QUARTERLY MONETARY POLICY REPORT

OCTOBER - DECEMBER 2001
Volume 2 No. 3

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ISSN 0799 1037

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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 future economic trends and the path of monetary policy over the short to medium term. This issue includes features on the performance of remittances and its impact on the Jamaican economy, as well as the impact of the events of 11 September on the tourism industry. It also highlights the major decisions taken at the World Trade Organization, Doha Conference and the possible implications for Jamaica.

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

In its Report for the September 2001 quarter, the Bank identified the fallout from the 11 September shock to the US economy as the most imposing challenge to domestic macroeconomic policy in the near term. As financial markets adjusted to revised expectations during the December quarter, the Bank tightened its policy stance in order to preserve price stability. Accordingly, in October and early November, the Central Bank sold foreign exchange to the inter-bank market to satisfy the increased demand and raised the interest rates on some of its instruments. In this context of tighter liquidity management and sluggish external demand, inflation for the December quarter was 1.2 per cent, somewhat lower than the 1.9 per cent that had been projected earlier. The out-turn for calendar year 2001 was 8.7 per cent. Core inflation continued to average about 1.0 per cent per quarter and this consistently low underlying rate has been the major factor behind the last five years of single digit inflation.

The tightening of monetary conditions during the review period countered adverse expectations that began shortly after the September shock. Portfolio shifts towards foreign assets evidenced by an increased demand for US dollars on the spot market during October precipitated a 3.6 per cent depreciation in the exchange rate in that month. This was accompanied by a relatively rapid build-up in foreign currency deposits in commercial banks by the private sector. Trading in equity investments also fell as reflected in the downturn in activity on the Jamaica Stock Exchange, relative to the September quarter. In order to ensure stability, the Bank raised the rates on all but its 30-day instrument, including increases of 410 and 400 basis points in the premium on its 9-month and 12-month instruments, respectively. Simultaneously, it sold foreign exchange to augment the supply of US dollars. The result was a migration of funds towards the Bank's long term CDs and an increase in interbank and short term interest rates.

The more restrictive monetary stance was also evident in the slow-down in the growth of monetary aggregates. Although base money expanded during December in keeping with the short term demand for currency during the Christmas season, the expansion for the quarter was less than programmed. The tightening of monetary policy was also reflected in the broader Jamaica Dollar monetary aggregates, M2J and M3J, which also grew more slowly than programmed. The extent of monetary tightening quickly restored stability in the foreign exchange market. The capacity of the Bank to sustain these orderly conditions was strengthened by a significant increase in the country's net international reserves fuelled by official capital inflows. Given the clear improvement in the state of the financial markets, the premium on longer-term BOJ open market instruments was reduced by 100 basis points on 28 December. A further reduction took place in early January.

Overall GDP for the quarter is estimated to have fallen relative to the corresponding period of 2000. The main area of decline among the goods producing sectors was in mining where the fall in output reflected the suspension of production at the JAMALCO facility. Among services, tourism related activity fell in tandem with the slow down in visitor arrivals. The developments in tourism are discussed as a special feature of the Report (see Box 2) as not only do they explain GDP performance in the December quarter but an evaluation of tourism prospects will also underpin public perception of the sustainability of foreign exchange earnings and market stability. Areas of the economy that showed expansion were manufacturing, construction, basic services and distribution.

Although export agriculture was affected by unfavourable weather in November, domestic agricultural output increased and had a dampening effect on the prices of Starchy Foods in the Consumer Price Index. The moderating influence of increased domestic food supply was reinforced by the particularly low contribution of imported inflation in the December quarter. World demand remained sluggish and, as a consequence, the world market prices of major commodities such as oil, wheat, rice and soybeans fell. Lower imported inflation had a stabilizing influence on the prices of a wide range of commodities in the consumer basket.

Given the trends in world demand and especially the recession in Jamaica's most important trading partner, the USA, the circumstances which defined the state of the foreign exchange market became the focus of policy attention. While earnings from travel fell noticeably in the review period, the growth in remittance inflows continued to be strong (See Boxes 1 and 2) and relieved some of the earlier anxiety expressed by users of foreign exchange. In addition, towards the end of the year, Government borrowed significant sums from overseas from both commercial and multilateral sources. These inflows purchased by the Bank, more than replenished the amounts that the Bank had sold to the market in October and led to the accumulation of over US$300.0 million in reserves for the quarter. At end December, gross reserves were US$1903.3 million and the NIR stood at US$1840.7 million, a comfortable position by any measure of reserve adequacy.

Short-term prospects and policies

Given the estimated contraction in the December 2001 quarter, the forecast range for economic growth for the fiscal year has been revised downwards to 1.0 to 2.0 per cent from the original 2.0 to 4.0 per cent. An expansion in economic activity is anticipated for the March 2002 quarter, driven mainly by the normalization of output in the mining sector and, to a lesser extent, expansion in agriculture. In the return to regular production levels in the bauxite/alumina sector, output in the mining sector is expected to grow by some 12.0 to 15.0 per cent relative to the March 2001 quarter. The growth in the telecommunications sector should continue in 2002 as both the new and established companies expand and diversify their services.

The tourism sector is expected to experience some recovery in the March quarter relative to the December 2001 quarter. However, output in the sector will be lower than the corresponding quarter of 2001, as weaker winter tourist arrivals are anticipated. Projections are for a 1.0 per cent decline in tourist arrivals for the March 2002 quarter[1] relative to the March 2001 quarter. This is in contrast to the estimated 17.4 per cent decline for the December 2001 quarter relative to the corresponding quarter of 2000.

The outlook for tourism reflects the expectations of improved economic performance in the USA that currently range from low but positive economic growth (below 1.0 per cent) to a very small decline in the March 2002 quarter. The prospects for economic recovery in the USA should be boosted by the US Government's economic stimulus package and any additional interest rate cuts during the March 2002 quarter. This outlook is consistent with the post-September gradual recovery in visitor arrivals to Jamaica, especially in December, and the World Tourism Organization's projection of a rebound in world travel during the second half of 2002[1].

The main inflationary impulses during the March 2002 quarter are expected to emanate from the impact of the minimum wage increase, which took effect in January and adjustments in electricity tariffs. The anticipated recovery in agriculture and moderate impulses from imported inflation will temper inflationary impulses to the main Food & Drink sub-index. Weak demand in the USA, and recent trends in major indicators such as producer and energy prices suggest continued low inflation in that country in the March 2002 quarter. Another important assumption is that oil prices will remain in the US$20 to US$25 range, reflecting weaker global demand.

[1] Source: Jamaica Tourist Board

Given these factors and a stable exchange rate relative to the previous quarter, inflation is expected to approximate 1.2 per cent (± 0.3) for the March 2002 quarter, relative to the 1.2 per cent and 1.6 per cent recorded in December 2001 and March 2001 quarters, respectively. Consequently, the forecast for inflation for the fiscal year 2001/02 is 8.3 per cent (± 0.3). For the calendar year 2002, barring any shocks to domestic production or any further increases in administered prices, inflation is expected to fall to the 5.0 per cent to 6.0 per cent range.

The Bank of Jamaica will continue to closely monitor developments and prospects in the financial markets and adjust its interest rates accordingly. The programmed 1.0 percentage point reduction in the cash reserve ratio will be effected in March 2002, bringing the ratio to 9.0 per cent relative to the 12.0 per cent that prevailed at March 2001.

1. Monetary Policy and Financial Markets

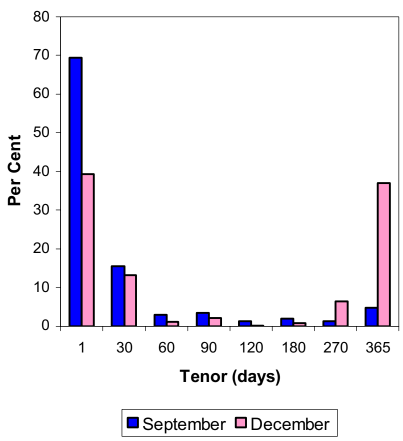
Money and Credit

Base Money

Interest rates on longer-term BOJ instruments increased

The major monetary policy action taken by the Bank of Jamaica during the quarter was an increase in the premium on the longer tenors of its open market instruments. The adjustment took place on 30 October and was effected to restore orderly conditions to the foreign exchange market. This influenced a shift in open market placements towards longer-dated securities. A comparative assessment of the take-up in various tenors for the quarter relative to the previous quarter shows the take-up on the 365-day tenor moving from 4.7 per cent in the September quarter to 37.1 per cent in the December quarter (see Figure 1.1). The lengthening of the maturity structure reduced Jamaica dollar liquidity and underpinned the return to stability in the foreign exchange market.

Figure 1.1
Comparative Profile of Take-Up in Open Market Instruments: September & December 2001



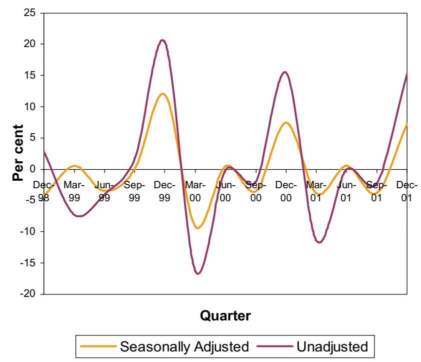
The rates on the 270-day and 365-day instruments were subsequently reduced by 100 basis points in December within a context of improved prospects for the foreign exchange market and the significant accumulation in reserves.

The tightening of monetary policy contained the monetary base within the target in the macroeconomic programme for the quarter. As a result monetary impulses to inflation were restricted.

Currency growth in line with inflation

The 15.2 per cent growth in the monetary base followed the seasonal pattern for December (see Figure 1.2). The expansion was however, 1.3 percentage points lower than the programme target of 16.5 per cent. Virtually all the increase in the monetary base was in the form of currency notes and coins associated with Christmas spending. The 12-month growth in currency issue to end December 2001 was 8.3 per cent, coinciding with the calendar year inflation of 8.7 per cent.

Figure 1.2
Base Money
(Quarterly Change)



Liquidity impact of NIR increase contained

The net international reserves (NIR) increased significantly during the quarter but there was very little impact on the level of liquidity in the system owing to the relative attractiveness of BOJ instruments. Specifically, the Bank's net foreign assets increased by US$304.0 million (see Table 3 Appendix C), which was largely related to the receipt of proceeds from official capital inflows during the quarter. This growth in reserves translated into an injection of $14441.9 million into the financial system (see Table 3 Appendix C), which was partly offset by the increase in net domestic assets (NDA) of the Central Bank absorbing $9904.7 million of the liquidity impetus from the accumulation in reserves. The reduction in the NDA was primarily attributed to a $1407.8 million reduction in the Central Bank's Net Claims on the Public Sector and a $8102.7 million increase in its open market liabilities.

Money Supply[1]

The broad measure of money supply, M3J, expanded by $3962.2 million or 3.1 per cent during the December 2001 quarter relative to the 4.8 per cent growth projected in the economic programme and the 4.1 per cent growth recorded in the corresponding quarter of 2000. The out-turn for the review quarter brought money supply growth for the fiscal year to date to 8.4 per cent and the calendar year growth to 9.3 per cent.

Table 1.1

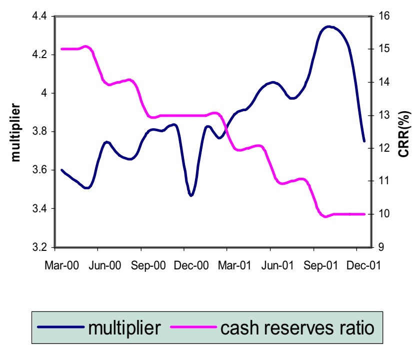
M3J - Growth Rates			
		3mths	12mths
2000	Mar.	1.2	21.2
	June	4.1	15.7
	Sept.	1.4	9.0
	Dec.	4.1	10.9
2001	Mar.	0.6	10.7
	June	1.9	8.3
	Sept.	3.2	10.2
	Dec.	3.1	9.3

The lower than programmed growth in M3J for the December quarter reflected not only a slower than expected increase in base money, but also a decrease in the money multiplier from 4.3 per cent to 3.8 per cent. The decrease in the money multiplier was consistent with the seasonal increase in the currency to deposits ratio.

During the review quarter, the major counterparts to the expansion in M3J were an increase in banking system credit to the public sector of $16632.5 million, (reflecting

[1] Data on money and credit are provisional.

Figure 1.3
Money Multiplier & Cash Reserves Ratio



the assumption of FINSAC debt held by the commercial banks) and a build up in the net foreign reserves of the BOJ by US$304.0 million or J$14441.9 million. The major offsetting sources were a decline in the accounts receivable and an increase in the sundry liabilities of the commercial banks. The growth in M3J was also partially restricted by an expansion in open market operations of $8102.7 million.

An analysis of the components of broad money supply revealed that, similar to the previous quarter, M1J dominated the expansion in M3J. In the December quarter, growth in M1J accounted for 82.5 per cent of the increase in M3J relative to the preceding quarter when M1J accounted for 70.4 per cent. The expansion in M1J in the review quarter was influenced by seasonal growth in currency with the public of $2598.8 million or 16.1 per cent, compared with a 20.6 per cent increase in the December 2000 quarter. The currency to deposits ratio increased during the December 2001 quarter from an average of 14.3 per cent for the first two months to 16.7 per cent at the close of the review period due to seasonal demand for currency in December.

All other components of M3J, except time deposits, recorded increases during the quarter. Savings deposits increased by $1030.2 million (2.1 per cent) and 'Other' deposits grew by $361.0 million (1.7 per cent), while Time deposits declined by $702.6 million (3.4 per cent).

During the review quarter, broad money supply including foreign currency deposits, M3*, increased by $4818.6 million or 3.0 per cent. This was below the 3.8 per cent recorded for the September quarter and the 3.7 per cent for the December 2000 quarter. There was significant accumulation of foreign currency deposits by the private sector in October that may be associated with foreign exchange market instability in that month. However, these deposits declined in November and December, as conditions in the foreign exchange market normalized. The ratio of foreign currency deposits to total deposits marginally increased to 24.6 per cent at end December 2001 relative to 24.4 per cent at end September.

Table 1.2

Commercial Banks' Private Sector Credit October - December 2001				
	Stocks (J$MN)		Change (%)	
	Sept 01	Dec 01	Dec 01	12mth
Local	27868.4	28641.3	2.8	3.9
Development Bank	1860.4	2212.8	18.9	15
Other Private	26008.0	26428.5	1.6	4.2
Foreign	9061.7	11643.5	28.5	68.6
Total	36930.1	40284.8	9.1	18.6

Table 1.3

Commercial Banks' Private Sector Credit (Flows J$MN)			
	Jun 01	Sept 01	Dec 01
Local	262.3	941.1	774.9
Development Bank	76.4	-113.8	352.4
Other Private	185.9	1054.9	420.5
Foreign	-208.5	1988.2	2581.8
Total	52.8	2929.3	3354.7

Table 1.4

Commercial Banks' Loans and Advances (Flows J$MN)			
	Jun 01	Sept 01	Dec 01
Agriculture	-235.6	93.6	-57.2
Mining	-8.8	-1.3	39.3
Manufacturing	-12.3	295.9	-0.9
Construction	-416.9	198.2	426.3
Transport & Comm.	34.1	1 640.2	1 552.7
Tourism	-111.0	147.7	457.5
Distribution	-33.4	-164.0	114.0
Professional	-196.6	-820.4	132.7
Personal	948.8	1 542.5	14.3
Electricity	-64.9	-118.9	592.7
Entertainment	-28.6	-5.7	-2.2
Overseas	42.2	-1.9	-9.5
TOTAL	-79.1	2 809.8	3 259.7

Private Sector Credit

The growth in banking system credit to the private sector observed for the September quarter continued into the third quarter (December 2001) of the fiscal year. The resumption of lending by two commercial banks was the major factor influencing the growth in credit during the quarter.

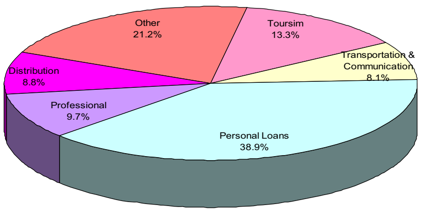
Provisional data indicate that for the December 2001 quarter, commercial bank credit to the private sector grew by 9.1 per cent (see Table 1.2). The expansion in credit was due primarily to a 28.5 per cent increase in foreign currency credit. On the other hand, local currency credit grew by 2.8 per cent. Relative to the September quarter however, there was a slow down in the rate of growth in local currency credit (see Table 1.3).

