QUARTERLY MONETARY POLICY REPORT

October – December 2006

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Bank of Jamaica

Quarterly Monetary

Policy Report

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CONTENTS

PREFACE

The Bank of Jamaica's Quarterly Monetary Policy Report reviews the conduct of monetary policy and the main factors that influenced inflation during the quarter. It also presents the Bank's perspective on emerging economic trends and the path of monetary policy over the short to medium term. This issue includes a discussion of factors influencing the demand for currency issued by the Bank of Jamaica and the impact of currency demand on the balance sheet of financial institutions.

The developments in the review quarter are set against policy targets for the fiscal year, which runs from April to March. In some instances the data used in the preparation of the report are provisional and are therefore subject to change.

OVERVIEW

The macroeconomic environment in the December 2006 quarter was generally favourable, despite some bouts of volatility in the foreign exchange market. The inflation outturn for the review period was significantly lower than anticipated consequent on a sharp reversal in the price of international crude oil and significant agricultural supply. The low inflation for the quarter was also facilitated by continued moderation in underlying inflation as well as relative foreign exchange market stability supported by growth in receipts from tourism and remittances. In the context of these flows, the net international reserves (NIR) of the Bank of Jamaica (BOJ) remained at a relatively high level throughout the review quarter. Economic growth for the December 2006 quarter continued at a rate similar to the two previous quarters. Against the background of these favourable developments and expectations of continued decline in inflation and strong GDP growth, the BOJ reduced interest rates on all tenors of open market operation (OMO) instruments on 22 December 2006 by 30 basis points (bps). The Bank's decision to reduce rates was also supported by the absence of further tightening of the US Federal Reserve funds target rate and a decline in yields on Government of Jamaica (GOJ) US global bonds by 42 bps during the review quarter.

Headline inflation for the review quarter was 0.3 per cent, comparing favourably to 2.4 per cent for the September quarter and 0.9 per cent for the corresponding quarter of 2005. The low inflation for the December 2006 quarter resulted in calendar year 2006 inflation of 5.8 per cent, well below the 12.9 per cent for the previous year. Inflation for the review quarter also represented the lowest inflation rate for a December quarter since 2000.

Core inflation fell to 0.6 per cent for the review quarter, comparing favourably to 1.1 per cent and 1.0 per cent for the September 2006 and December 2005 quarters, respectively. This outturn brought annual core inflation to 3.4 per cent relative to 3.8 per cent at the end of the previous quarter. The estimate for the fiscal year to end

December 2006 was 2.5 per cent, well below the 4.1 per cent for the comparable period in 2005. The continued moderation in core reflected low monetary impulses over the previous two quarters.

For the December 2006 quarter, base money grew by 22.5 per cent, 3.0 percentage points above the programme target. This expansion was primarily influenced by higher than projected unwinding of OMO securities, primarily to facilitate the seasonal increase in currency issue. (**Box 1** outlines the key factors influencing the demand for currency in Jamaica.) The expansion in the monetary base during the review quarter was partly offset by a US$20.4 million contraction in the NIR. The decline in the NIR primarily reflected GOJ debt payments and net intervention sales by the Bank. Despite this reduction, at end December, the NIR was US$2 317.6 million, US$273.8 million above the programme target.

The Bank's preliminary assessment of real sector activity indicates the continuation of strong growth in the December 2006 quarter. The growth within the economy was driven primarily by **Transport, Storage & Communication**, **Mining & Quarrying**, **Agriculture, Forestry & Fishing** and **Construction & Installation**. The Bank's estimates suggest that **Manufacturing** was the only sector to have declined. Estimates of the change in aggregate demand suggest that growth was reflected in all components.

The sustained improvement in economic activity during calendar year 2006 supported strong earnings performance of listed companies on the stock market in the December 2006 quarter. The Main JSE Index increased by 16.8 per cent in the December 2006 quarter, reversing an average decline of 5.9 per cent during the previous three quarters. Strong share price appreciations were evident for several listed financial and manufacturing firms.

The continued buoyancy in economic activity was supported by a 10.4 per cent expansion in private sector credit during the December 2006 quarter, following respective growth rates of 5.9 per cent and 4.9 per cent for the September 2006 and June 2006 quarters. Personal loans accounted for the largest share of the increase in private sector credit (37.7 per cent), with **Tourism** and **Distribution** receiving 19.8 per cent and 15.1 per cent, respectively.

The economic outlook for the March 2007 quarter remains positive. This outlook is based on continued strong GDP growth and low inflation underpinned by stability in the domestic and international macro-environment. In this regard, the main impetuses for growth are expected to emanate from construction, mining, tourism and agriculture.

Headline inflation is forecasted to be in the range of 0.4 per cent to 1.4 per cent for the March 2007 quarter, resulting in an inflation outturn in the range of 6.0 per cent to 7.0 per cent for fiscal year (FY) 2006/07. An upside risk to inflation is higher oil prices consequent on a reduction in international supply. However, inflation impulses during the quarter should be tempered by projected excess agricultural supply, the continuation of high real domestic interest rates compared to our main trading partners and low imported inflation.

The foreign exchange market is expected to remain relatively stable for the March 2007 quarter in the context of strong foreign currency inflows and favourable foreign and domestic macroeconomic conditions. Robust inflows are expected from a seasonal increase in tourist arrivals as well as visitor arrivals associated with the hosting of the Cricket World Cup during the quarter. Other factors that are expected to influence continued stability in the foreign exchange market in the March quarter include increased inflows consequent on higher export earnings from the goods producing sector as well as private capital. These strong inflows are expected to be supported by a seasonal reduction in outflows emanating from import demand for consumer durables, foreign travel by residents and remittances. The continuation of stable conditions in the foreign exchange market amid expectations of output expansion and low inflation will allow the Bank to maintain a conservative monetary policy stance during the March 2007 quarter.

1. Monetary Policy and Financial Markets

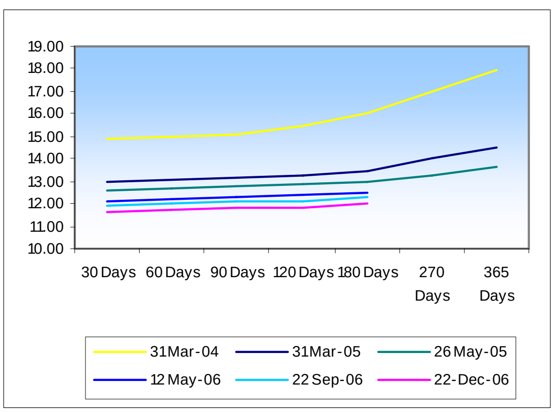
Interest rates reduced by 30 basis points

Table 1.1

Selected Economic Indicators	Projections for Dec'06 Quarter	Outturn for Dec'06 Quarter	Targets for FY06/07	Outturn for FYTD
Inflation (% change)	1.5-2.5	0.3	*9.0 – 10.0*	*5.6*
Base Money (% change)	*19.5*	*22.5*	*11.7*	*32.9*
NIR (eop) (US$mn)	2253.1	*2317.55*	*2100.0*	*2043.8*
GDP (12-mth % chg.)	+ve	+ve	*3.0 – 4.0*	*+ve*

Figure 1.1

BOJ Open Market Operations Yield Curve



Money & Credit

Monetary Policy and Base Money Management

The Bank reduced interest rates on 22 December 2006 in a context of continued improvement in the domestic macroeconomy. In particular, inflation continued to decline at a faster than expected pace while the foreign exchange market remained relatively stable despite high Jamaica Dollar liquidity. In addition, real sector activity remained buoyant while the medium-term prospects for the economy continued to be positive. Further, international conditions remained favourable.

The demand for transaction balances increased above the programme target during the quarter, consistent with economic activity, as well as higher than anticipated increase in employment and wages. The Bank's view was that a higher than programmed supply of high-powered money, given the higher demand, would not jeopardize the inflation objective.

During the December quarter, the Bank continued the gradual easing of its monetary policy stance by reducing interest rates across the spectrum of instruments used in open market operations (OMO) on 22 December 2006. The OMO yield curve was lowered by 30 basis points (bps), with rates ranging from 11.65 per cent on the 30-day tenor to 12.00 per cent on the 180-day tenor (see **Figure 1.1**).

The reduction in rates came against the background of continued strong economic performance, a favourable international environment and positive medium- term economic outlook. In particular, inflation for the quarter of 0.3 per cent was the lowest for December quarters over the last five fiscal years. This outturn for the review quarter contributed to inflation of 5.8 per cent for the calendar year and 5.6 per cent for the fiscal year to December.

The continued stability of the foreign exchange market during the quarter was another factor supporting the rate cut. Similar to the September quarter, this stability was largely underpinned by strong foreign exchange inflows from tourism and remittances. There were

Table 1.2

Net International Reserves Oct–Dec 2006 Flows (US$MN)				
	Oct	Nov	Dec	Total
NIR	-35.6	46.6	-31.3	-20.4

episodes of pressure in the market, however, due mainly to increased demand to finance the seasonal increase in imports. In this context, the Bank occasionally sold foreign currency to augment the supply (see **Foreign Exchange Market**). This led to a decline in the NIR of US$20.4 million but contained the rate of depreciation to 1.6 per cent for the quarter. Net foreign currency reserves ended the quarter at $2 317.6 million, significantly higher than the programmed target (see **Tables 1.1 and 1.2**). The stock was also projected to exceed the programme target at the end of the fiscal year putting the Bank in a relatively good position to underwrite stability in the market.

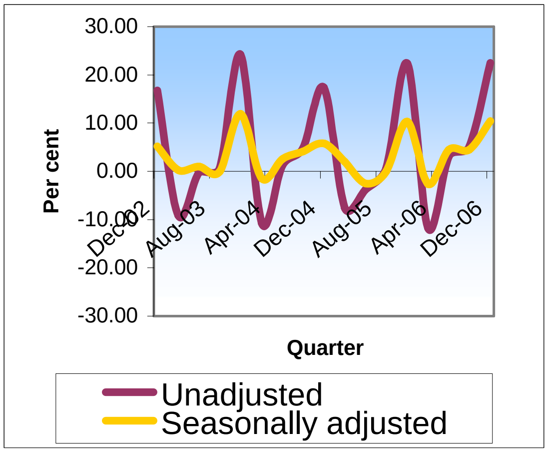
The continued buoyancy in real sector activities also supported the Bank's decision to reduce interest rates. It was estimated that real economic growth accelerated in the September quarter following growth of 2.6 per cent in the June quarter (see **Real Sector**). It was expected that this buoyancy would continue into the medium term mainly in light of the ongoing foreign direct investment projects. In this context, the improvement in the economic fundamentals were viewed as being sustainable.

The Bank was also encouraged by strong, positive investor sentiment. This was evidenced in the demand for GOJ debt instruments (see **Bond Market**). The strong demand for Jamaica Dollars was also influenced by positive real rates on Jamaica Dollars and a pause in the tightening of monetary policy in the US.

In keeping with the developments in the macroeconomy, the monetary base expanded by $10 655 million or 22.5 per cent during the December quarter (see **Figure 1.2**) relative to 19.5 per cent targeted in the financial programme. The higher than expected expansion was reflected in net currency issues of $10 173.9 million or 31.7 per cent, which was higher than the 26.5 per cent expansion set out in the financial programme. The higher than anticipated demand for currency can be attributed to higher than expected wage increases, retroactive salary payments[1] and vault cash levels. In addition, the faster than anticipated growth in currency was consistent with increased employment, especially in the construction and tourism sectors.

[1] This was mainly in the public sector.

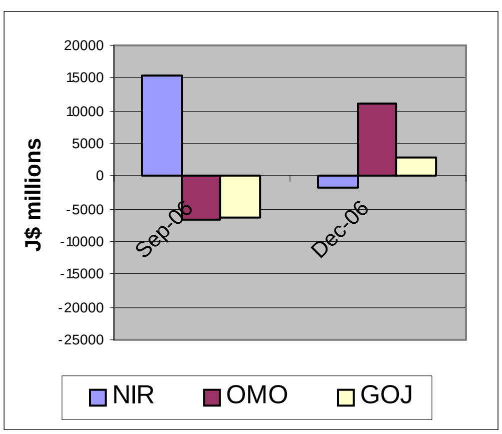
Figure 1.2
Base Money
(Quarterly Change)



Additional currency demand attributed to higher than expected wage increases, employment and vault cash levels.

Figure 1.3

*Effects of the NIR, GOJ & OMO on liquidity**



*Absorption-negative, Injection-positive

he main source of the deviation in the monetary base was the higher than expected open market maturities, which facilitated placements in Government offers during the quarter. This allowed the Government to build balances at the Bank in October and November, which were used to finance the payment of higher public sector salaries and retroactive salary payments in December. In this context, there was net unwinding of OMO instruments of $11 261.9 million (see **Figure 1.3**). The faster than programmed expansion in the base was not regarded as a threat to the inflation target given the underlying increase in the demand for money.

Box 1: Factors influencing the demand for currency issued by the Bank of Jamaica and the impact of currency demand on the balance sheets of financial institutions

Introduction

The Bank of Jamaica (BOJ) issues currency solely to commercial banks, building societies and cambios. The currency issued is based on orders placed by these institutions, which generally reflect the public's demand for notes and coins. This demand is influenced by a number of factors and has an impact on the balance sheets of financial institutions to which the currency is issued.

Background

Under the BOJ Act of 1960, the Bank has the sole right to issue and redeem notes and coins in Jamaica. The Bank also has a legal responsibility to honour the face value of the notes and coins issued and to satisfy the demand for currency. Another related requirement is that currency should be fully backed at all times[2].

As at 31 December 2006, the stock of currency issued by the BOJ (currency issue) amounted to $42 317.3 million, representing an increase of 13.3 per cent over the last ten years. The stock in 2006 was backed by gross foreign assets of approximately three and a half times the value of currency issue.

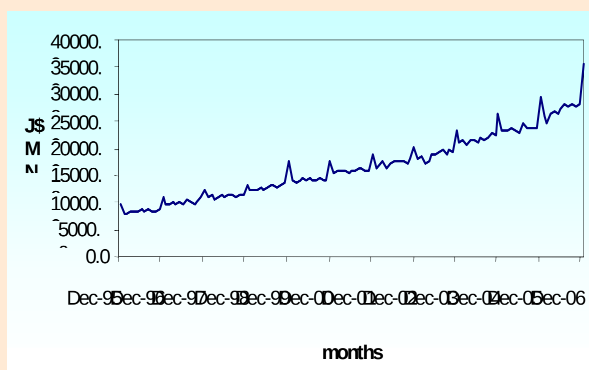
Notes and coins issued to financial institutions are divided into two components, currency in circulation and vault cash. Currency in circulation is the amount of cash that the public holds, largely based on its need to conduct transactions. On average, currency in circulation accounts for approximately 85.0 per cent of total currency issue. Vault cash is the term given to notes and coins in the vaults of commercial banks. Almost all of the currency demanded by the public is held within the boundaries of Jamaica, as the Jamaica Dollar is not demanded internationally to settle transactions. This is unlike the currencies of countries such as the USA.

The Demand for Currency

The factors that affect the demand for currency include calendar effects, the price level, income, interest rates and the availability of alternative means of payment. 'Calendar effects' is the term used in reference to the fluctuation in the demand for currency at special times of the year such as holidays and the end of month salary payment period. For example, the stock of currency is usually higher in December than at any other time of the year. This is attributed to the public's increased demand for cash for shopping and vacation expenses during the Christmas season (see **Figure 1**).

Figure 1

Currency in Circulation: December 1995 - December 2006



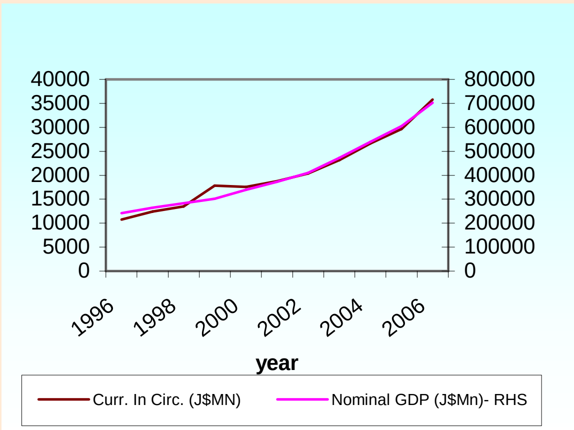
Currency demand also varies positively with changes in nominal income and the price level. As these increase, more currency would be needed to effect transactions (see **Figure 2**). In contrast, as interest rates increase, persons tend to hold

[2] This ensures financial convertibility, where a Dollar can be exchanged for a Dollar's worth of the institution's assets. Hence the Bank will always be in a position to pay the face value of the currency issued.

more interest-earning assets and less currency, as notes and coins do not generate interest income.

Figure 2

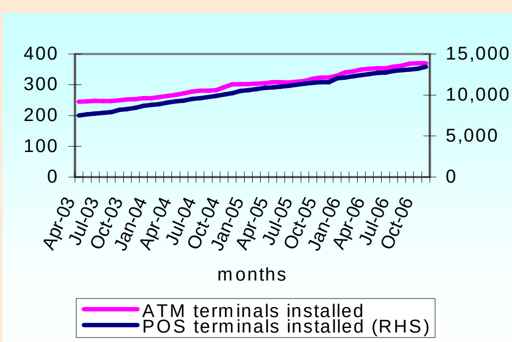
Currency in Circulation and Nominal GDP: December 1996 - December 2006



Alternative means of payment such as electronic funds transfer point of sale (EFTPOS)[3], internet banking and automated banking machines (ABMs) have varying effects on the demand for currency. Increased use of EFTPOS reduces currency demand. A wide distribution of ABMs, on the other hand, increases the demand for currency as this facilitates access to cash (see **Figure 3**). The annual growth in the value of EFTPOS transactions has been approximately 40.0 per cent over the period 2004 to 2006[4] relative to an average growth of approximately 15.7 per cent in currency in circulation.

Figure 3

Number of ATM and EFTPOS terminals: April 2003 – November 2006



Impact of the demand for currency on the balance sheets of financial institutions

The public obtains currency by withdrawing funds from deposit balances at financial institutions. This reduces the liabilities of the institutions. The institutions will in turn exchange some of their assets for the currency which they order from the BOJ. In December, for example, when currency demand is high, banks tend to unwind (cash in) maturing open market securities held with the BOJ to fund their payments for currency.

When the demand for currency falls, for example after a holiday, and merchants deposit the proceeds from their cash sales with their respective financial institutions, there is an increase in vault cash holdings. Since cash in their vaults generate no interest or is inconvenient to effect large value transactions, excess currency is then returned (redeemed) to the BOJ. The Bank in turn credits the financial institutions' current accounts by the value of the amount redeemed, thus increasing their liquidity position[5]. The currency stock and hence the level of reserves in the system therefore rises or falls depending on the public's demand for cash.

[3] These include credit and debit cards.

[4] Data for EFTPOS and ABM available since April 2003 and up to November 2006

[5] These reserves are in turn used to generate interest bearing assets such as open market securities, Government of Jamaica securities or loans to the private sector.

Figure 1.4
Money Supply
(Quarterly Growth rates)
Dec. 2002 to 2006

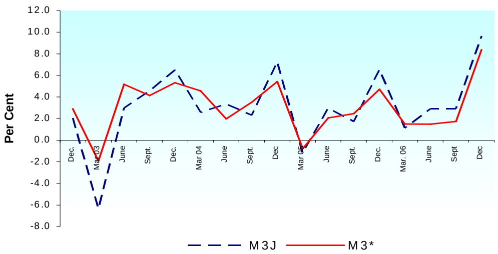


Table 1.3

Money Supply /1 (12-month growth rates)		
MJ	**Dec-05**	**Dec-06**
M1J	13.2	24.9
M2J	9.8	17.1
M3J	10.2	17.5
M*		
M1*	7.2	20.2
M2*	8.0	12.6
M3*	8.6	13.6

Table 1.4

INTEREST RATES IN THE DOMESTIC AND INTERNATIONAL MARKET	Nov-05	Sep-06	Nov-06
COMMERCIAL BANK WEIGHTED AVERAGE DEPOSIT RATES			
Overall	**5.37**	**5.23**	**5.04**
Demand	3.39	2.79	2.86
Savings	4.97	4.75	4.53
Time	6.92	6.88	6.93
Foreign Currency	**3.29**	**3.29**	**3.13**
Demand	3.07	2.67	2.76
Savings	2.30	2.21	2.17
Time	4.96	5.12	5.13
6-MONTH TREASURY BILL RATE	**13.15**	**12.49**	**12.31**
BOJ 180-DAY REPURCHASE AGREEMENT RATE	**13.00**	**12.30**	**12.30**
PRIVATE MONEY MARKET RATE	**12.95**	**12.40**	**12.30**
6-MONTH U.S. TREASURY RATE	**4.15**	**4.89**	**4.95**

Money Supply

During the December 2006 quarter, there was a faster than normal increase in broad Jamaica Dollar money supply (M3J). This was consistent with the faster than anticipated increase in base money. The growth in M3J during the quarter also exceeded the expansion outlined in the monetary programme. The outturn was reflected in the seasonally higher growth in currency as well as local currency deposits. This was associated with higher employment, increased wages and retroactive salary payments. The increase in local currency deposits also reflected positive investor confidence.

The measure of money supply that includes foreign currency deposits, M3, increased at a slower rate relative to M3J in the context of relatively stable foreign exchange market conditions. Consequently, the ratio of foreign currency deposits to total private sector deposits declined.*

For the December quarter, broad Jamaica Dollar money supply (M3J) increased by 9.7 per cent. This increase exceeded the 7.7 per cent growth anticipated in the monetary programme and the 7.8 per cent increase recorded in the December 2005 quarter (see **Figure 1.4**). The growth was also higher than the average of 5.1 per cent for the past five December quarters.

The main source of growth in M3J during the review quarter was the net unwinding of OMO securities amounting to $11 261.9 million. Banking system credit to the private sector of $9 091.9 million was the other major source of monetary expansion.

The faster rate of growth in M3J during the review quarter was reflected in increases in currency in circulation and local currency deposits of $7 333.8 million or 25.7 per cent and $13 398.4 million or 7.2 per cent, respectively. The expansion in currency in circulation was the highest recorded since the December quarter of 1999 when there was the Y2K phenomenon.[6] The growth in local currency deposits exceeded the five

[6] As the end of the twentieth century approached, there were concerns that computer systems around the world would stop working. Consequently, there was an abnormally high demand for currency for precautionary purposes.

