



QUARTERLY MONETARY POLICY REPORT

JULY - SEPTEMBER 2005

Volume 6 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 the dynamics of inflation in selected Caribbean countries, as well as, a Special feature that explores recent international developments and their impact on the Jamaican economy.

The developments in the review quarter are set against policy targets for the fiscal year, which runs from April to March. In some instances the data used in the preparation of the report are provisional and are therefore subject to change.

OVERVIEW

The Bank of Jamaica maintained a conservative monetary policy stance throughout the September 2005 quarter as rising inflation expectations and a decline in the supply of foreign exchange fuelled bouts of instability in the foreign exchange market. In order to reverse these trends and restore confidence in the Jamaica Dollar, the Central Bank maintained a strong presence in the foreign exchange market throughout the review quarter. Hence, base money management in the quarter was tighter than originally programmed with growth in the base restricted to 0.7 per cent relative to targeted growth of 2.8 per cent for the quarter. Liquidity absorption was in this context, achieved through the sale of foreign currency, which absorbed \$2 345.5 million, as well as through an increase in open market operations, which absorbed \$623.1 million.

A fall-off in visitor arrivals following hurricane Emily and Dennis in early July prompted some end-users to bring forward their foreign exchange demand during the quarter. Concurrently, rising US interest rates and a decline in the availability of domestic instruments with a foreign exchange hedge component, also prompted some investors to rebalance their portfolios in favour of US denominated assets. These factors exerted significant pressures in the foreign exchange market during the quarter.

Despite significant foreign exchange sales by the BOJ in the quarter, the net international reserves (NIR) remained strong amounting to US\$2 119.0 million at end September, marginally down by US\$37.8 million from end June 2005, but exceeding the target for the quarter by US\$166.7 million. Against this background, the exchange rate depreciated by 1.7 per cent during the September quarter following a marginal 0.5 per cent depreciation in the June quarter and an appreciation of 0.6 per cent during each of two previous quarters.

Inflationary pressures however, remained fairly strong in the review quarter, despite some moderation relative to the June 2005

quarter. Headline inflation was 4.3 per cent in the September quarter, 1.2 percentage points above the seasonal average for the past five years. Inflation primarily reflected the continuing effects of higher food and oil prices with additional impulses emanating from an adjustment in bus and taxi fares, as well as the second round effect of increased transportation costs on other prices.

Core or underlying inflation was estimated at 1.4 per cent for the quarter, relative to 1.7 per cent for the previous quarter and 1.2 per cent for the September 2004 quarter. On a monthly basis, this measure of inflation was 0.6 per cent in July 2005 and moved to 0.4 per cent in both August and September. This was consistent with the maintenance of relatively tight management of the monetary base over the previous two quarters.

The effect of higher than anticipated inflation was manifested in the local bond market with investors registering strong support for instruments that offered an inflation hedge. In this regard, there was an increased demand for variable rate instruments, as well as US dollar bonds issued by the public and private sectors. In addition, the demand for Jamaica's sovereign bonds remained strong in the secondary market trades during the period notwithstanding, increases in US interest rates in the quarter.

It is estimated that there was moderate economic expansion in the September 2005 quarter, following relatively weak Gross Domestic Product (GDP) growth in the two previous quarters. The main growth area was the goods producing sector, with significant expansion observed in Mining & Quarrying and Construction & Installation. On the other hand, Miscellaneous Services, in particular Hotels, Restaurants & Clubs that accounts for 80.0 per cent of activities within the sector, experienced a significant decline consequent on the negative effect of the active hurricane season. In addition, agriculture output continued to be constrained by unfavourable weather conditions.

In terms of aggregate demand, the overall expansion in economic output during the September quarter reflected an estimated real increase in private consumption, which was partly countered by

contractions in public consumption and net external demand. Notably, investment spending remained flat relative to the previous quarter, which may be partly reflective of a fall in business confidence in the September quarter.

Economic expansion is expected to continue in the December 2005 quarter, driven by recovery in tourism, construction and mining, which were affected by adverse weather conditions in 2004. In respect of tourism, it is anticipated that recent marketing initiatives should boost visitor arrivals in the upcoming winter season and enhance activities in the sector. Significant investments in tourism and mining, expected to come on stream in the December quarter, should also increase the value-added of construction while, ongoing projects related to roads, utilities and housing infrastructure should add to the buoyancy of the sector. Although agriculture is expected to improve relative to the December 2004 quarter, growth could be tempered by the damage to the sector from the poor weather conditions in the September quarter.

Inflation is forecasted to moderate in the December quarter as the impact of the increase in administered prices from the previous quarter would have dissipated. However, some inflationary pressures could emanate from a curtailment in agricultural supplies consequent on continuing poor weather conditions. Other risks to inflation in the December quarter are increases in oil and other international commodity prices. As a consequence, monetary policy is expected to remain relatively tight, notwithstanding the usual seasonal increase in the monetary base in the December quarter.

Included in this issue of the QMPR is a comparison of inflation among selected Caribbean countries and the factors contributing to disparities in the region. This is set against the common background of rising oil prices and unstable weather conditions particularly since 2004 (see **Box 1**).

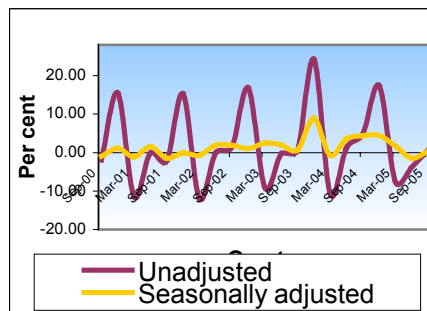
A special feature on the impact of international developments on domestic inflation and macroeconomic policy is also presented in

this Report. This is discussed in a context of the continuing volatility in world crude oil prices and the monetary response through interest rates by the United States in particular. The feature also highlights the main elements and potential benefits of the PetroCaribe agreement with Venezuela, Banana negotiations with the WTO as well as, recent reforms in respect of the EU Sugar regime.



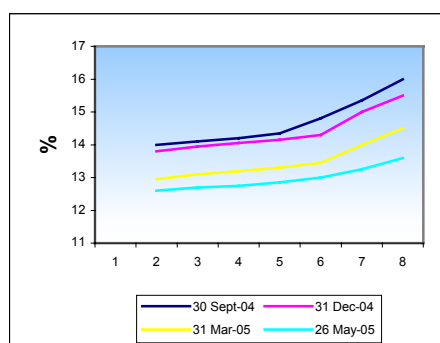
1. Monetary Policy and Financial Markets

Figure 1.1
Base Money
(Quarterly Change)



The Bank tightens the monetary base in response to higher than anticipated inflation

Figure 1.2
BOJ Open Market Operations Yield Curve



Money & Credit

Monetary Policy and Base Money Management

Monetary policy during the September 2005 quarter was conducted within a context of higher than anticipated inflation and frequent bouts of instability in the foreign exchange market. The Bank responded by increasing the volume of funds sold to the foreign exchange market as well as, the frequency of sales in order to limit the pass through to inflation from sharp depreciation in the exchange rate and also to reduce the Jamaica Dollar liquidity. The Bank was also able to absorb liquidity through incremental placements in its open market instruments at interest rates that have remained unchanged since 26 May 2005. Within this context, the growth rate in the monetary base was limited to 0.7 per cent relative to the programmed target of 2.8 per cent for the quarter.

Higher than anticipated inflation in the September 2005 quarter fuelled investors' demand for instruments that provided a hedge against inflation. This was in the context of the two hurricanes that occurred early in the quarter, which resulted in a sharp increase in agricultural food prices as well as, reduced inflows to the foreign exchange market due to a fall off in tourist arrivals. Continued increases in oil prices also heightened inflation expectations and weakened the growth prospects for the economy. These developments contributed to a decline in investor confidence and increased the demand for variable rate instruments and securities denominated in US dollars. The demand for foreign currency instruments coupled with the fall off in inflows from the tourism sector led to instability in the foreign exchange market.

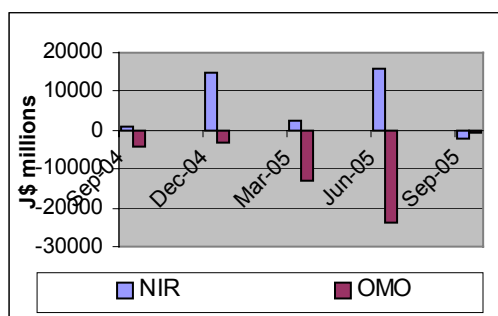
In order to prevent sharp depreciation in the exchange rate and limit the pass-through to inflation, the Bank relied heavily on the sale of foreign exchange in its management of the monetary base. In addition to the sale of foreign currency, the Bank was able to absorb liquidity, to a lesser extent, through its open market window at interest rates that have been in effect since 26 May 2005 (see **Table 7 in Appendix**). The rate on the 365-day instrument at end September was 13.60 per cent relative to 14.25 per cent at the start of FY 2005/06.

BOJ yield curve as well as interest rates remain unchanged

Table 1.1

Net International Reserves				
July – Sept 2005				
Flows (US\$MN)				
	July	Aug	Sept	Total
NIR	-7.6	-31.71	1.5	-37.8

Figure 1.3
Effects of the NIR & OMO on liquidity*



*Absorption-negative, Injection-positive

The policy stance during the quarter resulted in a lower growth of 0.7 per cent in the monetary base in comparison to the indicative Intensified Surveillance Programme (ISP) target of 2.8 per cent. The outturn for the quarter compares to an increase of 4.9 per cent for the corresponding quarter of FY2004/05. The base money outturn for the first six months of the fiscal year was \$1 140.7 million within the ISP target.

The increase in the monetary base reflected an injection of \$2 639.7 million through the Net Domestic Assets (NDA) which was largely offset by the absorption of \$2 345.5 million through the Net International Reserves (NIR). The decline in the NIR partly reflects the extent to which the Bank sold funds in the foreign exchange market. The largest volume of sales was reflected in August (See **Table 1.1**).

The increase in the NDA mainly reflected a draw down of \$2 120.2 million in Government balances and interest payments on open market instruments. Net issues of such instruments absorbed \$623.1 million to partially counter these increases (see **Figure 1.2**). The relatively low level of OMO absorption was in the context of the sale of foreign currency to the market as well as, reinvestments in Government instruments that provided a hedge for inflation.

The expansion in the monetary base was reflected in an increase of \$496.4 million or 1.4 per cent in currency relative to an increase of 6.6 per cent in the corresponding period of the previous year.

Figure 1.4
Money Supply
(Quarterly Growth rates)
September 2001 to 2005

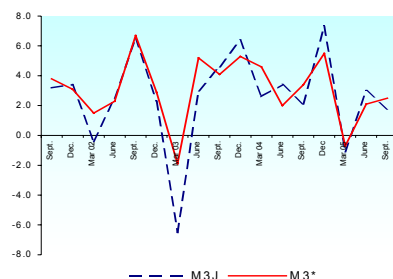


Table 1.2

Money Supply (12-month growth rates)		
MJ	Sep-04	Sep-05
M1J	22.9	8.4
M2J	14.3	10.1
M3J	15.5	11.1
M*		
M1*	22.6	5.2
M2*	15.6	8.4
M3*	16.3	7.4

M Includes Foreign currency deposits

Table 1.3

INTEREST RATES IN THE DOMESTIC AND INTERNATIONAL MARKET			
	Aug-04	Jun-05	Aug-05
COMMERCIAL BANK WEIGHTED AVERAGE			
DEPOSIT RATES			
Overall	6.25	5.46	5.46
Demand	3.55	3.07	3.09
Savings	5.84	4.92	4.98
Time	8.03	7.34	7.10
Foreign Currency	3.35	3.32	3.35
Demand	3.21	3.00	3.01
Savings	2.29	2.30	2.27
Time	5.29	5.04	5.06
6-MONTH TREASURY BILL RATE			
	14.95	12.88	13.03
BOJ 180-DAY REPURCHASE AGREEMENT RATE			
	15.05	13.00	13.00
PRIVATE MONEY MARKET RATE			
	14.30	12.85	12.75
6-MONTH US TREASURY RATE			
	1.72	3.13	3.66

Money Supply

For the September 2005 quarter, broad Jamaica Dollar money supply (M3J) increased at a lower rate of 1.7 per cent relative to 3.0 per cent in the previous quarter. The deceleration in the growth in M3J was reflected in a slowdown in the growth in local currency deposits, and a significant increase in currency in circulation.

Money supply, M3*, which includes foreign currency deposits, recorded a faster rate of growth relative to the previous quarter. This acceleration largely reflected growth in foreign currency deposits and currency in circulation, in contrast to declines in the previous quarter. Against this background, the ratio of foreign currency deposits to total private sector deposits increased by 0.7 of a percentage point. The heightened demand for foreign currency by investors was attributed to uncertainty regarding macroeconomic fundamentals, including inflation and foreign exchange flows.

For the September 2005 quarter, broad Jamaica Dollar money supply (M3J) increased by 1.7 per cent. This was relative to increases of 3.0 per cent in the previous quarter and 2.1 per cent in the September 2004 quarter (see **Figure 1.4**). The growth for the September 2005 quarter resulted in an increase of 4.6 per cent for the first half of FY 2005/06. This was well within the 6.7 per cent growth anticipated in the monetary programme.

The growth in M3J for the review quarter was due to increases in banking system credit and the net foreign assets of commercial banks (NFA). This was partly offset by the decline in the NIR of \$2 345.5 million. The reduction in the NIR contrasted with the increase recorded in the previous quarter and was largely responsible for the deceleration in the growth of M3J.

The accumulation in the NFA was primarily reflected in one bank's build up in placements with overseas institutions in August 2005. This build up was attributed to the institution's realignment of its portfolio in a context of volatility in the foreign exchange market and as a hedge against further deterioration in the fundamentals (see **Foreign Exchange Market**).

Growth in foreign currency deposits exceeds local currency deposits for the first time since the September 2004 quarter

Figure 1.5
Deposits in Commercial Banks
(Quarterly Growth Rates)
September 2001 to 2005

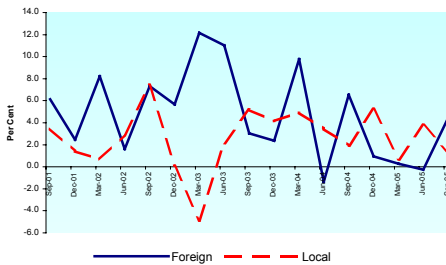


Figure 1.6
Foreign Currency Deposits to Total Deposits
September 2003 to September 2005

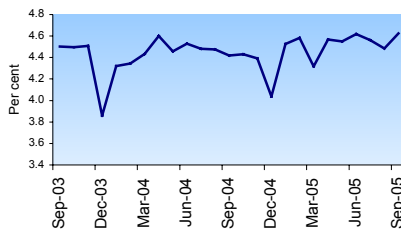
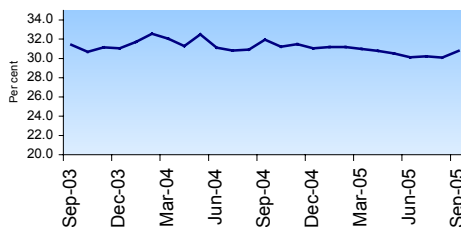


Figure 1.7
Money multiplier
(Quarterly Trend)
September 2003 to 2005



The growth in M3J reflected an increase of 4.9 per cent in currency in circulation, which was complemented by a 1.3 per cent expansion in local currency deposits. This growth in currency in circulation for the review quarter was relative to a decline of 2.5 per cent in the previous quarter and an increase of 4.9 per cent in the September 2004 quarter. For the first half of FY 2005/06, currency in circulation increased by 2.3 per cent relative to a reduction anticipated in the monetary programme. This deviation was largely attributed to increased demand for cash balances consistent with the higher price level.

The 1.3 per cent increase in local currency deposits was lower than increases of 3.8 per cent in the previous quarter and 1.7 per cent in the September 2004 quarter. The expansion in the review quarter translated into a growth of 5.1 per cent for the first six months of the review fiscal year, which was lower than the increase anticipated in the monetary programme.

With regard to the components of M3J, time deposits and ‘other deposits’ increased significantly, as narrow money (M1J) and savings deposits grew marginally. Time deposits increased by 5.5 per cent, relative to 3.5 per cent in the previous quarter. ‘Other deposits’, which largely comprises commercial banks’ retained earnings grew at a slower rate relative to the previous quarter and the comparable quarter of 2004.

For the review quarter, money supply, M3*, which includes foreign currency deposits, grew by 2.5 per cent relative to an increase of 2.1 per cent in the previous quarter. The growth in M3* largely reflected the increase in foreign currency deposits of 4.5 per cent. This was relative to a reduction of 0.3 per cent in the previous quarter and an increase of 6.6 per cent in the September 2004 quarter.

The increase in foreign currency deposits for the review quarter reflected a rebalancing of portfolios by investors, in light of the depreciation in the foreign exchange market.

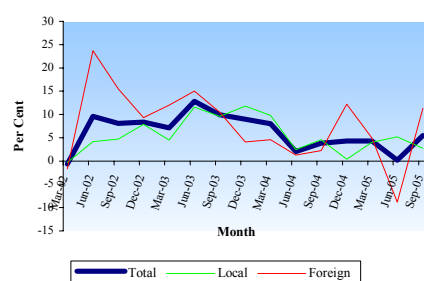
The monetary ratios reflected the heightened demand for foreign currency and higher inflation expectations by the investing public. Against the background of the faster rate of growth in foreign currency deposits relative to local currency deposits (see **Figure 1.5**), the ratio of

Table 1.4

COMPONENTS OF THE MONEY MULTIPLIER			
	Sep-04	Jun-05	Sep-05
	%	%	%
Currency to Deposits	15.06	14.16	14.66
Reserves to Deposits	11.03	10.56	9.92
<i>Excess Reserves to Deposits</i>	2.85	2.57	2.04
<i>Cash Reserves to Deposits</i>	8.19	7.99	7.88
Multiplier	4.41	4.62	4.62

Figure 1.8

Quarterly Growth Rates of Private Sector Credit
March 2002 to September 2005



foreign currency deposits to total private sector deposits increased to 30.8 per cent at end September 2005 from 30.1 per cent at end June 2005. The increase in this ratio during the review quarter represented a deviation from the trend decline observed since May 2004 (see **Figure 1.6**).

In the context of an increased demand for cash balances, there was an expansion in the currency to deposits ratio. This was offset by a reduction in the reserves to deposits ratio, which was largely attributed to the maintenance of lower vault cash holdings by commercial banks relative to the previous quarter (see **Table 1.4**). As a result, the money multiplier with respect to M3J remained flat at 4.62 during September 2005 quarter relative to the previous quarter (see **Figure 1.7**).

Private Sector Credit

*Private sector credit expanded by 5.5 per cent during the September 2005 quarter, exceeding the targeted increase in the monetary programme. The growth in credit was largely in the categories of **Tourism and Personal Loans**. In contrast to the previous quarter, growth in foreign currency loans outpaced that of local currency loans. There was a slight increase in the overall weighted average loan rate for the review quarter.*

Commercial bank credit to the private sector continued to grow during the September 2005 quarter. At the end of the review quarter, the stock of commercial bank credit to the private sector was \$97 347.9 million, representing an expansion of 5.5 per cent for the review quarter. This outturn exceeded the targeted increase of 4.7 per cent outlined in the monetary programme. The growth in private sector credit for the review quarter surpassed the 0.2 per cent increase in the June 2005 quarter and the 3.8 per cent increase during the September 2004 quarter. Growth in private sector credit largely reflected an 11.3 per cent increase in foreign currency denominated loan while, domestic currency denominated loans increased by 2.7 per cent for the quarter (see **Figure 1.8**)

Commercial Bank Distribution of
Total Credit to the Private Sector
(Quarterly Flows)

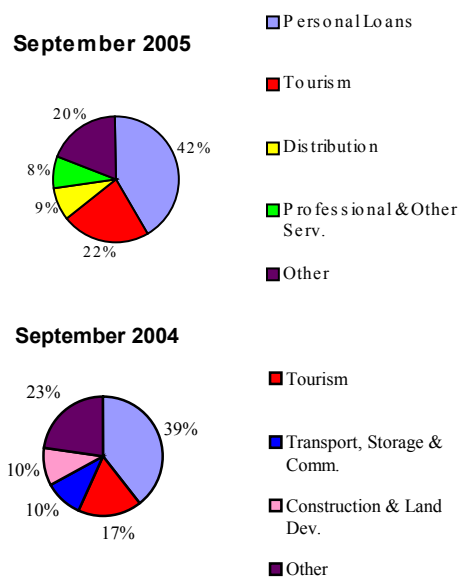
	Sep-04	Prov. Jun-05	Prov. Sep-05
Total Private Sector Credit.	3 097.6	160.1	5091.0
Loans and Advances	3 107.5	132.4	5125.0
Other Investments and Private Debentures	-9.9	27.7	-34.0

Table 1.5

Table 1.6

Commercial Bank Distribution of Loans & Advances to the Private Sector (FLOWS JSM)			
	Sep-04	Jun-05	Sep-05
Agriculture & Fishing	-92.3	-181.1	136.1
Mining & Quarrying	20.5	32.8	48.0
Manufacturing	175.5	413.6	101.0
Construction & Land Dev.	745.3	352.1	-1 156.5
Transport, Storage & Comm.	52.4	-3 597.9	-2 611.1
Tourism	111.1	1 063.9	4 260.7
Distribution	-50.8	824.8	272.9
Professional & Other Services	253.3	-149.7	526.6
Personal Loans	1 745.9	1 386.3	3 407.5
Electricity, Gas & Water	19.9	-13.8	130.6
Entertainment	125.5	8.0	9.9
Overseas Residents	1.4	-6.5	-0.8
TOTAL	3 107.5	132.4	5 125.0

Figure 1.9
Sectoral Distribution of Commercial Bank Loans &
Advances to the Private Sector
Per Cent of Outstanding Stock
September 2004 & September 2005



the June 2005 quarter and the marginal growth of 0.2 per cent during the September 2004 quarter (see **Table 1.6**). The significant growth to this sector in the review quarter was primarily in foreign currency loans. Personal loans recorded significant increase of 9.6 per cent during the review period and continued to constitute the largest proportion of the outstanding stock of private sector loans (see **Figure 1.9**). Within Personal loans, credit card receivables continued to display strong growth, expanding by 14.8 per cent during the review quarter relative to 5.5 per cent in the September 2004 quarter.

Professional & Other Services also recorded a notable increase in loans for the review period, in contrast to net repayments observed in the previous quarter. All other categories recorded increases in credit except **Construction & Land Development, Transport, Storage & Communication** and **Overseas Residents**, which recorded net repayments for the review quarter.

