QUARTERLY MONETARY POLICY REPORT

JULY - SEPTEMBER 2001

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Bank of Jamaica Quarterly Monetary Policy Report

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PREFACE

The Bank of Jamaica's Quarterly Monetary Policy Report reviews the main factors that influenced inflation and the role of monetary policy during the quarter. It also presents the Bank's perspective on future economic trends and the path of monetary policy over the short to medium term. This issue includes features on the economic implications of the events of 11 September, recent innovations in Jamaica's payments system and the role of equity financing in the Jamaican economy.

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

At the end of the September quarter, the dominant influence on prevailing macroeconomic conditions was the impact of the tragic events that occurred in the United States on 11 September 2001. Much of this review is dedicated to an examination of its transmission to the Jamaican economy and the way it is likely to alter domestic economic policy. (See Box 3 on the US economy, emerging markets and commodity prices; and **Chapter 4** on the Jamaican outlook.) These events and the subsequent reaction disrupted the stability that had prevailed in Jamaica's financial markets and are likely to slow the momentum of economic growth that had been building up since 2000.

The shock to the United States economy congealed the widely held view that growth in the world's largest economy was slowing and that it may be heading into recession. These fears had already prompted a series of reductions in the interest rates controlled by the US monetary authority and had persisted despite a Federal tax relief package in early 2001. Consumer confidence was therefore severely affected by the economic disruption of 11 September and by the lingering sense of loss and uncertainty that followed. Air travel and related activities were immediately curtailed and consumer spending fell. The close economic ties between the USA and Jamaica transmitted the impact of the shock to Jamaica in the form of a sharp drop in tourist arrivals and a fall out in related foreign exchange earnings.

Domestic inflation for the review quarter, however, was not influenced by the developments in the USA although the outturn of 2.7 per cent was higher than the projected 2.0 per cent. Core inflation was 1.1 per cent for the quarter as expected while the 12-month rate at September 2001 was 6.9 per cent. The underlying rate of inflation remained anchored to the conservative management of base money.

The notable revival of bank lending to the private sector induced higher deposit growth than expected in the September quarter but this expansion was tempered by a slowdown in the demand for currency.

The higher than expected inflation was mainly attributable to a sharp rise in food prices in the Kingston Metropolitan Area in July as vending in the main markets was disrupted for a brief period. There were also higher than expected adjustments to tuition fees and school supplies that ncided with the start of the new school year as well as some revised postal rates. The dominance of increases in food prices in the summer months is a recurring feature in the pattern of domestic inflation and usually abates in the second half of the fiscal year when the supply of domestic crops peaks.

The recovery of domestic agriculture and mining has been a continuing feature in the estimated growth of GDP during 2001. The improvement in weather conditions was the primary factor at work in agriculture and the rate of expansion was especially impressive when viewed against the relatively low drought-affected yields of the previous year. The mining sector has benefited from the return to production of a critical processing plant in the USA. Manufacturing, the other main goods producing sector, showed improved performance most notably in sugar and other cane products, beverages, food processing and petroleum.

The growth in services has been steady over the past year, boosted in recent quarters by the expansion in communication and transport. The emerging negative factor is the recent downturn in tourism under the impact of the publicity surrounding the social disturbances in July and the more recent disruption to air travel and tourist arrivals from the USA. The contrast with the September quarter of 2000 is particularly sharp as during that period there was an unusually high level of visitor arrivals diverted from other destinations that had been experiencing bad weather. The 11 September event is estimated to have reduced expected occupancy in local hotels by 10.0 per cent to 17.0 per cent. Overall, however, when basic services, finance and distribution are combined, the service sector of the economy is estimated to have shown positive growth albeit much slower than expected.

The initial impact of the 11 September shock was an increased demand for foreign exchange as importers and portfolio holders brought their demand forward in anticipation of future shortages. Prior to this, the rate of exchange had remained broadly stable, punctuated by episodes of increased demand that coincided with issues of US Dollar denominated Government of Jamaica bonds on the domestic market. There were two such offers during the quarter, which together raised US$175 million. In both of these instances and in response to the 11 September demand shock, Bank of Jamaica increased the supply of foreign exchange to the market and restored orderly conditions. These actions constrained the rate of exchange rate depreciation to 0.26 per cent for the September 2001 quarter, in comparison to the 0.31 per cent recorded in the June 2001 quarter.

In these relatively calm conditions, the trend decline in domestic interest rates continued during the September quarter. While the BOJ did not reduce its signal rate during the period, yields on the benchmark market determined GOJ 6-month Treasury Bill fell from 16.20 per cent at end June to 15.10 per cent in September. Fluctuations in liquidity conditions influenced the yields on the issues of long term LRS and, relative to the end of June, yields on 3-year, 10-year and 12-year bonds rose during the review quarter. Trading in GOJ eurobonds has also increased leading to a broader portfolio among local investors and greater liquidity in the market for these instruments. Elsewhere in the capital market, trade in equities slowed relative to the preceding quarter and, following the lead set by the post 11 September trading pattern in the US and other markets, there appeared to be an increased preference for liquid and high quality bonds. The impact of the stock market decline on trade in other financial instruments was however quite limited. Ironically, this is partly because the potential contribution of equity financing in accelerating corporate growth has not been adequately exploited despite a range of institutional reforms. (See Box 2)

It is anticipated that for the next six months, the impact of the slowdown in the USA will result in a weakening of the current account of the balance of payments. There could also be spill over effects on domestic agriculture and manufacturing. The impact will be most significant in the December quarter, which should see lower inflows arising from the decline in travel and lower prices for airfares and hotel accommodation.

As at the end of September 2001 the stock of foreign reserves was US$1536.7 million, sufficient to cover 18.6 weeks of goods and service imports, significantly above the 12 weeks benchmark. The rate of reserve accumulation was some US$200 million higher at September than was programmed for the first half of the fiscal year. The reserve position could be further enhanced as there is also the likelihood of obtaining support from multilateral organizations. The stock of private sector US Dollar denominated deposits in the local banking system has also remained above US$1.2 billion.

The main domestic impetus to inflation over the ensuing quarter is likely to emanate from increases in prices of some agricultural commodities and increases in telephone rates. The increase in agriculture prices, particularly in the first two months of the December quarter, however, will be less than the seasonal increases given the likelihood of an excess supply in the domestic market due to the decline in demand from the hospitality sector and the continuing increase in domestic food supply.

Inflation in the December 2001 quarter therefore is expected to approximate 1.9 per cent (± 0.4 percentage points) relative to the 2.7 per cent recorded in the September 2001 quarter. The corresponding twelve-month inflation would be 9.5 per cent (± 0.4 percentage points).

However, the overall fiscal year inflation is expected to be in single digits. Given this expectation and the environment of uncertainty, no loosening of monetary policy is warranted at this time. The remaining programmed adjustment of the cash reserve requirement will take place in the March quarter of 2002.

In summary, the recent events in the United States have given rise to significant uncertainty about the near term prospects for the Jamaican economy. The immediate macroeconomic priority is to stabilize the affected sectors while positioning the tourism industry to take full advantage of the expected rebound in the US in 2002. The ample holdings of foreign reserves will enable the Bank of Jamaica to cushion the short-term fallout of foreign exchange earnings. The Bank's main priority is to ensure a stable and orderly foreign exchange market so as to underpin the lower inflationary environment.

1. Monetary Policy and Financial Markets

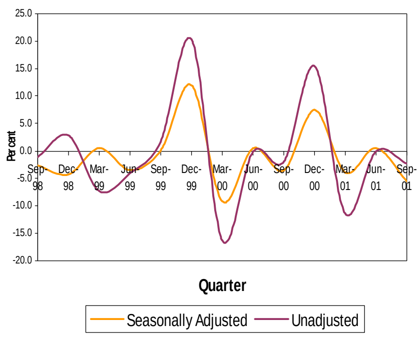
Money and Credit

Base money growth remains within target.

Base Money

During the review quarter, continued focus on the close management of base money contained the monetary impulses to inflation. The change in the monetary base was generally in line with target, reflecting a decline of 2.2 per cent (see **Figure 1.1**) for the review quarter, in comparison with the programme target of a 2.3 per cent decline.

Figure 1.1
Base Money
(Quarterly Change)



The 1.0 percentage point reduction in the cash reserve for financial institutions supervised by the Bank was the major monetary policy action during the quarter. In this regard, commercial banks were refunded $962 million in domestic currency cash reserves during the period. However, the absorptive effects of the expansion in the Central Bank's open market operations limited the potential liquidity impact of the cash reserve refunds.

In terms of the sources of the decline in the monetary base, the Central Bank's activity in the money and foreign exchange markets during the quarter influenced the overall outturn in base money. The reduction in the Bank's net foreign assets facilitated the absorption of $175.3 million. However, the more significant absorption occurred through the decline in the net domestic assets of the Central Bank, reflecting the direct impact of increased open market placements. Within this context, while the decline in public sector liabilities added $2,624.7 million in liquidity, open market activity absorbed $3,361.1 million from the system (see **Table 3 Appendix C**). The decline in public sector liabilities, due primarily to the decline in Central Government balances, was consistent with increased domestic amortization, having raised the external financing planned for the fiscal year.

During the period there was a sharp rise in the level of overnight open market placements. Of the total absorption via money market instruments during the quarter, approximately 60.0 per cent were placements in overnight instruments. This compares with a ratio of 1.3 per cent for the previous quarter.

This pattern of investment was consistent with the appetite for other short-term tenors, particularly during the latter half of the quarter. While significant amounts of the overnight placements were deposited pending withdrawal by Government for payroll obligations, other short-term placements were consistent with expectations of foreign exchange market instability given the imminent fall off in US Dollar earnings following the events in the USA.

30-day signal rate unchanged.

Within this context, the opportunities for the continued reduction in the signal rate (30-day) were limited as intermittent periods of foreign exchange market instability prevented that action. Moreover, the relatively strong reserve position provided the alternative option of selling foreign exchange to the market to underpin foreign exchange market stability, rather than adjusting the signal rate.

Money Supply[1]

Broad money supply (M3J) expanded by 4.3 per cent for the September 2001 quarter (see **Table 1.1**). This was above the programmed growth rate of 1.8 per cent. For the corresponding quarter of last fiscal year M3J increased by 1.4 per cent. Year-on-year, growth at end September was 11.5 per cent relative to the 9.0 per cent that obtained at September 2000.

Table 1.1

M3J - Growth Rates			
		3 mths	12 mths
2000	Mar.	1.2	21.2
	June	4.1	15.7
	Sept.	1.4	9.0
	Dec.	4.1	10.9
2001	Mar.	0.6	10.7
	June	2.0	8.4
	Sept.	4.3	11.5

The most significant increase occurred in demand deposits (15.1 per cent). 'Other Deposits' increased by 6.9 per cent stemming primarily from growth in unappropriated profits. There were also increases in savings deposits of 1.6 per

[1]Data on money and credit are provisional

Figure 1.2
Currency in Circulation
(12-month Growth)

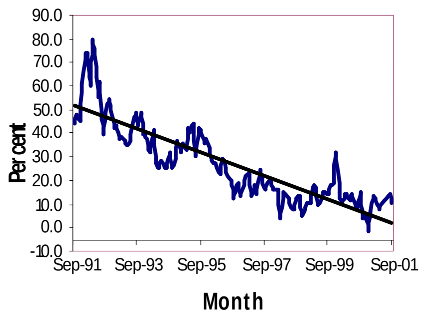


Figure 1.3
Money Multiplier & Cash Reserves Ratio

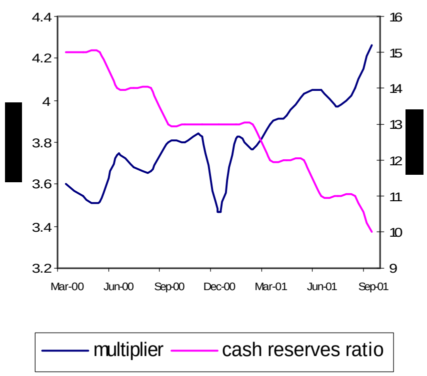


Table 1.2

COMMERCIAL BANKS' PRIVATE SECTOR CREDIT July - September 2001				
	Stocks (J$MN)		Change (%)	
	Jun 01	**Sept 01**	**Sept 01**	**12 mth**
Local	**26 927.3**	**27 958.8**	**3.8**	**9.6**
Development Bank	1 974.2	1 860.4	-5.8	-13.0
Other Private	24 953.1	26 098.4	4.6	11.7
Foreign	**7 073.5**	**9 061.5**	**28.1**	**30.0**
Total	**34 000.5**	**37 020.3**	**8.9**	**14.0**

cent and time deposits of 1.5 per cent during the quarter. Currency with the public increased by 1.1 per cent relative to a 1.3 per cent increase during the September 2000 quarter.

Expansion in banking system credit, to both private and public sectors, provided the main source of increase in money supply during the September 2001 quarter. However, this impact was partially offset by increased BOJ open market operations and through a decline in the NIR of the BOJ. This contrasts with the significant influence of NIR growth during the previous quarter, which accounted for most of the increase in M3J during that period.

Another measure of money supply (M3*), which includes foreign currency deposits, increased by 4.9 per cent during the review quarter. This compares with a 3.4 per cent increase in M3* for the September 2000 quarter. Growth in foreign currency deposits was US$43.5 million or 5.9 per cent for the quarter, compared to the corresponding period in 2000 when growth in foreign currency deposits was US$19.0 million or 2.7 per cent.

Private Sector Credit

The stock of commercial bank credit outstanding to the private sector stood at $37020.3 million as at 30 September 2001, a net expansion of $3019.8 million (8.9 per cent) during the quarter (see **Table 1.2**). Most of this increase in credit comprised loans to the telecommunications industry and to individuals for personal use. During the corresponding quarter of 2000 private sector credit increased by only $394.3 million (1.2 per cent).

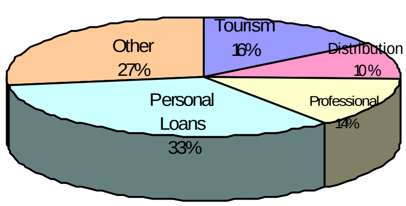
Private sector credit denominated in local currency increased by 3.8 per cent during the review quarter. There were net repayments in Development Bank related loans, which decreased by $113.7 million (5.8 per cent). Foreign currency credit (expressed in Jamaica Dollars) increased by 28.1 per cent. There has been accelerated growth in private sector credit during the past six months. However, the

Table 1.3

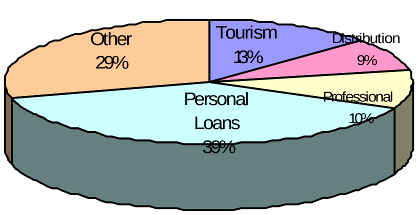
COMMERCIAL BANKS' LOANS AND ADVANCES (STOCKS J$MN)

	Sep 00	Jun 01	Sep 01
Agriculture	1 596	1 443	1 537
Mining	82	60	59
Manufacturing	3 089	2 824	3 120
Construction	1 815	1 715	1 913
Transport & Comm.	1 665	1 217	2 857
Tourism	5 064	4 561	4 709
Distribution	3 189	3 275	3 111
Professional	4 386	4 240	3 420
Personal	10 611	12 194	13 737
Electricity	264	783	664
Entertainment	167	97	92
Overseas	67	89	91
TOTAL	**31 996**	**32 499**	**35 309**

Figure 1.4
Commercial Banks' Sectoral Distribution of Loans



September 2000



September 2001

ratio of foreign currency to local currency credit has remained unchanged.

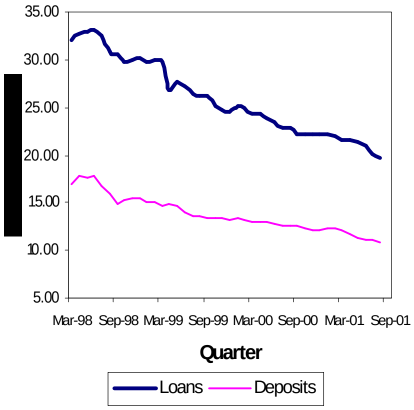
The quality of the commercial banks' loan portfolio continues to improve. The ratio of past due loans to total loans fell further below the 10.0 per cent international benchmark to 7.7 per cent at end August 2001. This lower ratio compares favourably to the 11.0 per cent that obtained at end September 2000.

A sectoral distribution of lending over the review quarter shows that growth in private sector loans was mainly in the economic sectors of *Transport, Storage & Communication* (134.8 per cent), *Construction & Land Development* (11.6 per cent), *Agriculture & Fishing* (8.6 per cent), *Manufacturing* (10.5 per cent) and *Tourism* (3.2 per cent). Loans to individuals for personal non-business use also reflected notable growth of 12.6 per cent (see **Table 1.3**).

