Bank of Jamaica Quarterly Monetary Policy Report

OCTOBER - DECEMBER 2003

Volume 4 No. 3

Nethersole Place
Kingston
Jamaica

Telephone: (876) 922 0750-9
Fax: (876) 922 0854
E-mail: library@boj.org.jm
Website: www.boj.org.jm

ISSN 0799 1037

The report is available in PDF format at the Bank's website.
Comments on this publication are welcome and can be sent directly to the Bank or to our website.

CONTENTS

PREFACE

The Bank of Jamaica's Quarterly Monetary Policy Report reviews the conduct of monetary policy and the main factors that influenced inflation during the quarter. It also presents the Bank's perspective on emerging economic trends and the path of monetary policy over the short to medium term. This issue includes a discussion on Monetary Policy Committees, as well as, the Determinants of nominal interest rates, particularly in the bond market.

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

Price stability remains the major focus of the Bank of Jamaica's monetary policy. A related objective is the maintenance of order in the money and foreign exchange markets. Notwithstanding a period in October when the Bank was required to augment foreign currency supply, the authorities were fairly successful in maintaining stability in the foreign exchange market throughout most of the December 2003 quarter. On the other hand, monetary policy was challenged during the review period in a context where the Bank of Jamaica was called upon on a number of occasions, to assist the Government in closing its financing gap through the purchase of securities. Although the Bank sought to stymie the inflationary impact of unprogrammed monetary injection, base money grew faster than programmed increasing by 24.2 per cent in the review quarter relative to a targeted growth of 12.0 per cent.

December's inflation outturn of 0.8 per cent represented a further moderation following an outturn of 1.6 per cent in October and 0.9 per cent in November 2003. This brought headline inflation for the review quarter to 3.4 per cent, relative to 4.6 per cent for the September 2003 quarter and 2.5 per cent for the corresponding quarter in 2002. Despite the lower inflation in the December 2003 quarter, inflation for the fiscal year to date was 14.6 per cent, 8.0 percentage points above the comparable period in FY 2002/03. The main influences behind the inflation outturn in the review quarter were the seasonal high demand for domestic agricultural products, an 11.0 per cent increase in the national minimum wage and a steady rise in international commodity prices. Core inflation was estimated at 1.98 per cent for the review quarter, relative to 2.26 per cent for each of the previous two quarters and 1.18 per cent for the corresponding quarter in 2002.

Notwithstanding the foregoing challenges, the Bank was able to ease its monetary policy stance towards the end of the December quarter with a reduction in the interest rate structure of its longer-term open market instruments. The reduction in rates on 10 December 2003 was undertaken in a context of continued stability in the foreign exchange market, buoyant tourism earnings and adequate foreign exchange reserves. This adjustment underscored the Institution's commitment to a lower interest rate environment and was the seventh in a series of reductions since rates peaked in March 2003.

Concurrently, interest rates in the money market followed the downward trajectory of rates on the Bank of Jamaica's open market instruments. **Box 2** of this Report entitled "The Macroeconomic Determinants of Nominal Interest Rates", identifies factors such as inflation expectations, the state of the Balance of Payments, the rate of GDP growth and the Government's demand for financing as being major determinants of the level of interest rates.

Central Government's demand for financing during the review quarter was influenced by a deviation in the fiscal balance relative to budget. Whereas the budget expected a deficit of \$9 067.4 million or 1.9 per cent of revised GDP, it is estimated that Central Government ran a deficit of \$14 558.3 million or 3.0 per cent of GDP. Notably, the deviation in fiscal performance stemmed from higher than budgeted expenditure, which was exacerbated by lower than budgeted revenue flows. Accordingly, interest payments were 19.6 per cent above budget due largely to higher than budgeted interest rates while, wages and salaries exceeded budget by 19.4 per cent consequent on higher than anticipated wage settlements.

During the December quarter, Central Government's operations were financed primarily from domestic sources. Accordingly, banking system credit to Government amounted to \$17 352.2 million, an increase of 11.4 per cent during the quarter. This contrasts with a 2.2 per cent contraction in the corresponding quarter of 2002/03. In this context, a significant reduction in the fiscal deficit would improve the country's ability to borrow on the international capital markets at more affordable interest rates. This would also relieve some of the pressures on domestic interest rates.

Concurrent with the strong demand for credit by Central Government, private sector credit grew by 9.5 per cent during the December 2003 quarter, following a 9.4 per cent increase in the previous quarter. The expansion in banking system credit was driven by an 8.0 per cent increase in loans and advances. Loans to the Tourism sector accounted for 29.4 per cent of the overall increase in loans while, Transport, Storage & Communication and Distribution accounted for 27.3 per cent and 23.2 per cent, respectively. The expansion in credit was consistent with developments observed in the real sector.

Leading indicators of economic performance suggest an expansion in real GDP in all sectors except Manufacturing, during the December 2003 quarter. Overall growth however, may have been slower than the 3.6 per cent recorded for the December 2002 quarter. As reported by STATIN, the Jamaican economy grew by 2.2 per cent for the first three quarters of 2003. Based on this expansion and the Bank's estimate for the December quarter, growth for 2003 is estimated at between 2.0 and 2.5 per cent. From the perspective of aggregate demand, the expansion in economic activity in the review quarter reflected estimated real increases in overall consumption and private investment spending, notwithstanding a decline in net external demand.

The generally stable foreign exchange market conditions during the December quarter was reflected in a 1.5 per cent depreciation in the weighted average selling rate of the Jamaica Dollar vis-à-vis the United States Dollar. This compares favourably with a 3.3 per cent depreciation in the corresponding 2002 quarter, but was marginally above the 1.2 per cent depreciation recorded in the September 2003 quarter. The relative stability in the review quarter was partly influenced by improvements in investor confidence reflected in increased supply of foreign exchange to the market. In this regard, the market benefited from strong private and official capital inflows, as well as, buoyant flows from tourism and remittances.

Increasing confidence in the long-term stability of the foreign exchange market and the value of the Jamaica Dollar was further reflected in a slower growth in foreign currency deposits relative to local currency deposits, since September 2003. Although the expansion in foreign currency loans was significant, especially to the export sector, there was a noticeable slowing in the overall demand by the private sector.

The favourable foreign exchange market conditions, as well as, the declining trend in interest rates also influenced the stock market performance during the December 2003 quarter. These conditions coupled with increasing market participation arising from higher than expected inflation, contributed to the buoyancy of the stock market. Market capitalisation, which stood at $512.9 billion at the end of the review quarter, reflected a 16.8 per cent increase for the quarter and a 75.5 per cent increase for the calendar year. The continued buoyancy in the stock market was also an indication of improved confidence in the economic fundamentals.

The outlook for the rest of fiscal year 2003/04 is for improved economic growth. With excellent prospects for continued strong growth in the world economy and specifically in Jamaica's major trading partners, the country should benefit from strong tourism income, higher capital flows and more favourable market conditions for exports. On the domestic side, a recovery in domestic agriculture is anticipated in the March 2004 quarter. Hence, the outlook is for inflation of approximately 1.0 per cent in the final quarter of FY2003/04. The main risk to a lowering of domestic inflation is however, a continuation of elevated oil prices. While conditions appear positive for further interest rate decline, this is contingent on a reduction in Government's demand for financing from the domestic market supported by improved fiscal performance.

Currently, discussions are taking place among various social partners in Jamaica about possible changes in the approaches to public sector wages, debt management, fiscal and monetary policies. In this context, the establishment of a Monetary Policy Committee has been mooted. As a special feature, **Box 1** of this issue of the QMPR elucidates the conceptual and operational framework of such arrangements, based on an examination of the international precedents and the circumstances of their implementation. What emerges is that implementation would require extensive supporting legal and operational innovations. Not least of the changes required, would be the entrenchment of legal independence for the Central Bank and the elimination of the fiscal dominance of economic policy.

1. Monetary Policy and Financial Markets

Figure 1.1
Base Money
(quarterly change)

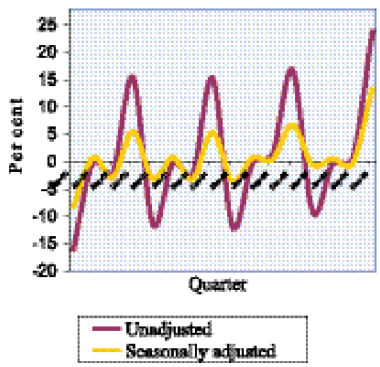
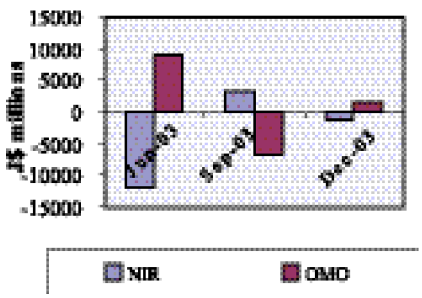


Figure 1.2
*Effects of the NIR & OMO on liquidity**



Absorption-negative, Injection-Positive

Money and Credit

Base Money

The Bank was challenged in meeting its base money targets during the December quarter. This was in the context where the Bank accommodated the Government's exceptional financing needs. To this end, there was a relatively large increase in the Bank's holdings of Government securities. In addition to this un-programmed monetary expansion, there was a net unwinding of open market instruments, which facilitated the seasonally high currency demand in December. Against this background the monetary base expanded by 24.2 per cent in the December quarter relative to a target of 12.0 per cent for the quarter. Despite the monetary expansion, the foreign exchange market remained relatively stable after October, signaling improved confidence in the domestic economy. This enabled the Bank to lower interest rates on the 90-day to 365-day tenors of open market instruments on 10 December 2003.

The monetary base expanded by $7 903.7 million or 24.2 per cent for the quarter (see **Figure 1.1** and **Appendix C3**). The increase in the monetary base was influenced by an expansion in the net domestic assets (NDA), in particular, Government securities. Bank of Jamaica's Net Claims on the Public sector injected $7 885.6 million into the financial system and reflected the Bank's increased holdings of Government securities of $9 499.0 million, and a decline of $3 048.9 million in Government balances at the Bank during the quarter. This occurred, as the rates offered by the Government on some of its instruments did not elicit the expected response from investors in the context of the tight liquidity conditions prevailing in the money market. Another source of expansion in the monetary base was open market operations which injected $1 730.9 million into the financial system (see **Figure 1.2**).

However, this was lower than anticipated because the liquidity injected into the system through the purchase of US dollar loan proceeds from the Government helped to satisfy seasonal liquidity needs. The ensuing liquidity from these sources financed the large seasonal demand for cash by the commercial banks during the quarter.

The expansion in the NDA was partly offset by a decline of US$17.6 million in the net international reserves (NIR) that was equivalent to an absorption of $1 041.4 million for the quarter (see **Appendix C3** and **Foreign Exchange Market**).

The stock of currency issue increased by 27.2 per cent in December.

As is customary in the December quarter, the expansion in the monetary base was dominated by an increase in currency issue, which amounted to $7 880.7 million. This was driven by a $6 286.7 million demand for currency in the month of December, representing an increase of 27.2 per cent relative to an average increase of 23.5 per cent in December of the last 3 years. The relatively large increase reflected annual headline inflation of 13.69 per cent at end November and a higher level of economic activity. The statutory cash reserves increased by $116.9 million for the quarter rising proportionately with the increase in local currency deposits at commercial banks. The current account balances of the commercial banks varied with liquidity conditions and at end December reflected a decline of $94.0 million relative to end September.

Despite the instances of monetary expansion, liquidity conditions were relatively tight during the quarter, which facilitated stability in the foreign exchange market. This enabled the Bank to effect a reduction in the rates on its open market instruments on 10 December. Interest rates on the 90-day, 120-day and 365-day tenors were reduced by 1.0 percentage point to 17.00 per cent, 20.00 per cent and 23.00 per cent, respectively. The 180-day and 270-day rates were reduced by 2.5 and 1.75 percentage points, respectively, to 23.50 per cent and 23.75 per cent. This action represented a continued normalization of the Bank's yield curve that began in the first quarter of fiscal year 2003/04 (see **Bond Market**).

The monetary expansion of the December quarter was partly attributed to seasonal factors and also partly related to an increase in the domestic financing needs of the public sector.

The extent to which the December quarter's results will be reflected in core inflation in the final quarter of the fiscal year depends on the speed of fiscal correction and the level of confidence that this will generate. The Bank will need to carefully monitor inflationary trends as reflected in money market contracts, foreign exchange trading and asset prices as a basis for pursuing any further reductions in interest rates.

Money Supply

For the December 2003 quarter, growth in broad Jamaica Dollar money supply, M3J, increased by 6.0 per cent, relative to the 2.3 per cent expansion that obtained for the comparable period of 2002. The expansion in M3J was mainly reflected in the seasonally high currency in circulation during the quarter. An increase in banking system credit was the main source of the growth. This expansionary impulse was moderated by reductions in the Net Foreign Assets (NFA) of commercial banks and in the NIR of the Bank of Jamaica. The broader measure of money supply, M3, which includes foreign currency deposits, increased by 5.2 per cent, largely reflecting a 3.7 per cent growth in local currency deposits.*

Broad Jamaica Dollar money supply, M3J, increased by $8 947.0 million or 6.0 per cent during the third quarter of FY 2003/04. This significantly exceeded the 2.3 per cent growth observed for the corresponding period of FY 2002/03 (see **Table 1.1**) and was marginally above the 5.8 per cent growth that was projected in the monetary programme. The outturn brought nominal growth in money supply for the fiscal year to December 2003 to 14.8 per cent, relative to the 11.4 per cent that obtained for the comparable period of 2002. This translates into a real increase of 0.2 per cent in M3J for the fiscal year to December 2003, relative to 4.5 per cent for the comparable period of 2002.

Table 1.1

Money Supply (3-month growth rates)

		M3J	M3*
2000	March	1.2	3.1
	June	4.1	2.9
	Sept.	1.1	2.6
	Dec.	4.1	3.7
2001	March	0.6	1.1
	June	1.9	1.9
	Sept.	3.2	3.8
	Dec.	3.5	3.1
2002	March	-0.5	1.5
	June	2.5	2.3
	Sept.	6.4	6.7
	Dec.	2.3	2.9
2003	March	-6.3	-1.9
	June	3.8	5.8
	Sept.	5.0	4.5
	Dec.	6.0	5.2

The growth in money supply during the quarter was largely influenced by an expansion of $20 465.1 million in banking system credit **(see Table 5 in Appendix C)**. Net credit to the public sector accounted for $15 054.7 million or 73.6 per cent of the total expansion in banking system credit during the review quarter and was significantly larger than the $3 901.7 million expansion that obtained during the December 2002 quarter. For the review period, growth in net credit to the public sector was mainly due to a $17 352.2 million increase in net banking system credit to Central Government, as there was a net build up of deposits by the other public sector entities.

Banking system credit to Central Government finances increases in Money Supply.

Of the increase in net banking system credit to Central Government, $11 892.8 million was extended through the Bank of Jamaica. The credit extended by BOJ took the form of a $9 681.1 million expansion in holdings of GOJ securities, reflecting the Bank's accommodation of a portion of government's financing needs. The remainder reflected a drawdown on government's deposits at the Bank.

For the December 2003 quarter, local currency credit to the private sector from the banking system increased by $5 410.4 million, relative to the $2 468.1 million growth that obtained during the corresponding period of 2002. The two largest commercial banks, with 74.7 per cent of the commercial banks' asset base at end December 2003, controlled 85.9 per cent of the credit extended during the quarter.

The liquidity which emanated from the growth in banking system credit was partly offset by declines of $5 374.8 million in the Net Foreign Assets of commercial banks (NFA) and $1 041.3 million (or US$17.6 million) in the Bank of Jamaica's NIR. For the review quarter, the decline in the Net Foreign Assets of commercial banks largely reflected a $5 947.3 million decline in foreign currency with overseas deposit-taking institutions, partly countered by a $1 209.4 million expansion in foreign currency deposits of its customers.

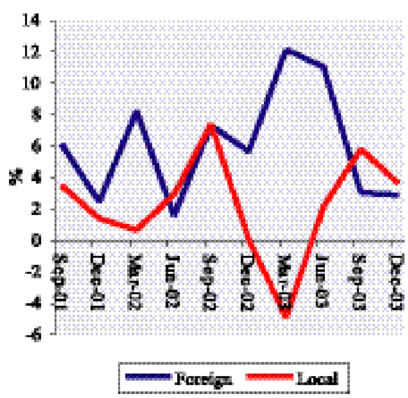
The decline in the NIR was in contrast to the $3 259.1 million expansion for the previous quarter. The outturn for the review quarter largely resulted from GOJ debt payments, as well as the sale of United States dollars by the Bank to the foreign exchange market, in an effort to maintain stability.

Growth in local currency deposits outpaces foreign currency deposits for the second consecutive quarter.

For the December 2003 quarter, the expansion in money supply reflected a 13.1 per cent increase in narrow money (M1J), while quasi-money grew by 4.9 per cent. The growth in narrow money was underpinned by the seasonally high demand for currency in December. In this context, there were increases of 22.4 per cent and 5.5 per cent in currency in circulation and demand deposits, respectively during the quarter. For the same period in 2002, currency in circulation increased by 16.2 per cent while demand deposits declined by 1.7 per cent.

The outturn for currency in circulation brought the 12-month nominal growth at end December 2003 to 13.6 per cent, relative to the 8.6 per cent at end December 2002. Expressed in real terms, currency in circulation increased by 3.0 per cent for the 12-month period ending December 2003, compared to the 1.4 per cent growth that obtained for the comparable period of 2002.

Figure 1.3
Commercial Banks' Deposits
Quarterly growth rates



With regard to the components of quasi-money, for the December 2003 quarter, there were increases of 5.3 per cent and 3.6 per cent in savings deposits and time deposits, respectively. For the comparable quarter of 2002, savings deposits increased by 3.0 per cent, while time deposits declined by 9.3 per cent.

The broader measure of money supply, M3*, which includes foreign currency deposits, increased by 5.2 per cent for the review quarter, relative to 2.9 per cent for the comparable period of 2002. The increase for the review quarter reflected expansions of 3.7 per cent and 2.9 per cent in local currency deposits and foreign currency deposits, respectively. This outturn was consistent with improved confidence in the Jamaica Dollar in a context of the relative stability that had prevailed in the foreign exchange market since the end of the June 2003 quarter.

Table 1.2

Money Supply (12-month growth rates)		
M1J	**Dec-02**	**Dec-03**
M1J	14.7	1.2
M2J	9.1	3.2
M3J	11.0	7.6
M*		
M1*	13.6	7.3
M2*	13.0	11.2
M3*	14.0	13.4

The growth in foreign currency deposits was reflected in demand deposits and time deposits, which increased by 9.0 per cent and 4.9 per cent, respectively. For the corresponding quarter of 2002 demand deposits declined by 5.5 per cent while time deposits increased by 13.6 per cent. Growth in foreign currency deposits of the private sector,

Figure 1.4
Commercial Banks' Time Deposits
(12-month growth rates)
March 2000 to December 2003

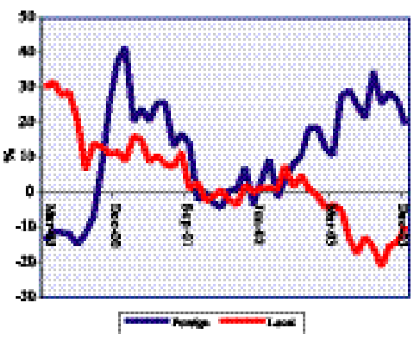


Table 1.3

Interest Rates in the Domestic Market			
Commercial Bank Weighted Average Deposit Rates			
	Nov-02	**Sept-03**	**Nov-03**
DOMESTIC CURRENCY			
Demand	3.23	3.51	3.72
Savings	6.36	6.31	6.24
Time	9.08	9.02	8.74
Overall Average Weighted rate	6.82	6.80	6.71
FOREIGN CURRENCY			
Demand	2.59	3.15	3.15
Savings	2.46	2.29	2.28
Time	5.13	5.52	5.34
Overall Average Weighted rate	3.18	3.35	3.31
6-Month Treasury Bill Rate	16.89	23.42	23.46
180-Day Repurchase Agreement Rate	13.45	23.50	23.50

in commercial banks, slowed to 1.5 per cent, relative to the 1.6 per cent for the previous quarter. At end December 2003, these deposits totalled US$1 000.0 million. The expansion was largely reflected in a 7.4 per cent growth in demand deposits, partly countered by a 0.8 per cent decline in savings deposits.

The trends in domestic and foreign currency deposits showed a slight decline in the ratio of foreign currency deposits to total deposits to 31.1 per cent at end December 2003, from 31.3 per cent at end September 2003. These ratios were higher than the 26.7 per cent at end December 2002.

The 12-month growth in M3J at end December 2003 was 7.6 per cent, compared to the 11.0 per cent at end December 2002 **(see Table 1.2**). The growth in M3J was reflected in increases of 1.2 per cent, 4.4 per cent and 27.3 per cent in M1J, quasi-money and other deposits, respectively. Of the growth in quasi money, savings deposits increased by 9.6 per cent while time deposits declined by 9.7 per cent **(see Figure 1.4)**.

The decline in time deposits was observed throughout 2003 and may have been influenced to some extent by the relatively higher rates of return offered on alternate domestic instruments **(see Table 1.3)**. In addition, coinciding with these reductions were 12-month increases in foreign currency time deposits throughout 2003, which was more pronounced in periods of waning domestic market confidence. The 12-month growth in foreign currency time deposits was 19.7 per cent at end December 2003, which exceeded the 18.6 per cent increase at end December 2002. This resulted in a 13.4 per cent growth in M3*, for the review period, relative to 14.0 per cent at end December 2002.

For the December 2003 quarter, the money multiplier was 3.9 per cent, slightly below the 4.3 per cent observed for the September 2003 quarter and the 4.0 per cent that obtained for the December 2002 quarter. The contraction in the money multiplier largely reflected the increase in money supply during the quarter. This was in a context of the seasonally high outturn in the currency to deposits ratio, which was 17.3 per cent at end December 2003, relative to 14.7 per cent at end September 2003 and the 16.3 per cent that obtained at end December 2002.

