2014

BANK OF JAMAICA

Quarterly Monetary Policy Report

July to September 2014 • Volume 15 • Number 2

Overview

For the September 2014 quarter, the Bank continued to focus on meeting the monetary targets under the Extended Fund Facility (EFF) supported programme and delivering inflation within the target range of 7.0 per cent – 9.0 per cent for the fiscal year 2014/15. In this regard, the targets for the Net International Reserves (NIR) and Net Domestic Assets (NDA) were comfortably met at end-September 2014. In particular, the NIR amounted to US$2 200.6 million, buoyed by the proceeds of the US$800.00 million Eurobond raised on the international capital market by the Government. The Bank continued to enhance the transmission mechanism through refinements to its management of short-term liquidity aimed at anchoring and consequently stabilizing private money market rates. These refinements provided greater assurance about the availability of liquidity to deposit-taking institutions (DTIs) at prices which define an interest-rate corridor. The floor of the corridor is the Bank's signal rate which was maintained at 5.75 per cent. These actions, complemented by the Bank's usual open market operations, contributed to an overall improvement in the liquidity in the system and resulted in declines in private money market interest rates.

There was an uptick in headline inflation to 9.0 per cent at the end of the September quarter, primarily reflecting the temporary impact of drought conditions on the prices of domestic agricultural items as well as the lagged effect of movements in the exchange rate on the cost of processed foods. Notwithstanding this increase, the Bank expects inflation to end FY2014/15 within the target range of 7.0 per cent to 9.0 per cent as agricultural supplies improve and imported inflation moderates. Inflation expectations, however, remain above the Bank's forecasts. Over the medium-term, inflation is projected to gradually decline to a rate within the range of 6.0 per cent to 8.0 per cent.

Growth in real Gross Domestic Product for the September quarter was also negatively affected by the drought conditions resulting in an estimated contraction within the range of -1.0 per cent to 0.0 per cent. In this regard, growth for the fiscal year is likely to be in the range of 0.5 per cent to 1.5 per cent. Output is forecasted to expand over the medium-term at a steady pace as the country remains poised to benefit from new investments in productive activities and the gradual strengthening in global economic growth. The improvement in ranking reflected in the recent 'Ease of Doing Business' report, published by the World Bank, reflects the efforts towards implementing key structural reforms, which along with improvements in price competitiveness, augur well for a sustainable medium-term growth path for Jamaica.

The persistence of elevated inflation expectations continue to be a major risk to the achievement of the inflation target for the fiscal year over the next four quarters. In this regard, the Bank's policy stance will focus on mitigating these risks while attaining the monetary targets under the EFF programme.

Brian Wynter
Governor

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1.0 Inflation

Following three quarters of deceleration, there was an acceleration in annual inflation at end–September 2014. This acceleration reflected stronger price increases for some agriculture items as well as non–energy services and processed foods due to drought conditions, seasonal demand and the lagged impact of exchange rate depreciation. Inflationary pressures continued to be tempered by relatively weak domestic demand conditions. The Bank expects annual inflation to remain in single digits over the next four quarters as weather conditions continue to improve and imported inflation moderates. The near term risks to this forecast largely relates to adverse weather and the recent transport shock. Against this background the Bank expects inflation to remain within the target range of 7.0 per cent to 9.0 per cent for FY2014/15.

Inflation Developments

Headline inflation accelerated to 9.0 per cent at end–September 2014 from 8.0 per cent in the previous quarter, at the upper end of the target range of 7.0 per cent to 9.0 per cent for the fiscal year (see Table 1 and Box 1). This acceleration in annual inflation was in contrast to a trend decline in inflation since September 2013. The higher inflation at end–September reflected stronger price increases for domestic agriculture items as well as processed foods and non–energy related services during the quarter. There were also moderate price increases associated with energy and transport costs (see Figure 1). Core inflation increased during the quarter reflecting the impact of price adjustments to some processed food items as well as seasonal demand associated with the new school year and the summer holidays.[1]

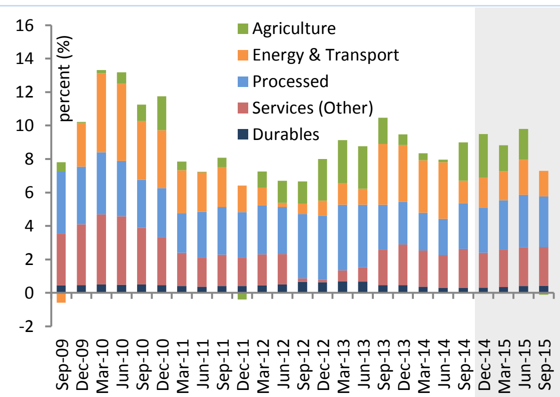
There was a sharp increase in the price of domestic agriculture commodities in the context of drought conditions which prevailed during the quarter. Information from the Rural Agriculture Development Agency (RADA) indicated that agriculture production declined significantly with supplies of most items falling below the five–year average (see Figure 2). Consequently, the CPI reflected noticeable increases in the prices for vegetables and starchy foods. The short term crops that were most affected are tomato, carrot and cabbage.

Table 1 Inflation and Major Components

	Headline	Core*	FNB**	HWEG**
Sep-13	*10.5*	*7.0*	*10.7*	*10.0*
Dec-13	*9.5*	*7.4*	*7.9*	*10.0*
Mar-13	*8.3*	*6.5*	*6.8*	*8.2*
Jun-14	*8.0*	*6.1*	*5.9*	*9.3*
Sep-14+	*9.0*	*6.7*	*12.5*	*6.2*
FY14/15	*7.0-9.0*			

Source: STATIN & BOJ
Notes: Headline inflation is represented as the 12-month point to point percentage change in the Consumer Price Index (CPI) reported by STATIN. [*] Core inflation represents that portion of headline inflation that excludes the influence of agriculture and energy related services such as electricity and transport. [**] FNB *(Food & Non-Alcoholic Beverages)* and HWEG *(Housing, Water, Electricity Gas & Other Fuels)* are major components of the CPI Basket.

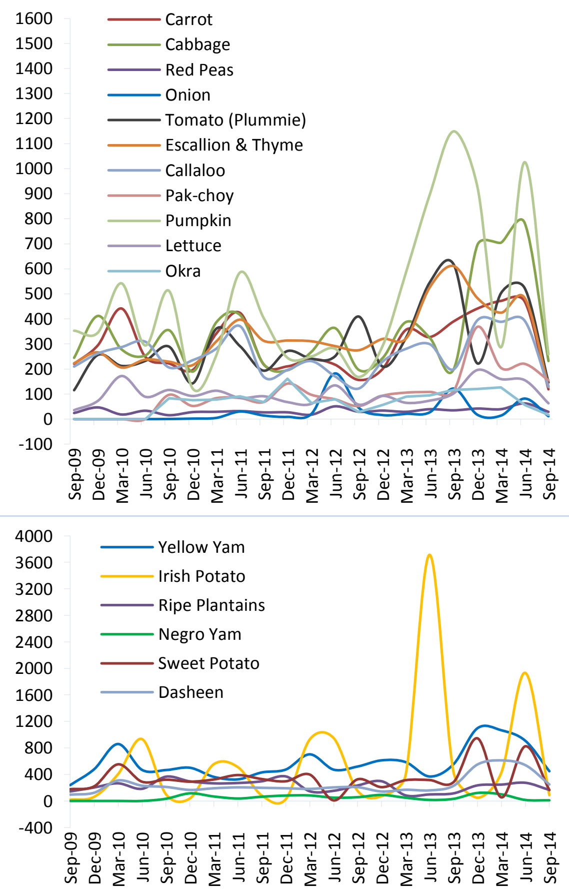
Figure 1 Component Contributions to Inflation (Annual point to point change)



Source: STAIN & BOJ
Annual inflation in June 2014 accelerated marginally following two consecutive quarters during which inflation decelerated.

[1] Imported inflation incorporates the impact of exchange rate depreciation and price of imported raw materials such as oil and grains.

Figure 2 Estimated Vegetable & Starchy Foods Supplies

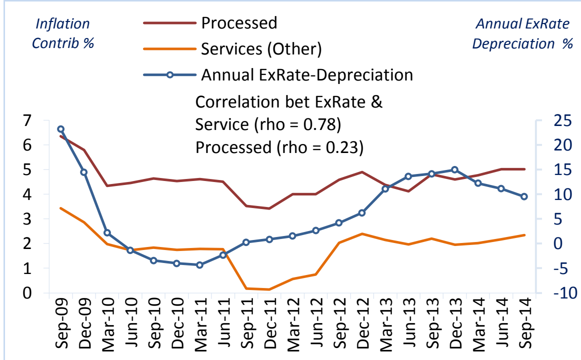


Source: RADA
The trends in vegetable supplies reflect a significant falloff subsequent to June 2014 coinciding with the months of July and August 2014 when there was severe drought particularly in the sought central region of Jamaica. This region accounts for a major share of the domestic short crop supply.

Prices for processed foods accelerated relative to the previous quarter, continuing the trend observed since the December 2013 quarter. Similar to previous quarters the movement in the prices of processed food was mainly attributable to the lagged impact of exchange rate depreciation (see **Figure 3**). However, the increase in the price of processed foods was tempered by a reduction in the prices of international grains, significant inputs in the production process (see **Figures 1** and **4**).

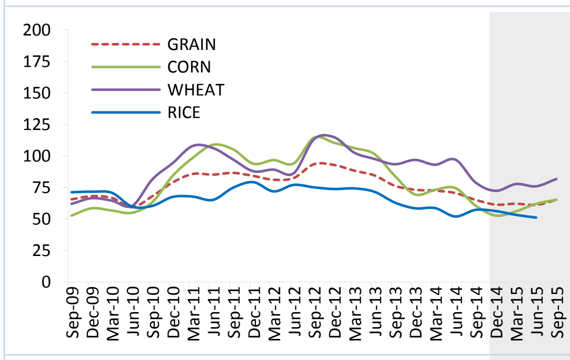
The inflation stemming from other services (non-energy) also accelerated during the quarter (see **Figure 3**). This acceleration largely reflected the seasonal impact from demand associated with the summer holidays and the new school year as well as some lagged pass-through from exchange rate depreciation.

Figure 3 Inflation from Processed Foods and Non-Energy Services relative to previous year annual depreciation



Source: Bank of Jamaica
Exchange Rate depreciation one year (4-quarters) in the past has displays a strong correlation with both processed food inflation and other services inflation (non-energy related).

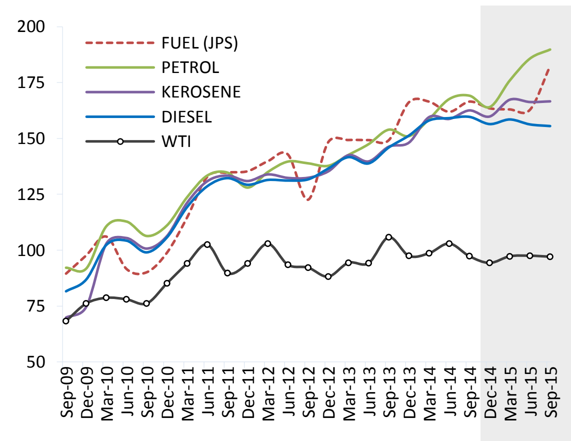
Figure 4 Imported Agriculture Price Indices



Source: Bloomberg & BOJ Calculations
Prices are converted to index for graphical comparison with base period being March 2008 quarter. Grain prices represent a weighted average of Wheat, Corn and Rice. Grain prices reflect a mild decline over the June 2014 quarter but a distinctive annual decline since June 2013.

With respect to the energy and transport component there was also a 20.0 per cent increase in bus fares granted to the Jamaica Urban Transit Company (JUTC) for the GKMA region as well as a rise in petrol prices. The impact of this increase was partly offset by a reduction in domestic electricity cost. (see **Figure 5**). This decline in electricity cost partly reflected the impact of a reduction in oil prices due to reduced concerns regarding geopolitical tensions in Iraq and Ukraine as well as excess supply on the international market. Despite the increase in the energy and transportation components for the quarter there was a reduction in the annual measure at end-September 2014 (see **Figure 1**). This reduction was due mainly to a comparatively lower increase in bus fares relative to the all-island 25.0 per cent increase granted to bus and taxi operators in September 2013.

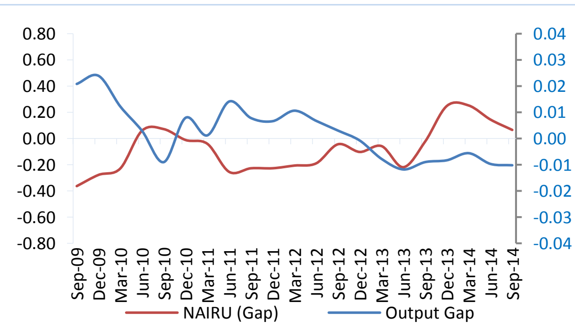
Figure 5 Energy Price Indices



Source: Bank of Jamaica
Note: Trends reflect WTI prices and indices of other fuel goods rebased with March 2008 prices.

An examination of the factors underpinning overall inflation revealed that the domestic output gap during the September 2014 quarter remained negative (see **Figure 6**). The gap between the unemployment rate and the NAIRU implied a decrease of inflationary pressures from the labour market. Real wage growth remained negative and continued to contribute countervailing inflationary pressures during the review quarter.

Figure 6 Output Gap and Gap between Unemployment and NAIRU

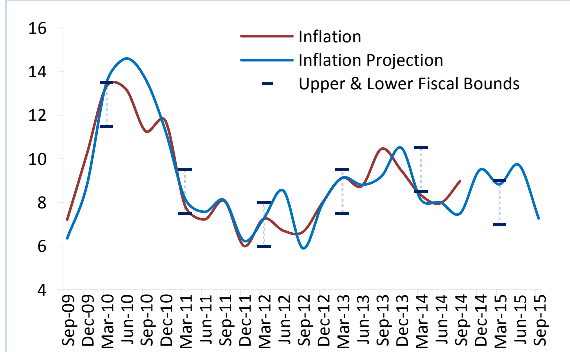


Source: Bank of Jamaica
The above reflects BOJ estimates of Output Gap and the gap between Unemployment and the Non-Accelerating Inflation Rate of Unemployment (NAIRU). When output is below potential (negative output gap) inflationary pressures are negative due to the economic slack. When Unemployment exceeds the NAIRU, there is also slack in the labour market contributing to low wages and by extension, low inflationary pressures.

Inflation Outlook & Forecasts

Annual Inflation is expected to accelerate moderately in the December 2014 quarter followed by a deceleration in the March 2015 quarter to end the fiscal year close to the upper bound of the target range of 7.0 per cent to 9.0 per cent. This outlook is largely predicated on increased contribution from agriculture and energy & transport related costs. Specifically, domestic agriculture prices are expected to remain a major contributor to inflation. However, these prices are expected to moderate as the island recovers from the effects of the recent drought conditions. Domestic energy costs are projected to increase, particularly in the December 2014 quarter, to reflect the impact of an expected tariff rate adjustment. The impact of this increase, however, should be partly offset by lower WTI prices, on average for the remainder of the fiscal year (see **International Economy**).

Figure 7 Inflation Forecast Performance (Annual Inflation forecast for each fiscal year)



Source: Bank of Jamaica
The graph reflects how well the Bank's forecasts of inflation compare to the actual inflation outturn for each quarter ahead. Fiscal year target are also provided to indicate what the fiscal year target was at any given point in time.

In addition, increases in the costs of non-energy services are expected to decelerate to reflect the impact of a slower pace of exchange rate depreciation. The prices of processed foods are also expected to moderate in the context of projections for further declines in grains prices. Additionally, the output gap and real wage growth are forecasted to remain negative over the quarters ahead and will continue to contribute to downward inflationary pressures.

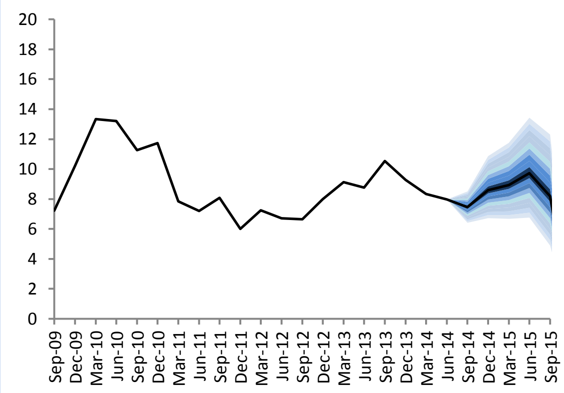
The forecast for growth in monetary aggregates continues to indicate that there is no threat to Inflation over the near term (see **Monetary Developments**). In contrast, the results from the BOJ Inflation Expectations Survey (IES) revealed that inflation expectations among businesses, continues to exceed the Bank's forecast range (see **Box 1.1**).

Despite the Bank's current forecast for inflation to be close to the upper bound for FY2014/15, inflation over the medium-term is projected to decelerate to be within the range of 6.5 per cent to 8.5 per cent. This medium term projection is consistent with the forecast for imported inflation, increased supplies of domestic agriculture products as wells as supportive monetary and fiscal policy.

Inflation Risks

The BOJ perceives that the risks to inflationary forecast are skewed to the upside over the coming quarters (see **Figure 8**). These upside risks include more severe weather conditions than currently forecasted, higher than projected adjustment to tariff rates on electricity bills and imported agriculture commodity prices exceeding current projections. Other upside risks include a stronger than anticipated pass-through from exchange rate depreciation and persistence of high inflation expectations among businesses.

Figure 8 Inflation Fan
(Annual Inflation forecast)



Source: Bank of Jamaica

Downside risks to inflation forecast include weaker than expected domestic demand and greater than anticipated falloff in imported commodity prices. Initiatives geared at an expansion in domestic agriculture production may also result in lower than currently anticipated prices.

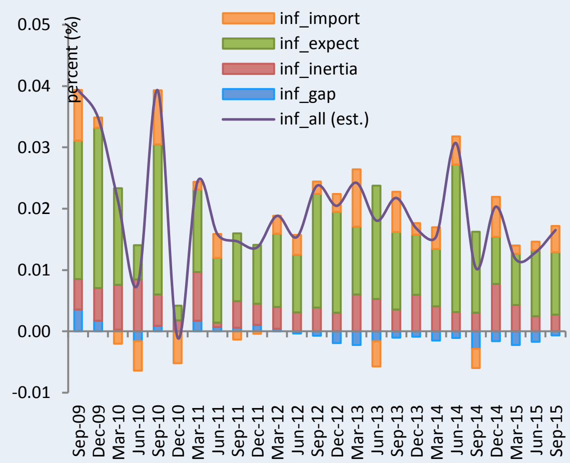
Box 1.0 – BOJ's Macroeconomic Model (MonMod) Component contribution to Inflation implied by the Phillips Curve

The Bank's Macroeconomic Model (MonMod) evaluates the determination of inflation in the economy using the theoretical underpinnings of a forward looking open economy Phillips Curve. In that regard, the key determinants include (1) the surplus or shortage of aggregate supply (output GAP); (2) the impact of imported inflation and (3) expectations among consumers and businesses. Of note, expectations are modeled as both adaptive (backward looking) and rational (forward looking) (see Phillips Curve equation below).

$$\boldsymbol{\pi_t = \alpha\pi_{t-1} + (1-\alpha)\pi_{t+1} + \beta_1 GAP_t + \beta_2 S_t + \epsilon_t}$$

Where π_t is the Inflation rate at a given point in time, GAP_t is the corresponding output gap and S_t is a composite of the exchange rate change and US inflation. Unexplained inflation is captured in ϵ_t .

The results from MonMod suggest that expectations continue and will remain the dominant contributing force to inflation over the near term (see Figure below). The forecast also indicate that imported inflation should strengthen in the December 2014 quarter when seasonal demand is high and should not emerge as a major influence until September 2015 quarter when demand picks up during the summer holiday and school preparation period.



The bars in the chart above represent estimated contributions to inflation from the Phillips-Curve equation. These components are matched against the actual inflation trend for comparison. Estimation residuals will account for the difference between actual inflation and the aggregate of estimated components.

In the September 2014 quarter, the output gap contributed negatively to inflation, consistent with trends observed since the June 2012 quarter. This negative output gap is forecasted to persist over the remainder of FY2014/15 before narrowing towards the September 2015 quarter.

Box 1.1: BOJ's Survey of Businesses' Inflation Expectations

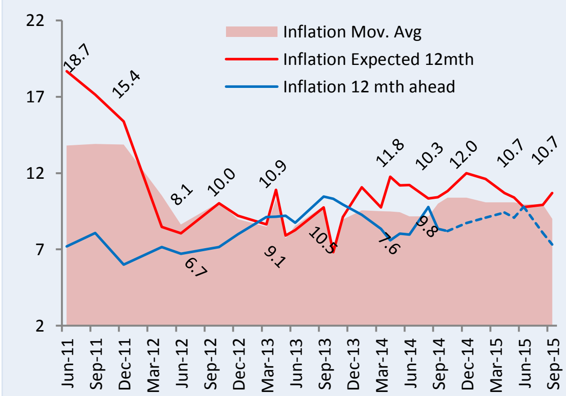
Overview

In the September 2014 quarter, there was a marginal decline in businesses' inflation expectations for calendar year (CY) 2014 relative to the June 2014 quarter. The expected inflation 12-months ahead, however, increased (see Figure 1). The perception of inflation control improved relative to the previous quarter. With regard to the outlook for the exchange rate, respondents expected a slower pace of depreciation over the 3-month, 6-month and 12-month horizons relative to the previous quarter. The majority of businesses surveyed believe that the Bank's OMO rate will remain the same over the next three months. Relative to the previous quarter, respondents' perception of both present and future business conditions improved. Since the June 2013 quarter, there has been a general upward trend in both present and future business conditions.

