Bank of Jamaica Quarterly Monetary Policy Report

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PREFACE

The Bank of Jamaica's Quarterly Monetary Policy Report reviews the conduct of monetary policy and the main factors that influenced inflation during the quarter. It also presents the Bank's perspective on future economic trends and the path of monetary policy over the short to medium term. This issue includes features on the Profitability of the Banking System, Interest Rate Spreads in Jamaica as well as, the Implications of the International Accounting Standards for Financial System and Financial Stability.

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 the September 2002 issue of the QMPR, the Bank of Jamaica concluded that the prospects for inflation moderation and real growth in the December quarter would rest upon the confluence of three critical developments. These were: the pace at which expectations of exchange rate depreciation subsided, the rate of contraction in public sector demand, and the extent of recovery in mining, construction, and tourism. As these developments unfolded, monetary policy would maintain the tighter stance adopted in September and would seek to reinforce macroeconomic stability through closer regulation of Jamaica Dollar liquidity.

The data available on consumer prices, public sector finances and sectoral performance indicate mixed results for the quarter. While there was some growth during the review quarter led by mining and the service industries, headline inflation was 2.5 per cent for the quarter, somewhat above the Bank's projection. The pace of depreciation in the exchange rate accelerated to 3.3 per cent during the quarter compared to 3.4 per cent for the first half of the year. Furthermore, the Central Government deficit widened by a further 2.9 per cent of GDP during the quarter, a significant deviation from the 0.9 per cent targeted in the IMF Staff Monitored Programme (SMP). There was also evidence of a worsening of the current account of the balance of payments.

These generally negative developments were compounded by the liquidity overhang that had become evident at the end of the previous quarter. In that context, starting in early October, there were recurring episodes of foreign exchange market instability. The Bank responded by tightening monetary policy by way of an increase in the 90-day and 120-day interest rates and by the sale of foreign exchange to the inter-bank market. These actions succeeded in a moderation of excess liquidity in the banking system as growth in base money and in broad Jamaica Dollar money supply were contained within the quarterly target.

Despite tightened monetary policy, instability in the foreign exchange market heightened in December when the Government's tabling of the supplementary estimates of expenditure revealed a large fiscal disjuncture. Soon thereafter, Standard & Poor's downgraded the outlook on Jamaica's sovereign debt from stable to negative. The immediate response was an increase in foreign exchange demand and a shift into United States dollar deposits in local banks. This was reflected in a 2.1 per cent depreciation in the foreign exchange rate in December.

In spite of these developments, stock market activity remained buoyant as Jamaica Dollar liquidity was sufficient to sustain heavy trading. Equity investment continued to be appealing as some listed firms posted strong earnings and paid relatively attractive dividends during the quarter.

In the local bond market, however, investments were progressively concentrated in the Bank's 90-day and 120-day open market instruments, as investors took advantage of the higher premiums offered on these particular tenors. As the prospects for foreign inflows improved, there was a slight easing of the BOJ reverse repo rates, although they still remained relatively high. All other private money market rates, influenced by the lead taken by the Central Bank, increased during the quarter. Yields on Government of Jamaica global bonds traded on the secondary market trended downward over the period. This trend was temporarily disrupted in December when news of the Standard and Poor's downgrade hit the market and yields on the shorter maturities increased significantly. The yields subsequently normalized during the remaining four days of the month in the face of increased demand by domestic portfolio managers.

Growth in real output for the quarter is estimated to have been relatively strong when compared to negligible growth for the first half of the year and to the depressed output during the corresponding quarter of 2001. Economic indicators suggest that increases were due to normalization of output in the *mining* and *manufacturing* sectors and growth in services. There was estimated contraction in the agriculture sector as two tropical storms disrupted domestic agricultural supplies. The expansion in economic activity during the review quarter reflected estimated increases in both private and public consumption.

As a consequence of the fallout in agricultural supplies, there were significant increases in the prices of starchy foods, vegetables, and fruits. The price indices of the respective sub-groups of the CPI expanded by 6.7 per cent and 17.5 per cent (vegetables & fruits). An increase in world commodity prices also affected domestic food prices, which contributed to an overall increase of 4.2 per cent in the Food & Drink sub-index.

Core inflation is estimated to have been 1.18 per cent relative to 0.76 per cent for the September quarter and 0.62 per cent in the December 2001 quarter. For 2002 as a whole, headline inflation was 7.3 per cent and, despite the adverse shocks to agriculture, compared favourably to the 8.8 per cent recorded in 2001. The decline in core inflation to 3.4 per cent in 2002 from 4.0 per cent in 2001 indicates the contribution that the tighter monetary policy stance is estimated to have made to price stability.

This issue of the QMPR features three special reports on the financial sector. During 2002, a strong increase in commercial bank lending to the private sector of 27.5 per cent facilitated the recovery in both the goods and services sectors and reflected the improved health of the banking system. The expansion of the loan book, a decline in non-performing loans, improved profitability, and increased efficiency in the banking system have all shown trend improvement in the aftermath of financial sector restructuring. A special report, Box 1 of this publication, traces the profitability of the banking system during the period 1991 - 2002. Further, the overall increase in operational efficiency and the new regulatory environment have allowed for a decline in bank interest rate spreads as explained in Box 2.

Quite apart from the internal efficiencies that are driven by competition and technology, the broader issue of corporate governance and transparency is being supported by Jamaica's adoption of International Accounting Standards (IAS) as of July 2002. Financial firms will be especially affected by some of these changes. Box 3 sets out the main challenges that the adoption of these standards will pose and their likely impact on the financial sector.

For the March quarter, the Bank of Jamaica expects that the policy environment will improve relative to the conditions that prevailed during most of the December quarter. There is likely to be a further expansion in GDP, driven by recovery in the agriculture sector and continued growth in mining. An improvement in the pace of recovery in the world economy should lead to an increase in demand for travel services and commodity exports. The main inflationary impulses for January - March will emanate from the exchange rate adjustments that occurred in December. In addition, the price of petroleum products will increase significantly in the event of war in the Middle East and the disruption to the supply of oil. This represents the major near-term threat to price stability.

The recovery process in the March 2002 quarter and growth in the next fiscal year depends on the maintenance of a low inflation environment and relative exchange rate stability. At the end of the December quarter, it was clearly evident that the fiscal and external setting for maintaining macroeconomic stability and further moderation in inflation was not in place. In that context, the measures taken in early January to constrain aggregate demand and transform expectations within the economy may not be adequate to countervail public sector dis-saving. Monetary policy will need to remain tight in the near-term but it will require the strong support of fiscal policy in order to mitigate the pervasive influence of macroeconomic imbalances on the behaviour of financial markets.

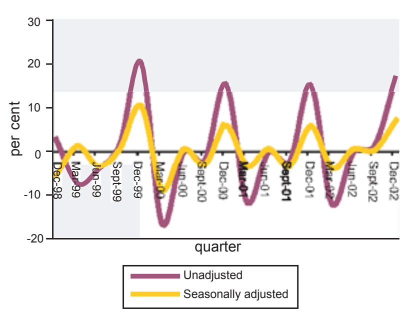
Money and Credit

Base Money

During the quarter, the focus of base money management was on mitigating the potentially inflationary impact of the excess Jamaica Dollar liquidity in the system. Policy intervention took the form of an increase in interest rates coupled with the sale of foreign exchange to the market. However, in December, news of the deterioration in the fiscal accounts followed by the downgrade of the outlook on Jamaica's sovereign debt resulted in a sharp increase in the demand for foreign currency. Within this context, the stock of base money expanded by $5 132.9 million or 16.8 per cent during the quarter relative to a programmed increase of 19.4 per cent. Despite this, the monetary base at the end of December was higher than programmed as the fairly rapid growth that had occurred in the September quarter outweighed the impact of the slower growth in the December quarter.

During the December quarter, there was a 16.8 per cent or $5 132.9 million expansion in the monetary base (see **Figure 1.1**) attributable to the seasonal increase in demand for currency (notes and coins). The currency stock increased by 24.5 per cent or $4 799.0 million for the quarter to $24 354.5 million. This out-turn compares to a 27.1 per cent increase for the corresponding quarter in 2001. The twelve-month increase to end-December was 9.0 per cent. With respect to the other components of the monetary base, the current account balances of commercial banks increased by $404.4 million, while the statutory cash reserve declined by $72.4 million.

Figure 1.1
Base Money
(quarterly change)



The source of the increase in the monetary base in the December quarter was an expansion of $9 539.5 million in the Net Domestic Assets (NDA) that reflected $6 091 million in net maturities of open market instruments. A decline of $4 406.6 million (US$90.3 million) in the Net International Reserves (NIR) partially offset the liquidity created by the expansion in the NDA. The reduction in the NIR was principally related to foreign debt payments as well as direct sales to the foreign exchange market in October and November.

Base money outturn higher than programme target.

With respect to the programme targets at end-December, the NIR stock of US$1 596.98 million was marginally lower than the adjusted programme target[1] of US$1 600.0 million. However, the NDA out-turn was higher than the programmed level primarily influenced by less absorptive open market operations, as the use of Government balances in the BOJ was consistent with the programme target. As a consequence, the monetary base was $334.3 million or 0.9 per cent above the target.

BOJ raises interest rates to tighten liquidity.

Throughout the quarter, the monetary policy focus was to reduce the liquidity overhang that existed from the end of September and restore stability to the foreign exchange market. In order to achieve this objective, the Bank raised interest rates on 9 October. This followed an earlier increase on 9 September 2002. The interest rates on the 90-day and 120-day tenors of open market instruments were increased by 200 and 235 basis points to 19.25 per cent and 19.40 per cent, respectively. This action was designed to smooth liquidity flows over the last half of the fiscal year. As a result, some of the excess liquidity that was previously being maintained as high overnight balances was placed in the 90 and 120-day tenors. The moderation in Jamaica Dollar liquidity in addition to improved prospects for foreign exchange inflows allowed for a 100 basis points reduction of the abovementioned tenors on 28 October.

External loan inflows channeled into overnight balances and foreign exchange market.

In November, excess liquidity developed in the financial system as the proceeds from a US$74.25 million World Bank loan was used by the Government to redeem domestic debt held by the commercial banks. Despite the fact that interest rates on the 90-day and 120-day open market tenors remained high, this liquidity was held in

[1]The SMP NIR target was adjusted to reflect the non-receipt of GOJ loan flows.

overnight balances at the BOJ and fuelled additional demand for foreign exchange. In response, the Bank sold foreign exchange to increase the supply to the market.

The demand pressures were further exacerbated by the presentation of the supplementary estimates to Parliament by the Minister of Finance in December which revealed a larger than budgeted fiscal deficit. This was followed by Standard and Poor's (S&P) downgrade of its outlook on Jamaica's sovereign debt from 'stable' to 'negative'. These events triggered a loss of confidence in the Jamaica Dollar and led to an accelerated rate of depreciation for the remainder of the quarter.

The developments in the December quarter, pose a challenge for monetary policy in the final quarter of the fiscal year. The immediate challenges are created by the deterioration in the fiscal accounts. The return to stability will therefore be largely dependent on the implementation of corrective fiscal measures.

Money Supply

During the December 2002 quarter, broad Jamaica Dollar money supply, M3J, increased by 1.8 per cent, a rate that was slower than programmed. A reduction in BOJ open market liabilities and an increase in banking system credit were the main sources of the growth. These expansionary impulses were partially offset by a reduction in the net international reserves of the BOJ. The measure of money supply including foreign currency deposits, M3, increased by 2.7 per cent and reflected an increase in foreign currency deposits of 5.7 per cent.*

Table 1.1

Growth Rates - M3J			
		3 mths.	**12 mths.**
2000	March	1.2	21.2
	June	4.1	15.7
	Sept.	1.1	9.0
	Dec.	4.1	10.9
2001	March	0.6	10.7
	June	1.9	8.3
	Sept.	3.2	10.2
	Dec.	3.5	9.3
2002	March	-0.5	8.1
	June	3.0	9.3
	Sept.	6.4	12.6
	Dec.	1.8	10.7

The broad measure of Jamaica Dollar money supply, M3J, expanded by $2 571.8 million or 1.8 per cent during the December 2002 quarter relative to an increase of 3.5 per cent during the December 2001 quarter. (See **Table 1.1**) A decline in BOJ open market liabilities of 6.3 per cent coupled with an increase in banking system credit of 2.0 per cent spurred the increase in money supply during the review quarter. The impetus from these sources was tempered by a reduction of 5.4 per cent in the NIR of the BOJ.

The growth in broad money supply for the December quarter was also lower than the 5.3 per cent growth projected in the IMF Staff Monitored Programme (SMP). Most of this deviation was reflected in a significant decline in demand deposits during October, partially reversing an unusually strong increase in September. In spite of the slower than programmed expansion in money supply during the quarter, the growth in M3J for the fiscal year 2002/2003 to date was 11.2 per cent relative to the programmed expansion of 8.3 per cent.

Money supply growth slows in response to tightened monetary policy.

In addition, the slowdown in money supply growth relative to programme target was in response to the tightening of monetary policy during the review quarter. Within a context where the growth in base money and M3J exceeded programmed expectations during the September quarter, the Bank sought to curtail the potential inflationary impact by increasing interest rates on some of its open market instruments early in October to absorb Jamaica Dollar liquidity from the system.

Narrow Jamaica dollar money supply, M1J, increased by 5.7 per cent during the December quarter relative to an increase of 9.3 per cent in the corresponding quarter of 2001. Currency in circulation grew by 16.2 per cent, while demand deposits fell by 1.7 per cent. The 12-month point-to-point growth rate of M1J for 2002 was 14.7 per cent, slightly below the 15.2 per cent in 2001 (see **Table 1.2**).

Table 1.2

Money Supply *(12-month growth)*		
MJ	**December 01 %**	**December 02 %**
M1J	15.2	14.7
M2J	8.6	9.1
M3J	9.3	10.7
M*		
M1*	18.9	13.6
M2*	9.8	13.0
M3*	10.2	13.8

Quasi-money (M2J) decreased by 0.5 per cent during the review quarter relative to an increase of 0.5 per cent in the corresponding quarter of 2001. The reduction in quasi-money reflected a decline of 9.3 per cent in time deposits, which was partly offset by a 3.0 per cent growth in savings deposits. The 12-month point-to-point growth rate of M2J increased to 9.1 per cent from 8.6 per cent at December 2001.

Foreign currency deposits increase.

The broader measure of money supply, M3*, which includes foreign currency deposits, increased by 2.7 per cent during the December 2002 quarter compared to an increase of 3.1 per cent for the corresponding quarter of 2001. In particular, foreign currency deposits (expressed in US Dollars) increased by 2.1 per cent and coincided with an increased demand for foreign exchange during the review quarter. Time deposits expanded by 7.5 per cent, while savings deposits went up by 2.4 per cent.

Foreign currency demand deposits fell by 8.2 per cent. The 12-month point-to-point growth rate of M3* was 13.8 per cent in 2002 compared to 10.2 per cent in 2001. Thus, the ratio of foreign currency deposits to total deposits increased to 26.8 per cent at end-December 2002 relative to 25.7 per cent and 24.6 per cent at end-September 2002 and end-December 2001, respectively.

At 31 December 2002, the money multiplier was 4.1 relative to 4.7 at the end of the September 2002 quarter and 3.8 at 31 December 2001. The reduction in the money multiplier during the review quarter was consistent with the seasonal increase in the currency to deposit ratio, which expanded to 16.1 per cent at end-December from 14.6 per cent at end-September.

Private Sector Credit

Commercial bank credit to the private sector surpassed the target outlined in the monetary programme for the third consecutive quarter of fiscal year 2002/03. A notable increase in credit was reflected in the Personal Loans category. The economic sectors of Transport Storage & Communication, Distribution and Construction & Land Development also recorded increased lending. The expansion in credit during the December 2002 quarter continued to reflect relatively strong demand for foreign currency loans. There was further improvement in the quality of the commercial banks' loan portfolio throughout the period.

The growth in commercial bank credit to the private sector, which was observed in the September quarter, continued into the December quarter. The stock at end-December 2002 was $51 054.2 million, an expansion of $3 920.4 million or 8.3 per cent for the review quarter. This expansion surpassed the target of 5.0 per cent outlined in the monetary programme but was slower than the 9.2 per cent growth recorded during the corresponding period of 2001.

Continued expansion in private sector credit.

During the fiscal year to end-December, the total expansion in the stock of private sector credit was $11 281.9 million or 28.4 per cent, significantly exceeding the target of 12.8 per cent. The overall expansion in credit also surpassed the $6 088.7 million or 17.9 per cent that was recorded in the corresponding period of the previous fiscal year.

Loans and advances during the review period increased by $4 013.4 million or 9.0 per cent. A sectoral distribution of loans revealed that the expansion in credit was mainly reflected in the Personal loans category, which increased by $1 862.7 million, accounting for approximately half of the total increase. The *Transport, Storage & Communications, Distributio*n and C*onstruction & Land Development* sectors also recorded significant increases in loans (see **Table 1.3**). Credit extended to *Transport Storage & Communications* grew by $1 275.6 million during the review quarter relative to an expansion of $1 552.7 million in the comparable quarter of 2001. Most of this increase was in foreign currency loans to the Communications sub-sector. The *Distribution* and the *Construction & Land Development* sectors also realized increases of $887.8 million and $576.9 million, respectively.

Table 1.3

Commercial Banks' Distribution of Loans and Advances (Flows J$M)

	Dec. 01	Sept. 02	Dec. 02
Agriculture & Fishing	-57.1	-42.6	329.7
Mining & Quarry	39.3	4.6	-4.1
Manufacturing	-0.9	199.4	-482.2
Construction & Land Dev.	426.3	426.9	576.9
Transport, Storage & Comm.	1 552.7	171.3	1 275.6
Tourism	457.5	949.6	386.1
Distribution	114.0	71.5	887.8
Professional & Other Services	132.7	121.4	-10.7
Personal Loans	14.3	711.3	1 862.7
Electricity	592.7	457.6	-847.1
Entertainment	-2.2	34.7	45.8
Overseas Residents	-9.5	15.4	-7.2
TOTAL	**3 259.8**	**3 121.0**	**4 013.4**

There continued to be a relatively strong demand for foreign currency loans during the December quarter. Credit denominated in foreign currency expanded by $1 486.6 million or 9.3 per cent during the review quarter following an increase $2 143.9 million or 15.5 per cent in the previous quarter.