Private sector loans outstanding continue to be concentrated in the *Personal Loans* category (38.9 per cent), *Tourism* (13.3 per cent), *Professional & Other Services* (9.7 per cent) and *Distribution* (8.8 per cent) (see **Figure 1.4**). Over the twelve-month period to end September 2001 there was an expansion in the share of *Personal Loans* from 33.2 per cent while the other three sectors mentioned recorded contractions in share from 15.8 per cent, 13.7 per cent and 10.0 per cent, respectively.

Generally, lending rates in the commercial banking system declined during the July to September period. Commercial banks' weighted average lending rate was 19.76 per cent as at 31 August 2001 (see **Figure 1.5**). This represented a decline of 1.1 percentage points relative to June 2001 and 3.01 percentage points relative to August 2000. Reductions in the cash reserve ratio, continued improvement in the efficiency of the operations of commercial banks and a reduction in government borrowing on the domestic market are among the factors that have contributed to this decline in commercial banks' interest rates. The resumption of lending by two commercial banks and the ability of one

Figure 1.5
Commerical Bank Interest Rates
(Weighted Average)



institution to secure funds via the international capital market should increase the competition among commercial banks and thereby allow for further reductions in loan rates in the future.

The out-turn for the quarter supports optimism regarding a resurgence in lending activity to the private sector. In a credit survey conducted in July commercial banks indicated improved prospects for lending as interest rates continue to fall. However, in light of the events of 11 September 2001 in the USA and the shock to domestic and international economic activity, it is likely that there could be a slowing of this momentum in the ensuing months.

Box 1: Innovations in Jamaica's Payments System

Introduction

Jamaica's financial system has undergone significant changes over the past fifteen years. Advances in technology and increased competition have seen the evolution of a number of new financial products and instruments. These innovations have influenced the velocity of currency and carry implications for the measurement of money. Against this background, this feature presents an overview of the most recent developments in Jamaica's payments system[1].

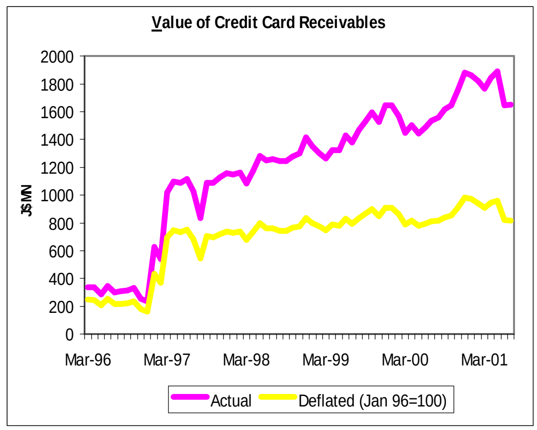
The review is in a context where despite the continued dominance of cash as a means of payment, the rate of increase in currency in circulation has slowed over the past four years (see **Figure 1.2**). This has coincided with the significant reduction in inflation over the period and innovations in payment mechanisms.

Payment Innovations

In addition to credit cards, there has been a significant expansion in the use of other means of payments such as debit cards. There are several advantages to using the innovations, particularly convenience and safety, which may encourage their use in preference to cash.

Credit cards were first introduced in Jamaica by a commercial bank in 1981 and at present four of the six commercial banks offer this service. The use of these cards has increased, primarily as a result of their convenience. The growth in the value of credit card receivables on the balance sheet of commercial banks reflects the increased use of this medium of payment over time (see Chart 1).

Chart 1



Survey data[2] received from two commercial banks indicate that the average withdrawal per credit card transaction grew from $1,865.5 in 1999 to $1,995.0 in 2000. This suggests that this medium of payment is used primarily for small to medium sized transactions, the traditional preserve of cash. This increased usage also coincides with the now widespread practice by merchants of accepting personal cheques only from a few well-known customers.

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[1] For a broader discussion see E. Hayle (1995) *Financial Innovations in Commercial Banking*. mimeo BOJ, and Zephirin et al (1997) *Financial Innovations in the Caribbean*. CCMS

[2] These results are from a payment system survey conducted by the BOJ in June 2001.

Debit and Automated Banking Machine Cards

Initially, holders of automated banking machine (ABM) cards were only able to access funds at their bank's ABM machine. However, an electronic funds network[3] was later established in 1997, enabling card holders to access funds at any ABM machine that is a part of the network. In addition, with the introduction of point-of-sale transactions (POS) in late 1998, one card was issued which had dual functions of an ABM and debit card.

J.E.T.S Limited currently operates the only electronic funds transfer network service in Jamaica offering the ABM and debit or POS services marketed under the name of Multilink. J.E.T.S is a co-operative venture of several financial institutions in Jamaica including four commercial banks, two building societies and several credit unions represented by the Jamaica Co-operative Credit Union League[4].

At the end of 2000 the total number of Multi-link customers stood at 491,171, apportioned as 440,265 and 50,906 ABM and POS customers, respectively. The number of ABM customers increased by approximately 35.0 per cent in both 1998 and 1999 and recorded a marginal increase of 2.9 per cent in 2000. The growth recorded in POS customers was 75.7 per cent in 2000 over 1999. One particular commercial bank recorded a significant increase in both ABM and POS customers between 1997 and 2000 (see Table 1).

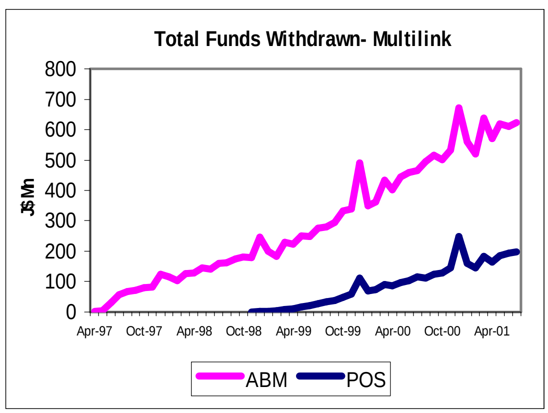
Table 1

New Customers ('000)					
	1997	1998	1999	2000	Total
ABM & POS-Multilink	73	98.4	151	168.8	497.2
ABM & POS-Commerical Bank X	12.3	14.8	23.4	9.0	59.5

There has been a steady increase in the use of ABM and point of sale transactions through the Multilink service since their inception. The overall growth in the use of ABM and debit cards over the last few years has been facilitated by continuous additions to the network. On average approximately 100 new POS terminals per month are installed while there are about 2 to 3 new ABM units added per quarter[5].

Over the last four years there has been sustained growth in the amount of funds paid out through the electronic transfer service. Total funds withdrawn through this medium increased by 93.3 per cent and 73.5 per cent in 1999 and 2000, respectively (see Chart 2).

Chart 2



[3] The transactions done via the network represent between 20% - 30% of the entire market.

[4] The member institutions are: CIBC Jamaica Limited, National Commercial Bank, Bank of Nova Scotia, Union Bank of Jamaica, Jamaica National Building Society, Victoria Mutual Building Society and credit unions across Jamaica represented by the Jamaica Co-operative Credit Union League.

[5] Source: http://www.multilinkdebit.com

The data received from two commercial banks indicated that the total funds withdrawn via ABMs grew by 27.9 per cent and 21.7 per cent in 1999 and 2000, respectively.

The data from these institutions also indicated that the average withdrawal at each transaction at their ABM machines (proprietary transactions) grew by 28.3 per cent between 1998 and 2000 from $2,349.3 in 1998 to $3,013.7 in 2000. This compares with growth of 21.3 per cent in the average withdrawal per transaction at ABM machines connected to the Multilink network between 1998 and 2000, where the average withdrawal increased from $2,168.1 in 1998 to $2,629.1 in 2000.

The average value of each POS transaction using the Multilink network increased from $1,743.3 in 1998 to $1,909.3 in 2000, an increase of 9.5 per cent. Survey data available from the commercial banking industry for the period March 2000 to March 2001 indicate a marginal increase of 1.0 per cent in the average withdrawal using the individual bank's POS.

Concluding Comments

Overall it is seen that increased innovations in technology have facilitated constant access to cash through ABMs, as well as an alternative to cash as a means of payment. There has been growth in the demand for the card services offered by deposit taking institutions such as commercial banks, credit unions and building societies. It is expected that in light of the advantages of these services the demand will likely continue to expand into the future. The convenience which these recent innovations provide will have an impact on the velocity of circulation of money, and may alter the traditional relationship between money balances usually held for transactions and expenditure in the Jamaican economy. Despite this however, experiences of other countries suggest that such financial innovations can enhance the effectiveness of monetary policy provided that the new and stable money demand schedule can be identified.

Figure 1.6
Selected Interest Rates

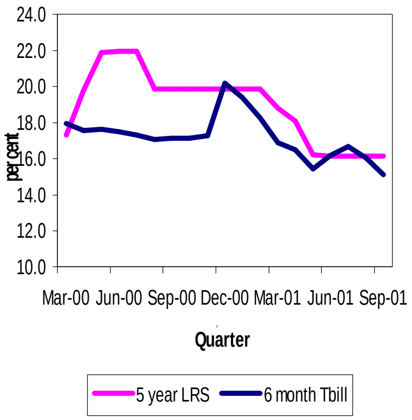
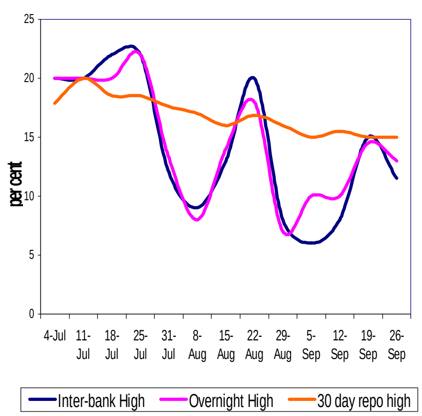


Figure 1.7
Private Money Market Rates



Bond Market

The trend of declining money market interest rates continued during the September quarter albeit at a slower rate (see **Figure 1.6**). There were periods when private money market and inter-bank interest rates deviated from their downward trend. However, the deviations were not a reflection of changes in market expectations. The temporary increases were actually in response to abnormally tight liquidity conditions that were in some instances precipitated by volatility within the foreign exchange market while in others the tightness occurred in response to the level and timing of government offers vis-à-vis redemptions.

In accordance with the tighter liquidity conditions, significant increases were observed in the private money market rates during the review period (see **Figure 1.7**). Overnight rates and inter-bank rates reached a high of 22.0 per cent while private 30-day repurchase rates peaked at 18.5 per cent. The temporary tightening in the domestic money market at the end of the June quarter had a negative impact on the cost of Government borrowing during July. As a result the average yields of offers during this month were higher than those of comparable instruments in the previous quarter. On 20 July, the average yields on a 35-day and 56-day Treasury Bill were 18.11 per cent and 18.42 per cent, respectively. This represented increases of 252 basis points and 276 basis points, respectively, relative to the equivalent yields on an 84-day tenor issued on the 22 June.

Subsequent increases in liquidity emanating primarily from government interest payments and maturing open market instruments enabled rates to return to their downward path. At 28 September the average yield of six-month Treasury Bills was 15.1 per cent, 110 basis points lower than the prevailing rate at the end of the June quarter. Concurrently, overnight rates, private 30-day repurchase rates and rates on inter-bank trades were as low as 4.25 per cent, 14.25 per cent and 5.0 per cent, respectively.

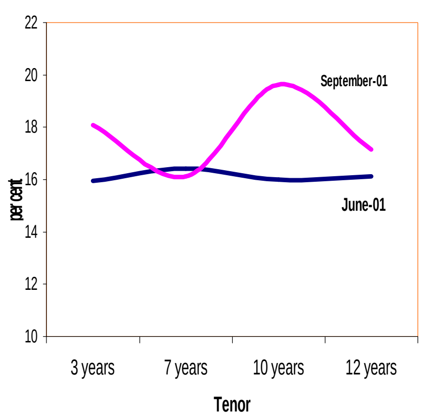
Table 1.4

Treasury Bills Auctions July - September 2001				
Issue Date	**Tenor (days)**	**Avg. Yield (%)**	**Allotment (J$MN)**	**Amount Maturing (J$MN)**
20 July	35	18.11	300	
	56	18.42	250	
27 July	182	16.65	300	350
24 Aug	182	16.04	500	650
	364	16.28	300	
14 Sept	273	15.50	400	1000
28 Sept	181	15.10	400	650
Total			**2 450**	**2 650**

Table 1.5

GOJ Domestic Debt Raising July - September 2001			
	Amount Allotted (J$MN)	**Amount Maturing (J$MN)**	**Net Redemption (J$MN)**
Treasury Bills	2 450.0	3 600.0	1 150.0
LRS	3 911.8	3 913.2	1.4
Debenture	0	0	0
US$ Bonds	0	1 258.3	1 258.3
TOTAL	**6 361.8**	**8 771.5**	**2 409.7**

Figure 1.8
Yield Curve - GOJ LRS



The Government continued its efforts to borrow less on domestic offers as evidenced by the net redemption of $2409.7 million (see **Table 1.5**). The reduced supply of domestic debt instruments resulted in consistently high levels of over subscription of tenders during the quarter. There were five offers of Local Registered Stock (LRS) during the September quarter as compared to seven in the previous quarter The outstanding stock of LRS was marginally increased by $1.4 million despite the reduction in the number of tenders (see **Tables 7A & 7B in Appendix C**).

The LRS yield curve also reflected the tighter liquidity conditions in July (see **Figure 1.8**). Relative to the rates at the end of the June quarter, there were increases of 215, 365 and 103 basis points on the 3-year, 10-year and 12-year tenors, respectively. However for the 7-year bond that was traded in September when liquidity conditions were more buoyant, there was a decline of 30 basis points relative to the average yield on the same instrument in the June quarter. The resumption of declining rates reflected both the easing of the tight liquidity conditions and investors' expectations for lower interest rates.

The interest rate differential between selected J$ denominated assets and GOJ Global Bonds (see **Figure 1.9**) for the fiscal period to September indicated that the premium on the domestic currency instruments generally exceeded the rate of depreciation in the exchange rate. The largest premium was the constant 5-percentage point difference found between the 270-day equivalent rate of the 6-month Treasury Bill and the GOJ Global bond 2002 [1]. Given the relatively attractive interest rate spreads, investors continued to demand Jamaica dollar instruments.

Consistent with the thrust to reduce interest costs by substituting domestic currency debt with foreign currency debt instruments, the Government offered two

[1] The instrument matures within the next 9 months and would be considered an alternative to the 6-mth Treasury Bill.

Figure 1.9
Interest Rate Differentials
2001

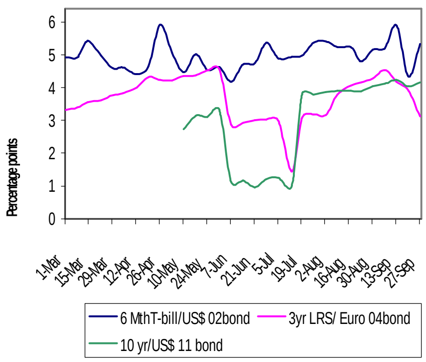
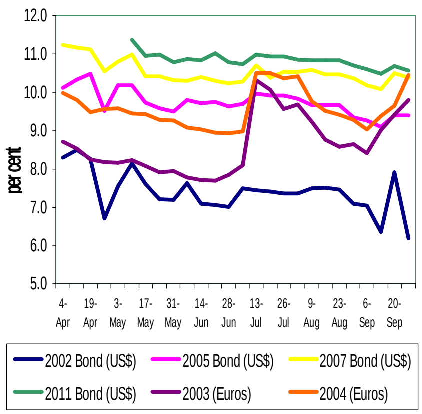


Figure 1.10
GOJ Global Bond Yields
2001



United States dollar denominated (US$) instruments on the local market during the quarter. These jointly raised US$175 million.

The Government having fulfilled its planned foreign commercial borrowing in the June quarter did not approach the international capital markets in the September quarter. The secondary market trading of instruments previously issued, exhibited an overall decline in yields during the quarter (see **Figure 1.10**). However, the trading of these instruments was not insulated from international developments during the quarter. The first shock was in early July when it was being widely speculated that Argentina would default on its foreign debt obligations. Further credibility was given to the belief that default was likely as Standard & Poor's downgraded Argentina's long-term external debt. There was a consequent increase in yields on the Jamaican bonds as investors reduced their holdings of emerging market bonds. The other major shock during the period relates to the attacks in the U.S.A. which precipitated a decline in the demand for emerging market bonds. Towards the end of September however, yields on GOJ Global bonds generally returned to a downward trend.

Despite the upward pressure on rates created by the liquidity conditions during the quarter, investors' expectation for rate declines were not altered. The Bank's ability to maintain stability within the financial system also gave credibility to the belief that there would be further reduction in rates. It was within this framework that rates were able to continue their decline during the quarter.