The growth in private sector credit for the December quarter led to an increase in credit of 18.6 per cent for both the calendar year and the fiscal year to end December 2001. Most of the increase in credit in the review quarter comprised loans to the *Transportation & Communications* category, which expanded by $1552.7 million during the review quarter (see Table 1.4). The other main economic sectors contributing to the expansion in credit were *Electricity, Tourism* and *Construction*. There were marginal net repayments in a few sectors, including *Agriculture*.

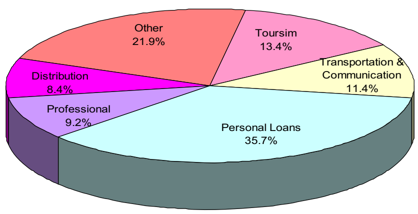
The expansion in local currency private sector credit was the result of an increase in loans financed through the Development Bank of Jamaica as well as from the commercial banks resources. The growth in development bank related loans recorded during the quarter was associated with increased lending to the *Manufacturing, Agriculture* and *Tourism* sectors.

For the three-month period to December, foreign currency lending was mainly to the *Transportation & Communication* and *Electricity* sectors. Commercial banks facilitated the expansion in foreign currency credit by drawing down on their balances with overseas financial institutions.

Figure 1.4
Commercial Banks' Sectoral Distribution of Loans



September 2001



December 2001

Figure 1.5
Commercial Bank Interest Rates (Weighted Average)

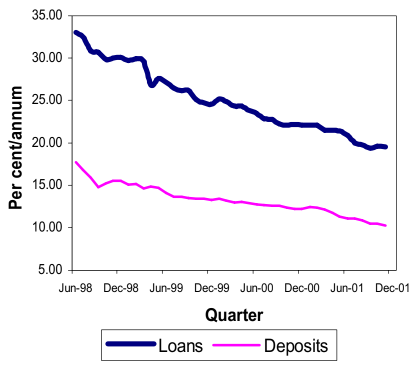
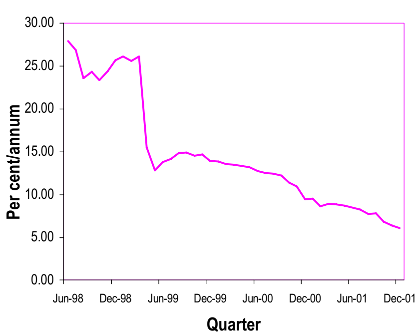


Figure 1.6
Commercial Banks' Past Due Loans to Total Loans



Although *Personal Loans* continued to account for the highest concentration of total loans, there was a decline in the category's share of loans outstanding to 35.7 per cent, 3.2 percentage points below the share at end September 2001. Over the three-month period to December 2001, the proportion of loans to *Transportation* and *Communication* increased to 11.4 per cent from 8.1 per cent at end September 2001. (see Figure 1.4).

The increase in commercial bank lending to the private sector occurred within the context of a trend decline in the overall weighted average loan rate of commercial banks. However, the weighted average lending rate was 19.53 per cent at end November 2001, 12 basis points above the rate at the end of September (see Figure 1.5). The movement in the weighted average loan rate of commercial banks reflected an increase in the weighted average rate on personal loans, which was 27.5 per cent at end November, relative to 24.1 per cent at end September 2001. The average rate on commercial loans, on the other hand, declined to 17.1 per cent at end November from 17.9 per cent at the start of the review quarter. At end December, loan rates being offered by commercial banks ranged from 21.0 to 31.8 per cent relative to a range of 21.0 to 32.0 per cent at the end of September.

The quality of commercial banks' loan portfolio continued to improve (see Figure 1.6). This was reflected in the ratio of past due loans to total loans, which declined to 6.1 per cent at 31 December 2001, from 7.8 per cent at the end of September. The ratio also compares favorably to the 9.5 per cent computed for the end of December 2000.

The events of September 11 have not significantly inhibited the momentum of growth in private sector credit, which has exceeded the programme target of 1.8 per cent for the review quarter. The expansion in credit is expected to continue in the March 2002 quarter albeit at a slower pace. Information from the commercial banks suggests further increases in foreign currency loans to the *Communications* and *Tourism* industries expected in that quarter.

Table 1.5

Commercial Banks' Loans and Advances (Stocks J$MN)

	Dec 00	Sept 01	Dec 01
Agriculture	1 557.2	1 536.8	1 479.6
Mining	87.2	58.9	98.2
Manufacturing	3 046.8	3 120.2	3 119.3
Construction	2 026.1	1 913.1	2 339.4
Transport & Comm.	1 525.7	2 857.1	4 409.8
Tourism	4 747.7	4 708.8	5 166.3
Distribution	3 563.9	3 110.7	3 224.7
Professional	4 723.7	3 420.0	3 552.7
Personal	10 882.8	13 736.7	13 751.0
Electricity	773.9	664.3	1 256.9
Entertainment	137.5	91.5	89.4
Overseas	50.8	90.6	81.0
TOTAL	33 123.4	35 309	38 568.3

Figure 1.7

BOJ OMO Yield Curve

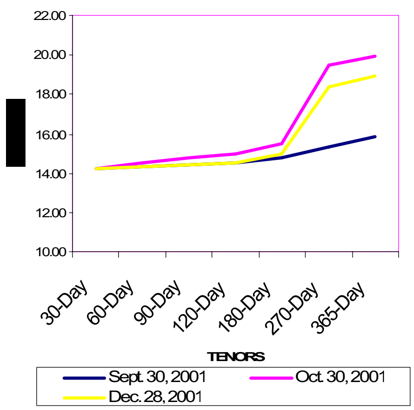
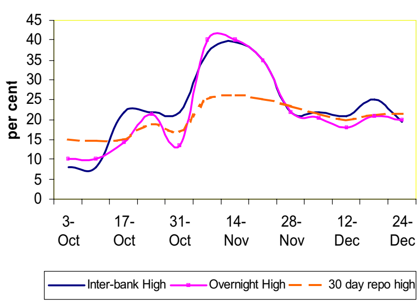


Figure 1.8

Private Money Market Rates



Bond Market

During the December 2001 quarter, the major influence on the domestic money market was the upward adjustment in interest rates on BOJ's longer tenor instruments. These adjustments in rates resulted in a steeper shaped yield curve on these instruments (see Figure 1.7).

Private money market rates adjusted in tandem with the increases in BOJ's interest rates and the relative tightness in liquidity conditions. Within this context, overnight, inter-bank and 30-day rates fluctuated during the quarter, peaking at 40.0 per cent, 39.5 per cent and 23.25 per cent respectively on 14 November 2001.

In a similar vein, the average yield on the Governments' six month Treasury Bills increased to 17.82 per cent on 23 November, 272 basis points above the average yield on a similar tenor on 26 October 2001.

Rate increases were however short lived, as private rates declined to 20.0 per cent, 19.5 per cent and 21.0 per cent for the overnight, inter-bank and 30-day rates, respectively towards the end of the quarter. The reduction in private money market rates reflected the improvements in liquidity conditions and subsequent reductions in BOJ's interest rates on 28 December 2001 (see Figure 1.8). The average yield on the six-month Treasury Bills resumed the downward trend towards the end of the quarter (see Table 1.6), and by 21 December, the average yield on six month Bills was 17.03 per cent, a decline of 79 basis points in comparison to the offer on 23 November 2001.

In response to the increases on BOJ's open market instruments, investors re-balanced their portfolios by shifting into the more attractive 270-day and 365-day instruments. The attractive interest rate premium on longer-term BOJ instruments lengthened the maturity profile on these liabilities. Tenors maturing between 270-365-days increased from 6.3 per cent at the end of the

Table 1.6

Treasury Bills Auctions October - December 2001				
Issue Date	Tenor (days)	Avg. Yield (%)	Allotment (J$MN)	Amount Maturing (J$MN)
26 Oct	182	15.11	400	650
23 Nov	182	17.82	300	650
21 Dec	182	17.03	350	650
Total			1 050	1 950

Table 1.7

Maturity Profile for BOJOMO Instruments (As at end of period)		
Tenor	Sept Quarter (%)	Dec Quarter (%)
1-30 Days	24.9	9.8
31-60 Days	11.7	10.4
61-90 Days	14.3	8.4
91-120 Days	3.8	4.4
121-180 Days	20.3	13.1
181-270 Days	18.7	12.2
271-365 Days	6.3	41.7

Table 1.8

Placements in BOJOMO Instruments Percentage of Total Placements* during September & December Quarters		
	Sept Quarter (%)	Dec Quarter (%)
30 Days	50.3	21.6
60 Days	9.3	1.7
90 Days	11.1	3.4
120 Days	3.9	0.2
180 Days	6.1	1.3
270 Days	4.2	10.6
365 Days	15.2	61.2

** Excludes overnight transactions during the period.*

September quarter to 41.7 per cent at the end of the December quarter. (See Table 1.7) Similarly, of the total placements during the quarter, the placements in 270-day and 365-day tenors increased from 4.2 per cent and 15.2 per cent for the September quarter to 10.6 per cent and 61.2 per cent respectively during the December quarter. (See Table 1.8)

Against the background of significant US dollar borrowing at the beginning of the quarter, the capacity for continued reduction in the Government's domestic debt was enhanced. This was reflected in the net redemption of J$6,221.9 million in domestic instruments during the December quarter (See Table 1.9). The value of instruments auctioned decreased resulting in an over-subscription of tenors. There were no public offers of Local Registered Stock (LRS), while there was a net redemption of J$900.00 million in Treasury Bills. This brought the stock of Treasury Bills outstanding to J$3,900.00 million as at 21 December 2001. An investment debenture issued on 17 October 2001 raised J$9,451.94 million resulting in a net increase of J$3,653.8 million.

Consistent with the continued objective of moderating the interest costs on its debt, the Government offered a US dollar indexed bond on the local market. This bond was offered at an interest rate of 11.625 per cent for 3 years and raised J$1,593.76 million. The conversion factor for repayment was set at the 10-day moving average selling rate applicable on the 10th business day prior to the payment date multiplied by a factor of 1.005.

During the quarter, the Government also floated a Eurobond[2] on the international capital market. This bond was floated in accordance with the registration with the United States Securities Exchange Commission. The demand for the instrument was overwhelming, raising

[2] Debt instruments denominated in an international currency and traded globally

Government raises 20-year foreign bond

Table 1.9

GOJ Domestic Debt Raising October - December 2001	Amount Allotted (J$MN)	Amount Maturing (J$MN)	Net Redemption (J$MN)
Treasury Bills	1 050.0	1 950.0	900.0
LRS	0	10 569.5	10 569.5
Debenture	9 451.9	5 798.1	-3 653.8
US$ Bonds	1 593.8	0	-1 593.8
TOTAL	12 095.7	18 317.6	6 221.9

Figure 1.9
GOJ Global Bond Yields
****Indicates primary offer***

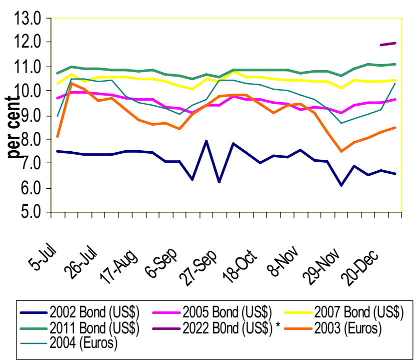
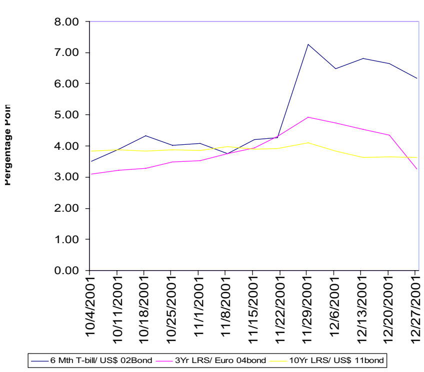


Figure 1.10
Interest Rate Differential²
October-December 2001



2 LRS rates are as at September quarter

US$250.0 million. This issue for 20-years, was the first of such a long tenor and signalled continued confidence in Jamaica, in a context of prevailing uncertainties for emerging market instruments. The Eurobond was offered at a coupon rate of 11.625 per cent, 0.125 percentage points below the 10-year bond offered in May 2001.

The general trend of declining yields on the secondary market for GOJ Global bonds continued during the quarter. However, international shocks had some negative repercussions during December. The news of Argentina's debt default led to reduced demand for emerging market instruments. The yields on the GOJ Global Bonds were affected by these developments and towards the end of the December quarter (see Figure 1.9) showed marginal increase.

The interest rate differential between selected J$ denominated assets and GOJ Global Bonds (see Figure 1.10) continued to indicate that the premium on the domestic currency instruments exceeded the rate of depreciation in the exchange rate. Despite the temporary setback in the trend decline of domestic interest rates during the quarter, the Central Bank supported by the high level of market flows and foreign currency reserves, remains committed to a gradual reduction in interest rates.

Stock Market

During the December 2001 quarter, there was a marked improvement in the performance of the stock market relative to the comparable quarter in 2000. This buoyant performance was reflected in all key indicators of market activity. Similarly, for the calendar year 2001, activity on the Jamaica Stock Exchange (JSE) registered an increase relative to the levels attained for 2000. The outturn for the December quarter was positively affected by strong gains in the price of many stocks. However, the advances in the stock market were moderated by instability in the foreign exchange market and an upward adjustment in interest rates during the early part of the quarter.

Figure 1.11
Volume Traded on the JSE
(2000 - 2001)

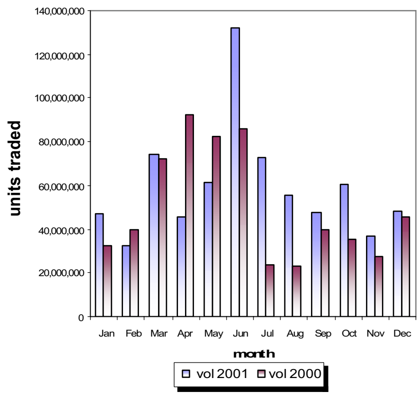


Figure 1.12
Value of Shares Traded
(2000 vs 2001)

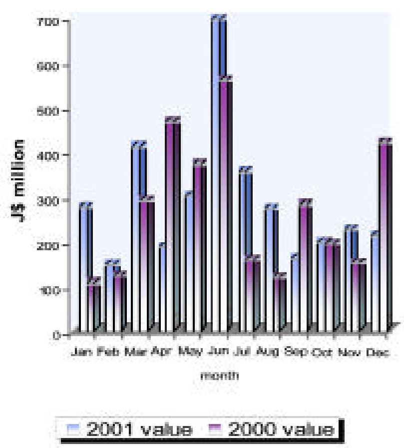
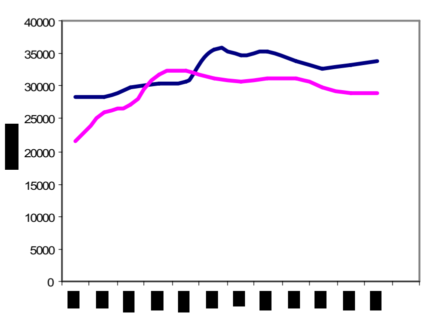


Figure 1.13
Movements in the JSE Index
2000 vs 2001



There was an increase in the average monthly volume traded and the average number of transactions during the December 2001 quarter. The average volume traded increased to 48.5 million units from 38.1 million units for the comparable quarter in 2000 (See Figure 1.11). Similarly, there was a 17.1 per cent increase in the average number of transactions to 1293 from 1104. On the other hand, relative to December 2000 quarter, there was a decline in average monthly value traded to $212.8 million from $255.1 million. (See Figure 1.12)

The JSE index at the end of December 2001 was 33,835.6 points, an increase of 17.1 per cent relative to the 28,893.2 points at the end of December 2000. (See Figure 1.13) Similarly, the All Jamaica Composite Index and the Jamaica Select Index also recorded significant advances. The All Jamaica Composite Index at the end of December 2001 was 32,508.9 points, a gain of 20.9 per cent relative to the end of the previous year. The Jamaica Select Index also gained 14.8 per cent, closing at 1015.3 points at the end of December 2001.

For the calendar year 2001, of the 38 stocks actively traded on the Jamaica Stock Exchange, 25 stocks advanced, 2 traded firm while 11 declined. This compared favourably with the performance for 2000 of 19 stocks advancing, 5 trading firm and a total of 15 declining. Further, there was a 19.2 per cent and a 6.3 per cent increase in total volume and value traded respectively, relative to the previous year.