Private Sector Credit

Growth in commercial bank credit to the private sector remained robust during the review quarter. Loans to the sector expanded by 9.5 per cent. Personal Loans continued to account for the largest share with Tourism, Transport, Storage & Communication and Distribution also recording significant increases. The expansion in credit to the private sector continued to reflect relatively strong demand for foreign currency loans. During the quarter, the quality of the commercial banks' loan portfolio continued to compare favourably with the international benchmark

During the review period, banking system credit to the private sector (local and foreign) expanded by $6 429.9 million or 9.5 per cent, compared with an expansion of $3 954.6 million or 8.4 per cent during the corresponding period of 2002. This increase in credit to the private sector, included an expansion in loans & advances of $4 540.1 million or 8.9 per cent, along with increases in commercial banks' holdings of "other investments" and private sector debentures **(see Table 1.4)**.

Table 1.4

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

	Dec- 02	Sept-03	Dec- 03
Total Private Sector Credit	3,954.6	5,782.6	6,429.9
Loans and Advances	4,007.5	6,354.7	4,540.1
Other Investments and Debentures	-52.9	-572.1	1,889.8

The expansion in overall credit was concentrated in the two largest institutions, accounting for 85.9 per cent of the increase. Credit growth in 2003 increased by 44.7 per cent compared to 27.6 per cent in 2002. In real terms, growth in credit was 31.9 per cent for 2003 relative to 19.1 per cent in 2002. For the fiscal year to date, credit grew by 35.1 per cent compared to 28.5 per cent over the corresponding period in 2002.

Personal loans continued to record significant growth, accounting for the largest increase in overall commercial bank lending. This category increased by $2 138.3 million during the review period. The twelve-month growth in *Personal loans* was 50.7 per cent as at end December 2003 relative to an expansion of 24.0 per cent for December 2002.

Table 1.5

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

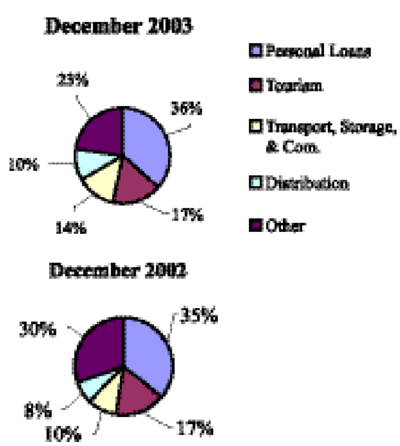
	Dec-02	Sept-03	Dec-03
Agriculture & Fishing	329.7	24.1	-214.8
Mining & Quarrying	-4.1	217.9	86.0
Manufacturing	-482.2	-83.5	-259.1
Construction & Land Dev.	576.9	1420.9	-1036.6
Transport, Storage, & Comm.	1275.6	959.8	1239.5
Tourism	386.1	830.4	1333.8
Distribution	887.8	495.8	1053.4
Professional & Other services	-16.6	65.6	105.3
Personal Loans	1862.7	2662.4	2138.3
Electricity	-847.1	-179.2	92.3
Entertainment	45.8	-54.9	10.9
Overseas Residents	-7.2	-4.8	-9.1
TOTAL	**4007.4**	**6354.5**	**4539.9**

Figure 1.5

Sectoral Distribution of Commercial Bank Credit to the Private Sector

Per cent of Outstanding Stock

September 2002 and September 2003



In real terms, *Personal Loans*, increased by 32.1 per cent in December 2003 implying an increase in demand for goods and services. The increase was also reflective of the aggressive marketing strategies employed by the commercial banks.

The pattern of growth in credit to the economic sectors was consistent with the developments observed in the real sector (see **Real Sector Developments**). In this regard, loans to the *Tourism* sector increased by $1 333.8 million or 12.6 per cent, accounting for 29.4 per cent of the overall increase **(See Table 1.5)**. The other main economic sectors recording significant increases were the *Transport, Storage & Communication* and *Distribution sectors* which expanded by $1 239.5 million or 15.0 per cent and $1 053.4 million or 17.0 per cent respectively **(See Table 1.5)**.

At end December 2003, the percentage distribution of the outstanding stock of commercial bank credit reflected a similar pattern as that recorded at end December 2002. Along with *Personal loans*, the outstanding stock of loans to, *Tourism* and *Transport, Storage & Communication* sectors collectively accounted for 67.0 per cent and 62.0 per cent as at December 2003 and December 2002 respectively **(See Figure 1.5)**.

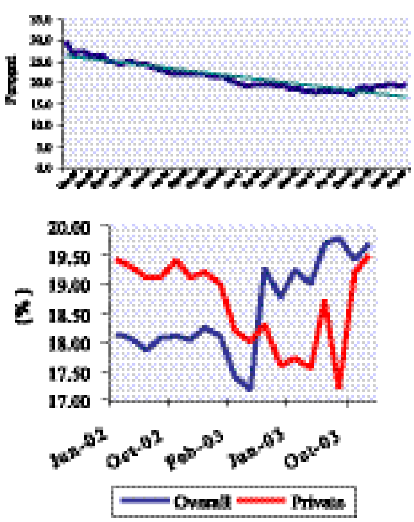
The demand for foreign currency loans by the private sector slowed during the December quarter. Foreign currency loans denominated in United States Dollars expanded by US$9.3 million, compared to US$23.3 million of the previous quarter, and US$18.0 million observed during the corresponding period of 2002. Of the net expansion in foreign currency loans, the largest proportion of the increase was recorded in the Tourism sector, which accounted for US$14.0 million. Loans to the *Distribution* sector and *Professional & Other Services* increased by US$3.4 million and US$2.9 million, respectively while the other sectors either declined or

Table 1.6

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

	Nov-02	Sept-03	Nov-03
Agriculture & Fishing	-0.2	-0.1	0.0
Mining & Quarrying	0.0	3.5	-1.7
Manufacturing	-2.4	-0.7	-1.6
Construction & Land Development	7.2	3.3	-2.7
Transport Storage & Communication	16.1	14.6	-5.0
Electricity, Gas & Water	-9.6	-0.3	0.0
Distribution	2.0	-8.8	3.4
Tourism	3.1	12.1	14.0
Entertainment	0.0	-0.8	0.1
Professional & Other Services	2.9	-2.9	2.9
Personal Loans	-1.1	3.3	-0.1
Overseas Residents	0.0	0.0	0.0
TOTAL	**18.0**	**23.3**	**9.3**

Figure 1.6
Commercial Banks' Weighted Average Loan Rate March 1999 to November 2003



remained flat (see **Table 1.6**). The proportion of foreign currency loans to total loans for the review quarter stood at 39.1 per cent as at December 2003 compared to 34.8 per cent as at December 2002.

Loans to the private sector increased despite an increase in the weighted average lending rates. Weighted average lending rates to the private sector increased to 19.5 per cent at end November 2003 from 19.1 per cent on average at end November 2002. The weighted average lending rate to Local Government & Other Public Entities declined to 17.9 per cent at end November 2003 from 19.9 per cent at end September 2003 but was above the 14.9 per cent recorded at end November 2002 (see **Table 1.6**). Similarly, the weighted average rate on loans extended to Central Government declined to 24.5 per cent at end November 2003 from 27.7 per cent at end September 2003 but stood higher than the 17.6 per cent recorded at end November 2002 (see **Table 1.6**).

The overall weighted average rate on private sector and public sector loans declined to 19.7 per cent at end November 2003 from 19.9 per cent at end September 2003, but was higher than the 18.0 per cent as at November 2002. Weighted average rates on foreign currency loans declined to 8.83 per cent as at end November 2003 from 11.75 per cent as at end November 2002. The lower weighted average rate on foreign currency loans in conjunction with their larger share of total loans has resulted in the weighted average rate on private sector credit falling below rates payable on government loans which are mainly in local currency. Since March 1999, the overall average weighted loan rate has been on a downward trajectory, which has facilitated the continued expansion of loans extended over the last four years **(See Figure 1.6)**.

The quality of the loan portfolio of commercial banks continued to show improvement as reflected in the ratio

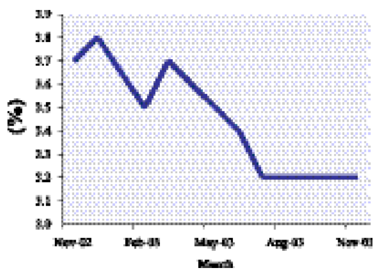
Table 1.7

Commercial Bank Domestic Currency Average Weighted Lending Rates by Loan Type

	Nov-02	Sept-03	Nov-03
Instalment	25.9	23.8	23.9
Mortgage	19.0	21.6	21.3
Personal	27.3	28.1	29.5
Commercial	15.8	15.9	15.8
Local Government & Other Public Entities	14.9	19.9	17.9
Central Government	17.6	27.7	24.5
Weighted Average Rates			
Overall	18.0	19.9	19.7
Public Sector	15.8	22.4	20.2
Private Sector	19.1	17.2	19.5

Figure 1.7

Commercial Banks past due Loans Three Months and over to Total Loans November 2002 to November 2003



of past due loans (over three months) to total loans that declined to 3.2 per cent at end November 2003 **(**see **Figure 1.7)** from the 3.7 per cent that obtained at end November 2002. The outturn compares favourably with the 10.0 per cent international benchmark.

Box 1: The Monetary Policy Committees: International Precedents and Macroeconomic Context

New Interest

There has been recent discussion regarding the prospects for establishing a committee to oversee the design and conduct of monetary policy in Jamaica. Such a committee would include membership from both within and external to the Bank of Jamaica. This initiative has been informed by the recent visit of a private sector led group to Ireland regarding the institutional and policy framework for the transformation of that economy. Following on this, a Monetary Policy Committee (MPC) is posited as a means of ensuring the independence and effectiveness of monetary policy. This note seeks to elucidate the nature of such institutions, the circumstances in which they operate and factors germane to establishment and operation in a Jamaican context.

The Nature of MPCs

Bank of Jamaica has explored the operation of Monetary Policy Committees across several countries, developed, developing and recently liberalized (Eastern European) economies. The specific nomenclature and operational and institutional details vary from country to country. There are, however, some essential conceptual commonalities.

The primary focus is on the imperative for low and stable inflation. The main objective is normally an inflation rate or range. Explicit reference to growth or full employment is normally hedged by the imperative that any initiatives toward such objectives should not place the low inflation objective at risk.

It is also almost universally true that monetary policy committees exist in the context of institutionally independent central banks. In one rare instance of non-independence, the country is moving towards the institutionalisation of independence. "Independence" in this context usually means freeing the appointment (and dismissal) of Governor and principal officers from uni-partisan political control, discretion over the employment of legally sanctioned tools of monetary policy (instrument independence), and limits on the capacity of the central bank to lend to the Government (printing money).

Countries, which have experienced high and hyperinflation have distilled from the experience that high and unpredictable inflation is deleterious for socio economic welfare, stable labour markets and work environments, as well as business confidence for investment and growth. Towards the objective of avoiding a repetition of high or hyperinflation, they have seen the wisdom of making their central bank independent and giving it a singular or dominant focus on low and predictable inflation. It is usually in the context of an independent central bank, that the MPC is established as a bulwark against potential abuse of independence and to ensure transparency.

Ireland is a member of the European Monetary Union (EMU), sharing the use of the Euro and one supra national European Central Bank with several other members of the union. In this context, the supranational central bank is effectively insulated against any prospect of inflationary financing of any Irish fiscal profligacy through the printing of money.

It is also universally true that MPCs operate within inflation targeting regimes. Almost by definition, the model-intensive inflation-targeting framework only becomes practicable when, there is sufficient economic stability and predictability to allow for decisions on interest rate levels at regular discrete intervals (usually monthly) to influence inflation rates several quarters "downstream". An absence of "fiscal dominance" is crucial to this type of "inflation targeting" regime. This means that fiscal deficits should be low predictable or non-existent and that under no circumstance should government operations occasion the printing of money by the central bank.

External membership contributes to transparency. This external membership needs to be carefully selected however. To avoid political partisanship, appointment and membership (as for Governor and principal officers) has to be free of unipartisan political control. There should be no conflict of interest as would arise from ownership, management or directorship of supervised financial institutions or ownership of significant and actively traded financial asset portfolios. (Declaration of assets should be required).

Additionally, transparency usually entails publication of minutes and of deliberations and voting. It may also require the Governor as chairman of the MPC to report to the public through parliament, on the stewardship of the MPC.

The Jamaican Context

Jamaica is a small open economy where economic activity is still largely dependent on its natural resource base, and prices are still subject to exogenous shocks including the vicissitudes of international oil prices.

In the wake of a radical liberalization of its foreign exchange regime, Jamaica experienced triple digit inflation, with the twelve-month point-to-point rate peaking at 107.9 per cent in April 1992. With heightened inflationary expectations, it required higher interest rates as consideration for holding Jamaica dollars and to return stability to the foreign exchange market. (Please see box on interest rate determination elsewhere in this publication). To bring interest rates down, it is necessary to bring inflation and inflation expectations down in a necessary context of relative exchange rate stability.

The Bank of Jamaica since the mid 1990s, has been successful in reducing inflation, inflation expectations and interest rates. With several years of single digit inflation and relative exchange rate stability, interest rates were reduced from about 40 per cent in 1996 to the low teens by the middle of 2002. Despite slippage in a context of fiscal difficulties in early 2003, the reversal has proven to be temporary. Nominal Bank of Jamaica reverse repurchase rates were reduced nine times between March 2003 and end January 2004, again approaching their early 2003 levels.

To reduce inflation from the levels of 1992, Bank of Jamaica has been using a sophisticated monetary targeting (as distinct from what is referred to an "inflation targeting") regime. In a context of economic uncertainty, the policy regime is framed within a financial programming framework, and of necessity is very information intensive and entails the daily interaction of monetary analysis with market intelligence and market operations. There is insufficient economic stability and regularity for essential policy decisions to be taken at discrete predetermined intervals and there is daily integrated decision making embracing the money and foreign exchange markets.

The Bank of Jamaica does not have legal institutional independence. As reflected through several avenues of deliberation, from the Nettleford Committee through the Coke Committee to the Ennis Committee, this absence of independence may facilitate the creation of high-powered money to finance fiscal deficits. These several avenues of deliberation culminated in draft legislation in 1997 further amended by a special task force in 2000. The draft legislation sought to address, inter alia, the appointment of Governor, principal officers and board, and the still existing and very generous legal provisions for bank of Jamaica financial accommodation of Central Government. The legislation has not yet been presented for debate towards passage.

Considerations Regarding an MPC for Jamaica

Consistent with international practice and national imperatives, any discussion of a Monetary Policy Committee for Jamaica should seek to elucidate its efficacy in enshrining low single digit inflation in Jamaican reality and consciousness. Accordingly, we proceed from the position that the discussion is driven by an imperative for low and predictable inflation as the dominant focus of monetary policy.

Relative to international practice, the legislation for Central Bank independence has not yet been advanced. Such legislation would also help to eliminate fiscal dominance as necessary for transition to a full inflation targeting regime. The elimination of fiscal dominance would also help to ensure economic stability such as would facilitate discrete periodic manipulation of a single economic instrument (usually the interest rate in inflation targeting regime).

The Bank of Jamaica is not independent. Outside of that context, the MPC cannot be rationalized as a means of protecting the public against excessive central banking power. In developing the enabling legislation and operating guidelines, care must be taken that an MPC does not serve sectional ends and thus dilute the central bank's focus on low inflation.

Without the stability and predictability of an inflation-targeting regime, it is hardly likely that the need for policy decisions would coincide with scheduled monthly meetings. Such a meeting would have the character of briefing sessions for discussion on the broad thrust of policy. As imperatives for policy adjustment occur on an ad hoc and less predictable basis in our environment, allowance would have to be made for policy implementation between these discretely scheduled meetings. This allowance would entail a mixture of discretion for the Governor with special emergency meetings if they can be arranged under the specific circumstances that arise.

Given the specific but societally pervasive objectives of MPC within the central bank, criteria for membership and the selection process would need to be very carefully specified. Ideally, members should be non partisan or at least acceptable to contending political persuasions, implying a bipartisan or parliamentary process. In keeping with international practice and prudential norms, owners or principal officers of supervised financial institutions would be ruled out and a declaration of assets should establish whether potential members stand to benefit from decisions of the MPC.

External members are also likely to need a fairly highly developed facility with macroeconomic and monetary policy analysis. This would have to be supported by a high level of sustained interface with the central bank's analytical and decision-making process, which is as operational as it is strategic. This implies daily interface and spending of significant blocks of time with the central bank. Institutional arrangements, including technical liaison and support would have to be put in place.

Transparency is an essential objective of an MPC. Transparency is to protect the public from the nexus of the central bank and the government (depending on the state of functional and institutional independence) in their capacity to cause or facilitate inflation. Consistent with international practice, the MPC would be expected to publish, with the appropriate lag, minutes, voting records and supporting economic data and analysis. Any high powered monetary impulse emanating from the central bank's balance sheet would be publicized not only statistically (as is done now) but also in explicitly recorded discussion, with a fairly short lag. The MPC through its chairman may also have to give a periodic report to Parliament.

The raison d'etre of the MPC in a central bank has to be low inflation. The Governor as the public and legal persona of the central bank is both responsible and accountable. Accordingly the Governor must chair the MPC. The Governor, as responsible and accountable should have the facility to define monetary policy, even where institutional arrangements accommodate a process of discussion and review. This suggests that a majority of members should be executives of the central bank.

Legislative reform is essential to facilitate the institutionalisation of an MPC. Beyond the materialization of draft legislation to effect independence and the inhibition of fiscal dominance (discussed above), amendments would be required to establish the MPC, its role, functions, responsibilities and operational parameters.

Conclusion

A Monetary Policy Committee may serve to enhance the effectiveness of the monetary policy function. An MPC without central bank independence, inhibition of fiscal dominance and full transparency may however, undermine confidence in appearing to further reduce the independence of the essential central banking function, monetary policy. The extraction of the full potential benefits of an MPC therefore requires the advancement of the timetable for central bank independence and the sustained elimination of fiscal dominance to allow for the proper articulation of an inflation targeting regime as it is understood internationally. In that context, the MPC functions transparently as support for and simultaneously as a check on an independent central bank Governor. Such a framework should significantly enhance the capacity of the central bank's single minded pursuit of what should be its primary objective; low and stable inflation.

Bond Market

The substantial financing requirements of the Government and low liquidity conditions caused investors to demand a higher premium on various issues of Government instruments during the quarter. Nevertheless, a slight decline in yields was evidenced towards the end of the quarter. This in turn was facilitated by foreign exchange market stability. Government debt was financed through public issues of both Jamaica Dollar denominated instruments and US dollar loans from local financial institutions. In addition, there were several private placements. The performance of GOJ global bonds on the international market continued to improve as the prices at which they traded in the secondary market stabilised in the latter half of the quarter. Rates in the private money market fluctuated widely in response to the tightening liquidity conditions but ended the quarter with an overall decline.

Activities in the bond market in the December 2003 quarter were influenced by tight Jamaica Dollar liquidity conditions and the continuing fiscal imbalance. These factors resulted in a deterioration in confidence in GOJ instruments and restricted the Government to issuing instruments with short-term tenors at higher than expected interest rates. However, despite the challenges, the quarter ended with a resumed decline in interest rates.

The December quarter was characterised by the Bank's continued success in smoothing the maturity profile of its open market instruments and reducing interest rates. BOJ withdrew its 270-day and 365-day tenors on 17 October, but a resurgence of volatility in the foreign exchange market resulted in these issues being reintroduced on 29 October. In the latter part of the quarter, a reduction in rates was effected on the longer tenors of the Banks open market instruments. This was facilitated by tight liquidity conditions due to low levels of OMO maturities for the quarter and increased receipts from tourism, which allowed for stability in the foreign exchange market. The reduction in interest rates represented a continuation of the downward trend in rates, which resumed in April 2003.

The largest reduction in interest rates was effected on the 180-day instrument, which declined by 250 basis points, to close the quarter at 21.0 per cent (See **Table 1.8**). The 270-

Table 1.8

BOJ Reverse Repurchase Rates
March - December 2003

	31 Mar	30 June	30 Sept	31 Dec
30 Days	15.00	15.00	15.00	15.00
60 Days	15.30	15.30	15.30	15.30
90 Days	20.00	20.00	18.00	17.00
120 Days	24.00	24.00	21.00	20.00
180 Days	33.15	26.50	23.50	21.00
270 Days	34.50	29.50	23.75	22.00
365 Days	35.95	30.00	24.00	23.00

Figure 1.8
BOJ OMO Yeild Curve

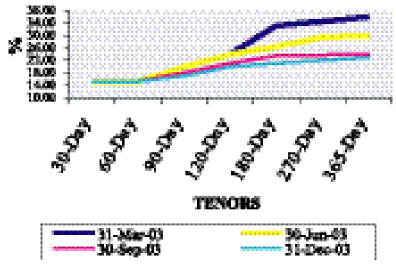
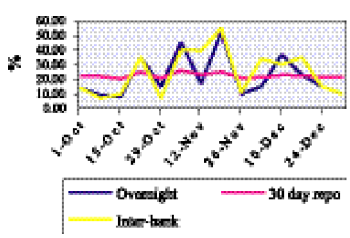


Table 1.9

Placements and Maturities* in BOJ OMO Instruments October - December 2003	Maturities (%)	Placements (%)
30 Days	26.04	23.15
60 Days	6.40	8.93
90 Days	10.22	10.72
120 Days	10.35	9.99
180 Days	35.28	26.28
270 Days	10.07	7.33
365 Days	1.64	13.60

**Excluded overnight transactions during the period*

Figure 1.9
Private Money Market
Average Maximum Rates
October - December 2003



day tenor was reduced by 175 basis points, while the 90-day, 120-day and 365-day tenors were reduced by 100 basis points each. At the end of the quarter, the 365-day tenor offered the highest rate of 23.0 per cent. This represented a decline of 12.95 percentage points since the start of the fiscal year 2003/04. The rate adjustments constituted a further step in the process of normalization of the yield curve on OMO instruments **(See Figure 1.8)**.

