



News Release
12 December 2006

Bank of Jamaica Currency Issue

Currency issued by the Bank of Jamaica -*currency issue*- refers to Jamaican notes and coins in the hands of the public (currency in circulation) in addition to notes and coins held by financial institutions (vault cash). The Bank of Jamaica (BOJ) redeems (buys) or issues (sells) notes and coins to financial institutions in order to meet their demand for cash. The difference between currency issued and what is redeemed during a period of time is referred to as net currency issue. The net currency issue during any month is determined by the various institutions' cash holding policies and the demand from their customers.

In December, there is normally a greater demand for cash because persons spend more during the holiday season. Consequently, the banks order more currency as they hold more cash in their vaults to ensure they have adequate amounts to stock their automated banking machines (ABM) and to meet the public's demand in general. For example, as at end November **2005**, the stock of currency issue stood at \$28.1 billion and as a result of the demand for cash during the month of December **2005**, the stock increased to \$35.6 billion. This means that there was a net currency issue of \$7.5 billion for the month of December, 26.8 per cent higher than the stock at the end of November 2005. Over the three year period 2003 to 2005, currency issue increased by 25.1 per cent on average in the month of December.

Currency issue is expected to increase to approximately \$42.0 billion in December 2006. The total net increase in currency issue expected for December **2006** is approximately \$9.0 billion or 27.1 per cent. All of this expected increase will not enter the hands of the public, as on average, commercial banks increase their vault cash by approximately \$2.0 billion in December. The currency issue for December translates to annual growth of 18.4

per cent relative to average annual growth of approximately 9.0 per cent for the previous four years (excluding 2003 when there was a spike in inflation).

There are several factors driving the relatively higher annual growth rate in currency for 2006, the major factors being an increase in the expected volume of transactions and the increased use of ABMs. Increased transactions volumes will be facilitated by real increases in wages and salaries due to lower inflation, moderate exchange rate changes and adjustments to public sector wages and salaries. The increases in public sector wages and salaries result from the settlement of the Memorandum of Understanding between the Government and the trade unions following two successive years of wage freeze. In addition, an increase in the number of persons employed during the year should also increase the volume of transactions and hence currency. Greater accessibility to and use of ABM machines should also increase currency issue as banks stock their machines.

On the other hand, several other developments are contributing to a reduction in the rate of growth in the public's use of currency. For the calendar year to October, inflation was 5.4 per cent relative to 12.5 per cent for the similar period last year. This slowing of inflation in 2006 would reduce the growth in currency assuming that individuals demand the same basket of goods. In addition, increased use of alternative means of payment such as Point Of Sale transfers and cheques also offset some of the increased need for cash.

The stock of currency issue stood at \$34.1 billion as at 8 December 2006, in line with the Bank's projections (see Figure 2). This represents a net currency issue of \$0.9 billion or an increase of 2.7 per cent for the period December 01 to 8, 2006. It also represents an annual increase of 16.8 per cent relative to 7 December 2005 in comparison to an annual increase of 3.9 per cent in the stock of currency issue as at 8 December 2005. Currency issue is expected to rise sharply by mid month and peak at approximately \$43.0 billion on 27 December.

Figure 1

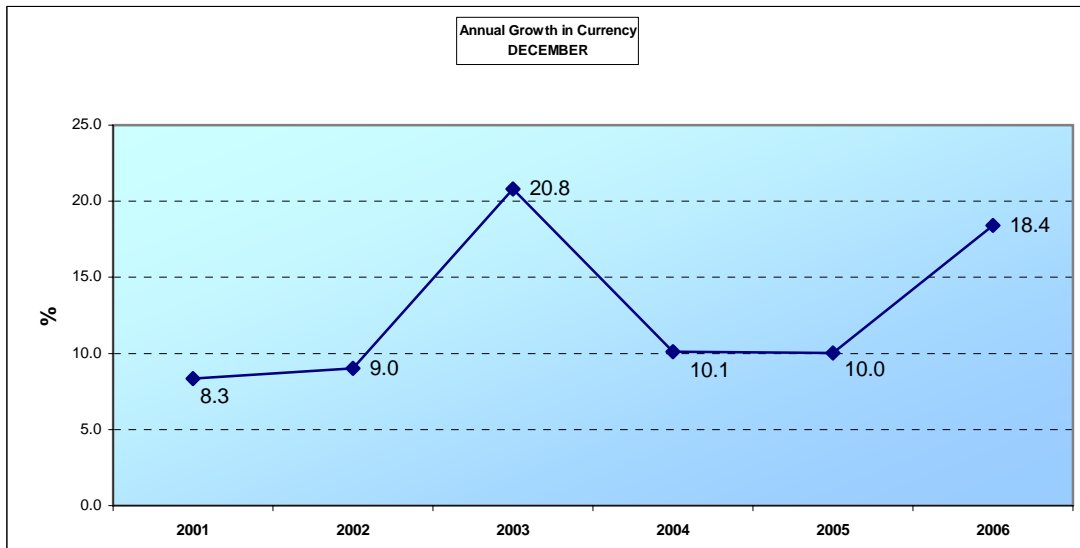
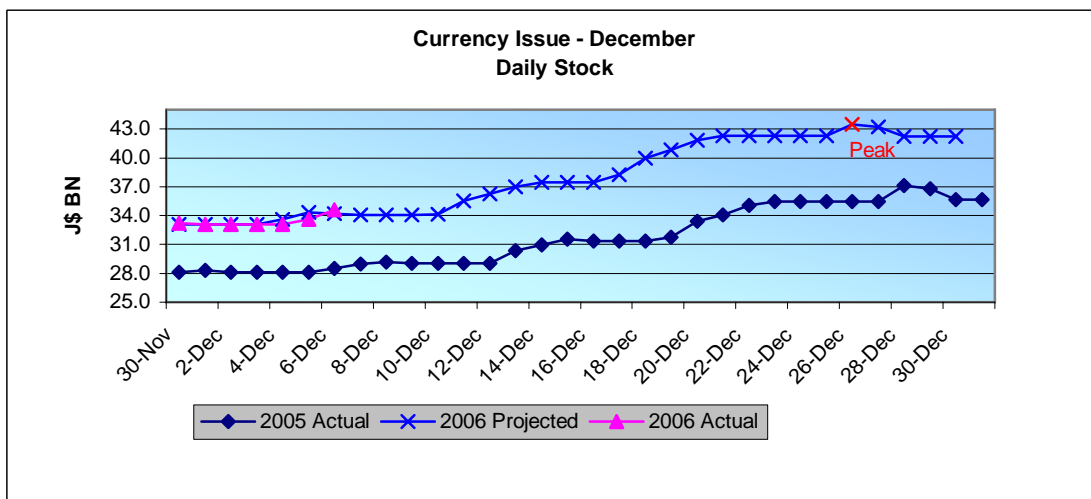


Figure 2



Bank of Jamaica

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