QUARTERLY MONETARY POLICY REPORT

JULY - SEPTEMBER 2004

Volume 5 No. 2

Bank of Jamaica
Quarterly Monetary
Policy Report

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PREFACE

The Bank of Jamaica's Quarterly Monetary Policy Report reviews the conduct of monetary policy and the main factors that influenced inflation during the quarter. It also presents the Bank's perspective on emerging economic trends and the path of monetary policy over the short to medium term. This issue includes a discussion on recent developments in crude oil prices and its implications for domestic inflation and the Balance of payments.

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

The conduct of monetary policy by the Bank of Jamaica yielded satisfactory results for the September 2004 quarter as inflationary impulses continued to moderate and the foreign exchange market remained relatively stable. The monetary targets for the first half of FY 2004/05 under the Intensified Surveillance (IS) programme were met, with comfortable margins. The Bank, by maintaining a consistent and conservative monetary policy stance, was able to limit the pass through from exchange rate changes to domestic prices despite the strong challenges posed by volatility in international oil prices and surges in foreign exchange demand.

For first six months of FY 2004/05, growth in the monetary base was restricted to 6.1 per cent relative to a target of 7.0 per cent. This was achieved primarily through an increase in open market operations, which countered liquidity impulses emanating from a decline in Government deposits with the Bank and an increase in the net international reserves (NIR). Although base money grew by 4.9 per cent relative to a target of 4.2 per cent during the September 2004 quarter (significantly above the trend of the September quarter for the last two years), the extraordinary expansion can be explained by the additional demand for currency emanating from increased expenditure associated with Hurricane Ivan in September. Prior to this event, currency demand was growing in line with expectations.

Core inflation for the September quarter was estimated at 1.1 per cent, similar to that for the previous two quarters and consistent with the Bank's monetary policy objectives. The estimate for core inflation for the review quarter was well below the 2.3 per cent estimated for the September 2003 quarter. This outturn extended the downward trend in the twelve-month measure of core inflation to 5.6 per cent at end September, relative to 6.6 per cent at end June 2004. The continuation of the relatively stable foreign exchange environment that prevailed in the June quarter would have played a strong role in dampening underlying inflation by tempering the impact of rising prices of imported commodities especially oil and durable goods. The monetary targets for the remaining six months of the fiscal year are consistent with the Bank's objective of restraining core inflation to **4.0 per cent to 5.0 per cent** for the year.

Headline inflation was 2.8 per cent for the September 2004 quarter, broadly in line with the quarterly average of 2.6 per cent for the previous five September quarters. The outturn for the review quarter largely reflected the impact of seasonal price movements, which was exacerbated by flood damage to agricultural crops consequent on Hurricane Charlie in August as well as, adjustments in some administered prices. Any price effects relating to Hurricane Ivan are likely to be felt in the forthcoming quarter.

Notwithstanding an estimated decline in tourism receipts in the last two weeks of September, the NIR benefited from strong flows to the foreign exchange market arising from tourism and mining activities as well as remittances, throughout the September quarter. These flows were augmented by the net purchase of Government's foreign loan receipts and facilitated a build up of US$12.4 million in the NIR to US$1616.52 million at end September, relative to end June 2004. The level of reserves at the end of September exceeded the (original) programme target by US$334.7 million.

Against a background of strong NIR, a relatively stable foreign exchange market and continued decline in the 12-month rate of inflation, the Bank lowered the interest rates on all tenors of its open market instruments on 3 September 2004. The interest rate reduction, which ranged from 20 basis points on instruments maturing up to 120 days and 40 basis points in respect of the 365-day tenor, also facilitated a further normalisation of the yield curve.

The Bank's preliminary assessment of the country's economic performance during the September 2004 quarter indicates a marginal expansion in real Gross Domestic Product (GDP). The growth within the economy was driven primarily by expansions in **Electricity & Water, Transport, Storage & Communication and Tourism**. For the first time since September 2002, however, the goods producing sector is estimated to have declined due to significant contractions in **Agriculture**. The buoyancy in economic activity was supported by a continued increase in loans to the private sector. In this regard, private sector credit expanded by 3.8 per cent in the September quarter following a 2.1 per cent growth in the June 2004 quarter. Outside of personal loans, which commanded the largest share of the increase (56.2 per cent), **Construction and Land Development** accounted for the most significant portion (24.0 per cent) of the increase in loans to the private sector during the quarter**.**

Estimates of the change in aggregate demand suggest that increases in private consumption spending and gross fixed capital formation were the main contributors to growth as public consumption spending and net external demand fell during the quarter. The contraction in public consumption spending is consistent with Government's objective of reducing the fiscal deficit.

The outlook for the December 2004 quarter remains optimistic notwithstanding the recent shock to aggregate supply and continuing uncertainties in international oil markets. The factors behind the recent developments in international oil prices are explained in **Box 2** and their possible implication for the balance of payments and inflation are discussed in **Box 3** of this report. Growth is still expected in this quarter, albeit at a slower pace and will be underpinned by continued stability in the domestic macroeconomic environment as well as, fairly buoyant world trade and economic growth. Inflation is expected to be above the seasonal average for the quarter in the range of **3.5 per cent to 4.5 per cent**, consequent on price increases associated with the impact of Hurricane Ivan. However, the Bank of Jamaica will continue to constrain monetary growth in order to keep core inflation within target.

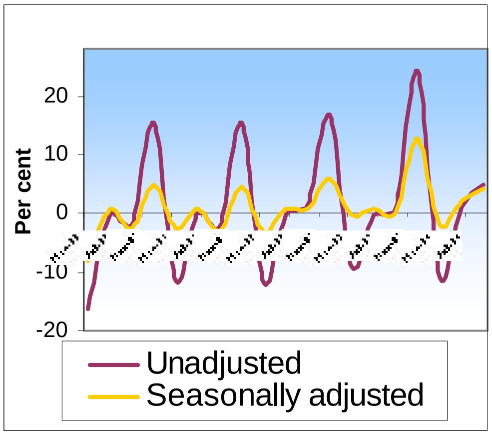
Government's success in raising €150.0 million on the international capital markets in October, attests to continued investor confidence in the Jamaican economy. This bond issue completed the country's external borrowing programme for fiscal year 2004/05. Further, the Government's expressed commitment to meeting its fiscal objectives for the current fiscal year and for a balanced budget in FY2005/06 should strengthen confidence and preserve stability in the domestic financial market. These factors augur well for the maintenance of a stable monetary environment and growth in the near to medium term.

1. Monetary Policy and Financial Markets

Money & Credit

Base Money

Figure 1.1
Base Money
(Quarterly Change)



For the September quarter, the monetary base remained within the Intensified Surveillance Programme[1](ISP) target despite a higher demand for currency related to hurricane expenditure during September. The monetary base expanded by 6.1 per cent for the first half of the fiscal year relative to the target of 7.0 per cent. Confidence in the domestic economy during the September quarter continued to be strong, as evidenced by the sustained demand for Jamaica Dollar assets including the Bank's open market instruments. However, the Bank remained cautious in its monetary policy stance in light of rising oil prices and hence, reduced interest rates once during the period.

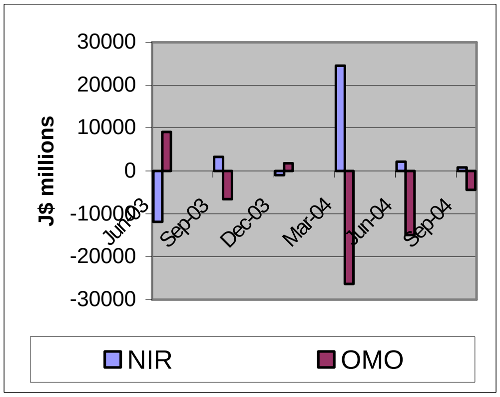
Hurricane related expenditure spurs abnormal currency demand

During the September quarter, the monetary base expanded by $1 777.9 million or 4.9 per cent. The growth in base money was much higher than the average growth of 1.1 per cent in the September quarter over the last two years (see **Figure 1.1 and Appendix C3**). The deviation from trend was reflected in the additional currency demand that emanated from the increased expenditure associated with Hurricane Ivan in September. Net currency issues during the quarter amounted to $1 618.4 million which represented an expansion of 6.6 per cent. This compares to an expansion of 1.4 per cent in the corresponding period of the previous year. The primary source of liquidity influencing the expansion in the monetary base in the quarter was net claims on the public

[1] Entails greater dialogue with the International Monetary Fund (IMF) on Jamaica's economic programme. The ISP does not involve the use of IMF resources. (See Box in QMPR Vol 5. No.1)

Figure 1.2

Effects of the NIR & OMO on liquidity*



**Absorption-negative, Injection-positive*

Bank reduces rates on all tenors of open market instruments

sector which increased by $7 999.4 million. This mainly represented a draw down on Government deposits of $3 134.2 million and net payments to the market of $2 940.1 million primarily for interest on open market liabilities.

An increase in the Bank's open market liabilities absorbed $4 407.2 million, which offset some of the aforementioned liquidity (see **Figure 1.2**). Placements in open market instruments in the review quarter demonstrated sustained confidence in the economy, as consistently, there were significant net issues in the 365-day tenor, even after a reduction in interest rates on 3 September (see **Bond Market**).

The interest rate reduction was effected in the context of improvements in the macroeconomic indicators during the quarter, including the expansion in economic activity, growth in foreign exchange inflows from tourism, bauxite and remittances, as well as the stability in the foreign exchange market. The reduction in interest rates was applied to the entire spectrum of open market instruments. The adjustments ranged from 20 basis points on tenors of 120-days or less to a reduction of 40 basis points on the 365-day tenor (see **Appendix C7**).

Favourable macro-economic conditions also contributed to the increase in the net international reserves (NIR) of US$12.4 million for the quarter, which injected J$ 770.0 million. The increase in the NIR mainly reflected direct purchases from the market by the Bank, as well as the purchase of the proceeds of two US dollar denominated bonds from the Government (see **Bond Market**) that more than offset debt payments. The improvement in the NIR also reflected the fact that direct sales to the market were relatively low, as there was an adequate supply of foreign currency in the market during the quarter.

Although the expansion in the monetary base was mainly reflected in currency issue during the quarter, the other components of the monetary base also increased. The statutory cash reserves increased by $105.8 million, reflecting an expansion in all categories of local currency deposits. In addition, at the end of September, the commercial banks' current account balances were $53.7 million higher than they were at end June.

Expansion in the base within the six-month programme target

Despite the above programme base money expansion for the review quarter, the growth for the six-month period April to September was 6.1 per cent, in line with the six-month target of 7.0 per cent set out in the ISP. The impact of the higher than anticipated currency demand in the September quarter on the target was moderated by the base money performance during the June quarter when open market operations were significantly more absorptive than expected.

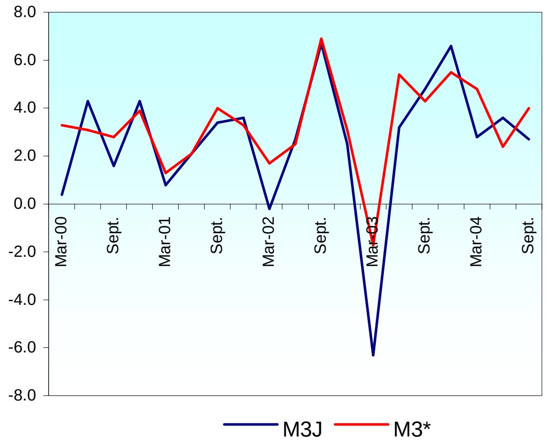
Intensified Surveillance Program Targets vs. Actual Outturn for end September 2004

	Target	Actual
Net International Reserves (US$mn)	1 281.8	1 616.5
Net International Reserves (J$MN)	79 986.2	10 0872.0
Net Domestic Assets	-41 278.6	-62 481.1
Base Money	38 707.6	38 390.9
% Change Base Money	*7*	*6.1*

In the upcoming quarter, base money is expected to increase significantly reflecting the seasonal demand for currency to facilitate spending during the Christmas season. Abstracting from seasonal influences, the potential challenges to base money management may arise from the real sector demand associated with the recovery from the Hurricane, as well as the economy's adjustment to rising oil prices.

Figure 1.3

Money Supply
(QuarterlyGrowth rates)
March 2000 to September 2004



Broad Money growth within ISP target for first half of FY 2004/05

Money Supply

For the September 2004 quarter, there was an expansion in broad money supply (M3J) of 2.5 per cent, resulting in an increase of 5.8 per cent for the first six months of FY 2004/05. The growth in the first half of FY 2004/05 was slower than that for the similar period of FY 2003/04 and well within the target outlined in the Intensified Surveillance Programme (ISP). Growth in the measure of money supply, which includes foreign currency deposits, M3, was slower during the review quarter, relative to the previous quarter.*

The BOJ's conservative monetary policy stance during the review quarter resulted in a slower growth of 2.5 per cent in the broad measure of money supply, M3J, relative to 3.5 per cent in the previous quarter and 4.6 per cent in the September 2003 quarter (see **Figure 1.3**). The outturn in M3J for the review quarter brought the growth for the first six months of FY 2004/05 to 5.8 per cent, which was lower than the 8.3 per cent increase anticipated in the ISP. The deviation from the ISP target was mainly due to a slowdown in banking system credit.

The main source of growth in M3J was a net increase of 2.6 per cent in banking system claims on the public sector (see **Table 5 in Appendix C**). This expansion largely reflected a decline in deposits held by Central Government at the Bank of Jamaica and interest payments by the Central Bank on open market liabilities.

Another significant source of increase in M3J was an expansion in banking system credit to the private sector of 3.9 per cent relative to the 9.6 per cent growth observed for the

Table 1.2

Money Supply (12-month growth rates)		
M1J	**Sep-03**	**Sep-04**
M1J	-5.8	22.8
M2J	-2.7	14.4
M3J	3.0	15.7
M*		
M1*	-0.9	22.5
M2*	7.6	15.8
M3*	10.6	16.5

Slowdown in banking system credit influences deceleration in broad money supply growth

Table 1.3

INTEREST RATES IN THE DOMESTIC MARKET			
COMMERCIAL BANK WEIGHTED AVERAGE DEPOSIT RATES			
	Aug-03	**Jun-04**	**Aug-04**
Overall Average			
Weighted rate	**6.87**	**6.27**	**6.25**
Demand	3.35	3.44	3.55
Savings	6.41	5.84	5.84
Time	9.03	8.15	8.03
Foreign Currency Average			
Weighted rate	**3.32**	**3.33**	**3.35**
Demand	2.96	3.15	3.21
Savings	2.29	2.30	2.29
Time	5.38	5.27	5.29
6-MONTH TREASURY BILL RATE	**25.74**	**14.98**	**14.95**
BOJ 180-DAY REPURCHASE AGREEMENT RATE	**25.00**	**15.05**	**15.05**

September 2003 quarter. The outturn for the review quarter was a continuation of the slower rate of growth recorded since the start of FY 2004/05 (see **Table 5 in Appendix C**). This could have been attributable to an increased use of external funding and retained earnings as a source of financing in the private sector, as well as significant net repayments following the surge in lending in 2002 and 2003 (see **Private Sector Credit**).

Against the background of the increased demand for Jamaica Dollar denominated assets, the Central Bank's open market operations absorbed $4 407.2 million during the review quarter. This limited the potential increase in money supply and was in a context of relatively attractive rates of return offered on BOJ instruments, as well as the continued improvement in investor confidence.

With regard to the changes in the components of money supply, currency in circulation increased by 4.9 per cent in the review quarter and 17.2 per cent during the 12-month period ended September 2004. The currency growth for the 12-month period translated into a real growth of 2.9 per cent, in contrast to a real reduction of 0.5 per cent for the comparable period of 2003. This was largely due to an increase in expenditure in the aftermath of Hurricane Ivan.

In the context of a slowdown in private sector credit and the relative attractiveness of other Jamaica Dollar assets, growth in local currency deposits decelerated to 2.1 per cent relative to 5.2 per cent for the same period last year. This explicated the slower rate of growth in M3J relative to the comparable period of 2003. Of the increase in M3J during the review quarter, narrow money (M1J) and "other deposits" grew by 5.2 per cent and 4.9 per cent, respectively, while quasi-money remained

Figure 1.4
Local Currency Deposits in Commercial Banks
(12-month growth rates)
March 1998 to September 2004

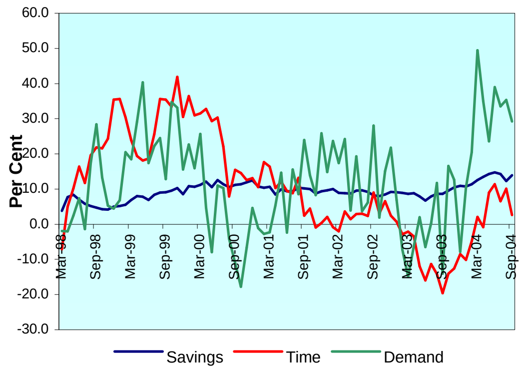


Figure 1.5
Deposits in Commercial Banks
(Quarterly Growth rates)
September 2000 to September 2004

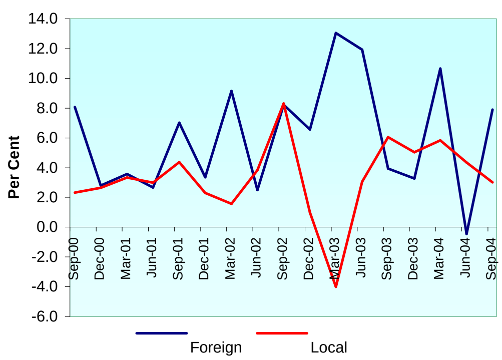
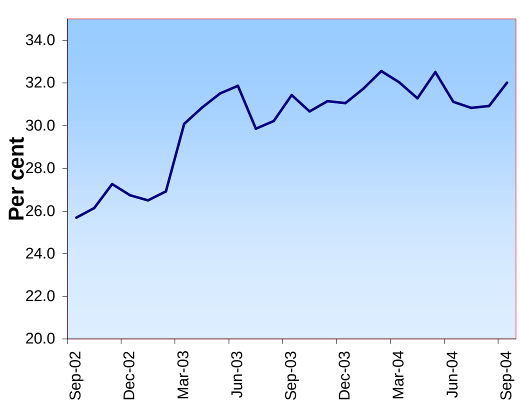


Figure 1.6

Foreign Currency Deposits to Total Deposits

September 2002 -2004



virtually unchanged.

Despite relatively stable conditions in the foreign exchange market, foreign currency deposits grew at a faster rate relative to the previous quarter and the September 2003 quarter (see **Figure 1.5**). The increase in the review quarter was largely reflected in savings deposits, which grew by 10.8 per cent. This was relative to a 7.8 per cent increase for the corresponding period of 2003. Most of the increase in the review quarter occurred in August and September and may have been related to investors' attempts to maintain a US dollar hedge in their asset portfolios subsequent to the maturity of a US dollar instrument in July 2004. In this regard, the ratio of foreign currency deposits to total private sector deposits, increased to 32.0 per cent at end September 2004 from 31.0 per cent at end June 2004. At end September 2003, the ratio was 31.4 per cent (see **Figure 1.6**).

The rate of growth in M3J during the September 2004 quarter was slower than that of the monetary base. Consequently, the money multiplier[2] decreased to 4.42 at end September 2004 from 4.53 at end June 2004 and 4.50 at end September 2003 (see **Figure 1.7**).

The change in the money multiplier reflected increases in the currency to deposits ratio and the reserves to deposits ratio (see **Table 1.4**). The increase in the currency to deposits ratio was a consequence of a faster rate of growth in currency in circulation relative to local currency deposits, particularly in September 2004. Concurrently, the increase in the reserves to deposits ratio was attributed to a significant build up in

[2]
$$MM = \frac{1 + C/D}{C/D + R/D}$$

where C = Currency in circulation
R = Required Reserves + Excess Reserves
D = Local Currency Deposits

Figure 1.7
Money multiplier
(Monthly Trend)
June 2003 to September 2004

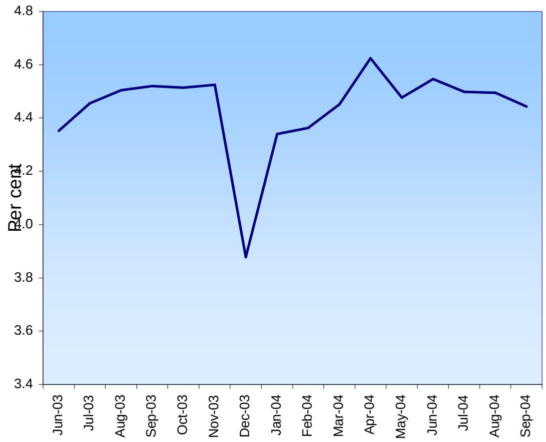


Table 1.4

COMPONENTS OF THE MONEY MULTIPLIER	Sep-03	Jun-04	Sep-04
	%	%	%
Currency to Deposits	14.80	14.60	15.00
Reserves to Deposits	10.72	10.71	10.99
Excess Reserves to Deposits	*2.27*	*2.46*	*2.84*
Cash reserves to Deposits	*8.45*	*8.25*	*8.15*

commercial banks' vault cash holdings and an expansion in the current account balance. This was reflected in the excess reserves to deposits ratio, which increased to 2.8 per cent at end September 2004. The currency to deposits ratio and the reserves to deposits ratio increased to 15.0 per cent and 11.0 per cent, respectively at end September 2004.