Stock Market

There was a decline in trading activity on the Jamaica Stock Exchange (JSE) during the September quarter. However, relative to the corresponding quarter in the previous year there was an increase in market activity. The downturn in review quarter was mainly attributable to negative external shocks as well as higher domestic interest rates at the beginning of the quarter. Further, the poor

Figure 1.11
Movements in the JSE Index for 2000 and 2001

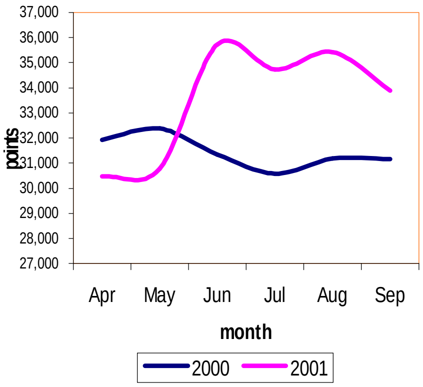


Figure 1.12
Volume Trade on the JSE for 2000 and 2001

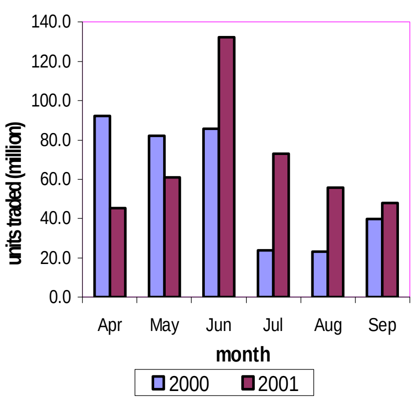
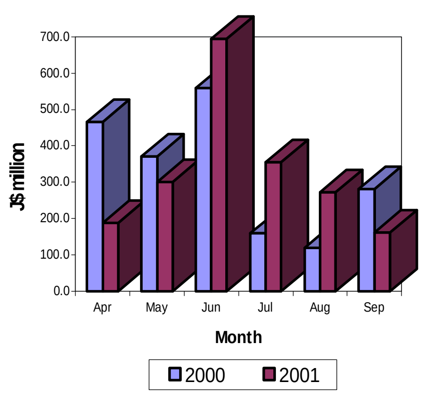


Figure 1.13
Value Trade for 2000 and 2001



financial results of many listed firms also contributed to lower share prices.

The buoyancy in the stock market for the September quarter relative to the performance in September 2000 was reflected in higher average monthly trading volumes of 58.9 million units in comparison to 28.9 million units (see **Figure 1.12**). The average monthly value traded increased to $263.4 million from $186.7 million (see **Figure 1.13**). Similarly, the average number of transactions rose to 1762 from 1289 in the September 2000 quarter.

Relative to the June quarter, average monthly volume traded decreased by 26.0 per cent relative to the June quarter. Similarly, there was a 33.3 per cent reduction in average valued traded while the number of transactions fell by 26.0 per cent. Further, at the end of September, the JSE index was 33,892.4 points, a decrease of 5.1 per cent, relative to the June quarter (see **Figure 1.11**).

Following on this trend, the All Jamaica Composite Index and the Jamaica Select Index also experienced declines. The All Jamaica Composite Index at the end of September 2001 was 32,428.7 points in comparison to 37,419.3 points at the end of the previous quarter. The Jamaica Select Index also lost 13.9 per cent, closing at 1002.3 points at the end of September 2001.

Stock market activity was adversely affected by relatively tight liquidity conditions in the money market during July and early August. Within the context of tight Jamaican Dollar liquidity in the first month of the quarter, the yields on Government's short term and long term instruments increased relative to the end of June 2001 (see **Bond Market**). These higher domestic interest rates, although not sustained to the end of quarter, lowered the attractiveness of investments in equity relative to government securities and reduced trading activity. Further, the social disturbance of 9 -11 July also negatively affected the stock market at the beginning of the review quarter. This social disruption resulted in a reduction of trading volumes[1] and the subsequent closure of the stock exchange on 10 July.

The negative external shock from 11 September 2001 also had a significant dampening effect on the JSE index. The attacks on the United States resulted in the closure of the New York Stock Exchange (NYSE) and the NASDAQ and heightened the expectations of a recession in the U.S. economy. This external shock also generated negative expectations regarding the possible effects on the prospects of various sectors of the Jamaican economy. Firms in the tourism, manufacturing and distribution sector, which are most likely to be affected by these external developments, experienced declines in their stock prices. Further, given the uncertainties in the economic environment, investor preference for greater liquidity may have increased, which would result in a divestment of equity holdings. These factors contributed to further sharp declines in the stock prices of many firms. Consequently, between 11 September and the end of the month, the JSE index lost approximately 1282.6 points.

Table 1.6

Major Gains and Loss on JSE (Sep 2001/Sep 2000)

	Open (J$)	Close (J$)	Change %
Financial Services			
Life of Jamaica	0.70	2.99	327.1
Trafalgar Dev. Bank	1.29	4.80	272.1
Dehring, Bunting & Golding	2.00	5.80	190.0
Other Services			
Palace Amusement	15.00	45.00	200.0
Ciboney	0.28	0.14	(50.0)
Manufacturing			
Salada	5.50	20.10	265.5
Carib Cement	4.00	2.20	(32.5)
Seprod	7.33	5.40	(26.3)
Carreras	36.80	31.00	(15.1)
Telecommunication			
Cable & Wireless	2.36	1.60	(32.2)

The poor financial results of many listed companies which were disclosed during the quarter, was also a contributory factor to the downturn in the stock market. Blue chip stocks such as Cable and Wireless and Carreras Group exhibited declines in profits and sales revenue. Other companies such as Carib Cement, the Gleaner Company and Seprod also disclosed lower than estimated financial outturns. These results have adversely affected the share price of many companies during the quarter (see **Table 1.6**).

For the third quarter of the fiscal year 2001/02, the performance of the stock market will continue to be affected by the negative expectations created by the 11 September attack on the United States. As the effects on the Jamaican economy becomes more apparent, there may

[1] Only approximately 691 thousand units were traded on 9 July relative to an average daily volume of 3.14 million units for June 2001.

be further adjustments in the stock market index. However, the maintenance of stability in the foreign exchange market and the downward adjustment of interest rates can play a key role in restoring investor confidence in the stock market.

Box 2: Expanding the Role of Equity Finance in Jamaica: Some perspectives

The Role of Equities

The stock market plays an important role in the mobilisation of savings and the allocation of capital. A well functioning stock market lowers the cost of raising funds and thereby facilitates investment in the most productive projects. Further, the efficient performance of the market provides services that enhance resource allocation and spurs economic growth. In particular, equity markets increase the incentives to acquire information about firms and improve corporate governance by linking the quality of management to the share price of a firm.

In the case of Jamaica, the role of the stock market in promoting economic growth has been limited by weaknesses in the institutional framework and insignificant primary market activity. The Jamaican stock market is often characterised by stock price volatility, high market concentration and low liquidity. For the period 1991-2000, the ten largest stocks accounted for 80 per cent of market capitalisation, which suggests that the stocks of a few companies often dominate trading on the stock market. In addition, the ratio of value traded to market capitalisation, which is used as an indicator of liquidity, averaged 0.08 for the ten-year period examined. Notably a ratio of 0.75 or greater represents a high market turnover while 0.10 shows limited turnover. The ratio for the Jamaican stock market therefore implies that the ability to buy and sell shares easily is often restricted. These market imperfections have resulted in reduced mobilisation of savings, the financing of low return investments and inadequate risk reduction through diversification.

Over the period 1991-2000, there has been a paucity of new listings on the Jamaica Stock Exchange. Specifically, there were only eight initial public offerings (IPOs) on the stock market. Primary market activity has been restricted by the preference for debt financing and the closed corporate culture of many Jamaican firms. In a primarily bank-based financial system, companies often choose to source the funds for start-up or expansion of business from these banking institutions. Further, many large firms exhibit a reliance on owner/family capital or partnerships with a few large non-family investors. These organisational forms are favoured relative to the issuance of shares, which may be viewed as a dilution of ownership.

Expanding the Role

For the stock market to become a more effective tool in the mobilisation of savings and play a greater role in economic development there must be an expansion in market liquidity and a more buoyant primary market. At the institutional level, the implementation of an electronic trading system and the establishment of the Jamaica Central Securities Depository (JCSD) has improved operational efficiency and reduced settlement risk. However, strategies such as:

- **the regionalisation of stock markets**
- **reform of the pension system**

can also aid in stimulating the growth of the equities market.

The establishment of a regional stock market would aid in promoting increased trading volumes while enhancing the effectiveness of the stock market as a channel for savings. A regional stock market would allow for an estimated market capitalisation of US$9 billion with trading in 86 securities [1]. This is relative to a market capitalisation of US$3.5 billion with trading in 38 securities on the Jamaica Stock Exchange. There are however, a number of requirements for the institutionalisation of a regional stock market. One requirement is the establishment of electronic trading systems and central securities depositories in each Caribbean stock exchange. Currently, only the stock exchanges of Jamaica and Barbados have met this requirement. Another issue is the establishment of payment and clearance systems that will facilitate trading on a regional stock market.

Further, Government policy regarding the reform of pension schemes may also help to stimulate growth on the stock market. In this regard, the enactment of a new Pension Act to provide for the regulation of pension schemes in Jamaica should encourage greater participation in these plans. Further, the privatisation of pension funds, as in the case of Chile, can provide a larger pool of investable funds. In Chile, all employed workers are mandated to contribute 10.0 per cent of their monthly income to privately managed pension funds of their choice. These private pension funds have become the largest institutional investors in capital markets and have contributed significantly to the deepening and growth of these markets.

In summary, the regionalisation of capital markets and the reform of pension systems can help to expand the role of the stock market in promoting increased savings and the efficient allocation of capital.

[1] Represents estimates using year 2000 figures.

Figure 1.14
Weighted Average Selling Exchange Rate (period average)

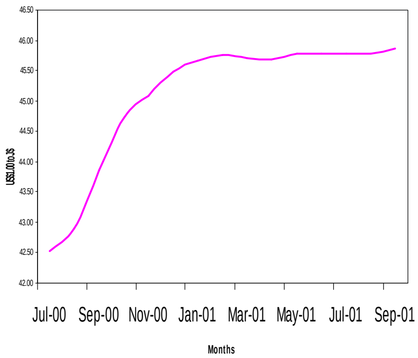


Figure 1.15
Foreign Exchange Cash Inflows & Outflows

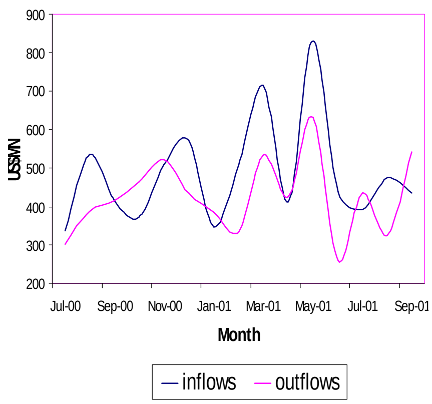
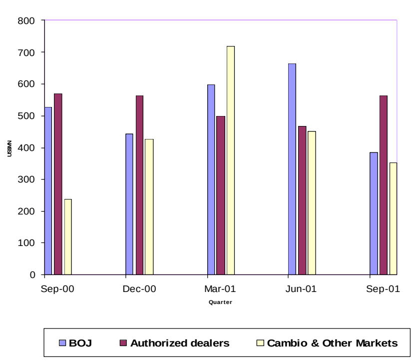


Figure 1.16a
Foreign Exchange Cash Inflows by Institution



Foreign Exchange Market

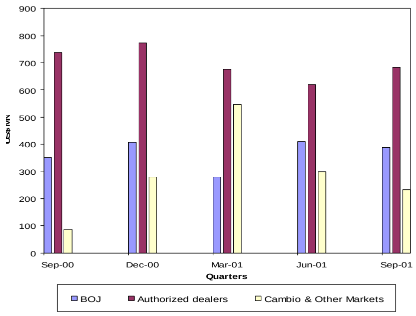
The relative stability observed in the foreign exchange market in the June quarter of the fiscal year continued into the September quarter. The weighted average selling rate moved from US$1.00=J$45.82 at end-June to US$1.00=J$45.94 at end-September. This represented a depreciation of 0.26 per cent compared with the 0.31 per cent depreciation recorded for the previous quarter. Despite the overall stability in the exchange rate during the quarter (see **Figure 1.14**), the market came under some pressure from late August and extending into much of September.

Preliminary estimates of foreign exchange flows for the review period are that economy wide demand exceeded supply by US$2.8 million (see **Figure 1.15**). Relative to the corresponding quarter in fiscal year 2000/01, demand is estimated to have increased by US$130.2 million to US$1303.8 million, while the estimated supply contracted by US$50.7 million to US$1301.0 million.

The outflow from the foreign exchange market over the review period was influenced by, inter-alia, increased payments associated with growth in the country's goods and transportation services import bill. Relative to the corresponding quarter of 2000, the contraction in inflows reflected the non-repetition of US$225.0 million in official borrowing on the international market. Notwithstanding the fall-off in supply, the system benefited from net inflows from private capital, tourism and transfers including remittances.

Consistent with the changes in foreign exchange flows for the overall system over the review period, total purchases by authorized dealers fell by US$17.7 million to US$718.8 million, relative to the comparable period in 2000, while total sales increased by US$56.1 million to US$794.4 million (see **Figure 1.16a** and **Figure1.16b**). As a consequence, the authorised dealers recorded net outflows of US$75.6 million during the review quarter. The growth

Figure 1.16b
Foreign Exchange Cash Outflows by Institutions



Bond issue impacts foreign exchange market.

in foreign exchange sales from this segment of the market largely reflected increased capital investment transactions.

The Cambio segment of the market reflected net inflows of US$29.0 million over the September quarter. Total sales of foreign exchange declined by US$116.3 million to US$355.5 million relative to the September quarter of 2000. Concurrently, their purchases decreased by US$112.0 million to US$384.5 million.

While the exchange rate was relatively stable over the quarter, some amount of instability was evident in September. The selling rate moved to US$1.00=J$45.94 at the end of September, from US$1.00=J$45.80 at the end of August, a depreciation of 0.31 per cent. The relatively active foreign exchange market in the month was associated with the Government's issue of US dollar denominated bonds on the domestic market, as well as uncertainties associated with the terrorist attack on the US on 11 September 2001.

Excess demand was evident in early September, attributable to attempts by authorized dealers to cover positions taken in respect of Government of Jamaica US$75.0 million private placement at end-August. Towards the end of September, the Government raised a further US$100.0 million from the domestic money market, which contributed to the demand pressures in the foreign exchange market as investors attempted to adjust their portfolios to participate in the offer. This latter development occurred against the backdrop of an average daily fall-off in foreign currency inflows of approximately US$4.0 million, for the three days immediately following the attack on the US, before returning to average daily inflows of US$24.4 million.

In response to the pressures in the market over the quarter, the Bank of Jamaica sold foreign exchange to assuage demand in three distinct periods. Towards the end of July and early August, strong end user demand necessitated the Bank's entry into the market, which served to ensure

Table 1.7

Net International Reserves (US$MN)		
	Stock	**Change**
Sept-00	935.5	0.1
Oct-00	845.7	-89.8
Nov-00	831.7	-14.0
Dec-00	969.5	137.8
Jan-01	931.2	-38.3
Feb-01	1 106.6	175.4
Mar-01	1 286.3	179.7
Apr-01	1 281.8	-4.5
May-01	1 480.6	198.8
Jun-01	1 540.5	59.9
July-01	1 526.2	-14.4
Aug-01	1 599.0	72.8
Sept-01	1 536.7	-62.3

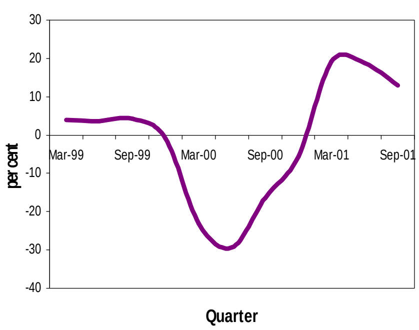
an orderly movement in the exchange rate for the remainder of August. In September, the Bank was prompted to sell foreign exchange to the market in response to pressures that surfaced as a result of the bond issue at the end of August, the effects of which persisted into early September. The third episode of sales in the market was precipitated by the uncertainty following the attack in the US. Demand pressure was further aggravated by the US$100.0 million bond offer towards the end of the month.

At the end of the quarter, the net international reserves amounted to US$1536.7 million, a contraction of US$3.8 million relative to the stock at end-June (see **Table 1.7**). This represented a positive deviation of US$200.4 million from the target set in the IMF Staff Monitored Programme. The draw down in the NIR over the quarter occurred against a backdrop of significant sales of foreign currency by the Bank of Jamaica in an effort to smooth supply conditions in the market. In this context, the gross reserves at end-September amounted to US$1605.9 million, representing 27.4 weeks of estimated goods imports or 18.6 weeks of estimated goods and services imports.