Inflation Expectations

The expected inflation for CY2014 declined to 10.2 per cent in the September quarter from the 10.7 per cent expected in the previous quarter. The expected inflation for CY2014 exceeded the outturn of 9.5 per cent for CY2013. Further, the actual point-to-point inflation at September 2014 was 9.0 per cent. Respondents' expectation of inflation 12 months ahead, however, increased to 10.7 per cent relative to 9.8 per cent in the June 2014 quarter (see Figure 1).

Figure 1: Expected 12-Month Ahead Inflation



Source: Bank of Jamaica's Inflation Expectations Survey

Table 1: Exchange Rate Expectations

Question: In June 2014 the exchange rate was J$111.20=US$1.00. What do you think the rate will be for the following time periods ahead, 3 months, 6 months and 12 months?

	Sep-13	Oct-13	Jun-14	Sep-14
3 Months	1.8	2.6	2.1	1.3
6 Months	3.2	4.3	4.1	2.2
12 Months	4.7	5.9	5.8	3.2

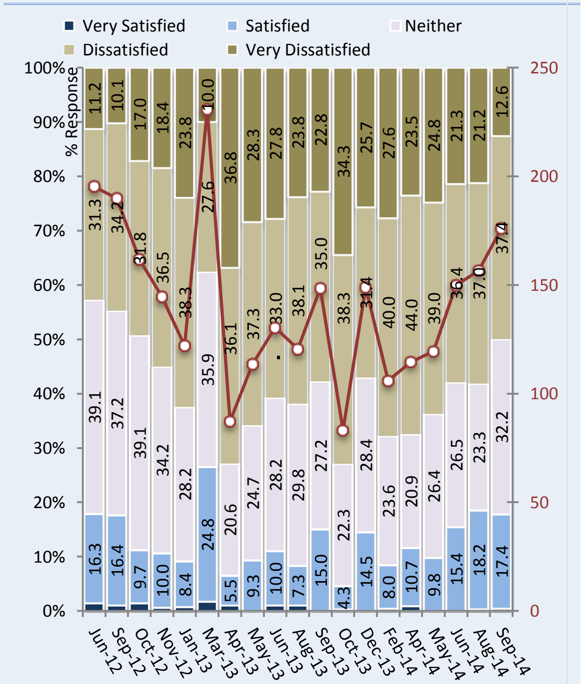
Source: Bank of Jamaica's Inflation Expectations Survey

Perception of Inflation Control

There was an improvement in businesses' perception of inflation control by the authorities in the September quarter when compared to the previous survey. Specifically, the index of inflation control increased to 176.1 from 149.9 at end June 2014 (**Figure 5**). This improvement mainly reflected a decline in the number of respondents who were 'very dissatisfied' with the authorities' control of inflation.

Figure 2: Perception of Inflation Control

Question: How satisfied are you with the way inflation is being controlled by the Government?



Source: Bank of Jamaica's Credit Conditions Survey

Notes: The Index of inflation control is calculated as the number of satisfied respondents minus the number of dissatisfied respondents plus 100

Exchange Rate Expectations

Relative to the survey in June 2014, respondents expected a slower pace of depreciation in the domestic currency for the 3-month, 6-month and 12-month period beyond the survey date (see Table 1).

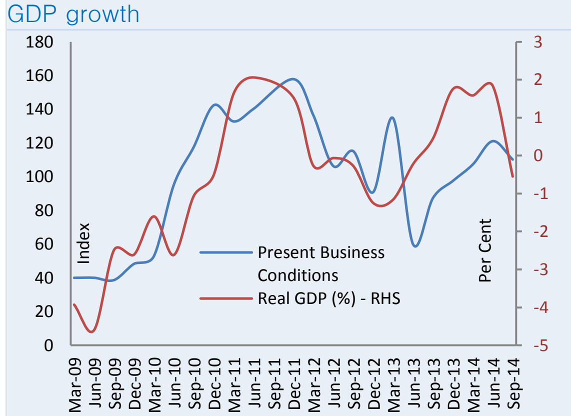
Interest Rate Expectations: OMO Rate

The majority of respondents in the September quarter expected that the Bank's OMO rate would remain the same over the next three months. The number of respondents expressing this view increased to 51.9 per cent from the 39.7 per cent expected in the June 2014 quarter. The results for the financial sector were consistent with the overall view that the BOJ would maintain OMO rates at current levels.

Perception of Present and Future Business Conditions

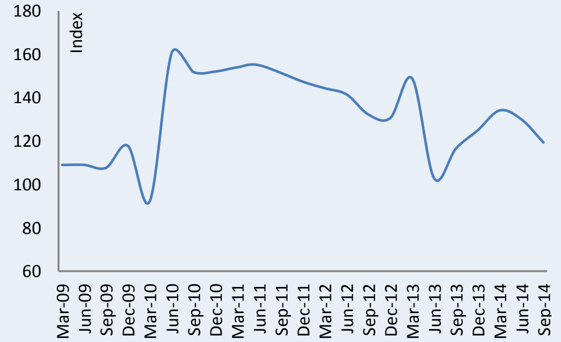
There was an improvement in both the perception of present and future business conditions in the September quarter relative to the previous quarter. The perceptions of present and future business conditions continue to display a general upward trend since the June 2013 quarter. Notwithstanding, both indices remained below the levels recorded in FY2011/12 (see **Figures 3** and **4**). The index of present business conditions has also recovered at a slower rate than real GDP growth since the March 2013 quarter.

Figure 3: Present Business Conditions and Real GDP growth



Source: Bank of Jamaica's Inflation Expectations

Figure 4: Expected Future Business Conditions



Source: Bank of Jamaica's Credit Conditions Survey
Note: Rates on foreign currency personal loans were not collected.

Expected Increase in Operating Expenses

During the quarter, respondents continued to indicate that they expect the largest increase in production costs over the next 12 months to emanate from higher cost for utilities. Stock replacement was expected to be the second largest contributor to higher production costs over the next 12 months. The costs of fuel/transport and raw materials were also expected to contribute to higher production costs for the year ahead. Wages & Salaries remained the input costs least expected to increase over the next 12 months.

2.0 International Economy

Global growth is projected to continue in 2014, albeit at a slower pace than previously anticipated. In light of continued weakness in some economies, most major central banks maintained their accommodative policy stance while the European Central Bank (ECB) implemented further expansionary measures. Within the financial markets there was the reemergence of uncertainty in the September quarter, surrounding the timing of the Federal Reserve's increase in its policy rate. In this regard, the average yield on US sovereign debt declined while the average yields on some emerging market debt increased during the review period. Concurrently, international commodity prices trended lower in the quarter, particularly reflecting the impact of increased global supplies of crude oil and agricultural raw materials.

Trends in the Global Economy

The Bank projects global economic expansion to continue in 2014, albeit at a slower pace than previously expected (see Table 2). This moderation reflects a slowing of economic growth in the Euro area, Japan and some emerging market economies partly offset by improvement in the USA and Canada. The forecast for growth in the UK is unchanged. Of note, the Japanese economy is estimated to have rebounded in the September quarter from the contraction in the June quarter.

In spite of a decline in the unemployment rates among most major developed economies in the September quarter, the labour markets remained weak. This weakness was primarily evident in the Euro area, where unemployment rates remain significantly above pre-crisis levels. Given the underlying weakness in the global economy, there was a reduction in the twelve-month point-to-point inflation rate for most of Jamaica's major trading partners when compared to previous projections (see Table).

For 2015, the forecast is for an acceleration in global growth. This outlook is mainly predicated on stronger growth in the USA and the Euro area. Growth in the other major economies is expected to continue on a sustained path (see Figure 9).

Table 2: Overview of GDP and Inflation for Selected Economies
(Per Cent)

	2013	2014		2015	
	Actual	Current Forecast	Previous Forecast as at Jul.14	Current Forecast	Previous Forecast as at Jul.14
GDP					
World	**3.3**	**3.4**	**3.8**	**3.7**	**4.1**
USA	2.2	2.2	2.1	2.9	2.9
Canada	2.0	2.3	2.2	2.5	2.5
Japan	1.5	1.0	1.5	1.2	1.2
UK	1.7	3.0	3.0	2.6	2.5
Euro	-0.4	0.8	1.0	1.3	1.5
China	7.7	7.3	7.4	7.0	7.2
Inflation					
USA	1.5	2.0	1.7	2.5	2.7
Canada	1.2	2.7	2.7	1.8	1.7
Japan	1.6	2.6	2.6	1.4	1.7
UK	2.0	0.8	1.6	2.3	2.0
Euro	0.8	0.7	1.0	0.8	0.5
China	2.5	2.1	2.2	3.2	3.2

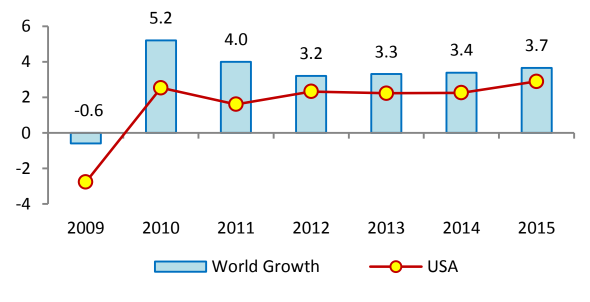
Source: Bank of Jamaica and Bloomberg

Table 3: Unemployment Rate for Selected Economies
(Average Per Cent)

	USA	Canada	Euro
Dec-13	7.0	7.0	11.9
Mar-14	6.7	7.0	11.7
Jun-14	6.2	7.0	11.6
Sep-14	6.1	7.0	11.5

Source: Official statistics offices, *Bloomberg Consensus forecasts

Figure 9: Global Economic Growth



Source: Bank of Jamaica

Advanced Economies

United States of America

For the USA, real output is estimated to have moderated to 3.5 per cent in the September 2014 quarter from an expansion of 4.6 per cent in the previous quarter. The outturn reflected an expansion in all the sub-components of US GDP with the exception of investment. The moderation in growth for the September quarter was primarily due to a deceleration in consumption and investment expenditure.

In the context of the continued expansion in real output, US labour market indicators generally showed further improvement over the review period. The unemployment rate declined by 0.1 to 6.1 per cent relative to the outturn for the June 2014 quarter. The reduction in the rate reflected a larger increase in the number of employed persons when compared to the increase in the total labour force. A higher level of employment was evident in the mining & logging, temporary help services as well as professional & business services.

Inflation at end-September 2014 was 1.7 per cent, below the Fed's target rate of 2.0 per cent. The outturn primarily reflected lower prices for transportation and energy, stemming from the reduction in crude oil prices. For 2014, the Federal Open Market Committee (FOMC) is projecting that inflation will remain below its target, within a range of 1.5 per cent to 1.7 per cent. The Bank's forecast suggests that inflation in the USA for the next four quarters will be within the range of 1.5 per cent to 2.0 per cent. It is therefore expected that the Fed's monetary policy stance will remain accommodative over the next two quarters.

Given this accommodative monetary policy stance, the Bank anticipates that private consumption and investment in the USA will continue to improve over the forthcoming quarters. Stronger expansion is also expected in residential construction while government consumption will remain moderate. Overall, the Bank is projecting quarterly annualized growth to be within the range of 2.8 per cent to 3.1 per cent over the next four quarters. This should translate to annual GDP growth of 2.2 per cent and 2.9 per cent for 2014 and 2015, respectively.

Euro Area

Economic expansion in the Euro area for the September quarter is estimated to have decelerated to 0.0 per cent on an annualized basis, from growth of 0.7 per cent in the June 2014 quarter. The reduced pace of economic growth reflected the impact of a slowdown in the manufacturing and services sectors. In the context of this slowdown, the ECB reduced its policy rates in an effort to improve demand conditions (see Figure 2). Notwithstanding this policy action, the Bank has revised downwards its forecast for economic growth in the Euro area by 0.2 percentage point to 0.8 per cent and 1.3 per cent for 2014 and 2015, respectively.

The impact of continued weak demand conditions was also reflected in consumer prices. Headline CPI inflation in the Euro area decelerated to 0.3 per cent as at September 2014, the lowest outturn since September 2009. This deceleration mirrored lower prices for food and energy. For the next four quarters, the Bank expects inflation to accelerate, albeit remaining below the target rate of 2.0 per cent. Against this background, the ECB is expected to maintain an expansionary monetary policy stance over this period.

Japan

Real output in Japan is estimated to have expanded by 3.4 per cent on an annualized basis in the review quarter following a contraction of 7.1

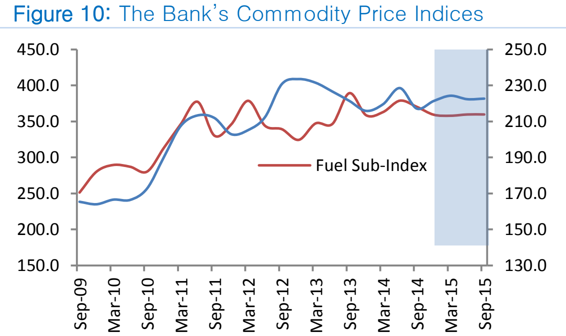
per cent in the June 2014 quarter. The rebound was underpinned by a normalization in consumption and investment spending, following the impact of the implementation of a sales tax increase in the previous quarter. Japan's economy is expected to continue to recover as the effect of the consumption tax hike gradually dissipates. As such, growth in real output is expected to remain within the range of 1.5 per cent to 2.3 per cent over the next four quarters.

Japan's inflation decelerated to 3.2 per cent for the September quarter from 3.6 per cent in the preceding quarter. This moderation primarily reflected lower prices for food, transportation as well as reduced fuel, light and water charges. Inflation is projected to slow over the next four quarters as the impact of the tax increase is fully transmitted to prices.

Commodity Prices

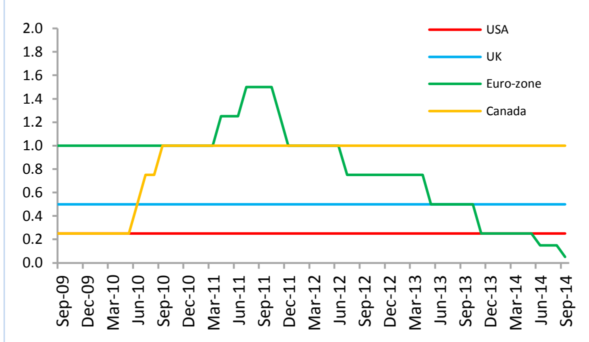
Selected commodity prices trended lower during the September quarter largely reflecting the impact of increased supplies (see **Figure 10**). In particular, increased supplies of wheat, corn and soybean led to lower prices resulting in a reduction in the Bank's agricultural raw material index. The supply of these grains increased to record levels due to favourable weather conditions in major producing countries. Further, the impact of a moderation in geo-political tensions in Ukraine, a major supplier of wheat, also contributed to lower wheat prices.

Figure 10: The Bank's Commodity Price Indices



Source: Bloomberg, World Bank and BOJ

Figure 11: Policy Interest Rates
(Per Cent)



Source: Bloomberg

Average West Texas Intermediate (WTI) fuel prices declined by 8.3 per cent on an annualized basis to US$97.07 per barrel (bbl.) in the quarter. The fall in oil prices primarily resulted from the impact of increased inventories as well as a slowdown in the manufacturing sectors of the Euro area and China. Increased oil production by Libya a major oil exporter, an easing in concerns regarding the impact of geopolitical tensions in the Middle East on oil production and a temporary closure of refineries in the USA in the first half of the quarter also contributed to the decline in prices.

The price of aluminium[2] on the London Metal Exchange (LME) rose by 9.9 per cent for the September 2014 quarter relative to the comparable period in 2013, representing the first annual increase since the September 2011 quarter. Higher prices occurred in the context of reduced capacity stemming from the implementation of an export ban on mineral ore by Indonesia, which accounts for 60.0 per cent of global bauxite exports. In addition, the impact of smelter closures in the USA and an improved outlook for growth for that economy contributed to higher prices in the quarter.

Agricultural commodity prices are expected to trend upwards in the context of lower supplies due to less favourable weather conditions over the next four quarters. However, aluminium prices are expected to trend marginally lower than previously projected due to the expectation of increased

[2] Alumina is used as a proxy for aluminium prices.

supplies in the international market. An upward adjustment to aluminium prices is also likely amid signs that the Euro area economy may improve given the implementation of additional stimulus. With respect to crude oil, prices are forecast to remain relatively stable for the next four quarters given the impact of higher global supplies which should be sufficient to meet demand.

International Financial Markets

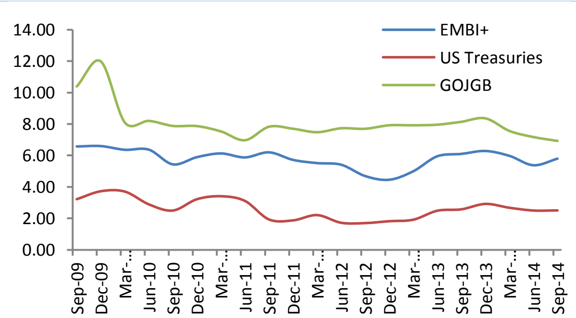
The performance of financial markets for the September quarter was characterized by marginally lower US Treasury bond (USTBs) yields and higher equity prices relative to the June quarter. In particular, the average yield on secondary market trades for USTBs declined by 1 basis point (bp) reflecting lower yields on long-term bonds (see **Figure 12**). The fall in the average yield on USTBs was influenced by heightened uncertainty about the Fed's timetable for raising interest rates, which led to a flight to safe haven assets. In this regard, the average spread between the 3-month USD LIBOR and the 3-month USTB (TED spread), an indicator of this risk, rose by 130 bps to average 20.8 bps (see **Table 4**).

Table 4: Average spread between the 3-month USD LIBOR and the 3-month USTB (TED spread)

13-Sep	22.9
13-Dec	18.0
14-Mar	18.7
14-Jun	19.5
14-Sep	20.8

Source: Bloomberg

Figure 12: Average Selected Bond Yields (Per Cent)



Source: Bloomberg

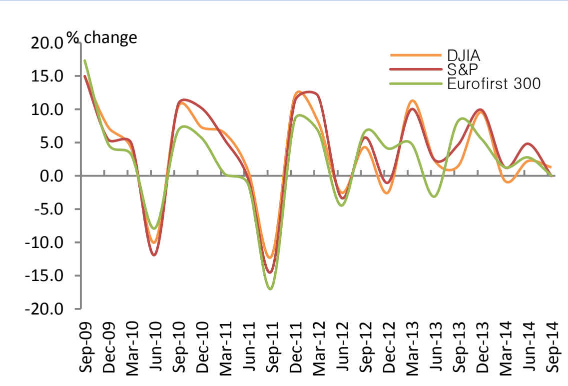
The average yield on the JP Morgan emerging market bond index (EMBI+) rose by 42 bps to 5.80 per cent. Higher yields on emerging market debt stemmed from the impact of a technical debt default by Argentina as well as a fall in China's purchasing managers index (PMI) which indicated a slowdown in the manufacturing sector in the first half of the quarter. In addition, the impact of sanctions on Russia by the West contributed to an increase in borrowing costs in that country as investors feared that the Russian economy could enter into recession in the near-term. In contrast, the average yield on Government of Jamaica global bonds (GOJGBs) continued the trend decline observed since January 2014. The average yield fell by 27 bps to 6.87 per cent during the quarter, as domestic economic conditions continued to improve. In addition, investor confidence was buoyed by five successful reviews of Jamaica's economic programme under the Extended Fund Facility (EFF) with the International Monetary Fund (IMF). In the context of the foregoing, the spread between the EMBI+ and USTBs is estimated to have widened by 45 bps to 3.75 per cent while the spread between GOJGBs and USTBs narrowed by 26 bps to 5.76 per cent.

On average, selected stock market indices were relatively stable during the September 2014 quarter. There was no change in either the Eurofirst 300 or the S&P 500 indices relative to the previous quarter (see **Figure 13**). However, the Dow Jones index rose by 1.3 per cent. The performance of these indices mainly reflected the impact of favourable corporate earnings and positive economic reports in the USA the impact of which was offset by concerns regarding the Fed's timetable for increasing interest rates as well as the less optimistic growth outlook for the Euro area.

For the review quarter, the US dollar strengthened against most major currencies, reflecting the impact of a better-than-anticipated expansion in output for the USA in the June 2014 quarter as well as favourable economic reports in the September quarter for the USA. The US dollar, however, weakened against the Canadian dollar and the

Chinese Yuan. When compared to the Canadian dollar the weakening was primarily as a result of an increase in oil prices in July while the US dollar weakened against the yuan largely as a result of stimulus measures undertaken by the Chinese government in September which led to an appreciation of the currency.

