Bank of Jamaica Quarterly Monetary Policy Report

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PREFACE

The Bank of Jamaica's Quarterly Monetary Policy Report reviews the conduct of monetary policy and the main factors that influenced inflation during the quarter. It also presents the Bank's perspective on emerging economic trends and the path of monetary policy over the short to medium term. This issue includes a discussion on recent trends in Foreign Direct Investments in Jamaica as well as, a Special feature that explores the dynamics of the foreign exchange market for the period 2001 to 2004.

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

OVERVIEW

The macroeconomic environment was fairly stable in the December 2004 quarter despite the negative shock from the passage of Hurricane Ivan on 10 September. Government's prompt action to preserve public order and safety in the aftermath of the Hurricane, as well as, to facilitate the restoration of social services was critical to the speed of the recovery process. The timely and coordinated response of the Bank of Jamaica (BOJ) and the banking sector also served to minimise dislocation in the financial system and limit downtime in business activity. Concurrently, the Bank maintained a conservative approach to the conduct of monetary policy as it sought to preserve foreign exchange market stability and dampen any emerging inflationary pressures. These factors, coupled with the Government's revised budget for 2004/05, which reflected a marginal deviation from the original target as well as, its commitment to a balanced budget in 2005/06, boosted investor confidence.

During the December quarter, the foreign exchange market benefited from buoyant remittance and private capital inflows. There was however, a decline in receipts from tourism following the Hurricane. The prevailing foreign exchange market stability underscored confidence in the Jamaican currency in a context where the Bank's capacity to respond to emergent demands following the Hurricane was reinforced by strong net international reserves. Developments in the foreign exchange market in 2004 are discussed in a special feature - **Exploring the Jamaican Foreign Exchange Market Dynamics**, included in this QMPR. Notably, the increased willingness to hold Jamaica Dollars was reflected in the faster growth of local currency deposits in the banking system in the December quarter relative to the previous quarter and the corresponding quarter of last year. Concurrently, growth in foreign currency deposits decelerated marginally in the review quarter relative to the September 2004 quarter and the December 2003 quarter.

Jamaica continued to be attractive to the international financial community in a context where macroeconomic conditions remained favourable despite the negative impact of Hurricane Ivan on the economy. Hence, in October, the country raised €150 million on the international capital market, well ahead of schedule. This enabled Government to reduce its presence in the domestic market and on the occasions where instruments were offered, facilitated a strong take up at moderately declining rates of interest. In December, Standard and Poor's Rating Services upgraded its outlook for Jamaica's foreign currency debt from negative to stable. It also affirmed its single 'B' long-term foreign currency and single 'B+' long-term local currency sovereign credit ratings for Jamaica. The demand for the Government of Jamaica (GOJ) global bonds remained strong during the December quarter with yields declining on all tenors excluding the "2005" given the latter's imminent maturity. The recently issued 2014 Eurobond experienced the largest yield decline of 1.7 percentage points. The strong performance of GOJ global bonds was consistent with a resurgence in the demand for emerging market debt and an improved Jamaican macroeconomic outlook.

Indications are that economic growth was relatively weak in the December 2004 quarter reflecting primarily, the negative effects of Hurricane Ivan on real sector activity. The principal growth area was services, as goods production contracted despite strong expansion in construction activities. Within services, the major area of growth was the distributive trade, which benefited from reconstruction related demand following the Hurricane. Growth in this area was inferred from an estimated 27.5 per cent increase in merchandise imports for the review quarter. According to the Statistical Institute of Jamaica, the economy grew by 1.9 per cent in the first nine months of 2004. Based on this and the Bank's estimate for the December 2004 quarter, growth for 2004 should be in the range of 1.0 per cent to 1.5 per cent.

Economic expansion in 2004 is expected in all sectors with the exception of *Financial & Insurance Services* and *Agriculture*. Services are estimated to have contributed 69.3 per cent to growth for the calendar year and the goods producing sectors accounted for 31.4 per cent. The decline in *Agriculture* would have been evident in all four quarters of 2004 as unfavourable weather conditions including drought and hurricanes Charley and Ivan, had a negative effect on output. Concurrently, the decline in *Financial and Insurance Services* would have reflected the realisation of lower foreign exchange gains relative to 2003.

The maintenance of a relatively tight monetary policy stance throughout the December quarter restricted base money growth to 17.4 per cent relative to a revised target of 18.8 per cent for the quarter. Given the stable monetary conditions, a positive economic outlook, buoyant foreign exchange flows and continued stability in the exchange rate, the Bank reduced its entire spectrum of interest rates effective 28 December. The interest rate on the 30-day tenor was lowered by 20.00 basis points to 13.80 per cent while, the rate on 365-day tenor was reduced by 50.00 basis points to 15.50 per cent. The rate reduction on the remaining tenors ranged between 15.00 and 35.00 basis points. The interest rate adjustment represented the eleventh reduction for 2004.

The monetary impulses to inflation were minimal in 2004 in a context where the exchange rate was generally stable throughout the year. The weighted average exchange rate depreciated by 1.6 per cent in 2004 relative to depreciations of 15.9 per cent and 7.0 per cent in 2003 and 2002, respectively. Of note, in the December 2004 quarter, the exchange rate appreciated by 0.4 per cent relative to the September 2004 quarter and was the first quarterly appreciation since the June quarter of 1998.

Core or underlying inflation (as measured by the trimmed mean) was estimated at 1.7 per cent for the December 2004 quarter, relative to the 1.2 per cent estimated for the previous quarter but was below the 2.0 per cent for the

December 2003 quarter. The increase in core inflation in the December 2004 quarter was however consistent with the lagged movements in the monetary aggregates and expected to be temporary. In this regard, the monetary base had increased by 4.9 per cent in the September 2004 quarter, relative to a 1.2 per cent increase in the June 2004 quarter. Despite the higher core in the December 2004 quarter, core inflation for the fiscal year to December was estimated at 4.03 per cent, 2.03 percentage points below the estimate for the corresponding FY2003/04 period.

Headline inflation surged to 3.3 per cent in October fuelled primarily by a sharp reduction in agricultural supplies consequent on the negative impact of Hurricane Ivan. However, any tendency for subsequent sharp upward movement in prices was moderated by the importation of additional agricultural supplies. In this regard, inflation slowed somewhat in November to 2.4 per cent and decelerated sharply to 0.6 per cent in December as the supply of domestic crops began to recover. Accordingly, inflation for the December 2004 quarter was 6.4 per cent relative to 2.9 per cent in the September quarter and 3.4 per cent for the corresponding period in 2003. For the fiscal year to December, inflation was 11.6 per cent, comparing favourably to the 14.6 per cent that obtained for the corresponding period in FY2003/04. The 12-month point-to-point inflation of 13.7 per cent was 0.4 percentage points lower than that at end December 2003.

The macroeconomic outlook for the March 2005 quarter is generally positive. Inflation is expected to further moderate as agricultural supplies return to normal and oil prices, which have exhibited a declining trend since November 2004, maintain their downward path. The recovery in gross domestic output is expected to be driven by a rebound in *Agriculture* and *Tourism*. In a context where fiscal policy is expected to remain on track, the main focus of monetary policy would be that of maintaining stability and meeting the programme objectives of the revised Intensified Surveillance Programme (ISP) agreed with the IMF. Core inflation should continue to be relatively low, growing by about 1.0 per cent for the quarter. Concurrently, inflation should be in the region of **10.8 per cent** to **11.8 per cent** for the fiscal year and given the positive signs in the real economy, should return to single digit in 2005/06.

Based on the foregoing, prospects for further relaxation in the Bank's monetary policy stance in the coming months are positive. However, the BOJ remains cognizant of the threats to macroeconomic stability posed by any reversal in the current trend in world oil prices that could alter the inflation trajectory.

For the longer term, the signs remain positive for further improvement in the macroeconomic fundamentals and by extension, acceleration in economic growth. An analysis of trends in foreign direct investment (FDI) suggests a strengthening of these flows to sectors such as *Mining, Manufacturing, Telecommunications* and *Construction* in the near-term (see **Box 1 - Foreign Direct Investment: Trends and Prospects**). Accordingly, FDI inflows are expected to average approximately 8.0 per cent of GDP over the medium term relative to 6.9 per cent between 1999 and 2003.

1. Monetary Policy and Financial Markets

Money and Credit

Monetary Policy and Base Money Management

Monetary policy was conducted in an environment of improved economic conditions and enhanced investor confidence during the December 2004 quarter. This was evident in the foreign exchange market where stability was facilitated by buoyant foreign currency inflows that also served to boost the NIR. Further evidence was provided in the positive response of investors to the Government raising €150.0 million on the international capital market. The upgrade from Standard & Poor's regarding Jamaica's economic outlook and Jamaica's ongoing recuperation from hurricane losses sustained in the September quarter were also observed to have underpinned improved confidence in the economy.

Against this background, the Bank was able to contain the monetary base within the financial programme target. The favourable macroeconomic conditions also enabled the Bank to lower interest rates on the entire spectrum of open market instruments towards the close of the quarter.

Table 1.1

BOJ End of Quarter Reverse Repurchase Rates March - December 2004

	31 Mar	30 Jun	30 Sept	31 Dec
30 Days	14.85	14.20	14.00	13.80
60 Days	15.00	14.30	14.10	13.95
90 Days	15.10	14.40	14.20	14.05
120 Days	15.50	14.55	14.35	14.15
180 Days	16.00	15.05	14.80	14.30
270 Days	16.95	15.65	15.35	15.00
365 Days	17.95	16.40	16.00	15.50

Bank lowers interest rates on entire spectrum of open market instruments.

The Bank of Jamaica (BOJ) maintained a cautious monetary policy stance for most of the December quarter, given initial concerns about the speed of economic recovery and expected inflation from the fall out in the agricultural sector. However, in a context of improving macroeconomic performance, a downturn in global oil prices, and relative stability in the foreign exchange market, the conditions were eventually deemed favourable to effect a monetary policy adjustment. On 28 December 2004, the BOJ cut interest rates on all tenors of its open market instruments, bringing the 30-day rate to 13.80 per cent (see **Table 1.1**). The premium on longer tenors was significantly reduced by 35.0 to 50.0 basis points, to bring the rate on the 180-day, 270-day and 365-day tenors to

Figure 1.1
BOJ Open Market Operations Yield Curve

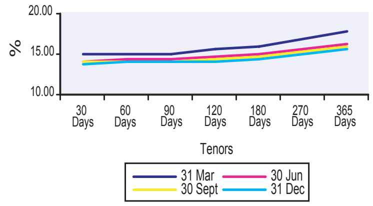


Figure 1.2
Base Money
(Quarterly Change)

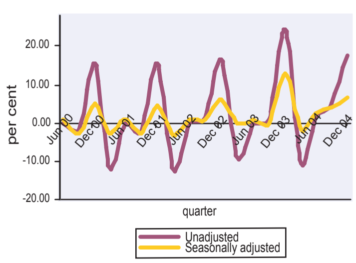
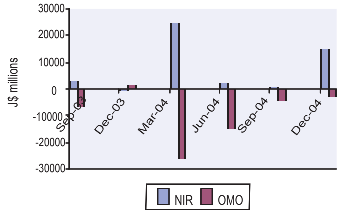


Figure 1.3
Effects of the NIR & OMO on liquidity*



**Absorption-negative, Injection-positive*

14.30 per cent, 15.00 per cent and 15.50 per cent, respectively. The reductions represented cumulative declines of 105.0 to 245.0 basis points since the start of the fiscal year, indicating further normalisation of the yield curve on BOJ's open market instruments (see **Figure 1.1**).

During the quarter, the monetary base expanded by $6 664.7 million or 17.4 per cent (see **Figure 1.2**). This growth was within the target of 18.8 per cent set out in the revised financial programme. As is customary in the December quarter, the expansion in the monetary base was primarily related to increased transactions demand for currency in December. The BOJ recorded a net increase of $5 722.5 million in currency issued for the month of December. This in turn gave rise to net currency issue of $6 182.2 million or 23.6 per cent during the quarter (see **Appendix C3**). At end December, the stock of currency issued stood at $32 398.1 million, 10.1 per cent higher than end December 2003. This was a lower annual increase in the stock of currency than 2003, which reflected a moderation in inflation during the year and a slow down in real activity during the December quarter.

The other components of the monetary base also reflected increases during the quarter. The statutory cash reserves increased by $274.3 million as a result of higher local currency deposits while, the current account balances of the commercial banks increased by $208.2 million.

The source of the base money expansion was the build-up in the net international reserves (NIR) of $15 004.0 million (US$242.0 million) during the quarter (see **Figure 1.3**). The increase in the NIR was mainly attributed to the purchase of the foreign currency proceeds of the GOJ €150.0 million Eurobond in October as well as direct purchases from the market (see **Bond Market and Foreign Exchange Market**). The amounts received from the sale of the proceeds of the Eurobond enhanced the fiscal authorities' ability to meet financing obligations. Within this context, Central Government accounts at the Central Bank increased, which facilitated a decline in Net Claims on the Public Sector by $5 284.6 million (see **Appendix C3**). Given the reduced public sector demand for domestic financing, BOJ open market operations absorbed the incremental liquidity. Net absorption through the open market window amounted to $3 062.8 million of which substantial placements were made in the longer-dated tenors (see **Bond Market**).

If the positive developments in the economy persist in the March quarter, then it should not be unduly challenging for liquidity emanating from the normal seasonal redemption of currency in the quarter to be re-absorbed by open market operations. This would result in the monetary base remaining within the target set out in the monetary programme and hence monetary impulses to core inflation would be moderated.

Money Supply

For the December 2004 quarter, there was a seasonal increase in money supply, with broad Jamaica Dollar money supply (M3J) increasing at a faster rate relative to the comparable quarter of 2003. The growth during the review quarter also exceeded the increase outlined in the revised monetary programme. A notable expansion in local currency deposits associated with positive investor confidence, as well as the seasonally high level of currency in December were the main components of growth in money supply. A decline in the stock of commercial banks' repurchase agreements, and the build up in the NIR were the main sources of monetary expansion during the review quarter. These impulses were moderated by a build up in deposits by Central Government with the BOJ, as well as an expansion in BOJ's open market operations.

The growth in the broadest measure of money supply, which includes foreign currency deposits, M3, was slightly below that of M3J, as there was a slower rate of increase in foreign currency deposits within the context of stable foreign exchange market conditions in the December 2004 quarter.*

Figure 1.4
Money Supply
(Quarterly Growth rates)
March 2000 to December 2004

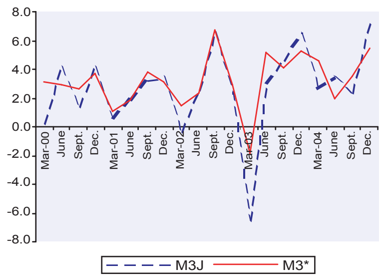


Table 1.2

Money Supply *(12-month growth rates)*		
MJ	**Dec-03**	**Dec-04**
M1J	1.2	22.8
M2J	3.2	15.1
M3J	7.4	16.3
M*		
M1*	7.3	23.2
M2*	11.0	15.6
M3*	13.1	16.4

Table 1.3

INTEREST RATES IN THE DOMESTIC MARKET			
	Dec-03	**Sep-04**	**Dec-04**
COMMERCIAL BANK WEIGHTED AVERAGE DEPOSIT RATES			
Overall	6.70	6.03	6.04
Demand	3.52	3.34	3.31
Savings	6.33	5.61	5.71
Time	8.68	7.99	7.78
Foreign Currency	3.33	3.30	3.32
Demand	3.05	3.39	3.27
Savings	2.28	2.29	2.27
Time	5.45	5.29	5.27
6-MONTH TREASURY BILL RATE	22.05	14.80	14.94
BOJ 180-DAY REPURCHASE AGREEMENT RATE	21.00	14.80	14.30
PRIVATE MONEY MARKET RATE	20.63	14.05	13.88

For the third quarter of FY 2004/05, M3J increased by 7.2 per cent, relative to 2.3 per cent for the previous quarter and 6.4 per cent for the comparable quarter of 2003 (see **Figure 1.4**). The growth during the review quarter exceeded the 6.6 per cent expansion anticipated in the monetary programme.

During the review period, a major source of monetary expansion was commercial banks' redemption of repurchase agreements amounting to $6 070.9 million. This was largely reflected in one institution, which opted for alternate sources of financing during the quarter.

The Bank's purchase of proceeds from a €150 million Eurobond raised on 27 October 2004, coupled with buoyant foreign exchange inflows that resulted in increased surrenders to the Central Bank, provided the major impetus for growth in the NIR and potential Jamaica Dollar money supply. The Eurobond proceeds facilitated a build up in Central Government deposits of $11 081.6 million, while BOJ open market securities absorbed $3 152.8 million. These increases limited the potential growth in money supply and occurred in a context of the continued build up in investor confidence, which spurred an increased demand for Jamaica Dollar denominated assets.

The faster rate of growth in M3J for the December 2004 quarter was largely reflected in currency in circulation, which increased by 20.2 per cent relative to 22.4 per cent for the comparable period of 2003. A significant increase in time deposits underpinned the increase in local currency deposits of 5.2 per cent, the highest outturn for a December quarter since 1997. The increase in time deposits was concentrated in one bank and occurred despite a reduction in the rates offered on these deposits during the review quarter (see **Table 1.3**).

For the December quarter narrow money (M1J) grew by 13.4 per cent while quasi-money increased by 5.8 per cent. For the December 2003 quarter, there were increases of 14.1 per cent and 4.5 per cent in M1J and quasi-

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

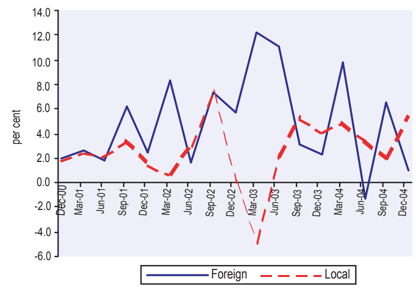


Figure 1.6
Foreign Currency Deposits to Total Deposits
December 2002 to 2004

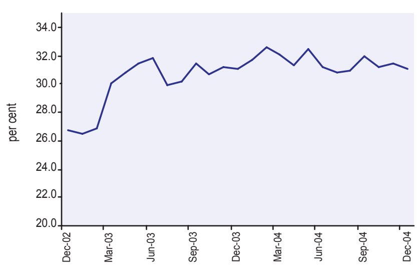
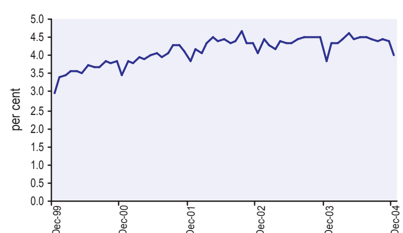


Figure 1.7
Money multiplier
(Annual Trend)
December 1999 - 2004



money, respectively. The expansion in quasi-money during the December 2004 quarter was largely reflected in an increase of 11.8 per cent in time deposits, the highest quarterly growth since September 1999.

Against the background of a relatively stable exchange rate, growth in foreign currency deposits slowed to 1.0 per cent relative to expansions of 6.5 per cent and 2.4 per cent during the previous quarter and the December 2003 quarter, respectively (see **Figure 1.5**). The outturn for the review period was largely influenced by a 1.6 per cent reduction in foreign currency savings deposits, the first quarterly decline since June 2001. Despite the slowdown in foreign currency deposits, the rate of expansion in M3* accelerated during the review quarter. In particular M3* increased by 5.4 per cent for the review quarter relative to 3.5 per cent and 5.3 per cent during the previous quarter and the December 2003 quarter, respectively. In this context, and with the faster rate of growth in local currency deposits, the ratio of foreign currency deposits to total private sector deposits decreased to 31.1 per cent at end December 2004, from 32.0 per cent at end September 2004. However, the ratio remained flat relative to end December 2003 (see **Figure 1.6**).

Given the seasonal build up in the monetary base, the money multiplier declined relative to the previous quarter. In addition, there has been an annual trend increase observed in the money multiplier between 1999 and 2002 (see **Figure 1.7**). The abnormal decline observed in 2003 was due to a significant increase in the demand for currency, and hence commercial banks' maintenance of high vault cash holdings in the December 2003 quarter. This was largely attributed to the instability in the foreign exchange market which lead to a decline in the value of the Jamaica Dollar. However, the stability maintained in the foreign exchange market throughout 2004 moderated the demand for cash balances by the public and resulted in a normalization of the annual trend increase in the money multiplier. The money multiplier decreased to 4.04 at end December 2004 from 4.42 at end September

2004. At end December 2003, the money multiplier was 3.86.

Table 1.4

COMPONENTS OF THE MONEY MULTIPLIER	Dec-03 %	Sep-04 %	Dec-04 %
Currency to Deposits	17.37	15.03	17.17
Reserves to Deposits	13.04	11.01	11.86
Excess Reserves to Deposits	4.84	2.84	3.93
Cash Reserves to Deposits	8.20	8.17	7.94

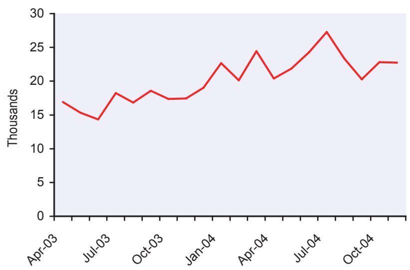
During the review quarter, the change in the money multiplier reflected increases in the currency to deposits ratio and the reserves to deposits ratio (see **Table 1.4**). Growth in the currency to deposits ratio was in line with a seasonal pattern, largely due to the usual increase in currency in circulation. The expansion in the reserves to deposits ratio was attributed to a significant build up in the current account balance and commercial banks' vault cash holdings. These funds were used to buffer the increased demand for currency associated with the Christmas holiday season.

In light of the moderation in the demand for currency, in a context of foreign exchange market stability, as well as the increased demand for Jamaica Dollar deposits, the currency to deposits ratio and the reserves to deposits ratio at end December 2004 was lower relative to December 2003.

For 2004, in the context of a faster rate of expansion in currency in circulation and local currency deposits, M3J grew by 16.1 per cent relative to the 7.4 per cent expansion observed in 2003. The maintenance of macroeconomic stability and an improvement in Jamaica Dollar confidence underpinned the faster rate of growth in local currency deposits during 2004 relative to 2003. This was in spite of the higher rates of return that were offered on other Jamaica Dollar denominated assets, such as BOJ repos and Government securities. For 2004, local currency deposits grew by 16.5 per cent relative to an increase of 6.4 per cent observed in 2003. The growth in 2004 was largely reflected in increases in demand deposits and commercial banks' retained earnings of 30.8 per cent and 44.3 per cent, respectively. For 2003, demand deposits declined by 9.3 per cent while commercial banks' retained earnings grew by 45.6 per cent.

With regard to currency in circulation, the nominal growth for 2004 accelerated to 15.1 per cent, relative to 13.6 per

Figure 1.8
Number of Debit Cards Issued
April 2003 to November 2004



cent for 2003. However, when expressed in real terms, currency in circulation grew at a slower rate of 1.3 per cent in 2004, compared to 3.0 per cent for 2003. An increase in the number of debit cards issued since April 2003 (see **Figure 1.8**) would have contributed to the slowdown in real growth in currency in circulation for 2004. Data shows that between April and November 2004, 183 054 debit cards were issued compared to 134 991 for the similar period of 2003.

Notwithstanding a slowdown in the growth in foreign currency deposits to 16.6 per cent for 2004 relative to 31.4 per cent for 2003, M3* grew at a faster rate of 16.4 per cent relative to 13.1 per cent during 2003. This was largely due to the faster rate of increase in local currency deposits during 2004 relative to 2003.

Despite, the faster than anticipated growth in money supply for the review quarter, relative stability was maintained in the financial markets. The stability maintained in the foreign exchange market throughout 2004 enhanced the Central Bank's ability to effectively control money supply. Investors' expectation of lower interest rates in the March 2004 quarter bodes well for the achievement of the monetary targets for FY 2004/05.