Despite the emergence of unstable foreign exchange market conditions, foreign currency loans expanded significantly during the review quarter. The stock of foreign currency loans increased significantly by 8.4 per cent for the review period relative to the decline of 8.4 per cent during the June 2005 quarter and the marginal increase of 0.4 per cent during the September 2004 quarter (see **Table 1.7**). **Tourism** accounted for the largest proportion of the increase in foreign currency credit for the review quarter, expanding significantly by 26.0 per cent. This was primarily used to finance construction and refurbishment within the hotel industry. The increase in credit to this sector is consistent with estimated growth patterns within the real sector and also reflected preparations by the hotels for the upcoming winter season. **Tourism** also continued to constitute the largest proportion of the outstanding stock of foreign currency credit (see **Figure 1.10**). **Professional & Other Services** and **Electricity, Gas & Water** also recorded significant expansions in credit for the review quarter.

Transport, Storage & Communication registered considerable net repayments during the review quarter. The decline in the stock of these loans was due largely to significant repayments by an entity. **Distribution** also recorded net repayments. As a result of the robust growth in foreign currency credit for the quarter, the proportion of foreign currency loans to total loans increased to 34.3 per cent at end

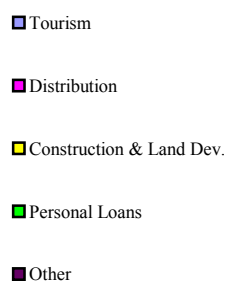
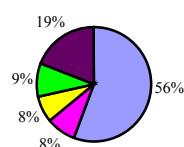
Table 1.7

Commercial Bank Distribution of Foreign Currency Loans & Advances to the Private Sector (FLOWS US\$M)			
	Sep-04	Jun-05	Sep-05
Agriculture & Fishing	-0.5	0.0	0.2
Mining & Quarrying	0.0	0.0	0.0
Manufacturing	1.1	-3.2	-1.8
Construction & Land Dev.	0.4	-3.1	9.1
Transport, Storage & Comm.	-1.2	-59.7	-44.4
Electricity, Gas & Water	0.0	-10.0	10.0
Distribution	0.4	-0.4	-13.3
Tourism	-2.1	14.9	64.5
Entertainment	-0.1	0.1	-0.1
Professional & Other Services	2.8	-18.4	11.3
Personal Loans	0.8	3.9	8.1
Overseas Residents	0.0	0.0	0.0
TOTAL	1.7	-75.9	43.7

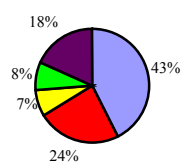
Figure 1.10

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

September 2005



September 2004



September 2005 vis-à-vis 32.5 per cent at the end of the previous quarter.

Interest Rates

Within the context of higher than anticipated inflation, the overall weighted average rate charged on private and public sector loans increased during the review period. The rate increased by 122 basis points over the two-month period ended August 2005 and was also 6 basis points higher than the rate observed at end August 2004. This outturn represented a slight deviation from the general downward trend in interest rates since August 2001 (see **Figure 1.8**).

The weighted average rate on public sector loans recorded an increase of 32 basis points over the two months ended August 2005. The rate observed at end August 2005 was however 161 basis points lower than that observed at end August 2004. For the two months ended August 2005, the outturn reflected an increase in the weighted rate charged to **Local Government and Other Public Entities**, as the rate charged on **Central Government** loans declined over the two-month period.

During the two months ended August 2005, the weighted average rate on domestic currency loans to the private sector increased by 119 basis points. This outturn largely reflected increases in the rates charged on **Personal** and **Commercial** loans (see **Table 1.11**). There was a 17 basis point increase in the weighted average rate for domestic loans for the twelve-month period ended August 2005, due primarily to a 24 basis point rise in the rate charged on **Commercial** loans.

Against the background of increases in the rates on US Treasury Bills, the weighted average rate on foreign currency loans increased during the review quarter. The rate stood at 9.42 per cent at end August 2005, 14 basis points higher than the rate at end June 2005. This was mainly reflected in the rates charged on **Instalment** and **Commercial** loans. The weighted average rate increased by 64 basis points over the twelve-month period ended August 2005. This reflected a jump in the rates charged on **Personal, Commercial and Local Government & Other Public Entities** loans.

Figure 1.11
Commercial Banks' Weighted Average Loan Rate
August 2001 to August 2005

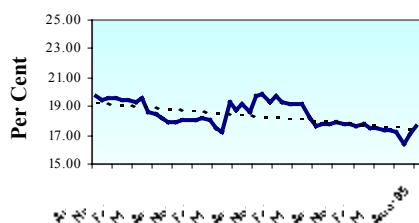
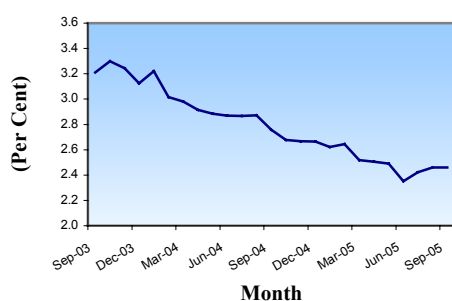


Table 1.8

Commercial Bank Domestic Currency Average Weighted Lending Rates by Loan Type Per Cent			
	Aug-04	Jun-05	Aug-05
Overall	17.59	16.43	17.65
Public Sector	14.38	12.45	12.77
Local Govt. & Other Public Ent.	12.24	11.00	11.49
Central Government	18.59	16.57	15.95
Private Sector	19.18	18.16	19.35
Instalment	23.92	23.55	23.29
Mortgage	20.58	19.51	20.25
Personal	30.55	28.04	29.76
Commercial	14.18	13.32	14.42

Figure 1.12
Commercial Banks Past due Loans Three Months
and over to Total Loans
September 2003 to September 2005



Performance Indicators

With the commercial banks' increased thrust toward loan expansion, the ratio of private sector credit to total assets rose to 27.5 per cent at end September 2005 from 27.0 per cent at end June 2005. The outturn was also higher than the 25.0 per cent ratio observed at end September 2004.

The quality of the banks' loan portfolio continued to be above international standards. At end September 2005, the ratio of past due loans (over three months) to total loans increased slightly to 2.5 per cent relative to a 10.0 per cent international benchmark. This compared with the 2.4 per cent ratio at end June 2005 and 2.8 per cent at end September 2004 (see **Figure 1.12**).

Bond Market

Developments in the local bond market during the September quarter primarily reflected the impact of higher than anticipated inflation. This was manifested in a noticeable switch towards foreign currency instruments and the demand for higher returns on local currency assets as reflected in higher successive yields on Treasury Bills. Additionally, during the quarter, there was a preference for Government of Jamaica (GOJ) variable rate offers relative to fixed rate offers. Notwithstanding increases in United States interest rates, Jamaica's sovereign bonds continued to perform well in secondary market trades. The economy also continued to receive favourable reports from international rating agencies.

Activity in the domestic bond market during the September quarter reflected a decline in demand for Jamaica Dollar instruments. This reduction in demand was largely attributed to investors adjusting their portfolios in favour of foreign currency assets in a context of higher inflation expectations. Consequently, there was heightened demand for foreign currency, exacerbated by reports of less buoyant foreign currency inflows (see **Foreign Exchange Market**).

Based on the demand for foreign currency assets during the review period, there was a sharp decline in net placements in open market instruments relative to the June quarter. Net placements amounted to \$731.1 million for the quarter relative to \$27 435.3 million in the June

Investors demand higher yields on GOJ domestic offers

Table 1.9

**Placements and Maturities* in
BOJ OMO Instruments
July - September 2005**

	Maturities (%)	Placements (%)
30 Days	49.5	40.5
60 Days	3.2	3.6
90 Days	12.4	10.9
120 Days	5.0	3.6
180 Days	5.7	8.3
270 Days	3.4	4.4
365 Days	20.8	28.7

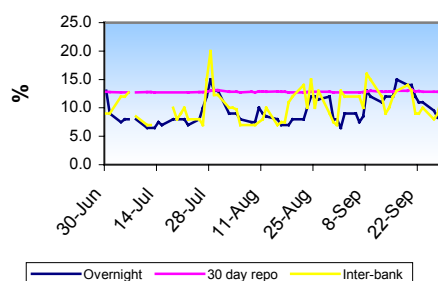
*Excludes overnight transactions during the period

Table 1.10

**GOJ Public Domestic Debt Raising
July - September 2005**

	Amount Allotted (JSMN)	Amount Maturing (JSMN)	Net Issue (JSMN)
Treasury Bills	2000.0	2250.0	-250.0
LRS	2305.5	6203.8	-3898.3
Investment Debenture	3632.7	6289.8	-2657.0
Investment Bonds	10296.6	1186.3	9110.3
US\$ Indexed Bonds	0.0	3166.8	-3166.8
US\$ Denom. Bonds	9425.2	6469.4	2955.7
Total	27660.0	25166.1	2093.9

Figure 1.14
Private Money Market
Maximum Interest Rates
July - September 2005



quarter¹. Notwithstanding inflation concerns, placements in the 365 day tenor exceeded the maturities from this tenor (see **Table 1.9**).

Interest rates in the private money markets remained fairly low during the quarter (see **Figure 1.14**). Overnight rates averaged 9.5 per cent and 30-day rates averaged 12.8 per cent, which were 20 basis points and 30 basis points lower than the June quarter, respectively. Inter-bank rates averaged 10.5 per cent, 50 basis points higher than the June quarter coinciding with tight liquidity conditions. This occurred when there were BOJ sales to the market and attractively priced Government debt offers.

There were net issues of \$2 093.9 million in public offers of GOJ instruments during the September quarter (see **Table 1.10**). This reflected strong demand for two variable rate investment bonds and one US\$ denominated bond (see **Appendix 8B**) as investors responded more positively to instruments that provided a hedge against inflation. During the quarter, the GOJ included the three-month weighted average Treasury Bill yield (WATBY) in its bond repricing strategy in addition to the six-month WATBY.

Treasury Bill yields increased slightly during the quarter reversing the declining trend of the last eight quarters. The average yields on the 91-day and 182-day instruments increased by 18 basis points and 12 basis points, respectively, to 13.15 per cent and 12.96 per cent, respectively (see **Table 1.11**). The yield on the six-month instrument was higher than the rate of 13.0 per cent on the comparable BOJ instrument in contrast to the June quarter when it had fallen below by 12 basis points. For the most part, the higher yields at these auctions were indicative of investors' concerns regarding inflation but also reflected tighter liquidity conditions at the settlement period.

Having achieved its programmed level of foreign borrowing for the first half of the year, the Government did not approach the international capital market during the quarter. However, the availability of investment options were enhanced by Air Jamaica's Government-guaranteed loan of US\$125.0 million from RBTT. The terms specified that it was a variable rate instrument, maturing in 10 years, with an initial quarterly interest payment of 9.14 per cent

¹ Excludes overnight placements

Table 1.11

Treasury Bill Auctions & Maturities July-September 2005				
Issue Date	Tenor (days)	Avg. Yield (%)	Allotment (J\$MN)	Amount Maturing (J\$MN)
29-Jul-05	182	13.03	500	500
26-Aug-05	91	12.78	300	1100
	182	13.03	500	
23-Sep-05	91	12.96	300	650
	182	13.15	400	
Total			2000	2250

Figure 1.15
GOJ Global Bond Prices
July- September 2005

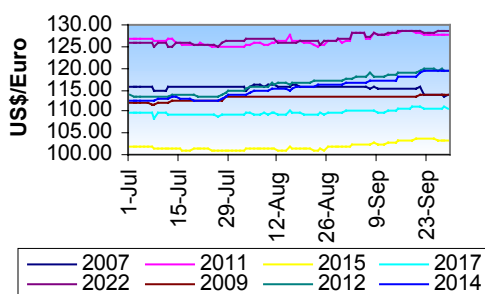
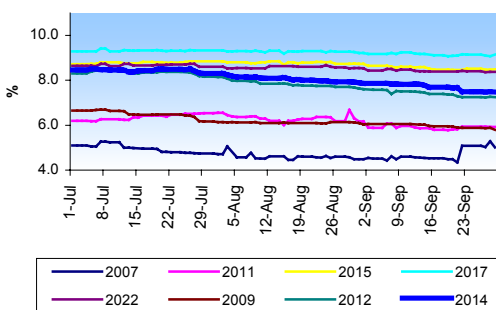


Figure 1.16
GOJ Global Bond Yields
July-September 2005



GOJ global bonds continued to perform strongly consistent with favourable economic reports from international credit rating agencies. This included a positive inaugural report by Morgan Stanley Fixed Income Research in August. Additionally, Moody’s Investors Service affirmed its B1 foreign-currency debt rating and stable outlook based on the country’s efforts at fiscal consolidation. However, both institutions cited the acceleration in inflation, the country’s vulnerability to natural disasters and the Government’s ability to maintain the public’s consensus to the economic reforms as risks to the attainment of the macroeconomic targets.

The prices of GOJ Eurobonds increased on the secondary market for the quarter with the exception of the 2007 Eurobond (see **Figure 1.15**). The decline in price of the 2007 Eurobond reflected lower demand for this security towards the end of the quarter, because of its shorter time to maturity and the fact that the spread on this security had narrowed relative to US interest rates. The Federal Reserve made two adjustments of 25 basis points each to the Federal Funds Rate during the quarter. At end September, the Federal Funds rate was 3.75 per cent.

The largest declines in yields on the GOJ eurobonds were noted on the 2012 and 2014 Eurobonds, which declined by 107 basis points and 100 basis points respectively, relative to end June (see **Figures 1.16** and **1.17**). The performance of the bonds during the quarter also reflected the positive sentiment towards emerging market debt during the quarter, emanating from favourable economic reports on large issuers, such as Brazil.

Stock Market

The main JSE Index fell in the September quarter as the stock market recorded its largest quarterly decline for 2005. This performance occurred within the context of the expected lull in trading activity that characterizes the summer period, weak earnings results as well as, a challenging macroeconomic environment. As inflationary expectations increased during the quarter, there was a general reallocation of investment portfolios in favour of foreign currency assets, which further weakened the demand for local equities. However, to the extent that these expectations subside and that there are improvements in the macroeconomic and microeconomic fundamentals, the stock market should rebound in the fourth quarter.

Figure 1.17
Quarterly Change in
GOJ Global Bond Prices & Yields
July - September 2005

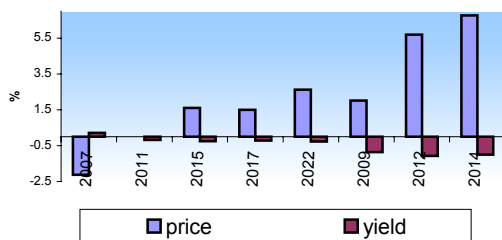
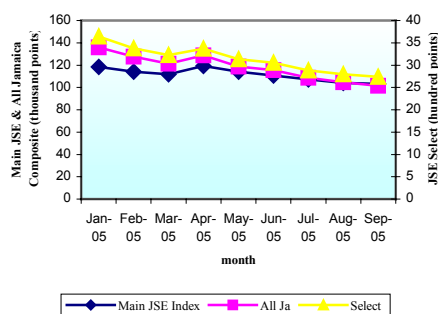


Table 1.12
Quarterly Changes in the
Main JSE Index
2000 – 2005

Year	Quarter			
	March	June	September	December
	(Per Cent)			
2000	24.1	15.4	-0.6	-7.3
2001	2.8	20.3	-5.1	-0.2
2002	10.7	3.1	1.6	15.7
2003	3.5	7.4	14.4	17.0
2004	24.6	-4.9	5.4	12.9
2005	-0.6	-1.2	-6.6	-

Source: Jamaica Stock Exchange

Figure 1.18
Main JSE Index, All Jamaica Composite, JSE
Select Index
January 2005 - September 2005



For the September 2005 quarter, the Main JSE Index declined by 6.6 per cent to 103 332.61 points, registering its third consecutive quarterly decline for 2005. This was greater than the declines in the March and June quarters of 0.6 per cent and 1.2 per cent, respectively and contrasted with the gain of 5.4 per cent for the September 2004 quarter (see **Table 1.12**). Similarly, the All Jamaica Composite Index declined by 12.1 per cent to 101 417.87 points and the Jamaica Select Index declined by 10.3 per cent to 2 740.63 points for the period. These declines were consistent with expectations, as equity investors normally take profits during the summer.

The volume of shares traded fell for the quarter as a whole, despite increases in August and September. The total volume of shares traded declined by 23.1 per cent to 387.7 million units and the total value of the shares traded fell by 49.0 per cent to \$4 189.4 million, relative to the June 2005 quarter.²

The lower volume of shares traded during the quarter was due to the sharp decline in July in which the volume of shares declined by 36.3 per cent to 82.4 million units. This was followed by increases of 24.2 per cent and 98.6 per cent for August and September, respectively, but these were not enough to prevent the overall decline for the quarter (see **Figure 1.19**). After falling by 27.7 per cent to \$1 275.0 million in July and by 6.2 per cent to \$1 196.3 million in August, the market value of shares traded increased substantially by 43.6 per cent to \$1 718.1 million in September.

Increased inflation expectations during the review quarter led to an increased demand for foreign currency denominated assets as equity investors sought to preserve the real value of their portfolios. Within the context of lower foreign currency inflows, this increased demand led to an increase in the returns from foreign currency which was higher relative to the returns in the previous four quarters (see **Figure 1.20**).³ These returns would have further reduced the relative attractiveness of the local stock market as perceived by local investors.

In addition to the general preference for foreign currency assets, the weak earnings results of several companies were also responsible for the poor price performance of most stocks during the quarter. The list of stocks

² For the June 2005 quarter, the total volume and value of shares traded declined by 27.3 per cent and 31.4 per cent, respectively.

³ The change in the value of the Jamaica Dollar relative to the United States dollar is used to represent the returns on investments in foreign currency.

Figure 1.19
Monthly and Quarterly Volume of Shares Traded
April 2005-September 2005

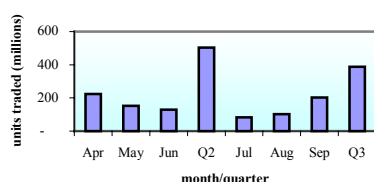


Figure 1.20
Quarterly Returns from Stock Market, 30-Day EPO and Foreign Exchange
September 2004- September2005

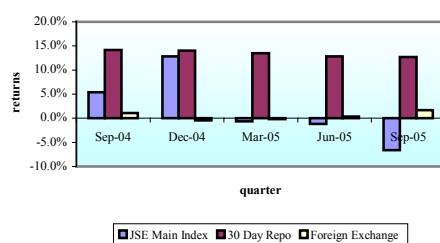


Table 1.13
Advancing & Largest Declining Stocks September
2005 quarter

Sectors / Companies	Price at 30-Sep-05 \$	Qtr. Change %
Advancing Stocks		
Manufacturing		
Mobay Ice Company	17.50	45.7
Trading		
Goodyear (Ja.)	11.00	10.0
Financial		
First Caribbean Int'l Bank	122.05	1.7
10 Largest Declining Stocks		
Tourism		
Ciboney Group	0.03	-62.5
Montego Bay Freeport	1.80	-21.7
Manufacturing		
Caribbean Cement Co.	10.20	-32.0
Jamaica Broilers Group	3.96	-20.2
CMP Industries	2.36	-17.8
Financial		
Mayberry Investments	4.00	-38.0
Pan Caribbean	27.00	-17.9
Trading		
Hardware & Lumber	21.0	-27.6
Conglomerates		
Lascalles deMercado	230.00	-24.3
Grace, Kennedy & Co.	94.50	-17.8

Source: Jamaica Stock Exchange

that experienced the largest declines was comprised mainly of stocks that reported marginal or negative growth in profits (see **Table 1.13**). These included Caribbean Cement Company, Mayberry Investments Ltd., Hardware & Lumber Ltd. and Lascalles de Mercado Ltd. The negative attitude of investors towards local equities also adversely affected the price of companies with favourable results such as Pan Caribbean Financial Services, Capital and Credit Merchant Bank and Jamaica Money Market Brokers Ltd.⁴

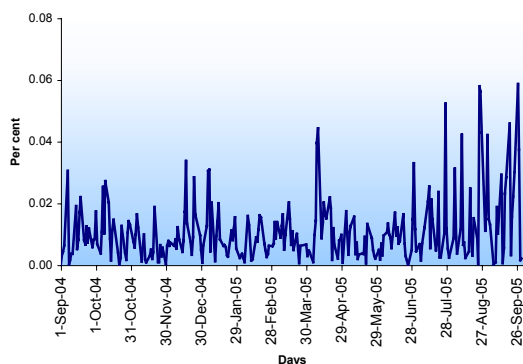
There were also weak performances in the other major regional stock markets in the September quarter. In Trinidad & Tobago, the Composite Index recorded a decline of 7.9 per cent compared to the gain of 1.9 per cent in the June 2005 quarter. In Barbados, the Local Index increased by 0.3 per cent which was smaller than the gain of 2.1 per cent in the second quarter.

The activity in the local equity market in the December 2005 quarter will continue to depend on inflationary expectations, the earnings results of the listed companies and the developments in the foreign currency market. The stock market is normally considered to be the best hedge against inflation over the medium to long-term. However, the extent to which this will be reflected in higher demand for equities will ultimately depend on the improvements in the macroeconomy. Nevertheless, the expected public listing of Supreme Ventures Ltd will positively influence the performance of the market in the fourth quarter.

Source: Jamaica Stock Exchange

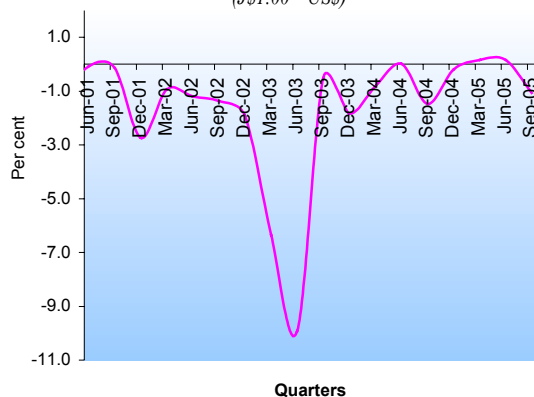
⁴ Of significance was the general improvement in the profits of the listed companies from the financial sector. However, the earnings of the several companies have been affected by exogenous shocks. The operating costs of Caribbean Cement Company, Goodyear and Seprod Ltd., are sensitive to changes in the cost of oil and energy while the operations of Jamaica Broilers and Jamaica Producers have been shown to be vulnerable to adverse weather conditions.

Figure 1.21
Exchange Rate Volatility^(*)



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

Figure 1.22
Percentage Change in Weighted Average Selling Exchange Rate (period average) (J\$1.00= US\$)



Foreign Exchange Market

The foreign exchange market reflected periods of instability during the September 2005 quarter (see Figure 1.22). This necessitated a significant increase in sales to the market by the Central Bank, which constrained the depreciation in the exchange rate during the review quarter to 1.7 per cent.