Figure 13: Selected Stock Market Indices
(per cent)



Source: Bloomberg

The Implications for the Jamaican Economy

The developments in the international economy had a favourable impact on Jamaica's terms of trade (TOT) index. The index is estimated to have improved by 11.8 per cent for the September 2014 quarter relative to the comparable period in 2013. This improvement reflected an increase of 8.9 per cent in the Export Price Index (EPI) supported by a decline of 2.6 per cent in the Import Price Index (IPI).

With respect to the EPI, a rise in average tourist expenditure as well as higher alumina prices relative to the same period in 2013 underpinned the increase. The estimated decline in the IPI reflected reductions in oil and agricultural raw material prices.

Jamaica's TOT outlook over the next four quarters is favourable. This is primarily due to the forecast for continued growth in the economies of Jamaica's major trading partners, primarily the USA, the UK and Canada. Accordingly, earnings from travel should increase, resulting in an improvement in Jamaica's implicit tourism price index in the near-term.

The improvement in Jamaica's TOT is also expected be supported by lower crude oil prices, partly offset by higher agricultural commodity prices and lower aluminium prices. Crude oil, supplies are expected to continue to exceed demand, while a normalization in the supply of grains is anticipated.

Demand for Jamaica's exports of goods and services is expected to improve while the value of imports is projected to decline. In addition, it is projected that remittance inflows will continue to improve. This is in light of the improvement in the labour markets in Jamaica's major trading partners. These factors should result in a further narrowing of Jamaica's current account deficit. In light of the outlook for imported prices, there should be a moderating impact on domestic inflation. The outlook for the global economy is consistent with the forecast for continued growth in the Jamaican economy, particularly via additional foreign direct investments.

However, downside risks to global growth persist particularly as it relates to potentially slower growth in the Euro area, Japan and China. Within financial markets uncertainty regarding the Fed's timing for an increase in the interest rate could lead to lower than forecast growth in the USA. Concurrently, adverse weather conditions could reduce global supplies of grains and lead to higher grains prices resulting in an unfavourable impact on Jamaica's TOT index.

3.0 Jamaican Economy

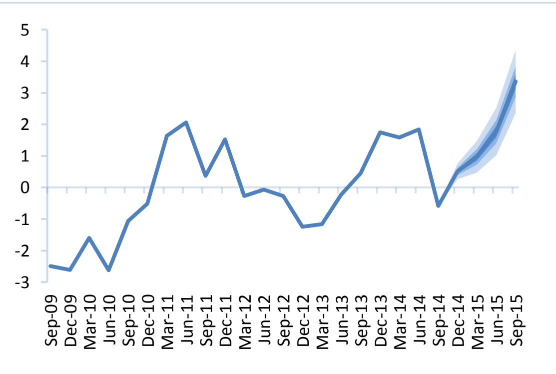
Real economic activity for the September 2014 quarter is estimated to have contracted as a result of the adverse impact of drought conditions. Despite the temporary uptick in inflation, the pressure created on prices was tempered by relatively weak domestic demand conditions. However, in terms of aggregate demand there was an estimated improvement in Net External Demand which was reflected in a depreciation of the Jamaica Dollar, albeit slowing and by extension an improvement in Jamaica's external competitiveness. In a context where outturns and projections for inflation have remained within the target bands, the Bank maintained its accommodative stance during the quarter. .

Real Sector Developments

Aggregate Supply

For the September 2014 quarter, real Gross Domestic Product (GDP) is estimated to have contracted within the range of -1.0 per cent to 0.0 per cent. This estimated outturn followed an average expansion of 1.7 per cent over the previous three quarters (see Figure 14). The estimated outturn for the review quarter was largely influenced by the negative impact of drought conditions on agricultural crops and water production, the effect of which was tempered primarily by increased activities related to infrastructural projects and growth in tourism.

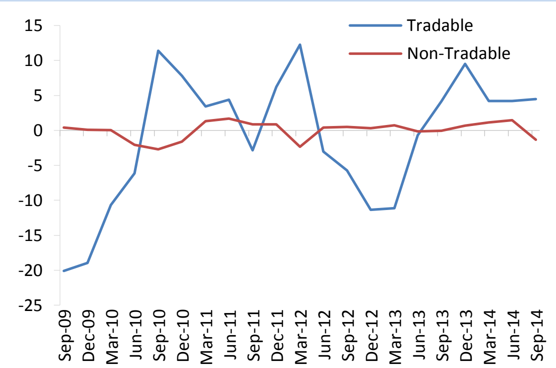
Figure 14: Real GDP Growth (12-Month Per Cent Change)



Source: STATIN and Bank of Jamaica
Economic activity is expected to improve over the next quarter as recovery from the drought conditions is anticipated.

The tradable industries are estimated to have expanded during the review quarter, albeit below the average growth of 5.6 per cent for the preceding three quarters (see Figure 15). This outturn was primarily reflected in Export Agriculture, Hotels & Restaurants and Transport, Storage & Communication. In contrast, the non-tradable industries contracted during the September 2014 quarter, relative to average growth of 1.2 per cent for the first half of 2014.

Figure 15: GDP Growth: Tradable vs. Non-Tradable Industries. (12-Month Per Cent Change)

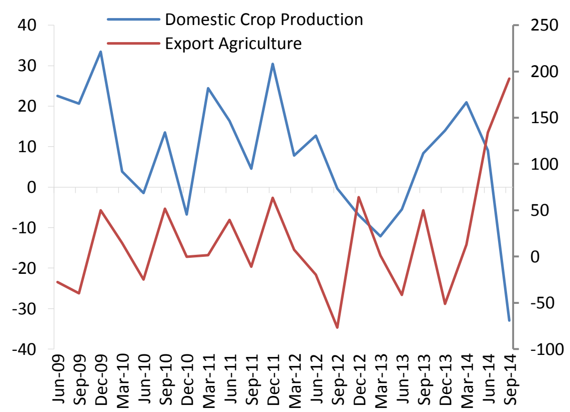


Source: Bank of Jamaica
The improvement in economic activity for Tradable industries, which began in the September 2013 quarter, has slowed for the September 2014 quarter.

Agriculture, Forestry & Fishing is assessed to have contracted in the September 2014 quarter following four consecutive quarters of expansion. The industry's performance primarily reflected a reduction in domestic crop production (see Figure 16). Preliminary estimates indicate that domestic crop production contracted by 32.9 per cent, reflecting the impact of the severe drought conditions which started in the June 2014 quarter.

Notably, domestic crop production declined to the lowest level recorded since the December 2008 quarter. Additionally, productivity declined to 9.0 tonnes per hectare for the review quarter and represented the lowest level on record for a quarter. In contrast, export crop production is estimated to have increased in the review quarter as the drought conditions were less severe on the hardier long-term crops. The performance in export agriculture primarily reflected expansions in citrus and coffee production.

Figure 16: Domestic & Export Crop Production. (12-Month Per cent Change)

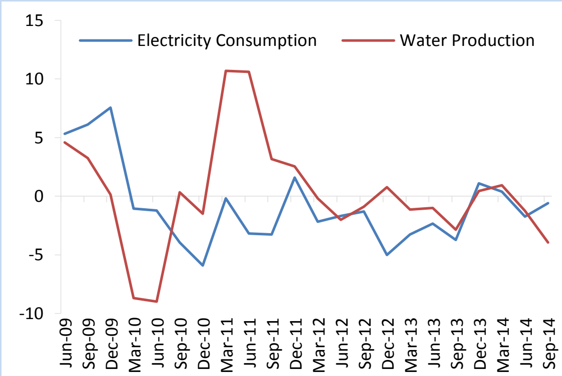


Sources: Bank of Jamaica & Ministry of Agriculture
The estimated contraction in domestic crop production for the review period occurred in a context of severe drought conditions and lower productivity. In contrast, export crop production largely reflected expansions in citrus and coffee relative to September 2013 quarter. In the December 2014 quarter domestic agriculture is expected to recover partially from the drought while continued buoyancy is expected in export crop production for the remainder of the fiscal year.

For the September 2014 quarter, *Electricity & Water Supply* is estimated to have contracted for the second consecutive quarter. The outturn for the industry was primarily driven by lower levels of water production. During the review quarter, the National Water Commission continued scheduled water lock-offs island-wide as inflows into its catchment areas declined. In addition, electricity consumption declined due to lower demand, reflecting greater conservation and some switching to alternative energy (see **Figure 17**).

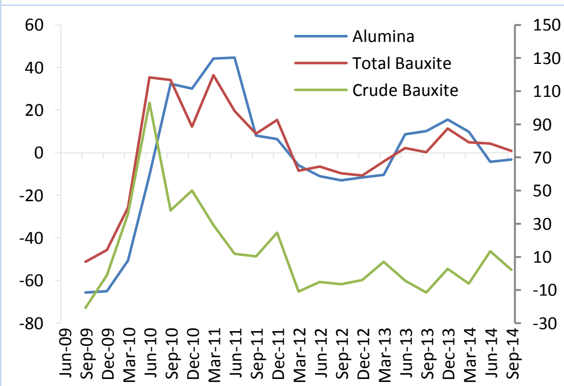
Mining & Quarrying is assessed to have contracted for the September 2014 quarter, the second consecutive quarter of contraction. The industry's performance was associated with lower alumina production largely reflecting a decline in capacity utilization at one alumina plant in a context of weak global demand for aluminum. In contrast, the production of crude bauxite increased mainly due to an improvement in capacity utilization at the bauxite plant which reflected recovery from maintenance operations in the September 2013 quarter (see **Figure 18**).

Figure 17: Electricity Consumption & Water Production. (12-Month change)



Sources: Jamaica Public Service and National Water Commission
The sluggish performance of electricity consumption is anticipated to continue into the next quarter while water production is projected to return to seasonal levels in subsequent quarters.

Figure 18: Trends in Crude Bauxite, Alumina & Total Bauxite Production. (12-Month Per Cent Change)



Source: Jamaica Bauxite Institute
Total bauxite production has expanded since June 2013 largely due to increases in alumina production given efforts to improve capacity utilization at the alumina plants. For the December 2014 quarter, capacity utilization in the alumina and bauxite industries is anticipated to improve.

Table 5.0: Industry Contribution to Growth (September 2014 Quarter)

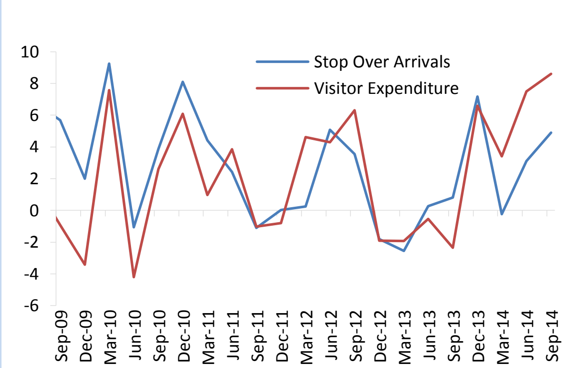
	Contribution	Estimated Impact on Growth
GOODS	211.8	-5.5 to -4.5
Agriculture, Forestry & Fishing	227.0	-18.5 to -17.5
Mining & Quarrying	5.1	-2.5 to -1.5
Manufacture	5.8	-1.5 to -0.5
Construction	-15.8	0.5 to 1.5
SERVICES	-107.8	0.5 to 1.5
Electricity & Water Supply	4.7	-1.5 to -0.5
Wholesale & Retail Trade, Repairs & Installation	-7.0	-0.5 to 0.5
Hotels & Restaurants	-35.6	3.5 to 4.5
Transport Storage & Communication	-24.3	1.5 to 2.5
Financing & Insurance Services	-5.5	-0.5 to 0.5
Real Estate, Renting & Business Activities	-9.2	-0.5 to 0.5
Producers of Government Services	0.0	-0.5 to 0.5
Other Services	-18.2	1.5 to 2.5
Financial Intermediation Services Indirectly Measured	2.2	-0.5 to 0.5
TOTAL GDP	*100.0*	-1.0 to 0.0

Sources: Bank of Jamaica

Hotels & Restaurants is assessed to have expanded for the September 2014 quarter at a faster pace when compared to the average growth of 2.0 per cent since the June 2013 quarter. The expansion for the review period was driven by increases in stop-over visitor arrivals as well as visitor expenditure (see **Figure 19**). An improvement in stop-over visitor arrivals largely reflected additional airlifts to the island. Restaurants reflected a marginal improvement in consumer demand.

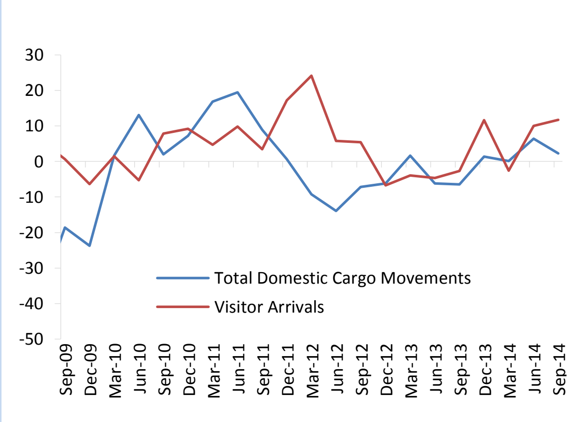
Estimated growth in *Transport, Storage & Communication* for the September 2014 quarter would have resulted in the fifth consecutive quarter of expansion for the industry. This performance largely reflected growth in the transport and communication sub-industries. Growth in Transport reflected increases in domestic cargo movements via water as well as visitor arrivals driven by both stop-over arrivals and cruise passengers (see **Figure 20**). The increase in *Communication* stemmed from continued expansion in mobile data subscriptions.

Figure 19: Total Stop-over Visitor Arrivals & Visitor Expenditure. (12-Month Per Cent Change)



Sources: Jamaica Tourist Board (JTB)
Stop-over visitor arrivals has generally reflected growth since the falloff associated with Hurricane Sandy in October 2012. The expansion in stop-over visitor arrivals has been primarily bolstered by additional airlifts to the island.

Figure 20 Visitor Arrivals & Domestic Cargo Movement. (12-Month change)



Sources: The Port Authority of Jamaica & Jamaica Tourist Board
Growth in domestic cargo movements is anticipated to persist in the December 2014 quarter.

Construction is assessed to have expanded for the seventh successive quarter, largely in line with the average growth of 1.2 per cent for the first half of 2014. The estimated expansion for the review quarter was mainly influenced by infrastructural programmes, particularly, the Major Infrastructure Development Programme as well as the continuation of the Highway 2000 project. However, lower housing starts by the National Housing Trust weakened the positive performance for the industry.

For the review quarter, the *Finance & Insurance Services* industry is estimated to have recorded a marginal expansion, similar to average growth of 0.3 per cent since the June 2013 quarter. The moderate growth in the industry was mainly influenced by higher net interest income.

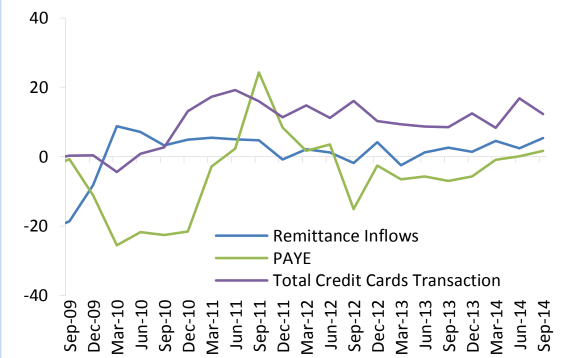
Aggregate Demand

Aggregate Demand is estimated to have declined for the review quarter. The contraction in aggregate demand reflected an estimated decline in *Investment*. The impact of this decline was partially offset by estimated increases in Private and Public *Consumption* as well as an improvement in *Net External Demand*.

For the review quarter, the improvement in *Private Consumption* was inferred from increases in total credit card transactions and remittance inflows (see Figure 21). However, the impact of the aforementioned expansions was partially offset by declines in real wages and total imports, in particular consumer goods imports. The assessed marginal expansion in private expenditure was supported by an improvement in the consumer confidence index from the Jamaica Chamber of Commerce (JCC) Survey. The increase in Government consumption was inferred from marginal growth in non-interest expenditures.

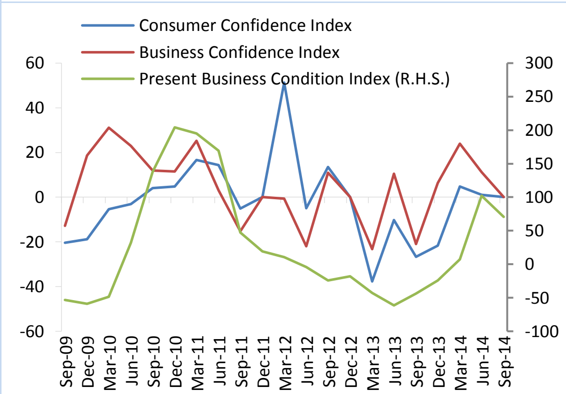
The estimated contraction in *Investment* expenditure was inferred from a decline in Government capital expenditure, the impact of which was partially offset by increases in capital and raw material goods imports as well as foreign direct investment.

Figure 21 Remittance Inflows, PAYE & Total Credit Card Transactions (12-Month Per Cent Change)



Sources: Bank of Jamaica and STATIN
Remittance inflows have been trending upwards since the March 2013 quarter. This upward trend is expected to continue into the next quarter. On the other hand, total imports are anticipated to contract in the subsequent quarters in line with measures to increase competitiveness.

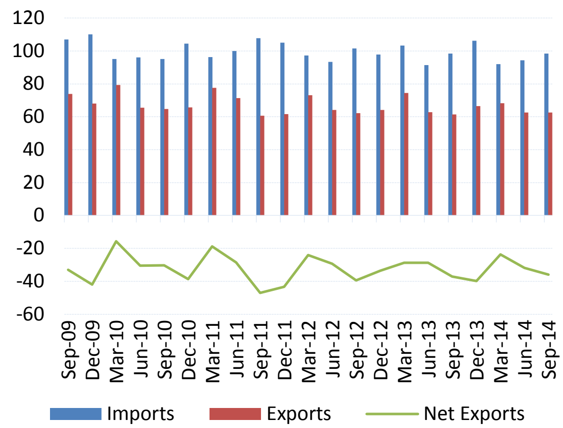
Figure 22 Business and Consumer Confidence Index (12-Month Per Cent Change)



Source: Bank of Jamaica & Jamaica Conference of Commerce

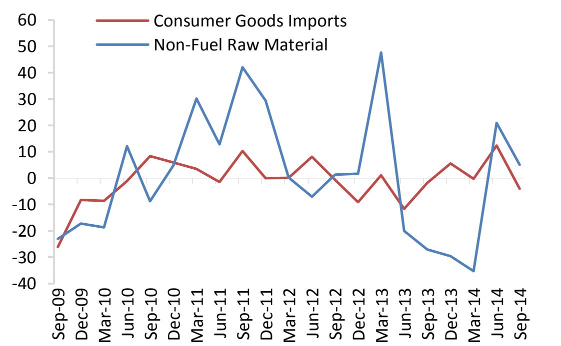
The adjudged improvement in *Net External Demand* was inferred from an increase in the levels of exports of goods & services as well as a contraction in the levels of imports of goods & services (see Figure 23). Higher estimated exports reflected increases in rum, cocoa, coffee, citrus, bauxite and alumina. The estimated decline in imports was mainly reflective of a contraction in the volume of consumer goods imports (see Figure 24).

Figure 23 Trends in Exports & Imports of Goods and Services (US$ Billions)



Source: Bank of Jamaica & STATIN

Figure 24 Trends in Consumer Goods and Non-Fuel Raw Material Imports (12-Month Per Cent Change)



Source: Bank of Jamaica

It is anticipated that the contraction in import of goods & services will be driven by a decline in consumer goods imports in the upcoming quarter.

Real Sector Outlook

Given the impact of the drought conditions, real GDP is projected to be within the range of 0.5 per cent to 1.5 per cent for FY2014/15. It is envisaged that growth for the second half of the fiscal year should be in line with that of the first half. This performance should be largely driven by, *Construction, Transport, Storage & Communication* and *Hotel & Restaurants*. Growth in Aggregate demand for the remainder of the fiscal year is expected to emanate primarily from an improvement in *Net External Demand* as well as an increase in *Investment*. The projected growth is primarily predicated on continued recovery in the US economy and improved business confidence. The outlook for business confidence is supported by the results from the Bank's Inflation Expectations survey and the JCC Business Confidence which indicated increases in businesses' perception of the future.

An average economic expansion of 2.1 per cent is projected over the medium-term.[3] The main drivers of growth are expected to be *Agriculture, Forestry & Fishing*, *Hotel & Restaurants, Transport, Storage & Communication* and *Electricity & Water.* This improvement should mainly reflect greater *Net External Demand* consistent with increased competitiveness[4] and the impact of structural reforms. In addition, *Consumption* is expected to improve over this horizon.