Figure 1.8
Quarterly Growth Rates of Private Sector Credit
March 2001 to September 2004

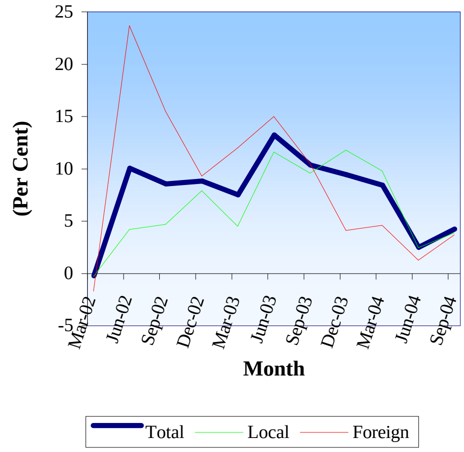


Table 1.5

Commercial Bank Distribution of Total Credit to the Private Sector (Quarterly Flows)			
		Revised	Prov.
	Sep-03	Jun-04	Sep-04
›tal Private Sector Credit.	6,129.7	1,645.9	3,097.2
Loans and Advances	6,393.8	1,656.8	3,107.5
Other Investments and Private Debentures	-264.1	-10.9	-10.3

Private Sector Credit

Private sector credit continued to grow, expanding by 3.8 per cent during the September 2004 quarter, somewhat less than the targeted increase outlined in the monetary programme. Personal Loans recorded the largest share of the increase, followed by Construction & Land Development. During the review period there was a slight increase in the overall weighted average loan rate. The quality of the loan portfolio continued to show improvement and was well within the international benchmark.

Commercial bank credit to the private sector continued to expand during the September 2004 quarter. However, the increase in credit was less than the targeted increase of 7.5 per cent outlined in the monetary programme. The stock of credit outstanding at end September was $84 627.0 million, representing an expansion of $3 097.2 million or 3.8 per cent for the review quarter. This increase was significantly less than the 9.9 per cent expansion recorded in the September 2003 quarter. However, the growth recorded in the September 2004 quarter was significantly stronger than the 2.1 per cent increase observed during the June 2004 quarter (see **Figure 1.8**). The growth in private sector credit was largely reflected in **Loans and Advances** which amounted to $3 107.5 million while there was a small reduction in **Other Investments and Private Debentures** (see **Table 1.5**).

The expansion in credit continued to be largely concentrated in **Personal Loans** accounting for 56.2 per cent of the total increase during the review period. Of this increase, credit card receivables grew by $376.8 million or 5.5 per cent for the quarter. This category of loans has

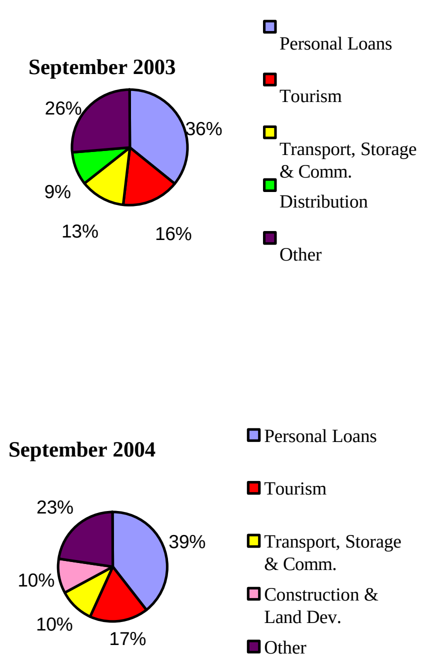
Table 1.6

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

	Sep-03	Revised Jun-04	Prov. Sep-04
Agriculture & Fishing	24.1	-389.8	-92.3
Mining & Quarrying	217.9	25.3	20.5
Manufacturing	-133.9	-362.2	175.5
Construction & Land Dev.	1475.6	538.1	745.3
Transport, Storage & Comm.	959.8	-504.0	52.4
Tourism	866.6	236.5	111.1
Distribution	495.8	154.9	-50.8
Professional & Other Services	23.3	99.8	253.3
Personal Loans	2 704.7	2 016.5	1 745.9
Electricity	-180.5	-126.9	19.9
Entertainment	-54.9	-15.5	125.5
Overseas Residents	-4.8	-16.1	1.4
TOTAL	**6 393.8**	**1 656.8**	**3 107.5**

Figure 1.9

Sectoral Distribution of Commercial Bank Credit to the Private Sector
Per Cent of Outstanding Stock
September 2003 & September 2004



recorded robust growth of 33.0 per cent since September 2003 and approximately 90.0 per cent since September 2002 displaying the increased usage of this line of credit in facilitating consumption practices.

The continued expansion in loans to **Construction & Land Development** represented 24.0 per cent of the total increase in loans. During the review quarter, loans to **Manufacturing** expanded representing 5.6 per cent of the total increase in credit. This occurred following significant net repayments during the previous quarter and in the comparable period of 2003. There was a significant slowdown in the growth of credit to **Tourism** during the review quarter representing solely 3.6 per cent of the total increase when compared to the 11.9 per cent and 30.4 per cent of the total increases recorded in September 2003 and September 2002 quarters, respectively. This was offset by net repayments by **Agriculture & Fishing** and **Distribution,** which were notable beneficiaries of credit in previous quarters (see **Table 1.7**).

There was a general slowdown in the growth of foreign currency loans during the review quarter. The stock of these loans expanded by 0.4 per cent for the September 2004 quarter relative to 1.2 per cent in the June 2004 quarter and 8.6 per cent recorded during the corresponding period of 2003 (see **Table 1.7**). **Professional & Other Services** accounted for the largest proportion of the net expansion in foreign currency loans during the review period (see **Table 1.7**).

Tourism recorded net repayments of US$2.1 million representing a decline of 1.0 per cent during the review period, which is in sharp contrast to the growth of 10.1

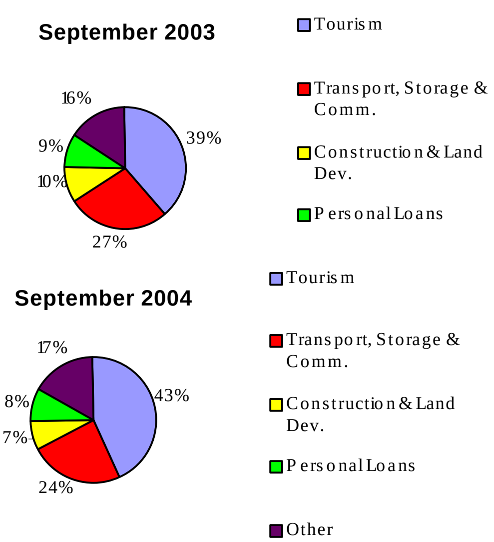
Table 1.6

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

	Sep-03	Jun-04	Prov. Sep-04
Agriculture & Fishing	-0.1	-0.2	-0.5
Mining & Quarrying	3.5	0.0	0.0
Manufacturing	1.3	-2.7	1.1
Construction & Land Dev.	3.5	0.0	0.4
Transport, Storage & Comm.	14.6	-7.5	-1.2
Electricity, Gas & Water	-0.3	0.0	0.0
Distribution	-3.7	3.0	0.4
Tourism	15.5	2.5	-2.1
Entertainment	-0.8	-0.1	-0.1
Professional & Other Services	-1.9	10.6	2.8
Personal Loans	3.4	0.4	0.8
Overseas Residents	0.0	0.0	0.0
TOTAL	35.0	5.9	1.7

Figure 1.10

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



per cent and 16.2 per cent in September 2003 and September 2002 quarters, respectively. Indications are that the growth in the industry is being primarily financed by private capital inflows. Despite the net repayments observed by **Tourism** during the review quarter, it continued to account for the largest proportion of the stock of outstanding foreign currency loans at end September 2004. Consequent upon the slowdown in growth of foreign currency credit, the proportion of foreign currency loans to total loans stood at 33.5 per cent as at end September 2004 representing a reduction when compared to the 36.5 per cent observed at the end of the corresponding period of 2003 and the 33.8 per cent recorded at end September 2002.

There was a slight increase in the cost of foreign currency credit. The weighted average rate on foreign currency denominated credit increased by 5 basis points to 8.78 over the two months ended August 2004 and by 21 basis points since the end of August 2003. The increase in the foreign currency loan rate was mainly reflected in the weighted average loan rate on *Personal* loans which increased, by 102 basis point during the two months ended August 2004 and 290 basis point since August 2003.

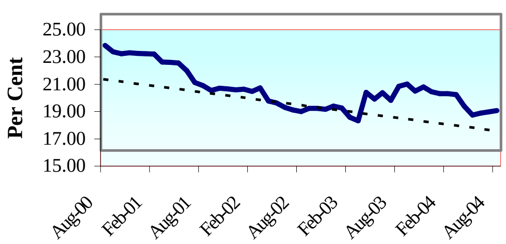
Despite the slight increase during the review period, the overall weighted average loan rate on private sector and public sector loans continued along a downward trajectory observed since the mid 1990s. The rate increased by 17 basis points during the two months ended August 2004 but it was 178 basis points below the rate observed at end August 2003. The general reduction in the overall weighted average loan rate facilitated the

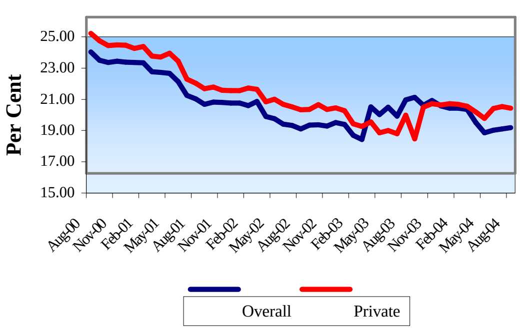
Table 1.7

Commercial Bank Domestic Currency Average Weighted Lending Rates by Loan Type

	Aug-03	Jun-04	Aug-04
Weighted Average Rates			
Overall	19.70	17.75	17.92
Public Sector	21.90	14.02	14.38
Private Sector	18.61	19.15	19.18
Instalment	23.92	24.12	23.92
Mortgage	21.62	20.74	20.58
Personal	27.24	30.35	30.55
Commercial	15.75	14.44	14.18
Local Govt. & Other Public Ent.	19.37	11.95	12.24
Central Government	28.21	18.71	18.59

Figure 1.11
Commercial Banks' Weighted Average Loan Rate
August 2000 to August 2004





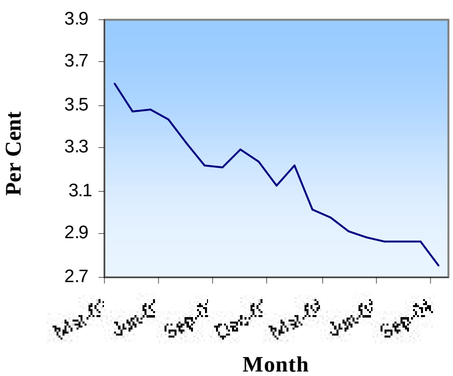
continued expansion of loans extended to the private sector over the last four years (see **Figure 1.10**).

The weighted average loan rate on private sector credit denominated in domestic currency increased by 3 basis points over the two months ended August 2004 and was 57 basis points higher than the rate observed at end August 2003. This occurred in the context of an increase in the concentration of *Personal* loans which recorded a 20 basis point increase in its weighted average lending rate while there were reductions in the weighted average lending rates on all other types of private sector credit over the two months ended August 2004 **(see Table 1.7)**.

The weighted average rate on loans to the public sector increased faster than those faced by the private sector increasing by 36 basis points for the two months ended August 2004. This was due to a 29 basis point increase in the weighted average rate charged on loans to *Local Government & Other Public Entities* which constituted a larger concentration of loans to the public sector than the *Central Government*, which experienced a 12 basis point decline in its weighted average lending rate.

For the review period, the ratio of private sector credit to total assets remained at the 25.1 per cent that was observed in the previous quarter but it was significantly higher than the 22.4 per cent recorded at the end of September 2003. This indicates that the commercial banks have been shifting their asset composition in favour of increased levels of loans since September 2003.

Figure 1.12
Commercial Banks Past due Loans (Three Months and Over) to Total Loans
March 2003 to September 2004



The quality of the loan portfolio of commercial banks continued to show improvement over the review period as reflected by the ratio of past due loans (over three months) to total loans which declined to 2.8 per cent at end September 2004 from the 3.2 per cent observed during the comparable period in 2003 (see **Figure 1.12**). This outturn was well within the international benchmark of 10.0 per cent reflecting the more stringent risk management practices employed by the institutions. For the review period, of the six banks in operation, two reflected ratios in excess of 2.8 per cent.

Bond Market

Domestic interest rates continued to decline during the September quarter in spite of inflationary pressures emanating from rising fuel prices globally. The BOJ, acting cautiously in light of international developments, effected a marginal reduction in rates on its open market instruments. Most of Government debt for the quarter was contracted in foreign currency. This included €200.0 million raised through the issue of a Eurobond. The psychological impact of the foreign financing allowed the Government to price domestic offers at lower yields. Also, adequate liquidity in the private money market continued to support relatively stable interest rates during the quarter. Internationally, demand for GOJ global bonds increased as fears about a fast adjustment in US interest rates subsided and prospects for Jamaica's medium-term economic performance improved.

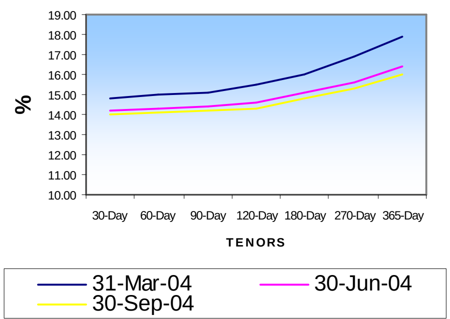
Positive economic prospects influence developments in domestic bond market

.

Despite concerns about inflation from rising oil prices, a positive outlook for the Jamaican economy encouraged by strong performance in key productive sectors such as mining and tourism, inspired investor confidence both locally and abroad. This allowed the Government to supplement its financing requirements through a Eurobond issue, raising €200.0 million. In addition, Government debt on the domestic market was contracted mainly in US currency such that there was net amortization of Jamaica Dollar denominated debt. This facilitated lower interest rates on Government's local currency offers during the quarter. Declines in domestic interest rates were further facilitated by relative stability in the foreign exchange market.

Table 1.8

BOJ Reverse Repurchase Rates April – September 2004				
	31 Mar	**30 Jun**	**30 Sept**	**Qtrly change**
30 Days	14.85	14.20	14.00	-0.20
60 Days	15.00	14.30	14.10	-0.20
90 Days	15.10	14.40	14.20	-0.20
120 Days	15.50	14.55	14.35	-0.20
180 Days	16.00	15.05	14.80	-0.25
270 Days	16.95	15.65	15.35	-0.30
365 Days	17.95	16.40	16.00	-0.40



Notwithstanding favourable prospects for the domestic economy, the BOJ adopted a conservative monetary policy stance in light of potential inflationary pressures from rising oil prices and uncertainty regarding movements in global interest rates. In this regard, interest rates on open market instruments were reduced once during the quarter. This reduction, effected on 3 September 2004, was influenced by steady improvement in Jamaica's macroeconomic indicators including stability in the foreign exchange market and a declining 12-month inflation rate, consistent with programme objectives.

Interest rates were reduced on all tenors by 20 to 40 basis points, bringing the rate on the 365-day instrument to 16.0 per cent (See **Table 1.8**). The reduction represented cumulative declines of 85 to 195 basis points since the start of the fiscal year, signifying further normalisation of the yield curve on BOJ's open market instruments (See **Figure 1.13**).

Demand for BOJ's instruments throughout the quarter was consistently strong, but heavily concentrated in the shorter tenors as investors continued to streamline their maturity profile. Excluding overnight transactions, placements in the 30-day tenor accounted for 54.8 per cent of the total representing a marginal increase over the maturities in this tenor (See **Table 1.9**). Although there was concentration in the 30-day instrument, there was a clear switch from the 120-day and 180-day tenors in favour of the 365-day tenor. Allotments to the 365-day instrument accounted for 21.6 per cent of placements relative to 17.0 per cent of total maturities for the quarter. Net placements in this tenor indicated improved investor confidence and expectations of further rate reductions. Notably, Hurricane Ivan did not affect net placements in this tenor. The 90-day instrument, the third largest issue, accounted for 10.8 per cent of

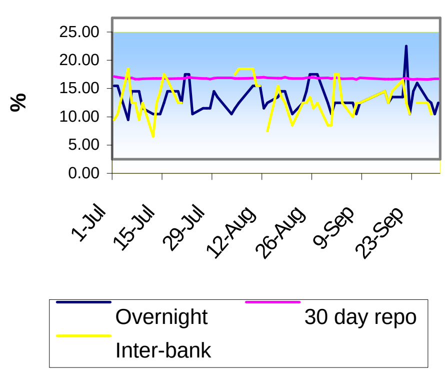
Table 1.9

Placements and Maturities* in BOJ OMO Instruments July – September 2004

	Maturities (%)	Placements (%)
30 Days	53.21	54.82
60 Days	2.42	2.64
90 Days	10.36	10.82
120 Days	4.75	2.44
180 Days	10.16	5.23
270 Days	2.11	2.46
365 Days	16.99	21.59

**Excludes overnight transactions during the period*

Figure 1.14
Private Money Market
*Maximum Interest Rates**
July – September 2004



**Gaps in the inter-bank line represent days when there were no trades.*

Government net amortises $5 206.6 million in domestic debt.

placements.

Adequate levels of Jamaica Dollar liquidity facilitated fairly low and stable interest rates in the private money market between July and September 2004. The maximum interest rates on the 30-day private repurchase instrument fluctuated within a narrow band of 14.10 per cent and 14.65 per cent. This represented a narrowing of the 14.00 to 15.00 per cent range that obtained in the June quarter. Maximum rates in the overnight market were consistently below the 30-day rate, except when they spiked at end September due to the tightening of liquidity caused by a Government debenture in the market. The adequate liquidity conditions resulted in less trading activity in the interbank market, with interest rates averaging 10.00 per cent during the quarter (See **Figure 1.14**).

Government debt raising activities were concentrated in the first two months of the quarter, with most of the debt contracted in foreign currency. This included the €200 million received from the Eurobond. On the domestic market, the Government raised $25 150.3 million for the quarter. This resulted in net amortization of $5 206.6 million, which allowed for a reduction in interest rates on successive public offers (See **Table 1.10**). The Government also made various private placements during the quarter.

The largest portion of domestic financing during the quarter was contracted through two US dollar-denominated bonds, which received subscriptions of US$125.8 million, and US$86.8 million, respectively (See **Table 1.10 and Appendix 8B**). The coupon rate of 10.50 per cent on the first bond was reduced to 9.90 per cent on the subsequent offer.

Table 1.10

GOJ Public Domestic Debt Raising July - September 2004			
	Amount Allotted (J$MN)	**Amount Maturing (J$MN)**	**Net Issue (J$MN)**
Treasury Bills	1 950.0	2 150.0	-200.0
LRS	0.0	8 436.0	-8 436.0
Investment Debenture	8 371.5	6 641.0	1 730.5
Investment Bonds	1 647.6	0.0	1 647.6
US$ Indexed Bonds	0.0	2 726.3	-2 726.3
US$ Denominated Bonds	13 181.2	10 403.6	2 777.6
Total	**25 150.3**	**30 356.9**	**-5 206.6**

Government contracts most of its financing in foreign currency.

Having sourced the more substantial part of its cash requirements through foreign currency instruments, there was reduced demand for local currency funding. Hence, the Government priced successive instruments aggressively at lower interest rates (See **Appendix 8B**).

For the quarter, the Government issued three investment debentures which received subscriptions totalling $8 371.5 million. The interest rate on these instruments was progressively reduced from 16.875 per cent in July, to 16.75 per cent in August, and finally to 16.25 per cent in September. Other local currency funding was contracted through the issue of two investment bonds ($1 647.6 million) and Treasury Bills ($1 950.0 million). During the September quarter, the Government did not reissue Local Registered Stock (LRS) or US dollar-indexed bonds. Instead, there were maturing amounts of $8 436.0 million and $2 726.3 million respectively, from these instruments.

The average yield on Treasury Bill auctions during the quarter was influenced by the rate adjustment on BOJ instruments. In this context, the yield on the 182-day tenor remained stable at 14.95 per cent for the first two months, before declining to 14.80 per cent in September (See **Table 1.11**). In mid-August, there was a net redemption of $200.0 million on a 364-day Treasury Bill. The average yield on this instrument was 16.36 per cent, four basis points below the BOJ's 365-day reverse repurchase rate at that time.

On 13 July 2004, the Government sourced €200 million on the international capital market through the launch of an 11.0 per cent Eurobond due to mature in 2012. This 8-year bond represented the longest Euro-denominated issue ever placed by the GOJ on the international market. Notably,

Table 1.11

Treasury Bill Auctions & Maturities
July – September 2004

Issue Date	Tenor (days)	Avg. Yield (%)	Allotment (J$MN)	Amount Maturing (J$MN)
30 Jul. 04	182	14.96	500	500
13 Aug. 04	364	16.36	400	600
27 Aug. 04	182	14.95	400	400
24 Sept. 04	180	14.80	400	400
24 Sept. 04	91	14.41	250	250
Total			**1 950.0**	**2 150.0**

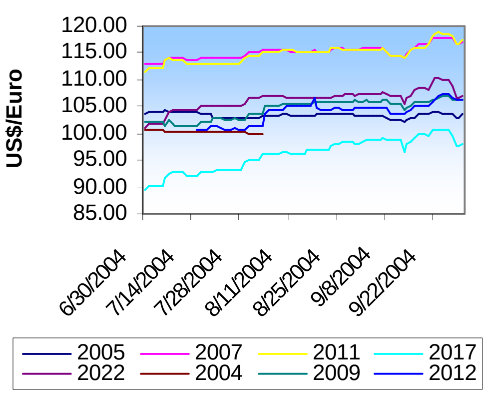
Government raises €200 million through 2012 Eurobond.

the issue received overwhelming demand from institutional and retail investors in Europe. Given this demand, the size of the initial bond offer was increased from €100 million to €200 million.