Private Sector Credit

Private sector credit grew by 3.8 per cent during the December 2004 quarter. However, the annual increase in private sector credit of 18.8 per cent represents a deceleration relative to the previous two years. The growth in credit for the December quarter primarily reflected an expansion in Tourism and Personal Loans. Foreign currency credit accelerated considerably during the review quarter relative to the previous three quarters, while there was a decline in local currency lending. The quality of the banks' loan portfolio continued to be well within the international benchmark.

Figure 1.9
Quarterly Growth Rates of Private Sector Credit, March 2002 to December 2004

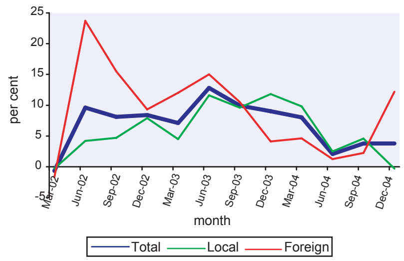
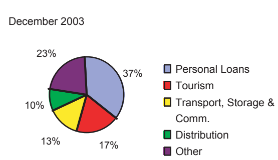
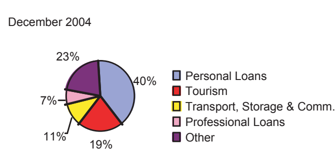


Table 1.5

Commercial Bank Distribution of Total Credit to the Private Sector (Quarterly Flows)	Dec-03	Prov. Sep-04	Prov. Dec-04
Total Private Sector Credit.	6 111.3	3 097.6	3 236.8
Loans and Advances	5 267.0	3 107.5	2 844.2
Other Investments and Private Debentures	844.3	-9.9	392.6

Figure 1.10
Sectoral Distribution of Commercial Bank credit to the Private Sector Per Cent of Outstanding Stock December 2003 & December 2004





At end December 2004, the stock of commercial bank credit to the private sector was $87 864.2 million, representing an expansion of 3.8 per cent. This outturn was above the 3.3 per cent target outlined in the revised monetary programme and equivalent to the increase observed in the September 2004 quarter. However, the outturn was significantly lower than the expansion of 9.0 per cent recorded in the comparable period of 2003.

The increase in credit during the review period primarily reflected a 3.6 per cent expansion in Loans & Advances (see **Table 1.5**). Credit growth in 2004 decelerated to 18.8 per from 44.8 per cent in 2003. Tourism was the major recipient of bank credit as loans to the sector expanded by 13.9 per cent during the review period. This result is typical of the seasonal patterns of growth exhibited by the sector during the December quarter, and also related to Hurricane reconstruction and refurbishing efforts. Personal Loans remained buoyant, expanding by 5.7 per cent. This category continued to constitute the largest proportion of the outstanding stock of commercial banking credit (see **Figure 1.10**). Credit card receivables accounted for 6.4 per cent of the total increase in personal loans over the review quarter. There was a deceleration in the growth of these receivables to 25.1 per cent for 2004 relative to 43.1 per cent observed in 2003.

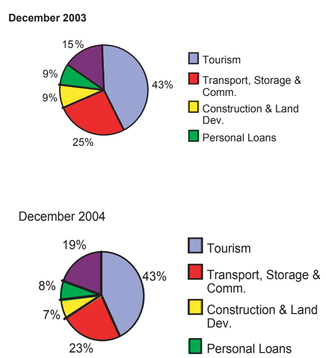
During the review period, loans to **Transport, Storage & Communication** also expanded significantly by 6.7 relative to 0.6 per cent recorded in the previous quarter though less than the 15.4 per cent growth recorded in the comparable period of 2003. **Manufacturing** also grew by 17.0 per cent during the quarter, following net repayments during the comparable period of 2003. **Construction & Land Development** recorded significant net repayments during the review period, as was the case in the 2003 period. **Entertainment** also recorded net repayments, following credit growth observed in the comparable period of 2003 (see **Table 1.6**).

Table 1.6

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

	Dec-03	Sep-04	Dec-04
Agriculture & Fishing	-214.6	-92.3	-80.7
Mining & Quarrying	86.0	20.5	26.6
Manufacturing	-220.5	175.5	544.7
Construction & Land Development	-1013.6	745.3	-2328.4
Transport, Storage & Comm.	1270.1	52.4	549.7
Tourism	1333.8	111.1	1924.0
Distribution	1054.7	-50.8	376.4
Professional & Other Services	509.2	253.3	99.6
Personal Loans	2 367.7	1 745.9	1 813.2
Electricity	92.3	19.9	22.5
Entertainment	11.0	125.5	-100.0
Overseas Residents	-9.1	1.4	-3.6
TOTAL	5 267.0	3 107.5	2 844.2

Figure 1.11
Sectoral Distribution of Foreign Currency Loans to the Private Sector
Per Cent of Outstanding Stock
December 2003 & December 2004



The growth in private sector credit during the review quarter was primarily reflected in foreign currency loans. The review period boasted a significant increase in foreign currency credit, the stock of which expanded by 11.5 per cent relative to the marginal 0.4 per cent increase noted in the previous quarter and also the 4.7 per cent expansion observed in the comparable period of 2003. Tourism accounted for the largest proportion of the foreign currency credit, expanding notably by 12.7 per cent during the review period (see **Figure 1.11**). There was also significant credit growth in Manufacturing and Transport, Storage & Communication of 54.8 per cent and 6.9 per cent, respectively, during the review period (see **Table 1.7**).

As a result of the robust growth of foreign currency credit during the review period, the proportion of foreign currency loans to total loans increased to 40.1 per cent as at end December 2004. This compares with the 38.0 per cent ratio recorded at the end of the previous quarter and 37.5 per cent observed at the end of the December 2003. This growth in this ratio occurred in the context of favourable market conditions and optimistic expectations of future foreign exchange market stability.

At end November 2004, the weighted average loan rate on foreign currency loans stood at 8.94 per cent compared with 8.71 per cent at end September 2003 and 8.84 at end November 2003. This was reflected in rates charged on **Personal Loans** and **Commercial Loans** which increased by 24 basis points and 40 basis points, respectively, while all other categories decreased or remained unchanged.

The overall weighted average loan rate on private sector and public sector loans continued along a downward trajectory observed since the mid 1990s. The rate declined by 4 basis points during the December 2004 quarter and was 160 basis points below the rate observed at end December 2003. This was reflected in reductions on public sector loans while private sector loans remained constant during the December 2004 quarter (see **Figure 1.12**).

Table 1.7

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

	Dec-03	Sep-04	Dec-04
Agriculture & Fishing	0.0	-0.5	-0.1
Mining & Quarrying	1.1	0.0	0.0
Manufacturing	-1.1	1.1	10.1
Construction & Land Development	-1.9	0.4	0.0
Transport, Storage & Comm.	-5.4	-1.2	7.9
Tourism	0.0	0.0	0.0
Distribution	-2.1	0.4	3.3
Professional & Other Services	27.4	-2.1	26.2
Personal Loans	0.1	-0.1	-0.1
Electricity	2.7	2.8	2.8
Entertainment	-0.1	0.8	5.5
Overseas Residents	0.0	0.0	0.0
TOTAL	20.7	1.7	55.7

Figure 1.12
Commercial Banks' Weighted Average Loan Rate December 2000 to December 2004

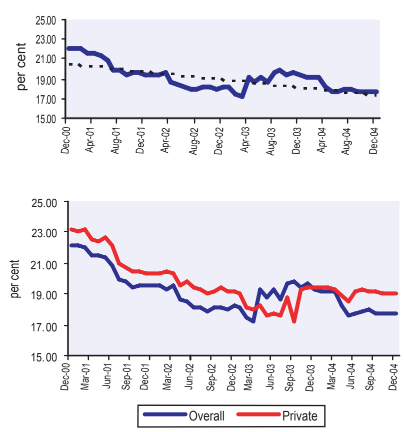


Table 1.8

Commercial Bank Domestic Currency Average Weighted Lending Rates by Loan Type

	Dec-03	Sep-04	Dec-04
Weighted Average Rates			
Overall	19.32	17.76	17.72
Public Sector	19.19	14.12	13.83
Private Sector	19.38	19.09	19.09
Instalment	24.01	23.93	23.86
Mortgage	21.19	20.48	20.16
Personal	29.74	30.34	30.19
Commercial	15.49	14.13	14.13
Local Govt. & Other Public Ent.	16.78	12.30	11.63
Central Government	23.75	18.44	18.27

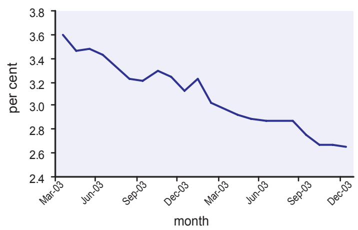
The weighted average rate charged on domestic currency loans to the private sector remained unchanged at 19.06 per cent during the review quarter but was 29 basis points lower than the rate observed at end December 2003. The reduction was observed in all categories except for rates charged on Commercial credit, which remained constant during the December 2004 quarter (see **Table 1.8**).

During the review period, the weighted average loan rate on public sector loans declined by 29.00 basis points. The rate observed at end December 2004 was 536 basis points below that observed at end December 2003. The decline in the weighted rate on public sector credit was reflected in a 67.00 basis point decrease in the weighted average rate charged on loans to *Local Government & Other Public Entities*. The weighted average loan rate to *Central Government* fell by 17.00 basis points during the review period.

At end December 2004, the ratio of private sector credit to total assets increased to 25.8 per cent from 25.0 per cent observed at end September 2004. This outturn was relative to the 23.9 per cent ratio recorded at end December 2003, indicating a shifting of the asset composition in favour of increase levels of loans.

The quality of the loan portfolio of commercial banks continued to show improvement as reflected in the ratio of past due loans (over three months) to total loans. This ratio declined to 2.7 per cent at end December 2004 from the 3.1 per cent observed during the comparable period in 2003 and the 2.8 recorded at end September 2004 (see **Figure 1.13**). The outturn for the review quarter was well within the international benchmark of 10.0 per cent. This result is consistent with the overall improvement noted in the macroeconomic environment.

Figure 1.13
Commercial Banks Past due Loans (Three Months and Over) to Total Loans March 2003 to December 2004



Positive economic prospects continue to influence developments in domestic bond market.

Table 1.9

Placements and Maturities* in BOJ OMO Instruments October - December 2004		
	Maturities (%)	Placements (%)
30 Days	61.87	60.47
60 Days	2.61	5.65
90 Days	10.29	9.71
120 Days	2.18	3.12
180 Days	11.20	6.17
270 Days	8.15	2.93
365 Days	3.71	11.94

**Excludes overnight transactions during the period*

Bond Market

A positive outlook for the Jamaican economy continued to improve investor confidence. This facilitated the earlier than anticipated issue of a €150.0 million Eurobond by the GOJ in early October 2004. The external receipts enabled the Government to contract domestic debt at lower rates. In addition, falling global oil prices alleviated inflationary pressures in the economy during the latter half of the quarter. Consequently, overall domestic interest rates continued to decline. Sufficiently stable conditions supported a BOJ interest rate reduction on all tenors of its open market instruments. Interest rates in the private money market also exhibited relative stability, in a context of adequate Jamaica Dollar liquidity. In the international capital market, demand for GOJ global bonds continued to be buoyant.

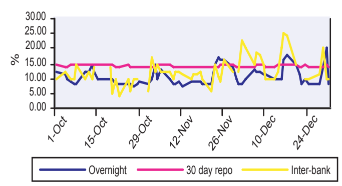
Developments in the bond market during the December quarter were influenced by continued optimism in the Jamaican economy. This optimism was fueled by the expectation of a timely recovery in the key productive sectors, despite temporary setbacks from Hurricane Ivan in September 2004. Additionally, falling world oil prices in the latter half of the quarter served to lessen inflationary pressures in the domestic economy. Jamaica's positive economic outlook aided the Government in raising €150.0 million in the international capital market, which also facilitated domestic borrowing at cheaper rates. Declines in domestic interest rates were further facilitated by relative stability in the foreign exchange market.

The investing public maintained a strong interest in the BOJ's open-market instruments, with the 30-day to 365-day instruments net absorbing $1 995.8 million. There was high concentration in shorter tenors, as the 30-day instrument accounted for 60.5 per cent of placements (see **Table 1.9**). This was to satisfy liquidity needs, in particular currency demand in December. The second most popular tenor was the 365-day instrument, which attracted 11.9 per cent of placements. There was evidence of investors moving out of the 180-day and 270-day instruments in favour of the 365-

day tenor to take advantage of the slightly higher premium. The willingness to invest in longer-term instruments is an indication of improving confidence in the economy and prospects for lower interest rates. It is noted that even after the reduction in OMO interest rates, placements in the 30-day and 365-day tenors continued to be strong.

Interest rate movements in the private money market reflected the effect of Government offers in the market. The 30-day repo rate averaged 14.2 per cent, 1.00 basis point lower than the September quarter. For the month of October and most of November, adequate levels of Jamaica Dollar liquidity facilitated fairly low and stable interest rates. The maximum interest rates in the overnight and interbank markets were consistently below the 30-day rate, averaging 10.7 per cent and 12.4 per cent, respectively. However, interest rates trended upwards in the latter half of the quarter, due to liquidity absorption by Government offers in the market. The interbank rate peaked at 25.0 per cent and the overnight at 20.0 per cent (see **Figure 1.14**).

Figure 1.14
Private Money Market Maximum Interest Rates October - December 2004



The Government made net issues of $4 463.2 million in domestic debt during the December quarter. This was in contrast to the previous two quarters when there had been net amortisation of debt. Unlike the September quarter, no foreign currency denominated instruments were issued in the domestic market. Instead the bulk of the financing was sourced through three investment debentures which had net issues of $10 549.4 million (see **Table 1.10**). Overall, the Government raised $25 698.4 million in new issues. This was augmented by various private placements during the quarter. Strategic timing of offers during periods of adequate liquidity allowed for the issuing of debt at lower interest rates.

Table 1.10

GOJ Public Domestic Debt Raising October - December 2004

	Amount Allotted (J$MN)	Amount Maturing (J$MN)	Net Issue (J$MN)
Treasury Bills	1 750.0	1 750.0	0.0
LRS	400.0	7 652.1	-7 252.1
Investment Debenture	20 732.4	10 183.0	10 549.4
Investment Bonds	2 816.0	0.0	2 816.0
US$ Indexed Bonds	0.0	1 314.4	-1 314.4
US$ Denominated Bonds	0.0	335.7	-335.7
Total	25 698.4	21 235.2	4 463.2

During the quarter, the Government issued three investment debentures with an average tenor of two years. Combined subscriptions to these instruments totalled $20 732.4 million. Liquidity from maturing Government and OMO instruments, in addition to improving confidence, allowed the Government to issue

Government net issues $4 463.2 million in domestic debt.

the debentures at progressively lower rates. The coupon on the debentures was reduced from 16.625 per cent in October, to 16.575 per cent in November, and finally to 16.50 per cent in December (see **Appendix 8B**). Additional funding was contracted through the issue of a variable rate investment bond ($2 816.0 million). During the quarter, there were net maturities of Local Registered Stocks (LRS) totaling $7 252.1 million and US dollar-indexed bonds worth $1 314.4 million.

The stock of Treasury Bills outstanding remained unchanged for the December quarter (see **Table 1.11**). Average yields on the 182-day tenor increased by 14.00 basis points over the yield in September to close the quarter at 14.94 per cent. The increase was attributed to investors entering bids at marginally higher rates, in an attempt to take advantage of reduced auction participation during the Christmas season. The November auction of 365-day Treasury Bills resulted in a lower average yield of 16.05 per cent, compared to 16.36 per cent in the previous 365-day auction in August. The yield on the 89-day Treasury Bill in December remained unchanged at 14.41 per cent relative to September. Given the reduction on the Bank's OMO rates, average yields in future auctions are expected to decline.

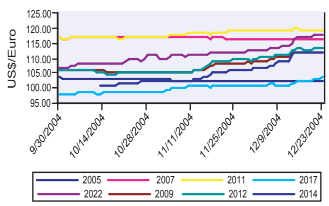
Table 1.11

Treasury Bill Auctions & Maturities
October - December 2004

Issue Date	Tenor (days)	Avg. Yield (%)	Allotment (J$MN)	Amount Maturing (J$MN)
29 Oct. 04	182	14.78	400.0	500.0
26 Nov. 04	364	16.05	300.0	600.0
26 Nov. 04	182	14.90	400.0	
24 Dec. 04	182	14.94	400.0	650.0
24 Dec. 04	89	14.41	250.0	
Total			1 750.0	1 750.0

The Government completed its programmed external borrowing for the fiscal year ahead of schedule with the issue of a 10-year Eurobond on 12 October 2004. The bond raised €150.0 million at a coupon rate of 10.5 per cent, 50 basis points below the Government's previous 8-year offer in July. Clear communication by the Jamaican Government of its commitment to the fiscal programme, as well as positive reports from international rating agencies such as Bear Stearns, fuelled an overwhelming demand for the bond.

Figure 1.15
GOJ Global Bond Prices
October - December 2004*



**Data as at 23 December 2004*

Figure 1.16
GOJ Global Bond Yields
October - December 2004*

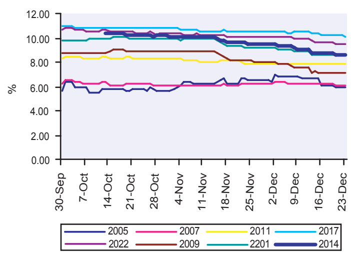
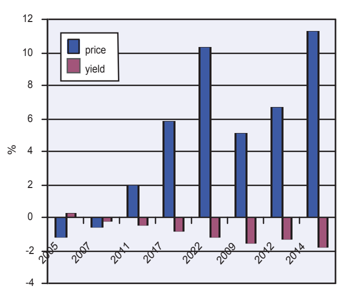


Figure 1.17
Quarterly Change
GOJ Global Bond Prices & Yields
October - December 2004*



On 10 December 2004, Standard & Poor's Rating Services revised its outlook on its long-term sovereign credit ratings on Jamaica from negative to stable. It also affirmed its 'B' long- and short-term credit ratings on Jamaica. Among the reasons cited for the revised outlook were Jamaica's improving fiscal and external liquidity situation, ongoing commitment to fiscal prudence, and stronger economic growth prospects.

Strong demand for GOJ global bonds persisted in the December quarter, with yields declining on all tenors except the 2005, given its imminent maturity (see **Figure 1.15** to **1.17**). Demand for the longer tenors was particularly high, with the price on the 2022 bond increasing by 10.3 per cent to close the quarter at 118.0. The recently issued 2014 euro-denominated bond displayed the largest yield decline of 1.7 percentage points. This corresponded to an 11.3 per cent increase above its issue price at 12 October. The strong performance of GOJ global bonds was consistent with the general buoyancy in emerging market debt, as investors sought higher yielding instruments.

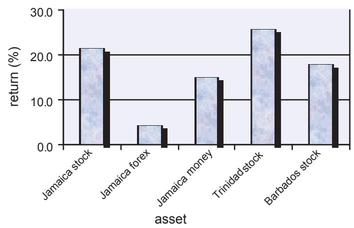
Stock Market

The stock market exhibited strong growth in the December 2004 quarter. This growth was evident in movements of price indicators and increased market activity. Price increases were supported by adequate liquidity, a stable fiscal outlook for the remainder of 2004/05, reduction in oil price and relative stability in the domestic foreign exchange and bond markets. Most of these factors were also influential earlier in the calendar year and contributed to an exceptional market outturn for 2004.

The stock market continued to grow during the December 2004 quarter.

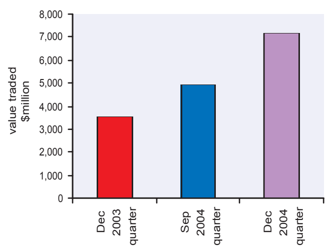
Investor participation in the stock market increased significantly in the December 2004 quarter. This increased activity was buoyed by a positive macroeconomic outlook and the relatively favourable returns on Jamaican equity attained since the beginning of the year (see **Figure 1.18**). In this context, there was a 28.1 per cent increase in

Figure 1.18
Annualised Returns from Major Regional Stock Markets and Jamaican Money and Foreign Exchange Markets - September 2004



Source: Jamaica Stock Exchange

Figure 1.19
Value of Stocks Traded on Jamaica Stock Exchange - December 2003, September 2004 and December 2004 Quarters



Source: Jamaica Stock Exchange

Table 1.12

Top Ten of the 22 Price Gains December 2004 Quarter		
Sectors / Companies	Price at 31-Dec-04 $	Qtr. Change %
Financial		
First Caribbean	130.00	32.7
First Life	45.5	42.2
Pan Carib	34.1	49.6
LOJ	11.30	43.2
Conglomerates		
Lascelles	202.1	30.4
Jamaica Producers	42.00	61.5
Manufacturing		
Carib Cement	12.90	30.3
Seprod	12.15	31.4
Telecommunications		
Gleaner Company	2.61	38.1
Other Services		
Kingston Wharves	4.90	30.0

Source: Jamaica Stock Exchange

transactions for the quarter to 19 020. Additionally, during the review quarter, 531.3 million units were traded at a value of $7 143.7 million. This compares to 385.5 million units traded at a value of $4 909.1 million in the September 2004 quarter (see **Figure 1.19**).

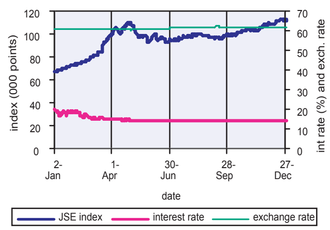
The positive market performance in the review period was reflected in a 12.6 per cent growth in market capitalization to $ 879 297.3 million at end December 2004. The Main JSE index increased by 12.9 per cent to 112 655.51 points at end December (see **Figure 1.20**). The growth in the index represents an improvement over the September 2004 quarter, during which the index recorded an increase of 5.4 per cent (see **Figure 1.20**). The All Jamaica Composite and the Jamaica Select indices also recorded increases of 10.2 per cent and 5.6 per cent, respectively, during the review period.

Approximately 60.0 per cent of the stocks traded in the review quarter reflected price gains, observed in most sectors. Notably, investor optimism was particularly encouraged by the performance of stocks in the financial sector, the manufacturing sector and conglomerates, which jointly accounted for 80.0 per cent of the top ten performing stocks in the quarter (see **Table 1.12**). Jamaica Producers Company Limited, which posted impressive profits despite the effects of Hurricane Ivan on agriculture, attained the highest stock price gain[1]. Significant stock price movements for Life of Jamaica (LOJ) and Pan Caribbean Merchant Bank were aided by the news that LOJ had gained majority control of the highly profitable Pan Caribbean Financial Services (PCFS).

The impressive stock market performance observed in the December 2004 quarter supported the generally robust market outturn for 2004. During the calendar year, reductions in interest rates and the maintenance of foreign exchange rate stability encouraged the upward momentum of stock prices. These factors, along with a generally

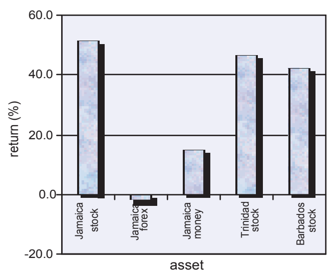
[1]Jamaica Producers announced a 51.7 per cent increase in its net profit for the quarter ended 30 September 2004.

Figure 1.20
Main JSE Index, 30-Day Private Market Repo Rate and Average Weighted Selling Exchange Rate January to December 2004



Source: Jamaica Stock Exchange

Figure 1.21
Annualised Returns from Major Regional Stock Markets and Jamaican Money and Foreign Exchange Markets - December 2004



Source: Jamaica Stock Exchange

positiive outlook for the 2004/05 fiscal performance, aided market recovery from a moderation in stock prices during the June 2004 quarter and the effects of Hurricane Ivan in September 2004. For the calendar year, the Main JSE, the All Jamaica Composite and the Jamaica Select indices increased by 66.7 per cent, 108.9 per cent and 87.1 per cent, respectively. These gains were more significant than the respective increases of 48.9 per cent, 20.6 per cent and 17.1 per cent recorded in 2003.