The pressures that emerged in the foreign exchange market during the quarter were influenced by continued increases in US interest rates and a fall in investor confidence in Jamaica Dollar investments, which was primarily associated with heightened inflation expectations. In this context, there was a marked fall in net private capital inflows to the economy.

In the context of the fall in net private capital inflows and the significant foreign exchange sales by the BOJ, the NIR fell by US\$37.8 million to US\$2 119.0 million over the quarter. Notwithstanding this decline, the NIR was comfortably above the target for end-September. The gross reserves at the end of the quarter represented 19.1 weeks of estimated goods and services imports, well above the international norm of 12 weeks.

The weighted average exchange rate of the Jamaica Dollar vis-à-vis the US dollar depreciated by 1.7 per cent over the September 2005 quarter. The depreciation in the exchange rate during the review quarter represented a turnaround in the average appreciation of 0.02 per cent recorded over the three preceding quarters (see Figure 1.22).

The emergence of instability in the foreign exchange market was also reflected in a significant increase in the weekly trading range for the exchange rate during the quarter, compared with June 2005 quarter (see Figure 1.24). Similarly, the spread between the sale and purchase of foreign exchange by the authorised dealers and cambios increased to an average of J\$0.26 over the review quarter, from an average of J\$0.24 over the preceding quarter.

Declining investor confidence, partly driven by increased inflation expectations, contributed to the instability in the foreign exchange market.

Inflation concerns contribute to foreign exchange market instability

This change in expectations reflected concerns about the effect of increases in crude oil prices on the domestic economy. In addition to heightened inflation concerns, further tightening of monetary conditions in the United States and the resultant narrowing of the interest rate differentials between Jamaica Dollar and US dollar denominated assets also reduced the incentives for investors to remain in Jamaica Dollar assets. The persistence and the magnitude of the changes in the exchange rate during the quarter might have also increased investors' perception about the extent of exchange rate risk.

The instability in the market was exacerbated by the flotation of a number of US dollar denominated bonds during the review quarter. These included three public and one private sector bond, totalling US\$475.0 million and US\$250.0 million, respectively⁵ (see **Bond Market**). The offers provided investors with relatively attractive alternatives to Jamaica Dollar denominated investments, which in turn led to sporadic jumps in the demand for foreign exchange to facilitate these transactions.

In the context of the foregoing factors, there was an estimated decline of US\$335.0 million in net private capital inflows into the system for the review quarter. This was reflected in a US\$29.6 million increase in the Authorised Dealers foreign currency positions, compared with a reduction of US\$91.2 million in the June 2005 quarter⁶. There was also an accelerated build up of 4.5 per cent in foreign currency deposits during the review quarter, compared with a growth of 1.0 per cent during the preceding quarter. The heightened demand for US dollar assets was also evident in the increase in GOJ global bond prices (see **Bond Market**).

The Bank estimates that the fall in net private capital inflows was partly offset by a decline of US\$41.9 million in net demand through the current account of the balance of payments for the September 2005 quarter, relative to the previous quarter. The lower net demand was largely attributed to an estimated increase of US\$32.2 million in foreign exchange inflows, principally associated with higher private remittances. There was also a marginal estimated decline in spending on non-fuel goods imports.

⁵ Air Jamaica, Central Government and Digicel were the institutions that offered these debt instruments during the quarter.

⁶ A reduction in foreign currency portfolio positions represents an increase in foreign exchange inflows to the market.

Figure 1.23
Weekly Average Exchange Rate and Trading Range
(J\$1.00= US\$)

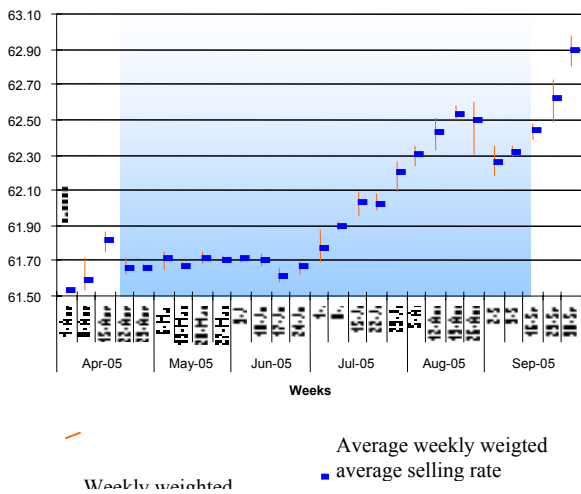


Table 1.14

Net International Reserves (US\$MN)			
Month	Stock	One Month Change	Three Month Change
Sep-04	1616.5	-26.9	12.4
Oct-04	1826.6	210.1	231.9
Nov-04	1816.0	-10.6	172.6
Dec-04	1858.5	42.5	242.0
Jan-05	1847.5	-11.0	20.9
Feb-05	1831.0	-16.5	15.0
Mar-05	1901.6	70.5	43.1
Apr-05	2010.4	108.9	162.9
May-05	2074.5	64.1	243.5
Jun-05	2156.8	82.3	255.2
Jul-05	2149.2	-7.6	138.8
Aug-05	2117.5	-31.7	43.0
Sep-05	2119.0	1.5	-37.8

The Bank sought to moderate the pressures that emerged in the foreign exchange market during the quarter by net selling US\$95.7 million (excluding surrenders and regular mining related purchases), as well as through the use of moral suasion. This net sale contrasted with the net purchase of US\$229.1 million in the preceding June 2005 quarter. In the context of these developments, the NIR fell by US\$37.8 million to US\$2 119.0 million at end-September 2005 (see **Table 1.14**). However, the NIR stock was US\$167.0 million above the ISP-target for end-September 2005. Gross reserves at end-September stood at US\$2 242.9 million, representing 19.1 weeks of estimated goods and services imports, well above the international norm of 12 weeks.



2. Real Sector Developments

Table 2.1

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

The BOJ's preliminary assessment of economic performance for the September 2005 quarter suggests a stronger expansion in Gross Domestic Product (GDP), following weak growth in the two previous quarters. This estimated growth represented partial recovery of some sectors from the impact of adverse weather conditions in the September 2004 quarter. For the review period, the main growth poles were in the goods producing sector, in particular, **Mining & Quarrying, Manufacturing and Construction & Installation** (see Table 2.1). With the exception of **Miscellaneous Services**, growth was recorded in all the services sub-sectors, albeit marginal.

With regard to aggregate demand, the overall increase in economic activity during the review quarter reflected an estimated real increase in private consumption, which was tempered by contractions in public consumption and net external demand. Investment spending remained flat during the quarter.

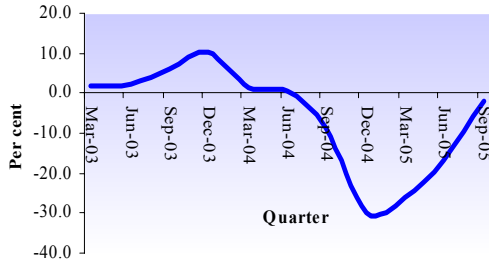
Aggregate Supply

A preliminary assessment of economic performance indicates an expansion in GDP for the September 2005 quarter. This estimated growth represents a reversal of the decline in economic activity recorded since the September 2004 quarter. The outturn in the review quarter reflected the partial recovery in the goods producing sector in a context of adverse weather conditions that affected economic performance in the September 2004 quarter. Significant expansion was noted in **Mining & Quarrying, Construction & Installation, and Electricity & Water**, while marginal to moderate growth was estimated for **Manufacturing, Distributive Trade, Transport, Storage & Communication, Financing & Insurance and Real Estate & Business Services**. However, there were partially offsetting declines in **Agriculture, Forestry & Fishing** and **Miscellaneous Services**.

Agriculture, Forestry & Fishing continued to reflect the impact of recurring adverse weather conditions in the September 2005 quarter. Notwithstanding, the estimated contraction is less than the average

Figure 2.1

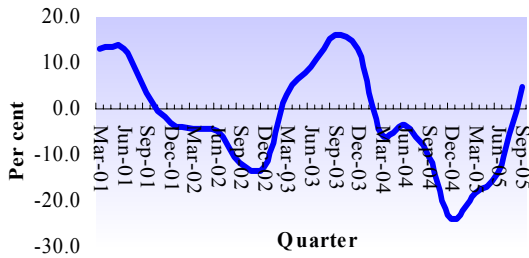
*Agriculture: Quarterly Growth Rate
(12-Month change)*



Source: STATIN, Bank of Jamaica

Figure 2.2

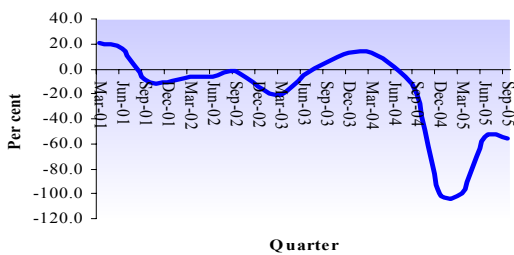
*Trends in Domestic Crop Production
(12-Month change)*



Source: Ministry of Agriculture, Bank of Jamaica

Figure 2.3

*Trends in Banana Exports
(12-Month change)*



Source: Banana Export Company

decline of 20.5 per cent recorded in the previous four quarters (see **Figure 2.1**). This slower rate of decline was due to an expansion in domestic crop production (see **Figure 2.2**), which was offset by a decline in export. With the exception of plantains, yams and other tubers, there were increases in the production of domestic crops. An appreciable fall in export agriculture was primarily reflected in banana (see **Figure 2.3**) and coffee production, which were estimated to have declined by 55.7 per cent and 69.4 per cent, respectively.

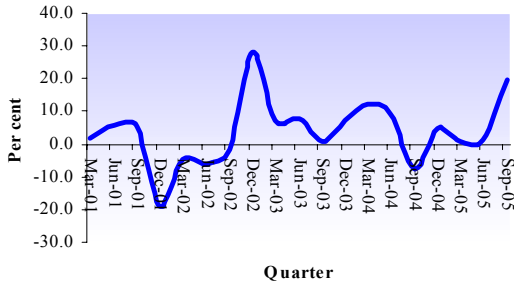
Mining & Quarrying is estimated to have increased significantly during the September quarter, despite some loss in production due to adverse weather conditions that affected refining and mining activities. The growth in mining primarily reflected the recovery from the effects of Hurricane Ivan in the September 2004 quarter. For the review quarter, alumina and crude bauxite production both increased by 19.6 per cent and 15.2 per cent, respectively (see **Figure 2.4** and **2.5**). Although, the Gramercy plant in Louisiana, which processes two thirds of Jamaica's crude bauxite, suffered minor damages from Hurricane Katrina during the quarter, exports from Jamaica were not significantly affected. Reports are that refining activities at the Gramercy plant were affected for only two days. As such, exports of crude bauxite and alumina during the period increased by 14.0 per cent and 26.2 per cent, respectively, when compared to the similar quarter in 2004.

Moderate growth is estimated for **Manufacturing** in the quarter relative to the average decline of 1.3 per cent recorded over the last two quarters (see **Figure 2.6**). This expansion mainly reflected recovery from the impact of Hurricane Ivan and increased petroleum refining activities.

For **Food, Beverages and Tobacco**, growth was driven primarily by increases in food (excluding sugar), and alcoholic and non-alcoholic beverages. Within food, there were increases in poultry meat, animal feed, condensed milk, edible fats and flour production, which were partially offset by declines in the production of edible oils and cornmeal.

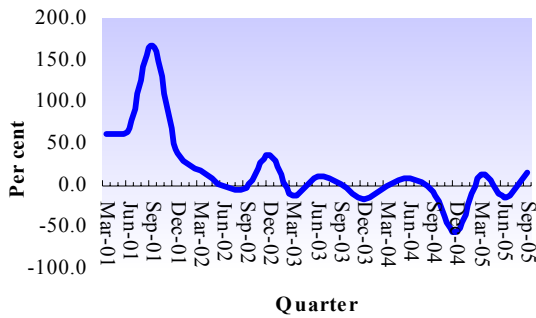
Other Manufacturing is estimated to have registered significant growth in the quarter due primarily to the petroleum-refining sub-sector. The refinery operated for the full three months in the quarter when compared

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



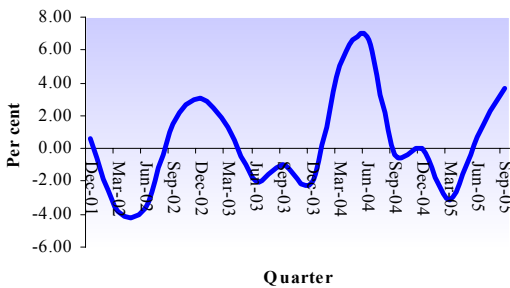
Source: Jamaica Bauxite Institute

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



Source: Jamaica Bauxite Institute

Figure 2.6
Manufacturing: Growth Rate
(12-Month change)



Source: STATIN, Bank of Jamaica

to one month in the September 2004 quarter, when the refinery was closed for maintenance purposes. This was complemented by increases in the non-metallic mineral industry, which was driven largely by increased cement production since the March 2004 quarter.

Construction & Installation continued on a buoyant growth path in the review quarter. The sector registered average growth of 9.0 per cent for the quarters between September 2004 and June 2005. During the review quarter, cement production and the importation of construction material, the main indicators of activity in this sector, were estimated to have increased by 18.2 per cent and 18.4 per cent, respectively, relative to the similar quarter of 2004 (see **Figure 2.7**). The sizeable expansion was influenced by reconstruction work on infrastructural damage that occurred during Hurricane Ivan as well as, the construction of hotels and continued worked on the Highway 2000 project. Notably, in terms of residential construction, housing completion during the review period increased by 48.9 per cent.

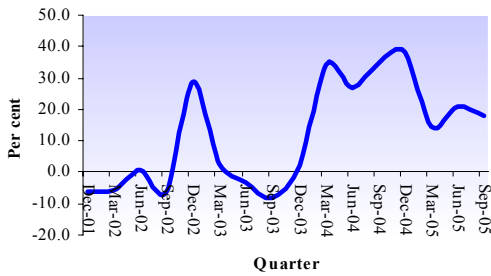
Reflecting full recovery from Hurricane Ivan in the September 2004 quarter, **Electricity & Water** is estimated to have grown significantly in the review quarter. Expansions in both electricity and water production contributed to this estimated improvement within the sector. For the quarter, electricity generation and sales improved by 11.0 per cent and 2.9 per cent, respectively (see **Figure 2.8**).

Growth within **Transport, Storage & Communication**, was attributable to the expansion within communication, but was curtailed by the decline in the transport sub-sector. Communication has been positively influenced by the aggressive competition between the major mobile telecommunications operators. The decline in air transportation stemmed mainly from the fallout of approximately 9.7 per cent in air cargo relative to the September 2004 quarter. The contraction in air transport offset the expansion in water transport for the quarter. The number of ships calling at Jamaican ports increased by an estimated 16.8 per cent, while domestic cargo movements improved by 6.2 per cent.

The **Hotel, Restaurant & Clubs** sub-sector, which captures tourism activity, recorded a decline for the September 2005 quarter which translated into an overall contraction for **Miscellaneous Services**. This

Figure 2.7

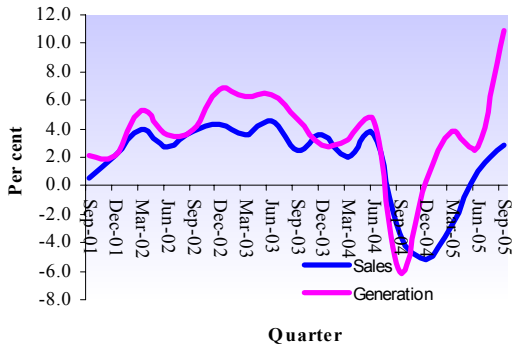
Trends in Cement Production
(12-Month change)



Source: Carib Cement Company, Bank of Jamaica

Figure 2.8

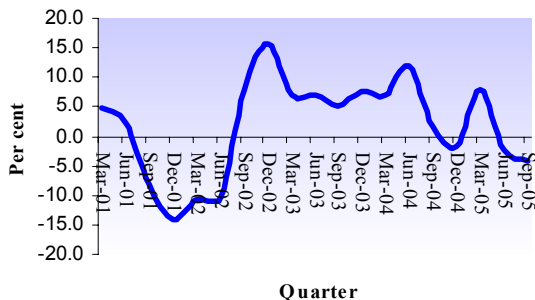
Electricity Generation & Sales
(12-Month change)



Source: JPS & Bank of Jamaica

Figure 2.9

Total Stopover Visitors
(12-Month change)



Source: Jamaica Tourist Board; Bank of Jamaica

reflected the negative effect of the active hurricane season and a scaling down of flights by the national airline. During the review quarter, total stopover visitors declined by 3.5 per cent, while cruise passenger arrivals expanded by 10.3 per cent (see **Figure 2.9** and **Figure 2.10**). For the review quarter, an increase of 12.8 per cent in visitor expenditure was estimated relative to the corresponding quarter in the previous year (see **Foreign Exchange**).

Aggregate Demand

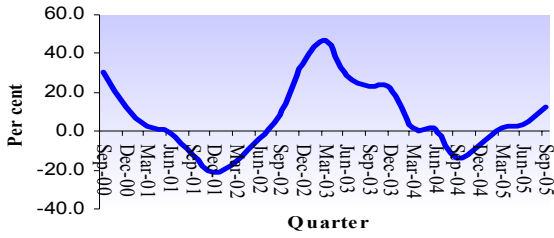
Estimates of aggregate demand suggest an increase for the review period relative to the comparable period of 2004. This reflected strong expansion in **Private Consumption**. Partially offsetting declines were estimated in **Public Consumption**, and **Net External Demand**, while **Gross Fixed Capital Formation** remained flat during the review quarter.

The expansion in **Private Consumption** for the review period was inferred from an increase of 16.2 per cent in commercial bank personal loans, relative to loans extended in the similar period of 2004. There was also an increase in total imports (see **Figure 2.11**). The performance of private consumption was supported by the movement in the survey of consumer confidence, which indicated that confidence improved by 5.5 per cent, relative to the September 2004 quarter. With regard to current job prospects and expected change in income, consumers' expectations improved in the quarter.

The declining trend in **Public Consumption** since September 2004 continued into the September 2005 quarter. For the review quarter, Government's expenditure on programmes, wages & salaries declined by 8.8 per cent, the largest decline since March 2004 (see **Figure 2.12**) (See **Appendix A: Fiscal Developments**).

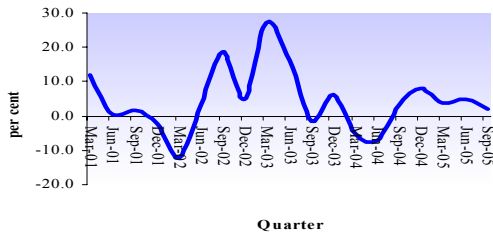
Net External Demand is estimated to have declined marginally during the review period, relative to the same period in 2004 (see **Figure 2.13**). The contraction in net exports during the quarter was influenced by an increase of 5.5 per cent in imports of goods and services, which offset the improvement of 5.7 per cent in the export of goods and services. With regard to imports, raw material drove the expansion in goods

Figure 2.10
Cruise Passenger Arrivals
(12-Month change)



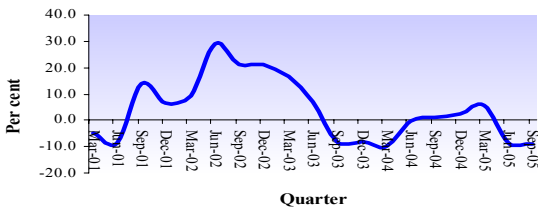
Source: Jamaica Tourist Board; Bank of Jamaica

Figure 2.11
Trends in Imports
(12-Month change)



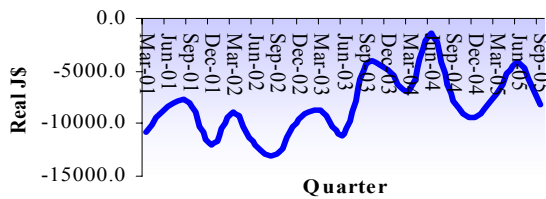
Source: Bank of Jamaica

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



Source: MOF, BOJ

Figure 2.13
Trends in Net External Demand
(12-Month change)



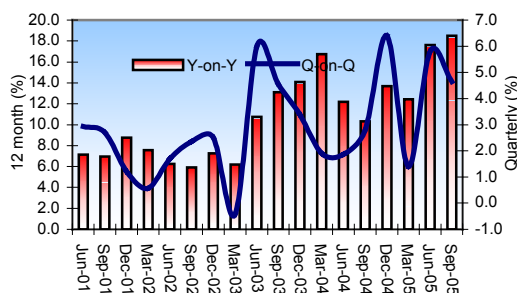
while there was a decline in services, due primarily to travel. The performance of export was driven primarily by a 44.9 per cent and 13.5 per cent increase in sugar and alumina, respectively. However, there were offsetting impulses from services, which declined by 8.8 per cent during the quarter, precipitated by fallouts in travel and transportation



3. Inflation

Headline inflation for the September 2005 quarter was 4.3 per cent, 1.2 percentage points above the seasonal average of the past five years. Core inflation was estimated at 1.4 per cent, relative to 1.7 per cent in the previous quarter and 1.2 per cent in the corresponding quarter of FY2004/05. The increase in the Consumer Price Index (CPI) mainly reflected higher than expected agricultural and international commodity price inflation and the impact of administrative price adjustments. Inflation was stronger in the Rural Area and Kingston Metropolitan Area (KMA) than in the Other Towns

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



Influenced largely by external factors, headline inflation of 4.3 per cent for the September quarter was significantly higher than the average of 3.1 per cent for the previous five September quarters. Consequently, inflation for the first six months of the fiscal year 2005/06 was 10.2 per cent relative to the 4.9 per cent for the comparable period in 2004/05. Similarly, for the calendar year to September, inflation was 11.8 per cent, 5.0 percentage points above the outturn in the corresponding period of 2004. Inflation in July was 1.5 per cent but fell to 0.1 per cent in August before accelerating to 2.6 per cent in September. The primary influences on inflation in the September quarter were adverse weather conditions, which affected agricultural output, increased bus fares and energy charges, higher international commodity prices and the residual effects of revenue measures of April 2005.

