**5 363.4**	**3 507.3**	**12 563.5**	**- 1 584.0**
SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY								
N.I.R. of B.O.J.	**-11 887.7**	**3 259.1**	**-1 041.3**	**24 584.1**	**2 158.3**	**775.1**	**15 100.7**	**2 666.0**
M&LTFL of B.O.J	**10.3**	**20.9**	**11.4**	**0.0**	**0.0**	**21.7**	**12.0**	**0.0**
Banking System Credit	**18 848.7**	**8 339.5**	**19 677.6**	**-17 447.3**	**22 552.0**	**6 749.4**	**-10 668.6**	**2 197.9**
Public Sector	14 761.0	4 556.1	14 585.8	-22 169.1	21246.0	4 260.7	-10 887.7	-858.3
Private Sector	4 087.7	3 783.5	5 091.8	4 721.8	1 306.0	2 488.7	219.1	3 056.2
Open Market Operations	**9 077.4**	**-6 573.9**	**1 730.9**	**-26 312.3**	**-14 940.4**	**-4 407.2**	**-3 062.8**	**-13 162.8**
Other	**-12 001.2**	**1 384.1**	**-10 836.1**	**23 191.7**	**-4 418.2**	**368.3**	**11 182.2**	**6 714.9**
TOTAL	**4 047.5**	**6 429.7**	**9 542.5**	**4 016.2**	**5 363.4**	**3 507.3**	**12 563.5**	**- 1 584.0**
Memo:								
Foreign Currency Deposits (Private Sector)	5 685.6	1 734.1	1 388.8	5 864.3	-890.1	4 257.6	657.5	1 085.3
Foreign Currency Loans (Private Sector)	2 922.5	2 346.2	1 019.5	1 199.1	339.9	608.9	3 418.4	1 544.0

p- preliminary
r-revised

C:6A

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

	Fixed Deposits * 3-6 months	Fixed Deposits * 6-12 months	Savings Deposits (Average)	Demand Loan Rate (Average)	Fixed Deposits Rate (Weighted Average)	Loan Rate (Weighted Average)	Inter-bank Lending Rate (Average)
2001/2002							
September	8.75 - 17.00	8.75- 15.00	9.08	26.96	10.52	19.41	18.39
December	7.75 - 15.00	7.75 – 15.00	9.08	26.79	10.13	19.46	18.39
March	7.75 - 15.00	7.75 - 15.00	9.36	26.29	9.86	19.60	18.99
2002/2003							
June	7.75 – 13.25	7.75 – 13.25	9.00	25.92	9.28	18.15	14.68
September	7.75 – 13.25	7.75 – 13.25	8.86	26.25	8.98	18.08	13.88
December	7.75 – 13.25	7.75 – 13.25	8.96	25.04	8.92	18.26	11.50
March	8.50-13.15	8.50 - 13.15	8.22	24.73	8.87	17.23	21.90
2003/2004							
June	8.50 – 13.15	8.50-13.15	8.22	25.18	8.98	19.23	38.40
September	8.50-13.25	8.50-13.50	8.43	25.60	9.02	19.87	17.01
December	8.50-13.25	8.50-13.50	8.43	25.60	8.68.	19.32	24.08
March	8.50 – 13.25	8.50-13.50	8.30	25.40	8.47	19.01	17.16
2004/2005							
June	8.50 – 13.25	8.50-13.50	8.06	25.02	8.15	17.75	15.75
September	8.50 - 13.25	8.50-13.50	8.06	24.95	7.99	17.76	8.38
December	3.00 – 14.10	3.50 – 14.30	6.48	24.89	7.78	17.72	12.95
March	3.00 – 14.10	3.50 – 14.30	6.36	24.89	n.a.	n.a.	12.58

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

C:6B

GOJ TREASURY BILL YIELDS
(End of Period)

	3-month	*6-month*	*9-month*	*12-month*
2000/2001				
September	16.62	17.13	16.91	16.94
December		20.16	19.67	20.98
March		16.88		17.86
2001/2002				
June	23.48	16.20		
September	22.23	15.10	15.50	
December	22.12	17.03		
March	21.49	14.30		14.96
2002/2003				
June		13.81		14.77
September		16.69	16.98	
December		17.01		
March		33.47		
2003/04				
June		28.46		
September		23.42	23.87	
December		22.05		
March	15.23	15.57		
2004/05				
June	15.04	14.98	15.18	
September	14.41	14.80		16.36
December	14.41	14.94		
March	13.21	13.46	14.00	

C:7

BANK OF JAMAICA OPEN MARKET INTEREST RATES
(End Period)