The Eurobond launch was influenced by Jamaica's continuing positive macroeconomic fundamentals, including the attainment of the 2003/04 fiscal target. The positive outlook for GDP growth was supported by improved performance in the mining and tourism sectors, as well as the declining trend in domestic interest rates.

In the secondary market, yields on bonds across all tenors declined by just under 2 percentage points (See **Figure 1.15** to **1.17**). During the September quarter, prices on all bonds (except the 2005) increased within a range of 3.5 per cent to 9.5 per cent. This was consistent with the buoyancy in emerging market bonds, in general, as investors sought higher yielding instruments.

Figure 1.15
GOJ Global Bond Prices*
July – September 2004



[*]*The 2004 €-denominated bond matured in August 2004.*

The adjustments in GOJ global bond prices and yields represented significant recovery from May, when expectations of a rapid increase in US interest rates resulted in reduced demand for emerging market bonds. Much of the uncertainty has since dissipated as the US Federal Reserve Bank has repeatedly communicated its intention of a 'measured' pace of rate adjustments. Consequently, the announcements of subsequent rate increases had little impact on bond performance.

Prospects for GOJ global bonds remain positive, even in the aftermath of Hurricane Ivan. In the two weeks immediately following the hurricane, prices on the 2007,

Figure 1.16
GOJ Global Bond Yields
July – September 2004

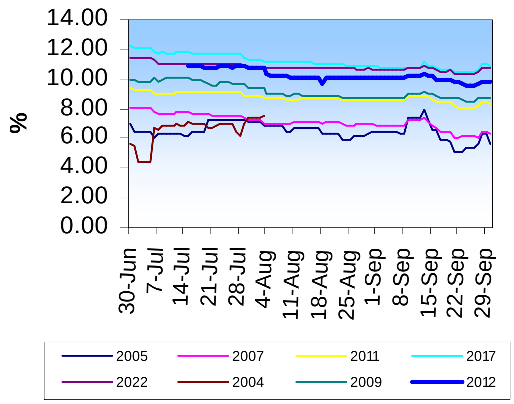
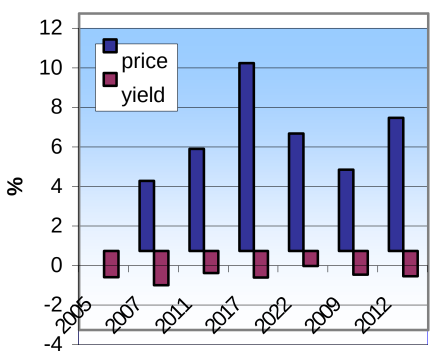


Figure 1.17
Quarterly Change
GOJ Global Bond Prices & Yields
July-September 2004



2011 and 2012 GOJ Euro denominated global bonds increased by an average of 3.0 per cent. Timely communication from the Jamaican Government of its commitment to the fiscal programme, in addition to lower than anticipated damage to the major foreign exchange earning sectors, helped to maintain confidence in the economy.

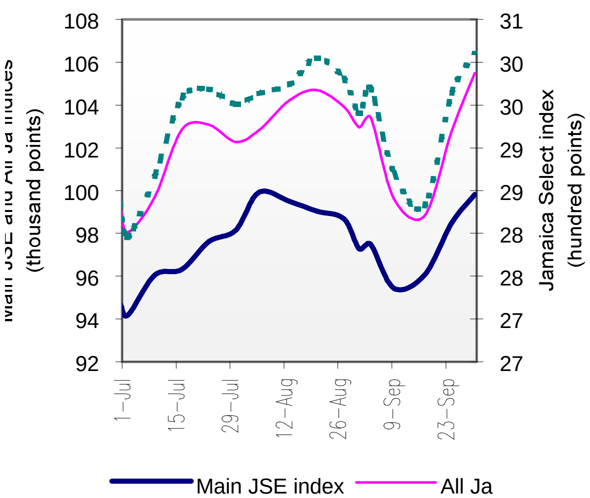
Stock Market

Stock prices recover in September 2004 quarter

Within a context of generally favourable macroeconomic conditions and the anticipation of positive company results, the stock market grew in the September 2004 quarter with most listed entities recording price increases. Stock prices were buoyed by investor optimism in mid September, following Hurricane Ivan. The demand for equities towards the end of the quarter reflected investor expectations of continued stability in the foreign exchange and bond markets.

Developments in the review quarter resulted in a 5.4 per cent gain in the Main JSE index . The increase in the index was aided by favourable Jamaica Dollar liquidity conditions and a positive macroeconomic outlook. During July, the Main JSE index increased by 3.6 per cent, indicating recovery from stock price declines observed in the previous quarter[3]. However, in August the index declined by 0.9 per cent reflecting the seasonal falloff in demand. A reduction in interest rates and the maintenance of positive macroeconomic expectations following the hurricane influenced the 2.6 per cent increase in the index for September 2004.

Figure 1.18
JSE Indices
September 2004 Quarter



Source: Jamaica Stock Exchange

The growth in the stock market for the quarter was broadly based, with 22 stocks advancing and 16 declining. Price gains were concentrated in the financial sector, which accounted for five of the top ten stocks. The most notable increase in this sector was recorded by Dehring, Bunting and Golding Company Limited (DB&G), which attracted investor interest with its scheduled cross listing on the Trinidad and Tobago Stock Exchange. Additionally, the increase in the price of Capital and Credit Merchant Bank

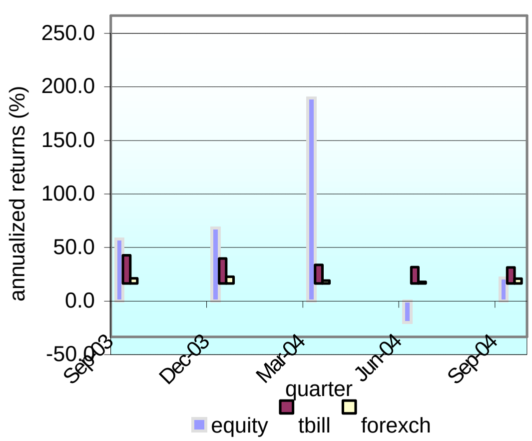
[3] During the June 2004 quarter there was a 4.9 per cent decline in the Main JSE index.

Table 1.12
Top Ten of the 22 Price Gains
September 2004 Quarter

Sectors / Companies	Price at 30-Sep-04 $	Qtr. Change %
Financial		
CCMB	25.00	37.3
DB&G	24.65	66.0
Pan Carib	22.80	20.0
First life	32.00	14.3
LOJ	7.89	15.2
Distributive		
Courts	5.49	15.6
H&L	30.00	50.0
Conglomerates		
Lascelles	155.00	25.0
Telecommunications		
C&W	1.70	71.7
Other Services		
Ciboney Group	0.08	14.3

Source: Jamaica Stock Exchange

Figure 1.19
Quarterly Domestic Market Returns
September 2003 to September 2004



(CCMB) reflected the acquisition of the Jamaica Unit Trust Services Limited. Outside of the financial sector entities, Cable and Wireless Jamaica Limited (C&W) and Hardware and Lumber Company Limited (H&L) accounted for the most significant gains (see **Table 1.12**). In the case of C&W, wide scale restructuring in response to intensified competition in Jamaica's telecommunications sector was expected to improve the company's efficiency and future profitability. H&L benefited from the high demand for hardware and household items following the hurricane.

Investor interest in the stock market during the review period suggests that returns from equity were not expected to be significantly outpaced by returns in the other major financial markets[4]. Since these other returns are driven by instability in the foreign exchange and bond markets, the stock market performance could be indicating that market participants maintained a positive outlook for the economy following the hurricane. In particular, investors would have been reassured by Government's stated commitment to its economic targets. Hurricane-related expenditures were not expected to derail the stability in the foreign exchange and bond markets.

[4] Annualized stock market returns were derived from the percentage change in the Main JSE index. The 6-month GOJ Treasury Bill yield was used to represent bond market returns. Foreign exchange market returns were computed as the annualized percentage change in the exchange rate for the quarter.

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

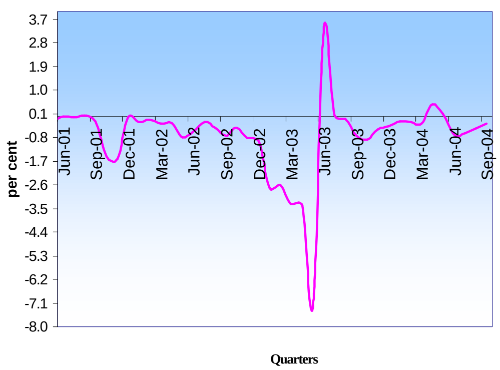
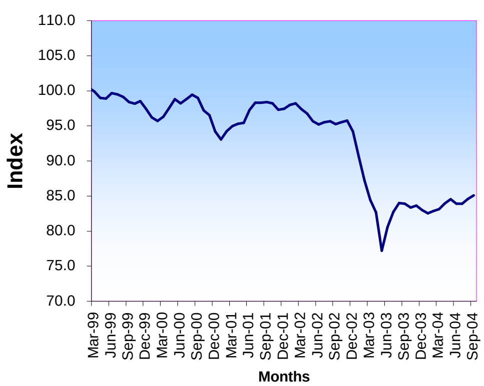


Figure 1.22
Real Effective Exchange Rate Index*
(December 1998 = 100)



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

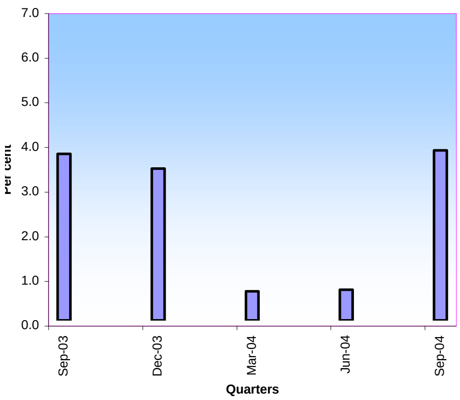
Foreign Exchange Market

The foreign exchange market, though generally stable, experienced bouts of instability in the September 2004 quarter, largely related to developments in the bond market. The demand pressures that emerged in the market were largely confined to July, influenced by strong demand for US dollars to invest in a GOJ US dollar bond. The redemption of maturing indexed bonds created additional demand for US dollars as investors sought to maintain their currency hedge. Notwithstanding the temporary surge in demand in July, there was a return to relative stability in the remaining months of the quarter.

The weighted average selling rate of the local currency vis-à-vis the United States dollar depreciated by 1.1 per cent in the September 2004 quarter, relative to 0.3 per cent in the preceding quarter (see **Figure 1.21)**. As a result, the local currency price of the US dollar moved to US$1.00=J$61.89 at end-September 2004 from US$1.00=J$61.22 at end-June 2004. The movement in the exchange rate during the review quarter resulted in a calendar year-to-date depreciation of 2.1 per cent, which compares favourably with respective depreciations of 3.8 per cent and 15.3 per cent recorded for the comparable periods of 2002 and 2003.

Jamaica's Real Effective Exchange Rate (REER) index at the end of the September 2004 was 1.7 per cent higher than the index at end-June 2004, representing a loss in external competitiveness (see **Figures 1.22**). The twelve-month point-to-point change in the REER as at September 2004 also reflected a 1.7 per cent loss in competitiveness. The movement in the index was influenced primarily by a widening of the inflation differential given the relative stability in both the value of the local currency and the weighted exchange rate index of Jamaica's main trading partners (see **Figures 1.23**).

Figure 1.23
Inflation Differential



The stability in the exchange rate in the review quarter was underpinned by rising investor confidence attributable to continued improvements in the domestic macroeconomic environment (see **Base Money**, **Fiscal Developments and Inflation**). Market perception was also influenced by strong medium-term growth prospects for foreign direct investments. In addition, the market benefited from buoyant US dollar liquidity levels in spite of a continued decline in the interest rate differential. Given the appreciation in the price of GOJ global bonds, the supply of foreign currency could have been augmented by dealers accessing their margin accounts with international brokers. The positive economic climate was reinforced by GOJ raising €200.0 million on the international capital market.

Traditional foreign exchange inflows increase despite hurricane Ivan

Jamaica's foreign exchange earnings from traditional sources were estimated to have grown in the September 2004 quarter relative to the corresponding quarter in 2003. This was in spite of the devastation caused by Hurricane Ivan in September 2004 (see **Real Sector**). Receipts from remittances, merchandise exports and tourism were estimated to have increased by 10.7 per cent, 2.4 per cent and 0.9 per cent, respectively, relative to the comparable period of 2003. The demand for foreign currency was also estimated to have increased in the review period, influenced primarily by fuel imports. Expenditure on fuel increased by 40.0 per cent in the September 2004 quarter, in the context of rising oil prices on the world market.

Total volumes[5] traded in the market, excluding intervention, amounted to US$3 727.3 million, representing a growth of 4.0 per cent, relative to the comparable September 2003 quarter. Volumes purchased and sold expanded by US$72.0 million and US$70.5 million to

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

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

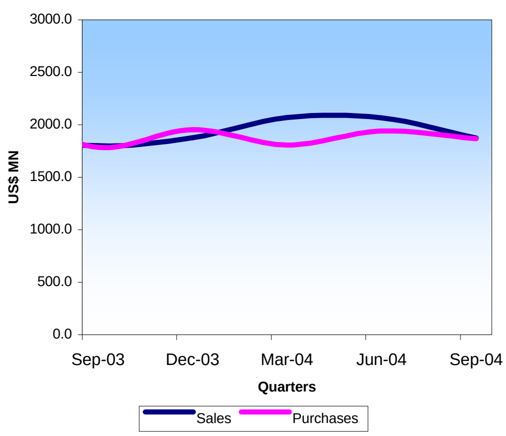


Table 1.12

Net Foreign Exchange Sales (US$MN)	BOJ	Authorized Dealers	Cambio
Jul-03	-2.8	16.7	-27.6
Aug-03	24.0	38.5	-25.1
Sep-03	15.8	25.0	-26.2
Oct-03	95.5	20.1	-17.2
Nov-03	30.3	1.3	-19.3
Dec-03	3.2	30.7	-30.9
Jan-04	-58.2	54.9	-19.9
Feb-04	-14.2	32.6	-25.4
Mar-04	-57.3	67.3	-28.1
Apr-04	-22.5	75.1	-26.0
May-04	13.8	17.1	-11.0
Jun-04	62.5	24.0	-27.2
Jul-04	54.6	38.5	-33.5
Aug-04	-8.2	31.6	-31.8
Sep-04	18.0	51.1	-23.5

US$1 896.5 million and US$1 830.8 million, respectively (see **Figure 1.24**). The increase in overall market activity was reflected in the operations of the *Authorized Dealers*. Total volumes traded in this segment of the market increased to US$1 661.0 million, US$190.0 million above the comparable period of 2003. Total volumes sold increased to US$891.1 million in the review period from US$775.6 million, while purchases expanded to US$769.9 million from US$695.4 million. In this context, the Authorized Dealer's segment of the market net sold US$121.2 million in the review period (see **Figure 1.12**). Activity in the *Cambio* market resulted in net purchases of US$88.7 million. Total sales and purchases declined by US$99.0 million and US$89.1 million to US$267.4 million and US$356.2 million, respectively, relative to comparable period of 2003.

Although there was overall stability in the market during the quarter, there were periods of high demand resulting in depreciations of 0.9 per cent and 0.2 per cent in July and August, respectively. A marginal appreciation in the exchange rate was recorded for September 2004. The movement in the exchange rate in July was the largest one-month change since October 2003. Demand pressures, as indicated by market spreads on foreign exchange transactions (as a per cent of the buying rate) were higher in July and August, averaging 0.51 per cent and 0.59 per cent, respectively. In the comparable period of 2003, market spreads averaged 0.48 per cent, while for the first two quarters of 2004, the spread was 0.42 per cent on average (see **Figure 1.25**).

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

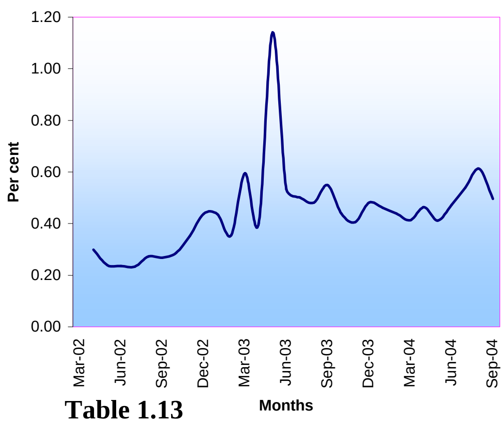


Table 1.13

Net International Reserves (US$MN)			
Month	**Stock**	**One Month Change**	**Three Month Change**
Jul-03	1124.9	-2.5	-237.2
Aug-03	1080.1	-44.8	-153.2
Sep-03	1182.6	102.5	55.2
Oct-03	1131.1	-51.5	6.2
Nov-03	1103.3	-27.8	23.2
Dec-03	1165.0	61.7	-17.6
Jan-04	1219.6	54.6	88.5
Feb-04	1474.0	254.3	370.7
Mar-04	1568.7	94.7	403.7
Apr-04	1741.6	173.0	522.0
May-04	1715.7	-26.0	241.7
Jun-04	1604.1	-111.6	35.4
Jul-04	1594.7	-9.4	-146.9
Aug-04	1643.5	48.8	-72.2
Sep-04	1616.5	-26.9	12.4

Strong demand for foreign currency, which coincided with a GOJ US dollar bond offer, as well as, efforts by investors to maintain the currency composition of their portfolios, were the main factors influencing the exchange rate in July and August. The repositioning of portfolios was associated with uncertainties regarding a replacement instrument for a maturing GOJ US dollar indexed bond. The activities of market participants were facilitated by Jamaica Dollar liquidity arising from maturing GOJ instruments (see **Bond Market**). There was also significant end-user demand to finance imports, particularly fuel.

In an attempt to assuage the pressures that emerged in the market during the quarter, BOJ sold US$120.7 million, relative to US$176.4 million in the September 2003 quarter. Purchases[6] from the market by the Bank amounted to US$53.3 million, approximately US$34.0 million lower than the comparable period of 2003. In addition to the Eurobond which was floated in July, the Government also raised US$212.6 million from two domestic US dollar denominated debt instruments. The Government also received a US$30.0 million loan from the Inter-American Development Bank and a grant of US$13.5 million. The proceeds from these instruments were largely used to satisfy debt obligations falling due in the quarter.

In the context of the Government's successful borrowing activities in the quarter, the NIR at end- September 2004 was US$1 616.5 million, US$12.4 million above end-June 2004 (see **Table 1.13**). This outturn also compared favourably with the ISP target for September of US$1 280.0 million (see **Base Money**). Gross reserves of the BOJ stood at US$1640.7 million at end-September, representing 16.0 weeks of projected goods and services imports.

[6] Market purchases excludes surrenders and receipt of Government loan proceeds.

2. Real Sector Developments

Table 2.1

SECTORAL CONTRIBUTION TO GROWTH September Quarter	Estimated Impact on Growth
GOODS	**-ve**
AGRICULTURE FORESTRY & FISHING	**-ve**
MINING & QUARRYING	**-ve**
MANUFACTURING	**+ve**
CONSTRUCTION & INSTALLATION	**+ve**
SERVICES	**+ve**
BASIC SERVICES	**+ve**
Electricity & Water	**+ve**
Transport Storage & Communication	**+ve**
OTHER SERVICES	**+ve**
Distributive Trade	**+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**

*In the context of several adverse weather conditions during the review quarter, the BOJ's preliminary assessment of economic performance for Jamaica indicates a marginal expansion in real Gross Domestic Product (GDP). Growth within the economy was mainly reflected in services, with the major growth poles being **Electricity & Water Transport**, **Storage & Communication** and **Tourism** (see **Table 2.1**). On the other hand, the goods producing sector is estimated to have declined for the first time since the September 2002 quarter, solely due to the significant declines in **Agriculture**, which outweighed the marginal to moderate growth in the other sub-sectors. Growth during the quarter was underpinned by the stable macroeconomic environment and the trend decline in interest rates, which facilitated an increase in loans to the private sector (see **Money and Credit**).*

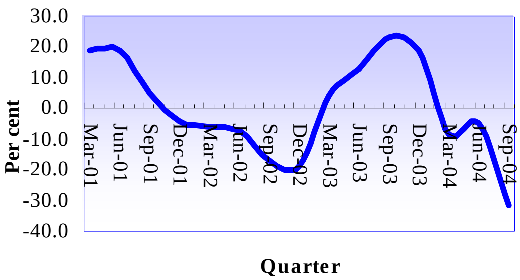
*With regard to aggregate demand, the overall increase in economic activity in the review quarter partly reflected estimated real increases in overall **Consumption** expenditure. Private spending influenced the increase in consumption spending during the period. The estimated improvement in spending was further augmented by an increase in **Gross Capital Formation.** However, this was partially offset by the decline in **Net External Demand** and Government consumption.*

Adverse weather conditions slow growth in Gross Domestic Product.