Figure 1.2
Commercial Banks' Loan Rates (weighted average) January 2002 to December 2002

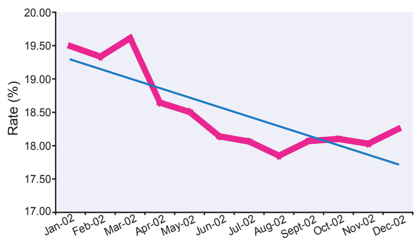
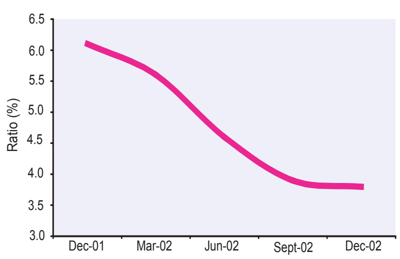


Table 1.4

Commercial Banks' Weighted Average Lending Rates (by loan type)

	Dec. 01	Sept. 02	Dec. 02
Instalment	26.85	26.38	25.66
Mortgage	20.77	19.25	19.02
Personal	27.91	26.68	27.32
Commercial	16.91	15.42	15.92
Local Government & Other Public Entities	15.39	15.36	15.69
Central Government	18.62	17.08	17.79
Overall Weighted Average Rate	**19.50**	**18.08**	**18.25**

Figure 1.3
Commercial Banks' more than three months overdue to total loans: December 2001 to December 2002



Although the weighted average loan rates of commercial banks have trended downwards since January 2002, there was however, a slight increase in these rates at 30 December 2002. The weighted average lending rates increased to 18.25 per cent at 30 December 2002 from 18.08 per cent at 30 September 2002 (see **Figure 1.2**). This movement in the weighted average loan rate reflected an increase in the lending rate on personal loans, which was 27.3 per cent at end-December relative to 26.7 per cent at end-September 2002. Similarly the weighted average rate on commercial loans increased to 15.8 per cent from 15.4 per cent at the start of the review quarter (see **Table 1.4**).

The quality of the loan portfolio of commercial banks continued to show improvement as reflected in the ratio of past due loans to total loans which declined to 3.8 per cent at end-December 2002 (see **Figure 1.3**). This lower ratio compares favourably with the 6.1 per cent that obtained at end-December 2001 and the 10.0 per cent international benchmark.

Box 1: The Profitability of the Banking System: 1991 - 2002

In the aftermath of the financial sector restructuring and rehabilitation programme, there has been significant improvement in the health of the banking system[1]. One measure of this performance is the profitability indicator, return on average assets, which averaged 2.2 per cent for commercial banks in operation over the four-year period ending 2002, two times the World Bank's benchmark for a medium size bank in the U.S.A. This out-turn also exceeded the average of minus 0.5 per cent that obtained during the period of systemic distress, 1996 to 1998, but was lower than the average of 3.7 per cent that obtained during the five-year period prior to 1996. At the same time, institutions licensed under the Financial Institutions Act (FIA)[2] boasted return on average assets of 9.0 per cent over the four-year period ending 2002. This out-turn represented a significant improvement from the average of 3.0 per cent during 1991 - 1995 and the average of minus 0.4 per cent during the distress years, 1996 - 1998. The higher profitability enjoyed by the institutions licensed under the Financial Institutions Act (FIA) when compared with the commercial banks is largely attributable to their off-balance sheet activities including managed funds operations and other securities dealing activities.

Figure 1

Commercial Banks: Return on Average Assets

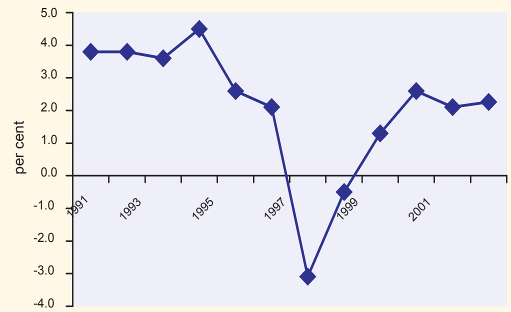
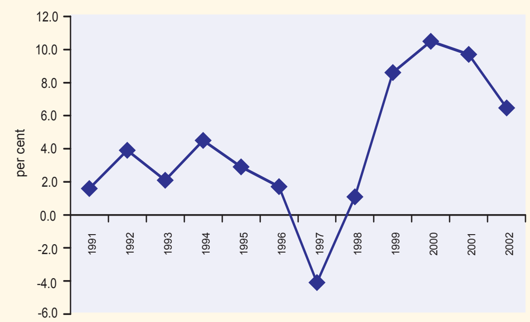


Figure 2

FIA Licensees: Return on Average Assets



1991 - 1995

The profit performance of the commercial banking sub-sector for 1991 to 1995 resulted from robust growth in operating income that surpassed the increase in operating expenses. Total operating income earned by the commercial banks amounted to $21.0 billion (11.3 per cent of GDP) in 1995, an increase of $16.7 billion relative to 1991. An increase in interest income, in particular an expansion of $9.1 billion in interest earned from loans and advances, was the main factor contributing to the higher operating income. The expansion in interest income from loans was partly explained by the under-reporting of non-performing loans, "ever-greening"[3] of credits, and the general credit boom that occurred during the high inflationary period. The stock of loans increased from $11.8 billion (24.2 per cent of GDP) at end 1991 to $45.9 billion (24.7 per cent of GDP) at end 1995. Beyond this, an increase of $5.7 billion in interest income earned from placements with other

[1]The discussion on the banking system is confined to commercial banks and FIA licensees.

[2]This group of licensees is comprised of merchant banks, finance houses and trust companies.

[3]A term used to describe loans that are continuously renewed rather than repaid.

financial institutions and the banks' holdings of securities augmented the entities' earnings.

Staff costs and interest expenses on deposits were the most significant charges against revenue in this period. Of the $11.2 billion increase in total operating expenses, interest paid on deposits accounted for 54.5 per cent while staff expenses accounted for 18.3 per cent. Staff costs averaged 3.2 per cent of average assets for Jamaican banks, two times that which obtained for banks in the U.S.A. During this period, loan loss expenses were relatively low given the under-reporting of non-performing loans. This under-provisioning was due to inadequate legislation and poor accounting standards.

The early 1990s was also a relatively profitable period for the FIA licensees with return on average assets averaging 3.0 per cent. Total operating income increased from $1.6 billion (3.3 per cent of GDP) in 1991 to $4.2 billion (2.3 per cent of GDP) in 1995. Similar to commercial banks, the higher operating income earned by the institutions was mainly derived from interest earned from loans and advances that increased by $0.9 billion (34.2 per cent of the increase in revenue). Concurrently, an increase of $0.8 billion in non-interest income derived largely from the entities' off-balance sheet activities augmented the FIA licensees' earnings. Expenses for the institutions mirrored the cost structure in commercial banks. Of the increase in total operating expenses staff costs and interest on deposits accounted for 13.1 per cent and 58.8 per cent, respectively. Staff costs as a proportion of average assets was 1.5 per cent during the period.

1996 - 1998

The general pattern of healthy profits exhibited in the 1991 to 1995 period underwent a sharp change in the period 1996-1998. Of the 34 banking institutions in operation during 1996, only 20 posted profits. The remaining institutions, mainly indigenous banks, incurred significant losses largely due to an escalation of non-performing loans within the banking system. This deterioration was partly explained by a change in the definition of overdue loans from non-performing loans (6 months and over) to loans overdue for 3 months and over. The ratio of non-performing loans to total loans for commercial banks increased from 7.5 per cent at end 1991 to 14.0 per cent at end 1996 and soared to a historical high of 28.9 per cent at the end of 1997. Similarly, this ratio for FIA licensees increased from 6.4 per cent at end 1991 to 23.8 per cent at end 1996 and was 48.8 per cent by the end of 1997. By the end of 1998 however, there was a notable improvement in the quality of the assets in the portfolio of both sets of institutions and a reduction of the losses posted by the institutions. This resulted from the intervention and the restructuring programme by the government-owned restructuring entity, Financial Sector Adjustment Company (FINSAC) Limited.

Return on average assets for the commercial banking sub-sector declined to an average of minus 0.5 per cent for the years 1996 and 1998. Although some banks incurred losses in 1996, the sub-sector as a whole was profitable in that year. However, in 1997 while some banks remained profitable, the sub-sector suffered substantial losses. These losses were significantly reduced in 1998 as a result of the government's restructuring programme. Underpinning the erosion of the sub-sector's profitability was an expansion in operating expenses that surpassed the growth in operating income. Operating expenses expanded from $17.5 billion in 1995 to $28.8 billion in 1997. Simultaneously, operating income increased from $21.0 billion to $24.1 billion over the same period. The $11.3 billion increase in operating expenses was driven by expansions of $5.2 billion, $1.7 billion and $1.6 billion in provisions for loan and security losses, staff expenses and borrowing costs respectively. As a proportion of average assets staff expenses rose to an average of 3.9 per cent over the two-year period, 1996 to 1997, while the non-personnel costs increased to an average of 6.0 per cent. The increase in provisions for loan losses reflected the institutions' move to comply with new statutory requirements that sought to address the surge in non-performing loans within the banking system.

The revamped legislation The Banking (Amendment) Act, 1997 also affected the banks' revenue, as the institutions were required to adhere to more conservative income recognition procedures. More specifically, beginning in 1997 the banking statute stipulated that institutions exclude from their profit and loss statements interest accrued on loans that were non-performing for three months or more. Consequent on this as well as the take-over of a block of non-performing loans by FINSAC, there was a reduction in interest income earned on loans and advances by the commercial banking sub-sector. Revenue from loans declined from a peak of $16.2 billion (59.4 per cent of total revenue) in 1996 to amount to $10.0 billion (35.8 per cent of total revenue) in 1998.

Similar provisions with respect to non-performing loans and the recognition of income were included in the Financial Institutions (Amendment) Act, 1997. This contributed to the FIA licensees posting significantly less earnings from loans and advances. Revenue from loans and advances which had increased from $2.0 billion in 1995 to $2.6 billion (41.8 per cent of total revenue) in 1996, subsequently declined to $1.5 billion (32.5 per cent of total revenue) in 1997. The fall-off in income from this source coupled with reductions of $217.0 million and $55.6 million in investment and other income, respectively, restricted growth in the entities' total revenue. At the same time, provisions for loan losses and borrowing costs each increased from $115.6 million and $411.5 million, respectively, in 1995 to $1.8 billion in 1997. The growth in these expenses was primarily responsible for a surge in total operating costs. The institutions' total operating costs rose in excess of total revenue resulting in a decline in return on average assets to an average of minus 1.2 per cent for the period 1996 to 1997 from 3.0 per cent during the years 1991 to 1995. However, with the implementation of the rehabilitation and restructuring programme by FINSAC, return on average assets for the entities increased to 1.1 per cent during 1998. The programme encompassed the rationalization of a number of institutions, the recapitalization of weak banks, the purchase of non-performing loans from institutions undergoing difficulties in exchange for FINSAC securities and a containment of operating costs.

1999 - 2002

The initiatives towards restoring profitability to the banking system continued into 1999. Return on average assets for the commercial banking sector increased to an average of 2.2 per cent during the period 1999 - 2002, relative to an average of minus 0.5 per cent during the period 1996 to 1998. Concurrently, return on average assets for FIA licensees increased to an average of 9.0 per cent from an average of minus 1.2 per cent for the period 1996 to 1997.

Operating income earned by the commercial banks emanated mainly from the banks' holdings of securities, in particular the FINSAC securities, which replaced non-performing loans on the books of the intervened institutions. By 2001, income from the banks' holdings of securities accounted for 55.4 per cent of total operating revenue, while earnings from loans and advances accounted for 24.2 per cent. With the conversion of FINSAC securities to marketable Local Registered Stock in 2001, the banks subsequently were able to channel a greater proportion of their resources into loans and advances. Consequently, in 2002 income from loans and advances increased to 29.2 per cent of total operating revenue while investment income declined to 41.2 per cent.

With regard to expenditure, provisions for loan losses accounted for 1.0 per cent of total operating costs in 2001 down from 19.4 per cent in 1997. This was consistent with lower levels of non-performing loans in the system. The quality of the banks' asset portfolio continued to improve during 2002 within the context of an expansion in the stock of loans outstanding.

The institutions were also successful in containing staff expenses and other non-interest costs. As a result, the ratios of staff expenses to average assets and non-interest costs to average assets both declined to 3.0 per cent from respective averages of 3.9 per cent and 6.0 per cent, for the period 1996 to 1997. Notwithstanding this improvement, these charges against revenue remained relatively high when compared with ratios of 1.5 per cent and 2.1 per cent, respectively, for commercial banks in the U.S.A.

FIA licensees boosted their profitability in the post 1998 period by engaging more aggressively in off-balance sheet activities, including managed funds operations and other securities dealing activities. These off-balance sheet activities are not subject to cash reserve requirements and deposit insurance. By 2001, income from off-balance sheet activities accounted for 38.0 per cent of the institutions' operating income. This is in comparison to income derived from the licensees' balance sheet holdings of securities and earnings from loans that accounted for 26.4 per cent and 15.0 per cent of operating income, respectively. During 2002, although off-balance sheet activities remained the dominant source of revenue for the sub-sector, income from this source declined to 31.9 per cent of total revenue. This was partly attributable to the compression of margins given an environment of declining interest rates. Concurrently, there was an increase in income from larger holdings of securities and an expansion in the stock of loans outstanding. The improved profit position of the institutions was also underpinned by a reduction in non-interest expenses. Return on assets for FIA licensees consequently increased to 10.5 per cent in 2000 but declined to 7.1 per cent in 2002 as a result of a significant increase in the asset base of a large entity.

Within the more competitive environment, banking institutions have been forced to contain the rate of expansion in operating costs in order to maintain their profitability. The challenge for the institutions will be to further contain the growth in these costs and increase revenue and levels of efficiency.

Box 2: Interest Rate Spreads in Jamaica, 1995 - 2002

Commercial banks and other financial intermediaries use the difference between the rate paid on deposits and the rate charged on loans - the interest rate spread - to cover their operating costs and generate a profit. These banking spreads are important to policy makers and analysts as broad indicators of changes in the direction of bank profitability and the degree of efficiency of financial intermediation. In addition, bank spreads have attracted public attention as they are seen to have a direct bearing on the cost of credit and hence, on the cost of doing business. Drawing on the findings of a BOJ research project (to be published in Q1, 2003), this Box describes the trend in commercial bank spreads in recent years as well as the main factors which explain the pattern.

Data on bank deposit and lending rates as published by Bank of Jamaica in its monthly Statistical Digest are summarized in **Table 1**. This simple, traditional approach defines spreads as the difference between the average deposit and lending rates as quoted by banks. While giving a clear indication of the trend in interest rates, this approach however offers very little insight into how and why bank costs vary over time or any information about their level of profitability. Because it does not take account of the allocation and quality of a bank's portfolio, reliance on this measure could easily lead to wrong conclusions about spreads and profitability especially in cases where a significant portion of loans are not performing or where other investments represent a predominant share of bank assets.

Table 1

Published Interest Rate Spreads

End of	Average Deposit Rate	Average Loan Rate	Spread
1995	26.2	48.6	22.3
1996	20.8	37.8	17.0
1997	14.1	31.9	17.8
1998	15.5	30.1	14.6
1999	13.3	24.6	11.3
2000	12.2	22.1	9.9
2001	10.1	19.5	9.4
2002 (Nov)	9.1	18.0	8.9

An alternative measure that addresses these shortcomings is to calculate the implicit interest rates on deposits and loans. Using the financial statements of the commercial banks, an implicit deposit rate is derived by dividing actual interest paid on deposits by the average level of deposit liabilities. A similar procedure would yield the average rate on loans. The difference between these two rates would be the implicit spread. The profit and loss account also yields information on the structure of intermediation costs, the sources of earnings and indicators of asset quality (loan loss expense). This measure of banking spreads also allows for international comparison of net interest margins and intermediation costs.

By this accounting measure, interest spreads in Jamaica averaged 15.8 points in the latter half of the 1990s and have fallen significantly since then. The pattern of a steady reduction is broadly similar to published spreads (See **Table 2**).

Table 2

Earned Interest Margins in Commercial Banks[/1]

	Effective Deposit Rate	Effective Loan Rate	Spread
1995	11.6	30.4	18.8
1996	13.5	31.7	18.2
1997	9.1	23.4	14.2
1998	9.7	20.5	10.8
1999	8.2	24.8	16.6
2000	7.3	21.4	14.1
2001	6.7	17.6	10.9
2002[/2]	5.8	17.2	11.4

[/1]Rates calculated as interest paid/received on total average deposits/loans, in all currencies.
[/2]Full year estimates based on reported results for January to September.

These spreads are high by comparison with those of banks operating in other countries (See comparative data in **Table 3**). Other measures of bank performance - operating costs/assets, staff costs/assets and net profits/assets show a similar divergence. Some of these differences are explained by the variation in macroeconomic conditions, regulatory policy, competition and operating risk. Operating costs were estimated at 5.1 per cent of assets in 2002.

While this represents a sharp improvement over the 9.5 per cent reported in 1998, this indicator is still significantly higher than that which obtains in the North American banking industry. Staff costs which averaged 3.3 per cent of assets between 1990 - 96 were estimated at 2.5 per cent of assets in 2002.

The level of non-personnel costs has also fallen. These comprise occupancy costs (rental, maintenance, security), professional fees (legal, advertising, auditing), data processing, stationery, etc. Despite interest spreads that are much higher than other Caribbean and North American banks, the normally high operating costs have constrained the level of profitability in the sector as a whole. Significant variation exists within the sector, however, with the more efficient institutions displaying patterns of operating costs that are closer to international standards and hence enjoying higher profitability than the industry average.

Factors behind Jamaican Interest Spreads

The absolute size of banking spreads in Jamaica is an outcome of the factors that have defined the economic environment as well as internal characteristics of banks. An extended episode of double-digit inflation in the early 1990s meant that banks needed to offer rates of at least 10 per cent in order to attract and retain deposits.

The structure of lending rates, on the other hand, has been heavily influenced by the steady supply of Government instruments that have competed for deposits while setting a floor for lending rates. Given these two forces, interest spreads in Jamaica have tended to adjust downwards very slowly.