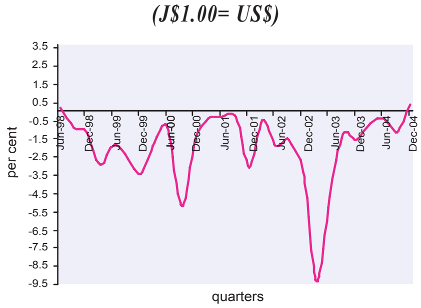
The returns in the Jamaican stock market during the closing quarter of 2004 exceeded those attainable from equities listed on other major regional stock exchanges (see **Figure 1.21**)[2]. Furthermore, stability in the foreign exchange market and reductions in interest rates have resulted in relatively weak foreign exchange and money market returns in recent quarters (see **Figures 1.18** and **1.21**). Against this background, the Jamaican stock market continues to provide an attractive option for investors. Market growth in the upcoming quarters is contingent on the continued stability in the foreign exchange and money markets, along with other positive macroeconomic developments, such as the attainment of fiscal targets and the continuing moderation in inflation.

[2]The three major regional stock exchanges are the Jamaica Stock Exchange, the Barbados Stock Exchange and the Trinidad and Tobago Stock Exchange.

Foreign Exchange Market

The relative stability in the foreign exchange market during the first three quarters of 2004 continued into the December quarter. There was a marginal appreciation in the exchange rate during the review period, representing the first quarter since the June 1998 quarter that the local currency appreciated against the US dollar. The appreciation in the exchange rate during the review period was underpinned by favourable market conditions as well as, increased arbitrage opportunities, given the significant depreciation in the US dollar vis-à-vis the Euro and the Great Britain Pound (GBP). During the quarter, increased investor confidence was associated with favourable prospects for the domestic economy, and growth in foreign exchange supplies to the market. Improved investor confidence came against the background of positive reviews regarding the country's macroeconomic performance, despite the adverse impact of Hurricane Ivan on the economy.

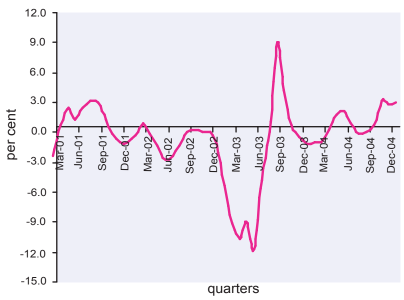
Figure 1.22
Percentage Change in Weighted Average Selling Exchange Rate (end of period) (J$1.00= US$)



Despite notable increases in domestic inflation during the quarter, the performance of the foreign exchange market remained relatively stable. Market sentiment was influenced by favourable reports by independent international research and credit rating agencies in the quarter, highlighting improvements in the domestic macroeconomic environment. Challenges to inflation were deemed transient and attributed to the passage of Hurricane Ivan. In addition, medium-term prospects for foreign direct investments remained strong (see **Box 1**). The overall positive economic climate was further reinforced by the Government's ability to raise €150.0 million on international markets on 12 October 2004.

In this context, the weighted average selling rate appreciated by 0.4 per cent in the December 2004 quarter, relative to the September 2004 quarter (see **Figure 1.22**). The local currency price for the US dollar declined to J$61.63 at end-December relative to J$61.89 at end-

Figure 1.23
Real Effective Exchange Rate
(3 month per cent change)



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

Figure 1.24
Inflation Differential

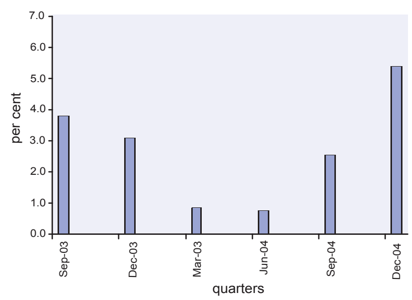
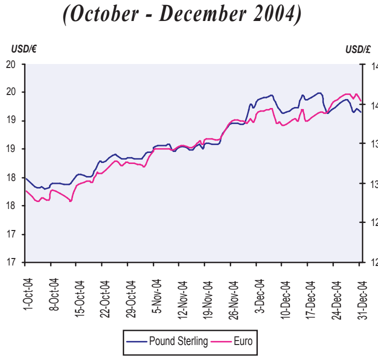


Figure 1.25
USD/€ & USD/£
(October - December 2004)



September 2004. However, the weighted average rate for the calendar year depreciated by 1.6 per cent. The movement in the exchange rate in 2004 compares favourably with respective depreciations of 7.0 per cent and 15.9 per cent recorded for the comparable periods of 2002 and 2003.

Given the relative stability in the value of the local currency, Jamaica's Real Effective Exchange Rate (REER) index for the December 2004 quarter recorded an average increase of 2.9 per cent, relative to the September 2004 quarter. The movement in the REER represented an appreciation, primarily reflecting the shock to local inflation (see **Figure 1.23**) partly offset by the effects of the continued depreciation in the US dollar against the exchange rates of Jamaica's main trading partners (see **Figure 1.24**). Similarly, the twelve-month point-to-point change in the REER as at December 2004 reflected an appreciation of 5.0 per cent.

The movement in the nominal exchange rate during the review quarter was also influenced by investors taking advantage of increased arbitrage opportunities, in the context of the significant depreciation of the US dollar against the Euro and the GBP (see **Figure 1.25**). The US dollar depreciated by approximately 6.0 per cent and 2.6 per cent against the Euro and the GBP, respectively, relative to the previous quarter. The strengthening of the GBP and the Euro reflected rising concerns regarding the United States fiscal and current account deficits. The movement in these rates coincided with an overall net US dollar sale of US$189.3 million, as well as, net GBP purchases of US$129.3 million by market participants, representing respective increases of 32.9 per cent and 9.0 per cent relative to the preceding quarter. Net US dollar sales of US$90.5 million and net GBP purchases of the equivalent of US$30.3 million were recorded for the December 2003 quarter.

Overall foreign exchange flows to the market were not significantly affected during the review period, notwithstanding the initial impact of the hurricane on Jamaica's traditional foreign exchange earning sectors. Estimated earnings from exports excluding alumina and tourism declined by US$37.4 million and US$22.3 million, respectively, relative to the comparable December 2003 quarter. However, the effect of this fallout on the market was more than compensated for by respective increases of US$58.6 million, US$46.1 million and US$24.8 million in earnings from alumina exports, private remittances and official transfers from grants. Higher remittances and grant receipts were partly associated with the recovery process in the aftermath of the hurricane.

The stability in the foreign exchange market occurred despite increased imports during the review period. Expenditure on imports during the December 2004 quarter was estimated to have expanded by 25.7 per cent, influenced primarily by a 57.2 per cent increase in fuel imports. Higher spending on fuel was also associated with an explosion at Jamaica's oil refinery, which necessitated the importation of refined fuel and products during the quarter (see **Real Sector**). The overall effect of the higher expenditure on fuel on the local foreign exchange market was, however, moderated by the implementation of an enhanced system of foreign exchange demand management by the Petroleum Corporation of Jamaica. This system was characterised by an extension of credit lines, improvement in the company's access to foreign currency and enhanced earnings from exports.

In the context of increased foreign exchange flows to the economy, total volumes[3] of all currencies traded in the market (excluding Central Bank intervention and inter-dealer trades) grew by 7.1 per cent to US$2 642.7 million, relative to the December 2003 quarter. Volumes sold increased by US$196.4 million to US$1 350.1 million, while volumes purchases declined by US$21.5 million to

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

Figure 1.26
Foreign Currency Volumes Traded

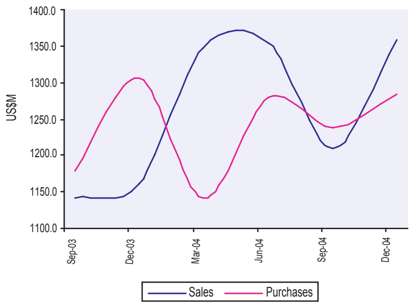


Table 1.13

Net Foreign Exchange Sales (Quarter) (US$MN)				
	BOJ	Authorized Dealers	Cambio	Total
Sep-03	-37.0	80.1	-78.9	-35.8
Dec-03	129.0	52.0	-67.4	113.7
Mar-04	129.6	154.8	-73.3	211.1
Jun-04	-53.8	116.1	-64.2	-1.9
Sep-04	-64.3	121.2	-88.8	-31.9
Dec-04	28.0	132.7	-87.4	73.3

Table 1.14

Net International Reserves (US$MN)			
Month	Stock	One Month Change	Three Month Change
Oct-03	1131.1	-51.5	6.2
Nov-03	1103.3	-27.9	23.2
Dec-03	1165.0	61.7	-17.7
Jan-04	1219.7	54.7	88.5
Feb-04	1474.0	254.3	370.7
Mar-04	1568.7	94.7	403.7
Apr-04	1741.6	173.0	522.0
May-04	1715.7	-26.0	241.7
Jun-04	1604.1	-111.6	35.4
Jul-04	1594.7	-9.4	-146.9
Aug-04	1643.5	48.8	-72.2
Sep-04	1616.5	-26.9	12.4
Oct-04	1826.7	210.1	232.0
Nov-04	1816.1	-10.6	172.6
Dec-04	1838.6	22.5	222.1

US$1 204.6 million (see **Figure 1.26**). Increased market activity during the review period primarily reflected the operations of the Authorized Dealers, which recorded a 30.0 per cent growth in volumes traded. Total volumes sold and purchased in the quarter expanded to US$1 049.3 million and US$916.6 million, respectively, from US$782.1 million and US$730.1 million during the comparable December quarter of 2003. In this context, the Authorized Dealers segment of the market net sold US$132.7 million (see **Table 1.13**). In contrast, activity in the Cambio market reflected net purchases of US$87.4 million. Total purchases and sales declined by US$51.0 million and US$71.1 million to US$396.0 million and US$308.5 million, respectively, relative to the comparable period in 2003.

Consistent with the stability that obtained in the market during the review period, foreign exchange sales by BOJ to the market amounted to US$14.4 million, relative to US$176.4 million in the December 2003 quarter. BOJ purchased[4] US$42.4 million from the market during the December 2004 quarter, relative to US$47.4 million in the comparable period of 2003. In addition to the Eurobond, which was floated on 12 October 2004, the Government also received approximately US$33.5 million in grants, partly related to the hurricane relief and reconstruction assistance from the European Union. These funds contributed to an increase of the NIR to US$1 858.5 million at end December 2004 (see **Table 1.14**), relative to a target for December of US$1 744.8 million (see **Base Money**). Gross reserves of the BOJ at end-December 2004 were approximately US$1 881.3 million, representing approximately 19.0 weeks of estimated imports of goods and services.

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

Table 2.1

Sectoral Contribution to Growth December 2004 quarter	Estimated Direction of Change
1. GOODS	-ve
Agriculture Forestry & Fishing	-ve
Mining & Quarrying	-ve
Manufacturing	+ve
Construction & Installation	+ve
2. SERVICES	+ve
BASIC SERVICES	-ve
Electricity & Water	-ve
Transport Storage & Communication	-ve
OTHER SERVICES	+ve
Distributive Trade	+ve
Financing & Insurance Services	+ve
Real Estate & Business Services	+ve
Producers of Government Services	+ve
Miscellaneous Services	-ve
Households & Private Non-Profit Instit	+ve
TOTAL GDP	-ve

The Bank's preliminary assessment of the real sector suggests that economic activity declined marginally in the December 2004 quarter, reflecting the impact of Hurricane Ivan. Although there was growth estimated for the services sectors, this was offset by the contraction in the goods producing sector. The decline in the goods producing sector occurred despite significant enhancement in construction activities (see Table 2.1). Within services, the Distributive Trade was estimated to be the major influence on growth.

The Statistical Institute of Jamaica reported that the economy grew by 1.9 per cent during the first three quarters of 2004, relative to the comparable period in 2003. This expansion, along with the Bank's estimate for the December 2004 quarter, suggests that the economy recorded growth of between 1.0 and 1.5 per cent for calendar year2004.

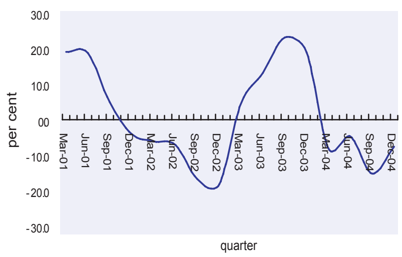
The decline in economic activity in the review quarter reflected the contraction in Public Consumption and Net External Demand. This is in spite of the growth in Private Consumption and Gross Capital Formation during the quarter.

Hurricane Ivan adversely affected growth.

Aggregate Supply

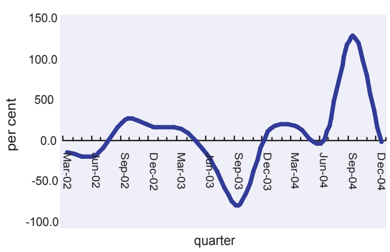
Leading indicators of economic performance for Jamaica suggest weak growth in real GDP during the December 2004 quarter, relative to the corresponding quarter of 2003. Of note, this performance was significantly below the average growth of 2.6 per cent recorded over the first half of the year. Within the goods producing sector *Agriculture* and *Mining & Quarrying* declined, while *Construction* and *Manufacturing* is estimated to have grown. The estimated deceleration in economic activity was mainly attributed to the impact of Hurricane Ivan in September. For services, relatively strong growth was estimated in the *Distributive*

Figure 2.1
Trends in Domestic Crop Production
12-month change



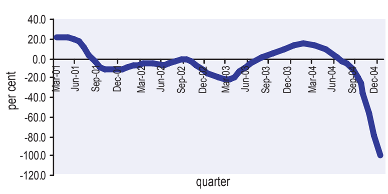
Source: Ministry of Agriculture

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



Source: Sugar Corporation of Jamaica

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



Source: Banana Export Company

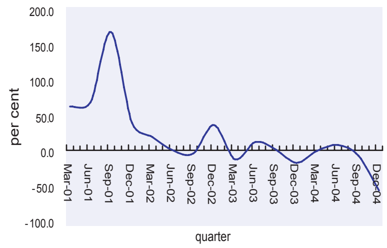
Trade sector. With the exception of Electricity & Water, Financial & Insurance and Miscellaneous services, moderate growth was estimated in the other services sectors.

The estimated contraction in Agriculture was reflected in lower output in both the domestic and export sub-sectors. Information from the Ministry of Agriculture suggests that for domestic agriculture, production declined by 34.5 per cent, reflecting primarily reduced output in vegetables, fruits, potatoes and plantains (see **Figure 2.1**). These contractions stemmed from the hurricane that affected approximately 31.0 per cent of all farmlands in Jamaica. Domestic crop production in the review quarter was also affected by unfavourable weather conditions prior to the hurricane.

Export agriculture during the quarter was also significantly affected by the hurricane. The entire banana crop was destroyed while considerable damage was done to coffee, citrus and sugar cane (see **Figures 2.2 & 2.3**). With regard to coffee, 60.0 per cent of the berries from the current crop year were lost while 5.0 per cent of the trees were destroyed. For citrus, reports are that 35.0 per cent of the fruits were lost. Reports from the sugar industry suggest that approximately 113,000 tonnes of sugar cane would be lost in the 2004/05 crop-year. This represents about 10.0 per cent of output in the concluded crop-year.

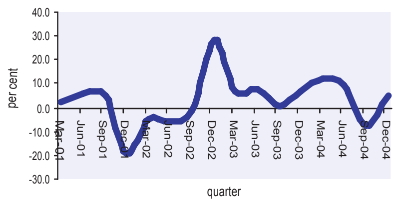
Following the decline of 7.5 per cent in the September 2004 quarter, value added in the *Mining* sector is estimated to have contracted in the review quarter. This follows an average growth of 9.7 per cent over the first half of the year. The decline in the review period reflected the lagged effects of Hurricane Ivan, which damaged some port facilities. Additionally, damage to the loading gantry at the St. Ann Bauxite Company on 5 October prevented the shipping of bauxite, which in effect curtailed the mining of the product. In this context the sector recorded a reduction of 56.5 per cent in crude bauxite production in the quarter,

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



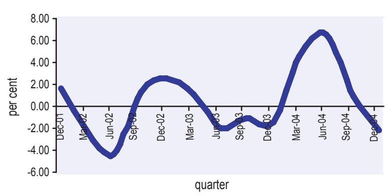
Source: Jamaica Bauxite Institute

Figure 2.5
Trends in Alumina Production
(12-Month change)



Source: Jamaica Bauxite Institute

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



Source: STATIN, Bank of Jamaica

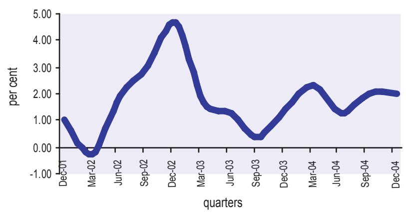
relative to the corresponding period in 2003 (see **Figure 2.4**). Alumina production, however, grew by 4.9 per cent, albeit significantly lower than the 10.7 per cent recorded over the first half of the year (see **Figure 2.5**).

Indicators of activity within the *Manufacturing* sector suggest an expansion in the review period, albeit smaller than the average growth of 4.0 per cent for the last three quarters (see **Figure 2.6**). The estimated growth in value added stemmed from both the *food, tobacco & beverage* industries and the *other manufacturing* sub-sector. The lower growth within the sector was associated with the impact of Hurricane Ivan on production in the quarter, due partly to the temporary absence of electricity and potable water at various manufacturing companies as well as the closure of the Petrojam oil refinery.

With regard to *food, beverages & tobacco*, expansion in alcoholic and non-alcoholic beverages and tobacco products offset the declines registered in the food (excluding sugar) and rum, molasses & rum industries. Production of alcoholic beverages represented a normalisation of output, relative to the decline registered in the December 2003 quarter. The fall out in 2003 had precipitated a drive by the major market players, in 2004, to increase their local and international market share. For the food processing industries, contractions in poultry meat and edible oils production accounted for most of the decline that occurred in the quarter. Additionally, the reduction in food processing activities was partly associated with the fall out in agriculture output.

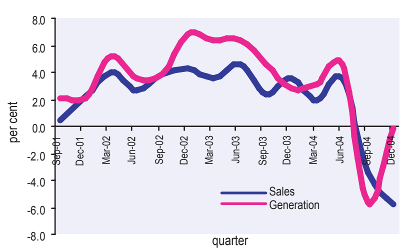
The growth estimated in the other *manufacturing* sub-industry is lower than the average growth of 5.9 per cent during the first half of 2004. The performance of the non-metallic, metal, paper and chemical products groups outweighed the declined registered in the petroleum refining and textile industries. The estimated contraction in oil refining was due to an explosion at the Petrojam oil refinery on 27 October, necessitating closure for 4 to 6 months. In terms of the textile industries, the trend decline

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



Source: STATIN, Bank of Jamaica

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



Source: JPS & Bank of Jamaica

observed over the past seven years continued during the quarter.

Reconstruction activities following Hurricane Ivan accelerated growth in *Construction & Installation* between 3.0 and 4.0 per cent in the December 2004 quarter. The sector had grown at an average rate of 2.8 per cent during the previous three quarters (see **Figure 2.7**).

Growth in the review period emanated primarily from the on going roadworks, hotel construction and the inner city housing projects as well as the hurricane reconstruction process. The expansion in roadwork reflected the planned completion of the Bushy Park segment of Phase 1A of the Highway 2000 project in the quarter and continued work on the North Coast Highway project. Furthermore, real expansion of approximately 38.7 per cent in loans to the sector for the first half of the year indicate increased activity in the latter half. With regard to residential construction, data from the National Housing Trust (NHT) along with the Bank's estimates indicate an increase of 7.3 per cent in housing starts in the period under review, relative to the comparable period of 2003. Housing starts by the NHT had declined between June and September 2004 at an average rate of 59.3 per cent. Cement sales, another indicator used for the assessment of activity in the construction industry is estimated to have grown by 24.9 per cent in the period, relative to the December 2003 quarter.

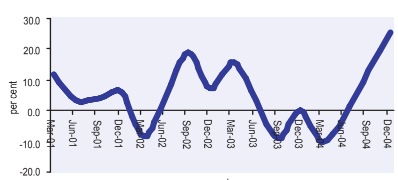
With respect to Electricity & Water, the contraction observed in the previous quarter continued into the review period, attributed to the disruption in electricity generation by Hurricane Ivan. The reduction in real value added was reflected in declines of 1.6 per cent and 5.3 per cent in total electricity generation and sales, respectively, relative to the comparable quarter in 2003 (see **Figure 2.8**). Prior to the hurricane, the sector had recorded a quarterly average growth rate of 4.6 per cent since the June 2002 quarter. Water production also declined by 1.6 per cent in the period, relative to the December 2003 quarter.

Declines in air and water transport drove the decline in transport, storage & communication.

Within *Transport, Storage & Communication*, the decline in the transport sub-sector offset the growth emanating from the communication sub-sector. The marginal decline in the sector is relative to an average growth of 2.3 per cent for the first half of the year. The decline in the *transport* sub-sector was inferred, in part, from estimated declines in air and sea transportation. The number of ships calling at Jamaican ports and air cargo movements are estimated to have declined by 6.7 per cent and 4.3 per cent, respectively. Visitor arrivals also declined by 5.4 per cent in the review period, primarily attributed to the damage that Hurricane Ivan had on the tourism industry. In terms of land transportation, total domestic cargo movements increased by 1.3 per cent in the quarter. The marginal increase in domestic cargo arose in part from the increased activity generated at the ports after the passing of Hurricane Ivan. With regard to the *communication* sub-sector, the total number of telephone "lines" in service was estimated by the Bank to have grown by approximately 9.0 per cent for the review period, relative to the December 2003 quarter.

Growth in *Distributive Trade* is estimated to have accelerated between 1.5 per cent and 2.0 per cent in the review quarter, relative to the average growth of 1.0 per cent observed over the previous eight quarters, because of the reconstruction process in the wake of the hurricane. This growth was partly inferred from the increase of 25.7 per cent in merchandise imports in the review period (see **Figure 2.9**). The buoyant increase in imports reflected an easing of the backlog from the September 2004 quarter due to the threat posed to vessels by Hurricane Ivan. Also contributing to this increase was the reconstruction related imports.

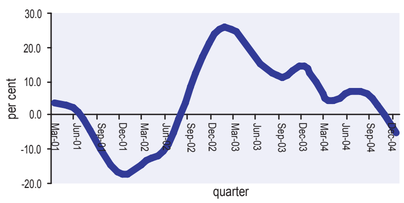
Figure 2.9
Merchandise Imports
(12-Month change)



Source: STATIN, Bank of Jamaica

Following nine consecutive quarters of growth *Miscellaneous Services* is estimated to have declined in the December 2004 quarter. This performance was attributed mainly to the tourism industry (*hotels, restaurants and clubs*), arising from infrastructure damage to both small and large hotels caused by Hurricane Ivan. Some hotels were forced to close after the hurricane and were reopened after mid November and early December. The cruise industry was also affected by the hurricane, which caused cruise ship operators to reorganize their itinerary and in some cases cancel cruises. While it was expected that Jamaica might have benefited from the diversion of ships from the Cayman Islands in particular, the local ports also suffered loss of business as some of the cruise routes that included Jamaica had to be cancelled because of damage to other ports on the route. Some ten ship calls were lost because of hurricanes, Ivan and Charley but five additional calls were gained because of damage to other destinations. Against this background, during the period, visitor arrivals declined by 5.4 per cent, relative to the December 2003 quarter (see **Figure 2.10**). Of that amount, total stop over and cruise passenger arrivals declined by 1.7 per cent and 9.3 per cent, respectively (see **Figure 2.11**).