Figure 1.5
Deposits in Commercial Banks
(Quarterly Growth Rates)
Dec. 2003 to 2006

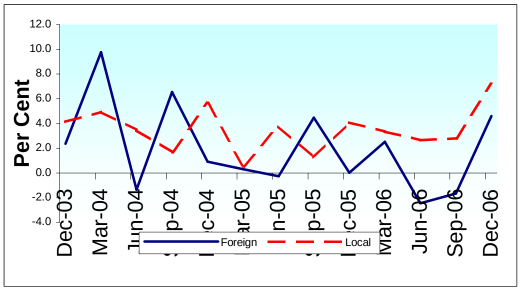


Figure 1.6
Foreign Currency Deposits to Total Deposits
Dec. 2003 to 2006

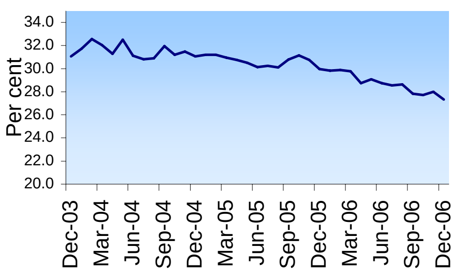


Figure 1.7
Money multiplier
(Quarterly Trend)
Dec. 2004 to 2006

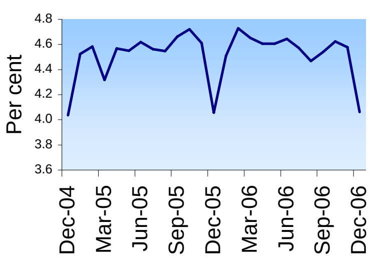


Table 1.5

COMPONENTS OF THE MONEY MULTIPLIER	Dec-05	Sep-06	Dec-06
	%	%	%
Currency to Deposits	17.34	15.26	17.91
Reserves to Deposits	11.58	10.13	11.11
Excess Reserves to Deposits	*3.90*	*2.13*	*3.69*
Cash Reserves to Deposits	*7.68*	*8.00*	*7.42*
Money Multiplier	**4.06**	**4.54**	**4.06**

year average of 3.0 per cent and was largely reflected in demand and time deposits which increased by 17.1 per cent and 6.5 per cent, respectively.

Savings deposits and other deposits increased by 5.8 per cent and 2.7 per cent, respectively. Continued buoyancy in economic activity, an increase in wages as well as retroactive salary payments and lower than expected inflation would have influenced the increases in all components of money supply during the review quarter.

For the December 2006 quarter, M3* grew by 8.4 per cent, relative to the 9.7 per cent increase in M3J (see **Figure 1.4**). Within M3*, foreign currency deposits expanded by 4.6 per cent following declines in the two previous quarters. The growth in the quarter was higher than the seasonal average of 2.3 per cent and was mainly influenced by the instability in the foreign exchange market in October and November (see **Foreign Exchange**). The ratio of foreign currency deposits to total private sector deposits was 27.3 per cent at end December 2006 relative to 27.8 per cent at end September 2006 and 29.6 per cent at end December 2005 (see **Figure 1.6**).

The money multiplier was 4.06 at end December 2006 and lower than the 4.54 recorded at the end of the previous quarter but the same as the outturn for December 2005. The outturn for the quarter reflected increases in both the currency to deposit and reserve to deposit ratios (see **Table 1.5**). Growth in the currency to deposit ratio was as a consequence of seasonal increase in demand for cash balances. The expansion in the reserves to deposit ratio was largely attributed to maintenance of higher vault cash holdings by commercial banks in order to meet increased demand by customers. The fall in the multiplier compensated for the faster than anticipated increase in the monetary base, and consequently dampened the potential impact of the monetary base on inflation.

For the first nine months of fiscal year 2006/07, M3J increased by 16.1 per cent relative to 11.6 per cent for the comparable period of fiscal year 2005/06. The acceleration was reflected in both local currency deposits and currency in circulation which grew by 13.1 per cent and 36.6 per cent, respectively. Growth in local currency deposits was largely reflected in demand deposits and savings deposits.

Figure 1.8
Quarterly Growth Rates of Private Sector Credit
December 2003 to December 2006

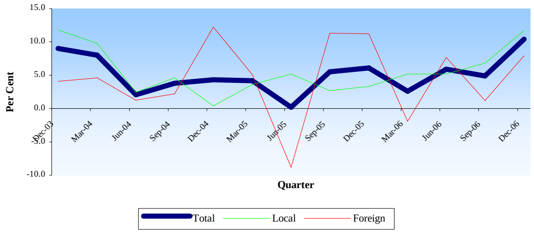


Table 1.6

Commercial Bank Distribution of Total Credit to the Private Sector J$ Million (Quarterly Flows)			
	Dec-05	**Prov. Sep-06**	**Prov. Dec-06**
Total Private Sector Credit	**5 893.7**	**5 454.3**	**12 216.3**
Loans and Advances	5 695.8	5 088.4	11 037.4
Other Investments and Private Debentures	197.9	365.9	1 178.9

Table 1.7

Commercial Bank Distribution of Loans & Advances to the Private Sector (FLOWS J$M)			
	Dec-05	**Sep-06**	**Dec-06**
Agriculture & Fishing	148.5	-533.1	494.6
Mining & Quarrying	-33.0	266.9	15.4
Manufacturing	-171.4	348.9	242.2
Construction & Land Dev.	236.3	378.2	940.5
Transport, Storage & Comm.	238.0	-2 130.5	162.8
Tourism	2 310.9	211.8	2 183.3
Distribution	508.8	1 639.9	1 670.8
Professional & Other Services	281.9	562.8	1 133.4
Personal Loans	2 270.5	4 937.0	4 159.7
Electricity, Gas & Water	-91.3	-627.5	57.0
Entertainment	5.1	26.9	-25.3
Overseas Residents	-8.7	7.0	3.1
TOTAL	**5 695.8**	**5 088.4**	**11 037.4**

There was significant deceleration in the growth of foreign currency deposits to 0.4 per cent for the fiscal year to December 2006 relative to 4.2 per cent for the comparable period of 2005. Notwithstanding this deceleration in foreign currency deposits, M3* grew at a faster rate of 11.9 per cent for the first nine months of the fiscal year 2006/07 relative to 9.5 per cent for the comparable period of 2005. The expansion in M3* largely reflected a higher growth in local currency deposits.

Private Sector Credit

During the December 2006 quarter, the growth in private sector credit exceeded the target outlined in the monetary programme. This expansion continued to principally reflect strong growth in domestic currency denominated loans. ***Personal Loans*** *continued to account for the dominant proportion of the increase in credit during the quarter. Foreign currency loans recorded robust growth during the quarter, spurred by a significant increase in loans to* ***Tourism****. The weighted average interest rate for private sector loans declined during the review quarter.*

At end December 2006, the stock of private sector credit was $129 863.6 million, representing a significant increase of 10.4 per cent which went to almost all sectors of the economy. This expansion surpassed the increase of 5.4 per cent outlined in the monetary programme and was well above the increases of 4.9 per cent and 6.1 per cent for the September 2006 and December 2005 quarters, respectively. This growth was also higher than the average of 7.2 per cent for the previous five December quarters. There was robust growth in both local and foreign currency denominated loans of 11.7 per cent and 7.9 per cent, respectively, during the review quarter (see **Figure 1.8**). Consequent on the overall expansion in the review quarter, growth in private sector credit for the fiscal year to December was 22.6 per cent, higher than the expansion of 12.1 per cent for the corresponding period of FY 2005/06.

Personal Loans continued to account for the largest proportion of the increase in private sector credit during the review quarter. These loans increased by 8.0 per cent during the review quarter, relative to growth of

Figure 1.9
Sectoral Distribution of Commercial Bank Loans & Advances to the Private Sector
Per Cent of Outstanding Stock
December 2005 & December 2006

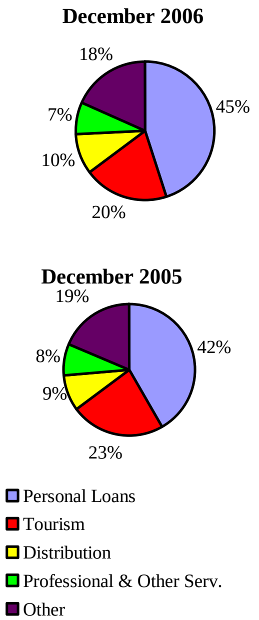


Table 1.8

Commercial Bank Distribution of Foreign Currency Loans & Advances to the Private Sector (FLOWS US$M)	Dec-05	Sep-06	Dec-06
Agriculture & Fishing	1.5	0.0	0.1
Mining & Quarrying	0.0	4.3	-0.3
Manufacturing	-3.0	5.9	0.8
Construction & Land Development	-1.6	0.8	7.9
Transport, Storage & Comm.	5.1	-12.1	4.4
Electricity, Gas & Water	0.0	-9.1	-1.9
Distribution	8.0	7.2	-2.8
Tourism	33.4	2.3	21.9
Entertainment	0.1	0.3	-0.3
Professional & Other Services	0.5	4.0	-0.1
Personal Loans	-6.4	4.5	4.6
Overseas Residents	0.0	0.1	0.0
TOTAL	**37.6**	**8.2**	**34.3**

10.5 per cent and 5.8 per cent during the September 2006 and December 2005 quarters, respectively. This category also continued to account for the largest proportion of the outstanding stock of private sector credit (see **Figure 1.9**). Within ***Personal Loans***, there was a significant deceleration in the growth of credit card receivables to 4.2 per cent during the review quarter from 8.1 per cent and 10.6 per cent during the previous quarter and the December 2005 quarter, respectively[7].

Loans to ***Tourism*** remained buoyant, expanding by 9.9 per cent during the review quarter, consistent with seasonal patterns of growth. There was also significant growth in loans to ***Distribution*** and ***Professional & Other Services***. Consistent with the ongoing recovery of the Construction sector, loans to ***Construction & Land Development*** sector increased significantly during the review quarter. With the exception of loans to ***Entertainment***, all other categories of loans expanded also recorded expansions.

Foreign currency loans expanded by US$34.3 million or 5.4 per cent during the December 2006 quarter relative to the increase of 6.7 per cent during the comparable period of 2005. The increase in foreign currency loans was driven by an expansion of 6.7 per cent in loans to ***Tourism*** during the review quarter. This increase largely reflected continued construction and refurbishment activities within the sector. Despite an increase in loans to this sector, its share of the outstanding stock of foreign currency loans declined at end December 2006 relative to a year earlier. ***Tourism*** continued to account for the largest proportion of outstanding foreign currency loans despite a notable decline in its share during the calendar year (see **Figure 1.10**).

Foreign currency loans to ***Construction & Land Development***, ***Personal Loans*** and ***Transport, Storage & Communication*** increased significantly during the review quarter. However, ***Distribution*** and ***Electricity, Gas and Water*** reflected significant net repayments. Given the relatively slower growth of foreign currency denominated loans relative to domestic currency denominated loans, the proportion of foreign currency loans to total loans fell to 33.0 per cent at end December 2006 from 36.0 per cent at end December 2005.

[7] Credit card receivables reflect both personal and commercial loans.

Figure 1.10
Sectoral Distribution of Foreign Currency Loans & Advances to the Private Sector
Per Cent of Outstanding Stock
December 2005 & December 2006

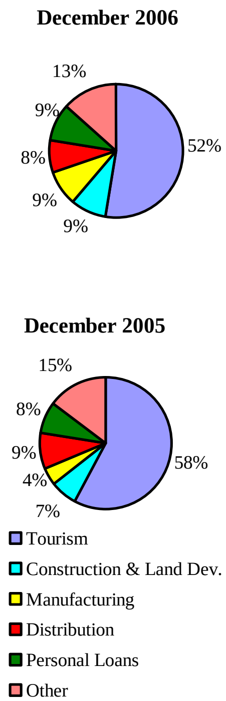


Table 1.9

Commercial Bank Domestic Currency Weighted Average Lending Rates by Loan Type Per Cent	Nov-05	Sep-06	Nov-06
Overall	**17.08**	**17.83**	**17.64**
Public Sector	**12.46**	**12.92**	**12.44**
Local Govt. & Other Public Ent.	11.25	12.14	11.62
Central Government	16.08	15.95	15.91
Private Sector	**18.72**	**19.13**	**18.91**
Instalment	23.31	21.31	21.68
Mortgage	20.37	25.52	13.93
Personal	29.26	29.07	28.43
Commercial	13.71	13.86	13.75

Interest Rates

The overall weighted average lending rate declined over the two months ended November 2006. This decline in the weighted average loan rate reflected a reduction in the rates on private and public sector loans, in particular, Personal Loans, Mortgage Loans and loans to Local Government & Other Public Entities. The overall weighted average loan rate was however 56 basis points (bps) above the rate observed a year earlier (see **Table 1.9**). The overall weighted average rate on foreign currency loans remained relatively unchanged for the two months ended November 2006 (see **Table 1.9**).

Performance Indicators

The ratio of private sector credit to total assets increased to 30.4 per cent at end December 2006 relative to 28.8 per cent at end September 2006 and 28.3 per cent at end December 2005. The quality of the loan portfolio continued to improve during the review quarter, as evidenced by a reduction in the ratio of past due loans (over three months) to total loans. At end December 2006, the ratio of past due loans to total loans was 2.2 per cent relative to 2.3 per cent recorded at end September 2006 and end December 2005. In addition, the ratio of past due loans to private sector loans was 2.7 per cent relative to 2.9 per cent and 3.1 per cent at end September 2006 and end December 2005, respectively (see **Figure 1.12**).

Figure 1.11

Commercial Banks' Weighted Average Loan Rate
November 2002 to November 2006

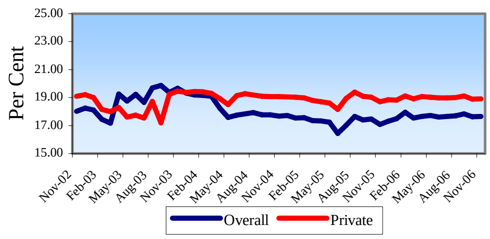
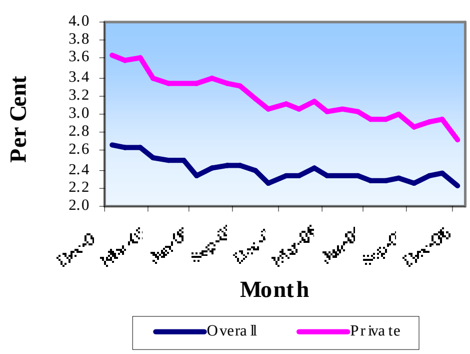


Table 1.10.

Commercial Bank Foreign Currency Average Weighted Lending Rates by Loan Type Per Cent	Nov-05	Sep-06	Nov-06
Overall	**9.23**	**9.78**	**9.84**
Public Sector	**8.65**	**9.78**	**10.06**
Local Govt. & Other Public Ent.	8.56	9.63	9.96
Central Government	11.00	13.00	12.25
Private Sector	**9.48**	**9.78**	**9.76**
Instalment	6.90	5.81	13.33
Personal	16.13	15.68	15.56
Commercial	8.88	9.22	9.18

Figure 1.12

Commercial Banks' Past Due Loans
(Three Months and Over)
to Total Loans
December 2004 to December 2006



T able 1.11

GOJ Public Domestic Debt Raising October - December 2006			
	Amount allotted (J$MN)	Amount maturing (J$MN)	Net maturities (J$MN)
Treasury bills	2,700.0	2,700.0	0.0
Var. Rate LRS	0.0	6,195.5	6,195.5
Fixed Rate LRS	2,500.0	0.0	-2,500.0
Var. Rate Inv. Deb.	0.0	0.0	0.0
Fixed Rate Inv. Deb.	3,651.7	3,271.3	-380.5
Var. Rate Inv. Bd.	20,556.5	0.0	-20,556.5
Fixed Rate US-denom. Bd.	4,353.2	5,849.0	1,495.8
Total (J$)	33,761.4	18,015.8	-15,745.6

Demand for Jamaica Dollar denominated instruments remains strong.

Table 1.12

Treasury Bill Auctions and Maturities October - December 2006				
Issue Date	**Tenor (days)**	**Avg. yield (%)**	**Allotment (J$M)**	**Amount Maturing (J$M)**
27-Oct-06	182	12.30	500.0	
	91	12.12	400.0	
				900.0
24-Nov-06	182	12.28	500.0	
	91	12.09	400.0	
				900.0
22-Dec-06	182	12.31	500.0	
	91	12.26	400.0	
				900.0
Total			**2700.0**	**2700.0**

Average GOJ yields continue to fall

Bond Market

The bond market continued to respond positively to further improvements in Jamaica's macroeconomic fundamentals as well as favourable international financial market conditions. Against the background of a declining rate of inflation in the domestic economy and positive real rates of return on Jamaican Dollar assets, the demand for Jamaica Dollar denominated assets remained relatively strong. Given the favourable conditions, the Government was able to reduce rates on its debt while elongating the maturity profile on new issues.

During the December 2006 quarter, the Government of Jamaica (GOJ) continued to contract debt ahead of its immediate needs. Given the success of the instruments, the GOJ was able to reduce the frequency of its debt issues relative to the previous quarter. In this regard, net allotment on eight instruments amounted to $15.7 billion (**see Table 1.11**), compared to $8.7 billion allotted on ten instruments in the September quarter.

The Government continued to elongate the maturity profile of these instruments as reflected in the increase in the weighted average age of debt to 9.8 years for the first three quarters of FY 2006/07 from 4.2 years for the comparable period of fiscal year 2005/06. In this regard, both a 20-year and 30-year instrument were auctioned on 15 December, and a 15-year instrument on 12 October. The auction in October was the first of a tenor of this length since August 2002. These tenors were lengthened in the context of positive fiscal performance, the general improvement in the macroeconomy and positive investor confidence.

While most of the debt was contracted at variable rates, coupon rates on Government debt were lowered during the quarter. Further, in contrast to the previous period when most variable rate instruments were priced at 1.625 per cent above the six-month weighted average Treasury bill yield (WATBY), the Government was effectively able to reduce the repricing margin to 1.50 per cent above the 3-month WATBY.

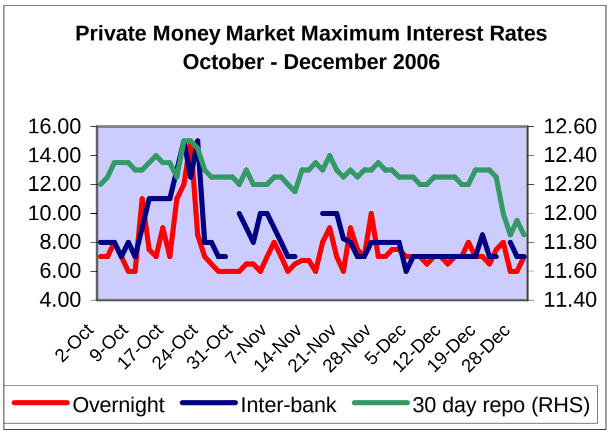
Table 1.13

Placements and Maturities* in BOJ OMO Instruments:	Oct. - Dec. 2006				Jul. - Sept. 2006	
	Maturities		Placements		Placements	
	($)	(%)	($)	(%)	($)	(%)
30-day	45,965.3	36.9	49,540.7	44.4	49,907.9	49.3
60-day	5,049.4	4.1	3,718.9	3.3	4,317.0	4.3
90-day	11,508.6	9.2	11,320.8	10.1	11,458.6	11.3
120-day	4,612.4	3.7	4,202.1	3.8	5,545.9	5.5
180-day	43,261.1	34.8	42,767.3	38.3	29,958.4	29.6
270-day	5,213.6	4.2	0.0	0.0	0.0	0.0
365-day	8,873.3	7.1	0.0	0.0	0.0	0.0

***excludes overnight transactions during the period**

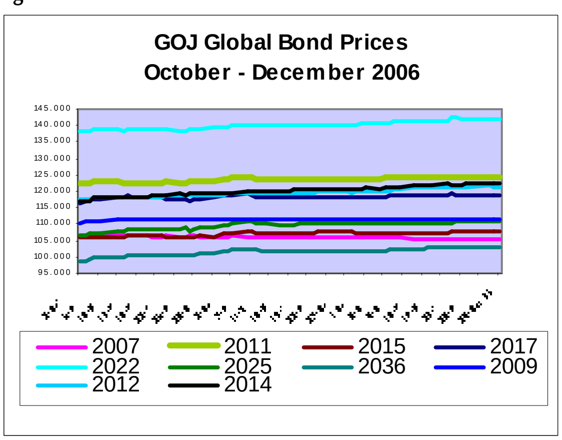
Investors increase placements on 180-day instruments

Figure 1.13



Average money market rates continue to decline

Figure 1.14



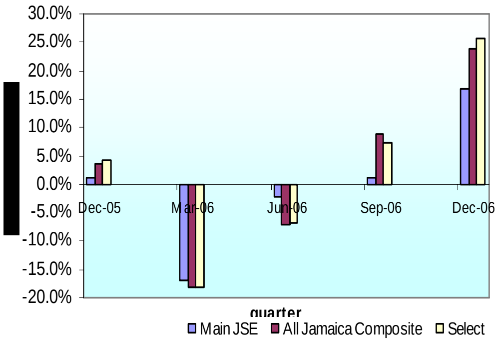
During the review period, the low inflation outturn in conjunction with expectations of lower rates on BOJ open market instruments precipitated a decline in the average yield on the Treasury bill auctions. The yields on both the 90-day and 180-day instruments declined by 18 basis points, notwithstanding a marginal increase at the December auction due to relatively low demand (**see Table 1.12**). The yields on these tenors were 12.26 per cent and 12.31 per cent, respectively, at the end of the period.

Maturities of open market instruments were significant in the review period as institutions had positioned themselves in previous quarters to finance their seasonally higher requirements for foreign and local currency in the quarter. The OMO maturities also helped to finance the Government's net-issuance of debt. In this regard, there were net maturities across all tenors except the 30-day instruments (**see Table 1.13**). Notwithstanding the net-maturities, investors increased their placements on the 180-day instruments to 38.3 per cent of total placements relative to 29.6 per cent in the previous quarter.

Against the background of the significant OMO maturities, the private money market remained liquid as evidenced by the decline in average rates. The overnight, 30-day and inter-bank rates averaged 7.4 per cent, 12.3 per cent and 8.5 per cent, respectively. These averages declined by 115 basis points, 36 basis points and 32 basis points, respectively, relative to the averages of the previous quarter. The 30-day rates, in particular, responded to the rate cut on 22 December **(see Figure 1.13)**.