Monetary Policy and Inflation

Core or underlying inflation, as measured by the trimmed mean index, was 1.4 per cent for the review quarter, relative to 1.7 per cent for the previous quarter and 1.2 per cent for the corresponding quarter of FY2004/05. Monthly core inflation was 0.6 per cent in July and 0.4 per cent in both August and September. For the review quarter, core inflation was marginally above the average of 1.3 per cent for the previous 5 September quarters. The uptick in core inflation in the current quarter relative to the 5-year average was as a result of the general rise in prices which would have permeated the basket and filtered into underlying prices. Nonetheless, the slowdown in core inflation relative to the previous quarter was consistent with the lagged movements in the monetary

Figure 3.2
Core Inflation per Quarter

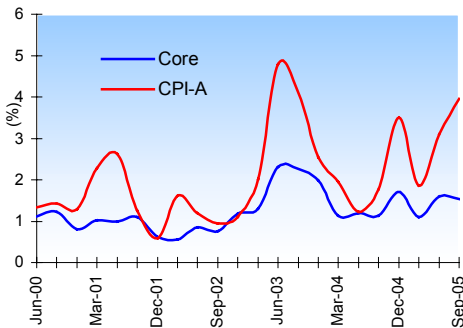


Figure 3.3

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

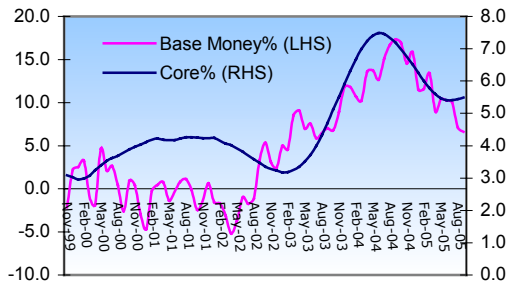


Table 3.1

Decomposition of Inflation Outturn		
Jul - Sep 2005/06		
	Inflation (%)	Cont. (%)
Non-Core Factors	2.86	66.6
Agriculture	0.76	17.8
Bus Fares/Petrol	1.35	31.4
Utilities/Fuel	0.40	9.4
Other	0.35	8.0
Core	1.43	33.3
TOTAL	4.29	100.0

aggregates. Base money at the end of the June quarter declined by 3.8 per cent while the 12-month change in average base money continued its downward trend since peaking in the September 2004 quarter (see **Figure 3.3**).

Non-Monetary Factors

Non-monetary factors accounted for 66.6 per cent of inflation in the September 2005 quarter (see **Table 3.1**). The main non-monetary impulses to inflation were related to lower agricultural supply, an increase in international crude oil prices, increases in bus fares and electricity rates, higher school fees and the lagged impact of increases in the General and Special Consumption Tax rates.

Supply Conditions

The September quarter was characterized by continued sluggishness in agricultural output that has typified much of the year (see **Real Sector**). This is particularly true with regard to vegetables consequent on the early onset of poor weather conditions in the September quarter, and seasonal supply downturns. The effect of the unfavorable weather was to delay and dampen the rebound expected in short-term crops such as vegetables and fruits. Consequently, prices of these items were more adversely affected than hardier crops. During the quarter, the *Vegetables & Fruits* sub-group increased by 4.5 per cent following on an increase of 22.8 per cent in the previous quarter.

For the *Starchy Foods*, however, the index decreased by 2.0 per cent, the first quarterly decline since March 2004. Government strategies aimed at increasing productivity and ensuring adequate food supplies may have assisted this decline. One example of such a strategy was the Domestic Food Crop and Marketing Project, which targeted high demand commodities that have experienced a systematic fall-off in domestic production. In addition, farmers have been assisted with irrigation systems, training in soil agronomy, technology, planting material and financial support. This programme has particular emphasis on Starchy Foods such as sweet potato, dasheen and red coco. Production of some of these crops increased strongly in the quarter (see **Real Sector**) and would have assisted in the decline in the *Starchy Foods* sub-group. Hence, during the quarter, overall food price inflation declined to 2.1 per cent for the review period relative to the 3.8 per cent in the prior quarter. However, on an annual basis, food price inflation remained strong at 11.6 per cent,

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

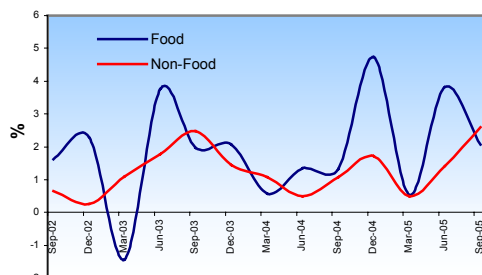


Figure 3.4b
Food & Non-Food Inflation (Annual)

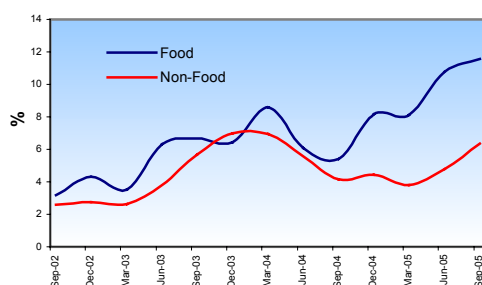
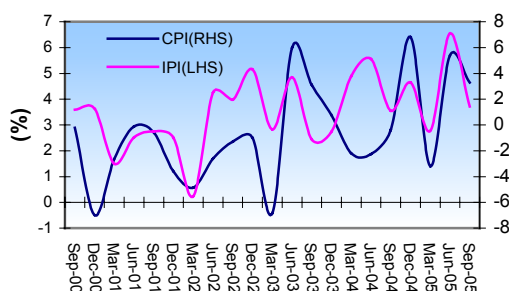


Figure 3.5
Lagged Import Price Index & Inflation (Quarterly)



relative to 6.4 per cent for non-food commodities. Consistent with the developments, the non-food index rose by 2.6 per cent relative to 1.4 per cent in the prior quarter (see **Figures 3.4a & b**).

Abstracting from the impact of agriculture prices, inflation for the September quarter was 4.2 per cent, relative to 2.9 per cent for the June quarter (see **Figure 3.2**). The acceleration in non-agricultural inflation during the review quarter reflected the additional impulses of higher oil prices, administrative adjustments such as the increase in the cost of public transportation and other impulses such as, the increase in preparatory school fees.

Input Costs

The cost of imported goods, as measured by the Bank's import price index, increased by 4.4 per cent in the September 2005 quarter relative to an increase of 1.4 per cent in the June quarter. This primarily reflected the strong increase in international oil prices and the consequent impact on the Nation's fuel import bill.

The benchmark West Texas Intermediate (WTI) crude oil price rose to an average of US\$63.05 per barrel in the September quarter, from an average of US\$53.06 per barrel in the June quarter (see **Figure 3.6, 3.7**). The average price per barrel for July, August and September was US\$58.67, US\$64.96 and US\$65.54, respectively. A new record for oil prices of US\$69.82 per barrel was set in the quarter largely caused by the impact of Hurricanes Katrina and Rita on oil production in the Gulf of Mexico. This region accounts for approximately 25.0 per cent of US oil and natural gas production and is also home to a large proportion of transshipment facilities. The movement in the WTI price was reflected in the Bank's Fuel Index, which increased by 17.1 per cent for the review quarter relative to 13.1 per cent in the June quarter (see **Figure 3.6 and Special Feature (International Developments)**).

Administrative Adjustments to Regulated Prices

During the quarter, there was an upward adjustment to the cost of public transportation to bring the price in closer alignment with current operational costs. These costs have risen significantly with the increases in the prices of petrol and petroleum products. In addition, fare increases were also granted to taxi operators.

Figure 3.6
Quarterly Chg. in Fuel Index & WTI

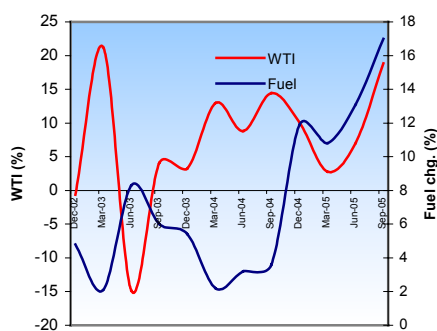


Figure 3.7
Quarterly Average Oil Prices (US) per barrel

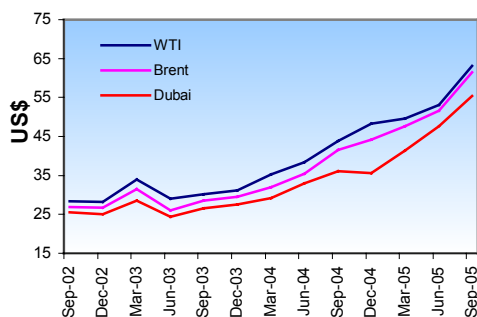
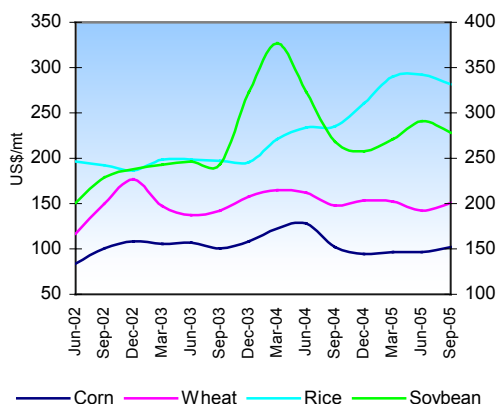


Figure 3.8
Grains Price Movements



In addition to transmitting increased fuel charges to its customers from higher oil prices, the Jamaica Public Service Company (JPSCo) was also granted a 5.8 per cent annual adjustment in its tariff rates by the Office of Utilities Regulation (OUR). This annual inflation adjustment was part of the overall tariff agreement signed in 2002 and is expected to remain in force for a few more years until another overall adjustment becomes due. These factors contributed significant inflationary impulses in the quarter.

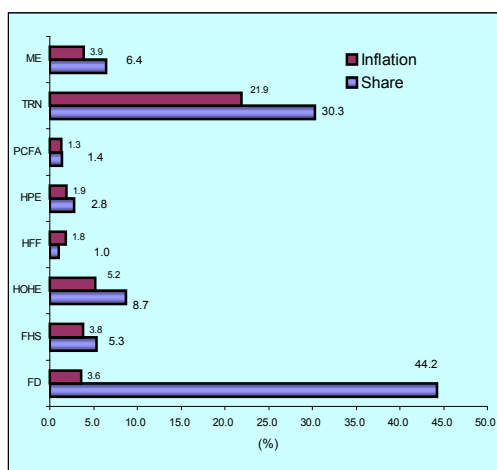
Component Contribution to Inflation

Food & Drink, Transportation and Housing & Other Housing Expenses together accounted for approximately 81.0 per cent of the inflation in the review period (see Figure 3.9), compared to a combined weight in the basket of 70.0 per cent. These groups reflected the movements in the prices of agricultural products, international oil and other commodities and administrative adjustments. These inflationary impulses were also manifested in *Fuels & Other Household Supplies* while *Miscellaneous Expenses* reflected lagged impulses from the earlier tax package.

Within **Food & Drink**, Meat, Poultry & Fish, Vegetables & Fruits and Meals Away from Home contributed 16.6 per cent, 6.7 per cent and 4.5 per cent, respectively, to overall inflation. The contribution of Meat, Poultry & Fish mainly reflected higher beef prices as the disjuncture between demand and supply for the commodity continued to impact market conditions. In addition, the price of beef internationally rose for the second consecutive quarter signaling a global rebound in demand. Price increases in Vegetables & Fruits mainly reflected the disruption of the recovery in agricultural production consequent on the adverse weather early in the quarter. There were also some seasonal demand impulses for particular commodities such as avocado, whose price rose approximately 30.0 per cent over the quarter. Meals Away from Home was affected by the increasing prices of meats and condiments, as well as rising fuel and utility costs.

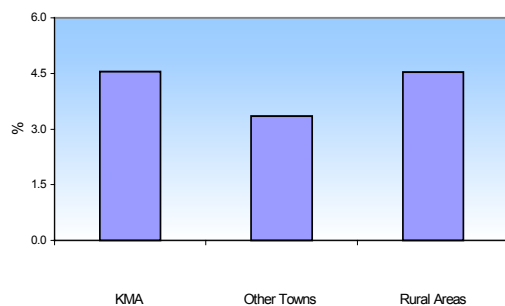
The increase in **Transportation** primarily reflected significant adjustments in bus fares, smaller increases in taxi fares and increases in gasoline prices. **Housing & Other Housing Expenses** was affected by the higher utility rates emanating from the rise in oil prices and the annual adjustment to tariff rates.

Figure 3.9
Inflation by Group



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

Figure 3.10
Regional Inflation



Special Consumption Tax (SCT) on cigarettes implemented as a part of Government's taxation package for the current fiscal year.

The impetus in **Fuels & Other Household Supplies** largely emanated from the impact of higher international crude oil prices that affected the prices of household fuels. The protracted movements in oil prices have also had an impact on the prices of alternative fuels such as charcoal, which rose strongly, over the quarter.

Regional Inflation

For the quarter, **KMA** and **Rural Areas** each recorded inflation of 4.5 per cent, while the **Other Towns** experienced a 3.4 per cent increase in prices (see **Figure 3.10** and **Table 2B** in **Appendix C**). The disparity between regions emanated from a combination of impulses in **Food & Drink**, **Transportation** and **Miscellaneous Expenses**. Within **Food & Drink**, there were stronger price increases in agricultural commodities in **Rural Areas**. Similar to the last quarter, greater access to imported agriculture produce in **KMA** and **Other Towns** may have moderated price impulses in these regions with declines recorded for some commodities whilst increases persisted in **Rural Areas**. For **Transportation** and **Miscellaneous Expenses**, larger increases in bus fares and tuition fees, respectively, caused the unbalanced movements in these indices in **KMA**.

Box 1: Inflation in Selected Caribbean Countries

Introduction

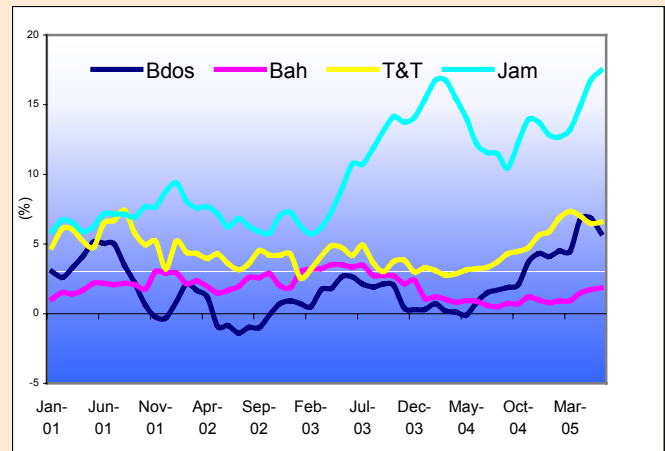
In 2004, international oil prices, as proxied by the West Texas Intermediate crude price, increased by 34.8 per cent following a 9.6 per cent increase in 2003. Up to June 2005, oil prices had increased by a further 30.0 per cent. Despite this common factor faced by all Caribbean countries there are marked disparities in their consumer price inflation. For example, in 2003 inflation in Barbados was 0.3 per cent while in Trinidad & Tobago this was 3.0 per cent. Similarly, in 2004, inflation in Bahamas was 1.0 per cent while in Jamaica it was 13.7 per cent (see **Table 1**). In light of these sharp disparities, this box attempts to explain the existing inflation differentials amongst four Caribbean countries, Jamaica, Barbados, The Bahamas and Trinidad & Tobago.

Comparative Inflation Rates

A number of underlying reasons explain consumer price inflation differentials between countries. Chief amongst these are: patterns of consumption reflected in commodity weights, movements in exchange rates, the regulatory framework or the level of competition, resource endowments, geographical location and market size. Hence, while all are island nations, it is expected that inflation rates in each of these countries will reflect the unique economic conditions and market structures that prevail in these economies. Over the January 2001 to June 2005 period, Jamaica consistently had the highest annual inflation rate among the group, averaging approximately 10.0 per cent. Over the same period, Trinidad & Tobago's inflation averaged 4.6 per cent, while The Bahamas' and Barbados' each averaged 1.9 per cent⁷. From **Figure 1**, it can be observed that at the start of the review period, inflation rates were fairly close, ranging between 1.0 per cent and 5.9 per cent. However, over time, Jamaica's inflation appeared to be

trending upward while, that of the other countries appeared relatively stable.

Figure 1: Comparative Annual Inflation Rates
January 2001- June 2005



Income levels

Income levels play a significant role in patterns of consumption and hence, weights. Barbados has near 100 per cent adult literacy, high per capita income of US\$15,720, low infant mortality rate and high life expectancy. The country placed 30th on the UNDP Human Development Index (HDI) 2005, which surveys 177 countries, and 5th amongst all developing countries. The per capita income of The Bahamas is US\$17,159. Their ranking on the HDI and amongst developing countries was 50th and 16th, respectively. Trinidad & Tobago's per capita income is listed at US\$10,766, while they are positioned at 57th and 22nd, on the HDI and the list of developing countries, respectively. Jamaica's per capita income is approximately US\$4,100⁸, with a ranking of 98th and 53rd on the HDI and the list of developing countries, respectively. The level of development in each country would be expected to affect the pattern of household expenditure and the priority placed on basic needs.

⁷ These inflation rates are sourced from the respective Statistical Digests of the various countries.

⁸ From the UNDP Human Development Report 2005; GDP per capita data are as at 2003.

Regional Weights

Weights are derived from the patterns of consumption expenditure of the representative grouping that underlies the consumer or retail price index. These weights are obtained from surveys such as the Household Expenditure Survey and the Household Budget Survey of Jamaica and Trinidad, respectively. Jamaica has the oldest index with a base year of 1988⁹. The ranking of the other countries in order of decreasing age of their indices are The Bahamas, Barbados and Trinidad & Tobago with base years of 1995, 2001 and 2003, respectively. Of all the countries, three have Food registering the highest weight. However, only one country, Jamaica, has a weight that constitutes more than half of the consumption basket. The country with the second highest weight is Barbados with a little more than one-third of monthly consumption represented by Food, while the remaining two countries have weights that average less than a fifth of the total basket. In contrast to Jamaica, the other countries' price indices place more emphasis on energy-related goods such as transportation and utilities with Trinidad & Tobago having transportation as its most important consumption group.

Differences in Energy Costs

Resource endowments enable some countries to benefit from lower costs. Trinidad & Tobago is the leading Caribbean producer of oil and natural gas. Barbados also lists oil production as one of its chief economic sectors as they produce about 1200 barrels of oil per day and they are also completely self sufficient in the use of natural gas. Prior to a recent increase in the price of liquefied petroleum gas (LPG), the Government of Barbados reduced the excise tax by approximately 40.0 per cent, reducing the full impact of the price adjustment. A 2001 survey showed that Trinidad's average electricity rate (US cents/kWh) between residential, commercial and industrial users was 2.71 c/kWh, a rate that was the lowest in the Caribbean and Latin American region, except for that of Venezuela's. The average rate for Jamaica

⁹ At present there is a new Household Expenditure Survey in the field, scheduled to be introduced in 2006.

was 12.11 c/kWh while Barbados' was 15.83 c/kWh. The comparative cost of gasoline also reflects a similar disparity. Trinidad & Tobago had the lowest cost of petrol of US\$0.48 per litre followed by The Bahamas with US\$0.74, Jamaica with US\$0.93 per litre and Barbados with US\$1.23 per litre.

Education and Taxation

In The Bahamas, there is free and compulsory education between the ages of 5 and 14. There are also no income or corporate taxes in The Bahamas, consistent with the thrust to foster and encourage external investment. In Barbados, government-owned schools are funded from the public coffers, while some support is also rendered to assisted-private schools. The Government also pays the economic cost of Barbadian students attending the University of the West Indies. Primary level education in Trinidad & Tobago is compulsory. In Jamaica, a cost-sharing scheme is in effect that requires that parents contribute, through the payment of school fees, to their children's secondary level education.

Imported Inflation

In an open economy, exchange rates play a pivotal role in the effect that external prices have on domestic inflation. However, with a pegged rate, the exchange rate ceases to be a factor and import prices vary with international prices. The Bahamian dollar is on par with the United States dollar and the fixed rate parity has been in existence since 1967. The Barbadian exchange rate, which was fixed at Bds.\$2.00 = US\$1.00 on 05 July 1975 has not been adjusted since. In April 1993, Trinidad & Tobago abolished its fixed exchange rate system and adopted a floating exchange rate regime with intervention from the Central Bank to smooth fluctuations. The exchange rate has been stable at approximately TT\$6.20 to the US dollar for a number of years. Jamaica employs a similar managed float system as Trinidad & Tobago. However, the average exchange rate has reflected changes in market conditions and structural changes in the economy. The annual average exchange rate vis-à-vis the US dollar moved from J\$48.73 in 2002 to J\$58.24 in 2003 and stood at J\$61.39 in 2004.

Main Contributors to Inflation in 2004 and to June 2005

Inflation in two of the selected countries decelerated in 2004, the period that coincided with the onset of the oil shocks. Even more significantly, inflation in The Bahamas fell from 2.4 per cent at the end of 2003 to 1.0 per cent at the end of 2004. This sharp deceleration was aided by a decline in the cost of home ownership. Food was the major inflationary impulse in 2004. The group that includes Transportation and Communication costs was the second most important contributor to inflation, accounting for 42.0 per cent of inflation in 2004. Jamaica's inflation slowed from 14.1 per cent in 2003 to 13.7 per cent in 2004. Similar to The Bahamas, the main driver was food inflation, accounting for 65.0 per cent of the outturn in 2004. Higher inflation of 4.3 per cent and 5.6 per cent in Barbados and Trinidad & Tobago, respectively, also emanated principally from higher food prices. In Barbados, Food was responsible for 58.5 per cent of inflation while in Trinidad & Tobago it accounted for approximately 70.0 per cent. Another consistent pattern that was observed across the four countries was the supporting role that was played by oil-related impulses on inflation. With the exception of Trinidad & Tobago, Transportation and Fuels was the second most significant contributor to inflation within the group of countries.

For the first six months of 2005, a more varied pattern emerged with food inflation being the predominant influence in Jamaica and Trinidad & Tobago, while energy-related impulses were strongest in the others. Also, abstracting from seasonal patterns that may exist in each country, the stage seems set for higher inflation in 2005 in all countries. The half-year inflation for The Bahamas was already above the rate attained in 2004 while the other territories have all surpassed 50.0 per cent of inflation recorded in 2004.

Reasons for the Increase in January to June 2005

Food prices have been predominant in the review period largely due to the impact of adverse weather conditions, in

the context of heightened tropical storm activity. In the last few decades, natural disasters worldwide have become more common and damaging. Kwon (2005)¹⁰ estimates that from the 1970s to the 1990s, the number of disasters nearly doubled and economic losses increased by over 450.0 per cent. Further, the year 2005 is now confirmed as the most active Atlantic hurricane season ever recorded. The agriculture sector is the most vulnerable to these natural disasters.