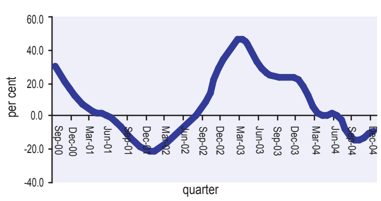
Figure 2.10
Visitor Arrivals
(12-Month change)



Source: Jamaica Tourist Board, Bank of Jamaica

Data from the Statistical Institute of Jamaica indicate that the Jamaican economy grew by 1.9 per cent during the first three quarters of 2004, relative to the corresponding period in 2003. This, along with the Bank's estimates for the December 2004 quarter, suggests that the economy recorded growth of between 1.0 and 1.5 per cent for the 2004 calendar year. The expansion in economic activity during the year was influenced by growth in all sectors of the economy, with the exception of *Financial & Insurance* services and *Agriculture*. Services contributed approximately 69.3 per cent to the calendar year's growth, while the goods producing sectors accounted for 31.4 per cent. The largest contributors to the economic expansion were *Manufacturing, Distribution, Transport, Storage & Communication and Miscellaneous* services. The estimated decline in Financial & Insurance services was mainly attributable to the significantly lower foreign exchange gains in 2004, relative to the significant gains made in 2003. For *Agriculture*, the sector declined consistently throughout the four quarters of the year due to unfavourable weather conditions. Heavy rains followed by drought conditions affected the first half of the year, while hurricanes Charley and Ivan affected output in the second half of the year.

Figure 2.11
Cruise Passenger Arrivals
(12-Month change)



Source: Jamaica Tourist Board, Bank of Jamaica

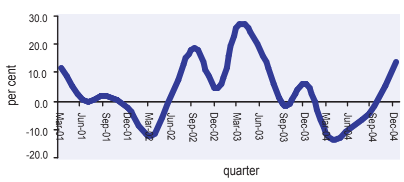
Real economic growth between 1.0 and 1.5 per cent estimated for 2004.

Aggregate Demand

The preliminary assessment of aggregate demand for the December 2004 quarter suggests a decline in spending, relative to the corresponding quarter of 2003. The main expenditure categories that contributed to increases in aggregate spending were *Private Consumption* and *Gross Capital Formation*. The indicators for *Public Consumption* and *Net External Demand* pointed to contractions in these categories of spending.

The expansion in *private consumption* spending was inferred from estimated real increases of 13.7 and 15.6 per cent in imports of goods and services and credit card receivables, respectively, during the quarter (see **Figure 2.12**). Growth in imports of goods and services is linked to the aforementioned discussion on growth in the *Distributive Trade* sector. The growth in consumption expenditure is supported by an improvement in consumer confidence despite the hurricane. A survey of consumer confidence conducted by the Jamaica Conference Board indicated an improvement of 16.2 per cent in consumer confidence for the December 2004 quarter, relative to the comparable period of 2004. Conversely, there was a decline of 19.4 per cent in the local General Consumption Tax (GCT) & Special Consumption Tax (SCT) receipts.

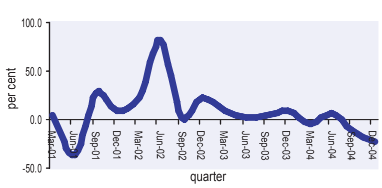
Figure 2.12
Trends in Total Imports
(12-Month change)



Source: STATIN, Bank of Jamaica

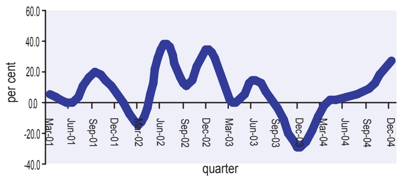
The decline in public consumption expenditure was reflected in a real contraction of 23.2 per cent in Government's spending on wages and salaries, relative to the December 2003 quarter (see **Figure 2.13**). This was partially offset by an estimated real increase of 50.0 per cent in Government's expenditure on programmes (see **Appendix A: Fiscal Developments**). The decline in spending on wages & salaries is against the background of the Memorandum of Understanding between public sector workers and the Government.

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



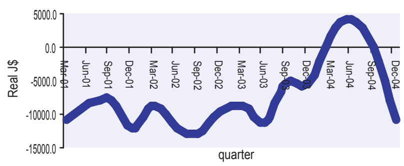
Indicators of *Gross Fixed Capital Formation* during the quarter suggested an enhancement of investment spending. This expansion was inferred from an increase of 27.5 per cent in capital goods imports during the quarter, relative to

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



Source: STATIN, Bank of Jamaica

Figure 2.15
Trends in Net External Demand



Source: STATIN, Bank of Jamaica

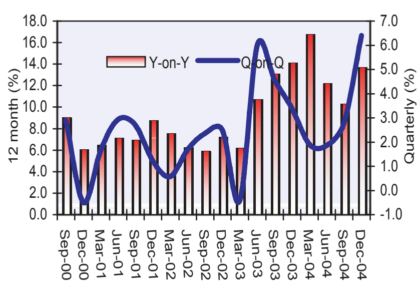
the corresponding period in 2003 (see **Figure 2.14**). The increase in investment was consistent with the expansion in construction.

With respect to Net External Demand, there was an estimated deterioration during the review period, compared to the December 2003 quarter (see **Figure 2.15**). Of note, this decline reflected estimated real contractions of 11.9 per cent and 2.6 per cent in the export of goods & services and import of goods & services, respectively. Net services declined by 53.0 per cent during the review period, due primarily to travel services.

3. Inflation

The inflation rate for the December 2004 quarter was 6.4 per cent, the highest inflation for a December quarter since 1995. The increase in the Consumer Price Index (CPI) in the quarter largely reflected the disruption of domestic agricultural supplies, as well as, increased international oil prices. The CPI increased by 3.3 per cent, 2.4 per cent and 0.6 per cent in October, November and December, respectively. On a regional basis, the Other Towns and Rural Areas experienced similar rates of inflation in the review period, while the rate was lower in the Kingston Metropolitan Area (KMA). For the calendar year, inflation was 13.7 per cent, 0.4 of a percentage point below the rate recorded in 2003. Core inflation in the quarter was estimated at 1.7 per cent, relative to the 1.2 per cent estimated for the September quarter and 2.0 per cent for the corresponding quarter of 2003/04.

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



Inflation in the December quarter was mainly affected by the flood damage in September caused by Hurricane Ivan, as well as higher international oil prices. As a consequence, the inflation outturn for the December quarter was 6.4 per cent, significantly higher than the quarterly average of 1.8 per cent for the previous 5 years. The CPI increased by 3.3 per cent, 2.4 per cent and 0.6 per cent, in October, November and December, respectively. The inflation outturn for December represents some normalization of price movements subsequent to the shock of the hurricane. Inflation for the fiscal year to date (FYTD) was 11.6 per cent, 3.0 percentage points below the comparable period of fiscal year 2003/04. Most of the inflation for the FYTD was concentrated in the third quarter, as inflation for the fiscal year to September was 4.9 per cent.

For the calendar year, inflation was 13.7 per cent, relative to 14.1 per cent recorded in 2003. The outturn for the year was mainly concentrated in the December quarter, as prior to the passing of the hurricane, the calendar year to

Figure 3.2
Core Inflation per quarter

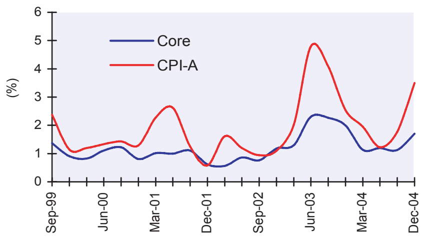


Figure 3.3
2 Mth lagged Base Money & Core

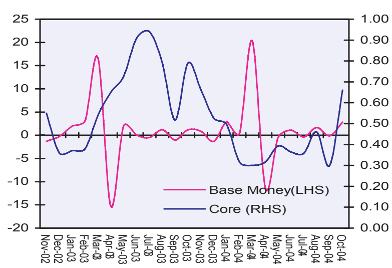
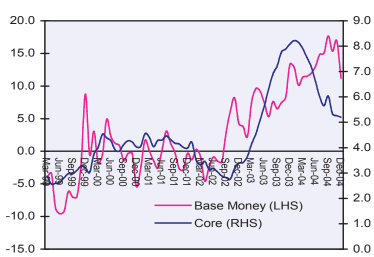


Figure 3.4
12 month % change average base money and core inflation



September inflation was 6.9 per cent. The quarterly inflation rates in 2004 was 1.9 per cent for each of the March and June quarters, 2.9 per cent and 6.4 per cent for the September and December quarters, respectively.

Monetary Policy and Inflation

Core or underlying inflation, as measured by the trimmed mean was 1.7 per cent in the review quarter, relative to 1.2 per cent in the previous quarter and 2.0 per cent in the corresponding quarter of FY2003/04. In October, underlying inflation was estimated at 0.7 per cent but moderated to 0.6 per cent and 0.5 per cent in November and December, respectively.

The underlying inflationary impulses were also reflected in the CPI without Agriculture (CPI-A). The CPI-A index increased by 3.5 per cent in the December quarter relative to a 2.5 per cent increase in the December 2003 quarter (see **Figure 3.2**).

The increase in core inflation in the quarter is consistent with the lagged movements in the monetary aggregates. In the preceding quarter, the monetary base increased by 4.9 per cent. The movement in core inflation was further corroborated by the stability in the foreign exchange market in the preceding quarter. The movement in the monetary base for the first half of the fiscal year does not represent disequilibrium between money supply and demand, since the monetary base was in line with target. However, the increase in the monetary base experienced in the September quarter was above programmed target, which created minor core inflationary impulses.

Additionally, the temporary increase in core inflation reflected the impact of shocks experienced during the quarter. Given the pervasiveness of the shock to the CPI, some of these impulses could not be eliminated from the core inflation. Additionally, the temporary increase in spending occurred in a context that would have stimulated underlying inflation. The effect to core inflation was against the background where there was a significant increase in consumer demand/expenditure juxtaposed with a lowering in agricultural supplies in particular, arising from the passage of the hurricane. Increased expenditure in the quarter was corroborated by an estimated increase in private consumption of 25.0 per cent in real terms, relative to the previous quarter, where private consumption increased by 4.6 per cent. Increased private consumption in the review quarter, primarily reflected 20.0 per cent increase in imports, relative to an increase of 4.0 per cent in the preceding quarter. Growth in imports in the quarter was influenced by raw materials and capital goods required for rehabilitation work subsequent to the passage of the hurricane.

Non-Monetary Factors

The main non-monetary impulses to inflation were seasonal declines in agriculture supply exacerbated by flood damage from Hurricane Ivan, increases in the prices of household fuels and supplies and increases in international oil prices.

Supply Shock

The reduction in agricultural production in the September quarter continued in the December quarter (see **Real Sector**), as supplies were affected by the adverse impact of Hurricane Ivan. A comparison of price increases in *Starchy Foods* and *Vegetables & Fruits* given similar shocks[5] revealed that the impact of Hurricane Ivan on prices was more severe than Hurricane Gilbert in 1988 (see **Table 3.1**).

Table 3.1

The Impact of Weather Related Shocks on Inflation

	S & F Mthly (Qrtly)	V & F Mthly (Qrtly)	Inflation Mthly Chg* (Qrtly)
Gilbert 1988	21.2* (34.9)	14.6* (18.8)	2.9* (4.9)
May 2002 Floods	4.9* (13.3)	3.0* (18.3)	2.4* (2.9)
Nov. 2002 Rains	3.7 (-1.0)	7.5* (2.3)	1.7 (1.4)
Ivan 2004	12.2* (22.4)	20.2* (30.1)	3.3* (6.6)

* Month immediately after impact

SF=Starchy Foods, V&F=Vegetables & Fruits

For the quarter, the prices of *Starchy Foods* and *Vegetables & Fruits* increased by 23.8 per cent and 32.1 per cent, respectively. For the first six months of the FY2004/05, *Vegetables & Fruits* had an average increase of 0.5 per cent, despite the seasonally higher prices in the summer months (see **Table 3.2**). However, subsequent to the hurricane, vegetable prices rose at an average monthly rate of 9.0 per cent. A similar pattern was observed for *Starchy Foods.* The increases in the prices of agricultural products

[5] Hurricane and flood rains

Table 3.2

Monthly Average Inflation in First Half FY 2004/05 compared with December 2004 Quarter

	FY 2004/05 1st Half	FY 2004/05 Q3	FYTD 2004/05
FD	0.9	3.1	1.7
-SF	3.6	8.3	5.8
-V & F	0.5	9.0	3.4
FHS	0.8	3.6	1.8
- HS	0.5	4.2	1.8
- Fuels	1.0	3.2	1.8
HOHE	0.8	1.7	1.1
HFF	0.5	1.2	0.8
HPE	0.6	0.9	0.7
PCFA	0.3	0.5	0.4
TRN	0.2	0.5	0.3
ME	1.0	0.1	0.7
ALL	0.8	2.1	1.3

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, SF=Starchy Foods, V&F=Vegetables & Fruits, HS=Household Supplies

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

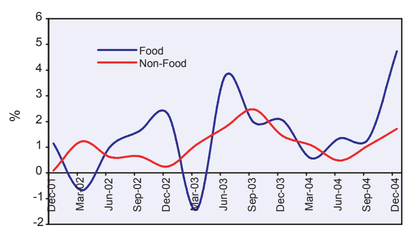
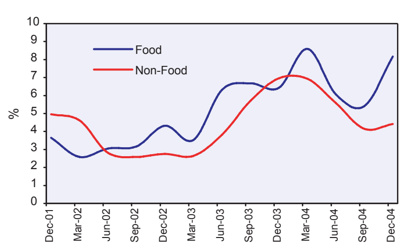


Figure 3.5b
Food & Non-Food Inflation (Annual)



had an impact on other **Food & Drink** items, in particular, *Meals Away From Home*. Despite the significant reduction in the import duty on vegetables, there were instances of significant price increases on some commodities.

The significant shock of the hurricane on food prices was corroborated by a quarterly increase of 4.3 per cent in a food based index, relative to 1.7 per cent for non-food commodities during the quarter (see **Figure 3.5a**). On an annual basis, inflation from food was 8.2 per cent, relative to 4.4 per cent for non-food commodities (see **Figure 3.5b**).

Input Costs

The increases in domestic prices in the December quarter partly reflected imported inflation in the September quarter. The imported prices as measured by an import index, was 3.3 per cent in the September quarter, relative to an increase of 1.2 per cent in the June quarter, primarily reflecting increases in oil prices.

The price of oil rose on the international commodity markets in response to storm damage in the Gulf of Mexico, concerns regarding violence in the Middle East and industrial and political unrest in Nigeria and Venezuela (see **Box 1 QMPR Volume 6, No. 1**).

The benchmark West Texas Intermediate (WTI) crude oil price rose to an average of US$48.32 per barrel in the December quarter, from an average of US$43.89 per barrel in the September quarter. The average price per barrel for October, November and December were US$53.10, US$48.50 and US$43.40, respectively. The WTI crude oil price rose by 10.1 per cent during the review quarter, relative to 14.5 per cent in the preceding quarter (see **Figure 3.7**). The movement in the WTI was reflected in the Bank's Fuel Index, which increased by 11.9 per cent in the December 2004 quarter, reflecting the responses to the movements in international oil prices in the preceding quarters (see **Figure 3.6**).

Figure 3.6
Quarterly Chg. in Fuel Index & WTI

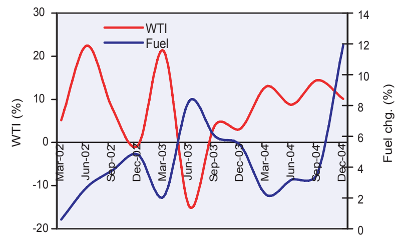


Figure 3.7
Average Oil Price Movements (US) per barrel

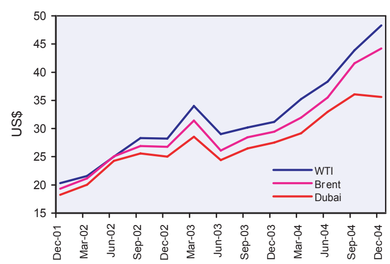
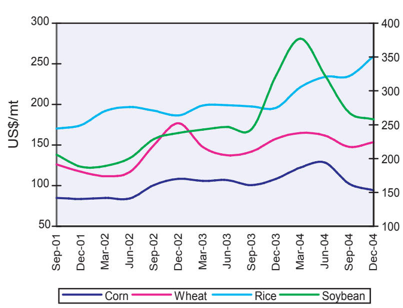


Figure 3.8
Grains Price Movements



Falling international grains prices moderated the impact of oil prices on domestic inflation for the review period. Grains prices on average remained stable, during the period (see **Figure 3.8**), following from significant declines in the previous quarter. In the September quarter, corn, wheat and soybean prices declined by 20.3 per cent, 8.7 per cent and 17.0 per cent, respectively. Some of these prices fell further in the December quarter, where corn and soybean prices declined by 7.8 per cent and 3.7 per cent, respectively, while wheat and rice prices increased by 4.0 per cent and 10.4 per cent, respectively.

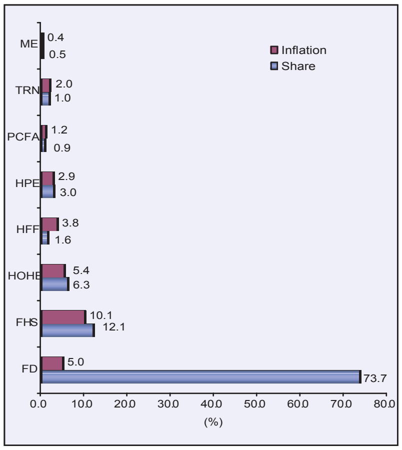
Contribution to Inflation

Food & Drink, and **Fuels & Other Household Supplies** together accounted for 85.8 per cent of the inflation in the period (see **Figure 3.9**), compared to a combined weight in the basket of 62.9 per cent. Other inflationary impulses occurred in **Housing & Other Housing Expenses**.

Within **Food & Drin**k, the main impulses emanated from expansions of 32.1 per cent, 23.8 per cent and 4.0 per cent in *Starchy Foods*, *Vegetables & Fruits* and *Mea*t, *Poultry & Fish*, respectively. The movement in Starchy Foods was mainly due to increases in the prices of green bananas and tubers such as yams, potatoes, and dasheen. With respect to *Vegetables & Fruits* the main price increases related to tomatoes, cabbage, escallion, carrots, pumpkins and oranges.

Poultry and fish prices were also affected by the hurricane, as there was significant damage to fish ponds, fishing vessels and equipment, as well as to chicken farms. Second round impulses from *Starchy Foods*, *Vegetables & Fruits* and *Meat*, *Poultry & Fish*, were primarily reflected in increased prices of *Meals Away From Home*.

Figure 3.9
Inflation by Group



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

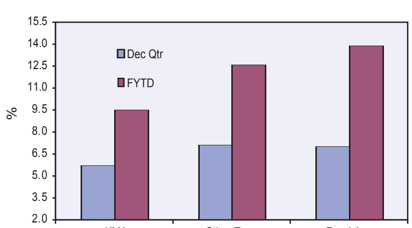
The sub-index **Fuels & Other Household Supplies** primarily reflected increases in the prices of household supplies, as householders made preparation and recovery efforts pertaining to Hurricane Ivan. These supplies included consumer items such as powdered soap, candles and batteries, among others. Upward adjustments in the prices of kerosene and cooking gas were the main items of note affecting **Fuels**. For the quarter, **Fuels & Other Household Supplies**, which has a weight of 7.4 per cent in the CPI basket, accounted for 12.1 per cent of overall inflation.

The main impetus in **Housing & Other Housing Expenses** was primarily influenced by an average increase of 5.3 per cent in electricity rates in the quarter. This stemmed from an 11.8 per cent increase in the fuel rate, which reflected lagged effects of the upward movements in international oil prices.

Regional Inflation

The inflation outturn for the quarter reflected similar impulses across the regions. However, the price impulses in the **Other Towns** and **Rural Areas** were slightly stronger than in the **KMA**. In particular, the Other Towns and Rural Areas recorded inflation of 7.1 per cent and 7.0 per cent, respectively, while the **Kingston Metropolitan Area (KMA)** experienced inflation of 5.7 per cent (see **Table 2B in Appendix C**). The stronger inflationary impulses in the rural areas were in light of a greater impact of the hurricane to these areas than to the KMA. The outturn for the regions in the December quarter is somewhat similar to the outturn from the previous quarter, when the index of the **Other Towns** and **Rural Areas** rose by 3.8 per cent and 3.1 per cent, respectively, while the indices of the KMA rose by 1.9 per cent. Consequently, for the fiscal year to December, prices increased by 13.9 per cent for the Rural Areas, 12.6 per cent for the **Other Towns** and 9.5 per cent for the KMA (see **Figure 3.10**). The disparity was most evident in **Food & Drink**.

Figure 3.10
Regional Inflation



Box 1: Foreign Direct Investment, Recent Trends and Prospects

Introduction

Foreign Direct Investment (FDI) has been regarded as a catalyst for economic growth and development, especially in developing countries. The benefits from FDI include, inter-alia, the introduction and transfer of technology, higher rates of economic growth and lower unemployment. FDI typically occurs in the form of the establishment of a new enterprise, or by investment in existing enterprises through joint ventures, mergers and acquisitions. Typically, FDI flows are attracted to countries, which exhibit macroeconomic stability, relatively well developed economic & social infrastructure as well as special fiscal incentives (such as tax holidays). In addition, other factors such as the country's resource base, geographic location and access to foreign markets also attract FDI flows.

In the case of Jamaica, FDI has been mainly attracted to the mining & tourism industries, and most recently, to the telecommunications sector. Growth in these flows accelerated between 1999 and 2003, despite declines in 2000 and 2002. As a percentage of GDP, FDI inflows averaged 6.9 per cent over the entire period. Jamaica experienced record levels of FDI in 2003, largely reflecting investments in a wide cross section of industries.

Foreign Direct Investments Review

Notwithstanding contractions in 2000 and 2002, gross FDI to Jamaica recorded an average annual growth of 18.4 per cent over the period 1999 to 2003. FDI inflows to Jamaica peaked at US$720.7 million (8.9 per cent of GDP) in 2003 and represented respective increases of 95.3 per cent and 50.5 per cent relative to 1998 (4.8 per cent of GDP) and 2002 (5.7 per cent of GDP) (see **Table 1**).

In contrast to Jamaica, overall flows to the Latin American and the Caribbean region, declined consistently between 1999 and 2003 (see Table 2). During 2003, FDI flows to the region fell by 3.0 per cent to US$50.0 billion. This contraction was most evident in the region's largest economies, Brazil, Argentina and Mexico. Slower rates of privatisation, low growth stemming partly from the economic crisis in Argentina and the relocation of some businesses to lower-cost locations such as China were among the main factors influencing this contraction in FDI flows[6]. With specific regard to CARICOM, while the quantum of inflows remained relatively consistent during the review period, Jamaica's share of inflows to the region increased to 44.0 per cent in 2003 from 30.0 per cent in 1999.

Sectoral Analysis of FDI Flows to Jamaica

Most of the major sectors within the Jamaican economy benefited from increased FDI during the five-year period, in particular, the tourism and mining sectors. Due to the effect of the events on 11 September 2001 in the USA, investment in the Island's tourism industry fell in 2001, but returned to a growth path in 2002 and 2003. Despite increased competition from other destinations in the Caribbean

[6] See "World Investment Report 2004", UNCTAD

region, such as Cuba, investment in Jamaica's tourism sector averaged US$41.6 million between 1998 and 2000, and US$81.6 million after 2001. Flows to this sector reflected the marketing efforts of the local authorities, as well as, improved infrastructure and the development of new attractions for the industry.