Aggregate Supply

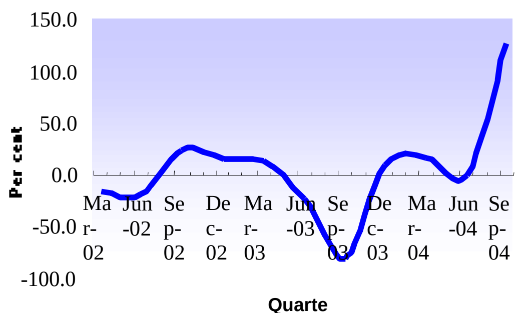
A preliminary assessment of economic performance suggests a marginal increase in real GDP during the September 2004 quarter. This estimated growth is significantly below the average of 2.4 per cent recorded

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



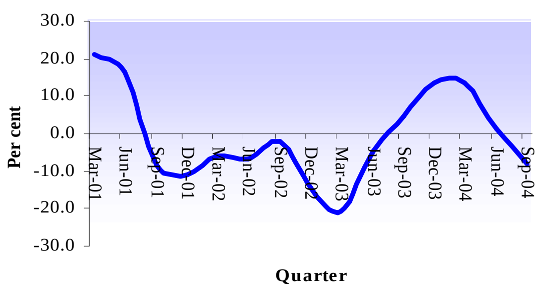
Source: Ministry of Agriculture

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



Source: Sugar Corporation of Jamaica

Figure 2.3
Trends in Banana Exports
(12-Month change)



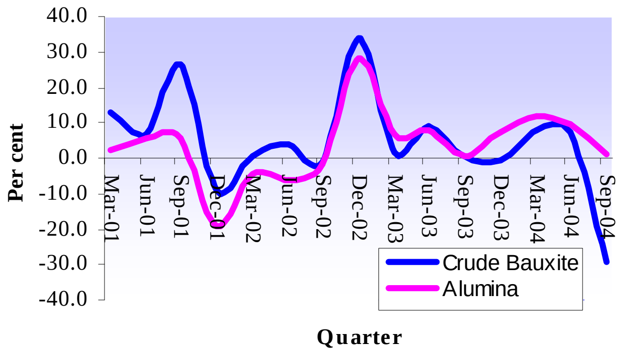
Source: Banana Export Company

in the previous three quarters. The estimated slow down in growth in the real sector was mainly attributed to the impact of Hurricane Charley in August and Hurricane Ivan in September. Although services continued to grow, the goods producing sector is estimated to have declined for the first time since the September 2002 quarter, solely due to the significant contractions in ***Agriculture,*** as there were marginal to moderate growth in the other sub-sectors. Within services, ***Electricity & Water***, ***Transport***, ***Storage & Communication*** and ***Tourism*** were estimated to be the major influence on growth.

The ***Agriculture*** sector incurred estimated losses of $6 700.0 million approximately 11.0 per cent of GDP. For domestic agriculture, there were significant declines (see **Figure 2.1**) in root crops, livestock, hunting and fishing. Approximately 11, 230 hectares of crops were damaged, which represents 31.0 per cent of total hectares under cultivation. There was an estimated decline of over 30.0 per cent for all products within the vegetable, root crops and tubers categories. There was wide spread damage to the farming infrastructure including farm roads, farm buildings and irrigation facilities and equipment.

Despite the negative impact of the hurricanes on the export agriculture sub-sector, preliminary estimates suggest only a marginal decline for the review quarter. This was largely influenced by the significant expansions in the production of sugar cane (see **Figure 2.2**). For the review period sugar cane milled grew by over 120 per cent. This growth in sugar cane production is attributed to a shift in the production cycle into July, due to late reaping of the 2003 sugar crop.

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



Source: Jamaica Bauxite Institute

The delay in reaping is reflective of rains that took place at the end of 2003 into 2004. The *other export crops* registered a decline during the period. Banana production for both the local and export markets were completely decimated (see **Figure 2.3**), resulting in losses of approximately $278.4 million for the quarter. Losses in production to the coffee, citrus and cocoa industries were estimated at over and $992.0 million, $325.0 million and $27.0 million respectively[7]. For coffee, 60.0 per cent of the berries and 5.0 per cent of the trees were destroyed, while for citrus 35.0 per cent of the trees were destroyed.

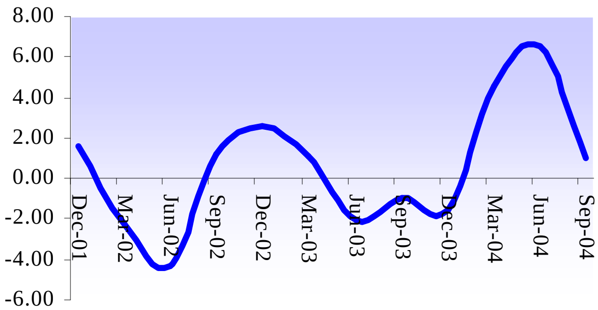
The marginal decline observed in ***Mining*** was in contrast to average growth of 9.7 per cent over the previous two quarters. This decline reflected the impact of Hurricane Ivan on the physical infrastructure, which resulted in the reduction of 7.9 per cent and 7.0 per cent in crude bauxite and alumina production, respectively (see **Figures 2.4**).

Economic activity in ***Manufacturing*** is estimated to have increased during the review period, albeit marginal (see **Figure 2.5**). The expansion in value added stemmed from the *food, beverages & tobacco* group, which was partly offset by the decline in the *other manufacturing* group. The slower growth within the sector reflected the impact of Hurricane Ivan as businesses were affected by power outages, insufficient water supply and damaged road facilities.

With regard to *food, beverages & tobacco*, all the associated industries with the exception of food (excluding sugar) grew during the quarter. Significant growth was reflected in the alcoholic and non-alcoholic

[7] Report on Damage to the Agricultural Sector Caused by Hurricane Ivan – Ministry of Agriculture, September 2004

Figure 2.5
Manufacturing: Quarterly Growth Rate
(12-Month change)



Source: STATIN; Bank Of Jamaica

beverages. Marginal growth was noted for sugar, molasses & rum and tobacco. The increase in the production of alcoholic beverages was reflective of initiatives by major players in the industry to increase their local and international market share. Expansions in sugar, molasses & rum stemmed from an increase in the overall volume of sugar cane processed, as there was a decline in the sucrose content. The increase in volumes reflected delays in reaping of the 2003 sugar crop. In this context, sugar production increased by over 100.0 per cent in the quarter, relative to the corresponding period of 2003.

In relation to the *other manufacturin*g, petroleum refining represented the main source of decline during the quarter. The estimated contraction in oil refining activities represented a substantial decline, relative to the growth of approximately 29.5 per cent in the comparable period of the previous year. This was due to the closure of the Petrojam Refinery for maintenance purposes, similar to what had occurred in June 2003.

Construction & Installation continued to grow in the September 2004 quarter, commensurate with on going hotel construction and roadworks (see **Figure 2.6**). Growth within the sector was also partly inferred from a real expansion of approximately 12.3 per cent in loans to the sector for the year to August 2004. The residential segment of the market benefited from an increase of 13.3 per cent in housing completions by the National Housing Trust (NHT) in July 2004, relative to the comparable period of 2003. The expansion in hotel construction was primarily associated with the significant investments undertaken by Spanish hotel chains. The ongoing construction of Highway 2000 and the North Coast

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

Source: STATIN; Bank Of Jamaica

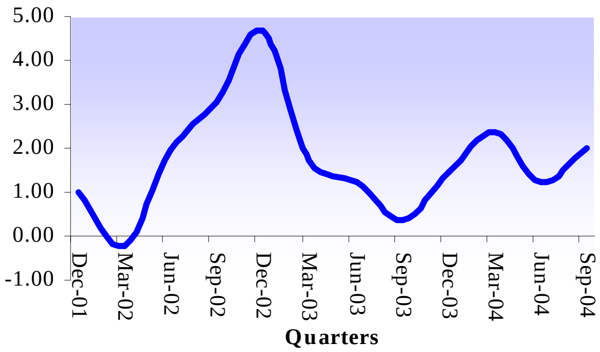
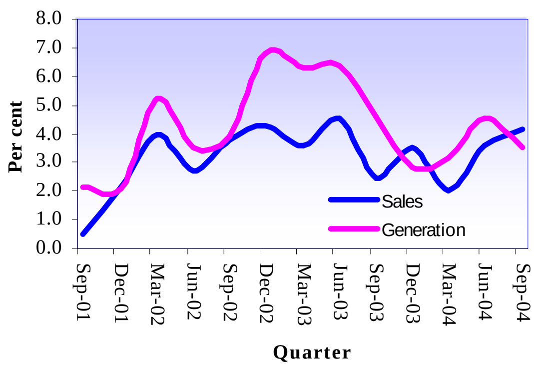


Figure 2.7
Electricity Generation
(12-Month change)

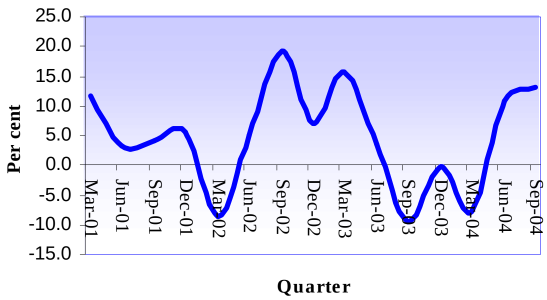


Source: Jamaica Public Service Company

Highway projects were the main roadwork projects in the quarter.An expansion of 3.4 per cent was estimated in the real value added in ***Electricity & Water***, based on an increase of 3.5 per cent in total electricity generation, relative to the comparable quarter in 2003 (see **Figure 2.7**). This was slightly lower than the quarterly average growth rate of approximately 3.8 per cent between September 2003 and June 2004 quarters. The lower than anticipated level of generation for the review period resulted from approximately two weeks of power outages due to Hurricane Ivan. On the other hand, there was a decline in water production for the quarter; this was primarily influenced by the fact that July constitutes the driest month of the year, coupled with the impact of Hurricane Ivan on electricity, necessary for water distribution by pumping.

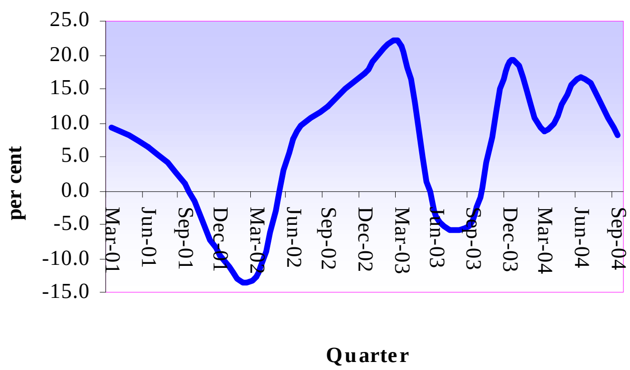
Transport, Storage & Communication was estimated to have improved in the review period. This was inferred in part from a 5.1 per cent increase in visitor arrivals relative to the corresponding quarter of 2003. Additionally, the amount of domestic cargo that moved through the Island's main seaports increased by approximately 0.6 per cent. With regard to the *communication* sub-sector, the total number of telephone "lines" in service was estimated to have grown by approximately 13.8 per cent for the quarter. Much of the buoyancy in this sector was fuelled by intense competition between mobile service providers.

Figure 2.8
Merchandise Imports
12-Month change)



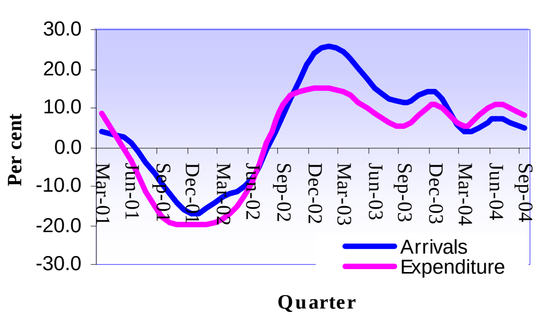
Source: STATIN; Bank Of Jamaica

Figure 2.9
Trends in Consumption Tax Receipts
(12-Month change)



Source: STATIN; Bank Of Jamaica

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



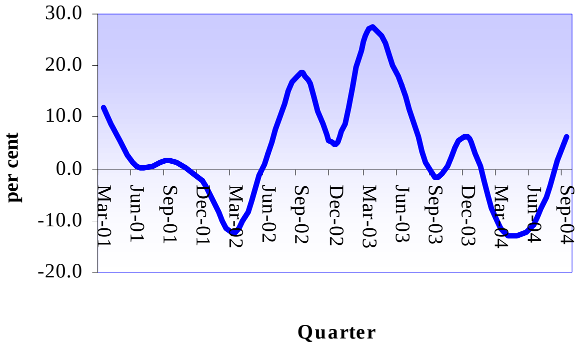
Source: Jamaica Tourist Board; Bank Of Jamaica

Growth in ***Distributive Trade*** is estimated to have accelerated to 2.0 per cent for the review quarter. This growth was partly inferred from estimated real increases of 13.2 per cent and 8.2 per cent in merchandise imports and consumption tax receipts, respectively, relative to the September 2003 quarter (see **Figures 2.8 & 2.9**). However, information on loans to the private sector indicated that real loans extended to the sector declined marginally by 0.9 per cent for the twelve-month period ending August 2004.

Miscellaneous Services grew by an estimated 2.0 per cent, following an average quarterly growth rate of 5.8 per cent over the previous four quarters. This performance was attributed mainly to the buoyancy in the tourism industry (*hotels, restaurants and clubs*). Initiatives to boost the industry through the building of new hotels and promotional activities resulted in significant increase in stopover arrivals. During the quarter, arrivals increased by 3.0 per cent while visitor expenditure increased by 3.1 per cent in the quarter, relative to the September 2003 quarter (**see Figure 2.10**).

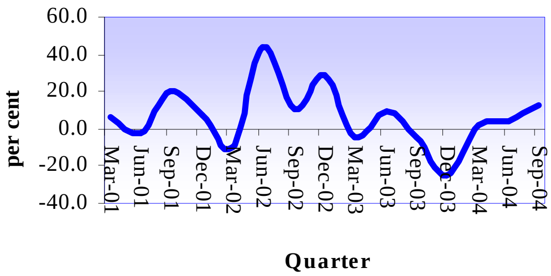
An evaluation of the sector on a monthly basis showed that for the month of September visitor arrivals fell as a result of Hurricane Ivan.

Figure 2.11
Trends in Total Imports
(12-Month change)



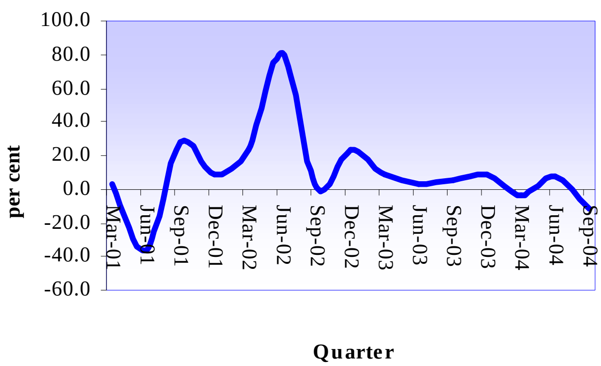
Source: STATIN; Bank Of Jamaica

Figure 2.12
Trends in Government's Wage Expenditure
(12-Month change)



Source: STATIN; Bank Of Jamaica

Figure 2.13
Trends in Capital Goods Imports
(12-Month change)



Aggregate Demand

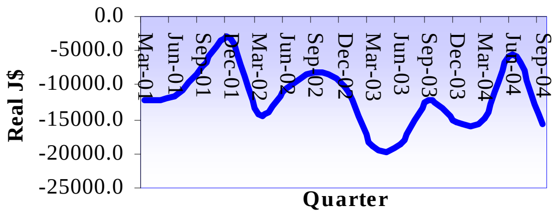
A preliminary assessment of the indicators of demand for the September 2004 quarter suggests that increases in *private consumption* and ***Gross Fixed Capital Formation*** were the main contributors to the growth outturn. *Government consumption* spending and ***net external demand*** deteriorated during the review period.

The expansion in *private consumption* spending was inferred from a real increase of 5.3 per cent in local General Consumption Tax (GCT) & Special Consumption Tax (SCT) receipts (**see Figure 2.9**). Total estimated imports of goods and services also grew in real terms by 18.1 per cent during the quarter (**see Figure 2.11**). The growth in consumption expenditure is supported by the survey of consumer confidence conducted by the Jamaica Conference Board, which indicated an improvement of 5.1 per cent in consumer confidence for the review quarter relative to the comparable period of 2003.

The decline in public consumption expenditure was reflected in a contraction of 11.3 per cent in spending on Government wages, which was partially offset by an estimated 31.5 per cent increase in Government's programmes relative to the September 2003 quarter (see **Figure 2.12**) (**See Appendix A: Fiscal Developments**).

Indicators of Gross Fixed Capital Formation during the quarter suggested an enhancement of investment spending. This expansion was inferred from an increase of 12.5 per cent in capital goods imports during the quarter, relative to the corresponding period in 2003 (see **Figure 2.13**). The increase in investment activities was consistent with the increase in construction activities.

Figure 2.14
Trends in Net External Demand



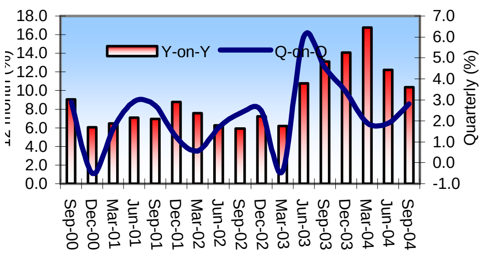
Source: STATIN; Bank Of Jamaica

With respect to ***Net External Demand***, there was an estimated deterioration during the review period, compared to the September 2003 quarter (**see Figure 2.14**). This decline reflected an estimated real contraction of 14.1 per cent in the export of goods and services, which was exacerbated by a 0.6 per cent increase in the volume of imported goods and services.

3. Inflation

The inflation rate for the September 2004 quarter was 2.8 per cent, which was broadly in line with the average of the previous six years. The growth in the Consumer Price Index (CPI) in the quarter largely reflected the impact of seasonal factors and adjustments in some administered prices. The CPI increased by 1.0 per cent, 1.3 per cent and 0.6 per cent in July, August and September, respectively. Unlike the comparable period of the previous year, inflation was strongest in the *Rural Areas* and weakest in the *Kingston Metropolitan Area* (*KMA*). Core inflation was estimated at 1.1 per cent, similar to that of the June quarter and compared favourably to the 2.3 per cent for the corresponding quarter of 2003/04.

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



Prices increased on average by 2.8 per cent in the review quarter. Consequently, inflation for the first six months of the fiscal year 2004/05 was 4.7 per cent relative to the 10.8 per cent recorded for the comparable period in 2003/04. Similarly, for the calendar year to September, the inflation rate was 6.7 per cent, 3.7 percentage points below the outturn realized in the corresponding period of 2003. Inflation in the September quarter was affected by the flood damage in August caused by Tropical Storm Charley, as well as the seasonal increases in prices of agricultural products. Additionally, there were administrative price adjustments related to postage and electricity. Higher international oil prices were reflected in the prices of household and automotive fuel.

Monetary Policy and Inflation

Consistent with the Bank's monetary policy objectives, core inflation was stable at an estimated 1.1 per cent, similar to the previous two quarters. The performance during the quarter was in stark contrast to the 2.3 per cent estimated for the September 2003 quarter. The current level of core inflation is lower than the average of 1.3 per cent for the past six September quarters.

Figure 3.2
Core Inflation per Quarter

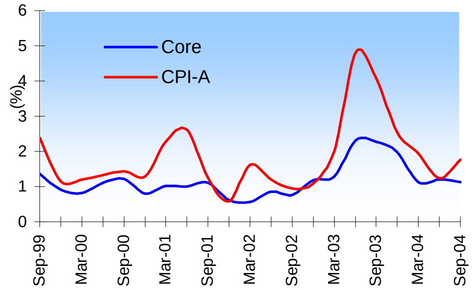


Figure 3.3
2 Mth lagged Base Money & Core

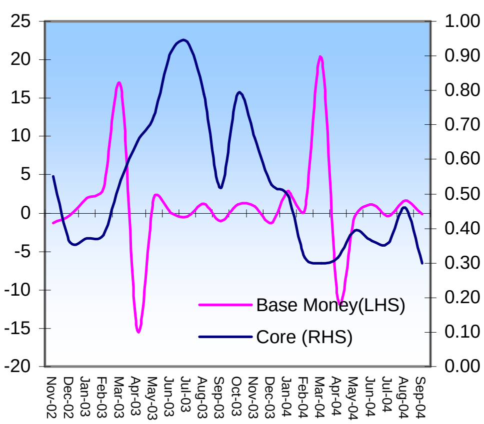
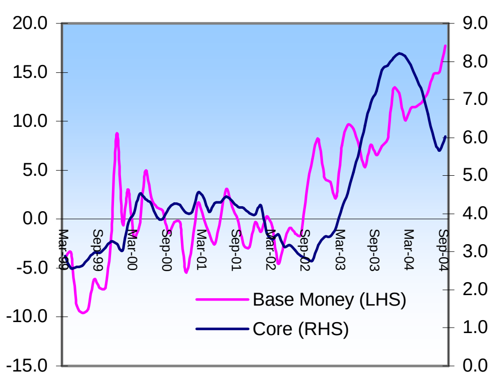


Figure 3.4
12 Month % Change Average Base Money and Core Inflation



Underlying inflation was measured at 0.36 per cent in July, 0.46 percent in August and 0.30 per cent in September.

There has been a trend decline in the 12-month point-to-point core inflation since January 2004 when it peaked at 8.2 per cent. The 12-month point-to-point core inflation rate at September 2004 was 5.4 per cent, relative to 6.6 per cent at the end of June 2004.

The stable underlying inflationary impulses were also reflected in the CPI without Agriculture (CPI-A). The CPI-A index increased by 1.8 per cent in the September quarter relative to a 4.1 per cent increase in the September 2003 quarter (see **Figure 3.2**).