The stock market outturn for the review quarter was positively influenced by higher trading volumes and an appreciation in the share price of many firms, especially in the latter part of the quarter. The recovery in the volume traded was influenced by investor profit taking and a readjustment of equity portfolios. As shown in Table 1.10, many listed firms from the financial, manufacturing and services sectors had strong gains in the price of their stock. Notably, Palace Amusement, which recorded the largest price gain, benefited from greater profitability resulting

Table 1.10

Top Ten Performers December 2001/December 2000	Open (J$)	Close (J$)	Change (%)
Other Services			
Palace Amusement	13.00	75.00	476.9
Financial Services			
Life of Jamaica	0.70	2.97	324.3
Trafalgar Dev. Bank	1.75	4.55	160.0
Dehring, Bunting & Golding	2.25	7.00	166.7
First Life	4.00	7.10	77.5
Manufacturing			
Salada	6.00	19.00	216.7
Desnoes & Geddes	2.88	5.99	107.9
Goodyear	5.50	9.20	67.3
Communications			
Radio Jamaica	0.73	1.45	98.6
Tourism			
Mo. Freeport	0.24	0.42	75.0

from the sale of a non-performing asset, increased cinema fares and higher viewer attendance. Similarly, financial firms such as Trafalgar Development Bank (TDB) and Life of Jamaica (LOJ) experienced strong improvements against a background of reorganisation and capital restructuring exercises.

The strong performance of the stock market can also be partially attributed to the lower than expected fallout from the events of 11 September on the United States. This served to boost general expectations of more favourable economic prospects, given the projections for a recovery in the U.S. economy. In addition, foreign exchange flows have remained fairly buoyant, with the tourism sector showing lower than estimated declines in visitor arrivals and expenditure.

Strong performance tempered by interest rate movements in October

Whilst the performance of the stock market over the quarter was relatively strong, there were factors that moderated the gains in the index. There was instability in the foreign exchange market, during the early part of the review quarter and a subsequent upward adjustment in domestic interest rates (See Bond Market). These developments, coupled with the relatively tight liquidity in the money market, served to increase the attractiveness of investments in foreign currency holdings and Government securities, and lowered stock market activity. Notably, for the month of October, the JSE index declined by 3.8 per cent relative to the previous month. However, given the demonstrated ability of the Central Bank to stabilize the foreign exchange market, as well as, the bank's commitment to maintaining low interest rates, the increase in domestic interest rates in October 2001 was perceived as a short-term measure. As such the effect of these inhibitory factors on stock market activity was short-lived.

At the institutional level, there were many important developments in 2001, which are expected to further enhance the operational efficiency of the stock market. Firstly, there was a reintroduction of the five-day trading week[1] to facilitate increased market activity. In addition, the membership of the stock exchange was increased with the incorporation of four new brokerage firms. Importantly, there was also the listing of RBTT Financial Holdings[2] on the stock market.

A positive performance of the stock market in the year 2002 is contingent on the maintenance of macroeconomic stability, low inflation and the continued recovery of the real sector. Importantly, the downward adjustment of domestic interest rates, which can be facilitated by lower demand from the market by the Government, will augur well for the stock market. Further, the elimination of the tax on dividends in April 2002 will result in higher capital gains for equity investors, which would boost interest in the stock market.

Key initiatives by JSE to be implemented in 2002

In its effort to play a greater role in the financial system in the year 2002, the JSE has outlined certain key initiatives. These involve the development of new products, which are to be traded on the stock exchange and in the over-the-counter (OTC) market. Mutual funds, short selling and margin accounts[3] are amongst the new financial products that are being considered for introduction. The trading of fixed income securities will also be offered to investment managers, brokers and custodians through the Jamaica risks that may be faced by participants in this market. As a first step in the facilitation of this trading, the JCSD has provided for the processing and safe custody of fixed

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[1] At the establishment of the JSE in 1969 a five-day trading week was instituted. Trading was reduced to one day in the 1970's. By 1992 there was an increase to four trading days.

[2] RBTT Financial Holdings purchased Union Bank on 15 March 2001. Union Bank was subsequently delisted on the 18 May 2001. RBTT was listed on the JSE on 28 November, 2001.

[3] Short selling is the practice of selling a borrowed security with the commitment to repurchase it at an unspecified later date. This is usually done in a declining market. Margin accounts allow investors to borrow a portion of the purchase price of a security that the investor intends to buy from a securities firm.

Figure 1.14
Weighted Average Selling Exchange Rate (Period average)

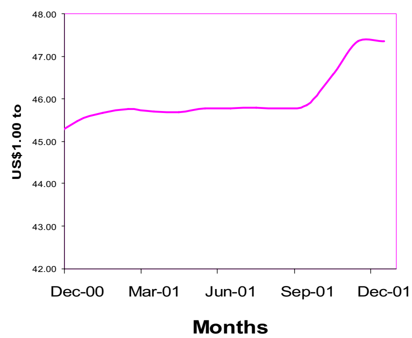
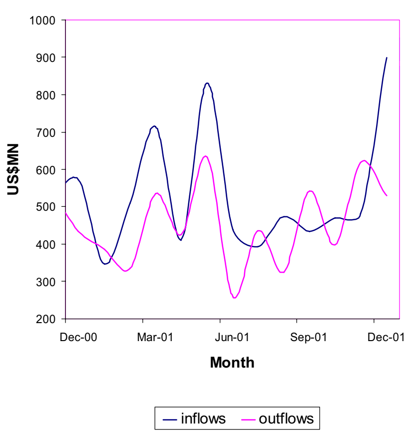


Figure 1.15
Foreign Exchange Cash Inflows & Outflows



income securities and the implementation of a clearing and settlement systems.

Foreign Exchange Market

Relative to the first half of the fiscal year, there was instability in the foreign exchange market during the December 2001 quarter, particularly in October. For the review quarter, the weighted average selling rate depreciated to US$1.00=J$47.40 at end-December from US$1.00=J$45.94 at end-September (see Figure 1.14). This represented a depreciation of 3.2 per cent compared with the 0.6 per cent depreciation in the first half of the fiscal year. For the month of October alone, the weighted average selling rate depreciated by 3.6 per cent to US$1.00=J$47.57 from US$1.00=J$45.94 at end-September. The instability in the market during the review quarter coincided with the utilization of currency arbitrage opportunities, as well as, increased demand by investors and importers.

The increased pressures arising from these factors occurred in a context of uncertain foreign exchange inflows following the events of 11 September as well as the residual effects of the disturbances in July. However, towards the end of the review quarter, the supply of foreign exchange in the market was boosted both by Bank of Jamaica's sales to the market and Central Government's foreign borrowing in December.

Preliminary estimates of total foreign exchange flows within the economy indicated that there was an excess supply of foreign currency of approximately US$304.0 million for the review quarter. Relative to the corresponding quarter in 2000, supply is estimated to have increased by US$241.7 million to US$1850.2 million, while the estimated demand contracted by US$96.3 million to US$1546.1 million. (see Figure 1.15).

Figure 1.16a
Foreign Exchange Cash Inflows by Institutions

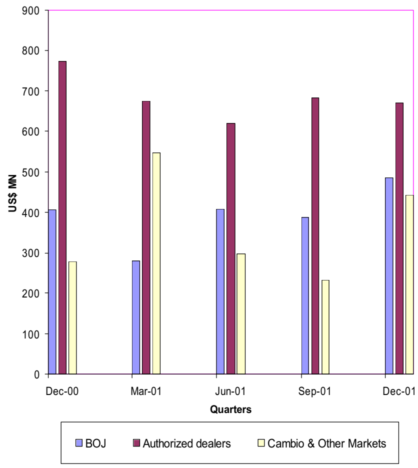
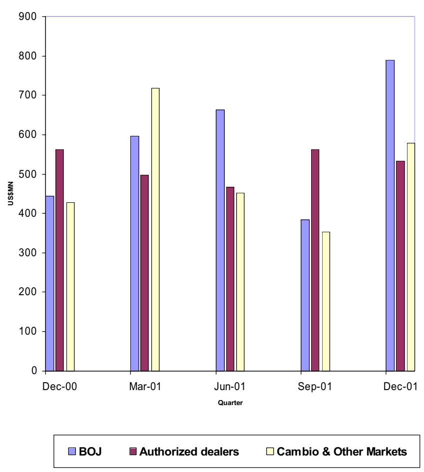


Figure 1.16b
Foreign Exchange Cash Outflows Institutions



The increased supply of foreign exchange to the economy in the review quarter emanated from, inter-alia, official loans and grants receipts, proceeds from the divestment of the insurance company, Life of Jamaica, buoyant remittances and enhanced private capital inflows. Notwithstanding the excess supply of foreign exchange to the economy over the review quarter, the increase in inflows was largely evident in December and reflected the impact of a US$250.0 million Eurobond floated by the Government of Jamaica and a World Bank loan of US$75.0 million. On the other hand, receipts from tourism declined in the context of the events of 11 September and served as a countervailing influence. Relative to the comparable quarter in 2000, gross tourism receipts contracted by US$28.6 million.

The Cambios also recorded a net increase in foreign exchange inflows of US$47.7 million over the quarter. This was due to an increase of US$29.9 million to US$418.0 million in foreign exchange purchases, relative to the comparable quarter of 2000. Concurrently, their sales declined by US$116.9 million to US$370.3 million, relative to the corresponding quarter in 2000.

In contrast, the major market player, the authorized dealers, experienced a net outflow of US$96.8 million during the quarter, reflecting the demand pressures particularly in October. Total sales by authorized dealers increased by US$109.6 million to US$895.8 million, relative to the December 2000 quarter, while total purchases expanded by US$51.2 million to US$799.0 million (see Figure 1.16a and Figure 1.16b). The growth in foreign exchange sales during the review quarter reflected increased demand for imports of goods and services. This is partly explained by the normal seasonal import purchases, which was accelerated in a context of uncertainties in foreign exchange flows given the events of 11 September.

Demand pressures in October was also exacerbated by investors' adjusting their portfolios to participate in a

Table 1.11

Net International Reserves (US$MN)		
	Stock	Change
Dec-00	969.5	137.8
Jan-01	931.2	-38.3
Feb-01	1 106.6	175.4
Mar-01	1 286.3	179.7
Apr-01	1 281.8	-4.5
May-01	1 480.6	198.8
Jun-01	1 540.5	59.9
Jul-01	1 526.2	-14.4
Aug-01	1 599.0	72.8
Sept-01	1 536.7	-62.3
Oct-01	1 477.5	-59.2
Nov-01	1 477.0	-0.4
Dec-01	1 840.7	363.7

NIR stock doubled in December 2001

Government of Jamaica US$100.0 million bond, issued on the local market on 28 September. Towards mid-October, pressures re-surfaced in the foreign exchange market in the context of increased arbitrage opportunities between US dollar and Canadian dollars.

In response to the instability in the market, the Bank of Jamaica sold foreign exchange in order to augment supply and later adjusted interest rates to discourage speculative demand. Despite higher sales to the market, the net international reserves of the Bank of Jamaica in a context of substantial official inflows in December reached an unprecedented US$1840.7 million at the end of the review quarter (see Table 1.11). This stock was US$306.4 million above the target and represented an increase of US$871.2 million for the 2001 calendar year.

Gross reserves at end-December was US$1903.3 million, representing 33.2 weeks of estimated goods imports or 22.6 weeks of estimated goods and services imports, relative to the international benchmark of 12.0 weeks of goods and services imports.

Remittances by Institutions: 1997 - 2001
Market Share (%)

[1] Remittance does not include funds sent to migrant's bank accounts or funds sent to make mortgage or service payments.

[2] For more information, see martin Suzan, "Remittance Flows and Impact", 17 May 2001.

[3] See Multilateral Investment Fund, Inter-American Development Bank, "Remittances to Latin America and the Caribbean: Comparative Statistics", May 2001.

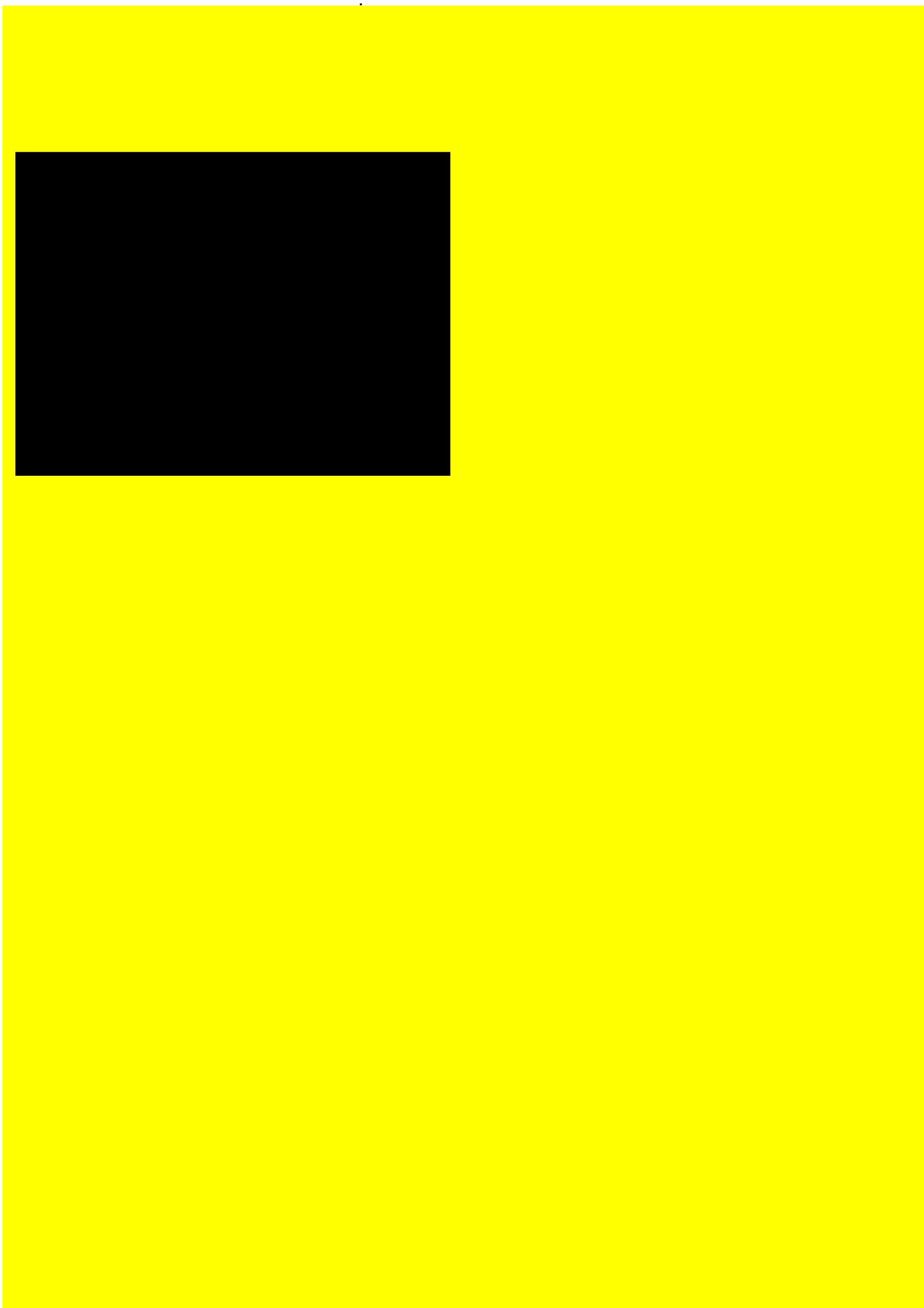


Table 1

REMITTANCES IN COMPARISON TO KEY ECONOMIC INDICATORS

	1997	1998	1999	2000
Remittances US$mn	661.2	677.1	693.0	814.3
Remittances as % of:				
Gross Domestic Product	10.1	10.1	10.7	12.3
Merchandise Exports	38.9	42.0	46.2	52.4
o.w. Bauxite/Alumina	91.3	99.3	101.3	111.6
Tourism	58.5	56.6	54.2	61.1
Direct Investment Inflows	325.2	183.4	132.3	178.5
Imports	23.3	24.7	25.8	28.0

Table 2.1

Sectoral Contribution to Growth Fiscal Year to End December 2001	Estimated Impact on Growth
1. GOODS	+ve
AGRICULTURE FORESTRY & FISHING	+ve
MINING & QUARRYING	+ve
MANUFACTURING	+ve
CONSTRUCTION & INSTALLATION	+ve
2. SERVICES	+ve
BASIC SERVICES	+ve
Electricity & Water	+ve
Transport Storage & Communication	+ve
OTHER SERVICES	-ve
Distributive Trade	+ve
Financing & Insurance Services	-ve
Real Estate & Business Services	+ve
Producers of Government Services	+ve
Miscellaneous Services	-ve
Households & Private Non-Profit Instit	+ve
TOTAL GDP	+ve

Estimated Growth in GDP for fiscal year to end-December

Table 2.2

Sectoral Contribution to Growth Third Quarter 2001/02	Estimated Impact on Growth
1. GOODS	-ve
AGRICULTURE FORESTRY & FISHING	-ve
MINING & QUARRYING	-ve
MANUFACTURING	+ve
CONSTRUCTION & INSTALLATION	+ve
2. SERVICES	+ve
BASIC SERVICES	+ve
Electricity & Water	+ve
Transport Storage & Communication	+ve
OTHER SERVICES	-ve
Distributive Trade	+ve
Financing & Insurance Services	-ve
Real Estate & Business Services	+ve
Producers of Government Services	+ve
Miscellaneous Services	-ve
Households & Private Non-Profit Instit	+ve
TOTAL GDP	-ve

Overview

An assessment of the performance of the real sector for the fiscal year to end December 2001 suggests an expansion in economic activity of approximately 1.5 per cent over the corresponding period of 2000. The goods and service sectors expanded by an estimated 1.6 per cent and 1.2 per cent, respectively, during the period. All sub-sectors in the goods sector were estimated to have increased while in the services sector, estimated growth in basic services outweighed a decline in other services. The overall expansion in output was due primarily to the positive developments in the first half of the fiscal year, as there was an estimated decline for the December 2001 quarter.

