BANK OF JAMAICA

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GOVERNOR'S QUARTERLY PRESS BRIEFING

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Good Morning Ladies and Gentlemen.

Welcome to the release of the Bank's Quarterly Monetary Policy Report for the period July to September 2006.

This morning I will be outlining the main economic developments of the review quarter and will be giving you some indication of how we see things developing in the near-term. You will notice that the Report contains a Labour Market Update – June 2006, as well as a Special (Upper Income) Consumer Price Index and a summary of the latest report from the Intensified Surveillance Programme. I hope you will find these informative and useful.

As with previous presentations I start with an overview of the developments in the September Quarter

Economic developments in the quarter were generally positive, continuing the trend of the three previous quarters.

We continued to experience a fall in annual inflation in line with our expectations. The money and foreign exchange markets were stable and the net international reserves increased substantially. Growth in the real sector continued to be relatively robust and fiscal consolidation continued.

These positive trends in the domestic economy were supported by the generally favourable international economic developments in the review quarter. As you are all aware, the Federal Reserve Bank kept its federal funds rate unchanged consecutively after the two last meetings of the Federal Open Market Committee. This encouraged continued strong demand for Jamaica Dollar bonds. Additionally, the continued expansion in the economies of our major trading partners facilitated the on-going demand for Jamaica's exports of goods and services during the quarter.

Against this background and in context of a positive economic outlook, the Bank of Jamaica reduced the interest rates on all of its open market instruments by 30 basis points on the 1st September and by another 20 basis points on the 22nd September.

I now turn to some specifics:

<u>Inflation</u>

At the end of September the 12-month point-to-point inflation was 6.5 per cent - the lowest annual rate since March 2003. You may recall that at the end of September last year the 12-month point-to-point inflation was much higher at 19.0 per cent.

Headline inflation for the quarter was 2.4 per cent - much lower than the 4.3 per cent recorded for the corresponding quarter in 2005, and also better than the forecast that I shared with you when we last met.

Price increases in the Food and Drink category were the dominant influences on inflation in the review quarter but despite the impact, these increases were not as great as we had anticipated. In fact, the prices of vegetables which are usually high in the September quarter were actually lower than expected, due largely to increased supplies.

Core inflation was estimated at 1.1 per cent for the quarter - a bit higher than the 1.0 per cent that we had programmed. However, the annual core inflation which is estimated at 3.8 per cent at end-September still remains in line with the Bank's medium-term trajectory of 4.0 to 5.0 per cent.

For the December quarter the Bank is projecting continued moderation in inflation. We expect that prices of domestic agricultural commodities will continue to moderate and that the consumer basket will benefit from the recent lowering of fuel prices. Of some concern is the recent upward movement in the price of grains which could put pressure on some items in the Food & Drink category. In addition, the demand for some goods and services associated with the Christmas holidays could also influence an upward movement in the prices of these items.

All told, we expect inflation for the December quarter to be in the range of 1.5 per cent to 2.5 per cent, resulting in inflation of around 8.0 per cent for the calendar year.

Looking ahead towards the March quarter, the Bank is expecting supplies of agricultural commodities to remain buoyant, thereby facilitating lower prices and a favourable impact on the consumer basket.

<u>Foreign Exchange Market</u>

The foreign exchange market continued to be stable in the September quarter. Stability was reflected in a marked slowing in the rate of depreciation of the Jamaica Dollar to 0.03 per cent. Notably, this level of depreciation was the lowest since the March 2005 quarter.

The stability in the foreign exchange market was supported by strong private capital inflows, complemented by continued buoyancy in the flows from tourism and remittances during the quarter.

In the context of these strong flows, the net international reserves increased by US$232.0 million during the quarter to US$2 342.0 million at end September. The increase in reserves put the stock of reserves at US$264.2 million above the target for end-September. Gross reserves were US$2 293.2 million, representing 18.8 weeks of estimated goods and services imports.

Growth

For the September quarter, the Bank estimated that real GDP grew at a slightly faster pace relative to the June 2006 quarter. With the exception of the manufacturing sector, all sectors are estimated to have expanded in the review period. ***Agriculture*** and ***Miscellaneous Services*** which includes the tourism industry were the major drivers of growth.

Outlook for the Near-term

For the December 2006 quarter, the Central Bank is expecting the macroeconomic conditions to remain favourable.

We expect real GDP growth to strengthen as the construction sector rebounds from the setback of the previous quarters. The mining sector and tourism industry are also forecasted to record strong growth.

The Bank is anticipating the usual seasonally higher demand for foreign exchange to meet the increased payments for imports for the Christmas holidays. In fact, we are already seeing that the pick-up in demand is putting some pressure on the exchange rate.

However, private capital inflows are expected to remain relatively strong in the quarter and we expect the continuation of significant flows from tourism and remittances. With the NIR now being maintained in a reasonable comfort zone, the Central Bank has the ability and is prepared to augment any temporary shortfall in supplies in the market.

Consistent with previous years, we are also expecting the usual pick-up in demand for currency in this period to meet the seasonal expansion in consumption expenditure. Accordingly, base money is projected to expand during the December quarter.

Turning to the international economy, the Bank is mindful of the concerns regarding the possibility of a slow-down in growth in the major economies and the impact that this could have on the domestic economy. There is also some uncertainty regarding the direction of short-term interest rates in the major economies and particularly in the USA.

As always, the Bank will remain vigilant in monitoring the international and domestic developments. We will continue to be proactive in safeguarding and enhancing our achievements bearing in mind the objective of single digit inflation and the need to maintain stability in the domestic markets. We will also continue to take advantage of the opportunities that arise for the easing of monetary policy, albeit in a measured way.

Thank you.