Tenor of Instruments

End Period	30 days	60 days	90 days	120 days	180 days	270 days	365 days
2001/2002							
June	14.25	14.35	14.45	14.55	14.75	15.35	15.90
September	14.25	14.35	14.45	14.55	14.75	15.35	15.90
December	14.25	14.35	14.45	14.55	15.00	18.40	18.90
March	13.25	13.35	13.45	13.55	13.80	14.20	15.00
2002/2003							
June	13.25	13.35	13.45	13.55	13.80	14.20	15.00
September	12.95	13.05	17.25	17.05	13.45	13.85	14.50
December	12.95	13.05	18.25	18.40	13.45	13.85	14.50
March	15.00	15.30	20.00	24.00	33.15	34.50	35.95
2003/2004							
June	15.00	15.30	20.00	24.00	26.50	29.50	30.00
September	15.00	15.30	18.00	21.00	23.50	23.75	24.00
December	15.00	15.30	17.00	20.00	21.00	22.00	23.00
March	14.85	15.00	15.10	15.50	16.00	16.95	17.95
2004/2005							
June	14.20	14.30	14.40	14.55	15.05	15.65	16.40
September	14.00	14.10	14.20	14.35	14.80	15.35	16.00
December	13.80	13.95	14.05	14.15	14.30	15.00	15.50
March	12.95	13.10	13.20	13.30	13.45	14.00	14.50

C:8A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
January – March 2005

Maturity Date		Amount J$M	Applicable Interest Rate [b/]
14 January	FR 14.21% LRS 2005	220.0	14.21
17 January	GOJ Inv. Debenture 2005 Series "Aa"	4 709.5	33.50
08 February	VR LRS 2003/2005 Tr.C	500.0	16.28
16 February	FR LRS 2005 AM	1 000.0	29.45
22 February	FR US$ Ind. Bond 2005	US$ 42.5	12.00
28 February	GOJ Inv. Debenture 2006 Series "Ae"	2 746.5	22.125
04 March	FR LRS 2005 AP	1 500.0	27.875
15 March	15.0% LRS 2004A	200.0	15.00
16 March	15.125% LRS 2005B	1 000.0	15.125
18 March	10.875% US$ Den. Bond 2005	US$ 20.0	10.875
25 March	14.45% FR LRS 2005 Tr.1	200.0	14.45
25 March	14.45% FR LRS 2005 Tr.2	300.0	14.45
31 March	VR LRS 2001/2006 Tr.K	325.0	14.8

Notes:
a/ Rate above Treasury is the 6-month Treasury bill rate in effect at the beginning of the interest period.
b/ The withholding tax of 25% on interest income has been in effect since May 1, 2000.
c/ A/Y- Average Yield
d/ FR – Fixed Rate
e/VR-Variable Rate
Source: Debt Management Unit, Ministry of Finance & Planning

C:8B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Domestic Market Issues
January – March 2005

Issue Date	Stock Name	Features	Amount Raised J$M
13-18 January	FR 15.75% Investment Debenture 2007 Series "Ar"	Tenor of 24 months. Interest rate fixed 15.75%. Interest paid quarterly.	6 062.67
02-04 February	FR 16.125% Local Registered Bond 2009 Series "D"	Tenor of 4 years Interest rate fixed at 16.125%. Interest paid quarterly.	4 205.53
08-11 February	FR LRS 2010 AD	Tenor of 5 years. Coupon rate fixed at 14.125%. Interest paid semi-annually. Average yield of 16.37%.	500.0
	FR LRS 2012 AD	Tenor of 7 years. Coupon rate fixed at 14.75%. Interest paid semi-annually. Average yield of 16.61%.	300.0
21-22 February	VR Investment Bond 2008/2009 Series "L"	Tenor of 48 months. Coupon rate fixed at 14.25% for first six months. Thereafter, quarterly interest payments of 1.50% above applicable Treasury Bill rate.	2 462.44
25 Feb-01 March	FR 15.00% Investment Debenture 2009 Series "As"	Tenor of 51 months. Interest rate fixed 15.00%. Interest paid quarterly.	1 364.56
22-24 March	FR 14.875% Registered Bond 2009 Series "E"	Tenor of 54 months. Interest rate fixed at 14.875%. Interest paid quarterly.	1 718.88

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

C:9

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
2001/2002 r	**97.7**	**629.5**	**68.5**	**17.9**	**72.0**	**291.1**	**247.1**	**1 423.8**
June	23.5	182.0	34.9	5.0	18.9	66.0	69.2	399.5
September	25.5	174.3	6.1	4.0	18.5	73.5	72.1	374.0
December	20.7	122.4	0.0	4.4	15.7	93.4	63.9	320.5
March	28.0	150.8	27.5	4.5	18.9	58.2	41.9	329.8
2002/2003	**99.9**	**615.6**	**64.5**	**17.7**	**74.4**	**227.8**	**213.7**	**1 313.6**
June	22.9	138.9	30.6	4.5	20.9	51.3	56.2	325.3
September	25.4	147.1	8.0	4.4	20.5	60.3	67.9	333.6
December	29.9	167.0	0.0	4.1	14.2	59.3	46.0	320.5
March r	21.7	162.6	25.9	4.7	18.8	56.9	43.6	334.2
2003/2004	**92.0**	**737.4**	**82.9**	**18.6**	**65.7**	**250.9**	**216.2**	**1 463.7**
June r	24.2	166.0	28.9	5.0	17.6	52.4	51.9	346.0
September	23.1	183.2	10.4	4.4	18.5	66.0	55.7	361.3
December r	21.0	176.7	1.1	4.6	12.6	60.4	58.7	335.1
March p	23.7	211.5	42.5	4.6	17.0	72.1	49.9	421.3
2004/2005								
June p	25.0	200.7	47.9	4.3	19.2	77.3	50.2	424.6
September	21.9	175.2	7.7	3.9	20.3	59.9	61.3	350.2
December	8.6	235.1	0.0	0.0	19.6	74.1	52.6	390.0