The Bahamas, like Jamaica, is susceptible to hurricanes and tropical storms that cause flood and wind damage. The significant weight of food in Jamaica's consumption basket lends an upward bias to the rate of inflation in a period of agricultural dislocation. On the other hand, Trinidad & Tobago is geographically fortunate in being situated outside the usual path of hurricanes and tropical storms, while Barbados infrequently experiences hurricanes.

Conclusion

Inflation throughout the region in the last two years has reflected the effects of weather-related shocks to food prices and the global trends in energy. Jamaica's higher inflation has also been affected by differences in some natural endowments, such as oil, which limit the scope for subsidies to allay the full impact of changes in costs. The movement in Jamaica's exchange rate has also added inflationary impulses in a context where other countries have maintained stable or fixed rates.

Despite their positions as small producers or net exporters of oil, other countries in the region have taken measures to lessen dependence on oil and strengthen domestic integration in energy use. The active encouragement of alternative energy such as solar power and hydro-electricity are critical to the energy policies of Barbados and The Bahamas. These measures have helped to minimise the impact of adverse international oil price movements and partly explain the absence of stronger inflationary reactions to the oil price shocks of 2004. In Jamaica, over the 1991 to 1999 period,

¹⁰ Kwon, Gohoon, "The Economics of Disaster Mitigation in the Caribbean", mimeo, IMF, 2005.

petroleum has grown in dominance as the primary energy supply source while the proportion of hydropower and solar power in use has dwindled¹¹.

Table 1: Comparative Inflation Rates (Jan 2004 – June 2005)

Weights		2004		2005 to June	
	BAHAMAS	Chg	%Cont	Chg	%Cont
13.83	Food & Beverages	3.7	44.3	0.1	1.1
5.89	Clothing & Footwear	0.5	2.4	-2.8	-14.4
32.82	Housing	-0.7	-19.0	3.3	93.7
8.87	Furniture & Household Operation	0.3	2.2	-0.5	-4.0
4.41	Medical Care & Health	6.1	23.3	0.2	0.9
14.84	Transport & Communication	3.3	42.0	1.9	24.1
4.87	Recreation & Entertainment Services	0.5	1.9	-4.3	-18.5
5.31	Education	0.5	2.2	1.4	6.5
9.16	Other Goods & Services	0.1	0.6	1.3	10.6
100.00	ALL ITEMS	0.97	100.0	1.22	100.0

	BARBADOS	Chg	%Cont	Chg	%Cont
33.79	Food & Beverages	7.3	58.5	1.6	17.5
3.73	Alcoholic Beverages & Tobacco	1.3	1.1	2.5	3.0
12.27	Housing*	0.3	0.9	11.1	43.7
6.34	Fuel & Light	8.0	12.1	-2.6	-5.3
10.14	Household Operations & Supplies	0.3	0.8	-0.8	-2.5
3.44	Clothing & Footwear	0.4	0.4	1.9	2.1
5.85	Medical & Personal Care	2.7	3.8	0.7	1.3
17.03	Transportation	4.9	19.9	7.2	39.5
7.41	Education, Recreation & Misc.	1.5	2.6	0.3	0.7
100.00	ALL ITEMS	4.30	100.0	3.36	100.0

	T&T	Chg	%Cont	Chg	%Cont
18.00	Food	20.6	69.8	8.7	60.2
2.50	Drink & Tobacco	4.2	2.0	2.0	1.9
5.30	Clothing & Footwear	-4.4	-4.4	0.7	1.3
20.40	Housing*	5.3	20.4	0.5	3.8
5.40	Household Operations	0.0	0.0	-0.2	-0.4
5.80	Household Supplies & Services	1.0	1.1	0.8	1.8
5.10	Health & Personal Care	3.2	3.1	2.4	4.7
20.80	Transportation	0.7	2.8	0.4	3.1
16.70	Reading, Recreation & Education	1.7	5.3	3.7	23.6
100.00	ALL ITEMS	5.63	100.0	2.94	100.0

	JAMAICA	Chg	%Cont	Chg	%Cont
55.63	Food & Drinks	16.2	65.0	9.0	69.4
7.35	Fuels & Other Household Supplies	19.5	10.3	5.2	5.3
7.86	Housing & Other Housing Expenses	17.2	9.8	8.8	9.7
2.83	Household Furnishings & Furniture	10.0	2.0	4.2	1.6
6.97	Healthcare & Personal Expenses	8.2	4.1	4.7	4.5
5.07	Personal Clothing Footwear & Acc.	4.0	1.5	2.5	1.7
6.44	Transportation	3.9	1.8	2.3	2.0
7.85	Miscellaneous Expenses	9.8	5.5	5.2	5.7
100.00	ALL ITEMS	13.73	100.0	7.22	100.0

* - Does not include utilities or fuel

¹¹ Source: Ministry of Mining and Energy – Energy

Division; as seen on STATIN's website.

4. Economic Outlook and Monetary Policy Perspectives

Table 4.1

Jamaica: Selected Economic Indicators	
	<i>ISP Target for FY05/06</i>
Inflation (% change)	9.0 – 10.0
Base Money (% change)	15.4
NIR End Period (US\$m)	2000.0
GDP (12-mth % chg.)	3.0 – 4.0

Economic performance in the December 2005 quarter will be affected by recent flooding associated with Hurricane Wilma. However, inflation is expected to moderate relative to the outturn for the September quarter, as some of the shocks experienced in the September quarter are expected to dissipate. However, non-monetary risks to inflation remain, as the potential for higher prices of agricultural commodities and energy are still of concern. Given these risks to inflation, the Central Bank will continue to maintain its conservative monetary policy stance.

Short Term Outlook-December 2005 Quarter

Real Sector

Economic growth is expected to continue in the December 2005 quarter. This anticipated growth will be influenced primarily by expected recovery in some sectors of the economy that were adversely affected by the passage of Hurricane Ivan in 2004. Other positive developments which will favour growth are the continued investments in public infrastructure as well as, those related to tourism and mining.

The pace of economic growth however, will be affected by recent domestic and international developments. Among the international developments are disruptions in the U.S.A. caused by recent weather systems, and the anticipation of slower world growth arising from tighter monetary policy and higher crude oil prices. In the domestic economy, adverse weather conditions and a fall in investor confidence may prove inimical to robust growth.

Economic growth is anticipated in both the goods and the services sectors. Stronger growth is anticipated for the goods sector which will be reflected mainly in *Mining* and *Construction*. The favourable performance projected for *Mining* is based largely on recovery as bauxite and alumina production was disrupted by adverse weather conditions in the December 2004 quarter. Projections for bauxite and alumina production envisage expansion of approximately 6.5 per cent relative to a marginal 0.1 per cent growth in the December 2004 quarter. *Construction* will continue to reflect strong growth predicated on ongoing investments in tourism and the commencement of capacity expansion in mining. Additionally, ongoing road construction, utilities

and housing projects as well as, rehabilitative work associated with flood rains in October are expected to contribute to the buoyancy in the sector.

The growth of the goods sector, however, will be constrained by recent flood rains in October 2005. In particular, the prior expectation for a recovery in *Agriculture* relative to the December 2004 quarter when the sector declined sharply by 30.0 per cent due to damage caused by Hurricane Ivan has been revised downward. The fallout in *Agriculture* is expected to be reflected primarily in the domestic agriculture sub-sector.

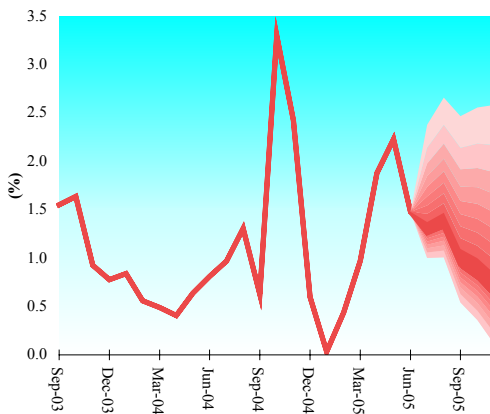
The services sector of the economy is expected to grow chiefly due to anticipated expansion in *Basic Services*, *Distribution* and *Miscellaneous Services*. The predicted expansion in *Basic Services* reflects the normalization in the provision of utility services given hurricane related disruptions in the corresponding period of last year. *Distribution* is anticipated to expand on the basis of growth in the goods producing sectors.

The performance of the *Miscellaneous Services*, which includes the tourism industry, is anticipated to expand in the review quarter, reflecting a turnaround from the sluggish performance over the past two quarters. Growth in the tourism sector will represent recovery given the decline in the similar period last year due to Hurricane Ivan. It is also expected that recent marketing initiatives should help to reposition Jamaica as an attractive destination for the upcoming winter tourist season. Indications of a positive performance are supported by information that bookings from November onwards for the upcoming season are strong. Further, arrivals in the December quarter should be boosted by additional airlift at cheaper fares.

Inflation

The primary influences on inflation in the December 2005 quarter are expected to emanate from the upward trend in international crude oil prices (see **Special Feature**) and adverse weather conditions. The increase in the international price of crude oil and its derivatives are 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*. Second round price effects, though smaller, are anticipated for other consumer goods and services.

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.

In the context of disruptions to supply chains caused by the hurricanes in the U.S.A., the prices of imported grains are projected to increase. This development could lead to inflationary impulses in the Food & Drinks group, in particular *Meat, Poultry & Fish* and *Baked Products, Cereals & Breakfast Drinks*.

The previously expected moderation in agricultural prices in the December 2005 quarter is unlikely to materialize due to the flood rains in October. Against this background, the prices of vegetables and fruits are expected to increase considerably. As such, *Vegetables & Fruits* and *Meals Away From Home* are expected to record noticeable increases.

Headline inflation for the December 2005 quarter is expected to be in the range of 3.0 per cent to 4.0 per cent. This projection reflects a reduction relative to the outturn of 4.3 per cent in the September 2005 quarter and the 6.4 per cent in the December 2004 quarter. Given the projection for the December quarter and moderation in inflation anticipated for the March 2006 quarter, inflation for the fiscal year should be in the range of 15.0 to 16.0 per cent. The Central Bank will continue to maintain relative stability in the foreign exchange market and lessen the impact of imported inflation in the economy. Additionally, the continuation of the downward trend in core inflation is expected to continue.

Risks

The main risks to growth and inflation in the December 2005 quarter stem primarily from external factors. These factors relate to the continuing concern regarding the cost of fuel and energy arising from uncertainties in the global marketplace. There are also concerns of rising international interest rates and global inflation. Another risk emanating is a possible slowdown in external demand consequent on weather related shocks in the United States of America. Locally, adverse weather conditions continue to present several drawbacks to the productive sector. Further, the level of crime continues to pose a challenge to the strengthening of the economy.

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 aimed at supporting the economic environment necessary for a continuation of

stability. This stance is in a context where despite the declining trend expected in the December quarter, there are still concerns risks of further impulses to the inflation process.

The monetary base in the December 2004 quarter is expected to reflect a seasonal increase related to the Christmas season and associated end-of-year expenditure. In this context, the Central Bank will ensure that relatively stable conditions are maintained in the foreign exchange market with the continued support of a strong reserves position, remittance and private capital flows.

In that context, it is the Bank's assessment that the 12-month rate reached a peak at the end of the September quarter and will follow a downward trajectory for the remainder of the fiscal year. The Central Bank will continue to maintain a conservative policy stance in the near term. It is anticipated that as shocks to inflation lessen, particularly in the domestic agriculture sector, that inflation expectations will subside. Accordingly, the trajectory of continued reduction in the 12-month inflation rate will materialize in the near term.

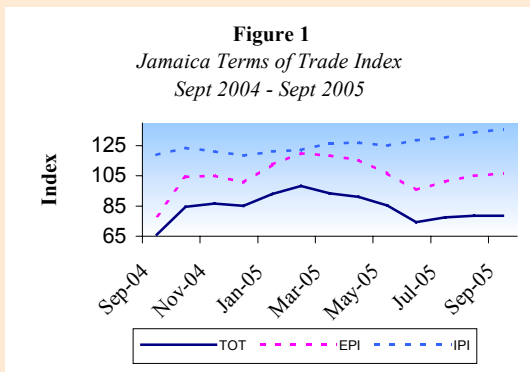
Special Feature: *International Developments (July-September 2005)*

Introduction

This feature analyses the impact of international developments on the Jamaican economy. In the first section, the feature evaluates the factors that affected Jamaica's terms of trade over the September 2005 quarter. This is followed by a description of monetary and inflation developments in selected industrialised economies. The section also includes an update on trade related issues that are relevant to Jamaica.

1. Terms of Trade

Jamaica's terms of trade (TOT)¹² is estimated to have deteriorated by 6.4 per cent on average over the September 2005 quarter, relative to a 12.0 per cent contraction in the June 2005 quarter. The fall in the TOT Index reflected a 5.1 per cent increase in the Import Price Index (IPI)¹³, which was exacerbated by a 1.5 per cent decrease in the Export Price Index (EPI)¹⁴ (see **Figure 1**).



¹² The Bank estimates a measure of Jamaica's terms of trade, which is a ratio of the index of export prices to the index of import prices. An improvement in the terms of trade follows if export prices rise more quickly than import prices.

¹³ The IPI is comprised of a weighted average of prices on fuel, imported foods, consumer durables and non-durables, industrial raw materials, as well as capital goods for transport and equipment, in addition to construction raw materials.

¹⁴ The EPI is comprised of a weighted average of prices on exported aluminium, coffee, cocoa, sugar, banana and a measure of the tourism product.

The increase in the IPI was largely attributable to an 18.9 per cent rise in fuel costs. In addition, the average price of industrial raw materials rose by 2.6 per cent over the quarter, while those for construction related goods and imported food items increased by 2.0 per cent and 1.0 per cent, respectively. These inputs feed directly into domestic producer prices and may have contributed to domestic inflation for the quarter. In respect of the EPI, the decline was due to a seasonal fall in the price of Jamaica's tourism product¹⁵.

The main impulse to rising oil prices over the quarter emanated from severe weather, which affected production of crude and refined products in the Gulf of Mexico. This region accounts for approximately 30.0 per cent of US oil and natural gas production. In late August, damage from Hurricane Katrina forced the closure of oil rigs in the Gulf. Immediately following the hurricane, the price of crude oil rose to a new record of US\$69.82 per barrel. In addition, Hurricane Rita, in early September, forced the closure of oil refineries in Texas, causing 20.0 per cent of US refining capacity to be shut down. As a consequence, US crude oil inventories fell by an average of 3.3 per cent for the quarter, compared to a build up of 9.3 per cent in the previous quarter. US gasoline inventories also fell by 6.1 per cent, compared to a fall of 2.1 per cent in the previous quarter.

Oil prices have generally been affected by concerns about the adequacy of supply capacity, in a context of high world demand for oil. In October, the International Energy Agency (IEA) revised its estimates of world oil demand for 2005 downwards by 250 000 barrels per day to 1.35 million barrels per day. However, an accompanying downward revision in the

¹⁵ The Bank estimates an implicit price of Jamaica's tourism product as the ratio of the average tourist expenditure to their average length of stay. The decline observed in the September quarter reflected decreases in both variables.

estimates for world oil supply, by 860 000 barrels a day for the rest of 2005, reduces prospects for significant easing in oil prices. Oil demand is expected to rebound in 2006 owing to the expectation of continued growth in the Chinese and US economies.

In terms of imported food inputs, the price of wheat increased by 6.3 per cent over the quarter, compared with a decline of 6.5 per cent over the previous quarter. The price of corn rose by 5.8 per cent, relative to a marginal decline of 0.5 per cent in the June quarter. These grain prices were mainly influenced by adverse weather conditions and increased transportation costs. Excessive rains in parts of the USA, Europe and eastern Australia affected the quality of the wheat crop. With respect to corn, hot and dry conditions in the mid west region of the USA, the world's largest corn grower, resulted in slower plant growth and hence limited the supply of corn to the market. The prices of these grains were also influenced by increased transportation and shipping costs resulting from damage done to ports in Louisiana in the wake of Hurricane Katrina.

The main source of the reduction in the EPI was a decline of 7.9 per cent in the Tourism Price Index for Jamaica, which also influenced the 10.1 per cent fall in the index recorded in the June quarter. The impact of the fall in the Tourism Price Index was partially offset by an increase of 0.7 per cent in the price of aluminium over the review quarter. This increase contrasted with the fall of 0.3 per cent in the June 2005 quarter and was largely driven by the improved outlook for the global economy.

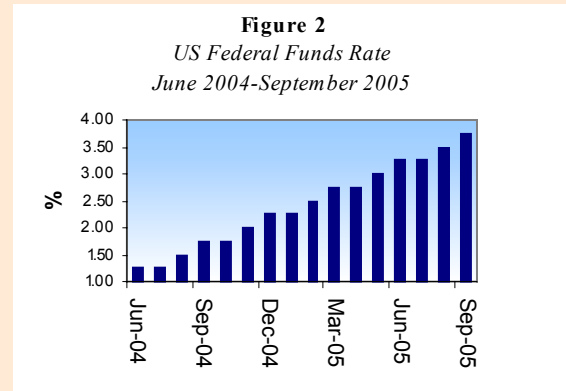
11. International Capital Market Developments

Developed Markets

A. United States

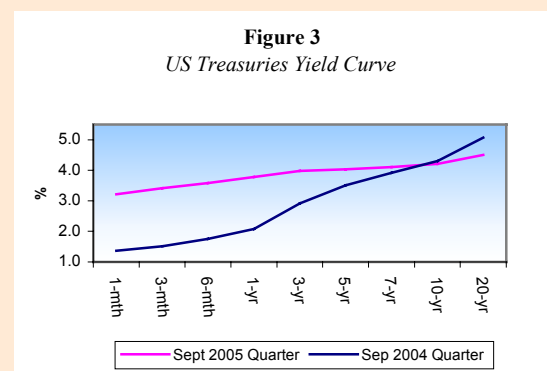
Interest rates in the United States continued to rise gradually during the September 2005 quarter. Between July and September 2005, the Federal Reserve (Fed) increased the target for the overnight funds rate twice by 25 basis points on each occasion. At end September, the rate was 3.75 per cent,

200 basis points higher than the rate a year earlier (see **Figure 2**). The rate was recently raised by a further 25 basis points in October. These adjustments were consistent with the Fed's policy stance since June 2004.



The Fed's decision to further hike interest rates during the quarter was influenced by considerable inflation pressures brought on by rising oil prices and exacerbated by the impact of the hurricanes. There were also concerns of a price bubble in the real estate market. The annual point-to-point inflation rate for the USA at end September 2005 was 4.7 per cent, representing a significant acceleration relative to the inflation rate at end June 2005 and September 2004. The expectation is that the Fed will raise interest rates on two occasions before the end of 2005, to 4.25 per cent, and then by another quarter percentage point early in 2006.

Money market rates moved in tandem with the increases in the Federal funds rate. However, rate adjustments in the capital market were smaller, reflecting a flattening of the yield curve (see **Figure 3**). Yields on longer-term bonds have risen more



slowly given the expectation that long-term inflation should moderate.

B. Euro Zone

The European Central Bank (ECB) left its key interest rates unchanged over the quarter. The minimum bid rate on the main refinancing operations¹⁶, as well as the interest rates on the marginal lending facility¹⁷ and the deposit facility¹⁸ remained at 2.0 per cent, 3.0 per cent and 1.0 per cent, respectively, where they have been since June 2003.

The ECB's decision not to increase rates despite heightened inflation expectations reflected modest GDP growth rates in the Euro zone. Real GDP for the region grew at an annualised rate of 1.1 per cent and 1.2 per cent¹⁹ over the June and September quarters of 2005, respectively. This performance compared with annual growth of 2.1 per cent in 2004 and reflected the dampening impact of higher oil prices. The high oil prices however, contributed to the acceleration in inflation over the quarter. At end September, the annual point-to-point inflation rate of the Euro zone was 2.6 per cent, relative to 2.1 per cent at end June 2005.

In keeping with the ECB's lead, private market interest rates in the Euro zone remained flat for the quarter. The EU libor rates across the 1-month to 12-month tenors increased on average by 1.0 basis point. Rates are projected to remain constant for the near-term, but could rise if inflation pressures persist.

¹⁶ Main refinancing operation is a regular open market operation executed by the Eurosystem in the form of a reverse transaction.

¹⁷ Marginal lending facility is a standing facility of the Eurosystem which counterparties may use to receive overnight credit from a national central bank at a pre-specified interest rate against eligible assets.

¹⁸ Deposit facility is a standing facility of the Eurosystem which counterparties may use to make overnight deposits at a national central bank, which are remunerated at a pre-specified interest rate.

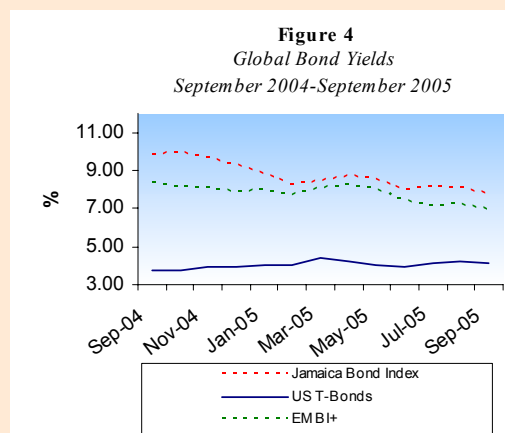
¹⁹ Estimated.

Emerging Markets

The average yields on emerging market bonds²⁰ fell by 77.0 basis points during the September quarter to average 7.10 per cent (see **Figure 4**). Consequently, there was a general narrowing of spreads between yields on US Treasuries and yields on emerging market bonds. This narrowing was attributable, in part, to the strong performance of emerging market economies, particularly in Latin America and Asia, but was also a consequence of international investors' appetite for these assets in a context of strong global liquidity.

The performance of Jamaica's global bonds was in line with the general trend in emerging markets, with the average yield declining by 42.0 basis points to close the quarter at 7.99 per cent (see **Figure 4**). Spreads, relative to US Treasuries, also narrowed by 53 basis points, or 12.2 per cent.

The outlook for emerging market bonds and, by extension, Jamaica's global bonds remains fair, in spite of the likelihood of increased interest rates in developed markets.



III. Trade Agreements

PetroCaribe

A. Overview

On 6 September 2005, the Energy Co-operation Agreement, PetroCaribe, was signed between Venezuela and 13 Caribbean

²⁰ The average yield as measured by the JP Morgan Emerging Market Bond Index (EMBI+).

nations²¹. The Agreement is aimed at forging a common energy policy for the Caribbean under one regional energy company called PetroAmerica²². PetroCaribe, which will supersede the Caracas Energy Agreement (1999), is also geared at facilitating greater collaboration among governments of the region in the exploration, production, processing and sale of oil, gas and petroleum products.