GOJ Global bond prices continued to appreciate across maturities in general, albeit by less, on average, than in the previous quarter. (**see Figure 1.14**). This was attributed to the strong performance of Jamaica's macroeconomic fundamentals as well as the premia on GOJ Globals above the benchmark 10-year US Treasuries. Yields on US Treasuries declined in the context of the pause in US Federal funds rate hikes and the expectation that US inflation would fall. Against the background of these unchanged US rates and the strengthening of the Euro against the US dollar, the Euro-denominated bonds performed comparatively better than the US-denominated bonds of similar tenor.

Figure 1.15
Quarterly Growth of the JSE Index – December 2005 – December 2006



Source: Jamaica Stock Exchange

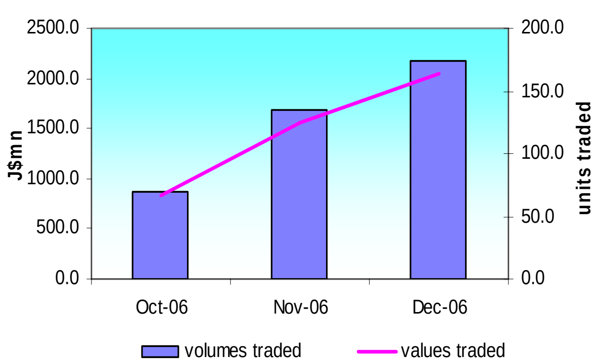
Table 1.14
December Quarter Changes in the Main JSE Index (per cent) 2002 - 2006

Year	October	November	December	Quarter
2002	4.7	5.8	4.5	15.7
2003	4.4	5.3	6.4	17.0
2004	4.2	3.2	5.0	12.9
2005	-0.9	-1.7	3.8	1.1
2006	-0.1	10.1	6.4	16.8

Source: Jamaica Stock Exchange

Figure 1.16
Movements in Volumes and Values traded - December 2006 Quarter

Source: Jamaica Stock Exchange



Stock Market

The Main Jamaica Stock Exchange (JSE) Index increased significantly during the December 2006 quarter. This was evidenced in significant share price appreciation of many firms in the financial, manufacturing and insurance sectors. Investor interest was buoyed by the strong earnings performance due to sustained improvements in the macroeconomic fundamentals during 2006.

The Main JSE Index, the All Jamaica Composite Index and the Select Index increased by 16.8 per cent, 23.7 per cent and 25.8 per cent, respectively for the December 2006 quarter relative to the September 2006 quarter (see **Figure 1.15**). The increase in the main JSE Index was consistent with the growth momentum typically experienced in the December quarter (see **Table 1.14**). Growth in the Main JSE Index followed an average decline of 5.9 per cent over the previous three quarters contributing to a 3.7 per cent decline in the Main JSE index for 2006.

During the December quarter, there was a strong resurgence in investor interest in the equities market buoyed by favourable earnings results for many of the listed companies. The positive earnings performance occurred in a context of continued improvements in the macroeconomic fundamentals during 2006. Investor outlook regarding equity investments also improved due to more favourable economic growth prospects, the continuation of the low interest rate environment, relative stability in the foreign exchange market and further moderation in inflationary impulses.

The performance for the December quarter was primarily reflected in the strong increases in the Main JSE Index during the final two months of the quarter. The Main JSE Index grew by 10.1 per cent and 6.4 per cent for November and December, respectively. This performance was evidenced by increased market activity reflected in respective increases of 92.7 and 28.7 in volumes traded for November and December (see **Figure 1.16**).

The increased market activity was reflected in average share price appreciations across most categories of stocks (see **Table 1.15**). The stronger growth momentum in the market during these two months was largely influenced by increased participation by some institutional

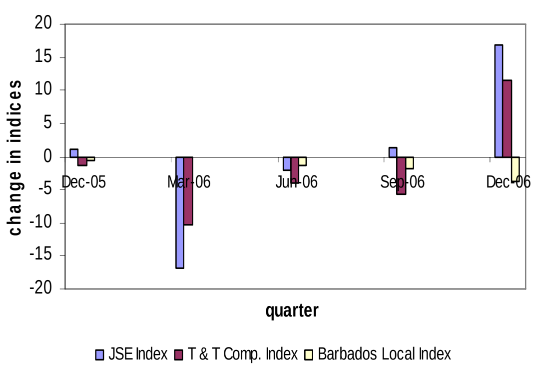
Table 1.15
Average Monthly Price Gains by Category -
December 2006 Quarter (per cent)

Category	Oct-06	Nov-06	Dec-06
Conglomerates	6.1	1.6	9.4
Communication	-0.7	16.2	14.0
Financial	2.9	13.3	28.8
Insurance	17.9	10.5	18.0
Manufacturing	-0.2	12.9	19.3
Other	-0.7	0.2	-2.3
Retail	1.1	1.6	6.3
Tourism	19.7	-9.3	0.1

Table 1.16
10 Largest Advancing Stocks -December 2006
Quarter

Companies	Price at 30-Dec-06 $	Qtr. Change %
Advancing Stocks		
Financial		
CCMB	18.50	60.90
DB&G	28.00	43.60
Mayberry	4.00	38.90
Pan Caribbean	23.00	35.30
JMMB	14.10	32.80
Manufacturing		
Salada	40.00	53.85
Caribbean Cement	9.64	37.71
Insurance		
Dyoll Group	0.90	63.64
Tourism		
Ciboney	0.07	75.00

Figure 1.17
Quarterly Growth of Regional Indices –December 2005 – December 2006



Source: Jamaica Stock Exchange

investors as well as positioning in anticipation of cash payouts.[8]

Improvement in earnings performance was supported by containment in administrative expenses for some companies as a result of the lower inflation environment relative to 2005. Some financial companies also re-engineered their operations to improve earnings by increasing core business activities as well as strengthening flows from non-interest income. Among the companies that reported an improvement in earnings were BNS, FCIBJ, Mayberry, JA Broilers and Kingston Wharves.

For the December 2006 quarter, more than 90.0 per cent of traded stocks recorded price gains. In particular, strong price gains were evident for several listed firms in the financial and manufacturing categories (See **Table 1.16)**. Many listed firms in the insurance sector also experienced strong price gains during the quarter. Among the top performers were CCMB, Ciboney, Dyoll Group and Mayberry. Additionally, continuing efforts by some companies to enhance productivity and earnings performance could fuel increases in stock price valuations during 2007.

Stocks of cross-listed entities performed well in the review period. In this context, the Trinidad & Tobago Composite Index increased by 11.6 per cent for the December quarter, following an average decline of 6.7 per cent over the previous three quarters. Nonetheless, the Barbados Local Index declined by 3.7 per cent for the December quarter, representing the largest quarterly decline for 2006 (see **Figure 1.17**).

[8] Pension fund managers increased their participation in the stock market relative to the start of the year when changes in pension funds regulation necessitated adjustments in their equity holdings. Investors anticipated large cash payments during the latter part of the quarter for share offers in respect of DB&G and Courts.

Figure 1.18
Percentage Change in Weighted Average Selling Exchange Rate (e.o.p.) (J$1.00= US$)

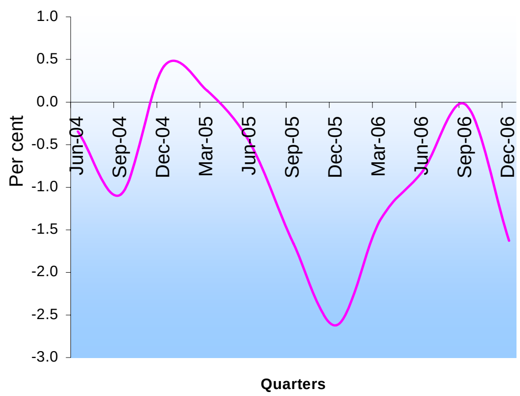
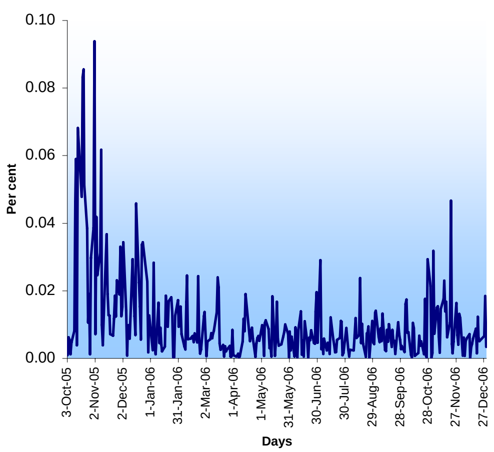
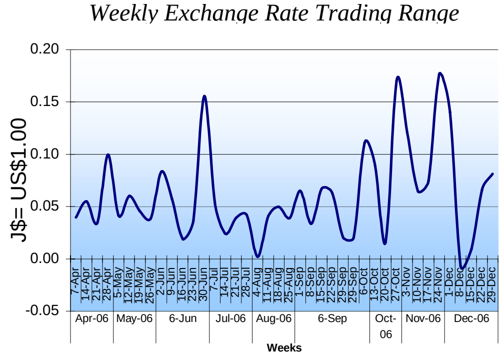


Figure 1.19
Exchange Rate Volatility (*)



(*) Volatility is calculated as the standard deviation of the daily logarithmic returns.

Figure 1.20
Weekly Exchange Rate Trading Range



Foreign Exchange Market

The foreign exchange market remained relatively stable throughout the December 2006 quarter (see Figure 1.23). The stability in the market was underpinned by growth in receipts from private transfers and tourism, supported by lower demand for foreign currency to facilitate imports. There were, however, bouts of pressure in the market during the first two months of the quarter, principally associated with a decline in net private capital inflows. Against this background, the value of the Jamaica Dollar vis-à-vis the US dollar declined by 1.6 per cent for the quarter, resulting in a calendar year depreciation of 3.8 per cent.

At end-December 2006, the NIR was US$2 317.6 million, US$273.8 million higher than the programme level. Gross reserves at end-December 2006 represented 18.1 weeks of estimated goods and services imports, above the international benchmark of 12.0 weeks.

The selling price of the US dollar increased to J$67.15 = US$1.00 at end December 2006 from J$66.06 = US$1.00 at end September 2006, representing a depreciation of 1.6 per cent. This rate of depreciation compared favourably with the 2.6 per cent depreciation in the corresponding quarter of 2005, but was above the average rate of 0.75 per cent for the three preceding quarters **(**see **Figure 1.18)**. The outturn for the review period resulted in a calendar year depreciation of 3.8 per cent, lower than the average rate of 6.6 per cent over the previous five years. Most of the movement in the exchange rate occurred in October and November, reflecting depreciations of 0.67 and 0.63 per cent.

In the context of the volatility in the first two months of the quarter, the average daily market trading range increased by J$0.06 to J$0.09 for the quarter, relative to the average for the preceding quarter.[9] The increase in the trading range was evident in October and November, but the range declined to J$0.06 in December, relative to an average of J$0.10 for October and November (see **Figure 1.20**). The average bid-ask spread, expressed as a percentage of the buying rate, also increased by 13.4 per cent, relative to the September 2006 quarter, but was 21.6 per cent lower than the outturn for the December 2005 quarter (See **figure 1.21**).

The depreciation in October and November was associated with the decline in net private capital inflows following the exceptional flows

9The trading range for the exchange rate is an indicator of risk or uncertainty. It is the difference between the high and low quotes for the sale of US dollars over a particular period.

Figure 1.21
Foreign Exchange Spread as a Percentage of Buying Rate

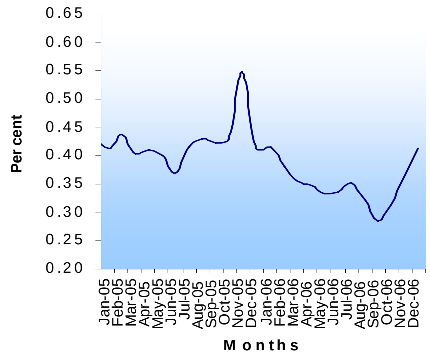


Table 1.17
Foreign Exchange Cash Flows*

	US$mn			Change Relative To Previous	
	2005	2006			
	Oct-Dec	Jul-Sep	Oct-Dec	Qtr	yr
Net Current Inflows	-671.7	-641.9	-591.5	50.4	*80.2*
Current Inflows	829.1	952.1	957.5	5.4	*128.4*
Current Outflows	1500.8	1593.9	1549.0	-44.9	*48.2*
Net Private Capital Inflows	487.0	887.9	551.3	-336.6	*64.3*
Balance	-184.7	246.0	-40.1	-286.1	*144.5*

*** BOJ Estimates of cash flow within the private domestic economy.**

Table 1.18
Net International Reserves
(US$MN)

Month	Stock	One Month Change	Three Month Change
Oct-05	2079.0	-40.0	-70.2
Nov-05	2093.8	14.8	-23.7
Dec-05	2087.4	-6.4	-31.6
Jan-06	2093.5	6.1	14.5
Feb-06	2024.2	-69.3	-69.6
Mar-06	2078.1	53.9	-9.3
Apr-06	2151.8	73.7	58.3
May-06	2162.8	10.9	138.6
Jun-06	2110.1	-52.7	32.0
Jul-06	2087.8	-22.8	-63.9
Aug-06	2215.6	127.8	52.8
Sep-06	2342.0	126.4	231.9
Oct-06	2306.4	-35.6	218.6
Nov-06	2353.0	46.6	137.4
Dec-06	2317.6	-35.4	-24.4

recorded in the September quarter. Net private capital inflows declined by approximately US$337.0 million, relative to the September 2006 quarter, but were 13.2 per cent higher than the December 2005 quarter. The fall in net capital inflows was largely due to an increase in the net foreign currency position of the Authorized Dealers, the major intermediaries in the market. The activities of the Authorized Dealers reflected portfolio adjustments in the context of a GOJ US$ bond issued on the domestic market on 06 October 2006. The build-up in the Dealers' positions, as well as the general increase in market demand for foreign exchange, was also associated with the secondary market sales of the 15-year Eurobond issued by Clarendon Alumina Production Limited, which was settled on 16 November 2006.

Consistent with the decline in net private capital inflows, Authorized Dealers' net sales to the market fell by US$176.7 million, when compared to the September 2006 quarter. Net sales were, however, US$73.9 million higher than the outturn for the December 2005 quarter. The fall in the Authorized Dealers' net sales reflected a contraction of US$100.4 million (or 6.9 per cent) in gross sales, while they simultaneously increased their gross purchases from the market by US$76.3 million (or 6.5 per cent).

The relative stability in the foreign exchange market resulted primarily from strong foreign exchange inflows, associated in part with respective increases of US$34.2 million (7.0 per cent) and US$7.9 million (9.3 per cent) in private transfers and tourism receipts, relative to the September 2006 quarter. Stable market conditions for the quarter, also reflected a US$44.9 million reduction in demand for foreign currency and was associated with lower payments for fuel and services (see **Table 1.17**). The estimated fall in foreign currency demand coincided with a 14.8 per cent fall in crude oil prices on the international market. Growth in other outflows, associated with seasonal increases in consumer and raw material imports, served as partial countervailing influences.

In the context of the normalization of net private capital inflows, the Bank sold (net) US$24.9 million to the market (excluding regular mining related purchases), compared with net purchases of US$246.0 million in the September 2006 quarter and net sales of US$184.6 million in the December 2005 quarter. In this context, the NIR at end December was US$2 317.6 million, representing a decline of US$24.4 million relative to end-September. This level of NIR was, however, US$273.8 million above the programme target. The Bank's gross reserves at end-December 2006 were US$2 399.1 million, representing 18.1 weeks of projected goods and services imports.

2. Real Sector Developments

Table 2.1

SECTORAL CONTRIBUTION TO GROWTH December 2006 Quarter	Estimated Impact on Growth
GOODS	+ve
AGRICULTURE FORESTRY & FISHING	+ve
MINING & QUARRYING	+ve
MANUFACTURING	-ve
CONSTRUCTION & INSTALLATION	+ve
SERVICES	+ve
BASIC SERVICES	+ve
Electricity & Water	+ve
Transport Storage & Communication	+ve
OTHER SERVICES	+ve
Distributive Trade	+ve
Financing & Insurance Services	+ve
Real Estate & Business Services	+ve
Producers of Government Services	+ve
Miscellaneous Services	+ve
Households & Private Non-Profit Inst.	+ve
TOTAL GDP	+ve

The Bank's preliminary assessment of economic activity showed continued growth in the December 2006 quarter, at a rate similar to that recorded over the previous three quarters. With the exception of manufacturing, all sectors recorded growth, largely reflecting the impact of new investments, as well as recovery. In addition, there was an estimated improvement in productivity in certain sectors, as well as favourable external demand coupled with a gain in the country's competitiveness. The estimated growth was reflected in an expansion in all components of aggregate spending.

Aggregate Supply

An assessment of the country's Gross Domestic Product (GDP) for the December 2006 quarter indicates growth in the range of 2.0 to 3.0 per cent. Strong growth emanated primarily from ***Transport***, ***Storage & Communication, Mining & Quarrying, Agricultur***e and ***Construction***, while moderate expansions were estimated for ***Distributive Trade***, ***Financial & Insurance***, and ***Miscellaneous Services***. ***Manufacturing*** was the only sector that was estimated to have declined in the review period. The main factors supporting growth were investment spending, recovery following adverse shocks, enhanced productivity in certain sectors, as well as favourable external and domestic conditions.

Buoyant growth driven by investment spending, recovery and improved labour productivity in certain sectors.

The expansions in ***Transport***, ***Storage & Communication***, ***Construction*** and ***Miscellaneous Services*** continued to reflect significant foreign direct investments in these sectors. With regard to ***Transport***, ***Storage & Communication***, the on-going expansion of the Island's port facilities, as well as new airline carriers to the Island created additional businesses within the water and air transport sub-sectors. The growth also reflected improved labour productivity since December 2005, stemming from increased investment as well as efficiency gains (see **Figure 2.1**). These factors influenced growth during the quarter, which was in line with the average expansion of 4.3 per cent recorded over the preceding four quarters. The number of passenger arrivals and domestic cargo movement, two indicators of activities within air transport, grew by an estimated 12.7 per cent and 8.3 per cent, respectively, within the quarter.

Figure 2.1

Transport, Storage & Communication: Labour Productivity (12-Month Change)

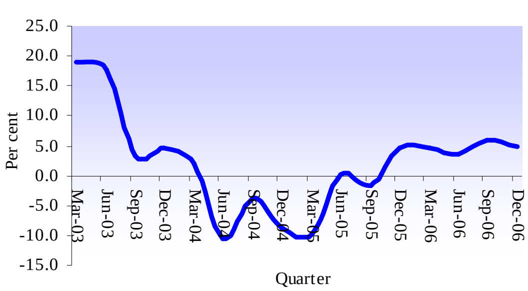
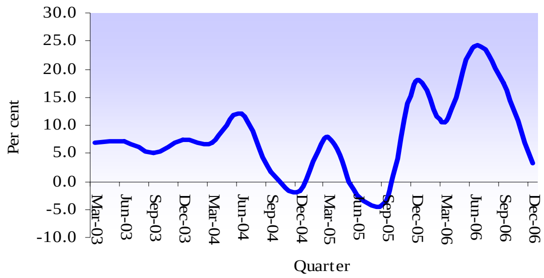


Figure 2.2

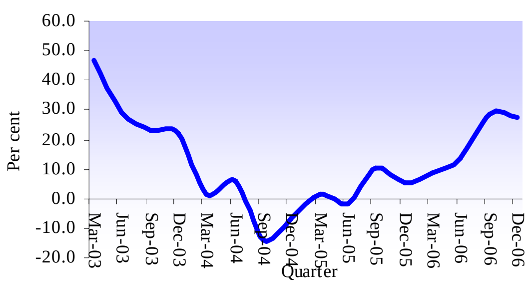
Total Stopover Visitor Arrivals
(12-Month Change)



Source: Jamaica Tourist Board

Figure 2.3

Cruise Passenger Arrivals
(12-Month Change)



Source: Jamaica Tourist Board

Activities within ***Construction & Installation*** were buoyed mainly by investment spending in the construction of hotels, North Coast Highway and preparations for the 2007 World Cup Cricket. The significant growth was primarily influenced by the normalisation of cement on the domestic market, which resulted in the resumption of some existing projects that were stopped due to the cement shortage, and the start of new projects. Supply of cement on the domestic market was aided by imports, particularly from Cuba and Columbia. The growth in the sector was consistent with the considerable expansion of credit extended by commercial banks to the industry. Against that background, there was a notable recovery in activities within the review period following four consecutive quarters of decline that averaged 3.2 per cent.

With the continued buoyancy in the world economy, the demand for the Island's tourism product continued to improve, albeit slower than that recorded over the preceding four quarters. In this context, growth of ***Miscellaneous Services*** slowed against an average growth of 11.5 per cent relative to the last four quarters[10]. The expansion in the quarter was however consistent with the sector's long run trend growth recorded since March 1998. Refurbishing of properties and product upgrades as well as promotions by stakeholders served to increase the attractiveness of the product. Further, the thrust to generate additional interest from European markets through the establishment of Spanish chains stimulated increased activities[11]. The tourism industry continued to be the main recipient of banking system credit to the productive sectors. Against that background, total stopover visitors grew by 3.2 per cent, while cruise passenger arrivals expanded by 27.3 per cent (see **Figures 2.2 & 2.3**). Correspondingly, there was an increase of 6.1 per cent in visitor expenditure, relative to the corresponding quarter in 2005.

The recovery in economic activity was mainly concentrated within ***Agriculture***, ***Forestry & Fishing*** and ***Mining & Quarrying***. The rate of expansion in ***Agriculture***, ***Forestry & Fishing*** continued to be strong, led by improved productivity and robust recovery in key export crops such as citrus and banana (see **Figure 2.4**) [12]. Output per hectare

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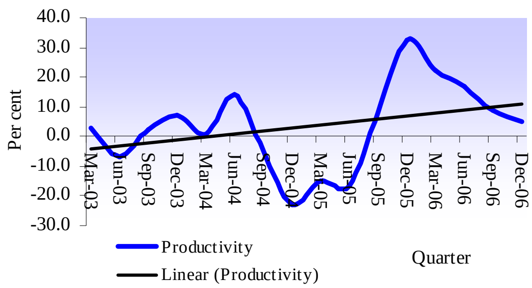
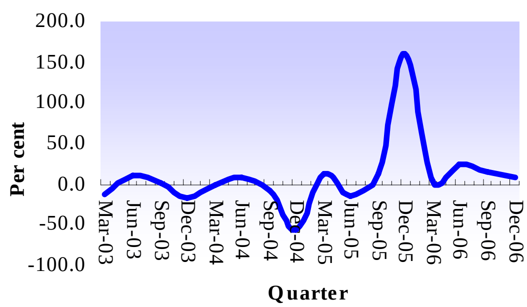
[10] The December 2005 and June 2006 quarters benefited significantly from the diversion of visitors from competing destinations that were affected by adverse weather.
[11] The Bahia Principe Hotel was opened during the quarter.
[12] The sector grew at an average rate of 19.6 per cent over the previous four quarters.