Table 2.1

Sectoral Contribution to Growth July - September 2001	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 Instit	+ve
TOTAL GDP	+ve

Figure 2.1
Domestic Crop Production
(12-month change)



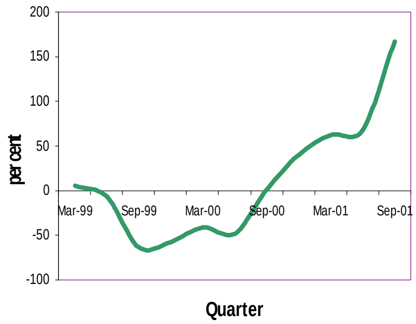
The positive economic growth observed during fiscal year 2000/01 accelerated during the first half of 2001/02. Estimates for April to September are that there was expansion in both the goods and services sectors of the economy. However, much of the accelerated growth was estimated in the goods producing sectors of the economy. All sub-sectors in the goods sector were estimated to have shown improvement relative to the corresponding period of last year. Of note, there were significant expansions in both mining and agriculture. The improvement in weather conditions was the primary factor contributing to the growth in the agricultural sector, while the mining sector continued to reflect normalisation of the bauxite industry after a sharp fall out in the two previous years. The expansion in the services sector continued to be dominated by basic services. Indications are that there was stronger growth in communications and distribution relative to the corresponding period of 2000.

Aggregate Supply for the September Quarter

For the review quarter, expansion in output was evident in both sectors with the goods sector recording a higher level of growth than the services sector. The growth in the services sector was partially offset by contraction in the miscellaneous and financial services. With these exceptions, all the sectors of the economy recorded an increase in value added during the quarter.

Agricultural production was enhanced by favourable weather conditions relative to that of the corresponding quarter of the previous year when drought conditions existed. The improvement was particularly evident in domestic **agriculture**, which recorded an estimated increase of 10 percent. The increase in the level of production resulted from both an increase in the area under cultivation, as well as improvement in the productivity of of the land under cultivation. Two other sub-sectors,

Figure 2.2
Crude Bauxite Production
(12-month change)



livestock and hunting and fishing, are estimated to have increased in production, due mainly to growth in poultry and fish farming. Growth in this sector has been spurred by ongoing investment in the poultry and aquaculture industries.

Value added in the **mining** sector increased significantly during the September quarter of 2001/02. This increase stemmed from both bauxite and alumina production. However, the most significant, was an estimated 167.0 per cent increase in the production of crude bauxite with alumina production estimated to have increased by 6.5 per cent. During the quarter bauxite production was enhanced by higher bauxite exports to the Gramercy processing plant in the United States of America. Improvements in efficiency, as well as investment in production capacity were the primary factors contributing to the growth in alumina production during the review period.

Marginal expansion in manufacturing.

The **manufacturing** sector was estimated to have expanded marginally during the review quarter relative to the corresponding quarter of 2000. This growth in output was realized in the production of sugar, molasses & rum, beverages, as well as food processing and petroleum refining. The performance of the sector was, however, dampened by declines in the apparel industry, as well as in the production of tobacco and tobacco products.

Indicators of activity in the **construction** and **installation** sector indicate that there was a marginal expansion in the September 2001 quarter relative to September 2000. This growth was in part inferred from an estimated increase of 15.0 per cent in cement sales, as well as from an expansion in loans to the sector relative to the corresponding period of 2000/01. The performance of the sector was also enhanced by the installation of new cellular sites. The continuous road repairs and road construction by the Government of Jamaica would have further boosted the performance of the sector.

For **basic services**, the estimates indicate that there was an increase in the value-added of both of its components,

Figure 2.3
Electricity Sales

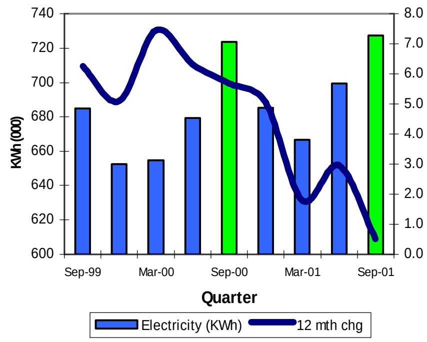


Figure 2.4
Telecommunications - number of lines in service (12 month change)

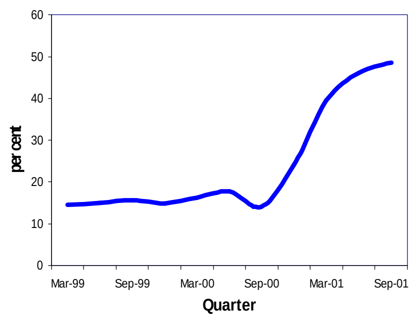
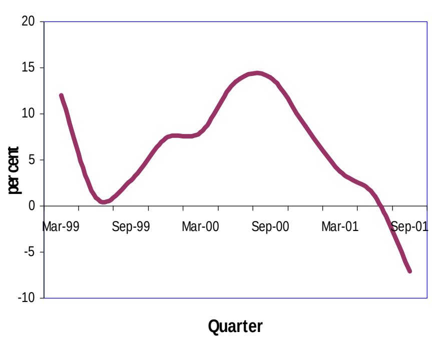


Figure 2.5a
Visitor Arrivals (12-month change)



electricity & water and transport storage & communication. The expansion in the electricity & water was inferred primarily from an increase in total electricity sales of 0.5 per cent when compared with the similar period last year. For the communications sub-sector, the estimated 49 per cent change in the stock of telephone lines suggest that there was a significant increase in the value added of the sector during the review quarter relative, to the corresponding quarter of the previous year. The growth in the number of telephone lines in service was as a result of increased demand for telephones arising from aggressive marketing by both telephone companies. In relation to the transportation sector, there was growth in the number of seats during the review period resulting from an increase in the number of public passenger buses. This had a positive impact on the value added of land transportation. However, the performance of air transportation was negatively influenced by the temporary closure of the USA airspace in September.

Indications are that there was an estimated increase in the value added of the **distribution** sector during the review quarter relative to the same period the previous year. The improved performance of the sector resulted from the expansion in the output of the goods producing sectors of the economy. An assessment of estimates of import data has also indicated an increase in the buoyancy of the sector relative to the similar period of last year.

In the travel sub-sector, the dominant component of the **miscellaneous** sector, estimates suggests that both arrival and expenditure declined by 9.6 per cent and 8.0 per cent, respectively, relative to the same period of the previous year. A major factor contributing to the decline was social disturbances in sections of Kingston in July, which received extensive media coverage abroad. The contraction was also in contrast to strong visitor arrivals in the same quarter of 2000 due to adverse weather conditions, which was affecting competing destinations. Further, the terrorist attack on 11 September in the United States which accounts for approximately 70 per cent of Jamaica's visitors, had a

Figure 2.5b
Visitor Expenditure
(12-month change)

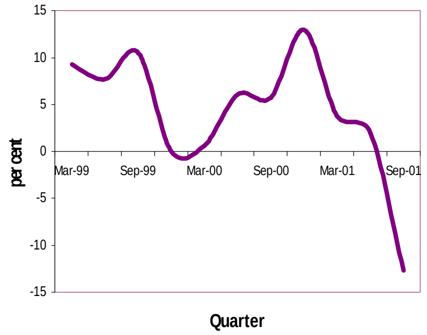


Figure 2.6
Consumption Tax Revenues
(12-month change)

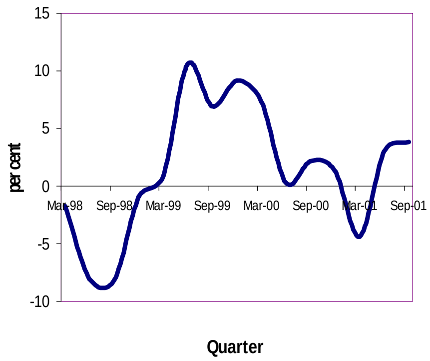
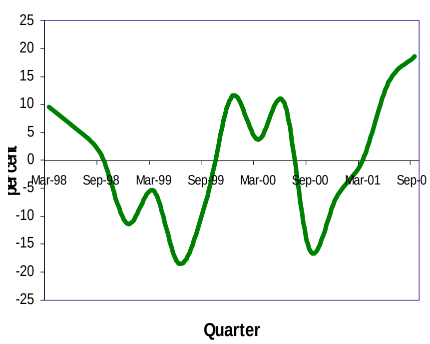


Figure 2.7
Government Consumption
(12-month change)



deleterious impact on the sector in that month. Consequently, expected occupancy levels fell by 10.0 per cent, 17.0 per cent and 7.0 per cent for small, medium sized and large hotels to 30.0 per cent, 48.0 per cent and 65.0 per cent respectively. There was also discounting of room rates by as much as 30.0 per cent.

Preliminary estimates of the performance of the **financial** sector for the September quarter indicate that the sector had declined relative to the corresponding period last year. This outturn is against the background of a substantial decline in the output of the Bank of Jamaica, which offset the moderate growth in the insurance industry. With regard to the performance of the other entities in the banking sector, a marginal decline in value added was estimated for commercial banks, while growth was indicated for merchant banks.

Aggregate Demand for the September Quarter

Similar to the previous quarter, indicators of consumption demand for the September quarter suggest an expansion relative to the corresponding quarter last year. This expansion was seen in both public and private consumption (see **Figures 2.6** and **2.7**). The estimated expansion in consumption was indicated by expansion in both consumption tax and the value of consumer goods imported. The relatively large growth of approximately 20.0 per cent in public consumption is in contrast to last September quarter when there was significant containment in public sector spending.

Indicators of investment demand in the quarter suggest an increase in private investment relative to the September quarter of the previous year. An estimated increase in foreign direct investment in the balance of payments as well as capital goods and raw material imports estimates underpin this inference. It is estimated that there was modest growth in public investment over the corresponding period of 2000. However it is estimated to have declined when compared to the June quarter.

Figure 2.8
Government Investment
(12-month change)

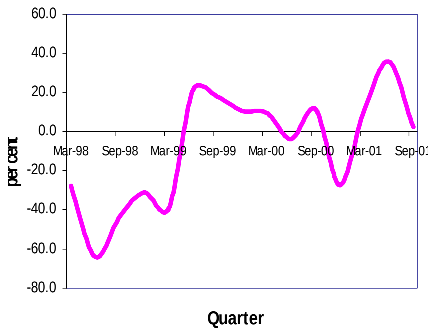
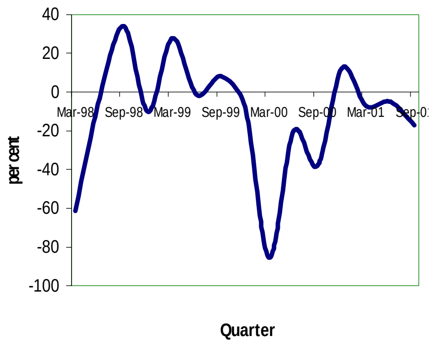


Figure 2.9
Net External Demand
(12-month change)



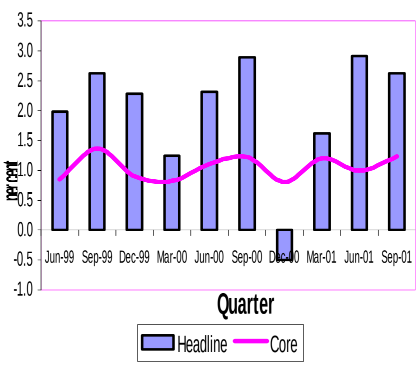
With respect to net external demand, the assessment reveals that there was a worsening performance in the review quarter relative to the corresponding quarter of 2000. This was reflected in higher estimated growth in imports relative to exports and a worsening in the performance of the net travel and transportation services.

The overall assessment of aggregate demand for the quarter suggests an increase when compared to the corresponding quarter of fiscal year 2000/01. This was reflected in the estimates of changes in expenditures, which showed noticeable expansion in both consumption and investment demand.

In summary, estimates of economic performance for the September 2001 quarter have indicated that there was an expansion of economic activity from both the demand and supply perspectives. An assessment of the goods and services sectors in the quarter has shown continued recovery in the goods sector due mainly to agriculture and mining. Similarly, indicators of components of aggregate demand primarily consumption and investment demand have also suggest growth. It is expected that this positive performance will be somewhat curtailed in the ensuing quarters due to recent international developments. However, expectations are that economic growth will still be attained for the year.

3. Inflation

Figure 3.1
Quarterly Headline & Core Inflation



Food & Drink accounted for 63.8 per cent of the inflation during the September quarter.

Headline Inflation

During the review period, inflation continued the trend observed since the mid 1990s. The tendency for the Consumer Price Index (CPI) to increase at a slower rate has been maintained despite, among other things, agricultural supply shocks, oil price shocks, changes in administered prices, and exchange rate adjustments. This is due to the continued adherence to the monetary targets, which have moderated aggregate demand and exchange rate volatility.

During the September quarter, the CPI rose by 2.7 per cent, compared to 2.9 per cent for the June quarter. This brought the rate of inflation for the first half of the fiscal year to 5.7 per cent, which was 0.5 percentage point above the comparable period of last year. Despite this, the inflation rate for the review quarter was 0.2 percentage point lower than that recorded for the corresponding quarter of the previous fiscal year (see **Figure 3.1**).

Headline inflation for the review quarter was marginally higher than projected[1]. The deviation was due primarily to higher than expected prices for some commodities in the *Food & Drink*, *Miscellaneous Expenses* and *Housing and Other Housing Expenses* sub-indices.

The movement in the CPI during the September quarter largely reflected increases of 7.1 per cent , 1.9 per cent and 3.0 per cent in the *Miscellaneous Expenses*, *Housing & Other Housing Expenses* and the *Food & Drink* sub-indices, respectively. These three groups contributed 22.8 per cent, 6.3 per cent and 63.8 per cent, respectively, to the overall inflation outturn. All other groups, with the exception of *Transportation*, recorded increases of close to

[1] Inflation for the September quarter was projected at 2.0 ± 0.3 per cent - see Quarterly Monetary Policy Report, April - June 2001, pg.33.

Figure 3.2
Annual Average & Point-to-Point Inflation

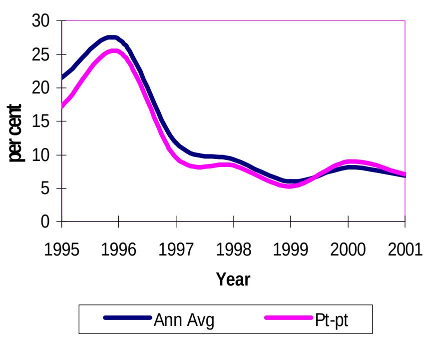
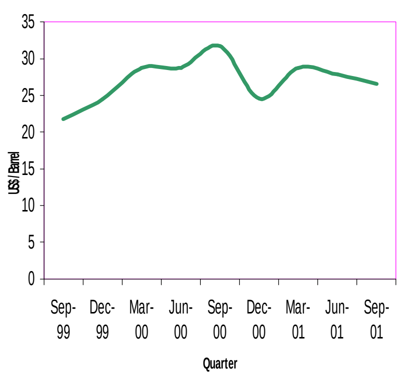


Figure 3.3
Average Price of West Texas Intermediate Crude



1.0 per cent for the quarter. The *Transportation* sub-index declined by 0.2 per cent reflecting discounts on international airfares. This is in contrast to the previous quarter when the sub-index grew by 23.2 per cent and contributed 50.6 per cent to overall inflation. The contribution of the *Transportation* sub-index in the current quarter was consistent with the Bank's expectations that the bus fare increases that occurred in June would have had a marginal second-round impact on inflation in subsequent periods[2].

The slow down in the rate of inflation was also evident in the twelve-month point-to-point and annual average inflation rates. At the end of the September quarter, the twelve-month point to point inflation rate was 6.9 per cent. This compared favourably with the 9.0 per cent recorded for the corresponding period of the previous year. In addition, the annual average inflation rate was 6.7 per cent at the end of September 2001, compared to 8.1 per cent at September 2000. Furthermore, both measures of inflation display a tendency to converge (see **Figure 3.2**).

International factors had mixed influences on the domestic price level during the quarter. In particular, the average price per barrel for the benchmark West Texas Intermediate (WTI) crude declined from US$27.84 in the quarter ending June to reach US$26.60 at the end of the September quarter. The decline in the average price of WTI crude in September has resulted in a US$2.21 per barrel reduction for the first half of the fiscal year (see **Figure 3.3**).

Conversely, international commodity prices increased during the quarter despite sluggish world demand. The internationally traded commodities listed in **Table 3.1** are major inputs for items in the Food & Drink group of the Jamaican CPI. Comparing average world market prices in the September quarter to those of the June quarter indicates that the cost of importing these commodities was higher during the review quarter. Consequently, price movements

[2] Quarterly Monetary Policy Report, April - June 2001, pg. 28.