The risks to the forecast, though less relative to the preceding quarter, remain slightly skewed to the downside. In this regard, weaker demand associated with slower than anticipated recovery in the global economy, adverse weather and the postponement of road and hotel projects may negatively affect GDP projections over the near-term.

[3] This does not include major projects in the pipeline such as the Logistics Hub, 381-Megawatt project and Harmony Cove.

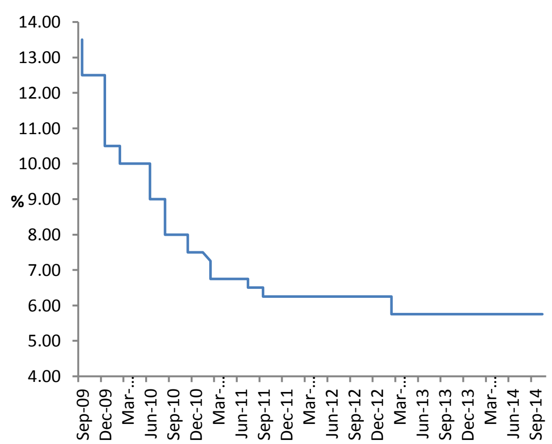
[4] The 2014-15 World Bank Global Competitiveness ranking showed an eight (8) position improvement for Jamaica relative to the 2013-14 rankings.

Monetary Policy, Money and Financial Markets

Monetary Policy

During the September 2014 quarter, the Bank of Jamaica (BOJ) maintained its signal rate, the rate on the 30-day Certificate of Deposit (CD), at 5.75 per cent (see **Figure 25**).[5] This rate has been unchanged since the March 2013 quarter in the context where outturns and projections for inflation have remained within the target bands (see **Real Sector Developments** and **Inflation Developments**). In addition, domestic demand continued to be generally weak. Furthermore, the Bank's overall policy stance remained consistent with the achievement of the monetary targets under the Extended Fund Facility (EFF) supported programme.

Figure 25: Interest rate on BOJ's 30-day Certificate of Deposit



Source: Bank of Jamaica

Money Market

In addition to its regular 30-day CD, the Bank's liquidity management operations included the continuation of issues of special open market operation (OMO) securities and occasional interventions in the foreign exchange market (see **Table 6**). These operations were complemented by increases in the amount of liquidity the Bank made available to deposit-taking institutions (DTIs) through repurchase arrangements, albeit at an increased cost (see **Box: Changes to the Liquidity Management Framework for DTIs**). For the review quarter, the overall Jamaica Dollar liquidity impact of the Bank's operations was a net injection of $2.5 billion relative to the net injection of $12.4 billion in the previous quarter (see **Table 6**). The continued net injection of liquidity from the Bank's operations resulted in improvements in the overall liquidity conditions in the market and contributed to declines in selected market interest rates.

Table 6: BOJ Liquidity Operations

	April – June 2014				July - September 2014			
	Injection	Absorption	Net	Avg Issue Rate	Injection	Absorption	Net	Avg Issue Rate
	(J$BN)	(J$BN)	(J$BN)	(%)	(J$BN)	(J$BN)	J$BN	(%)
30-day	50.97	56.9	-5.90	5.75	63.92	60.59	3.33	5.75
182-day VR CD	0.78	0.0	0.78		0.00	0.00	0.00	
275-day VR CD	1.84	0.0	1.84		1.14	0.00	1.14	
365-day VR CD	0.26	6.0	-5.72	9.26	0.60	6.03	-5.43	8.32
548-day VR CD	0.00	0.6	-0.58	9.25	0.00	0.25	-0.25	8.4
729-day VR CD	0.00	0.0	0.00		0.00	0.04	-0.04	7.97
182-day FR USD IB	12.06	5.5	6.60	3	0.00	0.00	0.00	
Repos (net)	2.14	0.0	2.14		3.99	0.00	3.99	
FX (Trading Room)	3.53	13.4	-9.89		5.89	6.10	-0.21	
Net Injection			**-10.74**				**2.53**	
'Other'	23.08		23.08		0.00		0.00	
Net Injection (All Operations)			**12.34**				**2.53**	

Source: Bank of Jamaica
Notes: (i) FR USD IB denotes Fixed Rate US dollar Indexed Bond (ii) Injections reflect maturities of instruments while absorptions reflect new issues of these instruments in each time period, (iii) Average rates on VR CDs reflect average initial coupons, and (iv) 'Other' includes the purchase of GOJ securities from deposit-taking institutions.

There was also an improvement in US dollar liquidity during the quarter, which stemmed from increased earner flows as well as the impact of an improvement in confidence. Against this background, the Bank used the opportunity to elongate some of its foreign currency liabilities. In particular, the Bank prepaid US$70.0 million on some shorter-dated US dollar CDs and offered longer-dated instruments to the market, including for the first time, a 7-year instrument (see **Table 7**). The Bank also announced that it would

[5] The Bank also maintained the domestic currency cash reserve and liquid assets requirements at 12.0 per cent and 26.0 per cent, respectively.

exercise its option to call US$80.0 million of the shorter-dated USD CDs in November 2014.

Table 7 Placements & Maturities of BOJ USD Instruments

	April –June 2014		July - September 2014		
	Placements (US$MN)	Average Rate (%)	Placements (US$MN)	Maturities (US$MN)	Average Rate (%)
2-year FR USD CD	0	-	0.0	70.0^	-
3-year FR USD CD	0	-	0.0	0	-
4-year FR USD CD	2.9	5.00	82.3	0	4.55
4.5-yearFR USD CD	16.4	5.25	0	0	-
5-year FR USD CD	23.8	5.50	99.6	0	5.05
7-year FR USD CD	0	-	4.1	0	5.50
3-year FR USD CD#	229.9				4.60
TOTAL	**273.1**		**186.0**	**70.0**	

Source: Bank of Jamaica
Note: (i) There were no maturities of BOJ USD instruments during the June 2014 quarter.
# Indicates placements that were made on special USD and GBP instruments concurrent with the BOJ's purchase of GOJ VR securities. The average rate is the weighted average of the rates on the various placements.
^ On 04 August, the Bank exercised its option to prepay BOJ FR USD CDs due to mature in February and March 2016.

Financial Markets

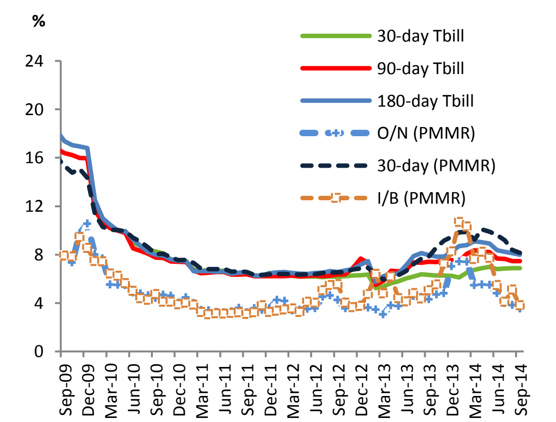
Interest Rates and Bond Market

For the September 2014 quarter, there was a general decline in short-term market interest rates, continuing the trend since the June 2014 quarter (see Figure 25). In particular, there was a fall in rates in the private repo market with the interbank rate declining by 167 basis points (see Figure 26). The general decline in rates was influenced by the improved Jamaica Dollar liquidity as well as the relative stability in the foreign exchange market.

With regard to GOJ Treasury Bills, excluding the 30-day tenor, there were declines in yields at each successive monthly auction during the quarter. However, the yields at end-September 2014 were above those at end-September 2013.

Excluding Treasury Bills, there were no offers or maturies of GOJ domestic debt instruments during the review quarter. However, the GOJ successfully approached the international capital market during the quarter. On 01 July 2014, the GOJ issued US$800.0 million of a 10-year bond that matures in 2025, at a coupon of 7.625 per cent, which is equivalent to its par price and represents the lowest coupon that Jamaica has ever achieved for a long-term international bond issue. The transaction was announced with an initial size of US$500 million but was increased to US$800 million based on overwhelming investor demand.

Figure 26: Average Selected Market Interest Rates



Source: Bank of Jamaica
Notes: (i) PMMR is the private money market rate (ii) O/N is the overnight rate in the market accessible by all financial institutions while the interbank rate (I/B) is the overnight rate accessible only by banks.

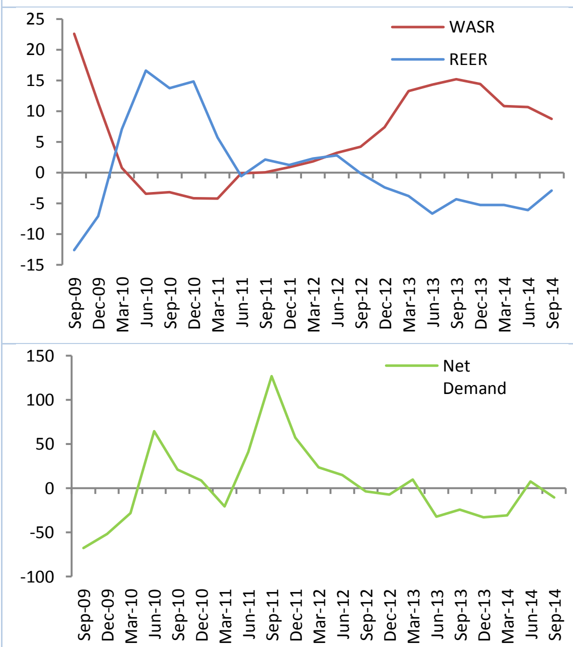
Exchange Rate

The weighted average selling rate of the Jamaica Dollar vis-á-vis the US dollar closed the September 2014 quarter at J$112.67 = US$1.00 reflecting a slowing of the pace of depreciation to 8.8 per cent from 10.7 per cent at the end of the previous quarter (see Figures 27 and 28).The slower pace of depreciation continued the trend observed since the September 2013 quarter.

Underpinning the slower pace of depreciation for the September 2014 quarter was the impact of the endorsement of the country's performance by the IMF's Managing Director on her visit in June 2014. In addition, the Government's successful Eurobond issue in July 2014 underscored investor confidence in the Government's programme and the country's economic prospects. There was also a trend decline in the net demand for foreign currency to satisfy Balance of Payments current account transactions (see Figure 27). For the first half of the fiscal year, it is estimated that the fall in net demand was primarily influenced by a 1.0 per cent decline in imports while inflows from current transfers and travel increased by 2.8 per cent and 9.3 per cent, respectively.

There was an estimated gain in Jamaica's external competitiveness of 2.9 per cent as measured by the real effective exchange rate (REER), for the September 2014 quarter. This followed a gain of 6.1 per cent in the previous quarter. The lower gain reflects a loss during the review quarter.

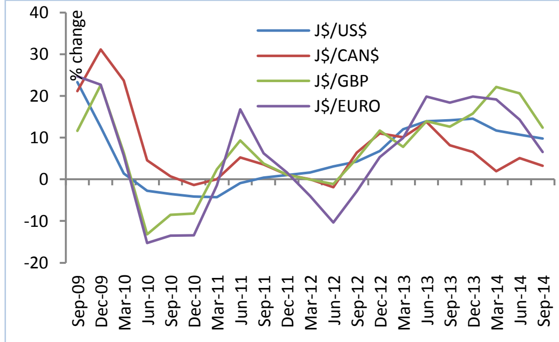
Figure 27: Percentage Change in the Real Effective Exchange Rate (REER), WASR and Net Demand (twelve – month point–to–point)



Source: Bank of Jamaica

Notes: (i) Decline in the REER implies improvement in external price competitiveness

Figure 28: WASR of Select Major Currencies (e.o.p.)



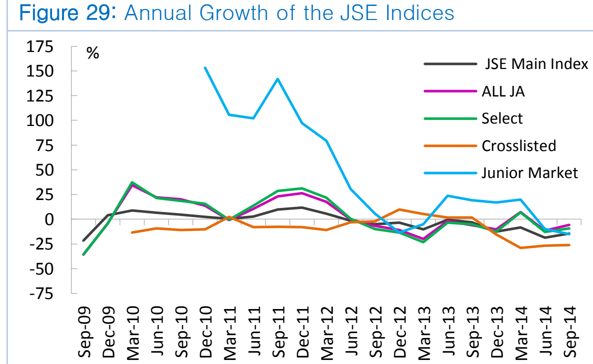
Source: Bank of Jamaica

Notes: + = depreciation and – = appreciation

Equities Market

For the year ended September 2014, there were declines for all the Jamaica Stock Exchange (JSE) indices relative to the annual changes as at end–June 2014. These declines ranged between 5.8 per cent and 26.2 per cent. In particular, the JSE Main Index fell by 14.5 per cent to close at 72 238.0 points relative to a fall of 18.6 per cent for the year ended June 2014 and a decline of 3.1 per cent, on average, at end–September for the previous five years (see Figure 29).[6] Notwithstanding these annual declines, there was a 2.1 per cent increase in the JSE Main Index for the September 2014 quarter relative to the June 2014 quarter. Notably, this increase occurred following four consecutive quarters of declines.

Figure 29: Annual Growth of the JSE Indices



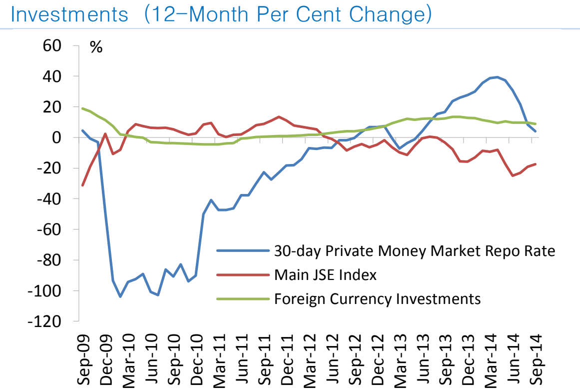
Source: Jamaica Stock Exchange and Bank of Jamaica

[6] In addition, the All Jamaica Composite and the JSE Select indices declined by 5.8 per cent and 9.1 per cent, respectively, for the year ended September 2014. The Crosslisted, Junior and Combined indices declined by 26.2 per cent, 15.0 per cent and 14.7 per cent, respectively.

The performance of the equities market for the review period reflected continued weak investor confidence notwithstanding positive macroeconomic developments. These positive developments included achievement of the targets and structural benchmarks under the EFF supported programme up to the June 2014 quarter and a revision of Jamaica's outlook from stable to positive by Standard & Poor's ratings agency.

Higher returns on money market instruments and capital gains on foreign currency investments provided more attractive options relative to local equities investments. In particular, returns on Jamaica Dollar money market securities and capital gains on foreign currency investments were 4.0 per cent and 8.9 per cent, respectively, relative to losses of 17.4 per cent on equities investments for the year (see **Figure 31**).[7] The BOJ's continued offering of variable rate (VR) CDs at attractive premiums also provided a more attractive investment option.

Figure 30: Returns from Fixed Income Investments and Gains from JSE Main Index and Foreign Currency Investments (12-Month Per Cent Change)

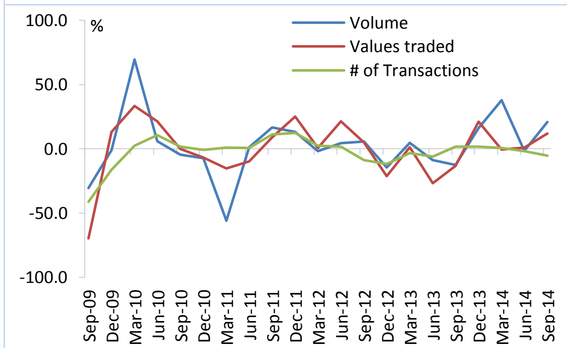


Source: Jamaica Stock Exchange and Bank of Jamaica

Despite the overall decline in the JSE Main Index, there were improvements in some market indicators for the year ended September 2014 relative to the annual performance at end-June 2014. The value of transactions and volume of stocks traded increased by 11.8 per cent and 20.8 per cent, respectively. However, the number of transactions declined by 5.3 per cent relative to the year ended June 2014 (see **Figure 31**). The increase in the market performance indicators was largely attributable to National Commercial Bank Limited (NCB) and its subsidiary, NCB Capital Markets Limited, selling their 32.6 per cent share of Kingston Wharves Limited during the latter part of the review period.

The advance to decline ratio was 8:20 for the year ended September 2014 relative to 4:21 for the year ended June 2014. *Finance* accounted for three of the top ten declining stocks, recording an average price depreciation of 31.4 per cent and occurred in the context of mixed earnings performance of companies in this category. In contrast, *Manufacturing* accounted for four of the top advancing stocks, recording an average price appreciation of 9.4 per cent (see **Table 1**).

Figure 31: Annual Movement in Volumes, Values Traded & Number of Transactions



Source: Jamaica Stock Exchange and Bank of Jamaica

Table 8: Average Stock Price Appreciation/Depreciation by Sectors

	Per cent
Advancing	
Communication*	61.1
Tourism*	16.7
Manufacturing	9.4
Retail*	43.8
Conglomerates*	4.9
Declining	
Financial	-31.4
Manufacturing	-20.8
Retail*	-26.4
Other	-46.4
Communication*	-20.6

Source: Jamaica Stock Exchange and Bank of Jamaica
*Reflective of an appreciation/depreciation of one stock.

[7] Returns and capital gains are calculated as the 12-month point to point change.

Credit

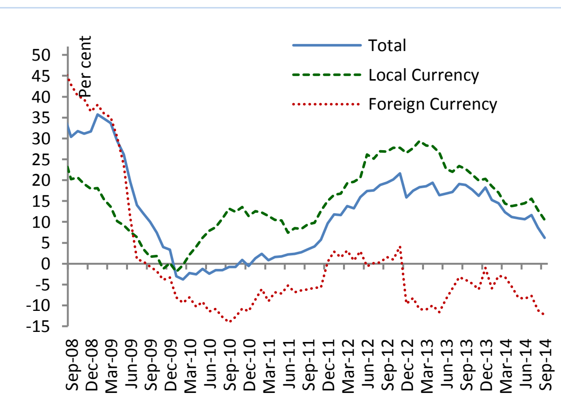
Annual growth in the stock of commercial bank loans to the private sector decelerated to 4.8 per cent as at end-September 2014 from 9.6 per cent as at end-June 2014 (see **Table 9**).[8] This was also lower than the growth recorded for the last five years ending September. The relatively weak performance of credit primarily reflected a decline in foreign currency loans, since lending in domestic currency continued to expand, albeit at a slower pace (see **Figure 32**). The annual growth in credit resulted in part from a marginal expansion in credit for the review quarter. The growth in the quarter was consistent with the expectations for an increase in both the demand and supply of credit as outlined by lenders in the Bank's Quarterly Credit Conditions Survey conducted in July 2014 (see **Box: BOJ's Quarterly Credit Conditions Survey**).

Table 9: Annual Change in Credit to the Private Sector by Commercial Banks

Annual Flows (J$ mn)	Sep-13	Jun-14	Sep-14
Private Sector Credit	**49 842.9**	**29 007.7**	**15 213.6**
Percentage Change	**18.6**	**9.6**	**4.8**
Loans & Advances	51 367.0	32 531.9	19 909.3
Less Overseas Residents	456.1	2 638.5	3 799.0
Add Corporate Securities	(1067.9)	(885.7)	(896.7)

Source: Bank of Jamaica
The figures represent the annual change in the stock.

Figure 32: Growth in Private Sector Loans and Advances (12-month percentage changes)



Source: Bank of Jamaica

[8] Private sector credit includes total loans & advances and corporate securities less loans to overseas residents.

The deceleration in the annual growth of credit primarily reflected a slower pace of growth in loans extended to households and business lending (see **Table 10**. With the exception of Manufacturing, the slower growth in business lending was reflected across all sectors. There were net repayments in Mining & Quarrying and Professional & Other Services. Of note, with the exception of Mining & Quarrying and Entertainment, there were net repayments in foreign currency loans by all sectors.

Table 10: Distribution of Total Loans & Advances to the Private Sector by Commercial Banks

Annual Flows (J$ mn)	Sep-13	Jun-14	Sep-14
Business Lending	**20 215.3**	**9 445.8**	**5 003.9**
Agriculture & Fishing	1 970.9	3 455.5	1 138.2
Mining & Quarrying	104.0	115.6	36.8
Manufacturing	418.1	1 533.9	1 812.0
Construction & Land Development	2 005.7	1 458.5	1 099.2
Transport, Storage & Communication	1 091.3	799.3	1.0
Tourism	2 556.9	304.9	253.1
Distribution	3 990.3	3 299.9	3 260.5
Electricity, Gas & Water	4 461.3	(1 685.3)	(2 842.4)
Entertainment	1 286.4	491.5	283.1
Professional & Other Services	2 330.2	(327.9)	(37.6)
Personal & Other Lending	**31 151.7**	**23 086.1**	**14 905.3**
Personal	30 695.6	20 447.6	11 106.4
Overseas Residents	456.1	2 638.5	3 799.0
Net Lending	**51 367.0**	**32 531.9**	**19 909.3**
Annual Growth	**18.9%**	**10.7%**	**6.2%**

Source: Bank of Jamaica
Notes: (i) Loans & Advances include local and foreign currency loans extended to businesses and individuals.