Figure 2.4
Agriculture: Labour Productivity
(12-Month Change)



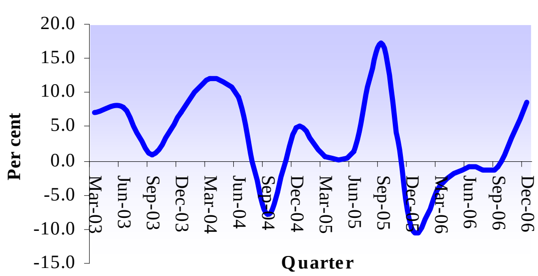
Source: STATIN & BOJ

Figure 2.5
Trends in* Crude Bauxite *Production
(12-Month Change)



Source: Jamaica Bauxite Institute

Figure 2.6
Trends in Alumina Production
(12-Month Change)



Source: Jamaica Bauxite Institute

continued to surpass levels obtained in 2005, driven largely by improved farming practices, such as green house farms and better irrigation systems[13]. Growth in production was also attributable to the favourable weather conditions experienced island-wide since the start of 2006, which influenced increased crop establishment and crop yields, which had a positive impact on inflation (see **Inflation**).

There was a noticeable recovery in ***Mining & Quarrying***, following four consecutive quarters of weak performance. This recovery was facilitated primarily by the relatively stable industrial climate coupled with the buoyancy in international demand for aluminium[14]. Against this background, crude bauxite and alumina production improved by 8.7 per cent and 5.5 per cent, respectively, relative to the similar period in 2005 (see **Figures 2.5** and **2.6**).

The only sector that is estimated to have declined, ***Manufacturing***, recorded its fifth consecutive quarter of contraction, due mainly to the closure of the sole tobacco factory and the temporary closure of the petroleum refinery for scheduled maintenance[15]. These declines offset the marginal growth in food processing, alcoholic beverages and chemical products.

Aggregate Demand

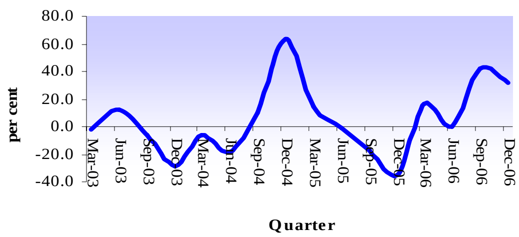
Growth primarily reflected increased ***Gross Fixed Capital Formation***, as well as an expansion in ***Public*** and ***Private Consumption*** expenditure. There was a marginal improvement in ***Net External Demand*** during the review quarter.

Consistent with the previous two quarters there was considerable growth in investment spending in the review quarter. This spending occurred primarily within the tourism industry as well as road construction, financed largely by foreign direct investment as well as credit from local financial institutions. One indicator of investment spending, capital goods import is estimated to have grown by 32.0 per cent in the review period (see **Figure 2.7**).

[13] Output per hectare increased to 13.2 tonnes of output per hectare relative to 12.8 tonnes in the December 2005 quarter.
[14] This demand was driven largely by the persistent strong growth in China, as well as the continuation of the war in Iraq, which have resulted in increases in metal prices.
[15] The closure lasted longer than what was originally anticipated.

Figure 2.7

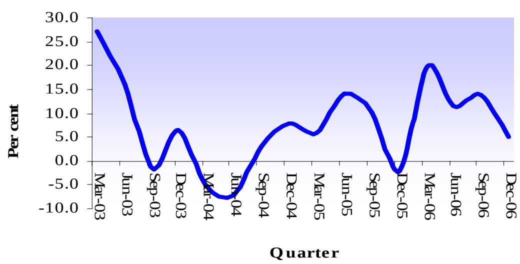
Trends in Capital Goods Imports
(12-Month Change)



Source: STATIN, Bank of Jamaica

Figure 2.8

Trends in Imports
(12-Month Change)



Source: STATIN, Bank of Jamaica

Figure 2.9

Trends in Consumption Tax Receipts
(12-Month Change)

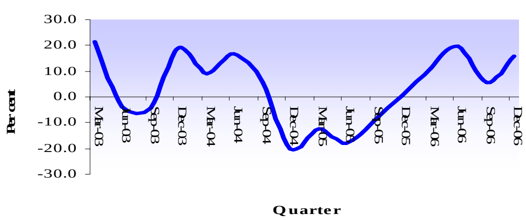
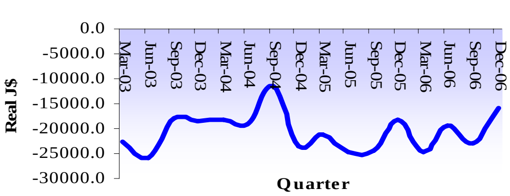


Figure 2.10

Trends in Net External Demand



Source: Bank of Jamaica

Private Consumption, the largest component of aggregate spending continued to grow, albeit slower than that recorded over the preceding three quarters. The main indicators of spending in this category, consumer goods imports and consumption tax receipts grew by 5.6 per cent and 15.8 per cent, respectively (see **Figures 2.8 & 2.9**). During the period, consumption credit expanded by approximately 40.0 per cent, which pointed to growth in private spending. The increase in consumer spending is consistent with the continued improvement in consumer confidence as reflected in the Jamaica Conference Board's Survey of Consumer Confidence.[16] Growth in consumer confidence since 2006 was primarily reflective of consumers' expectations of increased income and better job prospects.

In the context of the public wage settlement, ***Public Consumption*** grew in the review period. This is in contrast to the past eight quarters when Government consumption was either relatively flat or contracting. Government's wage bill grew in real terms by 4.2 per cent during the review quarter, relative to the December 2005 quarter (see **Appendix A: Fiscal Developments**).

There was a marginal improvement in ***Net External Demand*** during the review period, when compared to the corresponding period of 2005 (see **Figure 2.10**). This improvement was influenced by an estimated increase of 9.5 per cent in the export of goods and services, which was partly offset by growth of 4.0 per cent in imports of goods and services. The performance of export reflected the recovery in traditional exports and buoyant demand for alumina, bauxite and ethanol. There was also an improvement in net travel receipts. The growth in imports reflected significant increases in capital goods and raw materials.

[16] Consumer confidence increased by 32.9 per cent in the review period when compared to the similar period of 2005.

3. International Developments

External economic influences on the Jamaican economy were generally positive during the December 2006 quarter. Jamaica's terms of trade (TOT) was estimated to have improved during the quarter, due to a seasonal increase in the implicit price of the tourism product, as well as a decline in the price of crude oil on the international market[17].

There was a narrowing of the spreads between the yields on Government of Jamaica Sovereign and long-term US Treasury bonds during the quarter. Consistent with the movement in other emerging market bonds, the yields on Government of Jamaica Sovereign Bonds fell over the review quarter in the context of strong demand. This contraction was faster than the decline in the yields on US long-term securities.

With respect to short-term rates, the Federal Reserve (Fed), the Bank of Canada (BoC) and the Bank of Japan (BoJ) maintained their monetary policy stance during the quarter. However, the Bank of England (BoE) and the European Central Bank (ECB) raised rates. The yields on short-term securities in the US remained fairly constant over the review period.

Figure 3.1
Jamaica Terms of Trade Index
Dec 04 to Dec 06
(quarterly average)

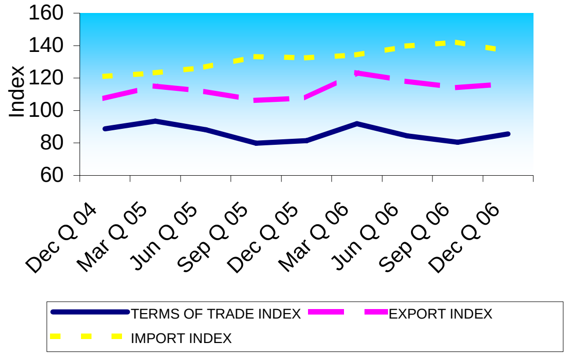
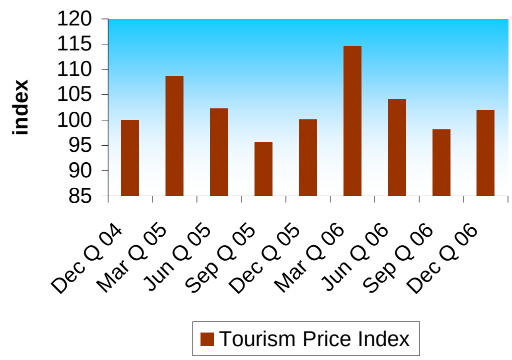


Figure 3.2
Implicit Tourism Price Index
Dec 04 to Dec 06
(quarterly average)



Terms of Trade

Jamaica's TOT improved during the December 2006 quarter by an estimated 6.5 per cent, relative to the preceding quarter (see **Figure 3.1**). This growth was larger than the average seasonal increase of 2.1 per cent. The rise in the TOT index during the review period reflected a seasonal increase of 2.2 per cent in the Export Price Index (EPI), which was complemented by a decline of 4.1 per cent in the Import Price Index (IPI).

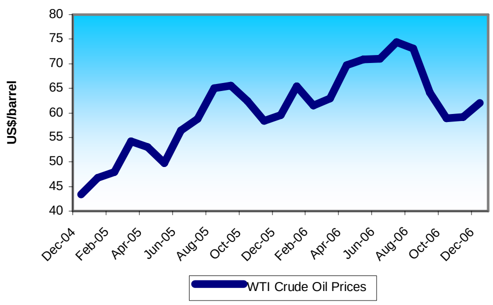
The gain in the EPI over the review period was attributable to a seasonal 3.9 per cent increase in the tourism implicit price index (TIPI) (see **Figure 3.2)**.[18] The fall in the IPI, which was larger than the average

[17] The Bank estimates a measure of Jamaica's terms of trade, which is a ratio of the index 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.

[18] The Tourism Implicit Price Index measures the ratio of the average tourist expenditure to their average length of stay.

decline of 0.8 per cent over the past five December quarters, reflected a 14.8 per cent decline in crude oil prices was partially offset by a 9.0 per cent increase in the price of raw material food. [19]

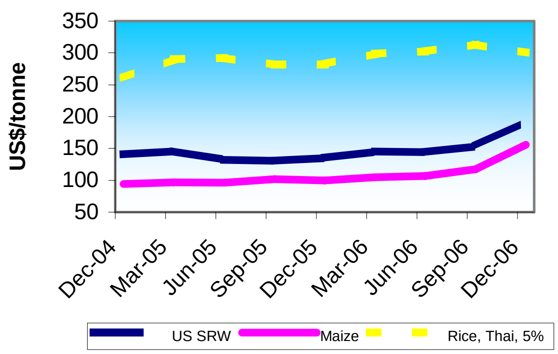
Figure 3.3
WTI Crude Oil Prices
Dec 04 - Dec 06
(monthly averages)



Crude oil prices fell to an average of US$60.00 per barrel for the December 2006 quarter, representing the largest drop in prices since the June 2003 quarter. Much of the decline occurred in October when prices fell by 8.2 per cent. The impact of this decline was, however, partly reversed by increases of 0.4 per cent and 4.9 per cent in November and December, respectively (see **Figure 3.3**).

The reduction in oil prices during the quarter was influenced by investors' perception of lower demand for the commodity, projections for above normal winter temperatures, as well as reduced geopolitical tensions, particularly in Nigeria and Iran. An apparent fall in world demand for oil was inferred from a deceleration in US GDP growth, coupled with a build up in US oil inventories. Economic growth in the US moderated to 2.0 per cent in the September 2006 quarter from 5.6 per cent and 2.6 per cent in the March and June 2006 quarters, respectively. Similarly, average crude oil inventories over the first half of October were 10.2 per cent higher than the five-year average for the same period. Distillate stocks, which are of particular importance for the winter season, were also 17.5 per cent higher than their five-year average. [20]

Figure 3.4
Raw Material (food) Prices
(Quaterly averages)



The increase in raw material food prices during the review quarter reflected respective increases of 32.6 per cent and 26.4 per cent in corn and Soft Red Winter wheat prices (see **Figure 3.4**). The effect of these increases was, however, partially offset by a 4.2 per cent decline in the price of rice. The movement in corn prices was mainly due to adverse weather conditions in Australia, which fostered a growth in demand in the Asian market for corn produced in the US. Increased demand for ethanol also contributed to excess demand for corn. Adverse weather conditions in the US (Midwest) also affected supply conditions.

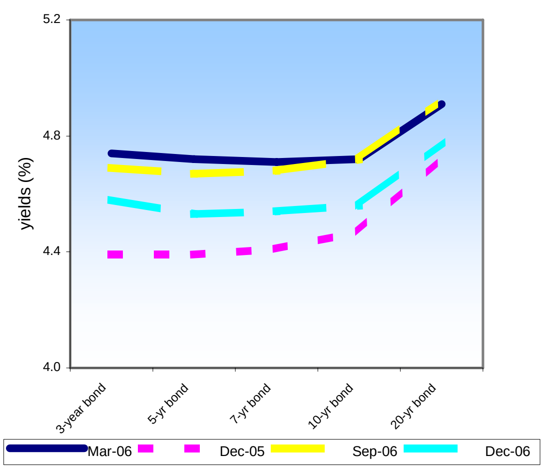
[19] Crude oil price is measured by the West Texas Intermediate (WTI) index.
[20] Distillate stocks are light petroleum products used for home heating.

Table 3.1

Selected Key Interest rates Sep 06 - Dec 06				
	Sep	**Oct**	**Nov**	**Dec**
USA[a]	5.25	5.25	5.25	5.25
Euro Area[c]	3.00	3.25	3.25	3.50
Canada[b]	4.25	4.25	4.25	4.25
Uk[c]	4.75	4.75	5.00	5.00
Japan[d]	0.25	0.25	0.25	0.25

[a] *Fed fund rate*
[b] *Benchmark rate*
[c] *Repo rate*
[d] ***Discount rate***

Figure 3.5
US Treasury Yield Curve



International Capital Market Developments

Monetary Policy

The movement in key policy interest rates among Jamaica's main trading partners were either kept constant or increased during the review quarter (see **Table 3.1**). In the USA, the Fed maintained their target rate at 5.25 per cent throughout the quarter. The Fed's decision was influenced by the slowdown of the US economy, which discouraged further tightening, despite concerns about inflation. The decision to hold rates was also informed by the view that past increases in interest rates were likely to affect economic activity with a lag, obviating the need to further tighten policy.

With respect to other developed economies, the BoC and the BoJ also kept their official interest rates unchanged at 4.25 per cent and 0.25 per cent, respectively, over the December 2006 quarter. In contrast, the BoE and the ECB raised their benchmark rates during the quarter in response to increasing inflationary pressures. In November, the BoE raised its benchmark rate by 25 basis points (bps) to 5.0 per cent, while the ECB raised its benchmark rate on two occasions both by 25 bps in October and December to 3.50 per cent at year-end.

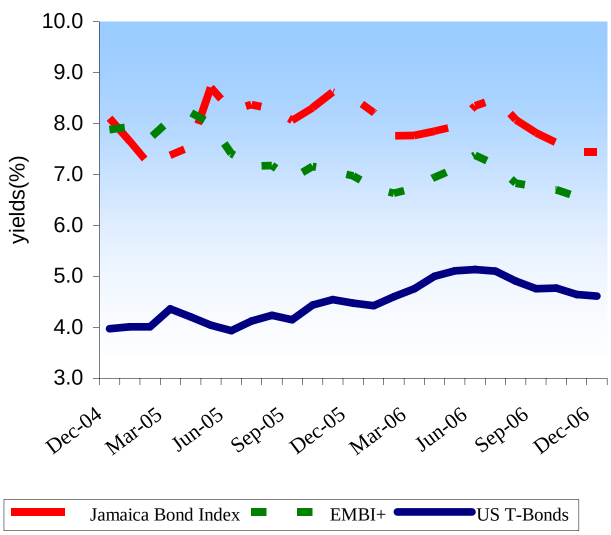
Private market rates

In line with the Fed Funds rate, secondary market yields on short-term US Treasury Bills held fairly constant, declining on average by a mere marginal 2 bps. Rates in the international financial market, as indicated by the London Interbank Offer Rate (LIBOR), however, declined by an average of 11 bps across the 3-month to 1-year tenors.[21]

The yield on longer-term securities declined at a faster rate, relative to short-term securities. In particular, the yields on the benchmark 10-year US Treasury Bond declined by an average of 27 bps during the review period. This resulted in a continued flattening in the yield curve for the US Treasury Bonds, which implied relatively lower long-term inflation expectations (see **Figure 3.5**).

[21] The LIBOR is the rate of interest at which banks borrow funds from each other in the London interbank market. It is the primary benchmark for short-term interest rates globally.

Figure 3.6
Global Bond Yields
Dec 04 to Dec 06



Emerging market bonds

The yields on emerging market bonds, as measured by the JP Morgan Emerging Market Bond Index Plus (EMBI+), fell by 33 bps to 6.44 per cent at the end of the review quarter. Consequently, there was a narrowing of the spreads between the yields on emerging market bonds and US Treasuries by 41 bps (see **Figure 3.6**).

Consistent with the fall in the EMBI+, the yields on GOJ US dollar sovereign bonds declined by 42 bps over the quarter. Similarly, the yields on GOJ Euro dollar denominated bonds fell by 86 basis points. Buoyant international liquidity, along with increased investors' appetite for higher yields in the context of the Fed rate being held constant, contributed to the high demand for these bonds. Improved fundamentals in emerging market economies also fostered improvements in confidence.

Foreign Exchange Market

During the review quarter, the US dollar reflected mixed movements vis-à-vis the major currencies. The dollar depreciated against the British pound and the Euro, while appreciating against the Canadian dollar and the Japanese yen. In particular, the value of the US dollar declined by 1.3 per cent against the Euro, consistent with an average depreciation of 1.2 per cent over the previous five quarters. The weakening of the US dollar reflected the impact of the monetary policy tightening by the ECB, as well as news of the growing imbalance in US external accounts. These factors prompted investors, as well as some central banks to increase their proportion of assets denominated in Euros, relative to US dollar denominated assets.

4. Inflation

Figure 4.1
Quarterly Inflation Rate
(5-yr Average & Last 4Qtrs Comparison)

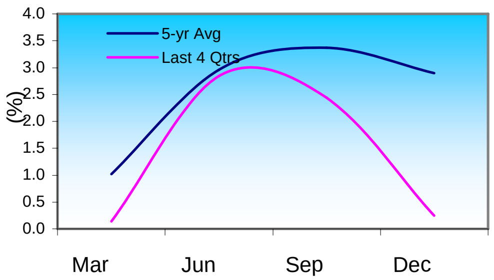


Figure 4.2
Inflation Rate
(12 Month Pt-to-Pt & Quarterly Comparison)

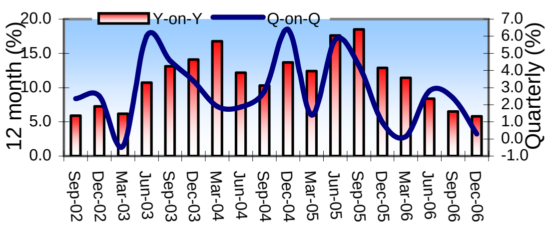
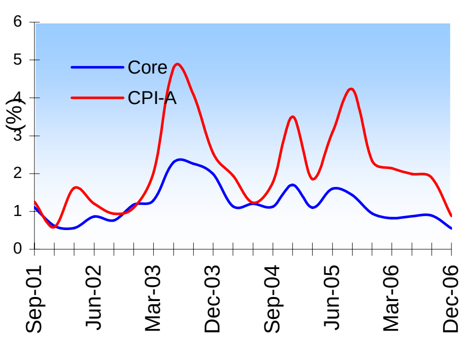


Figure 4.3
Core Inflation per Quarter



Headline inflation for the December 2006 quarter was 0.3 per cent compared to 2.4 per cent for the preceding quarter and 0.9 per cent for the December 2005 quarter. As a result, the inflation rate for calendar year 2006 was 5.8 per cent compared to 12.9 per cent in 2005, the lowest calendar year inflation since 1981. The factors that underpinned the relatively low inflation for the December quarter were sharp reversals in international crude oil prices, continued containment of monetary impulses, larger domestic food supplies and relative stability in the exchange rate for the fiscal year to date.

Core inflation in the quarter was estimated at 0.6 per cent, relative to the 1.1 per cent in the previous quarter and 1.0 per cent for the corresponding quarter of FY2005/06. This brought underlying inflation to 2.5 per cent for the fiscal year to end December relative to 4.1 per cent for the similar period in FY 2005/06.

The All Jamaica Consumer Price Index (CPI) increased marginally by 0.3 per cent in the December 2006 quarter, below projections. This outturn was also well below the average increase of 2.9 per cent for the December quarter of the last 5 years (see **Figure 4.1**). Inflation in the review quarter was better than anticipated and was reflective of sharp reversals in the price of international crude oil, bounteous supplies of agricultural commodities, particularly starchy foods. The better than anticipated inflation was underpinned by continued moderation in underlying inflation and a relatively stable exchange rate.

On a monthly basis, there were deflation of 0.1 per cent and 0.2 per cent in October and November, respectively, followed by inflation of 0.5 per cent in December. Annual point-to-point inflation was 5.8 per cent at end December relative to 6.5 per cent at end September and represented the lowest calendar year inflation since the 4.9 per cent recorded 25 years ago. Inflation for the fiscal year-to-date (FYTD) was 5.6 per cent, compared to the 11.3 per cent measured in the similar period of FY2005/06.