The main elements of the Agreement include an extension on short-term credit for oil imports to 90 days from the 30 days that obtained under the Caracas Energy Agreement. Approved proportions of the cost of fuel will also be financed under a deferred payment arrangement. The percentage to be financed, as well as the repayment terms, will depend on the price of oil on the world market. At prices above US\$40.00 per barrel for crude oil, the loan will be repayable over 25 years at an interest rate of 1.0 per cent. If crude oil prices fall below US\$40.0 per barrel, the interest rate payable will be raised to 2.0 per cent and the repayment period reduced to 17 years. There will be a moratorium of 2-years on all repayments.

In addition to the Agreement, a bilateral Memorandum of Understanding (MOU) was signed between Venezuela and Jamaica. The MOU makes provisions for the upgrading of the Petrojam refinery. This expansion will entail the introduction of new technologies, which will facilitate the processing of a wider range of crude oil. The project is estimated to cost US\$500.0 million, and will result in an expansion of the refinery's capacity by approximately 43.0 per cent to 50 000 barrels per day. The expansion is expected to be completed by 2008.

²¹ The signatories to the agreement were Antigua and Barbuda, Bahamas, Belize, Cuba, Dominica, Dominican Republic, Grenada, Guyana, Jamaica, St. Vincent and the Grenadines, St. Kitts and Nevis, St. Lucia, Suriname and Venezuela.

²² The Venezuelan government has also signed a similar agreement with its Latin American counterparts laying the foundation for the establishment of *PetroSur*.

B. Implications of PetroCaribe for Jamaica

The PetroCaribe Agreement entails a radical change in the credit terms under which Jamaica obtains crude oil. The Caracas Agreement had accounted for the long term financing of up to 25.0 per cent of the Petroleum Corporation of Jamaica's (PCJ) crude oil imports. However, in the context of the current level of oil prices, the proportion to be financed under the PetroCaribe Agreement will be increased to 40.0 per cent. This adjustment should translate into annual inflows into a fund of approximately US\$150.0 million. The extension of the period of amortisation and the reduction in interest rates, relative to the Caracas Agreement, will also realise savings for the country.

Upon completion of the upgrade to the refinery in FY2008/09, the net earnings from the re-export of fuel could range between US\$40.0 million and US\$70.0 million. GDP growth associated with the increase in petroleum refining could increase by 1.0 percentage point in FY2008/09. There should also be some marginal impact on GDP between FY2005/06 – FY2008/09 (the expansion phase of the project) given an acceleration in the growth rate of the construction sector.

Banana Negotiations

On 1 August 2005, arbitrators of the World Trade Organization (WTO) ruled against the European Commission's (EC) proposed tariff of €230.0 per tonne on third country banana imports under its tariff-only system²³. This ruling was on the grounds that it would not maintain total market access for Latin American suppliers. The EC subsequently revised its proposal to €187.0 per tonne. However, Latin American banana suppliers insisted on an even lower tariff, which has again been supported by the WTO.

²³ A waiver granted to the EU in the Doha Ministerial of November 2001 allows it to grant preferential access to ACP suppliers, but on condition that the tariff-quota system involving a base tariff of €75 per tonne (but €680 per tonne out of quota) was to be replaced by a tariff-only system. Latin American countries have argued that the tariff should be as low as €33 per tonne, while Caribbean countries maintain that €275 per tonne is the minimum that would safeguard their preferential access.

The adjustment to the banana trade regime threatens the survival of the Jamaica banana industry and will have adverse consequences for the economy. In 2004, earnings from banana exports to the EU totalled US\$12.8 million.

Sugar Reforms (Kisumu Declaration on Sugar)

Jamaica met with other sugar-producing ACP states in Kisumu, Kenya, on 22-26 September 2005 at the 9th ACP Ministerial Conference to discuss strategies for promoting the sustainable development of their sugar industries. This was in light of the EC's proposals to reform the EU Sugar Regime. ACP Ministers at the Kisumu Conference took the decision to collaborate in negotiations at the December WTO Ministerial Conference in Hong Kong, even threatening to tie protection of their sugar industries to United Nations-backed development goals in a bid to stop or delay European reforms.

The EU currently offers a guaranteed price for ACP sugar that is about three times the average world market price. This pricing arrangement has been deemed illegal by the WTO, which prompted the EC to announce its intention to cut the guaranteed price by 39.0 per cent over two years, starting in 2007. The EC has also proposed a voluntary compensation scheme for ACP producers forced out of business by the price cuts. This could amount to €40.0 million in the first year and an unspecified amount in subsequent years. In 2004, Jamaica earned an estimated US\$98.1 million from sugar exports to the EU.

Summary

The effects of rising oil prices dominated global developments, particularly inflation, during the review quarter. In this context, interest rates in the United States were adjusted upwards, while the monetary stance in the Eurozone suggested a clear bias to future tightening, despite continued weak growth prospects. Rates in the private money markets of the industrialised countries also trended upwards.

In contrast to the more developed economies, emerging market yields fell over the quarter, given improvements in the economic fundamentals of some of these economies. The yields on Jamaica's sovereign bonds also fell over the quarter.

For the domestic economy, the shock to oil prices negatively affected Jamaica's terms of trade. This was exacerbated by a seasonal fall in the price of tourism services, one of the country's main exports.

A regional trade agreement promises some relief for Jamaica with respect to energy supplies. However, the erosion of preferential access for some traditional agricultural exports to the European market threatens the viability of these industries.

Appendices



A. Fiscal Developments: July to September 2005

Provisional data for the September 2005 quarter suggest that Central Government incurred a deficit of \$7 054.4 million or 1.1 per cent of GDP, relative to a targeted deficit of \$2 710.4 million, 0.4 per cent of GDP. The deviation from target reflected a shortfall in revenue flows, partly tempered by containment in expenditure. This underperformance was reflected in a current deficit of 0.7 per cent of GDP, above the target of 0.1 per cent. Concurrently, the primary surplus of 2.1 per cent of GDP was below the target of 2.7 per cent.

Total revenue for the review quarter was 14.4 per cent below target, reflecting the underperformance of tax receipts and grants. Tax revenue flows were 13.6 per cent lower than anticipated in the budget, largely influenced by significant deviations in income from GCT/SCT, which were 21.3 per cent below target at end September 2005. Grants reflected a shortfall of \$568.0 million in the quarter.

Total expenditure during the September quarter was 5.3 per cent below budget reflecting containment in programmes and capital expenditure, which was partially offset by higher than anticipated interest payments. The incremental interest payments partly reflected higher than projected domestic borrowing in a context of the larger fiscal deficit.

For the first half of the year, the fiscal deficit was \$18 579.5 million or 2.9 per cent of GDP, \$3 766.5 million above the target. The deviation from the target reflected a shortfall in revenue, which was only partly offset by containment in expenditure. Consequently, the current deficit was 1.9 per cent of GDP relative to a target of 1.0 per cent, while the primary surplus was 3.7 per cent of GDP, lower than the target of 4.4 per cent.

Revenue for the first half of the fiscal year was 8.8 per cent below budget, largely reflecting the performance in the September 2005 quarter. In this regard tax revenue was 8.9 per cent below target largely reflecting lower than targeted revenue from GCT/SCT. Notably the budgeted revenue for the period was predicated on a 1.5 percentage point increase in the GCT rate and a hike in the SCT on cigarettes in May. Tax revenues for the fiscal year to September were 6.0 per cent higher than the corresponding period in the previous fiscal year.

Expenditure for the first half of the fiscal year was 4.0 per cent below target, reflecting containment in both capital and recurrent expenditure in the face of lower than budgeted revenue flows. During the year, all items with the exception of interest payments were below budget. Capital expenditure and wages and salaries were contained below budget by 23.2 per cent and 2.7 per cent, respectively. Concurrently, programmes were 2.2 per cent below budget.

For the period April to September 2005, Government relied on domestic sources to finance its deficit, and net amortize foreign debt. Domestic financing was largely achieved through the issue of Jamaica dollar denominated debt instruments. In this regard, there was significant support for variable rate instruments vis-à-vis fixed rate instruments during the review period. The Government also issued a US\$150.0 million domestic bond, which replaced a maturing US\$100.0 million bond at the end of the September quarter.

Fiscal Performance Comparative Analysis J\$ Million						
	Q2	Budget Q2	Variance	Q1+Q2	Budget Q1+Q2	Variance
Revenue and Grants	42197.3	49274.4	-7077.1	83467.2	91531.7	-8064.5
Tax Revenue	37418.1	43317.6	-5899.6	75118.3	82435.4	-7317.1
Non-tax Revenue	2693.9	2356.3	337.6	5046.3	4220.8	825.5
Bauxite Levy	786.7	760.1	26.6	1564.0	1482.2	81.8
Capital Revenue	1184.5	2158.2	-973.7	1466.2	2299.3	-833.1
Grants	114.2	682.2	-568.0	272.5	1094.0	-821.5
Expenditure	49251.8	51984.8	-3440.1	102046.5	106344.5	-6165.0
Recurrent Expenditure	45695.4	46402.4	-707.0	93992.6	95859.5	-1867.0
Programmes	9993.8	10709.7	-715.9	20557.0	21014.9	-457.8
Wages & Salaries	15202.4	15473.2	-270.8	30939.2	31785.9	-846.6
Interest	20499.2	20219.6	279.6	42496.3	43058.8	-562.5
Capital Expenditure	3556.4	5582.4	-2026.0	8053.9	10485.0	-2431.1
Overall Balance	-7054.4	-2710.4	-4344.0	-18579.3	-14812.8	-3766.4
Memo						
Current Balance	-4682.6	713.8	-5396.3	-11991.6	-6627.1	-5364.4
Primary Balance	13444.8	17509.2	-4064.4	23917.1	28246.0	-4328.9
Performance Indicators (percentages of GDP)						
	BR	CB	PB	IP	FSR	
Q2 FY 2005/06	1.09	-0.72	2.07	3.16	-1.17	
Q2 FY 2005/06 Budget	0.42	0.11	2.70	3.11	-1.06	
Q1+Q2 FY 2005/06	2.86	-1.85	3.68	6.55	-1.22	
Q1+Q2 FY 2005/06 Budget	2.28	-1.02	4.35	6.63	-1.16	
Key						
BR = Borrowing Requirement						
CB = Current Balance = Current Revenue-Current Expenditure						
PB = Primary Balance = Total Revenues-Total Expenditures less Interest Payments (IP)						
IP = Interest Payments						
FSR =Fiscal Stability Ratio = (Overall Balance/ Total Revenue) - 1						
International Benchmarks						
BR greater than 3% of GDP often indicates serious fiscal imbalance						
FSR closer to zero indicates more stable government finances						
Negative CB ratio of less than 1% indicates dissaving or a need for fiscal adjustment as the public sector is borrowing for consumption						
PB ratio below zero indicates need for major fiscal adjustment to cover interest on past obligations						

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	<p>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%).</p> <p>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%).</p> <p>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.</p> <p>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.</p>
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	<p>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%).</p> <p>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%).</p> <p>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.</p> <p>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.</p>
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	<p>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%).</p> <p>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%).</p> <p>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.</p> <p>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.</p>
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 per cent, 16.40 per cent, 16.25 per cent, 16.15 per cent and 16.00 per cent respectively.
22/03/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 17.75 per cent, 17.00 per cent, 16.15 per cent, 15.80 per cent, 15.70 per cent, 15.60 per cent and 15.50 per cent respectively.
11/04/01	Interest rates on the 365-day and 270-day instruments were reduced to 17.50 per cent and 16.75 per cent respectively.
21/05/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.50 per cent, 15.70 per cent, 15.30 per cent, 15.05 per cent, 14.95 per cent, 14.85 per cent and 14.75 per cent respectively.
01/06/01	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty per cent (30%) to twenty nine per cent (29%). Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from twelve per cent (12%) to eleven per cent (11%). The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty nine per cent (5% and 29%) for Building Societies. The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and eleven per cent (1% and 11%) in respect of local and foreign currency deposits.
08/06/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.90 per cent, 15.35 per cent, 15.00 per cent, 14.80 per cent, 14.70 per cent, 14.60 per cent and 14.50 per cent respectively.
25/06/01	Interest rates on the 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 14.75 per cent, 14.55 per cent, 14.45 per cent, 14.35 per cent and 14.25 per cent respectively.
29/06/01	The Bank of Jamaica introduced Certificates of Deposits to the range of instruments used in open market operations. All the terms and conditions applicable to Reverse Repurchase transactions apply to Certificates of Deposits, with the exception that the latter are covered by the central bank's assets as against Government securities. Central Bank deposits which are maintained in statement form (i.e. no physical certificate is issued) will continue to be used for placements of seven (7) days or less.
01/09/01	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from twenty nine per cent (29%) to twenty eight per cent (28%). Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from eleven per cent (11%) to ten per cent (10%). The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty eight per cent (5% and 28%) for Building Societies. The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and ten per cent (1% and 10%) in respect of local and foreign currency deposits.
30/10/01	Interest rates on the 365-day, 270-day, 180-day, 90-day and 60-day instruments were increased to 19.90 per cent, 19.45 per cent, 15.50 per cent, and 15.00 per cent, 14.75 per cent and 14.55 per cent, respectively
28/12/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day and 60-day instruments were reduced to 18.90 per cent, 18.40 per cent, 15.00 per cent, and 14.55 per cent, 14.45 per cent and 14.35 per cent, respectively.
09/01/02	Interest rates on the 365-day and 270-day instruments were reduced to 17.90 per cent and 17.00 per cent, respectively.
06/02/02	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.70 per cent, 15.90 per cent, 14.70 per cent, 14.30 per cent, 14.20 per cent, 14.10 per cent and 14.00 per cent, respectively.

- 14/02/02 Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.80 per cent, 15.00 per cent, 14.40 per cent, 14.05 per cent, 13.95 per cent, 13.85 per cent and 13.95 per cent, respectively.
- 01/03/02 Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities were reduced from twenty eight per cent (28%) to twenty seven per cent (27%).

Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from ten per cent (10%) to nine per cent (9%).
- 11/03/02 Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced from 13.75 per cent, 13.85 per cent, 13.95 per cent, 14.05 per cent, 14.40 per cent, 15.00 per cent and 15.80 per cent to 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent, respectively.
- 11/07/02 Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day, and 365-day open market instruments were reduced from 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent to 12.95 per cent, 13.05 per cent, 13.15 per cent, 13.25 per cent, 13.45 per cent, 14.00 per cent, and 14.90 per cent, respectively.
- 01/09/02 Liquid Assets ratio of commercial banks, FIA institutions and of building societies, in respect of local and foreign currency liabilities were reduced from twenty seven percent (27%) to twenty three percent (23%).
- 07/08/02 Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced from 14.00 per cent to 13.85 per cent and from 14.90 per cent to 14.50 per cent, respectively.
- 09/09/02 Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 13.15 per cent to 17.25 per cent and from 13.25 per cent to 17.05 per cent, respectively.
- 09/10/02 Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 17.25 per cent to 19.25 per cent and from 17.05 per cent to 19.40 per cent, respectively.
- 28/10/02 Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were reduced from 19.25 per cent to 18.25 per cent and from 19.40 per cent to 18.40 per cent, respectively.
- 01/11/02 The interest rate chargeable in respect of breaches by commercial banks, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was reduced from 69 per cent per annum to 45 per cent per annum.

The interest rate chargeable in respect of breaches by building societies and institutions licensed under the Financial Institutions Act, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was adjusted from one-sixth of one per centum per day to 45 per cent per annum.
- 10/01/03 The Bank of Jamaica instituted a "Special Deposit" requirement for Commercial Banks and institutions licensed under the Financial Institutions Act. Each institution will be required to place cash deposits with the Central Bank equivalent to 5% of its Jamaican Dollar prescribed liabilities.
- 10/02/03 The Bank of Jamaica introduced a special five-month open market instrument which earned interest at 30% per annum. This instrument was introduced in a context of significant Jamaica dollar liquidity and protracted instability in the foreign exchange market.
- 14/02/03 The Bank of Jamaica withdrew the special five-month open market instrument which was introduced on 10 February 2003. The decision to remove this instrument came against the background of tight Jamaica dollar liquidity and the appreciation in the exchange rate over the previous four days. The removal was also in response to representations made to the Bank of Jamaica by financial institutions and understandings reached with respect to the development of foreign exchange market protocols.

19/03/03	Interest rates on Bank of Jamaica's 180-day, 270-day and 365-day open market instruments were increased to 19.65 per cent, 21.50 per cent and 24.0 per cent, respectively.
26/03/03	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were increased to 15.00 per cent, 15.30 per cent, 20.00 per cent, 24.00 per cent, 33.15 per cent, 34.50 per cent and 35.95 per cent, respectively.
25/04/03	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 28.00 per cent, 32.50 per cent and 33.00 per cent, respectively.
19/05/03	The interest rate applicable to overdrafts on accounts held with the Bank of Jamaica was increased to 65.0 per cent per annum.
24/06/03	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 26.50 per cent, 29.50 per cent and 30.00 per cent, respectively.
08/07/03	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 27.50 per cent and 28.00 per cent, respectively.
04/08/03	Interest rates on Bank of Jamaica 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 18.00 per cent, 22.00 per cent, 25.00 per cent, 25.75 per cent and 26.00 per cent, respectively.
09/09/03	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 21.00 per cent, 23.50 per cent, 23.75 per cent and 24.00 per cent, respectively.
17/10/03	Bank of Jamaica withdrew its 270-day and 365-day instruments from open market trading.
29/10/03	Bank of Jamaica returned its 270-day and 365-day instruments to open market trading at 23.75 per cent and 24.00 per cent respectively.
10/12/03	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 17.00 per cent, 20.00 per cent, 21.00 per cent, 22.00 per cent and 23.00 per cent, respectively.
09/01/04	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 18.00 per cent, 19.50 per cent, 21.00 per cent and 22.00 per cent, respectively.
21/01/04	Interest rates on Bank of Jamaica 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 15.20 per cent, 15.50 per cent, 17.00 per cent, 18.25 per cent, 20.00 per cent and 21.00 per cent respectively.
26/01/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.85 per cent, 15.00 per cent, 15.10 per cent, 16.00 per cent, 17.25 per cent, 18.75 per cent and 20.00 per cent, respectively.
16/02/04	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 15.50 per cent, 16.25 per cent, 17.75 per cent and 19.00 per cent, respectively.
27/02/04	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 17.25 per cent and 18.50 per cent, respectively.
10/03/04	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 16.95 per cent and 17.95 per cent, respectively.
10/03/04	Pursuant to Section 15 (2) (h) of the Banking Act and the Financial Institutions Act, and Regulation 38 (h) of the Bank of Jamaica (Building Societies) Regulation, the Minister of Finance determined that all debt securities or instruments issued by the Government of Jamaica, whether denominated in Jamaican dollars or in a foreign currency and irrespective of their original maturity terms, shall, within nine months of their maturity date be designated Liquid Assets.

- 02/04/04 Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.60 per cent, 14.70 per cent, 14.80 per cent, 15.10 per cent, 15.60 per cent, 16.50 per cent and 17.40 per cent, respectively.
- 19/04/04 Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.40 per cent, 14.50 per cent, 14.60 per cent, 14.85 per cent, 15.30 per cent, 16.00 per cent and 16.90 per cent, respectively.
- 05/05/04 Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.20 per cent, 14.30 per cent, 14.40 per cent, 14.55 per cent, 15.05 per cent, 15.65 per cent and 16.40 per cent, respectively.
- 03/09/04 Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.00 per cent, 14.10 per cent, 14.20 per cent, 14.35 per cent, 14.80 per cent, 15.35 per cent and 16.00 per cent, respectively.
- 28/12/04 Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 13.80 per cent, 13.95 per cent, 14.05 per cent, 14.15 per cent, 14.30 per cent, 15.00 per cent and 15.50 per cent, respectively.
- 07/02/05 Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 13.50 per cent, 13.65 per cent, 13.75 per cent, 13.85 per cent, 14.00 per cent, 14.50 per cent and 15.00 per cent, respectively.
- 07/02/05 The Bank of Jamaica reduced the Special Deposit holdings for commercial banks and FIA licensees by two (2) percentage points. Accordingly, these institutions, until further notified, are required to maintain with the Bank of Jamaica as a Special Deposit, an amount wholly in the form of cash, representing three (3) percent of their prescribed liabilities.
- 07/03/05 Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 12.95 per cent, 13.10 per cent, 13.20 per cent, 13.30 per cent, 13.45 per cent, 14.00 per cent and 14.50 per cent, respectively.

These rate adjustments were underpinned by continued stability in the exchange rate, reflecting buoyant foreign exchange inflows from tourism and remittances. Also, the Bank's net international reserves remained around US\$1.8 billion, a level that was more than adequate to underwrite near term stability. In addition, inflation in the first quarter of 2005 was expected to continue on a downward trend engendering a return to single digit inflation in the forthcoming fiscal year.

- 16/05/05 The Bank of Jamaica reduced the Special Deposit holdings for commercial banks and FIA licensees by two (2) percentage points. Accordingly, these institutions, until further notified, are required to maintain with the Bank of Jamaica as a Special Deposit, an amount wholly in the form of cash, representing one (1) percent of their prescribed liabilities.

- 26/05/05 Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 12.60 per cent, 12.70 per cent, 12.75 per cent, 12.85 per cent, 13.00 per cent, 13.25 per cent and 13.60 per cent, respectively.

The adjustments were consistent with the steady improvement in Jamaica's economic environment as reflected in buoyant foreign exchange inflows, stability in the money and foreign exchange markets and a strong international reserve position. Furthermore, the near-term prospects for production and prices continued to be very favourable with strong recovery expected in domestic agriculture as well as ongoing expansion in tourism and mining activities. In addition, it was expected that the normalization of food supplies and continued stability in the foreign exchange market would help to contain inflation during the 2005/2006 fiscal year.

