



News Release  
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Address by  
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**Governor, Bank of Jamaica**  
**Quarterly Press Briefing**

Good Morning Ladies and Gentlemen:

This morning we are releasing the Monetary Policy Report for the quarter ended June 2008. I will, as usual, give you brief highlights of the financial and economic developments and trends that influenced monetary policy during the review quarter. I will also provide you with some insight into just how the Bank sees things for the near-term.

***Monetary Policy***

For the quarter ended in June, monetary policy continued to be severely challenged by the global economic developments that have been affecting the Jamaican economy since the beginning of the year. Chief among these developments were the sharper than anticipated increases in the prices of some international commodities notably crude oil and grains, which contributed to a further rise in global inflation. The increases in the price of these commodities fuelled inflation in Jamaica, and heightened inflation expectations generally. The challenge for the central bank was therefore to moderate medium-term inflation expectations by limiting the pass-through of rising commodity prices to core inflation. It is in this context that *the Bank of Jamaica increased interest rates across the entire spectrum of its open market instruments on the 26<sup>th</sup> June 2008.*

***Inflation***

With the expectations of continued increases in international commodity prices together with administrative price increases and the removal of Government subsidies on selected items, the Bank was expecting inflation to remain elevated in the range of 5.0 percent to 6.0 percent in the June quarter.

As it has turned out, *headline inflation for the June quarter was 6.0 per cent*, the upper end of the range of our forecast for the quarter. Sharp increases in the prices of international commodities were the dominant factors influencing the inflation out-turn in the June quarter.

In particular, the price of the West Texas Intermediate crude oil rose to an average of US\$123.91 per barrel for the quarter, an increase of 26.5 per cent. On the 27<sup>th</sup> June 2008 the price of oil rose to a record high of US\$140.21 per barrel. The movement in oil prices during the quarter followed an increase of 15.4 per cent in the March quarter. Accordingly, the prices of the energy-related components of the CPI moved upwards in the review period. The price of rice also rose by a whopping 80.2 per cent, while the price of corn increased by 17.5 per cent during the quarter. These increases, coupled with higher prices for some domestic agricultural commodities contributed to an upward movement in the food component of the domestic CPI.

The implementation of the revenue enhancing measures announced in the Budget, as well as the administrative increases in taxi fares and water rates also contributed to the high inflation out-turn for the quarter.

Against the background of a still challenging international environment, the improvement in the fiscal performance has been providing monetary policy with much needed support. There are also signs of an emerging improvement as commodity prices are beginning to soften possibly signaling the turning point to some recovery.

The Bank's most recent projection for the *September quarter* is that headline inflation will be in the range of 5.5 per cent to 6.5 per cent. This is based on the expectation of upward movements in some domestic administered prices, including increased bus fares in rural areas, the annual adjustment to electricity tariff rates and the assumption that international commodity prices may be trending down.

For the fiscal year 2008/09 the Bank's forecast is for inflation to be in the range of 15.0 per cent to 17.0 per cent. The forecast takes account of the projection for inflation in the September quarter, the lagged pass-through of previous price increases, the possibility of domestic agricultural commodity prices remaining elevated as well as the positive signs that commodity prices may be trending down.

### ***Foreign Exchange Market***

In the context of increasing inflation, ***the foreign exchange market was relatively stable in the June quarter.*** The stability reflected the continued impact of the monetary policy actions that were taken in the previous quarter as well as the general uncertainty surrounding external financial markets and the low levels of Jamaica dollar liquidity. Nonetheless, demand pressures in the month of June contributed to ***an overall depreciation of 1.11 per cent in the weighted average selling rate of the Jamaica Dollar vis-à-vis the US dollar for the quarter.*** However, the level of depreciation for the quarter was below the average of 1.55 per cent experienced for the past five June quarters.

The demand pressures in June were related to the increased foreign exchange demand from the energy and telecommunication sectors as well as heightened inflation expectations which led to increased investor preference for US dollar denominated assets. Consequently, the Bank sold foreign currency to augment the supplies of foreign exchange to the productive sector. Because of the strong purchases of foreign exchange from the market in April and May, the effect of the foreign currency sales on the NIR was minimal. At end-June the net international reserves was US\$2 228.8 million, or US\$205.4 million above the target.

Going forward into the ***September 2008 quarter***, the Bank is expecting increased inflows of foreign currency from earnings of selected exports as well as from remittances. In addition, foreign currency was boosted in late July/early August by the inflow of funds related to the Lascelles DeMercado/Angostura transaction. This added liquidity to the market and contributed to an appreciation in the exchange rate.

The Bank is anticipating that later in the quarter there will be increased demand for foreign exchange arising from payments for merchandise imports. The demand for foreign exchange could also be exacerbated by coupon and dividend payments related to corporate entities.

However, with the achievement of some balance in supply and demand, the Bank expects that the foreign exchange market will remain relatively stable for the rest of this quarter.

### ***Real Sector Performance***

***The Bank's estimate of real GDP suggests that economy activity remained weak in the June 2008 quarter. Construction & Installation, Real Estate & Business Services and Miscellaneous Services***, which includes ***Tourism***, recorded relatively robust growth while the other sectors were estimated to have either grown marginally or declined.

The continuing uncertainty in the global financial markets, the increase in international commodity prices and the slowdown in world economic growth contributed to the overall weak performance of the domestic economy in the June quarter. In addition, unfavourable domestic conditions such as drought and power outages contributed to a reduction in capacity utilization in some industries.

***The Central Bank is forecasting more robust growth for the September quarter.*** The forecast for the quarter is largely predicated on recovery in the *Mining & Quarrying, Manufacturing and Electricity & Water* sectors. Recall that in a number of sectors growth in the September 2007 quarter was adversely affected by the impact of Hurricane Dean. *Construction & Installation* and *Real Estate & Business Services* are also expected to continue to experience strong growth.

***For the fiscal year 2008/09, the Bank is now forecasting that the domestic economy will grow in the range of 1.2 per cent to 2.2 per cent.*** The downward revision from our previous forecast is due to the impact of the slowdown in global growth.

### ***Conclusion***

Ladies and Gentlemen:

The Jamaican economy, like most of the world, is going through challenging times. Growth in the world economy has continued to weaken, led by the slowdown in the USA and ongoing problems in the financial markets. Concurrently, there have been sharp increases in international commodity prices, adding to the global inflationary risks. While we have been seeing some softening in international commodity prices in recent weeks, they nonetheless remain at an elevated level. In contrast, the slowing of demand from our major trading partners has depressed the prices of Jamaica's main goods and services exports to our further disadvantage.

Consequently, the terms of trade have been moving against us, as demonstrated by the growing imbalance on the current account of Jamaica's balance of payments.

The possibility of adverse weather conditions related to the above-normal activity that is predicted for this hurricane season is another concern making the near-term outlook still cloudy. In these very difficult times it is important that we bear in mind what monetary policy can and cannot achieve. As I have said before, the challenge for the central bank is always to moderate medium-term inflation expectations and it is therefore the outlook for the medium-term on which monetary policy must now be focused. The Bank of Jamaica will remain vigilant in monitoring and assessing the developments and you can be assured that we will take appropriate action as the situation demands.

Thank you.