Figure 4.4
12- Mth % Change in Average Base Money & Annual Average Core

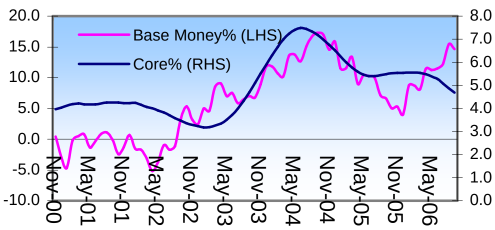
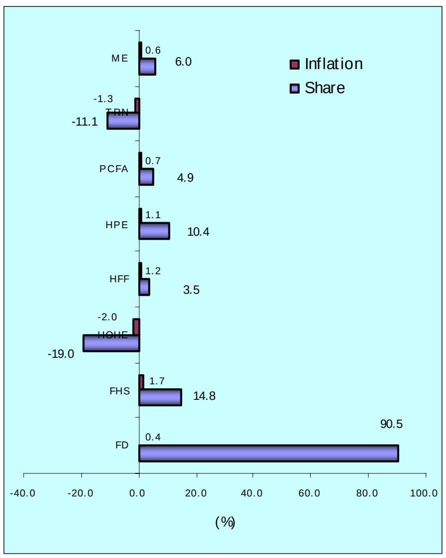
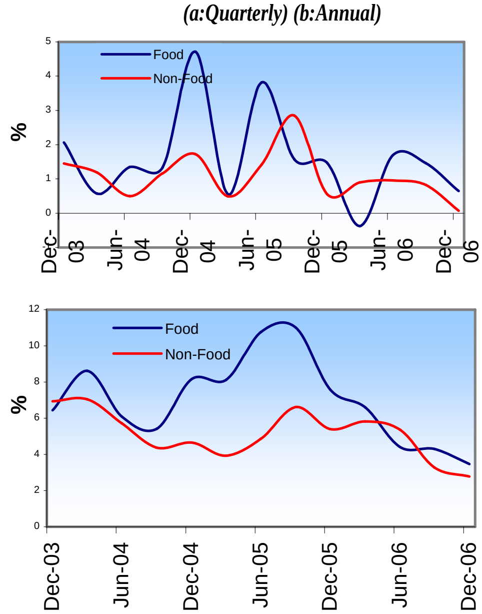


Figure 4.5
Inflation by Group



ME= Miscellaneous Expenses, TRN=Transportation, PCFA=Personal Clothing, Footwear & Accessories, HPE=Healthcare & Personal Expenses, HFF=Household Furnishings & Furniture, HOHE= Housing & Other Housing Expenses, FHS=Fuels & Other Household Supplies, FD=Food & Drink

Figure 4.6
Food & Non-food Inflation (a:Quarterly) (b:Annual)



Monetary Policy and Inflation

Core inflation declined to 0.6 per cent compared to 1.1 per cent in the previous quarter, and the 1.0 per cent in the corresponding quarter of 2005. The annual core inflation rate at end December was 3.4 per cent, reflecting a downward trend relative to 3.8 per cent at the end of the previous quarter. This represented the lowest annual core inflation rate since the 3.2 per cent recorded as at November 2002.

The continued low outturn for core inflation comes against the background of the low inflationary impulses. While the increase in the monetary base for the September quarter was higher than targeted, the deviation was due to an unanticipated high holding of currency in the vaults of commercial banks that occurred towards the end of the quarter.

Non-Monetary Factors

The main non-monetary contributors to inflation were higher international grain prices, lagged pass through of previous increases in energy costs as well as increases in some household items, medical expenses and personal care products. The impact of these factors was, however, low. In addition, there were partly countervailing movements arising from lower international crude oil prices and increased supply of some agriculture commodities.

Domestic Supply Conditions

The supply of domestic agricultural commodities, in particular starchy foods, improved in the quarter relative to the previous quarter resulting in a lowering of price pressures. This was most evident in the ample supplies of tubers and other starchy foods. *Starchy Foods* declined by 11.2 per cent over the December quarter compared to a five-year average increase of 4.4 per cent in previous December quarters. In contrast, there was tightness in the supplies of some vegetables, which resulted in an increase of 7.1 per cent in the Vegetables and Fruits sub-group index for the quarter. However, this increase was well below the five–year average movement of 14.8 per cent over the similar period.

In the context of the agricultural supply shocks, there was an increase of 0.7 per cent in the Bank's Food Index (BFI) relative to a 1.5 per cent increase in the September quarter (see **Figures 4.6a & b**). The Non-Food index also reflected relatively lower inflationary impulses which would be related primarily to the decline in oil-related commodities in the CPI. The Non-Food index increased by 0.1 per cent relative to a 0.8 per cent increase in

Figure 4.7

3 Month Pt-to-Pt Changes in the Durables Index & the Exchange Rate

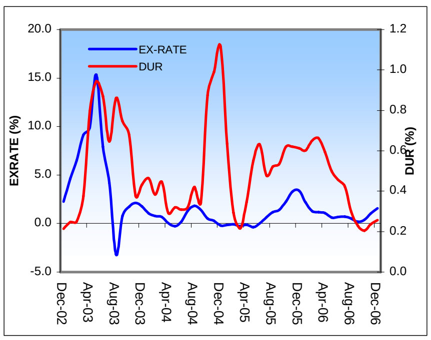


Figure 4.8

Quarterly Chg. in Fuel Index & WTI

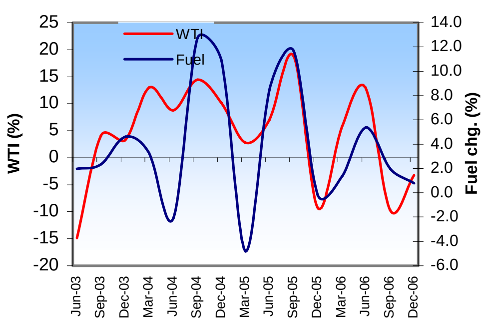
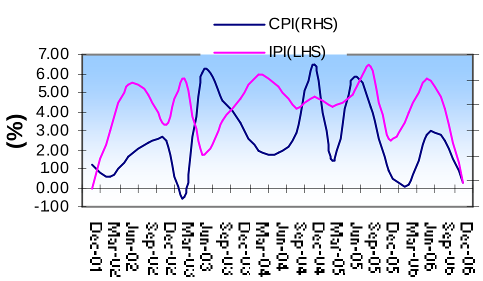


Figure 4.9

Import Price Index and Inflation



the previous quarter.

Imported Inflation

Imported inflation imparted countervailing impetus on the CPI as the Bank's Import Price Index (IPI) declined by 4.1 per cent in the December quarter relative to an increase of 1.7 per cent in the September 2006 quarter (see **Figure 4.9**). The movement in the Index was influenced by a significant decline in international oil prices (see **International Developments**), which affected the Fuel Index[22] (see **Figure 4.8**). The movement in the IPI was moderated by increases in the Consumer Goods and Raw Materials (Food) Indices. The rise in the Raw Materials (Food) Index was influenced by continued increases in the prices of grains such as corn, rice and wheat. Increases in grain prices also had an influence on the price of edible oils.

Component Contribution to Inflation

Food & Drink, Fuels & Other Household Supplies and **Healthcare & Personal Expenses** together accounted for the majority of the inflation in the review period (see **Figure 4.5**). Other inflationary impulses of note were evident in **Personal Clothing, Footwear & Accessories**. However, there were significant countervailing movements in **Transportation** and **Housing & Other Housing Expenses**.

For the quarter, **Food & Drink** increased by 0.4 per cent and contributed 90.5 per cent to overall inflation. The major movements in this group emanated from *Vegetables & Fruits*, *Meat, Poultry & Fish* and *Dairy Products, Oils & Fats* which increased by 2.5 per cent, 2.1 per cent and 7.1 per cent, and contributed 61.0 per cent, 54.1 per cent and 18.2 per cent, respectively, of the quarter's inflation. *Vegetables & Fruits* was affected by tightness in the supply of some short-term crops which affected the prices of commodities such as tomatoes and carrots.

The increase in *Meat, Poultry & Fish* stemmed from continued upward movements in the prices of beef and fish. Higher energy charges which affected the production process as well supply constraints were the major influences on the prices of beef and fish. A significant decline of 11.2 per cent in *Starchy Foods* partly countered the increase in the other sub-groups.

[22] The Fuel Index is comprised of all the major components in the Consumer Price Index that are by-products of crude oil. These are liquefied petroleum gas (LPG), kerosene, petrol and electricity.

Figure 4.10
Average WTI Crude price (US$) per barrel

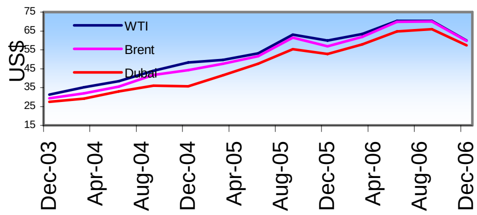


Figure 4.11
Geographical Distribution of Inflation

Fuels & Other Household Supplies expanded due to noticeable movements in both of its sub-categories. *Other Household Supplies* rose by 1.3 per cent due to increases in the prices of items such as detergents and other cleaning agents. The inflationary pressure reflected in this sub-group was associated with increased demand in the holiday season. *Fuels* increased by 1.9 per cent reflecting increases in household fuels such as kerosene and charcoal, offsetting the impact of the decline in oil prices.

The seasonal increases in demand for personal care products and services as well as clothing and other apparel were the primary reasons for the expansion of 1.1 per cent and 0.7 per cent in **Healthcare & Personal Expenses** and **Personal Clothing, Footwear & Accessories**, respectively. These sub-indices reflected increases in the prices of grooming services and toiletries and from the higher cost for footwear and clothing.

The inflation outturn for the quarter was partially offset by declines in **Transportation** and **Housing & Other Housing Expenses** which stemmed from the reduction in international crude oil prices. Declines of 1.3 per cent and 2.0 per cent were manifested in the respective indices over the quarter. The former index reflected declines in the prices of petrol and airfares while the latter was affected by lower electricity cost of 4.9 per cent due primarily to an approximately 9.0 per cent fall in the fuel charge component.

Regional Inflation

There was significant disparity in inflation across the three regions. While the indices of the Kingston Metropolitan Area (KMA) and Other Towns reflected inflation of 0.9 per cent and 0.7 per cent, respectively, the index of the Rural Areas revealed deflation of 0.9 per cent. The inconsistency across the regions was borne out primarily in the *Food & Drink* sub-category where respective inflation of 2.2 per cent and 1.0 per cent were recorded for the KMA and Other Towns, while the index for Rural Areas reflected deflation of 1.6 per cent. The sharper declines in *Starchy Foods* reflected the normalisation in the prices of some commodities that had increased higher than those in the other regions.

5. Economic Outlook and Monetary Policy Perspectives

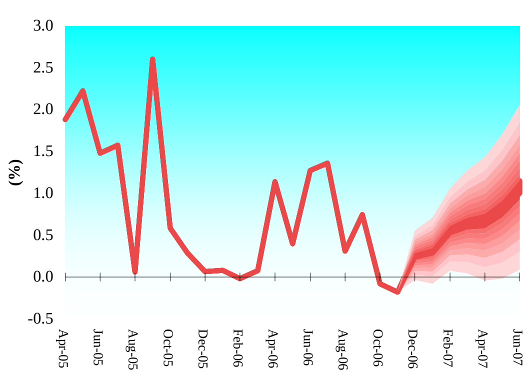
Table 5.1

Jamaica: Selected Economic Indicators

	Projections for Mar'07 Quarter	Projections for FY06/07	Target for FY06/07
Inflation (% change)	0.4 – 1.4	6.0 – 7.0	9.0 – 10.0
Base Money (% change)	-10.0	11.5	11.7
NIR End Period (US$MN)	2 220.2	2 220.2	2100.0
GDP (12-mth % chg.)	+ve	2.5 – 3.5	3.0 – 4.0

Figure 5.1

Monthly Inflation Forecasts



The fan chart depicts the probability distribution for the inflation forecast and reflects the Bank's assessment of the risks. The darkest band represents the central (single most likely) projection and covers 10 per cent of the probability. The bands widen as the time horizon is extended, indicating increasing uncertainty about the inflation outcome.

The March quarter of FY2006/07 is projected to continue the positive economic trends experienced in the December 2006 quarter. Prices are expected to remain stable, resulting in a continuation of low inflation rates. Output growth should strengthen with expansions in both the goods and service sectors. Construction, mining and tourism will be the main industries driving the growth in output. The exchange rate is projected to remain relatively stable supported by adequate supplies from foreign exchange earners and a stable foreign and domestic financial climate. In this context, the Central Bank will maintain a conservative monetary policy stance consistent with long-term macroeconomic stability.

Outlook - March 2007 Quarter

Inflation

Inflation for the March 2007 quarter is forecasted to be within the range of 0.4 per cent to 1.4 per cent. This projection implies an increase in the Consumer Price Index (CPI) for the FY2006/07 within the range of 6.0 per cent to 7.0 per cent, significantly lower than the programmed target range of 9.0 per cent to 10.0 per cent. This outlook is based on expectations of relatively low core and imported inflation. Favourable excess supply conditions, particularly in the agricultural sector, should continue to result in lower prices for key components of the CPI basket. These factors should dampen the impact of seasonal price adjustments. However, there are some risks to the forecasts, which are fairly balanced as seen in the monthly inflation fan chart (see **Figure 5.1**). The upside risks include faster price reductions from excess supply of agricultural output and the downside risks include higher oil prices due to reductions in international supply.

Core inflation, which captures the underlying price impulses directly attributable to changes in monetary conditions, should be in line with the target of 1.0 per cent for the quarter. This is predicated on the lagged impact of past monetary policy adjustments. During the June and September 2006 quarters, the Bank resumed its moderate reductions in interest rates. These reductions coupled with the unexpectedly low inflation resulted in high real interest rates relative to those of Jamaica's main trading partners. The impact of the high real interest rates should temper aggregate demand and by extension the transaction demand for real money balances over the short to medium-term.[23]

Output growth is expected to continue in the March 2007 quarter.

Positive trends in the real sector support continued moderation in inflation impulses in the March 2007 quarter. Output is projected to expand, led by *Construction*, *Mining*, and *Agriculture*.[24] Domestic demand for agricultural output should decrease following the seasonal increase in the December 2006 quarter. It is therefore expected that agricultural prices could continue its downward trend particularly during January and February due to excess supply of domestic goods. With the Cricket World Cup beginning on 11 March 2007, there will be some increase demand pressures on all goods and services at the end of February through to March. Therefore, it is projected that the excess demand for real output should result in downward price pressures for January and February with possible upward pressures at the end of February through March. It is expected that aggregate demand for the March quarter will be tempered by tax obligations coming due at the end of the fiscal year.

The Import Price Index is projected to decline based on the offsetting impact of lower grain prices and higher oil prices.

Imported inflation for the March 2007 quarter is projected to be lower than originally anticipated. This is reflected in a decline in the Bank's forecasted Imported Price Index mainly attributed to reductions in grain prices. Crude oil prices are expected to reflect a seasonal increase in the March quarter of approximately 7.7 per cent relative to the December quarter. Contributing to the higher prices is the commencement of OPEC output cuts on 1 February 2007. The increase, however, is lower than previous projections due to the unusually warm temperatures forecasted for the period.

The approximately 1.0 per cent movement in the exchange rate for the December 2006, quarter should not significantly impact the inflationary impulses in the March 2007 quarter. The pass-through of exchange rate to prices is typically 40.0 per cent over 2 quarters. The exchange rate is also expected to remain stable due to expected continued strong inflows and favourable foreign and domestic macroeconomic conditions. Consistent with historical patterns, the foreign exchange market during the March 2007

[23] Current empirical estimates of the impact of the Bank's monetary policy on the Jamaican economy show that there is an immediate short-term impact and a long-term gradual transmission of policy, which peaks after 2 to 3 quarters.

[24] The growth in Construction reflects expansion in hotel room capacity, including the commencement of work on 2 major hotels, Phase II of Iberostar and Pinero. Expansion in Mining should reflect normalization from the fallout experienced in the sector in the December 2005 and March 2006 quarters due to labour disputes. Within the services sector, Tourism should lead growth based on a projected 16.3 per cent increase in arrivals (consistent with bookings).

The foreign exchange rate market should remain stable.

quarter is expected to benefit from robust inflows associated with winter tourist visitor arrivals. Additional flows are anticipated from the increased visitor arrivals for the Cricket World Cup. Exports associated with the goods sector should contribute additional US dollar inflows to the market over the forecast horizon. With respect to payments, the Bank anticipates a decline in the cash demand to pay for imports of consumer durables, relative to the December 2006 quarter. In addition, seasonally lower expenditure on foreign travel by Jamaicans, as well as seasonal decline in outbound remittances is expected in the quarter. Consistent with historical trends, there is also expected to be some increase in net private capital inflows over the quarter. An excess supply of foreign currency is consequently likely to be evident in the system, albeit towards the end of the quarter.

The beginning of the calendar year is traditionally a time for seasonal price adjustments.

The March 2007 quarter should see some upward adjustment in seasonal prices, mainly in the service sector. Traditionally, the beginning of the calendar year is associated with seasonal price adjustments due to the renegotiations of a number of contracts. These include insurance and rental rates, which are projected to reflect some increases. Partial countervailing impulses are expected from discounts on consumer durables, which usually follow the Christmas holidays.

Monetary Policy

The short to medium term outlook is for continued expansion in output, low inflation and efforts at fiscal restraint. The Bank will therefore continue its conservative monetary policy stance. In addition, the Federal Reserve is expected to maintain its target rates at current levels for at least another two quarters, as there are expectations of a moderation in US inflation over the March 2007 quarter. The interest rate stance of the Federal Reserve has resulted in emerging market bonds, particularly Jamaica's global bonds, to continue to trade favourably as investors search for higher returns.

Strong demand for domestic assets due to stable economic conditions and high real interest rates

The main challenge for monetary policy in the very near term is significant liquidity injection from currency reflows and an anticipated drawdown of the Government's balances, mainly to redeem Government debt. However, due to the stable macroeconomic environment and the relatively high real interest rates, there should be strong demand for domestic assets and hence it is not expected that there will be undue pressure on the exchange rate. Any bouts of pressure in the market can be comfortably addressed by the Bank's reserves, which are projected to end the fiscal year at US$2 220.2 million well above the programme target of US$2 100.0 million.

Appendices

A. Fiscal Developments: October to December 2006

Provisional data for the December 2006 quarter indicated that Central Government incurred a deficit of $21 045.0 million or 3.1 per cent of GDP, relative to the budgeted deficit of $9 727.2 million or 1.4 per cent of GDP. The higher than targeted deficit reflected above budget expenditure and a shortfall in revenues and grants. The primary surplus was 1.0 per cent of GDP, significantly lower than the target of 2.4 per cent, reflecting higher than budgeted non-interest expenditure and the lower revenues and grants. Concomitantly, the current deficit was 1.8 per cent of GDP, above the target of 0.4 per cent of GDP.

Total expenditure was 13.8 per cent above the budget for the quarter, reflecting higher than planned recurrent and capital expenditure. The higher recurrent expenditure largely reflected the impact of new wage rates and retro-active salary payments. Programmes were above budget reflecting payments for travelling allowance. Higher capital expenditure was influenced by the commencement of some projects which were previously delayed.

For the December quarter, total revenues were 4.6 per cent below the target, which primarily reflected an under performance of tax revenue and grants. Tax revenue collections reflected shortfalls in the categories *Production and Consumption* and *Income and Profits*, which had deviations of 10.2 per cent and 5.4 per cent, respectively. Grants were adversely affected by the non-receipt of some European Union Funds.

Central Government realised a deficit of $37 967.7 million or 5.4 per cent of GDP for the fiscal year to December, relative to the budgeted deficit of $30 731.7 million or 4.4 per cent of GDP. The deviation from the budget was influenced by an underperformance of revenues and higher than targeted expenditure. The primary surplus was 5.2 per cent of GDP, relative to the target of 5.9 per cent of GDP, while the current deficit was 3.1 per cent of GDP, significantly above the target of 1.5 per cent.

For the fiscal year to December, total revenues were 3.6 per cent below target, primarily influenced by shortfalls in tax revenue, grants, and capital revenue. As such, tax revenue was 2.8 per cent below budget. The deviation in tax revenues stemmed from lower than expected arrears collection from the Aggressive Revenue Collection (ARC) drive. Grants and capital revenue were 52.1 per cent and 37.9 per cent lower than budgeted, respectively. Non-tax revenue was 18.4 per cent above budget, reflecting the over performance of the 2.0 per cent Customs User Fee on imports.

Total expenditure for the first nine months of the fiscal year was 1.0 per cent above the amount budgeted for the period. This deviation reflected recurrent expenditure being 4.1 per cent higher than targeted, influenced by above budgeted spending on all areas. On the other hand, capital expenditure continued to lag the budget and was 21.7 per cent behind the target for the period.

For the fiscal year to December, Government financed its operations principally from domestic sources. There continued to be a heavy reliance on variable rate instruments. In that context, 67.4 per cent of the instruments issued were variable rate instruments, while 29.8 per cent were fixed rate instruments.