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C. Summary Tables

1

INFLATION RATES			
(%)			
	CPI Index (e.o.p)	Head-line (Quarter)	Core (Quarter)
1998/1999	1182.5	6.0	2.9
1999/2000	1281.7	8.4	4.0
June	1205.9	2.0	0.9
September	1237.6	2.6	1.4
December	1265.9	2.3	0.9
March	1281.7	1.3	0.8
2000/2001	1364.3	6.4	4.2
June	1311.4	2.3	1.1
September	1349.3	2.9	1.2
December	1342.6	-0.5	0.8
March	1364.3	1.6	1.0
2001/2002	1468.5	7.6	3.3
June	1404.0	2.9	1.0
September	1442.7	2.7	1.1
December	1459.9	1.2	0.6
March	1468.5	0.6	0.6
2002/2003			
June	1492.8	1.7	0.9
September	1528.0	2.4	0.8
December	1566.1	2.5	1.2
March	1558.4	-0.4	1.3
2003/2004			
June	1653.1	6.0	2.3
September	1728.4	4.6	2.3
December	1786.8	3.4	2.0
March	1820.8	1.9	1.1
2004/2005			
June	1854.8	1.9	1.1
September	1909.2	2.9	1.2
December	2032.1	6.4	1.7
March	2061.5	1.4	1.1
2005/2006			
June	2178.9	5.7	1.7
September	2272.4	4.3	1.4

2A

COMPONENT CONTRIBUTION TO INFLATION			
All Jamaica			
July – September 2005			
Groups and Sub-groups	Weight in CPI	Inflation (%)	Contribution
FOOD & DRINK	0.5563	2.3	35.3
- Meals Away From Home	0.0741	2.7	4.5
- Meat Poultry & Fish	0.1613	4.5	16.6
- Dairy Products Oils & Fats	0.0668	2.6	3.9
- Baked Products Cereals & Breakfast Drinks	0.0864	1.8	3.5
- Starchy Foods	0.0525	-2.0	-2.4
- Vegetables & Fruits	0.0650	4.5	6.7
- Other Food & Beverages	0.0502	2.2	2.5
FUELS & OTHER HOUSEHOLD SUPPLIES	0.0735	3.9	5.0
- Household Supplies	0.0482	1.8	2.0
- Fuels	0.0253	5.1	2.9
HOUSING & OTHER HOUSING EXPENSES	0.0786	5.3	9.1
- Rental	0.0209	2.2	6.1
- Other Housing Expenses	0.0577	6.1	8.1
HOUSEHOLD FURNISHINGS & FURNITURE	0.0283	1.8	1.1
- Furniture	0.0068	2.9	0.4
- Furnishings	0.0215	1.3	0.6
HEALTHCARE & PERSONAL EXPENSES	0.0697	1.6	2.6
PERSONAL CLOTHING FOOTWEAR & ACC.	0.0507	1.6	1.9
- Clothing Materials	0.0055	1.0	0.1
- Readymade Clothing & Accessories	0.0242	1.5	0.8
- Footwear	0.0159	1.9	0.7
- Making & Repairs	0.0051	1.7	0.2
TRANSPORTATION	0.0644	25.0	36.7
MISCELLANEOUS EXPENSES	0.0785	4.7	8.4
ALL GROUPS	1.0000	4.3	100.0

2B

REGIONAL INFLATION			
Quarterly			
July – September 2005			
Groups and Sub-groups	KMA (%)	Other Towns (%)	Rural Areas (%)
FOOD & DRINK	1.1	1.9	3.6
- Meals Away From Home	3.3	2.0	2.1
- Meat Poultry & Fish	3.2	4.5	6.0
- Dairy Products Oils & Fats	2.6	2.4	2.6
- Baked Products Cereals & Breakfast Drinks	2.0	1.4	1.7
- Starchy Foods	-6.7	-4.2	1.1
- Vegetables & Fruits	-1.8	5.8	10.8
- Other Food & Beverages	1.8	2.7	2.4
FUELS & OTHER HOUSEHOLD SUPPLIES	1.4	6.9	5.4
- Household Supplies	0.9	3.7	2.0
- Fuels	1.7	8.9	7.5
HOUSING & OTHER HOUSING EXPENSES	5.3	5.5	5.2
- Rental	2.6	0.2	0.2
- Other Housing Expenses	6.3	6.1	5.7
HOUSEHOLD FURNISHINGS & FURNITURE	1.0	2.1	2.5
- Furniture	2.7	3.1	2.9
- Furnishings	0.3	1.6	2.2
HEALTHCARE & PERSONAL EXPENSES	0.8	1.6	3.0
PERSONAL CLOTHING FOOTWEAR & ACC.	1.3	1.7	1.9
- Clothing Materials	0.9	0.4	1.4
- Readymade Clothing & Accessories	0.6	1.3	2.4
- Footwear	2.3	2.5	1.1
- Making & Repairs	1.2	1.1	2.7
TRANSPORTATION	33.1	13.6	18.1
MISCELLANEOUS EXPENSES	5.6	2.3	5.0
ALL GROUPS	4.5	3.4	4.5

3

BANK OF JAMAICA OPERATING TARGETS

	Mar 04	Jun-04	Sept-04	Dec-04	Mar-05	Jun-05	Sept-05
Net International Reserves (US\$)	1 568.7	1 604.1	1 616.5	1 858.5	1 901.6	2 156.8	2 119.0
Net International Reserves (\$J)	95 531.4	99 454.2	100 224.2	115 228.2	117 899.8	133 721.6	131 376.1
- Assets	97 250.0	101 079.2	101 725.2	116 679.7	119 294.8	135 116.6	139 063.5
- Liabilities	-1 718.6	- 1 625.0	- 1 501.0	-1 451.4	-1395.0	-1 395.0	-7 687.4
Net Domestic Assets	-59 345.0	-62 841.2	-61 833.3	-70 172.6	-76 253.0	-93 641.6	-91 001.9
-Net Claims on the Public Sector	76 292.8	89 291.8	97 291.3	91 476.2	96 076.3	99 507.6	103 491.4
- Net Credit to Banks	-13 654.5	-13 127.9	-14 713.0	-15 078.8	-12 629.7	-9 784.6	-10 289.3
- Open Market Operations	-108 281.7	-123 222.1	-127 629.3	-130 692.1	-143 854.8	-167 485.1	-168 108.2
- Other	-13 701.6	-15 783.0	-16 782.3	-15 877.9	-15 844.8	-15 879.5	-16 095.8
Monetary Base	36 186.4	36 613.0	38 390.9	45 055.6	41 646.8	40 080.0	40 374.2
- Currency Issue *	24 930.6	24 597.4	26 215.9	32 398.1	28 674.9	26 995.0	27 401.5
- Cash Reserve	11 096.6	11 936.2	12 042.0	12 316.2	12 696.2	12 957.2	12 937.6
- Current Account	159.2	79.4	133.0	341.3	275.7	127.8	35.1
% change Monetary Base (F-Y-T-D)	11.3	1.2	6.1	24.5	15.1	-3.8	-3.1

* 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
2003/2004						
June	37 201.6	46754.7	109 847.2	166750.9	140 414.9	197319.3
September	39 838.8	49 028.9	114 121.8	172 760.3	146 844.5	205 483.0
December	45 220.9	55 237.5	123 090.2	183 117.4	156 387.0	216 414.2
March	44 942.9	57 124.2	124 892.6	190 784.0	160 403.2	226 294.7
2004/2005						
June	46 496.4	57 161.6	128 294.6	193 296.0	165 766.6	230 768.0
September	48 959.1	60 090.6	130 416.1	199 673.9	169 273.8	238 532.8
December ^f	55 258.0	67 724.6	141 539.8	211 468.2	182 029.6	251 723.8
March	52 605.9	62 309.4	139 480.6	209 583.2	179 769.4	249 872.0
2005/2006						
June ^f	52 942.5	62 310.9	142 111.3	212 032.6	185 090.2	255 011.5
September ^p	53 089.8	63 212.3	143 430.0	216 480.9	188 253.9	261 304.7

J- Includes local currency liabilities only

* -Includes local and foreign currency liabilities;

p - preliminary

COMPONENTS OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY
(Quarterly Flows - J\$MN)

	Dec-03	Mar 04	Jun-04	Sep-04	Dec-04 ^r	Mar-05 ^r	Jun-05 ^r	Sep-05
M2J	8 968.3	1 802.3	3 402.1	2 120.4	11 124.8	-2 059.2	2 630.8	1 318.8
Currency	4 237.9	-2 550.7	524.6	1 041.0	4 483.3	-3 108.7	-574.0	1 119.6
Demand Deposits	1 144.3	2 272.8	1 028.8	1 422.1	1 815.1	456.8	910.4	-972.3
Savings Deposits	3 002.8	804.8	2 516.2	696.9	2 739.5	-105.1	1 579.0	111.6
Time Deposits	583.3	1 275.4	-667.5	-1 039.6	2 086.9	697.8	715.4	1 059.9
OTHER DEPOSITS	574.1	2 213.9	1 961.3	1 386.9	1 631.0	-201.1	2 690.0	1 844.9
TOTAL (M3J)	9 542.5	4 016.2	5 363.4	3 507.3	12 755.8	-2 260.3	5 320.8	3 163.7

SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY

N.I.R. of B.O.J.	-1 041.3	24 584.1	2 158.3	775.1	15 100.7	2 666.0	15 788.6	-2 277.0
M&LTFL of B.O.J	11.4	0.0	0.0	21.7	12.0	0.0	11.7	0.0
Banking System Credit	19 677.6	-17 447.3	22 552.0	6 749.4	-10 580.7	913.5	18 620.4	5 566.3
Public Sector	14 585.8	-22 169.1	21246.0	4 260.7	-11 009.8	-1 164.3	15 559.3	3 864.9
Private Sector	5 091.8	4 721.8	1 306.0	2 488.7	429.1	2 077.8	3061.1	1 701.4
Open Market Operations	1 730.9	-26 312.3	-14 940.4	-4 407.2	-3 062.8	-13 162.8	-23 658.2	-595.1
Other	-10 836.1	23 191.7	-4 418.2	368.3	11 286.6	7 323.0	-5 441.7	469.5
TOTAL	9 542.5	4 016.2	5 363.4	3 507.3	12 755.8	-2 260.3	5 320.8	3 163.7
<i>Memo:</i>								
Foreign Currency Deposits (Private Sector)	1 388.8	5 864.3	-890.1	4 257.6	633.6	210.1	-181.3	3 129.6
Foreign Currency Loans (Private Sector)	1 019.5	1 199.1	339.9	608.9	3 367.5	1 594.9	-2 901.0	3 389.6

preliminary

r-revised

6A

SELECTED INTEREST RATES (%)							
(End-of-Period)							
	Fixed Deposits *		Savings Deposits (Average) ^r	Demand Loan Rate (Average)	Fixed Deposits Rate (Weighted Average)	Loan Rate (Weighted Average)	Inter-bank Lending Rate (Average)
	3-6 months	6-12 months					
2002/2003							
June	7.75-13.25	7.75-13.25	9.00	25.92	9.28	18.15	14.68
September	7.75-13.25	7.75-13.25	8.86	26.25	8.98	18.08	13.88
December	7.75-13.25	7.75-13.25	8.96	25.04	8.92	18.26	11.50
March	8.50-13.15	8.50-13.15	8.22	24.73	8.87	17.23	21.90
2003/2004							
June	8.50-13.15	8.50-13.15	8.22	25.18	8.98	19.23	38.40
September	8.50-13.25	8.50-13.50	8.43	25.60	9.02	19.87	17.01
December	8.50-13.25	8.50-13.50	7.24	25.60	8.68	19.32	24.08
March	8.50-13.25	8.50-13.50	6.78	25.40	8.47	19.01	17.16
2004/2005							
June	8.50 - 13.25	8.50-13.50	6.61	25.02	8.15	17.75	15.75
September	8.50 - 13.25	8.50-13.50	6.61	24.95	7.99	17.76	8.38
December	3.00 - 14.10	3.50-14.30	6.48	24.89	7.78	17.72	12.95
March	3.00 - 14.10	3.50-14.30	6.36	24.89	7.54	17.35	12.58
2005/2006							
June	3.00-14.10	3.50-14.30	5.52	24.70	7.34	16.43	10.00
September	2.50- 14.10	3.00-14.30	5.48	22.00	n.a.	n.a.	11.13

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

6B

GOJ TREASURY BILL YIELDS				
(End of Period)				
	3-month	6-month	9-month	12-month
2000/2001				
September	16.62	17.13	16.91	16.94
December		20.16	19.67	20.98
March		16.88		17.86
2001/2002				
June	23.48	16.20		
September	22.23	15.10	15.50	
December	22.12	17.03		
March	21.49	14.30		14.96
2002/2003				
June		13.81		14.77
September		16.69	16.98	
December		17.01		
March		33.47		
2003/04				
June		28.46		
September		23.42	23.87	
December		22.05		
March	15.23	15.57		
2004/05				
June	15.04	14.98	15.18	
September	14.41	14.80		16.36
December	14.41	14.94		
March	13.21	13.46	14.00	
2005/2006				
June	12.85	12.88		
September	12.96	13.15		

BANK OF JAMAICA OPEN MARKET INTEREST RATES							
(End Period)							
Tenor of Instruments							
End Period	30 days	60 days	90 days	120 days	180 days	270 days	365 days
2001/2002							
<i>June</i>	14.25	14.35	14.45	14.55	14.75	15.35	15.90
<i>September</i>	14.25	14.35	14.45	14.55	14.75	15.35	15.90
<i>December</i>	14.25	14.35	14.45	14.55	15.00	18.40	18.90
<i>March</i>	13.25	13.35	13.45	13.55	13.80	14.20	15.00
2002/2003							
<i>June</i>	13.25	13.35	13.45	13.55	13.80	14.20	15.00
<i>September</i>	12.95	13.05	17.25	17.05	13.45	13.85	14.50
<i>December</i>	12.95	13.05	18.25	18.40	13.45	13.85	14.50
<i>March</i>	15.00	15.30	20.00	24.00	33.15	34.50	35.95
2003/2004							
<i>June</i>	15.00	15.30	20.00	24.00	26.50	29.50	30.00
<i>September</i>	15.00	15.30	18.00	21.00	23.50	23.75	24.00
<i>December</i>	15.00	15.30	17.00	20.00	21.00	22.00	23.00
<i>March</i>	14.85	15.00	15.10	15.50	16.00	16.95	17.95
2004/2005							
<i>June</i>	14.20	14.30	14.40	14.55	15.05	15.65	16.40
<i>September</i>	14.00	14.10	14.20	14.35	14.80	15.35	16.00
<i>December</i>	13.80	13.95	14.05	14.15	14.30	15.00	15.50
<i>March</i>	12.95	13.10	13.20	13.30	13.45	14.00	14.50
2005/2006							
<i>June</i>	12.60	12.70	12.75	12.85	13.00	13.25	13.60
<i>September</i>	12.60	12.70	12.75	12.85	13.00	13.25	13.60

JAMAICA: GOVERNMENT BOND MARKET			
GOJ Maturities			
July – September 2005			
Maturity Date		Amount J\$M	Applicable Interest Rate^{b/}
8 July	FR US\$ Ind. Bond 2005 A	US\$ 51.5	11.625
15 July	15.0% LRS 2011B Trs. D – K	327.8	15.00
15 July	GOJ Inv. Deb. 2005 Ser. " Ad"	6289.7	25.00
22 July	VR LRS 2005/2006 H	1000.0	16.69
28 July	11.25% U\$ Bd. 2005A	US\$3.0	11.25
16 Aug	FR LRS 2005 AF	500	14.625
17 Aug	FR LRS 2005 AE	31.298	16.5
17 Aug	FR LRS 2005 AE	568.702	16.5
19-Aug	VR LRS 2005/2006 F Tr. B	500	15.9
19-Aug	25% FR LRS 2005	610	25
23-Aug	15% FR LRS 2005	149.500	15.0
30 Aug	VR Inv. Bd. 2005/2006 Ser. "C"	1186.347	15.21
Sep 6	FR LRS 2005 AJ	300	13.875
Sep 7	FR LRS 2005 AG	500	14.625
15 Sep	VR LRS 2005/2006G	1000	14.93
28 Sep	GOJ US\$100mn L.B.I. 2005	US 100	12.0
30 Sep	FR LRS 2005 AK	600	13.875
30 Sep	10% LRS 2007E TR. C	28.104	10.0

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 2005

Issue Date	Stock Name	Features	Amount Raised J\$M
08 July	FR LRS 2010 AE	Tenor of 5 years. Coupon rate fixed at 13.95%. Interest paid semi-annually. Average yield of 14.16%.	400.0
	FR LRS 2013 AF	Tenor of 8 years. Coupon rate fixed at 14.125%. Interest paid semi-annually. Average yield of 14.48%	300.0
13- 18 July	FR 13.75% Investment Debenture 2008 Series "Au"	Tenor of 36 months. Interest rate fixed 13.75%. Interest paid quarterly.	3 632.73
26 – 29 July	VR Investment Bond 2007/2008 Series "Q"	Tenor of 24 months. Coupon rate fixed at 13.25% for first six months. Thereafter, quarterly interest payments of 1.5 percentage points above the applicable six-month Treasury bill rate.	5 519.56
10 – 12 August	VR Investment Bond 2009/2010 Series "R"	Tenor of 48 months. Coupon rate fixed at 13.10% for first six months. Thereafter, semi-annual interest payments of 1.5 percentage points above the applicable six-month Treasury bill rate.	4064.50
19 August	FR LRS 2011 AE	Tenor of 6 years. Coupon rate fixed at 13.95%. Interest paid semi-annually. Average yield of 14.50%.	400.0
	FR LRS 2015 AA	Tenor of 10 years. Coupon rate fixed at 14.25%. Interest paid semi-annually. Average yield of 14.83%.	300.0
29 – 31 August	FR 14.125% Local Registered Bond 2012 Series "F"	Tenor of 84 months. Interest rate fixed 14.125%. Interest paid quarterly.	712.54
	VR Investment Bond 2008/2009 Series "S"	Tenor of 36 months. Coupon rate fixed at 13.05% for first six months. Thereafter, quarterly interest payments of 1.5 percentage points above the applicable three-month Treasury bill rate	2774.74
7 – 9 September	FR LRS 2009 AM	Tenor of 4 years. Coupon rate fixed at 13.75%. Interest paid semi-annually. Average yield of 14.30%.	600.0
16 September	FR LRS 2012 AE	Tenor of 7 years. Coupon rate fixed at 14.00%. Interest paid semi-annually. Average yield of 15.19%.	305.3
28-29 September	FR 8.125% US\$ denominated Local Bond 2010	Tenor of 5 years. Coupon rate fixed at 8.125%. Interest paid semi-annually.	US\$150.0

Notes:

a/ Closed early on 12 May instead of 13 May.

b/ Closed early on 26 May instead of 27 May.

Source: Debt Management Unit, Ministry of Finance & Planning

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EXTERNAL TRADE – GOODS EXPORTS (f.o.b)								
(Flows - US\$MN)								
	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non- Traditional	Other Goods	Total Exports
2001/2002	97.7	629.5	68.5	17.9	72.0	291.1	247.0	1 423.7
June	23.5	182.0	34.9	5.0	18.9	66.0	69.2	399.5
September	25.5	174.3	6.1	4.0	18.5	73.5	72.1	374.0
December	20.7	122.4	0.0	4.4	15.7	93.4	63.9	320.5
March	28.0	150.8	27.5	4.5	18.9	58.2	41.8	329.7
2002/2003	99.9	615.6	64.5	17.7	74.4	227.8	213.7	1 313.6
June	22.9	138.9	30.6	4.5	20.9	51.3	56.2	325.3
September	25.4	147.1	8.0	4.4	20.5	60.3	67.9	333.6
December	29.9	167.0	0.0	4.1	14.2	59.3	46.0	320.5
March	21.7	162.6	25.9	4.7	18.8	56.9	43.6	334.2
2003/2004^f	92.3	726.0	82.9	18.6	65.7	250.9	231.0	1 467.4
June	24.1	166.0	28.9	5.0	17.6	52.4	52.0	346.0
September	23.1	183.2	10.4	4.4	18.5	66.0	60.2	365.8
December	21.0	176.7	1.1	4.6	12.6	60.4	63.2	339.6
March	24.1	200.1	42.5	4.6	17.0	72.1	55.6	416.0
2004/2005^f	82.1	815.7	87.0	8.2	74.2	272.6	216.3	1 556.1
June	25.4	202.8	47.9	4.3	19.2	77.3	55.8	432.7
September	22.3	173.8	7.7	3.9	20.3	59.9	66.7	354.6
December	8.6	237.8	0.0	0.0	19.6	74.1	58.2	398.3
March	25.8	201.3	31.4	0.0	15.1	61.3	35.6	370.5
2005/2006^p								
June	22.6	229.4	41.5	2.1	17.2	61.9	47.2	421.9

r-revised

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

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

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

	Dec-03	Mar-04 ^r	Jun-04 ^r	Sep-04 ^r	Dec-04 ^r	Mar-05 ^r	Jun-05 ^p
1. Current Account	-202.4	-34.4	-57.0	-226.8	-191.2	-79.3	-181.6
A. Goods Balance	-502.5	-421.9	-394.0	-531.1	-597.5	-589.7	-548.3
Exports (f.o.b.)	339.6	416.0	432.7	354.6	398.3	370.5	421.9
Imports (f.o.b.)	842.1	837.9	826.7	885.7	995.8	960.2	970.2
B. Services Balance	133.8	202.2	160.1	100.7	108.7	259.4	172.8
Transportation	-33.5	-14.1	-29.1	-48.6	-58.5	-24.0	-49.5
Travel	274.6	325.2	297.7	252.2	276.4	387.4	326.5
Other Services	-107.3	-108.9	-108.5	-102.9	-109.2	-104.0	-104.2
Goods & Services Balance	-368.7	-219.7	-233.9	-430.4	-488.9	-303.3	-375.5
C. Income	-167.2	-148.3	-153.0	-131.5	-149.9	-143.9	-169.1
Compensation of Employees	33.5	4.8	11.1	32.0	36.6	6.7	9.8
Investment Income	-200.7	-153.1	-164.1	-163.5	-186.5	-150.6	-178.9
D. Current Transfers	333.5	333.6	329.9	335.1	447.5	394.9	363.0
General Government	25.8	27.5	27.0	40.8	64.6	39.2	28.8
Other Sectors	307.7	306.1	302.9	294.3	382.9	355.7	334.2
2. Capital & Financial Account	202.4	34.4	57.0	226.8	191.2	79.3	181.6
A. Capital Account	1.2	-0.4	0.8	0.2	1.6	-3.0	-2.8
Capital Transfers	1.2	-0.4	0.8	0.2	1.6	-3.0	-2.8
General Government	0.0	3.4	3.5	3.4	3.5	0.1	0.2
Other Sectors	1.2	-3.8	-2.7	-3.2	-1.9	-3.1	-3.0
Acq./disp. Of non-produced non-fin. assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
B. Financial Account	201.2	34.8	56.2	226.6	189.6	82.3	184.4
Official Investment	-22.3	253.5	73.9	32.9	118.9	-48.5	2.2
Private Investment							
(including net errors & omissions)	205.8	185.0	17.7	206.2	312.7	173.9	437.4
Reserves	17.7	-403.7	-35.4	-12.5	-242.0	-43.1	-255.2

r-revised

p-provisional

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PRIVATE SECTOR QUARTERLY CURRENT GROSS TRANSFERS (INCLUDING REMITTANCE INFLOWS) (US\$MN)							
	Commercial Banks	Remittance Companies	Post Offices	Building Societies	Total Remit. Inflows	Other Current Transfers	Total
2002/2003	293.0	622.8	0.8	252.6	1 169.2	105.4	1 274.6
June	73.2	157.6	0.1	58.8	289.7	23.1	312.8
September	74.0	150.9	0.2	65.6	290.7	23.1	313.8
December	66.3	160.2	0.2	65.8	292.5	23.2	315.7
March	79.5	154.1	0.3	62.4	296.3	36.0	332.3
2003/2004	330.7	697.8	1.2	298.1	1 327.8	144.0	1 471.8
June	58.8	170.1	0.3	63.2	292.4	36.0	328.4
September	74.5	169.4	0.3	71.6	315.8	36.0	351.8
December	100.8	183.4	0.3	80.4	364.9	36.0	400.9
March	96.6	174.9	0.3	82.9	354.7	36.0	390.7
2004/2005	388.2	789.5	1.2	330.7	1 509.6	330.0	1 839.6
June	96.9	185.6	0.3	83.3	366.1	40.2	406.3
September	70.2	186.3	0.3	84.8	341.6	48.3	389.9
December	97.4	216.5	0.3	88.9	403.1	134.1	537.2
March	123.7	201.1	0.3	73.7	398.8	107.4	506.2
2004/2006							
June	104.0	220.0	0.3	80.1	404.4	47.1	451.5
September	122.7	222.9	0.3	77.7	423.6	47.0	470.6