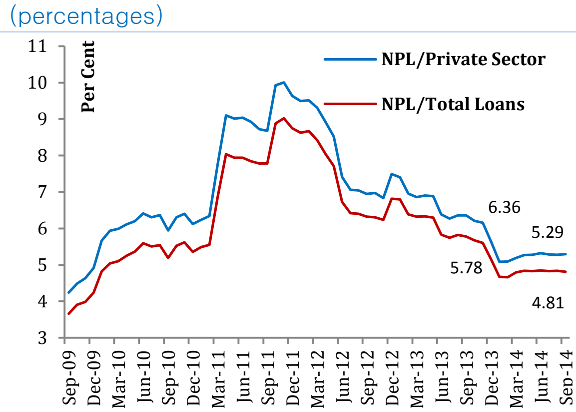
The slower growth in personal and other lending reflected the slowdown in the growth of personal loans, the impact of which was offset by an increase in loans to overseas residents. The deceleration in personal loans reflected a slower pace of increase in mortgage and instalment loans as well as net repayment of loans for insurance premiums and other miscellaneous loans. The slowdown occurred despite lower interest rates on personal loans and lower rates on loans and advances to the private sector, in general (see **Table 11**). In this context, the continued declined in real wages may have contributed to the lower demand for personal loans during the review period. With respect to the quality of the loan portfolio, the ratio of non-performing loans to private sector loans declined by 1.1 percentage points on an annualized basis, to 5.3 per cent at end-September 2014 (see **Figure 33**).

Table 11: Commercial Bank: Domestic Currency Lending Rates by Loan Type

	2013		2014	
	Jun	**Sep**	**Jun**	**Sept**
OVERALL	**17.59**	**17.45**	**17.50**	**16.71**
Public Sector	**9.69**	**10.20**	**16.10**	**10.28**
Local Govt. & O.P.E	10.49	10.57	11.47	11.35
Central Government	9.57	10.14	16.61	10.10
Private Sector	**17.76**	**17.60**	**17.53**	**16.82**
Instalment	17.35	16.86	16.29	16.41
Mortgage	9.75	9.93	9.79	9.76
Personal	23.76	25.02	25.53	23.48
Commercial	12.40	12.66	12.98	12.85
	Annual Change (Basis Points)			
	Jun	**Sep**	**Jun**	**Sept**
OVERALL	**22**	**-13**	**-9**	**-74**
Public Sector	**7**	**51**	**641**	**8**
Local Govt. & O.P.E	45	9	99	78
Central Government	10	57	704	-4
Private Sector	**18**	**-16**	**-23**	**-78**
Instalment	-121	-49	-106	-45
Mortgage	-51	18	3	-17
Personal	258	127	177	-154
Commercial	-130	27	59	19

Source: Bank of Jamaica

Figure 33: Commercial Bank Loan Quality (percentages)

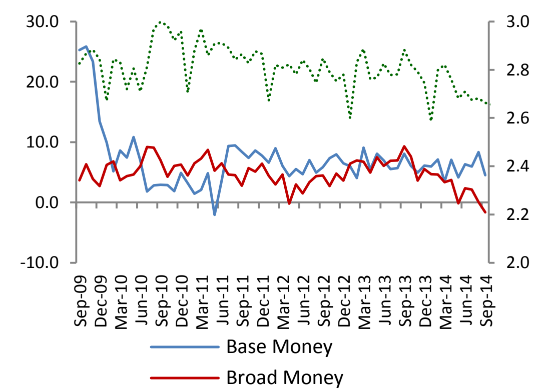


Source: Bank of Jamaica

Money

As at end-September 2014, the annual increase in base money was $4.2 billion (4.5 per cent) relative to $5.7 billion (6.3 per cent) as at end-June 2014 (see **Figure 34 and Table 12**). The expansion in base money reflected net currency issue of $3.4 billion and an increase in the commercial banks' cash reserve of $1.6 billion, which more than offset an $806 million decline across the commercial banks' current accounts.

Figure 34: Money multiplier vs Growth in Base and Broad Money (Annual percentage changes)



Source: Bank of Jamaica

With regard to the sources of the change in the monetary base, there was an increase in the NIR stock of US$1.3 billion relative to end-September 2013 (see **Table 12**). A significant factor explaining this increase was the receipt of US$800 million from the Government's Eurobond issue. In addition, there were net placements on the FR US dollar CDs (USD CDs) of US$830.0 million, of which US$186.0 million was placed in the September quarter.[9] The liquidity injection that emanated from the increase in the NIR was partly offset by a decline in the net domestic assets (NDA). This fall in the NDA was mainly the result of a reduction in the Bank's net claims on the public sector as well as a decline in OMO liabilities. The lower net claims on the public sector mainly reflected the increase in Central Government deposits at the Bank from the Eurobond proceeds.

[9] At end-September 2014, gross reserves amounted to US$2 745.99 million, representing 19.6 weeks of goods and services imports.

Table 12: Bank of Jamaica Operating Targets

	Stock		Flows
	Sept -13	Sept-14	
NIR (US$MN)	**910.1**	**2 200.6**	**1 290.5**
NIR(J$MN)	**85 681.0**	**234 096.3**	**148 415.3**
- Assets	161 309.8	288 848.3	127 538.5
- Liabilities	-75 628.9	-54 752.0	20 876.9
Net Domestic Assets	**6 402.3**	**-137 847.0**	**-144 249.0**
- Net Claims on Public Sector	162 943.8	110 474.8	-52 469.0
- Net Credit to Banks	-21 124.3	-22 606.0	-1 481.7
- Open Market Operations	-53 306.5	-35 206.8	18 099.7
- Other	-82 110.6	-190 508.0	-108 398.0
-o/w USD FR CDs	0.0	-91 040.8	-91 040.8
Monetary Base	**92 083.3**	**96 249.6**	**4 166.3**
- Currency Issue	58 183.1	61 573.4	3 390.3
- Cash Reserve	32 689.2	34 271.2	1 582.0
- Current Account	1211.0	405.0	-806.0

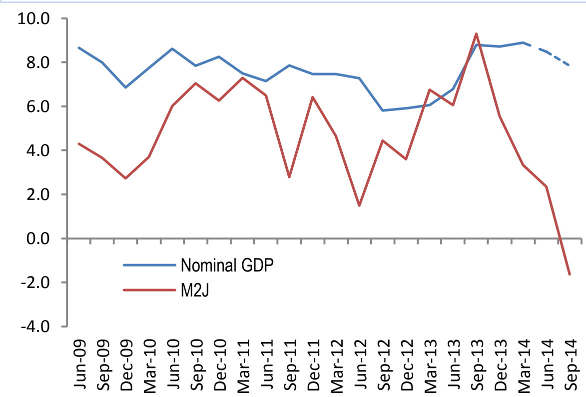
Source: Bank of Jamaica

At end-September 2014, the money multiplier for M2J was lower than the outturn at end-September 2013. This decline reflected a faster increase in the reserve-to-deposit ratio relative to the currency-to-deposit ratio for the period. The increase in the reserve-to-deposit ratio continues to mirror the weak credit growth while the growth in the currency-to-deposit ratio occurred in the context of a continued decline of real disposable incomes, which necessitated the need for greater money holdings.

Broad money, as measured by M2J, declined by 1.6 per cent as at end-September 2014 reflecting the smaller multiplier. Further, the expansion in broad money continued to be significantly outpaced by the growth in nominal Gross Domestic Product (GDP) (see Figure 35). Consequently, the pace of increase in broad money continues to pose little upside risk to inflation.

There was a deceleration in the annual growth in M2*, the measure of broad money supply that includes the Jamaica Dollar value of foreign currency deposits, at end-September 2014. M2* grew by 2.0 per cent relative to growth of 5.2 per cent at end June 2014 and 16.4 per cent at end September 2013. The growth relative to 2013 was influenced by an increase in the US dollar stock of foreign currency deposits as well as depreciation of the Jamaica Dollar vis-à-vis the US dollar. In the context of the faster pace of increase in the Jamaica Dollar value of private sector foreign currency deposits relative to total private sector deposits, the dollarization ratio was 44.5 per cent at end-September 2014 relative to 41.7 per cent at end-September 2013.

Figure 35: Broad Money and Nominal GDP Growth (percentage changes)



Source: Bank of Jamaica

Box: Changes to the Liquidity Management Framework for Deposit-taking Institutions and Developments in the Money Market

An overview of the existing components of the Enhanced Liquidity Management Framework

The Bank of Jamaica (BOJ), in 2013, implemented an Enhanced Liquidity Management Framework (ELMF) for deposit-taking financial institutions (DTIs) in response to concerns regarding the availability of liquidity and its potential impact on credit. The main components of this facility were:

a. Bi-Monthly Repurchase Operations (BRO), which commenced in September 2013, are conducted on a two-week cycle whereby DTIs place bids with the Central Bank. Using the BOJ's targeted liquidity injection, liquidity is then apportioned to each participating DTI based on their relative asset size. Repurchases have a 14-day tenor[1].

b. A Standing Liquidity Facility (SLF), which was formalized in December 2013, establishes pre-approved limits for each DTI. The DTI can automatically access amounts up to the pre-approved limit through an overnight repurchase from the BOJ.[10]

The Bank implemented refinements to the ELMF in the September 2014 quarter as a part of the thrust to provide greater assurance of the availability of liquidity to the financial system.

The objectives of refinements to the Enhanced Liquidity Management Framework

1.0 To provide greater liquidity assurance to the financial system

The refinements aim to provide even greater predictability to the provision of liquidity to DTIs, thereby allowing short term money market interest rates to stabilize and DTIs to allocate more resources to credit. Consequently, as of 04 August 2014 the limit on the SLF for each DTI was doubled, thereby increasing the total funding available to DTIs to $7.3 billion from $3.65 billion that was set in December 2013. With respect to the BRO, since 04 August 2014, the Bank has allocated liquidity under the BRO to satisfy all bids irrespective of the relative asset size of the DTI.

Subsequent to the refinements, total allocations under the BRO increased to 100.0 per cent from 35.0 per cent at end-September 2013. In addition, the outstanding stock of repurchases increased to 5.2 billion at the end of the quarter from 2 billion at end-September 2013. Concurrently, the frequency of use of the SLF declined to 5.0 per cent from a peak of 60.0 per cent at end-March 2014(see Table 1). However, with the doubling of the limits accessible by DTIs under the SLF, the average size of transactions increased to $1 857 million for the quarter.

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[10] The interest rate on these operations at the time of implementation was **7.25 per cent** for the SLF and **6.0 per cent** for the BRO. More details on these components of the ELMF during the initial stages are presented in Box 2 published in the Bank of Jamaica Annual Report, 2013 (pg 63).

Table 1: Bank of Jamaica Summary Statistics for Operations Conducted under The Enhanced Liquidity Management Framework

BANK OF JAMAICA: SUMMARY STATISTICS RE LIQUIDITY MANAGEMENT FRAMEWORK (LMF)

Outstanding Repurchase Balances under ELMF ($Jmn)	end-Sept. 2013	end-Dec. 2013	end-March 2014	end-June 2014	end-Sept. 2014
SLF	n/a	0.00	125.00	0.00	0.00
BRO	2,000.00	11,500.00	0.00	0.00	5,200.00
Usage of Liquidity under ELMF	**Sept. 2013 Qtr..**	**Dec 2013 Qtr.**	**March 2014 Qtr.**	**June 2014 Qtr.**	**Sept 2014 Qtr.**
SLF_{frequ} (%) [1/]	n/a	20.00	60.00	20.00	5.00
SLF_{size}($mn) [2/]	n/a	183.33	755.19	708.00	1,857.25
$BRO_{alloc/bidratio}$ (%) [3/]	35	61	48	0.0	100

[1/] The frequency of use for the SLF is measured as the number of days liquidity is accessed relative to the number of business days within the period.
[2/] Measured as the simple average of the liquidity accessed by DTIs within a quarter.
[3/] The ratio measures the total allocation for operations within a quarter as a proportion of the total bids received.

2.0 To align interest rates on liquidity facilities with market-determined interest rates

The Bank recognizes that its money market operations can facilitate arbitrage opportunities across market segments and promote unnecessary risk-taking by financial institutions[11]. To this end, the interest rates payable on the BRO and the SLF were also refined on 04 August 2014, to realign those interest rates to market-determined rates. Accordingly, the interest rate on the SLF and BRO was set at 3.75 percentage points and 3.25 percentage points, respectively, above the BOJ 30-day open market operations (OMO) interest rate. Given the current 30-day OMO interest rate of 5.75 per cent the interest rate on the SLF is 9.5 per cent relative to 7.25 per cent previously, and on the BRO is 9.0 per cent relative to 6.0 per cent previously.

In addition to the SLF and the BRO, the ELMF includes a provision for unqualified liquidity assurance to the financial system through the introduction of an excess funds rate (EFR), which allows DTIs to access overnight liquidity for amounts in excess of their individual SLF limit. Previously, the provision of liquidity above the SLF limit was subject to the discretion of the central bank. The EFR is set at 5.80 percentage points above the 30-day OMO interest rate such that the rate is 11.55 per cent (see Table 2).

[11] In providing liquidity assurance, central banks are mindful that there is the need to balance the provision of liquidity insurance with moral hazard risks. In this context, the moral hazard risk is that the availability of liquidity insurance may induce financial institutions to engage in more risky practices than they would otherwise.

Table 2: Interest Rates on Repurchases under the ELMF for DTIs

		Interest Rate at Inception (2013)	Interest rates effective as of 04 August 2014
BI-MONTHLY REVERSE REPURCHASE OPERATION (BRO)	14-days	**6.0%** (30-day OMO rate plus 0.25pp)	**9.0%** (30-day OMO rate plus 3.25pp)
STANDING LIQUIDITY FACILITY (SLF)	Overnight	**7.25%** (30-day OMO rate plus 1.50pp)	**9.50%** (30-day OMO rate plus 3.75pp)
EXCESS FUNDS RATE (EFR)	Overnight	**7.25%** (30-day OMO rate plus 1.50pp)#	**11.55%** (30-day OMO rate plus 5.80pp)

 # DTIs can access additional amounts above the SLF limit only upon approval of the Bank.

These refinements in the interest rate structure represented the initial step in the establishment of an interest rate corridor, which the Bank envisions will be a part of its medium-term monetary policy framework to anchor and consequently stabilize short-term market interest rates. The 'floor' of the corridor is currently the interest rate on the 30-day open market operations (OMO) instrument interest rate, which remains the BOJ's signal rate. The ceiling of the corridor is the interest rate on the 14-day BRO, as this is the longer tenor used for liquidity provision by the Central Bank within the ELMF (see Chart below).[12] These changes are consistent with the practice of other central banks which use interest rate corridors to manage short-term interest rates. It is expected that adequate JMD liquidity provided through the two operations of the ELMF should anchor short-term money market interest rates within the corridor. Within this new paradigm, DTIs are expected to improve the forecasting of their liquidity needs and better assess the opportunity costs of borrowing in the money market versus accessing liquidity from the Central Bank.

The developments in the money market

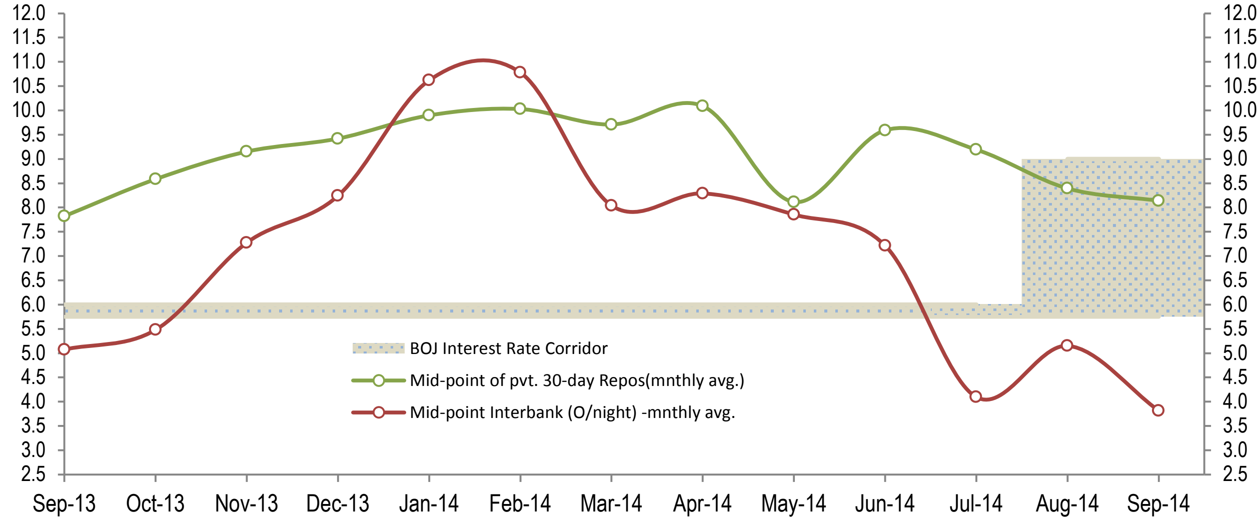
Since the refinements to the ELMF liquidity conditions have improved relative to the corresponding period of September 2013. Consequent on the improved JMD liquidity, there have been declines in both average 30-day private money market interest rates and the inter-bank rates (see Chart below). In particular, the inter-bank rate, the rate on overnight loans between commercial banks, ranged between 3 per cent and 4 per cent at end-September 2014 compared with the range of 4.5 and 10.5 per cent as at end-September 2013. Of note the average 30-day repo rate of 8.3 per cent at end-September 2014 was largely similar to the rate at end-September 2013 but represented a decline relative to the 9.3 per cent as at end-June 2014.[13]

Notably the 30-day private money market interest rates have fluctuated within the established interest rate corridor, which contrasts with the behaviour during the first 11 months of the ELMF. In particular, the private 30-day repo rate was, on average, 50 basis points below the ceiling during the last two months of the September 2014 quarter. However, the interbank interest rate was, on average, below the floor by 140 basis points as the Bank's liquidity operations were conducted with only commercial banks. Eventually, it is expected that the overall impact from the liquidity operations should be manifested in other segments of the money market, as banks that have a greater assurance of meeting their own short-term liquidity needs should be more willing to extend loans to other financial institutions. This should further reduce the volatility in short-term interest rates over the near-term.

12 The current interest rate corridor is depicted in Chart 2 using the 30-day OMO interest rate as the floor and the 14-day BRO repo rate as the ceiling.

13 At the end of the June 2014 quarter, there were no interbank trades reported

Figure 35: Bank of Jamaica Interest Rate Corridor (3) and Money Market Interest Rates (September 2013 – September 2014)



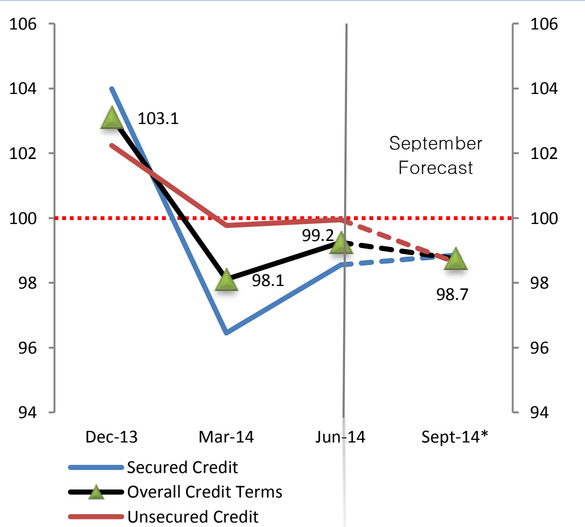
Source: Bank of Jamaica

Box: Credit Conditions Survey

Overview

The results of the BOJ's Quarterly Credit Conditions Survey indicated that lending conditions were less tight for the June 2014 quarter, relative to the March 2014 quarter (see **Figure 1**).[14] The conditions for the review quarter primarily reflected an easing of credit policies applied to secured loans as lenders increased the size of credit lines and extended repayment periods for these loans. Increased credit card limits was also an indication of the less tight lending conditions. For the September 2014 quarter, lenders indicated that they anticipate tighter credit conditions than in the June 2014 quarter, primarily due to more stringent policies for unsecured loans.

Figure 1: Index of Credit Market Conditions



Source: Bank of Jamaica's Quarterly Credit Conditions Survey
Notes: (i) The index is the average response for changes in eight credit terms reported in the Credit Conditions Survey. (ii) The indices were amended relative to the March 2014 quarter Survey to reflect the following change:

An index greater than 100 indicates an easing of credit market conditions while an index below 100 indicates a tightening of market conditions.

Credit Supply

Lenders indicated increased credit supply in the June 2014 quarter. The index of 104.6 for the period was also higher than the 102.1 indicated in the previous survey. The outturn in the index for the June quarter reflected increases for both local and foreign currency loan facilities (see **Table 1**). Greater credit availability was made accessible to both businesses and households. However, a lower proportion of the credit supplied was allocated to businesses relative to the previous quarter. Of the credit allocated to businesses, there was a redistribution of credit from small and medium entities to large companies.