Reserve requirements that have been high by international standards have also played some role in determining banking spreads. In examining the Jamaican data, it is useful to separate the cost of the cash reserve requirement as a cost imposed by policy. This had been as high as 25 per cent up to August 1996 but has been gradually reduced to the current rate of 9 per cent. Although high by international standards, the reserve requirement added a relatively small margin over deposit rates. During 1997 and 1998, for

Table 3

Key International Banking Performance Statistics
(In per cent of total average assets)

	USA	Canada	UK	Bahamas	Belize	T & T	JA: 90 - 96	JA: 2002
Employee costs	2.0	1.5	1.6	2.9		2.5	3.3	2.5
Total Operating Costs	3.5	2.5	2.6	4.9	5.1	4.4	7.4	5.1
Pre-tax profits	2.0	2.0	1.2	2.4	3.3	1.6	3.4	2.8
Net Spread	1.3	1.7	2.9	7.5	10.0	7.6	18.2	11.4
Cash Reserve Requirements		0	0	5.0	7.0	23.0	23.0	9.0

Notes
[1]The benchmark numbers for the USA are indicative of what would be considered good performance for a medium size regional bank in the USA. (Source: World Bank).
[2]Data for Canada, UK originally from "Bank Profitability: Financial Statements of Banks." OECD, Paris (1997). Caribbean data courtesy of CCMS, Trinidad.
Net spread = Avg. Loan rate - Avg. Deposit rate

example, when loan rates were 23.4 per cent and 20.5 per cent, the estimated contribution of the reserve requirements to loan rates was 3 percentage points. A reduction in the cash reserve requirement to 10 per cent from the 25 per cent in force at that time would have reduced the spread by less than 2 percentage points. Much of the spread throughout the 1990s was consumed by persistently high overhead costs.

Risks related to the economic environment - e.g. exchange rate risks, limited access to information, policy shocks, etc. - are difficult to quantify but are reflected in a widening of spreads when there is macroeconomic instability. Other aspects of the operating environment that increase banking risk relate to loopholes in the legal and institutional framework and are manifested in poor corporate governance, fraud and corruption.

Outlook

The prospects for a further decline in interest spreads rely on a mix of public policy and microeconomic elements. On the macroeconomic front, the chief requirements are a continuation of low and predictable inflation and relative exchange rate stability. The level of Government borrowing and its influence on money and credit markets is also an element of macroeconomic policy that imposes constraints on the flexibility of interest rates. The medium-term fiscal policy includes projections of balanced budgets and a net reduction in domestic debt and these augur well for further declines in loan rates and bank spreads.

Policy also needs to address the legal and institutional infrastructure on which the banking system rests. In particular, the incidence of fraud, the ease with which bad credit risks survive due diligence and the state of corporate governance are transmitted to higher operating costs and asset deterioration. There is a clear need to enhance the capability of the authorities to detect and prosecute cases of fraud and to revise and implement the legislative framework governing corporate management and accountability, tax administration and credit information.

The cash reserve requirement has been ascribed too large a role in explaining the high interest margins in Jamaica. The analysis shows that even if the current reserve requirement of 9 per cent were abolished, the impact on loan rates would be no more than 1 percentage point given the average rate quoted on deposits of 9 per cent. This limits the role of reserve policy in influencing loan rates over the medium-term although further reductions will contribute to the efficiency of intermediation.

The degree to which banks are able to operate profitably on a lower spread is an issue of operating efficiency. It raises the question of the optimal size of banks and branch networks. Where the need for efficiency improvements is driven by the demands of shareholders, the prospects for change are brighter and could include a rationalization of branch networks. Some features of international consumer banking which contribute to their lower operating costs - ATM banking, point of sale debits, on-line /telephone banking etc. - are enjoying increasing use in Jamaica but the general picture is one of a large number of bank branches spread throughout the island. It is clear that the restructuring of the banking system requires more than mere re-capitalization and regulation. It will also require internal re-engineering and the extensive application of available technology if the cost of inefficiency reflected in banking spreads is to be reduced.

Bond Market

During the quarter, activities in the bond market were influenced by the high Jamaica Dollar liquidity that was concentrated mainly in the overnight and inter-bank markets. The concentration of liquidity created an environment that was not conducive to the low inflation objective. An interest rate increase on selected tenors was effected by the Central Bank in early October, following an earlier increase in September, to reduce the liquidity overhang but, there was a slight easing of the policy stance towards the end of the month. Average interest rates in the bond market spiked in October in response to the tight liquidity conditions arising from the policy action. However, as the liquidity flows to the market increased, there was a subsequent easing of interest rates, although rates remained relatively high. Concurrent with the increase in liquidity, the depreciating trend in the exchange rate re-emerged and the rate of depreciation accelerated in December in response to the downgrade of the outlook on Jamaica's sovereign debt by Standard and Poor's rating agency.

At the start of the review quarter, the Central Bank tightened its monetary policy stance. This was in response to the instability in the foreign exchange market, which was facilitated by a high concentration of Jamaica Dollar liquidity. As such, increases of 200 basis points and 235 basis points were effected on the 90-day and 120-day tenors to 19.25 per cent and 19.40 per cent, respectively, on 09 October. This followed increases of 410 basis points and 380 basis points, respectively, on the same tenors one month earlier (See **Table 1.5**).

Table 1.5

BOJ Reverse Repurchase Rates August - December 2002

	07 Aug.	09 Sept.	09 Oct.	28 Oct.
30 Days	12.95	12.95	12.95	12.95
60 Days	13.05	13.05	13.05	13.05
90 Days	13.15	**17.25**	**19.25**	**18.25**
120 Days	13.25	**17.05**	**19.40**	**18.40**
180 Days	13.45	13.45	13.45	13.45
270 Days	13.85	13.85	13.85	13.85
365 Days	14.50	14.50	14.50	14.50

In response to the interest rate changes in the quarter, investments were concentrated in the Bank's 90-day and 120-day open market instruments, as investors took advantage of the high premiums on these tenors. Placements in these respective tenors increased by 7.11 percentage points and 49.11 percentage points to 35.01 per cent and 53.71 per cent of total placements, during the

Table 1.6

Placements in BOJ OMO Instruments Percentage of Total Placements* during September & December Quarters		
	September Quarter (%)	December Quarter (%)
30 Days	40.4	9.76
60 Days	7.4	0.42
90 Days	27.9	35.01
120 Days	4.6	53.71
180 Days	4.6	0.21
270 Days	1.7	0.24
365 Days	13.4	0.64

*Excludes overnight transactions during the period.

Figure 1.4
BOJ OMO Yield Curve

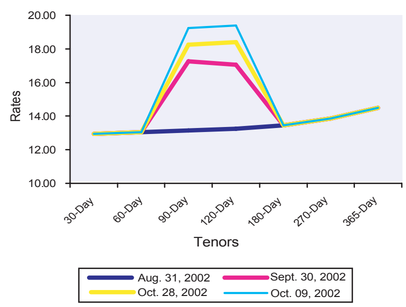


Table 1.7

Treasury Bills Auctions October - December 2002				
Issue Date	Tenor (days)	Avg. Yield (%)	Allotment (J$M)	Amount Maturing (J$M)
11 Oct	91	18.94	300	300
25 Oct	182	19.54	300	500
12 Nov	273	17.39	300	300
29 Nov	182	16.89	300	300
30 Dec	182	17.01	550	550
Total			**1 750**	**1 950**

Table 1.8

GOJ Public Domestic Debt Raising October - December 2002			
	Amount Allotted (J$M)	Amount Maturing (J$M)	Net Issue (J$M)
Treasury Bills	1 750.0	1 950.0	-200.0
LRS	1 808.7	4 661.0	-2 852.3
Debenture	10 931.8	6 057.3	4 874.5
US$ Bonds	0	1 730.1	-1 730.1
TOTAL	**14 490.5**	**14 398.4**	**92.1**

December quarter. Conversely, placements in all other tenors declined during the same period (See **Table 1.6**).

A subsequent normalization of foreign exchange trading and a general improvement in the outlook for foreign currency inflows resulted in a slight relaxation of the monetary policy stance. Consequently, the Bank reduced the interest rates on the 90-day and 120-day tenors by 100 basis points each, on 28 October 2002 (See **Figure 1.4**).

Rates on Government's short-term instruments responded to the series of adjustments in the Bank's interest rates. The average yield on the 182-day Treasury bill auctioned on 27 September increased from 16.69 per cent to 19.39 per cent at the auction on 11 October 2002 (182-day equivalent rate of the 91-day Treasury bill). The average yield on the 182-day Treasury bill subsequently declined to 17.01 per cent at the auction on 20 December 2002 (See **Table 1.7**) to effect an overall increase of 0.32 percentage points for the quarter.

Average yields on Government's 5 year and 10 year Local Registered Stock (LRS) auctioned on 15 November 2002 were 17.14 per cent and 16.92 per cent, respectively. The average rates on these instruments, however, declined to 16.96 per cent and 16.59 per cent, respectively, at the auction on 29 November 2002. (See **Appendix 7B**). This was as a result of high levels of Jamaica Dollar liquidity prevailing at the time.

The Government's financing activities via public auctions resulted in a net issue of J$92.1 million in domestic debt instruments (See **Table 1.8**). This reflected a net issue of J$4 874.5 million in an Investment Debenture, while there were net redemptions of J$2 852.3 million, J$1 730.1 million and J$200.0 million in LRS, US Dollar Indexed Bond and Treasury Bills, respectively. The stock of Treasury bills outstanding at 31 December 2002 was J$4 150.0 million relative to the statutory ceiling of J$12 000.0 million. In addition to the public offers, there were significant private placements with institutional investors.

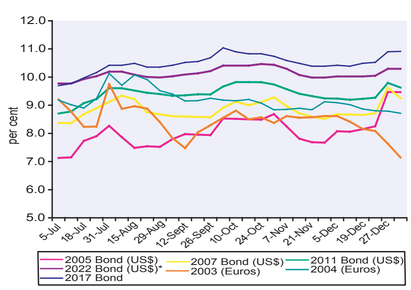
Figure 1.5
Private Money Market Rates
Maximum Average Rates

During the quarter, average interest rates in the private money market reflected the overall increase in the Bank's repurchase rates coupled with the general liquidity conditions in the market. Average interest rates displayed a trend increase during the review period, with rates increasing significantly during October 2002. Average rates peaked during the week ended 30 October 2002 to 28.4 per cent, 27.4 per cent and 21.9 per cent for the inter-bank, overnight and 30-day markets, respectively (See **Figure 1.5**). The increases were in response to tight liquidity conditions resulting from the issue of an Investment Debenture during the period. The average rates subsequently declined, but registered overall increases of 5.00 percentage points, 6.95 percentage points and 1.66 percentage points for the inter-bank, overnight and 30-day markets, respectively, during the quarter.

Standard & Poor's downgrade temporarily affects Jamaica's US Dollar Global Bonds.

In mid-December, the tabling of the supplementary estimates by the Minister of Finance and Planning pointed to a significant deterioration in the fiscal deficit. Shortly thereafter, Standard and Poor's rating agency downgraded the outlook on Jamaica's sovereign debt from stable to negative. As a result, there was increased demand for foreign currency.

Figure 1.6
GOJ Global Bond Yields



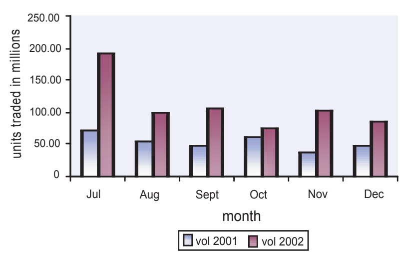
In the international bond market, the price of GOJ global bonds recorded a trend increase during the quarter. However, towards the end of the quarter, trading of these bonds on the secondary market was adversely affected by the downgrade of Jamaica's sovereign debt. Average yields on all of Jamaica's US Dollar global bonds increased in response to the downgrade published on 20 December 2002. The increase was mainly reflected in the yields on the shorter maturities. The average yields on the 2005 and 2007 global bonds increased by 132 basis points and 97 basis points, respectively, between 19 December and 27 December 2002. This is in contrast to increases of 56 basis points, 41 basis points and 22 basis points in the average yields on the 2011, 2017 and 2022 global bonds, respectively. The increase in yields was temporary as average yields on all the global bonds subsequently trended downwards during the remaining two trading days in the quarter.

The Euro denominated global bonds were unaffected by the news of the downgrade. The 2004 Euro-denominated bond traded firm during the period, while the average yields on the 2003 Euro-denominated bond experienced sharp declines towards the end of the quarter in response to an increased demand for the bond maturing in February.

Stock Market

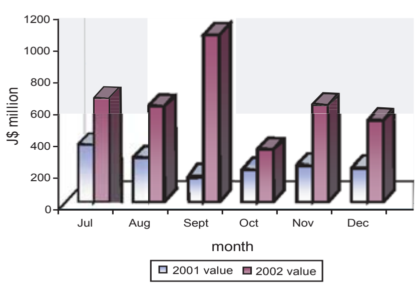
Despite the decline in trading activity for the December 2002 quarter, the stock market rallied to post significant price gains, relative to the September quarter. High levels of Jamaica Dollar liquidity helped to offset the fall-off in stock prices which would have been the normal response to foreign exchange market volatility and a general increase in interest rates. In addition, strong financial results posted by some listed firms helped to buoy the demand for equities during the review quarter. The out-turn for the 2002 calendar year was also significantly better than that of 2001, as demonstrated by improvements in all the performance indicators. Improvements in profitability and the attractive dividend payments of many listed firms played a pre-eeminent role in stimulating price gains during the year.

Figure 1.7
Average Volume Traded on the JSE for 2001 and 2002



Source: Jamaica Stock Exchange

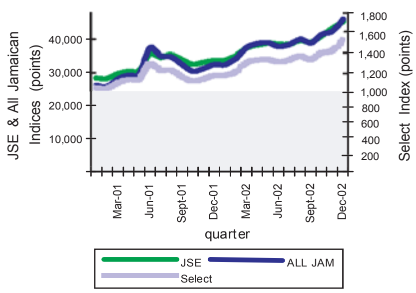
Figure 1.8
Average Value of Shares Traded on the JSE for 2001 and 2002



Source: Jamaica Stock Exchange

During the December 2002 quarter, there was a notable fall-off in trading activity on the stock exchange. This decline was evident in both the volume and value of units traded, relative to the September 2002 quarter (see **Figures 1.7 & 1.8**). Specifically, average monthly volume traded decreased to 87.9 million units in the December quarter from 132.3 million units for the September quarter, a decline of 33.6 per cent. Similarly, the average monthly value traded for the review quarter, relative to the previous quarter, decreased by 37.1 per cent to $480.7 million. Notwithstanding the slowdown in trading, at the end of December, the JSE index stood at 45 396.2 points, a gain of 15.5 per cent over that posted at the end of September.

Figure 1.9
Movements in the Jamaican Stock Indices in 2001 and 2002



Source: Jamaica Stock Exchange

Table 1.9

Top Ten Share Price Performers	Sept. - Dec. 01 (%) change	Sept. - Dec. 02 (%) change	31 Dec.
Manufacturing			
Carreras	-3.3	28.5	36.0
Trinidad Cement	0.0	28.1	44.8
CMP	12.5	33.3	2.0
Other Services			
Ciboney	-28.6	240.0	0.2
Mobay Freeport	-4.5	30.0	0.7
Communications			
Radio Jamaica	31.8	41.5	4.6
Distributive Trade			
Courts	7.6	74.5	4.8
Conglomerates			
Ja. Prod.	-13.5	129.5	21.0
Financial Services			
NCB	27.6	56.0	8.9
Guardian Holdings	0.0	30.8	170.0
Average	3.0	69.2	

Source: Jamaica Stock Exchange

Likewise, the All Jamaican Composite Index and the Jamaica Select Index advanced by 18.5 and 19.0 per cent, respectively (see **Figure 1.9**).

The performance of the market during the review quarter far outstripped that of the corresponding period of 2001. Notably, during the December quarter, the average monthly volume traded reflected an 81.0 per cent increase over the average traded during the December 2001 quarter. Similarly, the average monthly value traded in the review quarter more than doubled that of the corresponding period in 2001. Reflecting the increase in trading activities throughout 2002, the JSE index recorded a gain of 34.1 per cent for the calendar year. The other indices, the All Jamaican Composite Index and the Jamaica Select Index, advanced by 42.9 and 41.9 per cent, respectively, relative to end-December 2001.

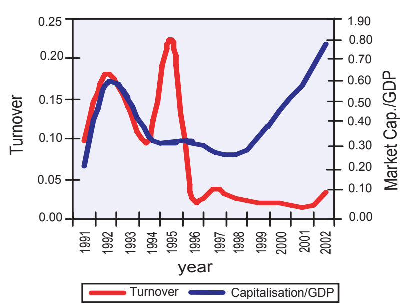
There were significant changes in the macroeconomic environment, which altered the conditions faced by investors in equities. In particular, the gains in the stock market indices would have been moderated by volatility in the foreign exchange market and increases in interest rates (see **Bond Market**). In spite of this, strong Jamaica Dollar liquidity in the financial system facilitated continued interest in equity investments. Notably, for the review quarter 23 stocks advanced, 13 declined and 2 traded firm. These movements compare favourably with the 10 stocks advancing, 22 declining and 6 trading firm in the December 2001 quarter.

Likewise, during the review quarter, the average percentage price change for listed firms was 19.4 per cent, relative to 0.4 per cent in the corresponding quarter in 2001. It is also worthy to note that, during the December 2002 quarter, the share prices of the top 10 performers listed on the Exchange increased by an average of 69.2 per cent compared to 3 per cent in the corresponding period in 2001 (see **Table 1.9**). This increase was due mainly to price gains by conglomerates and firms from the distribution, manufacturing and financial services sectors. The remarkable difference in price appreciation suggests that the strong earnings and attractive dividend payments by a number of listed firms provided stimulus to the market[1]. This is particularly noteworthy as, in many respects, macroeconomic conditions in the December 2002 quarter were similar to those of the corresponding period in 2001.

Some of the improvements in the December 2002 quarter must be attributed to institutional changes effected at the JSE. In late September 2002, there was a reduction in the settlement cycle of equity transactions to three business days after the initial trade day (i.e. to T+3 from T+5). The reduction in the settlement cycle would have facilitated an improvement in the efficiency of the trading process. Apart from the reduction in the settlement cycle, the increase in the number of stockbrokers earlier during the year could have contributed to the favourable performance in the market during the review quarter, relative to the December 2001 quarter.