The containment in underlying inflation reflects the conservative monetary policy stance that has continued in 2004. The growth in base money has remained consistently within the targets and well within projections in the context of the programmed lowering of interest rates since January 2004. This, in addition to the favourable macroeconomic environment, underpinned stability in the foreign exchange market, evidenced by the slight appreciation in the exchange rate in the June quarter (see **Foreign Exchange Market, QMPR Volume 5, No. 1**). This relatively stable foreign exchange environment would have dampened underlying inflation, as well as tempered the impact of higher imported prices.

The effect of the appreciating trend in the exchange rate during the June quarter was reflected in the slower rate of growth of the index of durable goods prices that have high import content relative to the index of non-durable goods (see Figure 3.5). For the quarter, the durables index has risen by 0.3 per cent while that of the non-durables has increased 3.3 per cent.

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

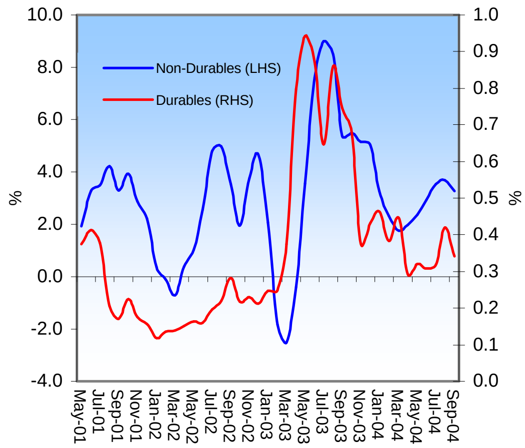


Figure 3.6a
Food & Non-Food Inflation (Quarterly)

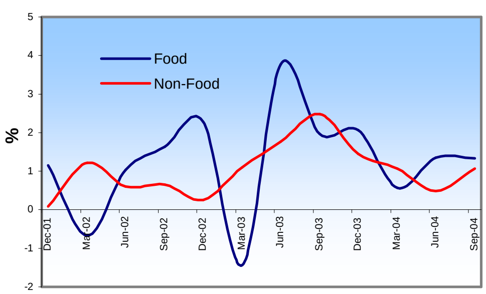
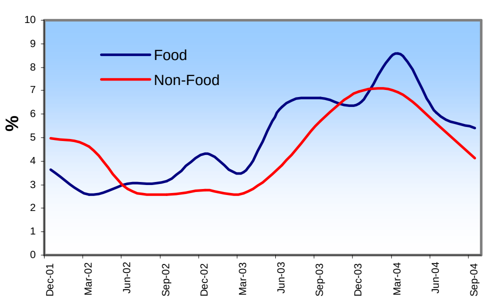


Figure 3.6b
Food & Non-Food Inflation (Annual)



Non-Monetary Factors

Seasonal fluctuations in agriculture supply exacerbated by flood damage, administrative price adjustments related to postal and electricity rates and increases in school-related expenses were the main non-monetary impulses to inflation. Other factors of note were increases in some international commodity prices, such as that of rice.

Seasonal impulses from agricultural supply were higher in the September quarter than in recent years, as supplies of some produce fell earlier in the year than in previous years. These impulses were worsened by flood damage in August. Price increases were much more significant for the Starchy Foods. This may have occurred, as concerted efforts in the agricultural industry aimed at reducing the seasonal volatility of output fluctuations have been more successful with the shorter-term vegetables and condiments than with the tubers.

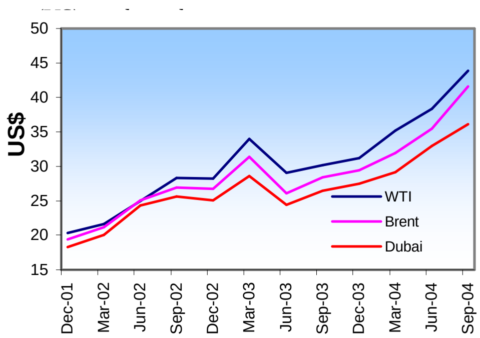
The preponderance of agricultural impulses, as well as lower impulses from the exchange rate contributed to higher inflation from food in the review period, evidenced by a quarterly increase of 1.3 per cent in a food-based index relative to 1.1 per cent for non-food commodities within the basket (see **Figure 3.6a**). On an annual basis, inflation from food is also higher at 5.4 per cent relative to 4.1 per cent for non-food commodities in the September quarter (see **Figure 3.6b**). It can also be seen that annual inflation from food is declining more slowly than its non-food equivalent.

International Commodity Prices

The price of oil continued to be an important factor and rose on the international commodity markets in response to storm damage in the Gulf of Mexico, concerns regarding violence in the Middle East and industrial and political unrest in a number of oil producing countries (see **Box 1**). The benchmark West Texas

Intermediate (WTI) crude oil price rose by 14.5 per cent during the review quarter, relative to an 8.8 per cent rise in the preceding quarter. The WTI crude oil price rose to an average of US$43.89 per barrel in the September quarter, from an average of US$38.34 per barrel in the June quarter. The average price per barrel for July, August and September was US$40.82, US$44.92 and US$45.93 per barrel, respectively.

Figure 3.7
Average Oil Price Movements

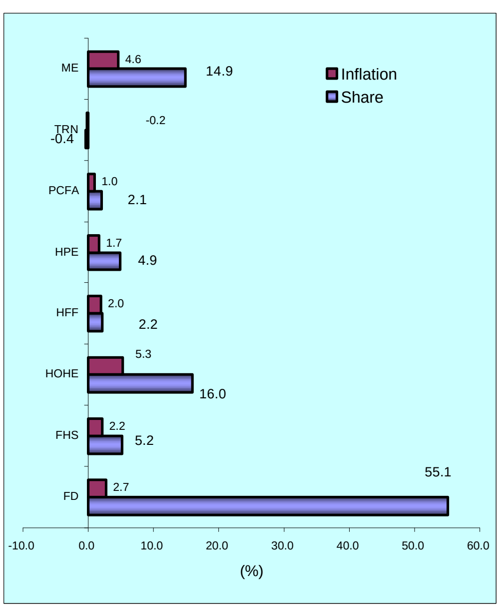


Contribution to Inflation

Inflation was strongest in Food & Drink, Housing & Other Housing Expenses, Miscellaneous Expenses and Fuels & Other Household Supplies. These groups collectively accounted for 91.2 per cent of the inflation in the period with Housing & Other Housing Expenses and Miscellaneous Expenses accounting for twice their respective weights (see **Figure 3.8**).

Figure 3.8
Inflation by Group

FD=Food & Drink, FHS=Fuels & Other Household Supplies, HOHE= Housing & Other Housing Expenses, HFF=Household Furnishings & Furniture, HPE=Healthcare & Personal Expenses, PCFA=Personal Clothing, Footwear & Accessories, TRN=Transportation, ME= Miscellaneous Expenses



Within **Food & Drink,** the main impulses emanated from expansions of 9.7 per cent, 1.6 per cent and 2.0 per cent in *Starchy Foods, Meat, Poultry & Fish* and *Baked Products, Cereals & Breakfast Drinks*, respectively. The movement in *Starchy Foods* was mainly due to increases in the prices of tubers such as yellow and lucea yam, sweet and irish potato and dasheen. With regard to *Meat, Poultry & Fish*, meat prices continued to be affected by the earlier movements in the price of grains while turbidity in the waters of Kingston Harbour affected the price of fish. Increases in the price of rice and flour affected *Baked Products, Cereals & Breakfast Drinks*. The group contributed approximately 55.0 per cent of overall inflation, the equivalent of its weight in the basket.

The sub-index **Housing & Other Housing Expenses** was primarily affected by an increase in the cost of electricity stemming from an annual adjustment in energy tariffs and movements in fuel charges. The yearly adjustment, which is approved by the Office of Utilities Regulation (OUR), is intended to recover the cost of wear and tear of the electricity plant in use and does not include any portion of the fuel cost. The increase in fuel rates was principally attributed to the strong movements in world oil prices, which have increased by more than 60.0 per cent relative to last year. For the quarter, Housing & Other Housing Expenses accounted for 16.0 per cent of overall inflation.

The group Miscellaneous Expenses was affected by adjustments in postal rates and higher preparatory school fees and school-related expenses. The cost of inland postage doubled while postage to the United States and the United Kingdom rose by 50.0 per cent and 55.6 per cent, respectively. The adjustment was advanced as an attempt by the postal authorities to increase profitability and stem the use of Jamaica as a bulk distribution point by US companies. School fees increased by approximately 7.5 per cent, which was less than the previous year's increase and the average increase of the prior five-year period. In addition, there was an increase in cinema fares of 5.3 per cent. Largely as a result of these increases, Miscellaneous Expenses rose by 4.6 per cent during the quarter accounting for 14.9 per cent of inflation.

The main impetus in Fuels & Other Household Supplies emanated from increases in energy-related commodities such as cooking gas and kerosene. The impact of energy-related impulses on Transportation was less pronounced as there were offsetting declines in international airfares (see **Figure 3.8 and Table 2A in Appendix C**).

Figure 3.9
Grains Price Movements

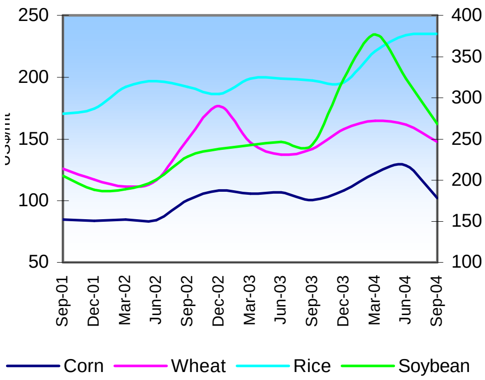
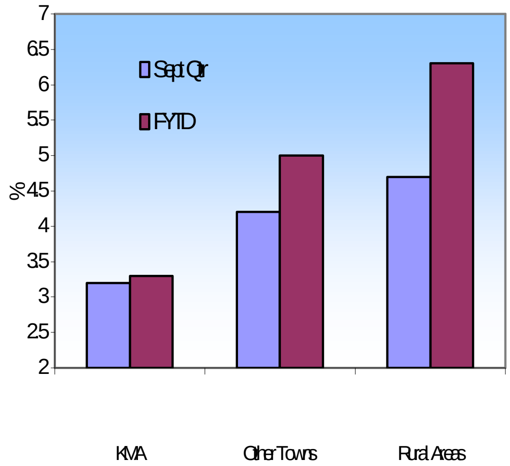


Figure 3.10
Regional Inflation



Regional Inflation

During the review quarter, inflation was strongest in the **Rural Areas**. Within this region, the CPI increased by 3.8 per cent relative to 3.1 per cent in the **Other Towns** and 1.9 per cent in the **Kingston Metropolitan Area** (**KMA**) (see **Table 2B in Appendix C**). This continued from the previous quarter, when the index of the **Rural Areas** rose by 2.5 per cent, while the indices of the **Other Towns** and **KMA** rose by 1.9 per cent and 1.4 per cent, respectively. Consequently, for the fiscal year to September, prices have increased by 6.3 per cent for the **Rural Areas**, 5.0 per cent for the **Other Towns** and 3.3 per cent for the **KMA** (see **Figure 3.10**).

The regional differences in inflation in the September quarter primarily reflected the influence of **Food & Drink, Healthcare & Personal Expenses** and **Miscellaneous Expenses** (see **Table 2B in Appendix C**). Within **Food & Drink**, the disparity was most pronounced in *Starchy Foods*. For the sub-group, it is posited that merchants bypassed the markets in the Other Towns and Rural Areas, so as to capitalize on higher prices in the KMA. Recall that agricultural prices were higher in the KMA in the June quarter. For **Healthcare & Personal Expenses**, the disparity resulted from a combination of the higher weights of and stronger increases in medical practitioners' fees outside the **KMA**. The incongruity in **Miscellaneous Expenses** was caused primarily by the increase in postal rates, which have significantly higher weights in the **Rural Areas** and **Other Towns**.

Box 1*: Recent Developments in Crude Oil Prices*

Introduction

Crude oil prices have increased to unprecedented levels since the beginning of 2004. The price of West Texas Intermediate (WTI), a widely used benchmark for international crude oil prices, averaged US$45.95 per barrel in September 2004, an increase of 42.9 per cent relative to December 2003. At the end of September, crude oil prices had reached an all time high of US$49.91. The increase in oil prices reflect a confluence of factors, chief among these are a surge in demand, short-term supply disruptions in several oil producing countries, political instability in key oil producing countries and a decline in the spare output capacity of several oil producers. In this context, this box will look at the relative importance of market fundamentals and speculative activities in explaining the recent movements in oil prices and assess the near term prospects for the market.

Market Fundamentals

Crude oil prices are largely determined by supply and demand conditions in the global oil market. A key factor in arriving at current and future prices is the level of inventories of crude oil and petroleum derivatives in the major oil-consuming countries. In addition to these fundamentals, oil prices are influenced by speculation and news indicating potential changes in world supply.

Changes in the demand for crude oil are strongly influenced by growth in global economic activity and the severity of winter weather conditions in the Northern Hemisphere. The International Energy Agency (IEA) forecasts that crude oil demand will increase by 3.4 per cent in 2004, the highest annual growth rate in 24 years. For the first nine months of 2004, actual crude oil demand increased by an average 3.9 per cent, relative to the corresponding period in 2003. This followed an increase of 2.3 per cent in 2003 and an average growth of 1.1 per cent during the period 2000-2002.

The rebound in economic activity over the past year has contributed to an above average annual trend increase in crude oil demand. Much of this increase has been due to economic expansion in China, India and the United States of America (USA). In China, in particular, robust growth in the economy has contributed to an increase in automobile sales and also fuelled growth in investment in several manufacturing and industrial projects. Furthermore, China's shift from the use of coal to oil has served to exacerbate its demand for oil. Consequently, crude oil imports into China for the first six months of 2004 increased by an average of 46.0 per cent when compared to the similar period in 2003.

Crude oil supply over the past year has increased to keep pace with rising demand. According to the IEA, world crude oil supplies increased by an average of 4.8 per cent for the first nine months of 2004, when compared with the corresponding period in 2003. This followed an increase of 3.5 per cent in 2003 and was above the annual trend increase of approximately 1.2 per cent per year during the period 2000 to 2002.

The growth in supply reflects increased output from Russia and the Organisation of Petroleum Exporting Countries (OPEC). OPEC, in particular, produces most of the world's crude oil and controls nearly all the world's estimated excess production capacity. The cartel attempts to set an average global price for crude oil by establishing production quotas for its members and meets regularly to review these quotas. Due to its market power, OPEC's decisions about the supply of oil significantly affect world oil prices. However, its efforts have had varying degrees of success, as OPEC members often have conflicting objectives and do not always adhere to quotas.

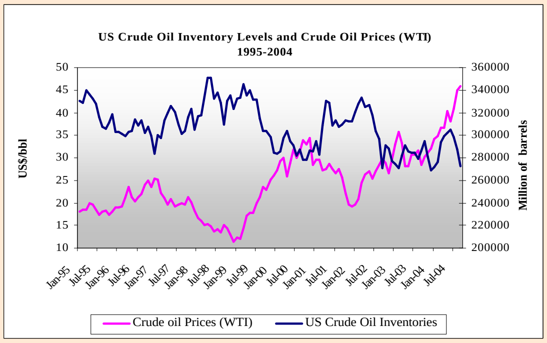
The world oil market has also benefited from an increase in crude oil supply from Russia. Crude oil production in Russia, which fell by one half after the breakdown of the former Soviet Union, has rebounded and surpassed the production of crude oil by Saudi Arabia (the largest oil producer in OPEC), and is expected to continue rising.

The increase in supply from most oil-producing countries, particularly OPEC, has in effect reduced the spare capacity of these producers. This development has heightened concerns that in the event of any interruption in production, there would be limited spare oil to make up for the shortfall in output. OPEC's excess production capacity has been declining since the beginning of the year as its members have increased their output in an attempt to keep up with rising demand. As at September 2004, OPEC's spare production capacity was approximately 580,000 barrels per day, down from 2.7 million barrels per day in January 2004. The decline in spare production capacity has exerted additional price pressures in the oil market.

US Crude Oil Inventories

The global imbalance between demand and supply can be captured in the level of inventories of crude oil and petroleum derivatives in the major oil-consuming countries. Since the latter half of 2003, crude oil inventory levels in the OECD countries, the USA in particular, have been at historic lows and this has contributed to an increase in crude oil prices (see **Figure 1**).

Figure 1



In the USA, crude oil inventory levels are at low levels by historic standards, despite an average increase of 2.5 per cent for the period January to September 2004, relative to the corresponding period in 2003. In 2003 inventory levels in the USA declined by 3.1 per cent after declining by 11.0 per cent in 2002. The draw down in inventory levels has been largely attributable to usually cold winter and a rebound in economic activity. For the period January to September 2004, crude oil inventories were on average 4.1 per cent below the five-year average.

Speculation

A broad range of players participates in the crude oil market and these include crude oil producers and refiners, oil trading firms and the end users. In addition, financial institutions, and investment houses account for significant trading volumes. The latter set of players largely buys and sells oil contracts or related financial instruments for speculative profits. The main types of contracts for crude oil are term, spot, and futures[8].

There has been a notable increase in speculation in the oil market since December 2003, which has exacerbated price pressures. The increase in demand coupled with possible supply disruptions, relatively low inventory levels and limited surplus capacity of oil-producing countries have helped to fuel greater speculation about further price increases. The extent of speculation in the futures market can be measured by two indicators. These are the ratio of non-commercial contracts[9] to total open contracts[10] (NCC-TOC) on the New York Mercantile Exchange (NYMEX), as well as the total net non-commercial positions[11] (TNNP) in the market. An increase in the NCC-TOC ratio suggests a higher participation rate in the market by speculative players. Positive (negative) TNNPs indicate that speculators believe profits can be made from future increases (reductions) in oil prices.

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[8] Spot transactions and term contracts and involve the trade of physical barrels of oil for immediate or deferred delivery, while the futures markets involve the purchase and sale of contracts for the future delivery of oil.

[9] A trader's reported futures positions in a commodity are classified as non-commercial if the trader uses futures contracts in that particular commodity for other purposes than hedging.

[10] Open interest is the total number of futures contract that have not expired or been fulfilled by delivery.

[11] This is calculated by subtracting the short position from the long position. The long position is the purchasing of a futures contract while the short position is the selling of a futures contract.

For the first nine months of 2004, the NCC-TOC ratio increased by an average 30.8 per cent after increasing by an average 26.0 per cent in 2003 and 18.7 per cent in 2002. The TNNP also indicates an increase in speculative activity as non-commercial interests have been maintaining net long positions since the beginning of 2004 (see **Figures 2 & 3**).

Figure 2

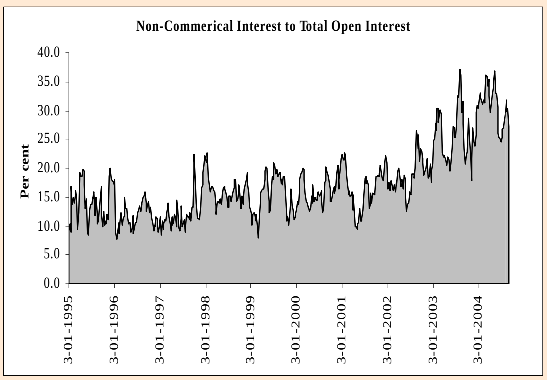
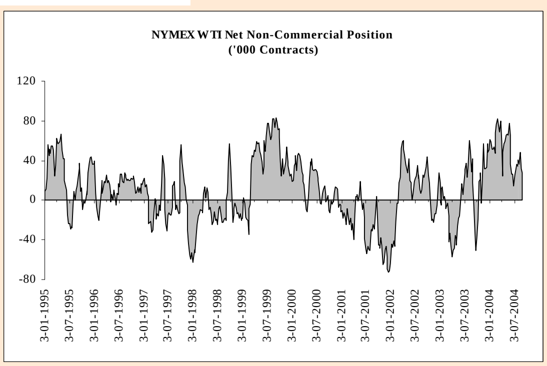


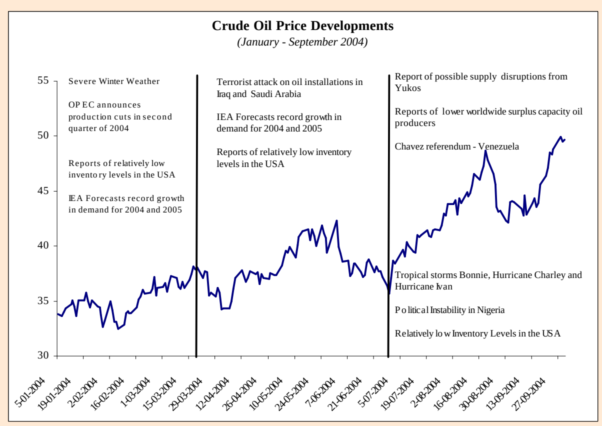
Figure 3



Other Factors

Changes in world crude oil prices have also been attributed to several other factors, perceived as threats to supply. With inventory levels in the USA and other major industrialised economies at relatively low levels, the limited excess production capacity of some oil producing countries and the surge in demand reports of potential and actual supply disruptions have exerted additional price pressures in the crude oil market. During the September 2004 quarter there were concerns regarding possible supply disruptions from Russia, as its largest oil producer and exporter, Yukos OAO, has been embroiled since July in a tax dispute with the government. Additionally, since August 2004, there have been an increased number of attacks by rebel militant forces on oil installations in Iraq. Further, a series of tropical storms led to delays in crude oil production in the Gulf of Mexico. These developments have exacerbated the negative impact of the political upheavals in Nigeria and Venezuela (see **Figure 4**).

Figure 4



Outlook

The preceding discussion highlighted several factors that are currently influencing the oil market, which will continue to underpin the short-term outlook for prices. Demand is forecasted to remain relatively high in the near term as the global economy continues to expand. However, it is anticipated that growth in demand will moderate, as relatively high crude oil prices will influence oil-consuming countries to implement energy saving measures.