Despite the premium on the longer tenors, placements were skewed towards the shorter-term instruments as investors strategically managed their liquidity positions in anticipation of seasonal currency demands. In addition, recent trends of an expectation of interest rate increases in the December quarter prompted dealers to invest in shorter tenors. To that extent, approximately half of the total placements were invested in the 180-day and 30-day tenors which accounted for 26.28 per cent and 23.15 per cent, respectively, of total take-up **(See Table 1.9)**. Tenors of 180-days and less accounted for 79.07 per cent of total placements. This contrasted sharply with the previous quarter in which investors opted for the 365-day and 180-day instruments, accounting for 36.97 per cent and 18.49 per cent, respectively.

Private money market rates continued to reflect the tight liquidity conditions present in the market. Average maximum rates in the interbank and overnight markets trended upwards during the first half of the quarter, peaking in mid-November at 55.0 per cent and 52.0 per cent, respectively. This was followed by a sharp reversal to eventually close the quarter at 10.0 per cent each, representing an overall decline of 4 percentage points over the quarter (See **Figure 1.9**). Interest rates in the 30-day market fluctuated less widely, peaking at 26.0 per cent and eventually declining to 21.25 per cent, 75 basis points below the end September rate.

The Government's cash needs were financed, in part, through public issues of local currency instruments and privately placed US dollar loans from local and regional

Table 1.10

GOJ Public Domestic Debt Raising October - December 2003			
	Amount Allotted (J$M)	Amount Maturing (J$M)	Net Issue (J$M)
Treasury Bills	2 900.0	600.0	2 300.0
LRS	1 300.0	10 703.0	-9 403.0
Debenture	10 380.5	11 137.7	-757.2
US$ Indexed Bonds	3045.5	3493.0	-447.5
Investment Bonds	1 186.4	903.5	282.9
TOTAL	**18 812.4**	**26 837.2**	**-8 024.8**

Table 1.11

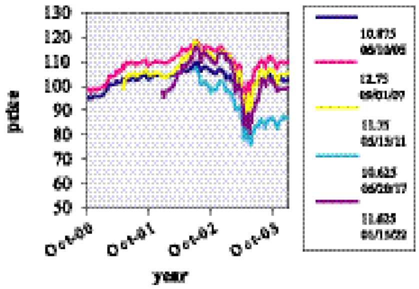
Treasury Bill Auctions & Maturities October - December 2003				
Issue Date	Tenor (days)	Avg. Yield (%)	Allotment (J$M)	Amount Maturing (J$M)
16 Oct. 03	90	22.44	500.0	
31 Oct. 03	182	23.07	400.0	300.0
17 Nov. 03	270	23.80	600.0	
28 Nov. 03	182	23.46	400.0	
28 Nov. 03	364	23.93	200.0	
19 Dec. 03	182	22.05	300.0	
24 Dec. 03	58	20.99	500.0	300.0
Total			**2900.0**	**600.0**

financial institutions. Receipts from local publicly issued instruments totalled $18 812.4 million, but this was outweighed by maturing debt of $26 837.2 million. Overall, there were net maturities in all instruments with the exception of Treasury Bills and investment bonds (See **Table 1.10**).

In a context of tight liquidity, average yields on successive offers of Government instruments fluctuated as the high financing needs put pressure on the rates at which the Government could reprice its debt. In an effort to pay lower interest costs on its debt, the Government was very aggressive in its pricing strategy. However, in instances where the offer rates were not sufficiently attractive, the subscriptions for the instruments were relatively low. To this extent, the value of placements on the 20-month fixed rate US dollar indexed bond, issued 4-10 November and priced at 11.625 per cent (37.5 basis points above the previous offer in September) fell short of maturing amounts. The US dollar value of subscriptions amounted to US$51.4 million, relative to maturities of US$58.8 million. Towards the end of the quarter, the Government also floated a 20-month variable rate investment bond on 30-31 December. The initial rate on the bond was 23.75 per cent, with repricing of 1.75 percentage points above the weighted average yield applicable to the six-month Treasury Bill tender. This represented a 256 basis points decline, relative to the previous variable rate investment bond offered in August 2003. Despite the premium, subscriptions to the bond were relatively low totalling J$1 186.4 million. The reaction from investors was that the rate was too low, given current inflation and the increased uncertainty regarding the fiscal accounts.

The average yields on successive auctions of Treasury Bills trended upwards between October and November, before declining in mid December **(See Table 1.11)**. The 182-day bill issued in late November had an average yield of 23.46

Figure 1.10
GOJ US Dollar-denominated
Global Bond Prices
October 2000 - December 2003



Government raises US$180 million from local and regional institutions.

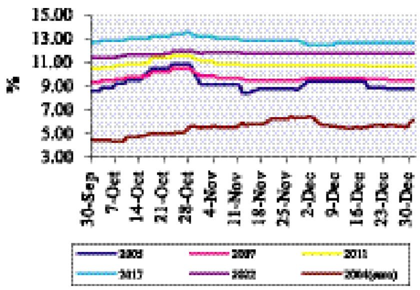
per cent, an increase of 39 basis points over the previous October issue. Rates decreased towards the end of the quarter with the yield on the December issue of the 182-day instrument declining to 22.05 per cent. The final Treasury Bill offer in the quarter was a 58-day tenor which yielded an average of 20.99 per cent. This translates into a 180-day equivalent rate of 21.74 per cent. The overall change in the 182-day Treasury Bill rate for the quarter therefore represented a decline in average yield of 168 basis points and was influenced by the reduction in interest rates by the Central Bank in a context of foreign exchange market stability.

The majority of the Government's public funding was contracted through the issue of two debentures. On 27 October and 16 December, the Government issued a 33-month and a 19-month instrument at fixed rates of 24.625 per cent and 25.00 per cent, respectively. These debentures received almost equivalent allotments, totalling J$10.4 billion (See **Table 1.10**). The intra-quarter rise in rates highlights the difficulties experienced by the Government in contracting debt at lower rates, given their consistently high demand for funds.

US dollar loan receipts from financial institutions amounted to US$180.0 million. The largest of these loans was a US$100 million received from the Bank of Nova Scotia (BNS), at a rate of 11.875 per cent. In addition, there were loans from RBTT Merchant Bank of Trinidad and Tobago, First Caribbean International Bank (FCIB) and First Global Bank (FGB) of US$50.0 million, US$20.0 million and US$10.0 million, respectively. These foreign currency loans replaced funds intended to be raised on international markets.

The prices of GOJ global bonds continued to recover from the negative shock experienced in the June quarter **(See Figure 1.10)**. However, during the month of October there was a deviation from the generally upward trend in prices as news of the disappointing fiscal outturn for the September quarter was disseminated. The October decline

Figure 1.11
GOJ US Dollar-denominated Global Bond Yields October - December 2003



in bond prices resulted in a slight increase in the yields on GOJ bonds for the quarter **(See Figure 1.11)**. Yields on bonds of all tenors peaked at end October, with the 2005 bond displaying the largest increase of 227 basis points to reach 10.86 per cent. Subsequent recovery in bond prices has resulted in a reduction in yields. However, yields at the end of the quarter remained above comparable levels of end September. The 2005 bond closed the quarter with a yield of 8.80 per cent compared to 8.59 per cent at end September. The respective yields for the 2007, 2011, 2017 and 2022 were 9.53, 10.70, 12.66 and 11.72 per cent at end December.

Moody's affirms credit rating.

The outlook for emerging market debt, on a whole, was positive for the period, with international reports highlighting the current buoyancy of emerging markets in a context of high liquidity and declining yields. Moody's Investor Services provided some optimism when it reaffirmed a stable outlook for Jamaica's sovereign debt on 3 October 2003, highlighting the government's commitment to fiscal discipline and the comparatively low external public debt ratios as the major credit strengths. The rating on the long-term domestic debt was affirmed at Ba2, and that on the foreign debt at B. The report also issued by Bear Stearns on 12 November 2003, outlined similar positive developments in Jamaica's public debt management. However, both reports highlighted Jamaica's unsustainable debt ratios and the state of the fiscal accounts as the major areas of concern. While the reports outlined the downside risks to investing in Jamaica, they also would have aided the price at which Jamaican bonds traded in the secondary market.

Box 2: Macroeconomic Determinants of Nominal Interest Rate

Introduction

The general spectrum of interest rates in an economy largely reflects activities in the bond market, which represents the largest class of debt instruments. These rates vary with several factors, some of which are microeconomic. However, the main influences are macroeconomic in nature. This box represents the first in a two-part series on the determinants of interest rates in the bond market and focuses on a survey of the literature. Part two will be published in the March issue of the QMPR and will focus on country experiences, including Jamaica.

The Bond Market

The bond market is a medium in which large sums of money are traded between borrowers and lenders. Lenders acquire a legal claim, usually in the form of a certificate, which details the terms of the agreement. The major traders in a bond market are usually large firms, financial institutions and the government.

The factors that influence conditions in the bond market include the level of private demand, government's demand for financing and the central bank's stance in meeting its inflation objective. The level of private demand for financing varies with profit opportunities as determined by the rate of growth of the economy. Generally, outside of individual firm risk, rates in the bond market vary inversely with liquidity conditions, especially in situations where the market is thin.

Government's borrowing requirements also influence liquidity conditions in the bond market. For example, if government's demand for financing is high, this could reduce the general liquidity available to the private sector. This would tend to raise the average level of interest rates in the market.

The central bank's stance on aggregate demand management is a key factor influencing conditions in the bond market. The monetary authorities generally set a reference interest rate to control the level of liquidity consistent with price stability. In this regard, adjustments to this reference rate in turn affects the spectrum of market rates thereby influencing aggregate demand and hence inflation.[1]

Macroeconomic Determinants

A number of macroeconomic factors will determine whether an investor wants to hold an issuer's bonds and the price he would be willing to accept. These factors include inflation expectations, demand pressures and the state of the balance of payments (BOP). The rate of growth of money and country risk are also important macroeconomic factors.

Inflation expectations play a major role in the determination of interest rates. A change in inflation expectations could arise from money growth relative to output, movements in the exchange rate, past inflation and imported inflation. Government being the major borrower in an economy also plays a role in influencing inflation expectations depending on how its financing needs are met.

If inflation expectations increase, lenders will demand to be compensated for the risk of higher future inflation. This is in an effort to

[1]See Robinson, W., et. al (1997) The transmission mechanism of monetary policy in the Jamaican economy and George, E., et. al. The transmission mechanism.

ensure that the sum invested will be able to purchase at least the same amount of goods and services on maturity of the loan. Consequently, all borrowers in the economy would be faced with higher rates to compensate lenders for the inflation risk.

Demand pressures emanate from both the private and public sectors. However, in many developing countries, demand pressures usually stem from excess demand by government as reflected in large budget deficits. A budget deficit can be financed by borrowing from abroad or from domestic resources. If financed domestically, a deficit tends to increase competition for the available resources in the bond market. In satisfying its demand, the government is forced to offer higher interest rates for the limited resources while crowding out the private sector. Not only does competition cause rates to increase but a worsening debt stock relative to the government's ability to repay, adds to the interest premium, even when the borrowing requirement is reduced.

In cases where the central bank supplements the financing requirements, investors will build an additional premium into interest rates to maintain the purchasing power of their money. This is the case as the ensuing monetary injection will cause higher inflation, with monetary policy unchanged [2]. This process of monetizing the debt often occurs in countries where a central bank is not autonomous.

The net position of a country relative to the rest of the world or the BOP generally reflects the level of demand pressures in an economy. A deficit on the current account of the BOP reflects the private and/or the public sector's dissaving. In the short run, higher public sector dissaving, for example, allows the current taxpayers to shift some of their tax liabilities to the future. This makes the current taxpayers better off, thereby stimulating consumption spending. In an open economy, some of the short-run increase in consumption will tend to raise spending on foreign goods and services. [3] Financing the resulting imbalance might require increased borrowing from abroad or a draw down in the net international reserves (NIR) of the country.

If the current account deficit relative to GDP is high and continues to deteriorate, investors will require higher interest rates to maintain/invest their funds in the country where they observe an increasing rate of decline in the NIR. If domestic interest rates are not attractive relative to rates in the rest of the world, capital flight is likely to occur and lead to significant exchange rate depreciation. In an economy where the exchange rate pass-through[4] is fast, local investors will demand higher interest rates to cover higher inflation.

The credibility of **monetary policy** could affect the rates that investors require in the bond market. A credibility problem could occur if investors perceive that the stance of monetary policy is more expansionary than it should be[5] thus leading to a divergence in inflation expectations. This is especially relevant in situations where money growth arises from unsterilized [6] monetization of government debt. In instances where the central bank is unable to reabsorb the injection at existing interest rates, investors observing a relatively high growth in the

[2] See Dodge D., (2002) The Donald Gow Lecture.

[3] Macklem, T., (1994) Some macroeconomic implications of rising levels of government debt.

[4] See Box 2 in QMPR, April - June 2003, Volume 4 No.1 for a discussion on exchange rate pass through.

[5] Money growth persistently in excess of that warranted by growth in the real economy is inflationary.

[6] See glossary.

money stock, may perceive that a central bank is willing to tolerate more inflation. In this regard, the investor may expect inflation in the future to be higher than earlier anticipated and hence build a credibility premium in interest rates.

The central bank, in its assessment of the economic situation and the likely impact on inflation, sends periodic signals through interest rate adjustments or other means. The rates offered by the central bank will affect the real economy through changes in deposit and loan rates and the prices of bonds, equities and real estate.

Country risk refers to a set of factors peculiar to a country that could impair the return on an investment. This is also important in determining interest rates especially on debt issued in foreign currency. The factors influencing country risk include the macroeconomic factors discussed above as well as the social and political conditions in a country. For developing countries, conditions in other emerging markets also impinge on their country risk.

Among the macroeconomic factors, cross country evidence from industrialized countries states that at low and moderate debt to GDP ratios, the effect on the risk premium associated with government debt is either small or absent but that countries with high debt ratios face higher financing costs. [7] Similarly, a track record of political stability reduces the premium faced by a country as investors are more confident in political continuity.

Sovereign risk rating agencies tend to signal to the public whether they need to change the risk attached to a country's debt. A downgrade or a "credit watch" of sovereign debt signals an increase in risk and vice versa. The investor usually takes account of this signal in determining the yield demanded on sovereign debt instruments.

The yields on a country's global bonds traded in the secondary market usually sets the floor for domestic interest rates. This is especially the case where domestic investors hold a significant volume of a country's global bonds.

In an open economy, domestic interest rates are generally a function of foreign interest rates plus a premium. [8] Included in the premium are exchange rate risks, the tax rate and other transaction costs.

Conclusion

Market forces, which react to the macroeconomic, social and political conditions in a country, play a significant role in the determination of interest rates. Inflation expectations are an important factor in this process. The operations of government exert major influence on the fundamentals through its demand and the level of confidence generated. If the fundamentals of a country are generally weak, the investor will be induced to charge a high interest rate premium.

A central bank, in fulfilling its role of maintaining low and stable inflation, uses interest rates as a policy tool to indirectly influence the fundamentals. However, in cases where a central bank does not respond to inflation risks, a loss of confidence in policy may ensue. In such a situation higher interest rates are inevitable, as investors will demand higher rates for the expected inflation.

[7] See Bayoumi, T., et. al. (1994) Do Credit Markets Discipline Sovereign Borrowers? Evidence from the United States.

[8] See Edwards S., et al, (1985) Interest Rate Determination in Developing Countries: A conceptual Framework, NBER Working paper #1531,

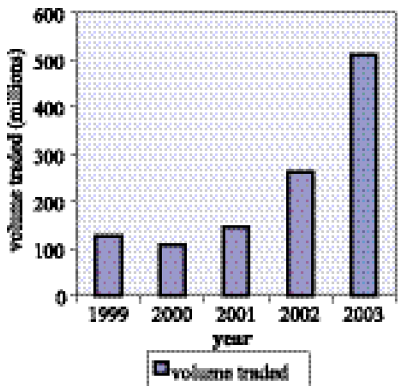
Stock Market

Strong momentum in stock market continues in the December 2003 quarter.

The strong performance of the stock market in the December 2003 quarter reflected the continuation of the positive market momentum observed throughout 2003. During the review quarter, a significant number of listed companies experienced stock price increases that helped to propel the main JSE Index to record-breaking levels. The relatively accommodative monetary environment and the reporting of impressive profit positions helped to buoy stock price increases during the quarter.

Similar to the September 2003 quarter, the stock market was positively influenced by relative stability in the foreign exchange market and the reduction in interest rates during the December quarter. These conditions were accompanied by increased stock market participation arising from the impact of higher inflation.

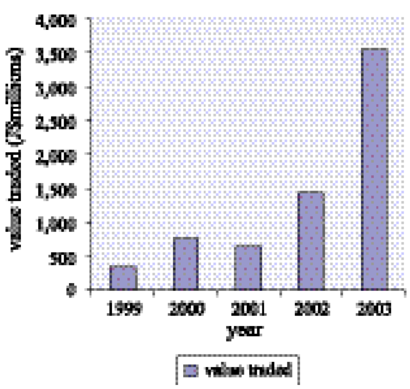
Figure 1.12
Volume traded in December quarter 1999 to 2003



Source: Jamaica Stock Exchange

The annual trend in market activity reflected the buoyancy that prevailed in the market through much of the year. [9] Volumes and values traded in recent December quarters have, generally, increased from year to year (see **Figures 1.12** and **1.13**). However, the review quarter recorded exceptional results with total volume and value traded reflecting annual increases of 94.5 per cent and 145.8 per cent, respectively, relative to the average annual increases of 33.7 per cent and 77.7 per cent for the period 1999 to 2002. These developments were partly attributable to new listings and public education strategies employed by the Stock Exchange, in addition to the increasing recognition of equities as an effective hedge against inflation. [10]

Figure 1.13
Value traded in December quarter 1999 to 2003



Source: Jamaica Stock Exchange

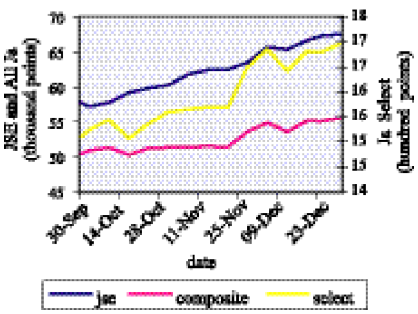
[9]During the December 2003 quarter, a total of 513.4 million units were traded at a value of $3.5 billion, a decline of 58.6 per cent in total volume traded and a 27.0 per cent decline in total value traded, relative to the September quarter.

[10]The listing of Jamaica Money Market Brokers and Capital and Credit Merchant Bank earlier in the year could have helped to increase trading in the December 2003 quarter, relative to the December quarters in previous years. The JSE held an 'outreach seminar' on 09 October 2003 aimed at sensitising prospective and existing investors about recent developments in the stock market and the JSE.

Figure 1.14
Stock Market Capitalisation
December 2002 to December 2003

Source: Jamaica Stock Exchange

Figure 1.15
Main Stock Market Indices
December 2003 quarter



Source: Jamaica Stock Exchange

Table 1.12

Average of the price gain by category/sector (December 2003 quarter)	
Category/Sector	**Average %**
Other Services	36.0
Manufacturing	15.4
Financial	10.6
Conglomerates	10.3
Distributive	9.1
Telecommunication[12]	-4.0

Source: Jamaica Stock Exchange

[12]The decline in the average stock price of listed firms in the telecommunications sector was due, primarily to a 4.7 per cent decline in the stock price of Cable and Wireless Jamaica Ltd., and the 10.7 per cent decline in that of the Gleaner Company.

The relatively high levels of market activity during the review quarter was reflected in the growth of the stock market capitalization, which stood at $512.9 billion at the end of the period, a 16.8 per cent increase for the quarter and a 75.5 per cent increase for the calendar year (see **Figure 1.14**). In addition, the JSE Index increased by 17.0 per cent for the quarter and 48.9 per cent for the year to close the period at 67 586.7 points. The All Jamaican Composite and the Jamaica Select indices recorded gains of 10.4 per cent and 12.4 per cent, respectively, for the review quarter (see **Figure 1.15**)[11].

Against the background of overall stock market growth, a noticeable feature was the growth in the share of market capitalization of entities listed in the financial services sector. During 2003, the share of market capitalization attributed to the financial sector entities grew to approximately 80.0 per cent, from 60.0 per cent at the start of the year. This increase was due to new listings and stock price increases for entities in the sector with significant issued share capital.

More than two-thirds of traded stocks advanced during the review quarter. Notably, positive price performances were not restricted to the financial services sector. As depicted in **Table 1.12**, all categories of stocks, excepting those from the telecommunications sector, recorded average price gains. The Other Services sector recorded an average price increase of 36.0 per cent that was mainly reflective of a 170.0 per cent increase in the stock price of Montego Bay Freeport (see **Tables 1.12** and **1.13**).

Stocks of cross-listed entities performed well in the review period[13]. Of these stocks, Guardian Holdings Group posted the most significant gain, as the market responded to news of the entity's acquisition of Link Underwriting Agency

[11]At the end of December 2003, the All Jamaica Composite Index stood at 55 629.6 points and the Jamaica Select Index stood at 1 697.9 points. The year on year increases were 20.6 per cent and 17.1 per cent, respectively.

[13]Entities such as RBTT Financial Holdings Limited, Guardian Holdings Limited, Caribbean Cement Company Limited, Trinidad Cement and Grace Kennedy and Company Limited recorded price gains for the review quarter.

Limited and the intention to create an insurance company in Gibraltar[14]. It must be pointed out, however, that price increases during the review quarter were not concentrated in cross-listed stocks (see **Table 1.13**). For example, the stock price of Bank of Nova Scotia Jamaica Limited was buoyed by a reported increase of 26.6 per cent in the company's gross operating income for the financial year ended October 2003. Also, the stock price of Jamaica Broilers' Group was buoyed by a reported increase of 17.4 per cent in gross profits for the six months ended October 2003.