CENTRAL GOVERNMENT SUMMARY ACCOUNTS
FY 2006/07
(J$MN)

	FY 2006/07 Q3	Budget Q3	Variance		FY 2006/07 Q1 - Q3	Target Q1 - Q3	Variance	
Revenue & Grants	**51726.8**	**54243.9**	**-2517.1**	**-4.64%**	**148744.9**	**154225.0**	**-5480.1**	**-3.55%**
Revenue	**50129.7**	**52578.6**	**-2448.9**	**-4.66%**	**146781.6**	**151065.7**	**-4284.1**	**-2.84%**
Tax Revenue	45,327.4	47,373.8	-2046.5	**-4.32%**	132,388.5	137,031.6	-4643.2	**-3.39%**
Non-Tax Revenue	3,685.9	3,530.9	154.9	**4.39%**	10,114.9	8,542.0	1572.9	**18.41%**
Bauxite Levy	966.0	970.0	-4.0	**-0.41%**	3,038.2	2,904.8	133.5	**4.60%**
Capital Revenue	150.5	703.9	-553.3	**-78.61%**	1,240.0	2,587.3	-1347.3	**-52.07%**
Grants	1,597.0	1,665.3	-68.2	**-4.10%**	1,963.3	3,159.3	-1195.9	**-37.85%**
Expenditure	**72771.8**	**63971.1**	**8800.7**	**13.76%**	**186712.6**	**184956.7**	**1756.0**	**0.95%**
Recurrent Expenditure	63824.7	56509.4	7315.3	**12.95%**	168880.8	162190.5	6690.4	**4.12%**
Programmes	13,462.3	12,053.4	1408.8	**11.69%**	36,479.1	35,522.5	956.6	**2.69%**
Wages & Salaries	22,325.2	17,880.3	4444.8	**24.86%**	58,137.2	54,883.6	3253.6	**5.93%**
Interest	28,037.3	26,575.7	1461.6	**5.50%**	74,264.5	71,784.4	2480.1	**3.45%**
Domestic	19,839.6	18,875.9	963.7	**5.11%**	53,987.0	51,629.3	2357.7	**4.57%**
Foreign	8,197.7	7,699.7	498.0	**6.47%**	20,277.5	20,155.0	122.5	**0.61%**
Capital Expenditure	8,947.1	7,461.7	1485.4	**19.91%**	17,831.8	22,766.2	-4934.4	**-21.67%**
Non-interest expenditure	**44734.5**	**37395.4**	**7339.1**	**19.63%**	**112448.1**	**113172.3**	**-2192.6**	**-6.42%**
Fiscal Balance	**-21045.0**	**-9727.2**	**-11317.8**	**116.35%**	**-37967.7**	**-30731.7**	**2513.0**	**-24.81%**
Current Balance	**-12248.5**	**-2969.4**	**-9279.1**	**312.49%**	**-21376.0**	**-10552.8**	**-10823.1**	**102.56%**
Primary balance	**6992.3**	**16848.4**	**-9856.2**	**-58.50%**	**36296.8**	**41052.7**	**-4755.9**	**-11.58%**
BR	**3.01**	**1.39**			**5.44**	**4.40**		
CB	**-1.75**	**-0.43**			**-3.06**	**-1.51**		
PB	**1.00**	**2.41**			**5.20**	**5.88**		
IP	**4.02**	**3.81**			**10.64**	**10.28**		
FSR	**-1.41**	**-1.18**			**-1.26**	**-1.20**		
NIE	**6.41**	**5.36**			**16.11**	**16.21**		

Key

BR = Borrowing Requirement

CB= Current Balance = Current Revenue-Current Expenditure as a percent of GDP

PB= Primary Balance = Total Revenues-Total Expenditures less Interest Payments (IP) as a percent of GDP

IP= Interest Payments as a percent of GDP

FSR=Fiscal Stability Ratio = (Overall Balance/ Total Revenue) - 1

International Benchmarks

BR greater than **3% of GDP** often indicates serious fiscal imbalance

FSR closer to zero indicates more stable government finances

Negative CB ratio of less than 1% indicates dissaving or a need for fiscal adjustment as the public sector is borrowing for consumption

PB ratio above zero indicates major fiscal adjustment to cover interest on past obligations

** Recurrent Expenditure includes programmes, wages and salaries and interest payments.*

B. MONETARY POLICY DEVELOPMENTS

27/04/2000	30-day Reverse Repurchase Rate was reduced from 17.30 per cent to 17.00 per cent.
01/06/2000	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-three per cent (33%) to thirty-two per cent (32%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from fifteen per cent (15%) to fourteen per cent (14%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-two per cent (5% and 32%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and fourteen per cent (1% and 14%) in respect of local and foreign currency deposits.
28/07/2000	30-day Reverse Repurchase Rate was reduced from 17.00 per cent to 16.75 per cent.
11/08/2000	30-day Reverse Repurchase Rate was reduced from 16.75 per cent to 16.45 per cent.
01/09/2000	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-two per cent (32%) to thirty-one per cent (31%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from fourteen per cent (14%) to thirteen per cent (13%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-one per cent (5% and 31%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and thirteen per cent (1% and 13%) in respect of local and foreign currency deposits.
18/09/00	Bank of Jamaica introduces 270-day and 365-day reverse repurchase instruments at 17.6 and 18.0 per cent respectively.
04/10/00	Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.
23/10/00	Interest rates on the 270-day and 365-day instruments were reduced to 17.6 and 18.0 per cent respectively.
24/11/00	Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.
28/12/00	Interest rate on the 365-day instrument was reduced to 21 per cent.
14/02/01	Interest rates on the 365-day and 270-day instruments were reduced to 20.00 per cent and 19.25 per cent respectively.
20/02/01	Interest rates on the 365-day and 270-day instruments were reduced to 19.50 per cent, and 18.75 per cent respectively.
01/03/01	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-one per cent (31%) to thirty per cent (30%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirteen per cent (13%) to twelve per cent (12%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty per cent (5% and 30%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and twelve per cent (1% and 12%) in respect of local and foreign currency deposits.
08/03/01	Interest rates on the 365-day, 270-day, instruments were reduced to 19.00 per cent, 18.25 per cent per cent respectively.

12/03/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 18.50 per cent, 17.75 per cent, 16.70 percent, 16.40 per cent, 16.25 per cent, 16.15 per cent and 16.00 per cent respectively.
22/03/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 17.75 per cent, 17.00 per cent, 16.15 per cent, 15.80 per cent, 15.70 per cent, 15.60 per cent and 15.50 per cent respectively.
11/04/01	Interest rates on the 365-day and 270-day instruments were reduced to 17.50 per cent and 16.75 per cent respectively.
21/05/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.50 per cent, 15.70 per cent, 15.30 per cent, 15.05 per cent, 14.95 per cent, 14.85 per cent and 14.75 per cent respectively.
01/06/01	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty per cent (30%) to twenty nine per cent (29%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from twelve per cent (12%) to eleven per cent (11%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty nine per cent (5% and 29%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and eleven per cent (1% and 11%) in respect of local and foreign currency deposits.
08/06/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.90 per cent, 15.35 per cent, 15.00 percent, 14.80 per cent, 14.70 per cent, 14.60 per cent and 14.50 per cent respectively.
25/06/01	Interest rates on the 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 14.75 percent, 14.55 per cent, 14.45 per cent, 14.35 per cent and 14.25 per cent respectively.
29/06/01	The Bank of Jamaica introduced Certificates of Deposits to the range of instruments used in open market operations. All the terms and conditions applicable to Reverse Repurchase transactions apply to Certificates of Deposits, with the exception that the latter are covered by the central bank's assets as against Government securities. Central Bank deposits which are maintained in statement form (i.e. no physical certificate is issued) will continue to be used for placements of seven (7) days or less.
01/09/01	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from twenty nine per cent (29%) to twenty eight per cent (28%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from eleven per cent (11%) to ten per cent (10%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty eight per cent (5% and 28%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and ten per cent (1% and 10%) in respect of local and foreign currency deposits.
30/10/01	Interest rates on the 365-day, 270-day, 180-day, 90-day and 60-day instruments were increased to 19.90 per cent, 19.45 per cent, 15.50 per cent, and 15.00 per cent, 14.75 per cent and 14.55 per cent, respectively
28/12/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day and 60-day instruments were reduced to 18.90 per cent, 18.40 per cent, 15.00 per cent, and 14.55 per cent, 14.45 per cent and 14.35 per cent, respectively.
09/01/02	Interest rates on the 365-day and 270-day instruments were reduced to 17.90 per cent and 17.00per cent, respectively.
06/02/02	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.70 per cent, 15.90 per cent, 14.70 per cent, 14.30 per cent, 14.20 per cent, 14.10 per cent and 14.00 per cent, respectively.

14/02/02	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.80 per cent, 15.00 per cent, 14.40 per cent, 14.05 per cent, 13.95 per cent, 13.85 per cent and 13.95 per cent, respectively.
01/03/02	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities were reduced from twenty eight per cent (28%) to twenty seven per cent (27%).
	Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from ten per cent (10%) to nine per cent (9%).
11/03/02	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced from 13.75 per cent, 13.85 per cent, 13.95 per cent, 14.05 per cent, 14.40 per cent, 15.00 per cent and 15.80 per cent to 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent, respectively.
11/07/02	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day, and 365-day open market instruments were reduced from 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent to 12.95 per cent, 13.05 per cent, 13.15 per cent, 13.25 per cent, 13.45 per cent, 14.00 per cent, and 14.90 per cent, respectively.
01/09/02	Liquid Assets ratio of commercial banks, FIA institutions and of building societies, in respect of local and foreign currency liabilities were reduced from twenty seven percent (27%) to twenty three percent (23%).
07/08/02	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced from 14.00 per cent to 13.85 per cent and from 14.90 per cent to 14.50 per cent, respectively.
09/09/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 13.15 per cent to 17.25 per cent and from 13.25 per cent to 17.05 per cent, respectively.
09/10/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 17.25 per cent to 19.25 per cent and from 17.05 per cent to 19.40 per cent, respectively.
28/10/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were reduced from 19.25 per cent to 18.25 per cent and from 19.40 per cent to 18.40 per cent, respectively.
01/11/02	The interest rate chargeable in respect of breaches by commercial banks, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was reduced from 69 per cent per annum to 45 per cent per annum.
	The interest rate chargeable in respect of breaches by building societies and institutions licensed under the Financial Institutions Act, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was adjusted from one-sixth of one per centum per day to 45 per cent per annum.
10/01/03	The Bank of Jamaica instituted a "Special Deposit" requirement for Commercial Banks and institutions licensed under the Financial Institutions Act. Each institution will be required to place cash deposits with the Central Bank equivalent to 5% of its Jamaican Dollar prescribed liabilities.
10/02/03	The Bank of Jamaica introduced a special five-month open market instrument which earned interest at 30% per annum. This instrument was introduced in a context of significant Jamaica dollar liquidity and protracted instability in the foreign exchange market.
14/02/03	The Bank of Jamaica withdrew the special five- month open market instrument which was introduced on 10 February 2003. The decision to remove this instrument came against the background of tight Jamaica dollar liquidity and the appreciation in the exchange rate over the previous four days. The removal was also in response to representations made to the Bank of Jamaica by financial institutions and understandings reached with respect to the development of foreign exchange market protocols.

19/03/03	Interest rates on Bank of Jamaica's 180-day, 270-day and 365-day open market instruments were increased to 19.65 per cent, 21.50 per cent and 24.0 per cent, respectively.
26/03/03	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were increased to 15.00 per cent, 15.30 per cent, 20.00 per cent, 24.00 per cent, 33.15 per cent, 34.50 per cent and 35.95 per cent, respectively.
25/04/03	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 28.00 per cent, 32.50 per cent and 33.00 per cent, respectively.
19/05/03	The interest rate applicable to overdrafts on accounts held with the Bank of Jamaica was increased to 65.0 per cent per annum.
24/06/03	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 26.50 per cent, 29.50 per cent and 30.00 per cent, respectively.
08/07/03	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 27.50 per cent and 28.00 per cent, respectively.
04/08/03	Interest rates on Bank of Jamaica 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 18.00 per cent, 22.00 per cent, 25.00 per cent, 25.75 per cent and 26.00 per cent, respectively.
09/09/03	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 21.00 per cent, 23.50 per cent, 23.75 per cent and 24.00 per cent, respectively.
17/10/03	Bank of Jamaica withdrew its 270-day and 365-day instruments from open market trading.
29/10/03	Bank of Jamaica returned its 270-day and 365-day instruments to open market trading at 23.75 per cent and 24.00 per cent respectively.
10/12/03	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 17.00 per cent, 20.00 per cent, 21.00 per cent, 22.00 per cent and 23.00 per cent, respectively.
09/01/04	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 18.00 per cent, 19.50 per cent, 21.00 per cent and 22.00 per cent, respectively.
21/01/04	Interest rates on Bank of Jamaica 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 15.20 per cent, 15.50 per cent, 17.00 per cent, 18.25 per cent, 20.00 per cent and 21.00 per cent respectively.
26/01/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.85 per cent, 15.00 per cent, 15.10 per cent, 16.00 per cent, 17.25 per cent, 18.75 per cent and 20.00 per cent, respectively.
16/02/04	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 15.50 per cent, 16.25 per cent, 17.75 per cent and 19.00 per cent, respectively.
27/02/04	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 17.25 per cent and 18.50 per cent, respectively.
10/03/04	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 16.95 per cent and 17.95 per cent, respectively.
10/03/04	Pursuant to Section 15 (2) (h) of the Banking Act and the Financial Institutions Act, and Regulation 38 (h) of the Bank of Jamaica (Building Societies) Regulation, the Minister of Finance determined that all debt securities or instruments issued by the Government of Jamaica, whether denominated in Jamaican dollars or in a foreign currency and irrespective of their original maturity terms, shall, within nine months of their maturity date be designated Liquid Assets.

02/04/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.60 per cent, 14.70 per cent, 14.80 per cent, 15.10 per cent, 15.60 per cent, 16.50 per cent and 17.40 per cent, respectively.
19/04/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.40 per cent, 14.50 per cent, 14.60 per cent, 14.85 per cent, 15.30 per cent, 16.00 per cent and 16.90 per cent, respectively.
05/05/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.20 per cent, 14.30 per cent, 14.40 per cent, 14.55 per cent, 15.05 per cent, 15.65 per cent and 16.40 per cent, respectively.
03/09/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.00 per cent, 14.10 per cent, 14.20 per cent, 14.35 per cent, 14.80 per cent, 15.35 per cent and 16.00 per cent, respectively.
28/12/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 13.80 per cent, 13.95 per cent, 14.05 per cent, 14.15 per cent, 14.30 per cent, 15.00 per cent and 15.50 per cent, respectively.
07/02/05	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 13.50 per cent, 13.65 per cent, 13.75 per cent, 13.85 per cent, 14.00 per cent, 14.50 per cent and 15.00 per cent, respectively.
07/02/05	The Bank of Jamaica reduced the Special Deposit holdings for commercial banks and FIA licensees by two (2) percentage points. Accordingly, these institutions, until further notified, are required to maintain with the Bank of Jamaica as a Special Deposit, an amount wholly in the form of cash, representing three (3) percent of their prescribed liabilities.
07/03/05	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 12.95 per cent, 13.10 per cent, 13.20 per cent, 13.30 per cent, 13.45 per cent, 14.00 per cent and 14.50 per cent, respectively. These rate adjustments were underpinned by continued stability in the exchange rate, reflecting buoyant foreign exchange inflows from tourism and remittances. Also, the Bank's net international reserves remained around US$1.8 billion, a level that was more than adequate to underwrite near term stability. In addition, inflation in the first quarter of 2005 was expected to continue on a downward trend engendering a return to single digit inflation in the forthcoming fiscal year.
16/05/05	The Bank of Jamaica reduced the Special Deposit holdings for commercial banks and FIA licensees by two (2) percentage points. Accordingly, these institutions, until further notified, are required to maintain with the Bank of Jamaica as a Special Deposit, an amount wholly in the form of cash, representing one (1) percent of their prescribed liabilities.
26/05/05	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 12.60 per cent, 12.70 per cent, 12.75 per cent, 12.85 per cent, 13.00 per cent, 13.25 per cent and 13.60 per cent, respectively. The adjustments were consistent with the steady improvement in Jamaica's economic environment as reflected in buoyant foreign exchange inflows, stability in the money and foreign exchange markets and a strong international reserve position. Furthermore, the near-term prospects for production and prices continued to be very favourable with strong recovery expected in domestic agriculture as well as ongoing expansion in tourism and mining activities. In addition, it was expected that the normalization of food supplies and continued stability in the foreign exchange market would help to contain inflation during the 2005/2006 fiscal year.
27/05/05	The Bank phased out its reverse repurchase agreements. This facilitated consistency in the accounting treatment (under International Financial Reporting Standards) of open market instruments by holders.

18/04/06	The Bank suspended the acceptance of placements on its open market operations (OMO) instruments with tenors of 270 days and 365 days, until further advised. The OMO instruments, along with corresponding interest rates, that remained on offer were 30-days: 12.6 per cent; 60-days: 12.70 per cent; 90-days: 12.75 per cent; 120-days: 12.85 per cent; and 180-days: 13.00 per cent.
01/05/06	The Bank removed the requirement that deposit-taking institutions must hold some portion of their assets as a Special Deposit with the Central Bank. This requirement was introduced in January 2003 to stabilize the financial markets. The initial deposit requirement was set at 5 per cent of prescribed liabilities and this was reduced to 1 per cent in two steps between February and May 2005. The significant improvement in macroeconomic conditions and the positive outlook for fiscal year 2006/07 allowed for the return of the remaining deposits. The sum due to financial institutions as at 28 April 2006 was J$1 564.1 million.
12/05/06	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day and 180-day open market instruments were reduced to 12.45 per cent, 12.50 per cent, 12.60 per cent, 12.65 per cent and 12.80 per cent, respectively.
01/09/06	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day and 180-day open market instruments were reduced to 12.15 per cent, 12.2 per cent, 12.30 per cent, 12.35 per cent and 12.50 per cent, respectively.
22/09/06	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day and 180-day open market instruments were reduced to 11.95 per cent, 12.00 per cent, 12.10 per cent, 12.15 per cent and 12.30 per cent, respectively.
22/12/06	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day and 180-day open market instruments were reduced to 11.65 per cent, 11.70 per cent, 11.80 per cent, 11.85 per cent and 12.00 per cent, respectively. This policy action comes against the background of continued robust economic performance and favourable medium term economic outlook.

LIST OF SUMMARY TABLES

C. Summary Tables

1

INFLATION RATES (%)	CPI Index (e.o.p)	Head-line (Quarter)	Core (Quarter)
1998/1999	**1182.5**	**6.0**	**2.9**
1999/2000	**1281.7**	**8.4**	**4.0**
June	1205.9	2.0	0.9
September	1237.6	2.6	1.4
December	1265.9	2.3	0.9
March	1281.7	1.3	0.8
2000/2001	**1364.3**	**6.4**	**4.2**
June	1311.4	2.3	1.1
September	1349.3	2.9	1.2
December	1342.6	-0.5	0.8
March	1364.3	1.6	1.0
2001/2002	**1468.5**	**7.6**	**3.3**
June	1404.0	2.9	1.0
September	1442.7	2.7	1.1
December	1459.9	1.2	0.6
March	1468.5	0.6	0.6
2002/2003			
June	1492.8	1.7	0.9
September	1528.0	2.4	0.8
December	1566.1	2.5	1.2
March	1558.4	-0.4	1.3
2003/2004			
June	1653.1	6.0	2.3
September	1728.4	4.6	2.3
December	1786.8	3.4	2.0
March	1820.8	1.9	1.1
2004/2005			
June	1854.8	1.9	1.1
September	1909.2	2.9	1.2
December	2032.1	6.4	1.7
March	2061.5	1.4	1.1
2005/2006			
June	2178.9	5.7	1.7
September	2272.4	4.3	1.4
December	2293.8	0.9	1.0
March	2297.1	0.1	0.8
2006/2007			
June	2362.3	2.8	0.9
September	2419.8	2.4	1.1
December	2425.9	0.3	0.5

2A

COMPONENT CONTRIBUTION TO INFLATION
All Jamaica
Oct – Dec 2006

Groups and Sub-groups	Weight in CPI	Inflation (%)	Contribution
FOOD & DRINK	**0.5563**	**0.4**	**90.5**
- Meals Away From Home	0.0741	1.4	13.9
- Meat Poultry & Fish	0.1613	2.5	54.1
- Dairy Products Oils & Fats	0.0668	2.1	18.2
- Baked Products Cereals &Breakfast Drinks	0.0864	1.1	12.6
- Starchy Foods	0.0525	-11.2	-77.4
- Vegetables & Fruits	0.0650	7.1	61.0
- Other Food & Beverages	0.0502	1.2	8.1
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**1.7**	**14.8**
- Household Supplies	0.0482	1.3	8.5
- Fuels	0.0253	1.9	6.3
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**-2.0**	**-19.0**
- Rental	0.0209	0.0	0.0
- Other Housing Expenses	0.0577	-2.5	-19.0
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**1.2**	**3.5**
- Furniture	0.0068	2.3	2.1
- Furnishings	0.0215	0.5	1.4
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**1.1**	**10.4**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**0.7**	**4.9**
- Clothing Materials	0.0055	0.1	0.1
- Readymade Clothing & Accessories	0.0242	0.8	2.6
- Footwear	0.0159	0.9	2.0
- Making & Repairs	0.0051	0.3	0.2
TRANSPORTATION	**0.0644**	**-1.3**	**-11.1**
MISCELLANEOUS EXPENSES	**0.0785**	**0.6**	**6.0**
ALL GROUPS	**1.0000**	**0.3**	**100.0**

2B

REGIONAL INFLATION
Quarterly
October – December 2006

Groups and Sub-groups	KMA (%)	Other Towns (%)	Rural Areas (%)
FOOD & DRINK	**2.2**	**1.0**	**-1.6**
- Meals Away From Home	0.9	2.1	1.9
- Meat Poultry & Fish	2.2	2.9	2.7
- Dairy Products Oils & Fats	2.3	2.3	1.7
- Baked Products Cereals &Breakfast Drinks	1.0	1.1	1.2
- Starchy Foods	-5.3	-12.6	-13.1
- Vegetables & Fruits	12.6	11.7	-0.5
- Other Food & Beverages	2.5	0.7	0.2
FUELS & OTHER HOUSEHOLD SUPPLIES	**1.9**	**2.9**	**0.6**
- Household Supplies	1.2	1.4	1.5
- Fuels	2.4	3.8	0.1
HOUSING & OTHER HOUSING EXPENSES	**-1.9**	**-2.2**	**-2.2**
- Rental	0.0	0.0	0.0
- Other Housing Expenses	-2.6	-2.4	-2.4
HOUSEHOLD FURNISHINGS & FURNITURE	**2.5**	**0.8**	**0.1**
- Furniture	6.1	-0.1	0.1
- Furnishings	0.4	1.3	0.1
HEALTHCARE & PERSONAL EXPENSES	**0.6**	**1.7**	**1.6**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.2**	**2.0**	**0.6**
- Clothing Materials	0.2	0.3	0.0
- Readymade Clothing & Accessories	0.3	1.3	1.0
- Footwear	0.2	3.1	0.4
- Making & Repairs	0.0	1.6	0.0
TRANSPORTATION	**-1.3**	**-0.9**	**-1.8**
MISCELLANEOUS EXPENSES	**0.2**	**0.5**	**1.4**
ALL GROUPS	**0.9**	**0.7**	**-0.9**

3

BANK OF JAMAICA OPERATING TARGETS

	Jun-05	Sept-05	Dec-05	Mar-06	Jun-06	Sept-06	Dec-06
Net International Reserves (US$)	**2 156.8**	**2 119.0**	**2 087.4**	**2 078.1**	**2 110.1**	**2 342.0**	**2 317.6**
Net International Reserves ($J)	**133 721.6**	**131 376.1**	**136 120.7**	**135 515.2**	**138 862.3**	**155 486.0**	**153 862.1**
- Assets	135 116.6	139 063.5	141 443.1	154 736.5	150 915.4	164 296.7	159 276.9
- Liabilities	-1 395.0	-7 687.4	-5 322.4	-19 221.3	-12 053.1	- 8 810.7	-5 414.8
Net Domestic Assets	**-93 641.6**	**-91 001.9**	**-86 703.0**	**-91 907.4**	**-93 911.6**	**-108 165.8**	**- 95 886.7**
-Net Claims on the Public Sector	99 507.6	103 491.4	96 607.0	99 001.8	98 961.5	93 207.9	94 684.7
- Net Credit to Banks	-9 784.6	-10 289.3	-10 871.7	-10 906.7	-9 322.7	-9 886.1	-10 303.6
- Open Market Operations	-167 485.1	-168 108.2	-149 806.5	-157 357.6	-159 438.0	-166 018.9	-154 757.0
- Other	-15 879.5	-16 095.8	-22 631.8	-22 644.9	-24 112.3	-25 468.8	-25 510.8
Monetary Base	**40 080.0**	**40 374.2**	**49 417.7**	**43 607.8**	**44 950.6**	**47 320.2**	**57 975.5**
- Currency Issue *	26 995.0	27 401.5	35 644.5	29 714.4	30 734.4	32 143.4	42 317.3
- Cash Reserve	12 957.2	12 937.6	13 125.8	13 685.2	14 093.2	14 907.8	14 821.7
- Current Account	127.8	35.1	647.4	208.2	123.0	269.0	836.5
% change Monetary Base (F-Y-T-D)	**-3.8**	**-3.1**	**18.7**	**4.7**	**3.1**	**8.5**	**32.9**