Growth in investment flows to the mining sector occurred in the context of lower production cost in Jamaica, relative to some other alumina producing countries. The proximity of Jamaica's bauxite to the surface facilitates comparatively lower costs during the extraction process. Investments in mining were also influenced by the strong growth in world aluminium prices and the signing of an MOU between the companies and workers in 1998, which has led to improved industrial relations climate and higher productivity in the industry.

Increased FDI inflows to the communications sub-sector was driven by the liberalisation and consequent introduction of new entrants to the mobile communications sub-sector, in particular Mossel Jamaica (Digicel) and Oceanic Digital Jamaica Ltd. Foreign investment to this sector also reflected increased interest in off-shore telemarketing services. Heightened interest in telemarketing services was derived from Government's decision to transform the export processing zones into telecommunication parks equipped with appropriate network, fibre optic and satellite infrastructures. In addition various incentive schemes for companies wishing to join the industry have been implemented.

Other sectors recording robust growth in FDI during the review period were manufacturing and distribution. This was due primarily to investments in cement manufacturing, beverage production and membership- based retailing.

Outlook

The prospects for sustained FDI flows to the Jamaican economy are favourable, particularly in the context of a stable economy. Most of the new FDI flows are expected to be associated with the planned expansions in the tourism and mining sectors. In this context, room stock is expected to increase by approximately 25 per cent over the next few years with 6,500 additional rooms to be completed by end 2007. The expansion in capacity within the sector will be driven by the introduction of new international hotel chains, primarily Spanish based, to the island's industry. Consequently, earnings from tourism receipts are anticipated to increase substantially over the next few years.

The introduction of a new fiscal regime in the mining industry along with the strong demand for alumina stemming from robust economic growth in the world, especially China, has engendered substantial investments plans for the local mining industry. Alcoa, in conjunction with the Government of Jamaica has announced plans to expand the capacity of Jamalco by more than 115 per cent, at a cost US$800 million. Work on this project is expected to run for two years, commencing in 2005. In addition to increasing the output capacity of the sector, the expansion project is anticipated to improve the efficiency of the

Jamalco plant, aimed at making it one of the world's lowest-cost alumina refineries upon completion.

Substantial FDI inflows related to communication, manufacturing and construction are expected in the near term. This is expected to occur against the background of licenses being issued by the Government of Jamaica for the building of fibre optic networks between Jamaica and the United States. The introduction of liquefied natural gas (LNG) as a source of energy should also result in substantial infrastructural investments. FDI inflows associated with the expansion of the Island's highway network are expected to continue for several years. The construction sector is also expected to benefit from a proposed US$100 million expansion in Caribbean Cement Company's Rockfort plant.

FDI inflows to the Island are expected to average approximately 8.0 per cent of GDP per annum over the medium term. These inflows will provide financing for related imports that will be necessary during the start up phase of the projects. Upon completion of the projects, export receipts (especially from the travel and mining sectors) are anticipated to increase significantly, leading to an improvement in the country's current account balance. Higher levels of output, export receipts, increased efficiency and further diversification of Jamaica's production base should result from the various FDI projects.

Table 1

Jamaica: Gross Foreign Direct Investments (1998 to 2003)
(US$MN)

Sectors	1998	1999	2000	2001	2002	2003
Agricultural/Manufacturing/Distribution	53.9	18.4	14.7	22.5	13.2	88.2
Information Tech/Communication	85.2	49.6	57.2	112.5	52.3	105.7
Minerals & Chemicals	3.1	29.5	9.6	15.7	0.3	30.9
Insurance	0	0	6	0	0	10.7
Tourism	2.7	52.8	69.4	24.3	48.8	114.3
Mining	109.9	67.8	82.5	83.7	108.1	149.7
Other	13.2	41.1	59.4	5.3	10.5	63.0
Sub-total	268	259.2	298.8	264.0	233.2	562.6
Retained Earnings	101.1	87.3	116.1	115.91	162	158.1
Divestment	0.0	177.2	40.9	234.0	83.6	0.0
TOTAL	369.1	523.7	455.8	613.9	478.8	720.7

Source: BOP Annual Reports, Bank of Jamaica

Table 2

Foreign Direct Investment Inflows by Economy (1998 to 2003)
(US$MN)

Region/Economy	1998	1999	2000	2001	2002	2003
Latin America and the Caribbean	82 491.5	107 406.0	97 536.7	88 138.7	51 357.7	49 721.7
Caribbean Community - CARICOM	1 660.9	1 742.3	1 690.8	1 909.1	1 754.6	1 641.1
Selected Countries						
Antigua and Barbuda	22.8	30.7	28.1	43.9	47.7	57.4
Barbados	15.8	17.4	19.4	18.6	17.4	121.0
Belize	19.0	59.8	29.6	59.9	24.8	40.0
Dominica	6.5	18.0	10.8	11.9	14.1	16.8
Grenada	48.7	41.6	37.4	58.7	57.6	59.4
Guyana	46.6	48.2	67.1	56.1	43.6	26.1
Jamaica	369.1	523.7	455.8	613.9	478.8	720.7
Saint Kitts and Nevis	31.9	57.7	96.2	88.1	81.7	52.7
Saint Lucia	83.4	82.8	54.9	22.4	31.4	32.0
Saint Vincent and the Grenadines	89.0	56.1	29.2	21.0	32.5	37.7
Trinidad and Tobago	729.8	643.3	679.5	834.9	790.7	615.5

Source: UNCTAD

Short-Term Outlook - September 2003 Quarter

Following a slowdown over the past two quarters, economic growth is expected to rebound in the March 2005 quarter. This is set against recovery in real sector activity and continued expansion in the global economy. Seasonally lower inflation is anticipated as the restoration of domestic food supply should result in significant reduction in the prices of these commodities. Additionally, continued stability in the foreign exchange market should serve to mitigate the impact of imported inflation. However, some impulses could arise from administrative price adjustments within the quarter. An environment of relatively stable markets, favourable fiscal trends and growing investor confidence, augur well for the achievement of monetary policy objectives for the fiscal year.

Table 4.1

Jamaica's Economic Performance Targets

	Projections for Mar' 05 quarter	Projections for FY 04/05	Revised ISP Targets for FY 04/05
Inflation (% change)	-0.8 - 0.2	10.8 - 11.8	10.5
Base Money (% change)	-10.7	12.5	12.5
NIR End Period (US$m)	1 700.0	1 700.0	1 670.8
GDP (12-mth % chg.)	+ve	+ve	1.5 - 2.0

Following the disruption caused by the recent hurricane, noticeable growth expected in March quarter.

Real Sector

The growth momentum is expected to resume in the March 2005 quarter as economic recovery strengthens following the recent hurricane. The prospects are also enhanced by the continued relative stability in the financial markets and improvement in investor confidence. This is highlighted by the recent upgrade of the outlook on Jamaica's sovereign bonds by Standard & Poor's (S&P) and favourable reviews by other international observers.

In the global economy, while growth for 2005 is forecasted to moderate relative to 2004, the IMF's World Economic Outlook projection of 4.3 per cent[7] is still significantly above the historical trend. Among the industrial countries, the anticipated expansion will continue to be led by Jamaica's main trading partner, the United States, with the

[7]IMF World Economic Outlook, September 2004

Lower growth in 2005 and concerns for global inflation in the international economy.

expectation of a rebound in employment. Underlying this growth outlook, however, are concerns about the impact of further increases in the price of oil and the trade and fiscal deficits in the United States. Continued buoyancy in the world economy augurs well for an expansion in Jamaica's export sectors.

Growth in the March 2005 quarter is anticipated in both the goods and services sectors, in particular, mining, manufacturing, construction, basic and miscellaneous services. Improvement in *mining* is anticipated given increased capacity and higher production targets relative to the corresponding period of the previous year. This expectation is also supported by the prevailing high price for alumina on the world market buoyed by significant demand for aluminium.

Sugar production is expected to be better than last year.

Manufacturing is projected to expand due mainly to agro-processing, associated with increased production of sugar, food and beverages. The projection for sugar is based on increased acreage of sugarcane to be harvested in the current sugar crop which started in December. This could realize an expansion in production above the 130,000 tonnes produced last year. Food processing production is anticipated to expand based on the recovery in domestic agricultural activities. Alcoholic beverage production in the March 2005 quarter is anticipated to rise over the March 2004 quarter due in part to efforts to boost external demand.

Continued expansion is projected in *construction & installation* in the March 2005 quarter. The growth momentum will depend heavily on the rate of restoration of infrastructure following the recent hurricane. In addition, major construction projects associated with Highway 2000 and the Innercity Housing Project should add to the expansion of the sector. Developmental work being undertaken in the tourism and mining sectors should also support the anticipated expansion of the sector.

Following disruption to the provision of basic services in the December 2004 quarter, it is anticipated that this sector will generate stronger growth in the March 2005 quarter. The expectation for the subsector is based on full restoration of utility services such as electricity, water and communication.

Growth is expected in *miscellaneous services* in the March 2005 quarter based on a positive outlook for the performance of the tourism sub-sector. The optimism for tourism is supported by the restoration of resort properties and attractions as well as marketing campaigns in the main source markets. Tourism is expected to benefit from additional room capacity and increased airlift relative to the March 2004 quarter. The weakening of the US dollar against European currencies should also be beneficial.

Against the background of continued post hurricane rehabilitation work because of the hurricane, increased investment in major sectors of the economy and greater opportunities owing to major infrastructural projects, the financial and distribution sectors are likely to grow. The financial sector is anticipated to expand based on continuing increase in loans, in the context of lower interest rates. The general increase in economic activity should also be reflected in distribution.

The agricultural sector in the March 2005 quarter should reflect continued restoration owing to replanting and other rehabilitative activity. However, while the agricultural sector should improve relative to the December quarter, the anticipated expansion will not enable a full recovery relative to the March 2004 quarter. Most of the improvement will be reflected in the shorter-term crops such as vegetables and fruits.

Jamaica's medium term growth prospects are favourable given projected increases in foreign direct investment in the domestic economy. These developments, should serve to broaden the productive base of the economy and generate faster growth over the medium term (see **Box 1**).

These investments are geared primarily towards the areas of mining, tourism and telecommunications.

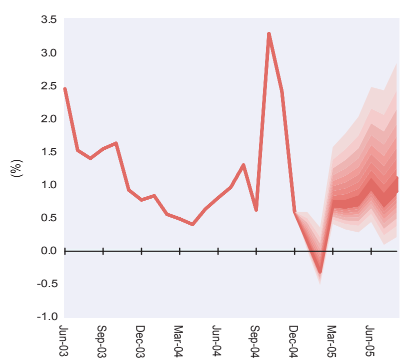
Inflation

Inflation in the March 2005 quarter is projected to fall sharply relative to the previous quarter. This is expected as a reversal is expected in the main factors which drove the increases in the December 2004 quarter. The main factors informing the forecasts for the March 2005 quarter are related to domestic agricultural supplies, international oil market developments, the exchange rate, as well as movements in international grain prices.

Moderation in prices in the March 2005 quarter should be led by a sharp reversal in the prices of vegetables and fruits as the supply of these commodities is expected to improve. The lowering of these prices could have an impact on other food items such as processed food and meals served in establishments. Given these factors, the *Food & Drink* subcategory should reflect significantly lower inflation due to countervailing and moderating impulses in some subgroups such as the *Vegetables & Fruits, Meals Away From Home* and *Meat, Poultry and Fish*. However, the prices of some commodities in the Starchy Foods subgroup, for example bananas and tubers, could remain relatively high due to their longer production cycle.

Figure 4.1

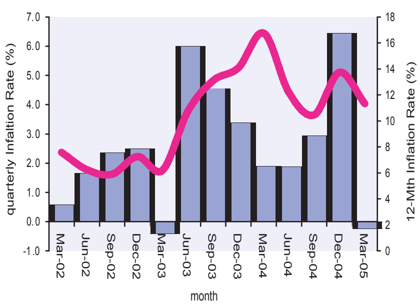
Monthly Inflation Forecast



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

Although the current situation in the market remains uncertain, recent downward trends in the price of crude oil on the international market should result in some easing of inflationary impulses from fuel and energy cost. The price of crude oil on the international market fell significantly in the months of November and December. These declines, following several months of increases, should temper or reverse price increases in automotive household fuels, as well as the cost of electricity. This is expected to reduce inflationary pressures in the Fuels, Transportation and Housing & Other Housing Expenses subgroups. In the and absence of any extraordinary developments it is expected that the price of oil would remain below the assumed average of US$50 per barrel for the quarter, and therefore no additional inflationary pressure is anticipated.

Figure 4.2
Quarterly and 12-mth Inflation Rate



Changes in the prices of soybean, wheat and corn on the international market over the past two quarters have displayed an overall downward trend. These developments should assist in moderating any inflationary impulses in the domestic prices of cereals, oils and meat. The price of corn is anticipated to continue declining based on expected abundant supply, while a record harvest anticipated for the 2004/05 crop year should restrain any significant increase in wheat prices. Concerns about the presence of the "Asian Rust" fungus in the major producing states of the USA could result in higher prices for soybean. The price of rice is also projected to increase due to low supply in Thailand and Vietnam.

The foreign exchange market has remained relatively stable since the start of the fiscal year. In particular, the exchange rate appreciated in the first month of 2005. Against the background of continued stability in the foreign exchange market, the transmission of exchange rate changes to domestic prices is not expected to be significant to price developments in the March 2005 quarter.

Inflation in the March 2005 quarter is also expected to be influenced by seasonal and administrative adjustments in the prices of some goods and services. The national minimum wage is set to increase by approximately 20.0 per cent in February. This action should affect the wages of private security personnel and the providers of household services and will be the major influence on the *Housing & Other Housing Expenses* subgroup in the quarter. A planned increase in hospital fees in the quarter should exert some inflationary impulses in the *Healthcare & Personal Expenses* sub-category. Other likely increases could emanate from seasonal adjustments to motor and health insurance premiums, rents and other fees. The inflation outturn for the March 2005 quarter could also be affected by seasonal moderation in the prices of consumer durables due to expected post holiday sales.

Based on the forgoing, headline inflation for the March 2005 quarter is expected to be in the range of minus 0.8 per cent to 0.2 per cent. Given the expectation for the March quarter, inflation for the fiscal year should be in the range of 10.8 to 11.8 per cent. However, given the continued stability in the exchange rate, which is a major anchor for expectations, the longer-term outlook is for single digit inflation in the next fiscal year.

Monetary Policy

Monetary policy in the March quarter will continue to moderate impulses to core inflation in the context of strong liquidity in the banking system. Since the start of the fiscal year, monetary conditions have engendered consistent reductions in interest rates in the context of a relatively stable foreign exchange market. This has been achieved despite the adverse shock of the hurricane and increases interest rates in the USA.

The positive trends are expected to continue in the March 2005 quarter. A seasonal increase in foreign exchange inflows from the tourism sector, as well as the significant levels of the NIR, should assist in the maintenance of relative stability in the foreign exchange markets. The Jamaica Conference Board's Survey of Business and Consumer Confidence in the December 2004 quarter have shown that despite a marginal correction to the significant increase in the September quarter, investors are very optimistic about economic prospects. Against this background, no significant challenges are anticipated during this quarter.

The monetary programme has been on track since the start of the fiscal year (see **Money and Credit**). Following the seasonal increase in the December 2004 quarter, monetary conditions over the March 2005 quarter will be influenced by a normalization of currency demand. In this context, the monetary base is programmed to decline by 10.7 per cent which should result in an increase of 12.5 per cent for the fiscal year, in line with the ISP target. Consequently, core inflation is expected to normalize to approximately 1.0 per cent in the March 2005 quarter.

The prospects for the continued measured easing of interest rates, as well as a normalization of the Bank's yield curve are therefore favourable. However, the implication of further increases in US interest rates, as well as uncertainty surrounding international oil prices are of concern and will be monitored carefully.

Box 2: SPECIAL FEATURE: *EXPLORING THE JAMAICAN FOREIGN EXCHANGE MARKET DYNAMICS (2001 - 2004)*

1.0 Introduction

The foreign exchange market was markedly more stable in 2004 relative to previous years. At end-December 2004, it took J$61.63 to purchase one US dollar or an increase of 1.63 per cent (J$1.01) compared to end-December 2003. This compares favourably with increases of 15.92 per cent and 7.01 per cent for 2003 and 2002 respectively (see **table 1**). Market rates fluctuated within a relatively narrow band of J$61.61 - J$62.03 for most of the year, except when it peaked at J$62.09:US$1.00 on 14 September, the trading day immediately following Hurricane Ivan. Adjustments in the exchange rate averaged 0.04 per cent daily relative to 0.34 per cent and 0.08 per cent in the previous two years, reflecting a distinctly more moderate rate of movement in 2004, (see **Figure 1**). A mix of favourable market and non-market factors contributed to to the relative stability observed during the period.

In the following sections, an examination of the impact of market and immeasurable non-market factors underpinning stability during 2004 is discussed. The main elements highlighted are the structure of the market, market liquidity, market psychology and the maturation of participants. The analysis of market variables is based on data submitted via e-Gate[8] between January 2001 and December 2004.

Table 1

Quarterly movement in the J$/US$ exchange rate day

	Q1 %	Q2 %	Q3 %	Q4 %	Calendar Year %
2000	1.6978	0.8837	5.1585	1.5443	9.0196
2001	0.3421	0.2866	0.2656	3.0793	3.9428
2002	0.4472	1.8607	1.5384	3.3332	7.0091
2003	9.3666	4.6972	1.1669	1.5063	15.9177
2004	0.6342	0.3439	1.0825	0.4224	1.6341

Depreciation (+)/Appreciation (-)

2.0 Structure of the foreign exchange market

Institutional framework

Foreign exchange market participants fall into broad groups defined by trading objectives and risk tolerance. Licensed foreign exchange dealers[9] for example, trade for profit at a high frequency and at relatively high risk[10]. Trading occurs (possibly) several times a day, in many instances among themselves (inter-dealer trading). Licensed dealers act as market makers performing an intermediary role, bringing the suppliers and users of foreign currency together, which allows for the consummation of a trade. In Jamaica, licensed foreign exchange dealers consist of authorized dealers, cambios and bureauxs de change. Authorized dealers account for 66.0 per cent of trading volumes and include all six commercial banks, selected merchant banks and the two largest building societies (see **table 2**). These authorized dealers are permitted to buy and sell foreign currency in the form of currency notes, drafts, money orders, traveler's cheques and other foreign effects. They are also allowed to collect

[8]The Electronic Gateway to Auctions and Trade of Foreign Exchange (e-Gate) is the medium through which all licensed foreign exchange dealers are required to report their daily foreign currency trades to the Bank of Jamaica (BOJ).
[9]The term 'licensed foreign exchange dealers' is used throughout the text to broadly refer to institutions authorized to facilitate the exchange of one currency for Jamaica Dollars. In the case of Jamaica these institutions are classified as authorized dealers, cambios and bureauxs de change.
[10]These include exchange rate, liquidity and settlement risks.

deposits, grant loans and make international payments.

The operations of cambios are largely governed by stipulations outlined by the Central Bank. The main difference between authorized dealers and cambios is that the latter is not permitted to take deposits and grant loans. Bureaux de changes exist mainly in the tourism sector, primary facilitating the exchange of currency for guests.

The operations of these three groups of institutions are monitored by the Central Bank. Apart from this function, the Central Bank acts as a participant in the market either buying or selling currency, to foster market stability rather than for profit. The Central Bank collects via e-Gate, trading data from authorized dealers and Cambios, from which it generates and disseminates weighted average buying and selling rates for the financial market.

Figure 1

Quarterly average of the J$/US$ exchange rate and range of rates

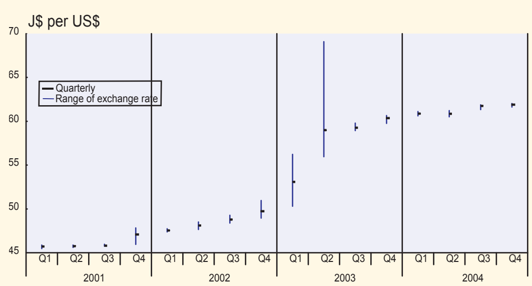


Table 2

Market share of licensed foreign exchange dealers in Ja

Year	Authorized Dealers %	Cambios* %
2001	60.1	39.9
2002	64.1	35.9
2003	62.7	37.3
2004	66.0	34.0

Sources/Supply and Users of foreign exchange

In Jamaica, foreign exchange is primarily sourced from remittance and tourism flows, earnings from the export of goods and services, foreign direct investment flows and private and official loan inflows.

Remittance and tourism flows account for 50.0 per cent of Jamaica's total foreign currency inflows during 2004[11], relative to 49.8 per cent, and 51.9 per cent during the two preceding years. The owners of this foreign exchange, referred to as net earners, are the fundamental suppliers in the market. Funds reach the market via licensed foreign exchange dealers, who in turn on-sell to other institutions and individuals (end-users). These participants demand foreign exchange for several reasons such as, to pay for goods or services rendered, to repatriate profits and to repay external debt.

In Jamaica, the three major currencies traded are, the US dollar (USD), Great Britain Pound (GBP) and the Canadian dollar (CAD).

Trading in USD dominates market activity accounting for approximately 90.0 per cent of daily transactions (see **Table 3**). The foreign exchange market determines the price of each foreign currency in terms of the Jamaica Dollar. At the end of each trading day the average rates would reflect trading by licensed foreign currency dealers among themselves and with clients. The price of foreign currency (the exchange rate) will vary based on the relative balance between supply and demand.

[11]Balance of payments data for January to September 2004.

Evolution of the market

In the last five years the foreign exchange market has changed substantially, both in terms of operational procedures and the number of licensed foreign exchange dealers. An expansion of the cambio network is largely responsible for the increased access to foreign currency trading windows. The number of cambio locations totaled 138 at end-December 2004 compared to 128 at end-December 1999 and numbered as many as 148 in 2003. The average daily transactions amount to US$31.3 million dollars for 2004 compared to US$25.5 million in 2001 (see **table 3**). The flow of information in the market has improved and the incidences of wide fluctuations (volatility in prices) have decreased. There now exists a greater level of efficiency as reflected in the quality, timeliness and frequency of foreign exchange market reports. These changes have engendered confidence among users and suppliers of foreign currency in the market's ability to consistently satisfy their varying objectives.

Table 3

Average daily foreign currency volumes

Currency	2004 Sales Per Diem US$mn	Percentage of Market %	2001 Sales Per Diem US$mn	Percentage of Market %
USD	28.13	89.97	23.36	92.22
GBP	2.18	6.97	1.33	5.24
CAD	0.74	2.36	0.60	2.38
Other	0.22	0.69	0.04	0.16
Total	31.27	100.00	25.53	100.00

- Data excludes BOJ intervention

Currency	2004 Purchases Per Diem US$mn	Percentage of Market %	2001 Purchases Per Diem US$mn	Percentage of Market %
USD	25.67	82.78	23.06	89.76
GBP	4.30	13.85	2.03	7.90
CAD	0.72	2.31	0.53	2.06
Other	0.33	1.06	0.07	0.28
Total	31.14	100.00	25.83	100.00

- Data excludes BOJ intervention

3.0 Market factors contributing to foreign exchange market stability

Trading volumes and market liquidity

In liquid markets, large trades have low price impact[12]. Liquid markets match counterparties well (immediacy), have low transaction costs (tight spreads), and are less volatile. In floating exchange rate regimes, market-making dealers are the main liquidity providers.

Trading volumes have increased since 2000 except for a brief period immediately following the events of September 11, 2001 in the United States. This increasing trend in trading volumes is consistent with the increased flows emanating from the major sources of foreign currency supply, namely remittances, tourism flows, alumina exports and foreign direct investments. Foreign currency inflows from remittances and tourism grew by 12.2 per cent and 7.7 per cent in 2003 and 2002, respectively.