Two important indicators of the institutional development of the JSE demonstrated improvements in 2002. The market capitalisation to GDP ratio, which measures the size of the market, increased from 0.66 to 0.80 during the calendar year 2002 (see **Figure 1.9**)[2]. The second indicator, the ratio of value traded to market capitalisation (turnover ratio), measures the liquidity of the stock market relative to its size. During the year, this indicator increased by 100 per cent to 0.02. It should be noted, however, that the level of liquidity within the stock market remains well below international liquidity standards (see **Figure 1.10**)[3].

Figure 1.10
Turnover Ratio and Market Capitalisation to GDP Ratio



Source: Jamaica Stock Exchange

The Government's financing plans, along with movements in the exchange rate, will heavily influence the degree to which the stock market will continue to grow in 2003. These factors will help to determine the level of interest

[1]During the December 2002 quarter, firms such as Life of Jamaica, Cable and Wireless, Bank of Nova Scotia, Courts Jamaica and Desnoes & Geddes posted strong results.
[2]The figure for (nominal) GDP that is used in this ratio is an estimate. A ratio of 1 (or greater) indicates a large market while 0.1 shows a very samall or limited market.
[3]A ratio of 0.75 or greater represents a high market turnover while 0.10 shows a limited turnover.

rates and, therefore, will affect investors' portfolio decisions. In addition, the listing of the Jamaica Money Market Brokers in early 2003 on the JSE, along with other expected new listings, should provide further impetus for stock market growth in the year ahead.

Box 3: Implications of the International Accounting Standards (IAS) for Financial Systems and Financial Stability

Introduction

The adoption and implementation of international standards is deemed crucial to the establishment of a sound and robust institutional environment. Such an environment can serve as a bulwark against instability and crises and enhance the resilience of domestic financial systems. The adoption of International Accounting Standards (IAS) for accounting periods beginning on or after 01 July 2002 represents a major step in Jamaica's transition to internationally accepted reporting standards.[1] In adopting IAS, Jamaica will ensure conformity with world standards and provide internationally comprehensible information. A total of 41 Standards have been issued to date that set out principles to be observed in the preparation of financial statements.[2]

IAS, financial statements and financial stability

The move towards harmonisation of international accounting standards is expected to unmask and illuminate financial results. Harmonisation will also enhance interpretation and comparability and, as noted by the Basle Committee on Banking Supervision (BCBS), could strengthen the link between public reporting and prudential requirements.[3] The ethos of IAS is fair value accounting: the underlying principle is to represent the economic reality. As such, financial statements will more readily reflect changes in the environment that warrant keen observation and attention.[4]

While it is also acknowledged that the use of IAS will not alter the economic substance underlying the data presented in financial statements, the data in the statements will show significant variance from that previously (currently) required. In addition to extensive disclosure enhancements, the Standards require adjustments in the way that specific items are treated and presented in the financial statements. Any change in any one or more balance sheet or profit and loss (P&L) items resulting from the change to fair value accounting, will have significant effects on key components of ratios. The effect on these ratios will consequently influence the results of regulators' surveillance methodologies, such as an early warning system, that utilise financial information.

The use of fair value accounting is especially relevant to the valuation of financial instruments. The new Standard on Financial Instruments, Recognition and Measurement (IAS 39) is considered to be the single most significant source of adjustments for financial

[1]New IAS will be referred to as International Financial Reporting Standards (IFRS).

[2]Standards set out what are widely accepted as good principles, practices, or guidelines in a given area. Principles are fundamental tenets pertaining to a broad policy area and are usually set out in a general way and therefore offer a degree of flexibility in implementation to suit country circumstances, e.g. the Basel Committee's *Core Principles for Effective Banking Supervision* (FSF). IAS 1 notes the following components of the financial statement: balance sheet, income statement (profit and loss account), changes in equity, cash flow statement, and notes to the financial statement. It should be noted that more recent Standards have superseded some of the earlier ones.

[3]See, e.g., Janin (2002). (http://www.pwcglobal.com/jm/images/pdf/IAS%20to%20be%20adopted%20in%20Jamaica.pdf).

[4]The impact on financial statements will be limited to standards that are significantly different from their local contemporaries, or new provisions for which there were no Jamaican Generally Accepted Accounting Principles (JGAAP).

entities. IAS 39 requires categorisation by entities of financial instruments as: 'originated loans and receivables,' 'held-to-maturity,' 'available for sale,' or 'trading.' The classifications agreed by management are critical as they determine the basis of measurement of these assets in the balance sheet.

Moreover, the standard imposes a penalty for activities contrary to the nature of the asset as defined by management. For example, if an asset that was classified as 'held-to-maturity' is disposed of before maturity, all other assets so classified must be reclassified as 'available for sale' and re-measured at fair value (as against amortised cost). In addition, the entity is then prohibited from classifying assets as 'held-to-maturity' for the subsequent two accounting years. These provisions will support current regulatory initiatives to promote effective risk management and increased market discipline, and to counter opportunities for abuse or concealment. The provisions of IAS 39 to 're-measure' some financial assets and effect adjustments in reserves or in the profit and loss account will directly and significantly impact assets, earnings, and capital. These are important components of critical ratios for assessing financial system growth and stability. The Standard also speaks to the recognition of impairment in loan assets. This is particularly important in the Jamaican context, where non-performing loans are deemed to have undermined the performance of the banking sector and precipitated a banking crisis in the mid 1990s.

IAS 19 (Employee Benefits) is also expected to have a material effect on the financial position and results of operations of Jamaican companies. The Standard requires the recognition in the balance sheet of all types of short-term, long-term, post-employment and termination benefits, as well as disclosure of equity compensation benefits.[5] In addition, the charging of pension costs to the P&L either in the year to which they relate or over the service life of the employees, will affect earnings and derivatives of earnings utilised as input.

Another Standard that will have significant impact is IAS 36, which prescribes the accounting and disclosure for impairment in all assets that are not captured in other Standards. An impairment loss must be recognised in the P&L or adjusted in reserves.

In general, the promotion of fair values by the IAS will engender harmonisation across sectors and time, and will assist in the making and implementing of policy decisions. At the same time, there are some practical difficulties in obtaining reliable measures of fair value for assets in the absence of active markets (which is likely to be the case in many developing countries).[6] While fair value measurements are expected to augment the value of information provided by risk assessment models, for example, unreliable fair values may actually distort the quality of information available for decision-making. Consequently, it is arguable that the potential increase in volatility in reported earnings and equity resulting from the application of IAS might

[5] An Exposure Draft has been issued to deal with share-based payments that would require recognition.

[6] One suggestion is for the use of estimation techniques such as discounted cash flows to derive fair values (Eckes and Hitchins, 2000).

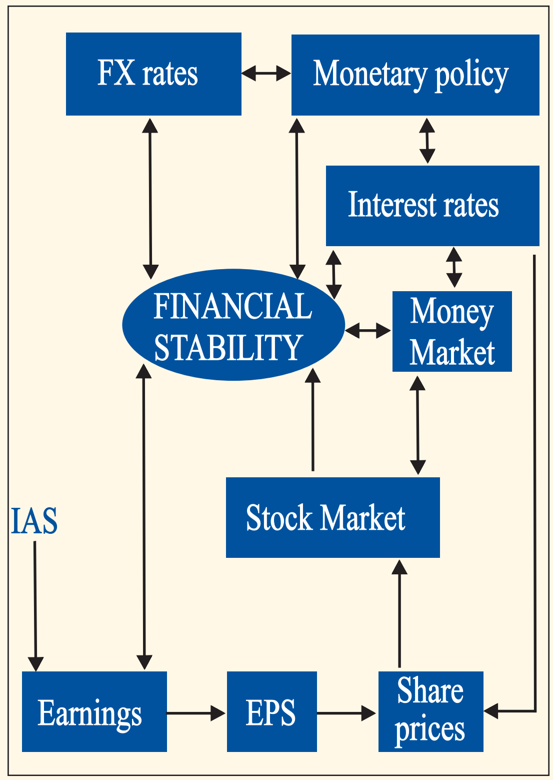
belie or negate an organisation's risk management practices. This may lead to instability in the financial sector if businesses operate based on egregious forecasts, or respond to misleading market signals.[7]

Figure 1 indicates the likely flow of the impact of earnings and the consequential effect on financial stability and monetary policy. The level of reported earnings resulting from the implementation of IAS will influence reported earnings per share (EPS). Investors' perception of, and motivation to invest in, a particular entity is highly influenced by these two measures of past profitability, which are used as estimates of future earnings potential. Excessive volatility in earnings and EPS directly impact the performance of the stock market, with consequential influence on financial stability and monetary policy.

Depending on the signals from other prudential indicators (some of which may also be influenced by IAS), the central bank may choose to respond with the use of (a) selected policy instrument(s). Each of these instruments influences, and is to some extent influenced by, the level of stability in the financial sector. It is clear from the foregoing that considerations of monetary policy are linked to reporting and disclosure requirements.

It is also clear that the adoption of IAS in Jamaica is likely to have a consequential impact on statistical and economic analyses and therefore on perceptions of stability.[8] The impact of the new reporting requirements will therefore become evident in the results of the reports included in this publication over time.

Figure 1:
IAS, earnings volatility, financial stability and monetary policy



[7]In these instances, effective corporate governance must ensure that fair value measurements are not abused, but that any volatility reflected in asset values is, in fact, a true reflection of the underlying economic state. In this regard, IAS 39 mandates disclosure of a statement where it is not practicable to determine fair value and it is therefore not reflected. Obviously, a resolution of these issues is critical to be effectiveness of the IAS.

[8]The ultimate effect on stability in fact, will be dependent on the rate and method of transmission of this perception into reality.

Foreign Exchange Market

*There was an acceleration in the pace of depreciation in the exchange rate during the December 2002 quarter, relative to the first three quarters of the calendar year. Most of the pressures were, however, confined to the month of December. For the review quarter, the weighted average selling rate depreciated to US\$1.00 = J\$50.97 at end-December from US\$1.00 = J\$49.27 at end-September (see **Figure 1.11**). This represented a depreciation of 3.3 per cent, compared with the 3.8 per cent depreciation observed over the period January to September 2002. The movement in the exchange rate during the December quarter was mainly influenced by deterioration of the balance of payments and fiscal accounts, strong Jamaica Dollar liquidity in the money market and a revision of the international rating on the outlook on Jamaica's sovereign debt from stable to negative by Standard and Poor's.*

Figure 1.11
Weighted Average Selling Exchange Rate (period average)

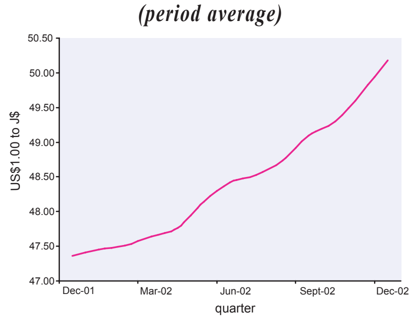


Figure 1.12a
Monthly Foreign Exchange Cash Inflows & Outflows

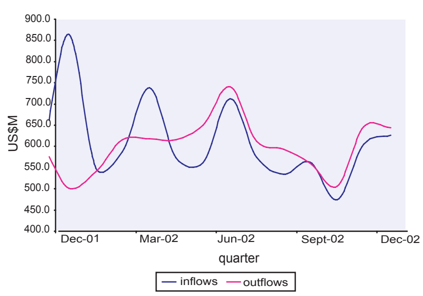
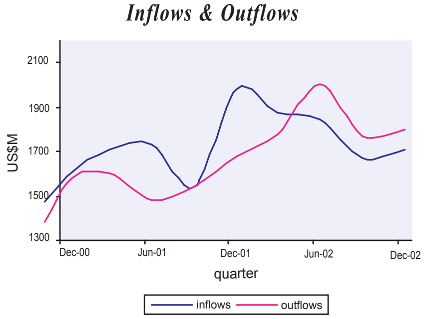


Figure 1.12b
Quarterly Foreign Exchange Cash Inflows & Outflows



Preliminary estimates of total foreign exchange flows within the economy for the December 2002 quarter indicated that there was an excess demand of foreign currency of US\$90.3 million, relative to excess supply of US\$304.0 million observed for the comparable period in 2001. Relative to the corresponding quarter in 2001, the demand for foreign exchange is estimated to have increased by US\$121.5 million, while supply declined by US\$272.9 million. Total outflows and inflows of foreign exchange for the review quarter were estimated at US\$1 796.6 and US\$1 706.3 million, respectively (see **Figures 1.12a & 1.12b**).

The estimated excess demand for foreign exchange in the review quarter ensued from higher imports and increased official and private capital outflows, relative to the corresponding quarter in 2001. Despite increased inflows from private transfers, the supply of foreign exchange to the market was adversely impacted by the fall-off in official and private capital inflows.

Figure 1.13a
Foreign Exchange Cash Inflows by Institutions

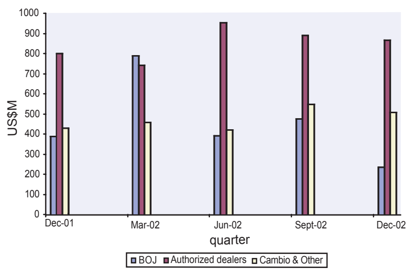


Figure 1.13b
Foreign Exchange Cash Outflows by Institutions

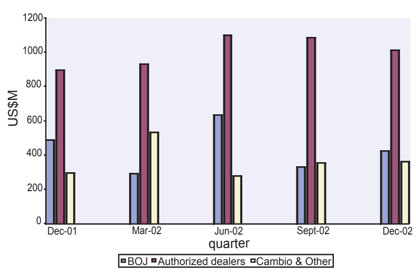
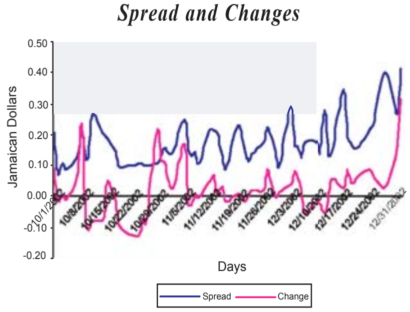


Figure 1.14
Daily Foreign Exchange Rate Spread and Changes



Consistent with the overall flows within the economy, estimates of foreign exchange flows through authorized foreign exchange dealers reflected net sales of US$146.1 million during the review period. The volume of trade in this segment of the market increased, relative to the comparable quarter of 2001. Compared to the December 2001 quarter, total purchases increased by US$66.3 million to US$865.3 million, while total sales grew by US$115.7 million to US$1 011.4 million (see **Figures 1.13a & 1.13b**). While the increase in total inflows arose from private capital transactions, the growth in foreign exchange outflows during the review quarter largely reflected increased payments for imports.

Notwithstanding the pressures in the foreign exchange market, the Cambios recorded net inflows of US$80.7 million during the December 2002 quarter. This reflected respective increases in both purchases and sales of US$100.0 million and US$66.9 million to US$517.9 million and US$437.1 million, respectively, relative to the comparable quarter of 2001.

The excess demand for foreign exchange during the review quarter continued the trend deterioration in the balance of payments for the period January to July 2002. Relative to the comparable period of 2001, there was a US$116.8 million widening of the current account deficit (see **Appendix 10**). Of this, US$109.3 million was due to the fall-out in earnings from travel, largely reflecting the lagged impact of the events of 11 September 2001. There was also a widening of the deficit on the goods account, associated with adverse terms of trade shocks. In particular, higher oil prices and lower alumina prices.

The increased demand for US dollars in the December 2002 quarter was also facilitated by higher than programmed Jamaica Dollar liquidity in the money market (see **Base Money**). Pressures in the market were intensified towards the end of December 2002, following revelations about the state of the public accounts and the subsequent revision of the international rating on the outlook on Jamaica's sovereign debt from "stable" to "negative" by Standard and Poor's.

The local currency depreciated by 3.3 per cent in the December 2002 quarter, relative to the 7.0 per cent depreciation observed for the calendar year 2002. The relative instability that characterized the foreign exchange market in the December quarter was reflected in respective depreciations in the average end-of-period selling rate of 0.3 per cent, 0.9 per cent and 2.1 per cent in October, November and December. Coinciding with the pressures in the foreign exchange market, particularly in December, was a significant widening of the spread between the prices at which US dollars were sold and purchased. Relative to the average monthly spread of approximately J$0.13 on foreign exchange transactions, a spread of J$0.22 was observed for December. In addition, an average daily depreciation of J$0.05 was observed for December, which was significantly above the historical average of J$0.02 per day. Most of the deviations from historical trends were, however, confined to the last six trading days of the month with average daily spreads and depreciation of J$0.28 and J$0.12, respectively.

In response to the pressures in the foreign exchange market, the Bank of Jamaica sold foreign currency to augment supply in October and November. In this context, as well as regular debt payments, the NIR was US$1 597.0 million at end-December 2002, which was marginally below the end-December IMF Staff Monitored Programme target of US$1 600.0 million (See **Table 1.10**). As a result, the gross reserves at end-December 2002 was US$1 643.1 million, representing 18.2 weeks of estimated goods and services imports compared with the international benchmark of 12.0 weeks.

Table 1.10

Net International Reserves (US$M)

Month	Stock	One Month Change	Three Month Change
Dec-01	1 840.7	363.7	304.0
Jan-02	1 848.7	7.9	371.2
Feb-02	1 820.9	-27.8	343.9
Mar-02	1 941.7	120.8	101.0
Apr-02	1 899.8	-41.9	51.1
May-02	1 810.6	-89.1	-10.3
Jun-02	1 782.3	-28.4	-159.4
Jul-02	1 743.9	-38.3	-155.9
Aug-02	1 685.6	-58.3	-125.0
Sep-02	1 687.3	1.7	-95.0
Oct-02	1 655.2	-32.1	-88.7
Nov-02	1 614.4	-40.8	-71.2
Dec-02	1 597.0	-17.4	-90.3

2. Real Sector Developments

Growth accelerates in December 2002 quarter.

Leading economic indicators suggest an expansion in real GDP during the December 2002 quarter, compared to the decline of 2.1 per cent recorded in the December 2001 quarter. This stronger growth was associated with the normalisation of activities in the mining, manufacturing and miscellaneous sectors, relative to depressed output levels during the December 2001 quarter. In addition there was continued growth in the ***financing & insurance services, electricity & water, transport storage & communication*** *and* ***miscellaneous*** *sectors. The expansion in economic activity reflected estimated increases in both* ***private*** *and* ***public sector consumption****, as well as private investment, which were partially offset by a decline in n****et external demand*** *and* ***public investment****.*

Given the growth of 0.3 per cent in GDP, reported by the Statistical Institute of Jamaica, for the first nine months of the calendar year and the Bank's estimates for the December 2002 quarter, the Jamaican economy is estimated to have recorded moderate growth for the calendar year 2002.