Table 1.13

Top Ten Stock Price Gains
December 2003 quarter

Sectors/ Companies	Price at 31 Dec-03 $	Qtr Change %
Financial Services Sector		
BNS	22.84	34.4
RBTT	345.00	38.0
Guardian	323.00	60.7
Manufacturing		
Carib Cement	3.50	27.3
CMP	2.99	49.5
Ja Broilers	1.49	35.5
Trin Cement	61.00	22.0
Distributive Sector		
Goodyear	6.75	25.0
Conglomerates		
GK&Co	53.95	27.7
Other services		
Mont Freeport	2.43	170.0

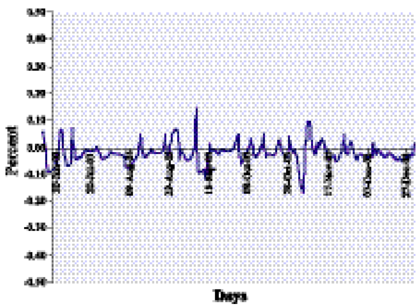
Source: Jamaica Stock Exchange

Stock market optimism is expected to continue into the 2004 calendar year. The increasing level of market activity signals the strong investor interest that is a prerequisite to continued market development. Furthermore, strong performance of listed companies indicates that the observed growth in the market has, to a reasonable extent, been predicated on microeconomic fundamentals[15]. A continuation of this positive performance, along with the increasing number of cross-listed entities, reduces the perception of susceptibility to shocks to any single business environment. Nevertheless, continued stability in the foreign exchange and money markets is necessary for sustainable market growth. In addition, expectations of economic growth in 2004 may help to stimulate investor participation in the market.

[14] Link is a managing general agent in the UK domestic motor, household and accident and health markets serving over 4 000 brokers and binder accounts with income for 2003 of £87 million.

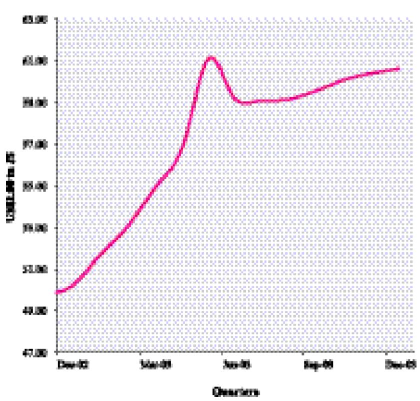
[15] Stock price increases that have been accompanied by increased profitability could be interpreted as being non-speculative.

Figure 1.16
Exchange Rate Volatility(*)



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

Figure 1.17
Weighted Average Selling Exchange Rate (period average)



Foreign Exchange Market

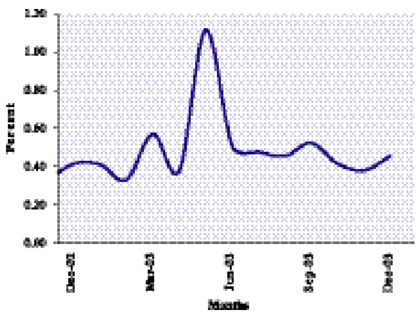
The foreign exchange market was kept relatively stable in the December 2003 quarter, notwithstanding significant pressures in October (see ***Figure 1.16****). The weighted average selling rate depreciated by 1.5 per cent during the December 2003 quarter, resulting in a total depreciation for the calendar year of 15.9 per cent. The gradual improvement in the foreign exchange market during the review quarter was influenced by relatively tight Jamaica Dollar liquidity conditions, as well as improved foreign currency flows and investor confidence. The relative stability mirrored the increased demand for Jamaica Dollar assets.*

The weighted average selling rate of the Jamaica dollar vis-a-vis the US dollar depreciated by 1.5 per cent in the December 2003 quarter, resulting in a depreciation of 15.9 per cent for 2003. The exchange rate increased to US$1.00 = J$60.62 at end-December 2003 from US$1.00 = J$59.71 at end-September 2003. The movement in the exchange rate during the review quarter compares favourably with the 3.3 per cent depreciation in the corresponding quarter of 2002, but was marginally above the 1.2 per cent observed in September 2003 quarter (see **Figure 1.17**). In this context, an average daily increase of J$0.01 in the exchange rate was observed, the same as the September quarter, and significantly below the average of J$0.06 observed for first half of 2003.

There was a gradual improvement in market conditions during the quarter. The exchange rate depreciated by 1.2 per cent and 0.35 per cent in October and November, respectively, but appreciated by 0.05 per cent in December. The movement in the exchange rate in October was influenced primarily by higher demand for foreign currency to pay for imports, as well as a fairly liquid Jamaica Dollar overnight market. The movement in the exchange rate was also affected by a large institution's demand for US dollars to meet an overseas obligation.

However, the rate of depreciation was tempered by significant intervention sales by the BOJ to the market.

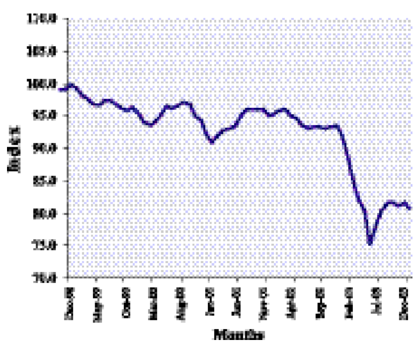
Figure 1.18
Foreign Exchange Spread as a Per Cent of Average Buying Rate



The market average bid-ask spread declined during the review quarter, consistent with the improved market fundamentals. The spread expressed as a percentage of the quarterly average buying rate declined to 0.41 per cent for the December 2003 quarter from 0.48 per cent in the preceding quarter (see **Figure 1.18**). While the spread realized in the review period was lower than the March and June 2003 quarters, it was above levels observed in 2002.

Against the background of the generally stable foreign exchange market conditions, the Real Effective Exchange Rate (REER)[16] index declined by 1.1[17] per cent for the December 2003 quarter (see **Figure 1.19**), relative to the September 2003 quarter. As a result, the twelve-month point-to-point movement in the REER as at December 2003 reflected a 12.2 per cent gain in competitiveness.

Figure 1.19
*Real Effective Exchange Rate Index***
(December 1998=100)



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

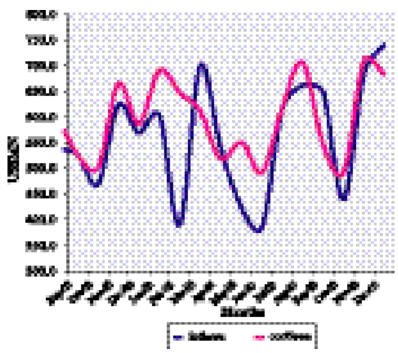
The improvement in external competitiveness during the review quarter principally ensued from an appreciation of the weighted average exchange rate index of Jamaica's non-United States trading partners and the depreciation of the local currency vis-à-vis the US dollar. The general moderation in the differential between domestic inflation (See **Inflation**) and the weighted inflation index of Jamaica's trading partners also contributed to the outturn.

The appreciation in the exchange rate of Jamaica's non-United States trading partners was primarily influenced by respective appreciations of 4.9 per cent and 3.5 per cent in the Euro and the Pound Sterling vis-à-vis the US dollar. This occurred in a context of, inter alia, rising concerns regarding the widening fiscal and current account deficits, and low rates of return on deposits in the US market. The depreciation of the US dollar against the Euro and the Pound contributed to increased US Dollar inflows associated with Jamaican exports to the United Kingdom and other European countries.

[16]See Volume 4 No.1 for more details on the real effective exchange rate.

[17]The contraction in the index indicates a gain in external competitiveness.

Figure 1.20
Monthly Foreign Exchange Cash Inflows & Outflows



The foreign exchange market during the review period was influenced by improvements in investor confidence [18] driven by market perception of buoyant real sector performance and expected future profitability of firms. In addition, the flow of Jamaica Dollar liquidity was relatively tight (see **Bond Market**) and there was increased supply of foreign exchange to the market in the review quarter, relative to the comparable quarter in 2002. Despite a higher level of foreign exchange inflows for the quarter, there were bouts of demand pressure, which necessitated periodic intervention by the BOJ to augment supply.

Against this background, the excess demand in the market was significantly less than that recorded in the December 2002 quarter. Preliminary estimates of foreign exchange flows within the economy indicate that there was excess demand for foreign currency of US$17.6 million in the review quarter, which compares favourably with the excess demand of US$90.3 million observed for the corresponding quarter in 2002. Relative to the comparable quarter in 2002, the supply of and demand for foreign exchange are estimated to have increased by US$185.1 million and US$112.2 million, respectively. Total inflows and outflows of foreign exchange for the quarter were estimated at US$1 846.4 million and US$1 864.0 million, respectively (see **Figures 1.20**).

Increased foreign exchange inflows to the economy during the review quarter largely resulted from private and official capital inflows, tourism and current transfer inflows. Preliminary estimates for the December 2003 quarter suggest respective gross increases in capital inflows, current transfers and tourism inflows of US$138.6 million, US$33.0 million and US $14.8 million, relative to the December 2002 quarter.

[18]See the Jamaica Conference Board at http://www.jaconferenceboard.com/4th2003_quarter_survey_business.html for a review of the September's outturn

Figure 1.21a
Foreign Exchange Cash Inflows by Institution

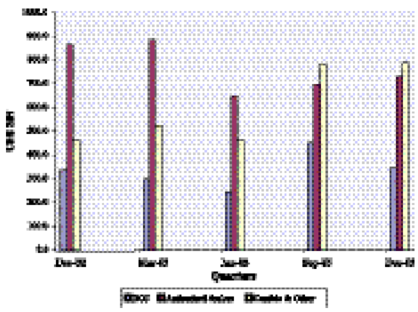
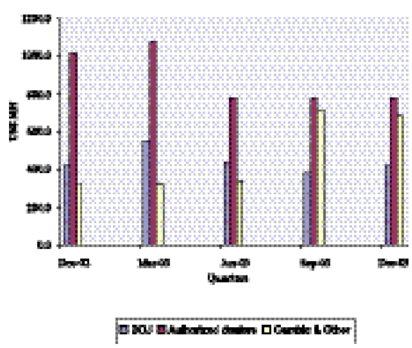


Figure 1.21b
Foreign Exchange Cash Outflows by Institution



The growth in capital inflows was associated with the Government's foreign currency debt raising activities in the local and regional capital markets. Tourism is estimated to have benefited from a 14.2 per cent increase in visitor arrivals in the review period, relative to the comparable December 2002 quarter, while transfers, in particular private remittances, grew by 21.5 per cent. The performance of tourism and current transfers benefited from the strong growth recorded by the US economy during 2003.

The estimated growth in demand for US dollars in the review quarter largely reflected private capital outflows, as well as Government of Jamaica (GOJ) external debt payments. The demand for US dollars was also influenced by higher demand for imports.

There were net sales of US$52.0 million to the market by *Authorized Dealers*. This was US$96.1 million lower than the corresponding December 2002 quarter due to the improved supply conditions, as well as lower demand for US dollars. Total volumes purchased increased by US$19.8 million to US$730.1 million, while the amounts sold declined by US$76.3 million to US$782.1 million (see **Figures 1.21a** & **1.21b**). The increase in supply to this segment of the market ensued principally from private capital inflows associated with improved business confidence. The contraction in foreign exchange sales largely reflected reduced demand to pay for imports of services, excluding expenditure by Jamaicans travelling abroad.

Cambios recorded net purchases of US$64.7 million during the December 2003 quarter. Relative to the December 2002 quarter, total purchases by the cambios declined by US$39.3 million to US$447.0 million. Concurrently, total sales declined by US$26.5 million to US$379.6 million. Consequent on these developments the NIR contracted by US$17.6 million during the quarter to end the year at

Table 1.14

Net International Reserves (US$M)			
Month	Stock	One Month Change	Three Month Change
Dec-02	1 597.0	-17.4	-90.3
Jan-03	1 510.3	-86.7	-145.0
Feb-03	1 252.9	-257.3	-361.5
Mar-03	1 339.7	86.7	-257.3
Apr-03	1 362.1	22.4	-148.2
May-03	1 233.3	-128.8	-19.6
Jun-03	1 127.4	-105.9	-212.3
Jul-03	1 124.9	-2.5	-237.2
Aug-03	1 080.1	-44.8	-153.2
Sep-03	1 182.6	102.5	55.2
Oct-03	1 131.1	-51.5	6.2
Nov-03	1 103.3	-27.8	23.2
Dec-03	1 165.0	61.7	-17.6

US$1 165.0 million (see **Table 1.14**). Outflows were primarily influenced by total foreign currency debt payments on behalf of the Government of US$221.3 million and net sales of US$47.8 million by the BOJ to the market during the review period. The main inflow during the quarter was the purchase of US$100.0 million, representing loan proceeds from the Bank of Nova Scotia Jamaica Ltd to the Government. Against this background, the gross reserves of the BOJ at end-December 2003 were US$1 196.3 million, representing 12.5 weeks of projected goods and services imports.

Leading indicators of economic performance for Jamaica suggest an expansion in real Gross Domestic Product (GDP) during the December 2003 quarter. With the exception of manufacturing, economic growth was estimated to have occurred in all sectors of the economy. In particular, growth in the review quarter was associated with the continued normalisation of activities in the agricultural sector, and there was further growth in financing & insurance services, electricity & water, transport, storage & communication and tourism (see Table 2.1).

As reported by the Statistical Institute of Jamaica (STATIN), the Jamaican economy grew by 2.2 per cent over the first three quarters of 2003, relative to the corresponding period in 2002. This, along with the Bank's estimates for the December 2003 quarter, suggests that the economy recorded growth between 2.0 and 2.5 per cent for the 2003 calendar year.

From the perspective of aggregate demand, the expansion in economic activity in the review quarter reflected estimated real increases in overall consumption expenditure, as well as private investment spending, which were partially offset by a decline in net external demand.

Table 2.1

Sectoral Contribution to Growth
December Quarter

	Estimated Impact on Growth
1. GOODS	+ve
Agriculture, Forestry & Fishing	+ve
Mining & Quarrying	+ve
Manufacturing	-ve
Construction & Installation	+ve
2. SERVICES	+ve
BASIC SERVICES	+ve
Electricity & Water	+ve
Transport Storage & Communication	+ve
OTHER SERVICES	+ve
Distributive Trade (Wholesale & Retail)	+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

Expansion in both the goods producing sectors and services.

Leading indicators of economic performance for Jamaica suggest an expansion in real GDP during the December 2003 quarter, albeit slower than the growth of 3.6 per cent recorded in the December 2002 quarter. Expansion in output was evident in both the goods producing and services sectors. Among the goods producing sectors, agriculture, mining and construction grew, while manufacturing is estimated to have declined, relative to

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

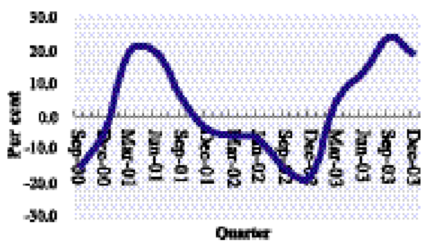


Figure 2.2
Trends in Sugar Cane Milled
(12-month change)

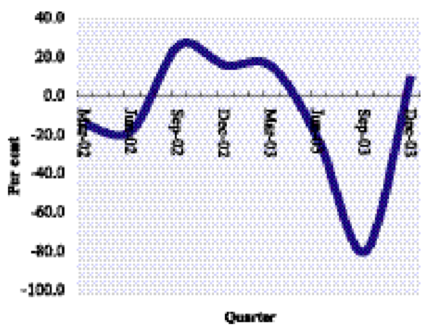
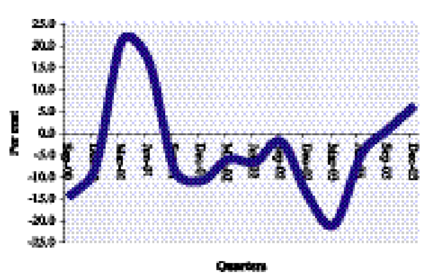


Figure 2.3
Trends in Banana
(12-month change)



the corresponding period in 2002. For the services sector, relatively strong growth was registered in financing & insurance and tourism. The estimated growth in the real sector was consistent with a real increase of 26.8 per cent in loans and advances to the private sector during 2003 (see **Money and credit**).

The expansion in *Agriculture* was reflected in higher output in both the domestic and export sub-sectors. An estimated growth of 21.0 per cent in domestic agricultural output occurred in the quarter. In particular, the production of vegetables, condiments, fruits, potatoes and yams grew significantly. This significant growth represented a recovery from the impact of the flood rains in May/June 2002 and September 2002, which caused the production of domestic crops to decline by 18.4 per cent in the December 2002 quarter. The strong performance of the sector in the review quarter was, facilitated by relatively favourable weather conditions in 2003 (see **Figure 2.1**). Output from livestock & hunting and fishing are also estimated to have increased during the quarter, due mainly to growth in poultry and fish farming.

Higher output from the export agricultural sub-sector during the period was driven by expansions of 10.5 per cent and 6.3 per cent in the production of sugar cane and bananas, respectively (see **Figures 2.2** and **2.3**). The growth in sugar cane production is attributed to the recent initiatives by the Sugar Corporation of Jamaica (SCJ) to rejuvenate the sector. The SCJ replanted approximately 1800 hectares of fallow lands for the current crop year. An additional 800 hectares that were planted late in 2002 augmented output in the 2003/04 crop year. The SCJ also upgraded its processing plants for increased efficiency. However, growth for export agriculture was dampened by estimated declines of 2.9 per cent and 10.0 per cent in coffee and citrus exports, respectively.

Value added in the Mining sector is estimated to have increased in the review quarter, notwithstanding growth of 25.0 per cent recorded in the corresponding period of

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

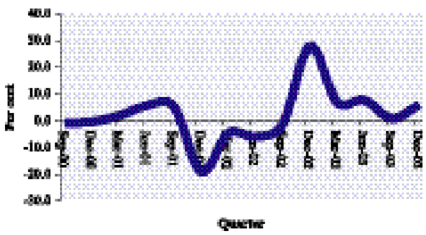


Figure 2.5
Trends in Crude Bauxite Production
(12-month change)

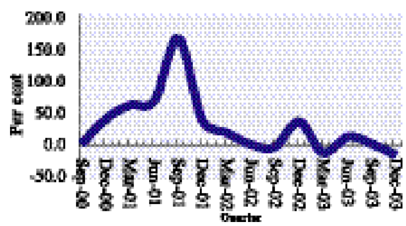
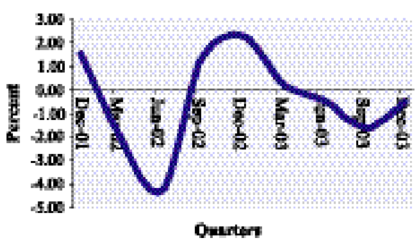


Figure 2.6
Manufacturing: Quarterly Growth Rate
(12-month change)



2002. The growth in the sector reflected the 6.1 per cent increase in alumina production during the quarter (see **Figure 2.4**). To achieve this expansion, the three processing plants operated at maximum capacity during the quarter, relative to a capacity utilisation of approximately 95.0 per cent in both the September 2003 and the December 2002 quarters. The overall growth in the sector was, however, partially offset by a decline of 16.1 per cent in crude bauxite production (see **Figure 2.5**), as mining activities were affected by unfavourable weather conditions.

Indicators for the manufacturing sector suggest a marginal contraction in the review period, the third successive decline since the March 2003 quarter (see **Figure 2.6**). The contraction in value added stemmed from the *food, tobacco & beverage* industries, as the '*other manufacturing*' group is estimated to have grown for the quarter.

With regard to *food, tobacco* & *beverages*, declines in the production of alcoholic beverages and tobacco for the period offset increases in food processing, sugar, molasses & rum and non-alcoholic beverages. The decline in alcoholic beverages stemmed from lower consumer demand, resulting from price increases over the period January to April 2003. Likewise, the tobacco industry continued the decline experienced over the past three quarters due to the closure of a major company. Within the food processing sub sector, poultry meat production accounted for most of the growth that occurred in the quarter.

The growth in the '*other manufacturing*' sub-sector, which includes petroleum refining, is in contrast to an average decline of 3.7 per cent during the previous two quarters. Growth was inferred, in part, from increases in petroleum refining and non-metallic mineral products, although the trend decline in the textile and leather industries is estimated to have continued during the quarter.

The *Construction* & *Installation* sector expanded in the review quarter. This growth compares with the more

Manufacturing activities declined during the quarter.

Figure 2.7
Construction: Quarterly Growth Rate
(12-month change)

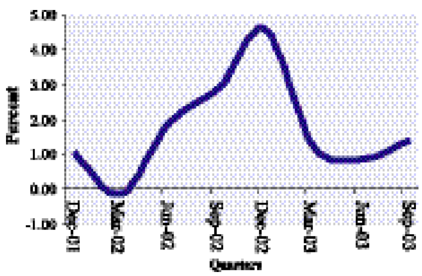
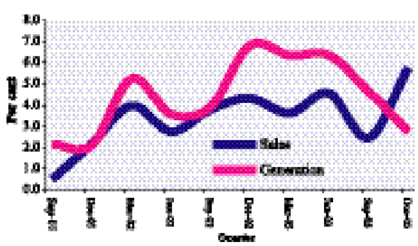


Figure 2.8
Electricity Generation & Sales
(12-month change)



significant expansion of 4.6 per cent recorded during the December 2002 quarter, due primarily to the ongoing construction of Highway 2000. The estimated growth in the sector for the December 2003 quarter was also, partly inferred from a real expansion of approximately 40.0 per cent in loans to the construction sector for the 12-month period ending December 2003. In addition, the residential segment of the market benefited from an increase of 51.9 per cent in housing starts by the National Housing Trust (NHT), relative to the December 2002 quarter. These housing starts were solely related to build-on-own land projects. The expansion of the sector was further enhanced by continued work on the Highway 2000 and the North Coast Highway projects. However, between the period January and September 2003, expansions in the sector have moderated to an average quarterly growth of 1.2 per cent (see **Figure 2.7**).