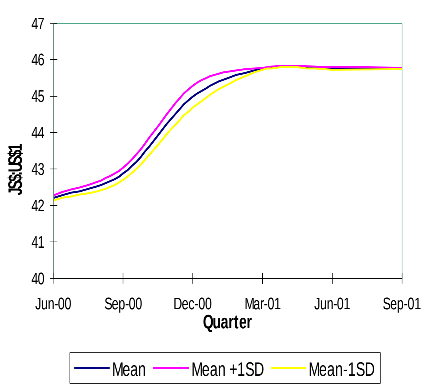
Table 3.1

International Prices of Selected Commodities (US$)

Commodity	Units	Sep-00	Jun-01	Sep-01
Coconut oil	$/mt	367.7	301.7	360.5
Groundnut oil	$/mt	668.0	697.7	666.0
Soybean oil	$/mt	327.0	310.3	415.5
Grains				
Soybean meal	$/mt	181.3	171.7	184.5
Soybean	$/mt	201.3	186.0	210.0
Maize	$/mt	77.1	85.1	92.4
Sorghum	$/mt	77.7	92.9	94.8
Wheat Canada	$/mt	138.9	152.4	153.9
Rice (A1)	$/mt	143.4	124.4	139.0
Exports				
Sugar (EU)	Cts/kg	54.2	53.1	52.1
Sugar (US)	Cts/kg	42.0	46.9	46.6
Sugar (World)	Cts/kg	22.1	20.12	18.6
Banana (EU)	$/mt	611.0	834.9	665.7

Source: World Bank, Commodity Price Data

Figure 3.4
Exchange Rate Stability



in these items would have influenced price changes in the *Food & Drink* category.

The most important factor serving to moderate domestic inflation during the review period was the stability of the Jamaica Dollar against its United States counterpart. **Figure 3.4** demonstrates that the exchange rate [3] has been relatively stable for most of the fiscal year to date. The continued exchange rate stability was largely a consequence of the conservative and pre-emptive monetary and foreign exchange policy actions of the Central Bank.

Contribution to Inflation

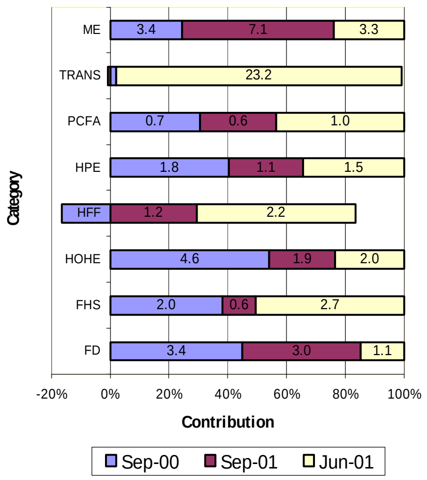
The *Food & Drink*, *Miscellaneous Expenses* and *Housing & Other Housing Expenses* sub-indices continued to dominate the increase in the CPI over the review quarter. Cumulatively these three groups contributed 92.9 per cent to the inflation outturn (see **Figure 3.5**).

The *Food & Drink* sub-index rose 3.0 per cent and given its weight in the CPI, accounted for 63.8 per cent of overall inflation during the quarter. The contribution of the *Food & Drink* sub-index to inflation in this quarter was similar to the corresponding period of the previous year, when the group expanded by 3.4 per cent and contributed 64.3 per cent to overall inflation.

Starchy Foods and *Fruits & Vegetables* were the sub-groups within the *Food & Drink* group imparting the strongest inflationary pressure. Though seasonal price increases for yellow and lucea yams, irish potatoes, tomatoes, carrots, cabbages were significant, other factors played important roles. Increased duties on agricultural imports would have effectively eliminated the customary cushion from imported produce during these episodes. Additionally, the disruption at the Coronation Market by the unrest in early July would have left sellers with an incentive to recoup losses by price adjustments in

[3] Exchange rate stability expressed as weighted average selling price of J$ per US$ plus or minus one standard deviation.

Figure 3.5
Quarterly Inflation by Component



ME = Miscellaneous; TRANS = Transportation; PCFA - Personal Clothing Footwear & Accessories; HPE - Healthcare & Personal Expenses; HFF = Household Furnishings & Furniture; HOIHE = Housing & Other Housing Expenses; FHS = Fuel & Other Household Supplies; FD = Food & Drink

subsequent periods. By comparison, the higher inflation in the *Food & Drink* in the September 2000 quarter was the consequence of the severe drought conditions during that year. In eight months of the calendar year 2000, rainfall was less than 55.0 per cent of the 30-year mean.

The *Miscellaneous Expenses* group ranked second in terms of its influence on inflation during the review quarter. This sub-index expanded by 7.1 per cent and was responsible for 22.8 per cent of overall inflation. The impetus from this group during the quarter was significantly higher than the corresponding quarter of last year. This chiefly resulted from the coincidence of increases in the costs associated with back-to-school activities with one-off increases in postal rates and disproportionate expansions in cinema fares in one area.

Increases in Postal rates drove the index ...

The third most important contributor to inflation over the quarter was the *Housing & Other Housing Expenses* group. This expenditure group increased by 1.9 per cent and contributed 6.3 per cent to overall inflation. The outturn was substantially lower than that recorded for the corresponding period of the previous year when the sub-index expanded by 4.6 per cent and contributed 14.4 per cent to overall inflation. *Rental and Other Housing Expenses*, the two sub-groups comprising this sub-index, expanded by 2.4 per cent and 1.8 per cent, respectively and contributed 2.0 per cent and 1.8 per cent to overall inflation. The cost of rental increased at a slower pace this quarter than in the same period of last year. This is likely attributable to the combination of increased construction in the past year and lower wage settlements. The increases in the *Other Housing Expenses* sub-group reflected significant expansion in construction related costs and smaller increases in electricity and water rates. In particular, the price of cement rose 5.5 per cent across all regions. In addition, the wages of carpenters and masons increased by 9.2 per cent under a new agreement between unions and the Incorporated Master Builders Association.

... along with higher construction costs ...

Regional Distribution of Inflation

During the review quarter, the CPI increased by 3.1 per cent in the Other Towns and in the Rural Areas but by 2.3 per cent in the KMA. The higher inflation outside the KMA stemmed principally from the disproportionate distribution of price changes in the *Miscellaneous Expenses* sub-index and the Starchy Foods sub-group (see **Table 3.2**).

For the *Miscellaneous Expenses* group, a structural change in the basket caused by the closure of a regular low-priced cinema led to an asymmetrical increase in the Other Towns index. An additional cause for the regional disparity was the larger weights on postage and telegrams in Other Towns and Rural Areas.

The *Starchy Foods* sub-group exerted greater influence in the Rural Areas and Other Towns. The higher prices for ground provisions in the major producing areas can be explained by distribution and marketing practices. Larger, more lucrative markets are located in the KMA and hence attract higher volumes from suppliers. In the event of shortages, the adverse effects will be felt more severely at source as minimal supplies would be on hand in these regions.

Table 3.2

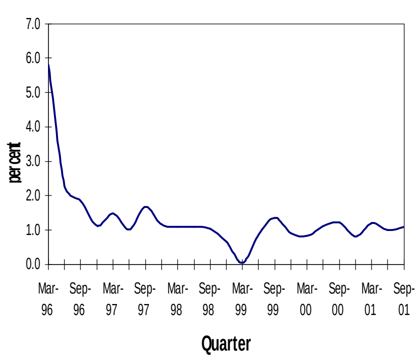
Regional Distribuiton of Inflation

	KMA (%)	Other Towns (%)	Rural (%)
FOOD & DRINK	**2.5**	**2.6**	**3.8**
- Starchy Foods	13.2	16.7	15.4
- Vegetables & Fruits	6.2	2.7	6.9
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.9**	**1.0**	**0.1**
- Fuels	1.1	1.2	-0.2
HOUSING & OTHER HOUSING EXPENSES	**2.1**	**1.6**	**1.6**
- Rental	2.8	0.9	0.9
HOUSEHOLD FURNISHINGS & FURNITURE	**0.8**	**1.8**	**1.1**
- Furniture	-1.6	1.9	2.3
HEALTHCARE & PERSONAL EXPENSES	**1.4**	**1.3**	**0.4**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.5**	**0.3**	**0.8**
TRANSPORTATION	**-0.4**	**0.0**	**-0.1**
MISCELLANEOUS EXPENSES	**5.5**	**10.6**	**7.0**
ALL GROUPS	**2.3**	**3.1**	**3.1**

Core Inflation and Monetary Policy

Since the mid 1990's quarterly core inflation has been falling (see **Figure 3.6**), reflecting more stable monetary conditions. Accordingly, over the last eight quarters, core inflation has been limited to within the range of 0.8 to 1.4 per cent per quarter and has averaged 1.1 per cent.

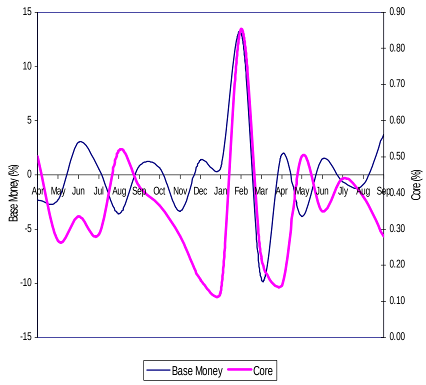
Figure 3.6
Core Inflation
(3-month)



Core inflation for the review quarter was estimated at 1.1 per cent compared to 1.2 per cent for the corresponding quarter last year. This brought core inflation for the first half of the current fiscal year to 2.1 per cent, relative to the 2.3 per cent recorded for the corresponding period of the previous year.

The association between the two-month lagged percentage change in base money and monthly core inflation is

Figure 3.7
Base Money Growth & Core Inflation



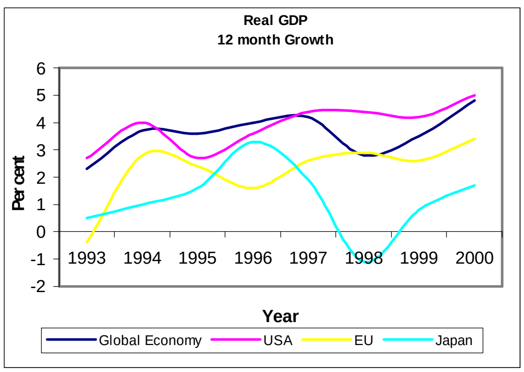
depicted in **Figure 3.7**. For the most part, the observed relationship is generally consistent with policy expectations. Nonetheless, management of base money has continued to be a critical element in containing inflation.

Box 3: The US Economy: Recent Trends & Prospects

Overview

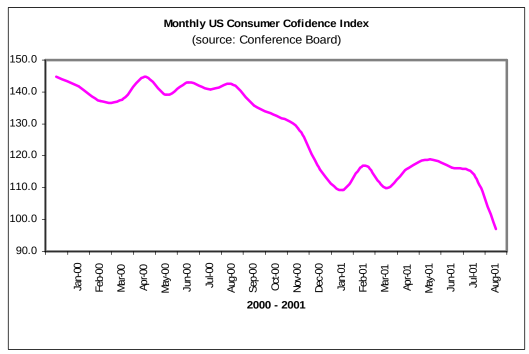
The 11 September tragedy in the United States of America (USA) and the retaliatory actions being pursued underpins an ongoing debate on the prospects for growth in the United States economy. With the US providing the primary impetus for growth in the global economy over the past eight years, these events also pose serious challenges to the global prospects for growth (see Chart 1).

Chart 1



Since the latter half of 2000, the US had started to exhibit a deceleration in quarterly economic growth, which engendered a weakening of business and consumer confidence[1]. To counteract these developments, the government initiated a series of economic policies, beginning in January 2001, aimed at stimulating the economy. Then came the attacks that have worsened the outlook. Since the shock, additional economic stimulants have been introduced, however, the uncertainty associated with war is deemed a threat to the effectiveness of the economic stimulus package, particularly in the short-term. The primary concern is that the military response has further depressed consumer confidence and commercial activity.

Chart 2



Analysts have sought to explain the prospects for the US economy in the context of previous crises. This is in an attempt to determine whether or not the economy will be able to avert a significant decline in economic activity. In recognition of the uncertainty associated with the war, the Wall Street Journal purports that there is a general consensus that the US economy will not be able to avoid a recession[2] for the remainder of 2001. However, the economy is expected to gradually rebound in 2002 in response to the economic stimulus package. This feature seeks to highlight some of the economic risks and appropriate policy responses being debated in

[1] Consumer confidence has been adversely affected by the slowdown in economic activity as evidenced by the contraction in the labour market and reduced investment income from asset market activities.

[2] A recession is commonly defined as two consecutive quarters of shrinking gross domestic product, the total output of a nation's goods and services.

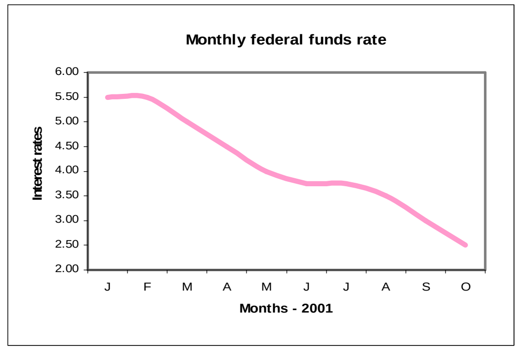
the wake of the current crisis. It examines developments in the US stock market, global commodity prices, foreign travel and the feed-through effect on emerging market economies.

The US economy prior to 11 September

The slowdown in the US economy since the later half of 2000 continued into the first two quarters of 2001. This deceleration in the US economic growth rate was attributable primarily to the sharp correction in asset prices[3], which resulted in lower returns on investments in the stock market. The decline in asset market gains contributed to a reduction in consumer spending which was transmitted into a contraction in the manufacturing sector. Emanating from this shortfall was a general decline in business investments and higher unemployment. These developments contributed to the decline in consumer confidence and fears of a US recession. In response, the Federal Reserve Board initiated a series of interest rate cuts in January 2001. The resulting reduction in the federal funds rate to 3.5 per cent by end August 2001, from 6.5 per cent in December 2000 was intended to stimulate private demand and restore business confidence (see Chart 3).

These initiatives, coupled with the proposed tax relief package were to provide the stimulus for acceleration in economic activity beginning in the third quarter of the current year[4].

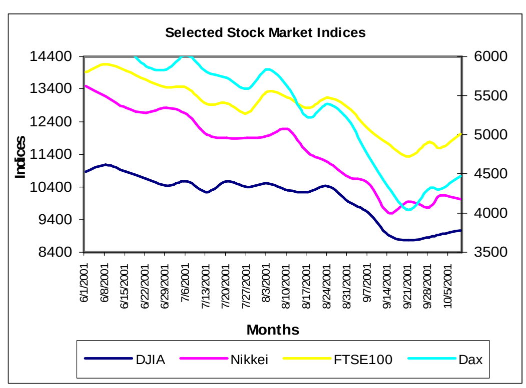
Chart 3



The post attack developments

As with most other crises, the tragedy in the US resulted in an immediate plunge in all major US stock market indices. This had an immediate spillover effect on other major international stock markets (see Chart 4). There was also a rapid increase in bond yields and a notable slide in the US dollar against its major trading partners. However, these developments were short lived as within a couple days following the attacks, these indicators began to gradually improve, albeit at a slow pace and with increased volatility compared with the movements prior to 11 September. In addition,the degree of volatility in energy prices has increased, reflective of a fall off in private demand as fears of a US recession heightened.

Chart 4



[3] The correction in asset prices came against the background of an overvaluation of asset prices, in particular, technology stocks, which resulted a stock market bubble during the period 1999 into early 2000.
[4] The consensus is for a 9 month to 1-year lag in the monetary transmission process.

To counteract the potentially destabilizing effects of the crisis, the Federal Reserve implemented two additional rate cuts of 50 basis points each, reducing the federal funds rate to 2.5 per cent, its lowest in 39 years. This was complemented by the initial injection of a US$40 billion fiscal incentive by the US Treasury and the recent announcement of an additional US$85 billion fiscal stimulus.

Outlook

Given the unprecedented nature of the 11 September events, the impact is uncertain. Despite the absence of GDP figures for the third quarter at the time of writing, there is a general consensus that economic growth will slow considerably with the possibility of a recession by end 2001.

Despite the inherent uncertainty associated with the present crisis, there are two possible scenarios that can be examined, each with differing outcomes. These are a protracted war, as opposed to a brief retaliatory action within a defined geographical boundary. In the first instance, a protracted war in the Middle East is likely to have a more adverse effect on the prospects for growth in the US economy, than a short-lived military response.

In the absence of a prolonged war, it is expected that the economy will rebound by the end of the first quarter of 2002. The current expansionary path of monetary and fiscal policy and the underlined strength of the US economy underpin this positive growth prospect. At present, the economy is experiencing low and stable inflation, low interest rates and a fiscal surplus. These are conducive to additional economic stimulus without inducing inflationary pressures.