Table 1: Credit Conditions Indices

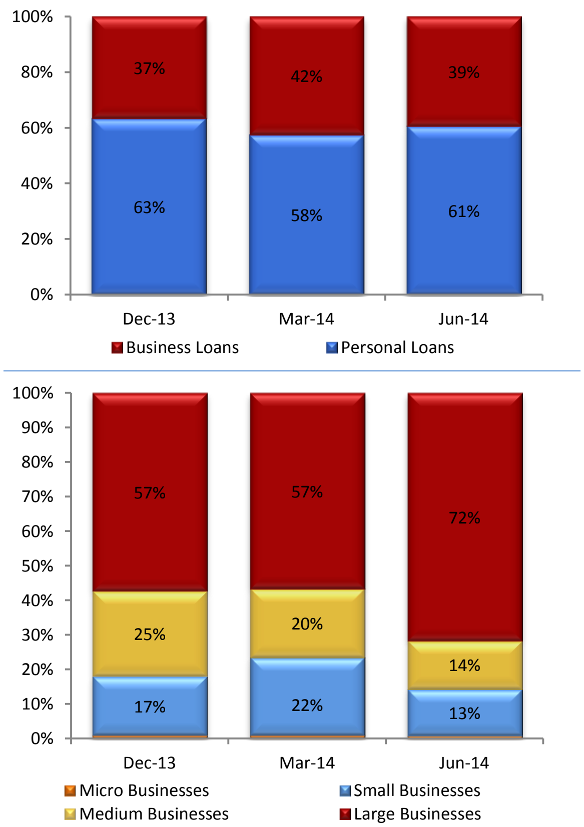
	December 2013 Survey	March 2014 Survey		June 2014 Survey	
	Dec-13	Mar-14	Jun-14*	Jun-14	Sep-14*
Credit Supply Index (CSI)	**100.4**	**106.0**	**102.1**	**104.6**	**106.7**
Business Credit	102.3	104.6 102.1		104.1	107.4
Personal credit	92.9	108.8 112.3		105.7	105.4
Credit in Jamaica Dollar	n.a	108.9	103.4	105.7	111.7
Credit in U.S Dollar	n.a	100.3	100.7	102.5	103.0
Credit Demand Index (CDI)	**98.1**	**98.7**	**103.5**	**106.2**	**107.6**
Business Demand	99.1	97.9	98.9	99.8	101.9
Demand by individuals	93.9	100.1 112.7		119.0	119.1
Credit in Jamaica Dollar	108.6	107.0	104.0	104.4	104.2
Credit in U.S dollar	76.9	88.9	93.9	95.2	99.5

Source: Bank of Jamaica's Credit Conditions Survey
Notes: (i) *****-Expectations for the quarter indicated by respondents in the previous survey (ii) "n.a." suggests that no data was collected and (iii) Indices greater than 100 indicate an increase in the variable while an index less than 100 indicates a decline.

For the September 2014 quarter, lenders anticipate a stronger increase in overall credit availability, reflecting an expansion in business credit. This expansion was underpinned by improvements in their perceptions of current and future economic

[14] The survey collects primarily qualitative information on changes in the demand and supply of credit to businesses and individuals from commercial banks, building societies, near banks, credit unions and development banks.

Figure 5: Distribution of Private Sector Loans



Source: Bank of Jamaica's Quarterly Credit Conditions Survey

conditions as well as increased efforts to target other market segments based on perceived opportunities in those areas.

Credit Demand

There was a stronger than anticipated increase in overall demand for loans in the June 2014 quarter (see Table 1). For the review quarter, the index rose to 106.2 from the 103.5 that was anticipated in the previous survey and the outturn of 98.7 in the March 2014 quarter. The outturn for the review quarter represented the first increase in demand since the December 2013 quarter survey. The growth in overall demand for the quarter primarily reflected strong interests in local currency personal loans in all categories; particularly, credit cards and debt consolidation. Partially tempering the rise in demand for personal credit was a decline in demand for business loans denominated in foreign currency. Lenders reported that the continued depreciation of the Jamaica Dollar was the main factor behind the decline in the demand for foreign currency loans.

With respect to the September 2014 quarter, lenders anticipate a further expansion in the demand for credit, reflected in an index of 107.6 relative to the 106.2 recorded in the June 2014 survey. Stronger demand is expected from both households and businesses for local currency loans.

Price of Credit

Interest rates on all categories of local currency loans increased for the June 2014 quarter relative to the March 2014 quarter, with the exception of personal credit, which recorded a reduction (see Table 2). Lenders reported that the higher rates reflected robust demand for local currency loans. The higher interest rates occurred despite the Bank's net injection of liquidity into the system for the June 2014 quarter and a general decline in money market interest rates. Higher interest rates for lending were reflected in loans accessed by all sizes of businesses, particularly medium–sized businesses. A similar pattern was observed for interest rates on foreign currency loans. Lenders reported an increase in interest rates on foreign currency business loans, notwithstanding the weak demand for these loans.

Table 2: Interest Rates on Local and Foreign Currency Loans

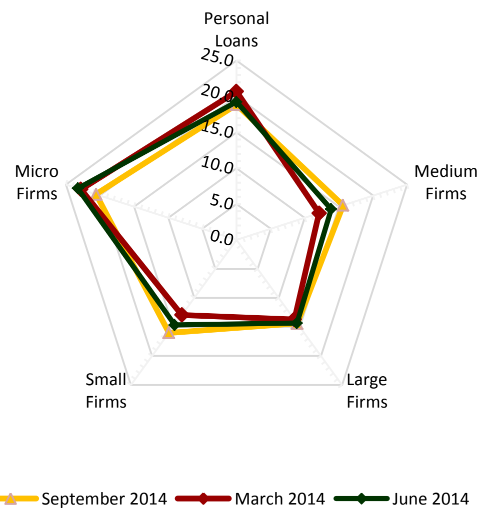
	December 2013 Survey	March 2014 Survey		June 2014 Survey	
	Dec-14	Mar-14	Jun-14*	Jun-14	Sep-14*
Local Currency Loans					
Business loans	13.2	15.39	17.13	16.52	16.66
Personal loans	20.6	20.69	20.78	19.25	18.86
Prime rate	18.6	16.9	16.93	17.03	17.22
Foreign Currency Loans					
Business loans	8.5	7.94	9.57	9.02	9.74
Prime Rate	7.7	9.06	9.16	9.42	9.45

Source: Bank of Jamaica's Credit Conditions Survey
Notes: * Expectations for interest rates indicated by respondents of the survey.

For the September 2014 quarter, further increases in overall interest rates on local currency business loans are anticipated, while rates on personal loans are expected to continue to decline. Despite the anticipation of a contraction in demand for foreign currency loans for the September 2014 quarter, lenders still expect rates on these loans to increase. In particular, the higher rates for foreign currency business loans are anticipated for large and micro firms.

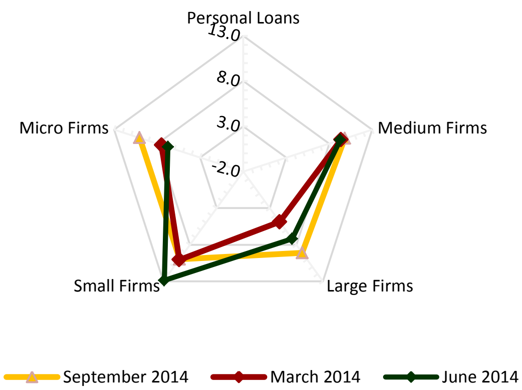
For more detailed analysis of the survey see BOJ Credit Conditions Survey Report[15].

Figure 6: Interest Rates on Local Currency Loans



Source: Bank of Jamaica's Credit Conditions Survey
Notes: * Expectations for interest rates indicated by respondents of the survey.

Figure 7: Interest Rate on Foreign Currency Loans



Source: Bank of Jamaica's Credit Conditions Survey
Notes: (i) Rates on foreign currency personal loans were not collected. (ii) * Expectations for interest rates indicated by respondents of the survey.

[15] http://www.boj.org.jm/publications/publications_show.php?publication_id=20

Fiscal Developments

Preliminary information for the September 2014 quarter indicates a fiscal deficit of $5.2 billion relative to the budgeted deficit of $8.3 billion (see **Table 13**). The outturn for the quarter reflected lower than anticipated Expenditure, the impact of which was partially offset by lower than planned Revenues & Grants. In this context, Government recorded a primary surplus of $43.6 billion for the fiscal year (FY) to September 2014, exceeding the target under the EFF by $5.8 billion. Tax Revenue also exceeded the indicative EFF target by $3.0 billion for the FY to September. Consistent with the shortfall in Revenues, the current deficit for the September 2014 quarter was significantly below the implicit target.

Table 13: Summary of Fiscal Operations (J$ billions)

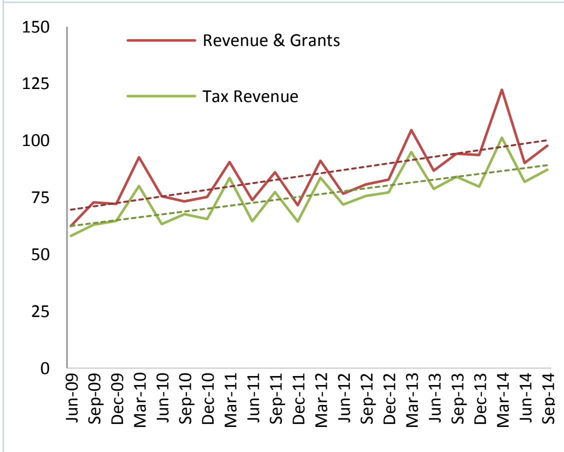
	September 2014 Quarter			FY14/15
	Prov.	Budget	Diff	Target
Revenue & Grants	97.7	101.8	-4.1	427.9
o/w Tax Revenues	87.1	93.2	-6.1	384.3
Non-Tax Revenue	7.7	6.8	0.9	34.2
Grants	2.1	1.6	0.5	8.6
Expenditure	102.9	110.1	-7.1	439.3
Programmes	28.1	27.9	0.2	110.3
Wages & Salaries	40.9	42.2	-1.4	161.7
Interest Payment	29.8	31.2	-1.3	132.7
Capital Investment	4.1	8.8	-4.7	34.6
Budget Deficit	-5.2	-8.3	3.0	-11.4
Primary Balance	24.6	22.9	1.7	121.3

Source: Ministry of Finance and Planning

Revenues & Grants for the review quarter was $4.1 billion below budget, reflecting a shortfall in tax revenue (see **Figure 36**). Lower tax receipts were reflected across the three major categories with *Production & Consumption* accounting for the largest variance consequent on lower than anticipated GCT (local) and SCT (local) receipts. Within *Income & Profits*, 'other companies' reflected a shortfall of $2.3 billion. Of note, tax revenue increased marginally in the review quarter when compared to the September 2013 quarter reflecting the impact of the newly implemented tax reform measures.

Expenditure for the September 2014 quarter was $7.1 billion below budget, reflecting lower than planned recurrent and capital spending (see **Table 13**). Capital spending was affected by postponements of some projects due to shortfalls in tax revenue and delays in grant receipts. Recurrent expenditure reflected lower than budgeted wages & salaries and interest payments. Of note, wages & salaries reflected delays in payments of outstanding amounts to some public sector groups.

Figure 36: Revenue & Grants and Tax Revenues (J$ billion)



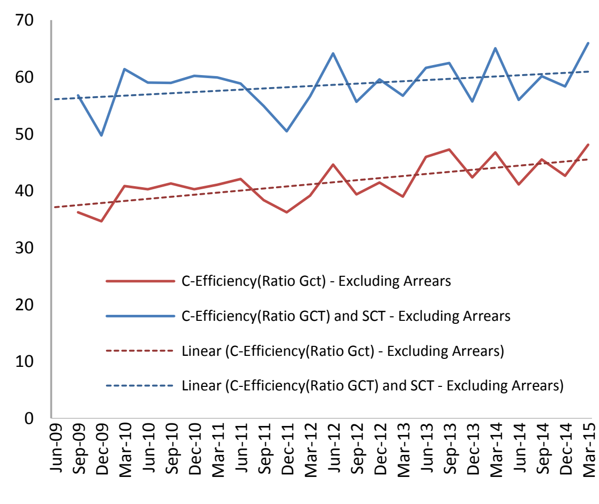
Source: Ministry of Finance and Planning

For the September 2014 quarter, the C-Efficiency (GCT/SCT) ratio, which captures the efficiency of Government tax collection, stood at 60.1 per cent relative to an implicit budget target of 67.0 per cent.[16] The lower C-Efficiency ratio primarily

[16] *The C-Efficiency ratio captures the efficiency of Government's tax collection and is defined as the ratio of the share of value-added tax (VAT) revenues to consumption divided by the standard VAT rate. The generally accepted benchmark for the C-efficiency for small countries is 83.0 percent. Factors linked to a high C-efficiency are a relatively high ratio of trade to GDP (presumably because it is relatively easier to collect the*

reflected the deviation in GCT receipts. Of note, the ratio for the quarter was 2.5 percentage points above the average of the previous three September quarters (see **Figure 37**).

Figure 37: C–Efficiency Ratio (Per cent)



Source: Ministry of Finance and Planning and Bank of Jamaica Calculations

With regard to financing, the Government secured funding mainly from external sources during the September 2014 quarter. In particular, US$800.0 million was raised from the issue of a global bond in July and US$68.8 million was received in September from the IMF for budgetary support. In relation to domestic financing, the Government borrowed $10.4 billion from the PetroCaribe Development Fund. Overall, there was a net build–up in Government balances of $86.1 billion for the quarter.

During the September 2014 quarter, the Government conducted two transactions under the Liability Management Programme. The transactions entailed $2.5 billion of early redemption of domestic securities and US$37.8 million on one of its global bonds.

For the remainder of the fiscal year, the Government is budgeted to record a fiscal surplus which is expected to partially offset the deficit recorded during the first half of the fiscal year.

VAT at the point of import than domestically); high literacy rates and the age of the VAT.

Box: Jamaica's Macroeconomic Programme under the EFF

Overview

Jamaica's medium-term macroeconomic programme is supported by a four-year Extended Fund Facility (EFF) from the International Monetary Fund (IMF).[17] [18] This programme is aimed at creating the conditions for sustained growth through a significant improvement in fiscal sustainability as well as price and non-price competitiveness. The performance criteria under the EFF are based on quarterly quantitative targets (QPCs) as well as structural benchmarks. The achievement of these targets unlocks financing from multilateral financial institutions including the IMF as well as facilitates access to the international capital market.

Since the start of the programme, both the fiscal and monetary authorities have met the agreed benchmarks and targets. In this regard, on 24 September 2014, the Executive Board of the IMF concluded the fifth review of the programme and confirmed the country's successful performance.[3] This enabled the disbursement of SDR 45.95 million (approximately US$68.8 million) for budgetary support. Of note, the Board's decision was made without a formal meeting invoking lapse-of-time procedures.[19]. Total disbursements under the EFF to end-September 2014 amounted to SDR314.18 million (approximately US$483.2 million).[20]

At end-September 2014, Jamaica completed the sixth quarter of it macroeconomic programme. All structural benchmarks were assessed to have been met, as there was agreement with the IMF to reschedule the deadline for the amendments to the Electricity Act (see **Table 1**). The submission of the amendments to this Act to Parliament has been delayed to February 2015. With regard to the fiscal and monetary performance, it is anticipated that Jamaica would have met all the QPCs for the quarter (see **Table 2**).

Table 1: Structural Benchmarks

	Benchmark	Deadline	Status
1	Develop an action plan for public sector transformation by end-September 2014.	Sep-14	Met
2	The public service databases in e-Census are to be updated by September 10, 2014 and will cover all Ministries, Departments and Agencies (MDAs).	Sep-14	Met
3	Electricity Act amendments are expected to be submitted to Parliament by end-September 2014 and become effective by end-2014.	Sep-14	Delayed until February 2015

Source: Bank of Jamaica

[17] The Executive Board of the IMF approved the four-year EFF arrangement for Jamaica on 01 May 2013.

[18] The EFF was established to provide assistance to countries: (i) experiencing serious payments imbalances because of structural impediments; or (ii) characterized by slow growth and an inherently weak balance of payments position. This facility has a longer engagement and repayment period compared to the previous Stand-by Arrangement (SBA) with the IMF. https://www.imf.org/external/np/exr/facts/eff.htm

[19] This refers to decisions made without a formal meeting when it is agreed by the Board that a proposal can be considered without convening formal discussions.

[20] Total disbursement agreed under the EFF is SDR 615.38 million (225 percent of quota).

Table 2: Quantitative Performance Targets
(in billions of Jamaica dollars)

		Dec-13	Mar-14		Jun-14		Sep-14		Dec-14	Mar-15
	Fiscal targets	Stock	Criteria	Actual	Criteria	Actual	Criteria	Actual	Criteria	Criteria
1.	Primary balance of the central government (floor)	….	111.5	111.7	15.5	18.9	37.8	43.6	66.0	121.0
2.	Tax Revenues (floor)	….	357.5	343.8	80.0	81.9	166.0	169.0	260.0	384.0
3.	Overall balance of the public sector (floor)	….	-6.7	1.8	-19.3	-18.3	-30.2	n.a.	-37.0	-11.6
4.	Central government direct debt (ceiling)	1672.0	70.3	20.4	15.7	2.7	108.1	n.a.	92.4	90.6
5.	Central government guaranteed debt (ceiling)	….	-14.0	-14.5	4.0	1.2	2.7	n.a.	0.1	-1.8
6.	Central government accumulation of domestic expenditure arrears (ceiling)	21.6	0.0	0.0	0.0	-0.2	0.0	n.a.	0.0	0.0
7.	Central government accumulation of tax refund arrears (ceiling)	24.6	0.0	-1.5	0.0	-2.5	0.0	n.a.	0.0	0.0
8.	Consolidated government accumulation of external arrears (ceiling)	….	0.0	0.0	0.0	0.0	0.0	n.a.	0.0	0.0
9.	Social spending (floor)	….	20.1	20.7	4.2	4.7	8.9	n.a.	14.8	21.7
	Monetary targets									
10.	Cumulative change in NIR (floor)	….	12.0	264.7	107.4	326.8	187.3	1159.3	240.0	496.4
10.a.	NIR stock	1045.1	1057.0	1309.8	1152.4	1371.8	1232.3	2204.4	1285.0	1541.4
11.	Cumulative change in NDA (ceiling)	-7.6	-2.0	-37.4	-12.3	-42.4	-17.1	-130.7	-15.1	-51.6

Source: Bank of Jamaica
Note: The NIR/NDA criteria reflect adjusted targets to account for any surplus or shortfall in programme loan disbursements from multilateral institutions (the IBRD, IDB, and CDB) relative to the baseline projection.

4.0 Implications for Monetary Policy

For FY2014/15, inflation is expected to be within the target band of 7.0 per cent to 9.0 per cent, albeit close to the upper end of the range. However, by end-September 2015, inflation is projected to moderate. The projection for output has been lowered in to the range of 0.0 per cent to 1.0 per cent from the previous range of 0.5 per cent to 1.5 per cent in the context of the adverse impact from drought conditions. Investor confidence should continue to be buoyed by the achievement of the fiscal and monetary targets under the EFF-supported programme as well as evidence of reduced risk premiums in the financial markets. In this context, the Bank's policy stance will remain accommodative over the near-term, but the Bank will act to ensure that the target is met.

Main Policy Considerations

Prices and Output

The outlook for domestic headline inflation is for a temporary increase in the near-term in the context of the impact of the recent drought and some administrative price changes. Despite this temporary uptick, the Bank's projection is for inflation to end the fiscal year within the target range. Inflation is expected to resume a downward trend by the September 2015 quarter as the aforementioned shock dissipates. This downward trend is expected to continue over the medium-term.

Output is also projected to continue to reflect the adverse impact of the recent drought over the near-term but growth is expected to strengthen over the medium-term. The Bank's estimates of the country's capacity utilization continue to suggest little risk to the inflation outlook. [21] In addition, the expansion in domestic aggregate demand should remain tempered over the medium-term in the context of declining real income and the tight fiscal stance required under the Programme.

Expectations

Since the June 2014 quarter, 12-month ahead inflation expectations have remained in the double digit range, averaging 10.1 per cent. The Bank's survey of inflation expectations in September 2014 suggests that businesses anticipate an increase in inflation by the September 2015 quarter. This increase is in contrast with the Bank's forecast, which anticipates a normalisation following temporary shocks to transport and agriculture in the September 2014 Quarter.

Financial Markets

In the context of the decline in inflation expectations, a perceived fall in the country's risk premium and a reduction in the pace of depreciation of the exchange rate, money market rates are expected to remain generally low over the near-term. The expected reduction in risk premiums will occur in the context of further enhancements to the Bank's liquidity management framework as well as the country's strong performance under the EFF-supported economic programme. This improvement in the overall financial market environment should translate to lower lending rates in the financial sector and encourage new investments in the productive sector and expansion in output as envisioned under the Programme.