The daily volume purchased from foreign currency earners, which is used as a proxy for the supply of foreign currency to the market has increased to a daily average of US$19.8 million in 2004 from US$14.6 million in 2001 (see **table 4**). The increased supply from foreign currency earners coincided with the strong growth in remittance and tourism flows. There has been a diversification in the sources of market supply highlighted in the average daily volume of GBP purchased in the market increasing to US$4.3 million in 2004 from US$2.0 million in 2001 (see **table 3**). This largely reflects the growing importance

[12] See O'Hara M., 1995. Market Microstructure Theory. Blackwell, Cambridge, MA.

of remittances, (particularly from the United Kingdom) as a source of foreign currency supply.

Average daily sales to users of foreign currency, which gives an indication of foreign currency demand, showed a commensurate increase during the years, increasing to US$20.6 million (2004) to US$15.2 million (2001). This increased demand reflects the growth in imports of finished goods for the distributive sector, intermediate goods for the productive sector, as well as increased holdings of foreign currency assets by local investors.

The data outlined in table 4 shows that on average demand exceed supply. However, the demand gap has narrowed to a daily average of US$0.8 million in 2004 from US$1.5 million in 2002. In this context, where the supply of foreign currency from net earners is insufficient to satisfy end-user demand, either authorized dealers or the Central Bank can provide additional supply. Conversely, the Central Bank and authorized dealers will net buy in periods of excess supply.

Table 4

Average daily trading volumes (US$mn)

	Purchases			Sales		
Year	From net earners	Interdealer	Total	To end-users	Interdealer	Total
2001	14.63	11.19	25.83	15.19	10.34	25.53
2002	18.70	18.08	36.78	20.20	16.13	36.33
2003	18.45	13.68	32.12	19.41	12.35	31.77
2004	19.86	10.88	31.01	20.59	10.68	31.27

- Data excludes BOJ intervention

The role of Authorized Dealers in aiding market liquidity

Authorized dealers may augment foreign currency supply by:

1. reducing their net foreign asset (NFA) positions, and/or
2. exploiting differences in the value of a currency across markets through cross trading.

1. Net foreign asset positions

Authorized dealers will find it profitable to reduce Net Foreign Assets (NFA) and convert to a depreciating currency where the interest rate earned on that currency is sufficiently high to cover the loss in value caused by depreciation. Notwithstanding, instances in which authorized dealers short sell to fund urgent Jamaica Dollar obligations, the increased net selling of US dollars by authorized dealers between January 2001 and December 2004, is indicative of increased comfort by these institutions to reduce their NFAs (see **figure 2**).

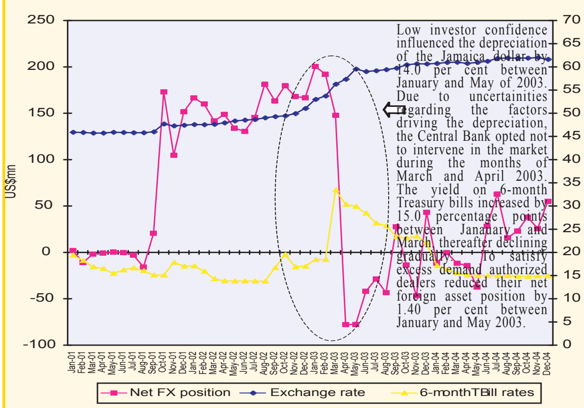
Subsequent to the interest rate increase in March 2003 there have been portfolio shifts in favour of Jamaica dollar assets with the net foreign asset position in 2004 remaining at a level significantly below the average for the March quarter in 2003 (see **figure 2**). This is consistent with the general perception that periods of instability during 2003 were viewed as transient, hence authorized dealers anticipate that the rate of depreciation will not erode the interest differential. Therefore, the spread on the FX transaction in addition to interest accrued on the Jamaica dollar proceeds at current rates should ensure that the foreign currency position is not recovered at a loss in the near term.

2. Cross-trading as a source of US dollar supply

When the US dollar depreciates at a faster rate against the Great Britain Pound internationally than the Jamaica dollar is depreciating against the US dollar, arbitrage opportunities across both markets emerge. Local traders generally earn a positive spread through cross-trading, and attempts to maximize profits results in increased US dollar supply in the local foreign exchange market. The pound sterling would be purchased locally and exchanged on the international market for US dollars, which is subsequently sold in the local market. Figure 3 illustrates the net sale of US dollars coinciding with a general net buying that was noted with GBP trading.

Figure 2

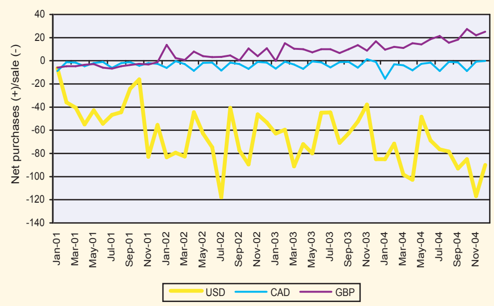
Net foreign currency assets, J$/USD exchange rate and 6-month Treasury Bill rates



The opportunities for profit from arbitrage depend on the relative rates of movement in the USD/GBP and J$/US$ exchange rates. There was a higher rate of depreciation in the US dollar vis-à-vis the Great Britain Pound in 2002 and 2003[13]. However, the extent of the depreciation in the Jamaica Dollar vis-à-vis the US dollar during those years minimized potential arbitrage profits. In 2004, the slower rate of adjustment in the J$/US$ exchange rate resulted in a higher frequency of arbitrage opportunities. This is reflected in an increase in the net sale of US dollars commensurate with a higher net purchase of Great Britain pounds, (see **figure 3**). The increased net sale and purchases in the respective currencies was particularly evident in the last quarter of 2004 when an appreciation in the J$/US$ exchange rate was observed[14].

Figure 3

Net foreign currency trading volumes (US$mn)



While arbitrage opportunities existed throughout 2004, table 4 highlights the period 20 August to 24 September when cross trading was particularly profitable[15]. The scenario in table 4 assumes the investment of J$10.0 million to purchase GBP in the domestic market and selling it for US Dollars in the international market. The

[13]The pound increased in value against the US dollar by 8.59 per cent for 2004 relative to 10.54 per cent and 8.87 percent in 2002 and 2003 respectively.

[14]Net sales (purchases) of US dollars (Great Britain Pound) averaged US$84.5 million (US$9.6 million) per month in 2004 relative to US$63.7 million (US$6.1 million) in 2003.

[15]Though similar arbitrage opportunities exist with the Canadian dollar, potential profits are lower resulting in cross trades involving that currency taking place at a much lower frequency evidenced by the narrower net buying/selling band in this market depicted in figure 3.

sale of the US dollars in the domestic market would generally realize a profit for a same day transaction, since the break-even rate on the sale of the US dollars fell below the existing market rates. However, if this is not possible on the same day, the opportunity may still be open for the subsequent week as dealers follow the market trends before consummating their trades[16].

Central Bank intervention and market liquidity

Central Bank intervention is often required to correct the imbalance between foreign currency demand and supply and ensure the timely return of stability to the foreign exchange market. For example, there was heightened demand for foreign currency assets during the first half of 2003 resulting from a lack of investor confidence in the Jamaican economy. This significant excess demand necessitated the BOJ boosting US dollar supply in the market by selling foreign currency reserves. Figure 4 highlights an increase in intervention volumes as a percentage of total market purchases to 25.0 per cent during that period.

There has been a notable decline in the proportion of Central Bank sales to market purchases since the latter half of 2003. Of note, there was no sale of foreign currency by the Central Bank during the last two months of 2004. This is in a context of increased buoyancy in foreign currency supply and improved investor confidence in the domestic economy resulting in reduced reliance on the BOJ to augment foreign currency supply.

4.0 Non-market factors contributing to foreign exchange market stability

Market psychology and investor confidence

According to the classical "efficient market hypothesis" prices move up or down because market participants react rationally and immediately to the latest "news" by adjusting their demand for or supply of foreign currency. News impacts the market through

Figure 4

Net foreign currency trading volumes (US$mn)

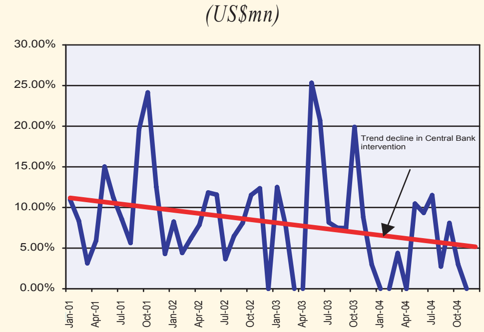


Table 4

USD/GBP Arbitrage Opportunities: August - Sept. 2004

End week	J$/GBP exchange rate	GBP Buy Volume	Noon Fed. Rate USD=GBP1.00	Sell GBP buy USD	Break even Rate	J$/USD exchange rate	Spread (J$)
20-Aug-04	112.4517	88,927.07	1.8313	162,852.14	61.4054	61.8071	0.4017
27-Aug-04	110.8450	90,216.07	1.7939	161,838.60	61.7900	61.8666	0.0766
3-Sep-04	110.0248	90,888.60	1.7916	162,836.02	61.4115	61.9427	0.5312
9-Sep-04	110.5550	90,452.72	1.7853	161,485.23	61.9252	62.0654	0.1402
17-Sep-04	110.8588	90,204.84	1.7909	161,547.84	61.9012	62.0461	0.1449
24-Sep-04	111.4451	89,730.28	1.8003	161,541.42	61.9036	61.9472	0.0436
(1)	(2)	J$10mn÷(2) =(3)	(4)	(3)x(4)=(5)	J$10mn÷(5)=(6)	(7)	(7)-(6)=(8)

[16]On the other hand, a similar test done revealed that it is not necessarily profitable for the dealer to purchase US dollars in the domestic market and trade for pound sterling in the international market.

changes in either market factors such as the availability of foreign currency or unobserved non-market factors such as confidence in the management of the domestic economy. Market participants' response to "news" is likely to vary (market heterogeneity), depending on their trading objectives, their appetite for risk and their trading time frames. Given varying speeds of reaction, the price changes will differ across market participants. Further, where there is a thin market - limited distribution of buyers and sellers - excess foreign currency demand or inadequate market information, the difference in reaction times will result in wider fluctuations in prices.

Examining the behaviour of market participants can provide a broad assessment of market psychology. Market participants choosing to immediately acquire and hold US dollars depict deteriorating market psychology. On the other hand, the tendency to acquire US dollars at the time of need reflects the confidence of market participants in the market's ability to function efficiently in allocating the available foreign currency. Confidence in the market is highly correlated with participants' views of the management of the macroeconomy and the out-turn in various economic indicators - including inflation rates, fiscal performance, reserve position and exchange rate changes.

One indicator of the state of market psychology is the pattern of trading at marginal rates. This is reflected in the proportion of US dollar sales at marginal rates. A reduction in the percentage of US dollar sales at marginal rates symbolizes the increased tendency of market participants to resist outlier quotes. On average, 0.07 per cent of per diem sale volumes were contracted at the highest exchange rate on a given day in 2004 declining from 0.12 per cent in 2002. The tendency for end-users to resist outlier quotes in the market in 2004, relative to the previous years, would reflect their improved confidence in the ability of the Central Bank to augment supplies. This was bourne out by the fact that on any day, when market rates exhibited significant volatility, the average per diem sales to clients fell below the daily average for the year in anticipation of Central Bank intervention to restore normality to the market. The Bank's net international reserves (NIR), which grew continuously throughout 2004, and stood at US$1 858.5 million at the end of the year also reinforced market confidence.

Market confidence is also manifested in the proportion of investor's portfolio held in foreign currency, which is dependent on their expectations of changes in the relative value of these currencies. In this context, confidence was reflected in a combination of factors during 2004: an increased demand for Jamaica Dollar denominated assets, higher net sales of US dollars and the reduction in the net foreign asset position (NFA) of authorized dealers. These factors contributed to the Bank of Jamaica recording net purchases of US$39.2 million during 2004. This contrasts with net sales of US$412.3 million and US$499.2 million during 2003 and 2002, respectively.

Positive reviews from local entities and international rating agencies underscored investor confidence in 2004. The rating agency Standard and Poor's (S&P) revised its 'B' outlook on Jamaica's long-term sovereign credit ratings to stable from negative. S&P stated that the revised outlook is supported by:

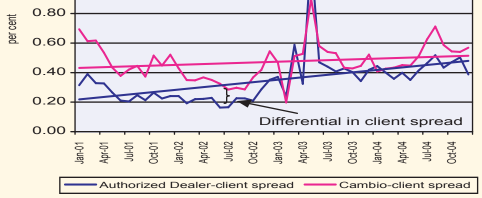
"...Jamaica's improving fiscal and external liquidity situation, ongoing commitment to the fiscal austerity, and stronger growth prospects-all of which has resulted in the stabilization of the Jamaican dollar and an increase in the confidence of domestic businesses."

Maturation of market participants

Increased competition and information flow among market participants have been facilitated through the introduction of e-Gate. Moreover, with the daily spot trading for all licensed foreign exchange traders made available on BOJ's website, the wider group of participants including earners and end-users can peruse the market details per entity. The information flow in this regard, stimulates greater competition among market participants in selling or acquiring foreign currency in the Jamaican foreign exchange market. This has resulted in less divergence in offer rates among institutions.

Figure 5

Percentage client spread for Authorized Dealers and Cambios



Convergence in the differential in the client spread between market segments would be indicative of the market's maturation (in this case, increased market depth) where participants can trade based on individual firms' price data and market information rather than on existing institutionalized financial relationships. Client spread refers to the percentage profit earned on trades by cambios and authorized dealers on transactions with clients. The spread is defined as the difference between the average rate at which funds are bought from net earners (buy rate) and the average rate at which funds are sold to end-users (sell rate) expressed as a percentage of the buy rate. The differential in client spreads declined to 0.1 percentage points in 2004 from 0.2 percentage points as at December 2001 (see **figure 5**).

5.0 The foreign exchange market outlook

The gradual improvement in Jamaica's macroeconomic indicators combined with the increased supply of foreign currency and relevant information has culminated in a comparatively more stable and mature foreign exchange market. This greater market depth juxtaposed against the Government's commitment to achieving the stated fiscal targets should continue to engender investor confidence. Additionally, foreign currency supply is expected to remain adequate given substantial investment projects outlined for the tourism and mining sectors over the medium-term. The combination of investor confidence and satisfactory supply of foreign currency should auger well for the continuation of the protracted stability observed in the foreign exchange market.

A. Fiscal Developments: October - December 2004

In mid-December, Parliament approved a supplementary budget for FY 2004/05 in a context of the need for relief and reconstruction expenditure as well as, possible shortfalls in revenue occasioned by the passage of Hurricane Ivan. In this regard, the revised fiscal target for 2004/05 anticipates a deficit of $26 332.3 million or 4.7 per cent of GDP, compared to the original target of $22 045.9 million or 3.9 per cent of GDP. The revised budget, which incorporates a $3 823.1 million increase in expenditure and a downward revision to tax receipts, reflects a higher deficit in the second half of the fiscal year. Countervailing influences are expected to emanate from an increase in grant flows reflecting anticipated external support for the reconstruction effort.

Against this background, preliminary data for the December quarter, suggest that Central Government incurred a deficit of $8 704.7 million, which was within the revised target of $9 512.9 million. The attainment of the target was facilitated through 2.9 per cent containment in expenditure as revenues were broadly in line with target. Consequently, the current deficit of 1.2 per cent of GDP was marginally lower than the targeted 1.3 per cent. Concurrently, the primary surplus of 2.7 per cent recorded for the review period, was consistent with the revised target. Expenditure reflected lower than budgeted spending on all categories except programmes, which was 2.3 per cent above the revised budget primarily reflecting the impact of relief and rehabilitation expenditure related to Hurricane Ivan.

Tax revenues were 1.7 per cent below budget but were 15.0 per cent above the corresponding period of the previous fiscal year. This performance of tax revenues reflects lower than budgeted taxes from Income & Profits and Production & Consumption. These were partly offset by higher than programmed receipts from International Trade. The shortfall in revenues from Income and Profits was mainly influenced by lower than budgeted tax on interest flows, partly offset by higher than budgeted receipts from PAYE. Total revenues for the quarter were, however, boosted by the receipt of budgetary assistance from the European Union under the Support to Economic Reform Programme (SERP) II and other grant flows from the Government of the Netherlands consequent on debt forgiveness.

Government operations were financed from domestic and foreign sources during the quarter, with a greater reliance on foreign financing. External financing reflected the receipt of flows totalling €150 million from the Eurobond floated on the international financial market ahead of schedule, in October.

[17]This excludes divestment flows totalling $1 717.3 million. Treated as revenues, the revised target for FY 2004/05 would be $24 614.9 million or 4.4 per cent of GDP.

For the first nine months of the fiscal year, Government incurred a deficit of $30 882.6 million (5.5 per cent of GDP), which was consistent with the revised budget for the period. The outturn reflected a shortfall in revenues, which was countered by containment in expenditure. The primary balance and current balance ratios were in line with targeted levels.

During the April to December 2004 period, there was a greater reliance on foreign financing reflecting timing factors associated with foreign debt raising in October as well as, the unprogrammed receipt of a loan from the IABD in respect of the Social Safety Net Programme.

Fiscal Performance
Comparative Analysis
J$ Million

	Q3	Revised Budget Q3	Variance	Q1 - Q3	Revised Budget Q1 - Q3	Variance
Revenue and Grants	**42187.72**	**42921.74**	**-734.02**	**120735.42**	**122121.86**	**-1386.44**
Tax Revenue	36523.66	37889.52	-1365.86	107228.36	108594.22	-1365.86
Capital Revenue	38.70	280.10	-241.40	712.70	1606.56	-893.86
Other (incl. Non-tax)	5625.36	4752.12	873.24	12794.36	11921.08	873.28
Expenditure	**50892.38**	**52434.46**	**-1542.08**	**151617.98**	**153160.06**	**-1542.08**
Recurrent Expenditure*	49144.88	50102.78	-957.90	145489.78	146447.68	-957.90
Capital Expenditure	1696.20	2280.34	-584.14	5839.50	6423.64	-584.14
IMF # 1 Account	51.30	51.34	-0.04	288.70	288.74	-0.04
Overall Balance	**-8704.66**	**-9512.72**	**808.06**	**-30882.56**	**-31038.20**	**155.64**
Memo						
Current Balance	**-6995.86**	**-7461.14**	**465.28**	**-25467.06**	**-25932.38**	**465.32**
Primary Balance	**15225.88**	**15291.02**	**-65.14**	**42295.68**	**43013.24**	**-717.56**

Performance Indicators
(percentages of GDP)

	BR	CB	PB	IP	FSR
FY 2004/05 Q3	1.55	-1.25	2.71	4.26	-1.21
FY 2004/05 Q3 Budget	1.69	-1.33	2.72	4.42	-1.22
FY 2004/05 Q1 - Q3	5.50	-4.53	7.53	13.03	-1.26
FY 2004/05 Q1 - Q3	5.53	-4.62	7.66	13.18	-1.25

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 borrowingfor consumption
PB ratio below zero indicates need for major fiscal adjustment to cover interest on past obligations

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

Source: Ministry of Finance & Planning

B. Monetary Policy Developments

27/04/2000	30-day Reverse Repurchase Rate was reduced from 17.30 per cent to 17.00 per cent.
01/06/2000	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-three per cent (33%) to thirty-two per cent (32%).
	Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from fifteen per cent (15%) to fourteen per cent (14%).
	The maximum liquid asset ratio for building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-two per cent (5% and 32%) for building societies.
	The maximum cash reserve ratio for building societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and fourteen per cent (1% and 14%) in respect of local and foreign currency deposits.
28/07/2000	30-day Reverse Repurchase Rate was reduced from 17.00 per cent to 16.75 per cent.
11/08/2000	30-day Reverse Repurchase Rate was reduced from 16.75 per cent to 16.45 per cent.
01/09/2000	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-two per cent (32%) to thirty-one per cent (31%).
	Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from fourteen per cent (14%) to thirteen per cent (13%).
	The maximum liquid asset ratio for building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-one per cent (5% and 31%) for building societies.
	The maximum cash reserve ratio for building societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and thirteen per cent (1% and 13%) in respect of local and foreign currency deposits.
18/09/00	Bank of Jamaica introduces 270-day and 365-day reverse repurchase instruments at 17.6 and 18.0 per cent respectively.
04/10/00	Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.
23/10/00	Interest rates on the 270-day and 365-day instruments were reduced to 17.6 and 18.0 per cent respectively.
24/11/00	Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.
28/12/00	Interest rate on the 365-day instrument was reduced to 21 per cent.
14/02/01	Interest rates on the 365-day and 270-day instruments were reduced to 20.00 per cent and 19.25 per cent respectively.

20/02/01	Interest rates on the 365-day and 270-day instruments were reduced to 19.50 per cent, and 18.75 per cent respectively.
01/03/01	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-one per cent (31%) to thirty per cent (30%).
	Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from thirteen per cent (13%) to twelve per cent (12%).
	The maximum liquid asset ratio for building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty per cent (5% and 30%) for building societies.
	The maximum cash reserve ratio for building societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and twelve per cent (1% and 12%) in respect of local and foreign currency deposits.
08/03/01	Interest rates on the 365-day, 270-day, instruments were reduced to 19.00 per cent, 18.25 per cent respectively.
12/03/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 18.50 per cent, 17.75 per cent, 16.70 per cent, 16.40 per cent, 16.25 per cent, 16.15 per cent and 16.00 per cent respectively.
22/03/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 17.75 per cent, 17.00 per cent, 16.15 per cent, 15.80 per cent, 15.70 per cent, 15.60 per cent and 15.50 per cent respectively.
11/04/01	Interest rates on the 365-day and 270-day instruments were reduced to 17.50 per cent and 16.75 per cent respectively.
21/05/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.50 per cent, 15.70 per cent, 15.30 per cent, 15.05 per cent, 14.95 per cent, 14.85 per cent and 14.75 per cent respectively.
01/06/01	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from thirty per cent (30%) to twenty nine per cent (29%).
	Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from twelve per cent (12%) to eleven per cent (11%).
	The maximum liquid asset ratio for building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty nine per cent (5% and 29%) for building societies.
	The maximum cash reserve ratio for building societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and eleven per cent (1% and 11%) in respect of local and foreign currency deposits.
08/06/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.90 per cent, 15.35 per cent, 15.00 per cent, 14.80 per cent, 14.70 per cent, 14.60 per cent and 14.50 per cent respectively.
25/06/01	Interest rates on the 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 14.75 per cent, 14.55 per cent, 14.45 per cent, 14.35 per cent and 14.25 per cent respectively.

29/06/01	The Bank of Jamaica introduced Certificates of Deposits to the range of instruments used in open market operations. All the terms and conditions applicable to Reverse Repurchase transactions apply to Certificates of Deposits, with the exception that the latter are covered by the central bank's assets as against Government securities. Central Bank deposits which are maintained in statement form (i.e. no physical certificate is issued) will continue to be used for placements of seven (7) days or less.
01/09/01	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from twenty nine per cent (29%) to twenty eight per cent (28%).
	Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from eleven per cent (11%) to ten per cent (10%).
	The maximum liquid asset ratio for building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty eight per cent (5% and 28%) for building societies.
	The maximum cash reserve ratio for building societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and ten per cent (1% and 10%) in respect of local and foreign currency deposits.
30/10/01	Interest rates on the 365-day, 270-day, 180-day, 90-day and 60-day instruments were increased to 19.90 per cent, 19.45 per cent, 15.50 per cent, and 15.00 per cent, 14.75 per cent and 14.55 per cent, respectively.
28/12/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day and 60-day instruments were reduced to 18.90 per cent, 18.40 per cent, 15.00 per cent, and 14.55 per cent, 14.45 per cent and 14.35 per cent, respectively.
09/01/02	Interest rates on the 365-day and 270-day instruments were reduced to 17.90 per cent and 17.00 per cent, respectively.
06/02/02	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.70 per cent, 15.90 per cent, 14.70 per cent, 14.30 per cent, 14.20 per cent, 14.10 per cent and 14.00 per cent, respectively.
14/02/02	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.80 per cent, 15.00 per cent, 14.40 per cent, 14.05 per cent, 13.95 per cent, 13.85 per cent and 13.95 per cent, respectively.
01/03/02	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from twenty eight per cent (28%) to twenty seven per cent (27%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from ten per cent (10%) to nine per cent (9%).
11/03/02	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced from 13.75 per cent, 13.85 per cent, 13.95 per cent, 14.05 per cent, 14.40 per cent, 15.00 per cent and 15.80 per cent to 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent, respectively.
11/07/02	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day, and 365-day open market instruments were reduced from 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent to 12.95 per cent, 13.05 per cent, 13.15 per cent, 13.25 per cent, 13.45 per cent, 14.00 per cent, and 14.90 per cent, respectively.