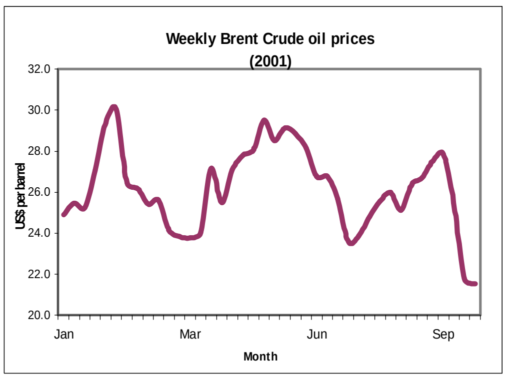
Implications for Emerging Market Economies

A number of concerns have been raised regarding developments in global commodity markets and foreign travel and the impact of these on emerging market economies. The fear of air transport has intensified and is considered a critical global consequence of the tragic events of 11 September. The fall in the number of airline passengers has translated into increased unemployment in the airline and hotel industries. Of concern also is the proposed increase in the cost of re-insurance within these industries. In light of these developments, countries have been forced to increase spending on airport security and to offer considerable tax incentives and guarantees to affected industries, including air carriers. The uncertainty associated with a prolonged military conflict appears to be a threat to the opportunities for recovery.

Given the anxieties associated with air travel, the growth forecast for world tourist arrivals for 2001 has been reduced from 3.0 per cent to 1.5 per cent by the World Tourism Organization. (They have however maintained their longer term forecasts of 4.1 per cent annual average growth.) Potential travelers are postponing holidays, opting for shorter tours and switching to destinations that are closer to home. The Caribbean stands to benefit from this redistribution of travel, given its proximity to the US and the relative safety of the destination. A number of cruise ships has already been redeployed to the region and there is some improvement in business travel.

Since 11 September, the degree of uncertainty has placed further restraint on US consumer confidence and could result in a decline in the import propensity. A decline in demand for imports is likely be translated into lower international prices, in particular primary commodities. To date, the crisis has actually resulted in a general decline in global oil prices, albeit with increased volatility. Oil prices have dipped to a low of US$20.70 per barrel, from US$27.53 per barrel two trading days before the tragedy. The sharp fall is depicted in chart 5.

Chart 5



While the gains from the current downward movement in energy prices are likely to result in savings in the import bill for oil-importing countries, it should be noted that the oil market is highly susceptible to further developments in the Middle East. Supply conditions in the oil market and a possible change in consumption patterns could facilitate a reversal in the downward trend in oil prices, as the situation in the Middle East remains unresolved. There are two primary factors that could affect oil supply and energy prices. Firstly, given the geographical proximity of some of the major oil producing countries to the combat zone, a prolonged military action could disrupt supplies. Secondly, in light of the current slowdown in oil demand, OPEC[5] has indicated that it is contemplating a curtailment of oil supplies to protect its oil index target [6]. On the demand side, the reduction in private consumption inclusive of the demand for commercial aviation fuel could easily be offset by increased demand for defense purposes. When combined, the possibility of a decline in oil supply and increased demand could lead to an upsurge in oil prices.

Prior to the 11 September, there was mounting economic tension in emerging markets following the recent downgrade in the credit ratings of Turkey and Argentina. Financial difficulties in these two economies, which intensified in early 2001 led to increased risk of default on debt commitments. Further, the slowdown in the US economy was already having adverse effects on a number of emerging market economies, particularly those in Latin America and the Caribbean.

The International Institute of Finance has cut its forecast for the flow of private capital to emerging market economies for 2001, by 36.0 per cent. The estimated reduction in private flows is consistent with a tendency for 'flight to quality'. In general, whenever there is growing economic uncertainty, investors tend to place greater confidence in the industrialized economies. Already stock market indices in a number of these emerging economies are reporting greater declines compared with those in the US. There has also been a notable increase in the yield on

[5] Organization of Petroleum Exporting Countries (OPEC).
[6] OPEC has an informal agreement to cut production whenever its daily oil index stays below $22 per barrel for more than 10 consecutive trading days.

emerging market debt, with prices exhibiting greater volatility than before the tragedy. However, these developments should be partly countered by a projected rise in official flows from the major multilateral lending institutions and other official lenders. Likewise, to the extent that a number of these economies would have been making progress in key economic reforms, inclusive of prudent debt management, the possible effects of a downgrade in the credit rating of the group may not be very devastating.

Summary

The events of 11 September have presented serious challenges for the global economy. The crisis exacerbated the downturn within the US economy Given the strength of a number of US macroeconomic fundamentals, the successful implementation of the economic stimulus package is likely to avert any prolonged slowdown in the United States. Conversely, a short-term recession cannot be ruled out as weakening consumer confidence continues to mitigate against the effectiveness of the current monetary and fiscal incentives. The uncertainties are being transmitted into delayed spending, reduced air travel and an even lower level of business investments.

The crisis is likely to have a more direct effect on those emerging market economies that maintain strong trading links with the US. Despite the risks involved, there is no real immediate danger of a major collapse in global economic activities, given the strength of the global economic infrastructure.

Outlook

Table 4.1

Jamaica's Economic Performance Targets April - September 2001	SMP	Acutal	Variance
NIR Stock (US$mn)	1 336.3	1 536.7	200.4
Base Money Growth	-2.2%	-2.2%	0
Fiscal Balance/GDP	-4.21%	-4.09%	0.12
Primary Balance/GDP	3.61%	3.33%	0.28

The economy has maintained its strong economic performance under the IMF's Staff Monitored Programme for the first half of this fiscal year. Although the inflation rate was slightly higher than anticipated, the broad monetary and fiscal targets were comfortably met (see **Table 4.1**). The performance for the rest of fiscal year 2001/02 however, will be largely influenced by the impact of the recent events in the United States (US) on the global and Jamaican economies.

US consumer confidence critical to economic recovery.

The slowdown in the global economy is likely to continue over the ensuing quarter, with the balance of risk favouring some intensification. This is largely due to lower or falling consumer confidence and heightened uncertainties about the prospects for the US economy. The policy actions of the US Federal Reserve over the past twelve months (and other major central banks), in addition to the significant fiscal stimulus from the US Treasury, should see some recovery by the second half of 2002 (see **Box 3**). The pace of recovery in the US economy however, will depend largely on the behaviour of consumer spending and the impact of the US military response.

Given Jamaica's close economic ties with the US, the rate of economic expansion in the Jamaican economy is expected to slow. Overall output is still likely to be higher in 2001, given the strong first half performance, driven mainly by the significant recovery in agriculture and mining. However, the growth rate is more likely to be closer to the lower end of the 2.0 per cent to 4.0 per cent target.

Whilst precise data are still forthcoming, it is anticipated that the impact of the shock to the US economy will result in a weakening of the current account of Jamaica's balance of payments. This follows from the fact that the major impact of the crisis will be on the tourism sector and related activities such as entertainment, local craft and other merchandise trade, air and ground transport services. There will be spill over effects on domestic agriculture and manufacturing. The impact is likely to be most significant in the December quarter, which should see lower inflows arising from the decline in travel. In addition the discounting of airfare and hotel accommodation could further erode foreign exchange earnings.

Tourist arrivals for the month of September declined by 21.8 per cent relative to September 2000, and expectations are that arrivals will decline by a similar magnitude for the December 2001 quarter. This is in contrast to the original forecast of 1.2 per cent growth for the December 2001 quarter relative to December 2000. Overall tourism revenues are expected to decline by approximately 30.0 per cent during the December 2001 quarter relative to December 2000[1].

Uncertain prospects for bauxite and alumina ...

but remittances should remain buoyant ...

Trade in general will be adversely affected by the increased security requirements. However the decline in goods exports, particularly export agriculture, will not be as significant as originally envisioned, although the performance of bauxite and alumina exports is still uncertain. Alumina prices could further weaken by as much as 10.0 per cent in light of the declines in the aircraft industry. However, prices could be buoyed by the demand from the motor vehicle industry. The major challenge facing the export sector is ensuring the availability of airlift services and increased shipping costs. Foreign exchange savings could be realized from lower oil prices in the short term. Given the obligatory nature of remittances, inflows from this source are expected to maintain their buoyancy in the short-term. Indications are that there will be some recovery in the flows, relative to the

[1] These projections are subject to revisions, as new information becomes available.

declines in the immediate aftermath of 11 September and relative to September 2000.

Although some recovery and normalization are expected by the end of the March 2002, the overall current account deficit for fiscal year 2001/02 however, could widen to approximately 8.0 per cent of GDP relative to the initial target of 5.4 per cent.

Jamaican Global bond yields stable.

Capital inflows (portfolio flows and to a lesser extent foreign direct flows) will be tempered over the next six months. However the Government has secured all the external commercial financing budgeted for the fiscal year. Although there has been some flight to quality from emerging market securities to safe US assets, Jamaica's sovereign bonds have continued to perform well, relative to other emerging market bonds, regaining more than half their initial losses after the crisis. As Bear Stearns noted, "... though the markets are presently fragile Jamaican credit has performed well and remains a core holding for many of our institutions."

Reserves sufficient to cover temporary shortfall.

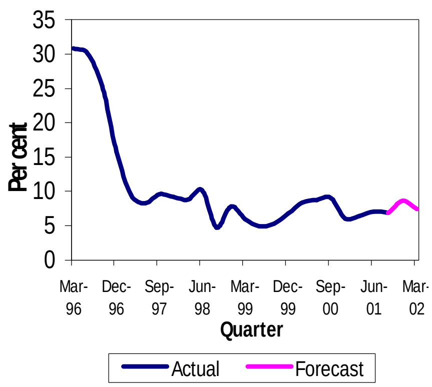
Given the threats to external flows, some decline in foreign reserves is to be expected. Notwithstanding this however, the Bank of Jamaica is in a position to cushion the economy from the fall out over the short to medium term. As at the end of September 2001 the stock of net foreign reserves stood at 18.6 weeks of goods and service imports, significantly above the 12 weeks benchmark. The reserve position could be further enhanced as there is also the likelihood of obtaining support from multilateral organizations. Additionally, the stock of private sector foreign currency deposits in the banking system has remained above US$1.2 billion.

The behaviour of domestic prices over the ensuing quarter will depend most critically on the developments in the foreign exchange market. Although increased competition and tight demand management over the past three years have lessened the pass through effect, increased instability will precipitate higher inflation expectations. There is the possibility that higher insurance and shipping costs could be passed on to domestic prices. Lower domestic demand over the next three months however, will limit the pass through effects.

Lower international demand will tend to suppress oil and other commodity prices over the very near term. Expectations of a recession in the US and the global economy have resulted in significant declines in oil prices in the immediate aftermath of the 11 September events. The projection for growth in world oil demand for 2002 has been cut from 1.4 million barrels per day to 900,000 barrels per day. Barring any disruption to supply in the wake of a US military response, oil prices are therefore expected to be concentrated around the lower end of OPEC's US$22 to US$28 price band.

The main domestic impetus to inflation over the ensuing quarter are likely to emanate from increases in prices of some agricultural commodities within the *Starchy Food* and *Fruits & Vegetables* sub-categories of the CPI. Other impulses are expected from the 10.0 per cent increase in telephone rates within the *Other Housing Expenses* sub-category. The increase in agriculture prices, particularly in the first two months of the quarter, however, will be less than the seasonal increases given the likelihood of an excess supply in the domestic market due to the decline in demand from the hospitality sector.

Figure 4.1
12 Month Inflation



Given the balance of risks therefore, inflation in the December 2001 quarter is expected to approximate 1.9 per cent (± 0.4 percentage points) relative to the 2.7 per cent recorded in the September 2001 quarter. The corresponding twelve-month inflation is 9.5 per cent (± 0.4 percentage points). The overall fiscal year inflation is expected to remain in single digits, albeit higher than the original target.

Given the uncertain and fluid environment, the immediate priority of economic policy is to stabilize the most vulnerable sectors, particularly tourism and to ensure the maintenance of stability in the foreign exchange and money markets.

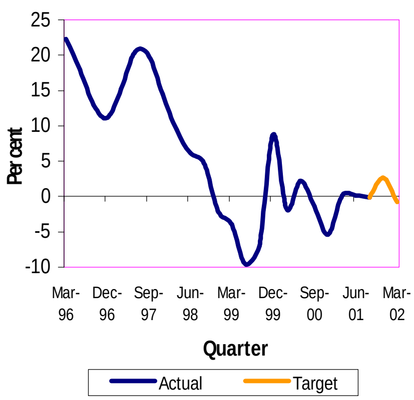
The Government has initiated a new strategic marketing plan for the tourism product, which will seek to capitalize on the proximity to the US. With respect to financing, the Government is considering the issuance of a tourism development bond through the Development Bank of Jamaica.

Foreign exchange market stability critical to the inflation objective.

Monetary Policy Perspectives

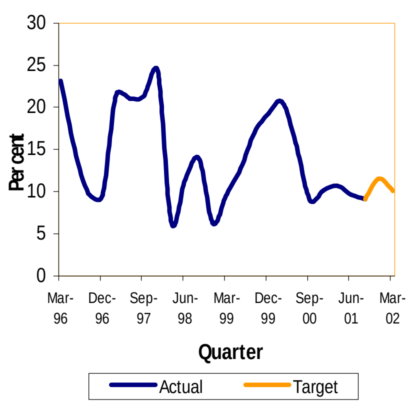
Given the recent shocks to the economy, the objectives of the Central Bank are to contain inflation within single digits and to ensure the maintenance of financial system stability. Given these objectives, the Bank's monetary policy will focus on tightening liquidity in the financial system, consistent with preserving order in the foreign exchange market. The maintenance of market stability is essential to ensuring the resumption of the downward adjustments in interest rates over the medium term. The relatively large stock of foreign reserves will enable the Bank to supply liquidity to the foreign exchange market when necessary.

Figure 4.2
Base Money Growth Target
(12 month)



As outlined in the IMF's Staff Monitored Programme, no adjustment in the cash reserve ratio, which is currently at 10.0 per cent, will be effected in the December 2001 quarter. Given the shock to the economy arising from recent international events and the prospects for lower economic growth, no significant increase in money demand is anticipated, hence money supply (M3J) is targeted to grow by 6.4 per cent in line with the original targets, including the seasonal end of year demand for currency. With this monetary profile, core inflation should be contained within the 0.6 per cent to 1.0 per cent range for the quarter, in line with the 0.8 per cent recorded for the December 2000 quarter.

Figure 4.3
Broad Money (M3J) Growth Target
(12 month)



Summary

In summary, the recent events in the United States have given rise to significant uncertainties about the near term prospects for the Jamaican economy. The immediate priority therefore is to stabilize the affected sectors and the foreign exchange market. The stock of net international reserves will enable the Bank of Jamaica to cushion the short-term fallout within the economy. Whilst the target has been adjusted marginally, the Bank's main priority is to ensure that inflation is contained.

A. Fiscal Developments: July - September 2001

Provisional data for the September 2001 quarter suggest that Central Government recorded a deficit of $2527.2 million or 0.77 per cent of GDP, relative to targeted deficit of $3100.1 million or 0.94 per cent of GDP for the quarter under the Staff Monitored Programme (SMP). The primary balance of 2.67 per cent of GDP was above the SMP target of 2.58 per cent of GDP indicating that total revenue flows were more than adequate to fund the higher than projected level of recurrent expenditures.

Central Government's overall performance in the September quarter was however, achieved through a containment in capital expenditures as total revenues fell below target by $482.1 million and recurrent revenues exceeded target by $200.50 million. Tax revenues fell below the SMP target by 5.53 per cent but were 1.74 per cent higher than flows in the September 2000 quarter. On the other hand, capital revenues and other revenues (including non-tax) exceeded their respective SMP targets by 61.47 percent and 23.51 per cent.

Expenditures in the September 2001 quarter fell below the SMP target by 3.63 per cent as Government adjusted spending on capital projects in a context of slowing tax revenue flows. During the quarter, Government's debt raising programme reflected its emphasis on interest rate reduction through the issue of United States dollar denominated domestic debt, and net amortisation of Jamaica Dollar debt (primarily through Treasury Bills). In this regard, US$175.0 million was raised on the domestic market during the quarter.

For the first half of the fiscal year therefore, Central Government recorded a deficit of $13414.40 million or 4.09 per cent of GDP. This was within the SMP target of $13800.1 million or 4.21 per cent of GDP. The primary balance for the April - September 2001 period was 3.33 per cent of GDP relative to a targeted 3.61 per cent.

Tax revenues during the six-month period exceeded the SMP target by 2.87 per cent as the strong performance of this category in the June quarter compensated for the shortfall in tax receipts in the following quarter. Tax receipts were also 5.40 per cent above the comparable six-month period in 2000/01. Other revenue flows were however, down relative to levels attained in the April - September 2000 period as receipts were enhanced by cellular licence fees in that period.