r-revised

C:10

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

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

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

	Jun-03	Sep-03	Dec-03	Mar-04 r	Jun-04 r	Sep-04 r	Dec-04 p
1. Current Account	**-179.3**	**-182.5**	**-237.8**	**-46.6**	**-82.9**	**-269.8**	**-300.2**
A. Goods Balance	**-469.7**	**-433.6**	**-498.3**	**-411.6**	**-396.9**	**-530.5**	**-600.8**
Exports (f.o.b.)	346.0	361.3	335.1	421.3	424.6	350.2	390.0
Imports (f.o.b.)	815.7	794.9	833.4	832.9	821.5	880.7	990.8
B. Services Balance	**127.5**	**116.8**	**118.8**	**201.7**	**159.2**	**98.8**	**101.1**
Transportation	-40.5	-52.8	-48.1	-18.6	-32.4	-50.7	-61.5
Travel	265.2	279.5	274.6	325.2	296.3	252.2	276.4
Other Services	-97.2	-109.9	-107.7	-104.9	-104.7	-102.7	-113.8
Goods & Services Balance	**-342.2**	**-316.8**	**-379.5**	**-209.9**	**-237.7**	**-431.7**	**-499.7**
C. Income	**-117.4**	**-144.3**	**-178.4**	**-165.2**	**-170.0**	**-148.2**	**-167.8**
Compensation of Employees	7.0	27.7	34.7	7.9	14.1	35.0	39.5
Investment Income	-124.4	-172.0	-213.1	-173.1	-184.1	-183.2	-207.3
D. Current Transfers	**280.2**	**278.6**	**320.1**	**328.5**	**324.8**	**310.1**	**367.3**
General Government	26.1	21.6	20.5	26.6	26.1	27.0	25.0
Other Sectors	254.1	257.0	299.6	301.9	298.7	283.1	342.3
2. Capital & Financial Account	**179.3**	**182.5**	**-237.8**	**46.6**	**82.9**	**269.8**	**300.2**
A. Capital Account	**-0.1**	**-4.4**	**-3.0**	**-0.1**	**0.9**	**0.4**	**1.7**
Capital Transfers	-0.5	-4.4	-3.0	-0.1	0.9	0.4	1.7
General Government	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Other Sectors	-0.5	-4.4	-3.0	-0.2	0.9	0.4	1.7
Acq./disp. Of non-produced non-fin. assets	0.4	0.0	0.0	0.0	0.0	0.0	0.0
B. Financial Account	**179.4**	**186.9**	**240.8**	**46.7**	**82.0**	**269.4**	**298.5**
Direct Investment	152.7	90.5	96.1	134.2	139.3	134.9	139.3
Other Official Investment	-50.8	-36.8	-24.7	254.9	74.2	33.4	116.8
Other Private Investment (including net errors & omissions)	-134.8	188.4	151.7	61.3	-96.1	113.6	284.4
Reserves	212.3	-55.2	17.7	-403.7	-35.4	-12.5	-242.0

r-revised

p-provisional

C:12

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

	Commercial Banks	Remittance Companies	Post Offices	Building Societies	Total Remit. Inflows	Other Current Transfers	Total
2001/2002	**170.0**	**595.7**	**1.1**	**202.4**	**969.2**	**42.6**	**1 011.8**
June	43.1	136.4	0.3	43.5	223.3	6.6	229.9
September	46.9	143.0	0.3	50.4	240.6	6.6	247.2
December	25.6	163.7	0.3	58.0	247.6	6.6	254.2
March	54.4	152.6	0.2	50.5	257.8	22.8	280.5
2002/2003	**293.0**	**622.8**	**0.8**	**252.6**	**1 169.2**	**105.4**	**1 274.6**
June	73.2	157.6	0.1	58.8	289.7	23.1	312.8
September	74.0	150.9	0.2	65.6	290.7	23.1	313.8
December	66.3	160.2	0.2	65.8	292.5	23.2	315.7
March	79.5	154.1	0.3	62.4	296.3	36.0	332.3
2003/2004	**330.7**	**697.8**	**1.2**	**298.1**	**1 327.8**	**144.0**	**1 471.8**
June	58.8	170.1	0.3	63.2	292.4	36.0	328.4
September	74.5	169.4	0.3	71.6	315.8	36.0	351.8
December	100.8	183.4	0.3	80.4	364.9	36.0	400.9
March	96.6	174.9	0.3	82.9	354.7	36.0	390.7
2004/2005	**387.3**	**789.6**	**1.2**	**330.6**	**1 508.7**	**150.0**	**1 658.7**
June	96.9	185.6	0.3	83.3	366.1	36.0	402.1
September	70.2	186.4	0.3	84.8	341.7	37.2	378.9
December	97.5	216.5	0.3	88.8	403.1	38.0	441.1
March	122.7	201.1	0.3	73.7	397.8	38.8	436.6