The performance in the goods sector for the fiscal year to December was due mainly to the strong recovery in the agriculture sector, driven by improved weather conditions and increased replanting activities. The decline in other services reflected a contraction in the output of the miscellaneous and financial services sub-sectors. The value added in the miscellaneous services was adversely affected by the negative shocks to the travel industry, while the decline in the financial sector was due to the fall in the value added of the Central Bank which offset moderate growth in the rest of the sector.

Aggregate Supply for the December Quarter

Although there was an overall decline in output for the review quarter, real growth was estimated in most sectors of the economy. Among the goods producing sectors, construction and manufacturing sectors showed improvements, while agriculture and mining sectors recorded declines, relative to the corresponding period in 2000. For the services sectors, growth in basic services was partially offset by a decline in other services, particularly the miscellaneous (travel services) and the financial services sectors.

Figure 2.1
Domestic Crop Production
(12-month change)

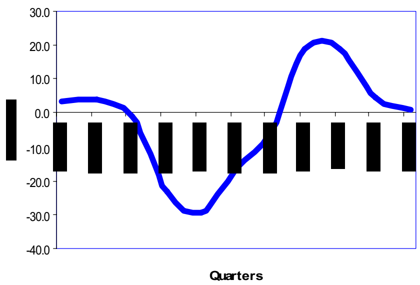


Figure 2.2
Export Agriculture
(Change over corresponding quarter)

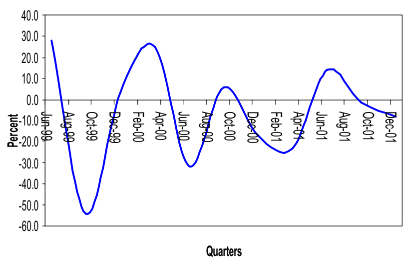


Figure 2.3
Crude Bauxite Production
(12-month change)

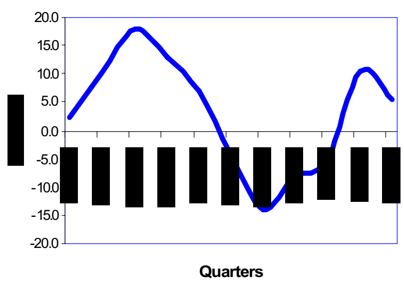
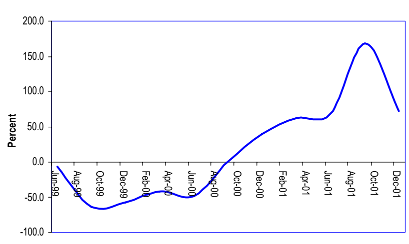


Figure 2.4
Cement Sales
(change over corresponding quarter)



Source: Carib Cement Company

The estimated contraction in the agricultural sector was inferred, in part, from the decline in crops produced for the export market, which was partially offset by a marginal growth in the production of domestic crops (see Figures 2.1 and 2.2). The poor performance of export agriculture was due mainly to declines in coffee and banana production. During the quarter, diseases, pests and flood rains, particularly in the major coffee producing northeastern parishes, adversely affected the sector. In addition, the late maturing of some domestic crops, such as legumes also contributed to the decline in the sector.

The rate of growth in output from the mining sector declined significantly in the December 2001 quarter relative to the preceding quarter. This was due primarily to the temporary closure of the Jamalco Halse Hall plant, which accounts for 27.0 per cent of the Country's alumina production. The closure, which resulted from a labour dispute, was extended to facilitate maintenance work. As a result of this development, alumina and bauxite production are estimated to have fallen by 20.8 and 6.7 per cent, respectively, relative to the previous quarter. However, crude bauxite production is estimated to have increased by 72.0 per cent when compared to the December 2000 quarter, reflecting the full resumption of the Grammercy Refinery plant in Louisiana (see Figure 2.3).

The manufacturing sector is estimated to have grown marginally in the review quarter relative to the corresponding quarter of the previous year. This assessment is based on recent trends in food processing, petroleum refining and production of sugar, molasses & rum and beverages. The performance of the sector was however dampened by declines in the value added of other industries, particularly the apparel and tobacco industries.

The construction and installation sector is estimated to have grown over the review period. This growth was in part, inferred from an estimated increase of approximately 5.0 per cent in cement sales, as well as, from an expansion in loans to the sector relative to the corresponding period of 2000 (see Figure 2.4). Since July 2001, there have been monthly increases in loans to the construction sector.

Figure 2.5
Electricity Sale
(change over corresponding quarter)

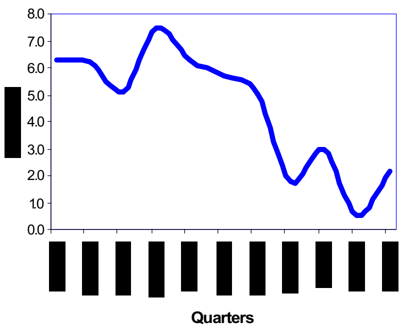


Figure 2.6a
Quarterly Trends in Visitor Arrivals
(change over corresponding quarter)

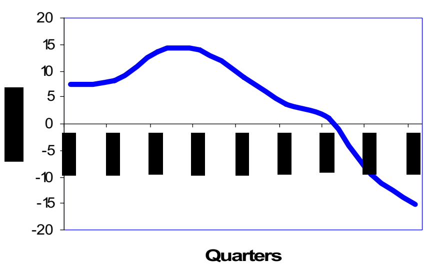
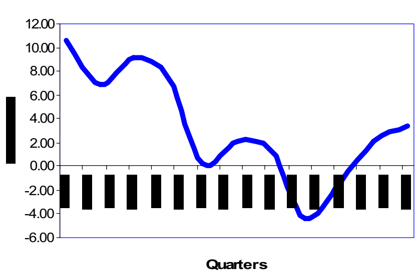


Figure 2.6b
Visitor Expenditure
(change over corresponding quarter)



Another indicator, construction material imports, also increased significantly by approximately 50.0 per cent in the September quarter, and the trend is expected to have continued for the December quarter. Government's construction activities and road repairs, as well as the construction of cellular sites in the rapidly growing communications industry accounted for the majority of the increase in materials for the construction sector.

The basic services sector, which comprises electricity & water and transport, storage & communication industries, is estimated to have grown in the quarter. For the electricity & water industry, an expansion was inferred primarily from an increase in total electricity sales of 2.2 per cent (see Figure 2.5). The growth in transport, storage and communication sector was driven mainly by the communications sub-sector, which had a new entrant during the quarter. The growth was also corroborated by an estimated increase in the number of fixed lines. Output in the transportation sub-sector is estimated to have declined during the quarter, relative to the December 2000 quarter. This assessment is based on the decline in air transportation in the aftermath of the events of 11 September (see Box 2).

Marginal growth is estimated for the distribution sector for the review quarter relative to the corresponding quarter in 2000. This growth is inferred partly from personal loans extended to the sector, which increased by approximately 16.1 per cent. Additionally, consumer imports for the three consecutive quarters to September 2001 increased on average by 2.0 per cent per quarter.

The miscellaneous sector, which includes the hotel, restaurant & club sub-sector, is estimated to have declined during the December 2001 quarter. The tourism industry, the primary driver for the sector, was negatively affected by the decline in world travel consequent on the events of 11 September and the weaker US economy. Visitor arrivals and expenditure figures are estimated to have declined by 17.4 per cent and 21.8 per cent, respectively, relative to December 2000 quarter (see Figure 2.6a & 2.6b). The extent of the decline was influenced greatly by the fact

Figure 2.7
Trends in Consumption Tax
(change over the corresponding quarter)

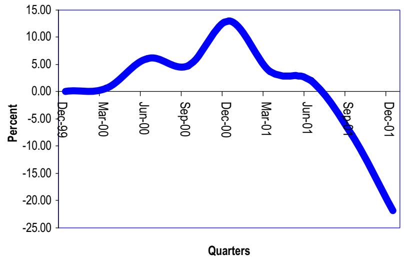


Figure 2.8
Trends in Government Consumption
(change over the corresponding quarter)

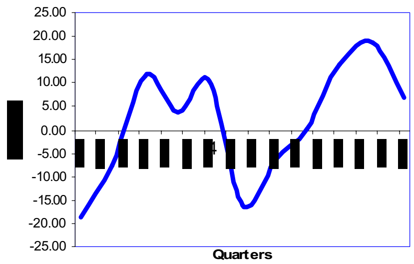


Figure 2.9
Government Capital Expenditure &
Private Investment
(change over the corresponding quarter

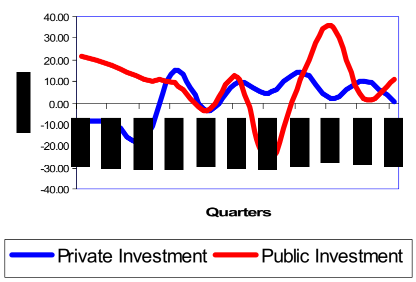
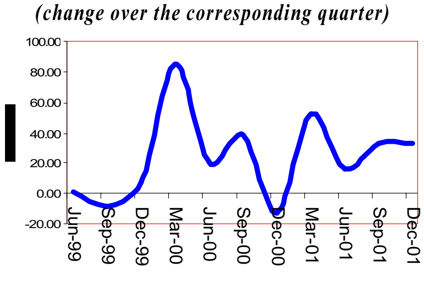


Figure 2.10
Trends in External Demand
(change over the corresponding quarter)



that the USA accounts for approximately 70.0 per cent of visitors to Jamaica (see Box 2).

Aggregate Demand for the December Quarter

Indicators of consumption suggest an expansion in both private and Government consumption in the Decemoer 2001 quarter relative to the corresponding quarter of 2000. This represents a continuation of the trend observed in the September 2001 quarter (see Figure 2.7). However, the 12-month rate of growth in Government consumption registered a decline in the December 2001 quarter relative to the corresponding quarter of the previous year, due to a lower incidence of retroactive salaries being paid during the review period (see Figure 2.8). Private consumption continued to increase steadily over the quarter.

Indicators of investment demand revealed that for the review quarter, both public and private investments were higher relative to the December 2000 quarter. However, the increase in private investment was less than that of the public sector (see Figure 2.9). The growth in public investments reflected increased infrastructural rehabilitation and more developmental projects.

With respect to net external demand, it is estimated that there was an improvement in performance for the review period, relative to the corresponding quarter in 2000 (see Figure 2.10). However, this improvement is predicated on a lower estimated growth for imports for the quarter.

In summary, the overall assessment of aggregate demand for the review quarter suggests an increase when compared to the corresponding quarter of 2000. This was reflected in the estimates of changes in expenditures, which showed improvements in consumption, investment and external demand.

Table 1

Selected Tourism Statistics (January - August)			
	2000	2001	% Change
(a) Total Stop Overs (000')	941.1	953.9	1.4
Foreign Nationals Stopovers	870.1	893.1	2.6
Non-Resident Jamaican			
Stopovers	71.0	60.8	-14.4
(b) Cruise Passengrs	609.5	605.3	-0.6
Total Visitor			
Arrivals (a) + (b)	1 550.6	1 559.2	0.6
Total Expenditure US$ ('000)	930.6	938.5	0.8
Expenditure per person US$	600.2	601.9	0.0

Table 2

Selected Tourism Statistics (September - December)			
	2000	2001	% Change
Arrivals (000')			
No. of visitors	679.7	561.4	-17.4
Stop-Overs	381.6	299.1	-21.6
Non-nationals	349.3	275.5	-21.1
Non-resident Jamaicans	32.3	23.6	-26.8
Cruise Passengers	298.1	262.3	-12.0
Visitor Expenditure			
(US$ million)	402.3	314.5	-21.8
Expenditure Per Person US$	591.9	560.2	-5.3

Headline Inflation

Single digit inflation for fifth consecutive calendar year

Figure 3.1
Quarterly Headline & Core Inflation

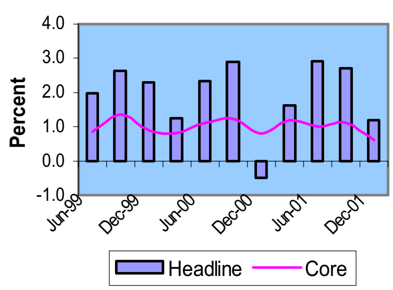


Figure 3.2
Annual Average & Point-to-Point Inflation

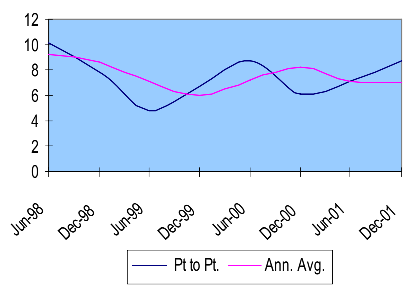
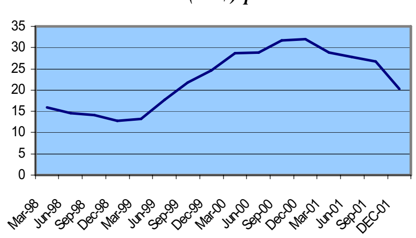


Figure 3.3
Average West Texas Intermediate Crude Price (US$) per Barrel



The Consumer Price Index (CPI) during the December 2001 quarter increased by 1.2 per cent. This outturn compares satisfactorily with the September and June quarters when inflation recorded rates of 2.7 and 2.9 per cent, respectively (See Figure 3.1). The lower inflation for the review quarter is attributed to slower rates of growth in November and December. The 0.1 per cent and 0.3 per cent growth registered for November and December, respectively represents the lowest monthly changes for the fiscal year 2001/02. The outturn for the review quarter brings inflation for the fiscal year-to-date to 7.0 per cent, and that for calendar year 2001 to 8.7 per cent. This represents the fifth successive year of single digit inflation in Jamaica since the early 1960s.

The trajectory of inflation is reflected in both the twelve-month point-to-point and the annual average inflation rates (See Figure 3.2). Despite the attainment of single digit inflation at end-December 2001, the twelve-month point-to-point inflation rate was higher than the corresponding periods of the three previous years. However, the annual average inflation rate of 7.0 per cent at end-December 2001 was lower than the 8.6 per cent and 8.2 per cent recorded for the corresponding periods of 1998 and 2000, but marginally higher than the 6.0 per cent recorded for the similar period of 1999.

Headline inflation of 1.2 per cent for the December 2001 quarter was lower than projected[1]. The lower than

[1] Inflation for the December quarter was projected at 1.9 ± 0.4 per cent - see Quarterly Monetary policy Report, July to September 2001, pg. 39.