Higher than targeted expenditures on wages and salaries and programmes outweighed cuts in capital expenditure in the period April - September 2001, resulting in an excess in overall expenditures of 1.10 per cent relative to the SMP target. In this regard, the higher level of expenditure on wages reflected earlier than anticipated settlements for certain bargaining groups.

Fiscal Performance
Comparitive Analysis
J$ Million
2001/02

	Actual 2000/01 Q2	Provisional 2001/02 Q2	Change	Provisional 2001/02 Q2	SMP Q2	Change	Provisional 2001/02 Q1 - Q2	SMP Q1 - Q2	Change
Revenue and Grants	**23 994.50**	**25 469.20**	**1 474.70**	**25 469.20**	**25 951.30**	**-482.10**	**48 473.20**	**47 407.00**	**1 066.20**
Tax Revenue	21 670.70	22 055.20	384.50	22 055.20	23 345.20	-1 290.00	43 700.20	42 479.00	1 221.20
Capital Revenue	1 574.60	830.00	-744.60	830.00	514.00	316.00	946.50	744.50	202.00
Other (incl. Non-tax)	749.20	2 584.00	1 834.80	2 584.00	2 092.10	491.90	3 826.50	4 183.50	-357.00
Expenditure	**25 100.30**	**27 996.40**	**2 896.10**	**27 996.40**	**29 051.40**	**-1 055.50**	**61 887.60**	**61 207.10**	**680.50**
Recurrent Expenditure*	22 624.30	26 412.80	3 788.50	26 412.80	26 212.30	200.50	55 956.10	54 953.90	1 002.50
Capital Expenditure	2 317.60	1 451.80	-865.80	1 451.80	2 712.90	-1 261.10	5 547.50	5 885.70	-338.20
IMF #1 Account	158.40	131.80	-26.60	131.80	126.20	5.60	384.00	367.50	16.50
Overall Balance	**-1 105.80**	**-2 527.20**	**-1 421.40**	**-2 527.20**	**-3 100.10**	**572.90**	**-13 414.40**	**-13 800.10**	**385.70**
Current Balance	**1 560.40**	**-1 773.60**	**-3 334.00**	**-1 773.60**	**-775.00**	**-998.60**	**-8 429.40**	**-8 291.40**	**-138.00**
Primary Balance	**9 096.00**	**8 745.40**	**-350.60**	**8 745.40**	**8 452.40**	**293.00**	**10 939.30**	**11 854.10**	**-914.80**

Performance Indicators
(percentages of GDP)

	BR	CB	PB	IP	FSR
Q2 FY2001/02	0.77	-0.54	2.67	3.44	-1.10
Q2 FY2001/02 SMP	0.84	-0.24	2.58	3.52	-1.12
Q1 - Q2 FY2001/02	4.09	-2.57	3.33	7.42	-1.28
Q1 - Q2 FY2001/02 SMP	4.21	-2.53	3.61	7.82	-1.29

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

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

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

B. Monetary Policy Developments: April 2000 to September 2001

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.

C. Summary Tables

1

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

2

Component Contribution to Inflation
All Jamaica
July - September 2001

Groups and Sub-groups	Weight in CPI	Inflation (%)	Contribution (%)
FOOD & DRINK	**0.5563**	**3.0**	**63.8**
- Meals Away from Home	0.0741	0.2	0.7
- Meat Poultry & Fish	0.1613	0.7	4.7
- Dairy Products Oils & Fats	0.0668	1.3	3.6
- Baked Products Cereals & Breakfast Drinks	0.0864	0.5	1.6
- Starchy Foods	0.0525	15.0	32.5
- Vegetables & Fruits	0.0650	5.8	15.6
- Other Food & Beverages	0.0502	2.4	5.0
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**0.6**	**1.8**
- Household Supplies	0.0482	0.6	1.1
- Fuels	0.0253	0.7	0.7
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**1.9**	**6.3**
- Rental	0.0209	2.4	2.0
- Other Housing Expenses	0.0577	1.8	4.3
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**1.2**	**1.4**
- Furniture	0.0068	0.8	0.2
- Furnishings	0.0215	1.4	1.2
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**1.1**	**3.1**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**0.6**	**1.2**
- Clothing Materials	0.0055	0.1	0.0
- Readymade Clothing & Accessories	0.0242	0.6	0.6
- Footwear	0.0159	0.9	0.6
- Making & Repairs	0.0051	0.3	0.1
TRANSPORTATION	**0.0644**	**-0.2**	**-0.5**
MISCELLANEOUS EXPENSES	**0.0785**	**7.1**	**22.8**
ALL GROUPS	**1.0000**	**2.7**	**100.0**

3

BANK OF JAMAICA OPERATING TARGETS
FY 2001/2002

	Mar-01	Jun-01	Sep-01	SMP	Sep-01 Flows	Deviation Q2 - SMP
Net International Reserves (US$)	**1 286.3**	**1 540.5**	**1 536.7**	**1 336.3**	**-3.8**	**200.4**
Net International Reserves ($J)	**59 169.3**	**70 863.5**	**70 688.2**	**61 469.8**	**-175.3**	**9 218.4**
Assets	62 646.9	74 174.1	73 871.4	64 947.4	-302.7	8 924.0
Liabilities	-3 477.6	-3 310.6	-3 183.2	-3 477.6	-127.4	294.4
Net Domestic Assets	**-28 690.0**	**-40 409.0**	**-40 960.3**	**-31 657.0**	**-551.3**	**-9 303.3**
Net Claims on the Public Sector	32 400.6	32 703.5	35 328.3	41 944.1	2 624.7	-6 615.8
Net Credit to Banks	-6 595.7	-5 988.1	-5 681.1	-6 153.7	307.0	472.6
Open Market Operations	-61 441.4	-74 164.5	-77 525.5	-74 929.3	-3 361.1	-2 596.2
Other	6 946.6	7 040.0	6 918.1	7 481.9	-121.9	-563.8
Monetary Base	**30 479.4**	**30 454.4**	**29 772.5**	**29 812.8**	**-681.9**	**-40.3**
Currency Issue	17 659.7	17 522.7	17 580.1	18 325.6	57.4	-745.5
Cash Reserve	12 763.7	12 685.8	11 723.9	11 407.2	-962.0	316.7
Current Account	56.0	245.9	468.5	80.0	222.6	388.5
% change Monetary Base (F-Y-T-D)	**0.1**	-0.1	-2.3	-2.2	-2.2	0.1

4

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

	M1J	M1*	M2J	M2*	M3J	M3*
1998/1999	**26 564.6**	**30 306.5**	**79 732.5**	**103 612.3**	**90 474.3**	**114 354.2**
1999/2000						
June	28 690.0	32 037.2	83 888.0	107 934.1	98 152.3	122 198.5
September	30 881.5	35 690.7	90 181.6	117 317.4	105 712.4	132 848.5
December	33 545.8	39 069.2	93 678.1	120 260.0	108 882.5	136 124.5
March	31 686.8	37 311.4	92 865.8	122 905.4	109 123.2	139 162.8
2000/2001						
June	32 017.2	37 737.7	95 966.4	125 498.3	113 634.3	143 166.2
September	30 527.0	35 897.9	96 419.1	128 067.1	115 248.5	146 896.6
December r	33 832.3	38 111.4	100 747.1	132 997.8	119 962.1	152 226.0
March r	32 783.8	36 970.0	100 746.3	133 790.6	120 789.7	153 906.9
2001/2002						
June r	32 951.4	38 015.3	102 002.8	135 708.9	123 200.3	156 906.5
September p	35 690.9	41 620.6	105 818.0	135 653.8	128 486.7	164 252.2

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

5

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

	1998/99	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	Jun -01	Sep-01P
M2J	**8 454.4**	**13 112.0**	**3 122.7**	**452.5**	**4 327.4**	**-72.8**	**1 329.4**	**1 273.9**
Currency	1 811.3	1 663.5	281.0	207.5	3 000.2	-1 724.4	115.6	172.2
Demand Deposits	2 065.8	3 436.7	71.5	-1 697.8	304.2	677.0	52.0	2 568.3
Savings Deposits	2 064.7	3 870.4	1 951.1	347.9	1 305.9	417.5	1 522.0	770.2
Time Deposits	2 512.6	4 141.4	819.1	1 594.9	-282.9	557.1	-360.2	305.6
OTHER DEPOSITS	**10.5**	**6 026.6**	**1 388.2**	**1 161.7**	**438.7**	**848.1**	**1 441.6**	**1 471.1**
TOTAL(M3J)	**8 464.9**	**19 138.6**	**4 511.0**	**1 614.3**	**4 766.0**	**775.2**	**2 771.0**	**5 286.4**

Sources of Change in Money Supply

	1998/99	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	Jun -01	Sep-01P
N.I.R. of B.O.J.	**-512.5**	**5 372.3**	**2 251.2**	**7 608.0**	**1 531.4**	**14 254.7**	**11 846.7**	**-132.4**
M & LTFL of B.O.J.	**159.6**	**77.3**	**8.0**	**26.0**	**111.7**	**14.6**	**0.0**	**0.0**
Banking System Credit	**20 330.7**	**4 846.5**	**12 873.3**	**-3 543.5**	**8 623.6**	**-7 509.6**	**6 290.7**	**2 174.7**
Public Sector	23 403.0	9 422.2	12 900.7	-3 407.9	6 566.9	-6 610.7	6 075.9	1 141.8
Private Sector	-3 072.3	-4 575.7	-27.3	-135.6	2 056.7	-898.9	214.8	1 032.9
Open Market Operations	**-5 805.1**	**-1 417.1**	**-5 575.3**	**-6 819.4**	**84.7**	**-9 640.5**	**-12 723.1**	**-3 361.0**
Other	**-5 707.8**	**10 259.6**	**-5 046.2**	**4 343.2**	**-5 585.5**	**3 656.0**	**-2 643.3**	**6 605.1**
TOTAL	**8 464.9**	**19 138.6**	**4 511.1**	**1 614.3**	**4 766.0**	**775.2**	**2 771.0**	**5 286.4**
Memo:								
Foreign Currency Deposits	2 201.0	6 158.9	-507.7	2 116.2	603.4	865.6	589.1	2 059.3
Foreign Currency Loans	2 527.3	-547.9	476.0	529.8	-62.5	375.3	-209.1	1 986.6

P - Preliminary

6A

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

	Fixed Deposit* 3-6 months	6-12 months	Savings Deposits (Average)	Loan Rate (Average)	Fixed Deposit Rate (WeightedAverage)	Loan Rate (Weighted Average)
1998/1999	**10.50 - 18.75**	**9.50 - 18.75**	**12.09**	**38.60**	**14.63**	**29.65**
1999/2000	**11.00 - 17.50**	**11.50 - 16.50**	**11.38**	**33.92**	**12.99**	**24.32**
June	10.00 - 17.50	10.00 - 17.00	11.96	37.89	14.08	27.12
September	10.00 - 17.50	10.00 - 17.00	11.50	35.92	13.47	26.16
December	11.00 - 17.50	11.50 -16.50	11.38	33.92	13.27	24.64
March	11.00 -17.50	11.50 - 16.50	11.38	33.92	12.99	24.32
2000/2001						
June	10.00 - 17.50	10.00 - 16.50	10.11	33.00	12.74	23.48
September	10.00 - 17.05	10.00 - 17.05	9.96	31.50	12.59	22.23
December	10.00 - 17.05	10.00 - 17.60	9.86	31.67	12.21	22.12
March	10.00 - 17.00	10.00 - 16.75	9.84	31.33	12.13	21.49
2001/2002						
June	8.75 - 17.00	8.75 - 15.00	9.45	30.67	11.11	20.97
September	8.75 - 17.00	8.75 - 15.00	9.08	26.96	n.a.	n.a.

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

6B

GOJ TREASURY BILL YIELDS
(End Period)

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

7A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities July - September 2001

Maturity Date	Stock Name	Amount J$MN	Applicable Interest Rate	After-tax return [b/]	Features
13 July 2001	VR LRS 2001E	1 999.3	18.5%	13.88%	Initial interest rate of 25.5% to May 1999 thereafter semi-annually at 2pp above Treasury Bill rate [a/]
17 July 2001	VR LRS 2001 (Tr. C)	1 000.0	22.16%	16.62%	Non-Market Security
31 July 2001	VR LRS 1998-2001D	11.0	20.91%	15.68%	Initial interest rate of 28.5% to November 1998 thereafter semi-annually at 2.5pp above Treasury Bill rate[a/]
15 August 2001	VR LRS 2001	186.4	16.96%	12.72%	Initial interest rate of 24% to June 1999 thereafter semi-annually at 1.5pp above Treasury Bill rate[a/]
	LRS 2000-2004(B)	27.8	n/a	n/a	Non-Market Security
31 August 2001	VR LRS 2001L	120.8	20.77%	15.58%	Non-Market Security
28 September 2001	FR Prom Note 1999-2001	1 288.3	11.5%	Non-Taxable	US$ denominated Non-Market Security

Notes:
a/ Rate above Treasury is the 6-month Treasury bill rate in effect at the beginning of the interest period.
b/ The withholding tax of 25% on interest income has been in effect since 01 May 2000.

Source: Debt Management Unit, Ministry of Finance & Planning

7B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Issues July - September 2001

Issue Date	Stock Name	Features	Amount Raised J$MN
05 July 2001	Local Registered Stock: 2013AE	Auctioned Instrument having taxable average yield of 17.15%.	165.96
19 July 2001	Local Registered Stocks: 2004AB, 2008AH, 2011AD	Auctioned Instruments having taxable average yields of 18.09%, 19.83% and 19.64% respectively.	1 605.31
16 August 2001	Local Registered Stock: 2005AF	Auctioned Instrument having taxable average yield of 15.92% .	481.33
07 September 2001	Local Registered Stock: 2005AG	Auctioned Instrument having taxable average yield of 15.97%.	480.65
18 September 2001	Local Registered Stock:2008AJ	Auctioned Instrument having taxable average yield of 16.12%	373.34

Notes:
a/ The withholding tax of 25% on interest income has been in effect since 01 May 2000.

Source: Debt Management Unit, Ministry of Finance & Planning

8

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
1998/1999	**82.7**	**587.9**	**98.3**	**33.1**	**57.8**	**371.7**	**321.7**	**1 552.3**
1999/2000	**49.1**	**666.4**	**103.5**	**26.6**	**68.9**	**346.9**	**290.9**	**1 550.5**
June	20.3	145.5	54.6	7.6	15.2	88.9	71.3	403.4
September	7.6	166.0	5.5	7.5	19.8	92.4	80.5	379.3
December	8.1	182.0	0.0	6.3	16.6	84.9	71.6	369.5
March	13.1	171.1	43.4	5.2	17.3	80.7	67.5	398.3
2000/2001	**56.1**	**670.6**	**69.4**	**22.3**	**74.8**	**330.9**	**284.9**	**1 509.1**
June	10.4	167.9	33.6	5.5	20.5	90.6	76.6	405.1
September	8.2	163.8	6.2	6.2	18.3	81.7	80.7	365.1
December	13.9	181.4	0.0	6.1	17.0	91.3	76.4	386.1
March	23.6	157.5	29.6	4.5	19.0	67.3	51.3	352.8
2001/2002								
June	23.2	178.3	34.9	4.9	18.8	66.0	68.1	394.2

9

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

	Consumer Goods	Raw Materials	Capital Goods	Other	Total Imports
1998/1999	**923.6**	**1 505.0**	**553.3**	**191.4**	**3 173.3**
1999/2000	**965.0**	**1 614.0**	**508.4**	**180.7**	**3 268.2**
June	220.4	395.5	123.6	47.1	786.6
September	227.5	385.7	104.8	50.9	768.9
December	298.0	410.5	130.1	42.0	880.6
March	219.1	422.3	149.9	40.8	832.1
2000/2001	**982.0**	**1 761.2**	**519.1**	**167.6**	**3 429.9**
June	228.5	442.2	119.2	42.3	832.3
September	245.8	422.6	120.2	43.5	832.1
December	282.5	426.1	121.8	53.9	884.3
March	225.2	470.3	157.9	27.9	881.3
2001/2002					
June	242.6	412.0	125.7	59.9	840.2

10

BALANCE OF PAYMENTS SUMMARY
(Flows - US$MN)