C: 13

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

	Gross Foreign Assets (US$MN)	Gross Foreign Liabilities (US$MN)	International Reserves (Net) (US$MN)	*Weeks of Imports* Goods	*Weeks of Imports* Goods & Services
2001/2002					
June	1 612.5	71.9	1 540.5	27.3	18.6
September	1 605.9	69.2	1 536.7	27.1	18.6
December	1 903.3	62.6	1 840.7	33.2	22.5
March	2 000.3	58.7	1 941.6	34.9	23.6
2002/2003					
June	1837.5	55.2	1 782.3	31.2	20.6
September	1738.6	51.3	1 687.3	29.5	19.5
December	1643.1	46.1	1 597.0	27.9	18.4
March	1382.2	42.5	1 339.7	22.1	14.8
2003/2004					
June	1 165.2	37.8	1 127.4	18.3	12.0
September	1216.6	34.0	1182.6	19.0	12.8
December	1 196.3	31.4	1 164.9	18.3	12.5
March	1 596.9	28.2	1 568.7	25.0	16.6
2004/2005					
June	1630.3	26.2	1604.1	22.5	15.3
September	1 640.7	24.2	1 616.5	23.5	16.0
December	1 881.9	23.4	1 858.5	27.5	18.7
March	1 924.1	22.5	1 901.6	27.5	18.8

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

	US$	Can$	UK£
2000/2001			
June	42.51	28.17	62.73
September	44.83	29.25	64.15
December	45.53	29.51	66.78
March	45.68	29.17	64.11
2001/2002			
June	45.82	29.80	63.94
September	45.94	29.00	66.74
December	47.40	29.45	67.94
March	47.61	29.88	67.14
2002/2003			
June	48.51	31.95	72.98
September	49.27	31.11	76.60
December	50.97	32.09	80.97
March	56.24	37.48	87.41
2003/2004			
June	59.01	43.69	96.79
September	59.71	43.92	98.54
December	60.62	46.59	107.45
March	61.01	46.46	111.34
2004/2005			
June	61.22	45.65	102.39
September	61.89	49.05	111.62
December	61.63	50.66	117.92
March	61.54	50.61	115.35

C: 15

PUBLIC SECTOR DOMESTIC SECURITIES
Government of Jamaica
Outstanding Stocks

(J$MN)

End Period	Local Registered Stocks	Treasury Bills	Bonds	BOJ Open Market Operations Securities
2000/2001				
June	131 477.8	9 750.0	37 268.0	45 066.2
September	132 589.8	9 850.0	38 789.9	51 885.6
December	134 896.5	7 600.0	41 920.6	51 800.9
March	159 734.8	6 950.0	45 107.7	61 441.4
2001/2002				
June	226 655.6	6 900.0	48 981.5	74 164.5
September	230 172.6	5 450.0	53 437.6	77 525.5
December	217 361.8	3 900.0	71 004.0	85 628.3
March	212 110.0	4 250.0	79 151.0	99 195.3
2002/2003				
June	219 738.5.	4 350.0	80 516.1.	97 006.3
September	232 873.9	4 350.0	88 274.7	96 072.3
December	240 843.3	4 150.0	99 432.9	89 981.3
March	240 923.0	2 950.0	114 524.1	86 203.8
2003/2004				
June	241,163.2	2 000.0	137,960.0	77 126.4
September	232 914.5	2 400.0	160 594.3	83 700.3
December	228 509.3	4 400.0	178 308.3	81 969.4
March	220 819.2	3 750.0	184 219.0	108 281.7
2004/2005				
June	222 372.2	3 950.0	187 932.0	123 222.1
September	222 522.4	3 750.0	197 847.6.	127 629.3
December	220 290.45	3 750.0	210 300.0.	130 692.1
March	n.a.	4 050.0	n.a.	143 854.8

n.a: Not Available

C: 16

STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	*Volume Traded (M.)*	*Value of Stocks Traded (J$M.)*
2001/2002			
June	35,723.6	2 315.0*	3 584.2
September	33,892.4	182.8	840.4
December	33,835.6	171.3	704.9
March	37,446.0	417.7	1, 19.5
2002/2003			
June	38,606.7	404.9	1 35.9
September	39,219.6	401.1	2 32.1
December	45,396.2	380.9	1 49.4
March	46,982.0	1 240.1	7 155.5
2003/2004			
June	50 478.9	352.4	2 077.7
September	57 769.1	2 167.4	11 321.3
December	67 586.7	530.5	3 682.9
March	99 630.2	3 380.8	14 533.7
2004/2005			
June	94 718.4	665.7	9 395.7
September	99 819.8	391.1	4 920.4
December	112 655.5	532.0	7 144.9
March	111 931.2	920.4	18 029.3