The IEA forecasts that crude oil demand will increase by 2.3 per cent in the fourth quarter of 2004, relative to the preceding quarter. For the calendar year as a whole, crude oil demand is forecasted to increase by 3.4 per cent , relative to growth of 2.3 per cent in 2003. However, growth in demand is expected to moderate to 1.8 per cent in 2005.

Supply, on the other hand, is expected to increase by approximately 1.1 per cent in the fourth quarter of 2004, relative to the preceding quarter. The IEA estimates that supplies should continue to increase in the near term albeit at a moderated pace. This moderation in growth is commensurate with the anticipated slow-down in the growth in demand in 2005 as well as capacity constraints in oil-producing countries. The expansion in supply will primarily be the result of continued increases in output by OPEC and Russia.

The moderation in demand in 2005 will contribute to a marginal excess supply in the oil market and as a consequence influence a downward movement in oil prices. Despite the anticipated moderation in demand, however, potential threats to supply, relatively low surplus capacity and any aggressive rebuilding of strategic inventories in the USA could continue to support relatively high crude oil prices in the near term.

4. Economic Outlook and Monetary Policy Perspectives

Table 4.1

Jamaica's Economic Performance Targets		
	Projections for Dec'04 Quarter	***ISP Targets for FY04/05***
Inflation	3.5 – 4.5 %	9%
Base Money Growth	15.0%	15.2%
NIR End Period *(US$mn)*	1650.0	1401.9
GDP *(12-mth chg.)*	+ve	2 – 4%

Economic growth to continue in the December quarter despite hurricane

Short Term Outlook-December 2004 Quarter

Despite the recent shock to aggregate supply, growth is still expected in the December 2004 quarter, albeit at a slower pace relative to the previous quarter. This outlook is supported by continued buoyancy in world economic growth and trade, and a fairly stable domestic macroeconomic environment. The continued stability in the financial markets, declining interest rates and the recent borrowing by Government in the Euro market attest to the buoyancy and confidence in the Jamaican economy. This will be underpinned by Government's expressed commitment to meet its fiscal targets notwithstanding additional demand that may arise due to the hurricane. Seasonally lower inflation is expected to be offset by price increases associated with Hurricane Ivan as well as the continued surge in world crude oil prices. In this context, monetary policy will continue to aim at containing core inflation to approximately 1.0 per cent for the quarter.

Real Sector

The slower rate of economic growth noted in the September 2004 quarter is projected to continue into the December quarter. This is largely attributable to the impact of the recent hurricane, particularly on the agricultural sector. The longer term prospects remain positive, however, given continued stability in the financial markets and improvement in indicators of investor confidence.

In the external environment, the world economic upswing has become more widespread. The prospect is for further growth in the US economy in the second half of 2004. These developments in the international economy bode well for increased demand for Jamaica's exports.

Economic growth in the December 2004 quarter is expected across all sectors except agriculture. Despite being affected, **mining** and **tourism** are still expected to grow, albeit at a slower pace. However, the recovery effort will contribute to heightened activities for **construction, distribution** and **finance & insurance** industries.

Despite setbacks, mining sector will continue to grow

Growth in the **mining** sector in the December quarter is expected to rebound from the low estimate in the previous quarter. The expected performance, however, will be less than in the first half of the calendar year when growth averaged over 9.0 per cent. While the demand prospect for aluminium remains strong, the bauxite/alumina sector is confronted with challenges which could affect its ability to supply the raw material. These challenges stem from the adverse impact of the hurricane on the sector, as well as recent problems with equipment at the bauxite port facilities in Discovery Bay. While the alumina plants were not seriously affected by the hurricane, the port facility used by Jamalco refinery saw extensive damage. Although the production process has been restored, there are logistical challenges associated with using other port facilities, which could hamper the pace of shipment. The effect of the problems at the Discovery Bay port should not significantly affect the output of the sector as bauxite being extracted will be stockpiled for shipment at a later date.

The prospects for **construction & installation** sector in the December 2004 quarter are encouraging. As a result of the damage done to both public and private infrastructure, the demand for construction and other related services is anticipated to increase. The installation subsector should be positively affected by the work of the utility companies. This outlook is also supported by the ongoing construction activities associated with highway development and expansion in the mining and tourism sectors.

Expansion in credit and increased economic activity from relief efforts to positively affect finance and distribution

Both **financial services** and **distribution** are expected to benefit from additional economic activities arising from the passage of the hurricane. The financial services sector should be buoyed by an increase in the number of new loans. This is anticipated as both businesses and individual seek to acquire credit to effect repairs and other required expenditure. The expected increase in importation and distribution of relief supplies such as lumber and steel for recovery efforts should enable a positive performance for the distribution sector.

Tourism sector set to experience another boom season

Miscellaneous services is anticipated to expand mainly on the projected expansion in the tourism subsector. Quick recovery from damage caused by the hurricane as well as positive demand indications from tour operators at the onset of the winter season, support this expectation. A number of hotels have reported significant bookings, which would translate to occupancy levels about 80 per cent in November and December. At the same time, the Jamaica Tourist Board has increased it presence in the marketplace by targeting trade shows and plans to resume network advertising in November.

The outlook for the macro economy points to a continuation of economic expansion despite the shock. The prospects are for a possible increase in import demand and an expansion in credit. The main export sectors appear to have recovered and the increase in external demand should result in buoyant economic activity. While no significant inflationary impulse is anticipated from the additional demand there are issues however relating to the adverse supply shock cause by the hurricane.

Higher food prices from adverse shock to agricultural supply…….

The usual reduction in inflationary pressures observed in the December quarter of previous years may not materialise in 2004. The outlook is based on the expectation of a shortfall in agricultural commodities and the pass through of higher crude oil prices. Inflation over the December 2004 quarter is likely to be manifested in increases in the prices for commodities within *Starchy Foods* and *Vegetables & Fruits*. Additional price impulses are expected to be reflected in *Meals Away From Home* due to the expected rise in the cost of food items and fuels. *Meat Poultry & Fish* could also be adversely affected by the loss of livestock and the damage done to fishing vessels and equipment as well as the aquaculture industry.

And higher energy and fuel costs arising from increases in crude oil prices…

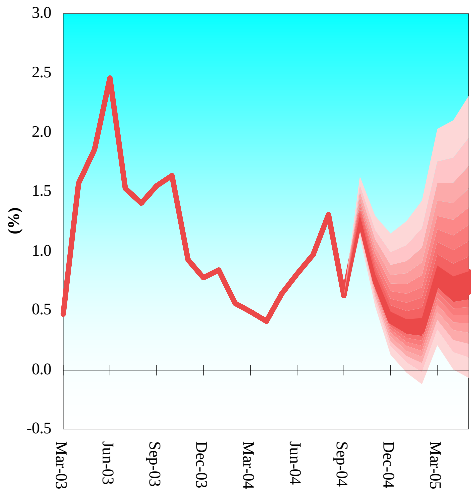
The ongoing increases in the price of crude oil on the international market are anticipated to affect domestic inflation within the December quarter. Crude oil prices have been influenced by economic fundamentals and market psychology (**for further analysis see Box 1**). The movement in oil prices is likely to result in higher prices for household and automotive fuels, as well as higher cost for utilities. Consequently inflation will be reflected in *Fuels, Transportation* and *Housing & Other Housing Expenses*.

However, stable exchange rate, lower grains prices and policy action could temper price movements

Against the background of continued stability in the foreign exchange market since the beginning of the year, price impulses arising from exchange rate changes are not expected to be significant in the December 2004 quarter. Additionally, steps have been taken by the Government following the hurricane, aimed at preventing price gouging. These steps include invoking of emergency legislation, reduction in import tariffs on agricultural commodities and increased efforts at enhancing consumer awareness. The more recent down turn in international grain prices should help to contain price impulses in the December quarter.

Inflation

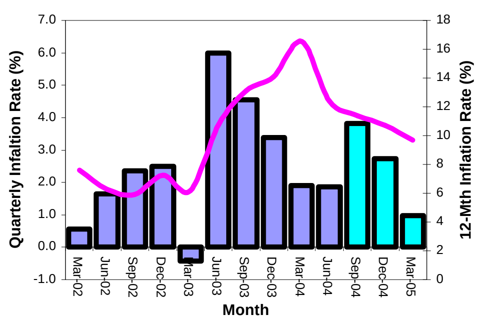
Figure 4.1



Monthly Inflation Forecast

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

Figure 4.2
Quarterly and 12-mth Inflation Rate



Headline inflation for the December 2004 quarter is expected to be in the range of 3.0 per cent to 4.0 per cent which is similar to the 3.4 per cent for the December 2003 quarter. Despite the adverse supply shock and its anticipated effect on prices, the 12-month annual inflation measure is not expected to rise significantly (**Figure 4.2**). This outlook assumes continued relative stability in the exchange rate and in the macroeconomy. The uncertainty in the global crude oil market poses a threat to the forecast for the forthcoming quarter and for the fiscal year target. The balance of risk is on the upside as illustrated by the larger shaded area above the central portion of the forecast band in **Figure 4.1**. The 12-month inflation rate could fall in the March 2005 quarter as domestic agriculture normalizes.

Monetary Policy

The combination of domestic and external shocks to the economy in recent months has highlighted the imperative for monetary policy to remain focused on minimizing core inflation. This approach is meant to support the economic environment necessary for a continuation of stability and the contribution of policy to reign in inflation in the face of these shocks. This undertaking is feasible against the background of continued favourable economic performance despite the passage of the hurricane. This background is characterized by relatively stable foreign exchange market, improvements in the balance of payments position and continued economic growth. Market interest rates have declined without any perceptible shift towards foreign assets, which underscores confidence in the economy (**See Bond Market**).

The monetary base in the December 2004 quarter is expected to reflect a seasonal increase related to the Christmas season and certain end of year expenses (**see Table 4.1**). Accordingly, this increase in the monetary base is not expected to be inflationary.

The projected liquidity conditions are not expected to present any challenges as the amount of maturities from government and open market operations are manageable in the context of projected public and private financing needs.

Relative stability in the foreign exchange market is projected to continue in the December 2004 quarter. Against the background of buoyancy in world growth, the prospects for continued foreign inflows from the tourism and mining sectors are encouraging. In addition, global growth supports further increases in remittances and investment inflows. The improvement in the country's external position, as well as the Government's successful borrowing on the international market should assist in lowering foreign exchange market pressures. The significant level of the NIR should also serve to moderate any adverse developments in that market.

The outlook, however, is not without potential risk. The recent surge in international crude oil prices, as well as the possible inflationary impact of the hurricane could serve to increase expectations of higher inflation. It is noteworthy, however, that despite these developments, the exchange rate which acts as an important influence on inflationary expectations has been fairly stable. This observation could indicate greater maturity in the economic environment and financial market where agents may perceive the impact of the hurricane and the current surge in oil prices as a temporary shock which may not affect the underlying economic process in the long term.

The passage of the hurricane has brought the need for significant expenditure for the restoration of infrastructure. A portion of that expenditure is expected to be undertaken by the Government. However, in light of the medium targets set for the economy under the Intensified Surveillance Programme (ISP), it is important that additional demand on the fiscal accounts be held to a minimum. Recent announcements have indicated the Government's intention to limit expenditure and attain its target. This is important if the monetary and financing targets envisaged for the fiscal year are to be met.

Box 2*: The Implications of Higher Crude Oil Prices for the Balance of Payments and Inflation in FY2004/05*

Recent increases in the price of crude oil on the international market have been of concern to Jamaica. The absence of significant alternative energy sources and the heavy dependence on crude oil imports mean that the increased price for the commodity could have adverse effects on economic performance. One direct consequence of this development on the Jamaican economy is the need for additional resources to purchase oil given the relatively inelastic demand for petroleum products. Another consequence is the potential effect on inflation due to an increase in the cost of production. In short, the rise in international oil prices will adversely affect the balance of payments and inflation. In addition to the impact on the BOP and inflation, increased oil prices, if sustained, will also have negative effects on travel, trade and ultimately on the output of the economy.

The monetary programme for FY2004/05 is formulated on certain assumptions including projections for the balance of payments and inflation. The assumption for the price of crude oil was an **average** of US$38.00 per barrel for the FY2004/05, which was consistent with an inflation rate of 9.0 per cent. This average price profile anticipated a seasonal increase during the summer months and a decline towards the end of the fiscal year. However, due to a combination of factors the price of crude oil on the international market has increased significantly since April (see **Box 1**). Given this development, the current expectation for the fiscal year is an average price of US$47.52 per barrel.

Against this background, the value of fuel imports in the revised forecast is expected to expand by **US$307.2 million**, to **US$1 133.4 million**. The original estimated increase in the value of fuel imports for FY 2004/05 was **US$154.2 million**. The revised forecast does not assume any significant change in fuel volumes, given their historical price insensitivity in the short run.

In contrast to the assessment of the impact on the BOP, the link between oil prices and domestic inflation is less direct as a number of factors influence the price setting process. Consequently, statistical measures revealed only a small and insignificant relationship between the two. This can be partly explained by the age of the current consumer basket and the influence of administrative price adjustments with regard to public transportation. However, the direct effect of oil prices on some of the items in the basket can be easily measured. These are on automotive and household fuels, as well as residential electricity.

If the revised assumption for average oil prices holds, inflation for FY2004/05 could be in the range of 10.0 – 11.0 per cent. This estimate includes a partial adjustment for indirect or second round effects of movement in oil prices on other consumer items.

Tables 1 and 2 present the results from two scenarios for the balance of payments and inflation, respectively, using alternative assumptions for average crude oil prices. Scenario 1 contemplates a further increase in oil prices for the rest of the fiscal year resulting in an average of US$49.19 per barrel for the fiscal year. This scenario implies that the value of fuel imports would expand by a further **US$36.1 million** to **US$1 169.5 million** in FY2004/05 (Table 1). The balance on the goods account would deteriorate to approximately **US$2 328.9 million**, relative to **US$2 293.9 million** in the baseline projection. Inflation using this scenario would increase the current forecast of 10.5 per cent to 10.7 per cent for the fiscal year.

Given the volatility in oil prices, Scenario 2 simulates a fall in the average price to US$46.31 per barrel for the fiscal year, a reduction of US$1.21 per barrel below the current forecast. In this scenario, the value of fuel imports would decline by **US$25.7 million** to **US$1 107.7 million**. The balance on the goods account would improve to approximately **US$2 268.9 million**, relative to **US$2 293.9 million** in the baseline projection. Inflation under this scenario would decrease by 0.12 percentage points to 10.4 per cent for the fiscal year, relative to the current forecast of 10.5 per cent.

Table 1: EFFECT OF FUEL PRICES ON IMPORTS & THE GOODS BALANCE (US$MN) FY 2004/05

	Original Forecast	*Current Forecast*	*Scenario 1*	*Change*	*Scenario 2*	*Change*
Goods Balance	**-2117.7**	**-2293.9**	**-2328.9**	**-35.0**	**-2268.9**	**25.0**
Imports (f.o.b.)	**3657.8**	**3788.7**	3823.7	**35.0**	**3763.7**	**-25.0**
Fuel Imports	980.4	1133.4	1169.5	**36.1**	1107.7	**-25.7**
WTI Crude (US$/BBL)	38.00	47.52	49.19	**1.67**	46.31	**-1.21**

Table 2: EFFECT OF FUEL PRICES ON INFLATION FY 2004/05*

	Original Forecast	*Current Forecast*	*Scenario 1*	*Scenario 2*
Headline Inflation (%)	**9.0**	**10 - 11**	**10.2 - 11.2**	**9.9 - 10.9**
WTI Crude (US$/BBL)	38.00	47.52	49.19	46.31

The revised outlook for the monetary programme projects inflation in the range of 10.0 per cent to 11.0 per cent relative to the original target of 9.0 per cent. This is due not only to oil prices but also to other shocks, including the impact of adverse weather conditions on agricultural supplies. An important point to note is that despite the deterioration in some components of the current account, the net international reserves (NIR) will remain adequate to underwrite stability in the foreign exchange market. For the first six months of the fiscal year, the NIR rose to **US$1 616.5 million** from **US$1 568.7 million** at March 2004. Further increases in oil prices above current forecasts would trigger only modest changes in the current account estimates and on inflation.

A continuation of a conservative monetary policy stance will help to contain core inflation to approximately 4.0 per cent for FY2004/05. With a normalisation of domestic agriculture and a return to stability in international commodity markets, there is a strong prospect for a return to single digit inflation in the upcoming fiscal year.

Appendices

A. Fiscal Developments: July - September 2004

Provisional data for the September 2004 quarter indicate that Central Government's operations resulted in a deficit of $6 944.4 million or 1.2 per cent of GDP, relative to the budgeted deficit of $4 508.6 million or 0.8 per cent of GDP. The deviation was due to a 5.6 per cent shortfall in revenues, as expenditure was virtually on target. This underperformance was reflected in a higher than targeted current deficit of 1.0 per cent of GDP compared to the targeted deficit of 0.5 per cent. Concurrently, the primary surplus was 2.5 per cent of GDP compared to the targeted surplus of 2.9 per cent of GDP.

The shortfall in revenues during the September quarter was reflected mainly in the 9.1 per cent reduction in tax revenues relative to budget. Tax revenues were adversely affected by the payment of significant tax refunds by Government during the quarter as well as, the interruption of tax collection by Hurricane Ivan in September. Grants were above budget due to the receipt of flows from the EU in respect of the Support to Economic Reform Programme (SERP) II, which were scheduled for the June quarter. Relative to the corresponding period of 2003, however, total revenues were 16.0 per cent higher, driven by a 13.0 per cent increase in tax revenues reflecting in part, a broadening of the tax base.

April – September 2004

For the first half of the fiscal year, a provisional deficit of $22 319.5 million, or 4.0 per cent of GDP was recorded, which was broadly consistent with budget for the period. The attainment of the half-year target was facilitated by the over performance in the June quarter which partly offset the deviation from budget in the second quarter. The primary surplus of 4.8 per cent of GDP was slightly lower than the targeted surplus of 4.9 per cent of GDP, while the current deficit was 3.3 per cent of GDP relative to the targeted deficit of 3.2 per cent of GDP. Both ratios reflected the under performance of revenues over the period.

Total revenues for the first half of the fiscal year were 2.0 per cent below budget. The tax revenue performance in the 2004 period reflected lower than targeted inflows in all subcategories of tax revenues, with below budget tax flows from “other companies” and SCT (local) being the main sources of deviation. However, relative to the corresponding period of the previous fiscal year, revenues were 22.0 per cent higher with all categories of revenue exceeding their 2003 levels.

Expenditure during the first half of the fiscal year was 1.2 per cent below target but 17.0 per cent higher than the corresponding period of the previous fiscal year. The lower than budgeted expenditure for the first half of the fiscal year reflected containment in both recurrent and capital expenditure. Interest expenditure fell below budget by 0.7 per cent with foreign interest payments accounting for the decline as domestic interest was above budget. Wages and salaries were below budget, partly due to the delay in settling new wage rates for health sector professionals during the September quarter.

Government relied heavily on domestic sources to finance its operations, which was largely consistent with the mix anticipated in the budget. Domestic financing was secured primarily through public offers with supplementary funding mobilised through private placements. Official capital inflows included US$371.0 million garnered in commercial loans in April and July, as well as US$30.12 million from the Inter-American Development Bank in respect of the Social Safety Net project.

Fiscal Performance
Comparative Analysis
J$ Million

	Q2	Budget Q2	Variance	Q1 + Q2	Budget Q1 + Q2	Variance
Revenue and Grants	**38570.70**	**40869.90**	**-2299.20**	**78408.47**	**79996.30**	**-1587.83**
Tax Revenue	33865.30	37271.60	-3406.30	70722.50	72721.80	-1999.30
Capital Revenue	484.50	95.30	389.20	674.10	260.00	414.10
Other (incl. Non-tax)	4220.90	3503.00	717.90	7011.87	7014.50	-2.63
Expenditure	**45515.08**	**45378.50**	**136.58**	**100727.98**	**101950.72**	**-1222.74**
Recurrent Expenditure*	43455.14	43277.40	177.74	96344.94	97432.60	-1087.66
Capital Expenditure	1939.84	1993.80	-53.96	4145.64	4305.66	-160.02
IMF # 1 Account	120.10	107.30	12.80	237.40	212.46	24.94
Overall Balance	**-6944.38**	**-4508.60**	**-2435.78**	**-22319.51**	**-21954.42**	**-365.09**
Memo						
Current Balance	**-5368.94**	**-2502.80**	**-2866.14**	**-18610.57**	**-17696.30**	**-914.27**
Primary Balance	**14084.82**	**16383.40**	**-2298.58**	**26928.19**	**27642.08**	**-713.89**

Performance Indicators
(percentages of GDP)

	BR	CB	PB	IP	FSR
Q2 FY 2004/05	1.24	-0.96	2.51	3.75	-1.18
Q2 FY 2004/05 Budget	0.80	-0.45	2.92	3.73	-1.11
Q1 + Q2 FY 2004/05	3.98	-3.32	4.80	8.78	-1.28
Q1 + Q2 FY 2004/05 Budget	3.92	-3.16	4.93	8.84	-1.27

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

International Benchmarks

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

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

Source: Ministry of Finance and Planning

B. MONETARY POLICY DEVELOPMENTS

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

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

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

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

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

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

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

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

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

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

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

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

22/03/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 17.75 per cent, 17.00 per cent, 16.15 per cent, 15.80 per cent, 15.70 per cent, 15.60 per cent and 15.50 per cent respectively.
11/04/01	Interest rates on the 365-day and 270-day instruments were reduced to 17.50 per cent and 16.75 per cent respectively.
21/05/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.50 per cent, 15.70 per cent, 15.30 per cent, 15.05 per cent, 14.95 per cent, 14.85 per cent and 14.75 per cent respectively.
01/06/01	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty per cent (30%) to twenty nine per cent (29%). Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from twelve per cent (12%) to eleven per cent (11%). The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty nine per cent (5% and 29%) for Building Societies. The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and eleven per cent (1% and 11%) in respect of local and foreign currency deposits.
08/06/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.90 per cent, 15.35 per cent, 15.00 percent, 14.80 per cent, 14.70 per cent, 14.60 per cent and 14.50 per cent respectively.
25/06/01	Interest rates on the 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 14.75 percent, 14.55 per cent, 14.45 per cent, 14.35 per cent and 14.25 per cent respectively.
29/06/01	The Bank of Jamaica introduced Certificates of Deposits to the range of instruments used in open market operations. All the terms and conditions applicable to Reverse Repurchase transactions apply to Certificates of Deposits, with the exception that the latter are covered by the central bank's assets as against Government securities. Central Bank deposits which are maintained in statement form (i.e. no physical certificate is issued) will continue to be used for placements of seven (7) days or less.