An expansion in real value added in *Electricity* & *Water* reflected increases of 2.8 per cent and 3.5 per cent in total electricity generation and sales, respectively, relative to the comparable quarter in 2002 (see **Figure 2.8**). The sector recorded a quarterly average growth rate of approximately 4.3 per cent between the September 2001 and September 2003 quarters. This buoyancy, which continued into the review period, was driven by the renovation and expansion exercises that were implemented by the main power company in 2002 and 2003. Water production also grew by an estimated 2.0 per cent in the period, relative to the December 2002 quarter.

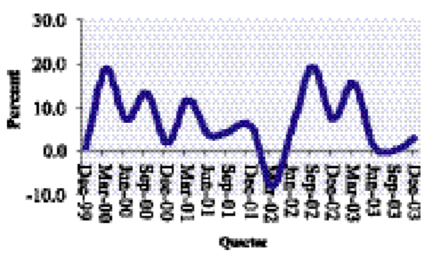
For *Transport, Storage* & *Communication*, growth in the transport sub-sector for the December 2003 quarter was inferred, in part, from a 14.2 per cent increase in visitor arrivals relative to the corresponding quarter in 2002. Additionally, the number of ships calling at Jamaican ports, as well as cargo movements over the island's main sea ports increased by approximately 3.6 per cent and 6.0 per cent, respectively, relative to the corresponding quarter in 2002. The growth in ships calling at Jamaican ports was associated with the 4.0 per cent increase in cruise ship arrivals.

With regard to the communication sub-sector, the total number of telephone lines in service (mobile and 'plain old telephones' (POTS)) was estimated to have grown by approximately 13.1 per cent for the quarter, relative to the December 2002 quarter. Much of the dynamism in the sector was fuelled by the expansion in the mobile services sub-sector, the result of large-scale, rapid expansions in the mobile telephone networks of the major providers. Facilitating the overall performance of the sector was a real increase of 62.8 per cent in commercial bank loans to the industry, over the 12-month period ending December 2003 (see **Money and Credit**).

Continued growth in Transport, Storage and Communication improved performance of the Banking Industry.

The relatively slow growth experienced by Distribution over the previous eight quarters continued into the December 2003 quarter. Over the previous eight quarters, the sector grew by approximately 0.5 per cent on average. The growth in distribution during the review quarter was partly inferred from estimated real increases of 3.2 per cent and 13.2 per cent in merchandise imports and consumption tax receipts, respectively, relative to the December 2002 quarter (see **Figure 2.9**). In addition, the real stock of loans extended to the sector increased by 56.3 per cent for the twelve-month period ending December 2003. The performance of the sector during the quarter was also enhanced by the expansion in agricultural output.

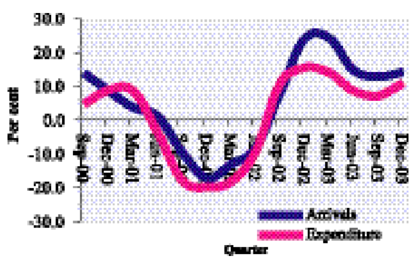
Figure 2.9
Merchandise Imports
(12-month change)



The estimated growth in *Financing* & *Insurance Services* over the review quarter was comparable to the quarterly average growth rate of 6.3 per cent recorded between March 2002 and September 2003. The performance of the sector was underpinned by growth in the banking sub-sector, particularly the commercial banking industry. While still reflecting a negative value added, the operations of the Bank of Jamaica for the quarter resulted in an improvement in the institution's direct contribution to measured economic activity, relative to the December 2002 quarter.

Increased returns on investments and loans & advances in commercial banks were the main drivers of growth in the banking industry. Between end-December 2002 and end-September 2003, commercial banks' loans and advances and their stock of securities grew, in nominal terms, by 25.4 per cent and 10.3 per cent, respectively. This contributed to the buoyancy in the interest income of these institutions. Over the same period, interest rates on commercial banks loans and money market interest rates rose by approximately 110 and 640 basis points, respectively. These gains were complemented by an increase in commercial banks' non-interest income.

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



The improvement in the value added of the Bank of Jamaica was related to a nominal expansion of 101.0 per cent in its interest income, which outweighed the impact of a 54.0 per cent growth in the Bank's interest expense. A 106.5 per cent growth in earnings from the Bank's holdings on Government LRS instruments was the primary determinant of the increase in income, while interest expenses reflected the higher cost of open market operations.

Miscellaneous Services continued to grow during the review period, registering an estimated increase of over 4.0 per cent, following quarterly average growth rates of 6.2 per cent over the previous four quarters. This performance was attributed mainly to the tourism industry (*hotels*, *restaurants* and *clubs*), which recorded growth in excess of 6.0 per cent in the review period. The major factor contributing to this enhancement was an increase of 14.2 per cent in tourist arrivals, of which cruise passenger arrivals increased by 22.2 per cent (see **Figure 2.10**). Visitor expenditure also increased by 11.0 per cent in the quarter.

The growth in cruise arrivals was within the context of the aggressive marketing efforts by the Jamaica Tourist Board (JTB) and investments undertaken in docking facilities across the Island over the past few years, in particular the

Port Antonio pier. Further, the Princess Cruise line resumed visits during the quarter following a three-year absence. This cruise line, along with the Carnival and Royal Caribbean cruise lines, allowed the country to register for the first time in December 2003, the one-millionth cruise visitor in a single year. Cruise tourism also benefited from the redeployment of cruise vessels from the Mediterranean to the relatively safer Caribbean region.

Cruise shipping expands significantly in 2003.

High economic growth, coupled with lower unemployment and higher consumer confidence in the USA, also had a positive impact on visitor arrivals. In addition, unusually cold weather in the USA, the depreciation of the US Dollar vis-à-vis the Euro and the Pound Sterling, and the real depreciation of the Jamaica Dollar vis-à-vis the currencies of Jamaica's main trading partners (see **Foreign Exchange Market** section), engendered growth in the sector.

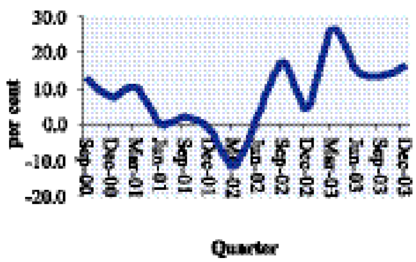
Developments for calendar year 2003

Data from STATIN indicate that the Jamaican economy grew by 2.2 per cent over the first three quarters of 2003, relative to the corresponding period in 2002. This, along with the Bank's estimates for the December 2003 quarter, suggests that the economy recorded growth between 2.0 and 2.5 per cent for the 2003 calendar year. Growth during the year was driven by expansion in all sectors of the economy, with the exception of manufacturing and government services. The more significant impetus emanated from services. Of note, the *transport*, *storage* and *communication* sector grew by an estimated 5.0 per cent for the year and, given its weight in GDP, was the largest contributor to the economic expansion. Growth in the financial sector also aided the overall increase in real GDP. The value added of the hotels, restaurant and clubs sub-sector grew by an estimated 6.0 per cent for the year, in the context of a 16.4 per cent expansion in total visitor arrivals. While stopover arrivals expanded by approximately 6.5 per cent, the cruise shipping industry experienced a significant expansion of approximately 30.0 per cent.

Real economic growth between 2.0 and 2.5 per cent estimated for 2003.

Transport, storage & communication and financing & insurance services main drivers of growth

Figure 2.11
Trends in Consumption Tax Receipts
(12-month change)



Overall improvement in aggregate demand

Figure 2.12
Trends in Total Imports
(12-month change)

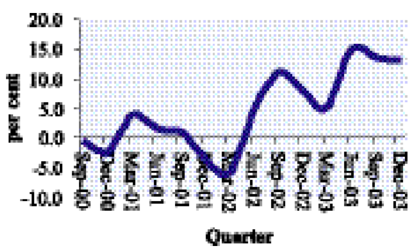
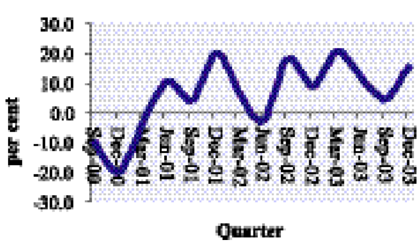


Figure 2.13
Trends in Government's Expenditure
(12-month change)



The estimated decline in manufacturing was mainly attributable to the performance of the petroleum refinery and the trend decline in the tobacco industry. Petroleum refining was affected by the closure of Petrojam for scheduled maintenance in the June 2003 quarter.

Aggregate Demand

Indicators of performance of aggregate demand pointed to enhancements in real consumption spending and gross capital formation during the review period, relative to the corresponding period of 2002. Conversely, the indicators for net external demand (net export of goods and services) suggested a contraction in this category of spending.

The growth in private consumption spending was inferred from a real increase of 13.2 per cent in Government's General Consumption Tax (GCT) & Special Consumption Tax (SCT) receipts, while total imports of goods and services grew in real terms by an estimated 16.3 per cent during the quarter (see **Figures 2.11** and **2.12**). Furthermore, growth in consumption expenditure was deduced from the aforementioned expansions in agriculture, selected manufacturing industries and basic services, as the output of these sectors were largely purchased by Jamaican consumers.

With respect to public consumption expenditure, the expansion was reflected in a real increase of 4.5 per cent in Government's non-debt expenditure[19], relative to the December 2002 quarter (see **Figure 2.13**). Of that amount, spending on wages and salaries increased in real terms by 9.3 per cent, while expenditure on programmes declined by 28.2 per cent (See **Appendix A: Fiscal Developments**).

Indicators of gross capital formation during the quarter suggested an improvement in investment spending. This growth was inferred from an increase of 21.0 per cent in estimated capital goods imports during the quarter, relative to the corresponding period in 2002 (see **Figure 2.14**). The increase in investment activities during the quarter was partly partly attributed to the ongoing expansion at

[19]Government expenditure minus interest payments.

Figure 2.14
Trends in Capital Goods Imports
(12-month change)

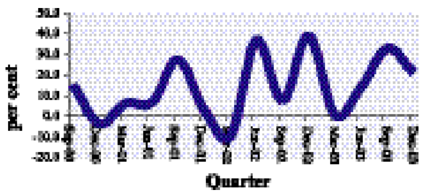
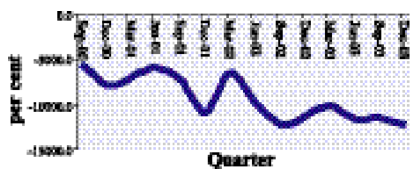


Figure 2.15
Trends in Net External Demand



the Kingston Wharves. In addition, commercial bank credit for private investments were strongest in tourism, transports, storage & communication, construction and distribution for the December 2003 quarter. Further, gross capital formation was enhanced by investments in the manufacture of limestone aggregates, building blocks and recycling facilitates in the quarter. Approximately $3.0 billion is to be invested in limestone quarrying between 2003 and 2006.

With respect to net external demand, there was an estimated deterioration during the review period, compared to the December 2002 quarter (see **Figure 2.15**). This deterioration reflected an estimated real increase of 15.8 per cent in the importation of goods and services, which was partly offset by an estimated growth of 29.6 per cent in the export of goods and services.

With regard to exports in the review quarter, the volume of alumina and banana exports increased by 3.7 per cent and 15.2 per cent, respectively, relative to the corresponding quarter in 2002. For the export of services, estimated net travel earnings improved in real terms by 15.1 per cent during the period. The estimated increase in imports was driven primarily by the importation of capital goods.

Summary

There was a noticeable expansion in economic activity in the December 2003 quarter. With the exception of manufacturing, all sectors of the economy reflected growth in the review quarter. For *Agriculture*, growth was attributable to the normalisation of output, in the context of negative shocks that occurred in the December 2002 quarter. Other major areas of growth were *Mining*, *Basic Services*, *Financing & Insurance* and *Miscellaneous Services*. Consumption demand and investment spending were the main factors underlying growth.

3. Inflation

The inflation rate for the December 2003 quarter was 3.4 per cent, somewhat above the Bank's projection.[20] This rate was less than the outturn in the preceding quarter but higher than that of the corresponding quarter of 2002. The inflation during the quarter was more than twice that of the average of the last five calendar year fourth quarters, and is the highest December quarterly outturn since 1995. The main factors behind the higher than projected inflation were higher administered, agricultural and international commodity prices. Price increases were strongest in the Rural Areas and weakest in the Kingston Metropolitan Area (KMA). For the calendar year, inflation was 14.1 per cent, 6.8 percentage points above the rate recorded in 2002. Core inflation is estimated to have been 1.98 per cent relative to 2.26 per cent estimated for the September quarter and 1.18 per cent for the corresponding quarter of 2002/03

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

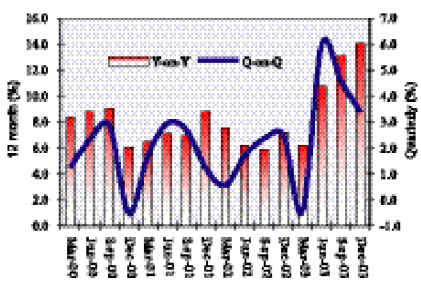
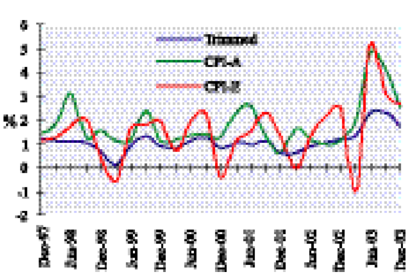


Figure 3.2
Core Inflation per Quarter



The inflation outturn for the December quarter was 3.4 per cent, significantly higher than the quarterly average of 1.3 per cent for the previous 5 years. Inflation for the fiscal year to date was 14.6 per cent, 8.0 percentage points above the comparable period in the prior fiscal year. For the calendar year, inflation was 14.1 per cent, relative to the 7.3 per cent recorded in 2002. The rate of inflation in this quarter was largely due to the higher cost of agricultural produce, adverse international commodity price movements and increases in administered prices. The Consumer Price Index (CPI) increased by 1.6 per cent, 0.9 per cent and 0.8 per cent in October, November and December, respectively.

Monetary Policy and Inflation

Core/underlying inflation, as measured by the trimmed mean, moderated over the quarter. In October, underlying inflation was estimated at 0.8 per cent and moderated to 0.7

[20]See September edition of the Quarterly Monetary Policy Report

Figure 3.3
Lagged Base Money & Core Inflation

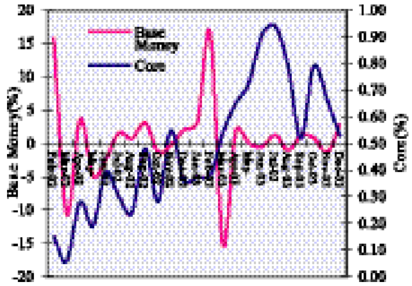


Figure 3.4
12 Month % Change Average Base Money and Core Inflation

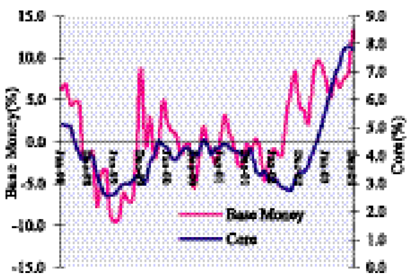
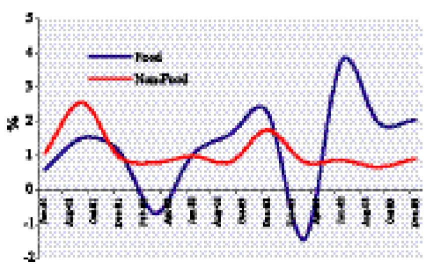


Figure 3.5a
Food and Non-Food Inflation (Quarterly)



per cent and 0.5 per cent in October and November, respectively. This was in response to tightened monetary conditions in the two preceding quarters. In particular, the monetary base increased by 0.7 per cent in the September quarter following a decline of 0.3 per cent in the June quarter (see **QMPR Volume 4**, **nos. 1 & 2**). The declining trends in the underlying components suggest a tendency towards lower overall inflation in the succeeding quarters.

For the quarter, core inflation, as measured by the trimmed mean index, was 2.0 per cent, representing a decrease relative to the 2.3 per cent recorded in the September quarter. Despite the moderation in the quarter, underlying inflation continues to be higher than desired on an annualised basis. For the fiscal year to date, the trimmed mean index increased by 6.7 per cent, relative to 2.8 per cent in the corresponding period of 2002/03. These increases followed the inflationary pressures in the first half of the fiscal year in which core was 4.6 per cent.

Other measures of underlying inflation, such as the CPI without Energy (CPI-E)[21] and the CPI without Agriculture (CPI-A), also declined over the quarter. The CPI-E index increased by 2.7 per cent in the December quarter relative to 3.0 per cent in the September quarter. For the CPI without Agriculture (CPI-A), the index increased by 2.5 per cent relative to 4.1 per cent in the previous quarter.

Non-Core Factors

The major factors influencing the non-core component of inflation during the period were related to the agricultural sector and international commodities. These factors contributed to higher food-based inflation in the review period (see **Figure 3.5a** and **Figure 3.5b**). Price movements in the agricultural sector, particularly the vegetables sector proved to be the most significant impulse to prices. Additionally, administered price increases were key domestic contributors to inflation. The price of oil on the international commodity markets surged in response to winter heating demand and perceived supply shortages.

[21]CPI-E is calculated by removing the energy sub-groups from the CPI

Figure 3.5b
Food and Non-Food Inflation (Annual)

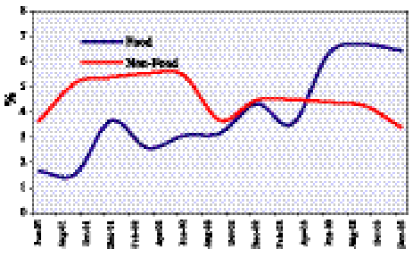


Figure 3.6
Grains Price Movements

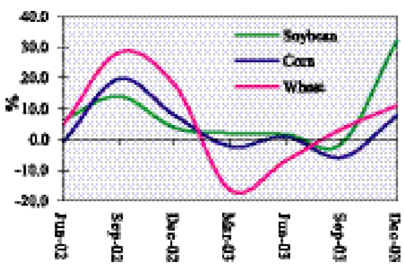
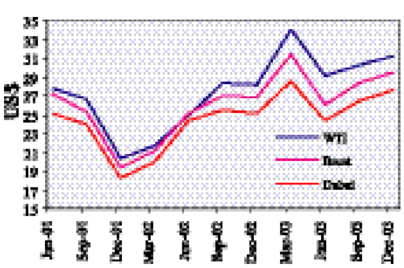


Figure 3.7
Average Crude price (US$) per barrel



Major Contributors to Inflation

In spite of improving supply conditions, there was a sharp upward movement in vegetable and fruit prices during the quarter. This resulted from excessive rainfall in November in some key areas that adversely affected the more susceptible vegetables and fruits. In terms of international grains, the prices of corn and wheat have been affected by adverse weather conditions, while reduced grain yields in the USA and increased demand from China have affected soybeans. Added to the weather conditions, corn prices were affected by increased global demand, compounded by reduced production and export of the commodity from China. Despite increases in wheat production in the USA, world wheat prices have been influenced by lower production in Canada, India and Central Europe. These countries were severely affected by drought conditions during the year.

Soybeans have been affected by reduced output from the USA (the world's largest producer), Argentina, South Africa and Eastern Europe that has pushed its price to record levels. Corn, wheat and soybeans are important ingredients in the manufacture of animal feed. As a consequence, meat prices were strongly affected and as a result this sub-group was one of the most important influences on inflation in the quarter. The price of flour and its products would also have been influenced by the higher wheat prices. Administered price changes such as the bus fare increases and the hike in the minimum wage rate also contributed significant inflationary impetus.

Oil Prices

The rebound in oil prices that began in the September quarter continued during the December quarter. The price of the West Texas Intermediate (WTI) crude oil rose by 3.4 per cent during the December quarter relative to a 4.1 per cent increase in the preceding quarter. Similar movements were observed in the price of other representative crude oils such as the North Sea Brent and Dubai Light (see **Figure 3.7**). The WTI crude oil price rose to an average US$31.23 per barrel in the December quarter, from US$30.20 per barrel in the September quarter. The monthly averages for October, November

Figure 3.8
Edible Oils Prices (US$) per MT

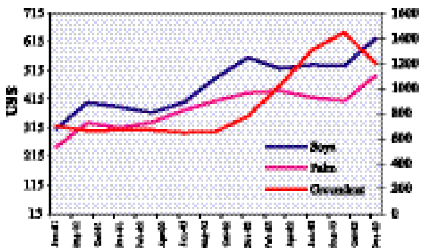


Figure 3.9
3 mth changes in Durables and Non-Durables Indices

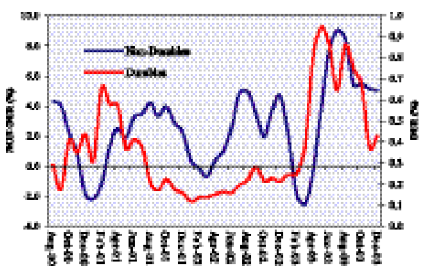
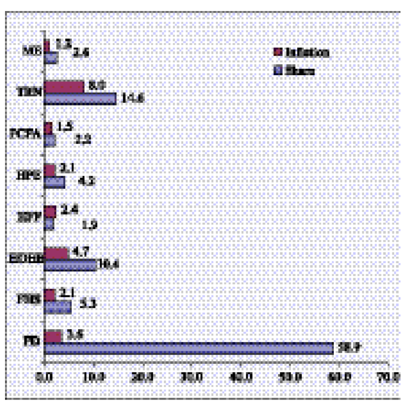


Figure 3.10
Inflation by Group



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

and December were US$30.36 per barrel, US$31.09 per barrel and US$32.23 per barrel, respectively. Since OPEC's decision in September to cut production by 900,000 barrels per day (bpd) or 3.5 per cent from 1 November, oil prices have been on an increasing trend. Factors from the USA, including the extremely cold temperatures in the Northeast, (the region responsible for 75 per cent of heating-oil consumption), their low inventories and attempts at replenishing the Strategic Petroleum Reserve have added pressure to oil prices. However, OPEC has been supplying an average of 1.6 million bpd above its quota of 24.5 million bpd. This has led some analysts to posit that speculative investment funds have driven the oil price rally, as a slump in the value of the U.S. dollar on currency markets has diverted these funds to oil and other commodities.