Note: Both volume and value reflect ordinary and block transactions

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

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PRODUCTION OF SELECTED COMMODITIES (Flows- 000' tonnes)	Bauxite	Alumina	Sugar	Bananas*
2001/2002	**3 808.4**	**3 493.7**	**184.8**	**42.3**
June	888.5	943.4	91.5	11.0
September	997.2	946.3	7.3	9.9
December	816.1	738.0	4.2	10.8
March	1 106.6	866.0	81.8	10.6
2002/2003	**3 917.5**	**3 698.7**	**186.1**	**37.7**
June	888.1	887.3	76.8	10.3
September	961.2	932.0	11.8	9.7
December	1 110.8	945.2	4.7	9.3
March	964.4	934.2	92.8	8.4
2003/2004	**3 842.4**	**3 956.4**	**174.7**	**40.1**
June	992.9	957.0	53.7	9.9
September	975.3	939.8	1.3	10.2
December	916.7	1 012.6	5.9	10.5
March	957.5	1 047.0	113.8	9.5
2004/2005	**3 451.4**	**4 028.5**	**142.0**	**18.1**
June	1 071.2	1 046.4	60.0	9.9
September	907.1	866.7	3.7	8.2
December	398.5	1 062.6	3.6	0.0
March	1 074.6	1 052.8	74.7	0.0

** Exports*

C: 18

GROSS DOMESTIC PRODUCT BY INDUSTRY IN PRODUCER'S VALUES, AT CONSTANT (1996) PRICES
Dec 2002 - Dec 2004 (Seasonally Unadjusted)
Year over Year % Change

	Dec-02	Mar-03	Jun-03	Sep-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04
Total Gross Domestic Product	3.48	3.57	2.40	1.08	1.97	2.59	2.79	0.04	-0.54
Agriculture, Forestry & Fishing	-10.19	2.10	2.44	5.78	9.35	-0.86	-1.48	-10.41	-29.45
Export Agriculture	2.08	3.85	-15.12	-17.80	1.61	13.88	2.27	-6.99	-72.02
Domestic Agriculture, Livestock, Forestry & Fishing	-12.03	1.60	8.19	9.49	10.69	-5.13	-2.45	-10.81	-22.67
Mining & Quarrying	24.94	6.38	8.07	1.01	4.19	10.84	8.53	-7.23	0.43
Manufacturing	2.53	1.15	-2.01	-1.00	-1.54	4.61	6.78	1.40	1.38
Food, Beverages & Tobacco	0.26	0.23	2.16	-4.09	-5.15	4.54	3.82	1.82	3.51
Other Manufacturing	5.17	2.39	-7.37	2.75	2.44	4.71	10.98	0.93	-0.78
Electricity & Water	6.16	5.50	5.77	4.88	2.80	3.55	3.13	-6.43	-0.21
Construction & Installation	4.67	1.71	1.24	0.36	1.44	2.34	1.34	5.36	9.30
Distributive Trade	0.35	0.75	0.83	1.04	1.51	1.62	1.26	1.83	0.90
Transport, Storage & Communication	9.20	7.53	5.63	0.59	1.24	1.63	3.03	-1.08	-0.57
Finance & Insurance Services	6.87	11.29	6.07	0.85	0.73	-1.56	-3.09	0.55	0.58
Real Estate & Business Services	0.95	1.93	2.47	1.97	0.78	2.34	1.66	2.19	1.25
Producers of Government Services	-0.13	-0.12	-0.15	0.38	0.85	0.26	0.19	0.22	0.63
Miscellaneous Services Household and Private Non-Profit Institutions	9.47	5.11	4.69	3.55	5.94	5.49	8.79	2.00	0.07
Hotels, Restaurants & Clubs	13.04	6.24	5.65	3.97	6.40	6.48	10.98	1.94	-0.43
Less Imputed Bank Service Charge	9.95	-0.02	2.97	3.12	0.49	-0.38	1.27	-0.64	1.99