Table 2.1

Sectoral Contribution to Growth October - December 2002

	Estimated Direction of Change
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

Aggregate Supply

An assessment of the performance of the real sector for the December 2002 quarter suggests an expansion in economic activities over the corresponding period of 2001. The estimated growth in the review quarter is consistent with the recent trends in credit demand (see **Money and Credit**), which in part, has facilitated the recovery. Both the goods and services sector showed notable improvements in the review quarter (see **Table 2.1**). The expansion in the goods producing sector, was evident in most sub-sectors, with notable growth in mining. The agriculture sector was the only sector that experienced a decline in value added for the review quarter relative to the corresponding quarter of 2001.

The estimated contraction in the agriculture sector was inferred, in part, from declines in domestic and export crops (see **Figures 2.1 & 2.2**). Domestic production in the

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

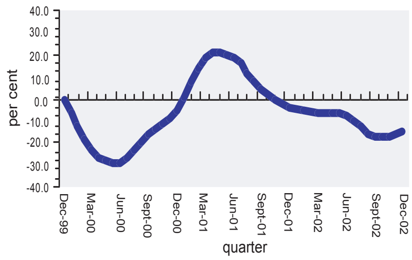


Figure 2.2
Export Agriculture
(change over corresponding quarter)

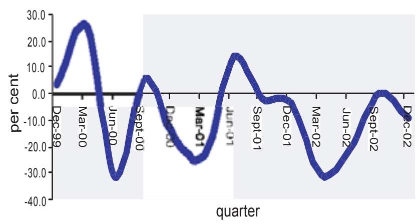


Figure 2.3
Trends in Crude Bauxite Production
(12-month change)

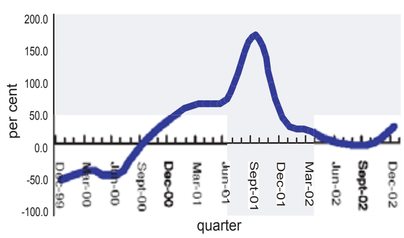
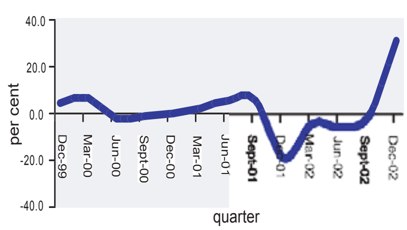


Figure 2.4
Trends in Alumina Production
(12-month change)



quarter declined significantly due to the unfavourable weather conditions in earlier quarters, which hampered planting activities and destroyed crops at various stages of maturities.

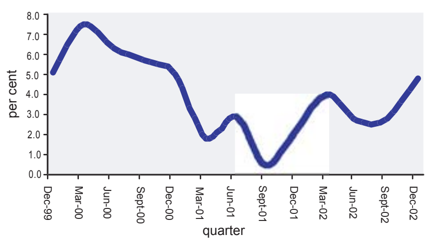
The performance of the export crop sub-sector was largely reflective of declines in banana, sugar, cocoa and coffee production. Banana, cocoa and coffee exports are estimated to have declined by 14.5 per cent, 7.9 per cent and 5.0 per cent, respectively, during the quarter. The decline in exports occurred in the context of the heavy flood rains in May and September 2002, which adversely affected export crops. Sugar cane, which accounts for approximately 24.0 per cent of the value added for the sub-sector, declined by 4.8 per cent during the period, relative to the December 2001 quarter.

Value added in the **mining** sector is estimated to have increased appreciably in the December 2002 quarter, relative to the December 2001 quarter. This growth was attributable to an increase of 36.1 per cent and 28.1 per cent in crude bauxite and alumina production, respectively (see **Figures 2.3 & 2.4**). The significant growth recorded in alumina production partly reflects a normalisation of output in the context of the negative shocks that occurred in the December 2001 quarter. Alumina production was depressed in the December 2001 quarter as a result of the temporary closure of the Jamalco Halse Hall Plant (see **QMPR vol. 2, no. 3**).

The estimated growth in **manufacturing** is based on expansions in petroleum refining, food processing, non-alcoholic beverages and the sugar molasses & rum sub-sectors. Strong growth is estimated for the petroleum-refining sub-sector in the review quarter as compared to a significant decline in value added in the corresponding quarter in 2001. Activities at the refinery in the December 2001 quarter were curtailed due to the closure of the plant to facilitate maintenance work. Growth in the sugar, molasses & rum sub-sector is inferred from a 13.7 per cent increase in sugar produced during the review quarter. However, estimated declines in the textile & wearing apparel and footwear industries partly offset the performance of the sector.

There was continued growth in the **construction & installation** sector in the December 2002 quarter, commensurate with an intensification of road repair activities. The restoration of roads that were severely damaged by the May and September 2002 heavy rains, was extended into the review quarter. Another indicator of the improved performance of the sector is an increase in the real stock of loans from commercial banks of 32.6 per cent for calendar year 2002, relative to 2001.

Figure 2.5
Electricity Sales
(change over corresponding quarter)



With respect to the **electricity & water sector**, an expansion was inferred from an estimated increase of 4.3 per cent in total electricity sales, relative to the comparable quarter in 2001 (see **Figure 2.5**). This increase in electricity generation is in line with the retooling activities being carried out by the utility company.

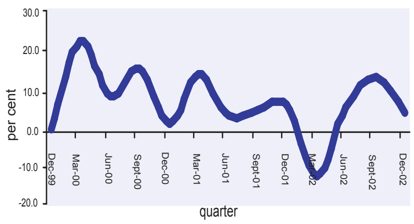
In relation to the **transport, storage & communication** sub-sector, there was an increase in value added during the review quarter, relative to the December 2001 quarter, primarily due to growth in the communication and transport sub-sectors.

Continued expansion in the mobile telephone market.

With regard to the communication sub-sector, the total number of telephone lines in service (mobile and 'plain old telephones' (POTS)) is estimated to have grown by approximately 22.7 per cent in the quarter, relative to the corresponding period in 2001. This growth is fuelled primarily from the expansion in mobile services as the volume of POTS lines is estimated to have declined over the period. Heightened competition, which has encouraged continuous investments in the sector has sustained growth in this industry. Growth in the transport sub-sector was inferred, in part, from a 26.5 per cent increase in visitor arrivals in the December 2002 quarter, relative to the December 2001 quarter. Facilitating the overall performance of the sector was an expansion of 8.7 per cent in real loans extended to the sector, in particular the communication sub-sector, during the 12-month period ending December 2002.

The **distribution sector** is estimated to have registered marginal growth during the review quarter relative to the corresponding period in 2001. This was partly inferred

Figure 2.6
Merchandise Imports
(change over corresponding quarter)



from estimated increases of 3.6 per cent and 0.2 per cent in merchandise imports (see **Figure 2.6**) and consumer goods imports, respectively, in the review period relative to the December 2001 quarter. In addition, the real stock of loans extended to the sector increased by 18.9 per cent during 2002. The performance of the sector would not have been enhanced by the marginal contraction estimated for the agricultural sector.

The **financial & insurance sector** is estimated to have grown during the review quarter, relative to the corresponding period in 2001. The banking sector is estimated to have improved based, in part, on continued growth in commercial banks' non-interest income, coupled with a decline in intermediate expenses. This served to offset the impact of Bank of Jamaica losses. For the merchant banks, the estimated growth in nominal value added was primarily attributable to higher income from loans and investments, as well as foreign exchange gains.

The value added from the **miscellaneous** sector is estimated to have grown considerably in the review quarter, relative to the comparable period in 2001. The improved performance is within a context of depressed output levels in the December 2001 quarter following the events of 11 September, which hampered the performance of the hotels, restaurants and clubs sub-sector. Since September 2002, there has been some recovery and normalization in the tourism industry. Growth in the hotels, restaurants and clubs sub-sector is deduced from increases of 15.6 per cent and 17.5 per cent in visitor arrivals in October and November 2002, respectively, relative to the corresponding months in 2001.

Significant increases in cruise passenger arrivals.

Estimates from the Jamaica Tourist Board indicate that visitor arrivals for the month of December increased by 20.0 per cent, attributable mainly to cruise ship arrivals. The growth in cruise ship arrivals in the month is partially due to the arrival of two new vessels, the Arosa Blue and the Caribe, which added Jamaica to their ports of calls. In addition, a much larger vessel, the Conquest, replaced the

Figure 2.7
Visitor Arrivals
(change over corresponding quarter)

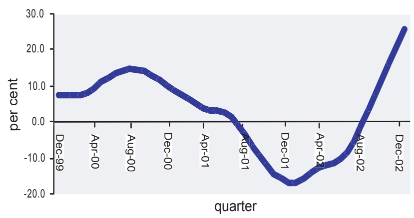


Figure 2.8
Trends in GCT Intake
(change over corresponding quarter)

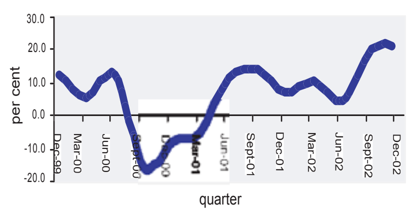
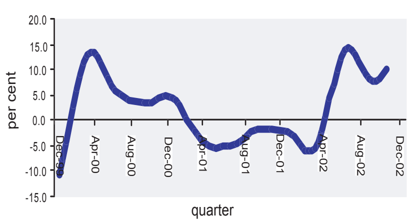


Figure 2.9
Trends in Public Consumption
(change over corresponding quarter)



Inspiration cruise liner in December 2002. In this context, visitor arrivals are estimated to have grown by 25.3 per cent in the December 2002 quarter relative to the corresponding period in 2001 (see **Figure 2.7**).

In summary, aggregate supply in the December 2002 quarter is estimated to have been relatively strong in comparison to the three preceding quarters of 2002. The major areas of growth were the mining, manufacturing and miscellaneous sectors. This growth is predicated on normalised production levels in those sectors in the context of depressed output levels during the December 2001 quarter. The estimated quarterly growth was, however, dampened by lower output in the agriculture sector, owing to the weak performance of the domestic and export sub-sector.

Aggregate Demand

Indicators of aggregate demand suggest that there was an expansion in real consumption spending during the December 2002 quarter, relative to the corresponding quarter last year. This expansion was evident in both **private** and **public consumption**, as reflected in Central Government's General Consumption Tax (GCT) revenues and expenditure on wages, salaries and programmes, respectively. GCT receipts[1] are estimated to have increased in real terms by approximately 14.1 per cent in the review quarter (see **Figure 2.8**). The inferred increase in consumption is consistent with the trends in consumer confidence. The Jamaica Conference Board index of consumer confidence during the December 2002 quarter was 15.0 per cent and 9.0 per cent higher than in the September 2002 and December 2001 quarters, respectively. With respect to public consumption (see **Figure 2.9**), an expansion in the December 2002 quarter was indicated by an increase of 20.3 per cent in real Government spending on programmes and wages & salaries compared to the December 2001 quarter.

[1]Adjusted for timing of receipts relative to actual expenditure.

Figure 2.10
Trends in Private Investment
(change over corresponding quarter)

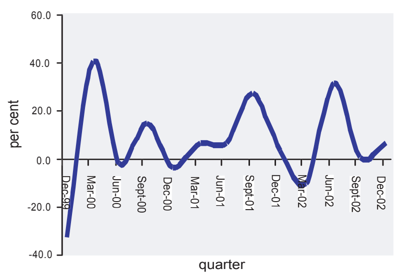


Figure 2.11
Trends in Public Investment
(change over corresponding quarter)

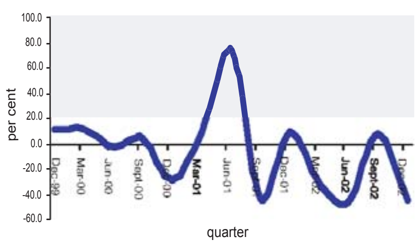
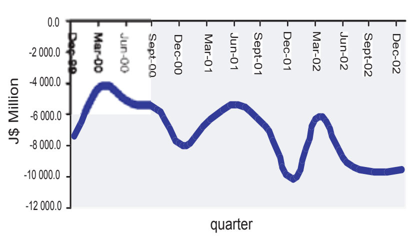


Figure 2.12
Trends in Net External Demand



Indicators of real investment demand during the quarter suggest an expansion in private investment expenditure and a decline in public investment spending, relative to the corresponding period of 2001 (see **Figures 2.10 and 2.11**). The estimated expansion in private investment was partly inferred from a 6.7 per cent increase in real capital goods imports. Investment spending during the quarter would have been influenced by improvements in business outlook in 2002 relative to 2001 as reported by the Conference Board index of business confidence (IBC). Although the IBC in the December 2002 quarter was 2.0 per cent below levels recorded in the prior two quarters, it was 18.0 per cent higher than the level recorded in the December 2001 quarter.

Based on credit information to November 2002, private investment was strongest in the transport, storage & communication, construction and distributive sectors. With regard to public investment, Government capital expenditure declined significantly in real terms by 40.0 per cent in the review quarter, relative to the December 2001 quarter.

There was an estimated decline in net external demand during the review quarter when compared to the December 2001 quarter (see **Figure 2.12**). The deterioration occurred despite improvements in services exports resulting from the recovery of the tourism sector. The decline in net external demand is predicated on higher estimated imports of goods and services during the quarter. The expansion in imports reflected primarily estimated increases in the value of fuel imports as well as raw material imports.

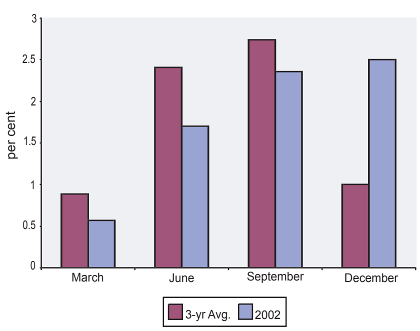
In summary, there was an appreciable expansion in economic activity in the December 2002 quarter. This growth was attributable primarily to the normalisation of output in certain sectors, in the context of the negative shocks that occurred in the December 2001 quarter. An assessment of the goods producing sector showed that all sectors, with the exception of agriculture, showed improvements with strong growth in the mining sector.

Similarly, all services sectors improved, with considerable growth in the miscellaneous sector. Consumption demand and private investment spending were the main factors underlying growth.

3. Inflation

The inflation rate for the December 2002 quarter was 2.5 per cent, 0.7 percentage points above the Bank's projection.[1] This rate exceeded the inflation rate in the preceding quarter and that of the corresponding quarter of 2001. The inflation during the quarter largely reflected the disruption of domestic agricultural supplies as well as increased prices of international commodities. Price increases were strongest in the Rural Areas and weakest in the Other Towns. For the calendar year, inflation was 7.3 per cent, 1.5 percentage points below the rate recorded in 2001. Approximately 55 per cent of the inflation experienced during the quarter was due to non-core factors, largely emanating from the Food & Drink group. Core inflation is estimated to have risen to 1.18 per cent from 0.76 percent estimated for the September quarter and 0.62 per cent for the corresponding quarter of 2001/02.

Figure 3.1
Inflation rate
(3-yr Average & 2002 Comparison)



The inflation out-turn for the December quarter was 2.5 per cent, significantly higher than the seasonal average of 0.9 per cent for the last 3 years (see **Figure 3.1**). Nevertheless, inflation for the fiscal year to date was 6.6 per cent, 0.2 percentage points below the comparable period in the prior fiscal year. The broad similarity in the rates of inflation was due to favourable agricultural prices in the June quarter consequent on the recovery of agriculture. The Consumer Price Index (CPI) increased by 0.7 per cent, 1.2 per cent and 0.5 per cent in October, November and December, respectively. For the calendar year, inflation was 7.3 per cent, relative to the 8.8 per cent recorded in 2001. This out-turn will mark the first time in three decades that six consecutive years of single digit inflation has been attained.

The lower inflation for the 2002 calendar year was mainly associated with the absence of administrative price adjustments.

[1]See September edition of the Quarterly Monetary Policy Report.

Table 3.1

Decomposition of Inflation Outturn October - December 2002	Inflation (%)	Contribution (%)
Non-Core Shocks	**1.33**	**53.5**
Other Housing Expenses	0.11	4.6
Food & Drink	1.22	49.0
Starchy Foods	0.14	5.6
Vegetables & Fruits	0.93	37.3
Other	0.15	6.1
Core	1.16	46.5
TOTAL	**2.49**	**100.0**

Figure 3.2
Core Inflation per quarter

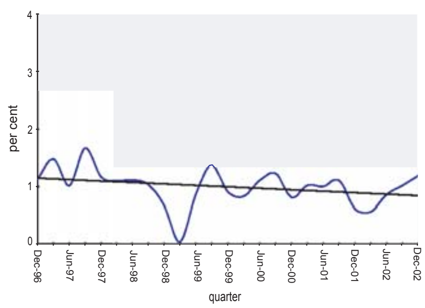
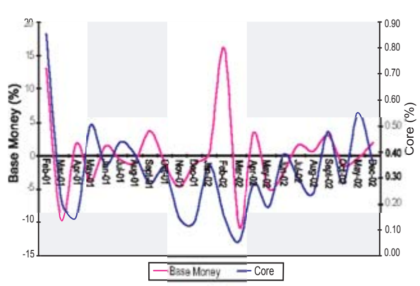


Figure 3.3
Lagged Base Money & Core Inflation



Monetary Policy and Inflation

A decomposition of headline inflation for the quarter indicated that core factors accounted for approximately 46.5 per cent (see **Table 3.1**), relative to 32.8 per cent in the previous quarter. Underlying/core inflationary impulses increased in response to higher growth in the monetary base in the September quarter. This influenced higher core inflation in the first two months of the review quarter. Underlying inflation in November rose to 0.55 per cent from 0.28 per cent in October. However, there was a slower rate of increase of 0.34 per cent in December, reflecting a tightening of monetary policy in October. For the quarter, core inflation was 1.18 per cent, representing an increase relative to the 0.76 per cent recorded in the September quarter and the 0.62 per cent in the December 2001 quarter. For the fiscal year to date, the core index has increased by 2.8 per cent, relative to 2.7 per cent in the corresponding period of 2001/02. Similarly, for the calendar year 2002, the core index has increased by 3.4 per cent, relative to 4.0 per cent in 2001.