Exchange Rate

The impact of the exchange rate on prices was not as significant a factor in this quarter as it was in the previous two quarters, as depreciation has been mild since the sharp movement in May 2003 (see **Foreign Exchange Market**). This is supported by the comparative rates of movement of the indices of durable and non- durable prices. The prices of durable goods have increased at a slower rate than the prices of their non-durable counterparts (see **Figure 3.9**).

Component Contribution to Inflation

Price increases were strongest in the Food & Drink, Transportation and Housing & Other Housing Expenses sub-indices. During the quarter, there were expansions of 11.5 per cent and 1.9 per cent in the Vegetables & Fruits and Meat, Poultry & Fish sub-groups, respectively. In addition, the movements in wheat prices on the international market affected important elements of the Baked Products, Cereals & Breakfast Drinks sub-group, which increased by 3.1 per cent. Largely as a result of these movements, the Food & Drink sub-category increased by 3.6 per cent and was responsible for 58.9 per cent of inflation over the quarter (see **Figure 3.10** and **Table 2**, **Appendix C**).

Table 3.1
Variance Analysis of Deviation from Forecast

Additional Factors or Components		Deviations from Forecast
Oil Price Increases		0.39
Comprised of:		
Electricity & Water	0.12	
Transportation	0.13	
H'hold Fuels	0.14	
Cinema Fares of 8.6%		0.04
Water Adjustment of 26.4%		0.14
Vegetables & Fruits		0.29
Other Food & Beverages		0.07
Rental		0.04
Increases in Grains Prices		0.29
Comprised of:		
Baked Prods, Cereals etc.	0.16	
Meat Poultry & Fish	0.13	
Other Factors		0.17
TOTAL		**1.43**

Increases in transportation costs accounted for approximately 15.0 per cent of the inflation between October and December as administered adjustments to bus fares and external factors affected the Transportation group. Bus fares were increased by an average 30.0 per cent in the Other Towns and Rural Areas over the quarter. Additionally, as a consequence of the developments with oil prices, petrol prices rose significantly over the quarter. Seasonal factors also affected the group as airfares were increased in response to customary year-end demand.

An 11.0 per cent increase in the national minimum wage, effective on 1 November, was the major impulse underlying movements in the Housing & Other Housing Expenses group. The incidence of higher crude oil prices also affected this group primarily through higher billed fuel rates at the electric utility. This, in conjunction with the mild depreciation in the exchange rate, led to an increase in the cost of electricity over the period. Telephone rates for local calls 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 utility rate and administered price adjustments, the Housing & Other Housing Expenses sub-index increased by 4.7 per cent and contributed 10.4 per cent to overall inflation.

Deviations from the Forecast

Inflation in the quarter exceeded the Bank's projections by 1.4 percentage points. This was largely due to oil price movements that were above expectations, as well as higher outturns in some components of the *Food & Drink* group and the Rental sub-group (see **Table 3.1**). In July, the forecast had envisaged a fall in oil prices from the average of US$30.80 per barrel to US$27.00 per barrel in December, but instead prices increased to over US$36.00 per barrel. Othe adverse international commodity price movements have also contributed to the deviation from forecast. In particular, increases in grains prices continued to exceed projections with adverse consequences for grain-dependent sub-groups such as Baked Products, Cereals & Breakfast Drinks and Meat, Poultry & Fish. The latter sub-group has also been affected by the recent ban on US beef. The second round effects of these shocks to prices are also expected to materialise in the March quarter.

Regional Distribution of Inflation

During the review quarter, inflation was strongest in the Rural Areas and Other Towns. Within these regions, the CPI increased by 3.7 per cent and 3.6 per cent, respectively. This compares to a 3.0 per cent increase in the Kingston Metropolitan Area (KMA) (see **Table 2B**, **Appendix C**). The regional distribution of inflation in the December quarter primarily reflected the influence of the Healthcare & Personal Expenses, Transportation and Housing & Other Housing Expenses sub-indices. Within the Healthcare & Personal Expenses group, there were increases in dentists' and doctors' fees that did not occur in the KMA. The Transportation group was primarily affected by the staggered increase in bus fares, which was confined to the Other Towns and Rural Areas in this quarter. The disparity in the Housing & Other Housing Expenses group was due to significantly higher weights on utilities outside the KMA.

Summary

Inflation during the quarter mainly emanated from the higher cost of agricultural produce and some international commodities. Other notable factors included increases in administered prices such as the minimum wage and bus fares. The Bank's control of the monetary base, however, remained tight and has contributed to a steady decline in underlying inflation over the quarter.

4. Economic Outlook and Monetary Policy Perspectives

Macroeconomic performance since the June 2003 quarter has been characterized by a continuation of growth, improved financial market conditions and a downward trend in inflation and interest rates. The global economic recovery, led by strong growth in the USA economy, has strengthened. In this context, economic growth in the Jamaican economy is expected to continue in the March 2004 quarter. The major impetus is expected to emanate from the tradeable sectors such as tourism and mining, as well as basic services. A seasonal reduction in the rate of inflation is anticipated, mainly due to the effects of agricultural prices. The major challenge for monetary policy continues to be the lowering of interest rates while preserving stability in the foreign exchange market and containing core inflation. In this context, the performance of the fiscal accounts is critical to monetary policy objective.

Short Term Outlook-March 2004 Quarter

Real Sector

Real expansion in the Jamaican economy is expected to continue in the March 2004 quarter. This is against the background of a global economic recovery, continued relative stability in the domestic financial markets, gradual reduction in interest rates and increasing credit to the private sector.

Economic developments in the external environment were favourable over the course of 2003. Available data indicate that relatively strong growth tendencies in the global economy emerged towards the middle of the year. For 2003, the American economy grew by 3.1 per cent. This outturn was due to strong growth over the three final quarters as relatively weak growth was recorded in the first quarter of 2003. This acceleration was reflected in a rebound in consumer spending, in particular in durable items such as automobiles and houses. In addition,

Expansion in the USA economy favours growth in the Jamaican economy.

investment expenditure and net exports also improved. This buoyancy is expected to continue into 2004 with mainstream forecasters projecting growth of 4.0 to 4.5 per cent. A "downside" risk to this outlook, however, is a possible slowdown in consumer spending due to projected higher mortgage costs, as well as the problems arising from the trade deficit.

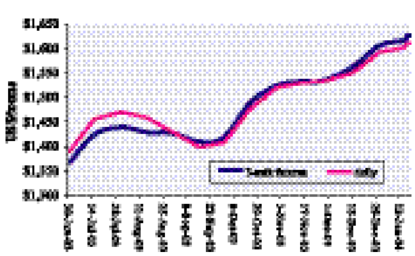
Greater demand, increased efficiency and capacity expansion bode well for mining sector.

Positive macroeconomic trends in the domestic economy, such as the easing of inflation, the relative stability in the foreign exchange market and the resultant gain in competitiveness (see **Foreign Exchange Market**) should enhance growth prospects. Growth in the March quarter is anticipated in both the goods and services sector led by the *Agriculture*, *Mining*, *Construction*, *Basic Services*, *Financial Services* and the *Miscellaneous Services*.

Growth observed in the agricultural sector over the past four quarters is projected to continue in the March 2004 quarter. The projected expansion relative to the corresponding quarter of 2003 is anticipated given the favourable weather conditions, increased planting and other rehabilitative efforts during 2003.

Continued expansion is also expected in the mining sector in the March 2004 quarter relative to the previous year. The positive outlook for the mining sector is underpinned by significant investment in capacity and improved world demand for aluminium. Projections for the production of bauxite and alumina for the March 2004 quarter are for respective increases of 5.6 per cent and 6.4 percent relative to the corresponding quarter of 2003.

Figure 4.1
Trends in Aluminium Prices



This relatively positive outlook is informed by increased international demand for aluminium, which has led to a significant increase in its price (see **Figure 4.1**). The higher demand for the metal is influenced by the upturn in the global economy. The recent expansion in capacity as well as the increasing levels of efficiency should enable the domestic industry to facilitate this demand.

The anticipated commencement of a large housing development project in this quarter should provide a significant boost to value added of the construction sector. This is in addition to the continuation of other infrastructural development projects such as Highway 2000, North Coast Highway and extensions to the Sangster International Airport.

Continued growth expected in basic services.

The growth trend in the basic services sector is expected to continue in the March quarter. Continued upgrading of capacity at the electricity company, as well as expansion and innovations in the communications sector are the main sources of the vibrancy of this sub-sector. The overall growth momentum in the economy should also stimulate demand for these services. Furthermore, the anticipated growth in tourism, especially cruise shipping, augurs well for both air and water transportation. Air transportation will be enhanced by the announced resumption of flights to various destinations by the national airline.

Harsh winter and an upturn in world growth should have positive effect on travel sector.

Growth is expected in the miscellaneous services sector in the March 2004 quarter, driven mainly by the buoyancy in the tourism sector (see **Real Sector**). For the quarter, arrivals are projected to be approximately 8.0 to 10.0 per cent above arrivals for the corresponding quarter of 2003. The outlook for the sector is influenced by the strong growth in both the major and non-traditional source markets. The anticipated growth in arrivals should be boosted by the significant increase expected in cruise shipping. Cruise ship traffic in the forthcoming months is scheduled to increase with several new cruise liners now calling in Jamaica. Additionally, there is some evidence of a re-direction of European cruise vessel traffic from the Middle East/Asia and Pacific regions to the Caribbean. Further, the harsh winter season being experienced in North America, Jamaica's main market, bodes well for the sector. Expectations of arrivals from the European market is particularly positive given the strengthening of the Euro and the marketing initiatives of the Jamaica Tourist Board.

Inflation should moderate but significant impulses expected from increased global commodity prices.

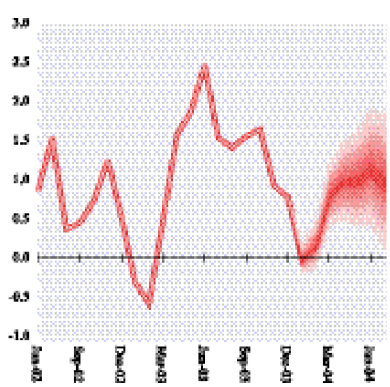
Inflation

A further moderation in headline inflation is anticipated in the March 2004 quarter. Inflation is seasonally lower in this quarter given the pattern in domestic agricultural production. On the other hand, increases in global commodity prices, upward adjustments in some administered prices and exchange rate depreciation could provide some inflationary impulses. On account of increasing domestic crop supplies, agricultural commodity prices are expected to provide seasonal countervailing effect to inflation during the quarter. Given an anticipated increase in the supply of some domestic crops, declines are expected in the prices of the heavily weighted vegetables and starchy foods sub-groups. The inflation outturn for the March 2004 quarter could also be affected by seasonal moderation in the prices of consumer durables due to expected post holiday sales, as retailers attempt to reduce inventories.

The recent upward movements in the prices of grains and crude oil should continue to have an impact on domestic prices in the forecast period. Projections are that grain prices will remain high due to falling supply and strong global demand. The upward trend in oil prices is influenced in part by low inventory levels, expectation of a harsh winter and reduced output by OPEC countries. Market analysts expect that prices could remain above US$30.00 per barrel for the March 2004 quarter [22]. Inflation in the quarter will also be influenced by increases of 26 per cent in the pricing mechanism for water which became effective on 1 January. Another adjustment of note is the 8.6 per cent increase in cinema fares. Despite the relative stability that exists in the foreign exchange market, it is anticipated that minor inflationary impulses could arise from the 1.5 per cent depreciation in the December quarter (see **Foreign Exchange**). This effect, however, is expected to be subdued relative to the previous two quarters as the pass-through to prices of past movements subsides.

[22] As at January 23, 2004, NYMEX Futures for crude oil was US$34.94 per barrel for March 2004.

Figure 4.5
Inflation Forecast



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

Given these factors, inflation for the March 2004 quarter is expected to be reflected primarily in the *Food & Drink*, *Transportation*, *Fuels & Other Household Supplies* and the *Housing & Other Housing Expenses* sub-categories. Impulses should arise primarily in the *Meat*, *Poultry & Fish* and the *Baked Products*, *Cereals & Breakfast Drinks* due to adjustments in grain prices. Recent concerns regarding beef from the US market, which have resulted in an adverse shock to beef supply, will also affect meat prices. However, the growth in the Food & Drink sub-index is expected to be constrained by anticipated declines in the *Starchy Foods* and *Vegetables & Fruits* sub-categories.

Recent developments in the global oil market are anticipated to adversely affect both household and automotive fuel prices, which would be reflected in the *Transportation* and *Fuels & Other Household Supplies* sub-categories. Higher water and electricity rates, attributable to both oil price, administered price adjustments and exchange rate movements, are anticipated to be the main causes of the inflation in the *Housing & Other Housing Expenses* sub-category.

Headline inflation for the March 2004 quarter is expected to be approximately 1.0 per cent relative to the 3.0 per cent in the previous quarter and the deflation of 0.4 per cent in the March 2003 quarter. This outlook assumes continued relative stability in the exchange rate and a continuation of the downward trend in core inflation. The uncertainty persisting in the crude oil market continues to pose a risk of a higher inflation projection for the rest of the fiscal year (see **Figure 4.5**). The magnitude of possible second round price effects of increases in crude oil is also of concern. There is also a risk that core inflation may not normalize as quickly as expected due to the stronger than anticipated real growth in currency demand, financed in part by liquidity injected, would imply a strong expansion in domestic consumption. In this context, underlying inflationary pressures emanating from demand could therefore offset the anticipated countervailing factors.

Despite the anticipated moderation in inflation in the March quarter of fiscal year 2003/04, inflation for the fiscal year 2003/04 is likely to be in the range of 14.5 to 15.5 per cent. If the decline in agricultural commodity prices is similar to the reduction experienced in the March 2003 quarter, the inflation outturn could be closer to 14 per cent. This outlook represents an upward revision relative to that presented in the previous Quarterly Monetary Policy Report given the unexpected developments in international markets mentioned earlier. The longer-term outlook, however, would anticipate a return to single digit inflation.

Monetary Policy

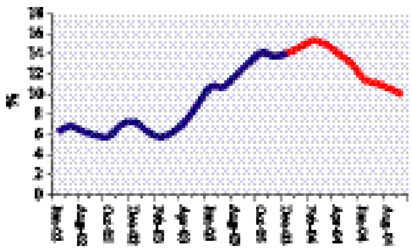
Sustaining or accelerating the current rate of economic expansion from 1.5 per cent to 2.0 per cent per annum, requires a reduction of the current macroeconomic imbalances as reflected in public dissavings and the balance of payments deficit.

The Bank remains committed to the reduction in interest rates. Since the interest rate hike in March 2003, the Bank has made nine interest rate reductions as at 26 January 2004. The largest decrease was on its 365-day instrument, which has declined by 1595 basis points to 20.0 per cent (see **Bond Market**). As outlined in **Box 2**, three conditions are critical to the reduction in nominal interest rates. These are a reduction in public sector demand, stability in the financial markets and a fall in inflationary expectations. These factors are of particular importance to the Bank of Jamaica in setting its interest rates.

Where public demand is excessive, this may tend to place upward pressures on interest rates and may occasion unprogrammed monetary injection. During the December quarter, the Bank provided such assistance to the Government which led to a greater than expected increase in the monetary base (see **Money & Credit**). This development could have resulted in heightened inflationary expectations and retard the normalization of core inflation and demand conditions within the economy in the short term.

Monetary conditions over the March 2004 quarter will be influenced by the normalization in the monetary base, the Bank's operating target, with the base programmed to decline by 11.0 per cent relative to the 24.2 per cent increase in the December 2003 quarter. The decline in the base will be reflected mainly in currency as its demand normalizes with an anticipated decline in the stock of currency issued.

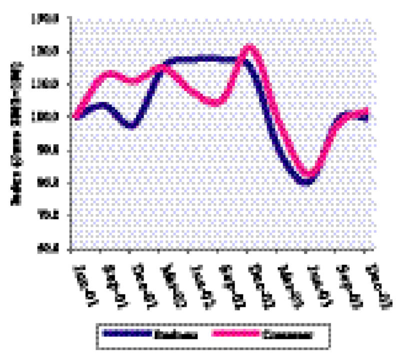
Figure 4.6
12 -mth Inflation Trend & Forecast



Recent inflation trends since the June quarter has revealed an upward trend in the 12-month point to point measure which is projected to moderate and decline over the next two quarters (see **Figure 4.6**). However, the higher rate in inflation at the present time could heighten inflationary expectations in the economy. This situation could lead to higher wage demands as well as higher nominal interest rates to compensate for lower real rates. On the other hand, Government is negotiating wage restraint in the public sector. This may help to prevent a wage-inflation spiral and dampens expectations.

The Government has successfully raised 200 million Euros in the overseas financial market at a favourable interest rate. This development will help to ease Government's demand for domestic financing and thereby facilitate the continued reduction of interest rates. In addition, confidence could be improved as this will ensure adequate funding for Government as well as providing inflows to the foreign exchange market. Further, to the extent that it takes pressure off domestic resources, it may also assist in dampening inflationary expectations in the economy.

Figure 4.7
Index of Confidence



Source: The Jamaica Conference Board's Survey of Business and Consumer Confidence December Quarter 2003 Summary Report. The indices measure consumers' and businesses' perception of the current economy and their expectations for the next year.

With the exception of a short period in October, the foreign exchange market has remained relatively stable since the June quarter (see **Foreign Exchange**). Continued stability in the market will facilitate opportunities for further lowering of interest rates. The strong performance anticipated in tourism as well as the positive trend in remittance flows should provide adequate supply to the foreign exchange market during the quarter.

The latest measures of consumer and business confidence revealed slight improvement relative to September 2003, albeit below the levels one year ago (see **Figure 4.7**) Among other factors, investors pointed to continued concerns about the fiscal imbalance. This underscores the imperative for fiscal adjustments in underwriting stability over the next fiscal year.

A. Fiscal Developments: October - December 2003

Provisional data for the December quarter suggest a fiscal deficit of $14 558.3 million or 3.0 per cent of revised GDP[23] relative to a budgeted deficit of $9 067.4 million or 1.9 per cent of GDP (See **Table 1**). This deviation in the fiscal performance resulted from higher than budgeted expenditure and lower than budgeted revenue flows. Consequently, the current deficit was 2.9 per cent of GDP for the December quarter, relative to the 1.5 per cent budgeted. The primary surplus was 2.8 per cent of GDP, below the target surplus of 3.0 per cent for the review period.

Although revenue flows continued to be robust in the December quarter exceeding the corresponding quarter of the previous fiscal year by 32.2 per cent, flows were 2.1 per cent lower than budgeted maintaining the trend observed in the first half of the fiscal year. Tax revenues under-performed by 5.8 per cent, but the effect of this was partly offset by buoyant non-tax revenues which exceeded budget by 17.4 per cent. The deviation in tax revenues was attributable to the General Consumption Tax (GCT) which was expected to yield an additional $8.17 billion for the fiscal year through an expansion in the tax base. For the fiscal year to December, GCT receipts are estimated to be 15.2 per cent below budget.

The higher than budgeted expenditure, which characterized the first half of the fiscal year, persisted in the December quarter. Expenditure during the December quarter was an estimated 10.1 per cent higher than budget, most of which was due to higher recurrent expenditure, partly offset by a reduction in capital expenditure. Interest expenditure exceeded budget by 19.6 per cent, with domestic costs accounting for all of the increase as foreign interest payments were marginally below budget. As a consequence, the interest payment ratio was 5.8 per cent of GDP compared to a target of 4.9 per cent. The above-budget interest payments reflected the impact of higher than budgeted interest rates as well as a larger borrowing requirement. Wages and salaries exceeded budget for the quarter by an estimated 19.4 per cent due to higher than expected wage settlements for the public sector.

During the December quarter, Government financed its operations primarily from domestic sources. This included US$130 million from local commercial banks. While there was net amortization of foreign debt as planned, this was lower than budgeted, due to the unprogrammed borrowing of US$50 million from a regional financial institution.

For the first nine months of the fiscal year, Central Government operations resulted in a deficit of $36 180.1 million (7.5 per cent of GDP), $8 315.6 million above the targeted $27 864.5 million for the period. Concurrently, the primary surplus was 6.6 per cent of GDP compared to the targeted

[23]Based on the revised GDP projection given the GDP outturn for FY 2002/03 and the revised inflation target.

surplus of 6.8 per cent and current deficit was 6.9 per cent of GDP relative to the targeted deficit of 4.5 per cent.

Revenue flows during the first nine months of the fiscal year exceeded the corresponding period of the previous fiscal year by 26.8 per cent, driven primarily by strong growth in tax revenues which grew by 27.2 per cent. All other categories of revenue with the exception of grants exceeded their 2002 levels. However, revenue flows were lower than budget in the 2003/04 period.

During the nine-month period, expenditure surpassed the target by 3.8 per cent due to higher than expected recurrent expenditure which offset a 46.6 per cent containment in capital expenditure.