01/09/01	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from twenty nine per cent (29%) to twenty eight per cent (28%). Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from eleven per cent (11%) to ten per cent (10%). The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty eight per cent (5% and 28%) for Building Societies. The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and ten per cent (1% and 10%) in respect of local and foreign currency deposits.
30/10/01	Interest rates on the 365-day, 270-day, 180-day, 90-day and 60-day instruments were increased to 19.90 per cent, 19.45 per cent, 15.50 per cent, and 15.00 per cent, 14.75 per cent and 14.55 per cent, respectively
28/12/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day and 60-day instruments were reduced to 18.90 per cent, 18.40 per cent, 15.00 per cent, and 14.55 per cent, 14.45 per cent and 14.35 per cent, respectively.
09/01/02	Interest rates on the 365-day and 270-day instruments were reduced to 17.90 per cent and 17.00per cent, respectively.
06/02/02	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.70 per cent, 15.90 per cent, 14.70 per cent, 14.30 per cent, 14.20 per cent, 14.10 per cent and 14.00 per cent, respectively.
14/02/02	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.80 per cent, 15.00 per cent, 14.40 per cent, 14.05 per cent, 13.95 per cent, 13.85 per cent and 13.95 per cent, respectively.

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

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

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

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

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

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

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

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

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

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

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

27/02/04 Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 17.25 per cent and 18.50 per cent, respectively.

10/03/04 Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 16.95 per cent and 17.95 per cent, respectively.

10/03/04 Pursuant to Section 15 (2) (h) of the Banking Act and the Financial Institutions Act, and Regulation 38 (h) of the Bank of Jamaica (Building Societies) Regulation, the Minister of Finance determined that all debt securities or instruments issued by the Government of Jamaica, whether denominated in Jamaican dollars or in a foreign currency and irrespective of their original maturity terms, shall, within nine months of their maturity date be designated Liquid Assets.

02/04/04 Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.60 per cent, 14.70 per cent, 14.80 per cent, 15.10 per cent, 15.60 per cent, 16.50 per cent and 17.40 per cent, respectively.

19/04/04 Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.40 per cent, 14.50 per cent, 14.60 per cent, 14.85 per cent, 15.30 per cent, 16.00 per cent and 16.90 per cent, respectively.

05/05/04 Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.20 per cent, 14.30 per cent, 14.40 per cent, 14.55 per cent, 15.05 per cent, 15.65 per cent and 16.40 per cent, respectively.

03/09/04 Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.00 per cent, 14.10 per cent, 14.20 per cent, 14.35 per cent, 14.80 per cent, 15.35 per cent and 16.00 per cent, respectively.

C. Summary Tables

1

INFLATION RATES (%)	CPI Index (e.o.p)	Head-line (Quarter)	Core (Quarter)
1998/1999	**1182.5**	**6.0**	**2.9**
1999/2000	**1281.7**	**8.4**	**4.0**
June	1205.9	2.0	0.9
September	1237.6	2.6	1.4
December	1265.9	2.3	0.9
March	1281.7	1.3	0.8
2000/2001	**1364.3**	**6.4**	**4.2**
June	1311.4	2.3	1.1
September	1349.3	2.9	1.2
December	1342.6	-0.5	0.8
March	1364.3	1.6	1.0
2001/2002	**1468.5**	**7.6**	**3.3**
June	1404.0	2.9	1.0
September	1442.7	2.7	1.1
December	1459.9	1.2	0.6
March	1468.5	0.6	0.6
2002/2003			
June	1492.8	1.7	0.9
September	1528.0	2.4	0.8
December	1566.1	2.5	1.2
March	1558.4	-0.4	1.3
2003/2004			
June	1653.1	6.0	2.3
September	1728.4	4.6	2.3
December	1786.8	3.4	2.0
March	1820.8	1.9	1.1
2004/2005			
June	1854.8	1.9	1.1
September	1906.7	2.8	1.1

2A

COMPONENT CONTRIBUTION TO INFLATION All Jamaica July – September 2004			
Groups and Sub-groups	**Weight in CPI**	**Inflation (%) Q1**	**Contribution**
FOOD & DRINK	**0.5563**	**2.7**	**55.1**
- Meals Away From Home	0.0741	1.4	4.3
- Meat Poultry & Fish	0.1613	1.6	10.8
- Dairy Products Oils & Fats	0.0668	1.7	4.7
- Baked Products Cereals &Breakfast Drinks	0.0864	2.0	7.2
- Starchy Foods	0.0525	9.7	20.9
- Vegetables & Fruits	0.0650	2.1	5.7
- Other Food & Beverages	0.0502	0.7	1.5
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**2.2**	**5.2**
- Household Supplies	0.0482	1.1	2.1
- Fuels	0.0253	3.0	3.1
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**5.3**	**16.0**
- Rental	0.0209	0.3	0.3
- Other Housing Expenses	0.0577	6.6	15.7
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**2.0**	**2.2**
- Furniture	0.0068	3.1	0.9
- Furnishings	0.0215	1.5	1.3
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**1.7**	**4.9**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**1.0**	**2.1**
- Clothing Materials	0.0055	0.4	0.1
- Readymade Clothing & Accessories	0.0242	0.4	0.4
- Footwear	0.0159	1.9	1.2
- Making & Repairs	0.0051	1.4	0.3
TRANSPORTATION	**0.0644**	**-0.2**	**-0.4**
MISCELLANEOUS EXPENSES	**0.0785**	**4.6**	**14.9**
ALL GROUPS	**1.0000**	**2.8**	**100.0**

2B

REGIONAL INFLATION
Quarterly
July – September 2004

Groups and Sub-groups	KMA (%)	Other Towns (%)	Rural Areas (%)
FOOD & DRINK	**1.3**	**2.8**	**4.2**
- Meals Away From Home	1.4	1.0	1.9
- Meat Poultry & Fish	1.2	1.6	2.2
- Dairy Products Oils & Fats	0.7	1.1	3.2
- Baked Products Cereals &Breakfast Drinks	1.2	3.0	2.4
- Starchy Foods	3.3	8.7	12.9
- Vegetables & Fruits	0.6	6.8	1.6
- Other Food & Beverages	1.0	0.4	0.6
FUELS & OTHER HOUSEHOLD SUPPLIES	**2.9**	**2.1**	**1.2**
- Household Supplies	0.7	1.8	1.2
- Fuels	4.4	2.3	1.2
HOUSING & OTHER HOUSING EXPENSES	**5.1**	**5.7**	**5.6**
- Rental	0.4	0.1	0.1
- Other Housing Expenses	6.9	6.4	6.2
HOUSEHOLD FURNISHINGS & FURNITURE	**1.0**	**2.0**	**3.1**
- Furniture	2.2	3.5	3.6
- Furnishings	0.4	1.2	2.9
HEALTHCARE & PERSONAL EXPENSES	**1.0**	**2.0**	**2.7**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.6**	**0.7**	**1.6**
- Clothing Materials	0.0	1.0	0.9
- Readymade Clothing & Accessories	0.4	0.3	0.6
- Footwear	0.8	0.8	3.9
- Making & Repairs	1.4	2.6	0.5
TRANSPORTATION	**-0.3**	**-0.2**	**0.1**
MISCELLANEOUS EXPENSES	**3.3**	**5.5**	**6.2**
ALL GROUPS	**1.9**	**3.1**	**3.8**

3

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

	Mar-03	Jun-03	Sept-03	Dec-03	Mar 04	Jun-04	Sept-04
Net International Reserves (US$)	**1 339.7**	**1 127.4**	**1 182.6**	**1 165.0**	**1 568.7**	**1 604.1**	**1616.5**
Net International Reserves ($J)	**75 021.5**	**63 133.8**	**69 775.2**	**68 733.8**	**95 531.4**	**99 454.2**	**100 224.2**
- Assets	77 400.4	65 251.2	71 782.9	70 583.5	97 250.0	101 079.2	101 725.2
- Liabilities	-2 378.9	-2 117.4	-2 007.8	-1 849.7	-1 718.6	- 1 625.0	- 1 501.0
Net Domestic Assets	**-42 521.6**	**-30 728.9**	**-37 152.6**	**-28 207.5**	**-59 345.0**	**-62 841.2**	**-61 833.3**
-Net Claims on the Public Sector	63 988.5	67 611.0	70 771.5	78 657.1	76 292.8	89 291.8	97 291.3
- Net Credit to Banks	-12 481.5	-13 125.1	-12 814.6	-13 345.9	-13 654.5	-13 127.9	-14 713.0
- Open Market Operations	-86 203.8	-77 126.4	-83 700.3	-81 969.4	-108 281.7	-123 222.1	-127 629.3
- Other	-7 824.7	-8 088.4	-11 409.2	-11 549.3	-13 701.6	-15 783.0	-16 782.3
Monetary Base	**32 500.0**	**32 404.9**	**32 622.6**	**40 526.3**	**36 186.4**	**36 613.0**	**38 390.9**
- Currency Issue *	20 729.7	21 259.1	21 545.7	29 426.5	24 930.6	24 597.4	26 215.9
- Cash Reserve	11 250.7	10 960.0	10 811.2	10 928.2	11 096.6	11 936.2	12 042.0
- Current Account	519.5	185.8	265.7	171.7	159.2	79.4	133.0
% change Monetary Base (F-Y-T-D)	**7.5**	**-0.3**	**0.4**	**24.7**	**11.3**	**1.2**	**6.1**

** Excludes BOJ's teller cash*

4

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

	M1J	M1*	M2J	M2*	M3J	M3*
2001/2002						
June	32 951.4	38 015.3	102 002.8	135 708.9	123 100.6	156 806.8
September	35 690.9	41 620.6	105 818.0	141 583.6	127 000.0	162 765.5
December	38 964.5	45 310.1	109 419.3	146 061.6	131 161.0	167 803.4
March	37 083.8	43 946.8	107 834.2	147 683.6	130 622.7	170 285.0
2002/2003						
June	36 864.8	43 248.6	110 235.4	150 532.0	133 902.1	174 198.5
September	42 475.0	49 450.6	117 345.1	160 591.3	142 633.2	185 879.3
December	44 704.0	51 486.7	119 330.6	165 026.0	145 583.9	191 279.3
March	33 733.5	40 791.3	107 472.2	158 719.5	136 368.0	187 615.2
2003/04						
June	37 201.6	46754.7	109 847.2	166750.9	140 414.9	197319.3
September	39 838.8	49 028.9	114 121.8	172 760.3	146 844.5	205 483.0
December	45 220.9	55 237.5	123 090.2	183 117.4	156 387.0	216 414.2
March	44 942.9	57 124.2	124 892.6	190 784.0	160 403.2	226 294.7
2004/2005						
June [r]	46 496.4	57 161.6	128 294.6	193 296.0	165 766.6	230 768.0
September	48 927.7	60 046.2	130 580.3	200 133.1	169 872.3	239 425.1

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

5

COMPONENTS OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY
2002/03 – 2004/05
(Quarterly Flows - J$MN)

	Dec-02	Mar-03	Jun-03	Sep-03 [r]	Dec-03 [p]	Mar 04	Jun-04	Sep-04
M2J	**1 985.4**	**-11 859.0**	**2 374.8**	**4 275.4**	**8 968.3**	**1 802.3**	**3 402.1**	**2 285.7**
Currency	2 842.0	-3075.1	1 467.4	149.1	4 237.9	-2 550.7	524.6	1 041.0
Demand Deposits	-413.1	-7 896.0	2 001.3	2 488.0	1 144.3	2 272.8	1 028.8	1 390.3
Savings Deposits	1 615.5	-40.9	1 125.6	1 140.0	3 002.8	804.8	2 516.2	824.9
Time Deposits	-2 059.0	-847.0	-2 219.5	498.3	583.3	1 275.4	-667.5	-970.4
OTHER DEPOSITS	**965.3**	**2 642.5**	**1 672.7**	**2 154.3**	**574.1**	**2 213.9**	**1 961.3**	**1 820.0**
TOTAL (M3J)	**2 950.7**	**-9 216.5**	**4 047.5**	**6 429.7**	**9 542.5**	**4 016.2**	**5 363.4**	**4 105.8**
SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY								
N.I.R. of B.O.J.	**-4 406.7**	**-13 140.9**	**-11 887.7**	**3 259.1**	**-1 041.3**	**24 584.1**	**2 158.3**	**775.1**
M&LTFL of B.O.J	**8.6**	**18.1**	**10.3**	**20.9**	**11.4**	**0.0**	**0.0**	**0.0**
Banking System Credit	**6 369.8**	**12 252.3**	**18 848.7**	**8 339.5**	**19 677.6**	**-17 447.3**	**22 552.0**	**6 919.3**
Public Sector	3 901.7	10 722.0	14 761.0	4 556.1	14 585.8	-22 169.1	21246.0	4 826.3
Private Sector	2 468.1	1 530.3	4 087.7	3 783.5	5 091.8	4 721.8	1 306.0	2 093.0
Open Market Operations	**6 091.0**	**3 777.5**	**9 077.4**	**-6 573.9**	**1 730.9**	**-26 312.3**	**-14 940.4**	**-4 407.2**
Other	**-5 112.0**	**-12 123.5**	**-12 001.2**	**1 384.1**	**-10 836.1**	**23 191.7**	**-4 418.2**	**818.6**
TOTAL	**2 950.7**	**-9 216.5**	**4 047.5**	**6 429.7**	**9 542.5**	**4 016.2**	**5 363.4**	**4 105.8**
Memo:								
Foreign Currency Deposits (Private Sector)	2 449.3	5 552.4	5 685.6	1 734.1	1 388.8	5 864.3	-890.1	4 551.4
Foreign Currency Loans (Private Sector)	1 486.6	2 093.0	2 922.5	2 346.2	1 019.5	1 199.1	339.9	1 004.2

p- preliminary

r-revised

6A

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

	Fixed Deposits *		Savings Deposits (Average)	Demand Loan Rate (Average)	Fixed Deposits Rate (Weighted Average)	Loan Rate (Weighted Average)	Inter-bank Lending Rate (Average)
	3-6 months	6-12 months					
2001/2002							
June	8.75 - 17.00	8.75- 15.00	9.45	30.67	11.11	20.86	19.54
September	8.75 - 17.00	8.75- 15.00	9.08	26.96	10.52	19.41	18.39
December	7.75 - 15.00	7.75 – 15.00	9.08	26.79	10.13	19.46	18.39
March	7.75 - 15.00	7.75 - 15.00	9.36	26.29	9.86	19.60	18.99
2002/2003							
June	7.75 – 13.25	7.75 – 13.25	9.00	25.92	9.28	18.15	14.68
September	7.75 – 13.25	7.75 – 13.25	8.86	26.25	8.98	18.08	13.88
December	7.75 – 13.25	7.75 – 13.25	8.96	25.04	8.92	18.26	11.50
March	8.50-13.15	8.50 - 13.15	8.22	24.73	8.87	17.23	21.90
2003/2004							
June	8.50 – 13.15	8.50-13.15	8.22	25.18	8.98	19.23	38.40
September	8.50-13.25	8.50-13.50	8.43	25.60	9.02	19.87	17.01
December	8.50-13.25	8.50-13.50	8.43	25.60	8.68.	19.32	24.08
March	8.50 – 13.25	8.50-13.50	8.30	25.40	8.47	19.01	17.16
2004/2005							
June	8.50 – 13.25	8.50-13.50	8.06	25.02	8.15	17.75	15.75
September	8.50-13.25	8.50-13.50	8.06	24.95	n.a.	n.a.	8.38

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

6B

GOJ TREASURY BILL YIELDS
(End of Period)

	3-month	*6-month*	*9-month*	*12-month*
2000/2001				
June	17.68	17.47	17.88	18.10
September	16.62	17.13	16.91	16.94
December		20.16	19.67	20.98
March		16.88		17.86
2001/2002				
June	23.48	16.20		
September	22.23	15.10	15.50	
December	22.12	17.03		
March	21.49	14.30		14.96
2002/2003				
June		13.81		14.77
September		16.69	16.98	
December		17.01		
March		33.47		
2003/04				
June		28.46		
September		23.42	23.87	
December		22.05		
March	15.23	15.57		
2004/05				
June	15.04	14.98	15.18	
September	14.41	14.80		16.36

7

BANK OF JAMAICA OPEN MARKET INTEREST RATES
(End Period)

Tenors of Instruments

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

8A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
July – September 2004

Maturity Date		Amount J$M	Applicable Interest Rate b/
02 July	GOJ FR Promissory Note 2004	US$77.8	11.25
07 July	FR 22.125% LRS 2004 Tr. B	200.0	22.125
	FR 22.125% LRS 2004 Tr. A	500.0	22.125
15 July	15.0% LRS 2011 B Tr. C	46.8	15.0
19 July	FR LRS 2004 AB	700.0	14.75
23 July	GOJ Inv. Debenture 2006 Series "Y"	3 150.1	18.625
30 July	FR US$ Ind. Bond 2004	44.7	12.0
11 August	GOJ Inv. Debenture Series "T"	350.0	16.715
13 August	VR LRS 2003/2004 K	250.0	17.15
20 August	VR LRS 2005/2006 F Tr. A	500.0	16.59
27 August	FR 15.50% LRS 2004	500.0	15.5
	VR LRS 2003/2004Q Tr.B	344.4	17.81
30 August	FR 18.125% LRS 2004	1 000.0	18.125
01 September	VR LRS 2004 J	109.8	18.81
06 September	15.0% LRS 2004A Tr.1	746.2	15.0
	15.0% LRS 2004A Tr.2	253.8	15.0
08 September	15.125% LRS 2004	1 100.0	15.125
10 September	FR US$15.0 mn Bond 2004	US$15.0	11.5
13 September	FR LRS 2004 AD	700.0	13.75
15 September	15.125% LRS 2004A	1 000.0	15.125
22 September	GOJ Inv. Debenture 2004 Series "W"	3 140.8	14.5
30 September	11.5% LRS 2004	571.6	11.5
30 September	15.0% LRS 2004	23.1	15.0

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

8B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Domestic Market Issues
July – September 2004

Issue Date	Stock Name	Features	Amount Raised J$M
1-5 July	FR 10.50% US$ Den. Local Bond 2009	Tenor of 5 years. Interest rate fixed at 10.50%. Interest paid quarterly.	US$125.8
22-26 July	FR Investment Debenture 16.875% 2006 Series "Aj"	Tenor of 28 months. Interest rate fixed at 16.875%. Interest paid quarterly.	2 809.0
30 July	15% VR Investment Bond 2009/10 Series "J"	Tenor of 67 months. Interest rate fixed at 15.0% for first 6 months. Thereafter, quarterly interest payments of 1.50% above applicable Treasury Bill rate.	1 064.0
30 July	FR Registered Bond 16.85% 2006 Series "C"	Tenor of 25 months. Interest rate fixed at 16.85%. Interest paid quarterly.	583.7
23-25 August	FR Investment Debenture 16.75% 2006 Series "Ak"	Tenor of 21 months. Interest rate fixed at 16.75%. Interest paid quarterly.	2 356.3
30-31 August	FR 9.90% US$ Den. Local Bond 2010	Tenor of 5 ½ years. Interest rate fixed at 16.75%. Interest paid quarterly.	US$ 86.8
17-23 September	FR Investment Debenture 16.25% 2006 Series "Am"	Tenor of 18 months. Interest rate fixed at 16.25%. Interest paid quarterly.	3 206.2