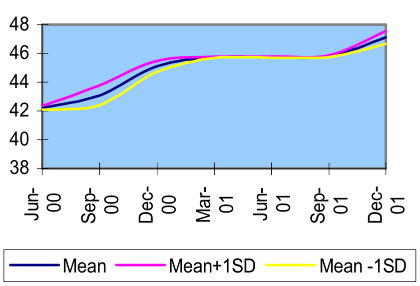
Table 3.1

International Prices of Selected Commodities (US$)				
Commodity	Units	Sept-01	Dec-00	Dec-01
Vegetable Oils				
Coconut oil	$/mt	347.7	345.30	325.30
Groundnut oil	$/mt	665.7	685.00	667.30
Soybean oil	$/mt	404.3	316.70	389.00
Grains				
Soybean meal	$/mt	184.3	206.70	179.00
Soybean	$/mt	207.3	208.70	188.30
Maize	$/mt	91.7	90.60	89.30
Sorghum	$/mt	94.7	95.50	95.20
Wheat Canada	$/mt	148	152.50	148.50
Rice (A1)	$/mt	142.1	131.30	138.50
Exports				
Sugar (EU)	Cts/kg	52.57	52.89	52.77
Sugar (US)	Cts/kg	46.78	47.56	46.97
Sugar (World)	Cts/kg	17.96	22.56	16.42
Banana (EU)	$/mt	686	628.20	677.80

Source: World Bank, Commodity Price Data

Figure 3.4

Exchange Rate Stability



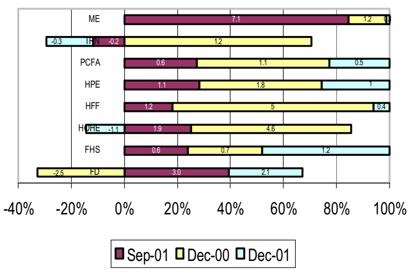
projected outturn resulted predominantly from a slower than expected growth in prices for some components of the *Food & Drink* expenditure group, influenced in part by lower demand from the tourism sector.

Lower inflation during the review period, relative to the June 2001 and September 2001 quarters was facilitated by auspicious domestic and international factors. These include the moderating influences of declining *Starchy Food* prices, relatively low and stable prices for crude oil resulting from weak global demand, stable prices for imported food commodities and modest declines in the costs of utilities and air fares. In contrast, the depreciation of the exchange rate and increased seasonal demand imparted a moderate inflationary impulse during the quarter.

Inflationary pressures from imported prices were generally muted during the review quarter. The decline in oil prices for the quarter was reflected in the generally lower domestic prices for petroleum-based products, electricity and water rates. The average price per barrel for the benchmark West Texas Intermediate (WTI) crude at end-December 2001 was US$20.33 compared to US$26.69 at end-September 2001 quarter. In addition, international prices for most imported food commodities either declined or were relatively flat when compared with the preceding quarter and the corresponding quarter of 2000 (See Table 3.1). This reflected the general pattern of declining global commodity prices emanating from excess supply.

For the review quarter, the pass-through of the exchange rate depreciation to domestic prices was limited by intense competition within the retail trade. Although the exchange rate depreciated by 3.6 per cent in October, this depreciation was not substantial enough to prompt wide scale price adjustments (See Figure 3.4). Furthermore, the demonstrated ability of the Central Bank to stabilize the foreign exchange market might have served to lower expectations of future depreciation.

Figure 3.5
Changes in Inflation by Expenditure Group

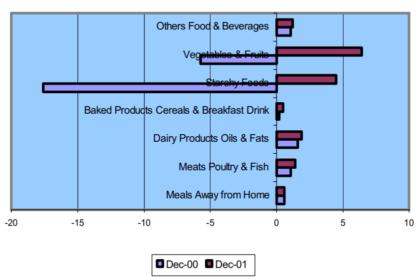


ME = Miscellaneous; TRN = Transportation; PCFA = Personal Clothing Footwear & Accessories; HPE = Healthcare & Personal Expenses; HFF = Household Furnishings & Furniture; HOME = Housing & Other Housing Expenses; FHS & Other Household Supplies; FD = Food & Drink

Contribution to Inflation

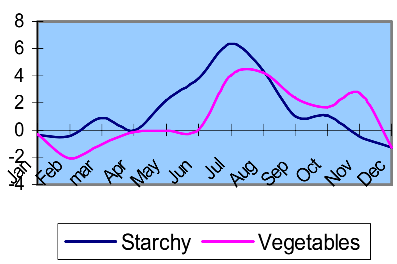
During the review quarter, the expenditure groups exerting the highest inflationary impulses were *Food & Drink, Fuel & Other Household Supplies, Healthcare & Personal Expenses, Personal Clothing Footwear & Accessories and Household Furnishings & Furniture*. The indices for these five categories expanded by 2.1, 1.2, 1.0, 0.5 and 0.4 per cent respectively. The groups exerting countervailing pressures on consumer prices were Housing & Other Housing Expenses and Transportation, these contracted by 1.1 and 0.3 per cent, respectively (see Figure 3.5). Food & Drink, which is weighted heavily in the CPI, contributed 92.8 per cent to the period's inflation outturn. This is in contrast to the corresponding quarter of 2000 when the Food & Drink sub-index declined by 2.5 per cent and reduced overall inflation by 205.3 per cent.

Figure 3.6
Changes in Components of the Food & Drink Group



Growth in the Food & Drink sub-index during the review period originated primarily from a 6.4 per cent rise in the *Vegetables & Fruits* sub-category and 4.5 per cent for *Starchy Foods*. Smaller increases of 1.9, 1.4 and 1.2 per cent were recorded for *Dairy Products Oils & Fats, Meat Poultry & Fish and Other Food & beverages*, respectively. This is in contrast to the similar period last year when the *Starchy Foods and Vegetables & Fruits* sub-indices declined by 17.6 and 5.7 per cent, respectively (See Figure 3.6).

Figure 3.7
Long-term Trends in Starchy Food and Vegetables & Fruit Prices



The general trend is for prices of *Starchy Foods* and *Vegetables & Fruits* to decline during the December and March quarters (See Figure 3.7). In terms of the December 2000 and March 2001 quarters, this trend was very pronounced, a consequence of a sharper recovery in domestic crop production and greater use of imported substitutes. However, during the review quarter, prices of *Starchy Foods* and *Vegetables & Fruits* did not fall as early as customary or by the expected magnitudes. In fact significant reductions in some *Starchy Foods* were only observed in November and December. Prices in October were unusually high because of heavy and prolonged rainfall, which disrupted harvesting and transportation.

Additionally, substantial volumes of vegetables and fruits were lost to fungal diseases associated with excess moisture due to unusually heavy rainfall.

The *Fuel & Other Household Supplies* sub-index contributed 5.5 per cent to overall inflation. The contribution of this sub-index to inflation was less this quarter relative to the corresponding quarter of the previous year when it contributed 10.0 per cent. The primary item driving prices in this group during the review quarter was charcoal. Weather conditions throughout the period had a negative impact on its production and consequent availability. The contribution of this expenditure group to overall consumer price inflation would have been more substantial in the absence of significant reductions in the ex-refinery prices for liquid petroleum gas (LPG) and kerosene.

The *Healthcare & Personal Expenses* group contributed 5.6 per cent to overall inflation for the quarter. This is substantially lower than the corresponding quarter of the previous year when it accounted for 28.7 per cent of overall inflation. This implies that consumers might be relying more on public health care facilities thereby reducing the demand for the services of private health care providers.

The *Personal Clothing Footwear & Accessories* group contributed only 2.0 percent to overall inflation during the December 2001 quarter. This compares with a contribution of 12.2 per cent for the corresponding quarter of the previous year. *Readymade Clothing & Accessories and Footwear* are the sub-groups whose prices tend to increase during the Christmas quarter. However, for the December 2001 quarter, these prices increased by less than 0.5 per cent, in contrast to the comparable period of the previous year when increases were in the order of 2.0 per cent. This supports the earlier assertion that competition within the retail trade has served to contain inflation.

The *Household Furnishing & Furniture* group contributed 0.9 per cent to overall inflation during the review quarter,

Table 3.2

Regional Distribuiton of Inflation			
	KMA (%)	Other Towns (%)	Rural (%)
FOOD & DRINK	2.1	3.5	1.4
- Starchy Foods	5.1	13.0	1.4
- Vegetables & Fruits	7.4	10.4	3.4
FUELS & OTHER HOUSEHOLD SUPPLIES	2.5	1.3	-0.3
- Fuels	4.2	1.0	-0.3
HOUSING & OTHER HOUSING EXPENSES	-1.1	-0.7	-1.4
- Rental	0.8	4.1	4.1
HOUSEHOLD FURNISHINGS & FURNITURE	0.4	0.3	0.4
- Furniture	0.0	0.6	0.2
HEALTHCARE & PERSONAL EXPENSES	0.8	1.0	1.3
PERSONAL CLOTHING FOOTWEAR & ACC.	0.3	1.1	0.4
TRANSPORTATION	-0.3	-0.2	-0.2
MISCELLANEOUS EXPENSES	0.6	-0.4	-0.5
ALL GROUPS	1.2	1.9	0.7

compared to 34.7 per cent for the comparable period of the previous year. During the December quarter, *Furnishing* usually accounts for most of the price increases within the group. For the December 2001 quarter, however, *Furnishing* contributed only 0.7 per cent to overall inflation, compared to 30.7 per cent for the corresponding quarter of the previous year. *However, the Index for the* Other Housing Expenses *sub-category* grew by minus 1.8 per cent and contributed minus 8.4 per cent to overall inflation for the December 2001 quarter. This was due mainly to reduction in electricity rates, which offset the increases in telephone and water rates. Housing & Other Housing Expenses was the sub-index providing the highest net countervailing influence on overall inflation. The group contributed a negative 6.0 per cent to overall inflation.

The *Transportation* group also provided net countervailing influence on overall inflation. For December 2001, this index grew by minus 0.3 per cent and contributed minus 1.5 per cent to overall inflation. The significant decreases in airfares outweighed the increases in other items within the group. In particular, the cumulative 26.0 per cent reduction in airfares over the five months to December 2001 resulted from discounting for summer travel, the fallout in air travel after the events of 11 September and the recession in the world's larger economies. In addition, there were declines in domestic petrol prices of 21.2 per cent for 87 Octane and 20.0 per cent for the 90 Octane grade.

Regional Distribution of Inflation

During the review quarter, the CPI increased by 1.9 per cent in the *Other Towns*, 1.2 per cent in the *KMA* and 0.7 per cent in the *Rural Areas*. In general, prices for *Starchy Foods* and *Vegetable & Fruits* explained most of the regional variations. Prices of *Starchy Foods and Vegetables & Fruits* increased more rapidly in *Other Towns* followed by *KMA* and *Rural Areas*. This was because suppliers considered the KMA market to be most lucrative, given its overwhelming relative size, hence it is oversupplied, resulting in depressed prices. The converse is that Other Towns are undersupplied and hence experience higher prices.

Figure 3.8
Core Inflation (3 months)

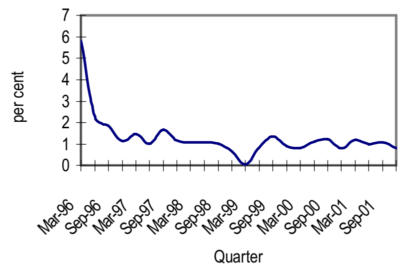
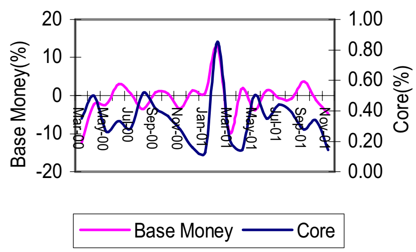


Figure 3.9
Base Money Growth & Core



Core inflation remained within target

Table 3.3

Decomposition of Inflation Outturn April to December 2001/02	FYTD Inflation (%)	Contribution %
Shocks	4.33	61.8
Transportation	1.30	18.6
Other Housing Expenses	-0.12	-1.8
Light	-0.11	-1.5
Water	-0.02	-0.2
Agriculture	2.28	32.5
Starchy Foods	1.32	18.8
Vegetables & Fruit	0.96	13.7
Postage	0.88	12.5
CORE	2.68	38.2
TOTAL	7.00	100

The price of charcoal and LPG is generally higher in the KMA. First, charcoal is in greater demand and in the KMA given that Jerk Meat segment of the *Meals Away From Home* market is concentrated in this region. Second, with respect to LPG, demand tends to be greater in the KMA given urban concentration and lack of viable substitutes.

Relative to the KMA, the *Rental* index increased at a faster but equivalent rate in the *Other Towns and Rural Areas*. This is due mainly to greater scarcity of different types of rental units in these regions relative to the KMA.

Core Inflation and Monetary Policy

Quarterly core inflation has been on the decline since the mid 1990's (see Figure 3.8), a path that is consistent with more stable and consistent monetary policy. Over the past two years quarterly core inflation has remained within the 0.8 to 1.4 per cent range, averaging 1.1 per cent.

Core inflation for the review quarter was estimated at 0.6 per cent, compared with 0.8 per cent for the corresponding quarter of 2000. For the fiscal year to end-December, core inflation was 2.7 per cent in comparison to the 3.1 per cent recorded for the corresponding period of the previous year.

For the fiscal year-to-date, core accounted for 38.2 per cent of the headline inflation, while shocks were responsible for the remaining 61.8 per cent. The shocks to Transportation, Other Housing Expenses Agriculture and Postage were 1.3, minus 0.12, 2.28 and 0.88 per cent, respectively (See Table 3.3).

The relationship between the two-month lagged percentage change in base money and monthly core inflation is depicted in Figure 3.9. Monetary policy impulses were minimal during the review quarter, this resulted from the monetary base being on target for the first half of the fiscal year and therefore would not contribute to excess aggregate demand during the December 2001 quarter.

[1] The results of the Conference are contained in three documents: The Ministerial Declaration, The Decision on Implementation-Related Issues and Concerns, as well as The Declaration on the TRIPS Agreement and Public Health.

[2] The Cotonou Agreement is the successor to the Lomé IV Agreement, which granted preferential access to the EU market by ACP states.

erns

[3] Parallel importation allows a country to shop around for the best price of a drug on the global market.

[4] The Cotonou Agreement is the successor to the Lome IV, which granted preferential access to the EU market by ACP states.

[5] Article 1:1 of the GATT (1994) establishes the most-favoured nation rule. This requires parties to ensure that if special treatment is given to the goods or services of one country, they must be given to all WTO members. No one country should receive favours that distort trade.

[6] The "Singapore issues" were those raised at the 1996 Singapore Ministerial Conference. These are issues related to investment, competition policy, transparency in government procurement and trade facilitation.

Table 4.1

Jamaica's Economic Performance Targets April - September 2001			
	Targets	Acutal	Variance
NIR Stock (US$mn)	1 336.3	1 536.7	200.7
Base Money Growth	-2.2%	-2.2%	0
Fiscal Balance/GDP	-4.21%	-4.09%	0.12
Primary Balance/GDP	3.61%	3.19%	0.42

Table 4.2

SMP Revised Economic Performance Targets & Forecast 2001/02				
	Dec 2001		Mar 2002	
	Orig.	Rev	Orig	Rev
NIR Stock (US$mn)	1 336	1 530	1 386	1 580
NDA of the BOJ (J$bn)	-27.5	-27.5	-34.3	-34.3
Fiscal Bal./GDP	-4.1%	-5.5%	-2.8%	-4.1%
Primary Bal./GDP	6.65	5.2%	10.8%	9.9%
Inflation* (12 month)			5-6%	8-9%
GDP* (12 month chg.)			2-4%	1-2%

** forecasts*

Outlook

Jamaica's economic performance for the first half of fiscal year 2001/02 signaled that the economy was on a path of recovery. During that period, economic growth was estimated at 3.0 per cent, the Bank's signal rate declined by 125 basis points, the NIR increased by US$254 million and the fiscal accounts were broadly on target (see Table 4.1). However, since then the economy has been beset by a series of adverse exogenous shocks, the most significant of which was the events of 11 September.

The confluence of these shocks tempered the rate of economic expansion, affected confidence in the foreign exchange market and reduced Government's revenue flows, thereby necessitating some revisions to the macroeconomic forecasts and some economic targets (see Table 4.2). Given the impact on the fiscal budget, the target for the deficit has been revised 4.1 per cent of GDP from 2.8 per cent of GDP. Additionally, the NIR is targeted to improve by US$ 297 million for the fiscal year, relative to the original target of US$100 million

The forecast for economic growth for the fiscal year has been revised downwards to 1.0 to 2.0 per cent from the original 2.0 to 4.0 per cent, due mainly to the estimated contraction in the December 2001 quarter. However, an expansion in economic activity is anticipated for the March 2002 quarter, driven mainly by strong recovery in the mining sector and to a lesser extent the agriculture sector. Given the resumption of production at the JAMALCO bauxite/alumina plant output from the mining sector is expected to expand by some 12.0 to 15.0 per cent. The growth in the telecommunications sector should continue into 2002, albeit at a slower rate. While a positive performance is expected for the manufacturing sector, relatively weak competitiveness will continue to retard its rate of expansion.