Fiscal Performance
Comparative Analysis
J$ Million

	Actual 2002/03 Q3	Provisional 2003/04 Q3	Change	Provisional 2003/04 Q3	Target 2003/04 Q3	Variance	Provisional 2003/04 Q1 - Q3	Target 2003/04 Q1 - Q3	Variance
Revenue and Grants	**27775.40**	**36732.50**	**8957.10**	**36732.50**	**37513.20**	**-780.70**	**100257.64**	**103572.00**	**-3314.36**
Tax Revenue	25767.80	32309.30	6541.50	32309.30	34298.30	-1989.00	90392.90	95466.70	-5073.80
Capital Revenue	184.80	904.70	719.90	904.70	218.50	686.20	1287.34	673.20	614.14
Other (incl. Non-tax)	1822.80	3518.50	1695.70	3518.50	2996.40	522.10	8577.40	7432.10	1145.30
Expenditure	**39485.24**	**51290.80**	**11805.56**	**51290.80**	**46580.60**	**4710.20**	**136437.70**	**131436.50**	**5001.20**
Recurrent Expenditure*	37764.84	49790.50	12025.66	49790.50	44389.10	5401.40	132272.80	124341.00	7931.80
Capital Expenditure	1455.80	1336.00	-119.80	1336.00	2065.20	-729.20	3510.10	6576.40	-3066.30
IMF #1 Account	264.60	164.30	-100.30	164.30	126.30	38.00	654.80	519.10	135.70
Overall Balance	**-11709.84**	**-14558.30**	**-2848.46**	**-14558.30**	**-9067.40**	**5490.90**	**-36180.06**	**-27864.50**	**8315.56**
Memo									
Current Balance	**-9161.43**	**-5568.70**	**3592.73**	**-5568.70**	**-2378.40**	**-3190.30**	**-6085.80**	**-2590.70**	**-3495.10**
Primary Balance	**-2443.10**	**2203.80**	**4646.90**	**2203.80**	**3506.60**	**-1302.80**	**7213.20**	**6860.60**	**352.60**

Performance Indicators
(percentages of GDP)

	BR	CB	PB	IP	FSR
Q3 FY 2003/04	3.02	-2.90	2.81	5.83	-1.40
Q3 FY 2003/04 Target	1.88	-1.47	2.99	4.87	-1.24
Q1 - Q3 FY 2003/04	7.50	-6.91	6.63	14.13	-1.36
Q1 - Q3 FY 2003/04 Target	5.78	-4.45	6.75	12.53	-1.27

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 and Planning

B. Monetary Policy Developments

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

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

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

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

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

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

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

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

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

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

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

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

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

08/03/01	Interest rates on the 365-day, 270-day, instruments were reduced to 19.00 per cent, 18.25 per cent 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.
01/09/02	Liquid Assets ratio of commercial banks, FIA institutions and of building societies, in respect of local and foreign currency liabilities, were reduced from twenty seven 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.
10/01/03	The Bank of Jamaica instituted a "Special Deposit" requirement for commercial banks and institutions licensed under the Financial Institutions Act. Each institution will be required to place cash deposits with the Central Bank equivalent to 5% of its Jamaica Dollar prescribed liabilities.
10/02/03	The Bank of Jamaica introduced a special five-month open market instrument which earned interest at 30% per annum. This instrument was introduced in a context of significant Jamaica dollar liquidity and protracted instability in the foreign exchange market.
14/02/03	The Bank of Jamaica withdrew the special five- month open market instrument which was introduced on 10 February 2003. The decision to remove this instrument came against the background of tight Jamaica dollar liquidity and the appreciation in the exchange rate over the previous four days. The removal was also in response to representations made to the Bank of Jamaica by financial institutions and understandings reached with respect to the development of foreign exchange market protocols.

19/03/03	Interest rates on Bank of Jamaica's 180-day, 270-day and 365-day open market instruments were increased to 19.65 per cent, 21.50 per cent and 24.0 per cent, respectively.
26/03/03	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were increased to 15.00 per cent, 15.30 per cent, 20.00 per cent, 24.00 per cent, 33.15 per cent, 34.50 per cent and 35.95 per cent, respectively.
25/04/03	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 28.00 per cent, 32.50 per cent and 33.00 per cent, respectively.
19/05/03	The interest rate applicable to overdrafts on accounts held with the Bank of Jamaica was increased to 65.0 per cent per annum.
24/06/03	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 26.50 per cent, 29.50 per cent and 30.00 per cent, respectively
08/07/03	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 27.50 per cent and 28.00 per cent, respectively.
04/08/03	Interest rates on Bank of Jamaica 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 18.00 per cent, 22.00 per cent, 25.00 per cent, 25.75 per cent and 26.00 per cent, respectively.
09/09/03	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 21.00 per cent, 23.50 per cent, 23.75 per cent and 24.00 per cent, respectively.
17/10/03	Bank of Jamaica withdrew its 270-day and 365-day instruments from open market trading.
29/10/03	Bank of Jamaica returned its 270-day and 365-day instruments to open market trading at 23.75 per cent and 24.00 per cent respectively.
10/12/03	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 17.00 per cent, 20.00 per cent, 21.00 per cent, 22.00 per cent and 23.00 per cent, respectively.

LIST OF TABLES

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
March	1 558.4	-0.4	1.3
2003/04			
June	1 653.1	6.0	2.3
September	1 728.4	4.6	2.3
December	1 786.8	3.4	2.0

2

Component Contribution to Inflation
All Jamaica
October - December 2003

Groups and Sub-groups	Weight in CPI	Inflation (%) Q1	Contribution
FOOD & DRINK	**0.5563**	**3.6**	**58.9**
- Meals Away from Home	0.0741	2.0	4.2
- Meat Poultry & Fish	0.1613	1.9	8.8
- Dairy Products Oils & Fats	0.0668	2.2	4.2
- Baked Products Cereals & Breakfast Drinks	0.0864	3.1	7.6
- Starchy Foods	0.0525	4.7	7.0
- Vegetables & Fruits	0.0650	11.5	21.1
- Other Food & Beverages	0.0502	4.3	6.0
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**2.1**	**5.3**
- Household Supplies	0.0482	3.3	4.5
- Fuels	0.0253	1.1	0.8
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**4.7**	**10.4**
- Rental	0.0209	4.0	2.4
- Other Housing Expenses	0.0577	4.9	8.0
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**2.4**	**1.9**
- Furniture	0.0068	3.1	0.6
- Furnishings	0.0215	2.1	1.3
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**2.1**	**4.2**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**1.5**	**2.2**
- Clothing Materials	0.0055	1.1	0.2
- Readymade Clothing & Accessories	0.0242	0.8	0.5
- Footwear	0.0159	3.1	1.4
- Making & Repairs	0.0051	0.2	0.0
TRANSPORTATION	**0.0644**	**8.0**	**14.6**
MISCELLANEOUS EXPENSES	**0.0785**	**1.2**	**2.6**
ALL GROUPS	**1.0000**	**3.4**	**100.0**

2B

Regional Inflation
Quarterly
October - December 2003

Groups and Sub-groups	KMA (%)	Other Towns (%)	Rural Areas (%)
FOOD & DRINK			
- Meals Away from Home	**4.0**	**2.7**	**3.7**
- Meat Poultry & Fish	1.8	2.0	2.5
- Dairy Products Oils & Fats	2.3	2.4	1.3
- Baked Products Cereals	1.8	1.9	2.9
& Breakfast Drinks	2.8	2.9	3.5
- Starchy Foods	5.8	-1.3	6.1
- Vegetables & Fruits	16.6	10.9	6.7
- Other Food & Beverages	4.1	3.0	5.1
FUELS & OTHER HOUSEHOLD SUPPLIES	**2.2**	**2.2**	**1.7**
- Household Supplies	4.7	2.1	2.1
- Fuels	0.6	2.2	1.4
HOUSING & OTHER HOUSING EXPENSES	**4.6**	**4.7**	**5.1**
- Rental	4.0	4.2	4.2
- Other Housing Expenses	4.9	4.8	5.2
HOUSEHOLD FURNISHINGS & FURNITURE	**3.0**	**2.1**	**1.9**
- Furniture	0.7	4.1	4.1
- Furnishings	3.9	1.1	0.8
HEALTHCARE & PERSONAL EXPENSES	**1.9**	**2.4**	**2.4**
PERSONAL CLOTHING FOOTWEAR & ACC.	**1.7**	**1.4**	**1.4**
- Clothing Materials	1.8	0.3	0.2
- Readymade Clothing & Accessories	1.2	0.8	0.4
- Footwear	3.1	2.4	3.6
- Making & Repairs	0.0	1.3	0.0
TRANSPORTATION	**0.3**	**18.5**	**17.9**
MISCELLANEOUS EXPENSES	**1.4**	**1.8**	**0.2**
ALL GROUPS	**3.0**	**3.6**	**3.7**

3

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

	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Dec-03
Net International Reserves (US$)	**1 782.3**	**1 687.3**	**1 597.0**	**1 339.7**	**1 127.4**	**1 165.0**
Net International Reserves ($J)	**86 973.8**	**82 339.3**	**81 557.8**	**75 021.5**	**63 133.8**	**68 733.8**
Assets	89 671.5	84 842.7	83 911.1	77 400.4	65 251.2	70 583.5
Liabilities	-2 697.7	-2 503.4	-2 353.3	-2 378.9	-2 117.4	-1 849.7
Net Domestic Assets	**-56 789.6**	**-51 714.3**	**-45 799.9**	**-42 521.6**	**-30 728.9**	**-28 207.5**
Net Claims on the Public Sector	42 779.3	47 135.8	50 873.5	63 988.5	67 611.0	78 657.1
Net Credit to Banks	-4 910.0	-5 044.5	-5 200.4	-12 481.5	-13 125.1	-13 345.9
Open Market Operations	-97 006.3	-96 072.3	-89 981.3	-86 203.8	-77 126.4	-81 969.4
Other	2 347.4	2 266.7	-1 491.7	-7 824.7	-8 088.4	-11 549.3
Monetary Base	**30 184.2**	**30 625.0**	**35 757.9**	**32 500.0**	**32 404.9**	**40 526.3**
Currency Issue*	19 274.3	19 554.2	24 354.5	20 729.7	21 259.1	29 426.5
Cash Reserve	10 883.8	10 911.6	10 839.2	11 250.7	10 960.0	10 928.2
Current Account	26.1	159.2	564.2	519.5	185.8	171.7
% change Monetary Base (F-Y-T-D)	**-0.1**	**1.3**	**18.3**	**7.5**	**-0.3**	**24.7**

** Excludes BOJ's teller cash*

4

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

	M1J	M1*	M2J	M2*	M3J	M3*
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	42 475.0	49 450.6	117 345.1	160 591.3	142 633.2	185 879.3
December	44 704.0	51 486.7	119 330.6	165 026.0	145 583.9	191 279.3
March	33 733.5	40 791.3	107 472.2	158 719.5	136 368.0	187 615.2
2003/04						
June	37 201.6	46 754.7	109 847.2	166 750.9	140 414.9	197 319.3
September[r]	39 838.7	49 029.0	114 121.9	172 760.4	147 637.9	216 923.8
December[p]	45 237.7	55 254.2	123 153.3	183 492.2	156 585.0	216 923.8

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

5

COMPONENTS OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY
2001/02 - 2003/04 (Quarterly Flows - J$M)

	Mar-02[r]	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03[r]	Dec-03[p]
M2J	**-1 398.0**	**2 214.2**	**7 109.7**	**1 985.4**	**-11 859.0**	**2 374.8**	**4 275.4**	**9 031.4**
Currency	-1 295.6	-29.6	104.4	2 842.0	-3 075.1	1 467.4	149.1	4 237.9
Demand Deposits	-585.1	-189.6	5 305.8	-413.1	-7 896.0	2 001.3	2 488.0	1 161.0
Savings Deposits	239.9	1 971.4	132.1	1 615.5	-40.9	1 125.6	1 140.0	3 002.8
Time Deposits	242.8	462.0	1 567.4	-2 059.0	-847.0	-2 219.5	498.3	629.7
OTHER DEPOSITS	**859.7**	**1 065.3**	**1 621.4**	**965.3**	**2 642.5**	**1 672.7**	**2 154.3**	**574.1**
TOTAL(M3J)	**-538.3**	**3 279.5**	**8 731.1**	**2 950.7**	**-9 216.5**	**4 047.5**	**6 429.7**	**9 605.5**

SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY

	Mar-02[r]	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03[r]	Dec-03[p]
N.I.R. of B.O.J.	**4 794.1**	**-7 779.7**	**-4 634.5**	**-4 406.7**	**-13 140.9**	**-11 887.7**	**3 259.1**	**-1 041.3**
M & LTFL of B.O.J.	**14.0**	**7.9**	15.5	**8.6**	**18.1**	**10.3**	**20.9**	**11.4**
Banking System Credit	**235.3**	**7 924.3**	**11 598.8**	**6 369.8**	**12 252.3**	**18 848.7**	**8 339.5**	**20 052.8**
Public Sector	307.8	6 736.9	10 208.5	3 901.7	10 722.0	14 761.0	4 556.1	14 959.2
Private Sector	-72.5	1 187.4	1 390.3	2 468.1	1 530.3	4 087.7	3 783.5	5 093.6
Open Market Operations	**-13 566.9**	**2 188.9**	**933.9**	**6 091.0**	**3 777.5**	**9 077.4**	**-6 573.9**	**1 730.9**
Other	**7 985.2**	**938.1**	**817.4**	**-5 112.0**	**-12 123.5**	**-12 001.2**	**1 384.1**	**-11 148.3**
TOTAL	**-538.3**	**3 279.5**	**8 731.1**	**2 950.7**	**-9 216.5**	**4 047.5**	**6 429.7**	**9 605.5**
Memo:								
Foreign Currency Deposits	3 020.0	634.1	2 949.7	2 449.3	5 552.4	5 685.6	1 734.1	1 700.4
Foreign Currency Loans	-197.0	2 639.9	2 143.9	1 486.6	2 093.0	2 922.5	2 346.2	1 019.5

p - preliminary
r - revised

6A

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

	Fixed Deposits* 3-6 months	Fixed Deposits* 6-12 months	Savings Deposits (Average)	Loan Rate (Average)	Fixed Deposits Rate (Weighted Average)	Loan Rate (Weighted Average)	Inter-bank Lending Rate Average)
2000/2001							
June	10.00 - 17.50	10.00 - 16.50	10.11	33.00	12.74	23.48	19.30
September	10.00 - 17.05	10.00 - 17.05	9.96	31.50	12.59	22.23	19.30
December	10.00 - 17.05	10.00 - 17.60	9.86	31.67	12.21	22.12	19.34
March	10.00 - 17.00	10.00 - 16.75	9.84	31.33	12.13	21.49	19.34
2001/2002							
June	8.75 - 17.00	8.75 - 15.00	9.45	30.67	11.11	20.86	19.54
September	8.75 - 17.00	8.75 - 15.00	9.08	26.96	10.52	19.41	18.39
December	7.75 - 15.00	7.75 - 15.00	9.08	26.79	10.13	19.46	18.39
March	7.75 - 15.00	7.75 - 15.00	9.36	26.29	9.86	19.60	18.99
2002/2003							
June	7.75 - 13.25	7.75 - 13.25	9.00	25.92	9.28	18.15	14.68
September	7.75 - 13.25	7.75 - 13.25	8.86	26.25	8.98	18.08	13.88
December	7.75 - 13.25	7.75 - 13.25	8.96	25.04	8.92	18.26	11.50
March	8.50 - 13.15	8.50 - 13.15	8.22	24.73	8.87	17.23	21.90
2003/2004							
June	8.50 - 13.15	8.50 - 13.15	8.22	25.18	8.98	19.23	38.40
September	8.50 - 13.25	8.50 - 13.50	8.43	25.60	9.02	19.87	17.01
December	8.50 - 13.25	8.50 - 13.50	8.43	25.60	8.68	19.32	24.08

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

6B

GOJ TREASURY BILL YIELDS
(End-of-Period)

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

7

BANK OF JAMAICA OPEN MARKET INTEREST RATES
(End Period)

End Period	30 days	60 days	90 days	120 days	180 days	270 days	365 days
1999/2000							
June	18.85		19.70		20.85		
September	18.35		19.25		19.95		
December	18.35		19.25		19.95		
March	17.30	17.95	18.10	18.20	18.55		
2000/2001							
June	17.00	17.65	17.80	17.90	18.25		
September	16.45	16.60	16.70	16.80	17.05	17.60	18.00
December	16.45	16.60	16.70	16.80	17.05	20.00	21.00
March	15.50	15.60	15.70	15.80	16.15	17.00	17.75
2001/2002							
June	14.25	14.35	14.45	14.55	14.75	15.35	15.90
September	14.25	14.35	14.45	14.55	14.75	15.35	15.90
December	14.25	14.35	14.45	14.55	15.00	18.40	18.90
March	13.25	13.35	13.45	13.55	13.80	14.20	15.00
2002/2003							
June	13.25	13.35	13.45	13.55	13.80	14.20	15.00
September	12.95	13.05	17.25	17.05	13.45	13.85	14.50
December	12.95	13.05	18.25	18.40	13.45	13.85	14.50
March	15.00	15.30	20.00	24.00	33.15	34.50	35.95
2003/04							
June	15.00	15.30	20.00	24.00	26.50	29.50	30.00
September	15.00	15.30	18.00	21.00	23.50	23.75	24.00
December	15.00	15.30	17.00	20.00	21.00	22.00	23.00

8A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
October - December 2003

Maturity Date	Stock Name	Amount J$M	Applicable Interest Rate b/	Features
03 October	FR LRS 2003 AG	765.7	16.00	
	FR LRS 2003 AG	34.3	16.00	
23 October	GOJ Inv. Deb. 2004 Ser."Q"	6 057.3	16.25	
24 October	GOJ Inv. Deb. 2004 Ser."X"	5 080.4	19.75	
03 November	VR LRS 2003 L	179.6	32.59	
	VR LRS 2003 L Tr. 1	89.4	32.59	
	VR LRS 2003 L Tr. 2	14.3	32.59	
	VR LRS 2003 L Tr. 3	7.2	32.59	
07 November	FR US$ Ind. Bond 2003	US$46.3	11.125	
14 November	VR LRS 2006/2007 A Tr. B	222.4	31.09	
17 November	VR LRS 2003/2004 L	1 398.7	30.34	
28 November	26.25%FR LRS 2003	382.6	26.25	
05 December	VR LRS 2003/2004 P	1 650	31.42	
12 December	VR LRS 2003 J	4 706.3	32.17	
30 December	VR LRS 99/2008 (L-V)	2.4	30.46	
31 December	VR LRS 2003/2004	90.0	29.46	
	VR LRS 2003/2004 A	50.0	29.46	
	VR LRS 2003/2004 B	780.0	29.46	
	VR LRS 2003/2004 C	10.0	29.46	
	VR LRS 2003/2004 D	8.0	29.46	
	VR LRS 2003/2004 E	2.0	29.46	
	VR LRS 2003/2004 F	20.0	29.46	
	VR LRS 2003/2004 G	220.0	29.46	
	VR LRS 2003/2004 H	10.0	29.46	
	VR LRS 2003/2004 J	60.0	29.46	
	FR US$ Bond	US$12.6	9.625	
	VR 2001/2006 Tr. A	903.5	29.46	

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
d/FR - Fixed Rate
Source: Debt Management Unit, Ministry of Finance & Planning

8B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Domestic Market Issues
October - December 2003

Issue Date	Stock Name	Features	Amount Raised J$M
1 October	FR LRS 2005 AQ FR LRS 2005 AH	Tenor of 18 months. Applicable interest rate of 25.94%. Tenor of 24 months. Applicable interest rate of 25.55%.	800.0 500.0
21-22 October	Investment Debenture 24.625% 2006 Series "Ac"	Tenor of 33 months. Interest rate fixed at 24.625%. Principal paid in two installments, 25 March 2005 and at maturity 27 July 2006. Interest payable 3 months after issue. Thereafter quarterly interest payments.	5 246.5
4-10 November	FR US$ Indexed Bond 11.625%	Tenor of 20 months. Interest rate fixed at 11.625%. First interest payment on 10 May 2004. Thereafter, interest paid quarterly. Conversion rate of J$59.3981=US$1.	US$51.27
11-16 December	FR 25.00% Inv. Debenture 2005 Series "Ad"	Tenor of 33 months. Interest rate fixed at 24.625%. Principal paid in two installments, 25 March 2005 and at maturity 27 July 2006. Interest payable 3 months after issue. Thereafter quarterly interest payments.	5 134.01
30-31 December	VR Investment Bond 2005/2006 Series "C"	Tenor of 20 months. Rate fixed at 23.75% for first 6 months. Thereafter quarterly payments of 1.75% above Treasury Bill rate.	1 186.35

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

9

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
1999/2000	**49.1**	**664.6**	**103.5**	**26.6**	**68.9**	**346.9**	**290.9**	**1 550.5**
June	20.3	145.5	54.6	7.6	15.2	88.9	71.3	403.4
September	7.6	166.0	5.5	7.5	19.8	92.4	80.5	379.3
December	8.1	182.0	0.0	6.3	16.6	84.9	71.6	369.5
March	13.1	171.1	43.4	5.2	17.3	80.7	67.5	398.3
2000/2001	**56.1**	**670.6**	**69.4**	**22.3**	**74.8**	**330.9**	**291.5**	**1 515.6**
June	10.4	167.9	33.6	5.5	20.5	90.6	76.6	405.1
September	8.2	163.8	6.2	6.2	18.3	81.7	80.7	365.1
December	13.9	181.4	0.0	6.1	17.0	91.3	76.4	386.1
March	23.6	157.5	29.6	4.5	19.0	67.3	57.8	359.3
2001/2002 r	**97.7**	**629.5**	**68.5**	**17.9**	**72.0**	**291.1**	**247.1**	**1 423.8**
June	23.5	182.0	34.9	5.0	18.9	66.0	69.2	399.5
September	25.5	174.3	6.1	4.0	18.5	73.5	72.1	374.0
December	20.7	122.4	0.0	4.4	15.7	93.4	63.9	320.5
March	28.0	150.8	27.5	4.5	18.9	58.2	41.9	329.8
2002/2003	**99.1**	**614.4**	**64.5**	**17.7**	**74.4**	**227.8**	**204.9**	**1 302.8**
June	22.9	138.9	30.6	4.5	20.9	51.3	56.2	325.3
September	25.4	147.1	8.0	4.4	20.5	60.3	67.9	333.6
December	29.9	167.0	0.0	4.1	14.2	59.3	46.0	320.5
March r	20.9	161.4	25.9	4.7	18.8	56.9	34.8	323.4
2003/2004								
June p	23.1	164.1	28.9	5.5	17.6	52.4	46.9	338.5

r - revised

10

EXTERNAL TRADE - GOODS IMPORTS (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	410.9	176.2	40.9	893.4
September	271.6	539.3	167.2	39.1	1 017.2
December	316.5	442.6	180.5	25.6	965.2
March r	260.4	558.1	150.3	23.2	992.0
June p	242.0	472.2	138.5	48.4	901.1