An alternate measure of core inflation, the CPI without agriculture (CPI-A)[2], further underscores the contribution of agriculture to overall price movements. In the December quarter, the increase in the core index coincided with the increase in the CPI without agriculture (CPI-A). This also indicates (as shown in **Table 3.1**) that non-core factors were dominated by the agricultural sector. For the fiscal period to December, the CPI-A has increased by 3.3 per cent compared to 4.5 per cent in the similar period of 2000/01.

Non-Core Factors

Non-core factors accounted for 53.5 per cent of inflation in the December quarter. The major factors influencing the non-core component of inflation during the period were related to basic food commodities. Adverse weather, locally and internationally, led to increased prices of agricultural products and basic consumer food items such as cornmeal,

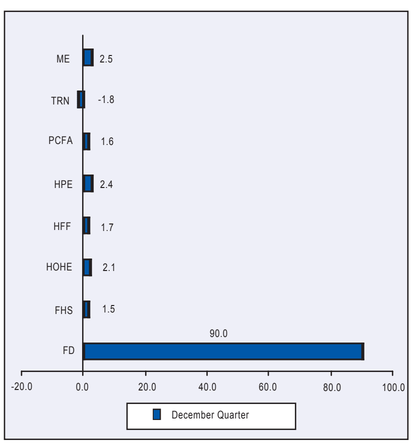
[2]CPI-A is calculated by removing agricultural prices from the CPI.

Table 3.2

Quarterly Changes in International Prices (US$) of Selected Commodities

Commodity	Units	Oct - Dec 2001	July. - Sept 2002	Oct - Dec 2002
Vegetable Oils				
Coconut oil	$/mt	-6.4	1.6	5.8
Groundnut oil	$/mt	0.2	1.1	18.7
Soybean oil	$/mt	-3.8	21.7	14.4
Grains				
Soybean meal	$/mt	-2.9	4.7	3.0
Soybean	$/mt	-9.1	15.1	4.7
Maize	$/mt	-2.6	18.6	1.1
Sorghum	$/mt	0.5	23.9	3.2
Wheat Canada	$/mt	0.3	32.3	16.7
Rice (A1)	$/mt	-2.5	0.9	4.5
Exports				
Sugar (EU)	¢/kg	0.4	5.9	1.5
Sugar (US)	¢/kg	0.4	6.1	4.8
Sugar (World)	¢/kg	-8.7	4.9	22.8
Fertilizers				
TSP	$/mt	3.3	-0.1	0.1
Potassium Chlor.	$/mt	-1.5	-0.3	0.0

Figure 3.4
Contribution to Inflation



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

flour and rice. Locally, the tropical storms Isidore and Lily caused significant damage to crops, with fruits and vegetables being mostly affected. The destruction to roads and bridges exacerbated the downturn in supply. Internationally, droughts in the US Midwest, Australia and Canada reduced yields and contributed to increases in grain and oilseed prices. Other important factors relate to international inflation rates, exchange rate movements and crude oil prices.

Major Contributors to Inflation

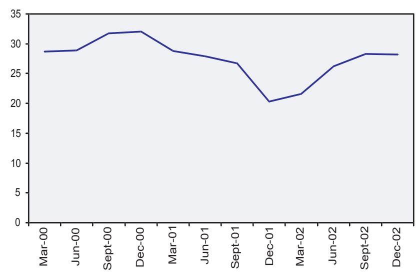
Price movements in certain agricultural and basic food commodities were the dominant contributors to inflation during the quarter. Prices of vegetables and fruits rose sharply as a consequence of their greater susceptibility to the flooding. The supply of the more resilient starchy foods was not as severely affected and as a result prices in this sub-group grew at less than half the pace of their more fragile counterparts. During the quarter, there were expansions of 6.7 per cent and 17.5 per cent in the Starchy Foods and Vegetables & Fruits sub-groups, respectively. Also, on the basis of movements in the international price of wheat there were increases in the prices of flour and its products. In addition, the movements in corn and rice on the international market affected important sub-groups of the CPI. Largely as a result of the foregoing, the Food & Drink sub-index increased by 4.2 per cent and accounted for approximately 90 per cent of the inflation outturn over the quarter (see **Figure 3.4**). The Starchy Foods and Vegetables & Fruits sub-groups were responsible for more than sixty per cent of the contribution of the Food & Drink sub-category (see **Table 2, Appendix C**)

With the exception of the Transportation group, which registered a decline, there were increases in all the other sub-groups. These increases were relatively modest contributing between 1.5 per cent and 2.5 per cent to the index. The Housing & Other Housing Expenses and Miscellaneous Expenses groups contributed 2.5 per cent and 2.4 per cent, respectively to account of year-end adjustments in the fees of medical practitioners and the increasing cost of personal grooming.

Oil Prices

International oil prices, as proxied by the price of the benchmark West Texas Intermediate (WTI) crude oil, declined by 0.6 per cent during the December quarter relative to a 7.8 per cent increase in the preceding quarter. The WTI crude oil price fell slightly to an average US$28.15 per barrel in the December quarter, from US$28.33 per barrel in the September quarter (see **Figure 3.5**). The overall movement masked intra-quarter volatility in oil prices as the market responded to changing prospects of a US attack on Iraq as well as the political instability in Venezuela. The monthly averages for October, November and December were US$28.85 per barrel, US$26.28 per barrel and US$29.44 per barrel, respectively.

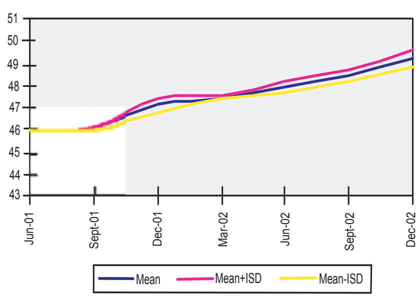
Figure 3.5
Average WTI Crude price (US$) per barrel



Other Factors

On the basis of the lagged effects from the exchange rate movements, much of the depreciation in the last month of the review quarter should be felt in the March quarter. During the quarter, electricity rates were affected by the 2.0 per cent depreciation in the exchange rate between August and November. The movements in oil prices led to lower billed fuel rates at the JPSCo., which provided some countervailing impetus. The net effect, however, was an increase in the cost of electricity over the period. Telephone rates were adjusted in November consequent on continued efforts of Cable & Wireless to rebalance revenues in the face of falling international call rates. As a consequence of the above, the Housing & Other Housing Expenses sub-index increased 0.7 per cent and contributed 2.1 per cent to overall inflation.

Figure 3.6
Exchange Rate Movements



Summary

Inflation during the quarter was reflected in the higher cost of basic commodities. This significant impetus resulted from excessive rainfall locally and droughts in some of the major producing areas of the world. An unusually high core inflation rate for the review quarter, helped push headline inflation outside the target forecast of approximately 1.8 per cent (±0.3 per cent). This reflected the monetary challenges encountered by the authorities prior to and early within the quarter. Following increases in October and November, however, tightened monetary policy resulted in a slower rate of core inflation for December. Consequently, core inflation for the fiscal year to December 2002 coincided with that of the corresponding period in 2001.

While the growth prospects for the March 2003 quarter are encouraging, recent developments, both local and international, have the potential to stultify the process over the medium term. In the context of an unfavourable external environment, it is important that the internal imbalances reflected in the widening of fiscal and current account deficit be urgently addressed by appropriate policy. The inflation forecast of 0.8 ± 0.3 per cent for the March quarter is conditional on the stabilization of these factors. The main challenge to monetary policy over the March quarter will be to restore stability in the foreign exchange market. However, given the confluence of recent events, including the negative outlook on Jamaica's sovereign debt by Standard & Poor's (S&P), monetary policy will not be sufficient to arrest the problem. In this context, it is imperative that fiscal policy be supportive in containing aggregate demand.

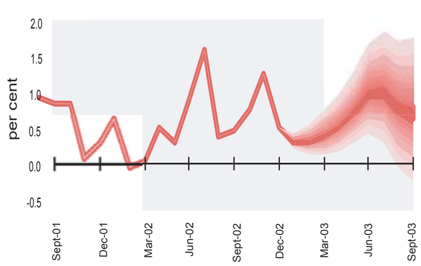
Table 4.1

Jamaica's Economic Performance Targets

	Projections for Mar' 03 quarter	Targets for FY 02/03
Inflation	0.8 ± 0.3 %	6 - 7%
Base Money Growth	-7.7%	8 - 10%
NIR End Period (US$m)	1 600.0	1 600.0
GDP (12-mth change)	+ve	2 - 4%

The tightening of monetary policy in the December quarter should result in the containment of core inflation in the March quarter to 0.8 per cent. This is consistent with the decline observed in December 2002. However, domestic prices will be influenced by the exchange rate adjustment that occurred in December, as well as and other exogenous factors. Headline inflation is projected to be in the range of 0.5 to 1.1 per cent in the March quarter relative to 2.5 per cent in the December quarter and 0.6 per cent in the March 2002 quarter. Consequently, the inflation rate for fiscal year 2002/03 is forecasted to be in the range of 7.0 to 8.0 per cent relative to the 7.6 per cent for the previous fiscal year.

Figure 4.1
Inflation Forecast



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

Given the significant import content of the CPI basket, the 3.3 per cent depreciation in the value of the currency in the December 2002 quarter will have a lagged effect on measured inflation in the March quarter. Additionally, the heightened concern about a war in the Middle East and the possible disruption to the supply of oil could result in further increases in the prices of petroleum products. In a context where Jamaica's energy sector is dependent on oil, considerable price impulses would result. Another factor which will influence the inflation process is the continued increase in world commodity prices. Commodities such as corn, fertilizers and soyabean, are base products for some of the heavily weighted items in the consumer basket.

Given the above factors, increases in domestic fuel prices, utility rates, transportation cost and some basic food items will be the main sources of inflation. These increases will be reflected primarily in the *Housing & Other Housing Expenses, Fuels & Other Household Supplies* and *Transportation* sub-categories.

Other likely contributory factors are motor vehicle and health insurance premiums, which are usually increased at the beginning of the year. It is also anticipated that revenue measures implemented in the December 2002 quarter may have an indirect effect on transportation costs.

Important countervailing price movements should emanate from the anticipated increase in the supply of domestic food crops. The moderation in prices should assist in countering the expected increase in other basic food items in the heavily weighted Food & Drink sub-category.

Most of the impulses in the quarter will therefore emanate from external factors. The tightened monetary policy should moderate demand influences in the short-term in a context where the recovery in output observed since the September quarter is expected to continue into the March quarter.

Economic activity in the March quarter is expected to improve relative to the weak performance in the March 2002 quarter. Growth is anticipated in both the goods and services sectors, in particular, agriculture, mining, construction, basic and miscellaneous services.

The agriculture sector is expected to recover given the favourable weather conditions and positive trends in agricultural supplies following on the effect of flooding in both the June and September quarters. An expected improvement in the pace of recovery in the world economy in 2003 should lead to a corresponding increase in demand for export agriculture commodities such as coffee. Growth in the mining sector should be realised given the planned increase in the local production of alumina. This should coincide with an increased demand on the world market and an improvement in price.

The upward trend in the basic services sector observed over the last quarters should be maintained in the March quarter. Continued growth should be fueled in part by the competitive nature of the communications subsector, which requires the industry to be constantly upgrading and expanding. The increasingly positive outlook in the travel sector also bodes well for the transportation subsector. This prospect, however, could be threatened by an outbreak of war.

Growth is expected in the miscellaneous services sector in the March 2003 quarter. This expectation is based on the recent trends in the performance of its largest component, the tourism sub-sector. The optimism about the sector is also against the background of the negative performance of the corresponding period of 2002 when the events of 11 September 2001 resulted in significant reduction to the output of the sector. Visitor arrivals in the March 2003 quarter are projected to increase by more than 10 per cent. This is in contrast to the depressed conditions in the March 2002 quarter when arrivals fell by 13 per cent. This projection could improve if weather conditions in North America worsens.

An expected improvement in the pace of recovery in the world economy 2003 should lead to a corresponding increase in demand for export commodities such as coffee and alumina. Forecasts of the price of these commodities have indicated an increase relative to the December quarter. Based on recent trends, increasing external demand is also expected in the March quarter for travel services.

Monetary Policy

The consolidation of the recovery process and the extension of growth into the medium-term will depend on confidence in the maintenance of a low inflation environment. This is necessary to facilitate the resumption of the downward trend in interest rates. Price stability is also an important factor in containing wage demands in line with productivity. Against this background, monetary policy will have to maintain its present posture of closely managing Jamaica dollar liquidity and maintaining order in the foreign exchange market.

In this vein, the Central Bank introduced a special deposit requirement of 5.0 per cent of prescribed liabilities of commercial banks and institutions licensed under the Financial Institution Act. This action implemented in early January immediately lowered liquidity levels in the banking system and temporarily restored order to the foreign exchange market.

The prospects for a removal of the special deposit requirement will depend on sustained stability in the financial markets and increased foreign exchange flows. However, sustained stabilization will require more fundamental adjustment in the macroeconomic policy mix. In particular, there is the clear imperative to correct the fiscal deficit. The degree of public sector dissaving, in addition to contributing to the widening external current account deficit, has mitigated against a sustained reduction in interest rates.

Summary

A widely publicized slippage in fiscal targets towards the end of the December quarter precipitated some uncertainty in the domestic financial markets. The Bank of Jamaica's response was a tightening of liquidity conditions in January through the use of a temporary deposit instrument. This measure has triggered an increase in money market interest rates which could persist for as long as the measure remains in place. Despite this, real sector performance in the March quarter is expected to be favourable as the economy should perform far better than the corresponding quarter of the previous year.

A major concern is the possible effect that a war involving the United States and Iraq could have on world trade, prices and output. Outside of this threat, the prospects are good for improved growth in the world economy, particularly among Jamaica's main trading partners. Continued growth and stability in the domestic economy during 2003 will depend heavily on the correction to the recent slippage in fiscal targets to which the markets reacted. The Bank fully expects that such adjustments would forge a clearer path for the progressive relaxation of monetary policy during this year.

A. Fiscal Developments: October - December 2002

Provisional data suggest that Central Government recorded a fiscal deficit of $11 715.9 million (2.9 per cent of GDP) relative to a targeted deficit of $3 800.0 million (0.9 per cent of GDP) for the quarter under the IMF Staff Monitored Programme (SMP). The deviation in fiscal performance relative to target during the review quarter was attributable to higher than programmed expenditure as well as a shortfall in revenue flows. Consequently, the current deficit of 2.5 per cent of GDP was significantly above the anticipated 0.3 per cent for the quarter, while the primary surplus of 1.3 per cent of GDP was below the targeted 2.9 per cent. Notably, interest payments were 4.2 per cent of GDP compared to the targeted 3.8 per cent for the review quarter.

Total revenue flows were 9.8 per cent above that of the corresponding period in fiscal year 2001/02 but 7.3 per cent below the SMP target for the quarter. Non-tax revenues accounted for 45.3 per cent of the deviation from target while tax revenues accounted for 38.4 per cent. The lower than targeted non-tax inflows was due to delays in the sale of a third cellular licence while the shortfall in tax revenues was largely due to lower than expected flows from tax on interest and travel. Receipts from tax on interest were partly explained by higher than expected refunds as well as a delay in the implementation of legislative measures aimed at broadening the tax base and improving compliance.

Total expenditure during the review quarter was $39 485.3 million, which was 15.4 per cent above that of the corresponding period in fiscal year 2001/02 and 16.9 per cent above programme. The deviation in expenditure was reflected in recurrent expenditure, which was $6 784.5 million above programme and was only partially offset by a $1 078.7 million savings in capital expenditure. All items of recurrent expenditure exceeded the SMP target for the quarter with wages & salaries and domestic interest payments accounting for 42.7 per cent and 26.3 per cent of the deviation, respectively. Wages and salaries were higher than targeted primarily due to increased allocation for retroactive salary payments. The deviation in domestic interest payments was largely influenced by higher than programmed borrowing in the domestic market coupled with higher interest rates since September.

The deficit for the first three quarters of the fiscal year is estimated at $32 524.1 million or 8.3 per cent of GDP. This was significantly above the deficit of $19 200.0 million or 4.7 per cent of GDP as anticipated in the SMP. Concurrently, the current deficit was 6.8 per cent of GDP relative to the targeted 3.0 per cent and the primary surplus was 3.4 per cent of GDP compared to the target of 6.8 per cent.

Revenue flows during the nine-month period fell below the SMP target by 8.1 per cent due to a shortfall in flows from tax and non-tax sources. Notably, revenue flows exceeded that of the similar 2001/02 period by 7.2 per cent due to the strong performance of tax receipts. Tax revenues surpassed the level attained in the similar 2001/02 period by 13.8 per cent. Other revenue flows were lower than that of the April - December 2001 period.

Higher than targeted expenditure on recurrent items offset reductions in capital expenditure during April - December 2002, resulting in overall expenditures exceeding target by 7.0 per cent. The higher than programmed deficit was financed mainly from domestic credit during the year to date.

Against this background, supplementary estimates presented to Parliament in December provided for a net increase of $13 428.6 million in expenditure. Parliament ratified a $15 390.8 million increase in recurrent expenditure and a reduction of $1 962.2 million in capital expenditure. New tax measures which accompanied the revised budget are expected to raise an additional $205.0 million which would facilitate the attainment of a deficit of approximately 9.0 per cent of GDP for the full fiscal year. The current deficit for 2002/03 is now projected at 7.8 per cent of GDP while the primary surplus is expected to be 6.1 per cent of GDP.