D. BANK OF JAMAICA BALANCE SHEET

ASSETS AND LIABILITIES
(End of Period)
J$MN

	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-04
Assets	**152 765.6**	**149 552.0**	**156 818.4**	**165 318.2**	**186 811.5**	**191 018.4**	**196 888.5**	**210 619.0**	**222 399.7**
Foreign	77 202.2	68 606.6	72 298.2	72 134.5	97 232.2	99 458.8	101 367.1	113 727.7	118 206.1
Current Account & Foreign Currency Balances	9 318.5	5 105.0	11 163.0	6 091.0	6 881.8	9 162.7	9 824.6	12 036.4	14 005.1
Time Deposits & Securities	65 607.9	60 573.9	54 278.5	60 805.0	84 931.4	84 922.5	86 121.4	96 047.5	98 606.1
Holdings of Special Drawing Rights	20.2	6.5	19.7	3.2	4.8	23.8	6.0	4.4	10.5
Other	2 255.6	2 921.2	6 837.0	5 235.3	5 414.2	5 349.8	5 415.1	5 639.4	5 584.4
Local	75 563.4	80945.4	84 520.2	93 183.7	89 579.3	91 559.6	95 521.4	96 891.3	104 193.6
Public Sector Securities	54 975.0	66 907.0	68 465.9	78 147.1	77 836.0	76 989.0	85 125.6	85 131.1	85 139.9
Other Assets	20 588.4	14 038.4	16 054.3	15 036.6	11 743.3	14 570.6	10 395.8	11 760.2	19 053.7
Liabilities	**152 765.6**	**149 552.0**	**156 818.4**	**165 318.2**	**186 811.5**	**191 018.4**	**196 888.5**	**210 619.0**	**222 399.7**
Foreign	484.6	467.9	459.2	479.3	459.8	427.0	401.4	424.3	370.7
Local	152 281.0	149 084.1	156 359.1	164 839.0	186 351.7	190 591.4	196 487.1	210 194.7	222 028.9
Currency in Circulation	20 772.3	21 309.9	21 587.9	29 467.0	24 978.0	24 634.4	26 261.3	32 438.3	28 711.7
Deposits	117 110.0	110 145.7	115 342.8	112 076.8	146 088.2	155 259.4	159 435.8	165 535.6	179 817.5
Bankers	25 401.0	25 474.3	25 022.0	25 659.9	26 197.7	26 499.4	28 278.6	29 186.6	27 086.5
Government	1 760.2	3 280.1	2 000.8	1 235.2	5 045.7	3 098.7	656.5	3 482.6	4 739.6
Open Market Operations	86 203.8	77 126.4	83 700.3	81 969.4	108 281.7	123 222.1	127 629.3	130 692.1	143 854.8
Other	3 745.0	4 264.9	4 619.7	3 212.3	6 563.1	2 439.2	2 871.4	2 174.3	4 136.6
Allocation of Special Drawing Rights	2 462.0	3 203.0	3 203.0	3 203.0	3 203.0	3 573.6	3 573.6	3 573.6	3 573.6
Capital & Reserves	24.0	4.0	4.0	4.0	24.0	24.0	24.0	24.0	24.0
Other Reserves	1 944.2	1 640.8	1 628.8	990.3	1 270.4	2 311.1	2 283.6	2 285.9	2 282.3
Other Liabilities	9 968.5	12 780.7	14 592.7	19 097.8	10 788.1	4 788.9	4 908.8	6 337.3	7 619.9

E. COMMERCIAL BANKS' BALANCE SHEET

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

	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04 [r]	Dec-04 [r]	Mar-05 [p]
Assets	**285 881.7**	**295 647.2**	**306 632.7**	**313 516.6**	**331 710.5**	**327 721.8**	**341 427.1**	**344 337.9**	**345 357.9**
Cash	3 438.6	2 500.6	2 638.1	6 281.0	4 335.8	3 478.0	4 055.5	5 754.4	5 139.9
Balances with BOJ	41 414.8	37 224.0	40 947.6	40 249.2	50 545.4	53 281.4	52 877.8	55 896.7	59 774.6
Foreign Assets	62 782.3	58 847.3	56 953.0	59 938.9	62 394.6	61 318.4	71 803.7	73 249.1	68 457.1
Loans & Advances	79 685.4	87 067.4	91 254.9	99 150.0	102 504.2	106 169.9	108 989.0	113 368.8	118 440.3
Private Sector	52 897.6	60 255.0	66 396.8	71 638.4	75 699.2	77451.2	80 687.3	83 558.3	88 543.9
Public Sector	26 787.8	26 812.4	24 858.1	27 511.6	26 805.0	28 718.7	28 301.7	29 810.5	29 896.4
Public Sector Securities	66 143.2	78 275.4	79 905.7	74 852.1	66 686.3	65 707.7	62 695.7	56 455.4	52 487.4
Cheques in the Process of Collection	4 024.4	5 041.7	3 023.1	2 584.2	6 310.9	2 658.7	5 381.2	4 040.6	6 331.4
Other Assets	28 393.0	26 690.8	31 910.3	30 461.2	38 933.3	35 107.7	35 624.2	35 572.9	34 727.2
Liabilities	**285 881.7**	**295 647.2**	**306 632.7**	**313 516.6**	**331 710.5**	**327 721.8**	**341 427.1**	**344 337.9**	**345 357.9**
				198 774.8		214 596.2	223 188.9	228 416.5	235 440.6
Deposits	188 441.5	189 816.3	194 580.3	122 976.1	*216 777.3*	132 670.0	135 475.1	139 707.3	145 690.4
Local Currency	121 373.8	118 040.1	120 691.9	75 798.7	134 730.5	81 926.2	87 713.8	88 709.2	89 750.2
Foreign Currency	67 067.7	71 776.2	73 888.4		82 046.8				
Foreign Liabilities	14 085.8	14 903.7	16 771.1	15 900.5	15 860.8	18 655.6	22 932.1	26 375.6	25 800.6
Discounts & Advances from BOJ	187.1	235.7	95.6	167.7	276.7	1 607.3	199.6	229.9	162.0
Loans/Advances from Other Institutions	7 632.5	7 813.2	8 674.7	9 431.7	7 741.2	7 805.5	7 806.5	7 571.1	7 816.7
Cheques in the Process of Payment	2 150.6	3 383.4	2 161.0	2 112.4	3 279.7	2 218.9	3 172.3	2 423.0	3 057.3
Other Liabilities	73 384.2	79 494.9	84350.0	87 129.5	87 774.8	82 838.3	84 127.7	79 321.8	73 080.7