Monetary Targets

The Bank continued to focus on achieving the monetary targets under the Programme while meeting its inflation objective. In that regard, the NIR and NDA targets were comfortably met for the first five reviews and the Bank's assessment indicates that the targets for September were also achieved.[22] Over the next four quarters growth in

[21] See **Inflation Section** for a more detailed discussion on capacity conditions and inflation.

[22] The NDA is calculated as the difference between the stock of base money in the economy and the NIR.

the monetary base is projected to be consistent with meeting the NIR and NDA targets while posing little upside risk to the inflation target. The Bank's reserve accumulation is expected to continue to be buoyed by on-going improvements in the current account deficit as well as net private capital inflows.

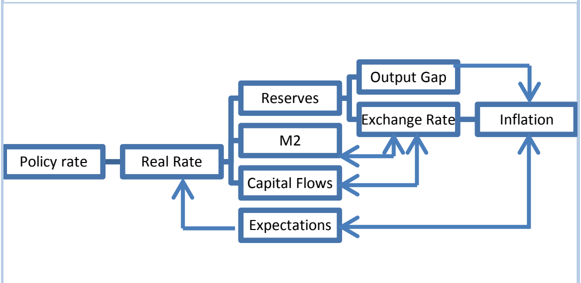
Box: Monetary Policy Transmission Mechanism

The monetary policy transmission mechanism is the process through which adjustments in the central bank's policy rate induces changes in the price and the allocation of goods and services. For most central banks the ultimate goal of the transmission process is a desired level of inflation.

Studies on the transmission mechanism in Jamaica have shown that the credit and the exchange rate channels are the main conduits through which policy affects inflation (see Figure 8below). The credit channel impacts inflation through aggregate demand and the output gap. With respect to the exchange rate, the impact has been through imported inflation and changes in expectations and the openness of a country.

Consistent with the findings for other countries, the transmission process in Jamaica is long lived. Allen and Robinson (2005) suggested that changes in the policy rate has its largest impact approximately two to three quarters after a rate adjustment and that it could take three to four years before the full impact dissipates. Given the inherent lag in the transmission process, monetary policy must be forward-looking to influence short-term interest rates to deliver a desirable long-term inflation outcome.

Figure 8: Monetary Transmission Process



Source: Allen, C and W. Robinson, 2005, *"Monetary Policy Rules and the Transmission Mechanism in Jamaica"*, Money Affairs, Volume XVIII

Monetary Policy Outlook

The Bank's policy stance has remained generally accommodative for the fiscal year to date. This has contributed to declines in nominal market interest rates for the review quarters. Inflation expectations, however, have remained above the target range for the fiscal year. The Bank's main policy challenge over the near-term is to continue to manage inflation expectations given the recent temporary shocks to prices (see Box : Monetary Policy Transmission Mechanism). Given the upside risk to inflation the Bank will take the necessary action to ensure the attainment of the inflation target.

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1: INFLATION RATES

		CPI (End of Point)	Headline Inflation	Core Inflation*
FY03/04	Sep-03	71.57	12.72	12.07
	Dec-03	74.06	14.13	13.16
	Mar-04	75.94	16.41	14.43
	Jun-04	77.21	13.38	10.97
FY04/05	Sep-04	80.58	12.59	10.58
	Dec-04	85.77	15.82	13.11
	Mar-05	85.49	12.58	11.70
	Jun-05	88.95	15.20	12.90
FY05/06	Sep-05	93.60	16.15	12.30
	Dec-05	94.79	10.52	9.68
	Mar-06	95.40	11.59	10.95
	Jun-06	97.68	9.81	10.42
FY06/07	Sep-06	99.76	6.59	9.71
	Dec-06	100.00	5.49	8.13
	Mar-07	102.50	7.44	9.49
	Jun-07	105.10	7.60	9.65
FY07/08	Sep-07	108.90	9.16	10.39
	Dec-07	116.82	16.82	15.62
	Mar-08	122.94	19.94	17.32
	Jun-08	130.29	23.97	20.27
FY08/09	Sep-08	136.45	25.30	20.99
	Dec-08	136.50	16.84	16.61
	Mar-09	138.22	12.43	12.98
	Jun-09	141.95	8.95	10.29
FY09/10	Sep-09	146.30	7.22	9.77
	Dec-09	150.44	10.21	10.28
	Mar-10	156.64	13.33	11.60
	Jun-10	160.70	13.21	10.99
FY10/11	Sep-10	162.77	11.26	9.40
	Dec-10	168.10	11.74	8.65
	Mar-11	168.92	7.84	6.57
	Jun-11	172.28	7.20	6.67
FY11/12	Sep-11	175.91	8.07	6.99
	Dec-11	178.21	6.01	6.86
	Mar-12	181.17	7.26	6.97
	Jun-12	183.83	6.71	6.91
FY12/13	Sep-12	187.61	6.65	5.59
	Dec-12	192.47	8.00	5.44
	Mar-13	197.72	9.13	6.30
	Jun-13	199.93	8.76	6.26
FY13/14	Sep-13	207.24	10.46	6.95
	Dec-13	210.70	9.47	7.38
	Mar-14	214.21	8.34	6.54
	Jun-14	215.86	7.97	6.10
FY14/15	Sep-14	225.86	8.99	6.72

* Core inflation is measured as headline inflation excluding agriculture and fuel related components of the CPI Basket (CPI-AF)

2: ALL JAMAICA INFLATION – Point-to-Point (September 2014)

Divisions, Classes and Groups	Weight (%)	Inflation (%)	Weighted Inflation	Contribution
FOOD & NON-ALCOHOLIC BEVERAGES	**37.45**	**12.5**	**4.7**	**52.1**
Food	**35.10**	**12.8**	**4.5**	**49.8**
Bread and Cereals	6.10	8.1	0.5	5.5
Meat	7.66	6.7	0.5	5.7
Fish and Seafood	5.33	6.9	0.4	4.1
Milk, Cheese and Eggs	3.11	13.1	0.4	4.5
Oils and Fats	1.64	8.3	0.1	1.5
Fruit	1.14	13.4	0.2	1.7
Vegetables and Starchy Foods	6.85	28.1	1.9	21.4
Sugar, Jam, Honey, Chocolate and Confectionery	1.72	8.4	0.1	1.6
Food Products n.e.c.	1.55	7.9	0.1	1.4
Non-Alcoholic Beverages	**2.35**	8.3	0.2	2.2
Coffee, Tea and Cocoa	0.66	9.4	0.1	0.7
Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	1.69	7.8	0.1	1.5
ALCOHOLIC BEVERAGES AND TOBACCO	**1.38**	**6.4**	**0.1**	**1.0**
CLOTHING AND FOOTWEAR	**3.33**	**4.9**	**0.2**	**1.8**
Clothing	2.12	5.5	0.1	1.3
Footwear	1.22	3.9	0.0	0.5
HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	**12.76**	**6.2**	**0.8**	**8.8**
Rentals for Housing	3.52	1.2	0.0	0.5
Maintenance and Repair of Dwelling	0.80	6.7	0.1	0.6
Water Supply and Miscellaneous Services Related to the Dwelling	1.32	20.6	0.3	3.0
Electricity, Gas and Other Fuels	7.12	5.7	0.4	4.6
FURNISHINGS, HOUSEHOLD EQUIPMENT AND ROUTINE HOUSEHOLD MAINTENANCE	**4.93**	**9.0**	**0.4**	**4.9**
Furniture and Furnishings	0.69	5.7	0.0	0.4
Household Textiles	0.32	4.7	0.0	0.2
Household Appliances	0.56	6.8	0.0	0.4
Glassware, Tableware and Household Utensils	0.05	4.7	0.0	0.0
Tools and Equipment for House and Garden	0.15	6.2	0.0	0.1
Goods and Services for Routine Household Maintenance	3.16	10.9	0.3	3.8
HEALTH	**3.29**	**3.8**	**0.1**	**1.4**
Medical Products, Appliances and Equipment	1.22	4.9	0.1	0.7
Health Services	2.07	3.1	0.1	0.7
TRANSPORT	**12.82**	**6.3**	**0.8**	**8.9**
COMMUNICATION	**3.99**	**-0.6**	**0.0**	**-0.3**
RECREATION AND CULTURE	**3.36**	**5.0**	**0.2**	**1.9**
EDUCATION	**2.14**	**4.2**	**0.1**	**1.0**
RESTAURANTS & ACCOMMODATION SERVICES	**6.19**	**5.6**	**0.3**	**3.9**
MISCELLANEOUS GOODS AND SERVICES	**8.37**	**8.3**	**0.7**	**7.7**
ALL DIVISIONS	**100.00**	**9.0**	**9.0**	**100.0**

3: BANK OF JAMAICA OPERATING TARGETS

	Actual Mar-13	Actual Jun-13	Actual Sep-13	Actual Dec-13	Actual Mar-14	Actual Jun-14	Actual Sept-14
Net International Reserves (US$)	**884.2**	**1,003.2**	**910.1**	**1,047.8**	**1,303.6**	**1,376.1**	**2,200.6**
NET INT'L RESERVES (J$)	**83,242.8**	**94,442.8**	**85,681.0**	**111,468.2**	**138,679.5**	**146,393.0**	**234,096.3**
Assets	161,767.5	177,087.9	161,309.8	193,351.8	217,929.9	214,518.3	288,848.3
Liabilities	-78,524.7	-82,645.1	-75,628.9	-81,883.6	-79,250.3	-68,125.3	-54,752.0
NET DOMESTIC ASSETS	**8,051.6**	**-4,220.9**	**6,402.3**	**-7,834.8**	**-44,251.5**	**-50,448.6**	**-137,846.8**
-Net Claims on Public Sector	157,528.5	155,947.3	162,943.8	157,750.3	158,974.9	192,366.7	110,474.8
-Net Credit to Banks	-19,770.5	-20,389.3	-21,124.3	-21,500.4	-21,390.8	-22,702.7	-22,606.0
-Open Market Operations	-54,299.0	-60,096.4	-53,306.5	-49,948.2	-30,533.2	-40,570.1	-35,206.8
-Other	-75,407.4	-79,682.5	-82,110.6	-94,136.5	-151,302.5	-179,542.5	-190,508.7
MONETARY BASE	**91,294.5**	**90,221.9**	**92,083.3**	**103,633.4**	**94,428.0**	**95,944.4**	**96,249.6**
- Currency Issue	57,652.0	57,687.8	58,183.1	69,801.7	61,110.2	62,025.3	61,573.4
- Cash Reserve	32,445.9	32,341.2	32,689.2	33,593.3	32,275.6	32,914.5	34,271.2
- Current Account	1,196.6	192.9	1,211.0	238.4	1,042.2	1,004.6	405.0
GROWTH IN MONETARY BASE [F-Y-T-D]		**-1.2**	**0.9**	**13.5**	**3.4**	**1.6**	**1.9**

4: MONETARY AGGREGATES

		BASE	M1J	M1*	M2J	M2*	M3J	M3*
FY09/10	Jun-09	72698.90	88256.70	88256.70	206295.90	319337.56	282473.00	395514.66
	Sep-09	72129.00	87911.60	87911.60	206828.57	316834.71	287586.77	397592.91
	Dec-09	81116.18	97592.37	97592.37	216662.44	332003.92	298767.97	414109.45
	Mar-10	77322.40	89851.02	89851.02	210333.77	327116.55	295205.80	411988.59
FY10/11	Jun-10	77757.80	93074.23	93074.23	218702.11	332339.11	306741.21	420378.21
	Sep-10	74230.90	95444.97	95444.97	221386.83	328598.33	311288.97	418500.47
	Dec-10	85093.00	103252.10	103252.10	230232.17	337664.44	321728.87	429161.14
	Mar-11	78919.19	97448.70	97448.70	225681.98	332828.17	319837.08	426983.27
FY11/12	Jun-11	80560.55	102219.91	102219.91	232910.73	341652.12	329909.45	438650.84
	Sep-11	80479.50	97967.02	97967.02	227561.92	332330.13	325013.24	429781.45
	Dec-11	91710.12	112757.18	112757.18	245020.02	351418.54	355367.82	461766.34
	Mar-12	83696.70	103826.70	103826.70	236177.27	349882.92	348301.96	462007.61
FY12/13	Jun-12	84337.37	104266.47	104266.47	236397.42	351510.21	338191.88	453304.66
	Sep-12	85193.86	105164.94	105164.94	237685.09	351396.29	340031.63	453742.83
	Dec-12	97648.46	117908.77	117908.77	253848.71	383195.99	357503.67	486850.96
	Mar-13	91294.45	113240.38	113240.38	252128.71	396423.90	355217.29	499512.48
FY13/14	Jun-13	90221.88	110381.42	110381.42	250702.54	397899.09	354684.76	501881.32
	Sep-13	92083.29	113684.42	113684.42	259771.42	409003.99	369324.33	518556.90
	Dec-13	103633.38	122884.67	122884.67	267936.36	418628.15	374695.17	525386.96
	Mar-14*	94428.02	119019.10	119019.10	262328.5	422293.20	373800.60	533765.30
FY14/15	Jun-14*	95944.45	114410.60	114410.60	256212.30	418589.90	369666.90	532044.50
	Sept-14	96,249.6	114321.90	114321.90	255533.40	417063.70	371626.90	533157.20

5: COMMERCIAL BANKS' SELECTED INTEREST RATES (%)

		Fixed Deposits *		Savings Deposits	Lending Rate	Fixed Deposits Rate	Loan Rate	Inter-bank Lending Rate
		3-6 months	6-12 months	(Average)	(Average)	(Wgt. Average)	(Wgt. Average)	(Average)
FY09/10	Jun-09	7.30 – 18.20	7.00 – 19.00	5.87	23.32	10.22	24.35	8.07
	Sep-09	7.30 – 15.49	7.00 – 15.75	5.86	22.26	9.13	24.19	7.39
	Dec-09	6.75 – 12.86	7.55 – 13.52	5.35	21.62	9.03	23.45	8.64
	Mar-10	5.35 – 9.82	5.00 – 9.98	4.09	21.51	7.31	22.66	6.57
FY10/11	Jun-10	4.75 – 8.50	4.75 – 10.00	3.90	20.72	6.29	22.11	5.20
	Sep-10	2.25 – 7.90	2.25 - 8.15	3.12	19.24	5.40	21.52	5.25
	Dec-10	2.25 – 7.90	2.25 – 7.70	2.47	18.95	4.89	20.43	4.14
	Mar-11	2.25 – 6.00	2.25- 6.75	2.34	18.52	4.52	20.33	3.70
FY11/12	Jun-11	2.25 – 6.00	2.25 – 6.50	2.24	17.98	4.20	20.10	3.43
	Sep-11	2.25 – 5.72	2.25 – 6.25	2.27	18.54	4.12	18.34	3.29
	Dec-11	2.25 – 5.72	2.25 – 6.00	2.13	18.30	4.16	18.03	3.34
	Mar-12	2.25 – 6.40	2.00 – 6.75	2.10	18.12	3.70	17.70	3.73
FY12/13	Jun-12	2.00 – 5.25	2.00 – 6.00	2.10	17.46	3.59	17.36	4.95
	Sep-12	2.25 – 5.25	2.00 – 6.00	2.07	17.55	3.82	17.40	6.71
	Dec-12	2.25 – 6.10	2.25 – 6.40	2.07	17.23	3.92	18.44	4.02
	Mar-13	0.90 – 5.00	0.90 – 5.25	1.94	17.23	3.55	17.97	4.77
FY13/14	Jun-13	0.90 – 5.30	0.90 - 6.10	1.51	16.72	3.21	17.66	3.89
	Sep-13	0.90 – 5.70	0.90 – 5.90	1.62	16.47	3.88	17.45	5.23
	Dec-13	1.00 – 7.10	1.25 – 7.20	1.23	14.56	4.26	17.49	7.59
	Mar-14	1.00 – 7.10	1.25 – 7.20	1.40	14.74	4.50	17.57	9.42
FY14/15	Jun-14	1.00 – 7.10	1.25 – 7.20	1.40	14.76	5.03	17.50	8.08
	Sep-14	1.00 – 6.88	1.25 – 7.00	1.18	14.99	4.47	16.91	4.19

6: GOJ TREASURY BILL YIELDS
(End of Period)

		1-month	3-month	6-month	9-month	12-month
FY10/11	Jun-10	8.98	8.52	9.26	...	...
	Sep-10	8.26	7.75	7.99	...	...
	Dec-10	7.48	7.40	7.48	...	...
	Mar-11	6.67	6.46	6.63	...	...
FY11/12	Jun-11	6.67	6.56	6.61	...	...
	Sep-11	6.47	6.37	6.56	...	...
	Dec-11	6.49	6.21	6.46	...	...
	Mar-12	6.24	6.27	6.47	...	...
FY12/13	Jun-12	6.18	6.26	6.47	...	...
	Sep-12	6.16	6.36	6.57	...	...
	Dec-12	6.31	7.67	7.18	...	...
	Mar-13	5.37	5.82	6.22	...	...
FY13/14	Jun-13	6.02	6.76	7.12	...	...
	Sep-13	6.32	7.42	7.95	...	...
	Dec-13	6.25	7.53	8.25	...	...
	Mar-14	6.76	8.35	9.11	...	...
FY14/15	Jun-14	6.80	7.66	8.37	...	...
	Sep-14	6.89	7.47	8.00	...	...

7: BANK OF JAMAICA OPEN MARKET INTEREST RATES
(End of Period)

		30 days	60 days	90 days	120 days	180 days	270 days	365 days
FY09/10	Jun-09	17.00	17.50	20.00	20.20	21.50	...	22.67
	Sep-09	12.50	13.00	15.50	15.70	17.00	...	...
	Dec-09	10.50	11.00	13.50	13.70	15.00	...	...
	Mar-10	10.00	...	...	...	...	...	...
FY10/11	Jun-10	9.00	...	...	...	...	...	...
	Sep-10	8.00	...	...	...	...	...	...
	Dec-10	7.50	...	...	...	...	...	...
	Mar-11	6.75	...	...	...	...	...	...
FY11/12	Jun-11	6.75	...	...	...	...	...	...
	Sep-11	6.25	...	...	...	...	...	...
	Dec-11	6.25	...	...	...	...	...	...
	Mar-12	6.25	...	...	...	...	...	...
FY12/13	Jun-12	6.25	...	...	...	...	...	...
	Sep-12	6.25	...	...	...	...	...	...
	Dec-12	6.25	...	...	...	...	...	...
	Mar-13	5.75	...	...	...	...	...	...
FY13/14	Jun-13	5.75	...	...	...	...	...	...
	Sep-13	5.75	...	...	...	...	...	...
	Dec-13	5.75	...	...	...	...	...	...
	Mar-14	5.75	...	...	...	...	...	...
FY14/15	Jun-14	5.75	...	...	...	...	...	...
	Sep-14	5.75						

8: Placements and Maturities* in BOJ OMO Instruments

	April -June 2014			July - September 2014		
	Maturities (J$MN)	Placements (J$MN)	Average Yield (%)	Maturities (J$MN)	Placements (J$MN)	Average Yield (%)
30-day	50,970.40	56,870.10	5.75	63920.0	60590.0	5.75
182-day VR CD	784.5	0.0	-	0.00	0.00	-
275-day VR CD	1840.5	0.0	-	1140.0	0.00	-
365-day VR CD	260.0	5982.8	9.26	600.0	6030.0	8.32
548-day VR CD	0.00	584.7	9.25	0.00	250.0	8.40
729-day VR CD	0.00	0.0	-	0.00	0.00	-
182-day FR USD	12056.1	5451.5	3.00	0.00	0.00	-
Indexed Bond						
Repos	2135.9	0.00	-	3990.0	0.0	-
FX (Trading Room)	3534.0	13427.4	-	5890.0	6100.0	-
Other	23078.1	0.00	-	0.00	0.00	-
Net Injection (ALL Operations)	12343.0		-	2570.0		-

	Maturities (US$MN)	Placements (US$MN)	Average Yield (%)	Maturities (US$MN)	Placements (US$MN)	Average Yield (%)
2-year FR USD CD	0.00	0.00	0.00	0.00	0.00	0.00
3-year FR USD CD	0.00	0.00	0.00	0.00	0.00	0.00
4-year FR USD CD	0.00	2.90	5.00	0.00	82.3	4.50
4.5-year FR USD CD	0.00	16.40	5.25	0.00	57.36	5.50
5-year FR USD CD	0.00	23.80	5.50	0.00	99.60	5.05
7-year FR USD CD	0.00	0.00	0.00	0.00	4.10	5.50
3-year FR CD#	0.00	204.2	-	0.00	0.00	-
TOTAL	0.00	244.9		0.00	186.0	

*Excludes overnight transactions

9: EXTERNAL TRADE – GOODS EXPORTS (f.o.b)
(Flows – US$MN)