** Excludes BOJ's teller cash*

4

MONETARY AGGREGATES
(End-of-Period)
(J$MN)

	M1J	M1*	M2J	M2*	M3J	M3*
2002/2003						
June	36 864.8	43 248.6	110 235.4	150 532.0	133 902.1	174 198.5
September	42 475.0	49 450.6	117 345.1	160 591.3	142 633.2	185 879.3
December	44 704.0	51 486.7	119 330.6	165 026.0	145 583.9	191 279.3
March	33 733.5	40 791.3	107 472.2	158 719.5	136 368.0	187 615.2
2003/2004						
June	37 201.6	46754.7	109 847.2	166750.9	140 414.9	197319.3
September	39 838.8	49 028.9	114 121.8	172 760.3	146 844.5	205 483.0
December	45 220.9	55 237.5	123 090.2	183 117.4	156 387.0	216 414.2
March	44 942.9	57 124.2	124 892.6	190 784.0	160 403.2	226 294.7
2004/2005						
June	46 496.4	57 161.6	128 294.6	193 296.0	165 766.6	230 768.0
September	48 959.1	60 090.6	130 416.1	199 673.9	169 273.8	238 532.8
December	55 258.0	67 724.6	141 539.8	211 468.2	182 029.6	251 723.8
March	52 605.9	62 309.4	139 480.6	209 583.2	179 769.4	249 872.0
2005/2006						
June [r]	52 942.5	62 310.9	142 111.3	212 032.6	185 090.2	255 011.5
September	53 089.8	63 212.3	143 430.0	216 480.9	188 253.9	261 304.7
December	62 572.8	72 736.2	155 248.0	228 320.7	200 537.3	273 609.9
March	58 617.7	69 800.3	153 618.0	228 524.9	202 804.6	277 711.5
2006/2007						
June	61 908.1	71 897.4	159 153.6	232 227.4	208 718.0	281 791.8
September	64 668.9	73 233.3	162 466.8	234 331.2	214 812.8	286 677.2
December [p]	78 180.3	87 446.4	181 792.9	256 975.7	235 544.9	310 727.7

J- Includes local currency liabilities only
** -Includes local and foreign currency liabilities;*
p – preliminary

COMPONENTS OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY
(Quarterly Flows - J$MN)

	Mar-05^r	Jun-05^r	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06^p
M2J	**-2 059.2**	**2 630.8**	**1 318.8**	**11 818.0**	**-1 630.0**	**5 535.6**	**3 313.2**	
Currency	-3 108.7	-574.0	1 119.6	5 549.5	-3 435.3	1 285.3	966.9	7 333.8
Demand Deposits	456.8	910.4	-972.3	3 933.5	-519.7	2 005.1	1 793.9	6 177.6
Savings Deposits	-105.1	1 579.0	111.6	3 505.2	296.3	2 951.0	1 288.2	4 413.7
Time Deposits	697.8	715.4	1 059.9	-1 170.2	2 028.8	- 705.8	-735.8	1 410.0
OTHER DEPOSITS	**-201.1**	**2 690.0**	**1 844.9**	**465.5**	**3 897.3**	**377.8**	**2 781.5**	**1 406.0**
TOTAL (M3J)	**-2 260.3**	**5 320.8**	**3 163.7**	**12 283.4**	**2 267.4**	**5 913.4**	**6 094.7**	**20 732.2**
SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY								
N.I.R. of B.O.J.	**2 666.0**	**15 788.6**	**-2 277.0**	**-1 952.9**	**-605.5**	**2 100.0**	**15 400.2**	**-1 624.0**
M&LTFL of B.O.J	**0.0**	**11.7**	**0.0**	**44.7**	**65.4**	**0.0**	**0.0**	**0.0**
Banking System Credit	**913.5**	**18 620.4**	**5 566.3**	**-3 193.7**	**3 169.6**	**3 712.2**	**-3 830.6**	**5 803.8**
Public Sector	-1 164.3	15 559.3	3 864.9	-5 333.0	-259.6	276.5	-8 806.9	-3 288.1
Private Sector	2 077.8	3 061.1	1 701.4	2 139.3	3 429.2	3 435.7	4 976.3	9 091.9
Open Market Operations	**-13 162.8**	**-23 658.2**	**-595.1**	**18 301.7**	**-7 551.1**	**-2 080.4**	**- 6580.9**	**11 261.9**
Other	**7 323.0**	**-5 441.7**	**469.5**	**-916.4**	**7 189.0**	**2 181.6**	**1 106.0**	**5 290.5**
TOTAL	**- 2 260.3**	**5 320.8**	**3 163.7**	**1 2 283.4**	**2 267.4**	**5 913.4**	**6 094.7**	**20 732.2**
Memo:								
Foreign Currency Deposits (Private Sector)	210.1	-181.3	3 129.6	21.8	1 834.2	-1 833.1	-1 209.3	3 318.4
Foreign Currency Loans (Private Sector)	1 594.9	-2 901.0	3 389.6	3 754.3	-715.3	2 801.9	478.0	3 124.4

preliminary

r-revised

6A

SELECTED INTEREST RATES (%)
(End-of-Period)

	Fixed Deposits * 3-6 months	Fixed Deposits * 6-12 months	Savings Deposits (Average) r	Lending Rate (Average)	Fixed Deposits Rate (Weighted Average)	Loan Rate (Weighted Average)	Inter-bank Lending Rate (Average)
2002/2003							
June	7.75–13.25	7.75–13.25	9.00	25.92	9.28	18.15	14.68
September	7.75–13.25	7.75–13.25	8.86	26.25	8.98	18.08	13.88
December	7.75–13.25	7.75–13.25	8.96	25.04	8.92	18.26	11.50
March	8.50-13.15	8.50-13.15	8.22	24.73	8.87	17.23	21.90
2003/2004							
June	8.50–13.15	8.50-13.15	8.22	25.18	8.98	19.23	38.40
September	8.50-13.25	8.50-13.50	8.43	25.60	9.02	19.87	17.01
December	8.50-13.25	8.50-13.50	7.24	25.60	8.68.	19.32	24.08
March	8.50–13.25	8.50-13.50	6.78	25.40	8.47	19.01	17.16
2004/2005							
June	8.50 – 13.25	8.50-13.50	6.61	25.02	8.15	17.75	15.75
September	8.50 - 13.25	8.50-13.50	6.61	24.95	7.99	17.76	8.38
December	3.00 – 14.10	3.50–14.30	6.48	24.89	7.78	17.72	12.95
March	3.00 – 14.10	3.50–14.30	6.36	24.89	7.54	17.35	12.58
2005/2006							
June	3.00–14.10	3.50-14.30	5.52	24.70	7.34	16.43	10.00
September	2.50- 14.10	3.00–14.30	5.48	22.00	7.11	17.41	11.13
December	2.50- 14.10	3.00–14.30	5.48	22.00	7.00	17.32	12.42
March	2.50- 14.10	3.00–14.30	5.30	21.84	7.17	17.54	10.00
2006/2007							
June	2.50- 14.10	3.00–14.30	5.39	22.50	7.17	17.60	9.00
September	2.50- 14.10	3.00–14.30	5.36	21.80	6.88	17.83	9.13
December	2.50- 14.10	3.00–14.30	5.20	21.90	n.a.	n.a.	8.10

**Relate to deposits of $100 000 and over.*
r - revised
n.a: Not Available

6B

GOJ TREASURY BILL YIELDS
(End of Period)

	3-month	*6-month*	*9-month*	*12-month*
2000/2001				
September	16.62	17.13	16.91	16.94
December		20.16	19.67	20.98
March		16.88		17.86
2001/2002				
June	23.48	16.20		
September	22.23	15.10	15.50	
December	22.12	17.03		
March	21.49	14.30		14.96
2002/2003				
June		13.81		14.77
September		16.69	16.98	
December		17.01		
March		33.47		
2003/04				
June		28.46		
September		23.42	23.87	
December		22.05		
March	15.23	15.57		
2004/05				
June	15.04	14.98	15.18	
September	14.41	14.80		16.36
December	14.41	14.94		
March	13.21	13.46	14.00	
2005/2006				
June	12.85	12.88		
September	12.96	13.15		
December	13.34	13.55		
March	13.16	13.18		
2006/2007				
June	12.64	12.82		
September	12.44	12.49		
December	12.26	12.31		

7

BANK OF JAMAICA OPEN MARKET INTEREST RATES
(End Period)

Tenor of Instruments

End Period	30 days	60 days	90 days	120 days	180 days	270 days	365 days
2001/2002							
June	14.25	14.35	14.45	14.55	14.75	15.35	15.90
September	14.25	14.35	14.45	14.55	14.75	15.35	15.90
December	14.25	14.35	14.45	14.55	15.00	18.40	18.90
March	13.25	13.35	13.45	13.55	13.80	14.20	15.00
2002/2003							
June	13.25	13.35	13.45	13.55	13.80	14.20	15.00
September	12.95	13.05	17.25	17.05	13.45	13.85	14.50
December	12.95	13.05	18.25	18.40	13.45	13.85	14.50
March	15.00	15.30	20.00	24.00	33.15	34.50	35.95
2003/2004							
June	15.00	15.30	20.00	24.00	26.50	29.50	30.00
September	15.00	15.30	18.00	21.00	23.50	23.75	24.00
December	15.00	15.30	17.00	20.00	21.00	22.00	23.00
March	14.85	15.00	15.10	15.50	16.00	16.95	17.95
2004/2005							
June	14.20	14.30	14.40	14.55	15.05	15.65	16.40
September	14.00	14.10	14.20	14.35	14.80	15.35	16.00
December	13.80	13.95	14.05	14.15	14.30	15.00	15.50
March	12.95	13.10	13.20	13.30	13.45	14.00	14.50
2005/2006							
June	12.60	12.70	12.75	12.85	13.00	13.25	13.60
September	12.60	12.70	12.75	12.85	13.00	13.25	13.60
December	12.60	12.70	12.75	12.85	13.00	13.25	13.60
March	12.60	12.70	12.75	12.85	13.00	13.25	13.60
2006/2007							
June*	12.45	12.50	12.60	12.65	12.80	...	...
September	11.95	12.00	12.10	12.15	12.30	...	...
December	11.65	11.70	11.80	11.85	12.00	...	...

* **Bank of Jamaica ceased accepting placements for 270-day and 365-day tenors on 18 April 2006.**

8A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
October – December 2006

Maturity Date		Amount J$M	Applicable Interest Rate [b/]
05 October	US$ Denom. Bond 2006	3638.7	11.75%
15 October	VR LRS 2005/2006 C	250.0	13.18
26 October	VR LRS 2015/2016	2454.2	13.24
31 October	VR LRS 2006A	1161.7	16.965
15 November	VR LRS 2006/2007 A Tr. E	222.4	13.82
16 November	GOJ Inv. Deb. 2006 Ser. "Aj"	3271.3	16.875
30 November	VR LRS 2006 C	913.5	16.24
2 December	VR LRS 2003-2009 Tr. D	200.0	14.59
13 December	VR LRS 2006/2007 B	800.0	14.34
18 December	US$ Bond 2003-2006 Tr. 3	2204.9	11.875
28 December	VR LRS 2004/2008 Tr. F	116.1	13.99
29 December	VR LRS 99/2008 (S)	2.4	14.82
29 December	FR US$ Bond 2006	.08	9.625
29 December	VR LRS 2001/2006 Tr. G	5.1	13.82

Notes:
a/ Rate above Treasury is the relevant Treasury bill rate in effect at the beginning of the interest period.
b/ The withholding tax of 25% on interest income has been in effect since May 1, 2000.
c/ FR – Fixed Rate
d VR-Variable Rate
Source: Debt Management Unit, Ministry of Finance & Planning

8B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Domestic Market Issues
October – December 2006

Issue Date	Stock Name	Features	Amount Raised J$M
6 October	FR US$ denom. Bond 2012	Tenor of 6 years. Interest rate fixed at 7.50%. Interest payable six months after issue. Thereafter interest paid semi-annually.	$4 353.2
13 October	FR LRS 2016 AA	Tenor of 10 years. Interest rate fixed at 13.375%. Interest paid on 13 April and 13 October.	$750.0
13 October	FR LRS 2021 AA	Tenor of 15 years. Interest rate fixed at 13.575%. Interest paid on 13 April and 13 October	$750.0
18 – 20 October	VR Inv. Bond 2012/2013 Ser "Aq"	Tenor of 6 years. Interest rate fixed at 12.44%. Interest fixed for first three months. Thereafter, quarterly payments of 1.50% above 3-month WATBY.	$10 483.5
1 -3 November	FR Inv. Deb. 2008 Ser. "Ba"	Tenor of 2 years. Interest rate fixed at 12.625%. Interest paid on 2 February 2007. Thereafter interest paid quarterly.	$3 651.7
16 – 18 November	VR Inv. Bond 2016/2017 (Ah)	Tenor of 10 years. Interest fixed at 12.12%. Interest fixed for first 3 months. Thereafter, quarterly payments of 1.50% above 3-month WATBY.	$10 073.0
15 December	FR LRS 2021 AB	Tenor of 15 years. Interest rate of 13.375%. Interest paid on 15 June and 15 December	$400.0
15 December	FR LRS 2026 AA	Tenor of 20 years. Interest rate of 13.575%. Interest paid on 15 June and 15 December	$600.0

Source: Debt Management Unit, Ministry of Finance & Planning

9

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other Goods	Total Exports
2003/2004 r	**92.3**	**726.0**	**82.9**	**18.6**	**65.7**	**250.9**	**231.0**	**1 467.4**
June	24.1	166.0	28.9	5.0	17.6	52.4	52.0	346.0
September	23.1	183.2	10.4	4.4	18.5	66.0	60.2	365.8
December	21.0	176.7	1.1	4.6	12.6	60.4	63.2	339.6
March	24.1	200.1	42.5	4.6	17.0	72.1	55.6	416.0
2004/2005 r	**82.1**	**825.0**	**87.0**	**8.2**	**74.2**	**272.6**	**216.3**	**1 565.4**
June	25.4	202.8	47.9	4.3	19.2	77.3	55.8	432.7
September	22.3	173.8	7.7	3.9	20.3	59.9	66.7	354.6
December	8.6	237.8	0.0	0.0	19.6	74.1	58.2	398.3
March	25.8	210.6	31.4	0.0	15.1	61.3	37.0	381.2
2005/2006 r	100.6	957.5	89.4	7.7	65.3	418.1	170.0	1 808.6
June	22.6	245.2	41.5	2.1	17.2	61.9	48.6	439.1
September	24.8	233.3	3.8	1.3	18.2	106.8	38.9	427.1
December	25.7	231.1	0.0	1.3	9.0	111.6	38.2	416.9
March p	27.5	247.9	44.1	3.0	20.9	137.8	44.3	525.5
2006/2007								
June r	29.4	258.8	43.0	3.2	25.0	144.8	42.0	546.2
September p	29.4	268.7	2.6	3.8	20.1	166.0	40.1	530.7

r-revised; p-preliminary

10

EXTERNAL TRADE – GOODS IMPORTS (c.i.f)
(Flows - US$MN)

	Consumer Goods	*Raw* Materials	Capital Goods	Other	Total Imports
2001/2002	**1 000.2**	**1 762.6**	**565.4**	**170.3**	**3 498.5**
June	241.0	444.1	127.7	61.3	874.1
September	238.4	431.1	156.7	47.4	873.6
December	279.9	475.2	133.9	35.4	924.4
March r	240.9	412.2	147.1	26.2	826.4
2002/2003	**1 113.9**	**1 951.9**	**674.2**	**128.3**	**3 868.3**
June	265.4	410.9	176.2	40.9	893.4
September	271.6	539.3	167.2	39.1	1 017.2
December	316.5	442.6	180.5	25.6	965.2
March r	260.4	559.1	150.3	22.7	992.5
2003/2004	**1 054.5**	**1 963.8**	**545.6**	**140.5**	**3 704.4**
June	244.7	499.6	138.5	50.9	933.7
September	252.8	490.4	144.3	33.5	921.0
December	310.4	503.3	125.1	26.6	965.4
March	246.6	470.5	137.7	29.5	884.3

Note: No data available from STATIN for period after March 2004

11

BALANCE OF PAYMENTS SUMMARY
(Quarterly Flows – US$M)

	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06r	Jun-06p	Sep-06p
1. Current Account	**-168.7**	**-294.2**	**-355.2**	**-260.6**	**-254.2**	**-204.8**	**-363.5**
A. Goods Balance	**-601.2**	**-622.0**	**-700.3**	**-657.8**	**-734.6**	**-670.1**	**-782.1**
Exports (f.o.b.)	381.2	439.1	427.1	416.9	**525.5**	546.2	**530.7**
Imports (f.o.b.)	982.4	1 061.1	1 127.5	1 074.7	**1 260.1**	1216.3	**1 312.8**
B. Services Balance	**200.8**	**141.2**	**108.1**	**150.0**	**243.3**	**204.1**	**136.8**
Transportation	-46.1	-72.5	-83.7	-71.5	**-62.2**	**-74.1**	**-100.5**
Travel	352.2	317.2	296.3	330.0	**428.2**	394.6	**355.1**
Other Services	-105.3	-103.5	-104.5	-108.5	**-122.7**	-116.4	**-117.8**
Goods & Services Balance	**-400.4**	**-480.8**	**-592.2**	**-507.8**	**-491.3**	**-466.0**	**-645.3**
C. Income	**-164.1**	**-190.5**	**-157.1**	**-164.2**	**-169.8**	**-167.9**	**-155.1**
Compensation of Employees	8.5	11.8	35.4	32.8	**9.1**	14.9	**34.8**
Investment Income	-172.6	-202.3	-192.5	-197.0	**-178.9**	-182.8	**-189.9**
D. Current Transfers	**395.8**	**377.1**	**394.1**	**411.4**	**406.9**	**429.1**	**436.9**
General Government	42.4	32.7	30.8	31.1	**35.8**	31.9	**30.1**
Other Sectors	353.4	344.4	363.3	380.3	**371.1**	397.2	**406.8**
2. Capital & Financial Account	**168.7**	**294.2**	**255.2**	**260.6**	**254.2**	**204.8**	**363.5**
A. Capital Account	**-0.9**	**-0.7**	**-1.0**	**-0.1**	**-1.8**	**1.3**	**1.1**
Capital Transfers	-0.9	-0.7	-1.0	-0.1	**-1.8**	1.3	**1.1**
General Government	0.1	0.2	0.0	0.0	**0.0**	2.1	**1.6**
Other Sectors	-1.0	-0.9	-1.0	-0.1	**-1.8**	-0.8	**-0.5**
Acq./disp. Of non-produced non-fin. Assets	0.0	0.0	0.0	0.0	**0.0**	0.0	
B. Financial Account	**169.6**	**294.9**	**356.2**	**260.7**	**256.0**	**203.5**	**362.4**
Official Investment	13.4	-7.5	180.5	222.6	**-17.0**	183.4	**86.7**
Private Investment (including net errors & omissions)	199.3	557.6	137.9	6.5	**263.8**	52.1	**507.7**
Reserves	-43.1	-255.2	37.8	31.6	**9.2**	-32.0	**-232.0**

r-revised

p-provisional

12

PRIVATE SECTOR QUARTERLY CURRENT GROSS TRANSFERS (INCLUDING REMITTANCE INFLOWS) (US$MN)

	Commercial Banks	Remittance Companies	Post Offices	Building Societies	Total Remit. Inflows	Other Current Transfers	Total
2003/2004	**330.7**	**697.8**	**1.2**	**298.1**	**1 327.8**	**148.2**	**1 476.0**
June	58.8	170.1	0.3	63.2	292.4	36.0	328.4
September	74.5	169.4	0.3	71.6	315.8	36.0	351.8
December	100.8	183.4	0.3	80.4	364.9	36.0	400.9
March	96.6	174.9	0.3	82.9	354.7	40.2	394.9
2004/2005r	**360.6**	**809.5**	**1.2**	**327.4**	**1 498.7**	**272.7**	**1 771.4**
June	96.9	185.6	0.3	83.3	366.1	40.2	406.3
September	70.3	186.4	0.3	84.8	341.8	48.3	390.1
December	97.5	216.5	0.3	88.8	403.1	134.1	537.2
March	95.9	221.0	0.3	70.5	387.7	50.1	437.8
2005/2006r	**364.9**	**978.6**	**1.2**	**302.5**	**1 647.2**	**162.6**	**1 809.8**
June	74.7	241.6	0.3	77.3	393.9	40.8	434.7
September	90.8	245.3	0.3	75.2	411.6	40.8	452.4
December	96.7	254.0	0.3	77.1	428.1	40.8	468.9
March	102.7	237.7	0.3	72.9	413.6	40.2	453.8
2006/2007							
June	93.7	260.0	0.3	81.4	435.4	40.2	475.6
September	94.7	268.5	0.3	88.5	452.0	40.2	492.3

R - revised

13

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

	Gross Foreign Assets (US$MN)	Gross Foreign Liabilities (US$MN)	International Reserves (Net) (US$MN)	*Weeks of Imports* Goods	Goods & Services
2002/2003					
June	1837.5	55.2	1 782.3	31.2	20.6
September	1738.6	51.3	1 687.3	29.5	19.5
December	1643.1	46.1	1 597.0	27.9	18.4
March	1382.2	42.5	1 339.7	22.1	14.8
2003/2004					
June	1 165.2	37.8	1 127.4	18.3	12.0
September	1216.6	34.0	1182.6	19.0	12.8
December	1 196.3	31.4	1 164.9	18.3	12.5
March	1 596.9	28.2	1 568.7	25.0	16.6
2004/2005					
June	1630.3	26.2	1604.1	22.5	15.3
September	1 640.7	24.2	1 616.5	23.5	16.0
December	1 881.9	23.4	1 858.5	27.5	18.7
March	1 924.1	22.5	1901.6	27.5	18.8
2005/2006					
June	2 179.3	22.5	2 156.8	28.1	19.5
September	2 243.0	124.0	2 119.0	27.0	19.1
December	2 169.0	81.6	2 087.4	27.0	19.0
March	2 372.9	294.8	2 078.1	28.3	20.1
2006/2007					
June	2 293.2	183.2	2 110.0	22.9	16.7
September	2 474.7	132.7	2 342.0	26.1	18.8
December	2 399.11	81.56	2 317.55	25.0	18.1