The tourism sector is expected to record some recovery in the March quarter relative to the December 2001 quarter. However, output will be lower than the corresponding quarter of 2001, as weaker winter tourist arrivals are anticipated. Projections are for a 1.0 per cent decline in total tourist arrivals for the March 2002 quarter[1] relative to the March 2001 quarter. (See *Box 2*) This is in contrast to the estimated 17.4 per cent decline in the December quarter.

The outlook for tourism reflects the expectations of economic trends in Jamaica's main market -the United States. Expectations are for a milder recession in the March 2002 quarter or possibly marginal economic growth. A prolonged US recession is not expected and the general consensus seems to favour a recovery by the June 2002 quarter.

US economic recovery expected by the second half of 2002

This view is supported by the most recent trends in leading indicators such as the consumer confidence and consumer sentiment indices, index of leading economic indicators and manufacturing. The prospects for economic recovery in the USA should be boosted by the passage of the Government's economic stimulus package and any additional interest rate cuts during the March 2002 quarter, consequent on lower inflationary expectations. This outlook is consistent with the World Tourism Organization's projection of a rebound in world travel during the second half of 2002.

The impact of lower tourism revenues on the current account of the balance of payments during the March 2002 quarter will be partially offset by continued buoyancy in remittance flows (See *Boxes 1 and*)*2* However, the combination of the shock to tourist travel, weaker international demand and at best a stable terms of trade, will see some widening in the current account deficit. More importantly, continued buoyancy in financial flows will be sufficient to finance this deficit.

[1] Source: Jamaica Tourist Board

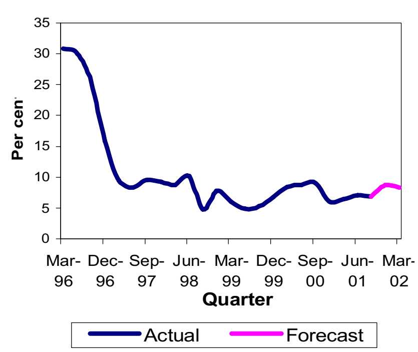
Given the shocks to inflation that characterized 2001, the revised economic programme envisages an inflation rate of 8.0 to 9.0 per cent for the fiscal year 2001/02. The Bank's projection indicates that, in the absence of any adverse shocks in the March 2002 quarter, this will be comfortably met given the stable low core inflation. Thus, despite the earlier shocks, the tight base money management will contribute to a continuation of single digit headline inflation for the fiscal year.

Single digit inflation projected for FY 2001/02

The main inflationary impulses during the March 2002 quarter are expected to emanate from the impact of the minimum wage increase on the Housing & Other Housing Expenses sub-index and adjustments in electricity rates. The announced 50.0 per cent increase minimum wage is expected to account for approximately 85.0 per cent of inflation in January 2002. Seasonal increases in insurances premiums will also exert some inflationary pressures, albeit moderate.

Figure 4.1

12 Month Inflation



The anticipated recovery in agriculture coupled with seasonal lower domestic crop prices, and lower imported inflation will temper inflationary impulses to the main Food & Drink sub-index. Recent trends in major indicators such as producer and energy prices in the USA, suggest continued low inflation in that country in the March 2002 quarter. Additionally, it is anticipated that oil prices will remain in the US$20 to US$25 range, reflecting weaker global demand and OPEC's continued difficulty in coordinating production cuts, particularly among non-OPEC producers.

Given these factors and a stable exchange rate relative to the previous quarter, inflation is expected to approximate 1.2 per cent (± 0.3 percentage point), relative to the 1.2 per cent and 1.6 per cent recorded in the December 2001 and March 2001 quarters, respectively. The forecast for inflation for the fiscal year 2001/02 is therefore projected at 8.3 per cent (± 0.3 percentage point).

For the 2002 calendar year, barring any shocks to domestic production, particularly crop production, and any further

Figure 4.2
Commercial Banks' Statutory Cash Reserve Ratio

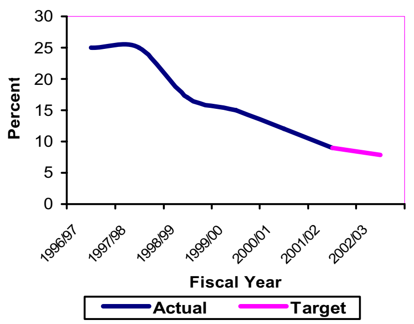


Figure 4.3
Base Money Growth Target

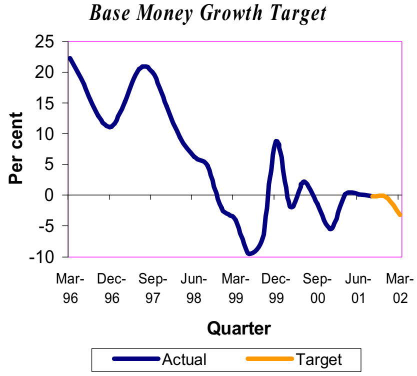
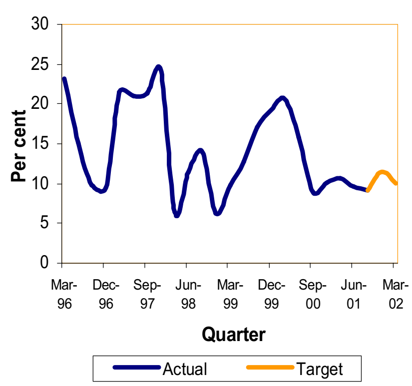


Figure 4.4
M3J Growth Rates (12 month)



increases in administered prices, inflation is expected to fall to the 5.0 per cent to 6.0 per cent range.

Monetary Policy

Given the short to medium term outlook for inflation and real sector activity, the Bank's policy during the March 2002 quarter, will be focused primarily on ensuring stability in the foreign exchange market along with facilitating the resumption of the downward trend in domestic interest rates. With a NIR stock of US$1.8 billion at end December 2001, the Bank is better able to manage exchange rate fluctuations, in the wake of lower seasonal tourism flows. The Bank of Jamaica will continue to closely monitor developments and prospects in the financial markets and adjust its interest rates accordingly. The programmed one percentage point reduction in the cash reserve ratio will be effected in March 2002, bringing the ratio to 9.0 per cent relative to the 12.0 per cent that prevailed at March 2001 (see Figure 4.2).

Monetary conditions over the March 2002 quarter will be influenced by normalization in the monetary base, the Bank's operating target, with the base programmed to decline by 14.0 per cent relative to the 15.2 per cent increase in December 2001. The targeted decline in the base is in a context where currency demand is expected to normalize over the quarter, with an anticipated decline in the stock of currency issue mainly in January.

Given the seasonal patterns in the currency to deposit ratio, broad money (M3J) is also projected to decline by approximately 1.3 per cent.

The strong economic performance that was recorded in the first half of the fiscal year was disrupted in the December quarter. However, some recovery is anticipated in the March 2002 quarter. Real GDP is projected to register positive growth for the fiscal year and inflation is expected to remain within single digits. Further, supported by prudent fiscal management, domestic interest rates are expected to resume their downward trend. In this context, monetary policy will remain broadly supportive of the recovery process, by ensuring continued stability in the foreign exchange and financial markets and the containment of core inflation.

A. Fiscal Developments: October - December 2001

Preliminary estimates indicate that in the December 2001 quarter Central Government operations resulted in a deficit of $8841.1 million or 2.5 per cent of GDP relative to a targeted deficit of $6329.0 million or 1.8 per cent of GDP. The primary balance, which deviated from target by $796.0 million, was 1.9 per cent of GDP relative to a target of 2.1 per cent of GDP. This out-turn resulted from lower than expected revenues, which was reflected in all the major categories and higher than targeted expenditures.

Preliminary data for the December quarter indicate that tax receipts fell below target by $3581.4 million or 14.5 per cent. This was largely reflected in the Income and Profits categories and Production and Consumption categories, which were lower relative to target by $1521.7 million and $1451.7 million, respectively. Within the Income and Profits category, tax on interest and corporate taxes reflected the most significant declines relative to target, while lower GCT (local) receipts contributed significantly to shortfall in taxes classified under Production and Consumption. Notably, revenue performance in the International Trade category was affected by the events of 11 September 2001 in the United States, which had a significant impact on foreign related business. As a consequence tax receipts in this category (in particular customs duties, travel tax and GCT) were $608.0 million below target.

The $1088.2 million increase in total expenditures relative to target was largely reflected in recurrent expenditures. Interest payments, which exceeded target by $1716.0 million during the quarter was partly offset by lower expenditure on programmes and wages and salaries. Capital expenditures, which in previous quarters had been below target, marginally exceeded target in the December quarter

During the December quarter, Government financed its deficit and amortised domestic debt through an increase in external borrowing. In this regard, the Government raised US$250.0 million on the international capital market in December. Concurrently, the fiscal accounts benefited from an emergency loan of US$75.0 million from the World Bank. This was augmented by grants of Canadian $20.0 million and Euro 15.0 million for the Jamaica Budgetary Support Project and the Support to Economic Reform Programme 2001-2003 (SERP 11), respectively..

Fiscal Performance
Comparitive Analysis
J$ Million

	2001/02 Q3	SMP Q3	Change	Provisional 2001/02 Q1-Q3	SMP Q1-Q3	Change
Revenue and Grants	25 383.00	26 806.90	-1 423.90	73 831.00	75 254.90	-1 423.90
Tax Revenue	21 148.60	24 730.00	-3 581.40	64 848.80	68 430.20	-3 581.40
Capital Revenue	1 168.60	429.50	739.10	2 115.10	1 376.00	739.10
Other (incl. Non-tax)	3 065.80	1 647.40	1 418.40	6 867.10	5 448.70	1 418.40
Expenditure	34 224.10	33 135.90	1 088.20	96 111.70	95 023.50	1 088.20
Recurrent Expenditure*	31 713.20	30 712.40	1 000.80	87 669.30	86 668.50	1 000.80
Capital Expenditure	2 258.70	2 171.30	87.40	7 806.20	7 718.80	87.40
IMF #1 Accoun	252.20	252.20	0.00	636.20	636.20	0.00
Unallocatedt						
Overall Balance	-8 841.10	-6 329.00	-2 512.10	-22 280.70	-19 768.60	-2 512.10
Current Balance	-7 498.80	-4 335.00	-3 163.80	-15 953.40	-12 789.60	-3 163.80
Primary Balance	6 858.20	7 654.20	-796.00	17 772.30	18 568.30	-796.00

Performance Indicators
(percentages of GDP)

	BR	CB	PB	IP	FSR
Q3 FY2001/02	2.47	-2.10	1.92	4.39	-1.35
Q3 FY2001/02 SMP	1.77	-1.21	2.14	3.91	-1.24
Q1-Q3 FY2001/02	6.23	-4.46	4.97	11.20	-1.30
Q1-Q3 FY2001/02 SMP	5.53	-3.58	5.19	10.72	-1.26

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

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

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

Source: Ministry of Finance and Planning

B. Monetary Policy Developments: April 2000 to December 2001

27/04/2000	30-day Reverse Repurchase Rate was reduced from 17.30 per cent to 17.00 per cent.
01/06/2000	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-three per cent (33%) to thirty-two per cent (32%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from fifteen per cent (15%) to fourteen per cent (14%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-two per cent (5% and 32%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and fourteen per cent (1% and 14%) in respect of local and foreign currency deposits.
28/07/2000	30-day Reverse Repurchase Rate was reduced from 17.00 per cent to 16.75 per cent.
11/08/2000	30-day Reverse Repurchase Rate was reduced from 16.75 per cent to 16.45 per cent.
01/09/2000	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-two per cent (32%) to thirty-one per cent (31%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from fourteen per cent (14%) to thirteen per cent (13%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-one per cent (5% and 31%) for Building Societies.

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

18/09/00 Bank of Jamaica introduces 270-day and 365-day reverse repurchase instruments at 17.6 and 18.0 per cent respectively.

04/10/00 Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.

23/10/00 Interest rates on the 270-day and 365-day instruments were reduced to 17.6 and 18.0 per cent respectively.

24/11/00 Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.

28/12/00 Interest rate on the 365-day instrument was reduced to 21 per cent.

14/02/01 Interest rates on the 365-day and 270-day instruments were reduced to 20.00 per cent and 19.25 per cent respectively.

20/02/01 Interest rates on the 365-day and 270-day instruments were reduced to 19.50 per cent, and 18.75 per cent respectively.

01/03/01 Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-one per cent (31%) to thirty per cent (30%).

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

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

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

08/03/01	Interest rates on the 365-day, 270-day, instruments were reduced to 19.00 per cent, 18.25 per cent per cent respectively.
12/03/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 18.50 per cent, 17.75 per cent, 16.70 percent, 16.40 per cent, 16.25 per cent, 16.15 per cent and 16.00 per cent respectively.
22/03/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 17.75 per cent, 17.00 per cent, 16.15 per cent, 15.80 per cent, 15.70 per cent, 15.60 per cent and 15.50 per cent respectively.
11/04/01	Interest rates on the 365-day and 270-day instruments were reduced to 17.50 per cent and 16.75 per cent respectively.
21/05/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.50 per cent, 15.70 per cent, 15.30 per cent, 15.05 per cent, 14.95 per cent, 14.85 per cent and 14.75 per cent respectively.
01/06/01	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty per cent (30%) to twenty nine per cent (29%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from twelve per cent (12%) to eleven per cent (11%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty nine per cent (5% and 29%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and eleven per cent (1% and 11%) in respect of local and foreign currency deposits.
08/06/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.90 per cent, 15.35 per cent, 15.00 percent, 14.80 per cent, 14.70 per cent, 14.60 per cent and 14.50 per cent respectively

25/06/01	Interest rates on the 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 14.75 percent, 14.55 per cent, 14.45 per cent, 14.35 per cent and 14.25 per cent respectively.
29/06/01	The Bank of Jamaica introduced Certificates of Deposits to the range of instruments used in open market operations. All the terms and conditions applicable to Reverse Repurchase transactions apply to Certificates of Deposits, with the exception that the latter are covered by the central bank's assets as against Government securities. Central Bank deposits which are maintained in statement form (i.e. no physical certificate is issued) will continue to be used for placements of seven (7) days or less.
01/09/01	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from twenty nine per cent (29%) to twenty eight per cent (28%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from eleven per cent (11%) to ten per cent (10%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty eight per cent (5% and 28%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and ten per cent (1% and 10%) in respect of local and foreign currency deposits.
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 increased to 18.90 per cent, 18.40 per cent, 15.00 per cent, and 14.55 per cent 14.45 percent and 14.35 per cent respectively.