Fiscal Performance
Comparitive Analysis
J$ Million

	2001/02 Q3	Provisional 2002/03 Q3	Change	Provisional 2002/03 Q3	SMP Q3	Change	Provisional 2002/03 Q3	SMP Q1 - Q3	Change
Revenue and Grants	**25 284.60**	**27 769.40**	**2 484.80**	**27 769.40**	**29 967.10**	**-2 197.70**	**79 074.73**	**86 075.90**	**-7 001.17**
Tax Revenue	21 156.10	25 767.80	4 611.70	25 767.80	26 612.54	-844.74	73 780.85	77 791.84	-4 011.00
Capital Revenue	969.20	136.10	-833.10	136.10	386.61	-250.51	391.94	895.51	-503.57
Other (incl. Non-tax)	3 159.30	1 865.50	-1 293.80	1 865.50	2 967.95	-1 102.45	4 901.95	7 388.55	-2 486.60
Expenditure	**34 223.80**	**39 485.30**	**5 261.50**	**39 485.30**	**33 767.10**	**5 718.20**	**112 598.86**	**105 275.94**	**7 322.92**
Recurrent Expenditure*	31 713.10	37 764.90	6 051.80	37 764.90	30 980.40	6 784.50	106 430.42	97 230.50	9 199.92
Capital Expenditure	2 258.50	1 455.80	-802.70	1 455.80	2 534.50	-1 078.70	5 465.54	7 375.54	-1 910.00
IMF #1 Account	252.20	264.60	12.40	264.60	252.20	12.40	702.90	669.90	33.00
Unallocated	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Overall Balance	**-8 939.20**	**-11 715.90**	**-2 776.70**	**-11 715.90**	**-3 800.00**	**-7 915.90**	**-33 524.13**	**-19 200.04**	**-14 324.09**
Memo									
Current Balance	**-7 397.70**	**-10 131.60**	**-2 733.90**	**-10 131.60**	**-1 399.91**	**-8 731.69**	**-27 747.63**	**-12 050.11**	**-15 697.52**
Primary Balance	**6 760.00**	**5 456.60**	**-1 303.40**	**5 456.60**	**11 665.00**	**-6 208.40**	**13 927.60**	**27 439.16**	**-13 511.56**

Performance Indicators
(percentages of GDP)

	BR	CB	PB	IP	FSR
Q3 - 2002/03	2.89	-2.50	1.34	4.23	-1.42
Q3 - 2002/03 SMP	0.94	-0.34	2.87	3.81	-1.13
Q1 - Q3 2002/03	8.26	-6.84	3.43	11.69	-1.42
Q1 - Q3 2002/03 SMP	4.73	-2.97	6.76	11.49	-1.22

Key
BR = Borrowing Requirement
CB = Current Balance = Current Revenue - Current Expenditure as a per cent of GDP
PB = Primary Balance = Total Revenues - Total Expenditures less Interest Payments (IP) as a per cent of GDP
IP = Interest Payments as a per cent 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 & Planning

B. Monetary Policy Developments

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

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

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

25/06/01	Interest rates on the 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 14.75 per cent, 14.55 per cent, 14.45 per cent, 14.35 per cent and 14.25 per cent respectively.
29/06/01	The Bank of Jamaica introduced Certificates of Deposits to the range of instruments used in open market operations. All the terms and conditions applicable to Reverse Repurchase transactions apply to Certificates of Deposits, with the exception that the latter are covered by the central bank's assets as against Government securities. Central Bank deposits which are maintained in statement form (i.e. no physical certificate is issued) will continue to be used for placements of seven (7) days or less.
01/09/01	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from twenty nine per cent (29%) to twenty eight per cent (28%).
	Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from eleven per cent (11%) to ten per cent (10%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty eight per cent (5% and 28%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and ten per cent (1% and 10%) in respect of local and foreign currency deposits.
30/10/01	Interest rates on the 365-day, 270-day, 180-day, 90-day and 60-day instruments were increased to 19.90 per cent, 19.45 per cent, 15.50 per cent, and 15.00 per cent, 14.75 per cent and 14.55 per cent, respectively.
28/12/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day and 60-day instruments were reduced to 18.90 per cent, 18.40 per cent, 15.00 per cent, and 14.55 per cent, 14.45 per cent and 14.35 per cent, respectively.
09/01/02	Interest rates on the 365-day and 270-day instruments were reduced to 17.90 per cent and 17.00 per cent, respectively.

06/02/02	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.70 per cent, 15.90 per cent, 14.70 per cent, 14.30 per cent, 14.20 per cent, 14.10 per cent and 14.00 per cent, respectively.
14/02/02	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.80 per cent, 15.00 per cent, 14.40 per cent, 14.05 per cent, 13.95 per cent, 13.85 per cent and 13.95 per cent, respectively.
01/03/02	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from twenty eight per cent (28%) to twenty seven per cent (27%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from ten per cent (10%) to nine per cent (9%).
11/03/02	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced from 13.75 per cent, 13.85 per cent, 13.95 per cent, 14.05 per cent, 14.40 per cent, 15.00 per cent and 15.80 per cent to 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent, respectively.
11/07/02	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day, and 365-day open market instruments were reduced from 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent to 12.95 per cent, 13.05 per cent, 13.15 per cent, 13.25 per cent, 13.45 per cent, 14.00 per cent, and 14.90 per cent, respectively.
07/08/02	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced from 14.00 per cent to 13.85 per cent and from 14.90 per cent to 14.50 per cent, respectively.
01/08/02	Liquid Assets ratio of commercial banks, FIA institutions and of building societies, in respect of local and foreign currency liabilities, were reduced from twenty seven per cent (27%) to twenty three per cent (23%).

09/09/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 13.15 per cent to 17.25 per cent and from 13.25 per cent to 17.05 per cent, respectively.
09/10/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 17.25 per cent to 19.25 per cent and from 17.05 per cent to 19.40 per cent, respectively.
28/10/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were reduced from 19.25 per cent to 18.25 per cent and from 19.40 per cent to 18.40 per cent, respectively.
01/11/02	The interest rate chargeable in respect of breaches by commercial banks, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was reduced from 69 per cent per annum to 45 per cent per annum.
	The interest rate chargeable in respect of breaches by building societies and institutions licensed under the Financial Institutions Act, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was adjusted from one-sixth of one per centum per day to 45 per cent per annum.

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	**1 468.5**	**7.6**	**3.3**
June	1 404.0	2.9	1.0
September	1 442.7	2.7	1.1
December	1 459.9	1.2	0.6
March	1 468.5	0.6	0.6
2002/2003			
June	1 492.8	1.7	0.9
September	1 528.0	2.4	0.8
December	1 566.1	2.5	1.2

2

Component Contribution to Inflation
All Jamaica
October - December 2002

Groups and Sub-groups	Weight in CPI	Inflation (%) Q3	Contribution (%) Q3
FOOD & DRINK	**0.5563**	**4.2**	**90.0**
- Meals Away from Home	0.0741	1.2	3.3
- Meat Poultry & Fish	0.1613	2.2	13.9
- Dairy Products Oils & Fats	0.0668	0.5	1.2
- Baked Products Cereals & Breakfast Drinks	0.0864	3.7	12.4
- Starchy Foods	0.0525	6.7	13.5
- Vegetables & Fruits	0.0650	17.5	43.8
- Other Food & Beverages	0.0502	0.9	1.8
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**0.5**	**1.5**
- Household Supplies	0.0482	0.6	1.1
- Fuels	0.0253	0.5	0.4
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**0.7**	**2.1**
- Rental	0.0209	1.1	0.9
- Other Housing Expenses	0.0577	0.5	1.2
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**1.8**	**1.7**
- Furniture	0.0068	4.5	1.2
- Furnishings	0.0215	0.7	0.6
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**0.9**	**2.4**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**0.9**	**1.6**
- Clothing Materials	0.0055	0.2	0.0
- Readymade Clothing & Accessories	0.0242	0.3	0.2
- Footwear	0.0159	1.9	1.2
- Making & Repairs	0.0051	0.8	0.2
TRANSPORTATION	**0.0644**	**-0.7**	**-1.8**
MISCELLANEOUS EXPENSES	**0.0785**	**0.8**	**2.5**
ALL GROUPS	**1.0000**	**2.5**	**100.0**

3

BANK OF JAMAICA OPERATING TARGETS FY 2001/2002 & FY 2002/2003

	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02
Net International Reserves (US$)	**1 536.7**	**1 840.7**	**1 941.7**	**1 782.3**	**1 687.3**	**1 597.0**
Net International Reserves ($J)	**70 688.2**	**87 435.2**	**93 200.2**	**86 973.8**	**82 339.3**	**81 557.8**
Assets	73 871.4	90 406.3	96 015.8	89 671.5	84 842.7	83 911.1
Liabilities	-3 183.2	-2 971.1	-2 815.6	-2 697.7	-2 503.4	-2 353.3
Net Domestic Assets	**-40 960.3**	**-53 125.4**	**-62 978.8**	**-56 789.6**	**-51 714.3**	**-45 799.9**
Net Claims on the Public Sector	35 328.3	33 964.1	36 942.5	42 779.3	47 135.8	50 873.5
Net Credit to Banks	-5 681.1	-6 154	-4 400.6	-4 910.0	-5 044.5	-5 200.4
Open Market Operations	-77 525.5	-85 628.3	-99 195.3	-97 006.3	-96 072.3	-89 981.3
Other	6 918.1	4 692.7	3 674.6	2 347.4	2 266.7	-1 491.7
Monetary Base	**29 772.5**	**34 309.8**	**30 221.4**	**30 184.2**	**30 625.0**	**35 757.9**
Currency Issue*	17 580.1	22 340.5	19 447.1	19 274.3	19 554.2	24 354.5
Cash Reserve	11 723.9	11 474.4	10 581.2	10 883.8	10 911.6	10 839.2
Current Account	468.5	494.9	193.1	26.1	159.2	564.2
% change Monetary Base (F-Y-T-D)	**-2.3**	**12.6**	**-0.8**	**-0.1**	**1.3**	**18.3**

** Excludes BOJ's teller cash*

4

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

	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	**31 686.8**	**37 311.4**	**92 865.8**	**122,905.4**	**109 123.2**	**139 162.8**
2000/2001						
June	32 017.2	37 737.7	95 966.4	125,498.3	113 634.3	143 166.2
September	30 527.0	35 897.9	96 419.1	128,067.1	115 248.5	146 896.6
December	33 831.3	38 111.4	100 746.3	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	35 690.9	41 620.6	105 818.0	141,583.6	127 000.0	162 765.5
December	38 964.5	45 310.1	109 419.3	146,061.6	131 161.0	167 803.4
March	37 083.8	43 946.8	107 834.2	147,683.6	130 622.7	170 285.0
2002/2003						
June	36 864.8	43 248.6	110 235.4	150,532.0	133 902.1	174 198.5
September	42 475.1	49 450.7	117 345.3	160,591.4	142 633.2	185 879.3
December *p*	44 689.1	51 480.8	119 324.7	165,020.1	145 205.0	190 900.5

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

5

COMPONENTS OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY 2000/01 - 2002/03 (Quarterly Flows - J$M)

	Jun-01	Sept-01	Dec-01	Mar-02	Jun-02 r	Sept-02 r	Dec-02 p
M2J	**1 329.4**	**3 815.2**	**3 601.3**	**-1 585.1**	**2 214.2**	**7 109.8**	**1 979.4**
Currency	115.6	171.3	2 598.7	-1 295.6	-29.6	104.4	2 842.0
Demand Deposits	52.0	2 568.2	674.9	-585.1	-189.6	5 305.9	-419.0
Savings Deposits	1 522.0	770.2	1 030.2	239.9	1 971.4	132.1	1 615.5
Time Deposits	-360.2	305.5	-702.5	55.7	461.9	1 567.3	-2 059.0
OTHER DEPOSITS	**987.2**	**82.6**	**555.7**	**1 046.8**	**1 065.2**	**1 621.4**	**592.4**
TOTAL(M3J)	**2 316.6**	**3 897.8**	**4 157.0**	**-538.3**	**3 279.4**	**8 731.1**	**2 571.8**

Sources of Change in Local Currency Money Supply

	Jun-01	Sept-01	Dec-01	Mar-02	Jun-02 r	Sept-02 r	Dec-02 p
N.I.R. of B.O.J.	**11 643.3**	**-130.1**	**14 441.9**	**4 794.1**	**-7 779.7**	**-4 634.5**	**-4 406.7**
M & LTFL of B.O.J.	**7.8**	**15.2**	**7.6**	**14.0**	**7.9**	**15.5**	**8.6**
Banking System Credit	**5 552.5**	**7 289.9**	**9 445.6**	**235.3**	**7 924.3**	**11 598.8**	**3 336.9**
Public Sector	5 199.9	6 444.6	8 628.0	307.8	6 736.9	10 208.5	1 962.5
Private Sector	352.6	845.3	817.6	-72.5	1 187.4	1 390.3	1 374.4
Open Market Operations	**-12 723.1**	**-3 361.0**	**-8 102.8**	**-13 566.9**	**2 188.9**	**933.9**	**6 091.1**
Other	**-2 163.9**	**83.8**	**-11 635.3**	**7 985.2**	**938.0**	**817.4**	**-2 458.1**
TOTAL	**2 316.6**	**3 897.8**	**4 157.0**	**-538.3**	**3 279.4**	**8 731.1**	**2 571.8**
Memo:							
Foreign Currency Deposits	583.3	2 061.0	880.9	3 020.0	666.2	2 949.7	2 449.3
Foreign Currency Loans	-207.7	1 986.6	2 294.1	-197.0	2 639.9	2 143.9	1 394.0

p - preliminary
r - revised

6A

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

	Fixed Deposit* 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
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	10.13	19.46
March	7.75 - 15.00	7.75 - 15.00	9.36	26.29	9.86	19.60
2002/2003						
June	7.75 - 13.25	7.75 - 13.25	9.00	25.92	9.28	18.15
September	7.75 - 13.25	7.75 - 13.25	8.86	26.25	8.98	18.08
December	7.75 - 13.25	7.75 - 13.25	8.96	25.04	8.92	18.26

** - relate to deposits of $100 000 and over*

6B

GOJ TREASURY BILL YIELDS
(End-of-Period)

	3-month	6-month	9-month	12-month	BOJ 30-day Open Market Rate
1998/1999				**21.67**	**20.75**
1999/2000	**17.82**	**17.96**	**18.30**	**18.37**	**17.30**
June	20.24	20.16	20.45	20.05	18.85
September	18.63	19.21		20.20	18.35
December	19.92	22.03	21.43	22.00	18.35
March	17.82	17.96	18.30	18.37	17.30
2000/2001					
June	17.68	17.47	17.88	18.10	17.00
September	16.62	17.13	16.91	16.94	16.45
December		20.16	19.67	20.98	16.45
March		16.88		17.86	15.50
2001/2002					
June		16.20			14.25
September		15.10	15.50		14.25
December		17.03			14.25
March		14.30		14.96	13.25
2002/2003					
June		13.81		14.77	13.25
September		16.69	16.98		12.95
December		17.01			12.95

7A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
October - December 2002

Maturity Date	Stock Name	Amount J$M	Applicable Interest Rate b/	Features
23 Oct. 2002	GOJ INV DEB. 2004 Series 'Q'	6 057.28	16.25	Interest Rate fixed at 16.25%
17 Nov. 2002	VR LRS 2002A	711.03	18.45	
25 Nov. 2002	FR LRS 2002AA	357.30	19.50	Interest Rate fixed at 19.50%
25 Nov. 2002	FR LRS 2002AA	42.69	19.50	Interest Rate fixed at 19.50%
13 Dec. 2002	FRUS$ IND. BD. 2002	1 730.14	11.25	Interest Rate fixed at 11.25%
13 Dec. 2002	VR LRS 2002Y	800.00	18.28	
13 Dec. 2002	FR LRS 2002AB	550.00	19.50	Interest Rate fixed at 19.50%
30 Dec. 2002	VR LRS 99/2008 (k-v)	2.4	15.81	

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 Issues
October - December 2002

Issue Date	Stock Name	Features	Amount Raised J$M
22 Oct. 2002	INV. DEB. 19.75% 2004 (SeriesX)	Instrument having taxable fixed rate of 19.75%	10 931.81
15 Nov. 2002	FR LRS 2007AG FR LRS 2012 AB	Auctioned instrument having taxable fixed rate of 14.000%, A/Y 17.14%; Auctioned instrument having taxable fixed rate of 14.375%, A/Y 16.92 %	800.00
29 Nov. 2002	FR LRS 2005AL FR LRS 2017AH FR LRS 2012AC	Auctioned instrument having taxable fixed rate of 13.875%, A/Y 16.74; Auctioned instrument having taxable fixed rate of 14.00%, A/Y 16.69; Auctioned instrument having taxable fixed rate of 14.375%, A/Y 16.53	1 200.00

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

8

EXTERNAL TRADE - GOODS IMPORTS (f.o.b) (Flows - US$M)

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
1998/1999	**82.7**	**587.9**	**98.3**	**33.1**				
1999/2000	**49.1**	**664.6**	**103.5**	**26.6**	**57.8**	**371.7**	**321.7**	**1 552.3**
June	20.3	145.5	54.6	7.6	**68.9**	**346.9**	**290.9**	**1 550.5**
September	7.6	166.0	5.5	7.5	15.2	88.9	71.3	403.4
December	8.1	182.0	0.0	6.3	19.8	92.4	80.5	379.3
March	13.1	171.1	43.4	5.2	16.6	84.9	71.6	369.5
					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	57.8	359.3
2001/2002 ^{r}								
June	23.5	182.0	34.9	5.0	18.9	66.0	69.2	399.5
September	25.5	174.3	6.1	4.0	18.5	73.5	72.1	374.0
December	20.7	122.4	0.0	4.4	15.7	93.4	63.9	320.5
March	27.7	150.8	18.3	4.5	18.9	58.1	59.0	337.3
2002/2003								
June	22.8	136.2	30.6	4.5	20.9	51.3	56.8	323.1

r - revised

9

EXTERNAL TRADE - GOODS EXPORTS (c.i.f) (Flows - US$M)

	Consumer Goods	Raw Materials	Capital Goods	Other	Total Imports
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^{r}	241.0	444.1	127.7	61.3	874.1
September	238.4	431.1	156.6	47.5	873.6
December	279.9	475.2	133.9	35.4	924.4
March	240.9	405.9	147.1	25.6	819.5
2000/2001					
June	265.4	409.8	176.2	42.7	894.1

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BALANCE OF PAYMENTS SUMMARY (Flows - US$M)