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BANK OF JAMAICA: NET INTERNATIONAL RESERVES (End-of-Period)						
	Gross Foreign Assets (US\$MN)	Gross Foreign Liabilities (US\$MN)	International Reserves (Net) (US\$MN)	Weeks of Imports Goods & Services		
				Goods		
2001/2002						
June	1 612.5	71.9	1 540.5	27.3		18.6
September	1 605.9	69.2	1 536.7	27.1		18.6
December	1 903.3	62.6	1 840.7	33.2		22.5
March	2 000.3	58.7	1 941.6	34.9		23.6
2002/2003						
June	1837.5	55.2	1 782.3	31.2		20.6
September	1738.6	51.3	1 687.3	29.5		19.5
December	1643.1	46.1	1 597.0	27.9		18.4
March	1382.2	42.5	1 339.7	22.1		14.8
2003/2004						
June	1 165.2	37.8	1 127.4	18.3		12.0
September	1216.6	34.0	1182.6	19.0		12.8
December	1 196.3	31.4	1 164.9	18.3		12.5
March	1 596.9	28.2	1 568.7	25.0		16.6
2004/2005						
June	1630.3	26.2	1604.1	22.5		15.3
September	1 640.7	24.2	1 616.5	23.5		16.0
December	1 881.9	23.4	1 858.5	27.5		18.7
March	1 924.1	22.5	1901.6	27.5		18.8
2004/2005						
June	2 179.3	22.5	2 156.8	28.1		19.5
September	2 243.0	124.0	2 119.0	27.0		19.1

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FOREIGN EXCHANGE SELLING RATES (J\$ per unit of foreign currency-end period)			
	US\$	Can\$	GB£
2001/2002			
June	45.82	29.80	63.94
September	45.94	29.00	66.74
December	47.40	29.45	67.94
March	47.61	29.88	67.14
2002/2003			
June	48.51	31.95	72.98
September	49.27	31.11	76.60
December	50.97	32.09	80.97
March	56.24	37.48	87.41
2003/2004			
June	59.01	43.69	96.79
September	59.71	43.92	98.54
December	60.62	46.59	107.45
March	61.01	46.46	111.34
2004/2005			
June	61.22	45.65	102.39
September	61.89	49.05	111.62
December	61.63	50.66	117.92
March	61.54	50.61	115.35
2005/2006			
June	61.84	50.52	110.52
September	62.89	53.61	110.02

15

STOCK MARKET ACTIVITIES Jamaica Stock Exchange			
	<i>JSE Index</i>	<i>Volume Traded (M.)</i>	<i>Value of Stocks Traded (J\$M.)</i>
2001/2002			
September	33,892.4	182.8	840.4
December	33,835.6	171.3	704.9
March	37,446.0	417.7	1,195.5
2002/2003			
June	38,606.7	404.9	1,359.9
September	39,219.6	401.1	2,321.1
December	45,396.2	380.9	1,494.4
March	46,982.0	1,240.1	7,155.5
2003/2004			
June	50,478.9	352.4	2,077.7
September	57,769.1	2,167.4	11,321.3
December	67,586.7	530.5	3,682.9
March	99,630.2	3,380.8	14,533.7
2004/2005			
June	94,718.4	665.7	9,395.7
September	99,819.8	391.1	4,920.4
December	112,655.5	532.0	7,144.9
March	111,931.2	920.4	18,029.3
2005/2006			
June	110,621.9	866.8	14,136.8
September	103,332.6	387.8	4,189.6

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

PUBLIC SECTOR DOMESTIC SECURITIES Government of Jamaica Outstanding Stocks (J\$MN)				
End Period	Local Registered Stocks	Treasury Bills	Bonds	BOJ Open Market Operations Securities
2001/2002				
September	230 172.6	5 450.0	53 437.6	77 525.5
December	217 361.8	3 900.0	71 004.0	85 628.3
March	212 110.0	4 250.0	79 151.0	99 195.3
2002/2003				
June	219 738.5	4 350.0	80 516.1	97 006.3
September	232 873.9	4 350.0	88 274.7	96 072.3
December	240 843.3	4 150.0	99 432.9	89 981.3
March	240 923.0	2 950.0	114 524.1	86 203.8
2003/2004				
June	241,163.2	2 000.0	137,960.0	77 126.4
September	232 914.5	2 400.0	160 594.3	83 700.3
December	228 509.3	4 400.0	178 308.3	81 969.4
March	220 819.2	3 750.0	184 219.0	108 281.7
March	240 923.0	2 950.0	114 524.1	86 203.8
2004/2005				
June	222 372.2	3 950.0	187 932.0	123 222.1
September	222 522.4	3 750.0	197 847.6	127 629.3
December	220 290.5	3 750.0	210 300.0	130 692.1
March	218 412.6	4 050.0	214 565.6	143 854.8
2005/2006				
June	220 529.2	4 050.0	231 749.8	167 485.1
September	n.a.	3 800.0	n.a.	168 108.2

n.a.: Not Available

PRODUCTION OF SELECTED COMMODITIES (Quarterly Flows- 000', tonnes)				
	Bauxite	Alumina	Sugar	Bananas*
2001/2002	3 808.4	3 493.7	184.8	42.3
June	888.5	943.4	91.5	11.0
September	997.2	946.3	7.3	9.9
December	816.1	738.0	4.2	10.8
March	1 106.6	866.0	81.8	10.6
2002/2003	3 917.5	3 698.7	186.1	37.7
June	888.1	887.3	76.8	10.3
September	961.2	932.0	11.8	9.7
December	1 110.8	945.2	4.7	9.3
March	964.4	934.2	92.8	8.4
2003/2004	3 842.4	3 956.4	174.7	40.1
June	992.9	957.0	53.7	9.9
September	975.3	939.8	1.3	10.2
December	916.7	1 012.6	5.9	10.5
March	957.5	1 047.0	113.8	9.5
2004/2005	3 451.4	4 028.5	142.0	18.1
June	1 071.2	1 046.4	60.0	9.9
September	907.1	866.7	3.7	8.2
December	398.5	1 062.6	3.6	0.0
March	1 074.6	1 052.8	74.7	0.0
2005/2006				
June	916.0	1 061.8	51.6	4.5
September	1 022.3	1 013.7	0.0	3.6

* Exports

Source: Statistical Institute of Jamaica

**GROSS DOMESTIC PRODUCT BY INDUSTRY IN PRODUCER'S VALUES,
AT CONSTANT (1996) PRICES
Jun 2003 - Jun 2005 (Seasonally Unadjusted)**

	Jun-03	Sep-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05
Total Gross Domestic Product	2.52	1.09	1.81	2.29	2.58	-0.28	-0.88	0.02	0.28
Agriculture, Forestry & Fishing	2.13	6.09	10.44	1.30	0.51	-8.84	-30.06	-26.10	-16.87
<i>Export Agriculture</i>	-15.12	-16.25	4.56	19.84	8.68	-0.98	-68.33	-51.27	-42.03
<i>Domestic Agriculture, Livestock, Forestry & Fishing</i>	7.65	9.77	11.60	-4.03	-1.55	-9.83	-22.99	-17.07	-9.86
Mining & Quarrying	8.16	1.12	4.10	10.20	7.87	-7.79	0.07	0.84	0.16
Manufacturing	-1.92	-0.99	-2.01	5.05	6.84	-0.40	-0.02	-3.17	0.67
<i>Food, Beverages & Tobacco</i>	1.66	-3.85	-4.99	6.10	5.63	0.97	3.65	-3.36	0.52
<i>Other Manufacturing</i>	-6.71	2.63	1.01	3.66	8.60	-2.02	-3.50	-2.92	0.88
Electricity & Water	5.77	4.88	2.80	3.56	3.10	-6.45	-0.23	0.44	1.74
Construction & Installation	2.99	0.49	0.18	2.98	0.79	6.03	9.49	11.38	9.23
Distributive Trade	0.84	1.05	1.52	1.47	1.19	1.80	0.90	1.77	1.15
Transport, Storage & Communication	5.52	0.64	1.40	1.80	3.57	-0.79	-1.06	2.23	-0.44
Finance & Insurance Services	5.57	0.41	0.55	-1.05	-2.59	-0.20	1.02	-0.43	-0.35
Real Estate & Business Services	2.41	1.96	0.90	2.41	1.92	2.54	1.58	1.65	2.16
Producers of Government Services	-0.14	0.45	0.84	0.10	0.25	0.10	0.47	0.61	0.35
Miscellaneous Services Household and Private Non-Profit Institutions	4.76	3.60	5.74	5.37	8.68	1.91	0.08	5.56	-0.73
<i>Hotels, Restaurants & Clubs</i>	5.69	3.97	6.31	6.17	10.65	1.66	-0.65	6.81	-1.42
Less Imputed Bank Service Charge	2.70	3.14	1.02	8.22	6.58	2.24	3.52	2.08	-1.10

D. BANK OF JAMAICA BALANCE SHEET

ASSETS AND LIABILITIES (End of Period) J\$MN									
	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05
Assets	156 818.4	165 318.2	186 811.5	191 018.4	196 888.5	210 619.0	222 399.7	240 192.4	248 926.4
<i>Foreign</i>	72 298.2	72 134.5	97 232.2	99 458.8	101 367.1	113 727.7	118 206.1	134 085.9	140 935.2
Current Account & Foreign Currency Balances	11 163.0	6 091.0	6 881.8	9 162.7	9 824.6	12 036.4	14 005.1	16 263.7	17 681.6
Time Deposits & Securities	54 278.5	60 805.0	84 931.4	84 922.5	86 121.4	96 047.5	98 606.1	108 978.7	120 550.1
Holdings of Special Drawing Rights	19.7	3.2	4.8	23.8	6.0	4.4	10.5	2.6	25.2
Other	6 837.0	5 235.3	5 414.2	5 349.8	5 415.1	5 639.4	5 584.4	8 840.9	2 678.3
<i>Local</i>	84 520.2	93 183.7	89 579.3	91 559.6	95 521.4	96 891.3	104 193.6	106 106.5	107 991.2
Public Sector Securities	68 465.9	78 147.1	77 836.0	76 989.0	85 125.6	85 131.1	85 139.9	85 125.9	90 034.8
Other Assets	16 054.3	15 036.6	11 743.3	14 570.6	10 395.8	11 760.2	19 053.7	20 980.6	17 956.4
Liabilities	156 818.4	165 318.2	186 811.5	191 018.4	196 888.5	210 619.0	222 399.7	240 192.4	248 926.4
<i>Foreign</i>	459.2	479.3	459.8	427.0	401.4	424.3	370.7	395.2	342.2
<i>Local</i>	156 359.1	164 839.0	186 351.7	190 591.4	196 487.1	210 194.7	222 028.9	239 797.2	248 584.2
Currency in Circulation	21 587.9	29 467.0	24 978.0	24 634.4	26 261.3	32 438.3	28 711.7	27 049.7	27 445.9
Deposits	115 342.8	112 076.8	146 088.2	155 259.4	159 435.8	165 535.6	179 817.5	201 790.1	207 259.0
Bankers	25 022.0	25 659.9	26 197.7	26 499.4	28 278.6	29 186.6	27 086.5	24 396.5	24 819.5
Government	2 000.8	1 235.2	5 045.7	3 098.7	656.5	3 482.6	4 739.6	6 774.8	4 637.5
Open Market Operations	83 700.3	81 969.4	108 281.7	123 222.1	127 629.3	130 692.1	143 854.8	167 485.1	168 108.2
Other	4 619.7	3 212.3	6 563.1	2 439.2	2 871.4	2 174.3	4 136.6	3 133.7	9 693.8
Allocation of Special Drawing Rights	3 203.0	3 203.0	3 203.0	3 573.6	3 573.6	3 573.6	3 573.6	3 792.7	3 792.6
Capital & Reserves	4.0	4.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Other Reserves	1 628.8	990.3	1 270.4	2 311.1	2 283.6	2 285.9	2 282.3	2 983.3	2 961.6
Other Liabilities	14 592.7	19 097.8	10 788.1	4 788.9	4 908.8	6 337.3	7 619.9	4 157.4	7 101.1

E. COMMERCIAL BANKS' BALANCE SHEET

ASSETS AND LIABILITIES (End-of -period) J\$MN									
	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05 ^r	Jun-05 ^r	Sep-05 ^p
Assets	306 632.7	313 516.6	331 710.5	327 721.8	341 427.1	344 378.6	343 452.4	346 352.9	356 544.8
Cash	2 638.1	6 281.0	4 335.8	3 478.0	4 055.5	5 754.4	5 139.9	4 034.0	3 320.8
Balances with BOJ	40 947.6	40 249.2	50 545.4	53 281.4	52 877.8	55 896.7	59 776.1	61 415.5	62 486.9
Foreign Assets	56 953.0	59 938.9	62 394.6	61 318.4	71 803.7	73 289.8	67 327.2	61 079.6	71 290.6
Loans & Advances	91 254.9	99 150.0	102 504.2	106 169.9	108 989.0	113 368.8	118 444.9	125 513.2	124 842.3
Private Sector	66 396.8	71 638.4	75 699.2	77 451.2	80 687.3	83 558.3	88 548.4	88 829.5	93 714.5
Public Sector	24 858.1	27 511.6	26 805.0	28 718.7	28 301.7	29 810.5	29 896.5	36 683.7	31 127.8
Public Sector Securities	79 905.7	74 852.1	66 686.3	65 707.7	62 695.7	56 455.4	52 434.0	57 644.9	56 515.4
Cheques in the Process of Collection	3 023.1	2 584.2	6 310.9	2 658.7	5 381.2	4 040.6	6 330.5	3 484.2	4 860.9
Other Assets	31 910.3	30 461.2	38 933.3	35 107.7	35 624.2	35 572.9	33 999.8	33 181.5	33 227.9
Liabilities	306 632.7	313 516.6	331 710.5	327 721.8	341 427.1	344 378.6	343 452.4	346 352.9	356 544.8
Deposits	194 580.3	198 774.8	216 777.3	214 596.2	223 188.9	228 190.5	234 117.2	233 407.8	240 794.3
Local Currency	120 691.9	122 976.1	134 730.5	132 670.0	135 475.1	139 515.4	145 325.4	143 720.0	144 734.2
Foreign Currency	73 888.4	75 798.7	82 046.8	81 926.2	87 713.8	675.1	88 791.9	89 687.8	96 060.1
Foreign Liabilities	16 771.1	15 900.5	15 860.8	18 655.6	22 932.1	26 374.9	28 856.4	31 241.4	30 496.4
Discounts & Advances from BOJ	95.6	167.7	276.7	1 607.3	199.6	229.9	117.5	144.1	361.6
Loans/Advances from Other Institutions	8 674.7	9 431.7	7 741.2	7 805.5	7 806.5	7 762.3	5 214.4	5 042.9	5 059.6
Cheques in the Process of Payment	2 161.0	2 112.4	3 279.7	2 218.9	3 172.3	2 498.5	3 056.4	2 828.2	2 616.4
Other Liabilities	84 350.0	87 129.5	87 774.8	82 838.3	84 127.7	79 322.5	72 090.5	73 688.9	77 216.5

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
December	2.3890	2.4959	2.7069	3.0109
March	2.6464	2.8335	3.0700	3.4237
2005/2006				
June	3.2498	3.4263	3.6131	3.8135
September	3.7779	3.8981	4.0363	4.1951

2

LONDON MONEY RATES – INTERBANK STERLING (End- of-Period)				
	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2001/2002				
June	5 – 5 1/8	5 1/8 – 5 1/4	5 1/4 – 5 3/8	5 1/2 – 5 5/8
September	4 9/16 – 4 11/16	4 13/32 – 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 3/4	5 1/16 – 4 15/16	5 1/4 – 5 1/8
September	4 27/32 – 4 23/32	4 15/16 – 4 13/16	5 – 4 7/8	5 1/8 – 5
December	4 7/8 – 4 3/4	4 29/32 – 4 25/32	4 15/16 – 4 13/16	4 31/32 – 4 27/32
March	4 27/32 – 4 3/4	4 31/32 – 4 7/8	5 1/32 – 4 15/16	5 1/8 – 5 1/32
2005/2006				
June	4 27/32 – 4 11/16	4 25/32 – 4 5/8	4 23/32 – 4 9/16	4 19/32 – 4 13/32
September	4 19/32 – 4 15/32	4 19/32 – 4 15/32	4 9/16 – 4 7/16	4 7/16 – 4 13/32

3

PRIME LENDING RATES (End-of-Period)						
	EURO-ZONE	UNITED STATES			UNITED KINGDOM	
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Repo rate	
2001/2002						
June	4.50	3.75	3.25	6.75	5.25	
September	3.75	3.00	2.50	6.00	4.75	
December	3.25	1.75	1.25	4.75	4.00	
March	3.25	1.75		4.75	4.00	
2002/2003						
June	3.25	1.75	1.25	4.75	4.00	
September	3.25	1.75	1.25	4.75	4.00	
December	2.75	1.25	0.75	4.25	4.00	
March	2.50	1.25	2.25	4.25	3.75	
2003/2004						
June	2.00	1.00	2.00	4.00	3.75	
September	2.00	1.00	2.00	4.00	3.50	
December	2.00	1.00	2.00	4.00	3.75	
March	2.00	1.00	2.00	4.00	4.00	
2004/2005						
June	2.00	1.25	2.01	4.00	4.50	
September	2.00	1.75	2.58	4.75	4.75	
December	2.00	2.25	3.15	5.25	4.75	
March	2.00	2.75	3.58	5.50	4.75	
2005/2006						
June	2.00	3.25	4.01	6.00	4.75	
September	2.00	3.75	4.59	6.75	4.50	

4A

INTERNATIONAL EXCHANGE RATES US\$ vs. OTHER MAJOR CURRENCIES (Currency/US\$) (End-of-Period)								
	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05
US\$ vs. Sterling	0.5603	0.5476	0.55167	0.55279	0.5188	0.5248	0.5502	0.5653
US\$ vs. Canadian \$	1.2924	1.3284	1.3404	1.2417	1.2191	1.2161	1.2402	1.1606
US\$ vs. Yen	107.11	108.51	109.38	110.20	103.90	105.23	108.7532	113.340
US\$ vs. Euro	0.7939	0.8155	0.82097	0.80535	0.7472	0.7580	0.8227	0.8294

4B

INTERNATIONAL EXCHANGE RATES EXCHANGE CROSS RATES (September 2005)						
	GBP	CAN\$	US\$	Yen	Euro	
GBP	1.000	2.0532	1.7691	200.510	1.467	
CAN\$	0.487	1.000	0.862	94.429	0.715	
US\$	0.565	1.161	1.000	113.340	0.829	
Yen	0.005	0.011	0.009	100.000	0.007	
Euro	0.682	1.399	1.206	136.648	1.000	

4C

INTERNATIONAL EXCHANGE RATES STERLING vs. OTHER MAJOR CURRENCIES (End of Period)							
	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05
Sterling vs. US\$	1.8263	1.8127	1.8090	1.9278	1.9058	1.8177	1.7691
Sterling vs. Canadian \$	2.4259	2.4297	2.2853	2.3502	2.3177	2.2543	2.0532
Sterling vs. Yen	198.12	199.41	197.50	200.29	200.52	197.67	200.51
Sterling vs. Euro 1/	1.4893	1.4881	1.4875	1.4404	1.4445	1.4954	1.467

5A

WORLD COMMODITY PRICES ALUMINIUM (US\$ per tonne) (End- of-Period)							
	Jun-0	Sep-04	Dec-04	Mar-05	Jun-05	Sept-05	
Spot (Cash)	1698.5	1823.0	1849.55	1982.40	1731.30	1857.00	
3 Month	1704.5	1812.0	1851.55	1962.50	1748.18	1877.00	

5B

WORLD COMMODITY PRICES FOOD (End- of-Period)							
	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05
Wheat (US\$/mt)	166.3	153.0	151	153.9	151.0	141.9	159.7
Coffee (US\$/kg arabica brand)	170.5	172.4	177.4	228.82	297.1	267.4	219.3

5C

MAJOR STOCK MARKET INDICES							
<i>(End-of-Period)</i>							
	Mar-04	June-04	Sep-04	Dec-04	Mar-05	Jun-05	Sept-05
TOKYO							
Nikkei Index	11715.39	11858.87	10823.57	11488.76	11668.95	11584.01	13574.30
NEW YORK							
Dow Jones Industrials	10357.70	10435.48	10080.27	10783.01	10525.26	10274.97	10568.70
S & P Composite	1126.21	1140.75	1114.58	1211.92	1183.00	1191.33	1228.81
LONDON							
Financial Times SE 100	4385.70	4464.10	4570.80	4814.30	4894.40	5113.20	5477.7
FRANKFURT							
Dax Index	4052.73	3892.90	4256.08	4348.77	4586.28	4348.77	5044.12
ZURICH							
SMI Index	5619.10	5465.30	5693.20	5929.70	6253.08	5929.70	6898.88

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WORLD COMMODITY PRICES							
KEY CRUDE OIL PRICES (US\$/barrel – f.o.b.)							
<i>(End-of-Period)</i>							
	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sept-05
UAE's Dubai Light	30.46	33.40	35.48	34.26	45.58	50.97	56.54
North Sea Brent	32.41	33.04	43.38	39.64	53.08	54.31	61.88
West Texas Intermediate	32.55	35.78	37.05	45.93	43.23	56.39	66.25

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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