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

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
2000/2001	**56.1**	**670.6**	**69.4**	**22.3**	**74.8**	**330.9**	**291.5**	**1 515.6**
June	10.4	167.9	33.6	5.5	20.5	90.6	76.6	405.1
September	8.2	163.8	6.2	6.2	18.3	81.7	80.7	365.1
December	13.9	181.4	0.0	6.1	17.0	91.3	76.4	386.1
March	23.6	157.5	29.6	4.5	19.0	67.3	57.8	359.3
2001/2002 r	**97.7**	**629.5**	**68.5**	**17.9**	**72.0**	**291.1**	**247.1**	**1 423.8**
June	23.5	182.0	34.9	5.0	18.9	66.0	69.2	399.5
September	25.5	174.3	6.1	4.0	18.5	73.5	72.1	374.0
December	20.7	122.4	0.0	4.4	15.7	93.4	63.9	320.5
March	28.0	150.8	27.5	4.5	18.9	58.2	41.9	329.8
2002/2003	**99.9**	**615.6**	**64.5**	**17.7**	**74.4**	**227.8**	**213.7**	**1 313.6**
June	22.9	138.9	30.6	4.5	20.9	51.3	56.2	325.3
September	25.4	147.1	8.0	4.4	20.5	60.3	67.9	333.6
December	29.9	167.0	0.0	4.1	14.2	59.3	46.0	320.5
March r	21.7	162.6	25.9	4.7	18.8	56.9	43.6	334.2
2003/2004	92.5	721.7	82.9	18.6	65.7	250.7	216.3	1 448.4
June r	24.2	166.0	28.9	5.0	17.6	52.4	51.9	346.0
September	23.1	183.2	10.4	4.4	18.5	66.0	55.7	361.3
December r	21.0	176.7	1.1	4.6	12.6	60.4	58.7	335.1
March p	24.2	195.8	42.5	4.6	17.0	71.9	50.0	406.0
2004/2005								
June p	26.2	196.5	47.9	4.3	19.2	77.3	49.9	421.3

r-revised

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

	Consumer Goods	*Raw* Materials	Capital Goods	Other	Total Imports
2000/2001	**982.0**	**1 761.2**	**519.1**	**167.6**	**3 429.9**
June	228.5	442.2	119.2	42.3	832.2
September	245.8	422.6	120.2	43.5	832.1
December	282.5	426.1	121.8	53.9	884.3
March	225.2	470.3	157.9	27.9	881.3
2001/2002	**1 000.2**	**1 756.3**	**565.3**	**169.8**	**3 491.6**
June	241.0	444.1	127.7	61.3	874.1
September	238.4	431.1	156.6	47.5	873.6
December	279.9	475.2	133.9	35.4	924.4
March	240.9	405.9	147.1	25.6	819.5
2002/2003	1 113.9	1 951.9	674.2	128.3	3 868.3
June	265.4	410.9	176.2	40.9	893.4
September	271.6	539.3	167.2	39.1	1 017.2
December	316.5	442.6	180.5	25.6	965.2
March r	260.4	559.1	150.3	22.7	992.5
2003/2004					
June	244.7	499.6	138.5	50.9	933.7
September	252.8	490.4	144.3	33.5	921.0
December	310.4	503.3	125.1	26.6	965.4

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

	Dec-02	Mar-03 r	Jun-03 r	Sep-03 r	Dec-03 r	Mar-04	Jun-04 p
1. Current Account	**-343.1**	**-242.8**	**-179.3**	**-182.5**	**-237.8**	**-10.1**	**-66.4**
A. Goods Balance	**-507.5**	**-532.6**	**-469.7**	**-433.6**	**-498.3**	**-365.6**	**-370.2**
Exports (f.o.b.)	320.5	334.2	346.0	361.3	335.1	406.0	421.3
Imports (f.o.b.)	828.0	866.8	815.7	794.9	833.4	771.6	791.5
B. Services Balance	**62.3**	**160.3**	**127.5**	**116.8**	**118.8**	**184.2**	**151.4**
Transportation	-63.8	-29.8	-40.5	-52.8	-48.1	-14.8	-31.5
Travel	238.6	283.4	265.2	279.5	274.6	301.6	287.6
Other Services	-112.5	-93.3	-97.2	-109.9	-107.7	-102.6	-104.7
Goods & Services Balance	**-445.2**	**-372.3**	**-342.2**	**-316.8**	**-379.5**	**181.4**	**-218.8**
C. Income	**-163.5**	**-153.8**	**-117.4**	**-144.3**	**-178.4**	**-153.1**	**-168.1**
Compensation of Employees	32.8	3.7	7.0	27.7	34.7	**7.9**	**14.0**
Investment Income	-196.3	-157.5	-124.4	-172.0	-213.1	-160.9	-182.1
D. Current Transfers	**265.6**	**283.3**	**280.2**	**278.6**	**320.1**	**324.4**	**320.5**
General Government	23.9	26.3	26.1	21.6	20.5	22.3	21.9
Other Sectors	241.7	257.0	254.1	257.0	299.6	302.1	298.6
2. Capital & Financial Account	**343.1**	**242.8**	**179.3**	**182.5**	**-237**	**10.1**	**66.4**
A. Capital Account	**-3.0**	**-0.8**	**-0.1**	**-4.4**	**-3.0**	**-0.1**	**0.7**
Capital Transfers	-3.0	-0.8	-0.5	-4.4	-3.0	-0.1	0.7
General Government	0.0	0.1	0.0	0.0	0.0	0.1	0.0
Other Sectors	-3.0	-0.9	-0.5	-4.4	-3.0	-0.2	0.7
Acq./disp. Of non-produced non-fin. assets	0.0	0.0	0.4	0.0	0.0	0.0	0.0
B. Financial Account	**346.1**	**243.6**	**179.4**	**186.9**	**240.8**	**10.2**	**65.7**
Direct Investment	111.3	145.5	152.7	90.5	96.1	64.4	95.9
Other Official Investment	56.9	-251.5	-50.8	-36.8	-24.7	255.4	73.1
Other Private Investment (including net errors & omissions)	87.6	92.3	-134.8	188.4	151.7	94.1	-67.9
Reserves	90.3	257.3	212.3	-55.2	17.7	-403.7	-35.4

r-revised

p-provisional

12

PRIVATE SECTOR QUARTERLY REMITTANCE INFLOWS
(US$MN)

	Commercial Banks	Remittance Companies	Post Offices	Building Societies	Other	Total
2001/2002	**170.2**	**595.3**	**1.2**	**202.4**	**27.3**	**996.4**
June	43.1	136.2	0.3	43.5	6.9	230.0
September	46.9	143.0	0.3	50.4	6.9	247.5
December	25.6	163.7	0.3	58.0	6.9	254.5
March	54.6	152.4	0.3	50.5	6.6	264.4
2002/2003	**293.5**	**621.1**	**1.2**	**252.6**	**43.2**	**1 211.6**
June	73.4	157.2	0.3	58.8	6.6	296.3
September	74.1	150.3	0.3	65.6	6.6	296.9
December	66.5	159.7	0.3	65.8	6.6	298.9
March	79.5	153.9	0.3	62.4	23.4	319.5
2003/2004	**330.8**	**696.8**	**1.2**	**297.8**	**93.6**	**1 420.2**
June	58.8	169.8	0.3	63.2	23.4	315.5
September	74.5	169.1	0.3	71.7	23.4	339.0
December	100.8	183.0	0.3	80.4	23.4	387.9
March r	96.7	174.9	0.3	83.0	23.4	378.3
2004/2005						
June	96.9	185.5	0.3	83.3	23.4	389.4
September	84.0	177.1	0.3	81.5	23.4	366.3

13

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
2001/2002					
June	1612.5	71.9	1540.5	27.3	18.6
September	1605.9	69.2	1536.7	27.1	18.6
December	1903.3	62.6	1840.7	33.2	22.5
March	2000.3	58.7	1941.6	34.9	23.6
2002/2003					
June	1837.5	55.2	1782.3	31.2	20.6
September	1738.6	51.3	1687.3	29.5	19.5
December	1643.1	46.1	1597.0	27.9	18.4
March	1382.2	42.5	1339.7	22.1	14.8
2003/2004					
June	1 165.2	37.8	1 127.4	18.3	12.0
September	1216.6	34.0	1182.6	19.0	12.8
December	1 196.3	31.4	1 164.9	18.3	12.5
March	1 596.9	28.2	1 568.7	25.0	16.6
2004/2005					
June	1630.3	26.2	1604.1	22.5	15.3
September	1 640.7	24.2	1 616.5	23.5	16.0

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

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

15

PUBLIC SECTOR DOMESTIC SECURITIES
Government of Jamaica
Outstanding Stocks

(J$MN)

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

n.a: Not Available

16

STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

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

Note: Both volume and value reflect ordinary and block transactions

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

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PRODUCTION OF SELECTED COMMODITIES
(Flows- 000' tonnes)

	Bauxite	Alumina	Sugar	Bananas*
2001/2002	**3 808.4**	**3 493.7**	**184.8**	**42.3**
June	888.5	943.4	91.5	11.0
September	997.2	946.3	7.3	9.9
December	816.1	738.0	4.2	10.8
March	1 106.6	866.0	81.8	10.6
2002/2003	**3 917.5**	**3 698.7**	**186.1**	**37.7**
June	888.1	887.3	76.8	10.3
September	961.2	932.0	11.8	9.7
December	1 110.8	945.2	4.7	9.3
March	964.4	934.2	92.8	8.4
2003/2004	**3 842.4**	**3 956.4**	**174.7**	**40.1**
June	992.9	957.0	53.7	9.9
September	975.3	939.8	1.3	10.2
December	916.7	1 012.6	5.9	10.5
March	957.5	1 047.0	113.8	9.5
2004/2005				
June	1 071.2	1 046.4	60.0	9.9
September	907.1	865.6	3.7	8.2

** Exports*

18

GROSS DOMESTIC PRODUCT BY INDUSTRY IN PRODUCER'S VALUES AT CONSTANT (1996) PRICES September 2002 - June 2004 (Seasonally Unadjusted) Year over Year % Change								
	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03	Dec-03	Mar-04	Jun-04
Total Gross Domestic Product	1.7	3.5	3.6	2.4	1.1	2.0	2.6	2.7
Agriculture, Forestry & Fishing	-6.7	-10.2	2.1	2.4	5.8	9.3	-0.9	-1.5
Export Agriculture	8.2	2.1	3.9	-15.1	-17.8	1.6	13.4	2.3
Domestic Agriculture, Livestock, Forestry & Fishing	-8.7	-12.0	1.6	8.2	9.5	10.7	-5.1	-2.5
Mining & Quarrying	-1.0	24.9	6.4	8.1	1.0	4.2	10.8	8.5
Manufacturing	1.2	2.5	1.1	-2.0	-1.0	-1.5	4.5	6.5
Food, Beverages & Tobacco	5.2	0.3	0.2	2.2	-4.1	-5.2	4.7	3.6
Other Manufacturing	-3.3	5.2	2.4	-7.4	2.7	2.4	4.4	10.7
Electricity & Water	3.6	6.2	5.5	5.8	4.9	2.8	3.6	3.1
Construction & Installation	3.0	4.7	1.7	1.2	0.4	1.4	2.3	1.2
Distributive Trade	0.3	0.4	0.7	0.8	1.0	1.5	1.6	1.3
Transport, Storage & Communication	6.2	9.2	7.5	5.6	0.6	1.2	1.6	3.0
Finance & Insurance Services	8.9	6.9	11.3	6.1	0.9	0.7	-1.6	-3.1
Real Estate & Business Services	0.9	1.0	1.9	2.5	2.0	0.8	2.4	1.5
Producers of Government Services	0.2	-0.1	-0.1	-0.2	0.4	0.8	0.3	0.3
Miscellaneous Services Household and Private Non-Profit In	5.0	9.5	5.1	4.7	3.5	5.9	5.5	8.3
Hotels, Restaurants & Clubs	6.3	13.0	6.2	5.7	4.0	6.4	6.5	10.4
Less Imputed Bank Service Charge	9.1	10.0	0.0	3.0	3.1	0.5	-0.4	1.3

D. BANK OF JAMAICA BALANCE SHEET

ASSETS AND LIABILITIES
(End of Period)
J$MN

	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04
Assets	**152 220.5**	**151 282.4**	**152 765.6**	**149 552.0**	**156 818.4**	**165 318.2**	**186 811.5**	**191 018.4**	**196 888.5**
Foreign	85 369.6	83 071.5	77 202.2	68 606.6	72 298.2	72 134.5	97 232.2	99 458.8	101 367.1
Current Account & Foreign Currency Balances	5 048.1	6 880.4	9 318.5	5 105.0	11 163.0	6 091.0	6 881.8	9 162.7	9 824.6
Time Deposits & Securities	78 281.9	74 108.9	65 607.9	60 573.9	54 278.5	60 805.0	84 931.4	84 922.5	86 121.4
Holdings of Special Drawing Rights	63.8	39.9	20.2	6.5	19.7	3.2	4.8	23.8	6.0
Other	1 975.8	2 042.3	2 255.6	2 921.2	6 837.0	5 235.3	5 414.2	5 349.8	5 415.1
Local	66 850.9	68 210.9	75 563.4	80945.4	84 520.2	93 183.7	89 579.3	91 559.6	95 521.4
Public Sector Securities	56 752.1	57 237.4	54 975.0	66 907.0	68 465.9	78 147.1	77 836.0	76 989.0	85 125.6
Other Assets	10 098.8	10 973.5	20 588.4	14 038.4	16 054.3	15 036.6	11 743.3	14 570.6	10 395.8
Liabilities	**152 220.5**	**151 282.4**	**152 765.6**	**149 552.0**	**156 818.4**	**165 318.2**	**186 811.5**	**191 018.4**	**196 888.5**
Foreign	405.8	434.6	484.6	467.9	459.2	479.3	459.8	427.0	401.4
Local	151 814.7	150 847.8	152 281.0	149 084.1	156 359.1	164 839.0	186 351.7	190 591.4	196 487.1
Currency in Circulation	19 587.3	24 387.3	20 772.3	21 309.9	21 587.9	29 467.0	24 978.0	24 634.4	26 261.3
Deposits	121 123.3	118 055.4	117 110.0	110 145.7	115 342.8	112 076.8	146 088.2	155 259.4	159 435.8
Bankers	17 264.9	17 729.8	25 401.0	25 474.3	25 022.0	25 659.9	26 197.7	26 499.4	28 278.6
Government	3 916.6	4 484.3	1 760.2	3 280.1	2 000.8	1 235.2	5 045.7	3 098.7	656.5
Open Market Operations	96 072.3	89 981.3	86 203.8	77 126.4	83 700.3	81 969.4	108 281.7	123 222.1	127 629.3
Other	3 869.5	5 860.0	3 745.0	4 264.9	4 619.7	3 212.3	6 563.1	2 439.2	2 871.4
Allocation of Special Drawing Rights	2 462.0	2 462.0	2 462.0	3 203.0	3 203.0	3 203.0	3 203.0	3 573.6	3 573.6
Capital & Reserves	24.0	24.0	24.0	4.0	4.0	4.0	24.0	24.0	24.0
Other Reserves	1 195.8	1 944.2	1 944.2	1 640.8	1 628.8	990.3	1 270.4	2 311.1	2 283.6
Other Liabilities	7 422.3	3 974.9	9 968.5	12 780.7	14 592.7	19 097.8	10 788.1	4 788.9	4 908.8

E. COMMERCIAL BANKS' BALANCE SHEET

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

	Sep-02	Dec-0 2	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04	Jun-04 [r]	Sep-04 [p]
Assets	**259 213.3**	**262 577.9**	**285 881.7**	**295 647.2**	**306 632.7**	**313 516.6**	**331 710.5**	**327 721.8**	**341 733.1**
Cash	2 030.1	3 988.3	3 438.6	2 500.6	2 638.1	6 281.0	4 335.8	3 478.0	4 055.5
Balances with BOJ	41 726.7	40 111.1	41 414.8	37 224.0	40 947.6	40 249.2	50 545.4	53 281.4	52 877.8
Foreign Assets	46 039.2	47 540.2	62 782.3	58 847.3	56 953.0	59 938.9	62 394.6	61 318.4	71 879.5
Loans & Advances	67 046.0	73 943.3	79 685.4	87 067.4	91 254.9	99 150.0	102 504.2	106 169.9	108 989.0
Private Sector	46 261.6	50 882.0	52 897.6	60 255.0	66 396.8	71 638.4	75 699.2	77451.2	80 687.3
Public Sector	20 784.4	23 061.3	26 787.8	26 812.4	24 858.1	27 511.6	26 805.0	28 718.7	28 301.7
Public Sector Securities	72 564.8	68 829.3	66 143.2	78 275.4	79 905.7	74 852.1	66 686.3	65 707.7	62 700.6
Cheque in the Process of Collection	3 949.2	3 794.0	4 024.4	5 041.7	3 023.1	2 584.2	6 310.9	2 658.7	5 386.1
Other Assets	25 857.3	24 371.7	28 393.0	26 690.8	31 910.3	30 461.2	38 933.3	35 107.7	35 844.6
Liabilities	**259 213.3**	**262 577.9**	**285 881.7**	**295 647.2**	**306 632.7**	**313 516.6**	**331 710.5**	**327 721.8**	**341 733.1**
Deposits	177 801.9	178 979.5	188 441.5	189 816.3	194 580.3	198 774.8	216 777.3	214 596.2	223 166.8
Local Currency	125 406.5	124 875.9	121 373.8	118 040.1	120 691.9	122 976.1	134 730.5	132 670.0	135 453.0
Foreign Currency	52 395.4	54 103.6	67 067.7	71 776.2	73 888.4	75 798.7	82 046.8	81 926.2	87 713.8
Foreign Liabilities	13 237.4	12 691.1	14 085.8	14 903.7	16 771.1	15 900.5	15 860.8	18 655.6	23 005.6
Discounts & Advances from BOJ	61.2	134.9	187.1	235.7	95.6	167.7	276.7	1 607.3	199.6
Loans/Advances from Other Institutions	6 729.3	7 309.4	7 632.5	7 813.2	8 674.7	9 431.7	7 741.2	7 805.5	8 139.8
Cheques in the Process of Payment	2 614.2	2 565.0	2 150.6	3 383.4	2 161.0	2 112.4	3 279.7	2 218.9	3 172.3
Other Liabilities	58 769.3	60 898.0	73 384.2	79 494.9	84350.0	87 129.5	87 774.8	82 838.3	84 049.0

P = preliminary
r = revised

F. INTERNATIONAL INDICATORS

1

LONDON INTERBANK OFFER RATE–LIBOR (End- of-Period)	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2001/2002				
June	3.7900	3.7300	3.7300	3.9400
September	2.6300	2.5900	2.5225	2.6425
December	1.8738	1.8813	1.9813	2.4425
March	1.8788	2.0300	2.3300	3.0025
2002/2003				
June	1.8387	1.8600	1.9562	2.2862
September	1.8113	1.7900	1.7100	1.7250
December	1.3820	1.3830	1.3830	1.4470
March	1.3000	1.2787	1.2312	1.2800
2003/2004				
June	1.1620	1.1225	1.0815	1.0944
September	1.1200	1.4246	1.1856	1.3525
December	1.1326	1.1670	1.2274	1.4688
March	1.0923	1.1122	1.1585	1.3251
2004/2005				
June	1.3687	1.6100	1.9400	2.4625
September	1.8400	2.0200	2.1963	2.4825

2

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

3

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

4A

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

		Dec-02	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04	Jun-04	Sep 04
US$ vs.	Sterling	0.6306	0.6327	0.6050	0.6192	0.5603	0.5476	0.55167	0.55279
US$ vs.	Canadian $	1.5593	1.4711	1.3553	1.3632	1.2924	1.3284	1.3404	1.2417
US$ vs.	Yen	121.98	118.58	119.86	114.79	107.11	108.51	109.38	110.20
US$ vs.	Euro	0.9820	0.9164	0.8693	0.8878	0.7939	0.8155	0.82097	0.80535

4B

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
(September 2004)

	GBP	CAN$	US$	Yen	Euro
U.K.	1.000	2.290	1.810	199.40	1.457
Canada	0.437	1.000	0.790	87.09	0.636
U.S.	0.553	1.266	1.000	110.20	0.805
Japan	0.501	1.148	0.907	100.00	0.731
Euro	0.686	1.572	1.242	136.90	1.000

4C

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

		Mar-03	Jun-03	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04
Sterling vs.	US$	1.5805	1.6529	1.6157	1.7847	1.8263	1.8127	1.8090
Sterling vs.	Canadian $	2.3251	2.2402	2.2022	2.3066	2.4259	2.4297	2.2853
Sterling vs.	Yen	191.17	196.52	198.12	191.75	198.26	198.12	1.99.41
Sterling vs.	Euro 1/	1.4484	1.4369	1.4338	1.4168	1.4893	1.4881	1.4875

5A

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

	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04
UAE's Dubai Light	27.51	26.21	23.29	23.69	30.46	33.40	37.66
North Sea Brent	28.06	28.17	28.23	30.15	32.41	33.04	47.26
West Texas Intermediate	31.08	30.18	29.23	32.55	35.78	37.05	49.65

5B

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

	Jun-0	Sept-0	Dec-0	Mar-0	Jun-0	Sep-04
Spot (Cash)	1389.0	1475.89	1512.3	1688.5	1698.5	1823.0
3 Month	1366.0	1423.5	1567.8	1707.5	1704.5	1812.0

5C

WORLD COMMODITY PRICES
FOOD
(End- of-Period)

	Mar-03	Jun-0:	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04
Wheat **(US$/mt)**	147.4	137.3	145.6	165.6	166.3	153.0	156.0
Coffee (USc/kg arabica brand)	135.8	136.4	142.0	141.0	170.5	172.4	187.7

MAJOR STOCK MARKET INDICES
(End- of-Period)

	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04	June-04	Sep-04
TOKYO							
Nikkei Index	9383.29	8578.95	7972.71	9083.11	11715.39	11858.87	10823.57
NEW YORK							
Dow Jones Industrials	7591.93	8341.63	7992.13	8985.44	10357.70	10435.48	10080.27
S & P Composite	945.28	879.82	848.12	974.50	1126.21	1140.75	1114.58
LONDON							
Financial Times SE 100	3721.80	3940.40	3613.30	4031.20	4385.70	4464.10	4570.80
FRANKFURT							
Dax Index	2423.87	3220.58	3256.78	4095.71	3856.70	4052.73	3892.90
ZURICH							
SMI Index	4085.60	4813.70	5043.5	5768.2	5618.60	5619.10	5465.30

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Money Supply**:** This is the stock of instruments or assets formally designated as money in a particular economy. There are alternative measures of money supply both within and between countries. In Jamaica, the measurements of money that are calculated and published are:
M1: Notes and coins in circulation + Demand Deposits
M2: M1+ Time and savings deposits
M3: M2 + Other Deposits.

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

Monetary Base*: See *Base Money

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Quasi-money: Savings Deposits plus Time Deposits.

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