P = preliminary
r = revised

F. INTERNATIONAL INDICATORS

F: 1

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

	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2001/2002				
June	3.7900	3.7300	3.7300	3.9400
September	2.6300	2.5900	2.5225	2.6425
December	1.8738	1.8813	1.9813	2.4425
March	1.8788	2.0300	2.3300	3.0025
2002/2003				
June	1.8387	1.8600	1.9562	2.2862
September	1.8113	1.7900	1.7100	1.7250
December	1.3820	1.3830	1.3830	1.4470
March	1.3000	1.2787	1.2312	1.2800
2003/2004				
June	1.1620	1.1225	1.0815	1.0944
September	1.1200	1.4246	1.1856	1.3525
December	1.1326	1.1670	1.2274	1.4688
March	1.0923	1.1122	1.1585	1.3251
2004/2005				
June	1.3687	1.6100	1.9400	2.4625
September	1.8400	2.0200	2.1963	2.4825
December	2.3890	2.4959	2.7069	3.0109
March	2.6464	2.8335	3.0700	3.4237

F: 2

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

	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2001/2002				
June	5 – 51/8	5 1/8 – 5 1/4	5 1/4 - 5 3/8	5 1/2 – 5 5/8
September	4 9/16 – 4 11/16	4 13/32 – 4 7/32	4 3/8 – 4 1/2	4 13/32 – 4 7/32
December	4 1/32 – 4 5/32	4 –4 1/8	4 1/32 – 4 5/32	4 3/8 – 4 17/32
March	3 29/32 – 4 1/32	3 29/32 – 4 1/32	4 5/16 – 4 7/16	4 23/32 – 4 7/32
2002/2003				
June	4 - 3 29/32	4 1/8 - 4 1/32	4 9/32 - 4 3/16	4 21/32 - 4 9/16
September	3 15/16 – 3 27/32	3 29/32 – 3 3/16	3 7/8 – 3 25/32	3 7/8 – 3 25/32
December	4 1/16 – 3 15/16	4 1/32 – 3 29/32	4 – 3 7/8	4 – 3 7/8
March	3 21/32 – 3 19/32	3 21/32 – 3 9/16	3 9/16 – 3 1/2	3 9/16 – 3 7/16
2003/2004				
June	3 11/16 – 3 9/16	3 19/32 – 3 17/32	3 17/32 – 3 15/32	3 17/32 – 3 7/16
September	3 5/8 – 3 17/32	3 11/16 – 3 19/32	3 25/32 – 3 11/16	3 31/32 – 3 7/8
December	4 6/7 – 3 6/8	4-3 7/8	4 5/16 – 4 3/16	4 19/32 – 4 15/32
March	4 3/16 – 4 1/16	4 3/8 – 4 1/4	4 9/16 – 4 7/16	4 3/4 - 4 5/8
2004/2005				
June	4 5/8 – 4 1/2	4 7/8 – 4 3/14	5 1/16 – 4 15/16	5 ¼ - 5 1/8
September	4 27/32-4 23/32	4 15/16-4 13/16	5-4 7/8	5 1/8-5
December	4 7/8 – 4 3/4	4 29/32 – 4 25/32	4 15/16 – 4 13/16	4 31/32 4 27/32
March	4 27/32 – 4 3/4	4 31/32 – 4 7/8	5 1/32 – 4 15/16	5 1/8 – 5 1/32

F: 3

PRIME LENDING RATES
(End- of-Period)

