BANK OF JAMAICA

News Release
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GOVERNOR'S QUARTERLY PRESS BRIEFING

Good Morning Ladies and Gentlemen.

Welcome to the release of the Bank's Quarterly Monetary Policy Report. As you know, we were scheduled to release the Report earlier in the month, but this had to be postponed because of circumstances beyond our control. The delay is regretted.

This Review covers economic developments for the period January to March 2006, and outlines the Bank's view of the near-term outlook.

Since most of you already have the Report, I am going to assume that you have had the time to go through it in some detail, and therefore, I will spend some time discussing the near-term outlook, following which I invite your questions and comments.

Review of the March Quarter

Economic developments in the March 2006 quarter were generally positive.

There was a sharper-than-expected decline in inflation, growth continued, albeit at a slightly slower pace than the last two quarters; international reserves were maintained at an adequate level, and the financial and foreign exchange markets were stable.

This positive view of the economy was reflected in the favourable sentiments expressed by local businesses and consumers in the confidence surveys.

You would have noticed, however, that the Bank maintained a cautious monetary stance during the quarter. We also maintained the interest rates existing on our Open Market instruments since May 2005.

Why did we do this?

Ladies and gentlemen, it is part of the duty of central banks to be cautious and conservative. Therefore, during the quarter, the Bank did not lose sight of the volatility in international oil prices and rising international interest rates. On the domestic front, we also had to keep a close watch on inflation expectations.

Inflation

For the fiscal year, core inflation was 0.8 per cent for the review quarter, **below the seasonal average of 1.1 per cent for the previous five March quarters.**

For the fiscal year 2005/06, core inflation was 4.95 percent, a return to the Bank's desired range of 4.0 per cent to 5.0 percent.

Annual point-to-point inflation was 11.4 percent at end-March. This was above the range of 9.0 to 10.0 percent originally anticipated in the monetary programme, but lower than the Bank's revised forecast of 12.5 to 13.5 percent.

Pushed largely by reversals in the prices of several domestic agricultural products, headline inflation for the March 2006 quarter decelerated much faster than the Bank had anticipated, and at 0.1 percent, was **the lowest quarterly result in three years**.

Turning to the present quarter, the Bank expects inflation to show an increase. However, this spike is seasonal, and reflects the usual lower supplies of some agricultural products at this time of year.

Significantly, this seasonal spike is expected to be much lower than the 5.7 increase seen over the same period last year, largely because of the overall stronger performance of agriculture that we expect.

The Bank's main inflation concern for this quarter is the continued volatility of oil prices and the pervasive effects that this will have on other prices. The prices of soybean and corn have been increasing, and these items are inputs in animal feed. In addition, the continued increase in the price of beef, and the higher prices for fish, wheat, and rice, should all put some pressure on inflation.

Assuming that international oil prices average US$73.00 per barrel, the forecast for the fiscal year indicates that headline inflation should be in the range of 9.0 to 10.0 per cent.

Foreign Exchange Market

The foreign exchange market was relatively stable in the March quarter, and the Bank expects these conditions to continue in the current quarter.

The stability of the previous quarter reflected significant improvements in foreign currency inflows, mainly from tourism and remittances, as well as a rebound in net private capital inflows. The resurgence in private capital flows was largely associated with the improvement in investor confidence as inflation expectations moderated.

The net international reserves were US$2.078 billion at the end of March, a marginal decline of US$9.3 million for the quarter. Gross reserves amounted to US$2.372 billion, representing 20.2 weeks of estimated goods and services imports.

Outlook for the Near-term and F/Y 2006/07

The Bank is expecting the generally favourable economic developments that have prevailed since the December 2005 quarter to continue in the June 2006 quarter and indeed for the fiscal year.

We expect relatively strong growth in real GDP, together with lower inflation and stable financial markets, all underpinned by adequate levels of reserves for the fiscal year.

Growth in the economy will be driven by expansion in ***Agriculture, Mining, Basic Services*** and ***Miscellaneous Services*** which includes ***tourism.*** The domestic economy is expected to benefit from continued strong world growth, which should boost demand for Jamaica's exports, particularly alumina production and tourism services. In addition, the expansion in the domestic economy is expected to be supported by continued growth in credit to the private sector. The difficulties being presently experienced by the construction sector will, however, temper growth in the quarter.

As conditions permit, and in the context of continued favourable macroeconomic conditions, the Bank will continue to seek opportunities to favourably adjust its policy stance during the fiscal year.

You would have noted that in contrast to our stance in the previous quarter, we have already made three policy adjustments in the current quarter.

- On April 18, the Bank removed the longer-term open market instruments, that is, the 270-day and 365-day tenors.

- In addition, on the 1st of May, the remaining 1.0 percent Special Deposit Requirement for deposit-taking institutions was removed. This adjustment represented an easing of credit conditions, as some J$1.6 billion became available for lending by banks and other deposit takers.

- More recently, on Friday May 12, the Bank adjusted interest rates on its open market instruments by 15 to 20 basis points.

Any further policy adjustments will depend on the continued moderation in inflation expectations and on stability in the financial markets.

In sum, ladies and gentlemen, current trends in the macroeconomic fundamentals point to a much improved set of circumstances after what was a very difficult fiscal year.

Economic activity is expanding, inflation is falling, fiscal consolidation is continuing, and the financial system remains robust. While we remain vulnerable to swings in energy prices and the threat of extreme changes in weather conditions, the growth in world demand and the investments taking place locally also signal the prospects of even stronger and more sustainable growth in the medium term.

As I close, permit me to point out that the special feature in this report is a summary of the IMF/World Bank report on the Bank’s compliance with the code of good practices on transparency of monetary policy, under the

Financial System Assessment Programme, which was conducted in 2005. I hope you find this informative.

I now welcome your questions and comments on the issues raised.

Thank you, ladies and gentlemen.