14

FOREIGN EXCHANGE SELLING RATES
(J$ per unit of foreign currency-end period)

	US$	Can$	GB£
2003/2004			
June	59.01	43.69	96.79
September	59.71	43.92	98.54
December	60.62	46.59	107.45
March	61.01	46.46	111.34
2004/2005			
June	61.22	45.65	102.39
September	61.89	49.05	111.62
December	61.63	50.66	117.92
March	61.54	50.61	115.35
2005/2006			
June	61.84	50.52	110.52
September	62.89	53.61	110.02
December	64.58	54.95	110.40
March	65.50	56.14	112.94
2006/2007			
June	66.03	59.50	120.19
September	66.06	59.10	123.48
December	67.15	57.53	131.53

15

PUBLIC SECTOR DOMESTIC SECURITIES
Government of Jamaica
Outstanding Stocks

(J$MN)

End Period	Local Registered Stocks	Treasury Bills	Bonds	BOJ Open Market Operations Securities
2002/2003			99 432.9	
December	240 843.3	4 150.0		89 981.3
March	240 923.0	2 950.0	114 524.1	86 203.8
2003/2004				
June	241,163.2	2 000.0	137,960.0	77 126.4
September	232 914.5	2 400.0	160 594.3	83 700.3
December	228 509.3	4 400.0	178 308.3	81 969.4
March	220 819.2	3 750.0	184 219.0	108 281.7
March	240 923.0	2 950.0	114 524.1	86 203.8
2004/2005				
June	222 372.2	3 950.0	187 932.0	123 222.1
September	222 522.4	3 750.0	197 847.6.	127 629.3
December	220 290.5	3 750.0	210 300.0.	130 692.1
March	218 412.6	4 050.0	214 565.6	143 854.8
2005/2006				
June	220 529.2	4 050.0	231 749.8	167 485.1
September	220 059.0	3 800.0	244 195.7	168 108.2
December	225 762.8	3 500.0	240 934.0	149 806.5
March	235 632.7	3 800.0	233 643.7	157 357.6
2006/2007				
June	236 668.6	4 200.0	249 662.1	159 438.0
September	231 237.9	4 600.0	285 901.2	166 018.9
December	n.a.	4 700.0	n.a.	154 757.0

n.a: Not Available

16

STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	Volume Traded (M.)	Value of Stocks Traded (J$M.)
2002/2003			
June	38,606.7	404.9	1 35.9
September	39,219.6	401.1	2 32.1
December	45,396.2	380.9	1 49.4
March	46,982.0	1 240.1	7 155.5
2003/2004			
June	50 478.9	352.4	2 077.7
September	57 769.1	2 167.4	11 321.3
December	67 586.7	530.5	3 682.9
March	99 630.2	3 380.8	14 533.7
2004/2005			
June	94 718.4	665.7	9 395.7
September	99 819.8	391.1	4 920.4
December	112 655.5	532.0	7 144.9
March	111 931.2	920.4	18 029.3
2005/2006			
June	110 621.9	866 .8	14 136.8
September	103 332.6	387.8	4 189.6
December	104 510.4	323.1	4 391.0
March	86 896.1	366.5	4 513.8
2006/2007			
June	**85 108.2**	**1 882.6**	**10 627.1**
September	**86 196.0**	**610.4**	**3 441.1**
December	**100 678.0**	**2 823.9**	**18 459.0**

Note: Both volume and value reflect ordinary and block quarterly transactions

17

PRODUCTION OF SELECTED COMMODITIES
(Quarterly Flows- 000', tonnes)

	Bauxite	Alumina	Sugar	Bananas*
2003/2004	**3 842.4**	**3 956.4**	**174.7**	**40.1**
June	992.9	957.0	53.7	9.9
September	975.3	939.8	1.3	10.2
December	916.7	1 012.6	5.9	10.5
March	957.5	1 047.0	113.8	9.5
2004/2005	**3 451.4**	**4 028.5**	**142.0**	**18.1**
June	1 071.2	1 046.4	60.0	9.9
September	907.1	866.7	3.7	8.2
December	398.5	1 062.6	3.6	0.0
March	1 074.6	1 052.8	74.7	0.0
2005/2006	4 099.7	4 048.7	151.0	18.8
June	916.0	1 061.8	51.6	4.5
September	1 022.3	1 013.7	0.0	3.6
December	1 035.9	957.4	5.4	3.5
March	1 125.5	1 015.8	94.0	7.2
2006/2007				
June	1 136.3	1 053.4	46.3	6.9
September	1 186.5	1 003.9	0.0	9.9
December	1 099.7	1 026.5	2.3	8.0

** Exports*

GROSS DOMESTIC PRODUCT BY INDUSTRY IN PRODUCER'S VALUES,
AT CONSTANT (1996) PRICES
Sept 2004 - Sept 2006 (Seasonally Unadjusted)

	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06
Total Gross Domestic Product	-0.15	-0.87	-0.05	-0.04	3.39	2.57	2.07	2.57	2.88
Agriculture, Forestry & Fishing	-8.51	-29.73	-25.72	-17.48	1.57	27.99	22.94	18.42	10.51
Export Agriculture	-1.00	-68.94	-52.04	-41.69	-57.76	112.17	64.32	18.20	112.87
Domestic Agriculture, Livestock, Forestry & Fishing	-9.46	-22.44	-16.28	-10.78	9.77	21.73	14.43	18.46	5.06
Mining & Quarrying	-7.77	0.30	1.33	0.82	16.64	-3.34	-2.08	1.50	0.79
Manufacturing	-0.97	0.14	-4.25	-0.06	3.76	-4.42	-0.93	-4.00	-1.87
Food, Beverages & Tobacco	-0.09	3.84	-2.72	0.67	-1.27	-10.38	-6.82	-9.40	-5.30
Other Manufacturing	-1.98	-3.56	-6.33	-1.08	9.63	2.01	7.33	3.71	1.74
Electricity & Water	-6.45	-0.23	0.44	1.74	10.24	4.46	3.98	2.01	3.23
Construction & Installation	6.03	10.08	12.09	8.53	10.19	-0.59	-5.73	-4.52	-2.01
Distributive Trade	1.80	0.90	1.77	1.15	0.71	0.86	0.74	0.81	1.76
Transport, Storage & Communication	-0.75	-1.16	2.48	-0.59	0.35	2.74	2.74	4.66	6.98
Finance & Insurance Services	1.59	-0.75	-0.39	-0.69	0.22	2.52	1.96	2.11	3.14
Real Estate & Business Services	2.56	1.53	1.64	2.26	2.08	1.81	2.71	2.21	2.43
Producers of Government Services	0.41	0.94	-0.20	-0.74	0.99	1.13	0.21	-0.16	-0.22
Miscellaneous Services Household and Private Non-Profit Institutions	1.84	0.22	5.61	-0.65	-2.33	9.72	7.70	15.82	12.94
Hotels, Restaurants & Clubs	1.65	-0.72	6.50	-1.70	-4.32	12.79	9.17	19.98	16.64
Less Imputed Bank Service Charge	2.14	3.44	2.02	-0.77	-3.27	-2.68	-0.07	1.11	2.45

BANK OF JAMAICA BALANCE SHEET

ASSETS AND LIABILITIES (End of Period) J$MN	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06
Assets	**210 619.0**	**222 399.7**	**240 192.4**	**248 926.4**	**240 336.2**	**259 287.8**	**256 398.4**	**270 564.3**	**270 075.2**
Foreign	113 727.7	118 206.1	134 085.9	140 935.2	139 675.7	154 986.1	150 870.6	163 156.8	160 890.6
Current Account & Foreign Currency Balances	12 036.4	14 005.1	16 263.7	17 681.6	14 090.9	8 942.3	9 263.6	11 987.9	8 668.6
Time Deposits & Securities	96 047.5	98 606.1	108 978.7	120 550.1	122 805.6	138 634.6	134 050.6	143 498.5	144 347.6
Holdings of Special Drawing Rights	4.4	10.5	2.6	25.2	0.4	8.8	14.5	17.0	17.9
Other	5 639.4	5 584.4	8 840.9	2 678.3	2 778.8	7 400.4	7 541.9	7 653.4	7 856.5
Local	96 891.3	104 193.6	106 106.5	107 991.2	100 660.5	104 301.7	105 527.8	107 407.5	109 184.6
Public Sector Securities	85 131.1	85 139.9	85 125.9	90 034.8	81 357.5	79 358.9	84 862.3	87 163.4	86 784.5
Other Assets	11 760.2	19 053.7	20 980.6	17 956.4	19 303.0	24 942.8	20 665.5	20 244.1	22 400.1
Liabilities	**210 619.0**	**222 399.7**	**240 192.4**	**248 926.4**	**240 336.2**	**259 287.8**	**256 398.4**	**270 564.3**	**270 075.2**
Foreign	424.3	370.7	395.2	342.2	346.6	361.7	310.3	236.0	295.5
Local	210 194.7	222 028.9	239 797.2	248 584.2	239 989.8	258 926.1	256 088.1	270 328.3	269 779.7
Currency in Circulation	32 438.3	28 711.7	27 049.7	27 445.9	35 682.7	29 747.7	30 776.5	32 187.6	42 347.3
Deposits	165 535.6	179 817.5	201 790.1	207259.0	187 435.9	210 909.4	210 670.5	224 521.8	212 865.8
Bankers	29 186.6	27 086.5	24 396.5	24 819.5	26 226.8	26 442.0	25 246.5	26 843.9	27 912.0
Government	3 482.6	4 739.6	6 774.8	4 637.5	3 308.4	6 557.1	11 366.4	20 097.7	19 670.0
Open Market Operations	130 692.1	143 854.8	167 485.1	168 108.2	149 806.5	157 357.6	159 438.0	166 018.9	154 757.0
Other	2 174.3	4 136.6	3 133.7	9 693.8	8 094.2	20 552.7	14 619.6	11 561.3	10 526.8
Allocation of Special Drawing Rights	3 573.6	3 573.6	3 792.7	3 792.6	3 792.7	3 792.7	3 792.7	3 792.7	3 914.0
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Other Reserves	2 285.9	2 282.3	2 983.3	2 961.6	2 866.2	2 813.1	3 279.5	3 112.0	3 670.1
Other Liabilities	6 337.3	7 619.9	4 157.4	7 101.1	10 188.1	11 639.2	7 544.9	6 690.2	6 958.5

E. COMMERCIAL BANKS' BALANCE SHEET

ASSETS AND LIABILITIES
(End-of -period)
J$MN

	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06P
Assets	**344 378.6**	**343 452.4**	**346 352.9**	**356 575.5**	**367 078.0**	**385 759.5**	**399 879.3**	**411 403.4**	**429 969.2**
Cash	5 754.4	5 139.9	4 034.0	3 320.8	6 014.4	3 519.6	3 254.3	3 696.4	6 536.5
Balances with BOJ	55 896.7	59 776.1	61 415.5	62 486.9	57 747.9	66 793.0	70 857.1	75 384.0	72 120.9
Foreign Assets	73 289.8	67 327.2	61 079.6	71 328.1	75 443.9	83 846.4	90 768.5	90 298.1	96 277.1
Loans & Advances	113 368.8	118 444.9	125 513.2	124 842.3	132 095.3	131 963.6	140 265.3	143 400.2	153 449.2
Private Sector	83 558.3	88 548.4	88 829.5	93 714.5	99 544.2	102 911.4	109 273.5	114 369.4	125 512.2
Public Sector	29 810.5	29 896.5	36 683.7	31 127.8	32 551.1	29 052.2	30 991.8	29 030.8	27 937.0
Public Sector Securities	56 455.4	52 434.0	57 644.9	56 515.4	56 118.0	56 144.6	54 399.3	55 984.4	58 191.2
Cheques in the Process of Collection	4 040.6	6 330.5	3 484.2	4 860.9	3 472.3	7 331.1	5 249.7	4 292.2	4 133.5
Other Assets	35 572.9	33 999.8	33 181.5	33 221.1	36 186.2	36 161.2	35 085.1	38 348.1	39 260.8
Liabilities	**344 378.6**	**343 452.4**	**346 352.9**	**356 575.5**	**367 078.0**	**385 759.5**	**399 879.3**	**411 403.4**	**429 969.2**
Deposits	228 190.5	234 117.2	233 407.8	240 794.3	246 264.9	255 315.4	262 241.9	268 345.9	282 925.5
Local Currency	139 515.4 88	145 325.4	143 720.0	144 734.2	148 895.3	157 303.3	161 806.5	165 253.8	
Foreign Currency	675.1	88 791.9	89 687.8	96 060.1	97 369.6	98 012.1	100 435.4	103 092.1	
Foreign Liabilities	26 374.9	28 856.4	31 241.4	30 496.4	35 453.1	41 797.7	47 720.5	55 210.6	56 800.0
Discounts & Advances from BOJ	229.9	117.5	144.1	361.6	234.5	174.6	173.1	226.1	182.6
Loans/Advances from Other Institutions	7 762.3	5 214.4	5 042.9	5 059.6	5 095.7	4 896.5	4 989.0	4 777.0	5 451.4
Cheques in the Process of Payment	2 498.5	3 056.4	2 828.2	2 616.4	2 789.5	3 450.9	3 645.1	3 305.9	3 900.8
Other Liabilities	79 322.5	72 090.5	73 688.9	77 247.2	77 240.3	80 124.4	81 109.7	79 537.9	80 708.9

P = preliminary
r = revised

F. INTERNATIONAL INDICATORS

1

LONDON INTERBANK OFFER RATE–LIBOR
(End- of-Period)

	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2002/2003				
June	1.8387	1.8600	1.9562	2.2862
September	1.8113	1.7900	1.7100	1.7250
December	1.3820	1.3830	1.3830	1.4470
March	1.3000	1.2787	1.2312	1.2800
2003/2004				
June	1.1620	1.1225	1.0815	1.0944
September	1.1200	1.4246	1.1856	1.3525
December	1.1326	1.1670	1.2274	1.4688
March	1.0923	1.1122	1.1585	1.3251
2004/2005				
June	1.3687	1.6100	1.9400	2.4625
September	1.8400	2.0200	2.1963	2.4825
December	2.3890	2.4959	2.7069	3.0109
March	2.6464	2.8335	3.0700	3.4237
2005/2006				
June	3.2498	3.4263	3.6131	3.8135
September	3.7779	3.8981	4.0363	4.1951
December	4.3622	4.4910	4.6662	4.8357
March	4.7604	4.9203	5.0527	5.1867
2006/2007				
June	5.2301	5.3673	5.4759	5.5772
September	5.3300	5.3898	5.4249	5.4101
December	5.3219	5.3600	5.3700	5.3294

2

LONDON MONEY RATES – INTERBANK STERLING
(End- of-Period)

	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2002/2003				
June	4 - 3 29/32	4 1/8 - 4 1/32	4 9/32 - 4 3/16	4 21/32 - 4 9/16
September	3 15/16 – 3 27/32	3 29/32 – 3 3/16	3 7/8 – 3 25/32	3 7/8 – 3 25/32
December	4 1/16 – 3 15/16	4 1/32 – 3 29/32	4 – 3 7/8	4 – 3 7/8
March	3 21/32 – 3 19/32	3 21/32 – 3 9/16	3 9/16 – 3 1/2	3 9/16 – 3 7/16
2003/2004				
June	3 11/16 – 3 9/16	3 19/32 – 3 17/32	3 17/32 – 3 15/32	3 17/32 – 3 7/16
September	3 5/8 – 3 17/32	3 11/16 – 3 19/32	3 25/32 – 3 11/16	3 31/32 – 3 7/8
December	4 6/7 – 3 6/8	4-3 7/8	4 5/16 – 4 3/16	4 19/32 – 4 15/32
March	4 3/16 – 4 1/16	4 3/8 – 4 1/4	4 9/16 – 4 7/16	4 3/4 - 4 5/8
2004/2005				
June	4 5/8 – 4 1/2	4 7/8 – 4 3/14	5 1/16 – 4 15/16	5 ¼ - 5 1/8
September	4 27/32-4 23/32	4 15/16-4 13/16	5-4 7/8	5 1/8-5
December	4 7/8 – 4 3/4	4 29/32 – 4 25/32	4 15/16 – 4 13/16	4 31/32 4 27/32
March	4 27/32 – 4 3/4	4 31/32 – 4 7/8	5 1/32 – 4 15/16	5 1/8 – 5 1/32
2005/2006				
June	4 27/32 – 4 11/16	4 25/32 – 4 5/8	4 23/32 – 4 9/16	4 19/32 – 4 13/32
September	4 19/32 – 4 15/32	4 19/32 – 4 15/32	4 9/16-4 7/16	4 7/16 – 4 13/32
December	4 21/32 – 4 17/32	4 5/8 – 4 17/32	4 19/32-4 15/32	4 9/16 – 4 15/32
March	4 19/32 – 4 1/2	4 5/8 – 4 17/32	4 11/16 – 4 9/16	4 25/32 – 4 11/16
2006/2007				
June	4 11/16 – 4 19/32	4 3/4 – 4 21/32	4 13/16 – 4 23/32	5 – 4 29/32
September	4 15/16 – 4 7/8	5 1/16 – 5	5 3/16 – 5 3/32	5 9/32 – 5 7/32
December*	5 1/32 – 5 ¼	5 5/16 – 5 7/32	5 13/32 – 5 5/16	5 17/32 – 5 7/16

3

PRIME LENDING RATES
(End- of-Period)

	EURO-ZONE	UNITED STATES			UNITED KINGDOM
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Repo rate
2003/2004					
June	2.00	1.00	2.00	4.00	3.75
September	2.00	1.00	2.00	4.00	3.50
December	2.00	1.00	2.00	4.00	3.75
March	2.00	1.00	2.00	4.00	4.00
2004/2005					
June	2.00	1.25	2.014	4.00	4.50
September	2.00	1.75	2.58	4.75	4.75
December	2.00	2.25	3.15	5.25	4.75
March	2.00	2.75	3.58	5.50	4.75
2005/2006					
June	2.00	3.25	4.01	6.00	4.75
September	2.00	3.75	4.59	6.75	4.50
December	2.25	4.25	5.15	7.25	4.50
March	2.50	4.75	5.53	7.75	4.50
2006/2007					
June	2.75	5.25	6.02	8.25	4.50
September	3.00	5.25	6.25	8.25	4.75
December	3.50	5.25	6.25	8.25	5.00

4A

INTERNATIONAL EXCHANGE RATES
US$ vs. OTHER MAJOR CURRENCIES
(Currency/US$)
(End- of-Period)

	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06
US$ vs. Sterling	0.5248	0.5502	0.5653	0.5818	0.5704	0.5425	0.53430	0.51056
US$ vs. Canadian $	1.2161	1.2402	1.1606	1.1656	1.1547	1.1138	1.1153	1.1653
US$ vs. Yen	105.23	108.75	113.34	117.88	117.28	114.63	118.00	119.03
US$ vs. Euro	0.7580	0.8227	0.8294	0.8445	0.8315	0.7900	0.78820	0.75782

4B

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
(December 2006)

	GBP	CAN$	US$	Yen	Euro
GBP	1.000	2.282	1.959	233.14	1.484
CAN$	0.438	1.000	0.858	102.14	0.650
US$	0.510	1.165	1.000	119.03	0.758
Yen	0.004	0.010	0.008	1.000	0.006
Euro	0.674	1.538	1.319	157.07	1.000

4C

INTERNATIONAL EXCHANGE RATES
STERLING vs. OTHER MAJOR CURRENCIES
(End of Period)

(	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06
Sterling vs. US$	1.8177	1.7691	1.7168	1.7440	1.843	1.8716	1.9586
Sterling vs. Canadian $	2.2543	2.0532	2.0054	2.0185	2.053	2.0874	2.2824
terling vs. Yen	197.67	200.51	202.63	204.54	211.29	220.84	233.14
Sterling vs. Euro 1/	1.4954	1.467	1.4554	1.4501	1.456	1.4752	1.4843

5A

WORLD COMMODITY PRICES
ALUMINIUM
(US$ per tonne)
(End- of-Period)

	Jun-05	Sept-05	Dec-05	Mar-06	Jun-06	Sept-06	Dec-06
Spot (Cash)	1731.30	1857.00	2247.50	2429.12	2477.34	2572.00	2850.00
3 Month	1748.18	1877.00	2236.50	2458.15	2520.61	2587.00	2800.00

5B

WORLD COMMODITY PRICES
FOOD
(End- of-Period)

	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sept-06	Dec-06
Wheat **(US$/mt)**	141.9	159.7	164.44	174.40	195.20	196.00	204.31
Coffee (USc/kg arabica brand)	267.4	219.3	233.18	250.6	227.40	242.10	282.99

5C

MAJOR STOCK MARKET INDICES
(End- of-Period)

	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sept-06	Dec-06
TOKYO							
Nikkei Index	11584.01	13574.3	16111.43	17059.66	15505.18	16127.58	17225.83
NEW YORK							
Dow Jones Industrials	10274.97	10568.7	10717.50	11150.30	11150.22	11679.07	12463.15
S & P Composite	1191.33	1228.81	1248.29	1299.72	1270.20	1335.85	1418.30
LONDON							
Financial Times SE 100	5113.2	5477.7	5618.8	5964.6	5833.4	5960.8	6220.8
FRANKFURT							
Dax Index	4348.77	5044.12	5408.26	5970.08	5683.31	6004.33	6596.92
ZURICH							
SMI Index	5929.7	6898.88	7583.93	8023.30	7652.10	8425.91	8785.74

6

WORLD COMMODITY PRICES
KEY CRUDE OIL PRICES (US$/barrel – f.o.b.)
(End- of-Period)

	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06
UAE's Dubai Light	50.97	56.54	56.75	57.65	65.08	59.77	58.67
North Sea Brent	54.31	61.88	53.13	62.25	68.86	62.77	62.31
West Texas Intermediate	56.39	66.25	59.41	62.89	70.93	64.10	62.03

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.

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.

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.

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.

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.

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 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.

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.

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.

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.

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

*Quasi-money***:** Savings Deposits plus Time Deposits**.**

List of Boxes in the Quarterly Monetary Policy Report

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