	EURO-ZONE	UNITED STATES			UNITED KINGDOM
	Repo rate	**Fed Funds Rate**	**Discount Rate**	**Prime Rate**	**Repo rate**
2001/2002					
June	4.50	3.75	3.25	6.75	5.25
September	3.75	3.00	2.50	6.00	4.75
December	3.25	1.75	1.25	4.75	4.00
March	3.25..	1.75		4.75	4.00
2002/2003					
June	3.25	1.75	1.25	4.75	4.00
September	3.25	1.75	1.25	4.75	4.00
December	2.75	1.25	0.75	4.25	4. 00
March	2.50	1.25	2.25	4.25	3.75
2003/2004					
June	2.00	1.00	2.00	4.00	3.75
September	2.00	1.00	2.00	4.00	3.50
December	2.00	1.00	2.00	4.00	3.75
March	2.00	1.00	2.00	4.00	4.00
2004/2005					
June	2.00	1.25	2.01	4.00	4.50
September	2.00	1.75	2.58	4.75	4.75
December	2.00	2.25	3.15	5.25	4.75
March	2.00	2.75	3.58	5.50	4.75

F: 4A

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

	Jun-03	**Sept-03**	**Dec-03**	**Mar-04**	**Jun-04**	**Sep-04**	**Dec-04**	**Mar-05**
US$ vs. Sterling	0.6050	0.6192	0.5603	0.5476	0.55167	0.55279	0.5188	0.5248
US$ vs. Canadian $	1.3553	1.3632	1.2924	1.3284	1.3404	1.2417	1.2191	1.2161
US$ vs. Yen	119.86	114.79	107.11	108.51	109.38	110.20	103.90	105.23
US$ vs. Euro	0.8693	0.8878	0.7939	0.8155	0.82097	0.80535	0.7472	0.7580

F: 4B

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
(March 2005)

	GBP	CAN$	US$	Yen	Euro
U.K.	1.000	2.318	1.906	200.521	1.444
Canada	0.432	1.000	0.822	86.537	0.623
U.S.	0.525	1.216	1.000	105.227	0.758
Japan	0.005	0.012	0.009	100.000	0.007
Euro	0.692	1.604	1.319	138.822	1.000

F: 4C

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

		Sept-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05
Sterling vs.	US$	1.6157	1.7847	1.8263	1.8127	1.8090	1.9278	1.9058
Sterling vs.	Canadian $	2.2022	2.3066	2.4259	2.4297	2.2853	2.3502	2.3177
Sterling vs.	Yen	191.75	198.26	198.12	199.41	197.50	200.29	200.52
Sterling vs.	Euro 1/	1.4338	1.4168	1.4893	1.4881	1.4875	1.4404	1.4445

F: 5A

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

	Dec-0	Mar-0	Jun-0	Sep-04	Dec-04	Mar-05
Spot (Cash)	1512.3	1688.5	1698.5	1823.0	1849.55	1982.40
3 Month	1567.8	1707.5	1704.5	1812.0	1851.55	1962.50

F: 5B

WORLD COMMODITY PRICES FOOD (End- of-Period)							
	Sept-03	**Dec-0:**	**Mar-04**	**Jun-04**	**Sep-04**	**Dec-04**	**Mar-05**
Wheat **(US$/mt)**	145.6	165.6	166.3	153.0	151	153.9	151.0
Coffee (USc/kg arabica brand)	142.0	141.0	170.5	172.4	177.4	228.82	297.1

F: 5C

MAJOR STOCK MARKET INDICES (End- of-Period)							
	Sept-03	**Dec-03**	**Mar-04**	**June-04**	**Sep-04**	**Dec-04**	**Mar-05**
TOKYO							
Nikkei Index	7972.71	9083.11	11715.39	11858.87	10823.57	11488.76	11668.95
NEW YORK							
Dow Jones Industrials	7992.13	8985.44	10357.70	10435.48	10080.27	10783.01	10525.26
S & P Composite	848.12	974.50	1126.21	1140.75	1114.58	1211.92	1183.00
LONDON							
Financial Times SE 100	3613.30	4031.20	4385.70	4464.10	4570.80	4814.30	4894.40
FRANKFURT							
Dax Index	3256.78	4095.71	3856.70	4052.73	3892.90	4256.08	4348.77
ZURICH							
SMI Index	5043.5	5768.20	5618.60	5619.10	5465.30	5693.20	5929.70

F: 6

WORLD COMMODITY PRICES KEY CRUDE OIL PRICES (US$/barrel – f.o.b.) (End- of-Period)							
	Sept-03	**Dec-03**	**Mar-04**	**Jun-04**	**Sep-04**	**Dec-04**	**Mar-05**
UAE's Dubai Light	23.29	23.69	30.46	33.40	35.48	34.26	45.58
North Sea Brent	28.23	30.15	32.41	33.04	43.38	39.64	53.08
West Texas Intermediate	29.23	32.55	35.78	37.05	45.93	43.23	54.17

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Monetary Base*: See *Base Money

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Quasi-money: Savings Deposits plus Time Deposits.

QMPR ISSUE	LIST OF BOXES
October – December 2000	1. Sovereign Credit Ratings & Outlook 2. E-gate & the Foreign Exchange Market 3. The International Oil Market: Recent Developments and Outlook 4. Jamaica's IMF Staff Monitored Programme (SMP)
January – March 2001	5. Core Inflation in Jamaica – Concept & Measurement 6. Highlights of the IMF 2001 Article IV Consultation
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