07/08/02	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced from 14.00 per cent to 13.85 per cent and from 14.90 per cent to 14.50 per cent, respectively.
01/09/02	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.
08/07/2003	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 27.50 per cent and 28.00 per cent, respectively.

04/08/03	Interest rates on Bank of Jamaica 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 18.00 per cent, 22.00 per cent, 25.00 per cent, 25.75 per cent and 26.00 per cent, respectively.
09/09/03	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 21.00 per cent, 23.50 per cent, 23.75 per cent and 24.00 per cent, respectively.
17/10/03	Bank of Jamaica withdrew its 270-day and 365-day instruments from open market trading.
29/10/03	Bank of Jamaica returned its 270-day and 365-day instruments to open market trading at 23.75 per cent and 24.00 per cent respectively.
10/12/03	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 17.00 per cent, 20.00 per cent, 21.00 per cent, 22.00 per cent and 23.00 per cent, respectively.
09/01/04	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 18.00 per cent, 19.50 per cent, 21.00 per cent and 22.00 per cent, respectively.
21/01/04	Interest rates on Bank of Jamaica 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 15.20 per cent, 15.50 per cent, 17.00 per cent, 18.25 per cent, 20.00 per cent and 21.00 per cent respectively.
26/01/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.85 per cent, 15.00 per cent, 15.10 per cent, 16.00 per cent, 17.25 per cent, 18.75 per cent and 20.00 per cent, respectively.
16/02/04	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 15.50 per cent, 16.25 per cent, 17.75 per cent and 19.00 per cent, respectively.
27/02/04	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 17.25 per cent and 18.50 per cent, respectively.
10/03/04	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 16.95 per cent and 17.95 per cent, respectively.
10/03/04	Pursuant to Section 15 (2) (h) of the Banking Act and the Financial Institutions Act, and Regulation 38 (h) of the Bank of Jamaica (Building Societies) Regulation, the Minister of Finance determined that all debt securities or instruments issued by the Government of Jamaica, whether denominated in Jamaican dollars or in a foreign currency and irrespective of their original maturity terms, shall, within nine months of their maturity date be designated Liquid Assets.
02/04/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.60 per cent, 14.70 per cent, 14.80 per cent, 15.10 per cent, 15.60 per cent, 16.50 per cent and 17.40 per cent, respectively.
19/04/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.40 per cent, 14.50 per cent, 14.60 per cent, 14.85 per cent, 15.30 per cent, 16.00 per cent and 16.90 per cent, respectively.
05/05/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.20 per cent, 14.30 per cent, 14.40 per cent, 14.55 per cent, 15.05 per cent, 15.65 per cent and 16.40 per cent, respectively.

03/09/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.00 per cent, 14.10 per cent, 14.20 per cent, 14.35 per cent, 14.80 per cent, 15.35 per cent and 16.00 per cent, respectively.
28/12/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 13.80 per cent, 13.95 per cent, 14.05 per cent, 14.15 per cent, 14.30 per cent, 15.00 per cent and 15.50 per cent, respectively.

LIST OF SUMMARY 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
March	1 820.8	1.9	1.1
2004/2005			
June	1 854.8	1.9	1.1
September	1 909.2	2.9	1.2
December	2 032.1	6.4	1.7

2

Component Contribution to Inflation
All Jamaica
October - December 2004

Groups and Sub-groups	Weight in CPI	Inflation (%)	Contribution
FOOD & DRINK	**0.5563**	**9.2**	**73.4**
- Meals Away from Home	0.0741	4.1	4.6
- Meat Poultry & Fish	0.1613	4.2	10.2
- Dairy Products Oils & Fats	0.0668	4.6	4.7
- Baked Products Cereals & Breakfast Drinks	0.0864	3.8	5.0
- Starchy Foods	0.0525	24.9	19.9
- Vegetables & Fruits	0.0650	26.9	26.7
- Other Food & Beverages	0.0502	2.9	2.2
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**10.8**	**12.9**
- Household Supplies	0.0482	12.6	9.3
- Fuels	0.0253	9.5	3.7
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**5.2**	**6.4**
- Rental	0.0209	6.6	2.1
- Other Housing Expenses	0.0577	4.9	4.3
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**3.5**	**1.6**
- Furniture	0.0068	1.4	0.1
- Furnishings	0.0215	4.4	1.5
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**2.7**	**2.9**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**1.5**	**1.1**
- Clothing Materials	0.0055	0.3	0.0
- Readymade Clothing & Accessories	0.0242	1.4	0.5
- Footwear	0.0159	2.0	0.5
- Making & Repairs	0.0051	0.6	0.0
TRANSPORTATION	**0.0644**	**1.4**	**1.4**
MISCELLANEOUS EXPENSES	**0.0785**	**0.3**	**0.3**
ALL GROUPS	**1.0000**	**6.4**	**100.0**

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Regional Inflation
Quarterly
October - December 2004

Groups and Sub-groups	KMA (%)	Other Towns (%)	Rural Areas (%)
FOOD & DRINK			
- Meals Away from Home	**8.1**	**10.3**	**9.8**
- Meat Poultry & Fish	3.3	4.5	5.1
- Dairy Products Oils & Fats	3.4	6.1	4.0
- Baked Products Cereals	5.3	5.1	3.7
& Breakfast Drinks	1.7	5.3	5.2
- Starchy Foods	26.1	29.9	22.8
- Vegetables & Fruits	33.3	26.7	20.2
- Other Food & Beverages	1.2	4.2	4.2
FUELS & OTHER HOUSEHOLD SUPPLIES	**12.3**	**12.1**	**7.7**
- Household Supplies	20.4	8.6	3.9
- Fuels	6.7	14.5	10.6
HOUSING & OTHER HOUSING EXPENSES	**5.3**	**5.1**	**5.0**
- Rental	6.6	6.4	6.4
- Other Housing Expenses	4.9	4.9	4.9
HOUSEHOLD FURNISHINGS & FURNITURE	**3.8**	**1.5**	**4.4**
- Furniture	4.6	-0.2	-0.3
- Furnishings	3.5	2.4	6.9
HEALTHCARE & PERSONAL EXPENSES	**1.5**	**4.9**	**3.5**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.8**	**2.4**	**1.6**
- Clothing Materials	0.0	1.1	0.3
- Readymade Clothing & Accessories	1.3	2.2	1.2
- Footwear	0.8	2.7	2.9
- Making & Repairs	0.0	3.1	0.0
TRANSPORTATION	**1.4**	**2.8**	**0.4**
MISCELLANEOUS EXPENSES	**0.1**	**0.4**	**0.3**
ALL GROUPS	**5.7**	**7.1**	**7.0**

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

	Jun-03	Sept-03	Dec-03	Mar 04	Jun-04	Sept-04	Dec-04
Net International Reserves (US$)	**1 127.4**	**1 182.6**	**1 165.0**	**1 568.7**	**1 604.1**	**1 616.5**	**1 858.5**
Net International Reserves ($J)	**63 133.8**	**69 775.2**	**68 733.8**	**95 531.4**	**99 454.2**	**100 224.2**	**115 228.2**
Assets	65 251.2	71 782.9	70 583.5	97 250.0	101 079.2	101 725.2	116 679.7
Liabilities	-2 117.4	-2 007.8	-1 849.7	-1 718.6	- 1 625.0	- 1 501.0	-1 451.4
Net Domestic Assets	**-30 728.9**	**-37 152.6**	**-28 207.5**	**-59 345.0**	**-62 841.2**	**-61 833.3**	**-70 172.6**
Net Claims on the Public Sector	67 611.0	70 771.5	78 657.1	76 292.8	89 291.8	**97 291.3**	**91 476.2**
Net Credit to Banks	-13 125.1	-12 814.6	-13 345.9	-13 654.5	-13 127.9	-14 713.0	-15 078.8
Open Market Operations	-77 126.4	-83 700.3	-81 969.4	-108 281.7	-123 222.1	-127 629.3	-130 692.1
Other	-8 088.4	-11 409.2	-11 549.3	-13 701.6	-15 783.0	-16 782.3	-15 877.9
Monetary Base	**32 404.9**	**32 622.6**	**40 526.3**	**36 186.4**	**36 613.0**	**38 390.9**	**45 055.6**
Currency Issue*	21 259.1	21 545.7	29 426.5	24 930.6	24 597.4	26 215.9	32 398.1
Cash Reserve	10 960.0	10 811.2	10 928.2	11 096.6	11 936.2	12 042.0	12 316.2
Current Account	185.8	265.7	171.7	159.2	79.4	133.0	341.3
% change Monetary Base (F-Y-T-D)	**-0.3**	**0.4**	**24.7**	**11.3**	**1.2**	**6.1**	**24.5**

** Excludes BOJ's teller cash*

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

	M1J	M1*	M2J	M2*	M3J	M3*
2001/2002						
June	32 951.4	38 015.3	102 002.8	135 708.9	123 100.6	156 806.8
September	35 690.9	41 620.6	105 818.0	141 583.6	127 000.0	162 765.5
December	38 964.5	45 310.1	109 419.3	146 061.6	131 161.0	167 803.4
March	37 083.8	43 946.8	107 834.2	147 683.6	130 622.7	170 285.0
2002/2003						
June	36 864.8	43 248.6	110 235.4	150 532.0	133 902.1	174 198.5
September	42 475.0	49 450.6	117 345.1	160 591.3	142 633.2	185 879.3
December	44 704.0	51 486.7	119 330.6	165 026.0	145 583.9	191 279.3
March	33 733.5	40 791.3	107 472.2	158 719.5	136 368.0	187 615.2
2003/04						
June	37 201.6	46754.7	109 847.2	166750.9	140 414.9	197319.3
September	39 838.8	49 028.9	114 121.8	172 760.3	146 844.5	205 483.0
December	45 220.9	55 237.5	123 090.2	183 117.4	156 387.0	216 414.2
March	44 942.9	57 124.2	124 892.6	190 784.0	160 403.2	226 294.7
2004/2005						
June r	46 496.4	57 161.6	128 294.6	193 296.0	165 766.6	230 768.0
September	48 959.5	60 090.6	130 414.9	199 673.9	169 273.8	238 532.8
December	55 268.6	67 819.5	141 413.9	211 395.3	181 802.7	251 784.1

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

5

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

	Mar-03	Jun-03	Sep-03 r	Dec-03 p	Mar 04	Jun-04	Sep-04	Dec-04 p
M2J	**-11 859.0**	**2 374.8**	**4 275.4**	**8 968.3**	**1 802.3**	**3 402.1**	**2 120.4**	**10 998.9**
Currency	-3075.1	1 467.4	149.1	4 237.9	-2 550.7	524.6	1 041.0	4 482.7
Demand Deposits	-7 896.0	2 001.3	2 488.0	1 144.3	2 272.8	1 028.8	1 422.1	1 826.4
Savings Deposits	-40.9	1 125.6	1 140.0	3 002.8	804.8	2 516.2	696.9	2 609.6
Time Deposits	-847.0	-2 219.5	498.3	583.3	1 275.4	-667.5	-1 039.6	2 080.2
OTHER DEPOSITS	**2 642.5**	**1 672.7**	**2 154.3**	**574.1**	**2 213.9**	**1 961.3**	**1 386.9**	**1 529.9**
TOTAL(M3J)	**-9 216.5**	**4 047.5**	**6 429.7**	**9 542.5**	**4 016.2**	**5 363.4**	**3 507.3**	**12 528.8**

SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY

	Mar-03	Jun-03	Sep-03 r	Dec-03 p	Mar 04	Jun-04	Sep-04	Dec-04 p
N.I.R. of B.O.J.	**-13 140.9**	**-11 887.7**	**3 259.1**	**-1 041.3**	**24 584.1**	**2 158.3**	**775.1**	**15 100.7**
M & LTFL of B.O.J.	**18.1**	**10.3**	**20.9**	**11.4**	**0.0**	**0.0**	**21.7**	**12.0**
Banking System Credit	**12 252.3**	**18 848.7**	**8 339.5**	**19 677.6**	**-17 447.3**	**22 552.0**	**6 749.4**	**-10 789.5**
Public Sector	10 722.0	14 761.0	4 556.1	14 585.8	-22 169.1	21246.0	4 260.7	-10 808.1
Private Sector	1 530.3	4 087.7	3 783.5	5 091.8	4 721.8	1 306.0	2 488.7	18.6
Open Market Operations	**3 777.5**	**9 077.4**	**-6 573.9**	**1 730.9**	**-26 312.3**	**-14 940.4**	**-4 407.2**	**-3 152.8**
Other	**-12 123.5**	**-12 001.2**	**1 384.1**	**-10 836.1**	**23 191.7**	**-4 418.2**	**368.3**	**11 358.4**
TOTAL	**-9 216.5**	**4 047.5**	**6 429.7**	**9 542.5**	**4 016.2**	**5 363.4**	**3 507.3**	**12 528.8**
Memo:								
Foreign Currency Deposits	5 552.4	5 685.6	1 734.1	1 388.8	5 864.3	-890.1	4 257.6	722.5
Foreign Currency Loans	2 093.0	2 922.5	2 346.2	1 019.5	1 199.1	339.9	608.9	3 418.4

p - preliminary
r - revised

6A

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

	Fixed Deposits* 3-6 months	Fixed Deposits* 6-12 months	Savings Deposits (Average)	Demand Loan Rate (Average)	Fixed Deposits Rate (Weighted Average)	Loan Rate (Weighted Average)	Inter-bank Lending Rate (Average)
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							14.68
June	7.75 - 13.25	7.75 - 13.25	9.00	25.92	9.28	18.15	13.88
September	7.75 - 13.25	7.75 - 13.25	8.86	26.25	8.98	18.08	11.50
December	7.75 - 13.25	7.75 - 13.25	8.96	25.04	8.92	18.26	21.90
March	8.50 - 13.15	8.50 - 13.15	8.22	24.73	8.87	17.23	
							38.40
2003/2004							17.01
June	8.50 - 13.15	8.50 - 13.15	8.22	25.18	8.98	19.23	24.08
September	8.50 - 13.25	8.50 - 13.50	8.43	25.60	9.02	19.87	17.16
December	8.50 - 13.25	8.50 - 13.50	8.43	25.60	8.68.	19.32	
March	8.50 - 13.25	8.50 - 13.50	8.30	25.40	8.47	19.01	
							15.75
2004/2005							8.38
June	8.50 - 13.25	8.50 - 13.50	8.06	25.02	8.15	17.75	12.95
September	8.50 - 13.25	8.50 - 13.50	8.06	24.95	7.99	17.76	.
December	3.00 - 14.10	3.50 - 14.30	6.48	24.89	n.a.	n.a.	

** - Relate to deposits of $100 000 and over*
n.a.: not available

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GOJ TREASURY BILL YIELDS
(End-of-Period)

	3-month	6-month	9-month	12-month
2000/2001				
June	17.68	17.47	17.88	18.10
September	16.62	17.13	16.91	16.94
December		20.16	19.67	20.98
March		16.88		17.86
2001/2002				
June	23.48	16.20		
September	22.23	15.10	15.50	
December	22.12	17.03		
March	21.49	14.30		14.96
2002/2003				
June		13.81		14.77
September		16.69	16.98	
December		17.01		
March		33.47		
2003/04				
June		28.46		
September		23.42	23.87	
December		22.05		
March	15.23	15.57		
2004/05				
June	15.04	14.98	15.18	
September	14.41	14.80		
December	14.41	14.94		16.36

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BANK OF JAMAICA OPEN MARKET INTEREST RATES (End Period)

	Tenor of Instruments						
End Period	30 days	60 days	90 days	120 days	180 days	270 days	365 days
2001/2002							
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
March	14.85	15.00	15.10	15.50	16.00	16.95	17.95
2004/2005							
June	14.20	14.30	14.40	14.55	15.05	15.65	16.40
September	14.00	14.10	14.20	14.35	14.80	15.35	16.00
December	13.80	13.95	14.05	14.15	14.30	15.00	15.50

8A

JAMAICA: GOVERNMENT BOND MARKET GOJ Maturities October - December 2004

Maturity Date	Stock Name	Amount J$M	Applicable Interest Rate [b/]
01 October	FR 10.0% LRS 2007 Tr. A	28.1	10.0
16 October	GOJ Inv. Debenture 2006 Series "Ab"	3 020.5	28.5
20 October	FR US$ Ind. Bond 2004	US$21.2	11.75
31 October	VR LRS 2004	1 490.9	19.1
15 November	FR LRS 2004 A	1 100.0	14.3
15 November	VR LRS 2006/2007 A Tr. C	222.4	15.84
19 November	LRS 2004 Tr.B	800.0	24.875
25 November	GOJ Inv. Debenture 2004 Series "Z"	7 162.5	36.25
08 December	15.0% LRS 2004B	500.0	17.15
15 December	VR LRS 2004 H	1 753.2	14.95
28 December	16.25% LRS 2004 Tr.1	633.6	16.25
	16.25% LRS 2004 Tr.2	580.1	16.25
	VR LRS 2004/2008 Tr.B	116.1	16.3
31 December	FR US$5.41mn. Bond 2004	US$5.4	9.6
	VR 2001/2006 Tr.C	427.6	15.98

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 2004

Issue Date	Stock Name	Features	Amount Raised J$M
13-20 October	FR 16.625% Investment Debenture 2007 Series "An"	Tenor of 30 months. Interest rate fixed at 16.625%. Interest paid quarterly.	4 896.5
19 November	FR LRS 2009 AK	Tenor of 5 years. Coupon rate fixed at 14.75%. Interest paid semi-annually.	400.0
23-26 November	FR 16.575% Investment Debenture 2006 Series "Ap"	Tenor of 21 months. Interest rate fixed at 16.575%. Interest paid quarterly.	11 900.0
14-17 December	FR Investment Debenture 16.50% 2007 Series "Aq"	Tenor of 27 months. Interest rate fixed at 16.50%. Interest paid quarterly.	3 935.9
28-30 December	VR Investment Bond 2007/2008 Series "K"	Tenor of 39 months. Coupon rate fixed at 14.95% for first six months. Thereafter, quarterly interest payments of 1.50% above applicable Treasury Bill rate.	2 816.0

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

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
2001/2002 r	**97.7**	**629.5**	**68.5**	**17.9**	**72.0**	**291.1**	**247.1**	**1 423.8**
June	23.5	182.0	34.9	5.0	18.9	66.0	69.2	399.5
September	25.5	174.3	6.1	4.0	18.5	73.5	72.1	374.0
December	20.7	122.4	0.0	4.4	15.7	93.4	63.9	320.5
March	28.0	150.8	27.5	4.5	18.9	58.2	41.9	329.8
2002/2003	**99.9**	**615.6**	**64.5**	**17.7**	**74.4**	**227.8**	**213.7**	**1 313.6**
June	22.9	138.9	30.6	4.5	20.9	51.3	56.2	325.3
September	25.4	147.1	8.0	4.4	20.5	60.3	67.9	333.6
December	29.9	167.0	0.0	4.1	14.2	59.3	46.0	320.5
March r	21.7	162.6	25.9	4.7	18.8	56.9	43.6	334.2
2003/2004	**92.5**	**721.7**	**82.9**	**18.6**	**65.7**	**250.7**	**216.3**	**1 448.4**
June r	24.2	166.0	28.9	5.0	17.6	52.4	51.9	346.0
September	23.1	183.2	10.4	4.4	18.5	66.0	55.7	361.3
December r	21.0	176.7	1.1	4.6	12.6	60.4	58.7	335.1
March p	23.7	211.5	42.5	4.6	17.0	72.1	50.1	421.5
2004/2005								
June p	25.0	200.7	47.9	4.3	19.2	77.3	50.2	424.6
September	21.9	175.2	7.7	4.4	20.3	59.2	62.9	351.6

r - revised
p - preliminary

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

	Consumer Goods	Raw Materials	Capital Goods	Other	Total Imports
2001/2002	**1 000.2**	**1 762.6**	**565.4**	**170.3**	**3 498.5**
June	241.0	444.1	127.7	61.3	874.1
September	238.4	431.1	156.7	47.4	873.6
December	279.9	475.2	133.9	35.4	924.4
March r	240.9	412.2	147.1	26.2	826.4
2000/2001	**1 113.9**	**1 951.9**	**674.2**	**128.3**	**3 868.3**
June	265.4	410.9	176.2	40.9	893.4
September	271.6	539.3	167.2	39.1	1 017.2
December	316.5	442.6	180.5	25.6	965.2
March r	260.4	559.1	150.3	22.7	992.5
2003/2004	**1 054.5**	**1 963.8**	**545.6**	**140.5**	**3 704.4**
June	244.7	499.6	138.5	50.9	933.7
September	252.8	490.4	144.3	33.5	921.0
December	310.4	503.3	125.1	26.6	965.4
March	246.6	470.5	137.7	29.5	884.3

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BALANCE OF PAYMENTS SUMMARY (Flows - US$M)

	Mar-03r	Jun-03 r	Sep-03 r	Dec-03 r	Mar-04r	Jun-04 r	Sep-04 p
1. Current Account	**-242.8**	**-179.3**	**-182.5**	**-237.8**	**-46.6**	**-73.4**	**-216.6**
A. Goods Balance	**-532.6**	**-469.7**	**-433.6**	**-498.3**	**-395.3**	**-376.1**	**-486.4**
Exports (f.o.b.)	334.2	346.0	361.3	335.1	421.5	424.6	351.6
Imports (f.o.b.)	866.8	815.7	794.9	833.4	816.8	800.7	838.0
B. Services Balance	**160.3**	**127.5**	**116.8**	**118.8**	**184.7**	**147.2**	**111.8**
Transportation	-29.8	-40.5	-52.8	-48.1	-18.2	-31.7	-46.8
Travel	283.4	265.2	279.5	274.6	306.8	283.8	263.9
Other Services	-93.3	-97.2	-109.9	-107.7	-103.9	-104.9	-105.3
Goods & Services Balance	**-372.3**	**-342.2**	**-316.8**	**-379.5**	**-210.6**	**-228.9**	**-374.6**
C. Income	**-153.8**	**-117.4**	**-144.3**	**-178.4**	**-165.1**	**-169.9**	**-152.3**
Compensation of Employees	3.7	7.0	27.7	34.7	7.9	14.1	35.0
Investment Income	-157.5	-124.4	-172.0	-213.1	-173.0	-184.0	-187.3
D. Current Transfers	**283.3**	**280.2**	**278.6**	**320.1**	**329.1**	**325.4**	**310.3**
General Government	26.3	26.1	21.6	20.5	27.2	26.8	27.7
Other Sectors	257.0	254.1	257.0	299.6	301.9	298.6	282.6
2. Capital & Financial Account	**242.8**	**179.3**	**182.5**	**-237.8**	**46.6**	**73.4**	**216.6**
A. Capital Account	**-0.8**	**-0.1**	**-4.4**	**-3.0**	**-0.1**	**0.9**	**0.4**
Capital Transfers	-0.8	-0.5	-4.4	-3.0	**-0.1**	**0.9**	**0.4**
General Government	0.1	0.0	0.0	0.0	**0.1**	**0.0**	**0.0**
Other Sectors	-0.9	-0.5	-4.4	-3.0	**-0.2**	**0.9**	**0.4**
Acq./disp. of non-produced non-fin. assets	0.0	0.4	0.0	0.0	**0.0**	**0.0**	**0.0**
B. Financial Account	**243.6**	**179.4**	**186.9**	**240.8**	**46.7**	**72.5**	**216.2**
Direct Investment	145.5	152.7	90.5	96.1	134.2	139.3	134.9
Other Official Investment	-251.5	-50.8	-36.8	-24.7	257.7	79.5	32.5
Other Private Investment (including net errors & omissions)	92.3	-134.8	188.4	151.7	58.5	-110.9	61.3
Reserves	257.3	212.3	-55.2	17.7	-403.7	-35.4	-12.5

r - revised
p - provisional

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PRIVATE SECTOR QUARTERLY REMITTANCE FLOWS (INCLUDING REMITTANCE INFLOWS) (US$M)