11

BALANCE OF PAYMENTS SUMMARY
(Flows - US$M)

	Sept-01	Dec-01	Mar-02r	Jun-02	Sep-02	Dec-02	Mar-03r	Jun-03p
1. Current Account	**-179.5**	**-288.6**	**-168.6**	**-263.2**	**-343.0**	**-343.1**	**-263.9**	**-168.8**
A. Goods Balance	**-375.7**	**-469.8**	**-377.3**	**-440.7**	**-545.0**	**-507.5**	**-533.9**	**-437.9**
Exports (f.o.b.)	374.0	320.5	329.7	325.3	333.6	320.5	323.4	338.5
Imports (f.o.b.)	749.7	790.3	707.0	766.0	878.6	828.0	857.3	776.4
B. Services Balance	**82.7**	**31.4**	**93.9**	**50.9**	**64.0**	**62.3**	**165.1**	**137.8**
Transportation	-67.5	-78.7	-48.8	-62.7	-70.3	-63.8	-46.2	-51.5
Travel	239.9	197.4	248.0	220.1	244.3	238.6	320.8	292.3
Other Services	-89.7	-87.3	-105.3	-106.5	-110.0	-112.5	-109.5	-103.0
Goods & Services Balance	**-293.0**	**-438.4**	**-283.4**	**-389.8**	**-481.0**	**-445.2**	**-368.8**	**-300.1**
C. Income	**-102.6**	**-101.3**	**-146.3**	**-150.7**	**-145.0**	**-163.5**	**-165.5**	**-135.3**
Compensation of Employees	27.2	32.7	**3.0**	13.9	32.4	32.8	4.9	8.2
Investment Income	-129.8	-134.0	**-149.3**	-164.6	-177.4	-196.3	-170.4	-143.5
D. Current Transfers	**216.1**	**251.1**	**261.1**	277.7	**283.0**	**265.6**	**270.4**	**266.6**
General Government	10.8	37.8	25.2	24.9	33.6	23.9	21.7	20.9
Other Sectors	205.3	213.3	235.9	252.4	249.4	241.7	248.7	245.7
2. Capital & Financial Account	**179.5**	**288.6**	**168.6**	**262.8**	**343.0**	**343.1**	**263.9**	**168.8**
A. Capital Account	**-5.9**	**-4.3**	**-5.6**	**-4.7**	**-3.6**	**-3.0**	**-5.0**	**-4.7**
Capital Transfers	-5.9	-4.3	-5.6	-4.7	-3.6	-3.0	-5.0	-4.7
General Government	0.1	1.4	0.1	0.1	0.0	0.0	0.1	0.0
Other Sectors	-6.0	-5.7	-5.7	-4.8	-3.6	-3.0	-5.1	-4.7
B. Financial Account	**185.4**	**292.9**	**174.2**	**267.9**	**346.6**	**346.1**	**237.6**	**173.5**
Direct Investment	77.1	121.7	145.4	74.4	73.8	111.3	87.2	94.5
Other Official Investment	-63.3	268.7	52.1	21.0	-52.9	56.9	-251.5	-51.1
Other Private Investment (including net errors & omissions)	167.8	206.6	77.6	12.7	230.8	87.6	175.9	-82.2
Reserves	3.8	-304.1	-100.9	159.4	94.9	90.3	257.3	212.3

r - revised
p - provisional

12

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	**293.5**	**621.1**	**1.2**	**252.6**	**43.2**	**1 211.6**
June	73.4	157.2	0.3	58.8	6.6	296.3
September	74.1	150.3	0.3	65.6	6.6	296.9
December	66.5	159.7	0.3	65.8	6.6	298.9
March	79.5	153.9	0.3	62.4	23.4	319.5
2003/2004						
June	58.8	169.8	0.3	63.2	23.4	315.5
September	74.5	169.1	0.3	71.7	23.4	339.0
December	99.4	180.4	0.3	80.4	23.4	383.9

13

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

	Gross Foreign Assets	Gross Foreign Liabilities	International Reserves (Net)	Weeks of Imports	
				Goods	Goods & Services
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
March	1 382.2	42.5	1 339.7	22.1	14.8
2003/2004					
June	1 165.2	37.8	1 127.4	18.3	12.0
September	1 216.6	34.0	1 182.6	19.0	12.8
December	1 196.3	31.4	1 164.9	18.3	12.5

14

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

	US$	Can$	UK£
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
March	56.24	37.48	87.41
2003/2004			
June	59.01	43.69	96.79
September	59.71	43.92	98.54
December	60.62	46.59	107.45

15

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

End Period	Local Registered Stocks	Treasury Bills	Bonds	BOJ Open Market Operations Securities
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	240 843.3	4 150.0	99 432.9	89 981.3
March	240 923.0	2 950.0	114 524.1	-86 203.8
2003/2003				
June	241 163.2	2 000.0	137 960.0	77 126.4
September	232 914.5	2 400.0	160 594.3	83 700.3
December		4 400.0		81 969.4

16

STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	Volume Traded (M)	Value of Stocks Traded (J$M)
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, 19.5
2002/2003			
June	38 606.7	404.9	1 35.9
September	39 219.6	401.1	2 32.1
December	45 396.2	380.9	1 49.4
March	46 982.0	1 240.1	7 155.5
2003/2004			
June	50 478.9	352.4	2 077.7
September	57 769.1	2 167.4	11 321.3
December	67 586.7	530.5	3 682.9

* *Both volume and value reflect ordinary and block transactions*
* *Includes a large block transaction arising from the de-listing of Union Bank of Jamaica*

17

PRODUCTION OF SELECTED COMMODITIES
(flows - 000' tonnes)

	Bauxite	Alumina	Sugar	Bananas*
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	**3 917.5**	**3 698.7**	**186.1**	**37.7**
June	888.1	887.3	76.8	10.3
September	961.2	932.0	11.8	9.7
December	1 110.8	945.2	4.7	9.3
March	964.4	934.2	92.8	8.4
2003/2004				
June	992.9	957.0	54.0	9.9
September	975.3	939.8	1.3	10.2
December	916.7	1 012.6	5.9	10.5

* *Exports*

18

GROSS DOMESTIC PRODUCT BY INDUSTRY IN PRODUCERS' VALUE, AT CONSTANT (1996) PRICES
March 2000 - June 2003 (Seasonally Unadjusted)
Year over Year % Change

	Dec - 01	Mar - 02	Jun - 02	Sep - 02	Dec - 02	Mar - 03	Jun - 03
Total Gross Domestic Product	**-0.40**	**-0.29**	**-0.24**	**1.52**	**3.61**	**2.85**	**2.17**
Agriculture, Forestry and Fishing	-0.80	-5.86	-5.81	-6.42	-9.94	3.32	3.25
Export Agriculture	-8.32	-7.40	-6.49	8.67	3.49	5.69	-13.76
Domestic Agriculture, Livestock, Forestry & Fishing	0.43	-5.41	-5.59	-8.43	-11.95	2.65	8.78
Mining & Quarrying	-12.23	-2.58	-4.50	-0.96	25.04	5.81	7.99
Manufacturing	1.65	-1.94	-4.24	1.35	2.29	0.12	-0.50
Food, Beverages & Tobacco	7.95	-0.20	-4.95	5.20	0.50	0.20	5.44
Other Manufacturing	-4.75	-4.19	-3.32	-2.95	4.35	0.02	-8.09
Electricity & Water	2.32	2.82	5.96	3.60	6.16	5.54	5.78
Construction & Installation	1.08	-0.15	1.91	2.88	4.59	1.20	0.84
Distributive Trade	-0.49	-0.12	0.38	0.54	0.62	0.94	0.94
Transport, Storage and Communication	2.11	6.92	4.30	7.01	6.97	6.41	3.28
Finance & Insurance Services	-6.05	1.23	11.12	3.97	8.15	9.64	4.43
Real Estate & Business Services	1.48	1.05	-0.16	0.81	0.79	1.74	2.62
Producers of Government Services	1.41	0.88	0.85	0.46	-0.32	-0.35	-0.42
Miscellaneous Services Household Private & Non-profit Institution	-8.28	-6.31	-5.76	5.05	9.94	5.26	4.90
Hotels, Restaurants & Club	-12.42	-9.20	-8.38	6.39	14.16	6.80	6.15
Less Imputed Bank Service Charge	-9.57	0.64	6.93	8.85	5.53	4.92	3.11

* *Exports*

D. BANK OF JAMAICA BALANCE SHEET

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

	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03
Assets	**165 421.1**	**173 579.0**	**166 610.3**	**152 220.5**	**151 282.4**	**152 765.6**	**149 552.0**	**156 818.4**	**165 318.2**
Foreign	89 754.1	95 228.9	88 833.0	85 369.6	83 071.5	77 202.2	68 606.6	72 298.2	72 134.5
Current Account & Foreign Currency Balances	13 926.8	7 769.8	5 025.5	5 048.1	6 880.4	9 318.5	5 105.0	11 163.0	6 091.0
Time Deposits & Securities	73 899.6	85 539.9	81 873.3	78 281.9	74 108.9	65 607.9	60 573.9	54 278.5	60 805.0
Holdings of Special Drawing Rights	68.9	42.0	18.4	63.8	39.9	20.2	6.5	19.7	3.2
Other	1 858.8	1 877.2	1 915.8	1 975.8	2 042.3	2 255.6	2 921.2	6 837.0	5 235.3
Local	75 667.0	78 350.1	77 777.3	66 850.9	68 210.9	75 563.4	80945.4	84 520.2	93 183.7
Public Sector Securities	56 000.2	56 109.5	52 802.2	56 752.1	57 237.4	54 975.0	66 907.0	68 465.9	78 147.1
Other Assets	19 666.8	22 240.6	24 975.1	10 098.8	10 973.5	20 588.4	14 038.4	16 054.3	15 036.6
Liabilities	**165 421.1**	**173 579.0**	**166 610.3**	**152 220.5**	**151 282.4**	**152 765.6**	**149 552.0**	**156 818.4**	**165 318.2**
Foreign	450.4	411.5	442.6	405.8	434.6	484.6	467.9	459.2	479.3
Local	164 970.7	173 167.5	166 167.8	151 814.7	150 847.8	152 281.0	149 084.1	156 359.1	164 839.0
Currency in Circulation	22 378.7	19 481.9	19 318.5	19 587.3	24 387.3	20 772.3	21 309.9	21 587.9	29 467.0
Deposits	134 014.7	145 003.5	137 793.2	121 123.3	118 055.4	117 110.0	110 145.7	115 342.8	112 076.8
Bankers	19 232.8	16 225.9	16 925.7	17 264.9	17 729.8	25 401.0	25 474.3	25 022.0	25 659.9
Government	5 529.4	7 591.3	6 933.6	3 916.6	4 484.3	1 760.2	3 280.1	2 000.8	1 235.2
Open Market Operations	85 628.3	99 195.3	97 006.3	96 072.3	89 981.3	86 203.8	77 126.4	83 700.3	81 969.4
Other	23 624.2	21 991.0	16 927.6	3 869.5	5 860.0	3 745.0	4 264.9	4 619.7	3 212.3
Allocation of Special Drawing Rights	2 347.0	2 347.0	2 462.0	2 462.0	2 462.0	2 462.0	3 203.0	3 203.0	3 203.0
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	24.0	4.0	4.0	4.0
Other Reserves	939.6	1 174.8	1 195.8	1 195.8	1 944.2	1 944.2	1 640.8	1 628.8	990.3
Other Liabilities	5 266.7	5 136.3	5 374.2	7 422.3	3 974.9	9 968.5	12 780.7	14 592.7	19 097.8

E. COMMERCIAL BANKS' BALANCE SHEET

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

	Dec-01	Mar-02	Jun-02	Sept-02	Dec-02	Mar-03	Jun-03	Sept-03[r]	Dec-03[p]
Assets	**239 087.8**	**252 908.2**	**251 817.0**	**259 213.3**	**262 577.9**	**285 881.7**	**295 233.2**	**307 362.2**	**313 584.2**
Cash	3 595.7	1 997.9	1 854.6	2 030.1	3 988.3	3 438.6	2 500.6	2 638.1	6 281.0
Balances with BOJ	36 782.2	44 646.1	43 993.1	41 726.7	40 111.1	41 414.8	37 224.0	40 947.6	40 248.7
Foreign Assets	40 495.4	44 923.5	44 285.3	46 039.2	47 540.2	62 782.3	58 847.3	57 300.1	60 000.8
Loans & Advances	49 035.1	51 354.7	58 100.8	67 046.0	73 943.3	79 685.4	87 067.4	91 254.9	99 150.0
Private Sector	38 746.9	37 932.9	42 306.9	46 261.6	50 882.0	52 897.6	60 255.0	66 396.8	71 638.4
Public Sector	10 288.2	13 421.8	15 793.9	20 784.4	23 061.3	26 787.8	26 812.4	24 858.1	27 511.6
Public Sector Securities	79 603.7	76 010.5	74 677.2	72 564.8	68 829.3	66 143.2	78 275.4	79 895.3	74 875.3
Cheques in the Process of Collection	2 917.6	6 175.9	4 487.6	3 949.2	3 794.0	4 024.4	4 627.7	3 023.1	2 584.6
Other Assets	26 658.1	27 799.6	24 418.4	25 857.3	24 371.7	28 393.0	26 690.8	32 303.1	30 443.8
Liabilities	**239 087.8**	**252 908.2**	**251 817.0**	**259 213.3**	**262 577.9**	**285 881.7**	**295 233.2**	**307 362.2**	**313 584.2**
Deposits	158 918.1	165 541.3	169 908.3	177 801.9	178 979.5	188 441.5	190 050.4	194 580.3	198 774.8
Foreign Liabilities	13 265.5	14 863.8	14 758.0	13 237.4	12 691.1	14 085.8	14 734.1	16 838.9	15 924.3
Discounts & Advances from BOJ	83.0	43.9	60.2	61.2	134.9	187.1	235.7	95.6	167.7
Loans/Advances from Other Institutions	9 177.7	9 017.9	6 377.4	6 729.3	7 309.4	7 632.5	7 748.7	8 674.7	9 431.7
Cheques in the Process of Payment	2 026.9	3 324.6	2 369.6	2 614.2	2 565.0	2 150.6	2 969.4	2 161.0	2 112.4
Other Liabilities	55 616.6	60 116.7	58 343.5	58 769.3	60 898.0	73 384.2	79 494.9	85 011.7	87 173.3

p - preliminary
r - revised

F. INTERNATIONAL INDICATORS
1

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

	1 Month	3 Months	6 Months	12 Months
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
March	1.3000	1.2787	1.2312	1.2800
2003/2004				
June	1.1620	1.1225	1.0815	1.0944
September	1.1200	1.4246	1.1856	1.3525
December	1.1326	1.1670	1.2274	1.4688

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- 5 1/8	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
March	3 21/32 - 3 19/32	3 21/32 - 3 9/16	3 9/16 - 3 1/2	3 9/16 - 3 7/16
2003/2004				
June	3 11/16- 3 9/16	3 19/32 - 3 17/32	3 17/32 - 3 15/32	3 17/32 - 3 7/16
September	3 5/8 - 3 17/32	3 11/16 - 3 19/32	3 25/32 - 3 11/16	3 31/32 - 3 7/8
December		4 - 3 7/8	4 5/16 - 4 3/16	4 19/32 - 4 15/32

3

PRIME LENDING RATES
(End-of-Period)

	EURO-ZONE	UNITED STATES			UK
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Prime Rate
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
March	2.50	1.25	2.25	4.25	3.75
2003/2004					
June	2.00	1.00	2.00	4.00	3.75
September	2.00	1.00	2.00	4.00	3.50
December	2.00	1.00	2.00	4.00	3.75

4A

INTERNATIONAL EXCHANGE RATE
US$ VS OTHER MAJOR CURRENCIES
(currency/US$)
(End-of-Period)

	Mar-02	Jun-02	Sept-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03
US$ vs Sterling	0.8753	0.6560	0.6369	0.6306	0.6327	0.6050	0.6192	0.5603
US$ vs Canadian $	1.5954	1.5209	1.5858	1.5593	1.4711	1.3553	1.3632	1.2924
US$ vs Yen	132.55	119.86	121.73	121.98	118.58	119.86	114.79	107.11
US$ vs Euro	0.8724	1.0126	1.0123	0.9820	0.9164	0.8693	0.8878	0.7939

4B

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
(December 2003)

	GBP	C$	US$	Yen	Euro
U.K.	1	2.421	1.813	192.2	1.466
Canada	0.413	1	0.749	79.42	0.605
U.S.	0.552	1.335	1	106	0.808
Japan	0.520	1.259	0.943	100	0.762
Euro-zone	0.682	1.652	1.237	131.2	1

4C

INTERNATIONAL EXCHANGE RATES
STERLING VS OTHER MAJOR CURRENCIES
(End-of-Period))

	June-02	Sept-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03
Sterling vs US$	1.5243	1.5701	1.5859	1.5805	1.6529	1.6157	1.7847
Sterling vs Canadian $	2.3183	2.4899	2.4730	2.3251	2.2402	2.2022	2.3066
Sterling vs Yen	191.16	188.39	198.12	196.52	185.40	196.52	191.17
Sterling vs Euro[1/]	1.5434	1.5895	1.5572	1.4484	1.4369	1.4338	1.4168

5A

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

	Jun-02	Sept-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03
UAE's Dubai Light	24.23	29.18	27.51	26.21	23.29	23.69	27.86
North Sea Brent	23.69	24.13	28.34	28.52	30.34	27.55	29.93
West Texas Intermediate	22.38	25.51	25.51	29.67	29.44	33.32	32.12

5B

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

	Sept-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03
Spot (Cash)	1 280.5	1 344.5	1 330.0	1 389.0	1475.89	1512.3
3 Month	1 297.0	1 348.0	1 345.0	1 366.0	1423.5	1567.8

5C

WORLD COMMODITY PRICES
FOOD
(End-of-Period)

	Jun-02	Sept-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03
Wheats (US$/mt)	125.7	166.1	176.7	147.4	137.3	145.6	165.6
Coffee (USc/kg arabica brand)	136.2	126.0	146.8	142.4	131.4	146.4	143.0

6

MAJOR STOCK MARKET INDICES
(End-of-Period)

	Jun-02	Sept-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03
Tokyo							
Nikkei Index	11 024.94	10 621.84	9 383.29	8 578.95	7 972.71	9 083.11	10 779.44
New York							
Dow Jones Industrials	10 426.91	9 243.26	7 591.93	8 341.63	7 992.13	8 985.44	10 510.29
S&P Composite	1 144.58	1 122.78	945.28	879.82	848.12	974.50	3 011.97
London							
Financial Times-SE 100	5 271.80	4 656.40	3 721.80	3 940.40	3 613.30	4 031.20	4 411.50
Frankfurt							
Dax Index	4 382.56	2 769.03	2 423.87	2 423.87	3 220.58	3 256.78	4 095.71
Zurich							
SMI Index	5 979.70	4 783.00	4 085.60	4 085.60	4 813.70	5 043.5	5 768.20

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquid Asset: an asset is considered liquid if it can be easily and with little or no loss 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 Exchange Rate: The price of one country's currency in terms of another, adjusted for the inflation differential between the countries.

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

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

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

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

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

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

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

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

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

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

Quasi-money: Savings Deposits plus Time Deposits.

QMPR ISSUE	LIST OF BOXES
October - December 2000	1. Sovereign Credit Ratings & Outlook 2. E-gate & the Foreign Exchange Market 3. The International Oil Market: Recent Developments & Outlook 4. Jamaica's IMF Staff Monitored Programme (SMP)
January - March 2001	5. Core Inflation in Jamaica - Concept & Measurement 6. Highlights of the IMF 2001 Article IV Consultation
April - June 2001 ***Volume 2. No. 1***	7. Jamaica's Banking Sector Recovery - An Overview 8. Jamaica's Sovereign Credit Ratings - An Update 9. Highlight of the IMF's May 2001 Article IV Consultation
July - September 2001 ***Volume 2 No. 2***	10. Innovations in Jamaica's Payment System 11. Expanding the Role of Equity Finance in Jamaica: Some Perspectives 12. The US Economy: Recent Trends & Prospects
October - December 2001 ***Volume 2 No. 3***	13. The Performance of Remittances in the Jamaican Economy 1997 - 2001 14. Tourism and the Jamaican Economy: Pre & Post 11 September 2001 15. World Trade Organization (WTO): Outcome of the Fourth Ministerial Conference in Doha, Qatar and the possible Implications for Jamaica
January - March 2002 ***Volume 2 No. 4***	16. Commercial Bank Profitability (January to December 2001) 17. Regional Disparities in Jamaica's Inflation (1997/98 to 2001/02) 18. The Argentina Debt Crisis & Implications for Jamaica 19. General Data Dissemination Standards
April - June 2002 ***Volume 3 No. 1***	20. The Automated Clearing House: Implications for the Payment System 21. Macroeconomic Implications of Cross Border Capital Flows: Some Scenarios 22. Performance of Remittances in the Latin American and Caribbean Region: 1997-2001
July - September 2002 ***Volume 3 No. 2***	23. Building Societies' New Mortgage Loans: July 2001 - June 2002 24. An Overview of the CARICOM Single Market and Economy (CSME)
October - December 2002 ***Volume 3 No. 3***	25. The Profitability of the Banking System: 1991 - 2002 26. Interest Rate Spreads in Jamaica: 1995 - 2002 27. Implications of the International Accounting Standards (IAS) for Financial Systems and Financial Stability
January - March 2003 ***Volume 3 No. 4***	28. Opportunities for Savings and Investments in Jamaica: Financial Intermediaries and Financial Instruments 29. The CPI and the GDP Deflator: Concepts and Applications

QMPR ISSUE	LIST OF BOXES
April - June 2003 ***Volume 4 No. 1***	30. The Concept and Measurement of External Competitiveness 31. Exchange Rate Pass-Through in the Jamaican Economy
July - September 2003 ***Volume 4 No. 2***	32. The International Investment Position 33. The Fifth WTO Ministerial Conference: Implications for Future Trading Negotiations.