	Sept-00	Dec-00	Mar-01	Jun-01[r]	Sept-01[r]	Dec-01[r]	Mar-02[r]	Jun-02[p]
1. Current Account	**-90.0**	**-114.8**	**-156.1**	**-140.4**	**-179.5**	**-288.6**	**-143.9**	**-247.8**
A. Goods Balance	**-350.5**	**-371.9**	**-417.6**	**-354.5**	**-375.7**	**-469.8**	**-368.7**	**-443.9**
Exports (f.o.b.)	365.1	386.1	359.3	399.5	374.0	320.5	337.3	323.1
Imports (f.o.b.)	715.6	758.0	776.9	754.0	749.7	790.3	706.0	767.0
B. Services Balance	**152.5**	**122.0**	**185.4**	**114.0**	**82.7**	**31.4**	**114.1**	**61.0**
Transportation	-63.7	-69.4	-53.4	-58.7	-67.5	-78.7	-55.6	-68.9
Travel	293.7	264.4	305.5	270.3	239.9	197.4	266.9	212.6
Other Services	-77.5	-73.0	-66.7	-97.6	-89.7	-87.3	-97.2	-82.7
Goods & Services Balance	**-198.0**	**-249.9**	**-232.2**	**-240.5**	**-293.0**	**-438.4**	**-254.6**	**-382.9**
C. Income	**-63.2**	**-84.9**	**-139.1**	**-107.4**	**-102.6**	**-101.3**	**-121.5**	**-113.1**
Compensation of Employees	23.7	33.1	5.1	10.5	27.2	32.7	2.6	13.4
Investment Income	-86.9	-118.0	-144.2	-117.9	-129.8	-134.0	-124.1	-126.5
D. Current Transfers	**171.2**	**220.0**	**215.2**	**207.5**	**216.1**	**251.1**	**232.2**	**248.2**
General Government	10. 8	34.7	21.6	20.2	10.8	37.8	10.7	10.3
Other Sectors	160.4	185.3	193.6	187.3	205.3	213.3	221.5	237.9
2. Capital & Financial Account	**90.0**	**114.8**	**156.1**	**140.4**	**179.5**	**288.6**	**143.9**	**247.8**
A. Capital Account	**-1.6**	**0.3**	**-2.7**	**-7.0**	**-5.9**	**-4.3**	**-7.0**	**-6.2**
Capital Transfers	-1.6	0.3	-2.7	-7.0	-5.9	-4.3	-7.0	-6.2
General Government	2.1	3.0	1.8	0.2	0.1	1.4	0.1	0.1
Other Sectors	-3.7	-2.7	-4.5	-7.2	-6.0	-5.7	-7.1	-6.3
B. Financial Account	**91.6**	**114.5**	**158.8**	**147.4**	**185.4**	**292.9**	**150.9**	**254.0**
Direct Investment	112.0	105.2	221.2	110.1	77.1	121.7	134.0	73.2
Other Official Investment	178.7	101.0	115.0	333.0	-63.3	268.7	52.1	21.0
Other Private Investment (including net errors & omissions)	-20.1	-57.7	139.4	-41.5	167.8	206.6	65.7	0.4
Reserves	-179.0	-34.0	-316.8	-254.2	3.8	-304.1	-100.9	159.4

r - revised
p - provisional

11

PRIVATE SECTOR QUARTERLY REMITTANCE FLOWS (US$M)

	Commercial Banks	Remittance Companies	Post Offices	Building Societies	Other	Total
2000/2001	**180.9**	**479.0**	**1.2**	**156.8**	**25.7**	**843.6**
June	40.3	109.5	0.3	37.0	6.0	193.1
September	28.6	120.8	0.3	36.9	6.3	192.9
December	50.6	125.4	0.3	39.3	6.5	222.1
March	61.4	123.3	0.3	43.6	6.9	235.5
2001/2002	**170.2**	**595.3**	**1.2**	**202.4**	**27.3**	**996.4**
June	43.1	136.2	0.3	43.5	6.9	230.0
September	46.9	143.0	0.3	50.4	6.9	247.5
December	25.6	163.7	0.3	58.0	6.9	254.5
March	54.6	152.4	0.3	50.5	6.6	264.4
2002/2003						
June	73.4	157.2	0.3	58.8	6.6	296.3
September	81.6	150.3	0.3	65.6	6.6	304.4
December*	91.7	98.7	0.2	42.1	4.4	237.1

* *October & November data only*

12

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

	Gross Foreign Assets	Gross Foreign Liabilities	International Reserves (Net)	Weeks of Imports	
				Goods	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
March	2 000.3	58.7	1 941.6	34.9	23.6
2002/2003					
June	1 837.5	55.2	1 782.3	31.2	20.6
September	1 738.6	51.3	1 687.3	29.5	19.5
December	1 643.1	46.1	1 597.0	27.9	18.4

13

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
March	47.61	29.88	67.14
2002/2003			
June	48.51	31.95	72.98
September	49.27	31.11	76.60
December	50.97	32.09	80.97

14

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

End Period	Local Registered Stocks	Treasury Bills	Bonds	BOJ Open Market Operations Securities
1998/1999	**105 121.4**	**10 450.0**	**17,873.4**	**38 073.8**
1999/2000				
June	112 513.0	10 200.0	25 603.0	38 469.9
September	116 959.5	9 900.0	31 266.7	36 703.9
December	130 939.9	10 650.0	32 165.4	29 286.9
March	126 022.9	9 550.0	36 510.4	39 490.9
2000/2001				
June	131 477.8	9 750.0	37 268.0	45 066.2
September	132 589.8	9 850.0	38 789.9	51 885.6
December	134 896.5	7 600.0	41 920.6	51 800.9
March	159 734.8	6 950.0	45 107.7	61 441.4
2001/2002				
June	226 655.6	6 900.0	48 981.5	74 164.5
September	230 172.6	5 450.0	53 437.6	77 525.5
December	217 361.8	3 900.0	71 004.0	85 628.3
March	212 110.0	4 250.0	79 151.0	99 195.3
2002/2003				
June	219 738.5	4 350.0	80 516.1	97 006.3
September	232 873.9	4 350.0	88 274.7	96 072.3
December	n.a.	4 150.0	n.a.	89 981.3

15

STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	Volume Traded (M)	Value of Stocks Traded (J$M)
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
March	37 446.0	417.7	1 419.5
2002/2003			
June	38 606.7	404.9	1 935.9
September	39 219.6	401.1	2 332.1
December	45 396.2	380.9	1 949.4

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

16

PRODUCTION OF SELECTED COMMODITIES
(flows - 000' tonnes)

	Bauxite	Alumina	Sugar	Bananas*
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	933.1	914.7	102.1	11.3
2001/2002	**3 808.4**	**3 493.7**	**184.8**	**42.3**
June	888.5	943.4	91.5	11.0
September	997.2	946.3	7.3	9.9
December	816.1	738.0	4.2	10.8
March	1 106.6	866.0	81.8	10.6
2002/2003				
June	888.1	887.3	76.8	10.3
September	961.2	932.0	11.8	9.7
December	1 110.8	945.2	4.7	9.3

* *Exports*

D. BANK OF JAMAICA BALANCE SHEET

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

	Mar-01	Jun-01	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02
Assets	**136 282.7**	**148 059.3**	**148 672.9**	**165 421.1**	**173 579.0**	**166 610.3**	**152 220.5**	**151 282.4**
Foreign	62 139.6	73 743.7	73 650.3	89 754.1	95 228.9	88 833.0	85 369.6	83 071.5
Current Account & Foreign Currency Balances	18 223.4	3 738.0	3 618.0	13 926.8	7 769.8	5 025.5	5 048.1	6 880.4
Time Deposits & Securities	42 150.5	68 290.4	68 283.1	73 899.6	85 539.9	81 873.3	78 281.9	74 108.9
Holdings of Special Drawing Rights	103.7	15.6	20.4	68.9	42.0	18.4	63.8	39.9
Other	1 662.0	1 699.7	1 728.8	1 858.8	1 877.2	1 915.8	1 975.8	2 042.3
Local	74 143.1	74 315.6	75 022.6	75 667.0	78 350.1	77 777.3	66 850.9	68 210.9
Public Sector Securities	56 896.9	56 462.8	56 103.7	56 000.2	56 109.5	52 802.2	56 752.1	57 237.4
Other Assets	17 246.2	17 852.8	18 918.9	19 666.8	22 240.6	24 975.1	10 098.8	10 973.5
Liabilities	**136 282.7**	**148 059.3**	**148 672.9**	**165 421.1**	**173 579.0**	**166 610.3**	**152 220.5**	151 282.4
Foreign	607.0	582.8	545.9	450.4	411.5	442.6	405.8	434.6
Local	128 876.1	138 794.3	148 127.0	164 970.7	173 167.5	166 167.8	151 814.7	150 847.8
Currency in Circulation	17 685.1	17 565.7	17 607.3	22 378.7	19 481.9	19 318.5	19 587.3	24 387.3
Deposits	111 191.0	121 228.6	120 498.5	134 014.7	145 003.5	137 793.2	121 123.3	118 055.4
Bankers	20 375.1	19 922.3	18 911.8	19 232.8	16 225.9	16 925.7	17 264.9	17 729.8
Government	12 644.7	4 053.7	4 370.6	5 529.4	7 591.3	6 933.6	3 916.6	4 484.3
Open Market Operations	61 441.4	74 164.5	77 525.5	85 628.3	99 195.3	97 006.3	96 072.3	89 981.3
Other	16 729.8	23 088.1	19 690.6	23 624.2	21 991.0	16 927.6	3 869.5	5 860.0
Allocation of Special Drawing Rights	2 246.0	2 347.0	2 347.0	2 347.0	2 347.0	2 462.0	2 462.0	2 462.0
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Other Reserves	873.5	939.6	939.5	939.6	1 174.8	1 195.8	1 195.8	1 944.2
Other Liabilities	3 656.1	5 371.6	6 710.7	5 266.7	5 136.3	5 374.2	7 422.3	3 974.9

E. COMMERCIAL BANKS' BALANCE SHEET

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

	Mar-01	Jun-01	Sept-01	Dec-01	Mar-02	Jun-02[r]	Sept-02[p]	Dec-02
Assets	**224 936.4**	**220 655.6**	**242 006.2**	**239 087.8**	**252 908.2**	**251 817.0**	**259 119.7**	**262 498.7**
Cash	1 800.5	1 547.9	1 434.1	3 595.7	1 997.9	1 854.6	2 030.1	3 988.3
Balances with BOJ	27 992.5	28 745.0	32 234.1	36 782.2	44 646.1	43 993.1	41 726.7	40 111.1
Foreign Assets	31 217.1	30 737.8	38 233.5	40 495.4	44 923.5	44 285.3	46 076.8	47 501.2
Loans & Advances	41 378.8	41 883.2	42 981.6	49 035.1	51 354.7	58 100.8	67 046.0	73 943.3
Private Sector	33 321.9	33 131.4	35 829.3	38 746.9	37 932.9	42 306.9	46 261.6	50 887.9
Public Sector	8 056.9	8 751.8	7 152.3	10 288.2	13 421.8	15 793.9	20 784.4	23 055.4
Public Sector Securities	87 888.6	87 181.4	89 564.7	79 603.7	76 010.5	74 677.2	72 564.8	68 829.3
Cheques in the Process of Collection	4 912.4	3 211.8	5 515.4	2 917.6	6 175.9	4 487.6	3 959.6	3 794.0
Other Assets	29 746.5	27 348.5	32 042.8	26 658.1	27 799.6	24 418.4	25 715.7	24 331.5
Liabilities	**224 936.4**	**220 655.6**	**242 006.2**	**239 087.8**	**252 908.2**	**251 817.0**	**259 119.7**	**262 498.7**
Deposits	154 942.9	150 950.1	163 056.9	158 918.1	165 541.3	169 908.3	177 801.9	178 979.5
Foreign Liabilities	7 777.4	6 004.5	13 857.9	13 265.5	14 863.8	14 758.0	13 214.9	12 691.1
Discounts & Advances from BOJ	69.0	82.6	24.3	83.0	43.9	60.2	61.2	134.9
Loans/Advances from Other Institutions	8 847.7	8 830.5	9 017.1	9 177.7	9 017.9	6 377.4	6 729.3	7 309.4
Cheques in the Process of Payment	2 649.6	2 509.7	2 114.2	2 026.9	3 324.6	2 369.6	2 613.8	2 565.0
Other Liabilities	50 649.8	52 278.2	53 935.8	55 616.6	60 116.7	58 343.5	58 698.6	60 818.8

p - preliminary
r - revised

F. INTERNATIONAL INDICATORS

1

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

	1 Month	3 Months	6 Months	12 Months
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
March	1.8788	2.0300	2.3300	3.0025
2002/2003				
June	1.8387	1.8600	1.9562	2.2862
September	1.8113	1.7900	1.7100	1.7250
December	1.3820	1.3830	1.3830	1.4470

2

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

	1 Month	3 Months	6 Months	12 Months
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		5 1/8 - 5 1/4	5 1/4 - 5 3/8	5 1/2 - 5 5/8
June	5- 51/8	4 13/32 - 4 7/32	4 3/8 - 4 1/2	4 13/32 - 4 7/32
September	4 9/16 - 4 11/16	4 - 4 1/8	4 1/32 - 4 5/32	4 3/8 - 4 17/32
December	4 1/32 - 4 5/32	3 29/32 - 4 1/32	4 5/16- 4 7/16	4 23/32 - 4 7/32
March	3 29/32 - 4 1/32			
2002/2003				
June	4 - 3 29/32	4 1/8 - 4 1/32	4 9/32 - 4 3/16	4 21/32 - 4 9/16
September	3 15/16 - 3 27/32	3 29/32 - 3 3/16	3 7/8 - 3 25/32	3 7/8 - 3 25/32
December	4 1/16 - 3 15/16	4 1/32 - 3 29/32	4 - 3 7/8	4 - 3 7/8

3

PRIME LENDING RATES
(End-of-Period)

	EURO-ZONE	UNITED STATES			UK
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Prime Rate
1999/2000	**3.50**	**6.31**	**5.50**	**9.00**	**6.00**
2000/2001					
June	4.25	7.00	6.00	9.50	6.00
September	4.50	6.50	6.00	9.50	6.00
December	4.75	6.50	6.00	9.50	6.00
March	4.75	5.00	4.50	8.00	5.75
2001/2002					
June	4.50	3.75	3.25	6.75	5.25
September	3.75	3.00	2.50	6.00	4.75
December	3.25	1.75	1.25	4.75	4.00
March	3.25	1.75		4.75	4.00
2002/2003					
June	3.25	1.75	1.25	4.75	4.00
September	3.25	1.75	1.25	4.75	4.00
December	2.75	1.25	0.75	4.25	4.00

4A

INTERNATIONAL EXCHANGE RATE US$ VS OTHER MAJOR CURRENCIES (currency/US$)								
	Mar-01	**Jun-01**	**Sept-01**	**Dec-01**	**Mar-02**	**Jun-02**	**Sept-02**	**Dec-02**
US$ vs Sterling	0.7034	0.7085	0.6804	0.6871	0.8753	0.6560	0.6369	0.6306
US$ vs Canadian $	1.5746	1.5272	1.5797	1.5963	1.5954	1.5209	1.5858	1.5593
US$ vs Yen	125.32	124.36	119.13	131.06	132.55	119.86	121.73	121.98
US$ vs Euro	2.2125	2.2892	2.1476	2.1966	0.8724	1.0126	1.0123	0.9820

4B

INTERNATIONAL EXCHANGE RATES STERLING VS OTHER MAJOR CURRENCIES (currency/£)							
	Jun-01	**Sept-01**	**Dec-01**	**Mar-02**	**June-02**	**Sept-02**	**Dec-02**
Sterling vs US$	1.4113	1.4697	1.4554	1.4240	1.5243	1.5701	1.5859
Sterling vs Canadian $	2.1553	2.3217	2.3230	2.2719	2.3183	2.4899	2.4730
Sterling vs Yen	175.50	175.09	190.70	188.73	182.70	191.13	193.42
Sterling vs Euro/	3.2306	3.1564	3.1970	0.8724	1.5434	1.5895	1.5572

4C

INTERNATIONAL EXCHANGE RATES EXCHANGE CROSS RATES December 2002					
	GBP	**C$**	**US$**	**Yen**	**Euro**
U.K.	1	2.543	1.610	191.0	1.534
Canada	0.393	1	0.633	75.12	0.603
U.S.	0.621	1.580	1	118.7	0.953
Japan	0.523	1.331	0.843	100	0.803
Euro-zone	0.652	1.658	1.049	124.5	1

5A

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

	Jun-01	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02
UAE's Dubai Light	24.09 - 24.19	21.35 - 21.45	18.36 - 18.46	24.13 - 24.23	24.57 - 29.18	27.41 - 27.51	26.01 - 26.21
North Sea Brent	26.71 - 26.77	21.72 - 21.78	19.31 - 19.41	25.30 - 25.36	25.58 - 31.22	28.96 - 29.02	30.03 - 30.09
West Texas Intermediate	26.45 - 26.50	23.25 - 23.29	19.85 - 19.96	26.01 - 26.09	26.68 - 33.38	30.51 - 30.59	31.12 - 31.18
Nymex-unleaded Gasoline Futures (US cents/gallon)	76.50 - 78.25	64.00 - 68.80	56.50 - 58.60	80.80 - 83.00	79.38 - 79.39	82.15 - 82.87	86.48 - 87.92

5B

WORLD COMMODITY PRICES
ALUMINIUM
(US$ per tonne)

	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02
Spot (Cash)	1 319 - 1 319.5	1 334.5 - 1 335.0	1 385.0 -1 386.0	1 364.0 - 1 364.5	1 280 -1 280.5	1 344 - 1 344.5
3 Month	1 338.5 -1 339	1 350.0 - 1 351.0	1 401.0 - 1 401.5	1 383.0 - 1 383.5	1 296.5 - 1 297.0	1 347 - 1 348

5C

WORLD COMMODITY PRICES
FOOD

	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02
Wheats (US$/mt)	122.6	123.7	125.7	125.7	166.1	176.7
Coffee (USc/kg arabica brand)	129.7	126.4	133.6	136.2	126.0	146.8

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MAJOR STOCK MARKET INDICES

	Jun-01	Sept-01	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02
Tokyo							
Nikkei Index	12 829.0	9 774.68	10 542.6	11 024.94	10 621.84	9 383.29	8 578.95
New York							
Dow Jones Industrials	10 434.8	8 847.56	10 021.5	10 426.91	9 243.26	7 591.93	8 341.63
S&P Composite	1 211.1	1 194.60	1 148.1	1 144.58	1 122.78	945.28	879.82
London							
Financial Times-SE 100	5 607.9	4 903.4	5 217.4	5 271.8	4 656.4	3 721.8	3 940.4
Frankfurt							
Dax Index	5 833.1	4 308.15	5 160.1	5 397.29	4 382.56	2 769.03	2 892.63
Zurich							
SMI Index	6 997.4	6 014.2	6 417.8	6 655.2	5 979.7	4 783.0	4 630.8

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

M1: Notes and coins in circulation + Demand Deposits

M2: M1 + Time and savings deposits

M3: M2 + Other Deposits.

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

Monetary Base: See Base Money

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

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

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

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

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

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

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

Reserve Requirement: 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 at the Central Bank.

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

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

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

Quasi-money: Savings Deposits plus Time Deposits.

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