	Commercial Banks	Remittance Companies	Post Offices	Building Societies	Total Remit. Transfers	Other Transfers	Total
2001/2002	**170.0**	**595.7**	**1.1**	**202.4**	**969.2**	**42.6**	**1 011.8**
June	43.1	136.4	0.3	43.5	223.3	6.6	229.9
September	46.9	143.0	0.3	50.4	240.6	6.6	247.2
December	25.6	163.7	0.3	58.0	247.6	6.6	254.2
March	54.4	152.6	0.2	50.5	257.8	22.8	280.5
2002/2003	**293.0**	**622.8**	**0.8**	**252.6**	**1 169.2**	**105.4**	**1 274.6**
June	73.2	157.6	0.1	58.8	289.7	23.1	312.8
September	74.0	150.9	0.2	65.6	290.7	23.1	313.8
December	66.3	160.2	0.2	65.8	292.5	23.2	315.7
March	79.5	154.1	0.3	62.4	296.3	36.0	332.3
2003/2004	**330.7**	**697.8**	**1.2**	**298.1**	**1 327.8**	**144.0**	**1 471.8**
June	58.8	170.1	0.3	63.2	292.4	36.0	328.4
September	74.5	169.4	0.3	71.6	315.8	36.0	351.8
December	100.8	183.4	0.3	80.4	364.9	36.0	400.9
March	96.6	174.9	0.3	82.9	354.7	36.0	390.7
2004/2005							
June	96.9	185.6	0.3	83.3	366.1	36.0	402.1
September	70.2	186.4	0.3	84.8	341.7	37.2	378.9
December	97.5	216.5	0.3	88.8	403.1	36.0	439.1

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

	Gross Foreign Assets (US$M)	Gross Foreign Liabilities (US$M)	International Reserves (Net) (US$M)	Weeks of Imports	
				Goods	Goods & Services
2001/2002					
June	1612.5	71.9	1540.5	27.3	18.6
September	1605.9	69.2	1536.7	27.1	18.6
December	1903.3	62.6	1840.7	33.2	22.5
March	2000.3	58.7	1941.6	34.9	23.6
2002/2003					
June	1837.5	55.2	1782.3	31.2	20.6
September	1738.6	51.3	1687.3	29.5	19.5
December	1643.1	46.1	1597.0	27.9	18.4
March	1382.2	42.5	1339.7	22.1	14.8
2003/2004					
June	1 165.2	37.8	1 127.4	18.3	12.0
September	1216.6	34.0	1182.6	19.0	12.8
December	1 196.3	31.4	1 164.9	18.3	12.5
March	1 596.9	28.2	1 568.7	25.0	16.6
2004/2005					
June	1630.3	26.2	1604.1	22.5	15.3
September	1 640.7	24.2	1 616.5	23.5	16.0
December	1 881.9	23.4	1 858.5	27.5	18.7

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

	US$	Can$	UK£
2000/2001			
June	42.51	28.17	62.73
September	44.83	29.25	64.15
December	45.53	29.51	66.78
March	45.68	29.17	64.11
2001/2002			
June	45.82	29.80	63.94
September	45.94	29.00	66.74
December	47.40	29.45	67.94
March	47.61	29.88	67.14
2002/2003			
June	48.51	31.95	72.98
September	49.27	31.11	76.60
December	50.97	32.09	80.97
March	56.24	37.48	87.41
2003/2004			
June	59.01	43.69	96.79
September	59.71	43.92	98.54
December	60.62	46.59	107.45
March	61.01	46.46	111.34
2004/2005			
June	61.22	45.65	102.39
September	61.89	49.05	111.62
December	61.63	50.66	117.92

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

End Period	Local Registered Stocks	Treasury Bills	Bonds	BOJ Open Market Operations Securities
2000/2001				
June	131 477.8	9 750.0	37 268.0	45 066.2
September	132 589.8	9 850.0	38 789.9	51 885.6
December	134 896.5	7 600.0	41 920.6	51 800.9
March	159 734.8	6 950.0	45 107.7	61 441.4
2001/2002				
June	226 655.6	6 900.0	48 981.5	74 164.5
September	230 172.6	5 450.0	53 437.6	77 525.5
December	217 361.8	3 900.0	71 004.0	85 628.3
March	212 110.0	4 250.0	79 151.0	99 195.3
2002/2003				
June	219 738.5.	4 350.0	80 516.1	97 006.3
September	232 873.9	4 350.0	88 274.7	96 072.3
December	240 843.3	4 150.0	99 432.9	89 981.3
March	240 923.0	2 950.0	114 524.1	86 203.8
2003/2004				
June	241,163.2	2 000.0	137 960.0	77 126.4
September	232 914.5	2 400.0	160 594.3	83 700.3
December	228 509.3	4 400.0	178 308.3	81 969.4
March	220 819.2	3 750.0	184 219.0	108 281.7
2004/2005				
June	222 372.2	3 950.0	187 932.0	123 222.1
September	222 522.4	3 750.0	197 847.6	127 629.3
December	n.a.	3 750.0	n.a.	130 692.1

n.a.: not available

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STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	Volume Traded (M)	Value of Stocks Traded (J$M)
2001/2002			
June	35,723.6	2 315.0*	3 584.2
September	33,892.4	182.8	840.4
December	33,835.6	171.3	704.9
March	37,446.0	417.7	1, 19.5
2002/2003			
June	38,606.7	404.9	1 35.9
September	39,219.6	401.1	2 32.1
December	45,396.2	380.9	1 49.4
March	46,982.0	1 240.1	7 155.5
2003/2004			
June	50 478.9	352.4	2 077.7
September	57 769.1	2 167.4	11 321.3
December	67 586.7	530.5	3 682.9
March	99 630.2	3 380.8	14 533.7
2004/2005			
June	94 718.4	665.7	9 395.7
September	99 819.8	391.1	4 920.4
December	112 655.5	532.0	7 144.9

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

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PRODUCTION OF SELECTED COMMODITIES
(flows - 000' tonnes)

	Bauxite	Alumina	Sugar	Bananas*
2001/2002	**3 808.4**	**3 493.7**	**184.8**	**42.3**
June	888.5	943.4	91.5	11.0
September	997.2	946.3	7.3	9.9
December	816.1	738.0	4.2	10.8
March	1 106.6	866.0	81.8	10.6
2002/2003	**3 917.5**	**3 698.7**	**186.1**	**37.7**
June	888.1	887.3	76.8	10.3
September	961.2	932.0	11.8	9.7
December	1 110.8	945.2	4.7	9.3
March	964.4	934.2	92.8	8.4
2003/2004	**3 842.4**	**3 956.4**	**174.7**	**40.1**
June	992.9	957.0	53.7	9.9
September	975.3	939.8	1.3	10.2
December	916.7	1 012.6	5.9	10.5
March	957.5	1 047.0	113.8	9.5
2004/2005				
June	1 071.2	1 046.4	60.0	9.9
September	907.1	866.7	3.7	8.2
December	398.5	1 062.6	3.6	0.0

** Exports*

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GROSS PRODUCT BY INDUSTRY IN PRODUCERS VALUES AT CONSTANT (1996) PRICES
Sept. 2002 - Sept. 2004 (Seasonally Unadjusted) Year over Year % Change

	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03	Dec-03	Mar-04	Jun-04	Sep-04
Total Gross Domestic Product	1.69	3.48	3.57	2.40	1.08	1.97	2.58	2.79	0.25
Agriculture, Forestry & Fishing	-6.68	-10.19	2.10	2.44	5.78	9.35	-0.88	-1.50	-10.40
Export Agriculture	8.23	2.08	3.85	-15.12	-17.80	1.61	13.87	2.28	-7.08
Domestic Agriculture, Livestock, Forestry & Fishing	-8.66	-12.03	1.60	8.19	9.49	10.69	-5.14	-2.47	-10.83
Mining & Quarrying	-0.97	24.94	6.38	8.07	1.01	4.19	10.84	8.53	-7.22
Manufacturing	1.23	2.53	1.15	-2.01	-1.00	-1.54	4.55	6.81	1.68
Food, Beverage & Tobacco	5.25	0.26	0.23	2.16	-4.09	-5.15	4.68	3.58	1.46
Other Manufacturing	-3.26	5.17	2.39	-7.37	2.75	2.44	4.37	11.41	1.96
Electricity & Water	3.60	6.16	5.50	5.77	4.88	2.80	3.55	3.12	-6.44
Construction & Installation	3.03	4.67	1.71	1.24	0.36	1.44	2.35	1.39	4.65
Distributive Trade	0.31	0.35	0.75	0.83	1.04	1.51	1.62	1.26	1.83
Transport, Storage & Communication	6.16	9.20	7.53	5.63	0.59	1.24	1.63	3.03	-1.17
Finance & Insurance Services	8.94	6.87	11.29	6.07	0.85	0.73	-1.56	-3.10	0.62
Real Estate & Business Services	0.93	0.95	1.93	2.47	1.97	0.78	2.35	1.67	1.55
Producers of Government Services	0.24	-0.13	-0.12	-0.15	0.38	0.85	0.26	0.19	0.22
Miscellaneous Services Household and Private Non-Profit Institutions	4.98	9.47	5.11	4.69	3.55	5.94	5.46	8.76	1.93
Hotels, Restaurants & Clubs	6.28	13.04	6.24	5.65	3.97	6.40	6.48	10.99	2.00
Less Imputed Bank Service Charge	9.07	9.95	-0.02	2.97	3.12	0.49	-0.38	1.27	-4.72

D. BANK OF JAMAICA BALANCE SHEET

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

	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04
Assets	**151 282.4**	**152 765.6**	**149 552.0**	**156 818.4**	**165 318.2**	**186 811.5**	**191 018.4**	**196 888.5**	**210 619.0**
Foreign	83 071.5	77 202.2	68 606.6	72 298.2	72 134.5	97 232.2	99 458.8	101 367.1	113 727.7
Current Account & Foreign Currency Balances	6 880.4	9 318.5	5 105.0	11 163.0	6 091.0	6 881.8	9 162.7	9 824.6	12 036.4
Time Deposits & Securities	74 108.9	65 607.9	60 573.9	54 278.5	60 805.0	84 931.4	84 922.5	86 121.4	96 047.5
Holdings of Special Drawing Rights	39.9	20.2	6.5	19.7	3.2	4.8	23.8	6.0	4.4
Other	2 042.3	2 255.6	2 921.2	6 837.0	5 235.3	5 414.2	5 349.8	5 415.1	5 639.4
Local	68 210.9	75 563.4	80945.4	84 520.2	93 183.7	89 579.3	91 559.6	95 521.4	96 891.3
Public Sector Securities	57 237.4	54 975.0	66 907.0	68 465.9	78 147.1	77 836.0	76 989.0	85 125.6	85 131.1
Other Assets	**10 973.**	**20 588.4**	**14 038.4**	**16 054.3**	**15 036.6**	**11 743.3**	**14 570.6**	**10 395.8**	**11 760.2**
Liabilities	151 282.4	152 765.6	149 552.0	156 818.4	165 318.2	186 811.5	191 018.4	196 888.5	210 619.0
Foreign	434.6	484.6	467.9	459.2	479.3	459.8	427.0	401.4	424.3
Local	150 847.8	152 281.0	149 084.1	156 359.1	164 839.0	186 351.7	190 591.4	196 487.1	210 194.7
Currency in Circulation	24 387.3	20 772.3	21 309.9	21 587.9	29 467.0	24 978.0	24 634.4	26 261.3	32 438.3
Deposits	118 055.4	117 110.0	110 145.7	115 342.8	112 076.8	146 088.2	155 259.4	159 435.8	165 535.6
Bankers	17 729.8	25 401.0	25 474.3	25 022.0	25 659.9	26 197.7	26 499.4	28 278.6	29 186.6
Government	4 484.3	1 760.2	3 280.1	2 000.8	1 235.2	5 045.7	3 098.7	656.5	3 482.6
Open Market Operations	89 981.3	86 203.8	77 126.4	83 700.3	81 969.4	108 281.7	123 222.1	127 629.3	130 692.1
Other	5 860.0	3 745.0	4 264.9	4 619.7	3 212.3	6 563.1	2 439.2	2 871.4	2 174.3
Allocation of Special Drawing Rights	2 462.0	2 462.0	3 203.0	3 203.0	3 203.0	3 203.0	3 573.6	3 573.6	3 573.6
Capital & Reserves	24.0	24.0	4.0	4.0	4.0	24.0	24.0	24.0	24.0
Other Reserves	1 944.2	1 944.2	1 640.8	1 628.8	990.3	1 270.4	2 311.1	2 283.6	2 285.9
Other Liabilities	3 974.9	9 968.5	12 780.7	14 592.7	19 097.8	10 788.1	4 788.9	4 908.8	6 337.3

E. COMMERCIAL BANKS' BALANCE SHEET

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

	Dec-0 2	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04r	Dec-04 p
Assets	**262 577.9**	**285 881.7**	**295 647.2**	**306 632.7**	**313 516.6**	**331 710.5**	**327 721.8**	**341 427.1**	**344 213.3**
Cash	3 988.3	3 438.6	2 500.6	2 638.1	6 281.0	4 335.8	3 478.0	4 055.5	5 755.0
Balances with BOJ	40 111.1	41 414.8	37 224.0	40 947.6	40 249.2	50 545.4	53 281.4	52 877.8	55 893.7
Foreign Assets	47 540.2	62 782.3	58 847.3	56 953.0	59 938.9	62 394.6	61 318.4	71 803.7	73 215.4
Loans & Advances	73 943.3	79 685.4	87 067.4	91 254.9	99 150.0	102 504.2	106 169.9	108 989.0	113 369.5
Private Sector	50 882.0	52 897.6	60 255.0	66 396.8	71 638.4	75 699.2	77451.2	80 687.3	83 559.0
Public Sector	23 061.3	26 787.8	26 812.4	24 858.1	27 511.6	26 805.0	28 718.7	28 301.7	29 810.5
Public Sector Securities	68 829.3	66 143.2	78 275.4	79 905.7	74 852.1	66 686.3	65 707.7	62 695.7	56 584.7
Cheques in the Process of Collection	3 794.0	4 024.4	5 041.7	3 023.1	2 584.2	6 310.9	2 658.7	5 381.2	4 043.6
Other Assets	24 371.7	28 393.0	26 690.8	31 910.3	30 461.2	38 933.3	35 107.7	35 624.2	35 351.4
Liabilities	**262 577.9**	**285 881.7**	**295 647.2**	**306 632.7**	**313 516.6**	**331 710.5**	**327 721.8**	**341 427.1**	**344 213.2**
Deposits	178 979.5	188 441.5	189 816.3	194 580.3	198 774.8	216 777.3	214 596.2	223 188.9	228 579.1
Local Currency	124 875.9	121 373.8	118 040.1	120 691.9	122 976.1	134 730.5	32 670.0	135 475.1	139 801.0
Foreign Currency	54 103.6	67 067.7	71 776.2	73 888.4	75 798.7	82 046.8	81 926.2	87 713.8	88 778.1
Foreign Liabilities	12 691.1	14 085.8	14 903.7	16 771.1	15 900.5	15 860.8	18 655.6	22 932.1	26 329.5
Discounts & Advances from BOJ	134.9	187.1	235.7	95.6	167.7	276.7	1 607.3	199.6	229.9
Loans/Advances from Other Institutions	7 309.4	7 632.5	7 813.2	8 674.7	9 431.7	7 741.2	7 805.5	7 806.5	7 483.6
Cheques in the Process of Payment	2 565.0	2 150.6	3 383.4	2 161.0	2 112.4	3 279.7	2 218.9	3 172.3	2 423.2
Other Liabilities	60 898.0	73 384.2	79 494.9	84350.0	87 129.5	87 774.8	82 838.3	84 127.7	79 168.0

p - preliminary
r - revised

F. INTERNATIONAL INDICATORS
1

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

	1 Month	3 Months	6 Months	12 Months
2001/2002				
June	3.7900	3.7300	3.7300	3.9400
September	2.6300	2.5900	2.5225	2.6425
December	1.8738	1.8813	1.9813	2.4425
March	1.8788	2.0300	2.3300	3.0025
2002/2003				
June	1.8387	1.8600	1.9562	2.2862
September	1.8113	1.7900	1.7100	1.7250
December	1.3820	1.3830	1.3830	1.4470
March	1.3000	1.2787	1.2312	1.2800
2003/2004				
June	1.1620	1.1225	1.0815	1.0944
September	1.1200	1.4246	1.1856	1.3525
December	1.1326	1.1670	1.2274	1.4688
March	1.0923	1.1122	1.1585	1.3251
2004/2005				
June	1.3687	1.6100	1.9400	2.4625
September	1.8400	2.0200	2.1963	2.4825
December	2.3890	2.4959	2.7069	3.0109

2

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

	1 Month	3 Months	6 Months	12 Months
2001/2002				
June	5 - 51/8	5 1/8 - 5 1/4	5 1/4 - 5 3/8	5 1/2 - 5 5/8
September	4 9/16 - 4 11/16	4 13/32 - 4 7/32	4 3/8 - 4 1/2	4 13/32 - 4 7/32
December	4 1/32 - 4 5/32	4 -4 1/8	4 1/32 - 4 5/32	4 3/8 - 4 17/32
March	3 29/32 - 4 1/32	3 29/32 - 4 1/32	4 5/16 - 4 7/16	4 23/32 - 4 7/32
2002/2003				
June	4 - 3 29/32	4 1/8 - 4 1/32	4 9/32 - 4 3/16	4 21/32 - 4 9/16
September	3 15/16 - 3 27/32	3 29/32 - 3 3/16	3 7/8 - 3 25/32	3 7/8 - 3 25/32
December	4 1/16 - 3 15/16	4 1/32 - 3 29/32	4 - 3 7/8	4 - 3 7/8
March	3 21/32 - 3 19/32	3 21/32 - 3 9/16	3 9/16 - 3 1/2	3 9/16 - 3 7/16
2003/2004				
June	3 11/16 - 3 9/16	3 19/32 - 3 17/32	3 17/32 - 3 15/32	3 17/32 - 3 7/16
September	3 5/8 - 3 17/32	3 11/16 - 3 19/32	3 25/32 - 3 11/16	3 31/32 - 3 7/8
December	4 6/7 - 3 6/8	4-3 7/8	4 5/16 - 4 3/16	4 19/32 - 4 15/32
March	4 3/16 - 4 1/16	4 3/8 - 4 1/4	4 9/16 - 4 7/16	4 3/4 - 4 5/8
2004/2005				
June	4 5/8 - 4 1/2	4 7/8 - 4 3/14	5 1/16 - 4 15/16	5 ¼ - 5 1/8
September	4 27/32-4 23/32	4 15/16-4 13/16	5-4 7/8	5 1/8-5
December	4 7/8 - 4 3/4	4 29/32 - 4 25/32	4 15/16 - 4 13/16	4 31/32 4 27/32

3

PRIME LENDING RATES
(End-of-Period)

	EURO-ZONE	UNITED STATES			UK
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Prime Rate
2001/2002					
June	4.50	3.75	3.25	6.75	5.25
September	3.75	3.00	2.50	6.00	4.75
December	3.25	1.75	1.25	4.75	4.00
March	3.25	1.75		4.75	4.00
2002/2003					
June	3.25	1.75	1.25	4.75	4.00
September	3.25	1.75	1.25	4.75	4.00
December	2.75	1.25	0.75	4.25	4.00
March	2.50	1.25	2.25	4.25	3.75
2003/2004					
June	2.00	1.00	2.00	4.00	3.75
September	2.00	1.00	2.00	4.00	3.50
December	2.00	1.00	2.00	4.00	3.75
March	2.00	1.00	2.00	4.00	4.00
2004/2005					
June	2.00	1.25	2.01	4.00	4.50
September	2.00	1.75	2.58	4.75	4.75
December	2.00	2.25	3.15	5.25	4.75

4A

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

	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04
US$ vs Sterling	0.6327	0.6050	0.6192	0.5603	0.5476	0.55167	0.55279	0.5188
US$ vs Canadian $	1.4711	1.3553	1.3632	1.2924	1.3284	1.3404	1.2417	1.2191
US$ vs Yen	118.58	119.86	114.79	107.11	108.51	109.38	110.20	103.90
US$ vs Euro	0.9164	0.8693	0.8878	0.7939	0.8155	0.82097	0.80535	0.7472

4B

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

	Jun-03	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04
Sterling vs US$	1.6529	1.6157	1.7847	1.8263	1.8127	1.8090	1.9278
Sterling vs Canadian $	2.2402	2.2022	2.3066	2.4259	2.4297	2.2853	2.3502
Sterling vs Yen	196.52	191.75	198.26	198.12	199.41	197.50	200.29
Sterling vs Euro[1/]	198.12	1.4338	1.4168	1.4893	1.4881	1.4875	1.4404

4C

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
(December 2004)

	GBP	C$	US$	Yen	Euro
U.K.	1.000	2.300	1.920	196.70	1.413
Canada	0.435	1.000	0.835	85.52	0.614
U.S.	0.521	1.198	1.000	102.50	0.736
Japan	0.508	1.169	0.976	100.00	0.718
Euro	0.708	1.629	1.359	139.30	1.000

5A

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

	Jun-03	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04
UAE's Dubai Light	26.21	23.29	23.69	30.46	33.4k0	35.48	34.26
North Sea Brent	28.17	28.23	30.15	32.41	33.04	43.38	39.64
West Texas Intermediate	30.18	29.23	32.55	35.78	37.05	45.93	43.23

5B

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

	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04
Spot (Cash)	1475.89	1512.3	1688.5	1698.5	1823.0	1849.55
3 Month	1423.5	1567.8	1707.5	1704.5	1812.0	1851.55

5C

WORLD COMMODITY PRICES
FOOD
(End-of-Period)

	Jun-03	Sept-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04
Wheats (US$/mt)	137.3	145.6	165.6	166.3	153.0	151	153.9
Coffee (USc/kg arabica brand)	136.4	142.0	141.0	170.5	172.4	177.4	228.82

6

MAJOR STOCK MARKET INDICES
(End-of-Period)

	Jun-03	Sept-03	Dec-03	Mar-04	June-04	Sep-04	Dec-04
Tokyo							
Nikkei Index	8578.95	7972.71	9083.11	11715.39	11858.87	10823.57	11488.76
New York							
Dow Jones Industrials	8341.63	7992.13	8985.44	10357.70	10435.48	10080.27	10783.01
S&P Composite	879.82	848.12	974.50	1126.21	1140.75	1114.58	1211.92
London							
Financial Times-SE 100	3940.40	3613.30	4031.20	4385.70	4464.10	4570.80	4814.30
Frankfurt							
Dax Index	3220.58	3256.78	4095.71	3856.70	4052.73	3892.90	4256.08
Zurich							
SMI Index	4813.70	5043.5	5768.20	5618.60	5619.10	5465.30	5693.20

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Quasi-money: Savings Deposits plus Time Deposits.

List of Boxes in the Quarterly Monetary Reports

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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
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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)
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