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
FY09/10	95.7	334.5	57.8	0	90.9	578.8	238.7	1396.5
Jun-09	14.4	81.6	26.7	0	26.7	153.3	55.8	358.6
Sep-09	23.9	84.5	7.8	0	26.0	168.8	60.3	371.3
Dec-09	26.9	82.4	0.0	0	17.5	114.7	66.7	308.2
Mar-10	30.5	86.0	23.3	0	20.6	142.0	55.9	358.3
FY10/11	133.2	446.7	47.9	0	76.6	448.2	227.5	1380.1
Jun-10	31.6	83.6	13.3	0	22.4	109.5	49.1	309.4
Sep-10	37.0	87.1	7.7	0	22.4	110.7	54.7	319.7
Dec-10	29.6	146.0	0.0	0	13.5	101.0	53.3	343.4
Mar-11	34.9	130.0	26.9	0	18.3	127.0	70.4	407.6
							0.0	
FY11/12	138.3	526.3	91.5	0	77.1	509.3	275.4	1617.9
Jun-11	33.5	163.2	28.9	0	22.7	134.2	66.9	449.4
Sep-11	38.7	89.4	6.4	0	20.5	117.1	73.9	346.0
Dec-11	34.8	145.8	0.0	0	14.7	111.0	62.7	368.9
Mar-12	31.3	128.0	56.2	0	19.2	147.0	71.9	453.6
FY12/13	131.8	516.7	54.7	0	80.2	706.8	253.0	1743.2
Jun-12	31.8	132.4	37.5	0.0	22.3	126.8	66.7	417.5
Sep-12	34.7	130.7	0.5	0.0	19.8	162.3	58.6	406.5
Dec-12	32.4	117.2	0.0	0.0	19.3	223.5	57.9	450.3
Mar-13	33.0	136.4	16.8	0.0	18.8	194.2	69.7	468.9
FY13/14	125.0	526.1	53.7	0	70.9	510.3	260.1	1546.1
Jun-13	31.6	127.0	36.3	0.0	23.5	98.9	62.3	379.7
Sep-13	30.6	117.6	0.0	0.0	18.6	126.6	75.5	368.9
Dec-13	32.8	142.7	0.0	0.0	13.8	171.9	55.4	416.5
Mar-14	30.0	138.7	17.4	0.0	15.1	112.9	66.8	380.9
FY13/14								
Jun-14	34.4	108.6	26.5	0.0	21.0	90.4	67.3	348.3

10: BALANCE OF PAYMENTS QUARTERLY SUMMARY
(US$MN)

	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14
1. Current Account	**- 321.64**	**- 552.26**	**- 428.30**	**- 280.66**	**- 289.02**	**- 403.50**	**- 338.55**	**- 144.06**	**- 296.54**
A. Goods Balance	**- 951.95**	**-1 077.16**	**- 933.31**	**- 992.81**	**- 882.81**	**- 949.00**	**- 972.41**	**- 900.92**	**- 958.31**
Exports (f.o.b)	417.48	407.11	450.27	468.89	379.71	369.10	416.54	380.91	348.27
Imports (f.o.b)	1 369.43	1 484.27	1 383.58	1 461.70	1 262.51	1 318.10	1 388.95	1 281.83	1 306.58
B. Services Balance	**147.35**	**72.53**	**62.01**	**241.07**	**161.88**	**91.81**	**103.64**	**257.96**	**153.65**
Transportation	- 171.57	- 201.17	- 189.01	- 186.71	- 150.25	- 169.16	- 177.73	- 159.28	- 165.37
Travel	469.42	433.39	406.09	576.90	468.41	419.24	438.16	594.85	503.92
Other Services	- 150.50	- 159.70	- 155.07	- 149.11	- 156.28	- 158.27	- 156.79	- 177.62	- 184.89
Goods & Services Balance	**- 804.60**	**-1 004.63**	**- 871.30**	**- 751.73**	**- 720.93**	**- 857.19**	**- 868.77**	**- 642.97**	**- 804.66**
C. Income	**- 51.13**	**- 65.89**	**- 104.86**	**- 47.22**	**- 112.82**	**- 89.65**	**- 83.94**	**- 57.01**	**- 58.36**
Compensation of employees	10.58	12.17	21.09	- 1.88	0.49	15.35	15.92	1.46	- 0.80
Investment Income	- 61.72	- 78.06	- 125.95	- 45.34	- 113.30	- 105.00	- 99.86	- 58.47	- 57.56
D. Current Transfers	**534.10**	**518.27**	**547.86**	**518.29**	**544.72**	**543.35**	**614.16**	**555.92**	**566.47**
General Government	49.31	48.42	50.56	57.59	45.72	57.92	98.08	63.92	46.58
Other Sectors	484.79	469.84	497.30	460.70	499.00	485.43	516.08	492.00	519.89
2. Capital & Financial Account	**321.64**	**552.26**	**428.30**	**280.66**	**289.02**	**403.50**	**338.55**	**144.06**	**296.54**
A. Capital Account	**- 6.91**	**- 5.03**	**- 7.18**	**5.18**	**- 5.26**	**- 7.16**	**- 5.56**	**- 7.89**	**- 6.92**
Capital Tranfers	- 6.91	- 5.03	- 7.18	5.18	- 5.26	- 7.16	- 5.56	- 7.89	- 6.92
General Government	1.53	2.70	0.16	13.68	3.08	0.47	1.68	0.61	1.42
Other Sectors	- 8.44	- 7.73	- 7.34	- 8.51	- 8.34	- 7.63	- 7.24	- 8.51	- 8.34
Acq/disp of non-produced non-fin assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
B. Financial Account	**240.96**	**264.07**	**356.27**	**564.66**	**590.86**	**376.60**	**363.19**	**426.79**	**390.91**
Direct Investment	102.59	108.57	76.11	100.61	197.48	166.99	158.10	174.75	221.26
Portfolio Investment	- 272.19	- 143.89	108.70	- 8.62	12.73	50.10	32.18	51.63	12.13
Other official investment	137.71	- 179.03	47.11	22.68	180.78	77.43	215.71	99.89	109.48
Other private Investment	36.14	195.83	- 7.87	208.65	318.83	- 11.00	94.89	356.31	120.55
Reserves	236.71	282.60	132.23	241.33	- 118.97	93.07	- 137.68	- 255.79	- 72.51
Errors & Omissions	87.60	293.21	79.20	- 289.17	- 296.58	34.06	- 19.08	- 274.84	- 87.45

11: FOREIGN EXCHANGE SELLING RATES
(J$ per unit of foreign currency – end of period)

		US$	Can$	GB £
FY09/10	Jun-09	88.8200	71.9700	129.0200
	Sep-09	89.0700	76.8400	148.0800
	Dec-09	89.0800	82.7600	142.1600
	Mar-10	89.6000	84.5700	143.5500
FY10/11	Jun-10	89.5100	88.0600	135.0700
	Sep-10	86.0200	82.2600	128.5800
	Dec-10	86.2500	83.8400	135.8700
	Mar-11	85.8600	85.3400	133.7400
FY11/12	Jun-11	85.9100	88.6100	137.7700
	Sep-11	86.3000	83.3100	134.6900
	Dec-11	86.6000	84.2000	134.4400
	Mar-12	87.3000	87.6500	139.2800
FY12/13	Jun-12	88.7000	86.7100	138.6600
	Sep-12	89.9300	91.4200	145.3900
	Dec-12	92.9800	93.3100	152.6400
	Mar-13	98.8900	97.9900	151.9000
FY13/14	Jun-13	101.3800	96.7000	154.4800
	Sep-13	103.6000	100.7100	167.1600
	Dec-13	106.3800	99.7200	175.8400
	Mar-14	109.5700	98.9300	181.7700
FY14/15	Jun-14	112.2022	103.1802	191.8988
	Sep-14	112.6662	101.0142	180.2393

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

		(US$MN) Gross Foreign Assets	(US$MN) Gross Foreign Liabilities	(US$MN) International Reserves (Net)	Weeks of Imports Goods	Goods & Services
FY09/10	Jun-09	1,660.60	41.20	1,619.40	18.50	13.10
	Sep-09	2,007.20	74.00	1,933.20	22.10	15.60
	Dec-09	1,758.90	22.50	1,736.40	19.20	13.50
	Mar-10	2,414.40	662.50	1,751.90	26.50	18.60
FY10/11	Jun-10	2,526.70	730.90	1,795.80	25.40	18.60
	Sep-10	2,789.70	816.00	1,973.70	29.60	21.50
	Dec-10	2,979.20	807.80	2,171.40	31.90	23.20
	Mar-11	3,434.70	881.50	2,553.20	37.20	26.70
FY11/12	Jun-11	3,156.70	889.60	2,267.10	28.50	21.40
	Sep-11	2,949.20	868.60	2,080.60	27.80	20.70
	Dec-11	2,820.40	854.30	1,966.10	25.50	19.20
	Mar-12	2,638.90	861.80	1,777.10	23.20	17.50
FY12/13	Jun-12	2,385.10	844.70	1,540.40	21.10	15.90
	Sep-12	2,115.90	858.10	1,257.80	18.90	14.10
	Dec-12	1,980.80	855.20	1,125.60	17.70	13.20
	Mar-13	1,718.40	834.10	884.30	15.40	11.50
FY13/14	Jun-13	1,881.10	877.90	1,003.20	16.70	12.60
	Sep-13	1,713.50	803.40	910.10	15.80	11.90
	Dec-13	1,817.60	769.70	1,047.90	17.30	12.80
	Mar-14	2,048.60	745.00	1,303.60	19.10	14.40
FY14/15	Jun-14	2,016.53	640.40	1,376.13	20.19	14.57
	Sep-14	2,715.25	514.68	2200.57	27.17	19.52

13: VALUE ADDED BY INDUSTRY AT CONSTANT (2007) PRICES (% CHANGE)

September 2012 – June 2014 (Seasonally Unadjusted)

(Percentage Change (%) Over the Corresponding Quarter of Previous Year)

	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14
Total Value Added at Basic Prices	-0.1	-0.3	-1.2	-1.2	-0.2	0.4	1.8	1.6	1.8
Agriculture, Forestry & Fishing	9.1	1.5	-8.4	-11.7	-6.5	5.4	13.2	17.7	16.6
Mining & Quarrying	-9.5	-10.6	-10.3	-9.6	5.2	5.0	11.5	8.5	-0.4
Manufacturing	-1.9	0.4	-1.8	-0.9	0.4	-0.6	-1.1	-1.2	4.1
Food, Beverages & Tobacco	0.3	2.0	-0.8	0.2	-0.3	-0.7	2.6	-1.0	3.4
Other Manufacturing	-5.2	-1.6	-2.7	-2.4	1.5	-0.6	-4.5	-1.5	5.2
Construction & Installation	-4.2	-4.0	-3.3	0.4	2.2	2.2	2.8	1.2	1.2
Electricity & Water	-1.7	-1.2	-3.8	-3.0	-2.0	-3.6	1.0	0.5	-1.6
Wholesale & Retail Trade; Repairs; Installation Of Machinery	-1.4	-1.5	-1.9	0.1	-0.5	-0.1	0.1	0.1	0.1
Hotels and Restaurants	4.6	2.9	-1.3	-2.0	0.7	0.9	5.9	0.2	2.3
Transport, Storage & Communication	-1.3	1.5	2.0	0.9	-0.7	0.4	1.1	0.7	1.0
Finance & Insurance Services	1.0	0.2	0.7	0.3	0.5	0.2	0.4	0.2	0.2
Real Estate & Business Services	-1.3	-0.5	0.3	0.3	0.3	0.3	0.4	0.6	0.6
Government Services	0.2	-0.8	0.1	-0.1	-0.3	-0.3	-0.2	-0.2	-0.2
Other Services	1.5	2.5	0.3	-0.3	1.0	-0.8	0.8	0.4	1.1
Less Financial Intermediation Services Indirectly Measured (FISIM)	-2.9	-2.9	-3.4	-2.2	-0.1	0.2	0.5	-0.2	-0.8

14: USD LONDON INTERBANK OFFER RATE-LIBOR (End- of-Period)

		1-month	3-month	6-month	12-month
FY09/10	Jun-09	0.3089	0.5950	1.1112	1.6063
	Sep-09	0.2456	0.2869	0.6288	1.2638
	Dec-09	0.2309	0.2506	0.4297	0.9844
	Mar-10	0.2486	0.2915	0.4444	0.9200
FY10/11	Jun-10	0.3484	0.5339	0.7525	1.1731
	Sep-10	0.2563	0.2900	0.4625	0.7778
	Dec-10	0.2606	0.3028	0.4559	0.7809
	Mar-11	0.2435	0.3030	0.4595	0.7825
FY11/12	Jun-11	0.1856	0.2458	0.3978	0.7335
	Sep-11	0.2394	0.3743	0.5578	0.8649
	Dec-11	0.2953	4.9075	0.8085	1.1281
	Mar-12	0.2413	0.4682	0.7334	1.0485
FY12/13	Jun-12	0.2458	0.4606	0.7344	1.0680
	Sep-12	0.2143	0.3585	0.6359	0.9730
	Dec-12	0.2087	0.3060	0.5083	0.8435
	Mar-13	0.2037	0.2826	0.4449	0.7315
FY13/14	Jun-13	0.1958	0.2731	0.4144	0.6902
	Sep-13	0.1789	0.2489	0.3685	0.6294
	Dec-13	0.1677	0.2461	0.3480	0.5831
	Mar-14	0.1520	0.2306	0.3289	0.5581
FY14/15	Jun-14	0.1552	0.2307	0.3268	0.5451
	Sep-14	0.1565	0.2351	0.3304	0.5786

15: PRIME LENDING RATES (End–of–Period)

		EURO-ZONE	UNITED STATES			UNITED KINGDOM
		Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Repo rate
FY09/10	Jun-09	1.00	0 – 0.25	0.50	3.25	0.50
	Sep-09	1.00	0 – 0.25	0.50	3.25	0.50
	Dec-09	1.00	0 – 0.25	0.50	3.25	0.50
	Mar-10	1.00	0 – 0.25	0.75	3.25	0.50
FY10/11	Jun-10	1.00	0 – 0.25	0.75	3.25	0.50
	Sep-10	1.00	0 – 0.25	0.75	3.25	0.50
	Dec-10	1.00	0 – 0.25	0.75	3.25	0.50
	Mar-11	1.00	0 - 0.25	0.75	3.25	0.50
FY11/12	Jun-11	1.25	0 – 0.25	0.75	3.25	0.50
	Sep-11	1.50	0 – 0.25	0.75	3.25	0.50
	Dec-11	1.00	0 – 0.25	0.75	3.25	0.50
	Mar-12	1.00	0 - 0.25	0.75	3.25	0.50
FY12/13	Jun-12	1.00	0 - 0.25	0.75	3.25	0.50
	Sep-12	0.75	0 - 0.25	0.75	3.25	0.50
	Dec-12	0.75	0 - 0.25	0.75	3.25	0.50
	Mar-13	0.75	0 - 0.25	0.75	3.25	0.50
FY13/14	Jun-13	0.50	0 - 0.25	0.75	3.25	0.50
	Sep-13	0.50	0 - 0.25	0.75	3.25	0.50
	Dec-13	0.25	0 - 0.25	0.75	3.25	0.50
	Mar-14	0.25	0 - 0.25	0.75	3.25	0.50
FY14/15	Jun-14	0.15	0 - 0.25	0.75	3.25	0.50
	Sep-14	0.05	0 - 0.25	0.75	3.25	0.50

16: INTERNATIONAL EXCHANGE RATES

		Sterling vs. US$	Canadian $ vs. US$	Yen vs. US$	Euro vs. US$
FY09/10	Jun-09	0.6076	1.1623	96.3600	0.7126
	Sep-09	0.6249	1.0722	89.4990	0.6835
	Dec-09	0.6184	1.0532	93.0300	0.6978
	Mar-10	0.6586	1.0153	93.4700	0.7402
FY10/11	Jun-10	0.6691	1.0606	88.5310	0.8137
	Sep-10	0.6358	1.0298	83.5200	0.7353
	Dec-10	0.6411	0.9946	81.1260	0.7468
	Mar-11	0.6232	0.9718	82.7770	0.7051
FY11/12	Jun-11	0.6230	0.9634	80.5600	0.6896
	Sep-11	0.6417	1.0503	77.0600	0.7468
	Dec-11	0.6435	1.0213	76.9100	0.7714
	Mar-12	0.6256	0.9991	82.4340	0.7500
FY12/13	Jun-12	0.6376	1.0191	79.8040	0.7894
	Sep-12	0.6199	0.9837	77.9480	0.7779
	Dec-12	0.6150	0.9949	86.6630	0.7584
	Mar-13	0.6588	1.0156	94.0370	0.7787
FY13/14	Jun-13	0.6575	1.0512	99.1700	0.7687
	Sep-13	0.6181	1.0285	98.3270	0.7389
	Dec-13	0.6034	1.0636	105.2030	0.7258
	Mar-14	0.6012	1.1053	103.0100	0.7259
FY14/15	Jun-14	0.5846	1.0676	101.2900	0.7305
	Sep-14	0.6168	1.1196	109.6491	0.7917

17: WORLD COMMODITY PRICES (Period Averages)

		CRUDE OIL PRICES		FOOD	
		North Sea Brent (US$/barrel – f.o.b.)	West Texas Intermediate (US$/barrel – f.o.b.)	Wheat (US$/mt, Average Winter)	Coffee (USc/kg, Arabica brand)
FY09/10	Jun-09	59.13	59.62	223.18	320.15
	Sep-09	68.37	68.30	186.95	322.75
	Dec-09	74.97	76.16	200.49	341.67
	Mar-10	76.65	78.72	194.47	353.67
FY10/11	Jun-10	78.69	78.03	182.14	392.00
	Sep-10	76.41	76.20	245.66	468.49
	Dec-10	86.80	85.17	284.25	513.85
	Mar-11	104.90	94.10	325.63	620.03
FY11/12	Jun-11	117.10	102.56	320.60	636.54
	Sep-11	112.48	89.76	293.06	597.37
	Dec-11	109.29	94.06	265.07	536.18
	Mar-12	118.60	102.94	268.88	486.95
FY12/13	Jun-12	108.86	93.50	260.39	400.35
	Sep-12	109.95	92.22	341.46	399.96
	Dec-12	110.45	88.19	346.48	357.12
	Mar-13	112.91	94.40	309.51	335.49
FY13/14	Jun-13	103.01	94.23	294.50	319.86
	Sep-13	110.10	105.83	281.76	298.23
	Dec-13	109.41	97.48	292.20	276.82
	Mar-14	107.88	98.67	280.67	382.67
FY14/15	Jun-14	109.78	102.98	292.86	467.06
	Sep-14	102.08	97.07	262.50	455.92

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 monetary base is the operating target used in the BOJ monetary policy framework and can be controlled through open market operations. Changes in the monetary base emanate from sources within the net domestic assets (NDA) as well as the net international reserves (NIR).

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.

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 in their vaults (vault cash). Bank of Jamaica redeems (buys) or issues (sells) notes and coins to financial institutions when institutions have a demand for cash. The difference between currency issued and that which is redeemed during a period of time is referred to as net currency issue.

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.

Export Price Index: The export price index (EPI) is a weighted index of the prices of goods and services sold by residents of a country to foreign buyers.

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.

Import Price Index: The import price index (IPI) is a weighted index of the prices of goods and services purchased by residents of a country from foreign sellers.

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.

JSE Indices: The **JSE Index** comprises all Ordinary Companies on the Main Market. The **JSE Combined Index** comprises all Ordinary Companies on the Main Market and Junior Market. The **JSE All Jamaican Composite Index** comprises of only Jamaican Companies on the Main Market. The **JSE Select Index** comprises the JSE's 15 most liquid Securities on the Main Market. The **JSE Cross Listed Index** is comprised of only foreign companies on the Main Market. **The Junior Index** comprises all Ordinary Companies on the Junior Stock Market.

Liquid Asset: An asset is considered liquid if it can be easily and with little or no loss converted 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 Multiplier: This defines the relationship between the monetary base (M0) and the money supply and is usually calculated as the ratio of M3 to M0. It measures the maximum amount of money that can be created by the banking system given the provision of an additional dollar to the system by the central bank. The money multiplier implies that when the central bank conducts monetary policy in such a way as to increase the monetary base, the overall expansion in the money supply is a multiple of this initial increase. This is also true if the central bank reduces the monetary base.

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.

Net Domestic Assets: The difference between the monetary base and the NIR. It is comprised of the Bank's net claims on the public sector, mainly Central Government, open market operations liabilities and net claims on commercial banks and other financial institutions.

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 outright sale or purchase of GOJ securities from the stock of securities held by BOJ, and/or repurchase and reverse repurchase transactions.

Operating Rate: The percentage of total production capacity of some entity, such as a country or a company that is being utilized at a given time.

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.

Public Sector Entities (PSE) Foreign Exchange Facility: A foreign exchange surrender facility for public sector entities which seeks to centralize foreign currency demand. Under this facility Commercial Banks, Authorized Dealers and Cambios agreed to surrender amounts in addition to the pre-existing requirements.

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

Quasi-money: Savings Deposits plus Time Deposit.

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.

Special Drawing Right: The SDR is an interest-bearing international reserve asset created by the IMF to supplement the official reserves of member countries.

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.

Terms of Trade: An index of the ratio of export prices to the index of import prices. An improvement in the terms of trade follows if export prices rise more quickly than import prices.

Tourism Implicit Price Index: a measure of prices in the tourism industry as reflected by average daily expenditure per tourist.

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