	1999/00	2000/01	Jun-00	Sept-00	Dec-00	Mar-01	Jun-01
1. Current Account	**-304.7**	**-389.2**	**-47.5**	**-90.2**	**-115.2**	**-136.3**	**-82.7**
A. Goods Balance	**-1 251.5**	**-1 439.8**	**-313.5**	**-350.5**	**-371.9**	**-403.9**	**-327.6**
Exports (f.o.b.)	1 550.5	1 509.1	405.1	365.1	386.1	352.8	394.2
Imports (f.o.b.)	2 802.0	2 948.9	718.6	715.6	758.0	756.7	721.8
B. Services Balance	**617.9**	**609.6**	**148.8**	**152.5**	**122.0**	**186.3**	**163.1**
Transportation	-243.5	-245.8	-60.3	-63.7	-69.4	-52.4	-58.8
Travel	1 058.3	1 136.2	272.9	293.7	264.4	305.2	290.8
Other Services	-196.9	-280.8	-63.8	-77.5	-73.0	-66.5	-68.9
Goods & Services Balance	**-633.6**	**-830.2**	**-164.7**	**-198.0**	**-249.4**	**-217.6**	**-164.5**
C. Income	**-369.5**	**-389.9**	**-107.8**	**-63.2**	**-84.9**	**-134.0**	**-120.6**
Compensation of Employees	67.5	69.0	6.4	23.7	33.1	5.8	7.3
Investment Income	-437.2	-458.9	-114.2	-86.9	-118.0	-139.8	-127.9
D. Current Transfers	**698.4**	**830.9**	**225.0**	**171.0**	**219.6**	**215.3**	**202.4**
General Government	70.4	134.7	67.6	10.8	34.7	21.6	11.8
Other Sectors	628.0	696.2	157.4	160.2	184.9	193.7	190.6
2. Capital & Financial Account	**304.7**	**389.2**	**47.5**	**90.2**	**115.2**	**136.3**	**82.7**
A. Capital Account	**12.5**	**-4.4**	**-0.4**	**-1.6**	**0.3**	**-2.7**	**-4.6**
Capital Transfers	12.5	-4.4	-0.4	-1.6	0.3	-2.7	-4.6
General Government	9.0	10.1	3.2	2.1	3.0	1.8	0.2
Other Sectors	3.5	-14.5	-3.6	-3.7	-2.7	-4.5	-4.8
B. Financial Account	**292.2**	**393.6**	**47.9**	**91.8**	**114.9**	**139.0**	**87.3**
Direct Investment	386.1	524.0	85.4	112.0	105.2	221.4	79.6
Other Official Investment	-123.2	342.0	-52.7	178.7	101.0	115.0	332.9
Other Private Investment (including net errors & omissions)	151.3	110.4	68.2	-19.9	-57.3	119.4	-71.0
Reserves (minus = increase)	-122.0	-582.8	-53.0	-179.0	-34.0	-316.8	-254.2

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

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

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

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

13

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

	Local Registered Stocks	Treasury Bills	Bonds*	FINSAC Bonds	BOJ Open Market Operations Securities
1998/1999	**105 121.4**	**10 450.0**	**17 873.4**	**49 873.1**	**30 264.4**
1999/2000	**126 022.9**	**9 550.0**	**36 510.4**		**29 416.9**
June	112 513.0	10 200.0	25 603.0		30 571.9
September	116 959.5	9 900.0	31 266.7		26 643.9
December	130 939.9	10 650.0	32 165.4		27 371.6
March	126 022.9	9 550.0	36 510.4		29 416.9
2000/2001	**159 734.8**	**6 950.0**	**45 107.7**		**49 643.2**
June	131 477.8	9 750.0	37 268.0		30 067.3
September	132 589.8	9 850.0	38 789.9		32 945.8
December	134 896.5	7 600.0	41 920.6		42 156.5
March r	159 734.8	6 950.0	45 107.7		49 643.2
2001/2002					
June r	227 311.3	6 900.0	31 548.0		63 993.9
September p	230 950.9	5 450.0			68 999.5

* *Local Issues*
r *Revised*
p *Preliminary*

14

STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	Volume Traded MN.	Value of Stocks Traded (J$MN)
1998/1999	**19 127.1**	**613.4**	**2 139.7**
1999/2000	**27 165.6**	**610.7**	**2 393.2**
June	19 687.7	165.4	712.6
September	20 677.7	96.8	549.4
December	21 892.6	166.6	534.8
March	27 165.6	181.9	596.4
2000/2001	**29 701.9**	**669.4**	**3 683.0**
June	31 338.3	300.9	1 480.3
September	31 152.7	95.6	591.4
December	28 893.2	116.5	773.0
March	29 701.9	156.4	838.3
2001/2002			
June	35 723.6	2 315.0*	3 584.2
September	33 892.4	182.8	840.4

* *Includes a large block transaction arising from the de-listing of UBJ*

15

PRODUCTION OF SELECTED COMMODITIES
(Flows - 000' tonnes))

	Bauxite	Alumina	Sugar	Bananas*
1998/1999	**4 087.0**	**3 441.0**	**212.1**	**59.3**
1999/2000	**2 385.9**	**3 624.5**	**237.4**	**48.0**
June	1 022.8	909.3	101.2	12.5
September	369.0	904.7	-	12.8
December	419.4	913.6	-	13.4
March	574.7	896.9	136.1	9.3
2000/2001	**2 420.4**	**3 617.8**	**185.4**	**44.1**
June	527.8	893.8	78.2	9.7
September	372.3	897.9	1.6	10.8
December	587.1	911.4	3.5	12.2
March	933.2	914.7	102.1	11.3
2001/2002				
June	888.5	943.4	91.5	11.0
September	997.2	946.3	7.3	9.9

* *Exports*

D. BANK OF JAMAICA BALANCE SHEET

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

	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	June-01	Sept-01
Assets	**105 350.7**	**110 200.6**	**117 132.0**	**122 042.5**	**136 282.7**	**148 059.3**	**148 672.9**
Foreign	33 653.3	35 845.1	45 063.4	47 693.0	62 139.6	73 743.7	73 650.3
Current Account & Foreign Currency Balances	5 088.6	5 639.2	7 921.0	11 888.2	18 223.4	3 738.0	3 618.0
Time Deposits & Securities	27 058.6	28 711.4	35 519.8	34 087.6	42 150.5	68 290.4	68 283.1
Holdings of Special Drawing Rights	26.2	9.6	70.4	69.4	103.7	15.6	20.4
Other	1 479.9	1 484.9	1 552.2	1 647.8	1 662.0	1 699.7	1 728.6
Local	71 697.4	74 355.5	72 068.6	74 349.5	74 143.1	74 315.6	75 022.6
Public Sector Securities	52 215.0	53 927.4	52 933.0	54 905.5	56 896.9	56 462.8	56 103.7
Other Assets	19 482.4	20 428.1	19 135.6	19 444.0	17 246.2	17 852.8	18 918.9
Liabilities	**105 350.7**	**110 200.6**	**117 132.0**	**122 042.5**	**136 282.7**	**148 059.3**	**148 672.9**
Foreign	858.8	815.0	695.0	673.1	607.0	582.8	545.9
Local	104 491.9	109 385.6	116 437.0	121 369.4	128 876.1	138 794.3	148 127.0
Currency in Circulation	15 557.9	15 691.1	16 080.6	20 644.0	17 685.1	17 565.7	17 607.3
Deposits	85 134.4	88 152.4	93 447.8	92 734.6	111 191.0	121 228.6	120 498.5
Bankers	32 497.5	38 028.3	40 119.8	28 243.0	32 173.3	30 092.9	27 437.8
Government	18 479.3	15 815.0	15 553.0	16 687.3	12 644.7	4 053.7	4 370.6
Other	34 157.6	34 309.1	37 775.0	47 804.3	66 373.0	87 082.0	88 690.1
Allocation of Special Drawing Rights	2 102.3	2 246.0	2 246.0	2 246.0	2 246.0	2 347.0	2 347.0
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Other Reserves	84.4	819.7	873.2	873.5	873.5	939.6	939.5
Other Liabilities	1 588.9	2 452.4	3 765.4	4 847.3	3 656.1	5 371.6	6 710.7

E. COMMERCIAL BANKS' BALANCE SHEET

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

	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	Jun-01[r]	Sept-01[p]
Assets	**208 218.9**	**206 204.3**	**215 197.0**	**221 705.2**	**224 936.4**	**220 553.0**	**242 102.7**
Cash	1 442.7	1 288.7	1 471.3	3 036.0	1 800.5	1 547.9	1 434.1
Balances with BOJ	31 257.9	36 098.8	38 002.6	29 199.7	27 992.5	28 745.0	32 234.1
Foreign Assets	28 656.0	26 227.8	26 877.0	29 339.1	31 217.1	30 737.8	38 338.3
Loans & Advances	38 260.8	38 754.9	39 390.8	40 573.7	41 378.8	41 883.2	42 981.6
Private Sector	32 985.5	33 356.1	33 481.4	33 876.9	33 321.9	33 131.4	35 829.3
Public Sector	5 275.3	5 398.8	5 909.4	6 696.8	8 056.9	8 751.8	7 152.3
Public Sector Securities	77 454.3	80 708.3	86 135.1	88 119.3	87 888.6	87 181.4	81 564.7
Cheques in the Process of Collection	6 488.4	3 142.7	3 503.8	2 936.5	4 912.4	3 211.8	5 515.4
Other Assets	24 658.8	19 983.1	19 816.4	28 500.9	29 746.5	27 245.9	32 034.5
Liabilities	**208 218.9**	**206 204.3**	**215 197.0**	**221 705.2**	**224 936.4**	**220 553.0**	**242 102.7**
Deposits	139 766.2	137 631.0	150 876.1	149 666.8	154 942.9	150 950.0	163 056.9
Foreign Liabilities	7 653.5	5 174.3	4 956.8	6 592.4	7 777.4	6 004.5	13 857.9
Discounts & Advances from BOJ	276.3	175.0	74.7	3 043.9	69.0	82.6	24.3
Loans/Advances from Other Institutions	9 749.0	9 556.1	9 519.8	9 653.1	8 847.7	8 830.5	9 017.0
Cheques in the Process of Payment	3 810.9	3 514.1	2 101.2	2 560.3	2 649.6	2 509.7	2 114.2
Other Liabilities	46 963.0	50 153.8	47 668.4	50 188.7	50 649.8	5 475.7	54 032.4

r - Revised; p - Preliminary

F. INTERNATIONAL INDICATORS

1

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

	1 Month	3 Months	6 Months	12 Months
1998/1999	**4.9375**	**5.0000**	**5.0625**	**5.2500**
1999/2000	**5.4063**	**6.0000**	**6.1250**	**6.5000**
2000/2001				
June	6.6563	6.8125	7.0000	7.2188
September	6.6250	6.8125	6.7500	6.8125
December	6.5625	6.4063	6.2188	5.9688
March	5.0938	4.8750	4.7188	4.6563
2001/2002				
June	3.7900	3.7300	3.7300	3.9400
September	2.6300	2.5900	2.5225	2.6425

2

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

	1 Month	3 Months	6 Months	12 Months
1998/1999	**5 5/16 - 5 3/8**	**5 7/32 - 5 1/4**	**5 1/8 - 5 3/16**	**5 1/8 - 5 3/16**
1999/2000	**5 27/32 -5 31/32**	**6 1/8 - 6 1/4**	**6 5/16 - 6 7/16**	**6 21/32 - 6 25/32**
2000/2001				
June	5 7/8 -6	6 1/16 - 6 3/16	6 3/16 - 6 5/16	6 3/8 - 6 1/2
September	6 - 6 1/8	6 1/8 - 6 1/4	6 3/16 - 6 5/16	6 1/4 - 6 3/8
December	5 11/16 - 5 7/8	5 3/4 - 5 29/32	5 3/4 - 6 7/8	5 11/16 - 5 13/16
March	5 9/16 - 5 11/16	5 3/8 - 5 1/2	5 3/16 - 5 5/16	5 5/32 - 5 9/32
2001/2002				
June	5 - 8 1/8	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 - 5 17/32	4 3/8 - 4 1/2	4 13/32 - 5 17/32

3

PRIME LENDING RATES
(End-of-Period)

	EURO-ZONE	UNITED STATES			UK
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Prime Rate
1998/1999	**3.00**	**4.81**	**4.50**	**7.75**	**5.50**
1999/2000	**3.50**	**6.31**	**5.50**	**9.00**	**6.00**
2000/2001	4.25	7.00	6.00	9.50	6.00
June	4.50	6.50	6.00	9.50	6.00
September	4.75	6.50	6.00	9.50	6.00
December	4.75	5.00	4.50	8.00	5.75
March					
2001/2002					
June	4.50	3.75	3.25	6.75	5.25
September	3.75	3.00	2.50	6.00	4.75

4A

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

	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	June-01	Sept-01
US$ vs Sterling	0.6268	0.6605	0.6764	0.6694	0.7034	0.7085	0.6804
US$ vs Canadian $	1.4518	1.4817	1.5046	1.5020	1.5746	1.5272	1.5797
US$ vs Yen	102.57	105.81	108.06	114.20	125.32	124.36	119.13
US$ vs Deutsche Mark	2.044	1.0404	2.2164	2.0833	2.2125	2.2892	2.1476
US$ vs French Franc	6.8551	6.8433	7.7334	6.9869	7.4203	7.6774	7.2028

4B

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

	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	June-01	Sept-01
Sterling vs US$	1.5953	1.5139	1.4785	1.4938	1.4217	1.4113	1.4697
Sterling vs Canadian $	2.3161	2.2431	2.2246	2.2440	2.2386	2.1553	2.3217
Sterling vs Yen	163.62	160.17	159.77	170.60	178.16	175.50	175.09
Sterling vs Deutsche Mark	3.2607	3.0889	3.2769	3.1120	3.1454	3.2306	3.1564
Sterling vs French Franc	10.936	10.360	10.990	10.440	10.549	10.835	10.5860

4C

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
September 2001

	DM	GBP	C$	US$	Yen	Ecu
Germany	1.00	0.317	0.736	0.466	55.47	0.511
U.K.	3.156	1.00	2.322	1.470	175.1	1.614
Canada	1.360	0.431	1.00	0.633	75.41	0.695
U.S.	2.148	0.680	1.580	1.00	119.1	1.098
Japan	1.803	0.571	1.326	0.839	100	0.922
Euro-zone	1.956	0.620	1.439	0.911	108.5	1.000

5A

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

	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	Jun-01	Sept-01
UAE's Dubai Light	23.93-24.00	27.67-27.79	28.08-28.28	19.20-19.90	22.50-22.70	24.09-24.19	21.35 -21.45
North Sea Brent	23.73-23.78	31.57-31.61	28.70-28.76	22.31-22.39	23.73-23.77	26.71-26.77	21.72 -21.78
West Texas Intermediate	26.48-26.52	30.60-30.64	30.65-30.70	26.17-26.21	26.25-26.27	26.45-26.50	23.25-23.29
Nymex-unleaded Gasoline Futures (cents per gallon)	88.15-90.00	105.00-103.20	85.20-85.25	74.75-75.90	90.90-92.75	76.50-78.25	64.00-68.80

5B

WORLD COMMODITY PRICES
ALUMINIUM
(US$ per tonne)

	Jun-00	Sept-00	Dec-00	Mar-01	Jun-01	Sept-01
Spot (Cash)	1 558.5-1 559.5	1 578.0-1 579.01	1 565.5-1 567.5	1 477.0-1 478.0	1 453.5-1 554.5	1 319-1 319.5
3 Month	1 579.0-1 580.0	1 594.5-1 595.0	1 560.0-1 562.0	1 466.5-1 467.5	1 476.0-1 477.0	1 338.5-1 339

5C

WORLD COMMODITY PRICES
FOOD

	1999/00	Jun-00	Sept-00	Mar-01	Jun-01	Sept-01
Wheat Futures						
(US cents/60lb bushel)	254.75	265.00	271.75	255.00	251.00	270.75
Coffee (USc/lb)						
Daily Composite	73.16	53.03	46.91	48.21	46.21	40.81
15-day Avg.	73.38	57.40	48.02	47.90	46.96	41.34

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MAJOR STOCK MARKET INDICES

	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	Jun-01	Sept-01
Tokyo							
Nikkei Index	20 337.3	17 411.1	15 747.3	13 785.7	12 999.7	12 829.0	9 774.68
New York							
Dow Jones Industrials	10 921.9	10 447.9	10 650.9	10 787.9	9 878.8	10 434.8	8 847.56
S&P Composite	1 498.6	1 454.6	1 436.5	1 320.3	1 160.3	1 211.1	1 194.60
London							
Financial Times-SE 100	6 540.2	6 312.7	6 294.2	6 225.3	5 633.7	5 607.9	4 903.4
Frankfurt	7 599.4	6 898.2	6 798.1	6 433.6	5 830.0	5 833.1	4 308.15
Dax Index							
Zurich	7 428.1	7 761.6	7 889.9	8 135.4	7 167.8	6 997.4	6 014.2

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

M1: Notes and coins in circulation = Demand Deposits

M2: M1 + Time and savings deposits

M3: M2 + Other Deposits.

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

Monetary Base: See Base Money

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

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

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

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

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

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

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

Reserve Requirement: The portion of deposit liabilities that financial institutions must retain either as liquid assets or on deposit at the Bank of Jamaica.

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

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

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

Statutory Cash Reserves: That portion of deposit liabilities of deposit-taking institutions, which must be held as interest free deposits at the Central Bank.

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. Premature withdrawals from these deposits require advance notice.