C. Summary Tables

1

Inflation Rates (%)	CPI Index (e.o.p.)	Head-line (quarter)	Core (quarter)
1998/1999	1 182.5	6.0	2.9
1999/2000	1 281.7	8.4	4.0
June	1 205.9	2.0	0.9
September	1 237.6	2.6	1.4
December	1 265.9	2.3	0.9
March	1 281.7	1.3	0.8
2000/2001	1 364.3	6.4	4.2
June	1 311.4	2.3	1.1
September	1 349.3	2.9	1.2
December	1 342.6	-0.5	0.8
March	1 364.3	1.6	1.0
2001/2002			
June	1 404.0	2.9	1.0
September	1 442.7	2.7	1.1
December	1 459.9	1.2	0.6

2

Component Contribution to Inflation
All Jamaica
October - December 2001

Groups and Sub-groups	Weight in CPI	Inflation (%)	Contribution (%)
FOOD & DRINK	0.5563	2.1	92.8
- Meals Away from Home	0.0741	0.6	3.5
- Meat Poultry & Fish	0.1613	1.4	17.9
- Dairy Products Oils & Fats	0.0668	1.9	10.3
- Baked Products Cereals & Breakfast Drinks	0.0864	0.5	3.4
- Starchy Foods	0.0525	4.5	19.2
- Vegetables & Fruits	0.0650	6.4	33.7
- Other Food & Beverages	0.0502	1.2	4.8
FUELS & OTHER HOUSEHOLD SUPPLIES	0.0735	1.2	5.5
- Household Supplies	0.0482	0.4	1.6
- Fuels	0.0253	1.9	3.9
HOUSING & OTHER HOUSING EXPENSES	0.0786	-1.1	-6.0
- Rental	0.0209	1.4	2.4
- Other Housing Expenses	0.0577	-1.8	-8.4
HOUSEHOLD FURNISHINGS & FURNITURE	0.0283	0.4	0.9
- Furniture	0.0068	0.3	0.1
- Furnishings	0.0215	0.4	0.7
HEALTHCARE & PERSONAL EXPENSES	0.0697	1.0	5.6
PERSONAL CLOTHING FOOTWEAR & ACC.	0.0507	0.5	2.0
- Clothing Materials	0.0055	0.5	0.2
- Readymade Clothing & Accessories	0.0242	0.5	0.9
- Footwear	0.0159	0.5	0.7
- Making & Repairs	0.0051	0.4	0.2
TRANSPORTATION	0.0644	-0.3	-1.5
MISCELLANEOUS EXPENSES	0.0785	0.1	0.6
ALL GROUPS	1.0000	1.2	100.0

3

BANK OF JAMAICA OPERATING TARGETS
FY 2001/2002

	Mar-01	Jun-01	Sept-01	Dec-01	SMP	Dec-01 Flows	Deviation Q3 - SMP
Net International Reserves (US$)	1 286.3	1 540.5	1 536.7	1 840.7	1 530.3	304.0	310.4
Net International Reserves ($J)	59 169.3	70 863.5	70 688.2	87 435.2	71 311.9	14 441.9	16 123.3
Assets	62 646.9	74 174.1	73 871.4	90 406.3	74 834.9	14 126.0	15 571.4
Liabilities	-3 477.6	-3 310.6	-3 183.2	-2 971.1	-3 523	-315.9	551.9
Net Domestic Assets	-28 690.0	-40 409.0	-40 960.3	-53 125.4	-36 565.3	-9 904.7	-16 560.1
Net Claims on the Public Sector	32 400.6	32 703.5	35 328.3	33 964.1	36 325.1	-1 407.8	-2 361
Net Credit to Banks	-6 595.7	-5 988.1	-5 681.1	-6 154	-6 218.9	-472.9	64.9
Open Market Operations	-61 441.4	-74 164.5	-77 525.5	-85 628.3	-72 569.8	-8 102.7	-13 058.5
Other	6 946.6	7 040.0	6 918.1	4 692.7	6 844.5	78.7	-2 151.8
Monetary Base	30 479.4	30 454.4	29 772.5	34 309.8	34 746.6	4 437.2	-436.8
Currency Issue	17 659.7	17 522.7	17 580.1	22 340.5	22 833.9	4 760.4	-493.4
Cash Reserve	12 763.7	12 685.8	11 723.9	11 474.4	11 832.7	-249.5	-358.3
Current Account	56.0	245.9	468.5	494.9	80.0	26.3	414.9
% change Monetary Base (F-Y-T-D)	0.1	-0.1	-2.3	12.6	14.0	15.2	-1.4

4

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

	M1J	M1*	M2J	M2*	M3J	M3*
1998/1999	26 564.6	30 306.5	79 732.5	103 612.3	90 474.3	114 354.2
1999/2000						
2000/2001						
June	32 017.2	37 737.7	95 966.4	125 498.3	113 634.3	143 166.2
September	30 527.0	35 897.9	96 419.1	128 067.1	115 248.5	146 896.6
December	33 832.3	38 111.4	100 747.1	132 997.8	119 962.1	152 226.0
March	32 783.8	36 970.0	100 673.4	133 790.6	120 789.7	153 906.9
2001/2002						
June	32 951.4	38 015.3	102 002.8	135 708.9	123 100.6	156 806.8
September[r]	35 690.9	41 620.6	105 818.0	141 583.6	127 000.0	162 765.5
December[p]	38 964.5	45 310.0	109 419.3	146 040.5	130 962.3	167 583.5

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

5

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

	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	Jun -01	Sept-01P	Dec-01P
M2J	13 112.0	3 122.7	452.5	4 327.4	-72.8	1 329.4	3 815.2	3 601.2
Currency	1 663.5	281.0	207.5	3 000.2	-1 724.4	115.6	171.2	2 598.8
Demand Deposits	3 436.7	71.5	-1 697.8	304.2	677.0	52.0	2 568.3	674.8
Savings Deposits	3 870.4	1 951.1	347.9	1 305.9	417.5	1 522.0	770.2	1 030.2
Time Deposits	4 141.4	819.1	1 594.9	-282.9	557.1	-360.2	305.5	-702.6
OTHER DEPOSITS	6 026.6	1 388.3	1 161.8	438.6	848.0	981.4	84.2	361.0
TOTAL (M3J)	19 138.6	4 511.0	1 614.3	4 766.0	775.2	2 310.8	3 899.5	3 962.2

Sources of Change in Money Supply

	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	Jun -01	Sept-01P	Dec-01P
N.I.R. of B.O.J.	5 372.3	2 251.2	7 608.0	1 531.4	14 254.7	11 846.7	-132.4	14 123.1
M & LTFL of B.O.J.	77.3	8.0	26.0	111.7	14.6	7.8	15.1	7.7
Banking System Credit	4 846.5	12 873.3	-3 543.5	8 623.6	-7 509.6	5 349.1	-2 233.8	17 405.5
Public Sector	9 422.2	12 900.7	-3 407.9	6 566.9	-6 610.7	4 996.5	-3 079.1	16 632.6
Private Sector	-4 575.7	-27.3	-135.6	2 056.7	-898.9	352.6	845.3	772.9
Open Market Operations	-1 417.1	-5 575.3	-6 819.4	84.7	-9 640.5	-12 723.1	-3 361.0	-8 102.8
Other	10 259.6	-5 046.2	4 343.2	-5 585.5	3 656.0	-2 169.7	9 611.6	-19 471.3
TOTAL	19 138.6	4 511.0	1 614.3	4 766.0	775.2	2 310.8	3 899.5	3 962.2
Memo:								
Foreign Currency Deposits	6 158.9	-507.7	2 116.2	603.4	865.6	589.1	2 059.3	855.7
Foreign Currency Loans	-547.9	476.0	529.8	-62.5	375.3	-207.7	1 986.6	2 581.8

P - Preliminary

6A

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

	Fixed Deposits* 3-6 months	6-12 months	Savings Deposits (Average)	Loan Rate (Average)	Fixed Deposit Rate (Weighted Average)	Loan Rate (Weighted Average)
1998/1999	10.50 - 18.75	9.50 - 18.75	12.09	38.60	14.63	29.65
1999/2000	11.00 - 17.50	11.50 - 16.50	11.38	33.92	12.99	24.32
June	10.00 - 17.50	10.00 - 17.00	11.96	37.89	14.08	27.12
September	10.00 - 17.50	10.00 - 17.00	11.50	35.92	13.47	26.16
December	11.00 - 17.50	11.50 -16.50	11.38	33.92	13.27	24.64
March	11.00 - 17.50	11.50 - 16.50	11.38	33.92	12.99	24.32
2000/2001						
June	10.00 - 17.50	10.00 - 16.50	10.11	33.00	12.74	23.48
September	10.00 - 17.05	10.00 - 17.05	9.96	31.50	12.59	22.23
December	10.00 - 17.05	10.00 - 17.60	9.86	31.67	12.21	22.12
March	10.00 - 17.00	10.00 - 16.75	9.84	31.33	12.13	21.49
2001/2002						
June	8.75 - 17.00	8.75 - 15.00	9.45	30.67	11.11	20.86 r
September	8.75 - 17.00	8.75 - 15.00	9.08	26.96	10.52	19.41
December	7.75 - 15.00	7.75 - 15.00	9.08	26.79	n.a.	n.a.

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

6B

GOJ TREASURY BILL YIELDS
(End Period)

	3-month	6-month	9-month	12-month	BOJ 30-day Open Market Rate
1998/1999					20.75
1999/2000	17.82	17.96	18.30	21.67	17.30
June	20.24	20.16	20.45	18.37	18.85
September	18.63	19.21		20.05	18.35
December	19.92	22.03	21.43	20.20	18.35
March	17.82	17.96	18.30	22.00	17.30
				18.37	
2000/2001					
June	17.68	17.47	17.88		17.00
September	16.62	17.13	16.91	18.10	16.45
December		20.16	19.67	16.94	16.45
March		16.88		20.98	15.50
				17.86	
2001/2002					
June		16.20			14.25
September		15.10	15.50		14.25
December		17.03			14.25

7A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities October - December 2001

Maturity Date	Stock Name	Amount J$MN	Applicable Interest Rate	After-tax return b/	Features
19 October 2001	GOJ INV DEB. 2002/03 Series. 'P'	5 798.1	21.00%	15.75%	Interest paid quarterly at a fixed rate of 21.00% per annum
19 October 2001	FR LRS 2001	764.0	21.65%	16.24%	Non-Market Security
19 October 2001	VR LRS 1998-2001	1 500.0	28.00%	21.00%	Initial interest rate of 41.11% fixed at 21 October 1998 thereafter semi-annually at 2.00pp above Treasury Bill rate a/
24 October 2001	FR LRS 2001	650.0	22.00%	16.50%	Non-Market Security
26 October 2001	FR LRS 2001 AA	675.0	18.00%	13.50%	Interest paid semi-annually at a fixed rate of 18% A/Y c/ of 21.25%
26 October 2001	FR LRS 2001 AA	75.0	18.00%	13.50%	Interest paid semi-annually at a fixed rate of 18% A/Y c/ of 21.25%
29 October 2001	VR LRS 2001 A	1 279.3	19.48%	14.61%	Initial interest rate of 44.50% to Dec. 1996 thereafter semi-annually at 3.50pp above Treasury Bill rate a/
23 November 2001	FR LRS 2001M	10.2	22.00%	16.50%	Non-Market Security
23 November 2001	FR LRS 2001 AB	750.0	18.00%	13.50%	Interest paid semi-annual at a fixed rate of 18%. A/Y c/ of 23.47%
29 November 2001	FR LRS 2001N	52.3	22.00%	16.50%	Non-Market Security
30 November 2001	VR LRS 2001P	45.8	22.00%	16.50%	Non-Market Security

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

Source: Debt Management Unit, Ministry of Finance & Planning

7B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities October - December 2001

Maturity Date	Stock Name	Amount J$MN	Applicable Interest Rate	After-tax return b/	Features
05 December 2001	FR LRS 2001Q	400.0	22.50	16.88	Non-Market Security
14 December 2001	FR LRS 2001R	61.7	22.00	16.50	Non-Market Security
14 December 2001	FR LRS 2001AC	650.0	18.50	13.88	Interest paid semi-annually at a fixed rate of 18.5%. A/Y c/ of 24.76%
21 December 2001	VR LRS 2001H	1 516.0	18.33	13.75	Initial interest rate of 21.25% to June 2001 thereafter semi-annually at 2.125 pp above Treasury Bill rate a/
21 December 2001	VR LRS 2001J	2 137.8	18.20	13.65	Initial interest rate of 21.00% to June 2001 thereafter semi-annually at 2.00 pp above Treasury Bill rate a/
28 December 2001	VR LRS99/2008	2.4	18.20	13.65	Non-Market Security

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

7C

JAMAICA: GOVERNMENT BOND MARKET
GOJ Issues October - December 2001

Issue Date	Stock Name	Features	Amount Raised J$mn
17-19 October 2001	Investment Debenture 16.25% 2003 Series Q	Auctioned instrument having taxable fixed rate of 16.25%	9 451.94
26-30 November 2001	Fixed rate US$ indexed bond 11.625% 2004	Auctioned instruments having taxable fixed yields of 11.625%. conversion factor for repayment based on 10-day moving average selling rate applicable on the 10th business day prior to payment date multiplied by a factor of 1.005	1 593.76

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

8

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
1998/1999	82.7	587.9	98.3	33.1	57.8	371.7	321.7	1 552.3
1999/2000	49.1	664.6	103.5	26.6	68.9	346.9	290.9	1 550.5
June	20.3	145.5	54.6	7.6	15.2	88.9	71.3	403.4
September	7.6	166.0	5.5	7.5	19.8	92.4	80.5	379.3
December	8.1	182.0	0.0	6.3	16.6	84.9	71.6	369.5
March	13.1	171.1	43.4	5.2	17.3	80.7	67.5	398.3
2000/2001	56.1	670.6	69.4	22.3	74.8	330.9	285.0	1 509.1
June	10.4	167.9	33.6	5.5	20.5	90.6	76.6	405.1
September	8.2	163.8	6.2	6.2	18.3	81.7	80.7	365.1
December	13.9	181.4	0.0	6.1	17.0	91.3	76.4	386.1
March	23.6	157.5	29.6	4.5	19.0	67.3	51.3	352.8
2001/2002								
June	23.2	182.4	34.9	4.9	18.8	69.3	68.0	401.8
September	25.5	176.9	6.1	3.7	18.7	74.7	71.1	376.7

9

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

	Consumer Goods	Raw Materials	Capital Goods	Other	Total Imports
1998/1999	923.6	1 505.0	553.3	191.4	3 173.3
1999/2000	965.0	1 614.0	508.4	180.7	3 268.2
June	220.4	395.5	123.6	47.1	786.6
September	227.5	385.7	104.8	50.9	768.9
December	298.0	410.5	130.1	42.0	880.6
March	219.1	422.3	149.9	40.8	832.1
2000/2001	982.0	1 761.2	519.1	167.6	3 429.9
June	228.5	442.2	119.2	42.3	832.2
September	245.8	422.6	120.2	43.5	832.1
December	282.5	426.1	121.8	53.9	884.3
March	225.2	470.3	157.9	27.9	881.3
2001/2002					
June	242.6	412.1	125.7	89.9	870.3
September	237.6	424.6	153.9	46.1	862.2

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BALANCE OF PAYMENTS SUMMARY
(Flows - US$MN)

	1999/00	2000/01	Jun-00	Sept-00	Dec-00	Mar-01	Jun-01	Sept-01
1. Current Account	-304.7	-389.2	-47.5	-90.2	-115.2	-136.3	-98.6	-120.2
A. Goods Balance	-1 251.5	-1 439.8	-313.5	-350.5	-371.9	-403.9	-348.8	-362.0
Exports (f.o.b.)	1 550.5	1 509.1	405.1	365.1	386.1	352.8	401.8	376.7
Imports (f.o.b.)	2 802.0	2 948.9	718.6	715.6	758.0	756.7	750.6	738.7
B. Services Balance	617.9	609.6	148.8	152.5	122.0	186.3	159.2	137.6
Transportation	-243.5	-245.8	-60.3	-63.7	-69.4	-52.4	-59.7	-70.1
Travel	1 058.3	1 136.2	272.9	293.7	264.4	305.2	287.8	269.8
Other Services	-196.9	-280.8	-63.8	-77.5	-73.0	-66.5	-68.9	-62.1
Goods & Services Balance	-633.6	-830.2	-164.7	-198.0	-249.4	-217.6	-189.6	-224.4
C. Income	-369.5	-389.9	-107.8	-63.2	-84.9	-134.0	-119.9	-115.2
Compensation of Employees	67.7	69.0	6.4	23.7	33.1	5.8	11.4	28.5
Investment Income	-437.2	-458.9	-114.2	-86.9	-118.0	-139.8	-131.3	-143.7
D. Current Transfers	698.4	830.9	225.0	171.0	219.6	215.3	210.9	219.4
General Government	70.4	134.7	67.6	10.8	34.7	21.6	20.2	11.0
Other Sectors	628.0	696.2	157.4	160.2	184.9	193.7	190.7	208.4
2. Capital & Financial Account	304.7	389.2	47.5	90.2	115.2	136.3	187.1	55.6
A. Capital Account	12.5	-4.4	-0.4	-1.6	0.3	-2.7	-4.6	-3.3
Capital Transfers	12.5	-4.4	-0.4	-1.6	0.3	-2.7	-4.6	-3.3
General Government	9.0	10.1	3.2	2.1	3.0	1.8	0.2	0.1
Other Sectors	3.5	-14.5	-3.6	-3.7	-2.7	-4.5	-4.8	-3.4
B. Financial Account	292.2	393.6	47.9	91.8	114.9	139.0	103.2	123.5
Direct Investment	386.1	524.0	85.4	112.0	105.2	221.4	79.6	63.3
Other Official Investment	-123.2	342.0	-52.7	178.7	101.0	115.0	333.0	-63.3
Other Private Investment (including net errors & omissions)	151.3	110.4	68.2	-19.9	-57.3	119.4	-55.2	119.7
Reserves (minus = increase)	-122.0	-582.8	-53.0	-179.0	-34.0	-316.8	-254.2	3.8

11

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

	Gross Foreign Assets	Gross Foreign Liabilities	International Reserves (Net)	Weeks of Imports: Goods	Weeks of Imports: Goods & Services
1998/1999	700.1	120.8	579.3	13.5	9.2
1999/2000					
June	701.9	111.3	590.6	13.3	9.0
September	633.8	112.8	521.0	12.0	8.1
December	552.2	105.9	446.3	10.5	7.1
March	801.3	100.5	700.8	15.2	10.3
2000/2001					
June	848.3	91.9	756.5	15.0	10.2
September	1 022.1	86.7	935.5	17.9	12.3
December	1 048.8	79.3	969.5	18.3	12.6
March	1 361.9	75.6	1 286.3	24.0	16.4
2001/2002					
June	1 612.5	71.9	1 540.5	27.3	18.6
September	1 605.9	69.2	1 536.7	27.1	18.6
December	1 903.3	62.6	1 840.7	33.2	22.5

12

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

	US$	Can$	UK£
1998/1999	38.28	24.64	59.64
1999/2000			
June	38.97	25.65	59.29
September	40.00	26.72	63.79
December	41.42	27.80	65.80
March	42.14	29.01	66.65
2000/2001			
June	42.51	28.17	62.73
September	44.83	29.25	64.15
December	45.53	29.51	66.78
March	45.68	29.17	64.11
2001/2002			
June	45.82	29.80	63.94
September	45.94	29.00	66.74
December	47.40	29.45	67.94

13

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

	Local Registered Stocks	Treasury Bills	Bonds*	FINSAC Bonds	BOJ Open Market Operations Securities
1998/1999	105 121.4	10 450.0	17 873.4	49 873.1	30 264.4
1999/2000	486 435.3	40 300.0	125 545.5		114 004.3
June	112 513.0	10 200.0	25 603.0		30 571.9
September	116 959.5	9 900.0	31 266.7		26 643.9
December	130 939.9	10 650.0	32 165.4		27 371.6
March	126 022.9	9 550.0	36 510.4		29 416.9
2000/2001	546 842.5	34 150.0	163 086.3		154 812.8
June	131 477.8	9 750.0	37 268.0		30 067.3
September	132 589.8	9 850.0	38 789.9		32 945.8
December	134 896.5	7 600.0	41 920.6		42 156.5
March[r]	159 734.8	6 950.0	45 107.7		49 643.2
2001/2002					
June	227 311.3	6 900.0	48 325.7		56 168.3
September	230 950.9	5 450.0	52 780.1		68 999.5
December[p]	257 494.3	3 900.0	60 527.7		81 505.0

*Local issues
r - revised
p - Preliminary

14

STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	Volume Traded MN.	Value of Stocks Traded (J$MN)
1998/1999	19 127.1	613.4	2 139.7
1999/2000	27 165.6	610.7	2 393.2
June	19 687.7	165.4	712.6
September	20 677.7	96.8	549.4
December	21 892.6	166.6	534.8
March	27 165.6	181.9	596.4
2000/2001	29 701.9	669.4	3 683.0
June	31 338.3	300.9	1 480.3
September	31 152.7	95.6	591.4
December	28 893.2	116.5	773.0
March	29 701.9	156.4	838.3
2001/2002			
June	35 723.6	2 315.0*	3 584.2
September	33 892.4	182.8	840.4
December	33 835.6	171.3	704.9

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

15

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

	Bauxite	Alumina	Sugar	Bananas*
1998/1999	4 087.0	3 441.0	212.1	59.3
1999/2000	2 385.9	3 624.5	252.3	48.0
June	1 022.8	909.3	101.3	12.5
September	369.0	904.7	5.4	12.8
December	419.4	913.6	9.5	13.4
March	574.7	896.9	136.1	9.3
2000/2001	2 420.4	3 617.8	185.4	44.1
June	527.8	893.8	78.2	9.7
September	372.3	897.9	1.6	10.8
December	587.1	911.4	3.5	12.2
March	933.2	914.7	102.1	11.3
2001/2002				
June	888.5	943.4	91.5	11.0
September	997.2	946.3	7.3	9.9
December	816.1	738.0	4.2	10.8

* *Exports*

D. BANK OF JAMAICA BALANCE SHEET

BANK OF JAMAICA BALANCE SHEET
Assets and Liabilities
(End-of-Period - J$MN)

	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	June-01	Sept-01	Dec-01
Assets	105 350.7	110 200.6	117 132.0	122 042.5	136 282.7	148 059.3	148 672.9	165 421.1
Foreign	33 653.3	35 845.1	45 063.4	47 693.0	62 139.6	73 743.7	73 650.3	89 754.1
Current Account & Foreign Currency Balances	5 088.6	5 639.2	7 921.0	11 888.2	18 223.4	3 738.0	3 618.0	13 926.8
Time Deposits & Securities	27 058.6	28 711.4	35 519.8	34 087.6	42 150.5	68 290.4	68 283.1	73 899.6
Holdings of Special Drawing Rights	26.2	9.6	70.4	69.4	103.7	15.6	20.4	68.9
Other	1 479.9	1 484.9	1 552.2	1 647.8	1 662.0	1 699.7	1 728.8	1 858.8
Local	71 697.4	74 355.5	72 068.6	74 349.5	74 143.1	74 315.6	75 022.6	75 667.0
Public Sector Securities	52 215.0	53 927.4	52 933.0	54 905.5	56 896.9	56 462.8	56 103.7	56 000.2
Other Assets	19 482.4	20 428.1	19 135.6	19 444.0	17 246.2	17 852.8	18 918.9	19 666.8
Liabilities	105 350.7	110 200.6	117 132.0	122 042.5	136 282.7	148 059.3	148 672.9	165 421.1
Foreign	858.8	815.0	695.0	673.1	607.0	582.8	545.9	450.4
Local	104 491.9	109 385.6	116 437.0	121 369.4	128 876.1	138 794.3	148 127.0	164 970.7
Currency in Circulation	15 557.9	15 691.1	16 080.6	20 644.0	17 685.1	17 565.7	17 607.3	22 378.7
Deposits	85 134.4	88 152.4	93 447.8	92 734.6	111 191.0	121 228.6	120 498.5	134 014.7
Bankers	32 497.5	38 028.3	40 119.8	28 243.0	32 173.3	30 092.9	27 437.8	23 356.1
Government	18 479.3	15 815.0	15 553.0	16 687.3	12 644.7	4 053.7	4 370.6	5 529.4
Other	34 157.6	34 309.1	37 775.0	47 804.3	66 373.0	87 082.0	88 690.1	105 129.2
Allocation of Special Drawing Rights	2 102.3	2 246.0	2 246.0	2 246.0	2 246.0	2 347.0	2 347.0	2 347.0
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Other Reserves	84.4	819.7	873.2	873.5	873.5	939.6	939.5	939.6
Other Liabilities	1 588.9	2 452.4	3 765.4	4 847.3	3 656.1	5 371.6	6 710.7	5 266.7

E. COMMERCIAL BANKS' BALANCE SHEET

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

	1999/00	Jun-00	Sept-00	Dec-00	Mar-01	Jun-01 r	Sept-01 r	Dec-01 p
Assets	208 218.9	206 204.3	215 197.0	221 705.2	224 936.4	220 655.6	242 006.2	238 778.6
Cash	1 442.7	1 288.7	1 471.3	3 036.0	1 800.5	1 547.9	1 434.1	3 595.7
Balances with BOJ	31 257.9	36 098.8	38 002.6	29 199.7	27 992.5	28 745.0	32 234.1	36 782.2
Foreign Assets	28 656.0	26 227.8	26 877.0	29 339.1	31 217.1	30 737.8	38 233.5	40 337.2
Loans & Advances	38 260.8	38 754.9	39 390.8	40 573.7	41 378.8	41 883.2	42 981.6	49 035.1
Private Sector	32 985.5	33 356.1	33 481.4	33 876.9	33 321.9	33 131.4	35 829.3	38 746.9
Public Sector	5 275.3	5 398.8	5 909.4	6 696.8	8 056.9	8 751.8	7 152.3	10 288.2
Public Sector Securities	77 454.3	80 708.3	86 135.1	88 119.3	87 888.6	87 181.4	89 564.7	79 603.7
Cheques in the Process of Collection	6 488.4	3 142.7	3 503.8	2 936.5	4 912.4	3 211.8	5 515.4	2 753.3
Other Assets	24 658.8	19 983.1	19 816.4	28 500.9	29 746.5	27 348.5	32 042.8	26 671.4
Liabilities	208 218.9	206 204.3	215 197.0	221 705.2	224 936.4	220 655.6	242 006.2	238 778.6
Deposits	139 766.2	137 631.0	150 876.1	149 666.8	154 942.9	150 950.1	163 056.9	158 918.1
Foreign Liabilities	7 653.5	5 174.3	4 956.8	6 592.4	7 777.4	6 004.5	13 857.9	13 265.5
Discounts & Advances from BOJ	276.3	175.0	74.7	3 043.9	69.0	82.6	24.3	83.0
Loans/Advances from Other Institutions	9 749.0	9 556.1	9 519.8	9 653.1	8 847.7	8 830.5	9 017.1	9 177.6
Cheques in the Process of Payment	3 810.9	3 514.1	2 101.2	2 560.3	2 649.6	2 509.7	2 114.2	2 026.9
Other Liabilities	46 963.0	50 153.8	47 668.4	50 188.7	50 649.8	52 278.2	53 935.8	55 307.5

r - Revised; p - Preliminary

F. INTERNATIONAL INDICATORS

1

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

	1 Month	3 Months	6 Months	12 Months
1998/1999	4.9375	5.0000	5.0625	5.2500
1999/2000	5.4063	6.0000	6.1250	6.5000
2000/2001				
June	6.6563	6.8125	7.0000	7.2188
September	6.6250	6.8125	6.7500	6.8125
December	6.5625	6.4063	6.2188	5.9688
March	5.0938	4.8750	4.7188	4.6563
2001/2002				
June	3.7900	3.7300	3.7300	3.9400
September	2.6300	2.5900	2.5225	2.6425
December	1.8738	1.8813	1.9813	2.4425

2

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

	1 Month	3 Months	6 Months	12 Months
1998/1999	5 5/16 - 5 3/8	5 7/32 - 5 1/4	5 1/8 - 5 3/16	5 1/8 - 5 3/16
1999/2000	5 27/32 -5 31/32	6 1/8 - 6 1/4	6 5/16 - 6 7/16	6 21/32 - 6 25/32
2000/2001				
June	5 7/8 -6	6 1/16 - 6 3/16	6 3/16 - 6 5/16	6 3/8 - 6 1/2
September	6 - 6 1/8	6 1/8 - 6 1/4	6 3/16 - 6 5/16	6 1/4 - 6 3/8
December	5 11/16 - 5 7/8	5 3/4 - 5 29/32	5 3/4 - 6 7/8	5 11/16 - 5 13/16
March	5 9/16 - 5 11/16	5 3/8 - 5 1/2	5 3/16 - 5 5/16	5 5/32 - 5 9/32
2001/2002				
June	5 - 51/8	5 1/8 - 5 1/4	5 1/4 - 5 3/8	5 1/2 - 5 5/8
September	4 9/16 - 4 11/16	4 13/32 - 4 17/32	4 3/8 - 4 1/2	4 13/32 - 4 17/32
December	4 1/32 - 4 5/32	4 - 4 1/8	4 1/32 - 4 5/32	4 3/8 - 4 17/32

3

PRIME LENDING RATES
(End-of-Period)

	EURO-ZONE	UNITED STATES			UK
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Prime Rate
1998/1999	3.00	4.81	4.50	7.75	5.50
1999/2000	3.50	6.31	5.50	9.00	6.00
2000/2001	4.25	7.00	6.00	9.50	6.00
June	4.50	6.50	6.00	9.50	6.00
September	4.75	6.50	6.00	9.50	6.00
December	4.75	5.00	4.50	8.00	5.75
March					
2001/2002					
June	4.50	3.75	3.25	6.75	5.25
September	3.75	3.00	2.50	6.00	4.75
December	3.25	1.75	1.25	4.75	4.00

4A

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

	1999/00	Sept-00	Dec-00	Mar-01	Jun-01	Sept-01	Dec-01
US$ vs Sterling	0.6268	0.6764	0.6694	0.7034	0.7085	0.6804	0.6871
US$ vs Canadian $	1.4518	1.5046	1.5020	1.5746	1.5272	1.5797	1.5963
US$ vs Yen	102.57	108.06	114.20	125.32	124.36	119.13	131.06
US$ vs Deutsche Mark	2.044	2.2164	2.0833	2.2125	2.2892	2.1476	2.1966
US$ vs French Franc	6.8551	7.7334	6.9869	7.4203	7.6774	7.2028	7.3670

4B

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

	1999/00	Sept-00	Dec-00	Mar-01	Jun-01	Sept-01	Dec-01
Sterling vs US$	1.5953	1.4785	1.4938	1.4217	1.4113	1.4697	1.4554
Sterling vs Canadian $	2.3161	2.2246	2.2440	2.2386	2.1553	2.3217	2.3230
Sterling vs Yen	163.62	159.77	170.60	178.16	175.50	175.09	190.70
Sterling vs Deutsche Mark	3.2607	3.2769	3.1120	3.1454	3.2306	3.1564	3.1970
Sterling vs French Franc	10.936	10.990	10.440	10.549	10.835	10.5860	10.720

4C

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
September 2001

	DM	GBP	C$	US$	Yen	Euro
Germany	1.00	0.313	0.727	0.455	148.20	0.511
U.K.	3.197	1.00	2.323	1.455	190.70	1.635
Canada	1.376	0.430	1.00	0.626	82.10	0.704
U.S.	2.197	0.667	1.596	1.00	131.10	1.123
Japan	1.676	1.524	1.218	0.763	100	0.857
Euro-zone	1.956	0.612	1.421	0.890	116.70	1.00

5A

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

	1999/00	Sept-00	Dec-00	Mar-01	Jun-01	Sept-01	Dec-01
UAE's Dubai Light	23.93-24.00	28.08-28.28	19.20-19.90	22.50-22.70	24.09-24.19	21.35 -21.45	18-36-18.46
North Sea Brent	23.73-23.78	28.70-28.76	22.31-22.39	23.73-23.77	26.71-26.77	21.72 -21.78	19.31-19.41
West Texas Intermediate	26.48-26.52	30.65-30.70	26.17-26.21	26.25-26.27	26.45-26.50	23.25-23.29	19.85-19.96
Nymex-unleaded Gasoline Futures (cents per gallon)	88.15-90.00	85.20-85.25	74.75-75.90	90.90-92.75	76.50-78.25	64.00-68.80	56.50-58.60

5B

WORLD COMMODITY PRICES
ALUMINIUM
(US$ per tonne)

	Sept-00	Dec-00	Mar-01	Jun-01	Sept-01	Dec-01
Spot (Cash)	1 578.0-1 579.0	1 565.5-1 567.5	1 477.0-1 478.0	1 453.5-1 554.5	1 319-1 319.5	1 334.5-1 335.0
3 Month	1 594.5-1 595.0	1 560.0-1 562.0	1 466.5-1 467.5	1 476.0-1 477.0	1 338.5-1 339	1 350.0-1 351.0

5C

WORLD COMMODITY PRICES
FOOD

	1999/00	Sept-00	Mar-00	Jun-01	Sept-01	Dec-01
Wheat Futures (US cents/60lb bushel)	254.75	271.75	255.00	251.00	270.75	289.00
Coffee (USc/lb) Daily Composite	73.16	46.91	48.21	46.21	40.81	43.75

6

MAJOR STOCK MARKET INDICES

	1999/00	Sept-00	Dec-00	Mar-01	Jun-01	Sept-01	Dec-01
Tokyo							
Nikkei Index	20 337.3	15 747.3	13 785.7	12 999.7	12 829.0	9 774.68	10 542.6
New York							
Dow Jones Industrials	10 921.9	10 650.9	10 787.9	9 878.8	10 434.8	8 847.56	10 021.5
S&P Composite	1 498.6	1 436.5	1 320.3	1 160.3	1 211.1	1 194.60	1 148.1
London							
Financial Times-SE 100	6 540.2	6 294.2	6 225.3	5 633.7	5 607.9	4 903.4	5 217.4
Frankfurt							
Dax Index	7 599.4	6 798.1	6 433.6	5 830.0	5 833.1	4 308.15	5 160.1
Zurich							
SMI Index	7 428.1	7 889.9	8 135.4	7 167.8	6 997.4	6 014.2	6 417.8

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

M1: Notes and coins in circulation + Demand Deposits

M2: M1 + Time and savings deposits

M3: M2 + Other Deposits.

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

Monetary Base: See Base Money

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

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

Open Market Operations (OMO): Money market trading between the Bank of Jamaica and authorized dealers with the intention of influencing money and credit in the financial system. OMO involves 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 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 institutions, which by a statutorily based stipulation, must be held as interest free deposits at the Central Bank.

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